



## GROUP RENT AND SERVICE CHARGE SETTING POLICY

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## **POLICY STATEMENT: RENT AND SERVICE CHARGE SETTING**

### **1 INTRODUCTION**

- 1.1 The Caledonia Group currently comprises Caledonia and Cordale Housing Associations, and their subsidiaries. One of the key aims of the Group is the provision of high quality affordable housing to people in need that meets all relevant Scottish Housing Quality Standards. The rent levels determined and applied by the Group are of central importance in achieving this aim as well as ensuring the long term viability of the Group's companies and the affordability of rents.
- 1.2 This policy details the principles and framework on which the rent and service charge setting for the Group's housing associations is based, and how residents will be consulted on these charges.

### **2 CONTEXT**

#### **Legislation**

- 2.1 Under the terms of the Housing (Scotland) Act 2001 the Associations within the Group are responsible for setting rent levels for properties within their ownership and for consulting with the residents involved.

#### **Social Housing Charter**

- 2.2 The Scottish Government, through the Social Housing Charter, sets the outcomes it expects Housing Associations to achieve for its residents. In terms of how rent and service charges are applied the Social Housing Charter states that:

#### **Outcome 14 and 15: Rents and service charges**

Social landlords set rents and service charges in consultation with their tenants and other customers so that:

- a balance is struck between the level of services provided, the cost of the services, and how far current and prospective tenants and other customers can afford them
- tenants get clear information on how rent and other money is spent, including any details of individual items of expenditure above thresholds agreed between landlords and tenants.

#### **SFHA Guidance**

- 2.3 Specific guidance has also been developed by the Scottish Federation of Housing Associations (SFHA) on the issues of developing affordable rents and service charging. Account has been taken of this guidance in the development of this policy.

#### **Resident Consultation**

- 2.4 The Housing (Scotland) Act 2001 contains a number of important provisions relating to the rights of individual and groups of residents to be consulted on key policy areas. This policy contains details of the steps to be taken to ensure that our obligations under the terms of this legislation are met.

## Business Planning

- 2.5 This policy supports the strategic requirements of the Group's Business and Strategic Development Plans; Standing Orders; and the Group's strategies, policies and procedures including the Tenant Participation Strategy, Equalities Policy and Risk Management Strategy.

## Procedural Guidance

- 2.6 This policy is supported by a Rent Setting and Service Charge Procedure that details processes for setting, reviewing and implementing rent and service charges and the resident consultation processes. Each Housing Association within the Group will ensure that all staff and Governing Body members receive appropriate training and support to meet the requirements of this policy and the related procedures.

## 3. AREAS OF RESPONSIBILITY

- 3.1 Key areas of responsibility in relation to the implementation of the Group's Rent and Service Charge Setting Policy are detailed below:

- *The Governing Bodies* - have responsibility for ensuring that this policy complies with regulatory and legislative requirements and meets the Group's Business Plan and budget objectives.
- *Group Chief Executive* . has responsibility for ensuring that this policy is applied to ensure compliance with regulatory and legislative requirements and meets the Group's Business Plan and budget objectives.
- *Caledonia Finance Director* . has responsibility for ensuring that appropriate financial support and advice is provided to the Governing Bodies, Executive Management Team, Cordale's senior staff and other relevant members of staff.
- *Caledonia Operations Director* . has responsibility for ensuring that appropriate housing services related support and timely advice is provided to the Governing Bodies, Executive Management Team, Cordale's senior staff and other relevant members of staff on rent and service charge setting and review issues, including the resident consultation processes.

## 4 POLICY AIMS

- 4.1 The Group's Rent and Service Charge Policy aims to meet all legislative and regulatory requirements by ensuring that the following aims are achieved:

- **Affordability** - rents set are affordable to households on low incomes;
- **Viability** - sufficient income is generated to meet all of the Group's financial requirements including the costs of managing and maintaining the homes and any associated borrowings;
- **Fairness** - there is a fair system of setting and apportioning rents for different types of property;
- **Comparability** - rents are broadly consistent with comparable rents charged by similar social landlords in similar circumstances; and
- **Fair and accountable service charges** - service charge costs are priced to residents and recovered in a fair and accountable manner

### Affordability

- 4.2 The Group will seek to ensure that rent and service charge levels are affordable to its client groups, whether they are in receipt of welfare benefits or in low paid

employment. Where possible the Group will pay due accord to the Affordability Measure established by the SFHA. This states that:

*“For a rent (including service charges) to be affordable, households with one person working 35 hours or more should only exceptionally be dependent on housing benefit in order to pay it.”*

The changes proposed by the Welfare Reform measures and the removal of Housing Benefit have challenged the definition as an appropriate gauge of affordability. The SFHA is currently reviewing the Affordability Measure.

To more accurately gauge affordability the Group will ensure that the rents and annual rent increase, on average, should not exceed levels set by other Housing Associations operating in the same area. The Group will also have regard for feedback from applicants from surveys on their reasons for the refusal of offers of tenancies, for comments made by new tenants at the new tenant home visit and the reasons for leaving cited by former tenants in exit surveys.

### **Viability**

4.3 The Group's rental income is of vital importance to the viability of the organisation. Given this, the annual review of rent and service charges will be carried out in conjunction with the Group's budget setting process. This will ensure that a detailed assessment of all relevant costs is made and that the resulting rents will be set at a level necessary to meet these as well as achieving an acceptable level of operating surplus. Costs to be considered within the rent and budget setting exercise will, for example, include the following:

- management of housing stock
- maintenance of housing stock (reactive and cyclical)
- costs of providing services ( including administration charge)
- voids and bad debts allowance
- loan charges and repayments
- provision for future major repairs, component renewal, planned maintenance
- provision for any contingencies

The viability of the Group in the long term will be of key importance in the consideration of these costs and all associated issues.

4.4 An important issue for all Registered Social Landlords over recent years has been the changes to the way in which development programmes have been funded by the Scottish Government and the long term financial considerations surrounding these. In summary, the changes have involved increased assumptions in relation to rental income and the introduction of standard rents to assess value for money within development grant calculations.

4.5 These changes have added to the financial challenges involved in continuing to provide new affordable homes. The Group, however, is committed to continuing with the active provision of new homes, throughout our area of operation. The Group is also mindful though of the importance of balancing this with the need to ensure that our existing properties are affordable for our residents. In working to ensure this, the overall financial viability of new schemes will be considered in detail and will include analysis of all relevant strategic, financial and operational issues before a decision is taken on whether or not to proceed.

## **Fairness – The Rent Setting System**

- 4.6 The Group's approach to rent charges involves a fair system for setting and apportioning rents. The following statements outline the Group's approach and the mechanism to be used to determine the amount of rent to be charged for each property at the completion of each development.

### *Properties Funded Through the Affordable Housing Supply Programme*

- 4.7 Historically the rents for properties which have been developed using the Housing Association Grant (HAG) Programme, or its equivalent, from the Scottish Government have been based on a points framework. Points have been attributed to a range of property characteristics. These characteristics are those that are considered to be the most important to residents in enjoying their homes, and any which may represent additional maintenance costs to the Group. The structure adopted also aims to be easy to understand, easy to apply, flexible and fair.
- 4.8 A points total is calculated for each property and the rent then calculated by applying a monetary multiplier to the points total. The value of this monetary multiplier will be set each year by Caledonia's Management Board as part of the annual rent review process. Full details on the points system against which rents are calculated is provided in Appendix One to the Policy document.
- 4.9 More recently for new housing developed through the Affordable Housing Supply Programme (AHSP), the Group also takes into account the Scottish Government's standard benchmark rents as part of the development viability considerations. Accordingly the Group may allocate additional rent points or utilise the benchmark rent where this is required to ensure the financial viability of the scheme. This principle will also apply to properties acquired through the Scottish Government's Mortgage to Rent Scheme. Additional points may also be allocated where properties benefit from energy efficiency measures that will reduce the running costs of the property to the benefit of the resident.

### *Non-AHSP Funded Properties*

- 4.10 It is accepted by the Group that a points-based method of rent calculation may not be appropriate for properties which are acquired or developed under a funding framework which does not involve AHSP. This could apply to initiatives such as stock transfers and local authority sponsored redevelopments. In these circumstances, the rental structure of the disposing or sponsoring agency or landlord may require to be accepted as the basis for rent setting.
- 4.11 Basing rents on the rental structure of a disposing or sponsoring agency is acceptable to the Group provided that there are no concerns regarding the affordability of the rents generated under such a structure.

### *Fair Rents*

- 4.12 The Group has a reducing number of residents who have the preserved rights for rents to be set by an Independent Rent Officer on a three yearly basis. Our approach to Fair Rents will be to apply the broad principles of this policy as set out in Section 4 of this policy, subject to approval by the Rent Registration Officer.

### *Supported/Care Accommodation*

- 4.13 In recognition of the different revenue funding system for some supported/care accommodation projects, the Group may set rent/occupancy charges for such projects outwith its points-based rent setting structure. This will also apply to shared

accommodation arrangements. In determining the appropriate level of rent the Group will consider the costs of factors such as the following in addition to mainstream costs:

- management, including any enhanced management, services provided by the Group or any agency contracted by it to provide such services;
- maintaining or replacing any special equipment or features provided within the accommodation;
- any specific costs associated with registration of the property or compliance with the requirements of other external regulatory bodies;
- providing, maintaining and renewing communal areas and facilities and staff accommodation;
- anticipated void levels where responsibility for rent loss through voids rests with the Group;
- providing, maintaining and renewing any furniture, appliances and fittings for which the Group is responsible; and
- the availability of revenue funding for the project and / or the resident.

#### *Commercial Rents*

- 4.14 Rents and service charges for commercial premises will be subject to the conditions of the lease arrangements and will normally be set dependant on market forces.

#### *Shared Ownership*

- 4.15 The rent and service charges for shared ownership properties will be set in accordance with the principles of this policy. Deductions will be applied for repair responsibilities in line with nationally set allowance guidelines.

#### **Comparability**

- 4.16 The Group's method of rent setting will seek to ensure that rent levels are consistent across our housing stock, taking account of property features and attributes. Account will also be taken of rental levels of other relevant social landlords as part of an annual comparability exercise. A comparability study of rent charges of local and peer social housing providers will be provided for the Governing Bodies as part of the rent review process.

#### **Service Charges**

- 4.17 The service charges applied by the Group are additional to the basic rent charge. They are property specific and are calculated on the basis that the Group covers the full cost of providing the services and that these costs are fair and reasonable. The charges are reviewed on an annual basis to ensure that the service charge income is sufficient to cover the future cost of the services.
- 4.18 Any service charges for which an individual tenant or sharing owner is liable will be detailed in that tenant's tenancy/occupancy agreement. All residents who have to pay a service charge will be provided with an annual statement that provides details of service charge income and expenditure for the relevant year.
- 4.19 In line with Scottish Government guidance, an administration charge is made where service charges are applied to contribute towards the Group's costs in this area of work. A copy of our detailed Service Charge Policy is attached to this Policy document at Appendix Two.

## **5 ANNUAL REVIEW OF RENT AND SERVICE CHARGE LEVELS**

- 5.1 All rent levels and other charges will be reviewed annually, with any increases implemented from the start of April each year. The decision as to the level of any increase in rents or other charges must be made by the Group's relevant Governing Bodies. In considering the level of any increase to be applied, the Governing Body will take full cognisance of any commitments as to future rent increases given to tenants as part of any stock transfer or other contractual agreement as part of the consultation process.
- 5.2 Prior to agreeing any increase in rent levels the Governing Body will have regard to any representations received from tenants as a result of a consultation exercise on proposed rent increases conducted under the terms of section 25(a) of the Housing (Scotland) Act 2001.
- 5.3 When calculating rent increases in its annual budget setting process, the Group will use as a guide the Consumer Price Index (CPI) inflation figure for September. The Group where possible will aim to limit any budgeted increase to no more than CPI plus 1%. However this will be subject to the outcome of the detailed budget considerations within the review process.
- 5.4 Residents will receive at least one month's written notice of any increase in their rent and other service charges. Residents of new houses or re-let houses with a tenancy start date falling within the one month notice period will be charged the new rent and service charge from the date of entry and will not be included in the rent and service review until the following rent and service review period. New residents of re-let properties will receive the same rent and service charge as the maximum prevailing charge for the scheme or development, subject to normal increase arrangements.
- 5.5 Any resident who feels that a rent and/or service charge increase for their property has been improperly calculated or applied may request a reassessment of the rent/service charge level and, if still dissatisfied, may submit an appeal to the relevant Governing Body, prior to the increase being applied.

## **6 CONSULTATION ON BUDGET AND RENT AND SERVICE CHARGE SETTING**

- 6.1 The Housing (Scotland) Act 2001 and Social Housing Charter places a responsibility on social landlords to consult with tenants on the Rent Policy and their rent setting proposals. In recognition of this, the Group will implement consultation measures in relation to the budget and rent setting process, including details of how the rents and service charges have been calculated and how these compare with other similar Groups. The consultation measures will be agreed with tenants through the Tenant Participation Strategy and may, for example, include the following:
- Discussions with resident representative groups on budget and rent setting issues (including the Rent and Service Charge Setting Policy);
  - Questionnaire based consultation on the budget and rent setting proposals;
  - Provision of clear and easy to understand information to all residents on the budget and rent setting process with an invitation to comment on these and attend organised resident meetings.

A report on the outcome of the consultation on the rent and budget review will be submitted annually to the Group's Governing bodies, prior to any rent increase being applied.

- 6.2 The Group aims to ensure services provided represent value for money and shall incorporate obtaining views on service performance as part of the annual consultation process. These views will be used to supplement other feedback received throughout

the year. Those receiving a particular service will be consulted where there are any proposals to vary the scope or specification of that service.

## **7 RENT PAYMENTS**

7.1 Rent payments will be due in accordance with the contractual terms set for tenants in each Housing Association's tenancy agreement. The Group however will adopt a flexible approach in terms of the preferred payment arrangements of individual residents and will also maximise available payment options.

## **8 EQUAL OPPORTUNITIES**

8.1 This policy has no direct equal opportunities implications. The Group will, however, as a matter of good practice, monitor the affordability of its rents with information available on income levels between different groups, such as gender groups, ethnicity and disability groups. This will support our aim that rents set by the Group are affordable and will ensure that income levels do not represent any barrier to access the Group's housing stock. The Group will also comply with all relevant equal opportunities requirements in the development, implementation and review of this policy.

## **9 SUSTAINABILITY IMPLICATIONS**

9.1 This Policy has no direct sustainability implications. The Group will however, as a matter of good practice, monitor the sustainability implications of new build developments and property investment on rent levels over the long term.

## **10 RISK MANAGEMENT**

10.1 The Group's Governing Bodies will consider the risk management factors involved in the rent and service charge setting process including:

- Financial risk through potential failure to ensure that enough income is generated to cover operating costs;
- Non compliance with the Scottish Government's Social Housing Charter outcomes;
- Setting charges which are viewed as being unfair and/or not affordable; and
- Emerging risks from changes to be made to the welfare benefits system.

10.2 Given the importance of these risks it is recognised that the effective management of these is vital. This will be achieved through combining the annual review of this policy with a comprehensive budget and business plan review process. This overall process will involve active consideration of all relevant issues relating to the achievement of affordability, viability, fairness and comparability in line with this policy.

## **11 COMPLAINTS PROCEDURE**

11.1 In addition to the appeal process detailed at Section 5.5 above, any resident may submit a complaint, using the Group's complaints procedures if it is felt that the Group has failed to correctly apply this Rent and Service Charge Policy.

## **12 POLICY REVIEW**

12.1 The Rent and Service Charge Policy will be reviewed on an annual basis by the Group's Governing Bodies in conjunction with the budget and rent setting process, or as required following a substantive legislative or regulatory change.

**APPENDIX ONE - RENT POINTING STRUCTURE**

**GROUP – RENT POINTING TABLE**

**Dwelling Features**

Living Room	40
Separate Dining Room	20
Kitchen	40
Combined Living/Kitchen	60
Combined Living/Bedroom	60
Combined Living/Kitchen/Bedroom	80

**BEDROOMS FORMULA** 20 POINTS PLUS 20 PER BEDSPACE

Bathroom	40
Bathroom with Overbath	
Shower	45
Shower Room	50
Additional W.C.	20
Wheelchair Space Standards	20

**Common Facilities**

Common Room	6
Dining Room	3
Kitchenette	2
Full Kitchen	6
Scheme Office	2
Staff Rest Room	3
First Guest Room	2
Second Guest Room	2
Third Guest Room	1
Laundry	3
Hairdressing Room	1
Assisted Bathroom	3
Fire Alarm System	2
Warden Call System	2
Common Bath/Shower	2
Second Common Room	2
Staff Sleep Over Room	3

**Building Forms**

Flat	4
Terraced	11
Semi Detached	13
Detached	15

**External Features**

Individual Car Parking Space	2
Car Port	4

**£ PER POINT**

<b>£ 16.63</b>
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## APPENDIX TWO

### SERVICE CHARGE POLICY STATEMENT

#### 1 INTRODUCTION

- 1.1 The Caledonia Group currently comprises Caledonia and Cordale Housing Associations, and their subsidiaries. The Group recognises the need to maximise rental income by levying a service charge for those items not covered by the rental charge. This policy will be implemented to ensure a high quality and value for money service is provided. The policy is also supplementary to the overall provisions of the Group's Rent and Service Charge Setting Policy and should be considered alongside this.

#### 2 CONTEXT

- 2.1 The Scottish Government, through the Social Housing Charter, sets the outcomes it expects the housing associations in the Group to achieve for its residents. In terms of rent and service charges are applied the Social Housing Charter states that:

##### **Outcome 14 and 15: Rents and service charges**

Social landlords set rents and service charges in consultation with their tenants and other customers so that:

- a balance is struck between the level of services provided, the cost of the services, and how far current and prospective tenants and other customers can afford them
- tenants get clear information on how rent and other money is spent, including any details of individual items of expenditure above thresholds agreed between landlords and tenants.

- 2.2 This policy has been drafted to take account of this requirement and also specific guidance developed by the Scottish Federation of Housing Associations (SFHA) on service charge issues.

#### 3 AIMS

- 3.1 The Group's Service Charge Policy aims to achieve fair and accountable service charges and meet all legislative and regulatory requirements by ensuring that the following are achieved:

- all service charges represent value for money and are based on high standards and current good practice;
- new residents are informed of any service charge before they sign a tenancy or occupancy agreement;
- existing residents will receive clear information regarding their annual service charge and be offered opportunity to be involved in reviewing services; and
- health and safety requirements are met and implemented quickly on all open spaces to ensure sites are safe for residents and their relatives to use.

#### 4 APPLYING SERVICE CHARGES

- 4.1 We will only apply a service charge where it is necessary to do so, i.e. where the costs of the items concerned would not be covered by the rent.

- 4.2 Examples of where a service charge may be required include the following:

- the nature of the building, e.g. a building with staff employed and a variety of amenities which need to be maintained;
- where a development has communal grassed areas and equipment which require to be cut or internal common areas which need to be maintained;

- where the depreciation and/or maintenance costs of communal equipment such as door entry systems are not included in the rent;
- where electricity/heating consumption is not billed directly to residents;
- where furnishings are provided by the Group's associations as part of the tenancy.

## **5 NEW DEVELOPMENTS**

- 5.1 In planning our new developments we will aim to minimise the creation of unnecessary shared external areas for which service charges will require to be levied. Where shared external and internal communal areas are to be provided, we will aim to maintain such areas to high environmental and amenity standards.

## **6 SERVICE CHARGE CONTRACTS**

- 6.1 We will seek new tenders for contracts for communal maintenance such as open space maintenance in accordance with the Group's Procurement Policy.

## **7 CALCULATING SERVICE CHARGES**

- 7.1 Service charges will be based on the actual cost of providing the service plus a charge to cover our administrative costs in providing the service. The total cost of providing services at individual housing developments in the main will be split evenly between the number of residents living there. Adjustments may be made, however, to reflect specific development design and layout issues.
- 7.2 We will provide annually to each resident a breakdown of their charges to show the rent they will pay for their home and, where applicable, any service charges also to be paid. We will aim to provide all existing residents with a schedule of their service charges each February advising of their new service charge with effect from April each year.
- 7.3 For all new tenants we will provide a full schedule of their service charges at the beginning of their tenancy. Where possible in initial offer letters we send out we will clearly show the details of any service charges applicable in addition to the appropriate rent. This information will also be stated in tenancy and occupancy agreements.
- 7.4 Residents will be consulted prior to the introduction of any new service charges. The consultation process will include information about the likely costs as well as the scope of the services.

## **8 RECOVERY OF SERVICE CHARGES**

- 8.1 Residents are required to pay service charges as a condition of their tenancy and occupancy agreements. Non payment will result in the relevant Arrears Policy being applied.

## **9 COMPLAINTS PROCEDURE**

- 9.1 In addition to the appeal process detailed in the Rent and Service Charge Setting Policy, any resident may submit a complaint, using the Group's complaints procedures if it is felt that the Group has failed to correctly apply the Service Charge Policy.

## **10 POLICY REVIEW**

- 10.1 The Service Charge Policy will be reviewed on an annual basis by the Group's Governing Bodies in conjunction with the budget and rent setting process or as required following a substantive legislative or regulatory change.