

GENERAL SYNOD

RETIREMENT HOUSING – A NEW APPROACH

A Note from the Church of England Pensions Board

Summary

1. The Pensions Board is committed to serving the clergy by supporting them with a smooth and easy transition from active ministry into retirement. We will run an efficient process and give customers¹ accurate, timely and clear guidance and information which they will be able to access very easily and which will give them the support they need, at what can be a stressful time in their lives. Our housing offer will be transparent and affordable for all – our customers and those who provide funding to support it.
2. The Pensions Board has reviewed its provision of rental retirement housing for the clergy. The trustees have concluded that change is needed in this part of the overall scheme to ensure that clergy continue to be provided with good quality housing and support in their move from stipendiary service into retirement at a cost which is sustainable for the Church both now and in the future. This note summarises the current level and nature of provision, the case for change and the consultation exercise carried out by the Board during 2013- 14. It provides the background to the presentation which will be made to Synod by the Chairman of the Board's Housing Committee, Mr Alan Fletcher and by me, on Monday 14 July 2014.

Background

3. The CHARM² Scheme was introduced in 1983 to address the growing concern that many clergy would not be able to provide for their own housing in retirement. It is now an integral part of the clergy remuneration package and a safety net for those clergy who have been unable to acquire a property in their working life and would otherwise face a worrying and uncertain future. Although the clergy remuneration package has been reviewed on a number of occasions³, the retirement housing offer remains substantially unchanged since its introduction. Between 25% and 30% of retiring stipendiary clergy every year are supported by CHARM.

¹ Customers is used as a generic term to describe our existing residents, future service users, widows, widowers, civil partners and dependants

² Church's Housing Assistance for Retired Ministry

³ GS Misc 919 'Retirement Housing Review: second report'; GS Misc 1010 'Pensions and Remuneration'

4. The CHARM scheme provides:
 - A rental offer of a modest retirement home on a subsidised rent for those with limited capital. Typically, we would expect to house a couple with less than £60,000 capital (not including their pension lump sum on retirement). Rents are calculated by reference to gross income in retirement and can fluctuate up and down. They bear no relationship to market rents. There are just under 1200 current rental customers in a very wide range of locations across England and Wales.
 - A shared ownership offer that enables those who have some capital, but not enough to buy a home outright, to part buy/part rent a property and currently serves 115 customers. This scheme replaced the value linked mortgage scheme in 2008, and around 970 loans are still in operation under this legacy scheme.
5. In 2013, the CHARM scheme cost the Church a total of £12.2m in direct costs. This was met through income from rents of £5.9m, the wider church's contribution of £3.8m via vote 5, and a contribution from the Pension Board's own charitable funds of £2.5m.
6. The vote 5 contribution marks the importance the Church attaches to comprehensive retirement provision for the stipendiary clergy. The Church also recognised that new capital funding arrangements⁴ introduced in 2010 required support through above inflation increases up to 2015. We trust that Synod and the dioceses will find it possible to maintain this level of support, including above inflation increases, beyond 2015.
7. We will need this as we implement changes to the scheme for the long-term benefit of both users and the Church (but which should be cost neutral), work through the anticipated retirement bulge over the next few years and also cope with the impact of the probable return of interest rates to more normal levels over the next few years, which will increase our interest payments to lenders.
8. This combined support from the Board and from vote 5 enables us to charge a subsidised rent to tenants.

The case for change

9. We know, from what our existing customers tell us, that the current scheme is very far from perfect. It is:

⁴ Prior to 2010, capital funding was provided by the Church Commissioners. It is now provided through a commercial loan between the Board and Santander.

- hard to explain and understand (as rent is set by reference to retirement income from all sources, including spouse income and/or pension and it often cannot be calculated until the end of the process) and our written information has historically been poor;
 - The basis on which we set rents is also peculiar to us and can mean that customers struggle to access the state benefits to which they are entitled after a working lifetime of paying tax and national insurance contributions;
 - seen as unfair (income-based rents penalise those who make an effort to improve their financial situation, and mean that a tenant who chooses to downsize still pays the same as before);
 - stressful for the clergy and their spouses (they are expected to go out and find a house on the open market and in many cases have no previous experience at all of the housing market and the conveyancing process);
 - comes into operation too close to retirement (at best a customer will be able to give us 12 months notice of retirement and the whole process – acceptance onto the scheme; finding and then buying a home; refurbishing and adapting the house – can take at least this and sometimes longer. As a result we are not always able to give the new tenants their keys on their actual retirement date);
 - costs more than it should (we sell properties in one location only to buy another very close by, and often ‘lose’ the value of refurbishments and adaptations on a sale).
10. We also wanted to know more about the needs of those who may need our help in the future. We therefore commissioned the University of York to carry out a survey⁵ of all clergy who were 15 years from retirement (assuming retirement date is planned at 68 years). The response to this survey was extremely positive with 62% of those approached taking the time to fill in the survey and give the researchers their views. The key messages from this study were:
- Make the process easier for people. The research confirmed that retirement is a stressful time generally and particularly so for the clergy, with those who think they will need to use CHARM experiencing a great deal of anxiety and uncertainty as they approach retirement.
 - Provide an appropriate level of choice. Respondents wanted a sense of some control over the home that they were going to retire to, not least because they have often had little control over where and how they live up to this point in their lives.
 - Be clear about the deal. Respondents wanted predictability, both in terms of the choice of property and the rent payable for it. There was also very limited understanding of what was on offer under the current CHARM

⁵ <http://www.churchofengland.org/about-us/structure/cepb/housing.aspx> ‘The Future Needs of Retiring Clergy’ (this can be found in the resources panel on the right hand side of the web page)

scheme which demonstrated the need for us to ensure that the offer of retirement housing was clearly communicated to those considering using CHARM in the future.

11. The nature of the scheme – which involves spot purchasing properties - is more costly than it needs to be, especially when (for those properties owned with moneys provided by the Church Commissioners) the property is sold when it becomes vacant, as is required under the current agreement. We often therefore lose the value of any adaptations made to the house. This is a concern when the Church's finances are being stretched in a number of directions and the Board's own charitable funds are not growing in the way that they did historically.

Consultation on proposals for change

12. An open and public consultation document⁶ was launched at a Synod fringe meeting on 7 July 2013. It was publicised by direct mail to current and future customers, diocesan offices, key stakeholder groups⁷ and on the Church of England website/in press articles. A dedicated website for responses was accessed via the main Church of England website, but respondents could also reply in writing (post and email), on the telephone or through a group.
13. The consultation outlined a number of changes to the current offer:
 - **Much earlier involvement with clergy to plan their retirement** - We will invite those needing our support to come to us up to 5 years in advance of their retirement rather than – as now – 12 months. We will ensure that they have all the information they need to make sensible choices about where they will live in retirement, and we will work with Dioceses to smooth the whole process as much as possible and to timescales that meet everyone's needs.
 - **Choosing a retirement home will be easier and less stressful** - We will change the way we offer properties – moving away from the 'spot purchase' model with all the delays and complications of conveyancing, to one which allows those applying to choose from a portfolio of properties across the country that become vacant during the 5 years before retirement. Once they have chosen a property we will reserve it for them and let it on a commercial basis until a few months in advance of the planned retirement, when it will be refurbished as necessary and made ready for letting.
 - **Ensuring customers are offered choice to meet reasonable aspirations** - We will continue to purchase properties for some years as we build up the current portfolio to ensure that we have properties where we know the clergy want to live. This will strengthen and build the retained property portfolio

⁶ <http://www.churchofengland.org/about-us/structure/cep/b/housing.aspx> CHARM Consultation Document (this can be found listed under the resources panel on the right hand side of web page)

⁷ We consulted a number of church organisations and bodies including The Retired Clergy Association and the Archdeacons Forum

from which applicants can exercise choice in the future. We will also buy properties to meet very specific needs, such as disability.

- **Make sure the quality of our offer of retirement homes meets our customer expectations** - We will invest in our properties to make sure they meet high standards, which will include modern kitchens and bathrooms, double glazing, insulation and energy efficient heating systems. We will take the opportunity to ‘future proof’ homes to ensure they will meet the ‘lifetime needs’ of our tenants in terms of mobility and facilities.
- **Rents will be transparent and the customer will be able to compare against other options** - Rent will no longer be based on gross income but related to the property, as is the case in both the private and social rental sectors. A prospective tenant will be able to see what an available property will cost and how this will vary according to size and location. An individual will therefore be able to choose based on their own preferences and budget. We will use the formula used for calculating social rents which is based on a basket of indicators including comparative rents and income and has been in use since 1999. As a benchmark the rents will equate to approximately 60% of private commercial rents. Rents for existing tenants will make a very slow transition – both up and down as appropriate - to the new rent levels.
- **Help clergy to maximise their income in retirement** - We will do more to support our retired clergy to access welfare and other benefit entitlements by employing a dedicated advisor who will be able to offer our residents advice and practical help in accessing benefits. Many residents do access Pension Credits and have help with their rent (Housing Benefit), but we know that this can be a daunting process, and from our discussions with our residents we know they would welcome this support.
- **Offering better value for all our customers and those who fund us** -We have planned these changes on the assumption that they will be cost neutral – in other words, that there will be no overall increase to tenants, to the Board or to the Church. This is not an exercise in cost cutting, but neither should it increase the costs of the scheme to the tenants or the wider church.

Responses to Consultation

14. The dedicated website was viewed over 2400 times and we received 275 full responses to the consultation, which closed on 31 October 2013. Responses to the consultation were taken very seriously and we believe we have addressed these in the revised final proposals.
15. The overall majority of those who responded to the consultation were in favour of the changes, with future customers being particularly positive about the proposed changes and very much welcoming the shift to earlier and more informed engagement. Those already in the scheme expressed some concerns,

understandably driven by a fear of things changing, with particular concerns about the impact on them of the new rent proposals.

Conclusion

16. The Board is committed to the maintenance and improvement of the CHARM offer and to ensuring that it is sustained for future generations of clergy. The Board will also continue to act as responsible stewards of the funds provided for this scheme from all we serve.
17. We have now started work on planning for the changes we are proposing to make. We are conscious that we are not starting with a blank sheet of paper, and will need to manage the introduction of change carefully, ensuring that we communicate and engage with our customers and stakeholders throughout the process, which we expect will take some years.
18. We would like to acknowledge and thank all those who have participated, responded and engaged with our consultation.
19. The response to the consultation and final proposals will be covered in the presentation to **General Synod on 14 July** and published on our website following Synod. We also invite General Synod members to find out more about our work on housing and pensions at our **fringe meeting on Sunday 13 July**.

Jonathan Spencer

Chair

Pensions Board

June 2014