

**“Support for housing costs in the reformed welfare system”**

**PlaceShapers submission to Work & Pensions Committee Inquiry**

**1. Background**

- 1.1 PlaceShapers is a network of over 100 community-based housing associations formed in 2008. Between us we own more than 700,000 homes and provide services to more than two million people. These include health services, social care and a range of community services.
- 1.2 Together we completed over 40,000 new affordable homes between 2008 and 2012 and we collectively plan to invest around £5bn to deliver a further 32,000 homes by 2015. As an alliance, our views therefore represent those responsible for over a quarter of the sector’s housing stock. Details of our members and more about what we do can be found on our website: [www.placeshapers.org](http://www.placeshapers.org)
- 1.3 We are pleased to provide this submission to assist the Committee’s inquiry into the impact of changes in the provision of support to meet housing costs in the reformed welfare system. In doing so, we have included evidence from our members (some of whom may have made their own submissions to the inquiry) on the emerging effects of changes implemented. We have also drawn on feedback we provided to CLG and DWP staff in January of this year when invited to discuss our concerns about the planned reforms.

**2. Our submission**

- 2.1 For the purposes of your Inquiry, we have limited our submission to discussion of key issues of particular importance to us, each of which we return to below. These are:
  - The impact of welfare reform on our communities (section 3 below);
  - The effect of welfare reform on our tenants – experience so far (section 4 below);
  - How HAs are supporting people into work (section 5 below);
  - The impact of welfare reform on HA finances and development capacity (section 6 below); and
  - Concluding comments (section 7 below).

### **3. The impact of welfare reform on our communities**

- 3.1 It is clear from the feedback we have received that the impact of welfare reform will be variable around the country. This is not a surprise to us and reflects the diversity of communities, local economies and housing markets. Whilst we understand that the government will seek composite headline facts and figures we expect that such data may mask the reality of this diversity and would urge continuing attention to the impact at a regional level.
- 3.2 A case in point here is the “spare room subsidy” or “bedroom tax”. Whilst all HAs report likely adverse impacts on their communities of the reforms as a whole, the bedroom tax is of huge concern to those in the Midlands, the North and in some rural communities where much of the housing stock comprises larger properties and flexible allocation policies have been promoted by partner LAs. Planned under-occupation has facilitated long-term residence as families grow as well as securing acceptance of low demand stock –e.g. in high rise blocks – thus reducing void costs.
- 3.3 The proportion of our members’ tenants affected by the bedroom tax ranges from 5-20%, the higher levels being in the North where many HAs have several thousand under-occupying households. They will not be able to move tenants who want to downsize due to the scarcity of smaller properties and there is the potential for an oversupply of 3Bed + vacancies (with a consequent impact on void costs) if new applicants with a strict 2bed need are unable to accept larger properties for financial reasons. This in turn will increase waiting times for smaller properties with an impact on temporary housing costs. And where tenants are able to move they may have to move far away from their friends, family and support networks and also from the schools which their children attend causing great upheaval and isolation.
- 3.4 An example here is a Midlands housing group with over 600 tenants affected by the bedroom tax and mainly “under-occupying” 3 bedroom properties. This HA does not have large families in overcrowded conditions waiting for 3 bedroom homes and such properties have now become much harder to let because the demand in the area is now largely for 2 bedroom homes. An analysis of 3-bedroom lettings in July 2013 showed that all were let to those with low needs and in some cases it took more than one bidding cycle to allocate any household to these properties at all.
- 3.5 Whilst changes to specific benefits are of concern, our members are equally worried about the cumulative effect of reforms on their residents and the blanket application of changes across the country. Many reforms will happen consecutively with the impact of the bedroom tax, benefits cap and consolidated single UC payment hitting

people at the same time as they are, for example, also possibly required to pay contributions towards council tax or face losing disability payments. This combination of events in addition to the 1% cap on future benefit uplifts will create significant financial pressures on communities. Growing homelessness as debt related evictions increase with visible signs of acute poverty are inevitable.

#### **4. The effect of welfare reform on our tenants – experience so far**

- 4.1 Across the country our member HAs have prepared for welfare reform, assessing the likely impact and developing action plans in response. All are in touch with their tenants to develop increasing awareness and to offer specialist support. They are doing this in a variety of ways including 1:1 contacts, road shows, mailshots, social media campaigns, telephone campaigns, targeting those considered to be in the most vulnerable situations and partnerships with their LAs and other agencies to share experience and good practice. Some are working in partnership with credit unions to create new jam-jar account facilities and others are taking a lead on efforts to increase digital inclusion. In addition, all of our members are extensively involved in worklessness initiatives (see section 5 below).
- 4.2 Tenant awareness and understanding of welfare reform and the implications for them personally remains mixed at this stage. The main response of those affected by the bedroom tax appears to be that they will just find ways of paying to stay or will try to occupy their homes to the full. Even where tenants are prepared to move, the shortage of available smaller properties means that for most this is unlikely within realistic timescales. Another Midlands member reports that it would take around six years to accommodate their 800 affected customers in smaller homes if they all wanted to move. Furthermore, it is already clear that any savings to be made from tenants moving to smaller homes may not materialise. For example, a different member confirms that of the few tenants they have helped to downsize, 12 out of 15 of them are now paying higher rent / service charges – an increase to the exchequer of between £2 - £14 per week.
- 4.3 The impact on those who have disabilities is extreme. Many such tenants live in specifically adapted properties and it is practically impossible to transfer them to smaller properties because of the nature of their disabilities and resulting housing need. Our members are trying to help these tenants stay in their homes, for example by trying to find different uses for 'spare' bedrooms and maximising incomes, but the reality is that most will have to find the additional money to cover the housing benefit shortfall and will struggle to do so.

- 4.4 Changes to Council Tax benefit have compounded the impact of the bedroom tax for some and added an additional household cost for those not impacted by other changes. Local authorities are now free to determine their own council tax benefit scheme but the financial support available has been cut by 10%. This has left councils with difficult choices and the majority have decided that working age households who previously may have had their council tax bills covered in full will have to pay something.
- 4.5 The result is that we are already seeing tenants get into rent arrears with up to 50% of those affected now in debt, including those who had previously always had clear accounts. This situation we believe can only get worse as additional reforms bite and, crucially, as those lucky enough to have received Discretionary Housing Payments (DHPs) from their LAs find this temporary support withdrawn.
- 4.6 Our members have real concerns about the mounting debts such tenants may accrue and the impact on their families, debts that will travel with them through no fault of their own if they do secure a move. There is increasing evidence of tenants being sold exorbitantly expensive payday loans and getting into an impossible cycle of debt when unable to repay these. The CAB services with whom our members work locally are already reporting huge increases in demand for debt support and not just in areas of traditionally high need. For example, a Surrey member reports that their CAB saw a 41% increase in the total debt of those they were helping between 2011/2 and 2012/13 – a jump of £2.2m even before the roll-out of key welfare reforms.
- 4.7 Many tenants may have unrealistic expectations of how they will manage and are already saying they will go without heat and / or food to make ends meet. 2,200 families in Knowsley are already known recipients of foodbank donations and increasing use of such services is now being reported all around the country.
- 4.8 The government lays great emphasis on the availability of DHPs to support vulnerable claimants affected by welfare reform. Despite this fund being increased, our experience is that the demand for assistance far outstrips the available payments and even where additional support is approved there is no guarantee that this will be maintained in the long term for residents whose complex needs are unlikely to change. Furthermore, many cases involving severe hardship are being turned down.
- 4.9 One of our Southern members reports that their local council has already spent more on DHP in Q1 than they will be able to budget for in Q2, 3 and 4 and that therefore DHPs will be more difficult to obtain later in the year. Other LAs appear to be rationing awards in an effort not to use the fund too quickly.

- 4.10 A case in point is an East-based member who reports that whilst their LA is supportive they are declining around half of the DHP applications received. An example includes a severely disabled tenant hit by the underoccupation charge because a relative was caring for her son temporarily whilst she recovered from a leg amputation and awaited the fitting of a prosthetic limb. Her DHP application was turned down because she had taken out a new Sky subscription. The HA helped her appeal this decision on the basis that this supposedly unjustified expense provides an essential means of communication (including internet grocery shopping) but was again unsuccessful. The tenant's mental health has deteriorated as a result of these stressful circumstances and she is struggling to cope financially. This HA also reports a 25% increase in referrals to the local CAB for specialist debt and money advice.
- 4.11 Another Midlands member reports that it has 95 of its most vulnerable tenants currently on DHP but that once their DHP awards end – most of which will be in the next two months – these tenants will be at serious risk of losing their tenancies as there is no 'additional' income available to cover the shortfall in housing support.

## **5. How HAs are supporting people into work**

- 5.1 All of our members are involved in worklessness projects. This has been part of the "day job" for some time. Our own research in 2011 confirmed that just 38 of our members had already helped 10,000 young people into work. Such support has continued with renewed emphasis.
- 5.2 Our members run volunteer schemes to provide valuable work experience, employ apprentices either directly or in partnership with contractors, provide recruitment skills training and support, work closely with local schools, colleges, recruitment agencies and Job Centre Plus and support the growth of new social enterprises.
- 5.3 However, despite these efforts and the positive results achieved in some areas, there is continuing concern about the ongoing lack of secure jobs or additional hours of work. Our experience is that very rarely is being out of work a lifestyle choice.

## **6. The impact of welfare reform on HA finances and development capacity**

- 6.1 Our members are concerned about a range of factors that will impact on their finances negatively and could combine to cause strain on revenue streams, borrowing and development capacity. Whilst it is difficult to predict the outcome accurately at this stage, the HA risk profile has changed significantly from one of organisations with an assumed "safe" income stream to a future picture reflecting increased uncertainty.

## 6.2 Concerns can be summarised as follows:

- 6.2.1 An assumed increase in rent arrears (which previously averaged 2-5%) with a doubling of these rates in many cases. Significantly, the assumption is that much of this increase will not be easily recoverable and therefore HAs are increasing their business plan provision for bad debts by 1-2%. For example, a Northern member reports that of 644 households affected by the bedroom tax, 41% have not been able to make any payment so far towards the shortfall and only 29% have made the payment in full. If this pattern continues the HA stands to lose close to £250k in rental income.
- 6.2.2 The concerns around housing costs being included in Universal Credit payments rather than being paid directly to landlords are well documented. We are particularly worried that under UC job seekers who are subject to sanction will lose all their benefits and risk losing their home too whereas those being sanctioned currently do not lose Housing Benefit. We are also concerned that “vulnerable” people who are not living in specialist accommodation will be expected to self-determine their vulnerability in order to have their housing costs paid direct to landlords, a requirement that is unlikely to protect those most in need of support.
- 6.2.3 Increased operational costs as HAs take on additional staff (or partner with other agencies to do so) to try to mitigate the impact – e.g. welfare advisers, income collection staff and digital inclusion support staff.
- 6.2.4 Increased transactional costs for rent collection as a result of UC being paid in one sum direct to tenants. Estimates for the increased cost of collecting payments from every individual tenant in receipt of benefit (rather than receiving bulk payments from LAs) range from £50k-£350k per HA.
- 6.2.5 Increased legal fees for enforcement action with some uncertainty as to how courts will cope with and respond to increased repossession claims.
- 6.2.6 Increased void turnaround costs due to difficulty in letting unaffordable larger units, increased evictions and many LAs passing on council tax benefit cuts by removing relief on void properties (the impact of which alone was estimated as £100k pa by one member).
- 6.2.7 Real concern that if rent arrears convert into long-term bad debt this will impact adversely on the ability to comply with loan covenants and cash flow with a consequent impact on the financial health of the sector generally. In

this light, housing associations will have little scope for leniency regarding arrears recovery or enforcing repossession orders with an inevitable impact on homelessness rates.

6.2.8 A knock-on effect on development capacity resulting from predicted increases in operational costs and reduced revenues. Feedback from members suggests this could mean reductions of up to 15% in development plans, equating to almost 5,000 new homes. Linked to this is a likely reduction in the supply of larger properties given concerns that incoming tenants will not be able to cover rent payments.

6.2.9 The likely drying up of the supply of privately leased temporary housing for the homeless, particularly in London where owners are likely to look for tenants able to pay more than the housing benefit cap.

## **7. Concluding comments**

7.1 It is clear from the above that housing associations have very real concerns about the negative impact of welfare reform on their communities and their own business models. Whilst the full impact of reforms is not yet clear and this is likely to vary by region, our members are making prudent adjustments to financial plans in order to mitigate the risks and to maximise the support available to affected tenants.

7.2 We would welcome any influence that the W&P Select Committee is able to have in achieving the following:

7.2.1 Recognition that the bedroom tax is already having a significant adverse impact and that this is particularly so where there is not scope for affected households to downsize. In the absence of this measure being repealed (a decision we would support), an obvious solution is for there to be discretion to waive the tax where local housing markets justify exemption, a move that would surely be consistent with the Government's localism commitment.

7.2.2 Recognition that the Local Authority DHP scheme is not protecting the most vulnerable residents from financial hardship and cannot be relied on to do so.

7.2.3 Continued government action to ensure accelerated broadband Internet access for our communities, within which 40-60% of residents are currently digitally excluded and recognition by DWP that broadband payments do not constitute an unnecessary luxury.

- 7.2.4 Acknowledgment that HA revenue streams are at risk from the changes and that this is impacting negatively on financial plans and development capacity. Any influence that the Committee can have to mitigate these risks is welcomed. In particular this should be to ensure that the housing element of UC can be paid direct to landlords more quickly and in the longer term once arrears are accruing. The pilot projects show that tenants get into unmanageable amounts of debt if housing payments cannot revert to landlords until 8 weeks have elapsed. With “affordable” weekly rents in London not uncommon at £250 it seems irresponsible to wait until a tenant has accrued arrears of over £2k before agreeing that housing costs can again be paid direct to landlords.
- 7.2.5 An ongoing commitment to learn lessons from the reforms and for policy and practice to be subject to change in the light of experience.