



Rent and Service Charge Policy 2019

Version #:	Date:	Summary of Changes
Version 2	November 2019	Updated following new Rent Standard
Version 1	December 2018	

1. **Purpose**

This policy sets out Connect Housing's approach to setting rents and service charges for its different types of tenures.

2. **Scope of the Policy**

The policy applies to all tenants and leaseholders of Connect Housing on both fixed and variable service charges.

It will outline the following:

- the methods and formulas used to calculate rents for each type of tenancy at Connect Housing. This includes calculations for initial lets and re-lets
- how rents will be reviewed annually
- how service charges will be set and reviewed annually

3. **Legal and Regulatory Framework**

The policy aims to meet the requirements of the new Rent Standard (April 2020) governing how social housing rents should be set from April 2020. The consultation on the new Rent Standard ended in July 2019 and the final version published in November 2019.

The Rent Standard 2020 is supported by two other regulatory documents:

- The government's "Policy statement on rents for social housing" which was published in February 2019 and
- The Direction on a Rent Standard by the Secretary of State also made in February 2019

In summary, the Rent Standard 2020 stipulates the following:

- From April 2020, Associations will be allowed to increase rents by $\text{CPI}^1 + 1\%$ for the next 5 years
- Re-lets and new lets will need to be let Formula² rent with a flexibility of 5% for General Needs tenancies and 10% for Supported Housing tenancies.

4. **Aims and objectives of the Policy**

The aim of this policy is to set out Connect Housing's approach to setting rents and service charges for its properties and to ensure that the process is fair, transparent, consistent and compliant with regulation.

The objectives of this policy are:

¹ CPI, where mentioned, is the Consumer Price Index for September of the preceding year

² The calculation of formula rent is based on a combination of January 1999 property values, property sizes and local earnings.

- to ensure rents and service charges are set and varied in line with legal and regulatory requirements, in particularly the new Rent Standard 2020.
- to ensure service charges are set so that they recover the costs of the services provided.
- to take account of affordability for tenants when setting rents and service charges by using any flexibility allowed within set guidelines.
- to ensure information on rent and service charges and how they are set are provided clearly to new tenants at the start of the tenancy
- to ensure ongoing changes to rents and service charges are communicated clearly and in line with our legal, regulatory and contractual obligations.

5. **Rent Setting Policy**

5.1 **Social Rented Properties**

New Lets - General Needs Properties

Rents for new general needs social rented properties will be set at formula rent with an upward tolerance – “Rent Flexibility” – of 5%. The application of the Rent Flexibility of 5% will be determined taking into consideration local market conditions, affordability and the development scheme appraisal.

New Lets – Supported Housing Properties

Rents for new Supported Housing social rented properties will be set at formula rent with an upward tolerance – “Rent Flexibility” – of 10%. The application of the rent flexibility will be determined taking into consideration local market conditions, affordability and the development scheme appraisal.

Re-lets – General Needs

Where a social rented property is re-let to a **new tenant**, the rent will be set at formula rent with an upward tolerance – “Rent Flexibility” – of 5%. The application of the rent flexibility will be determined taking into consideration local market conditions and affordability.

Where a social rented property is re-let to the **same tenant**, this is considered a continuation of the same tenancy for the purposes of rent setting. There will be no new rent set but the new tenancy will be let at the existing rent. Examples of this can be when there is a renewal of an assured short-hold tenancy, an extension of a starter tenancy, or where a tenancy moves from a joint to a sole tenancy.

Re-lets – Supported Housing

Rents for Supported Housing properties that are re-let will be set at formula rent

with an upward tolerance – “Rent Flexibility” – of 10%. The application of the rent flexibility will be determined taking into consideration local market conditions and affordability.

Rent Cap

In all cases of re-lets and new lets, where a property is subject to the rent cap (as defined in paragraphs 11 and 12 of Appendix A to the Rent Policy Statement), i.e. the formula rent is above the rent cap, then the rent cap is to be used as the rent and not the formula rent.

Annual rent variations during the tenancy

From April 2020, rents for existing social rented properties will be increased annually by a maximum CPI + 1%. Rents increased in April 2020 specifically will be set at the 2020 Limit³.

“2020 Limit” means that an increase of CPI + 1% is applied to the average weekly rent in the final year of the rent decreases (2019/20).

The exception to the above is where an increase in rent results in the rent for that property to be above the rent flexibility level (formula rent + rent flexibility) then the rent will only be increased by a maximum of CPI.

Rent increases for weekly tenancies will take effect from the first Monday in April and for monthly tenancies from the 1st April.

Secure (Fair) rent tenancies

Connect Housing will continue to re-register fair rents every 2 years.

For tenancies subject to fair rent protection the maximum rent will be the lower of

- the rent set by the Rent Officer, and
- formula rent (subject to both the rent caps and the rent flexibility level)

The proposed rents to be registered will be increased by no more than CPI + 1%, even where the existing rent is below the formula rent and the maximum increased is by more than that amount.

5.2 Affordable Housing

Affordable rents will only be charged on all properties where there is a relevant agreement in place with Homes England or if the property was already an Affordable Rent property at the time of acquisition.

³ Defined in the Rent Standard s3.2

New Lets and Re-lets

Affordable rents for all new tenants will be set at 80% of the market rent (inclusive of the service charge).

Where the formula rent is higher than 80% of the weekly market rent (inclusive of service charges) for the property, the rent will be set at formula rent plus any service charges.

This is subject to an affordable cap in line with the development appraisal parameters as approved by the Board.

Re-lets to existing tenants

Where an Affordable Rent property is re-let to the **same tenant**, the rent set will be re-based at 80% of market rent based on a new valuation, unless the new amount constitutes an increase greater than CPI + 1%, in which case the new rent will be set at a maximum CPI + 1% from the current rent.

Gross market rent will be calculated according to a RICS (Royal Institute of Chartered Surveyors) methodology, as per the guidance from the regulator.

Annual Rent Variations

The rent of an existing affordable rent tenant will not be increased by more than CPI + 1%. Rents increased in April 2020 specifically will be set at the 2020 Limit.

5.3 Intermediate Rents

Intermediate Rents (IMR) are not subject to regulation under the new Rent Standard 2020. Rents for these properties, both for new lets and re-lets will be set at 80% of market rents plus any service charges, using an appropriate RICS methodology.

Rents for IMRs will be reviewed annually in April after the first 12 months of the tenancy and at re-let or renewal of tenancy. The review will involve a rebase of the rent at 80% of market rent following an appropriate RICS market appraisal. Properties let under the IMR scheme will be subject to a deposit from the tenant. The amount to be taken as deposit will be determined by benchmarking the local private rented sector and the deposit will be registered with the Deposit Protection Scheme.

5.4 Shared Ownership

Rent setting and annual rental reviews for all shared ownership properties are also not subject to regulation under the new Rent Standard 2020 and will be as specified in the lease, usually based on RPI, and there will be variations in the methodology depending on when the lease was granted.

5.5 High Income Social Tenants

Where properties are let to tenants with a combined income of £60,000 or more the Rent Standard does not apply and Connect Housing has the flexibility to charge a higher rent, up to a maximum of the market rent. However, applications for housing from prospective tenants in this income bracket are not common for Connect Housing and Connect Housing are not always aware of tenants' income levels.

5.6 Market Rent

Connect Housing has some units which are let at market rent. To do this, market research and valuations are carried out using estate agents to establish the market rent for the area where the property is.

Rents for these properties will be reviewed annually in April after the first 12 months of the tenancy and at re-let or renewal of tenancy. The review will involve a rebase of the rent to the new market rent following an appropriate RICS market appraisal.

Connect Housing will take a deposit for market rented properties. The amount to be taken as deposit will be determined by benchmarking the local private rented sector and the deposit will be registered with the Deposit Protection Scheme.

5.7 Managing Agent Tenancies

Connect Housing has a number of properties that are managed on behalf of Connect by a managing agent, who provide extra care and support to the tenant(s). In these cases Connect Housing is deemed the superior landlord and as such the rents will be set in line with the Rent Standard 2020. This applies to any managing agent property that falls within the definition of supported housing in the Rent Standard 2020 and so is not classed as Specialised Supported Housing.

5.8 Other Properties

Rents for s106 properties will be set as determined by the s106 agreement with the Local Authority which will take account of local affordability.

6 Service Charge Policy

Service Charges are charges made by the Association and payable by residents for services in addition to those funded by rental charges.

The service charge(s) must be set at a level which covers the full cost(s) of providing the service(s).

Connect Housing aims to achieve a balance between setting affordable service charges and providing cost-effective services. It is essential to clarify both to staff and residents the items that constitute service chargeable expenditure and the process by which this expenditure is charged to tenants.

Fixed Service Charges

Fixed Service Charges are based on an estimate of the costs of delivering a service and are based on budgets set for that service. The performance of the budget from the previous year is used to establish the budget and hence the service charge for the next year.

Fixed Service Charges are deemed as part of the gross rent with the service charge element being 'for the services'.

The budgeting risk of any underspend or overspend is borne by the Landlord i.e. any undercharge for a particular service in any one year cannot be recovered, nor where the charge set exceeded the costs incurred would any monies be returned. The following year's service charges would be set to better match charges to costs.

Variable Service Charges

Variable service charges can be adjusted for underspends and overspends, passing on the risk to the tenant i.e. if there is an undercharge for a particular service in any one year, the deficit can be recovered from tenants by adding the shortfall to the following year's charge or issuing a revised charge part way through the year. Similarly, if the charge set exceeded the costs incurred the surplus would be payable back to the resident, either by way of a refund, or by reducing the following year's service charge or by sending out an amendment part way through the year.

For rented housing, the Association operates a fixed service charge system for most existing and all new assured tenancies. There are some tenancies, in Kirklees & Calderdale, where the variable service charge regime remains in force as the tenants did not agree to the variation to the tenancy agreement to move from variable to fixed service charges. As these tenancies become vacant and are re-let, the properties affected will move to a fixed regime under new tenancy agreements.

Variable service charges will apply to all leaseholders.

Variable service charges will be reviewed on a second occasion and a summary of income and expenses on each scheme will be sent to tenants by 30th September each year.⁴ Any surplus or deficit will be carried over into the following year's calculations and residents with a deficit will be sent a formal s166 demand notice as required by the Commonhold and Leasehold Reform Act 2002 (CLR Act 2002)

The s166 notice will be accompanied by a summary of the rights and obligations of tenants, as required by s153 of the CLR Act 2002.

The association will give one calendar month notice of service charge variations and, therefore, will aim to set the service charges by the end of January each year and for the second review of variable service charges, by the end of September each year.

6.1 Setting Service Charges

Service Charges are not regulated under the new Rent Standard however, the government's "Policy statement of rents for social housing" sets out that social landlords should "endeavor to keep increases within the limit on rent changes of CPI +1%" and that clear information should be provided to tenants on how the services are set.

Costs associated with service charges are influenced by some factors outside the Association's control such as fuel prices and government policy on issues such as VAT. We will, therefore, consider the impact of increases on gross rents and take into account affordability and lettable issues on schemes and where possible, will limit service charge increases to within the CPI + 1% limit on rent changes.

Where appropriate, we will also consider a phased introduction of significant 'single-item' increases over a few years rather than try to recover the costs within the next

⁴ The Commonhold and Leasehold Reform Act 2002 (CLRA 2002) requires any demand notice to be sent within 18 months of the costs incurring.

year's service charge.

In setting service charges the Association will use the guidance outlined in the National Housing Federation '*Service Charges - A Guide for housing associations*' which is regularly reviewed.

All service charge changes (other than those relating to fair rents) will normally be applied on the first Monday of each April, along with the annual rent reviews.

Applications to vary the service charges for fair-rent tenancies will be made every 2 years to the Rent Officer along with the rent variations.

6.2 Apportioning and recovering Service Charges

General Needs

Tenants within each scheme will pay for the services being provided to their scheme, block and property. The costs will therefore be apportioned equally between all the properties on the scheme or block.

Where there are services whose usage is relative to the property size i.e. utilities, the method of apportion to be used will be by the number of rooms. For example, when re-charging for gas usage in a scheme that has one communal meter, a resident in a 2 bed flat will pay a slightly higher proportion than someone in a 1 bed flat.

However, under the Heat Network (Metering and Billing) Regulations 2014 and the Heat Network (Metering and Billing) (Amendment) Regulations 2015, Connect Housing has a duty to charge its residents only for the heat and energy they use. Over time, as part of its cyclical boiler replacement programme for communal heating systems, Connect aim to meet the requirements of this legislation through the installation of sub-meters.

When recovering service charge costs of major works from Leaseholders, the Association will impose a cap of £10,000 as required by the Social Landlords Mandatory Reductions of Service Charges (England) Directions 2014. This cap is applicable for a 5 year period.

Supported Housing

Service charges in supported housing schemes that receive standard services like

other residents and at the same level, such as grounds maintenance, provision of communal laundry facilities, etc, will be set and administered in the same way as general needs properties. This will be the case for most older persons schemes, sheltered housing and scheme based supported housing.

However, as supported housing services become more tailored to individuals in dispersed properties, these properties require provision of furniture and goods, the cost of which is recoverable through a service charge. These service charges will be calculated as fixed service charges across the pool of properties allocated to that support service and will be apportioned by property size so that each tenant pays a fair proportion of the charge.

6.3 Provision for depreciation and Sinking Funds

Where the Association anticipates that it must meet the cost of eventual replacement of a service chargeable item it will make a charge for that purpose. The charges will be recovered on an annual basis and based on the costs and expected life cycle of the item.

Sinking or reserve funds for future repairs work will be established for leaseholders where there is a requirement to undertake major works. These funds will be identified and accounted for separately by scheme and annual statements will be provided to those that make a contribution.

6.4 Variation to Services and Consultation

If services are to be added to, or removed from a property or scheme, this must be done with prior consultation with tenants and with expressed written agreement from tenant(s) through a deed of variation.

Where a tenant requires additional services through the provision of equipment to assist with a disability or special need, the Association will only provide, or allow permission to provide by a third party (usually a Local Authority or support agency) the equipment if the tenant agrees to meet any associated service charge, in awareness that such charges may or may not be eligible for Housing Benefit or Universal Credit Housing Costs, depending on their personal circumstances and current regulations.

Where new services are proposed to be introduced for a scheme or block, residents will be consulted on the costs of these services and any associated charges.

If service chargeable items are to be replaced, tenants should be, where possible, notified in advance and advised of the estimated impact on the service charge.

Where an error is identified in the setting of the service charge which will result in a significant increase at the next rent review (either an item omitted accidentally or significantly undercharged), all affected tenants should be notified in writing of this as soon as possible.

Where a lack of service provision is identified for a noticeable period but the tenant(s) were charged for that period Connect Housing will, in most cases, consider refunding the charges levied for any period where the lapse in service occurred.

Connect Housing will consult with tenants on variable service charges and leaseholders in accordance with s20 of the Landlord & Tenant Act 1985 for long term contracts and major works.

For long-term contracts (this is for contracts longer than 12months), and where the costs to be recovered through service charges exceeds £100 per annum (inclusive of VAT) per unit.

Consultation on major works will be for work that is likely to cost each tenant more than £250 (inclusive of VAT). In the event of urgent works, Connect Housing will carry out the works and then seek permission from the First Tier Tribunal (FTT) to charge for the works retrospectively.

6.5 Management and Administration fees

To cover some of the costs of administering and monitoring services, the Association will follow the service charge guidance and apply 15% to non-depreciation items and 10% to replacement sinking fund items.

Connect Housing also reserves the right to collect from tenants and leaseholders any management charges passed on to the Association by any third party Management Company.

7. Universal Credit

Under Universal Credit (UC) the treatment of service charges is the same as under Housing Benefit (HB) in that they are covered only if they fall within a list of eligible charges.

However, the rules defining a service charge to be eligible under UC are different from Housing Benefit. These rules are set out in the UC Regulations.

This means that certain services eligible under Housing Benefit Regulations are not eligible under UC Regulations.

Services that are not eligible under UC but are eligible under HB are:

- ground floor window cleaning
- maintenance and repairs to adaptations
- maintenance & repairs to care alarms
- provision of communal furniture
- intensive housing management support

Connect Housing provides services to tenants as part of the terms of the tenancy agreement. As such if a service is deemed ineligible under UC the service still cannot be withdrawn without the prior agreement of the tenant.

If a service currently provided by Connect is deemed as ineligible under UC, tenants in receipt of UC will be expected to cover the full charges from their Housing Cost Element, unless the tenant agrees for the Association to withdraw the service.

In some instances, tenants will not be able to agree to withdraw services i.e. equipment for special needs. Where these tenants are on UC and are unable to meet the cost of these services, Connect Housing will assist the tenants for a temporary period to meet the costs through Discretionary Housing Payments or through it's hardship fund.

In order to assist tenants on UC we will provide service charge schedules that will identify clearly which services are eligible or ineligible under UC.

8. Notification of rent and service charge changes

The Association will provide clear information to tenants on the rent and service charges payable at the start of the tenancy, at the time of the annual variation and upon request.

The services to be provided will be listed clearly in a "service charge schedule" and information will be provided on how the rents and service charges have been

calculated.

Variations in fixed service charges which are part of an overall rent increase will be notified to tenants in the prescribed form using Form 4 under section 13 of the Housing Act 1988.

9. Roles and Responsibility

The Senior Manager Income Services is responsible for the effective implementation of this policy. However, as roles and duties for specific tasks to implement this policy are dispersed across the organisation, specific roles and responsibilities are listed below:

- The Senior Manager Finance is responsible for ensuring rents and service charges are set within policy and regulatory requirements.
- The Senior Manager Income Services is responsible for overseeing the annual rent and service charge variation process.
- The Service Manager Wellbeing Services is responsible for ensuring Managing Agents adhere to this policy.
- The Service Manager Lettings and Leasehold is responsible for ensuring properties are let at the correct rent and service charge levels.

10. Equality and Diversity

This policy is to be applied with regard to Connect Housing's Equality, Diversity and Inclusion Policy. In charging rents and service charges, no group or individual will be unfairly disadvantaged. An Equality Impact assessment has been undertaken to confirm this.

11. Review

This policy will be reviewed annually or earlier if required by a change in legislation or regulation.