

CANNOCK CHASE COUNCIL

HOUSING POLICY DEVELOPMENT COMMITTEE

10 JANUARY 2012

REPORT OF THE HEAD OF HOUSING

HOUSING IMPLICATIONS OF THE GOVERNMENT'S WELFARE REFORM AGENDA

1. Purpose of Report

- 1.1 To consider the potential implications arising from the Government's Welfare Reform agenda for the residents of the District across all housing tenures.

2. Recommendations

- 2.1 The Housing Policy Development Committee are recommended to:

- (a) note the contents of this report
- (b) agree to receive further reports in relation to the Government's Welfare Reform agenda.

3. Summary (inc. brief overview of relevant background history)

- 3.1 In the emergency budget on 22 June 2010 the Government announced significant changes to housing benefit and local housing allowance. The impact of these proposed changes will affect both social and private tenants and landlords.
- 3.2 The Government subsequently introduced the Welfare Reform Bill in February 2011. Whilst the Bill further develops some of the changes previously announced in the emergency budget, the major housing related implications arise from the introduction of a 'Universal Credit'. Universal Credit is a single income-replacement benefit for working-age adults which unifies the current system of means-tested out of work benefits, tax credits and support for housing. Universal Credit is proposed to start in October 2013 and forms part of the Government's proposals for reforming welfare to improve work incentives, simplifying the benefits system and tackling administrative complexity.
- 3.3 Welfare reform will have implications for all claimants of welfare benefits and will impact across all housing tenures. Whilst, not all the implications for the introduction of Universal Credit are yet clear and its introduction is around 18 months away, there are a number of changes that are a cause for concern.
- 3.4 This report considers the implications on claimants' ability to obtain and sustain their homes together with implications for the provision of housing services that may arise as a result of Government welfare reform.

4. Housing Benefit Changes

4.1 Five key changes concerning housing benefits were proposed by Government last year in the emergency budget which will have a range of implications for claimants:

- a) Reduction of Local Housing Allowance (LHA) rates to the 30th percentile level of local rents;
- b) Deduction of housing benefit for non-dependants;
- c) Shared accommodation rate of housing benefit extended to single persons under 35;
- d) Housing benefit for social tenants (Council and Housing Association) restricted for under occupation by two or more bedrooms;
- e) Household welfare payments to be capped (initially proposal of £500 per week).

(a) Reducing the LHA rate to the 30th percentile

4.2 Reducing the LHA from the 50th percentile to the 30th percentile creates a loss in the amount of LHA awarded for each property size. This change affects those claiming the former five bed room rate the most, a loss of around £90 per week at most. This proposal is predicted to have the largest impact on customers.

4.3 A report from the DWP in June 2010, entitled 'Impacts of Housing Benefit proposals: Changes to the Local Housing Allowance to be introduced in 2011-12', assessed the implications of setting LHA rates at the 30th percentile. The report predicts this change will affect 1190 households in the District, as set out in the table below:

	Shared Room	1 bed	2 bed	3 bed	4 bed	5 bed
Number of claimants	120 (97%)	420 (90%)	520 (91%)	120 (74%)	10 (30%)	-
Average loss (£p/w)	-10	-7	-4	-9	-11	-

4.4 This is a relatively big impact, given that the caseload of LHA claimants at that time was 1,450 and as a result 82% of households will suffer a loss under this proposal. The average loss ranges from £4p/w up to £11p/w. Almost all the claimants of the shared room rate will be affected, losing an average of £10 per week each.

4.5 The shared room rate group is likely to experience the biggest impact. As rents are already hard to meet with the shared room rate, a decrease will only make it more difficult for single person households to sustain a tenancy with a smaller amount of money to cover housing costs. Furthermore, clients may need to move from their current accommodation into cheaper, smaller and poorer quality housing resulting in increased occurrences of overcrowding. The Council could also see an increase in the number of applications for Discretionary Housing Payments and increases in approaches for Housing Options and Homelessness assistance.

(b) Deduction of Housing Benefit for non-dependant persons

4.6 There will be a deduction of housing benefit within a claimant household where non-dependants are present. Deductions will gradually increase relating to the non-dependant's income. The current rates require those aged 25 or over who are not working or earning up to

£120 gross per week to pay £9.78 towards the rent. For non-dependants earning between £120 and £178 per week their deduction rises to £22.41.

- 4.7 The impact is particularly difficult for under 35's. On the one hand non-dependants who are working, may be under pressure to move out due to the effect their presence will have on the benefit payable to the claimant. However if they do move into rented accommodation the restrictions coming into place for a single person under 35 means that in all likelihood they will be unable to afford rented accommodation even with some help through the benefit system. This could in time see increases in approaches for Housing Options and Homelessness assistance. It is also possible that there will be an increase in fraud cases whereby housing benefit claimants may fail to declare that a young person is residing at their address to avoid paying the charges.
- 4.8 In respect of Council Tenants the Rents Team report that the principle of obtaining payments from non-dependents is difficult for many families to accept and that non-payment often leads to significant rent arrears. Whilst the number of arrears cases with non-dependents will not rise with the new changes, the level of arrears caused through non-payments of non-dependent deductions is likely to increase, resulting in an increase in approaches for debt and benefit advice.
- 4.9 Whilst these first two changes came into force on 1 April 2011, there has as yet been little measured effect. As part of these changes Government announced a nine month transitional payment protection period, whereby claimant's original level of housing benefit would be maintained. The transitional protection has meant that customers have not seen an immediate reduction in their benefit and consequently no immediate need for additional help towards their housing costs.
- 4.10 However for the majority of customers the 9 month protection ends on 31 December 2011 and it is anticipated there will be an increase in the number of DHP applications. In addition, whilst there has been no overall increase in Housing Options activity, there has been an increase in enquires from 16-24 years olds from 268 in period June-October 2010 to 443 in the same period in 2011. It is therefore anticipated there will be further increases in approaches for Housing Options and Homelessness assistance in the first quarter of 2012.

(c) Shared accommodation rate of housing benefit extended to single persons under 35

- 4.11 On 1 January 2012 the shared accommodation rate of housing benefit will be extended to single persons under 35 and is considered to have the most significant implications for households in the District. Currently the shared room rate applies to single people under the age of 25 living in private rented accommodation. As a result single people under 35 years old will no longer receive Housing Benefit based on one bedroom privately rented self contained accommodation.
- 4.12 As identified in the report 'Rough sleeping and the housing needs of young people in the Cannock Chase area', the District has a lack of shared accommodation. For many people, shared accommodation is not appropriate, particularly for vulnerable people and young women. This change could result in people inappropriately sharing poor quality housing.
- 4.13 It is anticipated that applications for Discretionary Housing Payments will increase as a result of this change. There is an estimated £25 difference between shared room and single room rates.

As stated above there is a lack of shared room accommodation and it is anticipated that this may drive up the rents at the same time as the benefit rates are falling. The DWP have, for the first time, allowed local authorities to carry over their under-spend of DHP and have also increased funding for 2012-13.

4.14 Housing Benefit figures for the number of single applicants aged under 35 who currently claim the one bedroom LHA rate stands at 172 claimants. Of these 121 claimants aged 25-34 will no longer be eligible to claim the one bedroom rate and will have to cover their housing costs with the shared room rate. However, it will not be possible to meet the expected shortfall for all customers who are affected and as a result some tenants may be at risk of losing their home if they are unable to meet the shortfall. It is therefore further anticipated there will be further increases in approaches for Housing Options and Homelessness assistance in 2013 from this group.

(d) Housing benefit for social tenants (Council and Housing Association) to be restricted for under occupation by two or more bedrooms.

4.15 As of 1 April 2013, Housing Benefit will be restricted to the amount payable for a property that matches the claimant's household size plus one spare room. This is subject to approval in the House of Commons, as this is a late amendment from the original Government proposal to restrict housing benefit to exactly match household size as per LHA.

4.16 This proposal will apply to all working age tenants renting from a social landlord i.e. Council and Housing Associations. People of "working age"*1 in social housing will no longer be able to claim HB on a property deemed bigger than their needs. Full details of the amendment are not yet clear but the amendment proposes to allow tenants to receive full housing benefit if they have no more than one spare room or if no other suitable alternative accommodation is available.

4.17 It is not currently possible to determine how many households in the District are under-occupying the social housing stock. However if it is estimated that 10%*2 of the stock is under-occupied by two or more bedrooms, the impact would be:

	No. 2, 3 & 4 bedroom properties	No. of under occupied properties
Council	2224	222
Housing Association	950	95
Total	3,174	317

4.18 As a worst case scenario, where tenants are unable to meet the shortfall there is likely to be an increase in demand for smaller, and therefore cheaper, accommodation. If this demand cannot be met it may result in a proportion of these tenants at risk of losing their homes with the resultant increases in approaches for Housing Options and Homelessness assistance after 1 April 2013.

- 4.19 Where under occupation is two (or very rarely three) bedrooms the reduction of up to £100 in benefit could well result in tenants requesting to transfer to smaller accommodation. The Council's current allocations policy does not allow tenants in arrears to transfer unless they are exceptional circumstances. At present households with two bedroom under occupation are given a Band 2 need and it is likely that they may have to wait two years or more for a move. During this period if the tenant were required to pay the shortfall it could amount to around £2,400. Failure to pay would result in repossession action being taken before the offer of a move. It may therefore be necessary to review the Council's policies and services relating to allocation of accommodation and arrears management to avoid this scenario.

Notes

*1 The change does not affect tenants of pensionable age.

*2 National rate of under occupancy for social rented housing is 11.2% according to English Housing Survey 2008-09. 'Under occupancy' defined as two bedrooms above the bedroom standard.

(e) Household welfare payments to be capped (initially proposal of £500 per week).

- 4.20 A further measure to be introduced on 1 April 2013 is the capping of household welfare payments, initially proposed at around £500 per week (or £26,000 per annum). This will have an impact on larger families who are entitled to higher levels of support to reflect their additional needs. It will have the effect of further reducing the Housing Benefit caps and entitlements, making it even harder for larger families to find properties that are affordable to them.
- 4.21 The impact of shortfalls will depend in part, on a household's overall housing costs. Housing is considered unaffordable to an individual household if it costs more than 25% of their gross income per week. The 4 bed LHA rate for November (£167.31) equates to 33% of the proposed £500 cap. Therefore if the household already has a shortfall between rent and LHA then this could create budgeting issues. If housing benefit claimants prioritise rent and bills over other spending then expenditure e.g. on food or heating it could have a detrimental impact on health and well-being. On the other hand, if rent and bills were not prioritised then rent arrears leading to repossession and potential homelessness. However, it is anticipated that the number of affected households will be small.
- 4.22 Overall changes to housing benefit may have significant impacts for housing services in particular:
- (a) Increased number of approaches for debt, budgeting and benefit advice when tenants both Council and private cannot meet the shortfall between housing benefit and rent.
 - (b) Increased number of approaches for Homelessness and Housing Options assistance when tenancies are unsustainable
 - (c) Increased demand for smaller accommodation from the Council's stock when the tenant is no longer eligible to receive housing benefit for the size of property they occupy.
 - (d) Increased supply of family sized accommodation for letting to waiting list applicants as a result of households moving to smaller accommodation.

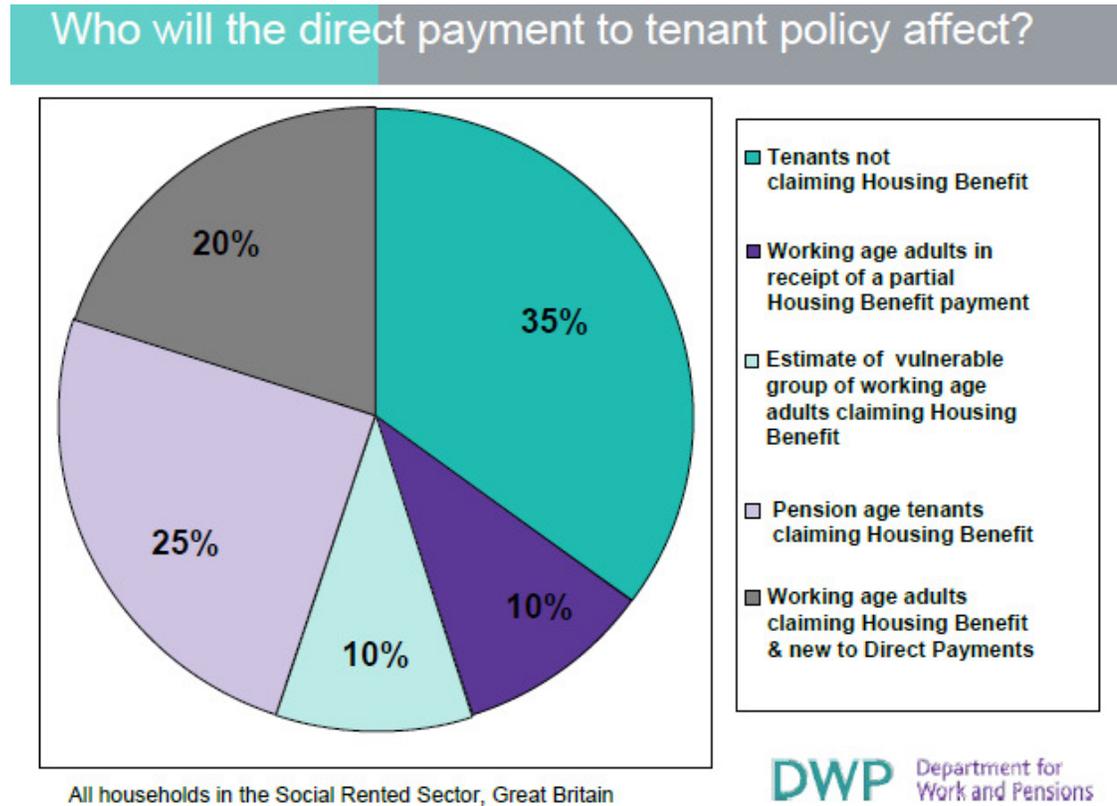
- 4.23 The changes may have an impact on the Council's partners or other service providers within the District for example:
- (a) Increased demand for advice services such as budgeting skills and debt advice from tenancy support partners and advice agencies.
 - (b) Increased demand for smaller accommodation from Housing Associations and private landlords in particular shared accommodation.

5. Welfare Reform Bill – Proposed Changes

- 5.1 The major proposal in the Welfare Reform Bill is the introduction of Universal Credit. Whilst this has not been fully developed, preliminary proposals imply that it will have a significant effect across all housing tenures for all claimants of welfare benefits.
- 5.2 Universal Credit is expected to be introduced in October 2013, with individuals being migrated to Universal Credit over the subsequent four years, by October 2017. As with the aforementioned housing benefit changes, a proposed nine month transition protection payment period will apply. This will ensure that there will be no cash losers as a direct result of the move to Universal Credit where a household's circumstances remain the same. As a result it is not expected that the full implications will be felt for several years due to the long timescales for implementation.
- 5.3 Universal Credit is intended to be treated like a monthly salary. The monthly payment will include housing costs which will form a significant part of most claimants' overall benefit. As a result, claimants will be required to manage their household budget from within the Universal Credit payment including the full payment of their rent. Claimants who previously had their housing benefit/LHA paid directly to their landlord (and are not accepted as vulnerable) will have to make rent/interest payments to their landlord or mortgagor as part of their household budgeting. Where claimants fail to budget appropriately their tenancy or mortgaged property may be at risk.
- 5.4 Housing costs for social housing tenants will be awarded at a similar level to housing benefit amounts and will carry forward the housing benefit/LHA proposals outlined above. Those households claiming support for mortgage interest payments are expected to continue to receive a similar value, although this is subject to Government consultation from December 2011.
- 5.5 Claimants in private rented accommodation will be awarded sums to enable them to access the bottom 30% of market rents. However the Government currently propose to link these sums with the Consumer Prices Index rather than local market costs. Linking LHA with CPI could, over time, severely exacerbate shortfalls between benefit payments and the rents people have to pay. It could mean in future that private rents become unaffordable for LHA claimants. Research from Shelter found that rents in the District will become "very unaffordable" for LHA claimants by 2023, 10 years after this proposal comes into force. "Very unaffordable" is classed as less than the bottom 10% of private rents being affordable with the maximum LHA.
- 5.5 The policy of direct rent payment to tenants will have implications for the Council in respect of rent collection. The Council received £17 million of rent income in 2010-11, of which £11 million

was paid to the Council through Housing Benefit. Therefore over 60% of the rent debit was guaranteed to be received. With the introduction of payment direct to tenants a proportion of this guaranteed amount will have to be collected from tenants.

5.6 The DWP estimates the following effect of the direct payment to tenant policy:



5.7 Under Universal Credit based on the DWP estimates the impact for Cannock Chase Council will be that the £11m of guaranteed rent debit will now be received by the following methods:

- (i) £6m p.a. will continue to be received direct from:
 - (a) The 25% of tenants who are existing pensioners on housing benefit who will continue to have their rent paid direct. New pensioners though will have the choice to have their housing costs paid to them.
 - (b) The 10% of working age tenants who will be classed as vulnerable
- (ii) £1.5m will no longer be received by direct payment but is expected to be paid by the 10% of working age tenants who currently receive partial housing benefit and who, according to the DWP, are not expected to be affected by the change.
- (iii) £3.5m will no longer be received by direct benefit from the 20% who currently receive full housing benefit and will be affected by this change.

- 5.8 It is difficult to get a more accurate estimate of the impact as it is not possible to calculate the proportion of current housing benefit that is paid by pensioners in this District and those households who might be considered vulnerable under Universal Credit. However, based on the above DWP estimates and an average weekly rent of £65 it is estimated that:
- 1,076 households will receive their benefit in full;
 - The current ratio of tenants in arrears is 55%, therefore 592 households will be in arrears;
 - On an average weekly rent of £65, non payment of one week by 592 households equates to £38,480 (a 16% increase on the current rent arrears total £241,191 (as at October 2011)).
- 5.9 It is also possible that some households who currently receive partial housing benefit (and whom the DWP state will not be affected) but who will receive the full amount under Universal Credit will also fall into arrears, as they will find themselves with extra income at their disposal but unable to budget sufficiently to pay their rent in full. Based on the same ratio it is estimated:
- 461 households would be affected
 - 253 households in arrears.
- 5.10 Housing Association tenants will be similarly affected with working age tenants no longer having their rent paid direct to their landlord. There is a stock of approximately 1160 general needs properties in the Cannock Chase District and based on the same ratios it can be estimated that a further 191 households may fall into rent arrears.
- 5.11 It is therefore considered that the increase in potential live arrears cases, and the higher level of arrears from those in under occupied properties together with the affects from those tenants who lack budgetary skills, will result in a significant increase in the number of households facing repossession.
- 5.12 These concerns have been raised by Housing Providers and Housing Charities resulting in the Government announcing the establishment of some six small-scale demonstration projects to prepare for the changes. The demonstration projects will test some key elements of social sector housing support under Universal Credit while protecting social landlords' financial position. The demonstration projects will include:
- Direct payments to tenants being the default;
 - Adopting the payment frequency envisaged under Universal Credit. This is likely to be monthly payments in arrears;
 - Safeguards to pay the landlord directly where necessary. (N.B. The Government will define the details of how the safeguards will operate during the project, which will be generally rules based and automated, simulating the approach within Universal Credit.

- 5.13 The demonstration projects are expected to run in some six local authority areas from June 2012 to June 2013, with a five-month lead in starting in January 2012. With the introduction of Universal Credit set to commence in October 2013 there is considerable concern that any required changes arising from the demonstration projects will not be sufficiently developed before the commencement date.

6. **Future Proposed Actions**

- 6.1 The Council and other partner agencies are currently supporting the Cannock Chase CAB to develop a project which could help mitigate the implications of the Government's proposed welfare reform measures. Following an outline bid to the Big Lottery Fund's Improving Financial Confidence funding stream the project has now been invited to make a full application.
- 6.2 The project is being developed to help initially new, and in the longer term existing, social housing tenants with the ability to budget and cope with lump sum payments that they will receive under Universal Credit. The project will also promote credit unions savings schemes and to educate against the dangers of "loan shark" organisations. Training will be given to staff from partnership agencies to become more equipped in promoting savings and budgeting.
- 6.2 Further analysis of the impact of both the changes to housing benefit and then Universal Credit will need to be undertaken to determine changes to the way in which services in particular Housing Options and Homelessness and Arrears Management are provided to meet the needs of claimants.
- 6.3 Information on changes for Council Tenants will be provided through the Hometalk magazine prior to the implementation dates. The Housing Options Team have recently taken part in a joint event at Asda Supermarket with the CAB and Housing Benefit team to promote awareness of assistance available as part of their prevention activities. It is intended that further events will be undertaken in other locations next year.

7. **Conclusion(s) and Reason(s) for the Recommendation(s)**

- 7.1 The changes to housing benefit are considered to have a significant impact for the Council's Housing service. In particular it is considered that these will result in:
- (a) Increased number of approaches for debt, budgeting and benefit advice when Council and private tenants cannot meet the shortfall between housing benefit and rent;
 - (b) Increased approaches for Homelessness and Housing Options assistance when tenancies are unsustainable;
 - (c) Increased demand for smaller accommodation from the Council's stock when the tenant is no longer eligible to receive housing benefit for the size of property they occupy;
 - (d) Increased supply of family sized accommodation for letting to waiting list applicants as a result of households moving to smaller accommodation.

- 7.2 The changes may also have an impact on the Council's partners or other service providers within the District, including an;
- (a) Increased demand for advice services such as budgeting skills and debt advice from tenancy support partners and advice agencies.
 - (b) Increased demand for smaller accommodation from Housing Associations and private landlords in particular shared accommodation.
- 7.3 The key issue for claimants with regard to the introduction of Universal Credit is their "ability to budget" as they will be required to manage their household budget from within the Universal Credit payment including payment of full rent. Failure to budget appropriately could result in an increase in the number of households facing repossession.
- 7.4 The impact of non-payment of Council rent will also have implications for the HRA account, as the proposed default position of direct payments will mean the Council has more rent to collect. The Council will lose the guaranteed rental income from those claimants who formerly had their rent paid through housing benefit straight to the Council. A similar impact will be faced by housing associations.
- 7.5 Concerns about the impact of rent direct has led to the Government setting up six demonstration projects which are due to report in June 2013. With the introduction of Universal Credit set to commence in October 2013 there is significant concern that any changes required will not be sufficiently developed before the commencement date.
- 7.6 As the full impact of the housing benefit changes are still to be felt and the Universal Credit proposals are not as yet enacted it is not possible to assess the full implications for housing policies and services. Therefore, further assessment of the changes will be required together with service and policy reviews to ensure they are meeting the needs of affected households within the district.
- 7.8 Information and awareness of available assistance from the Council and other partner agencies will be crucial for customers managing the change.

8. Other Options Considered

- 8.1 There are no other options to consider for this report.

9. Report Author Details

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SCHEDULE OF ADDITIONAL INFORMATION

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Section 1

Contribution to Council Priorities (i.e. CHASE, Corporate Priorities)

There are no direct contributions to Council Priorities. Actions may arise subsequently from the findings of this report which would contribute to Council Priorities.

Section 2

Contribution to Promoting Community Engagement

There are no direct contributions to promoting community engagement as a result of this report.

Section 3

Financial Implications

The introduction of the Government's welfare reform will have significant implications for the Council but it is not possible to quantify the full financial implications at this stage. The full financial implications will be contained within further reports to Committee when more details are known. The changes will mean that the housing benefit currently paid directly to the Housing Rent accounts will now, in some instances, have to be collected directly from the tenant which may increase the level of rent arrears owed to the Council. The reforms may also increase the demand on other Council housing services.

Section 4

Legal Implications

There are no direct legal implications resulting from this report.

Section 5

Human Resource Implications

The human resource implications arising from the changes described in this report are not yet apparent. It may be necessary to alter staffing structures to meet the potential changing nature of resourcing demand as described. Should any such changes be required full consultation will be undertaken with employees and trade unions as appropriate.

Section 6

Section 17 (Crime Prevention) Implications

There are no identified Section 17 implications.

Section 7

Human Rights Act Implications

There are no Human Rights Act implications arising from this report.

Section 8

Data Protection Act Implications

There are no identified implications in respect of the Data Protection Act arising from this report.

Section 9

Risk Management Implications

There are no identified risk management implications arising from this report.

Section 10

Equality and Diversity Implications

The Government Welfare Reform measures are subject to equality and diversity impact assessments by DWP.

Section 11

List of Background Papers

None

Section 12

Report History

None