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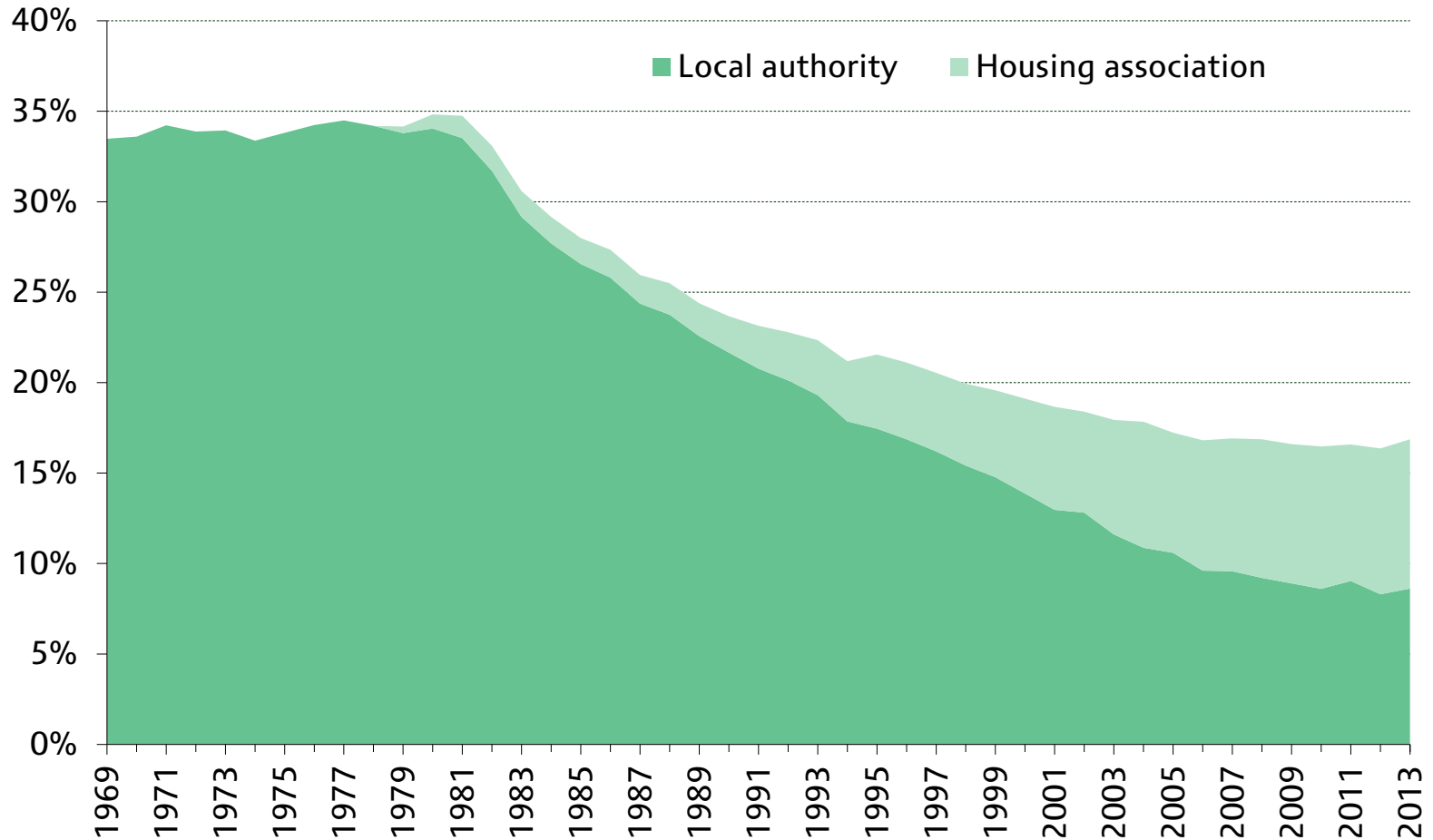
The impacts of changes to social rents policy

Robert Joyce

Introduction

- Draws on IFS report published on 5th November
 - ‘*Social Rent Policy: Choices and Trade-Offs*’
 - www.ifs.org.uk/uploads/publications/comms/R108.pdf
- We analyse effects of big changes to social rent policy in England
 - 1% annual cuts in social rents for next four years
 - ‘Pay to Stay’: market or near market rents for higher-income tenants
 - ‘Affordable Rents’ (i.e. higher rents) for new tenancies
- With detailed modelling and quantification of impacts on
 - Incomes, net of rent, for tenants
 - Work incentives for tenants
 - Revenue for social housing providers and central government

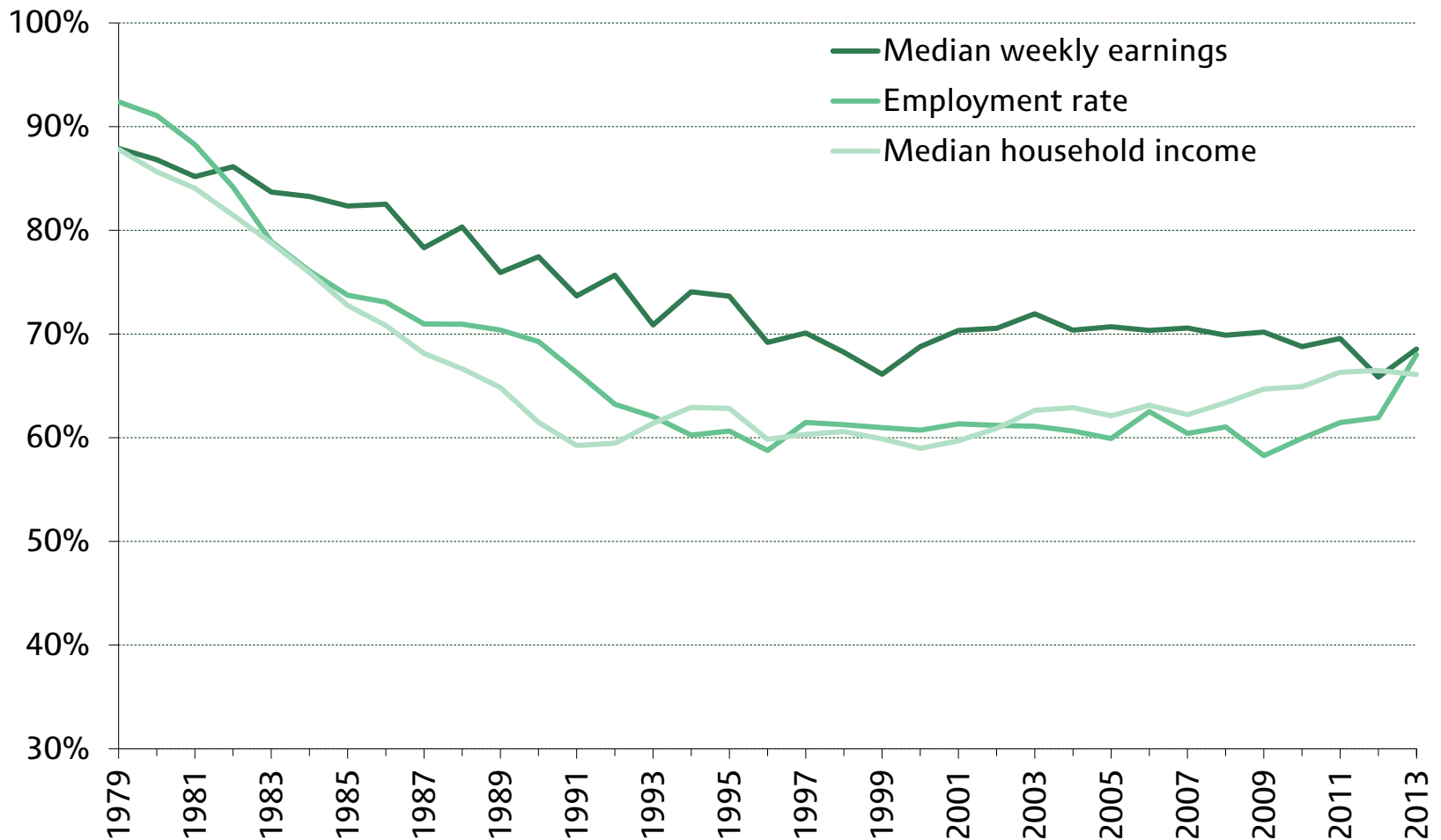
% of population living in social housing (GB)



Source: Figure 2.1 of *Social rent policy: choices and trade-offs*

Social tenants are a relatively poor group

% of GB average



Source: Figure 2.2 of *Social rent policy: choices and trade-offs*

Mean weekly rents, 2015

	Private rented sector	Social rented sector	Estimated market rent on social properties	Estimated social rent subsidy	Estimated social rent subsidy (% of market rent)
England					
North East					
London					
South East					

Source: Table 2.2 of *Social rent policy: choices and trade-offs*

Mean weekly rents, 2015

	Private rented sector	Social rented sector	Estimated market rent on social properties	Estimated social rent subsidy	Estimated social rent subsidy (% of market rent)
England	£172	£96			
North East	£118	£81			
London	£267	£123			
South East	£177	£107			

Source: Table 2.2 of *Social rent policy: choices and trade-offs*

Mean weekly rents, 2015

	Private rented sector	Social rented sector	Estimated market rent on social properties	Estimated social rent subsidy	Estimated social rent subsidy (% of market rent)
England	£172	£96	£136		
North East	£118	£81	£99		
London	£267	£123	£191		
South East	£177	£107	£166		

Source: Table 2.2 of *Social rent policy: choices and trade-offs*

Mean weekly rents, 2015

	Private rented sector	Social rented sector	Estimated market rent on social properties	Estimated social rent subsidy	Estimated social rent subsidy (% of market rent)
England	£172	£96	£136	£40	
North East	£118	£81	£99	£18	
London	£267	£123	£191	£68	
South East	£177	£107	£166	£59	

Source: Table 2.2 of *Social rent policy: choices and trade-offs*

Mean weekly rents, 2015

	Private rented sector	Social rented sector	Estimated market rent on social properties	Estimated social rent subsidy	Estimated social rent subsidy (% of market rent)
England	£172	£96	£136	£40	29%
North East	£118	£81	£99	£18	18%
London	£267	£123	£191	£68	36%
South East	£177	£107	£166	£59	36%

Source: Table 2.2 of *Social rent policy: choices and trade-offs*

Housing benefit (HB) for social tenants

- 2/3 of social tenants receive further rent subsidy in form of HB
- HB entitlement is means-tested against current income and assets
- For poorest, it typically covers all rent. Exceptions:
 - Those affected by social sector size criteria ('bedroom tax'): covers 75% or 86% of rent
 - Those affected by benefit cap
- If on HB, it will rise to fully cover a rent increase
 - Or fall to offset the gain to a tenant from a rent reduction
 - Only exceptions are those affected by benefit cap or 'bedroom tax'
- So interactions with benefit system are crucial for understanding impacts of rent changes on tenants

Methods: (very) brief overview

- Data from Family Resources Survey
 - Household survey which records rents, incomes and demographics
 - Pool data from 2010-11 to 2013-14 inclusive
 - 11,000 social tenant households in England; 1,800 in London
- Use IFS tax and benefit model (TAXBEN) to calculate tax liabilities, benefit entitlements and net incomes for each household
 - Assume full take up of benefits, but 12% of social tenants entitled to HB don't claim
- For some analysis, need estimates of market rents that could be charged on properties of social renters in survey
 - We draw on estimates from Wilcox (2008)

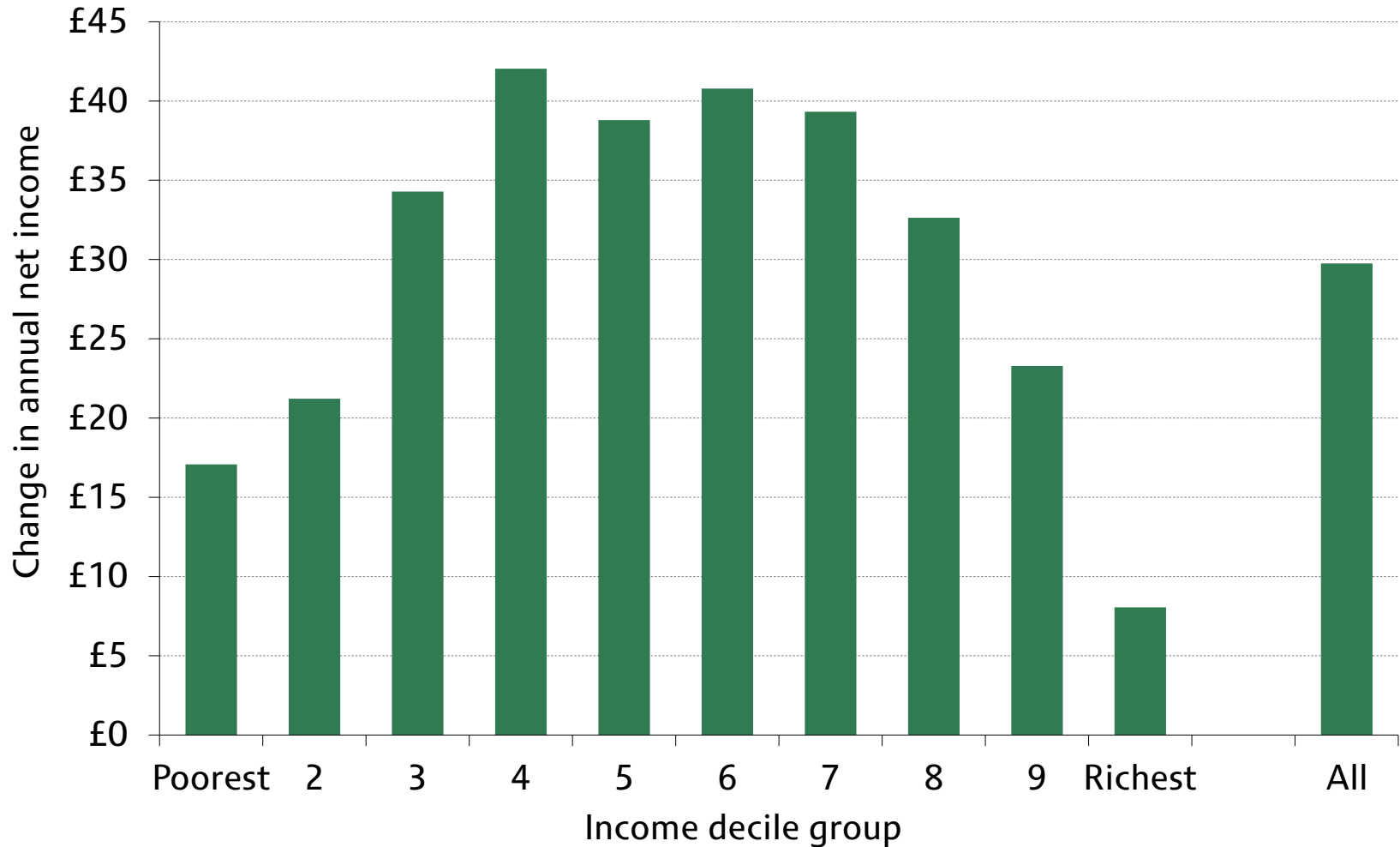
Cutting social rents by 1% per year for 4 years

- July 2015 Budget announced social rents in England will be cut by 1% in cash terms for four years from 2016-17
 - 12% cut relative to previous plans (CPI + 1%)
- Average fall of £600 in annual rents for 3.9m households in England relative to previous plans
 - £2.3bn fall in income for social landlords
- Reduction in rental income could reduce new housing supply...
- ...as could uncertainty caused by U-turn on previous commitment
 - OBR assumes 80,000 fewer social homes built by 2020 as a result

Impact on social tenants' net-of-rent incomes

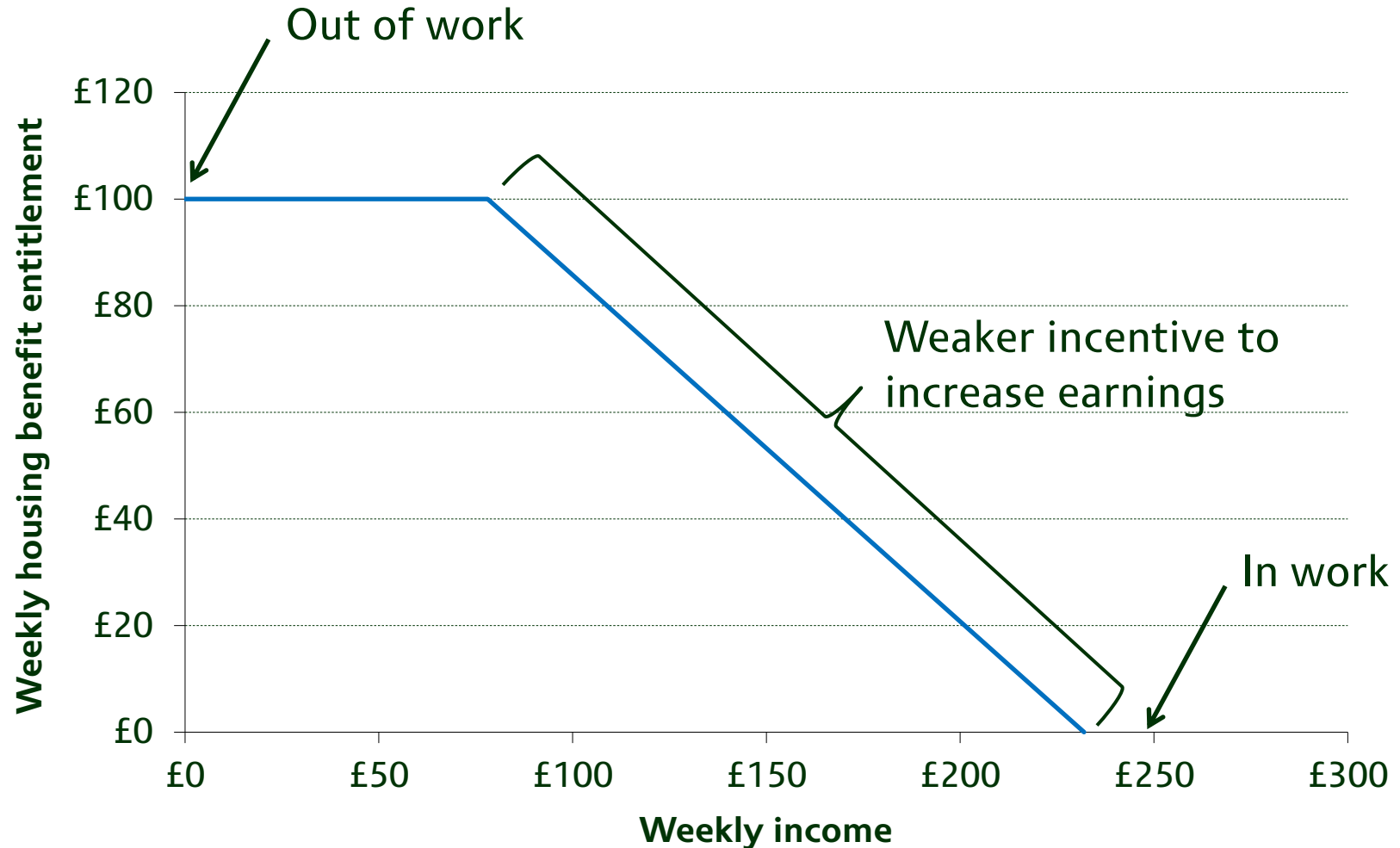
- Cut in social rents largely represents a transfer from social landlords to central government, rather than to social tenants
 - 2/3 of social tenants have rent fully or partly covered by housing benefit (HB)
 - HB spending reduced by £1.7bn
 - Net-of-rent incomes up £700m: 1.6m gain average of £420 per year
- What do the gainers look like?...

Impact of 12% rent cut by income (England)



The effect of rents on work incentives, given HB

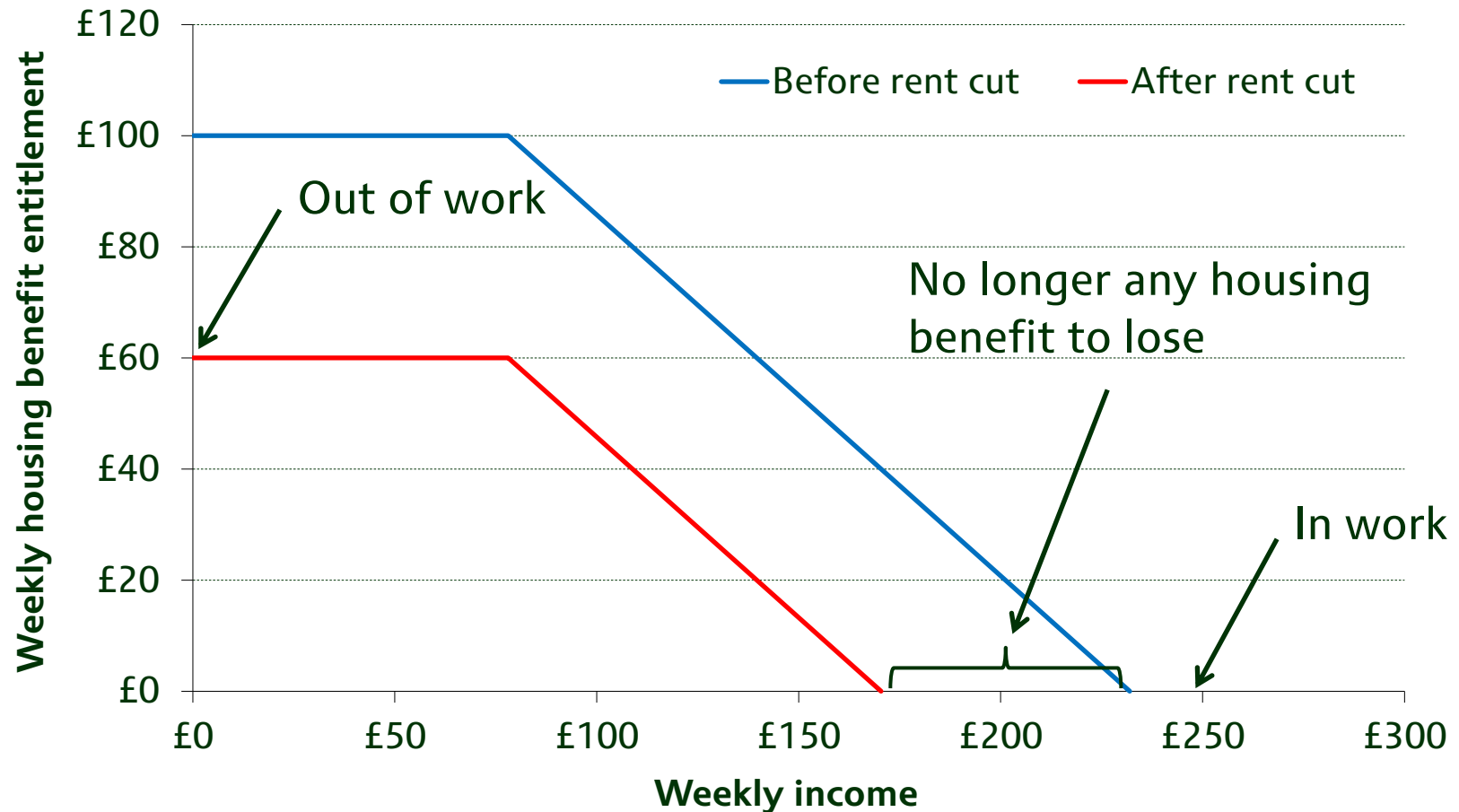
A made-up example



Note: shown for single adult with weekly rents of £100 and £60, not subject to social sector size criteria

The impact of changing social rents

A made-up example



Note: shown for single adult with weekly rents of £100 and £60, not subject to social sector size criteria

Two kinds of financial work incentive

1. The incentive to be in paid work at all
 - Participation tax rate (PTR): proportion of total earnings taken in tax and withdrawn in benefits
 2. The incentive for those in work to increase their earnings
 - Effective marginal tax rate (EMTR): proportion of an extra £1 of earnings taken in tax and withdrawn benefits
- In both cases, **higher numbers mean weaker work incentives**

12% rent cut: impact on tenants' work incentives

- Strengthens work incentives on average
 - Less housing benefit to lose by moving into work or increasing earnings

12% rent cut: impact on tenants' work incentives

- Strengthens work incentives on average
 - Less housing benefit to lose by moving into work or increasing earnings

Change in average work incentives among social tenants:	12% cut in rents	
Participation tax rate	-0.9	
Effective marginal tax rate	-0.9	

12% rent cut: impact on tenants' work incentives

- Strengthens work incentives on average
 - Less housing benefit to lose by moving into work or increasing earnings

Change in average work incentives among social tenants:	12% cut in rents	1p off all rates of income tax
Participation tax rate	-0.9	-0.2
Effective marginal tax rate	-0.9	-0.6

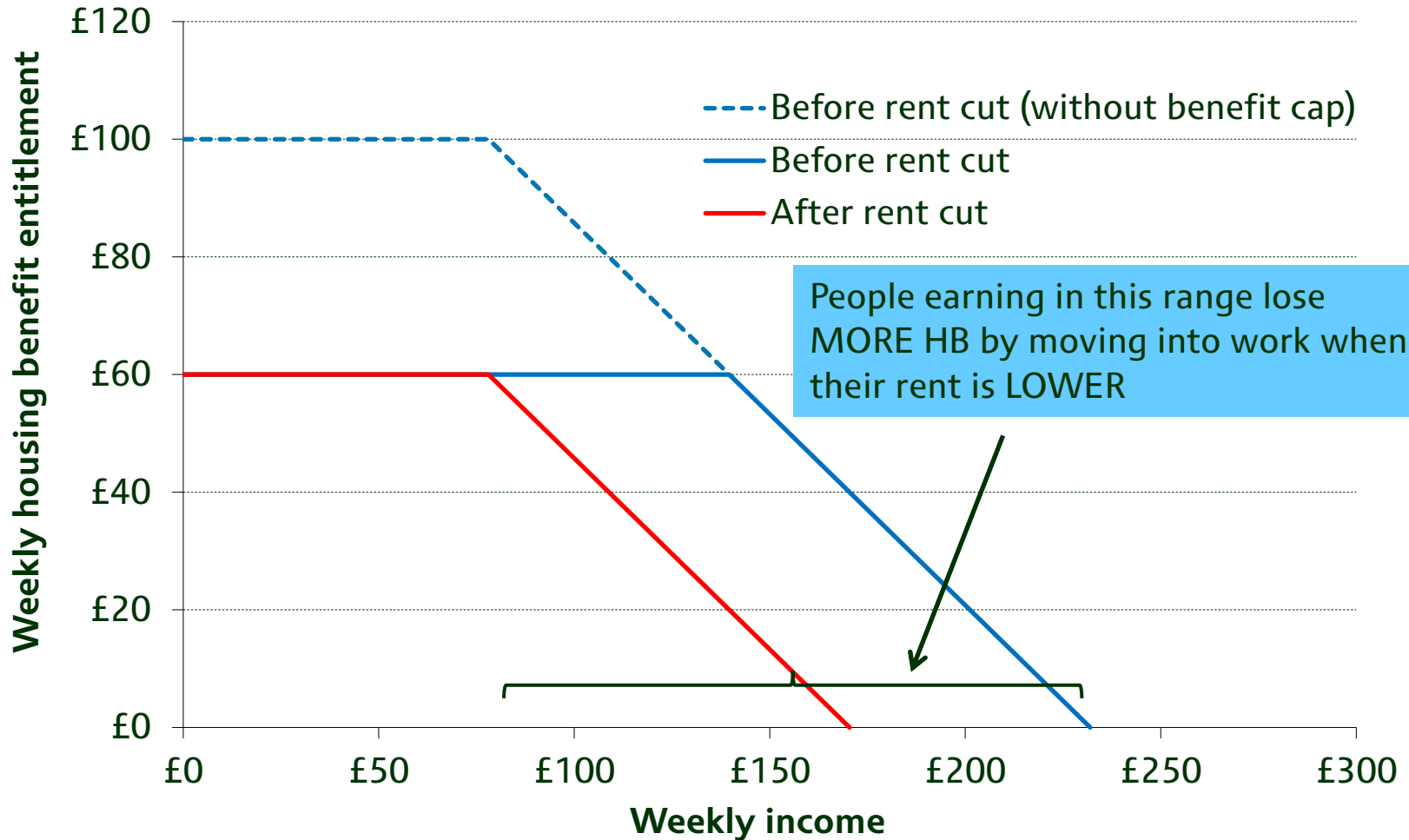
- Size of impact on work incentives varies significantly by family type

The benefit cap and social rent changes

- Not everyone's work incentives are strengthened by the rent cut
 - Benefit cap can reverse the usual logic
- From April 2016, total benefit receipt for most non-working families limited to £23,000 in London and £20,000 elsewhere
 - Estimate this will reduce incomes of 30,000 social tenant households
 - Affects the incentives of a further 70,000 working households who would be capped if out of work
- For those people, a cut in social rents can actually *weaken* their incentive to be in work

Changing social rents when the benefit cap binds

Example where HB is effectively capped at £60

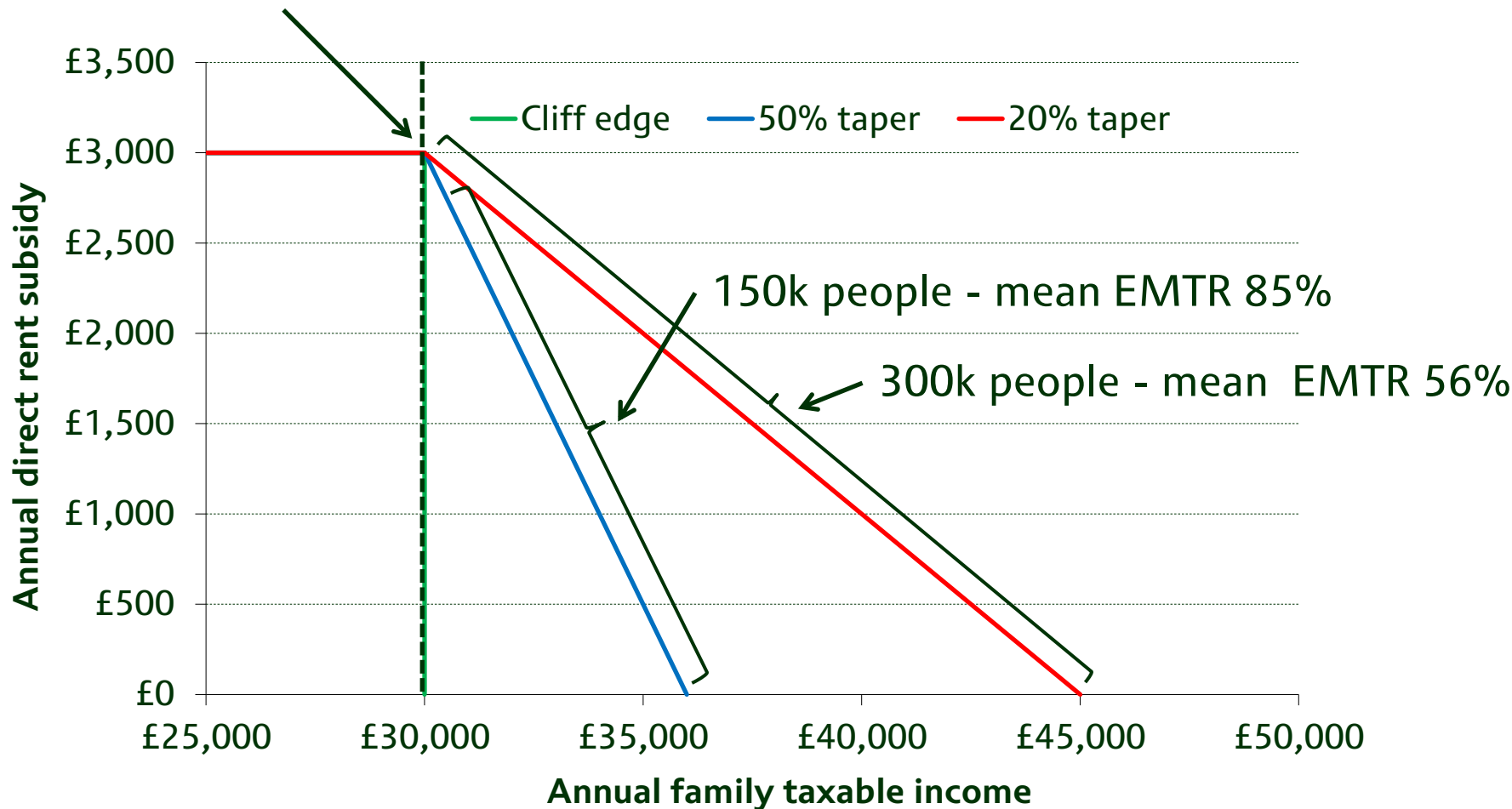


Note: shown for single adult with weekly rents of £100 and £60, not subject to social sector size criteria, whose benefit income excluding HB is £60 below the cap. Assumed to earn £9 per hour.

Pay to Stay

- From 2017-18, social landlords required to charge tenants with incomes over £30,000 (£40,000 in London) market or ‘near market’ rents
 - LAs have to return additional income to Treasury; HAs can keep it
- We expect Pay to Stay to affect 250,000 social tenant households
 - Highest-income 7%
 - 80% of whom are in the top half of the overall income distribution
- Government currently consulting on precisely how social rents should increase as incomes rise beyond Pay to Stay threshold
 - Matters for impact on revenues, incomes and work incentives

Pay to Stay: direct rent subsidy by income



Universal credit and social rent changes

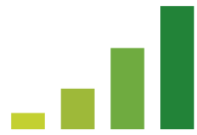
- Universal credit is replacing 6 means-tested benefits for those of working age
 - Income support, income-based JSA, income-based ESA, child and working tax credits, housing benefit
- Universal credit will slightly dampen the impact of changing social rents on tenants' incomes and work incentives
- More working social tenants will be entitled to universal credit (51%) than are entitled to housing benefit (36%)
 - More working households see a change in rent offset by benefits

Summary

- 12% cut in social rents (relative to previous plans) will benefit central government more than tenants
 - Tenants' work incentives will be strengthened
 - Incomes of social landlords cut, with potential effects on house-building
- Pay to Stay will increase rents for the highest-income tenants
 - Makes sub-market rents slightly more like housing benefit: more targeted on lowest incomes, weaker work incentives
 - Precise impact depends on how rents rise once incomes increase beyond Pay to Stay threshold: an important choice
- Interactions with benefit reforms are important too
 - Benefit cap, universal credit...
 - ...and cuts to HB for new tenancies announced last week

Recent rent policy displays lack of consistency

- Rents will fall for existing tenants, while ‘Affordable Rents’ mean higher rents for new tenancies
- Rent cut announced in Budget came one year into ten-year commitment to real increases
 - Danger of uncertainty over future – harmful for tenants and providers



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