



CIH member briefing and request for feedback

“High Income Social Tenants: Pay to Stay” Consultation

July 2012

The ‘Pay to Stay’ consultation paper launched in June 2012, proposes to link social rents to incomes for a high income tenants group, allowing landlords to charge a higher rent to tenants on high incomes who want to stay in their social homes.

This member briefing provides a summary of the proposals and sets out our initial thoughts on this consultation and its implications for housing providers and tenants.

We are also inviting views from members and stakeholders to inform CIH’s understanding of the issues and its response to the consultation. Please email your thoughts to laura.shimili@cih.org by 24th August.

Initial thoughts on this consultation to prompt thinking and discussion

There can be some value in increasing the rent for those on higher incomes in order to promote more efficient use of a valuable resource however there are practical issues and principle questions that need to be taken into account.

Although rents don’t need to be the same they should broadly reflect the size and characteristics of the property. Basing social rents on income can carry the risk of leading to a situation where rents don’t reflect the nature of the property but that of the household.

Social rents based on income would make landlords income streams uncertain. Although the proposal is to link rents to income only for high income social tenants this might lead to wider changes and challenges for the sector.

High income people living in affordable housing, is not one of the major challenges facing the sector so why focus on this now?

In the longer term government needs to properly assess the overall treatment of the whole housing system in benefits, tax and public policy as the current framework is not properly joined up. There have been continued attempts to closely target government investment and "subsidy" for social and affordable housing, but little or no attempt to deal with huge "subsidy" into home ownership which distorts investment activity across the economy.

There seems to be inconsistencies between two government policies, the ‘pay to stay’ and the ‘right to buy’. Those that are qualified as high income social tenants will be asked to

pay higher rents so that they don't unfairly receive subsidy compared to those that rent in the private sector. Alternatively they have the option to buy their house offered at a significant discount, therefore benefiting from another form of government subsidy.

The government expects the 'pay to stay' proposals to bring in £21.6m per year. However the real loss to the public sector will come from high income tenants exercising the right to buy which is very different from the current 'subsidy' they receive which is simply the gap between social and market rents.

In our view, the proposal to allow landlords to charge 80% market rents as an interim measure, so that they may then introduce full market rents for higher income tenants as soon as possible, fundamentally changes the social housing sector.

This shift from rent being property based to person based, has implications both in terms of receipt of grant for new property and the requirement to pay affordable grant back on existing properties. It would also require providers to ascertain incomes on a regular basis, with implications when that person moves or their circumstances change.

We would be concerned if government is planning to introduce 80% market rents, or even full market rents, across the board. This policy consultation appears to take another incremental step towards fundamental changes in the provision and nature of affordable housing. We need to have a sensible conversation about the future of affordable housing with government and the sector rather than these piecemeal changes.

Some further initial questions you may want to think about:

- Should social housing be allocated only to those in greatest need?
- If yes is there a risk that social housing would gradually turn into a marginalised tenure of households in receipt of benefits?
- What would be the effects of the policy on mixed income communities?
- What are the practical implications for landlords? This is a new complex system that will require mechanisms to regularly review and assess tenants' rents. There isn't anything similar in place at the moment so how would this policy work and what are the costs to landlords?
- To what extent will landlords need to change their systems to include income assessments and regular reviews of tenants' incomes?
- Will applying a national income threshold that doesn't take account of regional differences, work? Would regional income thresholds work better instead?

Brief summary of the consultation paper:

The consultation paper seeks views on whether high earners living in social housing should pay a higher rent.

*Do you agree with the **principle** that very high earners living in social housing should pay higher than social rents? Yes/no*

The proposed definition of high income tenants is:

“a single tenant earning at or above the agreed threshold or the two highest earning individuals whose joint income is at or above that threshold”.

The estimated numbers of high income tenants in social rented housing in England (according to HMRC¹ income distribution 2012 data) are:

- between 1,000 and 6,000 households where the household reference person and partner have a combined income over £100,000 per annum;
- between 12,000 to 34,000 households where the household reference person and partner earn £60,000 or more

Table of income thresholds and estimates of number of households

Income threshold	% of top earners (as defined by HMRC)	Estimate of number of households	
		Low	High
£100,000	5%	1000	6000
£80,000	5%	2000	11000
£60,000	10%	12000	34000

Source: DCLG Pay to stay consultation paper

Local authorities and registered providers currently have different approaches to setting rents therefore the requirement to charge higher rents depending on income will not be common across social housing.

- Local authorities - rent increases are determined by a formula linked to the property and not to the individual tenant's income. The government issues rental policy statements which are non-statutory guidance and authorities have the flexibility to set rents at another level, or using another basis, if they wish to do so. However many local authorities follow rent policy. New supplementary guidance would be needed to bring the pay to stay policy into effect for local authorities and this would be issued following the consultation.
- Registered providers - are subject to regulatory controls on the level of rent they may charge and maximum annual rent increases and amendments to these controls need to be given via a direction to the Social Housing Regulator from the Secretary of State to amend the standard on rent.

¹ http://www.HMRC.gov.uk/stats/income_distribution/-1table-feb2012.pdf

There are some key practical and legal issues that will need to be considered by social landlords and local authorities. This will include decisions on the income threshold, the need for landlords to know about the income of the tenant, the level of rent that should be charged and the impact of income changes. These are considered throughout the consultation document

*Do you think that landlords **should** be required to charge high income households a higher rent?*

Setting the income threshold

Views are sought on three options for an income threshold - £60,000, £80,000 or £100,000. It is not clear on what basis the income thresholds have been derived. Further clarity on this would be welcomed.

Do you think setting an income threshold is appropriate? Yes/no

Do you think the income thresholds as set out are the right ones? Yes/No

What level of threshold do you think is appropriate?

Should additional income such as via lottery windfalls or inheritances be included? Yes/no

How high rents should be set for high income social tenants

Charging market rents for high income tenants might affect the charitable status and objectives of social housing providers. While DCLG looks at these issues, the consultation is proposing that in the interim, landlords are encouraged to increase their rents to 80% of market rents with the aim of introducing full market rents for higher income tenants as soon as possible. It would also introduce annual increases of no more than the level of retail price index inflation plus 0.5%. This poses fundamental longer term changes to the social housing sector in terms of who social housing is for, rent setting, affordable housing provision and government subsidy regimes.

Do you agree that landlords should be able to charge 80% of market rates to high income households (which meet the proposed criteria, that is an individual or two individuals with a high joint income)? Yes/no

In your view, would allowing landlords to charge full market rents be appropriate in your area? Yes/no

Disclosing income

The consultation poses another fundamental shift in social housing, by linking rents to income. Having access to tenants' incomes will be required in order for the 'pay to stay' policy to be implemented,

Views are invited on the period to which the new rent should apply given that there is not only one way, the higher rent can be based on either the previous year's income, or the forthcoming year.

Do you currently collect information about your tenants' incomes? Yes/no

What are the practical issues around obtaining information on tenants' incomes?

Existing and new tenants

Should the pay to stay policy only affect new or existing tenants?

- *New tenants only*
- *Existing tenants*
- *Both*

Change in circumstances

Tenant circumstances may change through the year and landlords will need to be flexible to respond to these changes.

Do you currently ask tenants to notify you of changes in income circumstances? Yes/no

Is it practical for landlords to respond to tenant changes as soon as a change in circumstance is notified? Yes/no

Administrative implications and increased costs

Landlords will face additional costs and administration processes to charge rents at differing levels dependent upon income. This might include increased costs in collecting information on incomes, and assessing tenants to adjust rents where their circumstances change.

What is your view of the administrative costs that might be incurred in implementing these proposals?

What opportunities do you see for minimising additional costs?

Treatment of historic grant

Where a provider converts a grant-funded social rent property to a property charging higher rent, some or all of the grant might need to be recovered by the HCA or reinvested by the provider in new affordable housing supply.

What are the implications for this for your organisation?

Tell us your views:

CIH will submit a response to government on this consultation in early September and your thoughts on this policy are incredibly important to our response. If you'd like an informal chat with Laura Shimili responsible for our response, please email her at: laura.shimili@cih.org and she will be in touch to discuss your views. Alternatively, please reply to us by [email](#) based on the questions we've posed in this document and let us know your views on these issues.