



# Appendix 4: Background Report - Pay to Stay

## 1 Background

- 1.1 The Government announced in July their intention to make what is currently a discretionary policy which enables social landlords to charge tenants with incomes over £60k market or near market rent compulsory for social housing tenants. Housing associations would be able to retain the additional income raised to fund new housing; local authorities would have to pay any estimated additional income raised through increased rents to the Exchequer. The Government has indicated that it expects the full policy to be implemented by April 2017.
- 1.2 Chapter 4 of the Housing and Planning Bill makes overall provision for the introduction of this policy, but most of the detail of how the scheme would work will be provided in subsequent regulations. The Department for Communities and Local Government [published a consultation](#) on the technical detail of the policy, which closed on 20 November. Our response is attached.
- 1.3 The City Council agreed its own “pay to stay” policy in 2013, which would apply to high income flexible tenants (not to existing tenants) after the five year review of their tenancy. It would require payment of market rents for households earning more than the Mayor’s thresholds for access to intermediate housing products (currently £71-85,000 depending on the size of property) with a cap meaning households do not pay more than 40% of their net income on rent.
- 1.4 To date, the Government has published limited information about how the scheme will operate in practice - the Bill provides high level principles for its introduction and the technical consultation provides some further insight into the options being considered for implementation. Therefore, there are a number of ways in which the policy could be introduced which would have differing impacts and administrative costs associated with them.
- 1.5 On 15 December, it was announced that the Government intended to make the Pay to Stay policy voluntary for housing associations, as part of a wider package of deregulation measures.

## **Housing and Planning Bill**

1.6 The Bill provides the overall framework for the introduction of the policy. The key areas the Bill states that the regulations *may* prescribe are:

- Rents prescribed may be equal to the market rent, a proportion of the market rent or to be determined by 'other factors'. Rents may also be different for tenants with different incomes or living in different areas.
- 'High income' may be defined in different ways for different areas and the method for determining household income will be set out.
- Tenants will be required to provide information about their household income to a social landlord.
- HMRC may disclose income information to a social landlord for the purposes of Pay to Stay.

## **Technical Consultation**

1.7 The consultation published in October provided some further details on the Government's thinking about how the policy will be implemented. It confirmed that the policy is intended to apply to social housing tenants with household incomes of £40,000 and above in London (£30,000 and above in the rest of England) and includes a proposal for local authorities to recover reasonable administrative costs.

1.8 The key areas where the Government sought views for the development of the policy were around supporting work incentives, the introduction of a taper system and whether the starting threshold should be set in relation to eligibility for housing benefit. Responses to the consultation are currently being considered by officials.

1.9 Our response focussed on our key lobbying asks (see below) and gave some estimated administrative costs, which were informed by the work which the City Council has done to inform its own "pay to stay" policy. It is important to note, however, that with limited information about the scope of the proposed national scheme, these were based on initial estimates and will need to be further refined once more information is known.

## **Our Position**

1.10 Although we do not hold data on the household income of tenants, we estimate that 8% - 10% (960 to 1,200) tenants may be affected, using information from the English Housing Survey.

1.11 To date, Westminster has established a clear lobbying position on Pay to Stay, based on the key principles set out below. These are particularly focussed on the impacts in a central London context. So far, key vehicles to influence the development of the policy have been through our consultation response, through the Leader of the Council's evidence to the Bill Committee and the supporting written evidence. Lobbying activity will continue throughout the passage of the Bill and draft regulations, including through London Councils.

- 1.12 As noted, the Council supports a pay to stay approach and has agreed a policy of this kind for new flexible tenants in Westminster, which would be implemented after the five year review of their tenancy (indeed, the experience of developing this policy has been drawn on in preparing our response).
- 1.13 However, we are concerned that the scheme might have unanticipated consequences for other housing priorities, such as extension of intermediate housing which is the main way in which those in work but on lower to average wages vital to Westminster's local economy and public services can be helped. Lobbying has emphasised this as a key issue to Government.
- 1.14 We have also suggested that the threshold above which increased rents have to be paid in London may need to be set by reference to the household eligibility income threshold for intermediate housing set by the Mayor in his London Plan and the rent increases in high value areas like Westminster should be framed so that no more than 40% of net household income is spent on rent. This aligns with our current policy approach.
- 1.15 Our consultation response stated that if the £40,000 threshold is retained, Westminster supports a tapered approach that increases rents as incomes grow to prevent excessive rent increases in high value areas, which would result in tenants becoming eligible for housing benefit.
- 1.16 If the date of implementation remains April 2017, as outlined in the consultation, this could mean a challenging timetable for implementation, potentially requiring the new systems and the verification of incomes with HMRC to be in place in order to increase the appropriate households' rent by that time.

### **Next Steps**

- 1.17 Once further details on the operation of the scheme are published, further preparations will be made ahead of its commencement. We will continue to work to influence and shape the policy (in particular any secondary legislation or regulations) as it passes through Parliament.