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Social housing: 'pay to stay' at market rents

By Wendy Wilson

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Summary

Following a consultation exercise in 2012 the Coalition Government gave social landlords in England the discretion to charge market or near market rents to tenants with an income of £60,000 or more a year. It was argued that high income families should not be paying social rents (typically half the market rent) when they could afford to pay more. The scheme is known as 'pay to stay.' It is unclear how many social landlords have implemented this approach.

Respondents to the consultation exercise raised concerns over:

- administration - social landlords do not gather information or monitor tenants' incomes;
- affordability – affected tenants could face substantial rent increases;
- the potential work disincentive effect; and
- residualisation of the housing stock as higher earners are incentivised to move out.

As part of the Sumer Budget 2015 the Chancellor announced that the discretionary 'pay to stay' scheme would be made compulsory (in England) and that new, lower, income thresholds would be introduced. These thresholds are expected to be £40,000 in London and £30,000 elsewhere. Local authorities will be expected to repay the additional rental income to the Exchequer 'contributing to deficit reduction' while housing associations will be able to use the additional income to reinvest in new housing.

The move to a mandatory 'pay to stay' scheme will require primary legislation; the Government has said it will consult and set out details, including how income will be calculated for those affected, in due course.

Commentators have echoed concerns raised during the 2012 consultation exercise. In light of the lower thresholds there are calls for an income taper and for a household's needs to be taken into account rather than just income levels.

The Chancellor's reference to social housing rent levels as subsidised by 'other working people' has drawn comment on the degree to which social housing is actually subsidised, particularly compared to other housing tenures.

1. The context of the 'pay to stay' policy

There are several types of housing let at below market rents for those who qualify for housing assistance. These are:

- local authority social rent - rent set by the authority (in line with non-statutory Government guidelines, typically half of the market rate);
- local authority affordable rent — set at up to 80 per cent of market rent;
- private registered provider[1] social rent — set by the provider following non-statutory guidance issued by the Regulation Committee of the Homes and Communities Agency (HCA) ; and
- private registered provider affordable rent — also set at up to 80 per cent of market rent.

The Government and Regulation Committee of the HCA provides non-statutory guidance on rent setting which, up to 2015-16, was designed to gradually remove differences in rent levels for the same types of property across the country. The Library Briefing Paper, Rent setting for social housing tenancies, provides further information about changes to rent policy for the social housing sector.

The Coalition Government announced the introduction of 'affordable rents' in its October 2010 Spending Review. They were introduced as an intermediate rent between market and social rent levels, the aim of which is to create additional rental income which can be invested in the development of new social housing.[2] The Library Briefing Paper, Affordable Rents (England) provides further information on this policy. The Coalition Government's wider social housing policy aims, referred to in the February 2011 paper, Local decisions: next steps towards a fairer future for social housing, included:

- providing greater freedoms and flexibilities for local authorities and social landlords to meet local needs and local priorities;
- making better use of resources; promoting fairness; and
- ensuring that support is focused on those who need it for as long as they need it.[3]

In the Coalition's Housing Strategy, Laying the Foundations: A Housing Strategy for England, the Government argued that social housing should be better targeted at the people with the highest level of need, saying that:

> Tenants can continue to enjoy low rents, subsidised by the taxpayer, even if they enjoy an income well in excess of the national average and can comfortably look after themselves. Tens of thousands of social homes are occupied by people who shouldn't be there as a result of activities like unlawful sub-letting.

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1 Also known as housing associations or, more recently, Registered Social Landlords (RSLs).
2 Homes and Communities Agency, Affordable rent, [accessed on 17 January 2014]
3 Department for Communities and Local Government, Local decisions: next steps towards a fairer future for social housing, February 2011, para 1.3

> Meanwhile, many households in real need are unable to obtain the support and stability that social housing can offer.[4]

As part of the Coalition Government's policy aim of promoting fairness in the benefits system and of "making work pay"[5] it introduced the Benefit Cap: a limit on the total amount a household[6] can receive in benefits, including Housing Benefit, from April 2013.[7] The Government said that the introduction of higher rents for higher earners in the social rented sector was intended to perform a similar function to the Benefit Cap – to "restore fairness [...] so that claimants are faced with the same types of housing choices as ordinary working families."[8]

The current Government intends to build on this approach. As part of the Sumer Budget 2015 the Chancellor announced that the discretionary 'pay to stay' scheme would be made compulsory and that new, lower, income thresholds would be introduced.

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4 Department for Communities and Local Government, Local decisions: next steps towards a fairer future for social housing, February 2011

5 Department for Communities and Local Government, Simplifying the welfare system and making sure work pays, [Updated 13 January 2014]

6 Those in receipt of Working Tax Credit as well as some other benefits are excluded from the cap. For a list of excluded benefits see: DWP, https://www.gov.uk/benefit-cap, [accessed on 17 January 2014]

7 The household Benefit Cap was rolled out across the UK from 1 April and was fully in place by the end of September 2013.

8 Department for Communities and Local Government, High Income Social Tenants: pay to stay, June 2012, p4

2. The current 'pay to stay' scheme

Under the current discretionary pay to stay scheme social tenants earning above £60,000 per year can be charged higher rents.

Grant Shapps, then Minister for Housing, set out the rationale for charging higher rent levels for some tenants in response to questions asked during the Chartered Institute of Housing (CIH) 2012 annual conference:

> The Government believes that it is not right for high income families to be paying such a low social rent when they could afford to pay more or their home used by someone in much greater need. On the proposed Pay to Stay scheme which would enable social landlords to charge a fair rent to high earning tenants, one option we are suggesting is that additional income could be used for new affordable housing so that overall housing supply would increase. This would apply in both the housing association and local authority sectors. We will be considering this proposal further in the light of views expressed in response to our consultation document.[9]

The Department for Communities and Local Government (DCLG) launched a consultation, High Income Social Tenants: pay to stay in June 2012. Announcing the consultation, Grant Shapps said:

> For far too long, millions of people on waiting lists have watched helplessly as high-earning social tenants continue to occupy homes designed to help the most vulnerable. These high-income tenants are not only blocking homes that could benefit those in greater housing need, they're also relying on poorer taxpayers to subsidise their lifestyle.
>
> A lazy consensus about the use of social housing has left landlords powerless to deal with this problem. So we want to call time on this blatant unfairness and these handouts to the very rich. Proposals I've announced today will give landlords the option to charge high-earning social tenants a fair level of rent - so if they want to continue using this precious national resource, they will pay for the privilege.[10]

The consultation closed on 12 September 2012 and a summary of responses, High Income Social Tenants: Pay to Stay Consultation Paper: Summary of Responses, was published in July 2012. The following sections outline the key elements of the scheme.

A discretionary power

Under pay to stay social landlords have discretion to charge higher rents for higher earners. The consultation process sought views on these new rent-setting powers for social landlords and also whether landlords should have a duty charge higher rents or whether the scheme should be voluntary.

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9 Chartered Institute of Housing, Letter from Housing Minister, 12 June 2012
10 DCLG, Paying to stay in taxpayer-funded housing, 13 June 2012

The majority of consultation respondents argued that charging higher rents to higher earners should be voluntary, with housing providers making decisions based on local circumstances. However, some argued that this would cause variation across the country and could lead to increased housing pressures in some areas that did not charge higher rents. This group of respondents suggested that charging an increased rent should be mandatory but that the income threshold and rent level should be linked to local conditions.[11] Local authority respondents emphasised the need for 'sufficiently robust' guidance to enable them to implement the policy effectively.[12]

The consultation asked whether landlords would implement the policy if it was introduced. The summary of the responses recorded that:

> Around a quarter of social landlord respondents said they would charge higher rent if this was optional, while just under half said they would not. Some social landlords said that they would consider it if rent increases were on a sliding scale, while many said that they would only implement the policy where their assessment showed that the additional income would outweigh the costs.[13]

A survey of councils and housing associations conducted by *Inside Housing* found that, of the 41 bodies surveyed 27 would not or would be unlikely to implement pay to stay. (Ten landlords were undecided).[14]

Steps were subsequently taken to remove regulatory controls preventing private registered providers from charging market rents to tenants earning more than £60,000.[15] Similarly, revised rent guidance was issued to local authorities.[16] However, there is currently no *requirement* on social landlords to charge higher rents for higher earners.

The pay to stay income threshold

The consultation paper suggested three possible thresholds at which higher rents could be charged: £100,000, £80,000 and £60,000. The table below shows the Government's estimates for the number of households affected at each of the earnings thresholds.

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11 DCLG, consultation response, High Income Social Tenants: Pay to Stay Consultation Paper: Summary of Responses, July 2012, p8
12 DCLG, High Income Social Tenants: Pay to Stay Consultation Paper: Summary of Responses, July 2012, p8
13 DCLG, High Income Social Tenants: Pay to Stay Consultation Paper: Summary of Responses, July 2012, p16
14 *Inside Housing*, Landlords spoil pay-to-stay party, 16 August 2013
15 The Rent Standard Guidance was revised, section 5
16 DCLG, Guidance on rents for social housing, 2014, chapter 4

	Percentage of top earners	Estimate of number of households	
Income threshold		Low	High
£100,000	5%	1000	6000
£80,000	5%	200	11,000
£60,000	10%	12,000	34,000

Source: Department for Communities and Local Government, Consultation, High Income Social Tenants: pay to stay, June 2012, p4.

Figures cited by the Government indicated that the economic subsidy provided by sub-market rents for social housing was worth, on average, £3,600 a year per social rent.[17] The total subsidy, therefore, for those earning above £60,000 was £122.4 million per year if the higher estimate in the table above was used. For those earning above the £100,000 threshold was estimated at £21.6 million per year.

About a third of respondents to the consultation indicated that they thought the £60,000 threshold would be the most appropriate because it reflected the level at which certain other benefits were withdrawn.[18] However, "a significant proportion" argued for a variable threshold across the country to take account of local differences such as the affordability of housing and the characteristics of each property.[19] London was highlighted as an example of where the £60,000 threshold might be too low:

> 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."[20]

The Government settled on an earning threshold of £60,000:

> **1.113** The Government also wants to make sure that affordable housing is available to those who need it most. The Government recently consulted on 'Pay to Stay' proposals to ensure that those social housing households on high incomes make a fairer contribution. **The Government will shortly take steps towards allowing social landlords to charge market rents to tenants with income of over £60,000.** The Government intends to require these tenants to declare their income to ensure they make a fair contribution, with all additional income reinvested in housing.[21]

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17 DCLG, Consultation, High Income Social Tenants: pay to stay, June 2012, p4
18 DCLG, High Income Social Tenants: Pay to Stay Consultation Paper: Summary of Responses, July 2012, p9
19 DCLG, High Income Social Tenants: Pay to Stay Consultation Paper: Summary of Responses, July 2012, p9
20 DCLG, High Income Social Tenants: Pay to Stay Consultation Paper: Summary of Responses, July 2012, p10
21 HM Treasury, Budget 2013, HC 1033, March 2013

What counts as income?

The Government proposed that the income threshold should be calculated on the basis of the primary tenant's income or, where there is more than one occupant, the primary tenant's income jointly with the highest earning occupant. Respondents to the consultation suggested alternatives such as calculating the threshold using household earnings to bring the policy in line with other policies such as Housing Benefit. However, other respondents argued that it would be difficult to keep track of the incomes of all the members of a household and that including the income of dependants could prevent them from saving enough to find a property of their own or create hardship for elderly dependant relatives.[22]

The Guidance on rents for social housing (May 2014) provides details on whose income should be taken into account and what counts as income for the purposes of the pay to stay policy:

- In this context, by household, we mean tenants named on the tenancy agreement, and any named tenant's spouse, civil partner or partner where they reside in the rental accommodation. By income, we mean taxable income in the tax year ending in the financial year prior to the financial (i.e. rent) year in question.
- To give an example, the income received in the 2013-14 tax year would guide the rent payable in the 2015-16 rent setting year, where a household was above the threshold. Here, 2013-14 is the "tax year ending (on 5 April 2014) in the financial year (2014-15) prior to the financial (i.e. rent) year in question (2015-16)".
- Where a household is subject to a sudden and ongoing loss of income, having declared that they are above the threshold, we would expect authorities to reconsider the rent that household is being charged, and amend if appropriate.
- Where a high income social tenant's tenancy comes to an end, and they vacate the property, we would expect properties to typically be re-let in line with their previous lower rent – be it at social rent or affordable rent – to a household in housing need.
- Further information on income in scope can be found at: www.hmrc.gov.uk/incometax/taxable-income.htm
- Where there are more than two incomes within the household, as defined, we would expect the two highest incomes only to be taken into account.
- We expect authorities to use additional capacity generated to fund new affordable housing, where possible.[23]

Rent levels

The Government argued that a higher rent level for those earning above the threshold should ultimately be set at full market rent. However, it said that this would be difficult for housing associations, which as

[22] DCLG, High Income Social Tenants: Pay to Stay Consultation Paper: Summary of Responses, July 2012, p11
[23] DCLG, Guidance on rents for social housing, 2014, chapter 4

charitable organisations may have existing objectives that would clash with an immediate switch to charging full market rents to some tenants. The consultation, therefore, proposed that housing associations should charge higher earners 80 per cent of market rents "with the aim of introducing full market rents for higher income tenants as soon as possible".[24]

There was general agreement among respondents that it would be appropriate to allow rents to be set at 80 per cent of market value as an interim measure. A sector representative body said that:

> Allowing landlords to charge 80% of market rents to high income households in the first instance seems a sensible way to implement this policy. This would effectively turn social rent homes into affordable rent homes for households on a high income, a principle which has already been established under the current affordable homes programme.[25]

However, some commented that the ability to gradually increase rents, or set rents at a locally defined 'affordable' rate, would be preferable in areas where market rents were considerably higher than social rents.[26] The need to provide "considerable notice" of any change in rent to affected tenants was also highlighted in responses.[27]

The guidance for private registered providers and local authorities does not specify the level of rent that higher earners should be subject to.

2.1 Comment

It is unclear how many, if any, social housing providers have implemented a pay to stay policy for higher earners living in their stock. The Government has not collected information on any additional rent payments collected since the scheme was introduced.[28] The following sections cover some of the issues raised during the consultation process.

Administering higher rents for higher earners

Concerns were raised during the consultation process about the administrative burden the scheme would introduce, particularly for private registered providers. A particular issue was that, for areas with low numbers of high-earning social tenants, the costs of implementing the scheme might outweigh any benefits.[29] Summarising the responses received, the Government observed that:

> The majority of those opposed felt that the policy would create administrative burdens and could be excessively costly to implement for landlords, particularly in identifying tenants with high incomes and adjusting rents and tenancy agreements to reflect tenants' fluctuating incomes. Many felt that, in areas with

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24 DCLG, High Income Social Tenants: pay to stay, June 2012, p7
25 DCLG, High Income Social Tenants: Pay to Stay Consultation Paper: Summary of Responses, July 2012, p13
26 DCLG, High Income Social Tenants: Pay to Stay Consultation Paper: Summary of Responses, July 2012, p14
27 DCLG, High Income Social Tenants: Pay to Stay Consultation Paper: Summary of Responses, July 2012, p14
28 PQ 5998, 13 July 2015
29 DCLG, High Income Social Tenants: Pay to Stay Consultation Paper: Summary of Responses, July 2012, p6

> very low numbers of high income tenants, the policy was unlikely to generate additional income and the costs involved would outweigh the benefits.[30]

The complexity of establishing local market rents for different property types and the potential cost of dealing with disputes over valuations were also raised as potential burdens.[31]

The responses to the August 2013 survey by *Inside Housing*, suggested that the expectation of high administration costs and difficulties in collecting data were significant factors for social landlords deciding whether or not to implement the policy:

> Keith Exford, chief executive of 57,000-home Affinity Sutton, said: 'It is unlikely we would implement pay-to-stay. People's circumstances are going to change so regularly it will be a nightmare to keep up with.'
>
> Nick Atkin, chief executive of 6,400-home Halton Housing Trust, said: 'It could be a disproportionate amount of effort for very little return.'
>
> Sheffield Council also ruled out the scheme, saying the income generated 'may not offset the additional administrative burden'. Moat, which owns and manages 20,000 homes, described the policy as a 'blunt instrument' which does not take into account different households' circumstances. [32]

The article quoted a DCLG spokesperson as saying that: "We will continue to work closely with those councils that want to ensure valuable social homes in their area benefit those most in need."[33]

A disincentive to work?

The Government recognised the potential for a threshold that was too low to create a disincentive to work, saying that:

> Any incentive to reduce work, together with increased rents, could lead to higher benefit costs. The Government's policy is to maintain downward pressure on the welfare bill. We are keen, therefore, in setting the threshold to find a balance so the tipping point is not reached where avoiding triggering the threshold becomes a significant consideration.[34]

Respondents did not agree on a single level at which an income threshold would have an effect on work incentives because of the importance of other factors such as household size and personal circumstances.[35] However, it was recognised that the earnings level at which a disincentive could be created would be significantly higher in London than elsewhere in the country. Some respondents suggested that an income taper should be applied to mitigate any disincentive to

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30 DCLG, High Income Social Tenants: Pay to Stay Consultation Paper: Summary of Responses, July 2012
31 DCLG, High Income Social Tenants: Pay to Stay Consultation Paper: Summary of Responses, July 2012, p15
32 *Inside Housing*, Landlords spoil pay-to-stay party, 16 August 2013
33 *Inside Housing*, Landlords spoil pay-to-stay party, 16 August 2013
34 DCLG, High Income Social Tenants: pay to stay, June 2012, p6
35 DCLG, High Income Social Tenants: Pay to Stay Consultation Paper: Summary of Responses, July 2012, p11

work but it was acknowledged that such a taper would be "complex to operate."[36]

The Centre for London produced a report in June 2013, House-Keeping: A fair deal for London's higher earning social tenants, in which it argued against the Government's pay to stay proposal and suggested an alternative system of variable rents for higher earners.[37] This followed from an earlier report published in December 2012 in which the think tank said that the form of pay to stay put forward by the Government would disincentivise work.[38] The report said that:

> The sudden jump in rent presents a cliff face for the 1.9% of London social rent households with incomes over £60,000. It would generate about £30 million of additional rent income a year which is a low amount considering the administration required, and it is likely to prompt behavioural changes. Many of these highest income tenants will choose to leave the dwelling leading to further residualisation of social housing neighbourhoods.[39]

The report also said that those earning £60,000, if charged market rents, could end up spending as little as 7 per cent or as much as 39 per cent of their pre-tax income on social housing in different parts of the country: commenting: "This is hardly a fair distribution of contribution".[40] The report argued instead that an 'affordability' measure should be applied to higher social rents for those on progressively higher incomes.[41]

Impact on mixed communities

Concern was raised by some respondents that a pay to stay scheme could damage the social mix of some communities, potentially removing positive role models in the form of those in well-paid employment. A local authority said:

> We consider that diversity and mixed incomes are a positive benefit for social housing stock, and that well-paid social housing tenants are an asset and should be encouraged rather than discouraged.[42]

The Government argued that, because the proposed increase in rent would affect only those within the top 10 per cent of earnings (£60,000 or over), "any reduction in income mix is likely to be very minor."[43]

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36 DCLG, High Income Social Tenants: Pay to Stay Consultation Paper: Summary of Responses, July 2012, p11
37 Pete Redman, House-Keeping :A fair deal for London's higher earning social tenants, Centre for London, June 2013
38 Centre for London, Home-Work: Helping London's social tenants into employment, December 2012. See also Inside Housing, Pay to stay would discourage employment, December 2012
39 Pete Redman, House-Keeping :A fair deal for London's higher earning social tenants, Centre for London, June 2013, p27-28
40 Pete Redman, House-Keeping :A fair deal for London's higher earning social tenants, Centre for London, June 2013, p28
41 Pete Redman, House-Keeping :A fair deal for London's higher earning social tenants, Centre for London, June 2013, p28
42 DCLG, High Income Social Tenants: Pay to Stay Consultation Paper: Summary of Responses, July 2012, p7
43 DCLG, High Income Social Tenants: pay to stay, June 2012, p4

Affordability

Inside Housing reported, in August 2013, on the findings of research conducted by the consultancy Hometrack.[44] The research indicated that in 16 London local authority areas an income of £82,226 was required in order to be able to pay an 'affordable rent' (normally set at 63 per cent of market value). Hometrack also said that in the same areas, 131,000 social sector properties required an income of over £60,000 to pay affordable rent. The article said that:

> Julian Fulbrook, cabinet member for housing at Camden Council, described the research as 'horrifying' and said the authority would not be implementing pay-to-stay.
>
> 'These are staggering figures, and back up our own research. This [pay-to-stay] is not something we want to spend time and effort on,' he added.
>
> Westminster Council said it supports the principle of the [pay-to-stay] policy but may increase the £60,000 cap.[45]

[44] *Inside Housing*, Major flaws revealed in pay-to-stay policy, 9 August 2013
[45] *Inside Housing*, Major flaws revealed in pay-to-stay policy, 9 August 2013

3. A mandatory 'pay to stay' scheme

As part of the Sumer Budget 2015 the Chancellor announced that the pay to stay scheme would be made compulsory and that new, lower, income thresholds would be introduced:

> 1.154 The government believes that those on higher incomes should not be subsidised through social rents. Therefore, social housing tenants with household incomes of £40,000 and above in London, and £30,000 and above in the rest of England, will be required **to "Pay to Stay", by paying a market or near market rent for their accommodation**. This will ensure they pay a fair level of rent, or make way for those whose need is greater. Local Authorities will repay the rent subsidy that they recover from high income tenants to the Exchequer, contributing to deficit reduction. Housing Associations will be able to use the rent subsidy that they recover to reinvest in new housing. This could raise up to hundreds of millions of pounds in additional rental income for Housing Associations. The government will consult and set out the detail of this reform in due course.[46]

The Policy Costings document published alongside the Budget states that the measure will be introduced in 2017/18 and is expected to result in savings of £365m in that year.[47] This represents the payments councils will make to the Treasury.

In addition to amending the existing guidance, it is likely that legislation will be required to make the charging of higher rents compulsory. Legislation will also be needed to enable social landlords to access information about their tenants' incomes.

In the 2012 consultation document the then Government noted that bringing in the changes for existing tenants with secure or assured tenancies would require either appropriate notice periods or the renegotiation of tenancy agreements. Local authority tenants have secure tenancies, the rules governing which are set out in the Housing Act 1985. Local authority landlords can renegotiate these tenancies and set rents annually. Most private registered providers' tenants have assured tenancies governed by the Housing Act 1988. These 1988 Act tenancies would have to be renegotiated if they included any assurances about future rent increases.[48]

3.1 Comment

Early responses from landlords have echoed many of the concerns raised in response to the 2012 consultation paper. Gathering and keeping track of tenants' incomes has been described as an "administrative headache" as has the need to amend existing tenancy agreements.[49] *Inside Housing* has reported that there is likely to be a taper – meaning

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46 Sumer Budget 2015, HC 264, July 2015
47 Summer Budget 2015 – Policy Costings, July 2015, p54
48 DCLG, High Income Social Tenants: pay to stay, June 2012, p8
49 "Pay to stay will be headache for landlords, lawyers say," *Inside Housing*, 15 July 2015

that those earning just above the threshold may not be immediately liable to pay the full or near market rent.[50]

Affordability has been raised as an issue as there is potential for affected tenants to face substantial rent increases. It is unclear how many tenants are likely to be affected - the English Housing Survey 2012-13 recorded 484,000 households in social housing with gross incomes of over £31,200 representing about one in eight of social homes.[51] Nigel Keohane of the Social Market Foundation (SMF) has emphasised the need for a taper in order to avoid introducing work disincentives and for higher payments to take account of household needs:

> The co-payment of rent must be tapered in – rather than tenants experiencing a sudden jump in their payments – so as to flatten any significant humps in the work incentives. Given the overall thrust of Universal Credit is to simplify and improve work incentives, any other policy is irrational.
>
> The co-payment must relate to equivalised resources. In adopting co-payments for higher income tenants, the Government is applying the principle of means-testing (that applies to Local Housing Allowance for private tenants) to social housing. In doing so, the Government must ensure that it is assessing not just the income of the household but also the needs of the household which will vary depending on the composition of the family and the number of children. Successive reforms have failed to follow this rather basic logic: Child Benefit was withdrawn on the basis of the highest earner in a household rather than household income; the Benefit Cap (shortly to be £20,000) takes no account of family size. Furthermore, the 'sweet spot' in terms of Marginal Deduction Rates varies for different sized households, meaning that the threshold for co-payment should vary as the number of children increases.[52]

In the same article he raises the issue of long-term residualisation of the social housing stock but questions whether this risk might be overstated:

> The theoretical advantages of social housing are threefold – subsidised rent, lower marginal deduction rates (because tenants are less likely to be in receipt of housing benefit and therefore do not have this subsidy withdrawn as they earn more) and security of tenure. Even if they have to pay up to the market rent, it is not obvious that higher earners would flee their social homes in favour of the private market, losing as they would their security of tenure and a subsidised home in the event of loss of job or income. They might also lose other advantages: the average social dwelling scores much higher on various quality metrics than the average private rented home. A much higher proportion of the former meet the 'Decent Homes' standard and average energy efficiency is also much higher. From the opposite point of view, there may be advantages if tenants do move – with evidence showing low mobility amongst social tenants. The latter is a symptom at least in part of tenants' risk aversion about losing the benefits associated with social housing if they were to move

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50 "Pay to stay 'likely to be tapered,'" *Inside Housing*, 22 July 2015

51 English Housing Survey, 2012-13, Chapter 4 – EHS Households report, 2012-13: tables, figures and annex tables, Table A4.2

52 Grand Designs? Getting the Government's pay to stay social housing policy right, SMF, 7 July 2015 [accessed on 18 August 2015]

> house. Reducing the losses to which a tenant is exposed may mean that more are ready to move to take up better-paid work.[53]

Others argue that pay to stay represents 'another nail in the coffin' for social renting as a tenure for mixed incomes. Set alongside the benefit cap and other Housing Benefit reductions, Tom Murtha, former housing association CEO, suggests that housing associations might be moved to exclude the households they were established to assist.[54]

The Chancellor's reference to social housing rent levels being subsidised by 'other working people' has drawn comment on the degree to which social housing is actually subsidised, particularly compared to other housing tenures. Councils have been able to charge lower rents because of historic subsidy for the loans to build it. These loans had to be repaid (from rental income) and from 2008 council Housing Revenue Accounts (HRAs) recorded an overall surplus which was, in turn, paid to the Treasury. Local authorities with retained housing stock became 'self-financing' on 1 April 2012 – a one-off redistribution of 'debt' took place between local authorities. Some (136) took on more debt while others had their debt levels reduced or became/remained debt free.[55] The extra debt was taken on to reflect the future surpluses authorities would have paid to the Treasury. Thus the abolition of HRA subsidy is arguably the point at which it became questionable to refer to council housing as subsidised housing.[56]

The grant paid to developing social landlords enables them to charge lower rents which, in turn, reduces Government expenditure on Housing Benefit. In Building new social rent homes (2015), a joint report published by the National Federation of ALMOs and SHOUT (Social Housing Under Threat), Government grant is viewed not as a 'deadweight subsidy' but a fiscally efficient contribution which produces future welfare savings in addition to a long-term capital asset.[57]

As part of the Government's deficit reduction programme grant funding to build affordable housing has reduced since 2010; social landlords are now expected to develop new housing to let at affordable rents of up to 80% of market rents. The additional rental income can be reinvested in new build housing. This shift is accelerating the rate at which new housing association provided properties can be described as being provided with little or, in some cases, no upfront Government subsidy. The residents of these homes may be entitled to personal subsidy in the form of Housing Benefit but this is no different to residents in privately rented homes.

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53 Ibid.

54 "Pay to stay with bring about the death of social housing," *The Independent*, 8 July 2015

55 The debt settlement was intended to allow each council, from rental income, to manage and maintain its stock in a good state of repair for 30 years, or replace it where necessary, with enough left over to meet debt interest and repay the debt over the same period.

56 See John Perry, "Who really gets Government subsidised social housing?" *The Guardian*, 27 January 2012

57 Building new social rent homes, Capital Economics for NFA and SHOUT, 2015, p21

Commentators have drawn comparisons with the substantial subsidies enjoyed in other tenures; for example:

- Owner occupiers attract relief from capital gains tax and are not taxed on the value of their homes.
- Low income owner occupiers can receive assistance with mortgage payments in certain circumstances.
- The Right to Buy under which tenants can gain ownership of their homes at a significant discount.
- Governments have subsidised the development of shared ownership homes.
- Private landlords do not enjoy the same tax advantages as owner occupiers but find it easier to attract interest only mortgages.
- Private tenants, as with other tenants, may be entitled to Housing Benefit (personal subsidy).[58]

This has prompted calls for a more rational approach to housing subsidies in order to stimulate housing supply. [59]

[58] See John Perry, "Who really gets Government subsidised social housing?" *The Guardian*, 27 January 2012

[59] Ibid.

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