



WHEATLEY HOUSING GROUP

GROUP PRICING AND CHARGING POLICY 2018

Contents

1. Introduction & background
2. Principles, aims, scope & objectives
3. Internal charging
4. External pricing
5. Owner occupiers, Businesses and other customers
6. Care
7. Authorising environment
8. Equal opportunities statement
9. Legal and regulatory framework
10. Policy reviews
11. Conclusion

1. INTRODUCTION & BACKGROUND

- 1.1 Wheatley Housing Group (WHG), through its subsidiaries, provides a wide range of services to customers across central Scotland. In doing so, we receive income for these services and incur expenditure, both directly and indirectly to provide them.
- 1.2 Our RSLs and care organisations are charities, registered with the appropriate regulators (Scottish Housing Regulator (SHR), the Office of the Scottish Charities Regulator (OSCR) and the Care Inspectorate). Our factoring and private rented activity takes place outwith a regulated environment, although the Group parent company is an RSL. Our charities are restricted by HMRC regulations in amounts of income they can derive from activities that are regarded as being non-core and distinct from their charitable purposes.
- 1.3 To ensure compliance with regulatory rules in respect of non-core activities, we have over a number of years undertaken commercial activities in non-charitable subsidiaries. Corporate services and other services that are not delivered to external customers are provided by Wheatley Solutions.
- 1.4 Typically, profits that our commercial companies generate are gift aided to charitable members of the group. The application of this pricing and charging policy will have a direct bearing on the revenue and surpluses generated across the range of group activities and by extension how much gift aid is available to the group's charitable arms. The intended use and allocation of gift aid throughout the group will be subject to annual decision as part of our group business plan approvals.

2. PRINCIPLES, AIMS, SCOPE & OBJECTIVES

- 2.1 The purpose of this policy is to provide a framework for setting prices and charges to both internal and external customers in a transparent manner. Our prices will take account of the specific circumstances of each activity so that they are set at levels local markets will bear and help drive efficiencies across the group. We are clear that the success of our products and services is dependent on them being priced correctly relative to available alternatives and of being high quality. Product and service pricing has a direct impact on our business planning arrangements and we will review this policy every three years and the specific prices for each product and service on an annual basis.
- 2.2 This policy also sets a framework for how we capture the cost of providing services across the group. In demonstrating the effective use of funds, we will avoid duplicating support services in different parts of the group. This means that group services support all parts of the group and the cost of each service is charged out accordingly on a transparent, clear and proportionate basis.

3. INTERNAL CHARGING

- 3.1 Organisations operating in a group structure recharge each other where they use each others' services, typically back office support functions and shared services that their customers benefit from, such as a central call centre. Our charitable group entities are further bound by their status to comply with HMRC's transfer pricing requirements, which are designed to prevent cross subsidisation within groups which have both charitable entities and non-charitable entities undertaking trading activities. This means that internal recharges should be on the basis of full cost recovery plus an appropriate margin, commensurate with a market transaction.
- 3.2 We will adopt the following general principles in recharging services from our group services provider, Wheatley Solutions:
- Completeness: total costs of providing a service are captured and an appropriate share of overheads are recharged
 - Transparency: recipients understand the basis of the recharge and are able to track the costs to source through the provision of supporting information.
 - Consistent: recharges are made on a regular basis using established principles
 - Proportionality: We will balance the need for accurate recharges with creating an efficient system that remains proportionate.
- 3.3 There are a range of alternative bases upon which internal charges can be set, as follows:
- Time used (this is a relatively pure method of time allocation whereby staff complete timesheets detailing where they have spent their time and the recharge is set on an actual basis. it is a common approach in legal and audit firms, amongst others.)
 - Unit numbers (support costs are apportioned to different group entities on the basis of their property numbers. Clearly, this method works well with property owning entities, but would not be suitable for service based companies)
 - Staff costs (this basis is more suitable for non-asset owning, service orientated businesses. Central costs are recharged to the business unit as a proportion of their staff costs. For example, a business unit with 5% of total staff numbers would be allocated 5% of the total central support costs).
 - Accommodation usage (central costs reallocated to business units as a proportion of the total office accommodation that they occupy).
 - Fixed fee (Akin to a commercial transaction, the business unit receiving the service from the central team, enters into an agreement to pay per transaction or service received. For example, Lowther Homes pays Your Place a fixed fee per property that YP manages on its behalf).

- 3.4 In isolation, each of these approaches is too narrow to fully reflect the full benefit of service that our subsidiaries receive from Wheatley Solutions.
- 3.5 The principle of our internal charging approach is that it should be flexible enough for the business to supply the same goods or services to customers, but at different rates if required. For example, for our non-social housing property letting subsidiaries their inputs are staff costs, property costs, overhead costs and margin, where applicable. These combine to produce a price that the product (rented property) is offered to the market.
- 3.6 For most of our services, payroll costs will usually represent the majority of internal charging costs across the group and have a direct impact on our charging to external customers. Group pay levels and pay awards will affect the competitiveness of our services and products and whether they support the delivery of our strategies. However, a timesheet-based system would be very expensive to introduce and operate for our staff. There would also be significant difficulty in isolating which elements of time relate to which subsidiary when tasks frequently address the needs/requirements of multiple group entities, eg the time taken to process an invoice which relates to services for the group as a whole.
- 3.7 Costs incurred by Wheatley Solutions will therefore be fully recharged to our other subsidiaries using a modified share of turnover basis. The modifications reflect the specific partnership agreements made with a number of subsidiaries as they joined the group, as well as recognising the different nature of income and consumption of Wheatley Solutions' services. A 5% markup will be charged by Wheatley Solutions on these costs, reflecting tax advice taken by the Group that this level will comply with HMRC requirements.
- 3.8 Wheatley Solutions will also pay a charge to GHA for the use of Wheatley House, as its principal office. This will be based on an assessment of a fair market rental value by our independent valuation advisors.
- 3.9 The charging proportions will be annually reviewed between Wheatley Solutions and each subsidiary, with a key focus on value for money to the subsidiary. This will be analysed in terms of (i) any change from the previous year's charge, (ii) the outcomes delivered by Wheatley Solutions under their service proposition and performance framework, and (iii) external benchmarking of costs vs Wheatley Solutions' proposition. This process will form part of subsidiary Board discussions each year.
- 3.10 This approach will help drive further efficiencies in group services and help retain the competitiveness of external pricing.

4. EXTERNAL PRICING

4.1 Pricing arrangements for our products and services will align to the objectives of individual subsidiaries, so that they are positioned to deliver on their respective strategies. These will clearly differ from one subsidiary to the next, but each will follow the fundamental principle that prices for customer facing services are clear, accessible and proportionate and contribute to the wider success of the group.

Rent setting - social housing

4.2 The application of a pricing policy to our social housing businesses, our key revenue stream, must take account of the need for these rents to be affordable for customers in housing need. In this context affordability is key, but will be balanced against the need to recover our costs.

4.3 The range of social housing property types across the group is wide and varied. Some properties generate a net financial contribution, whereas others cost more to maintain and manage than they contribute. As a consequence, we will continue to operate rent pooling approach. This approach allows us to balance the different cost profiles of different properties and deliver affordable rents across all of our RSL properties, including multi-storey flatted accommodation.

4.4 Our rent structures are based on costed business plans, designed to deliver the specific customer aspirations for each subsidiary as set out in our strategy, Investing In Our Futures. Future rent setting for each RSL will strike a balance between the requirements of the respective business plans and the services that are delivered to our customers, with the need for rents to remain affordable.

4.5 We will benchmark the affordability of our social rents using national benchmarking tools such as that developed by the Scottish Federation of Housing Associations. We will also take into account how our RSL rents compare with a range of other landlords, both locally and nationally.

4.6 In determining rent levels, we will consult in detail with our customers. This will involve an explanation for each RSL of what rent is spent on and how this aligns with the things customers have told us are their priorities. We will propose options each year for different rent levels and ask customers what they would be prepared to pay for investment in their communities over and above the level set out in our strategies. We will maintain a continual focus on efficiencies in terms of reducing management and overhead costs.

4.7 For new build properties, our RSL subsidiaries currently use different methodologies to set rents. In the west of Scotland, the approach is based on Scottish Government benchmark levels which focus on property size rather than location. In the east of Scotland, an approach which takes into account a wider range of factors, such as the amenity value of the property and its location, has typically been used. It is proposed that we maintain the current RSL-specific approaches for the remainder of

our current strategy to 2020, but that a review takes place in relation to the next strategy period to consider whether these differentials continue to be appropriate.

- 4.8 Customer feedback will be at the heart of Board considerations before approval for any changes to future rents.

Rent setting – mid-market and private rent

- 4.9 Across our other tenure types, we will use market research and local forecasting to inform the basis of rent setting and indeed the acquisition of potential properties for our non-social housing activities. This will be used to support pricing decisions, with the principle of remaining competitive against rival products and maximising income.

- 4.10 Where we provide mid-market or key worker accommodation, we will also use knowledge on market conditions and business plan requirements to inform our approach to rent setting. In some of these circumstances there will be definitive affordability criteria and rent setting parameters that accompany grant giving bodies' subsidies, usually in relation to how our rents compare with the Local Housing Allowance rent level. We will comply with these requirements, which may differ from scheme to scheme. Rent proposals will be considered annually by the Lowther Homes Board as part of its business planning process. However, as a non-charitable commercial subsidiary, the key principle will remain the maximisation of rental levels and income for Lowther.

RSL service charges

- 4.11 Provided that they are allowable within the terms of a tenancy agreement, service charges are intended to recover from customers the full cost of providing additional services.

- 4.12 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. 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 as part of the tenancy.

- 4.13 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.

- 4.14 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.
- 4.15 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.
- 4.16 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.
- 4.17 We will seek to more closely align service charge structures across our RSLs, while recognising that differentials will continue to exist in some circumstances. We will involve reducing the number of charges in some of our RSLs by consolidating certain types and removing others entirely, in particular in respect of communal heating. In doing so we will take account of housing benefit eligibility in the context of Universal Credit.

Enhanced housing management – Livingwell service

- 4.18 Where certain costs relate to enhanced housing management services (and are eligible for housing benefit under the relevant regulations); for example in accommodation where we augment the standard housing management approach with our Livingwell service, we will consider introduction of specific service charges for these. These costs could include communal areas, furniture, alarms, grounds maintenance, etc. In these cases, we will seek to ensure existing residents on day one of such a change are not financially disadvantaged, although subsequent new tenants who are not eligible to receive housing benefit may be required to pay any service charge.

Communal and district heating

- 4.19 Some of our homes are served by communal and district heating systems. Our approach will be to move all of these onto individual metering and billing arrangements in line with regulatory timescales. The practice of service charges being levied through tenancy agreements for “heat with rent” will gradually be phased out. Customers will pay for the energy they use based on their individual meters, on a pay-as-you-go basis. We will appoint a suitable billing provider that will deal with the administration of charges to customers and collection of revenue on

our behalf. The charges will be based on the cost of heat (principally from purchasing gas for boilers) plus an administration cost.

Furniture packages

- 4.20 Group RSLs offer customers the options of taking a range of furniture package when they take a tenancy. We will continue to develop a flexible model where customers can exercise choice in terms of furniture packages and repay the costs over a range of different timescales. This will still be done through amendment to the tenancy agreement. The pricing of such packages will aim to recover the costs of the furniture over the period for which the service charge applies.

Close/stair cleaning/environmental maintenance

- 4.21 Some RSL customers have a service charge for close/common stair cleaning and environmental/grounds maintenance. In general these services will be provided by in-house Neighbourhood Environmental Teams, and the cost of this will be monitored, along with the level of charges and customer satisfaction with the service to assess whether it is delivering value for money. However, where a subsidiary already funds these activities from its general rental pool, we will not introduce specific service charges other than potentially in supported accommodation where they would be eligible for enhanced housing benefit.

TV lounges / communal areas

- 4.22 Where subsidiaries have traditionally charged several service charges for related services (eg separate charges for common room cleaning, common room TV, etc) we will seek to consolidate these. The aim will be to reduce the complexity and number of individual charges.

5. OWNER OCCUPIERS, BUSINESSES AND OTHER CUSTOMERS

- 5.1 Across the group, we continue to consider income diversification opportunities on a proactive basis. The pricing methodology will vary from project to project and will be subject to evaluation, scenario planning and ongoing monitoring through our governance arrangements. A business development authorisation framework, designed to provide a strong basis for building business cases in respect of external facing initiatives will be used to support these developments to ensure that they are appropriate activities for the group and that they each provide sufficient return on investment.
- 5.2 As noted, the key test when pricing any market orientated product is that it can compete with available alternatives and is priced at a level that is both affordable

and attractive to prospective customers. They will also support our internal efficiency agenda as their price will help sustain and drive group cost control.

Owner occupiers – factoring charges

- 5.3 Across the group we generate revenue streams from owner occupiers receiving factoring services. We will target recovery of the full costs of these services, including owners' share of Neighbourhood Environmental Services (close cleaning, concierge, etc). We will target a minimum profit margin of 10% on new services as part of our strategic objective to deliver a factoring surplus of £1.5m per annum by 2020.

Insurance

- 5.4 We also sell insurance products via the non-regulated side of our group. The provision of home contents insurance will be based on prices established through periodic tender exercises, with the income stream to the group based on 15% commission.

Commercial properties

- 5.5 Charges for our commercial properties are set relative to market forces and demand for the product. The business benefits from letting the site so that it makes a return to the group. We will look equally look to minimise voids levels so that we can avoid paying business rates, insurance and maintenance costs on vacant units. We will balance the need to minimise void losses with rental charges. Where required, we will access external consultancy support in setting our commercial property charges.

Garage Lock Ups

- 5.6 Arrangements for garage lock ups see charges vary depending on the circumstances of the lessee. GHA has four different categories of charges depending on whether the lessee is a GHA tenant and/or has a disability or neither of these. Cube also has a number of lock ups and garages. Lock up charges are increased in line with the annual rent increase.

6. CARE

- 6.1 Our pricing of care contracts or services, whether won through tendering processes or otherwise, should reflect the principles of full direct cost recovery and wherever possible, a contribution to overheads at a target level of at least 5%.
- 6.2 Pricing, whether by means of hourly rate or other mechanism, should achieve this objective on an individual service basis. "Loss-leading" pricing is not appropriate for any services without specific Group Board approval in advance of submitting any tender. Prior to any tender being submitted for a self-directed or personalised budget-based support arrangement, sensitivity analysis should be performed to demonstrate viability of the service for different types of individuals under different

circumstances and over the whole period of the contract with pay increases and inflation taken into account.

- 6.3 Thereafter, for each service run by our care subsidiaries, an annual budget must be produced which includes the projected income and expenditure to run that service. Any services which cannot generate a contribution to overheads (with the target minimum level being 5%) must be reported to the Executive Team for approval. In some cases, it may be appropriate to hand back the service to the commissioning body if an appropriate pricing arrangement cannot be agreed.

7. AUTHORISING ENVIRONMENT

- 7.1 Approvals for proposed charges are requested from authorising bodies across the group at various points throughout the year. Our business planning cycle dictates much of the timeline around our charging decisions so that they are adequately reflected in the annual budget and approved business plan. We will align the process for updating our charges with our financial year where possible, so that changes in charges take place from 1 April in the majority of cases.

8. EQUAL OPPORTUNITIES STATEMENT

- 8.1 This policy complies fully with the Group's Equal Opportunities Policy. We recognise our pro-active role in valuing and promoting diversity, fairness, social justice and equality of opportunity by adopting and promoting fair policies and procedures.
- 8.2 We are committed to providing fair and equal treatment for all our stakeholders including tenants and will not discriminate against any-one on the grounds of race, colour, ethnic or national origin, language, religion, belief, age, sex, sexual orientation, gender re-alignment, disability, marital status, pregnancy or maternity. Indeed we will positively endeavour to achieve fair outcomes for all.
- 8.3 We carry out Equality Impact Assessments when we review our policies. We check policies and associated procedures regularly for their equal opportunity implications. We take appropriate action to address inequalities likely to result or resulting from the implementation of the policy and procedures.

9. LEGAL AND REGULATORY FRAMEWORK

- 9.1 This policy takes account of legal and regulatory requirements. Legislation relevant to this Policy includes:
- Housing Act (Scotland) 2014
 - HMRC transfer pricing requirements

10. POLICY REVIEWS

- 10.1 We will review this policy annually. More regular reviews will be considered where, for example, there is a need to respond to new legislation and policy guidance. Reviews will consider legislative, performance standard and good practice changes.

11. CONCLUSION

- 11.1 Appropriate charging and pricing arrangements will ensure that the Group generates and protects its revenue streams into the future, whilst meeting all legal and regulatory requirements.

Appendix

2018/19 Framework of Principal Charges

This appendix sets out the framework of principal/material charges (other than for social rents and care services) made to customers of subsidiaries across the Group.

While the list covers the principal charges, it is not exhaustive and other ad hoc or occasional charges may be raised from time to time by Group entities in accordance with local policies and procedures.

1. Lowther rents – private rented tenancies

Lowther Homes provides full and mid market rental properties across the central belt of Scotland. Income for 2017/18 is expected to be approximately £10 million. Average monthly rents in the east of Scotland are £578, with the figure at £565 in the west.

For 2018/19, it is proposed to apply an increase of 3.9% to all properties let on a Short Assured Tenancy, with the increase to apply from 1 May. From 2019/20 onwards, it is proposed to align rent increases for all tenancies to occur on 1 April. A three month consultation period will be adopted, in line with the principles of the new Private Housing (Tenancies) (Scotland) Act 2016. Mid-market rents will be monitored to ensure they continue to comply with the requirements of any grant award letters.

Where properties become vacant during the year, the rent will be assessed at the point of re-let based on local market considerations.

These proposed rent increases are anticipated to generate approximately £340k in additional income for Lowther Homes in 2018/19.

2. Factoring

| Subsidiary | Proposal | Change in income 2018/19 |
|--|--|--------------------------|
| YourPlace (to become Lowther Homes) on behalf of GHA | The factoring of non-GHA properties in a GHA majority block is managed by YourPlace (to become Lowther Homes from 2018/19). YourPlace's main revenue stream is derived from ex-GHA properties bought under Right-to-Buy (RTB). An uplift to the management fee of £20.28 sets this at £147.28/homeowner for 2018/19. | + £548k |

| | | |
|--|--|--------|
| Cube | YourPlace (to become Lowther Homes from 2018/19) provides the factoring service on Cube's behalf. | + £2k |
| Loretto Housing | None | + £nil |
| YourPlace (to become Lowther Homes) on behalf of Dunedin Canmore | The factoring of non-DC properties in a DC majority block is managed by YourPlace. DC still factors c150 properties directly, with the aim of transferring these across to Lowther/YourPlace in the near future. | + £3k |
| Barony | None | + £nil |

3. Communal and district heating

| Subsidiary | Proposal | Change in income 2018/19 |
|------------|--|--------------------------|
| GHA | <p>“Heat with Rent” service charge currently in place at 918 properties. Charges range from, on average, £18.76 to £32.18 per month, depending on property size.</p> <p>Income for 2017/18 was £340k, although costs are higher at £655k (deficit currently £315k).</p> <p>Draft legislation is expected to require that we move all customers to individual metering from 2020. The impact of this will be reviewed for the 2019/20 charge setting year which may be the last for which GHA is the heat supplier. £1.0m is included in capital budget for installation of meters in 2019/20. Pending this, we propose to continue with inflationary increase, i.e. 3.2% for 2018/19.</p> <p>Hillpark District Heating is expected to become operational in 2018/19. We will set the tariff for this with a view to income covering costs. The business plan assumes £170k of both income and costs for 2018/19.</p> | + £11k |

| | | |
|-----------------|--|---------|
| Cube | <p>Wyndford – no billing responsibility by Cube as this is carried out by SSE; Cube pays a standing charge of £36k a quarter.</p> <p>Broomhill/Gorget/Collina St – Cube is responsible for tariff setting. Interim arrangement with British Gas only ceased in February 2017 and pending data from a full year of operation it is proposed to keep charges at the current rate of £0.89 (including VAT) per kwh for 2018/19.</p> <p>Communal boiler – Cube has 4 sites, affecting 34 tenants, with communal boilers. Charges will increase in line with the rent increase (3.2%). The value of the increase in income is minimal.</p> | + £ nil |
| Loretto Housing | <p>Heat and light charge for supported accommodation in one location and landlord electricity supply charge applied to mainstream accommodation. Inflationary increase applied.</p> <p>As with GHA, new legislation is expected to require individual metering from 2020. This will impact 146 Loretto properties which currently pay a monthly charge of between £11 and £122. £156k is included in the Loretto capital budget for installation of meters in 2019/20. Pending this, we propose to continue with inflationary increase, i.e. 3.2%.</p> | + £2k |
| Dunedin Canmore | <p>As with GHA, new legislation expected to require individual metering from 2020. This will impact 344 DC properties. £372k is included in the DC capital budget for installation of meters in 2019/20. Pending this, we propose to continue with inflationary increase, i.e. 3.2%.</p> | + £4k |
| Barony | <p>Individual heating and fuel charges in place for 88 supported accommodation properties ranging between £10 and £25 per week. inflationary increase of 3.2% proposed.</p> | + £2k |

4. Enhanced housing management services – Livingwell properties

| Subsidiary | Proposal | Change in income 2018/19 |
|-----------------|--|--------------------------|
| GHA | New service charge introduced at 23 Sheltered and 2 Amenity sites for 2018/19, ranging between £27 and £39 per week | + £1,396k |
| Cube | Significant uplift in charges at 3 Sheltered and 1 Amenity sites for 2018/19 to align with new Group / GHA model | + £192k |
| Loretto Housing | Uplift in charges at 2 Sheltered and 3 Amenity sites by approx £6 per week for 2018/19 to align with new Group / GHA model | + £83k |
| Dunedin Canmore | Previous year service charge range £105 to £163 increased by inflationary 3.2% | + £8k |
| Barony | Previous year service charge range between £53 and £561 per week increased by inflationary 3.2% | + £12k |

5. Commercial properties (shops/offices etc)

| Subsidiary | Proposal | Change in income 2018/19 |
|-----------------|--|--------------------------|
| GHA | A 5% increase in income from commercial properties is assumed for 2018/19 (i.e. 5%). This is based on analysis of comparative market rents across Glasgow. A structured approach to individual rent increases will be adopted to achieve this, taking into account the local rental market, nature of the business, length of tenancy and specific location of the property being let. | + £92k |
| Cube | Cube has two commercial properties (1 floor 21 Granville Street and the Gatehouse) and rental income totals £45k. No increase anticipated next year. | + £nil |
| Dunedin Canmore | 41 units (generating circa £15k per month income). | + £6k |

6. Garages/lock-ups

| Subsidiary | Proposal | Change in income 2018/19 |
|------------|---|--------------------------|
| GHA | In 2017/18, £348k of income, net of void losses, is expected to be generated through rental of lock ups and garages. This income is assumed to increase in line with the rent increase for housing stock in the year i.e. 3.2%. | + £11k |
| Cube | Garage/lock up rents are approximately £80k and have a fairly high void rate with a void cost of approximately £20k each year. Annual rent increase of 3.2% to be applied. | + £2k |
| DC | Own 8 car parking spaces charged at £690 per month each. Increase of 3.2% to be applied | + £2k |