



**EPPING FOREST DISTRICT COUNCIL
THE IMPACT OF WELFARE REFORM**

Report

**Extract of Key Findings
from the Full Report**

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1. KEY FINDINGS FROM THE REVIEW

In common with other housing landlords the introduction of universal credit is expected to impact significantly in Epping Forest. There is a need to put in place a robust plan and focus resources on actions that will protect both individuals and the council from the worst consequences of the whole-scale reform of our welfare benefits system.

The Council has taken a pro-active approach in commissioning this project to identify and start to manage this impact.

Key issues for all local authorities ahead of welfare reform implementation include:

- *How much information and understanding do we have about the full extent of the changes?*
- *Who is leading our response including how we identify and manage the risks?*
- *Are we clear about roles and responsibilities within the organisation and amongst partners to manage the change?*
- *Where will the impacts be worse and who will they affect most?*
- *Do we have the right level of resources, in the right place with the right skills and knowledge?*
- *What is the role for local authority in the future of welfare and local delivery?*

Below we have highlighted the potential key financial and individual impacts. These are based on the assumptions we have made taking into account current practice and data that is available – both locally and nationally. What cannot be predicted at this stage is how individual tenants and landlords will ‘behave’ once welfare reform is rolled out for real. Whether tenants will choose to move to smaller accommodation or pay the shortfall in benefit (if they can afford to), how families will respond to the significant deductions in their benefits due to non-dependants living at home, how tenants will manage their finances once benefits are paid direct to them and how will landlords approach who they let to in future.

What are the main changes and when do they take effect?

The changes to the welfare benefit system are a central plank in the government’s reform programme and whilst there have been some concessions made during the passage of the Welfare Reform Act 2012 through parliament the key proposals remain.

Restrictions on LHA for private tenants	April 2011
Support for mortgage interest reverts to January 2009 rules	January 2013
Household benefits cap	April 2013
Pegging of LHA to the Consumer Price Index (CPI)	April 2013
Social sector under-occupation	April 2013
Universal credit	Starts October 2013
Pension credit (housing credit)	Starts October 2013

Table 1: Overview of key welfare reform changes

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A set of draft Universal Credit (UC) regulations was published in June 2012 and is subject to statutory consultation through the Social Security Advisory Committee. Following the consultation the revised set (assuming the Secretary of State decides to make some amendments in response to the Committee's recommendations) will be subject to Parliamentary approval (probably September or October). Parliamentary approval is unlikely to result in changes because any vote that takes place is on the whole regulations (i.e. they stand or fall in their entirety) so amendments cannot be tabled and debated. However, there may be some further amendments made (by subsequent regulations) before final implementation, given that some areas of policy – such as the treatment of supported housing and 'exempt accommodation' – are still under review.

It should also be remembered that UC regulations only apply to the working age proportion of the caseload. There are at present no equivalent regulations for housing credit (as the housing costs element in pension credit will be known). And it does not necessarily follow that they will mirror the UC housing costs element – apart from anything else the social sector size criteria do not apply to pension age HB claims.

For the time being, working on the assumption that the current draft set reflect the final rules, the main changes between the existing system (e.g. jobseeker's allowance, housing benefit and tax credits) and UC are as follows:

- There are some apparent changes in the rules on eligible service charges – although DWP officials have said they are not trying to move goal posts, but that it is simply a matter of the approach to writing the rules has been different. A summary of these changes is provided in the table below (eligible housing costs under HB and UC);
- Most claims will be made online;
- (As expected) benefit will be paid calendar monthly in arrears with housing costs being paid along with general living expenses in a single combined award (subject to some direct payment exceptions);
- Backdating is limited to one month;
- There is no equivalent provision for extended payments when a long-term unemployed person returns to work;
- There are no mandatory rules for direct payment of benefit to the landlord except where DWP third party deductions are being made for rent arrears (although DWP has indicated this might be given in guidance). This has implications for hostels where benefit is usually mandatory paid direct – along with any ineligible service charges;
- It is unclear how the rules will work in relation to changes of circumstance - it seems that changes occurring in the mid assessment period (i.e. within the calendar month) that result in a rise in benefit will not be awarded until the next full month or assessment period;
- There are some changes to the two homes and temporary absence rules that are currently fairly widely used. For example, general overlapping benefit following a move where the tenant has unavoidable dual liability is scrapped. The general temporary absence rule (e.g. prisoners, on holiday) is increased from three months to six months but those who currently qualify under the 12 month rule lose out (e.g. in hospital, remand prisoner);
- Non-dependant deductions are replaced with a single low level flat rate 'housing cost contribution' (circa £65.00 per calendar month) and non-dependants aged under 21

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are exempt. But those out of work on benefit aged 21-24 lose out (because they currently have a zero rate charge.)

Housing benefit	Universal credit	Comment
General approach: everything counts unless listed in schedule as ineligible	General approach: everything counts unless listed in schedule as ineligible	Concern that anything not expressly listed will fall between gaps.
Charges which are connected with provision of adequate accommodation (provided not also an excluded item such as counselling or support)	Services necessary to maintain the fabric of the accommodation.	The general catch all rule. Old case law suggests that these two phrases mean the same thing. But some concerned new definition does not cover some elements of concierge services e.g. general health and safety or grounds maintenance on estate common land.
Cleaning of communal areas including common rooms in sheltered housing	Cleaning of communal areas	Apparent loss of common rooms in sheltered housing (to be included in pension credit only?).
Cleaning of exterior windows where tenant or household is unable to	Cleaning of exterior windows where tenant or household is unable to	No change.
Children's play areas	-	HB rules exclude leisure items subject to this exception. UC does not expressly say this is covered. May fall under general rule about fabric of dwelling.
Equipment for receiving radio and 'Freeview' broadcasts	-	HB rules exclude leisure items subject to this exception. UC does not expressly say this is covered. May fall under general rule about fabric of dwelling.
Communal laundry facilities	-	HB rules exclude laundry costs subject to this exception. UC does not expressly say this facility is covered. May fall under general rule about fabric of dwelling.
Furniture except where for its purchase or if it becomes tenants property	UC regulations do not define furnishings as a service charge so probably now falls within the definition of rent	Probably no change

Table 2: Eligible housing costs under housing benefit and universal credit :a comparison

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What is the potential impact for EFDC and its residents?

Set out below in headline terms are the estimated losses under each of the welfare reform changes. The main body of the paper sets out the analysis behind these. It is important at this stage to stress that the assumptions are based on data from a range of sources and therefore need to continue to be tested as part of the work on welfare reform. This is particularly true of the private rented sector where the Council's current data is starting to track the initial impact of the changes that have already taken place. What they do give however is a very clear picture of the magnitude of change envisaged and the likelihood of far reaching consequences.

Change	Projected loss to organisation	Projected loss to tenants (p/a)
Benefits cap	Between £5k and £18k due to lone parents and assumed low recovery rate (20% to 40% losses)	£46k maximum (15 to 24 affected)
HB paid direct to tenants	Between £185k (40%) and £413k (95%) increase in arrears a year	
	Increased transaction charges of £51,981 a year	
Size restrictions / under-occupation		£476,751 per annum in 2013/14
Increase in non-dependant deductions		£175,806 in 2012/13 and £252,278 per annum from 2013/14
LHA rate 50 th to 30 th percentile		£358,280 (980 tenants)
Shared room rate increase from age 25 to 35		£269,576 (85 tenants)

Table 3: Estimated losses under each of the welfare reform changes

The introduction of a benefits cap could mean

- Families living in the private rented sector face restrictions of between £20 and £55 per week – with families living in the Harlow and Stortford Broad Rental Market Area (BRMA) facing the smallest loss, and those in the Outer North East London BRMA facing the highest loss;
- Families with four or more children in the private sector face losses that appear to be unsustainable;
- Local authority tenants (both couples and lone parents) are generally unaffected until they have five or more children – although in the case of couples the modest headroom will be turned into a loss of between £20 and £30 per week if the tenant is in receipt of the work-related or support component of employment and support allowance (ESA); and
- A maximum of 20 EFDC tenants who are lone parents on income support will be affected - the numbers for jobseeker's allowance are too small to be estimated (less than 10). However, no figures are available for claimants in receipt of ESA or incapacity benefit (without income support) so this might represent an under estimate. (More detailed

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analysis of the HB/CTB data is needed to tell whether those potentially affected are living in local authority tenancies, the private rented sector, are homeowners or others).

The impact of HB being paid direct through universal credit could mean

- **A potential increase in current rent arrears that ranges from £185,776 (40%) to £413,190 (95%).** The wide range reflects the increased proportion of the total rent roll that was previously secure because it was paid by HB direct to the landlord but is now potentially at risk. In reality you would expect that between 95% and 97.7% would be collected from the tenant based on existing rent collection performance. A precise amount is difficult to predict as this depends on how willing tenants are to pay HB over to the Council. The higher amount is based on existing collection rates from tenants who need to pay all their rent. More reliable estimates will emerge from the six demonstration projects who are testing paying Housing Benefit direct to claimants; and
- Transaction charges for the Council will increase by an estimated £51,981 per annum.

The impact on EFDC tenants of the under occupation changes could mean that

- 319 households are estimated to lose an average of £12.04 a week because they currently under-occupy their home by one bedroom;
- 237 households are estimated to lose £22.48 a week because they under-occupy their home by two or more bedrooms; and
- The total annual loss of income to EFDC tenants through housing benefit reductions due to under-occupation in 2013-14 would be £476,751.

The changes to non-dependant deductions will mean for EFDC tenants that

- 319 households are estimated to lose an average of £10.60 a week because the contribution expected from the non-dependant living in their home has increased; and
- The total annual loss of income to EFDC tenants in 2012-13 would be £175,806.

For the following estimated losses relating to the change in local housing allowance rate and shared room rate age threshold the Council has begun to track the impact on private sector tenants. There is more detail on this in the main body of the report suggesting that for the time being at least that the impact may be less than estimated.

The local housing allowance rate change from 50th to 30th percentile has already affected tenants in the private sector from April 2011 as follows:-

- an estimated 980 private tenants, at an annual loss to these private tenants of £358,280 (assuming that none move to cheaper-rented accommodation);
- 90 in shared rooms losing £8 a week;
- 300 in one bedroom losing £5 a week;
- 450 in two bedroom losing £11 a week;
- 130 in three bedroom losing £19 a week; and
- 10 in four bedroom losing £25 a week who, after a period of 9 months protection will receive an average £10 decrease in HB.

The **shared room rate age threshold change from 25 years to 35 years** will have affected 85 people in Epping Forest district since its introduction in April 2012, at an annual loss to

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these younger private tenants of £269,576, unless they move to shared accommodation. They will also receive a significant decrease in HB from the anniversary of their claim or the anniversary date plus nine months if the claim was made before 1st April 2011.

Between 170 and 340 households in the Epping Forest district will be placed under severe stress as a result of the forthcoming welfare reforms (defined as those who “find it hard or impossible to keep out of arrears/debt” by a study by Cambridge University), of which around 50% will have to either move or risk eviction from their private rented tenancy.

Whilst we can only estimate the level of increased homelessness that might arise due to the impact of welfare reform, the range of consequences of the individual proposals give an emerging picture of the significant impact that it will have on both the incidence of homelessness and access to housing options in future.

- Non-dependants being asked to leave because of an increase in the non-dependant deduction from housing benefit (although introduced in April 2011 the effect of this is expected to continue up until 2014);
- Pressure on the availability of lower-cost private rented sector stock because of the reduction of LHA rates to the 30th percentile figure;
- The introduction of the shared accommodation rate for those aged 25-35 may force some people back to their parental home, potentially increasing overcrowding where there are younger siblings still living with the parents. If single people are faced with no other options because of a shortage of shared houses and flats, this could result in younger siblings being asked to leave if households feel they will have more chance of being accommodated e.g. they have children;
- The introduction of the overall cap on benefits will affect larger non-working households, and could result in adult children being asked to leave, in order to make it possible for the parents to move to a smaller, lower rented property;
- The reduction in housing benefit for any spare bedrooms could potentially affect adult children living in the parental home, if other siblings have already left a large family house;
- Unemployment is affecting Epping Forest district, though to a lesser extent than across the UK in general: unemployment is below the national average although marginally above the regional average. But there are pockets within the district where deprivation and unemployment is higher; and
- The increase in new household formation between now and 2026 will particularly be seen amongst lone parents and lone parents with three or more children.

The cumulative effect of all of the above changes, amount to a total loss to Council and private sector tenants in housing benefit and other welfare benefits of around £1.28 million.

How should Epping Forest District Council respond to this?

In developing its response to managing and mitigating the impacts of the welfare reform changes EFDC should consider focusing on the following key areas. More detail on actions to be considered under each of these key areas as part of the council's welfare reform plan is set out in section 5.

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- Corporately set up a welfare reform response group drawn from officers across the council to develop and coordinate delivery of a welfare reform strategy and action plan. Focusing particularly on information sharing, reporting and analysis, reviewing and making decisions on additional funding and staff resourcing, agreeing key areas of focus including financial inclusion, providing direction and leadership both internally and with partners such as other landlords and advice providers and putting in place a communications and training plan for staff, tenants, customers and key partners.
- Focus on limiting the impacts of welfare reform by ensuring additional financial inclusion advice and support is available. This should be based on an accurate picture of existing resources and availability set against the type and number of households likely to need assistance as a result of welfare reform. Consider whether direct delivery of advice and support e.g. through EFDC staff or additional delivery through partners e.g. CAB will be most effective. Look at access to and the promotion of affordable credit, bank accounts and take up of welfare benefits.
- For the landlord housing service there is a need to make provision for an increased budget for costs associated with transactions due to direct payment to tenants and for bad debts through increase in rent arrears. Increasing the focus on pre tenancy and start of tenancy interaction with tenants to minimise the risk of non-payment, promote efficient payment methods and identify advice and support needed around access to affordable credit and bank accounts as well as financial support they may be entitled to. Also to build on the tenant profile information held, putting dedicated resources into carrying out tenancy audits to identify residents most affected. There needs to be re-provisioning within HRA business plan as well as consideration of additional officers to focus on advice, arrears prevention and recovery.
- For the strategic housing service including homelessness, using existing communication with landlords in the district is key to provide information and get feedback on the impact of welfare reform and what the response of the majority of, mostly small, landlords, will be. Carry out work to understand the demand for and supply of smaller accommodation in light of under-occupation measures, as well as ensuring the review of EFDC allocations scheme following the changes in the Localism Act 2011 and subsequent government guidance clearly states the size of property permitted in terms of eligibility for housing benefit in future. Epping Forest currently use homeless prevention funding to good effect, however the impact of welfare reform should prompt a rethink of how funding can be used to meet increased demand and targeted to have maximum impact. This includes funding additional prevention officers and having a co-ordinated plan for use of discretionary housing payments.
- Within the communications and training plan, focus on ensuring staff across the council but specifically within housing and revenue and benefits are up to date with both the measures and the council's plan to respond. Publicise the introduction of the welfare reforms and the implications and possible solutions for different categories of tenants through a variety of existing communications including in "Housing News" – EFDC's periodic newsletter for tenants. Focus on tenant involvement activities that will reach those most affected by the changes and consider joint activities with other social landlords operating in the district to gain momentum and reach as many people as possible.

Other potential areas to explore

- Housing benefit subsidy: the importance of accurately identifying under occupiers - there is obviously a clear incentive in terms of housing benefit subsidy for very accurate data matching exercise to take place – although the risk will depend on the current error rate.

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There also seems to be a case for a sampling exercise of current social sector claims for households with children to take place in order to establish the risk by estimating the likely error rate. This should be explored further with revenue and benefits.

- Join the CIH direct payment learning networks to pick up on learning from the demonstration pilots as they happen as well as network with other organisations. Consider use of the new web based welfare reform impact calculator for individual tenants which will link to the organisational calculator to increase the data landlords have as well as give tenants more information about the impact on them.

A value for money approach

There is a value for money driver to the decisions around how Epping Forest DC chooses to invest in activities and resources that will mitigate the worst effects of welfare reform.

In its housing landlord role the move to a self-financed business plan means that there is more clarity on how much could be invested in the service as part the response but there will need to be a wider discussion around use of general fund investment and how maximum benefit can be gained by a joint approach across housing and other services.

There is a strong argument for weighing the cost of intervention against the impact on reducing potential loss of income through welfare reform. For example, investing 10% of total estimated loss of income and/or additional costs of homelessness would finance significant additional resource to target those tenants most affected with good quality and tailored advice and support as well as putting in place new solutions.

“Local authorities that fail to engage may well be waiting a long time for information and guidance from central government, learning from pilots will take time to digest, prescribed models may not be the best option in your local area and in areas such as council tax support and local welfare assistance, the guidance is that it is up to you.

Local authorities and housing associations have to accept that welfare reform is coming and realise that the longer they leave it to engage the less say they will have on how it will impact on their organisation, their finances and on their customers' lives.”¹

2. THE PURPOSE OF THE REVIEW

This project was jointly commissioned by Epping Forest District Council's Housing and Finance/ICT Directorates in recognition of the wide sweeping reforms to housing benefit and the welfare benefit system as a whole. The project has been funded in full by Improvement East, as an approach that could be adopted by other local authorities and registered providers of housing in the East of England.

The Council has taken a pro-active approach in commissioning this project to identify and start to manage this impact. It is inevitable that there will be increased demand for housing services and accommodation and it would be unwise to make assumptions that the current level of demand for services will reduce or even continue at the same level.

¹DevenGhelani - one of the architects of Universal Credit quoted in Dash 24, 10 July 2012