



Report to Safer and Stronger Communities Scrutiny Committee 12th January 2012

Report of: Executive Director, Communities

Subject: Welfare reform and the Housing Revenue Account (HRA)
Business Plan

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Summary:

In April 2012 Council Housing and the Housing Revenue Account (HRA) will transfer from the current national subsidy system to a system of local self financing.

The move to self financing will involve a significant transfer of risk from Government to the local authority. One of the key risks to the council's new HRA business plan is the government's welfare reform proposals.

The Welfare Reform Bill sets out the Government's proposals for reforming welfare to improve work incentives, simplify the benefits system and tackle administrative complexity.

Welfare reform will mean reduced household incomes for some tenants in receipt of benefits and tax credits. This is likely to result in more people getting into financial difficulties, more people being at risk of eviction and higher rates of arrears. Welfare reform is also expected to increase demand for social housing in the city.

There is already a lot of activity in place to promote a rent payment culture and to help prevent rent arrears by supporting Council tenants with money and debt advice. Unlike some other authorities, Sheffield has contact with all council tenants through the collection of water rates. Activity underway includes targeted contacts based on customer insight information, early intervention with new tenants, an in-house debt prevention team and referrals to external debt advice, partnership working on financial inclusion communications with tenants and the Smartmove project which enables people to 'downsize' to more affordable homes. More activity is planned for the coming years which will include developing our knowledge of customers and using this information to plan what other help and support is required to help them, the ongoing lettings policy review and further promotion of rent payment culture within the context of Universal Credit.

Rent arrears on the Housing Revenue Account has reduced from £15.9m in April 2004 to £9.7m in March 2011. This reflects the work of Sheffield Homes on financial inclusion; financial capability and arrears prevention all of which will

benefit both customers and the city council/ Sheffield Homes in preparing for the implementation of the welfare benefit reforms.

The financial impact of the proposals on the HRA Business Plan is difficult to forecast because many details of the scheme have not yet been announced. However estimates have been made and factored into the business plan. These will be subject to review as the government proposals are clarified and the implementation begins.

Type of item: The report author should tick the appropriate box

Reviewing of existing policy	
Informing the development of new policy	x
Statutory consultation	
Performance / budget monitoring report	
Cabinet request for scrutiny	
Full Council request for scrutiny	
Community Assembly request for scrutiny	
Call-in of Cabinet decision	
Briefing paper for the Scrutiny Committee	x
Other	

The Scrutiny Committee is being asked to:

The Committee is asked to consider the issues and provide views and comments at the Scrutiny Committee meeting.

Background Papers:

Report to Cabinet 28th September 2011 Housing Revenue Account Reform (Self Financing) <http://www.sheffield.gov.uk/your-city-council/council-meetings/cabinet/agendas-2011/agenda-28th-september-2011>

Category of Report: ~~OPEN/CLOSED~~ (please specify)

Report of the Director of Commissioning **Welfare reform and the Housing Revenue Account (HRA)** **business plan**

1. Summary

- 1.1 In April 2012 Council Housing and the Housing Revenue Account (HRA) will transfer from the current national subsidy system to a system of local self financing.
- 1.2 The move to self financing will involve a significant transfer of risk from Government to the local authority. One of the key risks to the council's new HRA business plan is the government's welfare reform proposals.
- 1.3 The Welfare Reform Bill sets out the Government's proposals for reforming welfare to improve work incentives simplify the benefits system and tackle administrative complexity.
- 1.4 Welfare reform will mean reduced household incomes for some tenants in receipt of benefits and tax credits. This is likely to result in more people getting into financial difficulties, more people being at risk of eviction and higher rates of arrears. Welfare reform is also expected to increase demand for social housing in the city.
- 1.5 There is already a lot of activity in place to promote a rent payment culture and to help prevent rent arrears by supporting Council tenants with money and debt advice. Unlike some other authorities, Sheffield has contact with all council tenants through the collection of water rates. Activity underway includes targeted contacts based on customer insight information, early intervention with new tenants, an in-house debt prevention team and referrals to external debt advice, partnership working on financial inclusion communications with tenants and the Smartmove project which enables people to 'downsize' to more affordable homes. More activity is planned for the coming years which will include developing our knowledge of customers and using this information to plan what other help and support is required to help them, the ongoing lettings policy review and further promotion of rent payment culture within the context of Universal Credit.
- 1.6 Rent arrears on the Housing Revenue Account has reduced from £15.9m in April 2004 to £9.7m in March 2011. This reflects the work of Sheffield Homes on financial inclusion; financial capability and arrears prevention all of which will benefit both customers and the city council/ Sheffield Homes in preparing for the implementation of the welfare benefit reforms.
- 1.7 The financial impact of the proposals on the HRA Business Plan is difficult to forecast because many details of the scheme have not yet been announced. However estimates have been made and factored into the business plan. These will be subject to review as the government proposals are clarified and the implementation begins.

2. What does this mean for the people of Sheffield?

- 2.1 Council housing is an important aspect of the Council's housing strategy. The Council owns approximately 42,000 council dwellings which are home to over 48,000 tenants.

- 2.2 Council Housing makes a contribution to tackling poverty and financial inclusion in the city through the delivery of investment and services, to some of the city's poorest residents.
- 2.3 Welfare reform will mean reduced household incomes for some tenants in receipt of benefits and tax credits. This is likely to result in more people getting into financial difficulties, increased reliance on illegal money lenders and legal high interest money lenders, more people being at risk of eviction, higher volumes of sanctions, and higher rates of arrears and higher levels of homelessness.
- 2.4 Each of the changes proposed by government through the welfare reform bill will have specific impacts on certain individuals and families. However, there will also be a cumulative impact of these changes as a significant number of individuals and families will be impacted by more than one of the changes.
- 2.5 At the present time it is not possible to model accurately what these changes will mean for Council tenants and for the Housing Revenue Account because many details of the scheme have not yet been announced. However estimates have been made and factored into the business plan. These will be subject to review as the government proposals are clarified and the implementation begins.

3. Background

- 3.1 In April 2012 the funding arrangements for Council Housing will change nationally with all Local Authorities with Council Housing transferring from the current national subsidy system to a system of local 'self financing'. Under self financing the City Council will have to fund all aspects of Council Housing from the income it is able to raise locally from rents and other charges.
- 3.2 The move to 'self financing' will involve the transfer of significant risk from Government to the Local Authority. One of the key risks for the new Council Housing/ Housing Revenue Account business plan will be the government's welfare reform proposals and the impact these might have on the ability of some Council tenants to pay their rent.
- 3.3 Gross rent arrears on the Housing Revenue Account have reduced in recent years from £15.9m in April 2004 to £9.7m in March 2011. Rent collection rates last year were among the best among similar providers.
- 3.4 Due to the amount of debt prevention work carried out by Sheffield Homes evictions for rent arrears have also reduced but there were still 300 last year, contributing to tenancy turnover and rent loss
- 3.5 66% of Council tenants are in receipt of housing benefit (51% on full benefit); almost £80m of rent is currently paid via housing benefit directly onto the rent accounts via a computer interface from the Housing Benefits system, £45m of which is for tenants of working age. In addition tenants on full housing benefit also have water rates and other charges (such as district heating) to pay personally as these charges are not covered by housing benefit.
- 3.6 The Welfare Reform Bill was laid before Parliament in February 2011 and sets out the Government's proposals for reforming welfare to improve work

incentives, simplify the benefits system and tackle administrative complexity. Much of the content of the Bill relates to regulations which will allow for the ending of most current welfare benefits and credits and the introduction of a Universal Credit starting from October 2013.

3.7 The main aims of the Bill are to:

- Simplify the benefits system by the introduction of a Universal Credit;
- Create legislation to allow for the abolition of existing benefits & credits,
- Change how Local Housing Allowance (LHA) is calculated;
- Link Council Tenants Housing Benefit payments to property size;
- Provide New Powers to Local Authorities, and;
- Create a Single Fraud Investigation Service

4. Key issues arising from welfare reform

4.1 There are a number of different proposals in the Welfare Reform Bill. Some proposals (Universal Credit etc) directly relate to housing benefit and will therefore have a direct impact on the Housing Revenue Account. Other proposals (Council Tax support) are likely to have a financial impact on some Council tenants and so may have an indirect impact on the ability of those tenants to pay rent. The final set of proposals have no direct impact on Council tenants but are likely to have an impact on the demand for Social Housing in the city.

4.2 A summary of the proposals which are likely to have the most significant impact on the ability of Council tenants to pay their rent (both direct and indirectly) are set out below, together with an overview of the proposals which may impact on demand for social housing in the city.

a. Introduction of Universal Credit & the abolition of Housing Benefit

4.3 What's the proposal: From 2013 most benefits for working age claimants (including Housing Benefit) will be replaced by Universal Credit. This will be administered by the Department of Work and Pensions (DWP) and will be a major change for working age Council tenants, with the majority of claimants receiving their money directly and being expected to pay their rent themselves out of their Universal Credit.

The financial support provided by Universal Credit is underpinned by a new 'conditionality' framework setting out the responsibilities claimants may be required to meet. The level of requirements will depend on the claimant's circumstances.

The DWP expect to start migrating Job Seekers Allowance claimants onto Universal Credit from October 2013 and finish the task four years later (2017).

4.4 What is still to be confirmed: How and when existing benefit recipients will migrate from Housing Benefit from Universal Credit has not been announced. This will have a significant impact on the effects felt by the Housing Revenue Account and until this is known,

forecasts of impact can only be rough estimates.

- 4.5 Impact on tenants Most working age tenants deemed financially capable will receive their payment monthly in arrears. Direct payments to social landlords will continue to be made to vulnerable tenants but these will be the exception.

The Housing Support element of Universal Credit will be the last part of Universal Credit to be calculated and so, because of the cap on benefits being brought in, could result in less housing benefit being paid. This is not expected to affect many households in Sheffield.

- 4.6 Risk to the HRA It is difficult to accurately assess the risk at present given the lack of detailed information but the proposals are likely to make it more difficult to collect rent and it is likely that legal action and evictions will rise.

Sheffield Homes Income Management staff will lose their close working relations with a local benefits provider and access to the benefits system which is likely to result in increased arrears and less support to vulnerable customers.

Any payments made directly to the Council would not be automatically posted to rent accounts as they are now but would require staff to input any credits.

b. Linking council tenants Housing Benefit payments to property size

- 4.7 What's the government proposal: From April 2013 the Government are currently proposing to reduce the amount of housing benefit for new and existing social housing tenants of working age who occupy homes deemed to be too large for them. The proposals do not currently affect tenants of retirement age (the age is still to be determined)

The size criteria being proposed is that one bedroom will be allowed for each person or couple with the following exceptions

- A child aged 15 or under would be expected to share with another child of the same sex
- A child aged 9 or under would be expected to share with another child regardless of their sex

- 4.8 What's still to be confirmed There is a great deal of this proposal still to be confirmed by the government including how the reduction in Housing Benefit will itself be calculated.

Government have also yet to confirm whether there will be any transitional protection for existing tenants.

It is not known if the change will be introduced incrementally or via a 'big bang' approach from April 2013

- 4.9 Impact on tenants We estimate that 5-6000 Council tenants (eg single people, couples in two bedroom properties, or people in houses whose children have grown up and left home) could be deemed to be underoccupying under these proposals.

It is considered likely that tenants under occupying their home by two or more bedrooms may lose more weekly housing benefit than those underoccupying by one bedroom.

- 4.10 Risk to the HRA: The risk to the HRA from this proposal is impossible to quantify with any certainty at the present time but the proposals are likely to lead to
- An increase in tenants unable to pay rent resulting in a potential increase in arrears
 - Increased rehousing options for those underoccupying and increased turnover and associated costs.
 - Some property types, eg 2 bed multi storey flats currently let to single people may become difficult to let.

c. Increase in non-dependent deductions

- 4.11 What's the proposal: Non-dependent deductions are made from housing benefit if tenants have people living with them other than dependents (partners and school age children). Until last year non-dependent deductions had not increased since 2001. However these rose in April 2011 and will increase by a similar amount in April 2012 and 2013 bringing the reductions to almost twice what they were in 2010.
- 4.12 What is still to be confirmed: The change is currently underway however once the reductions due to underoccupancy have been implemented more tenants may advise that they have non-dependents living in the household.
- 4.13 Risk to the HRA: All known customers affected by this were contacted in advance and their rent accounts continue to be monitored but there has been no significant increase in arrears

d. End of Incapacity Benefit

- 4.14 What's the proposal: Over the next 2 years everyone who receives Incapacity Benefit will be assessed to see if they are fit for work. After the assessment we expect that some people who currently claim Incapacity Benefit to claim Job Seekers Allowance instead, with the remainder moving onto Employment and Support Allowance (ESA). Those on ESA should not see an initial drop in their income but their income may reduce over time depending on whether the ESA award is lower or higher than the previous incapacity benefit. If it is lower, then whilst the actual initial income will be protected, any upratings will not increase income at the same rate until the ESA award reaches the original level of the incapacity benefit award. This means some people will see their income frozen whilst other costs increase in real terms, thus impacting their ability to manage financially.
- 4.15 Risk to the HRA: Reducing household income for tenants may make rent collection more difficult.

e. Replacement of Council Tax Benefit

- 4.16 What's the proposal: From April 2013 the Government intends to abolish Council Tax benefit and wants the Council to introduce a local scheme for Council Tax support. The Council will have a certain amount of freedom when deciding who will receive help with Council Tax payments, although some groups such as pensioners will be protected.
- 4.17 What is still to be confirmed: Government proposals are still at the consultation stage with a response to the consultation period setting out further detail particularly around protected groups expected by Government this 'winter'.
- 4.18 Impact on tenants It is thought that many working age people including council tenants will have to pay some council tax even if they don't have to pay now. This is because the amount of money the Council will receive to provide council tax support will be fixed each year and will be 10% less than it spends now on Council Tax benefit. This 10% cut in benefit does not take account of the fact that current and future pensioners need to be protected. This means that the 10% cut in benefit will increase for non pensioners and will increase further if the Council choose to protect other vulnerable groups. The additional burden will fall on those who receive no protection. These are expected to be those deemed economically active i.e those seeking work or those in work and receiving some help with their Council Tax. The actual cut in support could be significant and this in turn will affect their ability to pay rent and impact on the HRA. However, until rules for the new scheme are clarified and the scheme is designed it is not possible to quantify what the actual impact may be.

f. Changes affecting non-Council tenants

- 4.19 What's the proposal: From April 2011 people seeking large accommodation in the private rented sector will only get benefit for a maximum of a 4 bedroom property. This will apply to existing private rent benefit recipients by December 2012 at the latest. Also affecting private rented tenants will be planned changes to the single room allowance for single people in 2 bed or larger properties with the age eligibility lifted from 25 to 35 (with some exceptions)
- 4.20 Impact on tenants These proposals will make private rented accommodation less attractive for single people and may increase the demand for private rented shared accommodation or for 1 bed social housing.
- Landlords may also convert larger properties to shared units, reducing the supply of privately rented accommodation and placing greater demand for this on social housing providers.

5. Actions already underway to mitigate Welfare Reform

- 5.1 The City Council/ Sheffield Homes is seen as a leader in best practice in

the work it carries out on financial inclusion; financial capability and arrears prevention all of which will benefit both customers and SCC/SH in preparing for the implementation of the welfare benefit reforms. It has an Income Management Strategy which has six strands:

- Promote a rent payment culture
- Prevent rent arrears through support for new and vulnerable tenants to contribute to tenancy sustainability
- Extend and improve choice in payment methods and access to the service
- Promote financial inclusion, working with partners
- Take effective and proportionate legal action where necessary
- Maximise value for money in delivery of the income management service

5.2 **Contact with all customers**

As all Council tenants have some element of rental charge to pay due to the collection of water rates officers from the Income Management Unit will potentially have contact with all tenants to offer advice and support. This is in contrast to some organisations which will have no contact with 60 - 65% of their tenants who are on full housing benefit and have nothing to pay.

We promote a rent payment culture including

- Promotion of cost effective payment methods, in particular Direct Debit (20% now pay by this method)
- Regular campaigns, advertising, and prize draws including TV advert, Christmas campaign around rent free weeks

5.3 **Customer Insight**

We analyse information we know about council tenants to look at

- likelihood of them falling into arrears
- preferred payment method
- what communication they respond to
- If they have a bank account

This has led to targeted action in certain areas to ensure that at the start of their tenancy customers are given advice on their rent liabilities, maximising income including getting housing benefit into payment and support to set up a rent payment and sustain their tenancy.

5.4 **In house debt prevention team**

This team includes :

- Early Support who contact all tenants within the first 2 weeks of a tenancy giving advice on income maximisation, claiming benefits and setting up a rent payment method – this service is rated 9.1 out of 10 by new tenants
- Money Advice Team who have received independent training from the Debt Support Unit and provide specialist counselling, support and advice to tenants in multiple debt
- Specialist benefit officers who help and support vulnerable tenants with complicated benefit cases

5.5 Partnership working

This is an important element of our approach and includes:

- Working with Sheffield Benefits on all proposed elements of the reforms - numbers on non-dependents, under occupied properties etc; learning from their experiences with tenants of private landlords claiming local housing allowance; keeping up to date with benefit changes and impact on SCC tenants
- Referrals for debt advice to Citizens Advice Bureau (CAB) Debt Support Unit (funded debt worker for SCC tenants providing 150 referrals pa) The result from the first 18 months of the project include 83 cases referred with combined arrears of £68,785 now reduced to £63,213, a reduction in arrears of £5,571.89. 20 cases were facing eviction, only 3 went ahead and 17 tenancies sustained.
- Referrals for money management and budgeting made to Sheffield Credit Union money management worker (funded for SCC tenants) providing 1 to 1 casework and group briefings to customers including tenants in temporary accommodation; people on probation, ex offenders requiring rehousing; college students
- Partnership working with CABs; Advice Agencies; Sheffield Credit Union and Stop illegal money lending team
- Benchmarking with other organisations to share best practice on how they are preparing
- Working with the Income Management Partnership Group of tenants

5.6 Communication

There is an ongoing communication strategy on rent payment, and in relation to welfare benefit the strategy includes:

- Posters/leaflets under development for area offices, the Property Shop and local first points
- Regular articles in In touch (magazine for tenants) and The Bridge (magazine for Tenants and Residents Associations).
- Articles on the Internet and Intranet
- Information given at the sign up interview for all new tenants/transferring tenants
- Information given to all tenants who contact to discuss their rent
- Updating the eligibility table giving information to customers who are considering rehousing on what size property welfare benefits may cover.
- Briefings to all staff

5.7 Smart Move Project

This project has used promotional advertising and support to encourage under occupying households to move on a voluntary basis. Between March 10 and Nov 11 107 people who were underoccupying have been rehoused. The experience of this project will be invaluable if there is a need to help people move to more affordable accommodation.

5.8 Financial inclusion

This involves working on all strands of financial inclusion – access to affordable credit, debt management, financial literacy, access to mainstream banking facilities, affordable loans, promoting saving income maximisation, partnership working, affordable insurance, fuel poverty and affordable warmth.(improving energy efficiency through decent homes,

currently extending cladding project for flats and maisonettes).

6. Further actions to mitigate Welfare Reform

6.1 Develop our knowledge of customers

We have detailed information on which customers are more likely to get into rent arrears and can target our actions. We also plan to carry out a survey to see how many customers:

- Are aware of the proposed welfare benefit reforms & what they will mean for them particularly around under occupancy/ payments made direct to them
- If they have a bank account and if so does it have a Direct Debit capacity
- Have an interest in credit union accounts

We also plan to carry out further modelling of the likely impact on particular households and use this information to plan what other help and support is required to help customers..

6.2 Other initiatives

- From Jan '12 in partnership with the Citizens Advice Bureau (CAB) Debt Support Unit we will provide a fortnightly drop in surgery at the Property Shop manned by CAB trained volunteers who will provide advice and information on money management, budgeting, finding the cheapest fuel supplier, cost of running their own home etc
- Further promotion of a rent payment culture, including direct debit. We will be establishing a 4 weekly Direct Debit option for customers (universal credit will be paid 4 weekly in arrears - we are waiting to find which day(s) it will be paid on). Approximately 20% of customers currently pay by Direct Debit.
- We will be working with Sheffield Credit Union to set up jam jar accounts. These are accounts established by the credit union into which benefits can be paid into directly, the credit union then pay out all the customer's priority payments i.e. rent before any remaining monies are available to the customer.
- There will be information on all rent statements and rents letters including rents year end letters
- Officers from Income Management Unit will run surgeries at Job Centre plus
- We will monitor all proposed changes as DWP confirm them so that steps can be put in place to address. Additional temporary resources will be identified to help tenants through the transition.
- When details are made clear about the 'vulnerability' criteria it will be important to work with tenants to maximise the number of direct payments. It will be important that representation comes from customers too and that a case can be made on the basis of the vulnerability of the household. Ultimately this will be a decision for the DWP

6.3 Lettings Policy Review

The review is currently underway and may need to take into account the government's proposals linking housing benefit to property size.

7. Modelling the financial impact on the HRA Business Plan

- 7.1 The impact of these proposals on the Housing Revenue Account will be that a number of Council tenants will have less household income with which to pay their bills (including rent) and will receive that income direct for the first time.
- 7.2 Because of the lack of detail in the proposals it is difficult to quantify the likely impact on the Housing Revenue Account over the next few years,
- 7.3 The proposals are likely to lead to an increase in arrears. The challenge is to estimate to what degree these proposals and mitigations will affect the arrears position. This will then be built into the business plan model.

Arrears arising from ending direct payment

- 7.4 Increased arrears levels have been estimated in the HRA business plan as a result of the government's welfare reform proposals and these will be continually revised as the proposals become clearer. The current estimates are based on the number of working age Council tenants on benefit, an assumed steady annual migration to Universal Credit each year between 2014/15 and 2017/18 and that the switch to Universal Credit results in an increase in arrears overall and that a set percentage of tenants default on their payment.
- 7.5 These estimates are heavily predicated on Sheffield Homes being able to proactively maximise the number of customers for whom payment direct to the Council will continue and the efficient changes to the administration of payments where payments are made directly by DWP.
- 7.6 After the migration period has ended (expected 2017) the arrears total is expected to plateau as tenants become familiar with the new process and have been supported by staff to adjust their payment methods. Some may have direct payments reinstated as the new arrangements become established. The aim will be to prevent evictions as far as possible but they may well increase.

Benchmarking our forecasts against other authorities.

- 7.7 Managers from the Income Management Unit take part in quarterly performance and best practise benchmarking meeting with colleagues from other ALMOs, Local Authorities and Registered Providers where information is shared on how other organisations are preparing.
- 7.8 From January 2012 Managers from the Income Management Unit will meet with colleagues in Rotherham, Barnsley and Doncaster to share information and model the impacts of the changes across South Yorkshire

Arrears arising from under occupation rules

- 7.9 Based on our understanding of the household sizes in Council homes at present we have made an estimate of the reduction in housing benefit payable to council tenants as a result of the under occupation proposals.
- 7.10 An increase in arrears has also been factored into the business plan as a result of this but given the lack of detail in the government proposals these estimates have a high degree of uncertainty.

- 7.11 The migration period for underoccupation rules is expected to be instant with people's benefits being adjusted accordingly at the same time nationally (April 2013). Therefore the impact on arrears in relation to this change is expected to be a single hit in 2013/14 followed by a plateau as tenants become familiar with the new benefit level or move house.

Further work to do

- 7.12 When the Government response to consultation on introducing Local Council Tax Support schemes is received (Jan/Feb 2012) there will be more clarity around which groups will be protected. It will then be necessary to analyse the impact this will have on council tenants.

Joint working already takes place between officers collecting council tax debt and housing rent arrears and this will be extended to other areas of Council debt under the implementation of the Corporate Debt Policy.

- 7.13 Under the existing direct payment arrangements the council receives cash for rent rebates direct from the government department. When direct payments end this will also have implications for the overall in year cashflow on the HRA. This will be factored into later revisions of the business plan.

8. Next steps

- 8.1 The Housing Revenue Account (HRA) business plan will be reported to Cabinet on 25th January 2012.
- 8.2 Arrears levels will be one of the key indicators for the Council which will be closely monitored throughout the implementation phase of Welfare Reform and beyond.
- 8.3 The mitigating actions set out in this report to be implemented subject to Council approval

9. Recommendation

- 9.1 The Committee is asked to consider the issues and provide views and comments at the Scrutiny Committee meeting.