



MHA GROUP Rent Setting Policy v2

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V1	January 2021	Kyle Burgess	New Policy
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Rent Setting Policy

1. Policy Statement

- 1.1. Monmouthshire Housing Association's (MHA) rent setting policy aims to provide a methodology of calculating rents which are sufficient to ensure MHA is able to continually maximise its contribution to its communities; whilst ensuring that rents always remain fair, transparent and affordable for tenants.
- 1.2. MHA's social rents are calculated based on the principles of the Living Rent methodology put forward by the Joseph Roundtree Foundation (JRF). The methodology has been utilised in a way that ensures MHA's rent setting reflects the differences in income levels and affordability across our operating areas. The methodology also takes account of, and is compliant with, the Rent setting policy released by Welsh Government.
- 1.3. The Living Rent methodology was released by the JRF and National Housing Federation in June 2015 as a modern method of linking rental calculations with localised affordability metrics. This was designed to ensure that there is a clear link between social rent setting and localised low-income data. Details on how MHA have applied this methodology can be found in section 4.
- 1.4. The living rent methodology will not be utilised when setting rental income for properties categorised as commercial rent, market rent, intermediate rent, ground and garage rent or those leased to partner agencies. The policy for these rents is set out in section 15 below.
- 1.5. The objectives of MHA's rent setting policy are to:
 - provide a method of calculating rent which is consistent, transparent and affordable;
 - outline how rents will be varied annually,
 - ensure that MHA sets rents at a level which maximises its contribution to the community now, and is sufficient to provide quality homes and services into the future.
 - ensure compliance with policy and regulation; and
 - ensure that the integrity of the long term business plan is retained.
- 1.6. Service charge and personal charge setting are not within the scope of this policy.
- 1.7. This policy has been informed by tenant consultation and an Equality Impact Assessment.

2. Welsh Government policy environment

- 2.1. As of 2021 the Welsh Government will no longer be publishing the Benchmark Guideline Rent system, previously utilised to enable RSLs to set rents bands and property rents based on size, location, earnings and SAP ratings. Instead the Welsh Government have asked RSLs to determine a local rent setting approach that focuses on affordability. For this purpose MHA is adopting the Living Rent model.
- 2.2. Welsh Government provide a rent settlement which caps the average annual rent increase across any RSLs entire social housing stock. This is currently expressed as CPI plus a percentage. The current settlement is a five year agreement that rents can increase by no more than an average of CPI + 1% until 2024/25, providing that rents continue to align to affordability objectives set by Welsh Government.
- 2.3. Registered Social Landlords (RSLs) can also add up to £2 per week to individual rents, providing the overall increase across all stock remains within the CPI + 1% limit. In practice, this is used to enable restructuring of rents to enable convergence with rent policy goals.
- 2.4. MHA will continue to comply with Welsh Government policy at all times.

3. Living Rent application and rent type

- 3.1. There are various rent types currently in operation across MHA's stock, which are the result of successive changes to legislation, legacy rent setting anomalies from pre transfer to MHA, conditions of funding for new developments and stock classification.
- 3.2. For the majority of MHA homes, this policy will, over a period of time, align all of the previous rent types for general needs, older peoples and sheltered tenancies under a single Living Rent model. The Living Rent methodology aims to provide affordable levels of rent across Monmouthshire, taking into consideration changes in income levels and location.

4. Living Rent

- 4.1. MHA's rental policy will be utilising the principles and methodology set out in the Living Rent model, but will tailor the assumptions and to meet our individual local context.
- 4.2. Living Rents establish a link between rents and tenant's ability to afford them. This is to ensure that the social rented sector is genuinely affordable for tenants who are employed on a low income.
- 4.3. It was designed on the basis that it's unaffordable for tenants on a low

income to spend more than a third of their income on household costs, and that maintaining a link between rent setting and affordability is imperative for social rents.

- 4.4. The model has been adapted to ensure that it is relevant for the context of affordability in Monmouthshire and to ensure that it is fair and affordable for MHA's tenants.
- 4.5. The context in Monmouthshire is unique in that it is one of the wealthiest counties in Wales, meaning that national earnings and rental prices are inflated, and can hide and intensify the poverty experienced by the lowest earners in the county and those reliant on benefits. For those looking for employment within MCC, job opportunities and accessibility issues can further worsen the experience of deprivation and poverty.
- 4.6. There are also significant variations in the levels of affluence across the county, which need to be considered when setting a localised affordable rent.
- 4.7. By adapting the robust methodology of the Living rent model alongside MHA's unique understanding of poverty and deprivation in Monmouthshire, MHA can be confident that it is offering high quality housing, at a rental level that is affordable to those that rely on social housing within the county.

5. Calculating Living Rent

- 5.1. The starting point for Living Rent is setting a rent for a single-person who lives in a 1 bedroom property. The Office of National Statistics releases an Annual Survey of Hours & Earnings (ASHE) every October, which provides an estimate of income levels across Monmouthshire and the rest of the U.K. This data can be segmented at a borough level, across a number of different categories.
- 5.2. The methodology uses the estimated lower-quartile (25th percentile) gross weekly income from the sample of all employee jobs in Monmouthshire. This is put through a salary calculator in order to obtain the net pay figure.
- 5.3. Based on the affordability criteria, 28% of the net pay becomes the rent, excluding service charges, for standard single-person accommodation.
- 5.4. MHA have also added some additional parameters that it feels feature in the affordability calculation for its rents. These include:
 - 5.4.1. Property Type – flexed rental levels to reflect the differing demands for certain property types such as a flat vs a house.

6. Varying rent by property size & type

- 6.1. For larger properties the OECD modified equivalence scale, is used to adjust the income data. This takes into consideration the typical family compositions that are allocated particular property sizes and types.
- 6.2. See Appendix A for the equivalence values have been allocated to different property types.

7. Community differentials

- 7.1. Differences in average income across communities become clear when MHA's operating area is split into 15 MSOA areas (Middle Super Output Areas), spanning all of Monmouthshire and areas of Torfaen and Newport. The Living Rent model will reflect this by varying the rent across communities, in line with variance in lower quartile incomes.
- 7.2. This will ensure that living rents are reflective of, and affordable within, the local communities in which the properties sit.
- 7.3. Adjustments will also differ in certain areas in response to changes in local supply and competition from the Private Rented Sector.

8. Application of Policy

- 8.1. The levels of Living Rent will be reviewed periodically. In order to comply with the statutory notification periods rent calculations will be finalised by January of each year and take effect from the following April. Following the implementation of Renting Homes Wales Act, contract-holder rents will increase in April each year.
- 8.2. Tenants will be notified of changes to their weekly rent in writing at least 1 month (rising to two months once the Renting Homes Act is implemented) prior to the changes taking effect.
- 8.3. The increase or decrease will be determined by the average change of lower quartile income levels for Monmouthshire in the previous years, using the ASHE survey as the data source.
- 8.4. The policy must always seek to protect MHA financial viability, whilst maintaining affordability for tenants. In a situation where wage levels decrease and subject to a financial viability assessment, MHA may freeze rents, have a smaller increase or may need to continue to increase by levels set by Welsh Government Policy (CPI + 1%).
- 8.5. We will continue to monitor affordability for tenants as part of the annual rent review process. Area differentials and weightings will also be reviewed.

9. Convergence to Living Rent for existing tenants

- 9.1. In order to transition to the Living Rent's model as swiftly as possible, whilst also maintaining compliance with the Welsh Government rent policy, the implementation of Living Rents will run on a convergence basis.
- 9.2. Where the Living Rent is higher than an existing tenant's rent, there will be an increase in the rent each year that will be determined by the Welsh Government's rent policy. Increases of up to £2 per week over CPI +1% will be targeted to be greatest where the rents are furthest from the Living Rent.
- 9.3. Where the Living Rent rate is lower than an existing tenant's rent there may be a lower increase or a rent freeze until the time when the Living Rent is higher.
- 9.4. Once a tenancy has converged with the Living Rent their annual increases will be determined by changes to the Living Rent figures and Welsh Government policy.
- 9.5. Rent increases and freezes will continue to be reviewed on an annual basis and approved by the MHA Board.

10. Rent setting at the point of sign up or re-let

- 10.1. New and transferring tenants who sign their tenancy agreement on or after 1 April 2021 will be placed on MHA's new rental policy in the following ways:
 - 10.1.1. If the Living Rent is higher than the outgoing tenant's rent, then a new tenant will take on the new higher Living Rent rate.
 - 10.1.2. If the Living Rent is lower than the outgoing tenant's rent, then the new tenant will take on a tenancy under the same benchmark rate as the previous tenant. Future rental changes will be subject to the convergence process outlined in this policy.
- 10.2. Whilst this has the potential to cause localised differentials in the short term, utilising each rental point as a convergence trigger where possible is the quickest route to achieving full convergence to Living Rents across MHA entire stock.
- 10.3. MHA reserves the right to maintain previous rents on properties where the tenant is subject to a management move, mutual exchange or other tenancy management process outside of a new letting.

11. New Build Homes

- 11.1 All new build social housing schemes should be let at MHA's Local rent, subject to viability constraints.

12. Adaptation or Improvement

- 12.1.1 Any improvement/alteration which attracts a rent increase and is carried out during a financial year may result in the rent being increased when the work is completed, this will take effect the following April at the start of the next full rent year. This will not be applied to disabled adaptations.

13. Flexibility

- 13.1. There are a number of circumstances where flexibility could be required to adjust parameters within the rent model. This could be at property type or area level and will be devolved to the Senior Management team.
- 13.2 Should any changes to the underlying metrics or methodology cast doubt on the organisations financial health, the methodology above will be amended with Board approval.
- 13.3 Hyper localised flexibility will also be permitted at street or block level should there be any substantial increase in localised KPI problems e.g. an increase in 'difficult to let' properties, mass localised redundancies, changing market supply or demand or similar changes that could significantly impact MHA's ability to let the property using its standard living rent methodology. This flexibility will be devolved to the Senior Management Team.

14 Payment of Rent

- 14.2 Tenants will be able to make payments through one of numerous methods. For further detail on payment methods please refer to the Income Management Policy.

15 Non Living Rents properties

15.2 Intermediate rents

- 15.2.1 MHA owns a number of intermediate rent properties which, whilst a social product, are priced between the full living rent properties and the market rented properties. Rents on current and newly acquired intermediate rent properties will be set at 80% of market rent valuations inclusive of service charges.

15.2.2 The timing of review and notification will mirror that of our living rent timelines set out above.

15.2.3 Refer to MHA's Intermediate & Market Rent Policy & Procedure, and Intermediate Housing Framework for Monmouthshire for further information.

15.3 Market, leased Partner properties and commercial rents

15.3.1 MHA owns residential accommodation and some commercial premises let at market rates. These rental streams are not regulated by the Welsh Government and are owned to create a market rated return which can be reinvested in MHA's key social activities.

15.3.2 The rent for these properties will be at market rates and reviewed periodically using market trends as a competitive guide. The terms and timings of reviews will be clearly set out in the lease.

15.3.3 Refer to MHA's Intermediate & Market Rent Policy & Procedure for further information.

15.4 Garage and Car Port Rents

15.4.1 MHA will not charge any rent for garages or car ports that would exceed the average market rents for the local authority area. Where there is no market rent information available in the local area, the closest similar benchmark will be used.

15.4.2 Garage and carport rents may be increased every year, with one month's written notice provided beforehand. All rental increases are approved by MHA's Board.

15.4.3 Refer to MHA's Garage and Carport Policy for further information.

Appendix A – Property type equivalence factors prior to area adjustment

Property Type	Bedrooms	Main factors	Equivalence Factors	Living Rent by band
BEDS	Bedsit	1.00	0.90	74.48
BUNG	One Bed	1.00	1.10	91.04
BUNG	Two Bed	1.00	1.30	107.59
BUNG	Three Bed	1.00	1.55	128.28
BUNG	Four Bed	1.00	1.70	140.69
FLAT	One Bed	1.00	1.00	82.76
FLAT	Two Bed	1.00	1.20	99.31
FLAT	Three Bed	1.00	1.45	120.00
FLAT	Four Bed	1.00	1.60	132.42
HOUS	One Bed	1.00	1.10	91.04
HOUS	Two Bed	1.00	1.30	107.59
HOUS	Three Bed	1.00	1.55	128.28
HOUS	Four Bed	1.00	1.70	140.69
HOUS	Five Bed	1.00	1.90	157.25
HOUS	Six +	1.00	2.00	165.52
MAIS	Two Bed	1.00	1.25	103.45
MAIS	Three Bed	1.00	1.50	124.14
PHSE	Three Bed	1.00	1.55	128.28
PHSE	Four Bed	1.00	1.70	140.69

Appendix B – Area differentials

Income estimates for small areas, England & Wales, financial year ending 2018										
MSOA	Gross annual income (£)	Net annual income (£)	incomes		Gross	Net	Approximate location or postal town	Living Rent area adjustment factors		
			Gross annual earnings (£)	Net annual earnings (£)	Weights	Weights				
Monmouthshire 00	45,300	37,000	16,258	15,094	101%	102%	NE of Abergavenny	1.02		
Monmouthshire 00	32,700	27,200	11,736	11,096	90%	92%	Abergavenny	0.92		
Monmouthshire 00	47,300	36,200	16,975	14,768	102%	101%	SW of Abergavenny	1.01		
Monmouthshire 00	45,600	35,400	16,365	14,441	101%	100%	Monmouth	1.00		
Monmouthshire 00	41,700	37,300	14,966	15,216	98%	102%	Raglan	1.02		
Monmouthshire 00	56,300	42,900	20,205	17,501	108%	107%	Usk	1.07		
Monmouthshire 00	57,600	46,100	20,672	18,806	109%	110%	West of Wye Valley	1.10		
Monmouthshire 00	41,800	31,100	15,001	12,687	98%	96%	Chepstow	0.96		
Monmouthshire 00	48,100	39,400	17,262	16,073	103%	104%	Caerwent	1.04		
Monmouthshire 01	36,300	28,400	13,028	11,586	93%	93%	Caldicot	0.93		
Monmouthshire 01	52,700	37,500	18,913	15,298	106%	102%	Magor, Rogiet & Undy	1.02		
Newport 002	39,000	28,700	13,997	11,708	96%	94%	Newport	0.94		
Torfaen 008	38,400	29,200	13,781	11,912	95%	94%	Cwmbran	0.94		
Torfaen 012	42,600	33,700	15,289	13,748	98%	99%	Cwmbran	0.99		
Torfaen 013	43,600	35,000	15,647	14,278	99%	100%	Cwmbran	1.00		
Monmouthshire only										
Total										
Averages	45,945	36,227	16,489	14,779						