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Housing associations and welfare reform: facing up to the realities

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Executive Summary

- This is the second case study report from the Ipsos MORI and Cambridge Centre for Housing and Planning Research work programme for the National Housing Federation. It is based on interviews with 15 housing associations over the period January and February 2014.
- Overall, associations see themselves and their tenants as effectively managing the impacts of welfare reform, particularly the size criteria and the benefit cap at present.
- The impact of other measures such as the changes to council tax benefits, non-dependent deductions and incapacity benefit/employment and support allowance were so far seen as of less importance. The imposition of JSA sanctions was a rising issue.
- On the size criteria, staying and paying was the most common tenant response. Arrears had risen in almost all of the case study associations but the rate of increase in arrears had slowed since the summer in some areas.
- Mutual exchanges were increasing from a low base, but transfers were limited in most associations. Some tenants have given up their tenancies and moved back with parents or were sharing with friends. The extent of movement to the private rented sector was unclear.
- Finding work was recognised as a key solution for tenants but it was not proving easy. Part-time work or self-employment were often all that was available.
- Discretionary housing payments were very important but were seen as temporary solutions and had the downside of ultimately delaying other responses. The differences in the criteria employed as well as in implementation between local authorities were major issues.
- Fewer tenants than expected were being affected by the Benefit Cap. It was not a major issue for most associations, although clearly very important for affected tenants. The big concern for associations was how the Cap threshold might be reduced in future years.
- None of the case study associations was directly involved in any Universal Credit pathfinder. Their concerns around the roll-out of Universal Credit focused on data access, direct payments and monthly payments in arrears. Associations were concerned that data protection issues would prevent effective information sharing to enable the appropriate implementation of managed payments to associations.
- All associations recognised that their relationship with tenants needed to be developed further and become more systematic but that this approach would be costly. Increases in staff costs had been considerable, even though some costs had been absorbed through restructuring. Bad debts, arrears and voids had all increased in the majority of associations.

- Despite this, associations reported that lenders were still happy to fund on reasonable terms.
- The challenges of welfare reform unsurprisingly varied considerably across associations, given different roles, circumstances and geography. They were greatest for associations with concentrations of larger properties in lower demand areas. In this context associations were looking to widen their range of tenants, to ensure larger units could be let, for example, through national advertising.
- Securing a better balance between supply and likely long term demand was on everyone's agenda but there were big differences in how much that thinking had been operationalised. Some had changed the make-up of their development programmes to reflect changing demand but only one had reduced their programme.
- There had as yet been few changes in rent policy in response to welfare reform. However, there were concerns about the growing tension between increasing rents and the impact of the introduction of Universal Credit.
- Almost all associations had changed their allocations policies to meet the size criteria and often to include a stronger pre-tenancy affordability assessment. Some still reported tensions with local authorities when these were using different size criteria.
- Among the wider activities being embraced by associations as part of their response, the most commonly cited was digital inclusion. Other initiatives included measures to reduce energy and food costs and more specific mentoring on job search.
- The need for early engagement with tenants was one lesson learned, as was the need to involve all staff in the association rather than just those working in rent collection and tenant support. Another was to extend closer working with local authorities and other partners.
- Looking ahead most respondents thought things would get worse in relation to the size criteria. The new claimant commitment regime was a concern alongside Universal Credit and possible future reductions to Discretionary Housing Payments (DHPs). More broadly, it was expected that the welfare regime would tighten so that cumulatively the impact of reforms would increase. Respondents expected to be operating in a challenging environment for the foreseeable future.
- Perceptions over the last twelve months had changed little, although a minority agreed that at this stage, the outcome of the Cap and size criteria were less than feared especially with respect to arrears. Others noted the resilience of tenants. There were shared concerns about the pressure being placed on both staff and tenants. Currently, the size criteria remained the big issue but Universal Credit topped the list as the greatest future risk by some margin. Associations were particularly concerned about the risks posed by direct payments to tenants.

Introduction

With the Welfare Reform Act 2012 heralding the introduction of some of the most significant changes to the administration and distribution of benefits in recent times, the National Housing Federation (NHF) commissioned Ipsos MORI and the Cambridge Centre for Housing and Planning Research (CCHPR) to assess how these changes impact across the housing association sector in England.

The baseline report was published in late 2012 and the initial case study report covering the results of in-depth discussions with 15 housing associations '*Intended and unintended consequences? A case study survey of housing associations and welfare reforms*' was researched in early 2013 and published in May 2013. This report follows up nearly a year later and compares experience with expectations.

In the first case study report we highlighted the following:

- All the case study associations expected the main impact of welfare reform to be rising rent arrears. Housing associations were assuming a significant hit on their income and were altering their business plans to increase their bad debt provision to between twice and three times current levels.
- There was a high degree of uncertainty and unpredictability as to how tenants would respond to the shortfall of housing benefit caused by the size criteria and later to managing their rent payments themselves under Universal Credit.
- There were general uncertainties because so many elements of welfare reform were taking place over the same period and there were concerns about the cumulative impact of these changes.
- Organisations were looking to streamline their operations and to focus their resources more on rent collections and tenancy support. Some indicated that they might step back from their wider community support programmes. Others were setting up charitable funds to assist those in difficulties.
- It was quite clear that associations were striving to ensure both they and their tenants worked through this situation as best they could but that they had already incurred extra costs and expected these to continue or to rise. They also foresaw that there would be real victims among their tenants. Much would depend on how the programme of welfare reform unfolded and what adjustments were made in the process.

When that report was written, many elements of the welfare reform programme were yet to come into place or were still only on the horizon. Although this is still true to an extent, more aspects are now fully operational: the social sector size criteria; the benefit cap and pathfinders for Universal Credit were all introduced in April 2013 (although both the benefit cap and the pathfinder areas were rolled out more slowly than initially intended).

Associations have now accumulated considerable experience and understanding about the impacts and have been in a position to change their policies and processes accordingly.

In this second phase of the overall project CCHPR undertook telephone interviews with the same group of 15 housing associations in the period January and February 2014. A revised and updated questionnaire drawn up in consultation with the National Housing Federation formed the basis for the interviews which lasted between 30 and 90 minutes (see Annex). This report presents the key findings from these discussions. It also includes a concluding section highlighting what has changed or remained the same in the time between the two sets of interviews.

2. Housing Associations and Welfare Reform: overall impact and assessment

The impacts of welfare reform varied very considerably across the participating housing associations. Some associations reported a relatively stable or even an improved position but one or two said they were facing very difficult challenges. Some were able to identify impacts in relation to specific elements of the welfare reform programme, whereas others reported a more general picture. For most there was real evidence of increased costs and growing rent arrears.

The social sector size criteria

The numbers of tenants affected by the size criteria (also known as the Removal of the Spare Room Subsidy or the Bedroom Tax) had generally fallen. In some areas, notably where there was higher demand for properties, the reduction had been very slight, however in other areas numbers had reduced by 10% or even 20%. In part, this was due to original estimates being based on incorrect information. However, some of the reductions were because of the changing circumstances of tenants and others because of actions taken by both tenants and housing associations.

The evidence suggests that rent arrears resulting from the size criteria have stabilised to some extent. Prior to the introduction many housing associations managed to reduce arrears levels. Following introduction, arrears rose as tenants and landlords struggled to come to terms with the new regime. However, currently, and depending upon area, stock and tenant profile, the rate of increase in arrears seems to have declined to rates of increase below what had previously been expected. This is partly because tenants are finding ways to cope and make the payments or have been able to avoid them by downsizing to other social housing or sometimes to higher cost private renting. Housing associations have also increased their staffing and used their accumulated experience to inform more effective policies and processes to help to ease the situation.

Some associations reported that some tenants had simply abandoned their homes. Some tenants had chosen to give up their tenancies and move back with their parents or had moved in with friends, although associations were unsure whether these arrangements would prove long lasting. Some associations reported very considerable increases in numbers of void properties and turnover of tenancies. This impact was felt most heavily by those associations with large numbers of three bedroom homes in areas of low demand. Voids generated very considerable costs which had not always been predicted.

The Benefit Cap

Large numbers of tenants affected by the Benefit Cap were mainly seen in London but even here the figures were far less than originally predicted by the Department of Work and Pensions (DWP). In one case there was only one third as many tenants affected as had been predicted. In part this was associated with early work with individual tenants but more often was the result of incorrect information held by DWP, local authorities or the associations themselves or changing household circumstances. Elsewhere, associations reported very few cases.

Affected households tended to be large families with young children, mixed language abilities and some had their housing benefit reduced by very large amounts, £200 or more per week. The responses of housing association to the Cap varied, partly reflecting local labour market conditions. It was accepted that getting tenants into work was the best solution; however, associations differed in their assessment of the likelihood of success. Some associations were targeting support at tenants affected by the Cap, and had had some success getting tenants into employment or training. In many cases associations have been encouraging applications for Discretionary Housing Payments (DHPs) - sometimes supplemented by additional assistance from the local authority. The relatively small numbers affected meant that some local authorities had been very supportive and in one case all capped cases had automatically received three months of DHP, with plans to renew awards if there was evidence that the household was trying to adjust their circumstances. It was reported that most capped tenants were paying something (all or part) of their rental shortfall. Partially as a result of these proactive approaches arrears were usually lower than for those affected by the size criteria.

Council Tax Support

The impact of the localisation of council tax benefit varied depending on the policy adopted by individual local authorities. Some councils have made no changes to the levels of assistance available. Others now require a contribution from some or all of those previously in receipt of full council tax benefit, and are active in pursuing arrears and taking out summons. Some local authorities were refusing to pass on information to landlords regarding council tax actions. Landlords were concerned that tenants may be prioritising council tax over rent in response to the 'aggressive' collection stance of some authorities compared to the more supportive stance of social landlords. At least one association saw this as the most difficult emerging issue, especially where local authorities were taking rapid action against all those in council tax arrears.

Other Measures

Housing associations did not view non-dependent deductions as an area of particular concern. There were issues in particular cases for example, when a non-dependent was not registered for Job Seekers Allowance (JSA), however, most of those impacted were managing to make up the payments. Indeed, one association commented that it had been 'much less of an issue than we feared it would be'. Another suggested the biggest issue was getting the adult children of tenants in receipt of housing benefit (including returning students) to apply for benefits.

The move from Incapacity Benefit (IB) to Employment and Support Allowance (ESA) was a more important issue with some concerns raised around the ATOS assessment process and particularly about the delays that this was generating. Although people were being reassessed, appeals were typically successful but only after a long delay. There was concern that people who were found ineligible for ESA and required to put in a new application for JSA sometimes failed to do so quickly enough, leading to a gap in housing benefit payments. Similar issues were reported to arise in cases where sanctions were imposed on those who failed to keep their JSA agreements, leading to a cancellation of housing benefit.

Sanctions were an area of increasing concern. Housing associations involved in welfare support were often concerned about the quality of the information being used to inform sanctions and were sometimes able to help tenants to get them reversed. Association staff were also advising tenants who had been sanctioned to re-apply for housing benefit on the basis of having nil income for the period in which they were sanctioned.

Due to the delays to the roll out, the move from Disability Living Allowance (DLA) to Personal Independence Payments (PIP) was not seen as immediately significant by most associations.

Similarly with Universal Credit, landlord actions related to preparation rather than impact. However for most associations this was an area of increasing concern mainly because of the payment arrangements (monthly payment in arrears with the housing element being paid direct to tenants) and the IT requirements the new regime would impose for the associations. A number of associations emphasised that digital inclusion was an increasingly important part of their mainstream work.

The Costs and Benefits of Welfare Reform

Unsurprisingly, most associations felt there were few benefits and considerable costs resulting from the different elements of welfare reform that they were dealing with. However, on reflection, most agreed that they had tightened up procedures and improved their systems as a result of the changes.

Some associations suggested that the imposition of the size criteria might in future lead to better use of stock, and that if the adjustment process could be managed effectively, arrears could probably be controlled. Those with larger units in lower demand areas were particularly concerned about both potential loss of revenue and other costs, including those relating to tenancy turnover.

Associations reported that they were doing things differently. Responding to welfare reform required input from across all parts of their organisations. Associations had also developed better working relationships with a range of other agencies, including aid and advice services and local authorities. There was a willingness to think about widening the range of tenants to whom they might market their services.

There was recognition that associations had improved their communications with tenants and now had a better understanding of their customers. Some associations recognised that this was a positive change, which had led to improvements and in some cases an increased range of services (such as improving energy conservation and bulk buying of energy).

Impact on tenants

Housing associations reported that the size criteria had had the greatest impact on tenants, although changes to council tax benefit and JSA sanctions were also significant. As a result, many households were facing increasing arrears and almost all were faced with greater uncertainty. Nevertheless, the scale of the impact of welfare reform on tenants varied greatly between associations depending on the phasing of their development programme over time, the consequential age structure of tenants and mix of units that had been provided. The impact on tenants was described by one association as 'massive' as households were being pushed into debt, which was creating enormous stress and strain on families. This was reported to be leading to mental and physical health problems.

More generally, landlords saw the current changes as worsening the problems inherently associated with poverty. Associations were also concerned for the future, viewing the current impacts as only the beginning. They were worried that many tenants may become increasingly unable to cope under the burden of the cumulative impact of the changes.

3. Impacts of Specific Elements of Welfare Reform

The Size Criteria

Tenant responses to the introduction of the size criteria varied quite considerably across the case study associations. Whilst some associations were compiling detailed and up to date information on how tenants were responding, others were still at the early stages of this process. These associations were still reliant on the profiling they had undertaken prior to implementation, such as asking tenants what they intended to do.

Arrears

Paying their rent with the intention of remaining in the home was the most common response of tenants, though it was clear that in many cases this meant paying only part of what was due. For example, at the time of the interview, in one association just over a third of affected tenants were paying in full, just under half were making part payments and around 15% were making no payments at all. In another, 49% were paying in full, 43% in part and 8% were paying nothing. This association indicated that a total of 299 tenants had been issued with a notice to seek possession (NOSP), of which 166 were awaiting court action, 104 court orders had been made and 38 cases were now at eviction stage. It is unlikely that evictions will occur in all 38 cases as tenants are sometimes able to clear arrears prior to eviction, whereas others may abandon their tenancy. This association, like most others, typically sought a suspended possession order to allow for an agreement to repay arrears to be reached. The courts have been supportive of this approach.

But in other associations the situation was very different. One, operating in a higher demand area, reported that over two thirds of tenants were paying in full and only 6% were not paying at all. In one small association, 80% were paying and this proportion was rising. Another larger association reported that arrears were now declining and were lower for those affected by the size criteria than for other tenants.

In terms of the overall impact on arrears, one large association noted that of the sizeable number of its tenants affected by the size criteria some 48% were in arrears at the end of December 2013 compared to 23% of those not affected. The comparable figures for the two groups immediately prior to the implementation of the size criteria on 1st April 2013 had been 26% and 21% respectively. This suggests that tenants affected by the size criteria were slightly more likely to be in arrears before April 2013 but that a large part of the increase in arrears was as a direct consequence of the size criteria. A small association had seen arrears increase by £30,000 since 1st April although the rate of increase was now slowing. The association's arrears had risen steadily, increasing by £5,000 a week. In another large association the shortfall in rent due from size criteria affected households on full benefit had risen from £100,000 in April 2013 to £300,000 in December 2013.

Most associations were putting even more effort into supporting tenants to claim all benefits to which they were entitled. One association noted for instance that some tenants had been helped to claim the higher rate of DLA and therefore could better afford to pay the size criteria shortfall.

There was some evidence to suggest that in general terms older households were more likely to be paying in full or part and younger households were more likely to not be paying at all. Although initially most tenants wanted to pay to stay, the reality was that for some it was proving hard to sustain and they were now looking at alternatives.

Overall, associations felt that they were managing to keep arrears under control to a greater extent than expected. There was evidence to suggest that where associations had been quick to put in place remedial measures and policies they were able to ensure at least partial payment. However all were concerned that the position might worsen as time went on.

Downsizing

Although a solution for some, downsizing has not proved to be a widespread response for the obvious reason that most tenants did not want to move. One association stated that around 20% of affected tenants had said they would be prepared to move, while another with a similar profile reported very small numbers interested in moving.

Tenants were reluctant to move out of known areas and away from support networks and of course in many cases there was not the stock available to allow moves. Where downsizing was occurring it was often the result of mutual exchanges rather than direct action by the housing association.

Turnover rates were increasing with several associations reporting significant growth. One association's turnover rate had risen from 8% in early 2013 to 20% by the end of 2013 with around half of those moving going to another social tenancy. It was not clear where the others went, although around 20% of them were believed to be in the private rented sector (PRS). Another had seen a 22% increase in voids over the same period with households mainly moving in with family or to the private rented sector.

Mutual exchanges

Mutual exchanges were more common than transfers in higher demand areas. They were however increasing from a low base and the conversion rate from interest to actuality was

often under 10%. One association said 'they have done loads' -120 by August 2013 - but this seemed atypical. Associations do not always record the reason why an exchange takes place and so cannot always identify whether the size criteria was a factor. Another association noted there was a shortage of people who wanted to 'upsized'. Practice in terms of meeting moving costs varied considerably. Some associations had found tenants were able to arrange vans and make moves relatively easily. Others felt that assisting moves with a cash incentive was helpful and one association reported that the local authority provided financial assistance (up to a maximum). £400 to £600 seemed to be a typical level of assistance given but some offered nothing. Generally, whether or not financial assistance was available, respondents did not feel it was the big issue for tenants despite the costs involved. As one association noted, cost seemed less important than the practicalities, which is what 'people find hardest'.

Moves to the private rented sector (PRS)

The extent of movement to the PRS varied greatly depending upon local market conditions. In one association there had been an estimated 33% increase in numbers moving to the PRS, up from 241 in 2012/13 to a projected 322 in 2013/14. Other associations said few tenants had thus far made such a move. A large association suggested that roughly half of those impacted by the size criteria who had given up properties had probably moved to the PRS, although it was clear both there and in other associations the information on this was poor. Unless the tenant volunteered information, associations had no way of knowing where the tenants went. Some associations cautioned tenants about giving up secure tenancies and did not encourage moves to the PRS.

Lodgers

Taking in lodgers was rare, even though most associations would allow this and in one association there had been considerable early interest. One association had developed a 'lodger information pack' and sought to ascertain interest, but in reality, as all associations found, there was much talk but very little real interest or action in taking in lodgers. In areas with hard-to-let stock there was also very little demand for renting single rooms in someone else's home. It was felt that, in low demand areas, no single person would choose to be a lodger if there were easy-to access, less popular, council flats available.

Work

Helping tenants to access employment was on every association's agenda. Associations are clearly increasing their activities in this area, including helping with CVs as well as other means of making tenants more likely to be successful in finding work. However, the likelihood of success varied greatly given the divergent nature of local labour markets.

For some associations helping tenants secure work was a really big issue, not least in relation to ESA claimants and the long term unemployed. One association had focused on those affected by the Benefit Cap but had had no success so far; while another had helped 24 size criteria affected tenants to find work. It was suggested by a third association that much of the work secured was part-time and there was some evidence to suggest that many tenants were paid in cash. The evidence given by one association was clear, that although some tenants had secured employment they still needed to claim some benefits. Zero hours

contracts and self-employment were mentioned and reported to be causing rent arrears and other problems. Associations are clearly increasing their activities regarding work and not least in terms of helping with CVs and other means of making tenants more likely to be successful in their job search.

Discretionary Housing Payments

Housing associations were quite appreciative of the help some tenants received through Discretionary Housing Payments (DHPs). However, some felt that DHPs meant that tenants were not having to adjust and respond to the welfare changes.

Securing DHP for tenants affected by the size criteria was a major priority for most associations, although the rate of success varied widely. It was found that investing in time and resources to make good applications and to appeal against refusals was worthwhile. Additional support was often provided when tenants were facing eviction.

Associations with a concentration of stock in one area and close working relations with the local authority reported high levels of successful applications. However, the picture was less positive elsewhere, not least because of the different approaches taken by different local authorities. Some councils grant 12 month awards or even longer, others grant 3 months and some only grant monthly awards due to rationing DHPs with monthly allocations. There was a suggestion that authorities who had initially rationed DHPs tightly are now becoming more generous as they better understand the demands on the resource and see further monies from DWP being allocated. One association had seen 1,241 applications made with 808 successful, 61 pending and around 300 where there was a mix of refusals and appeals underway. Another association reported that 255 out of the 382 applications made at the time of the interview had been successful. In some areas the authority had topped up the DHP pot with the specific intention of focussing it on those at risk of eviction, in order to prevent evicting anyone for this year at least. Elsewhere the DHP pot was reported to be underspent and so was more freely available.

Clearly DHP is playing a vital role despite the variations. It was suggested that one major downside was that it meant that tenants were shielded from the reality that they needed to make adjustments in the longer term and that people felt insecure and anxious about whether it would continue to be available.

Working with Local Authorities

Housing associations were generally positive about their relationships with local authorities and most reported that welfare reform had resulted in closer engagement. Where local authorities had contracted out housing services, associations found this could pose really difficult issues in terms of securing change and cooperation. Some local authorities had forged partnerships with local Citizens Advice Bureaux (CAB), other advice agencies and associations, leading to joint advice and actions and even in one case a corporate welfare reform project board. Some associations had found authorities had been slow to generate data on who was affected by the size criteria, and that there had been some reluctance to share it with associations on data protection grounds. Some local authorities had made public commitments that there would be no evictions as a consequence of the size criteria or the Cap. Such commitments had caused difficulties for landlords faced with the reality of

people with mounting arrears, and concerns that under Universal Credit it would be impossible to attribute the cause of rent arrears.

One area of continuing concern was that some local authorities were nominating tenants based on more generous size criteria thus posing issues for the association and the tenants concerned.

Geography

The highest increases in turnover of stock had been found in urban areas. This was particularly true in areas of hard-to-let properties where any occupancy had been welcomed in the past. In rural areas there was more stability. History loomed large in all of this with associations with concentrations of ex Council stock more likely to be under-occupied (along with those associations which had added significant numbers of two bedroom units over the last two decades) but clearly the picture is very patchy.

There was a similarly varied picture with voids. One association had investigated the anecdotal reports of hard-to-let three bedroom homes arising from the size criteria, but had instead found that void figures had increased throughout their stock – possibly arising from increased mobility and a general decrease in demand because of welfare reforms. One large association also noted strong regional variations in arrears levels reflecting the strength or otherwise of local labour markets.

The Benefit Cap

For most case study associations the Benefit Cap (the Cap) was not a major issue. Where it was, fewer tenants were affected than had been expected. There was also more help available from local authorities in areas where larger numbers were affected and some councils had promised that no one would be evicted at least in the first year. Some tenants had been able to avoid the Cap because associations had helped them to claim benefits that exempted them (for example, some tenants had claimed DLA for someone in the household). Others were being assisted by DHP. The most obvious solution for most tenants in this position is to find work. This was not proving easy and where it had proved possible it was not clear the situation was sustainable or reducing dependency on benefits. The main concern among associations was about possible future changes to the level of the Cap and its impact in the context of Universal Credit.

Universal Credit

Universal Credit (UC) had yet to be implemented in the operating areas of the associations interviewed. Where it did arise in discussion, the focus was on issues surrounding possible implementation problems. A key concern related to the lack of information that landlords will have access to once housing costs are subsumed within other benefits. As Housing Benefit is currently paid direct to landlords in most cases, landlords are able to see from their payment records which of their tenants are in receipt of Housing Benefit. If payments stop they are able to make enquiries as to why and then support the tenant if necessary. For

instance, they can help tenants whose JSA is sanctioned to put in a new Housing Benefit claim to cover the period of the sanction and thereby avoid substantial rent arrears. Associations were very concerned that under UC this would no longer be possible, as they would not be aware when payments stopped. Systems for sharing information with the DWP were not yet developed, and associations were very concerned that issues such as data protection would prevent effective sharing of information regarding their tenants' benefits position, including the element intended to cover their rent.

One association had looked at tenant preparedness for UC and found that 75% operated a cash based system of financial management, with many using prepayment meters for utilities. They found that 48% of tenants were online but only a third of those felt comfortable making an online benefit claim. All associations noted the problems associated with predicting which tenants would fall behind with their rent and were concerned that this had proved difficult in the pathfinder areas, even with large scale support and data analysis. They were also concerned by monthly payments in arrears. A small association had sought to model UC impacts but found that the lack of clarity over the triggers used to determine when payments would be made direct to landlords made this impossible.

One association reported that the local authority had started to pay Housing Benefit direct to new tenants in preparation for UC, something the association had opposed, fearing that rent arrears would rise. It also flagged up concerns with service charges and the lack of clarity about what would be eligible under UC and what not.

Some associations were putting a lot of resources into improving digital inclusion which they saw as the best way of helping tenants to address the challenges associated with the introduction of UC.

4. The Costs of Housing Related Welfare Reform

It was difficult to get a full picture of the costs to associations of housing related aspects of welfare reform, not least because the true picture was still emerging. Most of the additional costs were associated with managing arrears and greater interaction with tenants.

Staffing levels had clearly increased and costs had risen as a consequence, although some associations had managed to absorb these costs inside other planned improvements. Some had appointed one or more additional welfare related staff, while others had been able to reorganise within their existing resources.

Associations where voids had risen significantly reported considerable extra costs in repair and maintenance. These associations were also having to spend more to find new tenants, including advertising nationally.

Cost rises varied, depending on the size of the organisation, from over £1 million in 2013 to £30k per annum. No housing associations reported a reduction in costs. It was clear that Universal Credit was seen as likely to add to this, possibly doubling these increased costs.

One association had seen its costs rise by £300k and had scrutinised its ranking in the Housemark benchmarking club (see <http://www.housemarkbusinessintelligence.co.uk/>).

This indicated it was spending more on arrears collection than its peer group. Another association had seen costs rise by over £500k.

Associations were making increased provision for bad debt (unpaid rent and assumed irrecoverable) in their financial plans. For example, one association had a bad debt provision of £600k and a large association had doubled its provision from 1.5% per annum to 3% from April 2013 and it forecast possible bad debts of up to £22 million over the next five years.

All of the case study associations saw the need for the stronger relationships with tenants so that they had a better and more up to date understanding of their circumstances, but recognised that approach as more expensive, even though it delivered real benefits.

The sense from all of this was that cost pressures were rising, reflecting increased staffing, more activity and increased losses of one sort or another. Only in one association was the picture more positive with lower arrears and the effective introduction of the affordable rents regime.

Lenders

Despite all of the clear tensions the reaction from lenders has remained positive. Although there was more engagement and scrutiny from lenders no association had found their lenders wanted to renegotiate terms or impose higher charges. There was a clear sense of lenders waiting and watching, despite their clear concerns regarding the welfare reform programme overall and its likely impact upon associations. One association's lenders had agreed with property re-designation (in terms of the number of bedrooms). Another association had received a rating recently and this was in the least risky category, while a second noted that in their annual review they had been able to convince the rating agency that the situation 'was under control'. This association had already moved to reduce its development programme. Others had diversified their borrowing including using European Investment Bank finance and bonds.

5. Policy Responses to the Welfare Reform

Development programmes

The picture that emerges from the case studies in relation to the impact of welfare reform on their development programmes is quite varied. Looking to see a better balance between supply and likely long term demand was on everyone's agenda but it was also clear that there were big differences in how much that thinking had been operationalised.

With the General Election only a year away and with the Labour Party pledging to repeal the size criteria there was widespread reluctance to base long term development plans on the current agenda. There was particular concern about building smaller units that could in the future become hard to let. Additionally, in some areas, local authorities were cited as resisting moves to change to smaller homes.

Some associations had 'tweaked' their plans to provide more one or two bedroom homes while most had made no change at all preferring to keep their current plans. Some said that

they had not yet had to make decisions over changes to development plans because of the lengthy timespans involved in development. Having said that, one association had considered changing all its current stock of three bed homes to two beds in a major rebalancing of its stock and another was looking at simply reducing its stock of larger homes.

Another association had reduced its programme and changed the size profile but as they stated 'we build for 80-100 years' and therefore not in response to what could be a short-term welfare policy. Building new three bedroom homes was seen by one as less of a risk because there was always demand for new housing but it was recognised it made it harder to let the existing three bedroom stock.

There was a focus on mixed development programmes with more bungalows and Housing with Care schemes to meet the needs of an aging demographic. Some associations were also considering how to re-model stock to allow sharing. The overall sense was this was a live agenda but at this stage it was hard to set out a clear direction.

Rent policy

Typically, housing associations had made no changes to their rent policies. However, though none of the case study associations were in the pathfinders, this was on the agenda for some depending on how Universal Credit was finally rolled out and whether more housing benefit changes were made. Mention was made of the one percent cap on the rise in benefit costs as a potential limitation on rent increases. More generally, associations were clearly weighing up the tension between rent increases and the capacity of tenants to pay. Some were thinking about widening their reach and providing cross-subsidy through developing more market renting.

Allocations policy

Almost all case study associations had responded by changing their allocations policies. These included a stronger pre-tenancy affordability assessment and a joint allocations policy with the local authority, bringing their size standards in line with the DWP's. Some associations were responding creatively to the need to find new ways to let properties across a wider spread of tenant groups, such as better off working households. They were advertising more widely (e.g. through letting agents or Rightmove), and fitting white goods and carpets in order to compete more effectively with the private rented sector.

Wider activities

Welfare reforms have impacted on a range of wider activities undertaken by housing associations. As is evident from Table 1 below, there was considerable variation. Some associations had made no changes (although all had some under review), while others were engaged in stock improvements, had either reduced or increased adaptations, expanded their digital and financial inclusion programmes, increased numbers of apprenticeships and increased the support given to staff.

Table 1: Wider activities: a snapshot of change

Activity	Increased	Stayed the same
Stock improvement	2	9
Adaptations	1	8
Community services	4	3
Development programme	1	8
Financial inclusion	4	3
Digital inclusion	10	2
Apprenticeships/training	7	2
Support to staff	6	2

Note: the table only reports on specific mentions and does not add to total case study numbers. There were only two instances of reduced activity, one on adaptations, the other on development and these are not shown here.

Digital inclusion has seen the strongest increase in activity, followed by financial inclusion and work related initiatives – all very clear evidence of associations working to increase capacity of their tenants to cope with the new environment.

Associations reported holding IT surgeries in children’s centres, getting their IT team out into the community and running a pilot free Wi-Fi scheme. Some had increased their work on supporting their most vulnerable tenants. Others had negotiated with DWP to include requirements for IT training and thus be covered by the sanctioning process. Use had been made of the Big Lottery fund to support the development of digital inclusion work.

More generally most of the case study associations stressed that the underlying issue was the poverty of most of their tenants. Some were looking to address this through energy savings, bulk buying arrangements and other means of reducing the costs of necessities.

Boards

Boards of associations were supportive of the different approaches being taken. There was no suggestion that boards were lagging behind understanding pressures or were unwilling to embrace change. Most accepted that there needed to be some budget flexibility. There was clear evidence of boards wanting to see the facts about the impacts of the changes and board members were taking a deep and detailed interest in the unfolding situation. In one case the board initiated a modest shift in allocations towards more working households while at the same time re-affirming the charitable nature of the organisation. In another case a new more commercially focused board had come into place and was still coming to terms with the operational environment.

What worked

When asked about what had or had not worked well in terms of mitigating the impact of welfare reform, there was a variety of responses. A number of associations said the best move had been to engage with customers early on, whether in their homes or elsewhere, being pro-active in that process (rather than waiting for tenants to contact the association), and keeping the process going. More proactive engagement meant they now know their tenants much better as a result. Others highlighted monitoring and targeting those deemed to be at greatest risk (these groups varied between associations) and in need of support and

advice (including debt advice) and employment initiatives. One mentioned the creation of its aid and advice team and the investment made in front line staff and face to face skills.

A common reaction was to ensure that all staff were engaged, rather than just seeing the welfare reform programme as part of the housing management or arrears management function. One association had involved IT staff in helping tenants build relevant skills and this had transformed the involvement from this otherwise 'backroom' team. Better internal communication was one major theme and welfare reform had triggered a lot of tightening of procedures and given a renewed focus on what they did well. Another reaction was to increase support for staff who had now got far more demanding and emotionally draining jobs in dealing with the complex issues now faced by their tenants. .

One association, having been surprised at how quickly they had experienced voids in larger properties and having moved to rework its policy, was now finding that there was strong demand from different types of tenant. Another was finding it increasingly difficult to find tenants because of competition from other associations in the same position. They had widened their allocation rules considerably. Another association had increased internal moves on medical grounds, shifting households from houses to bungalows and saving on adaptations as well as reducing under-occupancy.

With respect to arrears, associations were moving both to tighten and improve policy to reflect the complex situations that were arising under welfare reform and felt that this was working, given the difficult conditions. All were trying to support tenants in obtaining DHP. Some had reduced the trigger for starting eviction proceedings; with the hope of engaging tenants in addressing their arrears at an earlier stage, as well as reducing losses should the tenants continue to fail to pay. Measures introduced include allowing moves for tenants with arrears to downsize; changing tenancy agreements so that those occupying a new home understood that it was conditional on paying rent; and offering tenants in court for eviction for arrears a last chance of a move. Overall we can see increased support for tenants in arrears alongside tighter enforcement – earlier notification/tighter triggers and earlier contact and action. So far this has not resulted in significant numbers of evictions, although some expected large numbers in the near future.

Lessons learned

With hindsight, some associations reported that they would have acted earlier to respond to the changes. They would also have engaged more parts of the organisation rather than starting narrowly in one department. One organisation highlighted its discovery of the weaknesses of its own tenant records and the need to upgrade its whole approach to customer information. Another wished it had put in greater support for the under 25s, while a third (in the light of the recent loophole in the size criteria that has come to light) wished it had kept its housing benefit records back to 1996.

We asked whether there had been any impacts that had surprised associations so far. Generally there had not been surprises, although in some areas tenants had been more willing to move than some associations expected and the courts were being tougher on tenants than some had anticipated. One association commented that the resilience of tenants was greater than predicted, although how well this will be sustained remained a question. Another felt that there had been no behavioural changes among tenants. The

speed by which turnover had increased was greater than some expected, mainly in lower demand areas. The scale of staff time and resources needed had surprised some, not least the amount of time being spent with individual tenants to help them pay their rent, move or apply for DHP.

The Future

Looking ahead most respondents thought that the risks and pressures would continue to increase. Associations were concerned that some tenants were only paying their rent because of help from family or friends and/or via probably short-term DHP assistance. There were also concerns about sanctions, the introduction of the new claimant commitment and possible future reductions to DHP. More broadly, it was assumed that, over the coming years, access to welfare benefits would tighten, so that cumulatively the impact of reforms would increase.

Perceptions had changed little over the last twelve months, although a minority agreed that perhaps at this stage, the outcome of the Cap and size criteria had not been as bad as they had expected. All agreed that the impact would worsen over time. There were shared concerns about the pressure being placed on both staff and tenants.

We asked which reforms posed the greatest risks to associations in the future. The size criteria was currently the main issue (although with some sense associations were learning to manage it) but Universal Credit topped the list as the biggest future risk by some margin. Associations were particularly concerned about the risks posed by direct payments of the housing element to tenants. Some case study associations had a few tenants in receipt of UC but most were not yet directly affected. However most had been taking a keen interest in the experiences of the pathfinder areas and begun to understand the issues and problems.

The roll out of Universal Credit, and in particular the introduction of direct payments to tenants, was seen as likely to intensify the difficulties faced by both landlords and tenants. There were real concerns about the IT capacity of the new system and the accuracy of its records. Experience in pathfinder areas was already showing difficulties in predicting who would pay, incorrect information in relation to direct payments to tenants and difficulties in getting errors corrected or payments switched to landlords even when agreed trigger points had been reached.

Some associations reported that tenants seemed to think UC would be withdrawn and so did not want to think about it. One association had experimented with direct payments to tenants and found it was difficult to predict who might have difficulty managing payments. It was also felt that it would prove difficult to collect the sensitive information needed in order to inform decisions on UC alternative payment arrangements.

In terms of behavioural shifts and their future implications, responses highlighted the move to assessing affordability before letting homes to new tenants and the impact this was having on both access to homes and on creating a new focus on tenants' lifestyles and priorities. All this was going to lead to quite dramatic changes in the way the allocation system operates and who in the end was housed.

Finally, with respect to the mission of the associations, all were aware of the tensions that now existed and some could foresee that this might lead to changes in their social role. Business as usual was the response of most associations but some were more actively thinking about developing a leaner and repositioned business with 'everything up for review'. One association respondent felt that since they were operating a very mixed model at present this could be flexed in different directions as the issues became clearer. This way they might avoid dramatic cultural change. Direct payment was seen by one association as a major driver of change. Others referred back to their social values and how that focus would be maintained regardless of how welfare reform evolved. In another case the association had reworked its allocation policy to increase the number of working households and safeguard its income stream thus creating space to continue with its work with 'more needy communities'. Associations were clearly aware that some fundamental questions were being asked and the focus was shifting from the state to the tenants and their ability to pay. Why are we here and who are we here for were clearly the questions all were asking, even if associations varied with respect to their responses.

6. Conclusion: Reflections on the Dynamics of Change

This is the second case study report, which re-interviewed all the associations from the first stage of the research. Taking the two surveys together we have some insights into how the impact and understanding of welfare reform is evolving. As we made clear at the outset of this report, the first round of interviews captured what associations thought might happen, as they largely predated the operationalisation of the main components of the welfare reform programme. There were many uncertainties and a high level of shared beliefs about how it might work and what needed to be done.

This second round of interviews is based on experience of what has been rolled out so far, in particular, the size criteria and the Benefit Cap. This time we have seen greater variation between organisations as the geography and history of each association plays out in terms of impacts. This of course highlights a core truth about welfare reform: citing averages regarding impact can at times be very misleading, since there is clearly a range of impacts across most measures.

When we first interviewed the case study associations there was much discussion about remodelling or reclassifying homes and encouraging lodgers. In reality, neither response has been common in practice. Taking in lodgers has singularly failed to gain traction. This tells us a lot about how aspirations and expectations have changed over time; most households no longer wish to share and while it was a common practice for previous generations to do this, many have grown up with no experience nor any expectation of it.

In the first report, respondents thought that reworking housing management practices would be the key solution to mitigating the potential impact of welfare reform on their tenants. However in practice it is clear that there has been a much more wide-ranging impact, with the consequence of requiring the entire organisation to respond to the welfare reform challenge. This latest case study work shows that entire organisations have taken up the challenge, from the Board itself to backroom functions like IT.

Respondents last time accurately predicted some changes. Development programmes have been modified (rather than reduced) in some cases and others are looking to change in the future. Yet there is clearly a reluctance to restructure schemes completely and especially to revert to building small homes which may not stand the test of time. Equally most respondents talked about changing their allocation policies and this has occurred, especially in relation to the size criteria. What was less clearly predicted was the potential decrease in demand for some types of unit, which has led to different types of households obtaining accommodation.

The first interviews focused on solutions and responses that might be put into place. This time we can see real experience shining through, related to cooperation and collaboration between organisations, the clear evidence of cumulative pressures building up on tenants and the temporary nature of some solutions.. The first interviews emphasised the potential impacts on the mission of organisations. This time around interviewees tended simply to say that their mission had not changed. There was clearly far more emphasis on the practicalities of dealing with change.

The full impact of Universal Credit has yet to be felt. However, housing associations are preparing, and digital and financial inclusion loom strongly in these recent interviews. This is about equipping tenants to cope with the future, partly in recognition that there are limits to what the organisations can do themselves.

Most associations saw fewer households directly affected by housing benefit cuts than had been expected, and more tenants coping. Associations also felt they were able to support tenants to a greater degree than they had expected. The biggest problems are clearly located in the North where the mix of larger properties, cutbacks in regeneration and local authority finance and the general economic downturn has generated major difficulties. These associations were still coping well financially but were concerned about the future.

Overall, the associations saw themselves as coping well and felt that they would be able to manage arrears if no further problems arose. However, they did see an accumulation of changes impacting heavily on some tenants - not just the size criteria but also particularly the changes in council tax benefit - and utility costs - imposing an ever increasing burden on tenants and thus on associations. They also far better understood the fundamentals of poverty. It was felt that the risks and pressures resulting from welfare reform would continue to rise; housing associations are clearly expecting to be operating in a challenging environment for the foreseeable future.

Annex: Topic Guide for Interviews

As you may recall we interviewed you in early 2013. We now wish to update our research and want to work through the following areas of concern:

1. We would like to begin by discussing the impact of welfare and related changes on your association and their relative importance. Can you comment briefly on the overall impact of each of the following on your organisation?
 - a. The Removal of Spare Room Subsidy/RSRS/Bedroom tax/social sector size criteria
 - b. The Benefit Cap
 - c. Other aspects of welfare reform that may affect tenants' ability to pay their rent:
 - i) The localisation of council tax benefit
 - ii) The increases in non – dependent reductions for HB
 - iii) The move from incapacity benefit (IB) to employment and support allowance (ESA)
 - iv) The move from disability living allowance (DLA) to personal independence payment (PIP)
 - v) Universal Credit (Pathfinders only). Worth exploring numbers on UC, impact of sanctions on JSA/ability to pay rent, cost of preparatory work on UC; the relative impact of UC compared to other measures)
2. Will any of the measures produce benefits as well as costs?
3. How do you think welfare reform has impacted upon your tenants? What aspects appear to be most problematic or most beneficial to them? Do you think these impacts will worsen/stay same/improve?
4. For the bedroom tax/RSRS how have your tenants responded so far?
 - a. 'Pay to stay'?
 - b. Downsizing
 - i. Via transfer list or Mutual exchange?
 - ii. Are they managing the costs of the move?
 - c. i. Moving to PRS
 - ii. Taking lodgers
 - d. Finding work
 - e. Claiming DHP
5. Have your perceptions of welfare reform changed over time? Currently, do you regard the impact overall as worse than expected, about the same or better than expected?

6. Has there been anything that's surprised you about the impact of welfare reform so far?
7. Have there been any issues around local authority capacity and relations with them? For example relating to HA administration, DHP administration, nominations to HAs for housing, preparations for UC, Local Support Services Frameworks. Has it impacted on your relationship with them, for example organisational changes, the transfer of information and systems to enable changing tenant circumstances into account? Have the reforms and their implementation triggered joint working to mitigate the impacts? Is there more that could be done?
8. If your association has stock in different geographical regions, have you noticed any differences in impact across the regions or types of areas (urban/rural or high/low demand)?
9. Do you have estimates of the cost of welfare reform to your organisation in 2012/13 and forecast costs for 2013/14. This would include management costs, additional staff; IT provision for additional information; additional support to tenants; increased voids; arrears and possessions management.
10. Turning now to impact upon borrowing/lenders – have there been any reactions/ concerns from your funders, for example has the cost of funds changed?
11. From a risk perspective which of the welfare reform measures pose the greatest risks to your association and why? How will this change policy or behaviour?
12. Now you are clearer as to the costs and risks of some aspects of welfare reform has your current investment programme been changed to reflect the new measures? If so how/by how many? And have you altered the profile of your development programme (eg building more one beds)? In what ways and why? Do you plan to change the future programme?
13. Your organisation has been working to mitigate the impact of welfare reforms. Which of your actions have been the most effective? Is there anything that, with hindsight, you would have done differently?
14. Policy responses – have you amended your policies since we spoke last in response to the welfare reforms in respect to:
 - a. rents,
 - b. Allocations/ who you house,
 - c. arrears management

Do you expect to make further changes?

15. What activities have the association increased, reduced or ceased funding, in the light of the effects of welfare reform on HA's income/workloads?
 - a. Stock improvements

- b. Adaptations
- c. Wider community services
- d. Development programme
- e. Financial inclusion work for wider non tenant community
- f. Digital inclusion
- g. Apprenticeships and training
- h. Support to help deal with greater staff workloads
- i. Anything else?

16. Do you see these changes impacting on your overall strategic direction and the positioning of the organisation? Is there pressure on the association to change its mission? If yes from where and what are the changes?

17. Board engagement on welfare reform? Has the Board's attitude to policy changed as the impact of welfare reform has become more apparent?

Thank you. We will use your comments to inform our second case study report. We will not name individuals or associations.