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# Rent and Service Charge Setting Policy



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## 1. Purpose

- 1.1 First Choice Homes has developed a rent and service charge setting policy which will assist in setting the rent and service charges for its tenanted properties.

## 2. Scope of the Policy

- 2.1 The policy will set out the methods used in calculating rents for its tenanted properties owned by First Choice Homes. It will include details for the initial rent calculation and how this will be reviewed annually.
- 2.2 The policy will also set out the methods for calculating the service charge for properties where additional services are provided. It will also set out details of how this charge will be reviewed annually.
- 2.3 This policy seeks to ensure that rent and service charge setting does not discriminate between tenants on any grounds and in particular race, gender, sexual orientation, ethnic origin, religious belief, disability/illness or age.

## 3. Aim of the Policy

- 3.1 The aim of this policy is to identify First Choice Homes approach to setting rent levels and service charges for its tenanted properties that are fair, transparent, consistent and compliant with Government Policy.

### 3.2 The objectives of this rent setting and service charge policy are:

- First Choice Homes will set its rents in compliance with law and the Regulator for Social Housing Rent Standard and Guidance.
- Service Charges for heating and estate based services will be set at a level that aims to cover the cost of these services and where this is not the case, Board are informed and appropriate approvals sought.
- To ensure that all tenants are advised clearly at the start of their tenancy, that their rent is and any service charges that apply.
- That our tenants are advised of the availability of housing benefit and are given support to claim housing benefit that can help cover the rent and service charges for those on low incomes.
- That any change to the rent and service charges is clearly communicated ensuring that proper notice is provided in line with our statutory, regulatory and contractual obligations.

## 4. The Policy

### 4.1 Legislative background

- 4.1.1 In 2001 the Government announced new guidelines on rents for all social housing to make them fairer and more consistent with a clearer link between rents and the quality, size and location of homes. The principle behind the policy was that rent setting would be fairer and consistent for all tenants whether they rent their home from a local authority or from a Registered Social Landlord such as First Choice Homes. The Government aim was to move actual rents to their “target rent” by 31 March 2012 using a standard formula for setting annual social housing rent increases (see below table). The process of reaching the new rents was known as rent convergence or rent restructuring.

**Retail Price Index, (RPI) + 0.5% + / - maximum of £2 per week until the target rent is reached**  
*RPI – as set by the Regulator for Social Housing’s annual rent setting determination.*

- 4.1.2 The Government issued a new Rent Direction to the Regulators in November 2011 allowing for tenancies that had not achieved the target rent by 31 March 2012 to continue to converge towards target rent. First Choice Homes was expected to achieve full convergence by 2015/16.
- 4.1.3 In 2011, the Government also introduced the “Affordable Homes Programme” allowing housing providers, like First Choice Homes, to charge an affordable rent for its new build properties and also allow housing providers to convert a number of existing properties at the re-let stage to an affordable rent. This additional funding supports the development of new build homes. The affordable rent allows homes to be made available at a rent level of up to 80% of gross market rents which reflects the property size and location (inclusive of property related service charges, where applicable). Affordable rents are not governed by rent restructuring.
- 4.1.4 In the 2013 Spending Review the Government announced changes to the rent policy. With effect from April 2015 the below legislation changes were implemented as follows:
- The guideline limit for annual rent increases used was CPI+1% rather than RPI+0.5%
  - Ending rent convergence for properties that had not yet achieved “target rent” by removing the £2 per week
  - Permitting flexibility in rents to be charged to high income social housing tenants
- 4.1.5 As part of the July 2015 Budget Announcement the Government introduced a 4 year rent reduction for all social housing providers that required them to reduce social rents payable by individual tenants by 1% each year between 2016 and 2019. This policy does not apply to service charges.
- 4.2 **Methods for calculating Rent**
- 4.2.1 From the 1<sup>st</sup> April 2016 in line with the Government announced rent reduction, rents will be reduced by 1% annually on the rent charge that applied as at 8 July 2015 until March 2020.
- 4.3 **Methods for calculating Service Charges**
- 4.3.1 Service charges do not form part of Government’s rent restructuring regime. Service charges should be sufficient to cover the costs of the services provided.
- 4.3.2 A service charge reflects the cost of additional services which may not be provided to every tenant, or which may be connected with communal areas. The range of services provided depends upon the nature of each particular property. Tenants will only be charged for the services they are able to receive. The cost of these services will therefore be apportioned accordingly to all tenants able to access the service with no provision for tenants to opt out of any service provision/charge. Any offers of accommodation will clearly identify charges attached to the property and the amounts involved.
- 4.3.3 First Choice Homes will set service charges based on estimated costs for the year, or actual costs where known.
- 4.3.4 Service charges in the next year will be based on the actual costs incurred in the prior year and any additional estimates required.

- 4.3.5 Where a new service is to be introduced or where it is proposed to significantly alter an existing level of service, First Choice Homes will consult with those affected using established consultation methods.
- 4.3.6 **Heating Charges**
- 4.3.6.1 Some tenants have domestic hot water and heating supplied to their homes through a communal boiler. Where a tenant does not have a prepayment meter then the cost of this service is charged back to them on an individual basis as a service charge.
- 4.3.6.2 Heat meters have been introduced to enable tenants to individually control the amount of hot water and heat used and meters are read on a quarterly basis.
- 4.3.6.3 Where tenants are not on a prepayment meter then quarterly statements are sent to tenants informing them of their consumption and weekly charges. Any changes to the weekly charges (based on actual consumption levels) will be notified to the tenant 28 days in advance.
- 4.3.7 **Optional Charges**
- 4.3.7.1 These services are optional the tenant can opt out of the service and therefore incur no further charges.
- 4.3.7.2 The furniture charge can be charged if a tenant opts for a furnished accommodation package. This charge will be applied for a period of 5 years at which time the charge will be removed and the furniture will be the property of the tenant. If replacement of furniture is needed during the 5 year period the charge will commence again from the date and run for a further 5 years.
- 4.4 **Methods for calculating Affordable Rents**
- 4.4.1 Affordable Rents will be charged on all new build properties built under the Affordable Rents Programme and on “Conversion” properties.
- 4.4.2 “Conversion properties” are where existing housing stock has been moved from a “social rent” to an “affordable rent” and the additional rental income is used to support the development of new social housing.
- 4.4.3 Affordable rents will be calculated according to a RICS (Royal Institute of Chartered Surveyors) methodology, as per guidance from the regulator. This will involve us adopting a consistent and transparent approach to the valuation of market rents, by using comparisons with similar properties available to rent in local areas.
- 4.4.4 When a property is let at an Affordable Rent, First Choice Homes will continue to let the property at an Affordable Rent should it come available for re-let in the future. The rent will be rebased on each occasion that a new affordable rent tenancy is issued for that property, to ensure that the affordable rent remains no more than 80% of the relevant market rent, inclusive of all service charges and ensure that the rents take account of adjustments in market rent levels.
- 4.4.5 The affordable rent reduction regime does not provide for any additional service charge to be overlayed on top of the existing inclusive rent. From the 1st April 2016 in line with the Government announced rent reduction, each affordable rent will be reduced by 1% annually until March 2020.

#### 4.4.6 **Collection of Rent and Service Charges**

- 4.4.6.1 Rents and service charges will be reviewed on an annual basis. The rent and service charge review will be implemented annually and will ensure that letters and communication with tenants meets any statutory obligations for implementing rent and service charge changes.
- 4.4.6.2 Rents and service charges will be calculated over 52 week and collected over 48 weeks. There are four non-rent debit weeks. There are some years where there are 53 Mondays in a financial year, where this occurs, rent and service charges will be collected over 49 weeks. Tenants will be advised each year which weeks will be rent free weeks.
- 4.4.6.3 First Choice Homes will offer services and provide information to tenants that will assist them in paying their rent and service charges and accessing housing benefit and any other welfare benefits.

### 5. **Performance Measure and Targets**

- 5.1 Rent levels for all our properties will be recorded within our Regulatory and Statistical Return (RSR). This ensures our regulator is aware of rents and can monitor progress against other registered providers.
- 5.2 First Choice Homes will monitor rent levels and rental income generated under this policy.
- 5.3 Reports will be submitted to Board as part of the budget setting and monitoring process.

### 6. **Monitoring and Review**

- 6.1 First Choice Homes will set rents in line with the Government's rent restructuring regime to reduce social rents by 1% each year between 2016 and 2019.
- 6.2 This policy will be reviewed annually, unless legislation or sector developments require an earlier review. This will ensure that the policy continues to represent best practice and the objectives of First Choice Homes.

### 7. **Roles and Responsibility**

- 7.1 The Corporate Services Director (or Deputy Chief Executive as per the current structure) is responsible for the effective implementation of this policy.
- 7.2 It is the responsibility of the Board to take appropriate decisions in relation to rent and service charge setting in accordance with recommendations relevant guidance and legislative requirements from the Corporate Services Director (or Deputy Chief Executive as per the current structure) and the Chief Executive.
- 7.3 Reports will be prepared for the Board with recommendations for annual charges to rents and service charges based on First Choice Home's Rent and Service Charge Setting Policy.

<b>APPROVAL AND REVIEW</b>	
<b>Lead Officer / Author</b>	Maria Cook, Finance Manager
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