PRECARIOUS SOCIAL HOUSING - PAY TO STAY OR FIXED TERM TENANCIES?

Housing Studies Association

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Pete Redman, Housing Futures Ltd, predman@hfl.org.uk

The question

- From each according to their ability, to each according to their need
- If we accept that a sub-market rent is a benefit (some dispute this) then should this be means tested, time limited, or granted for life?
- Nearly all new social lettings are to those in financial need, i.e. they cannot afford a housing option at market prices, and for most households this remains the case for many years
- Analysis of EHS, Effect of Tax and Benefits, Living Costs and Food Survey, HBAI and Census data indicates that now over 1 million social housing households do not qualify for Housing Benefit <u>nor</u> need the full Direct Rent Subsidy at an affordability ratio of 23% of gross household income
- Should we introduce a "higher earners' rent" or limit new tenancies to 5 or10 years?

Perhaps there is a bigger question

- Do we still need sub-market products?
- Is it more efficient to have public subsidy for the product plus some subsidy for the household to pay a lower rent, or just to fully subsidised the household?
- A detailed modelling of product capital subsidy versus household revenue subsidy shows high sensitivity to the assumptions used
- Previous attempts (Shout, PwC/L&Q, Policy Exchange) have compared apples and pears. What we need to compare is the sub-market rent with the market rent that that social housing dwelling could fetch
- The results for the average social housing dwelling in England are shown below:

England average social rent dwelling 2015/16

2 bed dwelling 67 m² OMV VP = 140,000

Summary capital v revenue 60 year present value	Rent pw	Product capital subsidy	Household revenue subsidy	**Total £ pv**
At social rent	92	100,634	88,783	**189,418**
At market rent	170	-	195,226	**195,226**
Benefit to government of sub-market				**5,808**
Direct Rent Subsidy	78		106,443	

At 23% of household income		
Households not needing all DRS	25%	1,007,500
Collectable excess DRS %	16%	
Collectable excess DRS £ pw	13	
Collectable excess DRS £m pa		**659**

Excess DRS per dwelling	**4,533**
Benefit to government reduced to	**1,276**

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A

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Taking each part of the model output in turn:

A. The average existing social rent dwelling had an open market vacant possession value of £140,000 in 2015/16
B. The present value of the subsidy required to deliver the £92 pw rent and the present value, on average, of rent paid by Housing Benefit
C. The benefit to the public purse of this capital subsidy method compared to paying more households a higher Housing Benefit at the dwelling's market rent of £170 pw

Taking each part of the model output in turn:

D. The estimate of the affordable amount of extra rent the highest earning 25% of social tenants could pay. From this would need to be deducted the administrative costs of assessing income estimated at 10% of collection netting £600m pa

E. The impact of this "lost" income on the balance for the public purse, a form of subsidy "leakage".

The implications of this result

- The there is a near zero advantage to sub-market products at present
- Further HB/UC reductions could tip the balance
- No further central government grant and other internally generated subsidy clawed back

But if we implement a higher earners' rent

- A greater sense of fairness and more public support for SH
- Generate resources to tackle high cost of low income families in PRS.
- Recycling of subsidy

The alternative – fixed term tenancies

- We are being bounced into this following the depressing game of parliamentary ping-pong which made a poor Pay to Stay proposal worse
- The implication is that after an arbitrary five or ten years incomes will be assessed anyway and if these have increased then tenants have to leave
- This will be destabilising for households and for the neighbourhood.

Conclusion

- The sector should design a fair system of flexible rent for higher earners' rather than have a crude Pay to Stay imposed or have the sector become a temporary "ambulance" service
- We should let people stay in their homes but pay according to their ability
- The policy could reintroduce some of the rent pooling mechanisms used by councils in the 1920s and 30s
- Resources could be recycled to help others in need.

Detailed design underway

- Practical methods to regularly assess household resources (including savings)
- De-minimus amounts of higher rent, and levels of income change disregards
- Defaults to the market rent if non-co-operative
- Keeping the link to dwelling value
- Appeals process
- A rethink of RTB discounts adjusted to tenancy terms and level of Direct Rent Subsidy

University of Birmingham research for Webb Memorial Trust

- Hybridity – organisations which are a mix of agencies of state, independent not-for-profits, and commercial businesses
- The failure of non-housing diversification into commercial activity
- Projection of trends in surpluses and sources of subsidy
- Resolution of the "ownership" of the surpluses generated on historic stock
- A lower long term need for low rent social housing
- A model of flexible rent and fractional ownership between state, landlord and occupier.