

# **Newport City Homes**

## **Social Rent Setting Policy (P006)**

## 1. Introduction

- 1.1 This social rent setting policy applies to all residential homes, including both general needs and 55+ housing and took effect from 1 April 2021.
- 1.2 This policy complies with the requirements of Welsh Government's (WG) social rent policy 2020 - 2025.
- 1.3 This policy does not cover rent setting for homes that are outside of WG's social rent policy e.g., market rent and intermediate rent products.

## 2. Policy Statement

- 2.1 Newport City Homes (NCH) aims to improve affordability of rent for current and future social housing customers, demonstrating that homes and services represent value for money whilst ensuring housing stock remains sustainable in the long term.
- 2.2 This policy has been developed in accordance with the following Welsh social housing sector affordability principles:
  - **Affordable:** We will consider the total costs of renting homes and incomes to understand what is affordable for our customers, and ensure that customers have the greatest opportunity to sustain their tenancies and thrive
  - **Sustainable:** We will set rents that allow us to continue to provide high quality, safe, warm homes for the people who need them in the communities we serve
  - **Engage:** We will involve customers to develop and review our approach to rent setting, and inform our decisions on rents
  - **Fair:** We will work to ensure that rents and other charges are set fairly, and our homes and services represent value for money

- **Accountable:** We will be open, transparent, and accountable when we make decisions on rents

### 3. Method of assessing affordability

- 3.1 NCH will adopt the Joseph Rowntree Foundation (JRF) Living Rents methodology (2015) as the core base method used to assess affordability of rent for social housing customers.
- 3.2 The Living Rents methodology is designed on the principle that rent is unaffordable if people on low incomes spend more than **28%** of their income on their rent or spend more than **33%** of their income on their rent and associated service charges combined.
- 3.3 NCH will use the Office of National Statistics (ONS) Annual Survey of Hours & Earnings (ASHE) to calculate income data using the estimated lower quartile (25<sup>th</sup> percentile). Based upon the Living Rent affordability method, **28%** of the net income for a single person will be the affordable Living Rent assessment set for one-bedroom accommodation.
- 3.4 To set an affordable rent for other property types, the Organisation for Economic Co-operation and Development (OECD) modified equivalence scale will be used to adjust the income data. This takes into consideration the typical family compositions that are allocated particular property sizes and types. The detail of the equivalence values allocated to different property types is referenced in the **appendix**.
- 3.5 NCH will also ensure that social rent remains affordable in comparison with the private rented sector by maintaining a differential between its social rent and the market rent for each property type.

### 4. Convergence to Living Rents

- 4.1 The rent for all new social housing homes, including internal transfers, will be set at the affordable Living Rent assessment.
- 4.2 In converging all current social rent with the affordable Living Rent assessment, NCH will ensure that the average rent increase for all

homes falls within the defined rent envelope that is updated by WG annually.

- 4.3 In order to converge all current social rent with the affordable Living Rent assessment, an adjustment will be required over several years that will be applied through the annual rent increase process. NB. NCH is limited to a convergence factor of £2 a week as set out in WG's Social Rent Policy (2020 –2025).
- 4.4 If an existing customer's rent is **lower** than the affordable Living Rent assessment, rent will be increased each year by the agreed percentage uplift, plus a maximum of **£2** a week on top.
- 4.5 If an existing customer's rent is **higher** than the affordable Living Rent assessment, rent will be either frozen or decreased each year by a maximum of **£2** a week until the rent has converged with the affordable Living Rent assessment.
- 4.6 Once an existing customer's rent has converged with the affordable Living Rent assessment, rent will be increased each year by the agreed percentage uplift.
- 4.7 If an existing customer's rent and service charges combined is more than **33%** of the affordable Living Rent assessment, then either the rent may be frozen or increased by a lower percentage, or service charges may be frozen or decreased, seeking to remain within the affordable Living Rent assessment wherever possible. Service charges will be continuously reviewed to ensure that they deliver value for money for customers. NB. Service charges at 55+ homes are excluded from the **33%** combined assessment, in recognition of the additional services that are provided for customers within these homes.
- 4.8 The decision to either freeze or reduce rent or service charges will be taken on an annual basis, paying due consideration to the long-term viability of the business plan.
- 4.9 Progress on converging existing rent will be reported to board each year through the annual rent increase process.

## **5. Additional support for vulnerable customers**

- 5.1 NCH aims to ensure that vulnerable customers are not disadvantaged and are supported to sustain their occupation contract and their home.
- 5.2 Customers who are experiencing financial hardship, including customers who are subject to the benefit cap or other welfare reforms, may be supported to pay their rent and sustain their home by assistance from the association's Welfare Fund.

## **6. Sustainable business plan**

- 6.1 NCH will ensure it maximises affordability of rent whilst securing sufficient rental income to meet business plan commitments and long-term viability.
- 6.2 The affordable Living Rents assessment will be reviewed on an annual basis following publication of the ASHE survey data.
- 6.3 Where the application of the affordable Living Rent assessment significantly impacts the viability of the business plan or the achievement of key strategic objectives, a financial viability assessment will be conducted which may result in an adjustment being made to the parameters contained within the affordable Living Rent assessment. The following are examples of the adjustments that could be made to the affordable Living Rent assessment:
  - The percentile taken from the ASHE survey data
  - The percentage of net income that is considered affordable
  - The equivalence multiplier for different property types
  - An additional discretionary percentage change
- 6.4 Building this flexibility of approach within this social rent setting policy is necessary to ensure there is no adverse impact upon NCH's long-term financial sustainability.

## **7. Customer consultation**

- 7.1 This social rent setting policy and the affordability methodology adopted has been developed based upon consultation with customers.
- 7.2 NCH will conduct a rolling programme of customer engagement as part of an annual assessment of affordability of rent and value for money considerations. The findings of this engagement activity will be reported to board through the annual rent increase process and will be published on the association's website and appropriate social media channels to evidence transparency and clarity throughout.
- 7.3 Individual customers will be notified of their new rent through the annual rent notification letter. A minimum of two calendar months' notice will be provided, with any changes taking effect from the first Monday in April each year.

## **8. Relevant legislation, good practice, and other NCH policies/documents**

- 8.1 NCH will ensure that rents are set in accordance with best practice and relevant policy and legislation, including the following:
- Renting Homes (Wales) Act 2016
  - Rent Act 1977
  - Housing Act 1985, 1988
  - Housing and Planning Act 2016
  - Welfare Reform and Work Act 2016
  - WG Social Rent policy (2020–2025)
  - WG regulatory framework
- 8.2 This social rent setting policy links closely with the following policies and documents:
- NCH business plan
  - Occupation Contract
  - Service Charge Policy
  - Successful homes policy

- Living Rent Methodology (JRF, 2015)

## **9. Implications for Newport City Homes**

- 9.1 Financial implications. Converging existing rent with the affordable Living Rent assessment will require rent for different properties to rise at different rates over several years. The process must be clear and transparent, fully informed by customer consultation, to ensure understanding by customers. Convergence must be implemented over a sufficient time to deliver a gradual re-alignment of rents to the affordable Living Rent assessment.
- 9.2 The flexibility of approach adopted within this policy is designed to mitigate the risk of an unaffordable business plan.
- 9.3 Compliance with this policy and associated documentation mitigates, as far as is reasonably practicable, the risk of financial implications.
- 9.4 Welsh Language implications. NCH recognises the right of Welsh people to conduct their business through the medium of Welsh.
- 9.5 NCH will put in place a Welsh Language Scheme that is approved and meets the requirements of the Welsh Language Commissioner and will abide by this scheme in respect of rent setting policies & procedures once implemented.
- 9.6 Equality and Inclusion implications. This policy adheres to the relevant legislation (Equality Act 2010) and the application of this policy will be equality impact assessed each year as part of the annual rent setting process.

## **10. Policy monitoring and review**

- 10.1 The impact of this policy will be reviewed annually, taking into account any changes to the WG Social Rent Policy and any financial impact upon the business plan.
- 10.2 Annual reports will be presented to board detailing progress of convergence towards the affordable Living Rent assessment, and its impact upon affordability of rent, rental income, and collection.

Board will also receive the findings of the annual resident consultation exercise on affordability and value for money, as part of the annual rent setting process.

- 10.3 This policy will be reviewed by board every three years, or earlier if there is a change in legislation.

## **11. Roles and responsibilities**

11.1 The Director of Homes & Communities (DDofH&C) has overall accountability and responsibility for ensuring that the association implements and monitors the effectiveness of this policy.

11.2 The Corporate Financial Controller has responsibility for ensuring that the affordable Living Rent assessments are updated each year and that rent increases are applied in compliance with this policy.



## Appendix - Equivalence multipliers for different property types

A Modified Equivalence Scale is used widely by governments across Europe to adjust data for household income, taking into account household size and composition.

The following equivalence multipliers will be used to adjust the affordable Living Rent assessment for each property type.

Property type	Equivalence multiplier
Bedsit	0.9
One bedroom flat	1
One bedroom house	1
One bedroom bungalow	1
One bedroom 55+ flat	1
Two-bedroom flat	1.2
Two-bedroom maisonette	1.2
Two-bedroom bungalow	1.3
Two-bedroom house	1.4
Three-bedroom flat	1.5
Three-bedroom 55+ flat	1.5
Three-bedroom maisonette	1.5
Three-bedroom bungalow	1.5
Three-bedroom house	1.6
Four-bedroom house	1.7
Five bedrooms + house	1.8

