The impacts of changes to social rents policy

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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
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?...
Impact of 12% rent cut by income (England)

Change in annual net income

Income decile group

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

<table>
<thead>
<tr>
<th>Change in average work incentives among social tenants:</th>
<th>12% cut in rents</th>
<th>1p off all rates of income tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Participation tax rate</td>
<td>-0.9</td>
<td>-0.2</td>
</tr>
<tr>
<td>Effective marginal tax rate</td>
<td>-0.9</td>
<td>-0.6</td>
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• 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
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

Weekly housing benefit entitlement

- Before rent cut (without benefit cap)
- Before rent cut
- After rent cut

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

Weekly income

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

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
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