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Dear Mr Richardson,

I welcome the opportunity to respond to the CLG consultation on Pay to Stay: Fairer Rents in Social Housing.

I have set out below some general comments on the proposals followed by some specific comments on the questions set out in the consultation paper.

General comments

I do not agree with the introduction of the Pay to Stay policy which I believe is flawed particularly in relation to the London housing market and the impact on affordability for hard working families in LB Tower Hamlets.

Tenants benefitting from subsidy

I do not agree with the view taken by the Government set out in the Consultation paper that 'that tenants in social housing should not always benefit automatically from subsidised rents'. Local authorities with retained housing stock became 'self-financing' on 1 April 2012 and the HRA subsidy system was effectively abolished. It should also be noted that the government is content to continue to subsidise tenants to enter home ownership undermining the argument about tenants not always benefitting from subsidy.

Although in principle I am not persuaded of the merits of the proposal, if such a policy is introduced I believe that Local Authorities should be allowed to determine rent conditions in relation to high earners locally in order to manage their Housing Revenue Account effectively, provide services for tenants and plan to meet local and regional housing need.

Entry threshold

If you do proceed, I am concerned that the proposed policy will adversely affect vulnerable and hard-working families, and urge Government to consider a higher income threshold if this policy is taken forward. The Mayor of London's income threshold for eligibility to intermediate housing is recommended (£71,000 per year for 1- and 2-bed properties and £85,000 per year for larger properties). As set out below, tenants eligible for welfare benefits and housing benefits should be automatically exempt from this policy.

Balanced communities

It is my belief that that community cohesion is best achieved through developing neighbourhoods where there is a range of tenures and households with mixed incomes and aspirations. The benefits of achieving such a mix include the reducing the 'ghettoisation' of social housing, increased spending power which can benefit the local economy and lead to local jobs, reductions in crime and improved health and wellbeing. Penalising higher earning tenants undermines this objective if they move away.

Incentives to improve personal circumstances

I am concerned that this policy could actually prove a disincentive to working households to improve their career prospects. Tenants who advance their careers opportunities could enter the high income threshold and be punished in particular by having to face large increases in rent. It is in effect implementing a tax through the back door and is extremely unfair to this group of people who will not benefit in any way from an increased rent.

The London Housing Market

The Bill sets out that high income social tenants should pay market rate, or near market rents. Market rents in London are way beyond households on average incomes in central London to the point where they outstrip Local Housing allowances as illustrated by the table below. This shows that market rents are over 3.5 times the level of social rents and at least £117 above Local Housing allowances. We suggest the maximum rent payable in London should not be above the 'affordable rent' levels as set out in guidance from the GLA.

I therefore urge Government to either remove the reference to market or near market rents or introduce specific caps for London, based on either a maximum percentage of take home pay (see below) or GLA affordable rent levels.

Consultation Questions

Question 1, Part 1

- How income thresholds should operate beyond the minimum threshold set at Budget, for example through the use of a simple taper / multiple thresholds that increase the amount of rent as income increases.
- Whether the starting threshold should be set in relation to eligibility for Housing Benefit.

Response

As there is no current requirement or duty upon Landlords to collect a tenant's household income this response to the consultation will be limited, based on broad assumptions.

Currently 69% of tenants of Tower Hamlets Homes (the Council's ALMO) are in receipt of Housing Benefit so it is assumed that these tenants will not be classed as HISTs. Around 3600 tenants incomes will need to be established and rents adjusted or not according to the information received.

If the scheme is introduced it is suggested that tapers are introduced and In principle a tapering system would seem a 'fairer' approach in the implementation of this policy;

As set out in the table below increasing rents to market at near market rents in Tower Hamlets would be beyond the reach of anyone earning less than £50k per year and much higher incomes would be required for larger properties.

I therefore suggest that an alternative method could be adopted based on a maximum percentage of net income. A 33% of net income is suggested as a maximum rent payment under the policy.

Therefore a household in a two bedroom flat which earns over £40k combined and takes home £30k could be expected to pay £10k per year in rent - £192 per week, just under 50% of a local market rent in LBTH. This would compare to an existing rent of £112 per week and anaffordable rent of £244 per week. This could then be tapered up to the affordable rent level based on income.

	1 Bed	2 Bed	3 Bed	4 Bed	5 bed
2015/16 LBTH Social Rents	£99	£112	£126	£141	£157
2014/15 Social Rent Cap Levels (RPs)	£138	£146	£154	£162	£170
2014/15 Affordable rent levels	£206	£244	£266	£284	£312
2014/15 Local Housing Allowance	£257	£302	£354	£417	£417
Market rent	£388	£416	£548	£700+	£700+

Question 1, Part 2

Whether the starting threshold should be set in relation to eligibility for Housing Benefit.

LB Tower Hamlets take the view that that any threshold which would involve Housing benefit subsidy would be complex to administer as relatively few people would be affected and to some extent self-defeating as the proposal aims to help the Treasury reduce the deficit not increase it through additional HB payments. It is possible that a HIST who has their rent increased could qualify for additional Housing Benefit as a result of the policy. In addition, over time, Housing Benefit will be subsumed within Universal Credit which will further complicate matters as at present it does not count as taxable income.

I am of the view that consideration should be given to all HB recipients being automatically exempt and any HIST who falls below the threshold by falling out of work should immediately have their rent reduced to social rent levels and their Housing benefit paid accordingly at those levels.

Q2: Based on the current systems and powers that Local Authorities have, what is your estimate of the administrative costs and what are the factors that drive these costs?

It is not possible to estimate the administrative costs accurately at this stage without knowing the full detail of the schemes. Factors which will impact on the administrative cost include:

1. Identifying the number of tenant households earn above the minimum income threshold
2. Loading data on household income levels on the current ICT systems and identifying and paying for changes that will be required
3. Setting up joint systems with HMRC in order to verify tenant incomes. Presumably this will need to be a national IT programme and cost to HMRC initially

4. Obtaining and verifying information from tenants on their household income outside of any data from the HMRC
5. Carrying out consultation that will be required on changes to the tenancy agreement if disclosure of Household income is to become a statutory condition enforced through tenancy management.
6. Implementing changes to fraud systems, with need to avoid duplication in terms of HMRC work
7. Potential increased rent accounting and potential arrears recovery costs.
8. Enforcement of non-supply of income data possibly through the possession route and courts process
9. Ongoing cost of requesting and updating information systems
10. Setting up and administering an appeals process
11. Factoring in the impact on associated policies. For example with the Allocation Scheme, the consultation implies that on a relet this will be at a lower rent to household in need. Income criteria will need to be added to the Allocation scheme.
12. Identifying households where exemptions will be applied to the Policy

Whilst some costs will be fixed and measurable such as changes to IT systems, publicity, consultation on tenancy changes, court costs for recovery of arrears etc, many costs will be absorbed within the existing service and through tenancy management. The Council will have to consider whether the impact on existing services is so great that additional staff will need to be recruited to administer the scheme. It is of paramount importance that service delivery to existing tenants does not deteriorate because of the burden of applying this policy.

We would anticipate that set up costs could be well in excess of £200k and annual running costs could run to a similar figure at least.

Yours sincerely



John Biggs
Executive Mayor of Tower Hamlets