

Report to Housing Scrutiny Panel

Date of meeting: 22 July 2014

Portfolio: Housing – Councillor D Stallan

Subject: DCLG Guidance on Rents for Social Tenants with High Incomes

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Recommendations/Decisions Required:

(1) That the DCLG Guidance on Rents for Social Tenants with High Incomes (contained within the DCLG document Guidance on Rents for Social Housing – May 2014) which is attached as an Appendix to the report be noted; and

(2) That no action be taken on this issue at present, and that a further report be submitted to the Panel setting out the options for consideration in respect of a separate Rent Policy for tenants on high incomes, (in accordance with the Guidance), when legislation is in place to compel tenants to declare their income and to enable landlords to take action in cases of fraudulent income declarations.

Report:

The Panel's response to the Government's Original Consultation Paper "Pay to Stay"

1. In June 2013, the Department for Communities and Local Government (DCLG) issued a Consultation Paper entitled "High Income Social Tenants Pay to Stay".

2. Under "Pay to Stay", the Government set out their intention that local authorities should be given the flexibility to charge those with high incomes a higher level of rent to stay in their own homes. The DCLG's proposal at that time was based on higher rents being set at 80% of market rents (similar to the affordable rent levels). The Council's response to each of the questions asked within the Consultation Paper was agreed by the Panel and was, in summary, as follows:

- The principle that very high earners living in social housing should pay higher rents was agreed but providing that income thresholds are set to ensure residents have a reasonable expendable income and bureaucracy is kept to a minimum;
- The Panel's initial view was that the Council would be likely to make use of it provided the income was more than the cost of the scheme;
- It is considered that the scheme could promote low income "ghettos" and the effect on mixed communities in social housing should be taken into account;
- Income thresholds should be based upon property size and should be increased annually as rents increase;
- There should be different thresholds for different areas of the country;
- Having an absolute threshold would give tenants a reduced incentive to increase earnings and a person's expendable income could reduce dramatically following a small increase in earnings;
- There should be provision to take into account other high earners within the household;
- Income disclosure arrangements must be put in place in advance; and

- The income threshold should be no less than £60,000.

3. More than half of the respondents nationally backed the approach in response to the Government's consultation according to the published summary of responses received. However, many felt there could be problems with compliance.

Government Guidance "Rents for Social Housing"

4. In May 2014, the DCLG issued its Guidance on Rents for Social Housing, which comes into effect from April 2015. Contained within the Guidance at Chapter 4 is Guidance on Rents for Social Tenants with High Incomes. A copy of Chapter 4 is attached as an Appendix to the report.

5. For social tenants with high incomes, the Government does not expect local authorities to adhere to its Social Rent Policy for properties let to households with an income of £60,000 per year; authorities will be able instead to choose to charge them up to full market rent. The DCLG's definition of "Households" mean tenants named on the Tenancy Agreement and any named tenant's spouse, Civil Partner or partner where they reside in the accommodation. "Income" is meant by the taxable income. Where there are more than two incomes within the household, it is expected that the two highest incomes only be taken into account.

6. It should be noted that the DCLG's policy is based on tenants being charged full market rents, and not 80% of market rents proposed at the consultation stage.

Difficulties administering any Scheme

7. There appear to be the following difficulties with administering any separate rent policy for the Council's high income social tenants:

- The Government does not specify how landlords should find out about tenants' earnings and has stated that it will be up to tenants to self-declare their income due to authorities lacking the powers to compel tenants to tell their landlords how much they earn. This will cause difficulties, as the Council will not be able to accurately assess the income of any household
- The Scheme will be open to fraud and difficult to enforce, particularly as there is no legislation in place to require tenants to declare their income
- The Council would have to undertake an annual review of changes in tenants' incomes which would be very bureaucratic. In addition, tenants would be able to request a review of their rent at any time during the year, when their income may go above or below the threshold, with the appropriate rent adjustments being made to their rent accounts
- Additional staffing would be required to administer the Scheme which will reduce the amount of additional income received

8. According to Government estimates, between 11,000 and 21,000 social tenants representing around 1% of all social tenancy households in England meet the threshold. The additional income generated by higher rents must be used to fund new affordable housing wherever possible.

9. The following table sets out the average weekly rent across all property types for Council properties, comprising 1, 2 & 3 bedrooms, compared to market rents. The market rents are based on Local Housing Allowance (LHA) levels for housing benefit entitlement purposes (i.e. the maximum amount of rent that can be charged by a private landlord to a tenant in receipt of housing benefit above which the tenant must meet the difference).

Bedroom Size	Average Weekly Council Rent (£)	* Average Weekly LHA Rents Levels (£)
One Bedroom	83.93	142.71
Two Bedroom	96.90	179.57
Three Bedroom	109.53	216.88

**** It is important to note that the LHA rent levels set out in the table above represent the lowest 30% of market rents in the District. Therefore, the total additional income to the Council (referred to below) could be higher than the amount estimated. Furthermore, as the LHA levels vary in three different areas of the District, the figures provided represent the average.***

10. As stated, Government estimates suggest that 1% of households could be affected. When applying this percentage to the number of properties in the Council's housing stock, there could be around 64 high earning Council tenants who would be required to pay market rents. In order to calculate a very approximate estimate of the potential additional income to the Council from introducing a Scheme, the average difference between the Council rent and the LHA rent levels shows that rents would increase on average by around £83.00 for each of the 64 tenants affected, bringing in total additional income of around £276,000 per annum (if all tenants pay in full).

11. As stated in Paragraph 6 of the report, there are currently no powers to compel tenants to tell their landlords how much they earn. However, it has been reported that the Government intends to seek a legislative opportunity to place the onus on tenants earning over the threshold to declare their income, when parliamentary time allows. Alongside that legislation, it will set out details of sanctions for tenants found to have failed to declare.

12. Until such powers are in place, it is officers' view that the Scheme currently appears to be unworkable. Indeed the housing press is reporting that there is little interest amongst landlords nationally to introduce higher rent for social tenants with high incomes for this reason. Therefore, it is suggested that a further report be submitted to the Panel, setting out the options for consideration in respect of a separate Rent Policy for tenants on high incomes, (in accordance with the Guidance), when legislation is in place to compel tenants to declare their income.

Consultation undertaken:

The Tenants and Leaseholders Federation will be consulted on the report at their meeting on 30 July 2014.