

CIPFA Local Government Faculty

Response to the consultation

Pay to Stay Fairer Rents in Social Housing

2015

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As the world's only professional accountancy body to specialise in public services, CIPFA's portfolio of qualifications are the foundation for a career in public finance. They include the benchmark professional qualification for public sector accountants as well as a postgraduate diploma for people already working in leadership positions. They are taught by our in-house CIPFA Education and Training Centre as well as other places of learning around the world.

We also champion high performance in public services, translating our experience and insight into clear advice and practical services. They include information and guidance, courses and conferences, property and asset management solutions, consultancy and interim people for a range of public sector clients.

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General

This response is submitted through the CIPFA Local Government Faculty which

- Develops CIPFA's responses to government policies, working with CIPFA panels and senior staff.
- Champions strong financial management and the delivery of a high standard of governance.
- Supports effective transformation through the delivery of advisory, statistical and consultancy services.

1. Over View Response

1.1 The faculty welcomes the opportunity to respond to this consultation. The response to the consultation acknowledges that it is the government's intention to introduce this policy and the questions that have been asked are limited to the areas of work incentives and administrative cost.

1.2 In formulating this response we have revisited the government pay to stay policy and do not support the move to make it compulsory. We support the voluntary nature of the policy that allowed for local decision making that reflected:

- local housing needs
- local housing cost
- local wage
- financial cost effectiveness of local decision making
- the local housing plan to increase housing stock

Specific responses

2 How can the scheme support incentives to work?

2.1 The incentives to work must recognise the housing need of the tenant. Below is a list of some of the possible options that would be faced by a tenant on a threshold income. It is these decisions and their viability that will influence the tenant's response.

- Continue to pay market rent for the current home
- Purchase property on right to buy
- Buy elsewhere out of London on private market
- Move in with parent / relative

- Purchase a shared ownership property
- Separate and leave one parent in the property.
- Leave work and reduce income to stay below the threshold
- Risk non declaration of income
- Move to cheaper private rented accommodation in London

2.2 Extensive modelling of the potential impact of tapers is required. The effective marginal tax rate needs to be low to avoid a significant disincentive for tenants to increase their incomes (by for example overtime, promotion etc.) The threshold is arbitrary with the policy suggesting a figure that does not take in to account factors such as local affordability, average earnings and household or property size.

2.3 The income threshold of £30,000 and £40,000 does not reflect the cost of housing particularly in the South East. CIPFA would suggest that to reduce any disincentive to work these thresholds should be reviewed. The DCLG is asked to review the consultation in 2012 and the subsequent response in the publications High Income Social Tenants Pay to Stay Consultation Paper: Summary of Responses July 2013

“Those who favoured the threshold of £60,000 suggested it was reasonable and consistent with other Government policies involving income thresholds, such as access to affordable home ownership (although it was noted that the threshold may need to be adjusted to £74,000 for London, to align with London schemes) and the child benefit “cap”. Para 3.19

2.4 To remove the disincentive to work the relationship with the national minimum wage must be thoroughly modelled. This modelling should take into account the intention to increase the living wage to £9 by 2020 as a couple on the living wage would have an annual income of £37440

2.5 Larger families would be disadvantaged as their housing costs are greater. This policy must recognise the additional cost which would be incurred by the public sector as a result of children having to move school and having their education disrupted. CIPFA supports the government strong emphasis on education but studies have shown that stable housing is also important in educational attainment.

2.6 When looking at the taper for pay to stay Government could usefully examine and take into account the rents which would be paid by those on similar income levels in European cities?

If London and our other major cities are to compete on a level playing field with major cities in Europe surely they must be able to attract/retain a workforce at all income levels.

The recent Housing Federation report confirmed comparatively high private sector rents still persists taking almost 40% of income in the UK but an average of only 28% in Europe. Therefore in view of the large differential between social and market rents in England a long gradual taper (although still simple with as few steps as possible) seems necessary to ensure there is still accommodation available with rent levels which attract/retain a broad-based workforce able to serve the needs at the heart of our cities

3. Question 2

3.1 Evidence of the administrative cost.

Based on the current systems and powers below is a list of factors that will drive the administrative costs of this policy. However, it is important that hidden costs are not ignored in the calculation of the impact of this policy.

The administrative cost factors will include:

- Collecting the income data and verifying the data. Income disclosure would be preferable though HMT and data sharing legislation would need to be reviewed. It should also be remembered that ALMO's would also be required to review income data.
- Dealing with those that where there was a substantial in year change to their income. (Income means taxable income in the tax year ending in the financial year prior to the rent year in question). The circumstances of a tenant could change significantly between the tax year on which the rent will be based & the year the market rent is charged. They may be in a position where due to government income definitions they would be charged a market rent (based upon income in a previous year) and at the same time be able to claim HB/UC. For those on or near the threshold the impact of income change may not even need to be significant to have an impact.
- Chasing up non-disclosure of data. To reduce administrative costs it would be helpful to find an approach to passport the vast majority of tenants and be clear of the approach to these cases.
- Dealing with appeals from those that consider the calculation of their income was incorrectly assessed. Appeals are highly resource intensive.
- Systems changes required to process and maintain the data relating to this policy.
- Amending the tenancies of those that move on to a new tenancy. One possible approach would be to limit this new policy so that it only applies to new tenants who will be aware of the restrictions when agreeing to take on the accommodation.
- Assessing market rent and updating this. It is currently unclear if there is to be an annual rent review which would again impact on the cost of this policy.

- Communicating the change to existing tenants. New tenants could be made aware of this policy at the time that they agree to accept a tenancy but current tenants would need to be educated on the implications of the changes.
- Staff training and external awareness training to stakeholder to understand the policy and its implications
- Greater cost of rent collection and higher arrears & evictions
- Fraud investigation and prosecution as a result of the policy.
- Administering any discretionary or hardship provision where this would be available
- Partnership and liaison work to support families just on the threshold.
- Possible court action as a result of the introduction of this policy

4. Observations

4.1 It should be remembered that this policy is also being introduced at the same time as the right to buy for housing association. Many of the individuals that fall into the category of high income tenants would also be eligible to purchase their properties. Whilst from a government policy perspective this is a positive outcome the introduction of pay to stay for a continually reducing number of tenants is not an effective use of public money.

CIPFA has already expressed its concern regarding the consequences of the Government's extension of the right to buy policy and its implications for high value sales. These can be found at <http://www.cipfa.org/cipfa-thinks/briefings>

4.2 As a consequence of this policy if a tenants become homeless due to not being able to afford market rent it is unclear how this will interact with a Council's homelessness duties?

4.3 Some properties have been specially adapted for the needs of the tenants and while this will only effect a minority of individual's consideration should be given to the possible exemption of some of those in these categories.

