

Consultation response

Shelter response to Department for Communities and Local Government on High Income Social Tenants: Pay to Stay consultation paper

September 2012

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Until there's a home for everyone

In our affluent nation, tens of thousands of people wake up every day in housing that is run-down, overcrowded, or dangerous. Many others have lost their home altogether. The desperate lack of decent, affordable housing is robbing us of security, health, and a fair chance in life.

Shelter believes everyone should have a home.

More than one million people a year come to us for advice and support via our website, helplines and national network of services. We help people to find and keep a home in a place where they can thrive, and tackle the root causes of bad housing by campaigning for new laws, policies, and solutions.

Introduction

Shelter understands the needs of social housing tenants and the sector as a whole. We advised 14,823 social tenants between April 2011 and March 2012, meaning that a fifth of our clients in this period lived in the social rented sector.

We support the Government's approach of prioritising the limited number of social homes for those most in need. More than 1.8 million households were on social housing waiting lists in England at the 1 April 2011¹. Nearly 78,000 households were found to be homeless in England during 2011/12, an increase of 9 per cent on the previous year.

However, as the consultation sets out (paragraph 21) 'linking rents to income would be breaking new ground'. Any policy to amend the setting of social rents must be considered in terms of the benefits it will bring to people in housing need and be based on a thorough impact assessment. The data and estimates cited in the consultation are not referenced, making it difficult to assess the potential impact of this policy.

However, an initial analysis of the figures suggests that the policy would be of limited value in addressing housing need. In our view, the real solution is to provide more genuinely affordable housing, rather than creating an additional bureaucratic burden for social landlords to charge higher rents to the tiny proportion of social renters who have worked hard and done well.

When debating the issue of people on high incomes who rent social homes, it is important to see social tenants in context. Social housing provides a home for some of the poorest and most vulnerable people in society, many of whom have little or no real choices about their housing. Forty-three per cent of social tenants were living in poverty after housing costs in 2009/10, compared to 21 per cent of households in all tenures². Nearly 90 per cent of social renters are in the bottom three income quartiles, a much higher proportion than other tenures:

Table: Distribution of income by household characteristics, United Kingdom

Tenure	Net equivalised disposable household income (percentage of individuals)				
	Bottom quintile	Second quintile	Middle quintile	Fourth quintile	Top quintile
Own outright	21	19	20	19	21
Buying with mortgage	11	13	21	26	29
Social renters	37	33	18	9	2
Private renters	23	25	21	18	14

Source: DWP (2012) Households Below Average Income

¹ Housing Strategy Statistical Appendix

² These figures apply to the UK as a whole. National Statistics (2012) Households Below Average Income: an analysis of the income distribution 1994/5-2010/11, DWP

Average social rents have increased by between 40 to 50 per cent in the past ten years³, and, as a result of the introduction of council housing self-financing, a survey by 'Inside Housing'⁴ reported in January 2012 that thousands of council tenants faced rent rises of over 8 per cent.

Number of tenants affected

The Government considers (paragraph 15) it is most likely that £80,000 or £100,000 would be the appropriate income threshold for triggering the charging of a supplementary rent. As the consultation points out (paragraph 20), social landlords currently have no powers to require tenants to disclose income for the purposes of setting their rents, so it is difficult to establish how many tenants the policy would affect. The Government cites estimates (paragraph 5) that between 1,000 and 6,000 social renter households have a combined income of over £100,000 and between 2,000 and 11,000 have an income over £80,000.

There are currently 3.8m social renting households in England. Therefore, based on these estimates, the measures proposed would only apply to between 0.05 per cent and 0.3 per cent of all social renting households.

Amount of additional rental revenue

The consultation (paragraph 6) states that 'figures suggest that on average across England the economic subsidy provided by sub-market rents on social housing is worth an estimated £3,600 per annum'. It also states (paragraph 19) that 'in the housing association sector, it may be problematic to immediately introduce market rents in view of the charitable status and objectives of providers'. It therefore encourages landlords 'to increase rents to 80 per cent of market rents in the interim, with the aim of introducing full market rents for higher income tenants as soon as possible'. The difference between 80 per cent of mean market rent and mean social rent in England is £49 per week, or £2,518 per annum⁵.

If these amounts are applied to the estimates of high earning social households, then supplementary rents would result in additional rental revenue of between £5m and £28m per annum. This revenue would need to cover the costs of administering the system, including establishing who is resident in the household and how much they earn.

Furthermore, the Government (paragraph 31) is consulting on how the additional income generated by this policy should be used. Without a clear commitment that the additional revenue would be used to support investment in social housing, we question the effectiveness of the policy in meeting housing need. If this policy were to go ahead, all receipts from supplementary rents should be used to increase the supply of genuinely affordable social homes in the same locality.

Practical considerations and costs

Any benefit of the proposed policy should also be offset against the costs and practical difficulties of implementation:

- Primary legislation would be required to give social landlords the power to require tenants to disclose income for the purposes of rent-setting.

³ Shelter Housing Databank

(http://england.shelter.org.uk/professional_resources/housing_databank/results?area_selection=64&data_selection=B5%2CB6&elected_min=1997&selected_max=2012). Average weekly council rents rose from £47.87 per week in 2001/02 to £72.30 per week in 2011/12 - an increase of 51 per cent. Average weekly housing association rents rose from £53.90 per week in 2001 to £78.28 per week in 2011 - an increase of 45 per cent.

⁴ Hollander, G (13 January 2012) *Tenants face eight per cent rent hike*, Inside Housing (<http://www.insidehousing.co.uk/tenancies/tenants-face-8-per-cent-rent-hike/6519912.article>)

⁵ English Housing Survey 2010/11. Eighty per cent of the mean private rent in England is £128 per week.

- As the consultation acknowledges (paragraphs 29 and 30) supplementary rents would create an additional administrative burden for the landlord and additional costs to the Social Housing Regulator in monitoring and enforcing compliance with an amended regulatory standard.
- As the consultation also acknowledges (paragraphs 23 and 27), there would be additional practical difficulties for social landlords, such as verifying household composition and income; clarifying whether annual income relates to a tax year, calendar year or rolling year; and responding to fluctuations in household formation and income.
- International experience has shown that inspecting the incomes of everyone in social housing is intrusive and difficult – and the bureaucracy involved may well cost more than the additional rent or vacancies would merit. An international comparative study commissioned by Shelter⁶ shows that most countries that have charged supplementary rents have found them to be difficult and inefficient in practice, and to generate adverse consequences:
 - Most parts of Germany have stopped charging supplementary rents, because the bureaucratic costs of implementation were found to be substantial, as self-reported income estimates are found to be unreliable and investigation costly. There were also concerns that it would increase the residualisation of social housing.
 - In Hong Kong, income reviews are carried out regularly (every two years) after ten years of tenancy, and supplementary rents can be charged or tenancies ended if the tenant's income has risen too far. However, Hong Kong higher levels of state surveillance are routine, so income disclosure is viewed as normal and unobjectionable by tenants and routine by housing officers. Even so, income ceilings are set so that few tenants are charged supplementary rents, and very few lose their tenancies. Nevertheless, there is a recognised problem that the policy can incentivise adult children on good salaries to move out of the family home so that their parents can remain on lower rents. This is at odds with a public policy preference for larger, inter-generational households.

Policy considerations

- Shelter supports the Government's desire to incentivise work. Penalising hard-working households by charging higher rents is clearly at odds with this aim. We are particularly concerned by the suggestion (paragraph 7) that income levels would be based on the two highest earning individuals whose joint income is at or above the threshold. This would mean that a tenant in receipt of welfare benefits (such as a single parent with disabilities) may be charged a higher rent because the earnings of adult children living with them (perhaps in order to save money for a mortgage deposit) exceed the income threshold.
- Blunt income thresholds and market-based rent-setting fail to take account of individual household circumstances and local markets. For example, a single social tenant earning £80,000 in Burnley would find it easy to afford a market-based rent. However, a family with two dependent children in Wandsworth, with two working parents earning £40,000 each, could still struggle to afford a rent on a family home set at 80 or 100 per cent of market rates⁷. Supplementary rents could create a steep cliff-edge, which is out of kilter with the Government's aim of simplification of welfare benefits.
- It is important that social housing is not further residualised by policies which encourage better-off tenants out of the sector. We support a policy that allocates social housing on the basis of need. However, once people have set-up home, it is important for the stability of children and the wider neighbourhood that they are encouraged to remain settled in their homes. There are clear advantages of social tenants being able to see examples of neighbours getting on and doing well. Supplementary rents, coupled with the introduction of a new form of Right to Buy, may prompt high

⁶ Fitzpatrick, S. and Pawson, H. (May 2011) Security of tenure in Social Housing: An International Review, pages 21-23 (http://www.sbe.hw.ac.uk/documents/Fitzpatrick_Pawson_2011_Security_of_Tenure.pdf)

⁷ Reynolds, L. (March 2012) *London Rent Watch: Rent inflation and Affordability in London's private rental market*, page 19 http://england.shelter.org.uk/_data/assets/pdf_file/0008/425708/London_Rent_Watch.pdf

earning tenants to purchase their homes and possibly sell up and leave the neighbourhood. The Right to Buy directly subsidises wealthy social tenants to buy their homes, but Pay to Stay would penalise those who continue to rent.

- Charging different rents for similar or identical properties presents difficulties from a consumer equality point of view – few markets operate on a principle of differential pricing. Equal rents have long been a central tenet of social housing policy: for example, a joint CLG and HM Treasury review of the Council Housing Finance System included in its guiding principles that ‘standards and services at similar costs should be provided to all tenants regardless of which landlord (local authority or housing association) owns the property’⁸.

Conclusion

While we understand the Government's desire to prioritise social housing for those most in need, this must be set against the practical implications of implementing Pay to Stay, and the potential for unintended consequences. On balance, Shelter does not think the proposal offers sufficient benefits to merit the inevitable costs and the potential downside risks.

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⁸ DCLG (July 2009) Reform of council housing finance consultation, page 50, paragraph 8 (<http://www.communities.gov.uk/documents/housing/pdf/1290620.pdf>)