Consultation Response

Department for Communities and Local Government Consultation

Pay to Stay: Fairer Rents in Social Housing

Response from StepChange Debt Charity

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Background

StepChange Debt Charity is the UK's largest specialist provider of free, independent debt advice. In 2014 nearly 600,000 people contacted our free helpline or used our on-line debt remedy tool for advice and support about problem debt. StepChange Debt Charity employs over 1200 staff in centres across the UK, working towards our charitable objectives of:

- providing free debt advice and creating greater awareness of debt advice solutions

- championing the cause of people who are in, or at risk of, problem debt

- enhancing people's financial understanding to better manage their money and debts

Summary

- We urge the Government to consider instating a stepped transitional period of twelve months before the Pay to Stay changes come into effect to allow financially vulnerable households to gradually adjust to changes in their rental costs.

- We urge the Government to consider a shallow taper rate to increase the rent paid as the household's income increases to protect those closest to the thresholds.

- We urge the Government to increase minimum income thresholds, and tie these to local rental costs to protect financially vulnerable households in 'high rent' areas. The Minimum Income Standard for a couple with two children is £40,048[i], thus above the proposed thresholds.

- We urge the Government to consider removing the statutory requirement for landlords to implement a Pay to Stay scheme; as is the case currently, local landlords best understand the impact of raising rental costs to council or housing association tenants.

63% of people contacting StepChange Debt Charity in 2015 live in rented properties. Half of these, **32% of all clients, are housing association or local authority tenants**. With the England average at 17%, social tenants are disproportionately likely to be in financial difficulty[ii]. An affordable level of rent is vital in allowing them to manage their finances.

Of those clients who are social tenants, **1 in 10 have an income above the proposed threshold** (at 30,000 or 40,000 dependent on the area), so could be affected by an increase in their rent liability. These 1 in 10 are seeking debt advice, and by definition already struggling financially. This change has the potential to result in a serious financial shock to these households, and push them further down the route of unmanageable debt.

Of clients who live outside London, increasing their rent to market rates has the potential to push **58% of affected StepChange clients from a budget surplus to a budget deficit**, based on the difference between the area average rent, and a social tenant paying 63% of the market rate for a two bedroom property[iii]. Increased housing benefit payments may cover some of the increase, thus mitigating some of the impact on individuals. This would clearly impact on the savings that can be attributed to this policy.

<u>StepChange Debt Charity recommends:</u>

1. A stepped <u>transitional period</u> of twelve months from the when households become liable to pay market rate, to allow a gradual increase to rental costs. A straight transitional period would still create a step shock in a household's expenditure. A gradual increase over the course of a year would allow for additional costs to be absorbed month by month.

This will give families the ability to adjust to the increased expenditure, or make other financial provision to cope with the change. Without this type of protection, we know that households turn to credit to cope with income shocks. StepChange Debt Charity research has shown that in the last 12 months, 6.5 million people have turned to credit to cope with a change in their financial circumstances[iv]. Those who rely on credit to cope with these income shocks are 20 times more likely to fall into severe problem than those who didn't use credit or benefits. Without transitional protection to allow for adjustment to the shock, many of those affected will be pushed into severe problem debt.

Furthermore, as household income fluctuates, tenants will pass above and below the income threshold. *We therefore urge the government to consider whether tenants would then have their rents reduced back to below market rates as their income drops below the threshold. If rents are moved back to a social or affordable rate, we urge the government to consider how to inform tenants to apply for the lower rent level again.*

2. <u>Introduce shallow taper rates</u> to protect those closest to the thresholds. This would minimise the extent of the shock for those in modest household incomes in high rent cost areas. The average rent for a two-bedroom property in England, when London is excluded, was £745pcm in October 2015[v]. Based on the difference

between the area average, and a social tenant paying 63% of the market rate, this could cost affected households on average £277pm. This change would push 58% of affected StepChange clients from a budget surplus to a budget deficit. Indeed DCLG figures found in 2012 that there was an average difference of £300pcm between market and sub-market rents (£3,600pa)[vi]. Some of this increase in rent is likely to be taken up by larger housing benefit payments in some cases, so the impact on individuals may not be as stark; however the savings that government can then attribute to this policy are moderated. These are families who have sought advice for their debts, and are now at least breaking even each month and satisfying creditors with their repayment plan. This change would take away their ability to keep to their repayment plan, and force them further into the spiral of problem debt.

Our clients who are receiving subsidised rents are already vulnerable to financial shocks. The extent of these changes will force families to fall into unmanageable debt. A basic taper to limit the effect on those closest to the thresholds would mitigate against this impact. By keeping the taper rate shallow, the impact on disincentive to work will be more moderate.

3. <u>Increase the thresholds</u>, and <u>match to geographical average rental costs</u>. It is the case in many geographical areas that the household income set is not a high income. The Minimum Income Standard for a couple with two children is £40,048[vii]. Therefore a household would be subject to the pay to stay amendment, despite already earning below the minimum required income. As research from Inside Housing reported, 16 London boroughs require an income of £82,226 to be able to pay an affordable rent at 63% of market rate[viii]. The income of £40,000 required in London clearly falls well below this mark. Rental costs across England are extremely varied, so having a binary threshold ignores this variation. The average rent for a 2 bedroom property was the north east of England was £464pcm, between1 April 2014 and 31 March 2015[ix]. For the south east this figure is almost double at £820pcm. Therefore, thresholds tied to average rental costs would prevent families living in areas with high rents from being disproportionately affected. In a country with such contrasting rental costs, a binary threshold would not appear fit for purpose.

4. <u>Remove the requirement for landlords to implement the measure, and continue to allow the policy to be implemented at the landlord's discretion.</u> We believe that this is favourable to the measure being mandated by central government. As it stands, landlords are charged with deciding whether to implement a 'pay to stay' policy on tenants earning more than £60,000. These landlords are best placed to determine whether their tenants are able to afford the additional rental costs.

Aside from the impact on the tenants finances, removing the subsidy for those tenants vulnerable to problem debt would mean greater incidence of rent arears and arears on essential goods. This would have knock on effects of increasing the cost for local authorities and housing associations through debt collection and local welfare provision.

[i] 'Minimum Income Standards 2015'. Joseph Rowntree Foundation, 2015.
[ii] 'English Housing Survey 2013-14'. DCLG, 2015.
[iii] Note, additional housing benefit provision tenants might subsequently receive may offset some of the impact of rental rises.
[iv] 'Held Back by Debt'. StepChange Debt Charity, 2015.
[v] 'October 2015 HomeLet Rental Index'. HomeLet, 2015.
[vi] 'High Income Social Tenants' consultation. DCLG, 2012.
[vii] 'Minimum Income Standards 2015'. Joseph Rowntree Foundation, 2015.
[viii] "Major flaws revealed in pay-to-stay policy". Inside Housing, 2013
[ix] 'Private rental market statistics'. Valuation Office Agency, 2015