



Briefing 13/13 April 2013

Housing and welfare reform

To: All Contacts

Key issues

There are major changes to housing services due to welfare reform

This will have a significant impact on tenant budgets

It will also impact adversely on council finances

A consequence of the reforms is likely to be that the number of council houses built will struggle to hit levels needed to meet demand

1. Context

From this month, there will be a series of reforms to welfare, housing and related policy areas which will have a dramatic effect both on large sections of the population as well as on local authority resources. These can be summarised briefly as,

- Universal Credit - the combination of Job Seekers' Allowance, Income Support, Housing Benefit, Employment and Support Allowance, Working Tax Credit and Child Tax Credit into a single benefit payment
- Housing benefit changes to public sector tenants/the bedroom tax - social housing benefit payments based on household size.
- Housing benefit changes for private sector tenants/local housing allowance reform - maximum weekly payable rates.
- The benefit cap - workless families will not be entitled to receive more than £500 per week in benefits and £350 per week for single people.
- Council tax support - Council Tax Benefit, payable to eligible households in part or total fulfilment of Council Tax, to be abolished and the funds to be devolved to councils, minus 10%, in order to establish localised Council Tax support schemes.
- Social fund - Crisis Loans and Community Care Grants used to provide emergency support for families are to be abolished.

The context and the detail of these reforms is changing daily as new reports and analysis are produced about wider outcomes and the policies are written up. But some of the underlying messages are clear and have been developing over a number of months. This briefing looks to take a view at a given point in the knowledge that further changes and developments will emerge as time passes.

2. Outcomes of pilots

There have been a number of pilots looking at different elements of the new arrangements. In the case of the Southwark London Borough pilot, rent arrears up to the end of December 2012 stood at 12%, compared with a benchmark 2% arrears rate for council tenants whose housing benefit was paid direct to the landlord. If this

level of arrears were applied across the council, Southwark would face debts of roughly £14m on its annual rents receipts of £115m. This would obviously be a scenario which the council would be unable to manage within the confines of existing funding.

Another of the pilots, Bron Afon community housing in South Wales has seen a 50% increase in arrears including tenants building up arrears who have not been in arrears previously while pilot projects in Edinburgh and Oxford are showing around 30% increases in arrears.

The DWP has noted that key lessons have emerged from the 6 pilots. There are -

- most tenants prioritise the payment of their rent, fully understanding that non-payment would result in eviction but some could imagine a situation when their housing benefit could be spent to cover unexpected expenses
- tenants prefer a range of payment options to take control of budgets including standing orders, payment cards or cash, as well as direct debits
- the need for social landlords to contact and work with tenants as soon as possible, their need to have a greater understanding of their tenants, their financial circumstances and their ability to budget
- budgeting support needs to recognise that people on low incomes often budget on a fortnightly or weekly basis and it is likely to be this group that falls into arrears
- tenants noted that accounts allowing customers to separate several 'pots' of money are likely to be helpful
- close working between local authority housing benefit departments and landlords has been crucial for effective implementation.

3. Housing issues

3.1 Direct payment of rent

Under the proposed new system, one of the changes will involve tenants in receipt of housing benefit having their money paid directly to them, rather than, as now, direct to the landlord. The stated aim of this reform is to build financial resilience within benefit recipients by encouraging budgeting and saving skills among households used to living week-to-week in a cash economy. It also aims to help them to become more accustomed to how they might go about managing financially when they are in work as well as promoting personal responsibility.

3.2 Bedroom Tax / Under occupation charge

A size criteria is being introduced to Housing Benefit for working age people renting from a local authority, a registered housing association or other registered social landlord. This means that the amount of Housing Benefit received will be based on the number of people in the household. If there is one or more extra bedrooms, the amount allowed for rent and any service charges will be reduced by 14% for one extra bedroom or 25% for two or more extra bedrooms.

The size criteria allows, one bedroom for

- every adult couple (married or unmarried)
- any other adult aged 16 or over
- any 2 children of the same sex aged under 16
- any 2 children of different sexes aged under 10
- any other child (other than a foster child or child whose main home is elsewhere)
- a carer who does not live you but provides you or your partner with overnight care
- children with severe disabilities where they are unable to share a bedroom.

3.3 Impact on the construction of council/social housing of welfare reform

There is a universally accepted need for more housing units of all sizes and across all tenures and local authorities and housing associations have to play their part in delivering the extra supply. Predictions have been based on 30 local authorities' HRA business plans which equate to a provision for bad debt of nearly £100m based on potential arrears for non-payment of rent as a direct result of Universal Credit/bedroom tax. Carrying large bad debt provisions will impact on councils' ability to manage their financial resources over the long term. This funding is more likely to come out of resources allocated to regeneration and new build programmes rather than day to day management of the service. Furthermore there was no increase of local authority borrowing limits or any VAT exemptions in the budget which would have made investment programmes more likely. The chance of the social housing sector being able to build as many homes as it would like will be hit by the impact on cashflow.

4. Social landlords' concerns

The possible impacts upon council and registered landlords as a result of direct payments to tenants are as follows:

- tenants on low incomes may use the housing element of Universal Credit to pay other bills rather than their rent payments with obvious consequences for levels of rent arrears and debt;
- extra costs for administration and legal work to deal with increases in rent arrears and the need to provide financial advice to tenants;
- increased difficulties in collecting rent payments due exacerbated by the difficulties some low income groups experience in opening bank accounts leading to a potential need for additional housing management staff;
- the knock-on effects of a reduction in cash flow due to rising arrears levels and associated costs so preventing improvements in the service to tenants;
- if the rental stream of is jeopardised it will impact upon lenders' willingness to invest in the sector.

5. APSE Comment

The coalition government's approach to funding public services since the last election and the Comprehensive Spending Review has seen significant cuts as part of its wider strategy of deficit reduction. The announcements and policy developments regarding welfare changes are part of this wider strategy with the stated aim of reducing welfare dependency and therefore the cost of welfare by making 'work pay'. This is a controversial policy which has implications for some of the poorest sections of our communities as well as local authorities.

The continued economic downturn means that resources will continue to be scarce and local authorities and social housing landlords will inevitably have to take some difficult decisions that will impact upon tenants who are in receipt of welfare support. Whilst there is general consensus amongst the main political parties that the nature and complexity of welfare benefits requires reform and enabling people to better manage their own finances and to take more personal responsibility should be an objective of public policy, the changes have been widely criticised because of the likely impact on some of the poorest sections of our communities.

With regard to direct payment of Universal Credit to tenants, the impacts remain to be seen but there is a clear danger that some tenants will find themselves in arrears and unable to pay, will panic as a result leading to further problems of debt, stress and vulnerability and possible eviction, with all the associated costs that involves. Managing budgets which will be substantially bigger than those they have previously had to manage without proper support is likely to be difficult for many people. Having to manage their finances online will be a further complication and the inability of some people to access bank accounts means the

new arrangements will be virtually impossible to manage properly. This will put a real strain on both tenants and landlords and the organisations most likely to manage this situation successfully, will be those who know their tenants best and are able to quickly direct support to where it is needed.

The priority for all housing providers is the protection of vulnerable tenants. It is acknowledged that one outcome for those tenants who get into arrears would be to allow them to switch their payment back to landlords. Landlords would be able to make a case for direct payments to be made to them in instances where tenants could be shown to be vulnerable. However there is no definition of the term 'vulnerable' for the purposes of administering Universal Credit as DWP feel that an attempt to do so would risk some people with complex needs falling outside of the prescribed definitions and then not receiving help that they may genuinely need. It is anticipated that once a tenant reaches a certain rental arrears position it would trigger a meeting with a housing officer who could provide support. Although the option is in place to transfer the payment back to the landlord, a substantial level of arrears may have developed which the landlord finds it impossible to get from the tenant over time.

Providers need to be in a position where they can process the return of payments back to landlords as quickly as possible to avoid undue build-up of further arrears. This may well include the agreement of a local definition of 'vulnerability' which can be used to prompt the process.

There will also be a higher chance of eviction due to rent arrears with council officers having to make decisions about eviction of tenants who would have been unlikely to be in such a position without the introduction of direct payments.

Councils who have retained their housing stock have almost universally backed the arrangements brought in for self-management of their rental income and the production of 30 year business plans providing a long term plan for their future – something they could not arrange previously. Those plans involved a lot of work and have produced a change in culture in many local authorities with a greater emphasis on asset management and planned investment rather than the piecemeal reactive approach which was common prior to self-management. Any changes to the predictions made when these plans were established can have a dramatic effect on the long term future of the HRA.

Clearly, large rises in rent arrears coupled with the extra cost of managing and retrieving arrears and supporting those in arrears, will have a big impact on the HRA. The cost of keeping day to day services running will take first call on available finance so the reductions in budgets will hit investment plans for large refurbishment schemes and plans for new build. Many councils are planning for bad debts emerging directly for rent arrears as a result of direct payments. The figure of £100m quoted above certainly provides food for thought.

The current cap on borrowing means that councils are unable to find the resources needed to build homes in the numbers they would like to. APSE has long called for councils to be given the freedom to build in larger numbers. The argument has been made by many regarding the benefits of such an approach and include generating work within the construction sector, job creation and training, meeting the demand from a growing population, helping to address youth unemployment, filling the gap left by the private sector and making up for the shortfall which has developed over many years of under supply. Further work to refurbish older properties, install renewable and energy management technology and provide homes for the ageing population provide further arguments to adopt this policy. APSE will continue to argue for councils to be given the freedom to build more homes. It remains an especially important argument when it would appear that the small steps taken towards this aim via self-financing will be lost through the introduction of Universal Credit. Furthermore those landlords letting to tenants receiving Housing Benefit may be less likely to do so in future if the fears about rent arrears increase do materialise, thus putting further strain on social providers. This is added to the effect of the cap on benefits which means that some private sector properties (concentrated in the South East) will be beyond the reach of those on Housing Benefit and put extra pressure on the social rented sector.

There will be different levels of stress on the system in different geographic areas across the UK with the most deprived areas being those most likely to experience higher levels of arrears both as a result of other welfare changes and housing more vulnerable tenants. The situation in London, where overcrowding remains a more severe issue than in the rest of the UK, is clearly driving the new size criteria (under occupancy charge). However, the under supply of all property sizes and tenures remains a problem and affordability also remains a problem in all sectors. Overcrowding is a universal issue purely as a result of under supply of properties - and this is the crux of the problem.

The private sector can not produce the number of units needed – the sector has never done so in the past and the price reductions which result when supply meets demand means it has no incentive to do so in future. That leaves the private rented sector, the social rented sector and council providers to make up the shortfall. From councils' point of view, the benefits that have been gained through self-financing could be lost due to the impact of large scale rent arrears and loss of projected income. For housing associations, the impact of greater rent arrears on cash flow is likely to cut funding routes that have previously come from institutional investors. We may well see a move towards amalgamation of some smaller housing associations which see benefits in coming together to reduce the impact of large rent arrear levels.

The under occupancy charge will certainly result in further hardship for some already poor tenants. Those that have lived in their homes for a number of years will be reluctant to move, understandably so, and will have to pay the charge. It would be a more acceptable policy if there were adequate properties in communities into which those in so called under occupied properties could move. However, the lack of supply of all property types means that alternatives are not available to all who fall into the under occupancy category. Discussions about which will tenants qualify and those who won't (as well as the issues surrounding subletting rooms), simply spreads misunderstanding and concern. The success or otherwise of this policy relies on the ability of the landlord to have alternative accommodation available to offer tenants. This is unlikely with 2 million families currently on council housing lists.

Overall it is very likely that there will be a much greater reliance on support from housing officers to help with managing money in general, debt management and rent arrears as well as the mental stress many will feel as a result of getting into financial problems. Putting in place support prior to the introduction of direct payments may well alleviate some problems, but evidence from the pilots is such that this type of initiative will have little impact. The traditional sources of support such as Citizens Advice Bureau have suffered from reduced budgets and may not have the capacity to provide extra support. Again the need for effective planning by landlords is paramount.

Many providers of public services have taken full advantage of developments in technology to provide better and cheaper services, to react quicker to citizens' requests, to ensure staff, councillors and service users are better informed and to keep costs down. There will be some service users and welfare recipients who for reasons of health, finance or lack of education are unable take advantage of such developments. In the context of housing, the role of the landlord is to identify those who will struggle and put support in place to make sure there are positive outcomes. Further changes are likely to come along which will mean new ways of working and all involved will need to adapt to new circumstances.

The fact remains that there are not enough properties of any sort in the UK for a growing and changing population and the impact of welfare reform is likely to have an adverse impact on this situation at least in the short to medium term. There is a need for councils to act as advocates on behalf of their communities in order to make the case for investment in housing with all of the wider social and economic benefits that this can bring. The recent calls for the construction of more council and social housing even at Government level means that there is a recognition that this can have positive economic benefits during a prolonged economic downturn. Local authorities need to make the case effectively to central government for more resources to support the construction of new homes.

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