

## Rent and Service Charge Setting Policy

Title:	Rent and Service Charge Setting Policy
Person Responsible:	Director of Customers
Customer consultation arrangement:	
EIA required?	Yes/No
EIA Completed (date):	
Approved by:	Board/SMT
Business Strategy Objective	1. Providing good and cost-effective management of our properties 4. Improving the running of our business
Approval Date:	
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Document management		
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1	June 2019	Rent and Service Charge Setting Policy HouseMark review
2	November 2018	Rent and Service Charge Policy HSGPOL07

### 1. Purpose

- 1.1 This document outlines South Lakes Housing's (SLH's) policy for dealing with rent and service charge setting. The purpose of the policy is to ensure that SLH comply with our statutory, regulatory and contractual obligations and our tenancy agreements and leases. The policy also aims to make sure that a fair and consistent approach to rent and service charges is adopted by SLH to all tenants, regardless of tenure

### 2. Scope

- 2.1 This policy applies to all SLH properties let to tenants on assured, assured short-hold, assured with protected rights, secure and fixed term tenancies, Shared Ownership leases, garages, garage sites, garden tenancies, commercial lets, leaseholders and miscellaneous properties.
- 2.2 We will charge rent dependant on a number of factors including; the conditions contained within the tenancy or lease agreement, the purpose of the property and local housing markets.

- 2.3 We will review rents in line with our tenancy and lease agreements taking statutory and regulatory requirements into account where applicable.
- 2.4 We will seek to maximise our rent whenever possible, therefore we will recalculate the rent when a property is re-let to a new tenant. Any new tenancies re-let during the year will be charged at the maximum permitted for each property within Government policy guidelines and the Social Housing Regulator's Rent Standard and Rent Standard Guidance.

### **3. Regulatory and Legislative Requirements**

- 3.1 This policy complies with:
- The Regulator of Social Housing's Standards, particularly the Rent Standard and Rent Standard Guidance that relates specifically to rent and service charge setting
  - The Homes and Communities Agency Capital Funding Guide 2016
  - The Social Housing Rents (Exemptions and Miscellaneous Provisions) Regulations 2016
- 3.2 Other relevant legislation includes, but is not limited to:
- Rent Act 1977
  - Housing Act 1988
  - Housing and Planning Act 2016
  - Welfare Reform & Work Act 2016

### **4. Definitions: Regulated Rents**

- 4.1 **Social Rent.** Social rents were introduced in 2002 as part of a government policy to achieve similar rents between different social housing providers in the same local area.
- 4.2 Social rents are calculated using a set formula which is set out in the Regulations. It takes account of local earnings, property value and the number of bedrooms. Rent calculated this way is known as formula rent, previously known as target rent.
- 4.3 Once supported housing formula rents have been calculated, registered providers have the flexibility to set rents at up to +10% of the formula rent. This is intended to allow registered providers discretion in dealing with local factors.
- 4.4 Social rents are limited by a rent cap. This is the maximum amount of rent that can be charged on social rent properties. The rent cap is currently set by the Regulations and is based on the number of bedrooms a property has. It must be applied to social rent properties when they are first let and throughout the tenancy.

The rent cap is used instead of formula rent if the rent produced using the formula is higher than the relevant rent cap value.

- 4.5 **Affordable Rents.** Affordable Rent is a form of intermediate rent which was introduced by the Government in 2011.
- 4.6 Affordable Rents are set at a level which is no more than 80% of the estimated market rent for the property (inclusive of service charges). The market rent is based on a valuation method recognised by the Royal Institution of Chartered Surveyors (RICS).
- 4.7 **Fair Rents.** This rent applies to secure tenancies, where the initial tenancy started before 15th January 1989. Fair rents are governed by the Rent Act 1977 and are set by rent officers from the Valuation Office Agency. Fair rents are reviewed every two years from the tenancy start date.
- 4.8 The Government excluded properties with a fair rent from the rent reduction where the fair rent set by the rent officer is lower than the 'social rent rate' for the property. This exemption only applies as long as the registered fair rent is less than the formula rent as at 8 July 2015 (or if the rent review date is a date later in the year, the later date).

## 5. Definitions. Non-regulated Rents

- 5.1 **Intermediate Rent.** intermediate rent is any rent other than an affordable rent charged on homes for sale and rent provided at a cost above social rent, but below market levels. Rent is set at no more than 80% of the market rent for similar properties in the local area for tenancies which meet the regulatory definition of 'intermediate properties'.
- 5.2 Intermediate Rents can be charged on shared equity (shared ownership and equity loans), other low-cost homes for sale and intermediate rent but not affordable rented housing.
- 5.3 Intermediate Rent is charged to properties acquired through the government mortgage rescue scheme which has now been withdrawn.
- 5.4 Rents falling in the definition of 'intermediate rent accommodation' are exempt from the rent reduction and rent setting requirements of the Welfare Reform and Work Act 2016.
- 5.5 **Shared Ownership Rent.** This is the rent we charge on our shared ownership properties. We set shared ownership rents for grant funded properties as up to 2.75% of the value of the unsold equity at the point of initial sale. We will take HCA guidelines into account when setting the rent for non-grant funded property.
- 5.6 **Ground Rent.** This is the rent paid by our customers who own their home with SLH as the freeholder or head leaseholder. This could arise if a tenant buys a leasehold flat from SLH or if shared owners' 'staircase' their ownership up to 100%.

- 5.7 **Market Rent.** This applies to market rent properties. Rents are set in keeping with amounts charged for similar market rental properties in the local area. The rent level takes the desirability of the property into account and includes any service charge.
- 5.8 SLH do not currently have any tenancies that are subject to market rents. If during the period this policy is in place a need to charge market rents arises, the Board of SLH will be asked to approve this as a separate issue until this policy is reviewed again, when such a change will be incorporated into it.
- 5.9 **Relevant Year.** This relates to the years in which a 1% rent reduction is made. A relevant year is the year starting from 1st April and the four years of rent reductions end on 31st March 2020.

## 6. Our Approach to Rent Setting. Regulated Rents

### 6.1. Social Rent.

- 6.1.1 We will set our rents in accordance with the current statutory and regulatory requirements. We will ensure that no properties are let at a higher rent than the legislation and / or regulatory requirements allow.
- 6.1.2 **Rent for New Properties.** The maximum rent for new social rent properties is the 'social rent rate' which is calculated by using the formula rent for 2015/16 and applying a 1% reduction in each relevant year.
- 6.1.3 **Supported and Sheltered Properties.** The rent reduction policy was applied to supported housing from the second year.
- 6.1.4 We will retain the 10% flexibility to the formula rent for supported and sheltered housing as allowed by the regulations.
- 6.1.5 Rents for Re-lets. Where a social rent property is re-let to a new tenant as a social rent property, we will charge no more than whichever is higher of;
- The 'social rent rate' which is calculated by using the formula rent for 2015/16 and applying a 1% reduction in each relevant year or;
  - The 'assumed rent rate', which is based on the rate the previous tenant was paying on 8th July 2015 or the rate that a previous tenant might have paid on those dates if the property was vacant at the time; a 1% reduction is then applied in each relevant year.
- 6.1.6 Rent Reviews. Rents will be reduced by 1% each year up to and including 2019/20 as required by the Welfare Reform and Work Act 2016. This reduction applies to the net rent and not to service charges.
- 6.1.7 In October 2017, the Government set out proposals to limit increases to social housing rents to Consumer Price Index plus 1% for 5 years from 2020.
- 6.1.8 We will review the rents from the first Monday in April each year.
- 6.2 Affordable Rent

6.2.1 **Rent for New Properties.** The maximum rent for an Affordable Rent property, when it is first let to a new tenant, is 80% of the market rate, inclusive of service charges, or the 'social rent rate' (exclusive of service charges), whichever is higher or, under the conditions of a Section 106 Agreement (Affordable Rent Assured tenancies and Rent to Homebuy tenancies). We will then apply the 1% reduction in the following relevant years. The market rent should be based on the valuation methods recognised by the Royal Institution of Chartered Surveyors (RICS).

6.2.2 **Rents for Re-lets.** Rents will be reviewed when the tenancy ends and the property is re-let. We will re-set the rent as per 5.1.1 above.

6.2.3 **Rent Reviews.** We will reduce the existing Affordable Rent by 1% each year up to and including 2019/20 as required by the Welfare Reform and Work Act 2016. This reduction applies to the gross rent inclusive of service charges.

6.2.4 In October 2017, the Government set out proposals to limit increases to social housing rents to Consumer Price Index plus 1% for 5 years from 2020.

6.2.5 We will review the rents from the first Monday in April each year.

6.3 Fair Rents

6.3.1 **Rent for New Properties.** We will not offer a fair rent. Instead we will offer new properties at an Affordable Rent or a Social Rent.

6.3.2 **Rent for Relets.** We will not offer new tenants a fair rent. Instead, we will offer new social housing tenants of a property where a fair rent was previously charged, an Affordable Rent.

6.3.3 **Rent Reviews.** We will apply to the Rent Officer to review the rent on the second anniversary of the previous rent review. We will ask for the Social Rent plus service charge (if services are provided) in order to try and achieve the same rent as a similar property which has been let at a Social Rent on the same estate.

6.3.4 If the fair rent is higher than the formula rent, we will use the lower formula rent (reduced by 1% for each relevant year) rather than the higher fair rent. This is set out in the regulations.

## 7. Our Approach to Rent Setting. Non-regulated Rents

7.1 Intermediate Rents

7.1.1 **Rent for New Properties.** Initial rents for these properties are calculated using the same formula for calculating market rents based on the valuation methods recognised by the RICS. The rent shall be above that of a social rent but no more than 80% of the market rent for similar properties in the local area and will include service charges if services are provided.

- 7.1.2 **Rent for Re-lets.** Rents will be reviewed when the tenancy ends and the property is re-let. We will re-set the rent as per 6.1.1 above.
- 7.1.3 **Rent Reviews.** We will limit the rent increase to a maximum of the September CPI+1% per year.
- 7.2 Shared Ownership Properties
  - 7.2.1 **Rent for New Properties.** We will ensure shared ownership rents and service charges are reasonable and consistent with those agreed at the bidding stage. We will set rents that average no more than 2.75% of the value of the unsold equity at the point of initial sale and will have regard to the affordability of the total housing expenditure of the residents i.e. mortgage costs, rent and service charges (including the cost of management and insurance). We will not set new rent for grant funded properties at a higher level than the amount in the HCA guidelines (no more than 3% of the unsold equity at the point of sale). We will take the HCA guidelines into account when setting the rent on non-grant funded property.
  - 7.2.2 **Rent Reviews.** The method of setting increases will be written into the lease and the provisions of the lease will be binding. We will increase rents on the rent review date as set out in the lease. Review dates are usually annually but in some cases it is every other year. Rent increases shall be limited to RPI plus 0.5% from the 1st April each year.
- 7.3 Ground Rent
  - 7.3.1 Ground rent is payable under a long lease for the use of the ground on which the building stands. We will set the ground rent for our new leasehold properties at the same amount as that found in similar properties in the local area. We will charge ground rent by way of a demand using the form prescribed under Section 166 of the Commonhold and Leasehold Reform Act 2002.
- 7.4 Commercial Arrangements
  - 7.4.1 We will set the maximum amount of rent that we can reasonably achieve in the area. We will use a RICS valuation model to help set the market rent and review rents in accordance with the lease.
- 7.5 Miscellaneous Properties
  - 7.5.1 We will set rents for non-residential units including, but not limited to garages, sheds etc. by seeking the maximum charge that customers can afford in the area. We will apply VAT at the relevant rate to non SLH tenants.
  - 7.5.2 We will set charges for non-commercial lettings such as sheltered housing scheme guest rooms, scooter stores, garden tenancies etc. by balancing the commercial value and the social value of the intended use. We will charge VAT at the relevant rate if appropriate.

## **8. Our Approach to Service Charge Setting**

- 8.1 Where appropriate, we will charge tenants for additional services such as cleaning of communal areas, etc. based on the actual costs of the services provided.
- 8.2 We will charge leaseholders for additional services such as communal lighting, grounds maintenance etc. based on the actual cost of provision of the service plus associated management fees. Service charges for leaseholders will be recovered on an actual cost basis calculated for each property individually.
- 8.3 In general, service charges (including sheltered housing amenity and other charges) will be reviewed annually as part of the rent setting process. Tenants will be given at least one month's notice prior to the implementation of any change to the charge. These annual service charge changes will become effective from the first Monday in April each year for affected tenants.
- 8.4 These charges will be set at levels to match the estimated costs of the services over the coming year adjusted by an amount overcharged or undercharged on the actual costs of the last full financial year.
- 8.5 Where we consider introducing a new service charge, we will at first consult with tenants prior to any change being introduced. Following the consultation process and a decision to introduce a service charge, we will inform tenants of the new service charge in writing, giving at least one month's notice of the commencement of that service charge, including details of the amount of the charge.
- 8.6 Service charges can be altered more than once a year if there is a change in the service being provided. Tenants and leaseholders will be consulted before any change is implemented and given at least one month's written notice of any change in charges. Leaseholders will be consulted with in line with Section 20 of the Landlord and Tenant Act 1985.
- 8.7 All tenants and leaseholders liable for service charges will be issued with a summary of tenants' rights and obligations annually. This document lays out how a determination (appeal) can be made to the first-tier tribunal regarding service charges.

## **9. Service Standards**

- 9.1 SLH's Rent Standard in relation to this are:
  - SLH will provide clear information to demonstrate the breakdown of charges for tenants, sheltered housing tenants and for leaseholders
  - SLH will consult tenants before issuing any new service charges.
- 9.2 We will give tenants at least one month's written notice prior to any rent charge increase.

9.3 We will provide tenants with a rent statement on request, whenever the tenants are in arrears and at least twice a year. We will make rent statements available for tenants to access themselves on-line via SLHs tenant portal “My Account”.

## **10. Monitoring and Review**

10.1 Monitoring of performance will consist of benchmarking information from comparator organisations. The following indicators will be used to assess performance:

- Financial Plan performance on rental stream income
- Proportion of rent collected
- Proportion of rent written off

10.2 This policy will be reviewed by the Board every three years, or where there has been significant changes to regulation or legislation to warrant a further policy review. The policy may also be reviewed sooner where there is a need to address operational issues or where best practice has evolved and there is a need to incorporate this.