

Agenda Item IMD36

INDIVIDUAL EXECUTIVE MEMBER DECISION REFERENCE IMD: 2015/36

TITLE	Wokingham Borough Council Response to the Government Consultation - Pay to Stay: Fairer Rents in Social Housing
FOR CONSIDERATION BY	John Kaiser, Executive Member for Planning and Highways
ON	19 th November 2015
TIME	10:00am
WARD	None-specific
DIRECTOR	Stuart Rowbotham, Strategic Director for Health and Wellbeing

OUTCOME / BENEFITS TO THE COMMUNITY

In submitting a formal response to the Government consultation, the Council seeks to ensure that there is fairness in the implementation of the proposed "Pay to Stay" policy and that specific factors affecting the Borough and wider area, such as high housing costs, are considered.

RECOMMENDATION

The Executive Member for Highways and Planning approves the Council's response on the Government Consultation 'Pay to Stay - Fairer Rents in Social Housing' for submission.

SUMMARY OF REPORT

The Government is introducing a new policy whereby 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. On Friday 9th October 2015, the Government opened a consultation looking at two aspects of the "Pay to Stay" policy - how the scheme can support incentives to work and evidence of administrative costs.

The Council is strongly committed to promoting economic activity and incentivising work amongst its residents and tenants. The Council has significant concerns around the "Pay to Stay" policy, which will act as a disincentive to those looking to improve their life chances and will hit families with children/dependents the hardest.

The draft response supports a simple tapering system where rents were gradually increased as income rises. Many market rents in the Borough exceed the Local Housing Allowance and therefore would not be paid in full by Housing Benefit in the event that any disadvantageous circumstances occur, such as job loss. Therefore, the Council would also wish that rents raised through the "Pay to Stay" policy be capped at the Local Housing Allowance so a safety net was in place.

Background

The Government is introducing a new policy whereby social housing tenants earning £30,000 and above will be required to pay an increased level of rent for their accommodation if their rent is currently being subsidised below market rent levels. On Friday 9th October 2015, the Government opened a consultation looking at two aspects of the “Pay to Stay” policy - how the scheme can support incentives to work and evidence of administrative costs. The consultation closes on 20th November 2015.

Analysis of Issues

The main aspects of the “Pay to Stay” scheme are summarised below:

- Social housing tenants with household incomes of £30,000, and above (£40,000 and above in London) will be required to pay an increased level of rent for their accommodation if their rent is currently being subsidised below market rent levels
- Government is looking to implement the policy from April 2017 onwards
- 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.

The Council is strongly committed to promoting economic activity and incentivising work amongst its residents and tenants. We have implemented a number of initiatives to support this, including our innovative Strive scheme to assist social housing tenants to set up their own business. The Council has significant concerns around the “Pay to Stay” policy, which will act as a disincentive to those looking to improve their life chances and will hit families with children/dependents the hardest.

The draft response supports a simple tapering system where rents were gradually increased as income rises. Many market rents in the Borough exceed the Local Housing Allowance and therefore would not be paid in full by Housing Benefit in the event that any disadvantageous circumstances occur, such as job loss. Therefore, the Council would also wish that rents raised through the “Pay to Stay” policy be capped at the Local Housing Allowance so a safety net was in place.

The Council’s full response to the consultation is included in Appendix 1.

FINANCIAL IMPLICATIONS OF THE RECOMMENDATION

The Council faces severe financial challenges over the coming years as a result of the austerity measures implemented by the Government and subsequent reductions to public sector funding. It is estimated that Wokingham Borough Council will be required to make budget reductions in excess of £20m over the next three years and all Executive decisions should be made in this context.

	How much will it Cost/ (Save)	Is there sufficient funding – if not quantify the Shortfall	Revenue or Capital?
Current Financial Year (Year 1)	Not Known	Not Known	Revenue
Next Financial Year (Year 2)	Not Known	Not Known	Revenue
Following Financial Year (Year 3)	Not Known	Not Known	Revenue

Other financial information relevant to the Recommendation/Decision

Money raised through increased rents will need to be returned to the exchequer to contribute to the deficit reduction. Therefore, there will be no additional income to the Council to help support those households adversely affected by the introduction of this policy.

Local authorities will be able to retain some of the increased rents to cover administrative costs for this policy. The consultation document seeks views from local authorities on the likely levels of these costs.

The Council faces severe financial challenges over the coming years as a result of the austerity measures implemented by the Government and subsequent reductions to public sector funding. It is estimated that Wokingham Borough Council will be required to make budget reductions in excess of £20m over the next three years and all Executive decisions should be made in this context.

Cross-Council Implications (how does this decision impact on other Council services, including property and priorities?)

The proposed policy is likely to impact on other service areas providing support to families and those households with dependents. As those residents above an income threshold of £30,000 will be forced to pay higher rents, it is expected to have a greater impact on those households with children and/or dependents living in larger homes.

SUMMARY OF CONSULTATION RESPONSES

Director - Resources	No comments received.
Monitoring Officer	No specific comments.
Leader of the Council	I fully support the concerns raised by officers in this response.

List of Background Papers

CLG, Consultation on "Pay to Stay: Fairer Rents in Social Housing"

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Date 9 November 2015	Version No. 0.4

WOKINGHAM BOROUGH COUNCIL RESPONSE TO THE 'PAY TO STAY: FAIRER RENTS IN SOCIAL HOUSING' CONSULTATION

The Government launched its "Pay to Stay: Fairer Rents in Social Housing" consultation on 9th October 2015 seeking views on two aspects of the "Pay to Stay" policy - how the scheme can support incentives to work and evidence of administrative costs.

Before responding on these points, the Council feels it must make some general observations on the policy. The Council is strongly committed to promoting economic activity and incentivising work amongst its residents and tenants. We have implemented a number of initiatives to support this, including our innovative Strive scheme to assist social housing tenants to set up their own business. Our Tenancy Strategy, adopted in 2012, focuses on incentivising tenants who have successfully managed to improve their circumstances to move into other tenures (such as low-cost home ownership) rather than penalising them. In contrast, the Council is concerned that the Government's "Pay to Stay" policy will act as a disincentive to those tenants who are seeking to improve their life chances and will hit families with children/dependents the hardest.

Furthermore, the £30,000 income threshold for the country (excluding London) takes no account of significant regional variations in housing costs. Wokingham Borough experiences some of the highest residential values in the country, exceeding prices seen in some of the London Boroughs. We do not consider (and evidence supports this view) that £30,000 is a sufficient income for most households to afford a home in the private sector in the area. The current market rent for a 2 bedroom property in the Borough is just over £1,000 per month, whilst a 3 bedroom property is in the region of £1,300 - £1,400 per month. Even assuming 40% of net income for housing costs (above Government guidelines), a household would need an annual gross income of £42,500 and £57,500 respectively to afford these market rents.

Employers in the area regularly report recruitment and retention difficulties as a result of high housing costs. If households affected by the "Pay to Stay" policy are unable to afford to stay in the home (or indeed the area), this is likely to exacerbate the problem and hinder economic growth. If the Government is to proceed with the "Pay to Stay" policy, the Council asks that further consideration is given to income thresholds for high value areas such as Wokingham Borough.

The Council does not support the Government's intention that money raised through increased rents will be returned to the exchequer to contribute to the deficit reduction. This will leave no additional income for the Council to help support those households adversely affected by the introduction of the "Pay to Stay" policy. If this system is to be implemented, the amount returned to the Treasury must be based on actual additional rent received, and not on government estimates of what additional rent it deems the Council should have received.

Q1. Supporting work incentives

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.**

As addressed above, the Council seeks a threshold that addresses regional variations in housing costs.

The Council supports the aim that the “Pay to Stay” policy must be implemented in such a way as to support work incentives. It is our view that the lion’s share of increased income (above the threshold) should remain with the tenant, so that they are sufficiently encouraged to maximise their economic potential. Therefore, the Council would support a simple taper that would gradually increase rents as income rises. We would suggest that a small percentage of income earned above the threshold be applied to higher rental costs. If a taper is to be applied and the intention is to encourage work, then the taper should be very generous so that those on the highest incomes are the ones that pay more rather than those close to the threshold. If the taper starts too early, the Council would be concerned that a household would be discouraged from increasing their earned income.

The average private rent for a three-bedroom property in the area is £1300-1400 per month compared to Council social rents of £550 per month. The difference would hit those households earning close to the threshold income of £30,000 the hardest.

Household incomes change over time. The Consultation states that income for the previous year will be used to make the in-year assessment. The Council is concerned that the policy will not be flexible enough in the event a household’s income falls significantly in-year. Households earning under £30,000 could find themselves paying higher rents based on out-of-date income information. This will generate uncertainty around household finances and could create significant hardship, especially if the taper is steep and the review is only done annually. Many market rents in the Borough exceed the Local Housing Allowance and therefore would not be paid in full by Housing Benefit in the event that any disadvantageous circumstances occur, such as job loss. Therefore, the Council would also wish that rents raised through the “Pay to Stay” policy be capped at the Local Housing Allowance so a safety net was in place.

Q2: Administrative Costs

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?

As at April 2015, Wokingham Borough Council had 2,690 tenants. Some of these tenants will be working and will be providing the Council with their income details for housing benefit purposes. However, there will be a number of tenants for which the Council has no information on household income.

In order to implement the “Pay to Stay” policy, an interrogation of systems and transactions will be needed for each household and up-to-date information sought. As every single tenant household will have to be looked at, the allowance for administrative costs should be based on the number of tenants a landlord has, and not on the number of people who have incomes over £30,000.

It is likely that the Council will need to employ experienced and trained income assessors to analyse information and work through issues of exemption/disregard etc. If there is to be a “duty to notify”, there are likely to be further administrative costs in monitoring and enforcement.

Administrative costs will also be incurred from rent setting, systems administration, rent recovery and accounting. The cost is impossible to quantify at this stage until more detail on the policy application emerges, for example, on how often the income/rent level is to be reviewed.

Conclusion

The Council has serious concerns around the “Pay to Stay” policy, which appears to penalise hard-working tenants, especially families. The proposed income threshold is too low for high value parts of the country, such as, Wokingham Borough, and must be reviewed to reflect regional variations. The Council’s concern is shared by our involved tenants, who have provided their own response to the consultation (annexed to this response). We ask that you reconsider the policy in light of comments from Wokingham Borough Council and our involved tenants.

WOKINGHAM BOROUGH INVOLVED TENANTS RESPONSE TO THE 'PAY TO STAY: FAIRER RENTS IN SOCIAL HOUSING' CONSULTATION

The Involved Tenants share the concerns of Wokingham Borough Council with regards to the Pay to Stay policy.

The Involved Tenants do back the notion that social housing should be for people from low incomes however, we have grave concerns over the proposals which we believe are unrealistic in an area where housing costs are high and affordability is severely limited.

The £30,000 threshold in an area of expensive housing is unrealistic. It is insufficient to afford market rent, no matter for how long it is tapered when a 3 bedroom property costs £1,300. With this in mind, we strongly believe that the London threshold of £40,000 should be extended to the South East.

In addition to this, there has been no clarity given on how the levy will be calculated for Wokingham Borough Council and this is vital to understand the full financial impacts.

We support an agreement where the thresholds are incremental by £5,000, so that residencies slightly over the original threshold are not unfairly penalised. Ultimately for some households this could be the difference between having a home and being made homeless.

We have concerns that landlords will be unable to keep the additional income raised by Pay to Stay: if tenants are paying the higher rent levels, at least the local community should benefit – it should not be redistributed to a central pool as this is a return to the previously punitive negative subsidy system; the change to self-financing has briefly meant that we can make a direct link between the rent we pay and the services we receive. As a possible solution to this, we ask whether a 50:50 ratio could be implemented to ensure that some of the monies raised remain in the locality and social housing is sustainable.

Ultimately, any major loss of income will have a negative impact on tenants across the borough. Shared with the potential pressures from other government proposals e.g. 1% rent reduction, the Pay to Stay proposal will only exacerbate the situation. Reviews to the Housing business plan, finance allocations, strategies and policies will be required to reflect any changes. This can only lead to less available income to meet the statutory requirements i.e. Decent Homes and most importantly the needs and priorities of tenants of the Wokingham borough.

Landlords have no capability of demanding income information and if the onus is put on the tenant to disprove that they are not on the highest then it will change the nature of the relationship between landlord and tenant.

If authorities are given the ability to request this information, Wokingham Borough Council will need to examine their systems and up to date information on each property will be required. This will require an increase in employees who are experienced and trained in collating such information, which is an additional cost which must be factored in.

We believe that it will encourage the black economy and be punitive towards hard working tenants who are in formal employment. Furthermore, tenants may feel disincentivised to work, which could in turn lead to an increase in benefit applications.

We would like to know whether this will only apply to people of working age or whether it will also apply to pensioners. If it does apply to pensioners will pensions and any savings be taken into account?

Given the cost of housing in the area many adult children end up living in the family home for far longer than either would prefer. This is not a lifestyle choice, but a necessity when private rented sector and home buying is so far out of the reach of many of us. This will result in working children being even less likely to be able to move out of the familial home and become independent.

We think that increasing rents will force more people down the Right to Buy route. This may lead people into financial difficulties when/if they do not have secure jobs as well as reducing the pool of social homes that are available.

In conclusion, the Involved Tenants have serious concerns around the "Pay to Stay" policy which appears to penalise hard-working tenants. The proposed income threshold is too low for high value parts of the country, such as, Wokingham Borough, and must be reviewed to reflect regional variations.