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The impacts of changes to social rents policy

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Trust for London
Tackling poverty and inequality

1965 - 2015 50 E·S·R·C 50 YEARS SHAPING SOCIETY

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

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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 (£770 in London)
  - £2.3bn fall in income for social landlords (£0.5bn in London)

- 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 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
  - In London: 260,000 households gain average of £580 per year

- What do the gainers look like?...

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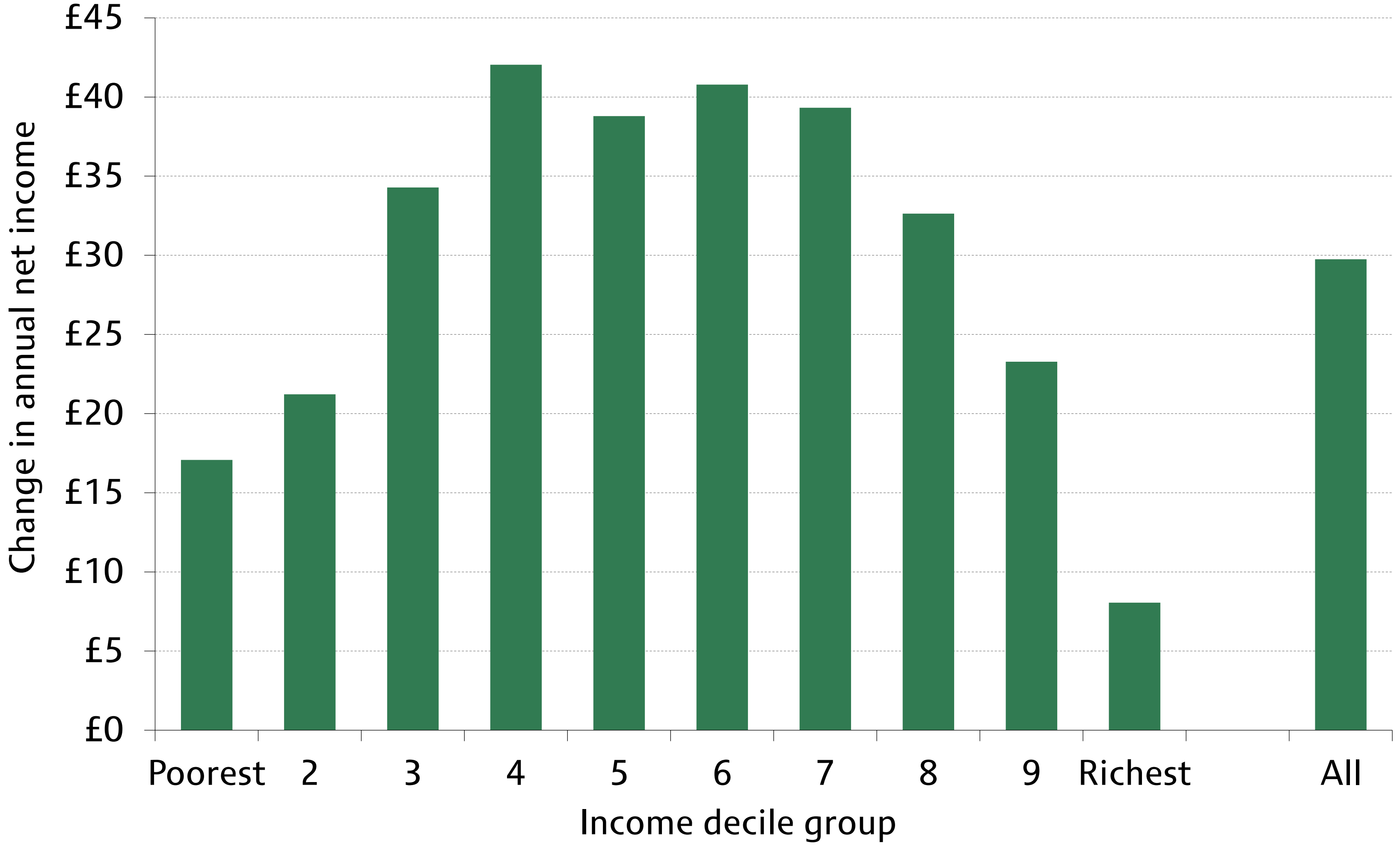
Impact of 12% rent cut by income (England)



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

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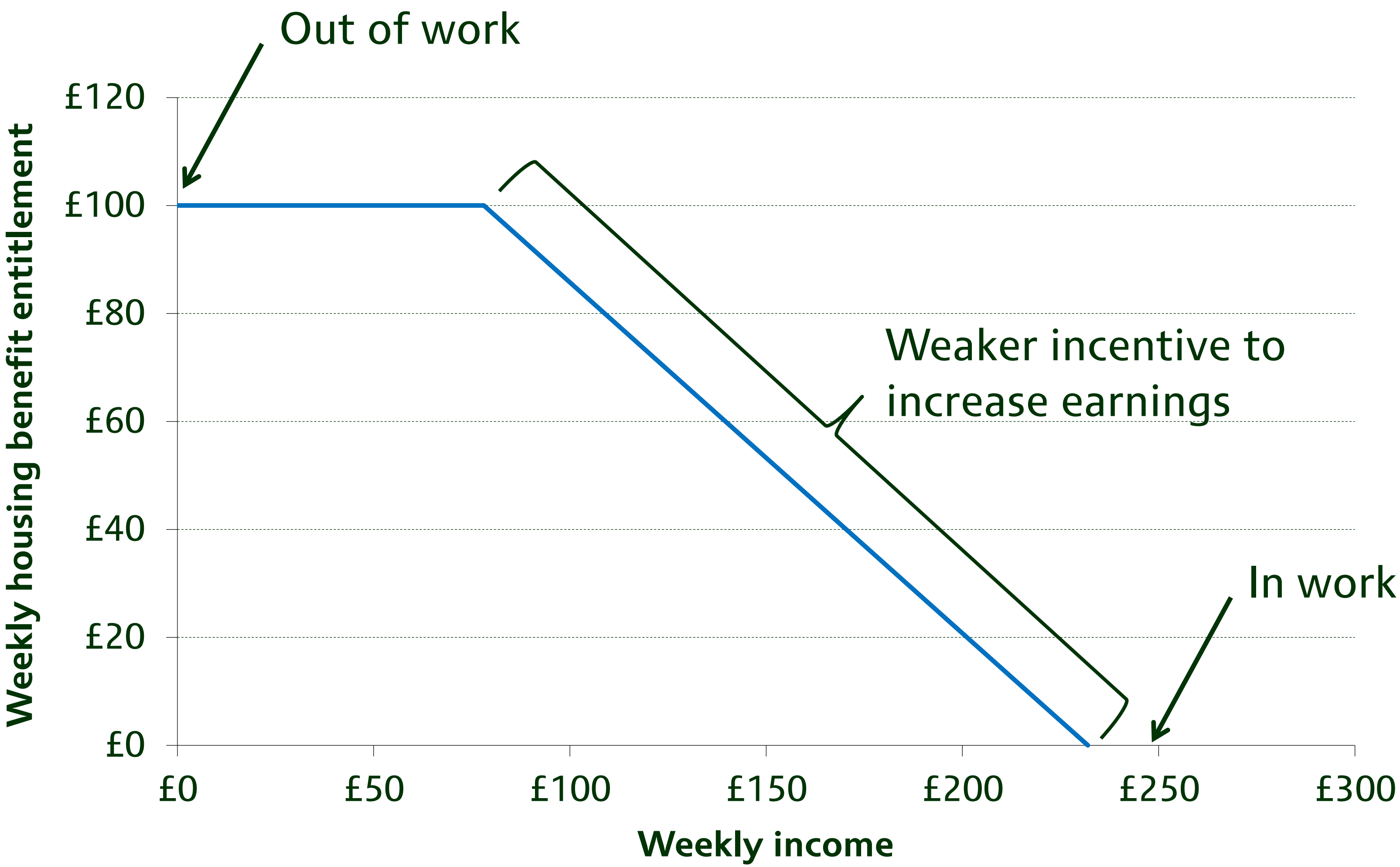
The effect of rents on work incentives, given HB

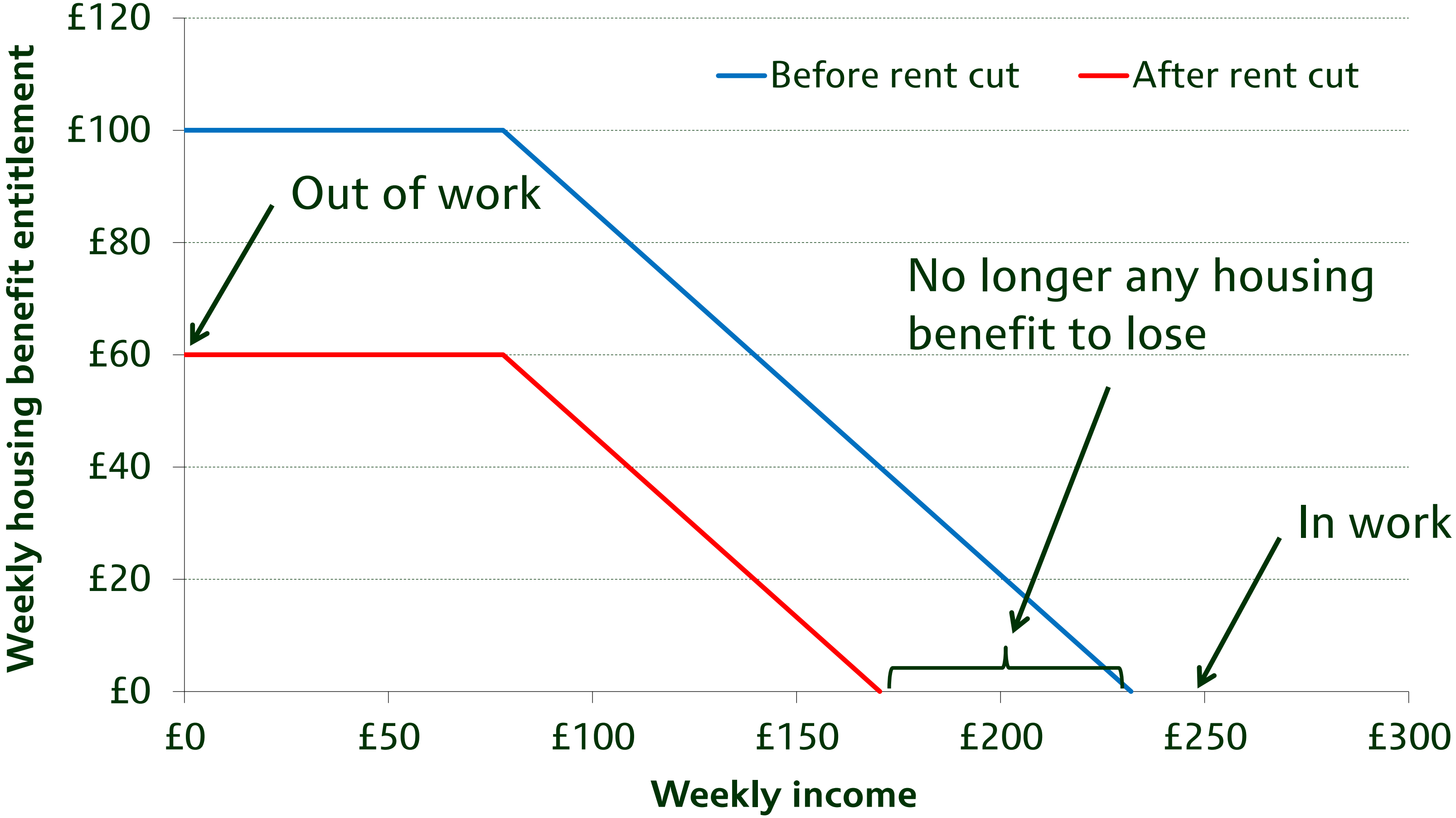
A made-up example



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

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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

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

- Similar effects in London: PTR down 0.7 ppts on average, EMTR among workers down 1.1 ppts

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

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The benefit cap and social rent changes

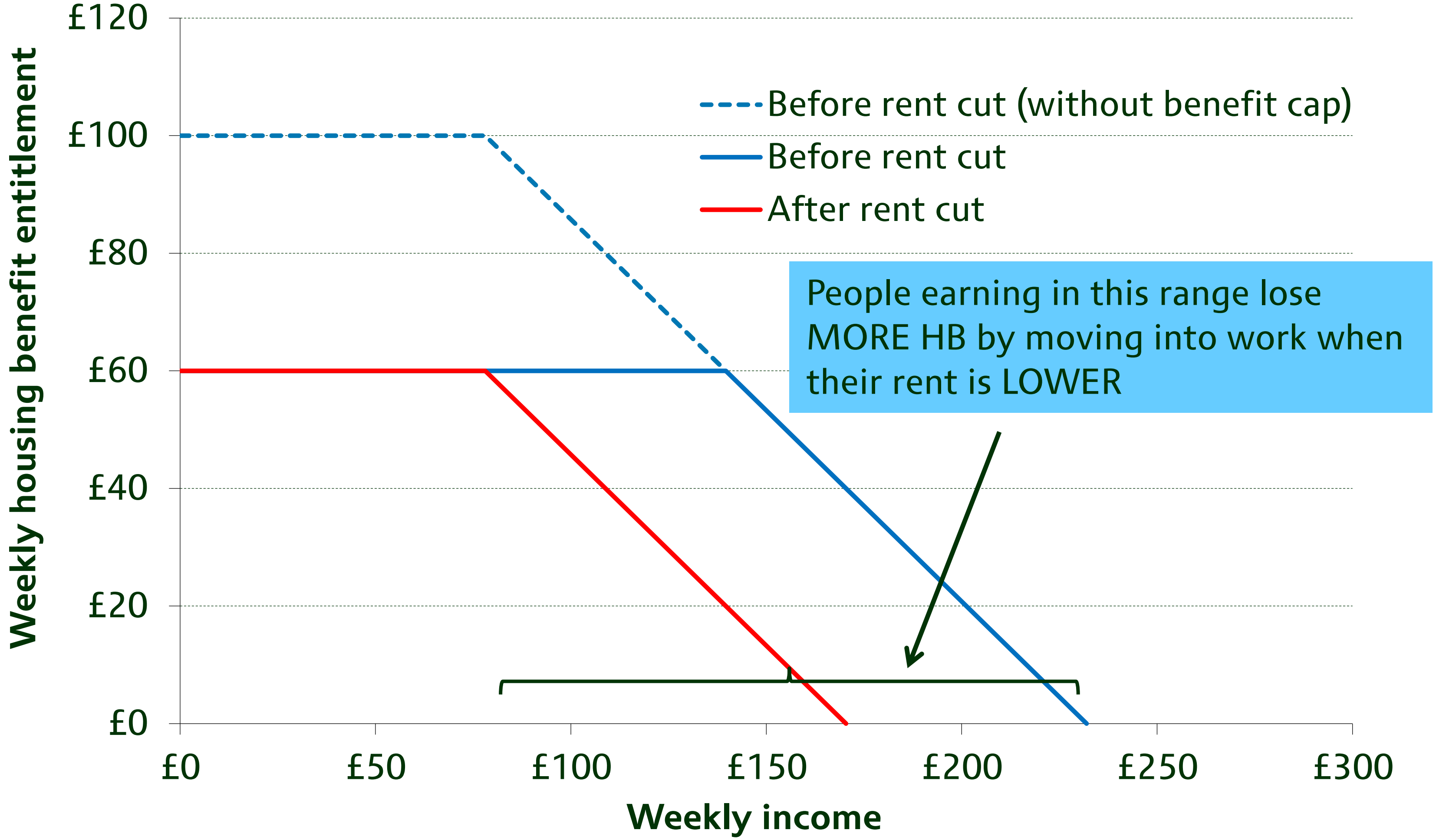
- Not everyone's work incentives are strengthened by the rent cut
  - Benefit cap can reverse the usual logic

- 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.

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

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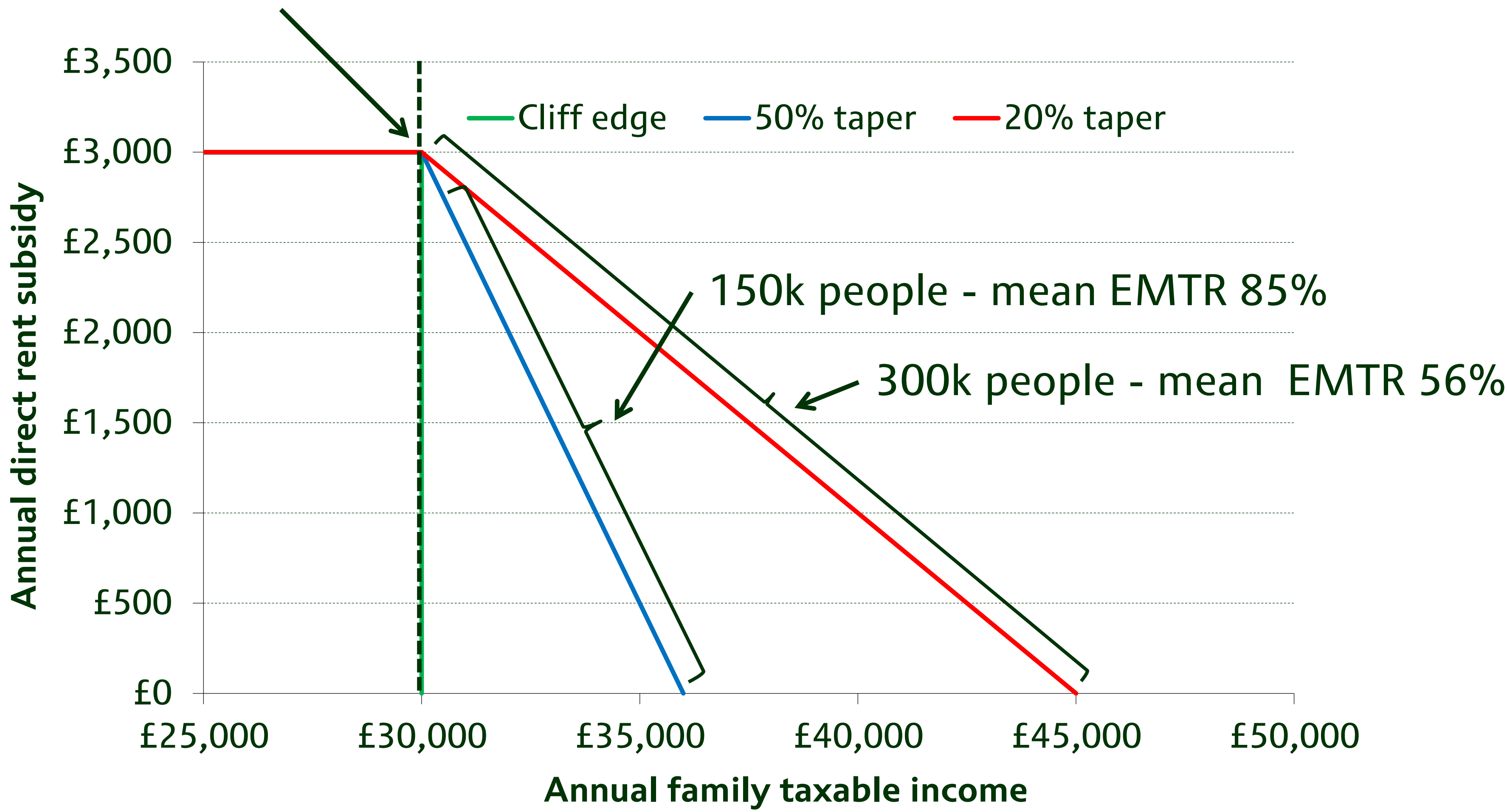
Pay to Stay: direct rent subsidy by income



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

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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

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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