# Pay to Stay

Housing Service

Social Care, Health and Housing Overview and Scrutiny Committee

24 October 2016

# Policy context: 2010/20

- Welfare reform – reducing the cost of Benefit Bill, making work pay
- October 2010: ‘affordable rents’ introduced (up to 80% of market rent)
- 2012 – Self Financing: radical reform – Debt settlement; an end to the subsidy system; & financial autonomy for stock holding authorities
- 2013 – Rent Convergence Policy ends – main rent policy since 2003
- 2013 – ‘Pay to Stay’ announced on a discretionary basis
- 2014 – Government commitment to 10 year Policy on Rents – CPI
- 2015 – 4 years of a “1% rent cut” announced – uncertainty thereafter
- 2016 – 4 year ‘freeze’ – working age benefits & LHA
- 2016 – ‘Pay to Stay’ becomes mandatory for local authorities
- 2016 – Supported Housing rents (review); & LHA limitations (caps).
- Government commitment throughout to low cost Home Ownership

# Background to the policy – what is ‘Pay to Stay’?

- First announced in 2013 Spending Review – discretionary
- ‘Principle’ – households living in social housing, considered to have ‘high incomes’, will pay more for their home if their rent is below average private sector (market) rents in their local area.
- Rent Policy shift: a) ability to pay; b) rents set in relation to ‘market rent’
- Original threshold of £60,000 pa household income
- This is a significant overhaul of social housing rents
- Housing and Planning Act 2016 – overall provision for the introduction of this policy. Regulations to follow with the details of implementation
- Government estimates 7% of tenants have ‘higher incomes’.

# ‘Pay to Stay’ policy

- Drive for the policy is **Fairness** for people on higher incomes contributing a little more
- Previously discretionary policy – now mandatory for Local Authorities
- Discretionary at present for Housing Associations
- Implementation planned for April 2017
- Significant shift in policy, aims being –
    - Principle
    - reduce the Benefits Bill (reduce budget deficit)
    - promote home ownership (as an alternative to renting)
    - Monetary benefit to Government

# Detail of the Pay to Stay policy – 1

- Act requires Local authority tenants with a higher income to pay a higher rent than the social rent
- Initially higher income is defined as a household income greater than £31,000 pa outside of London; and £40,000 in London
- The income thresholds will be uprated annually in line with inflation
- LA tenants are required to declare their income to their landlord and allows LA to share data with HMRC in order to verify the information is correct (tenants/partners)
- LAs to determine the method for setting the market rent

# Details of the policy – 2

- Increased rents will be calculated on the basis of an additional 15p rent for every pound earned above the income threshold (taper)
- Tenants who are in receipt of Housing Benefit/Universal Credit are exempt
- No exemptions for supported housing or older people
- LAs are required to return any additional rental income to the Treasury (minus administration costs)
- First year payments to Government to be based on the actual amount of additional rent collected.

# Context for implementing 'Pay to Stay'

- Regulations are not yet published – impacting on preparation time
- Resource implication unknown at present – contacting tenants and chasing up – dealing with enquiries, appeals
- Significant culture change for staff and tenants
- Estimate is that up to 2,400 tenants potentially affected – no insight on how many and by how much
- Data not routinely kept of household income details
- Process of capturing and maintaining income required
- Calculations of rent will be bespoke to individuals – and potentially related to the market rent for their home
- No IT system available at present (development time)

# Implications

- Social rents are below market rents in CBC – which has 4 Broad Rental Market Areas
- Potential for significant financial impact for some tenants
- Tenants who do not provide income details will be presumed to be liable for the maximum market rent
- Communication and engagement with tenants is underway now – early notification, within the context of a Communications Strategy
- Rent increase letters go out early March – appeal process on 3 grounds available: a) mistake in calculation; b) incorrect use of the taper; c) the market rent is thought too high

# How do CBC rents compare to LHA?

The table below compares CBC rents to Local Housing Allowance rates, as these could potentially to be used as Market Rents – as being a ‘standardised basis’ on which to introduce a market rent for each property. Otherwise, every property needs to be valued.

| | | Luton | Milton Keynes | Luton | Milton Keynes | Luton | Milton Keynes |
|---|---|---|---|---|---|---|---|
| Bedrooms | Average CBC (HB eligible) rent (52 weeks) | LHA rates (52 weeks) | LHA rates (52 weeks) | Diff | Diff | Income to reach LHA rate | Income to reach LHA rate |
| 1 | £95.51 | £111.83 | £121.19 | £16.32 | £25.68 | £35,000 | £45,000 |
| 2 | £104.06 | £142.44 | £151.50 | £38.38 | £47.44 | £48,000 | £53,000 |
| 3 | £110.07 | £169.68 | £174.81 | £59.61 | £64.74 | £55,000 | £55,000 |
| 4+ | £121.42 | £204.49 | £223.63 | £83.07 | £102.21 | £63,000 | £68,000 |

# Considerations in planning for implementation

- Important to determine the basis on which a Market Rent is set for all properties that does not result in substantial challenge/appeals
- No information sharing arrangements as yet with HMRC
- Traditionally – working tenants have less contact with the service – how will they respond to this new request for personal information?
- Potential for disincentive to work for some
- Potential for Right to Buy applications to increase
- Training need for staff – how to identify what income is and isn't included in 'Pay to Stay' cases; responding to potentially aggrieved tenants; also tenants who have debt and other problems

# Managing the implementation – by April 2017

- Need to mainstream collection of this and other data – which potentially has other benefits for digitalisation
- Consider any impact on other policies/rights of secure tenants – e.g. mutual exchanges
- Annual assessment of income to set the rent; also need arrangements in place for rents to vary, to reflect variation in household income
- Difficulties for dealing with tenants on zero hours contracts – where income is variable; and self employed tenants
- Difficult to plan for the longer term
- Competing priorities; at a time of real pressure and limited supply.

# Conclusion

- Little time left for implementation – unrealistic timescales
- A significant additional resource implication
- Relies on tenants returning information
- Calculations and notifications to fall in with usual rent setting process – HRA Budget report to Council, February 2017
- Not all social housing providers are adopting the scheme – may mean that CBC stock is less attractive via the choice based lettings system – because more expensive than Housing Association properties
- Potential for confusion and dissatisfaction from tenants
- Will be an incentive to Right to Buy, consistent with Government's commitment to low cost home ownership