

## Rent and Service Charge Setting Policy

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<b>Revision Date</b>	TBC
<b>Department</b>	Customer Services
<b>Author</b>	Director of Customer Services
<b>Reason for Policy Creation/Revision</b>	Three yearly update and combining separate rent and service charge setting policies into one
<b>Data Protection</b>	This policy conforms to Hanover's data protection policy and procedures
<b>Equalities</b>	No impact
<b>Sustainability</b>	No impact
<b>Proofread By</b>	Business Support Manager
<b>Date Approved</b>	27 April 2023
<b>Approved By</b>	SMT
<b>Next Review Due</b>	27 April 2026
<b>Audience – Training and Awareness Approach</b>	
<b>Effective Date</b>	30 May 2023
<b>Internal References – Policies &amp; Procedures (<i>Located on The Hub</i>)</b>	Policy on Arrears & Credits Arrears & Credits Procedure Lease Policy
<b>External References</b>	The Housing (Scotland) Act 2001 Scottish Housing Regulator's (SHR) – Assurance Framework

### **1. Policy Purpose**

- 1.1 This policy aims to set rents and service charges utilising a methodology which is fair, consistent, and sustainable over time and which enables Hanover to provide good quality homes for its customers.
- 1.2 The main objective is to set rents and service charges which are affordable, especially for older people, Hanover's main client group.

### **2. Policy Scope, Explanations or Requirements**

- 2.1 This policy applies to the following types of property managed by Hanover:
  - Rented Housing (amenity, sheltered, very sheltered, housing with care and general needs)
  - Shared Ownership
  - Shared Equity
  - Houses in Multiple Occupancy (HMOs)
  - Garages
- 2.2 The term 'rents' includes occupancy charges unless otherwise stated.
- 2.3 The term 'gross rent' includes services charges.
- 2.4 For the calculation of rents applied to properties Hanover leases, please refer to the Lease Policy.
- 2.5 Hanover will seek to actively encourage customers to take up all the benefits to which they are entitled to assist them to maximise their income. Our Welfare Rights Officer will coordinate this activity.

### **3. Principles (Viability & Affordability)**

- 3.1 Rental income is collected to pay for the maintenance of our buildings and to cover insurance costs. Service charges are collected to pay for the running of the development (i.e. employee costs) and to cover the management charge.
- 3.2 In conjunction with the tenancy agreement, a schedule of services is provided to every customer at the start of their tenancy. Appendix 1 of this policy outlines these services and which components are paid through service charges and which are paid through rents.
- 3.3 Rents and service charges should be of a sufficient level to provide:
  - a quality management service to the customers
  - day to day maintenance services

## RENT AND SERVICE CHARGE SETTING POLICY

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- achievement of the Scottish Housing Quality Standard (SHQS), Energy Efficiency Standard for Social Housing (EESH) and any future buildings standards.
- the revenue financial commitments of Hanover
- the capital financial commitments of Hanover.
- and should remain affordable for customers (see section 12 below). Standard 3 of the SHR's Assurance Framework has a direct bearing on this requirement *'The RSL manages its resources to ensure its financial well-being, while maintaining rents at a level that tenants can afford to pay.'*

3.4 Hanover will benchmark rent levels with other providers' rent levels for similar properties. Rents may be varied by the Board to respond to local markets and circumstances where appropriate, but not normally by more than 10%.

3.5 Our policy will result in common levels of rents for all similar properties across the country in acknowledgement of common and often fixed income levels of our primary client group (older people) receive.

### 4. Rent Setting

4.1 There are two methods of calculating rents in Hanover:

- Rents set by Hanover, according to an agreed formula. See paragraph 4 below
- Rents set by the Scottish Government's Valuation Office Agency (VOA). See paragraph 6 below

### 5. Rents set by Hanover

5.1 In accordance with the Housing (Scotland) Act 2001 all of Hanover's customers hold Scottish (or Scottish Short) Secure Tenancies.

5.2 The rent structure is based on a formula system. This allows relevant and practical degrees of variation to be built in and flexibility to adapt to and cope with changes in the operating environment.

5.3 The system is based on a benchmark basic unit of housing – a two person, two apartment full sheltered housing flat, which met all design standards at time of construction. The rent for this property then becomes the reference point for subsequent rent calculations for all property types.

5.4 As at 1 April 2023 the rent for the benchmark basic unit of housing fell within a band between £4,818 per annum (minimum level) and £5,343 per annum (maximum level).

5.5 To this reference point rent figure, percentage additions and deductions (which relate to the relative weighting) are applied to the standard benchmark. This represents the value placed upon tangible attributes over and above (or less than) the standard benchmark property. For clarity and simplicity, a minimal number of percentage weightings are applied.

## RENT AND SERVICE CHARGE SETTING POLICY

- 5.6 The table of additions and deductions to the benchmark rent is in Appendix 2.
- 5.7 Rent for new developments must be set in accordance with this policy and under normal circumstances must not exceed the Scottish Government's Annual RSL Social Rent Benchmark Assumptions in place at the time rent is set.
- 5.8 In the event of a 'Transfer of Engagements' of another Housing provider to Hanover (ie a merger) we will seek to bring the rents and service charges of the merged properties into alignment with this policy as quickly as possible, following engagement with the affected tenants.
- 6. Secure Tenancies & Fair Rents**
- 6.1 Fair Rents are set by the Scottish Government's Valuation Office Agency (VOA) rent officers for the very small number of active Hanover tenancies which started prior to 2 January 1989. These tenancies are known as secure tenancies. The rents for such tenancies are set every two years by the VOA. As part of this process Hanover submits proposed rent figures to the VOA who make the final decision on the rent level applied
- 6.2 A secure tenancy relates to the customer and not the property, therefore it comes to an end when the customer terminates the tenancy. The property would be relet as a Scottish Secure Tenancy and the appropriate rent charge applied.
- 7. Service Charge Calculation**
- 7.1 The costs of running the development are covered by the Service Charge (see Appendix 1). The service charge should be set to achieve full cost recovery.
- 7.2 A service charge equalisation account will operate at each development to equitably manage differences that can arise between the service charge set for any given financial year and the actual costs incurred. This mechanism allows for surpluses or deficits to be carried forward to the next financial year and reflected in the service charge set.
- 7.3 Service charge equalisation account surplus balances can also be used for other purposes at the development with approval from the Director of Strategic Finance and Director of Customer Services following engagement with customers. The use of service equalisation account surpluses to make one-off payments to current customers is not permitted.
- 7.4 Service charge budgets are prepared each year and the proposed charges are agreed in consultation between Strategic Finance, Asset Management and Customer Services. The agreed charges are then updated on Open Housing and communicated to all customers through the rent increase letters to be received at least 28 days prior to the new financial year commencing on 1 April.
- 7.5 The service charge budgets will take account of the following:
- any changes to the service model and employee levels approved by ELT
  - any additional or reduced service items which are required or anticipated
  - any year-on-year cost increases identified at the time of preparing the budgets

## RENT AND SERVICE CHARGE SETTING POLICY

- costs will be shared equally between similar house types (eg size, location on the development etc)

7.6 Development based employee salary costs (including NIC, pensions & relief) are budgeted to be using a unit-based pricing model per role so that developments are charged the same hourly rate for each role no matter what salary scale the postholder is on. Actual salary costs for the year are allocated across developments using a unit price for each role at the year end.

### **8. Applicability of charges upon the death of a customer**

8.1 Upon the death of a customer in a sole tenancy Rent, Service, Heating and Meals charges will cease.

### **9. Refund of Food Charges**

9.1 Refunds for meals not taken during a period of absence will be made after four consecutive weeks.

### **10. Financial Statement**

10.1 Customers will be provided with an annual financial statement, typically at the Annual Development Meeting. The statement will be produced and verified by the Finance team. The financial statement will clearly detail and explain income and expenditure related to the development.

### **11. Information and Consultation**

11.1 In accordance with statutory requirements Hanover will consult each year with our customers concerning proposals to change rents and occupancy charges. Hanover will consider any views received before making a final decision. The outcome of this consultation will be reported back to customers.

11.2 Hanover will also provide information on request to customers / or applicants relating to Hanover's policy on rent and service charge setting.

### **12. The Annual Review Process**

12.1 Each year the Director of Customer Services and the Director of Strategic Finance will make proposals to the Executive Leadership Team (ELT), then Hanover's Board for rent levels for the following financial year. An assessment of rent affordability will be undertaken utilising the SFHA's Rent Affordability toolkit with the findings incorporated into the reports to ELT and Board.

12.2 Hanover's Board will make the final decision based on rent levels following the annual rent and service charge consultation exercise which will be reported to Board to inform their decision making.

12.3 Any change to rent levels will be applied as a single percentage to all property types.

12.4 Occupancy charges for shared ownership are reviewed annually and normally amended in line with the changes applied to Scottish Secure tenancy rents.

## RENT AND SERVICE CHARGE SETTING POLICY

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- 12.5 Garage rents are reviewed annually and normally amended in line with the changes applied to Scottish Secure tenancy rents.

### **13. Monitoring and Evaluation**

- 13.1 This policy will be monitored by the Director of Customer Services and evaluated by the ELT.

### **14. Reporting Requirements**

- 14.1 The report to the Board (referred to above) on new rent levels will be made in sufficient time to provide customers with twenty-eight days' notice of any change in the rent charged.
- 14.2 Customers will be communicated with on the outcome of the rent consultation, the Board's decision to notify them of any rent increase and will comply with the statutory timescales for informing tenants.
- 14.3 Monthly monitoring of rent collection and arrears rates will be undertaken by the Senior Management Team (SMT).
- 14.4 Information on rent performance will be reported to the Scottish Housing Regulator (SHR) as part of the Annual Return on the Charter (ARC).

### **15. Review**

- 15.1 This policy will be reviewed every two years with a comprehensive review being undertaken every ten years. The most recent comprehensive review was undertaken by Newhaven Research in 2017.