

Reforming Rent Supplement

Overall Aim:

To make work pay for Rent Supplement recipients and to make savings for the State

Headline Policy Changes

Phase out Rent Supplement (RS) and switch to Rental Accommodation Scheme (RAS)

Remove unemployment and poverty traps for rent supplement recipients taking up work

Pay Landlords directly

Target immediate and substantial savings for the exchequer

Transfer Rent Supplement from the Department of Social Protection to Local Authorities

Drive down rental costs

Tackle illegal payments and tax evasion

Improve security of tenure

Background

The State currently has two rental support schemes for tenants renting in the private sector who cannot afford to pay their rent – Rent Supplement and the Rental Accommodation Scheme.

Rent Supplement is an income support scheme paid by the Department of Social Protection. It is administered through the HSE by Community Welfare Officers. Payments and deposits are made to tenants and these payments are passed on to their landlords. Tenants qualify if their only income is from social welfare and in certain limited cases where they have income from work.

Rent Supplement was established as a measure to support tenants on a short-term basis until they found housing they could afford or until they were placed in local authority housing. However, 44,000 families are currently in receipt of rent supplement for longer than 18 months, meaning the scheme has become an integral part of long-term social housing in Ireland.

In 2010, the State will spend about €520m on Rent Supplement. There are currently 96,500 tenancies covered by the scheme.

The Rental Accommodation Scheme was initiated in 2005 as an attempt to provide for long-term rent supplement tenants and to improve housing standards in the sector.

Tenants qualify if they are 18 months or longer on rent supplement, though in some cases, this can be waived.

Local Authorities enter into a contract (typically 4 years) with a landlord. Rents are typically set at 8%-12% below market rent to reflect the guaranteed rental return to the landlord.

Payments are made directly to the landlord. No deposit is paid. Instead there is a "retained deposit system" where the local authority agrees to cover the cost of repairs to the property in the event of excessive damage by the tenant.

In most cases, the landlord has very little say in how tenants are selected but remains responsible for the control and behaviour of them.

29,445 tenancies (to the end of September 2010) have transferred from Rent Supplement since the inception of the scheme. Of these, 16,319 were housed in RAS accommodation, while a further 13,126 were accommodated under other social housing options. In 2010, €125m was set aside for the Rental Accommodation Scheme.

Some of the Problems

Together, Rent Supplement and the Rental Accommodation Scheme cost €645m annually, and the schemes account for 126,000 tenancies. As of the end of 2009, the PRTB had 234,582 registered tenancies.

So State-funded schemes account for 54% of the registered private-rented market. This represents a huge proportion of the private rented market yet there is little evidence that the State is using that purchasing power to deliver economies of scale or reduce rental costs.

Indeed, it is difficult to argue against the claim that such a huge presence in the private-rented market is artificially inflating rents. Certainly, it is obvious that the advertised rents of most rental property are pitched against the rent supplement payment in respect of such a property type.

The achievement of reduced rents through the transfer of tenancies from Rent Supplement to the Rental Accommodation Scheme proves that it is possible to making savings in this area if the correct policy is adopted.

Not only is rent supplement costing too much, it is also poorly designed. The rules explicitly prevent the majority of rent supplement recipients from taking up a full-time job. If a tenant works 30 or more hours a week, he or she is automatically barred from receiving rent supplement unless they are on a waiting list for the Rental Accommodation Scheme or satisfy other exceptional conditions. This affects over 50,000 people and effectively means most of these tenants are better off on welfare.

Although many landlords are tax compliant and registered, significant State payments are made to landlords without first confirming that they are in fact registered and tax compliant. Recent reports suggested that of the 150,000 claims for rent supplement last year, only 31,000 had details of the landlords' pps number. This facilitates tax evasion by some landlords.

A number of the difficulties with rent supplement arise from the way in which the payment is administered. In about 80% of cases, current rent supplement payments are made to tenants instead of landlords, so there is no direct relationship between the payee and the ultimate recipient.

This system facilitates social welfare fraud where payments can sometimes go missing and never reach the landlord, or where deposits are never returned. The system also facilitates illegal top-up payments where the landlord insists on an extra cash amount in excess of the rent supplement limit. In addition, this system means that there is very poor regulation of anti-social activity where despite paying the rent, the State has no direct contact with the landlord and no responsibility for the behaviour of the tenant.

In some cases, rent supplement is paid even when housing standards are very poor. And because leases typically run from year to year (instead of a four year cycle with the Rental Accommodation scheme), security of tenure is poor.

Immediate steps

The Labour Party believes it is possible to tackle all of the above problems by introducing some key reforms. The immediate steps would involve the following:

- Phase out rent supplement over a target period of five years.
- In respect of every new lease agreement, switch rent supplement to direct payments to landlords, switch responsibility of the scheme to local authorities, and introduce a direct contractual relationship between the local authority and the landlord.
- Target €400m of savings from 2011 to 2016 through
 - a. switching more tenants to RAS
 - b. driving down the cost of RAS and rent supplement by directly negotiating with landlords
 - c. addressing unemployment and poverty traps to make work pay and reduce the cost of welfare payments.
 - d. switching to a retained deposit system
 - e. dealing with tax and fraud issues
- Ensure diversity of tenure type by applying a 20% quota rule. So there could not be more than 20% rent supplement in any one street or in any one apartment block. The only exception to this would be where an approved housing body were to take control of currently empty units and where higher management standards would prevail.
- These measures are not a substitute for the provision of social housing which in the long term provides better savings for the State and better tenure for tenants. These will be dealt with separately in a housing document to be published in due course by the Labour Party's spokesperson on housing Ciarán Lynch T.D.

Dealing with Tax issues

- Make rent supplement payable to tax compliant and registered landlords only, and only in respect of dwellings that meet basic housing standards.
- All rent payment details to be provided to Revenue
- Withhold 20% tax on rent supplement payments to non-resident landlords.

Dealing with Fraud issues

- Direct payment system and a retained deposit system prevents tenants from leaving their tenancy without paying their rent supplement to their landlord. This is a particular problem with deposits.
- Specifically legislate to disqualify landlords who request or accept top-up payments from State supported rental programmes.
- Provide for whistle-blowing legislation for tenants in these circumstances.

Dealing with Problem Tenants and Problem Landlords

- Make Local Authorities Responsible for Rent Supplement and RAS Tenants
- Strengthen anti-social activity conditions attached to rent supplement. Introduce a probationary period for tenants of 12 months. If anti-social activity is a problem during this period rental support will be withdrawn.

After the probationary period allow Local Authority and Gardaí take eviction proceedings as at present. Tenants who are found guilty of anti-social activity would be automatically suspended from rent supplement and all other state housing support.

- Make the cost of damage (not normal wear and tear) to a RS or RAS tenancy deductible from social welfare payments.
- Improve reporting arrangements for landlords with problem tenants.

Switch Rent Supplement Tenants to the Rental Accommodation Scheme

Only 29,445 households (to the end of September 2010) have transferred from Rent Supplement since the inception of the scheme in 2005. Of these, 16,319 were housed in RAS accommodation, while a further 13,126 were accommodated under other social housing options.

Targets are set each year to increase the supply of housing under the Rental Accommodation Scheme. One of the difficulties is that targets have been set too low. Targets have been met in 2008 and 2009 when 14,000 households were transferred. The target for 2010 is set at just 8,000 and again looks set to be achieved. With 96,000 tenancies in rent supplement, the current RAS targets, by themselves, would mean it would take 12 years to complete the switchover to RAS.

Part of the reason for less than ambitious targets is because local authorities and the two Departments involved have encountered reticence from both landlords and tenants in switching to RAS. To counter these issues, the Labour Party is making the following proposals:

- Improve supply by advertising/tendering for empty units and engage better with NAMA
- Deal with landlord reticence by making the Local Authority responsible for tenants and strengthening anti-social activity rules
- Allow rent supplement tenants self-select RAS tenancies in local authority areas where this option does not yet apply
- Significantly increase RAS targets to 12,000 a year and augment with other social housing options.
- Change RAS target group to those on RS for 6 months or more
- Once a tenant has been in receipt of RS for longer than 18 months (reduce this target period as numbers of RS decline) auto-enroll the tenant in RAS in their local authority
- Allow two reasonable refusals of RAS tenancy offer as at present before Rent Supplement is suspended.
- Make RAS registration a standard part of the interview process of social welfare claimants

Remove Unemployment and Poverty Traps

The vast majority of people on welfare gain income when taking up work. However, this is not the case for most people in receipt of rent supplement. Under current rent supplement rules, most recipients lose the supplement if they take up full-time work. If they work 30 or more hours a week, they are automatically barred from receiving rent supplement unless they are on a waiting list for the Rental Accommodation Scheme or satisfy other exceptional conditions.

This is an explicit unemployment trap and acts against the interests of the recipient and the State as it traps people on welfare. It means that many rent supplement recipients are better off on the dole. It also means no other category of welfare recipient costs the State more in terms of their overall package of welfare benefits.

To illustrate the Unemployment Trap: Harry and Kate

Harry and Kate are an unemployed couple with two young children. They receive rent supplement of €1,000 per month. Under current rules, they would be about €60 a week worse off if Harry took a job earning €450 p.w.

If the 30-hour rule was abolished, the family would retain part of their rent supplement and would gain about €90 per week by taking the same job. The unemployment trap would be abolished and the State would save about €19,000 a year.

A better outcome arises once the tenant moves to the Rental Accommodation Scheme because then the differential rent system of their local authority applies which is even more favourable to tenants.

In addition, a poverty trap exists for the small number of rent supplement recipients who take up work, as the supplement is withdrawn very sharply as their income rises (at the rate of 75 cent for every euro they earn, or a “withdrawal rate” of 75%). This means it is often not worth someone’s while to increase their hours, take on overtime, accept wage increases or otherwise increase their income.

To illustrate the Poverty Trap: Fionn and Ciara

Fionn and Ciara are a couple with two young children. Fionn has a full-time job earning €450 p.w. They receive rent supplement of €692 p.m. as they are on the waiting list for the Rental Accommodation Scheme.

Fionn is offered a promotion at work with a €50 p.w. pay rise. Despite this rise, Fionn’s net income will only increase very marginally because he loses Rent Supplement, Family Income Supplement and other benefits, and pays more tax and PRSI as his gross income increases.

If the withdrawal rate for rent supplement was changed from 75% to 15%, Fionn’s net income will rise much more significantly. His effective marginal tax rate is still very high but the incentive to increase his income and eventually move off welfare altogether is much greater. In these circumstances the State would stand to save in the order of €16,000 per annum.

So the Labour Party proposes to address these poverty and unemployment traps by the following measures:

- Switching tenants to RAS allows them access to the differential rent system of their local authority which immediately eradicates the unemployment and poverty traps associated with rent supplement
- Abolish the 30-hour rule for people out of work and on rent supplement for longer than three months, and who are returning to work – allow, at the discretion of a job facilitator, the rule to be waived for people on welfare for a shorter period than this if the rule was a direct barrier to moving off welfare and the case was genuine. This change would yield a significant net saving to the State, dependent on take-up.
- Driving down the value of rental support of itself has a significant positive impact on reducing poverty traps.
- Reduce Rent Supplement withdrawal rate to 15% for people leaving welfare but time limit this to two years.
- Engage in an immediate information campaign so that all 44,500 households currently on RS for longer than 18 months are registered with their local authority and therefore know that they are not currently subject to the 30-hour rule.