

## ROTHERHAM BOROUGH COUNCIL – REPORT TO DLT

1.	Meeting	Improving Places Select Commission
2.	Date	Wednesday 5th September 2012
3.	Title	Response to Government Consultation; High Income Social Tenants, Pay to Stay
4.	Directorate	Neighbourhoods and Adult Services

### 5. Summary

In November last year Government launched their strategy for housing, [Laying the Foundations: A Housing Strategy for England](#). As well as tackling empty homes and fuel poverty and encouraging the building of new homes, this strategy highlights reforms to social housing that afford landlords greater flexibility and options in allocating and managing their housing stock.

Government suggests that households on high incomes who occupy social housing is an issue which can only be addressed through further reform, and proposes the introduction of a 'Pay to Stay' scheme whereby social landlords could charge higher rents to tenants on high incomes.

This consultation invites views on how this policy should be delivered.

### 6. Recommendations

- Note draft consultation responses (appendix 1) and identify any changes required
- Agree that subject to further amendments, the response will be submitted to CLG by 12 September 2012

## **7. Proposals and details**

### **7.1 Background**

The Government consultation, *High Income Social Tenants, Pay to Stay* commenced on 13 June 2012 and will close on 12 September 2012.

<http://www.communities.gov.uk/publications/housing/paytostayconsultation>

The consultation is proposing to add to its suite of housing reforms by giving social landlords the opportunity to charge tenants who earn relatively high incomes a higher level of rent. It is unclear whether or not this proposal will be mandatory or an option for social housing landlords. The consultation contains 28 questions; the questions and draft responses are detailed in appendix 1.

In September 2011, the housing application form was amended to include questions around applicants' earnings as some housing associations do not let to high earners. These questions are not mandatory and many applicants do not complete the income questions. However, this information is only pertinent to the allocation of some housing association properties as the financial status of applicants for RMBC properties is irrelevant and has no bearing on either allocations or the level of rent charged.

The consultation proposes a rental increase from social rent to interim rent of 80% market rent with the ultimate aim of charging full, market rent.

Broadly speaking, private sector rents across the borough are higher than Rotherham's council housing rents but financial gains would be relatively minor due to;

- Local salaries sitting at below national average, and
- The difference between market rent and social housing rent being relatively minor, in most areas

Increasing rent levels for higher earning tenants could indirectly encourage Right to Buy which will affect the rental income available for reinvestment in housing stock and impact on Rotherham's 30 Year HRA Business Plan.

## **8. Finance**

RMBC's recent Where You Want to Live Survey has indicated that some 2% of households in council housing tenants may earn more than £40k per annum. Charging full market rent to higher earning tenants could lead to a potential annual increase of £296,192 to Rotherham's Housing Revenue Account. This would have to be off-set by;

- a) the resources needed to check the income levels of existing and new tenants, and

- b) the future loss to the HRA account through increased Right to Buy as high earning tenants buy their properties as, in some instances, mortgage repayments would be comparable with market rent

NB - The exact number of households who live in council properties and earn more than £40k is estimated to be around 339 – 405; households earning greater than £60k, £80k or £100k is unknown.

## **9. Risks and uncertainties**

The administration costs involved in checking earnings for tenants and modifying IT systems is unknown.

The extent to which charging high earners market rent would increase the number of Right to Buy applications is also unknown.

## **10. Background papers and consultation**

Feedback has been received from the Housing and Communities Team, Housing Income Team, Housing Solutions, Strategic Housing Investment Service and RotherFed.

[\*Laying the Foundations: A Housing Strategy for England.\*](#) CLG, November 2011  
[\*High Income Social Tenants: Pay to Stay Consultation.\*](#) CLG, June 2012

## **11. Contact details**

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## APPENDIX 1

### **Strategic Housing and Investment Service Neighbourhood & Adult Services**

Riverside House, Main Street

Rotherham S60 1AE

Tel: (01709) 255047 Fax: (01709) 823154

Email the Council for **free** @ your local library!

Our Ref: Wendy Foster

Your Ref:

Date: ?? September 2012

Dear Sirs

### **Consultation Response: High Income Social Tenants, Pay to Stay**

Please find below Rotherham Metropolitan Borough Council's Consultation Response:

1. *Do you agree with the principle that very high earners living in social housing should pay higher than social rents?*

The impact of charging high income earners market rent would be minimal as we understand very few of our tenants earn more than £60k. However we do not want to penalise working families to the extent where social housing is not a viable housing choice as this will create a situation whereby social housing is only for the needy

2. *Do you agree that this approach would be the best way of delivering additional flexibility for local authorities and private registered providers?*

The option to charge additional rent for very high earners living in subsidised housing may be welcomed by social housing landlords with stock in areas where housing costs and salaries are relatively high.

Allowing social housing landlords to retain all Right to Buy receipts or decide Right to Buy discount levels would offer much greater flexibility.

3. *What are your views on the guidance at Annex A?*

Rotherham Metropolitan Borough Council has concerns about the initial and ongoing administration costs involved in monitoring income levels and tenants' changes in circumstances.

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

Market rent should be charged to high income earners at the landlord's discretion, as per;

- Issuing flexible tenancies
  - Applying locally determined criteria to housing register
  - Offering priority to certain allocations, and
  - Re-letting void properties at market rent
5. *Do you consider that £60,000, £80,000 or £100,000 would be an appropriate threshold, avoiding the impacts referred to above?*

The £80,000 and £100,000 figures appear to be arbitrary; there is some logic in aligning the income threshold with affordable home ownership income levels.

6. *Could levels below £60,000 be considered without disadvantaging other households on low incomes or the vulnerable? Where should the line be drawn?*

RMBC believes a joint income threshold of £60k appears low and may penalise some vulnerable tenants and act as a deterrent for those tenants who work hard to increase their earnings, especially through working overtime.

7. *At what level do you think the income threshold could start impacting on welfare or affecting work incentives?*

The national average household income is £27,114 therefore the threshold should be set at considerably higher levels.

8. *Should the policy apply only to those whose names are on the tenancy agreement?*

It would be very difficult to monitor the income of occupants whose names were not on the tenancy agreement as there is no legal obligation for secure tenants to inform their landlord of other occupants. That said, Rotherham Metropolitan Borough Council feels that ignoring what could be significant proportions of household income earned by other occupants would appear grossly inequitable. If higher rents are to be charged to avoid receipt of subsidy then all household income should be taken into account as it is with housing benefit assessment.

9. *Should income other than pay be included in the threshold amount, such as Lottery windfalls or inheritances?*

Ideally, yes but how could this be administered? What about tenants whose earnings fall below the threshold but who have accrued significant amounts of savings/investments (from the sale of their home, for example)? If council housing is viewed as part of the welfare state then income assessment should mirror assessments for welfare benefits.

10. *Should certain groups be exempted from higher rents, such as disabled people or pensioners? If so, please set out your reasoning.*

If the motivation behind charging market rent to high earners living in subsidised housing then the income threshold should be applied to all tenants as financial

vulnerability is not directly linked to age or disability. However payments received to fund care, such as Disability Living Allowance or Personal Independence Payments should be excluded from income calculations.

There are multiple, valid reasons why, once financial commitments have been met, those classified as 'high earners' may not have reasonable amounts of disposable income. e.g. pensioners using their savings to generate a modest pension.

11. *Do you agree that landlords should be able to charge 80% of market rent to high income households which meet the proposed criteria, that is an individual or two individuals with a high joint income?*

If the proposal is agreed then 80% market rent should be part of the suite of options available to social housing landlords.

12. *Would allowing landlords to charge full market rents be appropriate in your area, in your view?*

No. The resources needed to implement the charging of market rent to higher earners are unlikely to be recouped as;

- a) rent levels are relatively low across the Borough – in some areas of the borough Rotherham market rent levels are similar to social housing rent levels

	1 Bed	2 Bed	3 Bed
<b>Housing Association</b>	£59.14	£67.84	£75.60
<b>Private Rented</b>	£68.00	£82.00	£97.00
<b>RMBC</b>	£62.05	£67.76	£74.10

- b) Rotherham has a very low number of high earning tenants and local income levels are relatively low compared to the national average; this is unlikely to change in the short to medium term

	England	Rotherham
<b>Average Annual Gross Household Income</b>	£27,114	£22,957

	Borough wide	Council tenants
<b>Annual Gross Household Income of more than £40,000</b>	13%	2%

13. *Are there any practical barriers to charging full market rents?*

IT constraints and administering proof of income but mainly, for Rotherham, there is very little financial benefit as the difference between market rent and social housing rent is minimal.

14. *If the power to charge a higher rent was optional for landlords, would you be likely to make use of it?*

No, as there appears to be very little financial benefit and the proposals appear to penalise higher earning tenants.

15. *Your views are invited on how we could best enable landlords to set higher rents to high income households in advance of any legislation.*

We are unsure how this could happen without legislative changes.

16. *We would also welcome your views on the practicalities of requiring income disclosure; and specifically, what kind of mechanism would be needed and how this would best work.*

Online access to tax and NI data would be the easiest way of monitoring tenants' declared earnings although wage slips and proof of savings and investment would suffice.

17. *Do you already hold or have access to information about tenants' income levels that could be used to support a 'pay to stay' approach?*

No.

18. *Would you be likely to make use of any new statutory powers to require tenants to disclose their income?*

It is unlikely as, due to the lack of financial gain and perceived inequity, Rotherham would not voluntarily seek to implement a policy of charging a different level of rent to higher earning tenants.

19. *Should the income year be the tax year, the calendar year or a rolling year? Do you see difficulties with adjusting a tenant's rent based on a previous year?*

An annual check of income should take place at the end of the tax year but not necessarily identify inheritance or other one off sums.

20. *What practical issues do you see in charging existing high income tenants a higher rent?*

Monitoring income levels, changing tenancy agreement, modification of IT systems.

21. *How quickly could local authority and housing association rent processes respond to changed tenant circumstances? What issues might arise? For instance would there be a need to seek regular updates from tenants on their circumstances? Would this just be in relation to known high income social tenants, or all tenants?*

Rotherham would need to arrange an appropriate IT interface which could regularly update changes in income levels.

22. *Is an internal appeal or complaint process the best way of allowing tenants to appeal against decisions to put them onto a higher rent? Are there existing appeal or complain mechanisms within your structures that could be adapted for this purpose?*

Yes. Appeals could be heard through RMBC's standard complaints procedure.

23. *Should there be a uniform set of rules across the social housing sector on how any appeals should be handled? If so, who should make these rules?*

A uniform set of rules, issued by Government, would offer the greatest parity and transparency across all social housing landlords.

24. *What is your view of the administrative cost that might be incurred in implementing these proposals? What opportunities do you see for minimising additional costs?*

In terms of rent setting, income monitoring and income recovery costs would run at approximately £30k - £50 per annum, plus initial set up costs.

25. *Do you have any comments about the regulatory implications of giving private registered providers these additional flexibilities?*

Parity for the tenants of private registered providers would be viewed positively.

26. *How should additional income generated by this policy be used?*

Additional income should be retained by the relevant social housing landlord. For local authorities, additional income generated should be treated the same as other rental income and paid into the Housing Revenue Account for reinvestment as per the 30 Business Plan.

27. *What are the practical implications of requiring grant reinvestment/recovery when a property moves to a higher rent (or reverts back to social rent)?*

This will only be an issue for local authority new build properties and the implications are currently being explored.

28. *Are there any other issues you wish to raise?*

The Government's Right to Buy Policy and the Government's Pay to Stay proposals are incompatible and inconsistent;

- Those classed as high income social tenants will be asked to pay higher rents as it is argued that they should not benefit from government subsidy, yet



- Those same high income tenants have the option to purchase their council house at a sizeable discount, therefore benefiting from significant government subsidy

The proposal will clearly benefit social housing landlords who hold stock in areas where market rents are significantly higher than social rent and where income levels are greater than the national average. Neither of these applies in Rotherham.

I trust this information is helpful; should you require further assistance please do not hesitate to contact this office.

Yours faithfully

Councillor R McNeely  
Cabinet Member for Safe and Attractive Neighbourhoods