



# **Rent and Service Charge Setting Policy**

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# Rent and Service Charge Setting Policy

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## 1. What is the purpose of this Policy?

- 1.1 First Choice Homes Oldham (FCHO) has developed a rent and service charge setting policy which will assist in setting the rent and service charges for its tenanted properties.
- 1.2 The aim of this policy is to identify FCHO's approach to setting rent levels and service charges for its tenanted properties that are fair, transparent, consistent and compliant with Government Policy.

## 2. Policy Details

- 2.1 The policy will set out the methods used in calculating rents for residential properties owned by FCHO. 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 residents on any grounds and in particular race, gender, sexual orientation, ethnic origin, religious belief, disability/illness or age.

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

- FCHO will set its rents in compliance with law and the Regulator for Social Housing's (RSH) Rent Standard and guidance.
- Service Charges for heating and estate based services will be set at a level that aims to recover 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, what their rent is and details of 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.

### 2.5 Methods for calculating Rent

- 2.5.1 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.
- 2.5.2 From the 1<sup>st</sup> April 2020 in line with the Government announcement in October 2017, rents increase on social and affordable rent can be increased up to CPI + 1%, for a period of at least 5 years, which takes us to March 2025.

## **2.6 Methods for calculating Service Charges**

- 2.6.1 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.
- 2.6.2 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.
- 2.6.3 These service charges are fixed in any one year and this is the amount that is expected to cover the cost of the service provided for the coming year. Any offers of accommodation will clearly identify charges attached to the property and the amounts involved.
- 2.6.4 Service charges in the next year will be based on the actual costs incurred in the prior year and any additional estimates required.
- 2.6.5 Where a new service is to be introduced or where it is proposed to significantly alter an existing level of service the FCHO will consult with those affected using established consultation methods.

## **2.7 Heating Charges**

- 2.7.1 Some tenants have domestic hot water and heating supplied to their homes through a communal boiler. Where a customer 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.
- 2.7.2 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.
- 2.7.3 Where customers 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 customer 28 days in advance.

## **2.8 Methods for calculating Affordable Rents**

- 2.8.1 Affordable Rents will be charged on all new build properties built under the Affordable Rents Programme and on "Conversion" properties.
- 2.8.2 "Conversion properties" are where existing housing stock has been transferred from a "social rent" to an "affordable rent" and the additional rental income is used to support the development of new social housing.

- 2.8.3 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.
- 2.8.4 The affordable rent reduction regime does not provide for any additional service charges to be charged 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.
- 2.8.5 When a property is let at an Affordable Rent, FCHO will continue to let the property at an Affordable Rent. Once these properties become available for re-let in the future, the rent will be rebased and a new affordable rent tenancy is issued for the property, to ensure that the affordable rent remains no more than 80% of the market value, inclusive of all service charges.

**2.9 Methods for calculating Shared Ownership Rents**

- 2.9.1 Shared Ownership is aimed to assist lower income households and first time buyers to purchase a property. Developed Shared Ownership homes will be marketed with 35-50% equity available, at our discretion we can offer as low as 25% equity, as determined by an affordability check based on a percentage of the full market value of the property stair casing to a possible 100% ownership.
- 2.9.2 Where FCHO have developed new properties for shared ownership, the annual rent at initial sale will be 2.75% of the value of the unsold equity at the property. See example below:-

Property value at initial sale	£200,000
Equity share purchased at initial sale	30%
Payment to FCHO at initial sale	£60,000 (£200,000 x 30%)
Equity share retained by FCHO	70%
Value of share retained by FCHO	£140,000 (£200,000 x 70%)
Max annual rent	£3,850 (£140,000 x 2.75%)
Max rental payment	£80.21 per week (48 weeks)

- 2.9.3 As the leaseholder purchases greater shares in the property, the rent will fall to the proportion of unsold equity.
- 2.9.4 In setting rents, FCHO will have regard to the affordability of the total housing expenditure to the tenants including mortgage costs, rent and service charges.
- 2.9.5 Rents and service charges must be reasonable and consistent with those agreed at bidding stage and in compliance with the Regulator of Social Housing’s standards.
- 2.9.6 Once the setting of rent increases has been decided on and written into the lease, then the provisions of the lease will be binding.

- 2.9.7 Annual rent increases are to be limited to the Retail Price Index (RPI) plus 0.5%, using the RPI figure for a specified month which is published annually. The change introduced from April 2015 for calculating target rent incorporating the Consumer Price Index (CPI) does not apply to the annual rent increases for shared ownership.
- 2.8.4 Please refer to the Rent to Buy and Shared Ownership Policy which details requirements that must be followed when developing, managing and selling Rent to Buy products developed by FCHO.

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

- 2.9.1 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 customers meets any statutory obligations for implementing rent and service charge changes.
- 2.9.2 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. Customers will be advised each year which weeks will be rent free weeks.
- 2.9.3 FCHO 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.

## **2.10 Performance Measure and Targets**

- 2.10.1 Rent levels for all our properties will be recorded within our Statistical Data Return (SDR). This ensures our regulator is aware of rents and can monitor progress against other registered providers.
- 2.10.2 FCHO will monitor rent levels and rental income generated under this policy.
- 2.10.3 Reports will be submitted to Board as part of the budget setting and monitoring process.

## **2.11 Roles and Responsibility**

- 2.11.1 The Executive Director of Corporate Services is responsible for the effective implementation of this policy.
- 2.11.2 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 Executive Director of Corporate Services and the Chief Executive.
- 2.11.3 Reports will be prepared for the Board with recommendations for annual charges to rents and service charges based on FCHO's Rent and Service Charge Setting policy.

## 2.12 Monitoring and Review

- 2.12.1 FCHO will set rents in line with the Government’s rent restructuring regime.
- 2.12.2 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 FCHO.

## 3. Legislative or other Guidelines

- 3.1 The Government introduced a four year rent policy via the Welfare Reform and Work Act 2016 that took effect in April 2016. This stipulated that all rents covered by the Rent Standard 2015 should reduce by 1% each year until March 2020. This applies to all of FCHO’s general needs social housing and affordable housing properties. This policy does not apply to service charges.

## 4. Links to First Choice Home’s Strategic Plan

Landlord: Excellent landlord services  
 Community: Create independent and resilient communities  
 Development: Build desirable homes

<b>MONITORING, APPROVAL AND REVIEW</b>	
<b>Lead Officer / Author</b>	Maria Cook, Finance Manager
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<b>Policy Review</b>	The Policy will be reviewed every year or in line with legislative or regulatory changes. Due January 2020
<b>Electronic File Location</b>	S:drive/hsg-general/policies, strategies and assurance/current policies FCHO Website FCHO Colleague Hub
<b>Copy available from</b>	Joanne Goodall, Governance and Corporate Support Manager