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Social rent policy: choices and trade-offs

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Trust for London
Tackling poverty and inequality

Quantifying the effects of changing social rents

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Data

- Family Resources Survey
  - Representative survey of 20,000 households
  - Records incomes, rents and other characteristics
  - We pool last four years of data to give us sufficient sample size (11,000 social tenant households in England, 1,800 in London)
  - Monetary values uprated to 2015-16 levels

- For some of the analysis, need estimates of the market rents that could be charged on properties of social renters in survey
  - We draw on estimates from Wilcox (2008)

Estimates of the direct rent subsidy

- Direct rent subsidy: difference between social rent and market rent that could be charged on that property

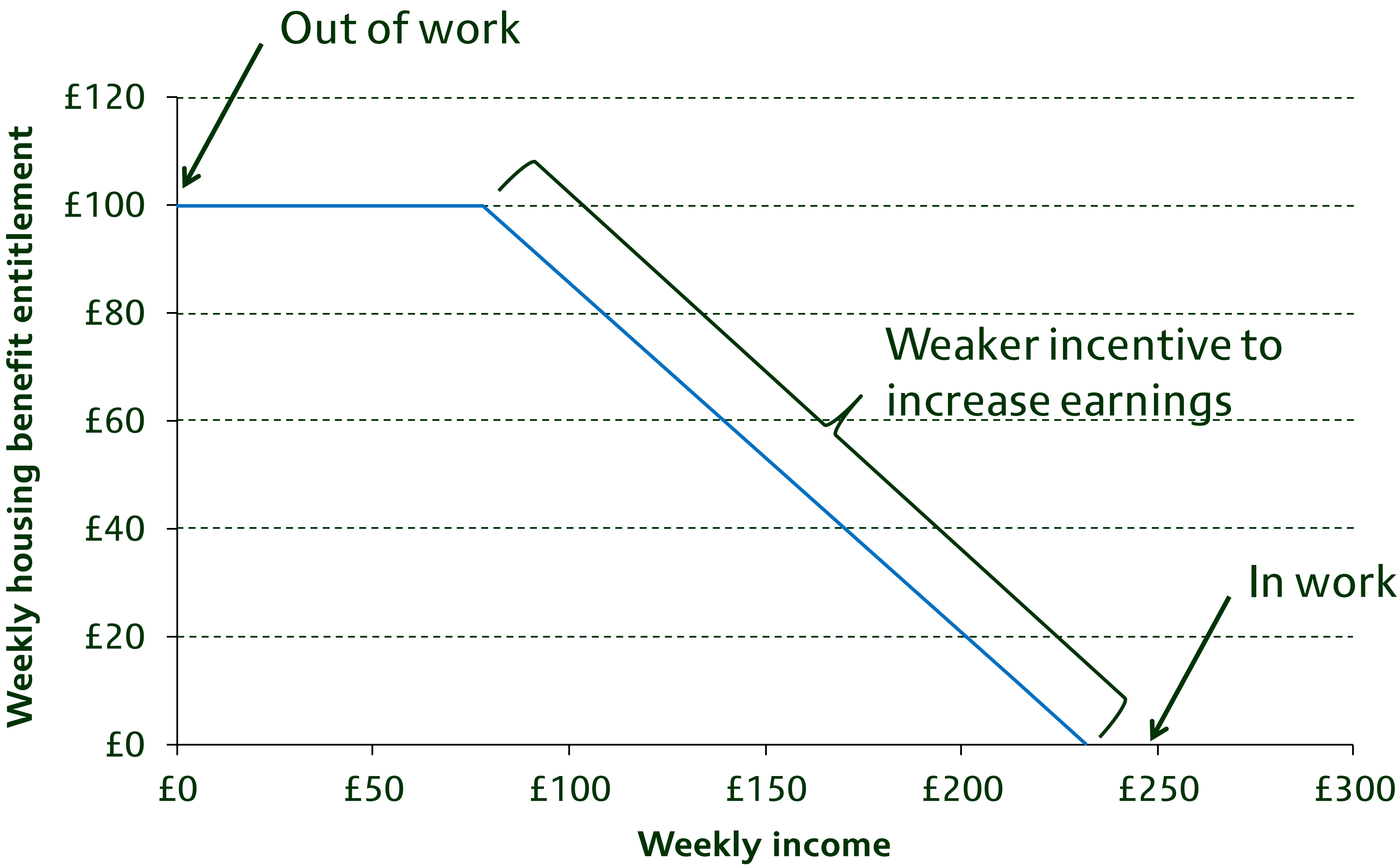
- Wilcox (2008) estimates average subsidy provided to social tenants
  - By region, landlord type (LA vs. HA) and number of bedrooms
  - Our key assumption that subsidy unchanged since 2007-08 as % of market rents

- These estimates are the best available to our knowledge
  - Figures on effects of cut in social rents not affected by any error
  - Any error will affect figures for Pay to Stay (and increasing social rents to 80% of market rents), but broad conclusions unlikely to be affected

Measuring net incomes

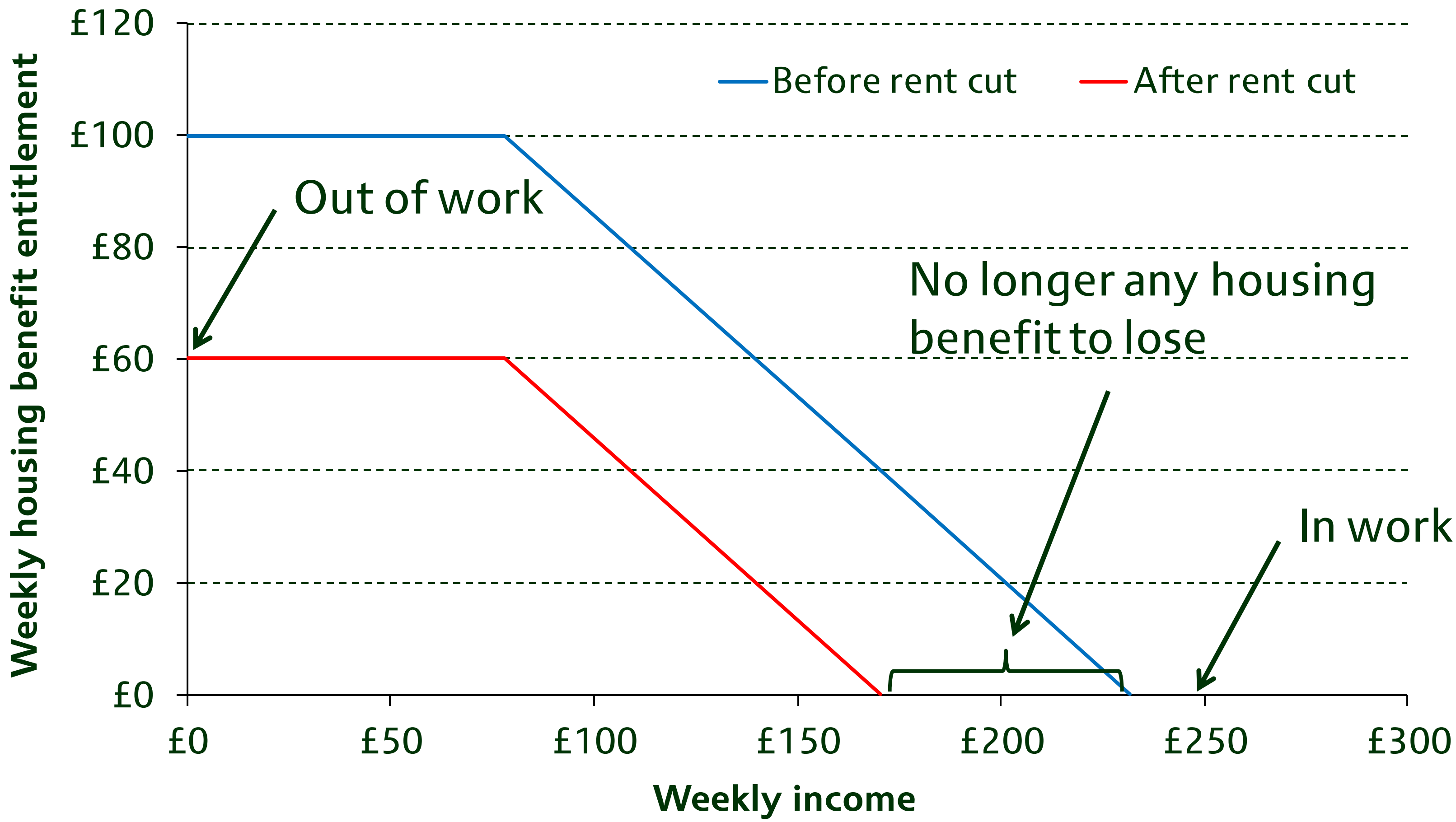
- Use IFS tax and benefit microsimulation model (TAXBEN) to calculate tax liabilities, benefit entitlements and net incomes
- Our modelling assumes full take up of means-tested benefits, including housing benefit (HB)
  - 12% of social tenants entitled to HB don't claim
- For distributional and work incentive analysis, add direct rent subsidy to income
  - Treats HB and the direct rent subsidy the same
  - Captures the fact that the subsidy increases living standards, giving social tenants more to spend on other things

The effect of housing benefit on work incentives



Note: shown for single adult with weekly rents of £100 and £88, not subject to social sector size criteria

The impact of changing social rents



Note: shown for single adult with weekly rents of £100 and £88, not subject to social sector size criteria

Two kinds of financial work incentive

1. The incentive to be in paid work at all
   - Replacement rate (RR): out-of-work income / in-work income
   - 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 all cases, **higher numbers mean weaker work incentives**

Cutting social rents by 1% a year for 4 years from 2016-17

- July 2015 Budget announced that 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 relative to previous plans
  - £2.3bn fall in rental 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 14,000 fewer social homes by 2020 as a result

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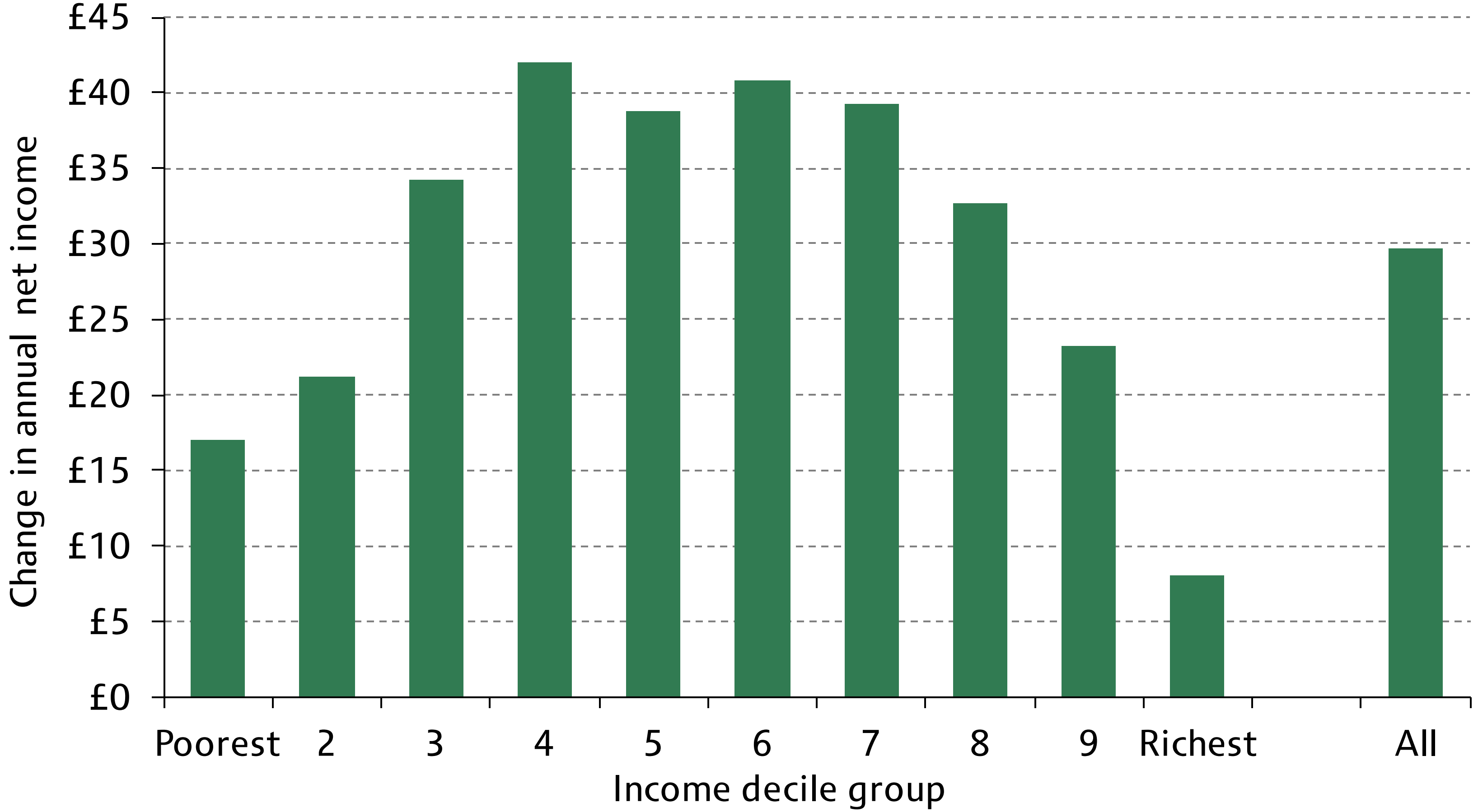
Impact on social tenants' net-of-rent incomes

- Cut in social rents largely represents a transfer from social landlords to central government, rather than to social tenants
  - Housing benefit spending reduced by £1.7bn
  - Net-of-rent incomes up £700m: 1.6m gain average of £420 per year

Impact of a 12% rent cut by overall income decile



Source: Figure 4.1 of *Social rent policy: choices and trade-offs*

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:	12% cut in social rents	1p off all rates of income tax
Replacement rate	-0.3	-0.1
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

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Raising social rents to 80% of market rents

- Under 'Affordable Rent' model, rents on some new tenancies can be set at up to 80% of market rents
  - We look at impact of raising all social rents to that level
- Big difference in impact across regions: rents up by average of 41% in London, but only 14% in the North East
  - Would also be large variation within regions
- Among losers, those in London would lose average of £1,600 per year, compared to £317 in the North East
  - Weakening of work incentives correspondingly larger in London

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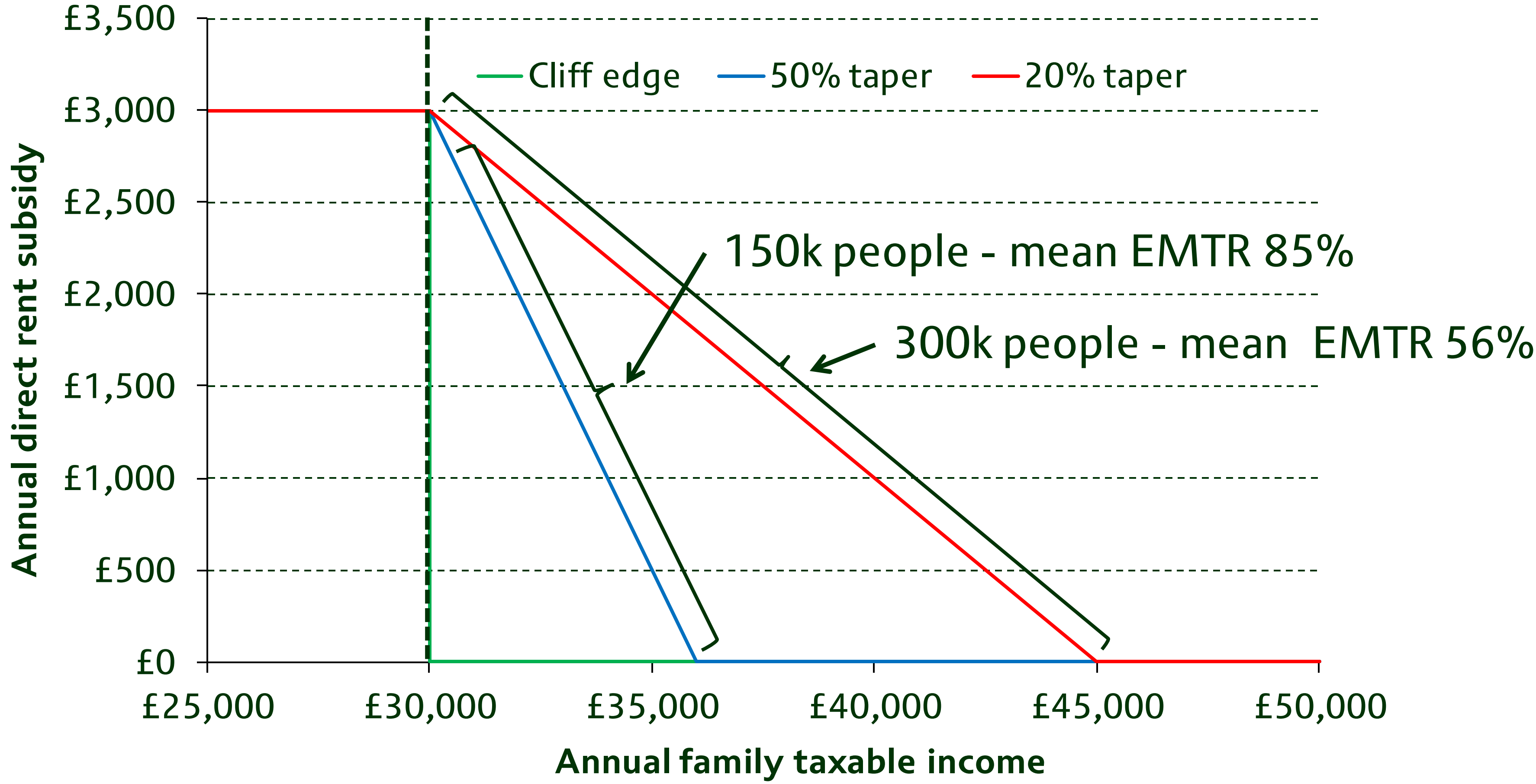
Pay to Stay

- 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 income rise beyond Pay to Stay threshold
  - Matters for impact on revenues, incomes and work incentives

Pay to Stay: direct rent subsidy by income



Source: Figure 4.3 of *Social rent policy: choices and trade-offs*

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The benefit cap and social rent changes

- 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 work incentives of a further 70,000 working households who would be capped if out of work

- For those affected, an increase in social rents can actually *strengthen* their incentive to be in work
  - Out-of-work income falls, as housing benefit cannot increase to cover

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
  - Precise impact depends on how rents rise once incomes increase beyond Pay to Stay threshold

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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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