



## **Rent Setting and Service Charge Policy Social, Affordable and Market Rented Housing**

<b>Date of approval</b>	<b>31<sup>st</sup> January 2022</b>
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<b>Policy monitoring body</b>	<b>WCHG Board</b>
<b>Resident input into policy date</b>	<b>29<sup>th</sup> of November 2021</b>
<b>Date for policy review</b>	<b>30<sup>th</sup> January 2023</b>
<b>Linked strategies/policies</b>	<b>Value for Money Customer Access Governance Strategy Equality and Diversity Financial Inclusion Neighbourhood Asset Management Risk Management</b>
<b>Version/date</b>	<b>V1.1 – 31<sup>st</sup> of January 2022</b>

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## **1.0 Introduction**

### **1.1 General**

This policy outlines Wythenshawe Community Housing Group's (WCHG) approach in relation to rent setting, rent reviews and service charges for tenants of social and affordable rented housing and the different forms of home ownership.

### **1.2 Aims and objectives**

Key objectives are as follows:

- To ensure rents are fair and affordable and set in line with regulatory or statutory guidelines.
- To meet the cost of services provided through general rent charges or, where appropriate, specific service charges depending on the tenure type.
- To recover eligible service charges in an open and transparent way demonstrating value for money.
- To enable investment in the maintenance and improvement of existing homes, the provision of new affordable homes, and in providing good services to tenants.
- To enable the ongoing and future investment in service chargeable items and to ensure estate-based services are maintained, where a service charge is applicable.
- To ensure rents and service charges are set to safeguard the financial viability of the Group.

### **1.3 Scope**

This policy applies WCHG and its properties in relation to Social, Affordable and Market rent. It does not apply to Shared Ownership, which is covered by other WCHG policies.

## **2.0 Policy**

The Group will set its rents in accordance with the Government's Policy Statement on Rents for Social Housing 2019, and the Regulator of Social Housing's Rent Standard 2020.

Social Rents will apply to the majority properties transferred to WCHG from Manchester City Council prior to 2010. The exception to these are those that have been let as 'affordable rents'.

The majority of properties developed after 2010 have been let at affordable rents, this is up to 80% of the market rent at time of letting. The affordable rent is

inclusive of any service charge that is applicable. Affordable rents will be reassessed at timely intervals against market conditions.

Variable Service Charges will be introduced on re-let of all social rent properties where services are provided and a service charge is eligible for recovery.

Estate charges will be applied to all Right to Buy and Right to Acquire properties where applicable (and any other tenures/sales where applicable), and the purchaser will be made aware of their obligations regarding estate and other charges.

The Group reserves the right to review all services provided to tenants and following appropriate consultation with affected tenants reach agreement with regard to changes in the services provided and the disaggregation of associated charges from the rent. Any changes will be recorded in writing by a variation agreement or a deed of variation.

### **3.0 Guidance**

#### **3.1 Social Rent**

##### **New Build:**

The initial rent on properties to be let at social rent will be at a level no higher than formula rent (also known as the target rent).

The rent should reflect the condition and location of the property; the property size; and also, local earnings.

A **Formula Rent** is calculated for each property to consider the above factors. The basis for the calculation of the formula rent is that:

- 30% of the property's rent is based on the property values relative to the national average (using the January 1999 property valuations)
- 70% of the property's rent is based on local earnings relative to the national average;
- One of 5 bedroom weightings is applied so that, other things being equal, smaller properties have lower rents.

This can be expressed as a formula in which the formula rent for a property is calculated as:

### **Weekly formula rent is equal to:**

*70% of the national average rent for the Housing Association sector  
multiplied by the relative county earnings  
multiplied by bedroom weight*

*Plus*

*30% of the average rent for the Housing Association sector  
multiplied by relative property value.*

### **Rent Review:**

In 2020 the Government introduced the new 'Rent Standard' that allows for an annual rent increase of up to Consumer Price Index (CPI) plus 1% from April 2020 for a period of at least five years.

Each year a recommendation will be made to Board regarding the actual increase to be implemented for the Group's tenants and for their home and our housing stock.

In addition to the regulatory standard guidance on how rents may be increased, the Government Rent Policy Statement for Social Housing 2019 allows for Rent Flexibility to be applied to formula rents. This allows RPs to set rents at up to 5% above the formula rent for general needs properties and 10% above formula rent for supported properties if there is a clear rationale for doing so, taking into account local factors and concerns, in consultation with tenants. Rent flexibility cannot be applied to accommodation let on an Affordable Rent.

For newly-developed social rented properties, the Group will set the initial rent using the formula rent plus 5% rent tolerance for general needs properties and formula rent plus 10% for supported housing properties.

### **Re-let:**

On each occasion that a social rented property is re-let, the rent will be reviewed and the property re-let at the formula rent. The formula rents are based on the calculation set out and the property valuation will be based on an assessment by a Royal Institution of Chartered Surveyors (RICS) approved surveyor. The formula rent will be stored in the Orchard housing management system as a pending charge and the same increase will be applied to these as to current tenancies.

Rent Caps apply as a maximum ceiling on formula rents. Where the formula rent is higher than the rent cap then WCHG will use the rent cap as the rent for that property. While the rent caps will increase by CPI+1.5%, the annual charge for a tenant in a rent capped property will be governed by the CPI+1% limit on rent charges.

The rent stored in the Orchard housing management system is based on the 1999 valuation and has been amended year on year (increased or decreased) on the basis of Government guidance at the time. This means the formula rent should never be higher than the rent cap.

Where applicable a relevant service charge will be applied at re-let and this will be broken down in the tenancy agreement and then in subsequent rent and service charge reviews. The recovery of the service charge will be no more than the actual cost plus any relevant management fee that maybe applied (where applicable).

### **3.2 Affordable Rent**

#### **New Lets:**

Affordable Rents are set at a level that is below or equal to 80% of the local market rent (including service charges). Affordable rents are inclusive of any service charge that is applicable.

#### **Rent Review:**

Affordable rents were also subject to the 2016 requirements and were reduced by 1% from April 2016 for four years. Like Social Rents an increase of CPI+1% has been applied in line with Government Policy from April 2020.

#### **Re-let:**

On each occasion that a new Affordable Rent tenancy is issued for a property, WCHG will reset the rent based on a new valuation, using a reasonable method for obtaining the relevant market rent, to ensure that it remains at no more than 80% of the relevant market rent.

If the formula rent is higher than 80% of the weekly market rent (inclusive of service charges) for the tenant's accommodation, the maximum weekly rent is formula rent plus services charges (formula rent as detailed in section 3.1)

### **3.3 Market Rents**

#### **New Lets:**

Rents for new Market Rent properties will be set through the Garden City Homes Team and the Development Team, ensuring scheme viability is maintained. All Market rented properties are inclusive of any service charge that is applicable.

#### **Re-let:**

Rents for re-let Market Rent properties will be set by the Garden City Homes Team, using current market data, to provide current market condition certainty on values.

The process will include market research to identify current market trends and values, existing customer demands and also assumptions outlined within the Development Appraisal Parameters.

#### **Re-let to Existing Tenants**

For existing Market Rent tenancies, the following rent assessment will take place;

Where a tenant opts to renew with a fixed term tenancy, the tenant will be informed 2 months prior to the end of their existing fixed term tenancy of the new proposed rent, which will be set as outlined above.

There will be no more than one rent increase taking place during a 12-month tenancy.

### **4.0 Service Charges**

#### **4.1 History**

Currently, for the majority of the Group's rented properties, separate services charges are not levied for additional services such as communal cleaning, gardening and electricity. The cost of these services has historically been met through the practice of 'rent pooling' which is used by most local authorities.

It has been agreed that properties with eligible service charges will see these separated out when the property is re-let. The rent will be set at the formula rent held on the Orchard housing management system, plus the variable service charge. The assumption is that rents are taken to include all charges associated with the occupation of a property, such as maintenance and general housing management services. Service Charges usually reflect additional services which may not be provided to every tenant, or which may be connected with communal facilities rather than being particular to the occupation of a dwelling.

## 4.2 Aims and Principles

WCHG will:

- Ensure compliance with service laws and regulations in that Service Charges are subject to separate legal requirements and are limited to the cost of providing the services.
- Provide tenants with clear guidance about the services they are receiving and their respective cost. Service Charges are variable, unless specifically stated as being fixed in the tenancy agreement, and will be based on the cost of providing these. WCHG will ensure all services offer both quality and value for money for tenants.
- WCHG will only introduce service charges within the permitted legal framework and based on best practice.
- Service charges will reflect WCHG's legal obligations to maintain health and safety in its buildings in line with Government guidance.
- WCHG will provide all tenants, with service charges, a letter and part 4 notice detailing any rent/service charge increase a minimum of 1 calendar month before any change is due.
- Where the actual costs are more or less than were estimated in any one financial year, the costs will be added to or deducted from the next full accounting year's charges.
- Provide all tenants who pay service charges a summary of the actual costs within 6 months of the end of the financial year.

WCHG will comply with the clauses in the Landlord and Tenant Act 1985, Section 19. This specifies that relevant costs shall be included when determining the amount of service charges payable; -

- a) Only to the extent they have been reasonably incurred
- b) Only if the services or works are of a reasonable standard

If costs have risen significantly, WCHG reserves the right to not immediately pass on the full extent of such costs increases.

Services charges are defined as variable, unless the tenancy agreement specifies that they are a fixed cost, and will be calculated based on the cost of providing the service in the previous financial year and estimates where elements of the cost are unknown. At the end of the financial year WCHG will calculate the costs of service provision and adjust the charges for the following financial year.

All calculations of service charges are based on services received. If the property is within a block, costs will be based on apportionment of the services received. Where

the level of service changes, after consultation with tenants, an adjustment will be made to the charges at the point at which the service delivery changes.

Where tenants are dissatisfied with either the cost or level of services received they should follow WCHG's complaints policy.

### 4.3 Service Charge Consultation

WCHG have an obligation under the Landlord and Tenant Act 1985 (sections 18 to 30) and the Service Charges (Consultation requirements) Regulations 2003 to consult with tenants before any major works or long-term contracts are entered into.

The following table details how and when different customer groups will be consulted with when a new service is introduced or services are reviewed:

Who we will consult	When WCHG will consult	How WCHG will consult	Who we require approval from
<b>Customers (tenants and leaseholders) affected by the service charge or any proposed changes</b>	When WCHG propose a change in the local level of service provision or introduce new services to customers.	Individually with customers. Service Review Group for Tenants and Leaseholder Forum for leaseholders Confirmation in writing. Annually by issuing statements.	Customer Experience Committee
<b>Leasehold customers affected by major communal building works.</b>	Prior to commencement of works and in line with relevant Section 20 legislation	Individually with customers For large scale improvements that affect a large number of leaseholders we will consult with the Leaseholder Forum	The specific leaseholders affected
<b>The Board</b>	When WCHG propose a change of policy of service charges via a Board paper.	The policy changes will have been reviewed by the relevant customer panel before a policy change paper is sent to Board for review and approval	Board members

## 5. Implementation

In accordance with the Government Policy Statement of rents for social housing 2019 will be increased annually by CPI plus 1% from April 2020 until 2024 (inclusive).

The annual rent is divided into 50 equal charges leaving no rent to be charged for two non-charging weeks, normally week 39 (Christmas) and the last week of the financial year, normally week 52. As a year actually equates to 52.14 weeks (365/7) approximately every 7 years there will be 53 weeks in the financial year. In these years Board will decide regarding the charging of the additional week based on a cost benefit analysis and any available Government guidance.



WCHG reserves the right to review these arrangements based on further guidance from central Government.

Any tenant who wishes to appeal against the implementation of this policy will be advised to use WCHG's complaints procedure.

## **6.0 Roles and Responsibilities**

The Executive Director of Finance is responsible to the Chief Executive and the Board for ensuring the implementation of this policy.

The Board will approve the annual rent increase, and can agree any exemptions to increases in both the rent and service charges based on market conditions or specific circumstances.

## **7.0 Monitoring Policy effectiveness**

The Group will monitor the effectiveness and review the implementation of this policy, regularly considering its suitability, adequacy and effectiveness.

This policy will be reviewed on an annual basis.

## **8.0 Equality & Diversity**

All associated individuals within WCHG have the responsibility to protect the interests of WCHG. The Single Equality Scheme works towards developing services, facilities and working practices, which are equally accessible and non-discriminatory for all associated individuals with WCHG. This is irrespective of their gender, age, race, sexuality, disability, religion, marital status/civil partnerships, pregnancy/maternity and economic status, and in line with the nine protected characteristics part of the new legislation under Equality Act 2010.

A key element of the Equality standards involves carrying out an Equality Impact Assessment on all existing and, in particular, new policies to ensure they do not have an adverse impact or promote any form of discrimination to particular groups or associated protected characteristics. An Equality Impact Assessment has been carried out to this policy and will be reviewed on a yearly basis.

This policy upon request can be provided in languages other than English, in Braille, Large Print and Audio format.

## **9.0 Associated Policies & Procedures:**

- WCHG's Financial Regulations & Standing Orders;
  - Current Tenant Income Recovery Policy;
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- Corporate Debt Recovery Policy;
  - Former Tenants Arrears Policy;
  - Leasehold Service Charges Policy;
  - Supported Accommodation Rent Policy;
  - Section 20 Consultation Policy;
  - Financial Inclusion Policy;
  - Complaints Policy;
  - Investment Policy;

#### **10.0 Statutory and Legal Framework:**

- Landlord and Tenant Acts 1985 & 87 (as amended)
  - Housing Act 1988;
  - Housing Act 1996;
  - Housing Act 2004;
  - The Welfare Reform and Work Act 2016.
  - Ministry of Housing, Communities and Local Government Policy Statement on rents for social housing 2019
  - Regulator of Social Housing Rent Standard 2020
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