



# NCHA RENT AND SERVICE CHARGE POLICY

**Responsible Director:** Director of Homes and Wellbeing

**Responsible Manager:** Head of Homes and Wellbeing

**Last updated:** January 2020

**Next update:** January 2023

## RENT02 Rent and Service Charge Policy

### **1. Rent setting**

1.1 NCHA and its group companies aims to set rents which are affordable and meet the needs and expectations of our customers. NCHA rent setting policy is to set rents at levels within the regulatory guidelines which:

- Are affordable and meet the needs and expectations of our customers.
- Ensure that the Association can meet financial and business plan commitments and objectives thereby ensuring the financial viability of the Association.
- Provide cost effective and high quality services to our customers.
- Are in accordance with the terms and conditions of customer's tenancy, licence or lease.

### **2. Regulatory Framework**

2.1 NCHA and its group companies will comply with all relevant legislation and regulatory requirements issued by the Regulator for Social Housing relating to the various tenancies, licence agreements and leasehold agreements we operate.

2.2 Specifically, this means that NCHA will apply annual changes to Social and Affordable rents, licence agreement charges and service charges in line with the requirements contained within the 2020 Rent Standard as set out in the Policy for Rents in Social Housing issued by the Ministry of Housing, Communities and Local Government in February 2019. NCHA will also use the annual guidance on rent limits which were last issued by the Department of Levelling Up, Communities and Local Government on 15<sup>th</sup> November 2021 setting out the limit on annual rent increases for 2022-23.

2.3 In the case of our group companies that oversee our Almshouse stock, it will adhere to Charity Commission Regulations and ensure maintenance contributions are comparable with the Equivalent Fair Rent level set by the Valuation Office.

2.4 Lease agreements regulate what rent charges are initially set, frequency of review and how and when charges are passed on in regard to any services provided.

### **3. Communication and notice periods**

3.1 NCHA will meet legal requirements for all processes, legal notices and notice periods. NCHA will also communicate with customers in a clear and consistent manner.

### **4. Changes to rents**

4.1 The 2020 Rent Standard allows Registered Providers to increase social rents annually by up to a maximum of the September CPI rate of inflation plus 1 percentage point. These limits to rent changes apply to all Social Formula, Registered/Secure and Affordable rents.

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- 4.2 The Rent Standard states this limit is a ceiling and providers can apply a lower increase, or freeze or reduce rents, and that providers should consider the local market context when deciding whether to implement a rent increase and the level of that increase, as well as the levels of Housing Benefit or Universal Credit that are available to claimant households who might occupy their properties.
- 4.3 NCHA will produce an annual 'Affordability Assessment' of rents and service charges regulated by the Rent Standard for customers on a social rent regime.
- 4.4 The NCHA Executive Team will consider the annual Affordability Assessment, financial and business plan commitments in the context of local market conditions as part of the annual rent increase confirmation process.

### **5. Social Rent Formula Rent flexibility level**

- 5.1 Under the 2020 Rent Standard Registered Providers can charge Social Rents at the 'Formula' rent (based on a formula that takes into account the value of a property, the average local salary and the number of bedrooms) plus discretion to charge an additional rent 'flexibility variance' of 5% for new 'general needs housing' and 10% for 'supported housing' lettings. If applying this flexibility, providers should ensure that there is a clear rationale for doing so which takes into account affordability, local factors and concerns in consultation with customers.
- 5.2 Prior to rent reduction under the Welfare Reform and Work Act 2016 – Social Rent Reduction – NCHA has applied the rent flexibility allowed to social formula rents. NCHA has confirmed the ongoing use of rent flexibility in social formula rents for general needs and supported housing. In making this decision, NCHA has taken into account affordability, local housing market conditions and NCHA's financial and business plan commitments. NCHA will consult with our customers through our established customer involvement processes regarding our approach to rent flexibility and consider the feedback as part of an 'Annual Affordability assessment'.

### **6. Registered/Secure 'fair' rent properties**

- 6.1 Regulation of Registered/Secure 'fair' rent properties is included in the 2020 Rent Standard. For annual increases, the ceiling of CPI plus 1 percentage point therefore applies as the maximum rent increase that can be applied to Registered/Secure 'fair' rent properties.
- 6.2 The Rent Standard also states that Registered/Secure 'fair' rent tenants must not be charged more than the lower of:
  - a. the 'fair' rent set by the Rent Officer and
  - b. the formula rent subject to rent caps and the rent flexibility level.
- 6.3 NCHA will ensure that all Registered/Secure 'fair' rent properties will continue to have their rents revalued and registered with the Government Valuation Office agency on a 2 year cycle. Gross rents inclusive of service charges for Registered/Secure 'fair' rent properties will not exceed the Registered rent.

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### **7. Affordable Rent**

- 7.1 Affordable rents are exempt from the social rent requirements set out in the Policy on Rents for Social Housing and are usually higher than social formula rents in order to generate additional capacity for investment in new affordable housing.
- 7.2 It is NCHA policy to normally set Affordable and Rent to Homebuy Rents at (but not exceeding) 80% of gross market rent inclusive of service charges at the point of offer of the property. Rents for new properties are provided by the Development team, but rents for relet properties should be rebased (see below). Affordable rents should always be higher than the social formula rent for the same property and if lower, the social formula rent should form the floor for the rent to be charged.
- 7.3 The 'Gross market rent' means the rent (inclusive of any applicable service charges) for which the accommodation might reasonably be expected to be let in the private rented sector. Property size, location type and service provision must be taken into account when determining what gross market rent a property might achieve if let in the private rented sector.
- 7.4 The Policy states that although Affordable rents are not subject to the Local Housing Allowance, registered providers should have regard to the local market context including the relevant Local Housing Allowance for the Broad Rental Market Area in which the property is located when setting Affordable rents.
- 7.5 Property rebase valuations must be undertaken in accordance with a method recognised by the Royal Institution of Chartered Surveyors to ensure consistency between providers. Rebases will not be undertaken when converting tenancies from probationary to full assured tenancies, tenancy assignments. Nor is it necessary to undertake a valuation rebase on every occasion a property becomes void if a comparable property in the same area has been rebased within the last 6 months, although this may happen more frequently if it is believed there is significant movement in local market rents. NCHA will keep a record of rebases to ensure that this policy is followed consistently and affordable rents are kept up to date.

### **8. Affordability**

- 8.1 Where rebased Affordable rents are considered unaffordable and represent a significant increase on the Affordable rent charged to the previous tenant, the Allocations Team may request to a senior manager that a rent less than 80% of the market rent may be applied.
- 8.2 The request should provide evidence of the total void period and void losses including the work done to let the property through standard lettings practices such as advertising through CBL schemes/LA nominations, general property advertising websites such as Rightmove and the number of applicants that have failed NCHA's income affordability test.
- 8.3 For rent changes to Affordable rents, please see changes to rents above.

## **9. Service Charges**

- 9.1 NCHA recognise the important role of communal services in making homes and neighbourhoods safe and attractive places to live.
- 9.2 NCHA operate variable service charges for general needs social rent and Shared Ownership properties. For Care and Support properties a fixed service charge regime is operated. These are set in accordance with legal and regulatory guidelines and the terms of NCHA tenancy agreements. Where variable service charges operate, any changes to services provided and service charge costs will be made annually in line with the terms of your tenancy or lease agreement.
- 9.3 Service charges reflect the actual costs of providing services and are set using a combination of known costs, budgeted costs and capital replacement costs. With variable service charges, it is NCHA policy to carry forward budget surpluses and deficits to the following financial year.
- 9.4 NCHA will ensure that service charges are fairly applied to customers benefiting from the communal services provided.
- 9.5 Service Charges that are NOT eligible to be claimed through Housing Benefit/Universal Credit, will be passed onto customers through a resident charge in line with the terms of the individual's Occupancy Agreement.

## **10. Quality, value for money and customer involvement:**

- 10.1 NCHA are committed to listening to the views of our customers and delivering high quality and affordable services that deliver good value for money. NCHA will achieve this by:
- Complying with legislation and regulatory requirements for setting, presenting and collecting service charges.
  - Ensure service charges represent good value for money through effective procurement and management of contractors and directly provided services.
  - Undertake detailed checks on budget costs and assumptions.
  - Consult customers when introducing or making significant changes to services and listen to customer views through the annual Communal Services survey and Resident Involvement activities.
  - Providing an annual statement of charges and details of services provided.
  - Providing a clear explanation to customers of how NCHA service charges are set and applied.
  - Report to and approval by the NCHA Senior Leadership/changes of the annual overall change in service charges and the reasons for year on year changes.
  - Ensure that NCHA service charges are fully eligible for Housing Benefit/Universal Credit except where NCHA charge for water and heating supplied to individual properties.

**The following charges which are set by NCHA and its group companies are not part of the Rent Standard.**

## **11. Sub Market Rents**

- 11.1 When setting a rent on a new sub market rent property, a Royal Institution of Chartered Surveyor valuation is used to determine the market rent. Properties are then let at between 80 and 95% of the market rent, dependent upon costs involved such as refurbishment and services provided.
- 11.2 A new valuation of the sub market rented stock is undertaken every two years by a Royal Institution of Chartered Surveyor.
- 11.3 Current rent levels are compared annually to the valuation to ensure the 95% level isn't breached.

## **12. Maintenance Contributions**

- 12.1 In our Almshouse properties, maintenance contributions are increase annually by up to a maximum of the September CPI rate of inflation plus 1 percentage point +/- £2.00 per week up to the Equivalent Fair Rent for the property, when increases then become CPI + 1 percentage point.
- 12.2 For any newly built Almshouses we would obtain an Equivalent Fair Rent level from the Valuation Office and set the maintenance contribution at this level.

## **13. Leaseholder Charges**

- 13.1 The annual rent for a new property is 2.75% of NCHA's share of the property. Within each lease there is a rent review schedule that sets out a formula for uplifting the rent annually, using RPI. This is applied to the property annually in lines with the terms of the lease.
- 13.2 A variable service charge is set annually as described above.
- 13.3 Works and improvements to the schemes can also be passed onto leaseholders under the terms of their lease agreement and in line with section 20 consultation legislation.

## **14. Audit of rent and service charge process and calculation**

- 14.1 NCHA will undertake a comprehensive internal program of audit checks as part of the annual rent and service charge calculation process to ensure that rent, maintenance contributions and service charges are accurate, fair and implemented in accordance with the Rent Standard and the terms and conditions of tenancy agreements, leases and licences.
- 14.2 In addition, the rent change and service charge process is subjected to annual external audit to ensure regulatory compliance, control risk and ensure that internal processes and checks are appropriate to meet regulatory and business requirements.