EMBARGOED UNTIL 00.01AM, SUNDAY 17 APRIL 2016

HOUSING ORGANISATIONS SAY MINISTERS SHOULD THINK AGAIN ABOUT UNFAIR RENT HIKES FOR HARD-WORKING COUNCIL TENANTS

As the Government's Housing Bill approaches the next stage in its bumpy ride through the House of Lords, tenant and housing campaigners have called on Ministers to drop proposals (labelled "Pay to Stay") announced in George Osborne's 2015 Budget to charge unaffordable market rents to households in council homes earning as little as £30,000 a year. They have published a report using tenants' own words to explain why the policy is wrong.

Tenant representative organisation Tpas and housing campaign SHOUT point out in the document that the proposal could well affect households who are <u>not</u> well off (for example two people earning just over the national living wage), and flies in the face of the Government's aims of encouraging aspiration and reducing welfare dependency. It would punish people for getting on in life, and <u>increase</u> dependency on welfare. It would also be an administrative nightmare and breach of taxpayer confidentiality, embroiling tenants and landlords in complex and intrusive bureaucracy. In a little-noticed clause in the Bill, the Government proposes to hand over confidential HMRC data on tenants' incomes to councils, housing associations and even private companies like Capita.

After defeating the Government in three votes on the Bill this week, and forcing it into concessions on other issues, peers look set to challenge Pay to Stay as well. Former Civil Service chief and housing expert Lord Kerslake and others have put down amendments which would leave it up to councils whether or not to implement the policy, raise the proposed income limits to £40,000 a year (£50,000 a year in London) and stop the government taking mo re than 10p in extra rent for every extra pound of income.

Tpas Chief Executive Jenny Osbourne said:

"The Government should listen to tenants and housing experts and drop this unfair tax on aspiration and hard work. Council tenants who work hard, get on

in life and are already paying their full rent shouldn't be punished with swingeing rent increases or be forced out of their homes."

SHOUT leading campaigner Alison Inman said:

"I hope that, having listened to the arguments of all parties on other aspects of the Bill this week, the Government will also agree to make the kinds of changes being suggested by Bob Kerslake and other distinguished peers and agree to the very sensible changes they are proposing, if it can't see its way to dropping this mistaken idea altogether."

Notes for editors

1. The report by SHOUT and Tpas is circulated with this press release. It includes quotes and case studies of tenants who would likely be affected by Pay to Stay.

2. The House of Lords Report Stage discussion on Pay to Stay will be on Monday 18 April.

3. Tpas (http://www.tpas.org.uk/) are England's leading tenant engagement experts. They are dedicated to improving tenant engagement standards across the country. They bring tenants and landlords together through a wide range of services, independent and impartial advice, support, consultancy, and training.

4. SHOUT (www.4socialhousing.co.uk) is a volunteer-run campaign making the case for investment in genuinely affordable homes and demonstrating the positive effects that such housing has on people and communities.

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"PAY TO STAY"

Briefing Note and Case Studies

"PAY TO STAY"

"Pay to Stay" would increase the rents of council tenants whose household income exceeds £30,000.

Headline Messages

1. Affects people who are not well off and would cause hardship: the policy would result in people who are on the minimum wage and receiving tax credits, or pensioners with modest works pensions, having their rents increased to levels they cannot afford. Many such households would not be in a position to buy either.

2. Contrary to the Government's aims of encouraging aspiration and reducing welfare dependency. "Pay to Stay" would punish people for getting on in life, and increase dependency on welfare.

3. An administrative nightmare and breach of taxpayer confidentiality, embroiling tenants and landlords in complex and intrusive bureaucracy.

4. Unfairness between council and housing association tenants: housing associations will not be required to operate "Pay to Stay." The justification for extending Right to Buy to housing associations is fairness between otherwise similar tenures. Why does that not apply to the rents people pay?

Alongside other organisations, including the Local Government Association, the Chartered Institute of Housing, the National Federation of ALMOs, we therefore argue that **the same policy should apply to council and housing association tenants, ie landlords should be free to set their own local policies**, taking account of local earnings, market rents and their own judgement about the benefits and drawbacks of charging higher rents for some tenants.

What this briefing is about

In his July 2015 Budget, George Osborne announced that social housing tenants with incomes above £30,000 a year (£40,000 a year in London) would in future have to pay market rents for their homes. Housing associations would keep the higher rents, councils would have to pay them over to the Treasury. In December 2015, the Government announced that it would not be requiring housing associations to implement the policy.

The Housing Bill includes the powers needed to implement the policy, with the detail to be set out in regulations. These include powers permitting the sharing of tax information about social tenants between HMRC, landlords and private companies. Further information on the proposed "Pay to Stay" is included at the end of this document.

Tpas and SHOUT have gathered tenants' views and experiences relating to "Pay to Stay", with a particular emphasis on those who could be affected by the policy. A summary of views expressed is that there is no need to make life harder for tenants who are protected from market prices just because housing is unaffordable for many people. A better solution would be to try to improve affordability for everyone. This briefing argues that "Pay to Stay" is a bad idea in practice and principle, and uses real-life examples to explain why.

Why the Government's proposals are wrong

1. "Pay to Stay" affects people who are not well off and would cause hardship

At the thresholds proposed, some of the people who would be affected by the policy are a long way from having what most people would consider to be very high incomes. A couple who are both working full time earning £7.80 per hour - not much over the minimum wage - would have a household income over the threshold. So would a pensioner couple with works pensions of £9,000 a year each. Even if it is a single tenant earning this amount, the proposed £30,000 a year threshold is roughly the same as median gross household income, i.e. bang in the middle of the income distribution. These are not high income people.

Affected households would see very significant rent increases, particularly in higher cost areas of the country, in some cases to levels which they could not possibly afford.

> *"My rent would increase by 4 times what I currently pay. I am a pensioner"*
>
> *"My rent will triple to approximately £1,500 leaving my household £4,100 below the maximum social benefit level of £26,000 and £7,400 worse off in total."*
>
> *"Our rent could increase by £200-£300 a month, we would love to buy instead but due to age and previous credit/debt problems are unable to. So we will have pay more rent because we work."*

For example, a household in inner London who contacted Tpas could see their rent going from £6,200 a year to over £22,000 a year, ie from less than 20% of a £40,000 annual income, to over half their pre-tax income. A household in Milton Keynes could see their rent going from £5,000 a year to £8,600, ie from less than 20% of their income to nearly 30% of their pre-tax income. The hit to the disposable income of such households well exceed the losses from the tax credit changes which the Chancellor abandoned in the Autumn Statement.

The Stacie Lewis case study illustrates the kind of hardship which could result from the policy.

No account is taken of household composition (i.e. how many people are supported by that income) or of households' potential to leave social housing and meet their housing needs in other ways.

Commentators have suggested that tenants who do not wish to pay the higher rent could look for alternatives – move to cheaper rented accommodation, exercise the Right to Buy, or purchase using shared ownership. Tenants do not believe these are feasible or appropriate options, however.

Some affected households might be able to exercise the Right to Buy (some commentators have suggested one purpose of the policy is to encourage higher take-up of it). But many could not. Even with the maximum discount, a household exercising Right to Buy in an strong housing market would need a huge deposit and be unable to secure the necessary mortgage. Pensioners affected by the policy would almost certainly not be able to obtain a mortgage on any terms.

The Jones case study illustrates these housing affordability issues.

2. It is contrary to Government's aims of encouraging aspiration and reducing welfare dependency

In his 2013 Budget speech, George Osborne said: *"For years people have felt that the whole system was tilted against those who did the right thing: who worked, who saved, who aspired."*

The “Pay to Stay” policy would hit hard social tenants who have worked hard and got on in life – people who work long hours to provide for themselves and their families, people who have studied part time so they can get a professional job. Couples both in roles like teachers, nurses or paramedics would be subject to higher rents, even if one only works part time.

> *“Being late middle aged, should we be penalised for being middle earners at the end of our work lives? We are too old and even full timers are still too low paid to get mortgages now.”*

Faced with the prospect of a rent increase of up to £12,000 a year, a perfectly natural response would be to cut working hours to reduce household income below the threshold, or not take up a promotion offered at work.

> *“For the first time in my life, I have the potential to earn £40,000 in negotiated self-employed contracts but I will negotiate fewer self-employed contracts to keep me below that level as I will not "contribute" to making myself homeless after 42 years of paying into the system, taking nothing out of the system, and having aspired throughout all those years to work hard and improve my lot.”*

The trainee teacher case study shows how the policy is leading ambitious young people to consider not taking up professional jobs for which they have studied hard.

Some households would, perversely, need to start claiming housing benefit to help them cover the higher rent. The Bedfordshire case study shows how the state would start paying benefits of up to £2,000 a year to meet part of the cost of the higher rent.

In response to such arguments, the Government has now conceded that there will be a “taper”, that is market rent would not be charged in full to people only earning modestly above the proposed thresholds. Rather, their rent would go up by a percentage of every extra pound they earn, until it reaches the full market rent. But the Government has not said what the percentage would be – so it could be that tenants would lose well over half of every extra pound they earn, undermining aspirations and incentives to get on.

<u>3. An administrative nightmare and breach of taxpayer confidentiality</u>

Social landlords often make enquiries about income at the beginning of a tenancy, but generally do not concern themselves with non-benefit claiming tenants’ incomes after that. They are still less likely to have any awareness of the incomes of household members who are not on the tenancy agreement. Private landlords would not do so either.

The commitment to taper the extra rent has reduced one problem (huge hikes in rents when people earn slightly more than the thresholds) but has increased the administrative complexity associated with the scheme.

The policy could conceivably operate on the basis of self-declaration, but there would be obvious and very strong incentives on tenants not to disclose income fully. There has been talk of landlords having to presume all tenants have the higher income unless they can prove otherwise. With either approach, there is no current way for landlords to verify what tenants say.

This is presumably why the Government has included in the Bill unprecedented powers for HMRC to share data with landlords, and even private companies. Data on the incomes of a far wider group of tenants than those actually affected by the policy would need to be shared, to verify that all those who should be paying higher rents had actually been identified. Both HMRC and landlords would need to develop systems with an exceptionally high level of security to pass on and hold this data. The costs would be very significant, and the track record of HMRC on large digital projects does not inspire confidence.

The Government's impact assessment suggests administrative costs would be around £60 per household affected. This seems on the low side, since the incomes of many more households than those actually required to pay higher rents would need to be assessed.

Data security aside, the administration of the policy would be very complex. Landlords would need to identify correctly which household members' income should be included in the calculation. Non-tenant partners or family members of tenants, who have no contractual relationship with the landlord, would be required to declare their income in relation to a property in which they have no legal interest. Landlords would need to assess market rents for all their properties. The calculations would not be one-off - both rental valuations and tenants' liability would need to be reassessed periodically. Many people's earnings have become much more unstable in recent years with the growth in self-employment and zero-hours contracts. Some tenants' incomes may fluctuate significantly over the proposed thresholds. Very frequent reassessment would be highly burdensome for landlords and tenants. Less frequent reassessment would risk unfairness and hardship as tenants who had lost income struggled to pay their higher rent, while those with higher incomes were paying less.

<u>4. Creates unfairness between council and housing association tenants, and between people living in different parts of the country</u>

There is no justification for treating council and housing association tenants differently. The Government's main argument for extending Right to Buy to housing association tenants is that, up to now, many housing association tenants have not had the same rights as council tenants. The same logic should apply to Pay to Stay.

> *"We will extend the Right to Buy to tenants in Housing Associations to enable more people to buy a home of their own. It is unfair that they should miss out on a right enjoyed by tenants in local authority homes."* Conservative Party Manifesto, April 2015

Whether tenants happen to occupy a housing association or council property is typically a matter of accident. In around half the country, councils have transferred their housing stock to housing associations at some time in the last 25 years. Even in areas where there is still council housing, up to a third of the social housing available locally is owned by housing associations, and people who apply to the council for social housing will be offered a property according to what is available, and the match with needs and preferences. Choice between council and housing association does not come into it. Live in Coventry or Bexley (where there is no council housing) and it will be up to your landlord whether and how you are subject to higher rents. Live in Greenwich or Solihull (where most, but not all, social housing still belongs to the council) and the council will have to charge higher rents – but the housing association owning a property down the street won't have to charge them.

The extent to which higher income tenants can afford home ownership or private renting, as an alternative to paying more for a council property, varies widely around the country according to the level of rents and house prices. A tenant in inner London on £40,000 a year has less prospect of being able to buy or rent privately than a tenant on £30,000 a year in Gateshead.

It makes much more sense for individual landlords to decide their policy in the light of local circumstances, based on their understanding of the impact on the households affected and on whether they think the potential additional revenue from charging higher rents justifies the significant extra bureaucracy involved in doing so. The Government has already recognised this for housing associations and, in line with its strong commitment to localism, and should apply it in the case of Pay to Stay for local authorities.

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"PAY TO STAY" CASE STUDIES

Stacie Lewis (from *Guardian* article, 16 November 2015 http://www.theguardian.com/commentisfree/2015/nov/16/pay-to-stay-housing-scheme-penalise-disabled-people-george-osborne)

Stacie has been receiving cancer treatment and unable to work for three years. Her husband is a teacher, earning just over the £40,000 a year threshold for "pay to stay" in London. Their daughter, May, is severely cognitively and physically impaired, and has epilepsy.

Until they moved a month ago into a social rented home, in Herne Hill, south London, suitable for their needs, for six years they lived in a first floor privately rented property, and had to carry May upstairs on the way to and inside their flat. Now Stacie says: "We get to wheel May straight in. We don't have to carry her everywhere she goes. To say it has transformed our lives is an understatement."

If their rent increased to market levels, they would have to pay over £30,000 a year in rent – over three quarters of Stacie's husband's pre-tax income. Nor, on his income, could they obtain a mortgage for a property likely to cost around £800,000, aside from mortgage lenders' likely reluctance to lend when Stacie is so seriously ill.

The trainee teacher

A trainee teacher has contacted SHOUT. She is worried that, if she starts work as a teacher, her earnings will take her household's income over the "Pay to Stay" threshold. Her likely choices are to move out of the family home (which she does not want to do) or not to take a teaching job.

Someone contacted Tpas in a similar position: "Our rent will increase from £568 a month to £1000. The two highest earners are myself and my daughter, I will have to kick my daughter out to be under £30,000, she will have to rent a flat and claim housing benefit. Where's the sense!!"

"Pay to Stay" and start claiming benefits

A couple with two children in Bedfordshire living in a housing association property earn £15,000 a year each. They currently receive Child Benefit and Child Tax Credits only, and pay childcare costs of £100 a week. "Pay to Stay" would result in their rent going up to £186 a week, nearly £10,000 a year, a third of their pre-tax earnings. Though they would have to find most of the cost from their modest income, they would be able to claim nearly £2,000 a year in Housing Benefit. So, as well as a dramatic adverse effect on their living standards, "Pay to Stay" would add to the welfare bill. If one of them switched to working part time, they would stay on their current rent and not need to claim housing benefit, but would pay less tax and receive more Child Tax Credit.

"Pay to Stay" and access to alternative housing options

The Jones family lives in Deptford. Mr and Mrs Jones both work full time and between them earn just over £40,000. "Pay to Stay" would push their rent from £110 per week to £300 per week. Depending on the security of their employment they may be able to raise a mortgage but with properties valued at £300,000 they could not buy even with a Right to Buy discount. They would also struggle to purchase shared ownership at £120,000 in their area. So they would simply have to pay the additional rent or move away. Moving away would mean giving up their school places, (free) childcare and potentially their jobs so does not appear to be an option. They are trapped.

Existing "Pay to Stay"

In 2012 the Government permitted, but did not require, social landlords to charge higher rents to tenants with incomes above £60,000 a year. The presentation around this policy change made much of the continued occupation by the late RMT leader Bob Crow of a social rented home, despite his six-figure salary.

The Government does not collect data on the use made by landlords of this option, but it is thought that few, if any, have decided to take it up. This is partly for reasons of principle and partly because the administrative complexity would not be justified by the additional income.

How "Pay to Stay" would work

The Government has not decided on many important elements of how the proposal would work. However in October, the Communities Department published a consultation paper on how the scheme might work in practice, and there are some estimates of the numbers affected and financial implications in the Housing and Planning Bill impact statement.

What we know:

- the Government announced in December 2015 that the policy would only apply to council tenants, not housing association tenants;
- the income thresholds of £30,000 (£40,000 in London) would apply to (at least) the combined incomes of the tenant, their partner, and anyone else named on the tenancy agreement. But, confusingly, the consultation document also suggests it might be the combined income of the two highest earning members of the household;
- the consultation paper suggests the threshold would not be increased in line with prices or earnings. So, over time, a higher proportion of tenants could be expected to have to pay higher rents;
- the Bill impact assessment suggests the numbers affected could be 130,000, rising to 200,000 by 2017-18 – more than 10% of the population in council housing, but less than 1% of all households in the country. For this they are proposing to establish a whole new bureaucracy to pass information between HMRC and councils;
- it would apply to all ages, including pensioners;
- the potential rent increase would vary significantly across the country. It could range from a 160% increase in inner London, to £390 a week; through a 72% increase in Milton Keynes, to £165 a week; to less than 5% in parts of northern England;
- the Government has suggested that there might be tapers (like in the benefits system) to address the obvious problem with the proposal that a household whose income rose just over the threshold might suddenly see their rent increasing by over £10,000 a year. However, the consultation paper makes no commitment to this and no further details have emerged during discussion on the Housing and Planning Bill;
- landlords often have information on tenants' income at the start of a tenancy, but they generally don't collect information about their existing tenants' income or that of other people living in the property. So long as tenants pay their rent, there is no reason for social landlords to intrude into their financial circumstances, any more than a private landlord would.