

Report to the Board

26 November 2015



Title: Pay to Stay: Fairer Rent in Social Housing – Consultation

Report of: Director of Customers and Communities

Purpose of Report

1. To report on the joint Gateshead Council and TGHC response to the 'Pay to Stay' consultation recently submitted to the Northern Housing Consortium (NHC).

Background

2. As part of the NHC's work to lobby and effect change for its members, TGHC was invited to submit its thoughts as part of the NHC's submission to the 'Pay to Stay' consultation issued by the Department for Communities and Local Government.
3. The two main focuses of the consultation are around **how the scheme can support incentives to work** and **evidence of administrative costs**. The full consultation document is attached at Appendix 1 to this report.
4. The NHC required responses by no later than midday on Thursday, 19 November 2015.
5. The joint response sent to the NHC is attached at Appendix 2 to this report.

Link to values

6. This report is aligned to the Company values of being: -

- Fair
- Customer focused
- Accountable

Impact on tenants

7. The response details the concerns the Pay to Stay policy as proposed will have on tenants and their families.

Risk Management Implications

8. The implementation of 'Pay to Stay' runs the risk of increasing the administrative tasks for TGHC at a time when our focus is on the key strategic objective of supporting tenants, and sustaining both tenancies and neighbourhoods.

Financial Implications

9. While there are no financial implications arising directly from this report the administrative costs which arise from the activity are expected to be covered by the increase in income to the HRA.
10. At a time when Gateshead is already set to lose income from the rent reductions and loss of income due to the sale of high value homes, the measure as set out will further impact on our ability to self-finance our housing work

Health Implications

11. There are no health implications directly arising from this report.

Environmental Implications

12. There are no environmental implications arising directly from this report.

Equality and Diversity Implications

13. There are no equality and diversity implications directly arising from this report.

Value for Money implications

14. There are no value for money implications directly arising from this report.

Consultation carried out

15. Board Members, Gateshead Council colleagues and Housing Portfolio Holders were consulted when formulating the proposed response.

Recommendation

16. The Board is asked to note the joint response attached at Appendix 2.
17. In addition it is recommended that the joint response be submitted to Members of Parliament who represent Gateshead.



Department for
Communities and
Local Government

Pay to Stay: Fairer Rents in Social Housing

Consultation



© Crown copyright, 2015

Copyright in the typographical arrangement rests with the Crown.

You may re-use this information (not including logos) free of charge in any format or medium, under the terms of the Open Government Licence. To view this licence, <http://www.nationalarchives.gov.uk/doc/open-government-licence/version/3/> or write to the Information Policy Team, The National Archives, Kew, London TW9 4DU, or email: psi@nationalarchives.gsi.gov.uk.

This document/publication is also available on our website at www.gov.uk/dclg

If you have any enquiries regarding this document/publication, complete the form at <http://forms.communities.gov.uk/> or write to us at:

Department for Communities and Local Government
Fry Building
2 Marsham Street
London
SW1P 4DF
Telephone: 030 3444 0000

For all our latest news and updates follow us on Twitter: <https://twitter.com/CommunitiesUK>

October 2015

ISBN: 978-1-4098-4677-2

Contents

| | |
|---|---|
| The consultation process and how to respond | 4 |
| Overview | 5 |
| Introduction | 6 |
| The operation of income thresholds | 7 |
| Evidence of administrative costs | 8 |

The Consultation Process and How to Respond

Basic Information

| | |
|---|--|
| To: | This is a public consultation and it is open to anyone with an interest in these proposals to respond. |
| Body responsible for the consultation: | The Department for Communities and Local Government is responsible for the policy and the consultation exercise. |
| Duration: | This consultation will run for 6 weeks. It will begin on 9 th October and end on 20 th November. |
| Enquiries: | Email: paytostay@communities.gsi.gov.uk |
| How to respond: | Please respond to this consultation via email to paytostay@communities.gsi.gov.uk Postal responses can be sent to: William Richardson Department for Communities and Local Government Fry Building 2 Marsham Street London SW1P 4DF |
| After the consultation: | A summary of responses to the consultation will be published and the views expressed will be considered by the Government. |

Overview

| | |
|------------------------------------|---|
| Topic of this Consultation: | Pay to Stay: Fairer Rents in Social Housing |
| Scope of this Consultation: | <p>This consultation is designed to help inform the detailed design of the policy in certain areas. The Government will take views on board as it moves to implement the policy from April 2017 onwards.</p> <p>However, Government will also need to be guided by the overall level of savings that have been set out at Budget and will need to ensure that the design of the policy is able to deliver those savings. In responding to the consultation it will outline how views have been considered and why decisions have been made.</p> |
| Geographical Scope: | England only |
| Impact Assessment: | A full impact assessment will be published at a later date. It will be important for that work to be informed by the questions in this consultation on the administrative costs of the policy. |

Introduction

1. The Government's view is that tenants in social housing should not always benefit automatically from subsidised rents. There needs to be a better deal in the social housing sector, with housing at subsidised rents going to those people who genuinely need it.
2. On that basis, the Government has decided that social housing tenants with household incomes of £40,000 and above in London, and £30,000 and above in the rest of England, will be required to pay an increased level of rent for their accommodation if their rent is currently being subsidised below market rent levels.
3. This will build on the current 'pay to stay' policy which is available to local authority and housing associations to operate voluntarily.
4. Money raised by local authorities through increased rents will need to be returned to the exchequer to contribute to deficit reduction. Housing Associations will be able to use the additional income to reinvest in new housing.
5. Our starting assumption is that the policy will operate in broadly the same way as the current Pay to Stay policy, i.e:
 - household means the tenant or joint tenants named on the tenancy agreement, and any tenant's spouse, civil partner or partner where they reside in the rental accommodation. Where several people live in the property the highest two incomes should be taken into account for household income.
 - income means taxable income in the tax year ending in the financial year prior to the financial (i.e. rent) year in question.
 - where a HIST tenancy comes to an end, and the property is vacated, we would expect properties to typically be re-let in line with their previous lower rent – be it at social rent or Affordable Rent – to a household in housing need.
6. Government will also consider what additional powers could be useful, for example, to require the provision of information by tenants
7. The Government will use primary legislation to bring forward powers to implement the policy and ensure it is in place from April 2017 onwards. We expect that the detail of the policy will be set out in regulations.

Scope of the consultation

8. This consultation is designed to help inform the detailed design of the policy in relation to work incentives and administration. The Government will take views on board as it moves to implement the policy from April 2017 onwards. However, it will also need to be guided by the overall level of savings that have been set out at Budget and will need to ensure that the design of the policy is able to deliver those savings.
9. The areas where views are sought are:
 - how the scheme can support incentives to work
 - evidence of administrative costs

Supporting work incentives

10. The Government wants to ensure that the policy supports work incentives, and is seeking views on how the policy can be designed to achieve this whilst ensuring that tenants pay a fair rent.
11. A gradual increase in rent for social tenants as their incomes rise may be a fairer system. One way this could be achieved is through a system that would ensure that households earning in excess of minimum income thresholds would pay increasing amounts of rent as income increases, for example in the form of a simple taper.
12. There will be different options for how this could be implemented, and there will be trade-offs between ensuring rent closely reflects income and simplicity and certainty for both the tenants and the landlord. We do not expect, for example, that rents will be adjusted frequently. However there will be choices over how social landlords respond to changed tenant circumstances, for example, where a household is subject to a sudden and ongoing loss of income.

Q1: Views are invited on:

- how income thresholds should operate beyond the minimum threshold set at Budget, for example through the use of a simple taper / multiple thresholds that increase the amount of rent as income increases.
- whether the starting threshold should be set in relation to eligibility for Housing Benefit.

Evidence of administrative costs

13. Social landlords will be required to administer the policy.
 14. The proposal is that local authorities will be allowed to recover any reasonable administrative costs before they are required to return additional income from increased rents to the exchequer. We expect that the types and level of costs that can be retained will be prescribed. As housing associations will be retaining the income they receive from higher rent payments to invest in new housing, they will be expected to absorb the administrative costs.
 15. We expect that local authorities already have systems and processes in place that could be modified to operate the pay to stay policy. The additional administrative resource that is likely to be required is staff time in operating the scheme.
 16. Housing associations may incur additional costs in setting up systems. However, as the policy is going to allow those associations to keep the additional rent money to reinvest in social housing, they should be able to cover those costs.
 17. The Government will be publishing an impact assessment in due course that will outline the scale of the administrative costs for housing associations and is using this consultation to ask for evidence and views on the operation of the policy.
- Q2:** Based on the current systems and powers that Local Authorities have, what is your estimate of the administrative costs and what are the factors that drive these costs?

Joint TGHC and Gateshead Council Response to 'Pay to Stay' Consultation

In Gateshead we believe that the existing arrangements in place that enable local authorities to exercise local discretion as to whether a "Pay to Stay" scheme is implemented within their area are entirely appropriate and that this discretion should remain.

If the government do proceed with the introduction of a mandatory 'pay to stay' scheme, then to avoid work disincentives the income thresholds should be substantially increased and either: be raised to the level prescribed in the current discretionary scheme (£60,000) as set out in the Guidance on Rents for Social Housing (May 2014) in order to avoid penalising hard working low to middle income earners; or be set locally, with the threshold linked to the earnings levels that would enable access the local owner-occupied market through incentives such as the Starter Homes Initiative and Help to Buy Schemes etc.

Previous Government consultation on the "Pay to Stay" policy concluded that "We consider that it is most likely that £80,000 or £100,000 would be the level which would best avoid perverse incentives. However, we believe there could also be a case for setting the threshold at £60,000, which would do more to achieve our aims in terms of fairness and is in line with the current maximum household income of £60,000 (or £74,000 in London) for access to Government funded affordable home ownership schemes, such as First Buy, in most parts of the country. Setting the threshold at £60,000 would therefore be consistent with the level below which people trying to get onto the housing ladder would be eligible to receive Government support to access housing." In line with this thinking we believe that introducing a threshold which is lower than £60k outside of London and £74k inside of London would dent aspiration as well as increasing the dis-incentives to work or working more hours.

We believe that the proposed thresholds of £30k outside London and £40k inside London are too low and will include households who are in receipt of benefit and/or receiving the minimum wage. These households should not be regarded as high income households.

If the government does not choose to consider a higher national threshold or allowing local authorities to set local thresholds then, as a minimum, the thresholds as proposed (£30,000/£40,000 in London) should be index linked to rises in the National Minimum Wage and National Living Wage from April 2016 onwards.

If the government do proceed with the proposal, we believe Gateshead Council along with other local authorities should be allowed to retain any additional income above the costs of administration to invest locally in the housing service.

In Gateshead we are committed to the development of mixed and sustainable communities and to widening options and choices for residents. We believe that people in work make a positive contribution to the community of Gateshead and should not be penalised for their efforts or made to consider moving.

In response to the consultation questions:

Question 1

How income thresholds should operate beyond the minimum threshold set at Budget, for example through the use of a simple taper / multiple thresholds that increase the amount of rent as income increases and:

Whether the starting threshold should be set in relation to eligibility for Housing Benefit.

In Gateshead we are concerned that the implementation of Pay to Stay runs the risk of increasing the housing benefit bill for some people – for example some people with incomes at or above the thresholds will be entitled to housing benefit, which will then increase if the rent increases, whereas others could be pulled into housing benefit entitlement by an increase in their rent.

We are concerned that the policy will reduce work incentives. For example:

- 1) Cliff edges – whereby a small increase in income could lead to a significant increase in rent meaning the household is worse off
- 2) Disincentives for second earners – the policy could dissuade a second earner (partner, adult child etc) from taking up work or increasing hours where this would push the household over the income threshold.

It is hard to see how the policy will create work incentives as this will depend mainly on (and vary by) household size, individual circumstances and location. In addition any suggestion of tapers merely adds to the administrative burden and would be complex to operate.

In Gateshead as with other local authorities (in the North of England) some social rents are likely to be the same as or only a little less than market rents. As such the administrative burden and the resources required to adopt this policy would be disproportionate to the revenue gained and could in fact lead to a cost to the HRA rather than a surplus to be returned to the exchequer to contribute to deficit reduction.

In Gateshead we believe that when calculating income any monies received to fund care should be excluded from income, and that costs, such as those for childcare and support for adult social care, should also be taken into account. We are concerned that someone working but with no savings could be caught by this scheme, while someone with a significant amount of capital could have no requirements under the policy.

Unlike housing benefit which is calculated using the household, the payment of rent only applies to those named on the tenancy agreement who have legal responsibility for paying rent. Notwithstanding this important principle it will be difficult to keep track of other household members and verify their incomes. Applying the policy to the whole household could have negative impacts on families or multi-person households (for example, it could act as a disincentive for some members to work, or reduce the ability of non-dependents to save and provide for their own housing).

With regard to linking the starting threshold to eligibility for housing benefit. One way to do this would be to exclude anyone from the Pay to Stay scheme who is in receipt of housing benefit. However any thresholds relating to housing benefit will in due course be outdated given the roll out of Universal Credit. With Universal Credit the opportunities for a “simple solution” are limited and could lead to inequities between those on the two benefits. Furthermore where a tenant receives their Housing Benefit direct then a Registered Provider’s knowledge of a tenant’s benefit is limited unless this is to be supported by additional data sharing processes.

Question 2

Based on the current systems and powers that Local Authorities have, what is your estimate of the administrative costs and what are the factors that drive these costs?

Pay to stay will inevitably increase administration costs and these should not be underestimated. Likely areas of expenditure will include:

- Collecting, verifying and storing income information (including annual reviews) and dealing with non-compliance, fraud and rent arrears
- Calculating and implementing rent increases (i.e. market rent valuations, applying taper)
- Dealing with inquiries and complaints including managing rent statements
- Reassessing rents if income decreases
- Potential changes to IT systems and tenancy agreements

The consultation indicates an expectation that Local Authorities will already have systems in place that could be modified to exchange of information in order to operate this policy, for example, potential receipt of information from sources such as HMRC. However, these sharing arrangements relate to Housing Benefit or Local Council Tax Support (LCTS) and are not linked to housing management systems which will present an additional cost to the local authority. Even if data sharing regulations are passed relating to the sharing of this information the value of this will diminish over time with the ongoing implementation of Universal Credit. In addition Registered Providers will have no such systems in place and will need to develop these, so a significant number of separate providers will all be developing and incurring the same type of set up, development and administrative costs.

The policy will create administrative burdens that could be excessively costly to implement, particularly when it comes to identifying tenants with high incomes and adjusting rents and tenancy agreements to reflect tenants’ fluctuating incomes. In Gateshead with potentially low numbers of high income tenants, with the policy as set out, it is likely that the administrative costs involved would outweigh any benefits.

Finally at a time when Gateshead is already set to lose income from the rent reductions and loss of income due to the sale of high value homes, this measure further impacts on our ability to self-finance our housing work.