

Rent and Service Charge Setting Policy

Title:	Rent and Service Charge Setting Policy
Person Responsible:	Director of Customer Experience
Customer consultation arrangement:	N/A
Approved by:	Board
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Document management		
Version	Date amended	Amendments
1	April 2020	Policy drafted for Board approval.
2	July 2024	Updated to reference Government Policy Statement Updated to include reference to Government Policy statement 14 December 2022 and the latest Rent Standard, restricting social and affordable rents to a rent ceiling.

1. Purpose

- 1.1 This document outlines Lune Valley Rural Housing Association's (LVRHA) policy for dealing with rent and service charge setting. The purpose of the policy is to ensure that LVRHA comply with the statutory, regulatory and contractual obligations and our tenancy agreements. The policy also aims to make sure that a fair and consistent approach to rent and service charges is adopted by LVRHA for all tenants.
- 1.2 We aim to set rents and service charges for our tenants in accordance with the Regulator of Social Housing's Rent Standard and the Rent Standard Guidance that allows us to meet our obligations to our tenants, maintain our stock (to at least Decent Homes Standard) and continue to function as a financially viable organisation, including meeting our commitments to lenders. In recent years this has included rent 'ceilings' to protect social housing tenants from very large 'nominal terms' rent increases that would otherwise be permitted.

2. Scope

- 2.1 This policy applies to all LVRHA properties let to tenants on assured and assured short-hold tenancies.
- 2.2 We will charge rent dependant on several factors including; the conditions contained within the tenancy agreements, the purpose of the property and local housing markets.
- 2.3 We will review rents in line with our tenancy 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. New tenancies re-let during the year will be charged at formula rent +5% in respect of social rent tenancies and 80% of market rents in respect of Affordable and Intermediate Rents for each property within Government policy guidelines and the Regulator of Social Housing's Rent Standard 2020 and 2023 and the Rent Standard Guidance.
- 2.5 We will provide clear information to our tenants at the start of their tenancy about how much rent they must pay.
- 2.6 We will make rent statements available for all tenants to access themselves anytime they wish via the online tenant portal "My Account". We will provide tenants with a rent statement on request, whenever the tenants are in arrears and once a year if they have opted-in for a paper statement.

3. Regulatory and Legislative Requirements

- 3.1 This policy complies with:
 - The Regulator of Social Housing's Standards, particularly the Rent Standard 2023 and Rent Standard Guidance that relates specifically to rent and service charge setting.
 - Homes England Capital Funding Guide 2016
 - The Social Housing Rents (Exemptions and Miscellaneous Provisions) Regulations 2016
 - Limits on Annual Rent Increases.
- 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 The new Rent Standard which came into effect from 1 April 2020, contains flexibility for registered providers to set social rents up to 5% above formula rent for general needs housing and 10% for supported (including sheltered) housing. If applying this flexibility, providers should ensure that there is a clear rationale for doing so which takes account of local circumstances and affordability. The LVRHA Board approved the application of a 5% tolerance to both general needs voids at re-let. The rationale for applying a 5% tolerance would be to generate additional income for development, energy efficiency investments, neighbourhood improvements etc.
- 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.
- 4.5 The rent cap is used instead of formula rent if the rent produced using the formula is higher than the relevant rent cap value.
- 4.6 **Affordable Rents.** Affordable Rent is a form of intermediate rent which was introduced by the Government in 2011. Affordable Rent accommodation is provided by LVRHA usually as part of a Section 106 Agreement with the local authority or a housing supply delivery agreement between that provider and Homes England and the accommodation is permitted by agreement to be let as an affordable rent.
- 4.7 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).
- 4.8 **Non-Regulated Rents.** All LVRHA rents are regulated. Examples of non-regulated rents include Intermediate rents, shared ownership rents, and markets rents.
- 4.7 An affordable rent should be no lower than the potential formula rent for the property. In cases where the rent would be lower than the formula rent, the formula rent constitutes a floor for the rent to be charged.

5. Our Approach to Rent Setting.

5.1 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.

5.2 Social Rent.

5.2.1 **Rent for New Properties.** The maximum weekly rent for a tenant who is granted a tenancy of a new social rent property for the first time is formula rent plus an upwards tolerance - 'rent flexibility' of 5%. Formula rents are exclusive of any service charges.

5.2.2 **Rents for Re-lets.** Where a social rent property is re-let to a new tenant, we will charge formula rent plus an upwards tolerance - 'rent flexibility' of 5%.

5.2.3 **Rent Reviews.** We will increase the existing rent each year up to and including 2024/25 by a maximum of that of the Consumer Price Index (CPI) taken from September of the previous year plus 1% as allowed by the Rent Standard 2020. For rent periods that begin in the 12 months from 1 April 2023 to 31 March 2024, this limit is subject to a 7% ceiling. The 7% ceiling does not apply to support including sheltered housing, but the Board has voluntarily decided to apply a 7% ceiling. For social rents the increase applies to net rent and not service charges.

5.2.4 We will review the rents from the first Monday in October each year.

5.3 Affordable Rent

5.3.1 **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). The market rent should be based on the valuation methods recognised by the Royal Institution of Chartered Surveyors (RICS).

5.3.2 **Rents for Re-lets.** Affordable Rents will be reviewed when the tenancy ends, and the property is re-let. We will re-set the rent as per 5.3.1 above.

5.4 Rent Reviews.

5.4.1 We will increase the existing rent each year up to and including 2024/25 as allowed by the Rent Standard 2020.

5.4.2 For Social Rents the increase applies to net rent and not service charges. For Affordable Rents the increase applies to the gross rent inclusive of service charges.

5.4.3 LVRHA rents will be reviewed on the first Monday in October each year.

6. Our Approach to Service Charge Setting

- 6.1 Where appropriate, we will charge tenants for additional services based on the actual costs of the services provided plus associated management fees.
- 6.2 In general, service 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 October each year for affected tenants.
- 6.4 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.
- 6.5 Where we consider introducing a new service charge, we will first consult with tenants before any change is 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.
- 6.6 Service charges can be altered more than once a year if there is a change in the service being provided, subject to the terms of the tenancy agreement. Tenants will be consulted before any change is implemented and given at least one month's written notice of any change in charges.
- 6.7 All tenants 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.

7. Service Standards

- 7.1 LVRHA's Rent Standard in relation to this are:
 - LVRHA will provide clear information to demonstrate the breakdown of charges for tenants.
 - LVRHA will consult tenants before issuing any new service charges.
- 7.2 We will give tenants at least one month's written notice prior to any rent charge increase.
- 7.3 We will provide tenants with a rent statement on request. We will make rent statements available for tenants to access online via our tenant portal "My Account".

8. Monitoring and Review

8.1 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 arrears

8.2 This policy will be reviewed by the Board every three years, or where there have 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.