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’

• 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

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

Change in annual net income

Income decile group

Poorest 2 3 4 5 6 7 8 9 Richest All

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

People earning in this range lose MORE HB by moving into work when their rent is LOWER
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

Source: Figure 4.3 of *Social rent policy: choices and trade-offs*
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
The impacts of changes to social rents policy

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