

## **Policy Name: Rent Setting and Service Charge Policy**

### **1. Policy Summary...**

- 1.1. This policy sets out how we will set rents and service charges to tenants in accordance with the Government and the Regulator of Social Housing's (RSH) guidelines and requirements.

### **2. Policy Principles**

- 2.1. This policy applies to rents and other applicable charges covering current and new tenants. Properties excluded from the Rent Standard, such as market rented accommodation and shared ownership properties, are also covered by this policy; specifically it covers:

- Social Rents (assured tenancies and secure tenancies)
- Affordable Rent
- Protected License (Temporary Accommodation)
- Market Rent
- Shared Ownership
- Intermediate Market Rent
- Garages
- Commercial Properties
- Service Charges.

### **3. It applies to...**

- 3.1. This policy sets out Midland Heart's approach to rent and service charge setting and increases/decreases for all properties and tenures at Midland Heart.
- 3.2. The purpose of this policy is to:
- Ensure compliance with current rent and service charge setting guidance;
  - Ensure that rents and service charges are set correctly and fairly to enable us to meet our obligations to customers, maintain our housing stock and to remain financially viable;
  - Provide clear information explaining how rents and service charges are set.
  - Provide alternative methods of communicating rent and service charge information (e.g. language line, large print or reading scanners)

### **4. Social Rent**

- 4.1. Social Rents are governed by the regulator's Rent Standard, which sets limits on the rent charged. The rent is capped at the given properties' Formula Rent plus the rent flexibility and Rent Caps as set out in the Rent Standard which set an upper limit for formula rents based on the bedroom size of the property.

- 4.2. The **rent flexibility** allows registered providers to set rents above the **Formula Rent**. This flexibility is set at 5% for general needs and 10% for supported housing. Midland Heart uses the full 5%/10% for relets and as a limit on the rent we charge.
- 4.3. The rent model from April 2020 allows Midland Heart to increase its current social rents and the Formula Rent by the Consumer Price Index (at September of the previous year) plus 1% - the increase is inflation linked. Rent changes for monthly tenancies take effect on 1 April and for weekly tenancies the first Monday in April.
- 4.4. Rent Increase Caps: In relation to high inflation the government announced that for the financial year commencing April 2023 rent increases for existing social rent and affordable rent tenants in general needs would be capped at 7%. This cap does not apply to Formula Rent and any new lets are set at the full Formula Rent plus flexibility level. Midland Heart will follow any further legislation on caps set out by the government.
- 4.5. Midland Heart board does have the power to implement a % uplift below any Government cap or market CPI/RPI relevant to the tenure.
- 4.6. Any board decision on % uplifts will take into consideration market movements and global economic factors. Counter measures are also considered including increasing Midland Hearts hardship fund.

## 5. Assured Tenancies

- 5.1. Social rents are let on assured tenancy agreements which contain a clause allowing a rent and service charge review in the following April. This applies even if the tenancy is less than 12 months old.
- 5.2. Following the first rent review assured tenancies will have their rents & service charges reviewed each April in line with government guidance. Tenants who have an assured tenancy can appeal to the First Tier Tribunal Service within the notice period of any rent increase, which is one calendar month notice. Details are laid out in Form 4 of the rent review notice.

## 6. Secured Tenancies

- 6.1. Some social rents are let on secure tenancies, although this tenancy type is no longer available to new social rented customers. Customers who have a secure tenancy will have their rent calculated by the Valuation Office Agency (VOA) every two years. They will get notifications and correspondence from both Midland Heart, and directly from the VOA. This allows the customer to raise any concerns with the rent setting process.
- 6.2. Transfers: Tenants who hold a secure tenancy with Midland Heart and then transfer internally to another Midland Heart property retain their secure tenancy status. The new property will be checked on the Fair Rent Register to see if there is a secure rent registered. If there is a registered rent the tenant will sign up at this rent (irrespective of date registered). If there is no rent currently registered the tenant will sign up at Formula Rent plus the flexibility. Following sign up we will apply to register the rent with the VOA.
- 6.3. Rent changes: A secure rent will increase by CPI+1% (subject to any annual rent increase caps) unless it has reached the level of either the registered rent, or formula rent plus the flexibility

level, whichever is lower. Midland Heart may apply to re-register secure tenants' rents after a minimum of two years when deemed necessary.

## 7. Affordable Rents

- 7.1. Affordable Rents (AR) may be set at up to 80% of the market rent (for an equivalent property of that size and location inclusive of service charges, where applicable). Valuations for initial rent setting will be in accordance with a Royal Institute of Chartered Surveyors (RICS) recognised method. We will take into account local market circumstances, lettings criteria and scheme approval criteria. New build properties are let at either an Affordable Rent or Social Rent depending on the scheme. Midland Heart does not currently convert properties formerly let as Social Rent to an Affordable Rent on change of tenant.
- 7.2. Affordable rents will increase annually by CPI +1% (subject to any government rent increase caps) for existing tenants inclusive of service charges. Midland Heart will check the market value for void affordable rented units that have been previously occupied for more than 12 months and rebase the rent to 80% of market rent on relet.
- 7.3. 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. This is most applicable if the cost of providing services has risen so that the affordable premium would be a negative value. In this case the gross rent charged would be Formula rent + service charge costs.

## 8. Protected Licenses

- 8.1. Protected Licenses are increased on the 1st Monday in April by CPI +1%. Subject to any government rent increase caps.

## 9. Market Rent

- 9.1. Midland Heart's Market Rent homes are managed by Cygnet. Cygnet aims to set market rents by carrying out market research of estate agents, RICS valuations and external benchmarking. Rent reviews are at renewal or re-let.
- 9.2. The Rent Standard does not apply to Market Rented properties. Market rent annual increases are set in accordance with the particular lease agreement, which is normally RPI plus 0.5%.
- 9.3. Midland Heart reserves the right to cap rent increases as agreed by the Cygnet board.

## 10. Shared Ownership

- 10.1. Rent setting for all shared ownership properties is specified in the individual lease. The current lease agreement specifies an annual increase of Septembers RPI plus 0.5%. Midland Heart does have some inherited lease agreements, which have a variety of RPI calculations for increasing the rent, but these are reducing year on year.

10.2. The Rent Standard does not apply to Shared Ownership properties.

## **11. Intermediate Market Rent**

11.1 The Rent Standard does not apply to intermediate market rent properties and rents are set at 80% of the market rent. Although this only applies to properties built through grant funding, Midland Heart applies this as best practice across all intermediate market rent properties. New let rents are as specified in the funding agreement.

Rents are increased annually on the anniversary of their Assured Shorthold Tenure start date.

## **12. Garages**

12.1 The Rent Standard does not apply to garages. Rents will be set in accordance with the lease and will be increased annually by September's Consumer Price Index plus 1%.

## **13. Commercial Properties (Shops/Business Accounts)**

13.1 The Rent Standard does not apply to commercial leases. Rents will be set in accordance with the lease and are normally annual charges.

## **14. Service Charges**

14.1 Service charges are charges made to residents to recover the costs of services provided to a property, block or estate. They are based on Midland Heart's known contact costs or if not known, estimate of the costs of providing the services, as set out in the tenancy agreement or lease, for the relevant period (usually a year). Our service charges are either variable or fixed.

14.2 Fixed Service Charge: At the close of the financial year, no further charge or credit is made to the resident to reflect whether the actual cost of services was more or less than originally estimated.

14.3 Variable Service Charge: At the end of the year, the actual cost of providing the services is calculated and a surplus or deficit adjustment is included within the service charge for any under or over payments the following financial year. Each year residents are informed of the actual cost of providing the service for the previous financial year. In line with the law, the calculations for actual service charge costs will be signed off by independent

examiners.

## 15. Other Charges

15.1 Service charge payers may also be liable to pay Midland Heart: management fees; administrative fees; and ground rent:

- Management fees cover Midland Heart's costs associated with managing properties, administering service charges and rent accounts, income collection and providing customer services where these are not covered by rent. The management fee provisions set out in the relevant tenancy agreement or lease.
- Variable service charge payers are charged an actual administration fees in line with the provisions in the relevant tenancy agreement or lease. Administration fees may also be charged for costs relating to a breach of a lease by the resident.
- Ground Rents are charged where it's stated in the lease and at a 'low rent' level.

## 16. Measures and Monitoring

The rent and service charge increase process is annually audited by an external auditor. They will normally take a sample of each category and cross-check the calculation with the appropriate CPI or RPI figure that corresponds to the tenure or lease contract. Midland Heart submit a Statistical Data Return (SDR) each year to the regulator. As part of this process ongoing reports monitor rent increase levels and raise cases as exceptions should they not meet set criteria. These cases are then reviewed and corrected if necessary.

## 17. Vulnerability, Discretion & Reasonable Adjustments

17.1 Rent increase notifications can be translated into a variety of different communication

Methods, including braille, large print, languages and face to face briefings. Although we cannot vary away from the legislation or calculation regime, we do explain on the increase letters how they can appeal and their rights as residents.

New tenants will receive a signup pack and will be met on site to run thru the pack during sign up. We will also respond to any existing tenants who are unsure of any legislative documentation and will offer to assist or sign post them if they prefer independent support.

Midland Heart will use any appropriate discretion when considering adding or removing rents

or service charges to ensure that our actions do not impact on vulnerable customers.

Midland Heart has an independent Money & Debt Advice Service, so any customer experiencing hardship will be offered this service, including access to Midland Hearts Hardship fund or discretionary local authority payments were appropriate.

### 18. Related Law & Regulations....

Legislation/Regulation	Relevance to This Policy
Housing Act 1988 Section 13 (2)	Housing Act 1988 Section 13(2), as amended by the Regulatory Reform (Assured Periodic Tenancies) and (Rent Increases) Order 2003 governs the rent increases for assured tenancies
Rent Act 1985	Defines the role of the Rent Officer and Rent Assessment Committee, First Tier Tribunal Service
Housing Act 1985	Contains the legislation for the provision of information to customers about their tenancies, for consultation on housing management issues and for setting down procedures around Right to Buy and Right to Acquire
Landlord and Tenant Act 1985	Sets out the requirements for operating a variable service charge
Housing and Planning Act 1986	This Act amends the right to buy regulations including service charges
Landlord and Tenant Act 1987	This amends the 1985 Act by way of imposing a maximum of 18 months from start of expenditure to the recovery of the expenditure through service charges. Also included are provisions for varying leases via the courts
Housing Act 1996	This Act extends the jurisdiction of the Leasehold Valuation Tribunal to determine disputes in relation to the cost and quality of service charges
The Service Charge (Consultations Requirements) Regulations 2003	Details the consultation requirement on works exceeding £250 per property recovered though the service charge - consultation must take place before entering into an agreement to commence works. Also guidance regarding long term agreements for works over a number of years.

## 19. This policy links to ...

### Internal:

- Service Charge Setting Procedure
- Rent Setting Process

### External:

- Policy Paper Direction of Rent Standard from 1 April 2020
- RSH Rent Standard April 2023
- HCA Rent Standard Guidance