Briefing Paper

Welfare Reform and Housing Benefit in Scotland

May 2013

Introduction

Housing Benefit is designed to give financial support to people who would otherwise have difficulty in affording a home. Tenants of local authorities, housing associations and private landlords on low incomes are eligible to apply for Housing Benefit, and can receive a payment that meets either all or part of their housing costs. In some circumstances service charges are also eligible for housing benefit.

The amount of Housing Benefit payable depends on the circumstances of the claimant, and their housing costs. The Housing Benefit rules and regulations are complex. To be eligible to receive Housing Benefit, a person's income must be below a certain level and they must pay a reasonable level of rent regarding the needs of their household and the area in which they live (if the rent is considered to be too high it is not eligible for benefit). The level of savings held by the claimant is also taken into account.

The way in which government provides financial support for housing has changed significantly since the 1970s. In 1979, the United Kingdom government spent £20billion (at current prices) of which 61% was on 'bricks and mortar', 28% on tax relief and 11% on housing benefit. Since then the emphasis has changed from providing direct funding for housing to providing funding to individuals to enable them to afford to pay rent. This has seen a significant increase in social rents. As a result, by 1996/97, while total government spending on housing had fallen to £18billion (at current prices) 57% was spent on housing benefit, 22% on 'bricks and mortar' and 20% on tax relief. This trend has continued until the present day. In 1999/2000 the cost of housing benefits was £11billion. This had increased to £20billion in 2009/10.

In Scotland, 475,310 people claimed housing benefit in March 2012.

Housing Benefits that are available include:

- Rent Allowances
- Rent Rebates
- Non-HRA Rent Rebates
- Local Housing Allowance (LHA)

Rent Allowances and Rebates

Rent Allowances are available for housing association tenants while rent rebates are available for council tenants. Prior to April 2008 rent allowances were also available for private tenants but since then private tenants have been able to claim the local housing allowance. Rent allowances and rent rebates are governed by the Social Security Contributions and Benefits Act 1992, Social Security Administration Act 1992 and the Housing Benefit Regulations 2006.

Rent allowance and rent rebate claimants who are on income support, jobseeker's allowance (income based) and pension credit (guarantee or guarantee and savings credit) are eligible for full benefit. Partial benefit is paid to claimants whose income exceeds the threshold with the assumption made that 65% of 'excess income' is applied to pay the rent. There is also a capital threshold that means that people with savings of over £10,000 are not eligible for housing benefits.

In the case of Rent allowances, rent must not be unreasonably high and there must not be over accommodation. However, this requirement did not apply to rent rebates until the introduction of the under-occupation penalty in April 2013 (see below).

Service charges are also eligible for rent allowances or rebates as long as they are related to the accommodation and must be paid under the tenancy.

Non-HRA Rent Rebates

Local authorities will sometimes provide temporary accommodation under homelessness legislation. In these cases, tenants will pay rent net of any rent rebate. These rent rebates are calculated in the same way as described above. Each year the Department for Work & Pensions establishes a 'cap' for each authority that represents a limit above which they reduce the amount of subsidy that they will contribute towards the cost of the benefits.

Local Housing Allowance

Local Housing Allowance was introduced under the Welfare Reform Act of 2007 and came into operation in April 2008. Since then it has replaced rent allowances for private sector tenants for all new claims and in instances where there is a change of circumstances in a rent allowance claim.

Local Housing Allowance is based on 'Broad Market Rental Areas'. Within each Broad Market Rental Area there is a set of standard rents and benefit entitlement is based on these rather than on actual rents. Local Housing Allowance is therefore dependent on the claimant's accommodation needs and average rents in the area. However, claimants could only retain up to £15 a week of any difference between the Local Housing Allowance and the actual rent paid and this was removed from April 2011. The introduction of the Local Housing Allowance represented a simplification of the system and enabled the Department for Work & Pensions to exercise better control over housing benefit costs.

Claimants who are on income support, jobseeker's allowance (income based) and pension credit (guarantee or guarantee and savings credit) are eligible for Local Housing Allowance. Partial benefit is paid to claimants whose income exceeds the threshold with the assumption made that 65% of 'excess income' is applied to pay the rent.

Discretionary Housing Payments

Councils have discretion to make discretionary housing payments to claimants who they consider are facing extreme hardship. The Department for Work & Pensions limits the amount that councils can spend under this scheme and makes a financial contribution. In 2010/11 the total that councils were allowed to spend across the United Kingdom was £20million compared with the total cost of housing benefits of £19billion although the budget has recently been increased as described below.

Councils can top-up their discretionary payments budget using their own resources. Authorities that do this can see their grant increase as the amount of grant is partly dependent on recent levels of expenditure.

Housing Benefit Subsidy

Councils claim housing benefit subsidy from the Department for Work and Pensions. The sums involved are significant and, over time, have increased considerably. Housing benefit costs are also difficult to predict and control both at local and national level.

The government funds 100% of rent rebates and rent allowances from subsidy. However, the cost of penalties for mistakes such as overpayments is met by the Council. Subsidy paid by the Department for Work & Pensions is adjusted if average actual rent exceeds the limit rent. The Housing Revenue Account makes the shortfall in the General Fund good. The government also meets the cost of administering Housing Benefit.

Budget 2010

The coalition government has made reform of benefits a priority. Their objectives are to create incentives for people to return to work and to control and reduce the costs of benefits. The Budget of June 2010 introduced some restrictions on housing benefits.

The budget addressed some of the unfairness that the government believes has become inherent in the Housing Benefit system and in many cases a barrier to helping people into work. They estimated that the reforms would save nearly £2billion in the financial year 2014/15, whilst making benefits fairer and better targeted.

Local Housing Allowance was restricted to a maximum of four bedrooms for new and existing claimants. Alongside this, weekly Local Housing Allowance rates were capped at £250 for a one bedroom property, £290 for two, £340 for three and £400 for a four bedroom property. Local Housing Allowance rates became based on the thirtieth percentile of rents of the local area. From April 2013 Local Housing Allowances will be uprated by the Cost and Prices Index.

There will be staged increases in the rates of non-dependant deductions in the income-related benefits from April 2011. By April 2014, these increases will bring the rates to the level they would have been had they been fully uprated since 2001 to reflect growth in rents and council tax. From April 2013, people who have been on Jobseeker's Allowance for twelve months or more will have a 10% reduction in their Housing Benefit.

The coalition government's calculation of the savings and costs as a result of their budget are summarised below:

	2011/12 £million	2012/13 £million	2013/14 £million	2014/15 £million
Savings:				
Remove £15 excess	280	490	520	550
Remove five bedroom rate	5	10	15	15
Cap LHA rates	50	55	55	50
Set LHA at 30th percentile	65	355	400	410
Costs:				
Extra room for carer	15	15	15	15
Increased discretionary payments	10	40	40	40
Total	370	860	940	970

Where tenants find that their benefit will no longer cover all their rent they will have to move to cheaper accommodation, fund some of their rent from other benefits such as income support or job seeker's allowance, or fall into arrears. Landlords are therefore likely to have to manage increased arrears and to consider what steps to take where tenants fall into arrears. This could include eviction.

In the case of private landlords, one option would be to reduce the rent to the level that housing benefit would support. Indeed, there are those who argue that private landlords have abused the housing benefit system by pushing up rents and local housing allowances.

The housing benefit amendment regulations 2010 gave effect to the decisions announced in the June 2010 budget.

21st Century Welfare

In July 2010, Iain Duncan-Smith, Secretary of State for Work & Pensions launched a Green Paper entitled '21st Century Welfare'. This paper proposed a unified benefits system. The paper included proposals that focussed on ensuring work always pays and is clearly seen to pay. They included allowing people to keep more of what they earn as they move into work whilst withdrawing benefits at a single, more reasonable rate as people start to earn more money. Iain Duncan Smith said:

"A system developed to help the most vulnerable and support people in times of need is trapping people in a cycle of dependency. We now have children growing up in households where neither parent works and where the only future is one stuck on benefits. This is a tragedy that we must bring to an end.

"We are proposing to change forever how the system works. Not tinkering around the edges but a fundamental change from the top to bottom. Making it easier to help people into work, fairer to those who pay for the welfare state and continuing to provide unconditional support to those who need it.

"This will affect everybody which is why I want everyone with a view on the way forward to contribute. I believe these changes will make work pay and end the poverty of aspiration that has trapped too many people for generations."

The proposal was to:

- Combine elements of the current income-related benefits and Tax Credit systems;.
- Bring out-of-work and in-work support together in a far simpler system.
- Supplement monthly household earnings through credit payments reflecting circumstances (including children, housing and disability).

The system is designed to improve incentives to get a job as people would see no reduction in their benefit until they earn over a certain level. Over a certain level of income a taper would be applied to reduce benefit. This taper would apply to earnings, rather than number of hours worked. It could remove the very high marginal deduction rates, ensuring that work pays for everyone and encouraging people to progress in their employment by not limiting the hours people can work. At present, people moving from benefits to work can see such a large reduction in their benefits that the advantage of moving to work is at best minimal.

21st Century Welfare was followed by the passage of the Welfare Reform Act 2012. The principal changes introduced by the Act relate to the under-occupation penalty, total benefits cap, universal credit and local housing allowance.

Under-Occupation Penalty

Under occupying social housing tenants of working age will face a benefit deduction of up to 14% of their housing credit if they have one spare room and up to 25% for two spare rooms. This is known as the under occupation penalty. The measure will come into effect in April 2013. The government considers that the policy will help to reduce housing benefit expenditure and will encourage tenants to either seek work or move thus freeing up social homes. However, critics describe the measure as a 'bedroom tax' that will adversely affect 670,000 social tenants.

These criteria for under occupation could mean that ill or disabled people, who use a spare bedroom for medical equipment, may all be affected.

The under-occupation penalty is designed to cut £500million off the £21billion bill for housing benefit in the United Kingdom. In Scotland, it is expected to save £50million from an annual housing benefit bill of £1.7billion. Over 100,000 households across Scotland will lose on average of around £600 a year as a result.

A spokeswoman for the Department of Work and Pensions said:

"It's only right that we bring fairness back to the system - when in Scotland there are many thousands on housing waiting lists or living in overcrowded homes… We do not expect many people to have to move as a result of these changes and Scotland has been given £10m in 2013/14 to help support vulnerable tenants."

In April 2013, Scottish Television reported that Scotland's councils wouldn't have enough single bed properties to cope with demand if every tenant facing cuts in their housing benefit asked to downsize to a smaller home. Their survey revealed the following:

- Scotland's largest local authority, Glasgow City Council, know there are 13,253 tenants deemed to be living in a property with a spare bedroom. However, they could not say how many of their 22,175 one-bedroom properties were vacant and available for rent.
- In Aberdeenshire, 703 tenants are considered to have one extra bedroom but there were only 86 single-bedroom properties available for rent.
- Falkirk Council doesn't even have enough one-bedroom properties in total to help the 2,645 tenants considered to have one extra room. Even if all its 2,574 single-bedroom properties were vacant, there would still be a shortfall of 71 properties. In reality, only forty were vacant at the time of responding to the freedom of information request.
- In Perth and Kinross, 427 people face a 14% cut to benefits through having one extra room but the local authority only had one single-bedroom property available and it was in a sheltered housing complex.
- North Lanarkshire is area with the third largest amount of people having housing benefit cut due to having one extra bedroom, with 5,219 residents believed to be affected. However, there is little hope for many of them being able to minimise the impact through downsizing with only 83 one-bedroom properties vacant in the area.

In February 2013, David O'Neill, President of the Convention of Scottish Local Authorities said in the 'Herald' that he feared the under-occupation penalty that penalises tenants with spare rooms in social housing, would lead to a rise in people getting into debt and, ultimately, evictions. He said the policy that will leave up to 100,000 working age tenants with bills of between £50 and £90 a month, seemed geared towards problems in London and would backfire badly in Scotland.

The Convention of Scottish Local Authorities estimates that up to 20% of Scotland's 315,000 council tenants will be affected, and that 40% of them will get into arrears, leaving councils with a £20million a year shortfall, as well as the extra cost of enforcing debts and evictions.

Mr O'Neill said the policy appeared driven by London's needs, where 16% of tenancies are overcrowded and only 19% have spare bedrooms. In Scotland, there is less overcrowding and in some councils such as East Dunbartonshire, more than 50% of tenants have a spare bedroom.

For example, the under occupation penalty will affect around 2,000 tenants in Perth and Kinross who are on housing benefit, according to the chief executive of Fairfield Housing Co-operative. Grant Ager who, in January 2013 was quoted in ‘Housing News’ as saying:

"We have about 10% of our tenants that will affect, so we are looking at options... Our average monthly rent is about £45 per month (more) and they will have to find that from benefits. The only other option is that we take action, so it is very, very penal as nobody has the stock of housing in Perth and Kinross to move tenants… One or two-bedroom homes are rare, so people are trapped. Another option is for people to take in lodgers.

"One of the more brutal things is that if you are a single parent with children and have an extra bedroom and they are staying with you for half a week, you still have to pay the bedroom tax, because they are not permanent residents.

"The cynics in our game say people won't pay, but I don't think that will be the case. People will be met with the challenges in this austerity climate… We've had to add to our staff and put in significant resources towards this now, and ultimately it will mean that rents will be pushed up."

Fairfield Housing Co-operative has been publicising the 'bedroom tax' to its tenants and feels that if tenants do not pay, sheriffs would be "cautious" about taking action.

In February 2013, ‘Housing News’ reported that consumer advice groups had calculated that up to 100,000 Scots may be able to sidestep the 'bedroom tax' thanks to a legal loophole. Consortium of consumer assistance bodies the Glasgow Advice Agency said tenants might be able to get around the tax because the law is unclear about what is classed as a bedroom. They claim that if tenants simply ensure spare rooms are not used as bedrooms, local authorities and housing associations can be challenged over any cuts in payments for housing benefit purposes. They obtained the opinion from Jonathan Mitchell, QC, who said that, while it was for a local authority to decide what was a bedroom, there was no legal definition.

The only guidance uncovered was in the Rent Officer Handbook produced by HM Revenue & Customs, which ‘makes the important point that actual use by an actual household is usually critical’. Mr Mitchell said it would be ‘going wrong in law’ if a local authority determined every room that could possibly be slept in was classified as a bedroom, whatever its characteristics or use. He told The Herald:

"It may be that tenants should be advised that the particular use they make of rooms may have consequences for their benefit. If, for example, a family with a disabled child allows him or her to use the living room as a bedroom, this may result in the property being determined to have one more bedroom than before, just as turning a bedroom into a therapy or care room, or a study or playroom, may result in a reduction in the number of bedrooms determined."

Mike Dailly of the Glasgow Advice Agency said tenants could mount a legal challenge against attempts to impose the bedroom tax if rooms were not being used as bedrooms. He added:

"This is good news. This has thrown a lifeline to many of the Scots who are affected by this. (We) believe it is possible for tenants to change the use of what might be regarded as a spare bedroom into something that need not be counted as a bedroom, and therefore not be subject to the 14% cut in housing benefit. This is of major application for disabled tenants, who may use a 'spare bedroom' for the purpose of therapy, storing wheelchairs, medical equipment or to undertake medical procedures. Other tenants may be able to avoid the bedroom tax too. We are calling for the Scottish Government to produce its guidance for local authorities, which could give us a bit of consistency."

Total Benefits Cap

The total benefits cap is a cap on all benefits receivable by a household of £500 a week for couples and single parent households and £350 a week for single people. There are exclusions for some household types including war widows and those receiving working tax credits. It is estimated that 67,000 claimants in the United Kingdom will be affected and that they will lose an average of £83 a week. The estimated savings are £305million by 2014/15 although a budget of £130million has been made available for discretionary payments. The measure came into effect in April 2013 in four London boroughs as part of phased implementation. The government considers that as well as making savings the reform will bring fairness to the benefits system as workless households will not be able to receive more in benefits than the average working household receives in wages & salaries. People living in high rent areas are most likely to be affected by the cap, especially in London with fewer affected in Scotland.

Universal Credit

Universal Credit will combine several means-tested benefits, tax credits and housing benefit into one monthly payment paid directly to tenants. It will be administered by a large information technology system using real time tax information to update calculations of claimants' entitlements. The United Kingdom government calculates that savings of £2billion a year across the United Kingdom will be made although the costs of implementation are estimated at £4billion. The United Kingdom government considers that this will simplify benefits and make it transparent that people would be better off in work rather than being on benefits. Claimants will be encouraged to take responsibility for their finances as they will receive a single direct payment. It is estimated that 2.8million people will see their benefit entitlement increase while 2million will see it reduce. Critics argue that many claimants will find difficulty in managing their money as they are not used to doing this; that using an information technology based system will reduce face to face contact and advice; and that social landlords will face increased costs of income collection and increased arrears and bad debts.

The final elements of the new system were announced in December 2012 by Iain Duncan-Smith, Secretary of State for Work & Pensions. He stated that three million families would be better off with universal credit by around £168 a month and added that three quarters of these will come from the bottom two fifths of the income scale. He said:

"The Autumn Statement confirmed Universal Credit will begin next year on time and under budget. Today, the final key elements of this reform are put in place. These confirm the new system will make work pay and protect the people who need it most. The clear work incentives of Universal Credit will result in up to 300,000 more people moving into work. We have invested to ensure people are cash protected when they move over to the new benefit so nobody will lose out."

The government considers that the Universal Credit disregards and work allowances will be more generous than the existing system. Some of the changes within the Universal Credit regulations include:

- No longer taking into account income from war pensions or armed forces compensation when calculating benefits.
- Disregarding 100% of contributions to an occupational or personal pension scheme.
- 200,000 under 25s being able to claim in work support for the first time.
- Kinship carers no longer being forced to look for work as a condition of their benefit.
- New rules for the self-employed that will now assume a minimum level of income at the National Minimum Wage which will incentivise claimants to increase their earnings and productivity and realise their financial potential.

Universal credit pathfinders will start in some areas in April 2013 to test the implementation of universal credit before it is rolled-out across the United Kingdom by April 2014. Existing claimants will migrate to universal credit on a phased basis ending at the end of 2017.

In November 2012, the Joseph Rowntree Foundation published research that suggested that universal credit would neither reduce poverty nor encourage people into work. In particular, it found that the separate means testing of council tax benefit would leave many claimants worse off. Julia Unwin, Chief Executive of the Joseph Rowntree Foundation was quoted in ‘Inside Housing’ as saying:

“The principle of universal credit is sound, but our research has found the actual roll-out could unintentionally trap people in poverty and hardship.”

In October 2012 ‘Inside Housing’ conducted a survey of social landlords and found that they were planning on an increase in arrears from 3.7% to over 5% by 2014/15.

Reform to Local Housing Allowances

From April 2013 increases will be based on the consumer price index rather than the retail price index. The consumer price index tends to rise less fast than the retail price index. Caps based on the thirtieth percentile of rents will be progressively introduced equating to between £250 a week and £400 depending on property type and location. The government has calculated that these changes will save £740million by 2014/15 and considers that they will also reduce private sector rents. Critics fear that private landlords will refuse to let to benefits claimants and that thousands of families may have to move to less expensive areas.

April 2013 will also see the abolition of community care grants and crisis loans that will be replaced by local arrangements administered by councils. Local council tax reduction schemes will also replace the national council tax benefit scheme.

It is estimated that around a million working age households in Scotland will be affected by the uprating of benefits by 1% reducing the total income of Scottish households by around £210million by 2014/15.

Direct Payments to Social Tenants

The United Kingdom government has decided to introduce direct payments for social tenants and during 2012 carried out some pilot projects to identify its effects. They consider that direct payments will give benefit claimants increased financial responsibility, making it easier for them to make the move into work. This move follows the direct payment of Housing Benefit to claimants living in the private rental sector.

In Scotland both the Scottish Federation of Housing Associations and the Convention of Scottish Local Authorities have opposed the change. In a submission to the House of Commons welfare reform bill committee the Convention of Scottish Local Authorities stated:

"Direct payments ensure that councils have a secure income for the maintenance and improvement of existing stock and the capacity to build new affordable housing… (Payments to tenants would lead to) an increase of rent arrears and evictions sending households spiralling into debt and facing homelessness."

In December 2012, the Department for Work and Pensions published the findings from the Direct Payment Demonstration Projects, showing numbers of tenants taking part and payment levels. Minister for Welfare Reform, Lord Freud, said:

"Direct payments of benefits will help people to step into the workplace without the many institutional barriers that now exist. However, we have always been clear that exemptions must be in place alongside the right support for those who need it and the Demonstration Projects are showing us and the housing community the steps that must be taken."

The projects investigated a range of elements of direct payments to provide protection for landlords and tenants including:

- Whether any groups should be exempt from receiving their payments directly.
- Different levels of support social sector tenants may need to move to direct payments of housing benefit, such as advice on managing personal finances and budgeting
- The exemptions that need to be in place for direct payments
- Payment switch-backs to the landlord if a tenant falls into arrears
- The support to help tenants in arrears, to pay back their arrears and to potentially return to direct payments
- Early intervention switch-backs before arrears reach trigger points

The projects in six areas across Great Britain tested a number of different aspects of the direct payment of housing benefit to social sector tenants, ahead of changes that form part of Universal Credit. Over four months, 6,220 social tenants were paid their housing benefit directly. Of a total level of rent charged of £7.7million, rent collection rates stood at 92%. Across the different areas, levels of payments by tenants on the projects varied from 88% to 97% - demonstrating the different conditions and approaches being tested in each area. A total of 316 tenants were switched back to payments to their landlords - either because they had reached triggers for switch back or had been switched back due to early invention.

The Scottish pilot was with Dunedin Canmore Housing Association in Edinburgh. 1,000 tenants joined the pilot and arrears doubled to 6%. 63 tenants in serious arrears switched back. The intention is to provide more support to tenants along with more methods of payment including: telephone, cash card, standing order and doorstep collection with e-machines.

Gavin Smart, Director of Policy and Practice at the Chartered Institute of Housing was quoted in the Housing News as saying:

"It is crucial that landlords are given as much information as possible from the pilots to help them plan ahead, put effective processes in place and mitigate any risks arising from the new system.

"The arrears percentage in this report is too high and would be hard for landlords to support in the longer term, but the pilot projects are still in their early stages and we hope collection levels will increase once the new systems and approaches begin to bed in.

"Direct payment is a massive cultural shift and will take time for both tenants and landlords to get used to. These findings demonstrate the importance of good communication between landlords and their tenants in keeping rent arrears down.

"The six areas are trialling different rent collection processes and switchback mechanisms and as the pilots continue we hope more information will be released about how each system has worked. The Chartered Institute of Housing will work with landlords to determine the most effective systems and practices and support them in putting those into place."

The demonstration projects that trial direct payments of housing benefit will run from June / July 2012 to June / July 2013.

Budget and Autumn Statement 2012

George Osborne, Chancellor of the Exchequer, said while presenting his 2012 budget that Treasury analysis has shown that further welfare savings of £10billion will have to be made by 2016 if further cuts to departmental budgets are to be avoided.

In the autumn statement in December 2012 it was announced that a further £3.7billion would be saved by limiting the increase in most working age benefits, including local housing allowances, to 1% a year.

To date the government has avoided making reductions to benefits that are claimed by people of retirement age. However, there are suggestions that they may not be able to afford to continue this policy. In October 2012 Sam Lister, Policy & Practice Officer at the Chartered Institute of Housing was quoted in 'Inside Housing' saying:

"The government has to start making inroads into payments for older people – any slack in the working age households has been driven out already."

Parliamentary Reaction to Welfare Reform

The Work & Pensions select committee in Parliament has expressed concerns about benefit reform. In November 2012 they completed an enquiry into Universal Credit and called for a delay the direct payment of housing benefit to social tenants under Universal Credit and recommended that, during the initial phases of the programme, claimants who currently have their housing costs paid to their landlord should have the option to continue with this arrangement.

The MPs concluded that many of the principles underpinning Universal Credit are positive, but getting the implementation of the system is critical to avoid disadvantaging low income households. They concluded that while the new system will be effective for the majority of claimants it has concerns for some of the more vulnerable benefit claimants.

The committee said time needs to be allowed for a proper evaluation of the Government's demonstration projects - currently half way through - that are testing the direct payment of housing benefit to a sample of tenants. The report said:

"We believe that time needs to be allowed for a proper evaluation of the pilots which the Government is running on direct payments to tenants, followed by a phased implementation of direct payments, after appropriate safety net arrangements for vulnerable people have been developed and tested.

"We therefore recommend that, during the initial phases of Universal Credit implementation from April 2013, claimants who currently have their housing costs paid to their landlord should have the option to continue with this arrangement. It is also important for the Government to move quickly to publish a clear definition of 'vulnerable' groups within Universal Credit for whom it will not be appropriate to include housing costs in their benefit payment. It also needs to establish a robust process for proactively identifying claimants who are struggling to manage their housing costs so that they can be properly assisted before they fall into arrears and face eviction."

Many housing organisations have expressed their concerns about Universal Credit and Direct Payments and have called for the Department for Work & Pensions to accept the recommendations of the select committee.

Most people consider that Universal Credit is an excellent concept and that its introduction is long overdue. It is unfortunate that this is being done at the same time as there is a recession and government is seeking to make significant reductions in expenditure on welfare benefits. Opinion on direct payments is more divided.

Local Authority Response

Local authorities are preparing for the introduction of the benefit reforms. The Chartered Institute of Housing has advised that they should do the following:

- Gather data to model the impact of the changes on tenants and the business plan. Key information includes which households are under-occupying, which will be affected by the overall benefit cap, who already has a bank account and who will require assistance with banking and budgeting.
- Communicate the changes to tenants. As well as providing general information on the changes to all tenants, councils should use their profiling data to provide targeted information to those who are most likely to be affected and aim to make face to face contact with more vulnerable tenants.
- Train front line staff so that they are able to answer tenants' questions and help to raise awareness of the changes.
- Support tenants to manage their money by providing or directing tenants to basic budgeting support and alerting them to products that can help them to manage their finances better, such as 'jam jar accounts'.
- Review the approach to rent collection. Offering a comprehensive range of payment options and bearing in mind that while direct debit is the most cost effective payment method for landlords, it may work less well for tenants who have irregular or variable incomes.

- Consider the approach to allocations and transfers to establish whether tenants are being placed in properties that could become unaffordable and whether sufficient priority is given to households that need to move because of the reforms.
- Make best use of existing homes by working with under-occupying tenants to establish how best to meet their need for a smaller home. Considering whether mutual exchanges are used to best effect.
- Help tenants into work or training. Finding work is the main way in which many tenants will be able to increase their income and sustain their tenancies. Councils should consider how they could facilitate this.

Welfare Reform in Scotland

It is estimated that the welfare reforms will have the following impact in Scotland:

- 105,000 households will be affected by the bedroom tax, of these, 83,000 will be under-occupying by one bedroom and 22,000 will be under-occupying by two or more rooms.
- With around 586,000 households in the social rented sector, it is estimated that 18% of all households in the sector will be affected.
- Depending on the measure of inflation used, the average weekly loss in 2012/13 prices is between £11 and £12. This gives an estimate total loss of Housing Benefit to the sector of between £60million and £65million a year.

In January 2013 the Scottish Council of Voluntary Organisations claimed that 25% of Scots will be living in poverty by the end of the decade as a result of the United Kingdom government's reforms to welfare. This is based on a report, by public policy expert Dr Jim McCormick that concluded that universal credit contains 'serious design flaws' that will plunge far more Scots into poverty than expected. In particular vulnerable women are at risk from the move to a single payment into households.

It was suggested that Scotland should set up its own Financial Security Change Fund to ensure those affected receive the maximum benefit to which they are entitled. This could be done with 'matched funding' from the financial sector in Scotland to allow adults on low incomes to get access to 'simple' bank accounts - that are needed to receive universal credit - as 4% of Scots are currently without a bank account.

Chief Executive of the Scottish Council of Voluntary Organisations Martin Sime was quoted in 'Housing News' as saying:

"The UK government's £2.5billion cuts in benefits must be seen for what they are: an assault on families, communities and the economy of Scotland. These callous cuts masquerading as reform represent an active choice taken by the United Kingdom government, which is hurting the most disadvantaged people in Scotland.

"These criminal welfare cuts, high unemployment and a flat economy mean that more people than ever will be turning to the third sector for help, advice and practical support this year."

John Dickie, Head of Child Poverty Action Group in Scotland, said:

"Time is running out for United Kingdom ministers to respond to the mounting evidence that any positive impact of the new universal credit is being fatally undermined by design flaws, underinvestment and a lack of advice and information support for the hundreds of thousands of families who will rely on the new benefit."

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Peter Kelly, Director of the Glasgow-based Poverty Alliance, said:

"If some of the proposals contained in Jim McCormick's report are implemented it would help allay the fears that many recipients of welfare - lone parents and others - have expressed to us. If the United Kingdom government won't act, then it is up to Scottish Government and local authorities to work with the third sector."

The Scottish Government has responded by directing new money to agencies helping people facing benefit cuts. This includes:

- An immediate cash injection of £300,000 for services such as those provided by Citizens Advice Scotland
- Setting up a new £1.7million fund providing direct support to advice services
- Further £3.4million to be spent over the next two years on helping organisations mitigate the impacts welfare reforms.

Nicola Sturgeon, the Deputy First Minister of Scotland said;

"Many people across Scotland are suffering as a direct result of United Kingdom Government benefit cuts, and many more are concerned about how they may be affected by changes yet to come into force. Citizen's Advice Bureaux across the country are currently dealing with nearly 800 new issues for every working day. And the latest extremely worrying analysis about the families affected by benefits illustrates exactly that point.

"This reflects our serious concerns about the pace, scale and impact of Westminster's benefits changes. It is clear that the impact of the cuts will extend across Scottish society, with vulnerable groups, women and working families all likely to suffer. "This is putting more and more pressure on the organisations that provide crucial front line advice to those affected. These are the people, who, on a daily basis see how lives are being damaged by the fallout from the United Kingdom government's welfare reform changes.

"That is why we… are providing £5.4million to help meet the demand for advice and support as it dramatically increases."

The Scottish Government is also providing an extra £2.5million to social landlords to ensure there is advice on hand for people who will lose housing benefit due to the under occupancy measures and other housing benefit changes being introduced by Westminster. Nicola Sturgeon MSP, Deputy First Minister said:

"This extra support will assist social landlords in their efforts to engage directly with affected tenants and seek to identify ways in which they can deal with the impact of the changes. We are continuing to consider all reasonable steps that we can take to mitigate welfare cuts, including the bedroom tax. However, these unjust policies show why we need the powers of independence to protect vulnerable people rather than simply trying to cushion the blows in Scotland. It would be far better to control benefits and welfare so unfair policies like the bedroom tax are not even considered, let alone implemented."

The news of extra funding was welcomed by the Chartered Institute of Housing Scotland. Director Alan Ferguson said:

"This funding is very welcome indeed. In many respects, this is not something the Scottish Government should have to be doing, as the bedroom tax is a headache not of their making. But it's an important move and we look forward to being involved in discussions about how the money will be distributed".

A spokesperson for the Department of Works and Pensions was quoted in 'Housing News' in January 2013 as saying:

"Our housing benefit reforms will ensure that benefit claimants face the same choices about their housing that everyone else faces… Even with our reforms, housing benefit will meet rents of up to £21,000 a year and we have a discretionary fund in 2012/13 of £10 million to help families in Scotland in difficult situations."

Weslo Housing Management has launched a recruitment drive to ensure the organisation is fit and ready for the forthcoming new challenges in the housing sector. In April 2013 it advertised six posts in the Estates Management division.

Operations Director, Mike Crozier, told 'Housing News that:

"We recently reviewed our resources in the light of the introduction this month of welfare benefit reform measures and the Scottish Social Housing Charter and were pleased that our board gave the go ahead to our proposals. Basically, our new Assistant Housing Manager will be supported by the newly created post of Senior Housing Officer and the other four administrative support posts will slot into the existing establishment.

"We're entering a period where there's never been greater demand placed on social landlords to ensure high quality levels of advice and service are maintained for our tenants in these trying and challenging times. These appointments, along with the new post of Welfare Rights Officer filled in January, will ensure that we, and our tenants, can face the future with a renewed confidence in the services we provide."

There could be a particular problem for landlords in Scotland, where there is a long tradition of active tenant resistance to evictions. Both Shelter and the Scottish TUC are supporting a 'No eviction for bedroom tax' campaign organised by Govan Law Centre. Rosemary Brotchie, senior policy officer at Shelter Scotland was quoted in '24dash' saying:

"Shelter is backing the call for any rent arrears resulting from under-occupation not to result in eviction… We think that is only fair."

Welfare reform has also brought an unexpected headache for local authority homelessness departments. Scotland abolished priority need at the end of 2012, making it the first country in Europe to give all homeless people the right to a permanent home. Although the number of households in temporary accommodation has been falling there are fears of a short-term increase as a result of the change.

Most Scottish local authorities own their temporary accommodation. Until October they believed that it would be exempt from the bedroom tax but then a Department of Work & Pensions circular confirmed that it would be affected. That leaves them with a huge financial headache. Lyn Kilpatrick, Policy and Practice Officer at the Chartered Institute of Housing (CIH) in Scotland said:

"Local authorities can't pass on the cost because the reason the household is in temporary accommodation is that they've been placed there,"

That leaves them a choice between cutting their homelessness and temporary accommodation services, changing what they do or outsourcing to the private sector.

The Scottish Federation of Housing Associations predicts:

- A reduction in housing benefit payments in Scotland from £366million to £333million
- An increase in arrears from £24million to £36million

- A loss of £50million a year to landlords through increased arrears, increased bad debts and cap on benefits
- Financial uncertainty causing difficulties in meeting loan covenants

Glasgow Housing Association is to spend £16million buying 300 one and two bedroom flats that it will let to tenants who are affected by the under-occupancy penalty. It is also offering affected tenants £2,000 towards their relocation costs and is changing its allocation policies to give a higher priority to tenants who wish to downsize. Gordon Sloan, chair of the Association was quoted in 'Inside Housing' as saying:

"It is shocking in this day and age that some tenants are telling us they may have to go without food or heating to cover the shortfall in their benefits and keep a roof over their heads."

In April 2013, Dr Mary Taylor, Chief Executive of the Scottish Federation of Housing Associations wrote in 'the Scotsman' that:

"Danny Alexander, Chief Secretary to the Treasury has sought to defend the government's policy of cutting housing benefit for social tenants deemed to be under occupying their homes, citing the need for the government to achieve parity between the private and social rented sectors.

"But by imposing the so-called 'bedroom tax', the government is penalising some of society's most vulnerable people for something they can do little to avoid, given the shortage of smaller properties.

"Mr Alexander insists the bedroom tax will help house Scotland's 60,000 overcrowded households by freeing up larger homes. It won't do that. Perversely, it will force people into smaller, but much more expensive private rented sector accommodation instead – driving the benefits bill still higher.

The government's data shows clearly that, over the past decade, the cost to the taxpayer of housing benefit for private sector tenancies increased by 153 per cent, compared with a 21 per cent increase for council and housing association tenancies. In 2011-12, 40 per cent of all housing benefit expenditure went to tenants of private landlords.

"The most telling statistic of all is that housing benefit costs on average 70 per cent more per week for private sector rents than it does for council or housing association accommodation. So you have to wonder why a government determined to reduce the benefits bill is pursuing a policy which will drive people into the private sector.

"A more constructive solution to overcrowded households would be to build the new affordable homes that our country needs so badly, meeting housing need, creating jobs, stimulating the economy and saving the public purse.

"Mr Alexander claims UK government guarantees will be available to Scottish housing associations to help them build more homes more cheaply. But it will not become clear until the autumn how this money might be used in Scotland. The guarantee rules will also require grant funding to be available before it can be used. Current capital finance for housing in Scotland is allocated to other projects."

Devolution of Housing Benefit

The Scottish government opposes much of the United Kingdom government's reform agenda for welfare benefits. In March 2012, Keith Brown MSP, Minister for Housing told the Chartered Institute of Housing (Scotland) conference that he had:

"Made his view on the housing benefit cuts clear to Westminster on a number of occasions… Penalties for under-occupancy will make it difficult for many tenants to make ends meet and will increase homelessness."

In March 2012 the Chartered institute of Housing (Scotland) and the Scottish Federation of Housing Associations published a report that advocated devolving the administration of housing benefit to the Scottish government. They concluded that this would improve the system by bringing it into line with Scottish policy priorities. One option they identified would be to move to a European style social security system where housing costs would be tied up with other financial help.

In January 2013, Margaret Burgess, Scotland's Minister for Housing and Welfare was quoted in 'Inside Housing' as saying:

"Decisions made in Westminster are clearly impacting in a negative way on people in Scotland: tenants and low-earners are all going to be affected by welfare reform and it's going against some of the policies that the Scottish Government has set in place.

"We've asked for (direct payments to continue as in Northern Ireland) but as yet we haven't been granted it… We feel that it would be helpful in Scotland to have the option of payments made direct to the landlord until such times as we recognise where our tenants are, how many have access to online applications and how many can manage their money.

"For me that absolutely sums up why we should be independent and have responsibility for our own welfare system and benefits; so we can align it properly with policies and priorities that we have in Scotland which are not the same and diverging from what's happening in England…. We agree that reform is needed but the way to reduce welfare spending is to get people into work, not introduce arbitrary cuts.

"Our homelessness legislation could be affected by (welfare reform)… My absolute priority – and the priority of the Scottish Government – is to maintain the homelessness target… We've reached the stage where it's dropped consistently every year for about the last ten years and the object is to prevent homelessness and that is absolutely key."

Welfare Reform: The Implications for Housing and Local Government - October 2013

'AWICS' is holding a seminar on 'Welfare Reform: The Implications for Housing and Local Government' in London in October 2013. This seminar will look in detail at the Government's controversial welfare reforms and their implications for claimants, social landlords, local authorities and the public finances in all the nations of the United Kingdom.

The seminar comes at a critical time with the government in the process of implementing the welfare reforms that are contained in the Welfare Reform Act of 2012. Many of the reforms are to be introduced in April 2013 including the benefits cap, under-occupation penalty, the localisation of council tax support, personal independence payments and the universal credit pilots. In October 2013, Universal Credit will start to be rolled out for new claimants.

But what effect will all this have on claimants, housing associations and local authorities and how can they manage the reforms to mitigate the risks that they face?

The seminar addresses:

- Introduction and Overview of Welfare Reform
- Welfare Reform Act 2012
- Under-occupation penalty (bedroom tax)
- Total Benefits Cap
- Universal Credit
- Personal Independence Payment
- Council Tax Support
- New Information & Communications Technology Systems
- The impact of welfare reform on tenants and landlords
- Direct payment demonstration projects
- Practical steps to manage the effects of the reforms
- Advice and Communications
- Housing Options and Allocations
- Management of Rent Arrears
- Discretionary Housing Payments
- Partnership working
- Case Studies
- Demographics
- Social and Affordable Housing Supply
- Potential future reforms

The seminar includes opportunities for networking and is accompanied by a very useful book entitled: **"Welfare Reform: The Implications for Housing and Local Government"**

All those with an interest in the welfare reforms should attend, including councillors and officers of local authorities; board members and officers of housing associations; representatives of tenants and claimants; staff of voluntary bodies; academics; lawyers and civil servants.

Venue and Date: London: Novotel Hotel, Waterloo – 9th October 2013

Further details are available on the 'AWICS' website from where places can also be booked. Please see: http://www.awics.co.uk/welfareseminar.asp

Adrian Waite
Managing Director

About 'AWICS'

'AWICS' is a management consultancy and training company. We specialise in providing support in finance and management to clients in local government and housing in England, Scotland and Wales. We are well known for our ability to analyse and explain complex financial and management issues clearly.

Our mission statement is 'Independence, Integrity, Value'. We therefore provide support to clients from an independent standpoint that is designed to help the client to achieve their objectives. We are passionate about working with the utmost integrity. We believe that we offer the best value for money that is available today!

For more information about us and our services please visit our website at www.awics.co.uk or contact Adrian Waite at Adrian.waite@awics.co.uk