EVIDENCE REVIEW OF THE IMPACTS OF UK WELFARE REFORM AFFECTING HOUSING IN SCOTLAND

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EXECUTIVE SUMMARY

Introduction & Background
In this short review we examine the evidence available about the impact thus far of welfare reform on housing in Scotland, setting out the nature of the changes and their implications for housing. Key policy objectives were set out in the 2010 Spending Review as well as in the Department of Work and Pensions (DWP) Welfare Reform Act 2012. These were to cut public expenditure, make work pay and simplify the benefits system.

The key changes to the Housing Benefit system involved:

- Private Rented Sector (PRS) local housing allowance (LHA) capping by number of rooms and set at the 30th rather than 50th percentile of local rents (introduced April 2011). PRS shared accommodation charge for single persons and couples extended from 25 to under 35s (from January 2012).
- Social renting under-occupation penalty (bedroom tax) at 14% of eligible rent for one spare room and 25% for more than one excess room (April 2013).
- Reforms to non-dependent deductions (NDD) (all tenants) allowing previously frozen NDDs to catch up with inflation over the period 2002-11 during which time they were fixed (commencing April 2011). A flat rate NDD will apply under Universal Credit.
- Household benefit cap (all tenants) of £500 per week for families and £350 for single person households (from October 2013). This is applied to the main working age benefits, including housing benefit (HB) but also Child Benefit and Child Tax Credit.
- The introduction of Universal Credit (all tenures): a single working age benefit that will include an element for housing costs made directly to recipients - currently being piloted though full roll-out is delayed.
- The uprating of benefits by CPI rather than RPI (introduced in April 2013). For 2014 and 2015, LHA and a range of other working age benefits are capped at a 1% cash increase. At the same time the UK Government (March 2014 Budget) has imposed an overall aggregate spending cap on large parts of the working age welfare bill as a whole – this includes most of the HB bill.
- Amendments to benefits applied to supported and temporary accommodation e.g. those living in temporary accommodation are subject to the under-occupation penalty and the new LHA rate. On the other hand, supported exempt accommodation will sit outside Universal Credit, and will not be subject to the under-occupancy penalty nor will housing costs count towards the overall benefit cap.
- More stringent sanctions on benefits claimants, especially those on JSA (and the housing cost element of Universal Credit, when it is introduced).

The study had to manage a number of specific methodological considerations. These include: first, to distinguish between studies conducted before the introduction of reforms based on re-analysis of secondary data, as opposed to (usually micro) studies following introduction based on lived experience. Second, the analysis of some evidence has to be interpreted in the charged political context in which it was produced – there are interests, which are not always neutral or detached. Third, the reforms have been introduced over time so there is more analysis and evidence on
the rental market than on social renting impacts. Fourth, the Scottish picture is also affected by the extensive mitigating actions by central and local government.

While the focus is on HB, we recognise that other income-related benefit changes and alterations to the wider regime have impacted on the income that working age people have to meet their housing costs. In particular, we consider the importance of the roll-out of Universal Credit (its monthly basis, administration procedures and wider impacts), the specific impacts of reform on households with disabled people, the work programme and the greater use of conditionality, in particular, the ratcheting up of the sanctions regime.

Findings - Private Tenants and Landlords

- The UK Government largely assumes that landlords will respond to constraints on rent support by holding rents below market levels but there is little evidence to support this assumption. Evaluation of the LHA pilots showed that at the time of the study 50% of landlords had not acted in the short term on arrears arising from the LHA shortfall.
- Research to date often captures the concerns and intentions of market actors, rather than actual behaviours. Measurable impacts may not be immediate and some intentions may not be achievable (e.g. in some market locations landlords may not be able to exit the LHA level market).
- It is vital to consider time lags in the behavioural responses to policy changes. This seems particularly important in the cumulative effects that forced mobility may have on household support networks, health and well-being and communities.
- While some impacts are immediate (HB cap) there is concern that over the long term the erosion of the value of LHA (through uprating limits over future years and the setting of LHA at the lowest 30% rather than 50%) will drive down standards and/or increase mobility.
- One impact of cumulative reductions in the value of LHA is that welfare support for PRS housing will increasingly be set in relation to poor quality or sub-standard housing stock. It is unlikely that evidence of this impact will emerge unless it is actively sought.
- A key outcome of LHA reform combined with other aspects of welfare reform is to make households poorer and less able to secure positive outcomes in the housing market. The analysis in the literature anticipates that there will be increased levels of evictions, homelessness, child poverty, fuel poverty, overcrowding (with health impacts), and community breakdown as a result of these policies.
- Early indicators are that some landlords have already moved away from LHA level markets, and others will in the future move away from LHA level markets rather than reduce rents and that higher rents are their response to market constraints rather than increased supply.
- Equalities impacts are considerable but reflect the proportions of vulnerable or minority households living in the PRS. Overall, Scotland is less affected by LHA reforms than other areas of the UK due to a smaller overall proportion of PRS stock.
Findings - Social Tenants and Landlords

- Compared to the PRS, and apart from extensive *ex ante* (before the fact) analysis, evidence on social housing impacts is less developed as most of the key salient effects only first occurred in the financial year 2013-14.
- Working age social tenants are at the forefront of welfare reforms introduced and still to be enacted. While the overall household benefit cap impacts on relatively few Scottish households, the under-occupation charge affected around 80,000 households when introduced. Both for the cap and for the increase in non-dependent deductions, concerning those actually affected, the reduction in income is significant. Regarding the under-occupation charge: there is a marked impact on households with disabled persons and there is also a clear spatial variation in household capacity to downsize.
- Research thus far suggests that it is quite difficult and relatively early to accurately assess behavioural responses in terms of down-sizing, attitudes to arrears and work incentives.
- Going forward there is much concern (though less evidence) from landlords and commentators on the financial exclusion and budgeting risks facing significant numbers of tenants – and acknowledgement of the opportunity costs of managing this problem to an acceptable level.
- Landlords have expended considerable resource in preparing and seeking to mitigate problems, actively manage arrears and support tenants as they adjust to the new regime.

Findings - Provider Business Impacts

- Landlords’ cash flows are highly dependent on benefit income.
- The immediate threat to social landlord revenue comes from already introduced welfare reforms like the under-occupancy charge and other reductions in tenant income: mitigating action includes identifying and supporting tenants at risk of losing benefits via budgeting and financial inclusion advice and training.
- New risks arising from welfare reform include their impacts on business planning and borrowing capability. Longer-term challenges are associated particularly with the introduction of Universal credit and the end of direct payments in social housing affecting the sustainability of some tenancies.

Findings - Wider Housing System Impacts

- Landlords and tenants will be responding to an accumulation of changes in the welfare regime affecting the PRS. It is unlikely that responses to individual changes could be isolated out for mitigation activity.
- While some impacts are immediate (HB cap) there is concern that over the long term the erosion of the value of LHA through uprating limits and the setting of LHA at the lowest 30% (rather than 50%) will drive down standards and/or increase mobility.
- There is an advice deficit in terms of the capacity of agencies to meet demand for advice on their reduced circumstances but also in terms of advice staff themselves understanding the reforms and potential mitigation.
- The purpose of LHA reform combined with other aspects of welfare reform is to reduce benefit (as a work incentive). Households will be less able to secure positive outcomes in the housing market without a major restructuring of that
market and the operating practices of landlords. The analysis in the literature leads most commentators to anticipate the longer term impacts of reform as being increased levels of evictions, homelessness, child poverty, fuel poverty, overcrowding (with health impacts), and community breakdown.

- We can distinguish people, place and service impacts of welfare reform. These should also be contextualised by wider forces such as the regionally varied pattern of deprivation, tenure change and the capacity of different landlords to fund new development given the levels of benefit-dependence they confront.

Conclusions

What are the main conclusions from the review’s findings?

1) Changes to a series of working age benefits not related to housing (as well as housing-related reforms) have increased the financial risks for applicants and large numbers of disabled people in particular have lost entitlement to some or all of their benefits. With the exception of the under-occupation charge, there is rightly more interest in looking at the overall impacts of reform rather than individual benefit change.

2) The welfare reforms are interacting with the private rented sector in dynamic ways but there are issues about whether landlords will risk benefit-dependent tenants, stay in that part of the market or indeed lower rents in response to lower levels of benefit income. The evidence in this sector raises a broader point that the behavioural effects of the welfare changes will be cumulative via forced mobility to find lower cost housing with attendant issues for household support networks, health, well-being and community sustainability.

3) Housing Benefit claims by working people have doubled since 2009 – they will be deeply affected by the reforms and it is not clear that that will have beneficial labour market implications. The uprating and overall household benefit caps will induce more working but of course this is critically a function of local labour demand.

4) Specific cuts to PRS HB while focused on the high cost London market have wider effects, not least by forcing those affected to seek lower cost housing further afield. Already the sector with the least residential stability, the cumulative effect on the PRS is likely to exacerbate turnover and degrade neighbourhood and local service cohesion.

5) Overall, Scotland is less affected by Local Housing Allowance reforms than other parts of the UK due to its smaller rental market. However, in the Scottish private renting sector, as elsewhere in the UK, there is a significant advice deficit in terms of the capacity of agencies to meet demand for advice or in some cases to understand implications of the reforms or indeed possible mitigation.

6) There is less ex post evidence (that is, after the introduction of the reforms) from the social rented sector but considerable ex ante analysis has been undertaken along with initial evidence from local case study level impacts. Most has been written about the under-occupation charge and we know quite a lot about its reach, who is affected and we possess an increasingly sharper focus on arrears. We know DHP is critical to
alleviating the problem. The evidence suggests that it is difficult to calculate how much downsizing will occur.

7) Social landlords and agencies are most concerned about the financial inclusion issues surrounding whether tenants can cope with responsibility for rent payments following the introduction of Universal Credit that will end direct payments (with exceptions).

8) The impacts on housing systems are best understood in the wider context of welfare reform reducing incomes and creating new uncertainties for recipients e.g. as a result of changes to Employment Support Allowance and Personal Independence Payments, as well as the sanctions regime. The latter in particular directly interacts with housing benefit and the caseloads are evidently rising.

9) These reforms are important strategic drivers for housing organisations. They must now consider their business plans, development and investment strategies both in the light of lower rental income security and in the light of continuing less attractive lending opportunities. Government policies aimed at building more affordable and social units may be compromised in this squeeze between lender stance and provider income risk.

10) We have found evidence of inter tenure and place effects of these reforms on local housing systems. One recurring theme is the concern that settled neighbourhoods and indeed more marginal areas will be threatened by increased turnover and mobility as households seek lower cost housing, thereby undermining local services and community cohesion.

What are the main evidence gaps that strike us after undertaking this review?

- There is no robust sense of ‘second round’ effects on behaviour e.g. willingness to move to cheaper housing versus factors inhibiting mobility.
- Absence of comprehensive studies of local markets taking account of other drivers of housing outcomes, as well as welfare reform impacts.
- No detailed research evidence on lender attitudes to the new risks they perceive to have arisen as a result of the welfare reform programme; and, the implications for housing providers flowing from financial and related impacts of welfare reforms on revenue and borrowing security.
- The need for a clearer picture about the pattern and dynamic of tenant arrears and the practice of evictions decisions across our courts system. Clearer evidence on the options, the use, discretion and effects of the DHP system at a local level.
- The utility of an accounting of the full opportunity cost to the public sector cost of running the new system. This would include, for example, a detailed assessment of the impacts of welfare reforms for temporary accommodation homelessness solutions.
- The importance of a detailed study of the interaction between sanctions, welfare reforms and housing/labour market processes and outcomes.
1 INTRODUCTION

1.1 The UK Coalition Government is enacting an unparalleled set of reforms to welfare benefits, overhauling working age benefits in particular. These reforms will have a profound impact on both tenants and landlords as they substantively alter the way Housing Benefit works in both the private and socially rented sectors. Both sectors are affected also, directly and indirectly, by other changes to social security such as the proposed Universal Credit and changes to disability and incapacity-focused benefits. Much has been written in anticipation of the impact of these controversial changes but there is a lack of consistently robust evidence, in part given the phased introduction of the changes. Even where there has been systematic research it has not been drawn together.

1.2 In this short review we examine the evidence available about the impact of welfare reform on housing in Scotland, setting out the nature of the changes and their implications. This is in line with the remit we were given which is ‘to provide a comprehensive summary of what the research evidence tells us about the impact of the UK welfare reforms affecting housing’. A particular focus of our approach is the identification of risk and, where appropriate, commenting on possible risk management strategies.

1.3 The report is set out in five substantive chapters.

- Chapter 2 sets out the background context, the approach we took to the evidence review including methodological issues and considers the overall impact of social security benefit change on housing.

- Chapter 3 looks at private tenants and their landlords.

- Chapter 4 considers evidence in relation to social tenants and social landlords.

- Chapter 5 focuses on the business impacts on providers and their mitigation strategies.

- Chapter 6 looks at the evidence on wider housing system (e.g. supply and demand) dimensions.

- The conclusion (Chapter 7) summarises the findings from our review and identifies key evidence gaps.
2 CONTEXT AND BACKGROUND

The Setting for Welfare Reform

2.1 This chapter does three things. First, it summarises the main housing-related welfare reforms since 2010 and alongside them the main cash benefits changes that have or will affect working age households. Second, the chapter briefly outlines the main methodological challenges that confront an evidence review of this nature. Third, the chapter lays out the context of important wider changes to benefits that affect the disposable income available to tenants to help pay for their housing costs.

2.2 The 2010 election of the UK Coalition Government was followed by a far-reaching set of reforms and wider change to working age social security benefits. Reform of some aspects of benefits and social security had been under consideration by the previous Labour administration and they did introduce the new Local Housing Allowance for the private rented sector. The Coalition Government’s extensive programme of reforms was driven by the over-riding priority of reducing the deficit between revenue and spending. Its key policy objectives were set out in the 2010 Spending Review as well as in the Department of Work and Pensions (DWP) Welfare Reform Act 2012.

2.3 Stated objectives were to (i) cut public expenditure, (ii) make work pay and (iii) simplify the benefits system. Key measures included (i) the introduction of Universal Credit, (ii) reform of Disability Living Allowance and (iii) substantial changes to the Employment Support Allowance. Linked policies included ending Social Fund payments in 2015-16 and passing responsibility for council tax benefit to local authorities (in Scotland responsibility for distributing support remained with the Scottish Government, albeit there was a (10%) reduction in funding from Westminster).

2.4 As well as changes to the wider system, substantive reforms to Housing Benefit were introduced. The following measures are relevant to our focus on housing in Scotland (we note that significant changes were introduced prior to the 2010 election, such as the 2008 roll-out of the private renting Local Housing Allowance across the UK):

- Private Rented Sector (PRS) local housing allowance (LHA) caps by room size and set at the 30th rather than 50th percentile of local rents (introduced April 2011).

- In the private rental market, young single people claiming LHA are assumed by the benefit system to be sharing in multiple occupation. Thus, any young single person seeking to rent a property has their housing benefit capped at the shared accommodation rate. The Coalition Government widened the age threshold of this assumption by amending the shared accommodation charge for single persons and couples so that it was extended from 25 to all single people under 35 (starting in January 2012).
• For working age households in social renting, an under-occupation penalty (bedroom tax) at 14% of eligible rent for one spare room and 25% for more than one excess room was introduced (commencing April 2013). What this means is that for households deemed to have more bedrooms than they require, they will be considered to be under-occupying and face a reduction in housing benefit. Proponents have argued that this is broadly equivalent to the room size caps on the local housing allowance in the private rented sector.

• The introduction of Universal Credit (all tenures): a single working age benefit that will include an element for housing costs made directly to recipients - currently being piloted (precise timing and indeed details relating to its housing component remain uncertain). This will include the end, in most cases, of social renting direct payment

• Reforms to non-dependent deductions (NDD) (all tenants) allowing previously frozen NDDs to catch up with inflation over the period 2002-11 during which time they were fixed (the phased increase commenced April 2011). A flat rate NDD will apply under Universal Credit.

• Household benefit cap (all tenants) of £500 per week for families and £350 for single person households (commenced October 2013). This is applied to the main working age benefits, including housing benefit (HB) but also Child Benefit and Child Tax Credit.

• The uprating of benefits by the Consumer Price Index (CPI) rather than the Retail Price Index (RPI) (from April 2013). For 2014 and 2015, LHA and a range of other working age benefits were capped at a 1% cash increase, a real terms decrease. At the same time the UK Government (March 2014 Budget) has imposed an overall aggregate spending cap or cash limit on large parts of the working age welfare bill as a whole – this includes most of the Housing Benefit bill. However, it is not clear how this will work in practice. The proposals voted through in the 2014 Budget propose that in the Autumn each year if welfare spending associated with categories that must operate within the cap breach their target (estimated by OBR) plus a small percentage error margin, then the DWP must go to Parliament and either: ask for and justify the cap to be increased or propose cuts in benefit spending programmes to remain within the cap. It is not clear what happens if Parliament votes down DWP proposals.

• Also relevant are amendments to welfare benefits as applied to supported and temporary accommodation e.g. those living in temporary accommodation are subject to the under-occupation penalty and the new LHA rate. A reduced management fee and shared accommodation rule changes would apply if single people are applying. Supported exempt accommodation will sit outside Universal Credit, and will not be subject to the under-occupancy penalty nor will housing costs count towards the overall benefit cap.

• More stringent sanctions on benefits claimants, especially those on JSA (and the housing cost element of Universal Credit, when it is introduced).
2.5 Detail of how these wider reforms impact on household income is given below (see paragraphs 2.14 – 2.30) We divided the main evidence review (chapters 3 to 6 below) into four work streams which correspond to chapters in the report: (i) private renting tenants and landlords; (ii) social renting tenants and landlords; (iii) landlord responses, (iv) mitigation and resilience; and (v) wider welfare reform impacts on housing, including housing dynamics such as the demand/supply of social and private renting and levels of mobility within and between both.

2.6 Evidence was drawn not just from Scotland but also from across the UK to inform our review and its conclusions. The evidence search process involved digital search of academic papers, reports and other grey literature, buttressed by the expertise of the team whose previous work provided access to other sources of information. A number of local authorities and housing associations in Scotland provided access to existing internal policies and documents which laid out how they were evidencing and responding to the impacts of these different changes to benefit income levels and eligibility. We also drew heavily on work being done by some of the main representative bodies in Scotland such as the Chartered Institute of Housing (CIH), the Association of Local Authority Chief Housing Officers (ALACHO), the Convention of Scottish Local Authorities (CoSLA) and the Scottish Federation of Housing Associations (SFHA) and on reports from statutory bodies such as Audit Scotland and the Scottish Housing Regulator.

Methodological issues

2.7 Our initial trawl of the evidence on the housing impacts of welfare reform since 2010 threw up a number of important methodological issues.

2.8 First, there are risks associated with uncertain provenance of data, sample bias and strong assumptions that have to be carefully managed. Initial effects may not last over even relatively short periods of time because of stock-flow patterns and threshold churn as households move in and out of being affected.

2.9 Second, we need to clearly distinguish ex ante and ex post analysis, recognising the limitations of the former. Ex ante research typically uses surveys and household data collected prior to the implementation of the welfare benefit changes to calculate expected incidence and impacts. Ex ante assessments produced by government are aggregated from DWP administrative data. Yet although the reforms may have similar effects at household level, the impact on localities is very uneven. Beatty and Fothergill (2013) state: “The (UK) government has in most cases not produced estimates of the local impact of the reforms. It does however publish a range of statistics that allow the local impact to be estimated” (p7). It is important that local impacts are captured as “the worst hit local authority areas lose around four times as much, per adult of working age, as the authorities least affected by the reforms” (Ibid p3). On the other hand, ex post analysis does allow comparisons to be made between different localities as it uses real data collected after the introduction of the benefit changes.
2.10 Third, although the reforms have generated a small academic literature some of these papers take the form of a commentary about the policy direction or the specifics of certain reforms, in some cases using ex ante modelling (e.g. Royston, 2012) but more often without a modelling component (e.g. Harding, 2011; Mulliner and Maliene, 2013; Melrose, 2012; Spicker, 2012; Gibb and Stephens, 2012). Other papers which provide relevant evidence include Wilcox, 2010; Wilcox, 2011b; Fletcher, 2011; Brewer, et al, 2012; Vickery, 2012; Horowitz, 2013; Treloar, 2013; Seddon and O'Donovan, 2013; Jacobs and Manzi, 2013. Welfare reform is highly controversial and readily grabs headlines on either side of that argument. Some ‘evidence’ is either not robust or clearly partisan. We carefully sifted the evidence we uncovered to filter out anything unreliable.

2.11 Fourth, welfare benefit changes have been introduced over a period of years and this means that we can now start to build a clearer picture of earlier reforms (such as those pertaining to the PRS). But we are still only just through the first full year of the under-occupancy charge and the household benefit cap. We also face other changes that still lie ahead (e.g. the 1% uprating cap, the overall welfare spending cap and Universal Credit). Not only do these have cumulative expectational effects on household decision-making, which are hard to discern fully, but the different benefits vary in their effects over households, time and space. We interpreted the evidence with care to take account of these cumulative impacts.

2.12 Fifth, elements of the independent research carried out on the benefit changes calls into question both key assumptions and results integral to the initial DWP ex ante impact assessments and their primary evidence base. These are discussed below but highlight the difficulties that governments face trying to anticipate and forecast the impacts of profound changes in support to specific sub-populations. One important aspect of this is that extraneous factors can shift households in and out of benefits and hence their exposure to these reforms. Work incentives are affected by benefit level replacement ratios and marginal tax rates, and by housing market circumstances, but also by the number, remuneration and quality of local jobs and availability of affordable/accessible high quality child care - it is how these and other factors combine that will ultimately affect the distribution of impacts of welfare reform to working age households. Sweeping statements about the effects of the reform fail to take account of this underlying complexity. To mitigate this we have been cautious and stuck to what can be evidenced.

2.13 Sixth, the Scottish picture on the housing benefit welfare reforms is affected by the mitigating action taken by the Scottish Government and by Scottish local authorities. Our research seeks to take account of the different institutional landscape and policy context in Scotland, but we have not systematically examined the impact of mitigating action undertaken by the Scottish Government or by local authorities as this would be beyond the scope of our remit.

2.14 Finally our work has been greatly enhanced by the valuable and extensive work done by researchers, analysts and statisticians from the Scottish Government in terms of data collection, analysis, estimation and
consolidation, starting with initial impact assessments but carrying on through an extensive body of work thereafter. We have drawn on this important work in looking at the private and social rented sectors but we will not reference Scottish government research in this report except where it is obviously relevant. In the conclusion where we discuss evidence gaps we will take all the available information into account.

The impact of welfare reform on income: an overview

2.15 In this section we provide an overview of welfare reform, including changes to social security benefits and changes to employment services (the Work Programme), which impact on recipients’ incomes. The reason we include this is because changes to benefit incomes directly affect the ability of tenants to meet their housing costs and changes in the ways in which benefits are paid (e.g. direct payment of housing benefit) also affect both tenants and landlords. In order to fully understand the housing-related working-age welfare reforms, it is essential that these are put in the wider context of how cash benefits are being altered for the same age group more broadly.

2.16 Evidence is presented of the observed and projected impacts of these reforms for a range of user groups, highlighting the ways in which reform of income maintenance benefits impacts on experiences and ‘choices’ in housing. First, reforms to key income maintenance benefits are identified. Second, the differential impacts of these changes are outlined for user groups (including women, lone parents, disabled people and young people). Third, the system of benefit sanctions and fines is described, with evidence provided of increased incidence of financial penalties for substantial periods of time (of up to 100% disallowance of personal allowance for 1-4 weeks or open ended periods until re-compliance (Employment and Support Allowance) or up to three years fixed period for repeat ‘offences’ under Jobseeker’s Allowance and Universal Credit). The likely consequences of increased sanctioning for, especially for lengthy periods, are also presented. The key points are summarised below:

- A series of welfare reforms have impacted on income available for housing costs.
- Changes to separate benefits (including Jobseeker’s Allowance, Incapacity Benefit, Employment and Support Allowance and Disability Living Allowance) as well as the Household Benefit Cap, have increased financial risks for applicants and claimants.
- Large numbers of disabled people in particular have lost entitlement to some or all of their benefit entitlement.
- The introduction of Universal Credit is expected to make some recipients better off financially, but increases risks of hardship, poverty and destitution for others.
- Benefit sanctions (under JSA, ESA, the Work Programme and UC) have increased dramatically in their severity and frequency of application.
- Recipients may be sanctioned for lengthy periods (up to three years), multiple times and under different regimes (e.g. separate JSA and Work Programme sanctions).
2.17 Successive UK governments have sought to reform the social security system, with the stated aims of cutting costs and making benefits more conditional on actively seeking work (for those with caring responsibilities, e.g. lone parents, and ill or disabled people as well as the traditional target group of unemployed people). What is new is the radical nature of the ‘Work First’ changes that have been made to a broad range of benefits and employment services and the scale of the impact they are expected to have on availability of income to cover housing costs and basic necessities. Overall, UK spending cuts will reduce household income for people who are out of work, increasing the risk of experiencing poverty, deepening its impact and reducing protection from destitution. There are also financial losses for those in paid work because of changes to tax credits and additional risks to those subject to the Universal Credit regime.

Reform of benefits for disabled people: impacts on income

2.18 Welfare reforms have gradually increased pressure on disabled people with the explicit goal of reducing the number of people claiming benefits for illness or disability in order to reduce public expenditure (Hyde, 2010; DWP, 2010a, 2011b). The main thrust of the Coalition government’s approach has been two-fold: increasing the job seeking requirements for those claiming Incapacity Benefit (IB) and Employment and Support Allowance (ESA) (including Work Focused Interviews); and using new tests (e.g. Work Capability Assessment) and assessment procedures to judge fitness for work. This approach has resulted in large numbers of ill or disabled people losing entitlement to some or all benefits, although a high proportion of appeals have been upheld (Patrick, 2011; Ministry of Justice: 2013). This trend has intensified since the Welfare Reform Act 2012, which introduced more stringent sanctions for ESA claimants and legislated for the replacement of Disability Living Allowance (DLA) with Personal Independence Payments (PIPs). The disability charity Scope (2013) calculated (based on DWP estimations) that the change from DLA to PIPs would result in 607,000 disabled people losing part of their income (worth between £20.55 a week and £131.50 a week). Further research is required to assess the cumulative impact of reform to income maintenance benefits for disabled people and the affect of this on ability to pay housing costs.

Work Programme: impacts on income

2.19 The out-sourced Work Programme was introduced in 2011 as the main form of employment service support for unemployed people (young and long-term JSA claimants) and ill or disabled people (Employment and Support claimants in the work related activity group) (Finn, 2013). For most claimants, participation is a mandatory condition of claiming benefits, although it is possible to volunteer to join early. Compliance is a defining feature of the Work Programme and sanctions are widely used (Webster, 2013). This is despite all prime contractors failing to meet their minimum performance standards for any user group in their first year of operation (NAO, 2012b). In year two more than half of contracts did not meet minimum performance standards for 18-24 year old JSA claimants or those aged 25+ (i.e. the reported proportion of job outcomes fell short of the expected level, with). No
provider met the minimum standards for assisting ill or disabled Employment Support Allowance clients into employment (DWP, 2013). There is an upward trend in job outcomes, but levels are still lower than expected, for example, of the first intake in June 2011, 8.5% of participants had a job outcome 12 months later; and of the February 2012 intake, 13% of participants had a job outcome 12 months later. This means that benefit recipients may be sanctioned under the rules of their main benefit (i.e. JSA, ESA or Income Support), as well as being sanctioned under the Work Programme, and lose their entitlement to receive adequate support for finding work, which will in turn impact on their ability to pay for housing costs (Webster, 2013).

**Universal Credit: impacts on income**

2.20 As the flagship of the UK Coalition Government welfare reforms, Universal Credit (UC) is designed to simplify the benefits system and ensure that work always pays more than claiming benefits (DWP, 2010a/b). UC replaces six means-tested benefits/tax credits (Income Support, Income-Based Jobseeker’s Allowance, Income-Related Employment Support Allowance, Housing Benefit, Child Tax Credit and Working Tax Credit). Earned entitlements like Contributions-Based Employment and Support Allowance and Contributions-Based Jobseeker’s Allowance will continue to operate in parallel with UC, as will Attendance Allowance and Carer’s Allowance (see Gillies et al. 2013). Implementation was planned for 2013-2017, but has been delayed by a series of IT issues. A further issue is that it is projected to overspend (NAO, 2013). In practice, it is a complex system that financially benefits some recipients, whilst others face increased risks of hardship, poverty and destitution (Royston, 2012: 69).

2.21 DWP estimated that UC would make 2.8 million households better off and offer lower entitlement for 2 million households (DWP, 2011a). The major improvement of the UC system is to ease the financial transition between being out of and in work, particularly in relation to ‘mini jobs’ under 16 hours per week¹ (Bennett, 2012; Royston, 2012: 72). However, the work incentives are imperfect and other aspects of the reform will increase financial hardship for some groups, increasing relative and absolute poverty (Brewer et al. 2011; Family Action, 2012), which will impact on ability to meet housing costs. Gillies et al. (2013) use DWP’s own projections of the impact of Universal Credit to show that 600,000 children are expected to enter absolute poverty.

2.22 Royston’s (2012) in-depth calculations of anticipated effects (based on DWP projections) offer a number of important insights. First, the Marginal Deduction Rates faced by UC claimants who currently do not have HB and Council Tax Benefit entitlement will be higher (at 76.2%) than for other groups (p73). Second, some families who previously claimed tax credits will lose the financial help offered by the disregard of childcare costs for the purposes of calculating Housing Benefit and Council Tax Credit. Such households can currently have up to 95.5% of their child care costs covered. However, under UC, this disregard will be lost and the support for childcare costs will reduce

¹ Which previously had 100% marginal deduction rates and no help with childcare costs (which were only available under tax credits for those working 16 hours or more)
from 95.5% to 70%\(^2\) as a result, (Royston, 2012: 74). Third, Royston’s detailed analysis shows that the abolition of the Severe Disability Premium means that disabled adults without carers may lose up to £69 per week (Royston, 2012: 76). Fourth, young carers looking after a disabled lone parent will lose benefit entitlement (Royston, 2012: 77). Fifth, around 100,000 disabled children will lose out (by up to £1400 per year per child, Royston, 2012: 75). Sixth, the capital rules for tax credits will be lost, creating savings disincentives for those in work as well as those out of work (entitlement will be lost once savings exceed £16,000), making it difficult to save for a mortgage deposit and thereby increasing reliance on social housing and the PRS. This particularly penalises working savers with high childcare costs (Royston, 2012: 75).

2.23 Furthermore, DWP’s own projections show that self-employed people with no or low income will be penalised by the use of ‘a floor of assumed income’ (DWP, 2010: 67), meaning that they will be assumed to have income even when they do not. Bennett’s analysis indicates that the short and long-term impacts on mothers, especially lone parents and large families, are likely to be disproportionate (Bennett, 2012; Royston, 2012). Universal Credit also has in-built financial penalties relating to Free School Meals and other passported benefits and new localised systems for Council Tax Benefit (Royston, 2012: 81).

**Process issues- monthly benefit payment and direct payment for housing**

2.24 Universal Credit is paid monthly (promoted as mimicking wage payment, although most low income workers receive wages weekly or fortnightly, Bennett, 2013). Since payment of Housing Benefit is incorporated within UC, it will be paid directly into the recipient’s bank account, rather than to the landlord. The combination of a) reduced benefit levels; with b) monthly payment; and c) direct payments of the housing element substantially increases the risk that recipients will be default on mortgage and rent payments.

**Claims and administration processes**

2.25 Under UC, claimants are subject to a much wider variety of conditionality and more stringent and longer-term financial penalties for mistakes and ‘non-compliance’. Early evidence highlights weaknesses in the IT systems (NAO, 2013), communication gaps (e.g. claimants being sanctioned for non-attendance at meetings they were not informed of, CAB, 2013; 2014) and risks of the ‘digital by default’ administration design (particularly for applicants with no or little online access). There are no paper claims forms for UC (Gillies et al., 2013), which puts pressure on the initial claims process, including the construction of the Claimant Commitment and assessments of appropriate work-related requirements. It is likely that many groups will find the online process difficult and rather than increasing take-up, this may reduce the chances of successful claims or accurate assessment of work-related requirements.

\(^2\) More recently, the contribution towards childcare costs has risen from 70% to 85%. Analysis is needed to model the anticipated effects of this change.
conditions for those with literacy difficulties, learning disabilities such as dyslexia, and language issues (Wright and Haux, 2011). Major concerns exist over the setting of work-requirements for ill and disabled people, which have already proven problematic with high levels of appeals upheld against ‘fit for work’ decisions for Employment and Support Allowance claimants (Patrick, 2011).

Sanctioning

2.26 Benefit sanctioning has become increasingly common across a range of benefits and employment services, including Contributions-Based Jobseeker’s Allowance, Employment and Support Allowance, Universal Credit and the Work Programme. Major increases in the frequency and severity of sanctioning have been recorded (Webster, 2013b). This trend is likely to intensify in the coming years. The introduction of stricter individual conditionality for the majority of benefit recipients - compulsory job seeking (for those out of work) and pressure to increase hours and pay (for those in-work) - is central to the design on Universal Credit (see Appendix A), backed by the most stringent system of sanctions and fines (see Appendix B) ever seen in the British welfare state (Dwyer and Wright, 2014). Certain groups of recipients will be subject to multiple sanctions systems (e.g. Contributions-Based Jobseeker’s Allowance and the Work Programme, see Finn, 2013). This means that sanctions are likely to have a much greater impact on household income in the coming years than they have had previously and will impact on UC recipients’ ability to pay housing costs, potentially for several years (the maximum UC sanction is three years of disallowance). There are likely to be prolonged impacts on available income for housing costs even after income rises, as a result of benefit reinstatement or pay, in cases where loans (e.g. hardship payments, short-term advances and budgeting loans or equivalent local hardship schemes) have to be repaid over time. The new sanctions system extends financial penalties for non-compliance to an additional 1.2 million people who are already in paid employment and their partners, (Bennett, 2012: 18; Pennycook and Whittaker, 2012).

New sanctioning practices

2.27 In addition to policy changes that have legislated for more severe and longer penalties for non-compliance (triggered by relatively minor ‘offences’ e.g. missing an appointment), there is evidence that advisers are more likely to apply penalties than in the past. One very deprived area of South West Glasgow saw a 400% increase in Jobseeker’s Allowance sanctions (SCVOb, 2013; CAB Scotland, 2014). This is thought to be partly related to the functioning of Jobcentre Plus ‘benefit off-flow’ targets, which are reported to operate in practice as implicit targets for sanctions and disallowances - since the reason for ‘off-flow’ is not recorded, a ‘good’ outcome, e.g. getting a job, is as valuable to advisers’ performance assessment as a ‘bad’ outcome, e.g. claim stopped (CAB, 2013; 2014; Webster, 2013a/b). It is conceivable that in unfavourable local economic and labour market conditions, advisers may only be able to meet their ‘off flow’ targets by sanctioning.
2.28 Sanctions have been identified in academic and grey literature as of significant impact. Horwitz (2013: 267) says “Advisors highlighted increasing use of sanctions as having had the most damaging impact on people of all the reforms” also seeming to impact disproportionately on various vulnerable groups (those with language or IT/literacy difficulties).

2.29 As well as the above impacted groups, analysis by the Scottish Government (Dec 2013) identifies lone parents, those with health problems, and women fleeing domestic violence as most vulnerable to sanctions. Lone parents are predominantly female and highly represented in the PRS. “Further negative impacts over the long term include: debt and hardship; poor physical and mental health; negative impacts on children” (Ibid p1). While there is no specific mention of the PRS there is no reason to assume PRS households are not affected, perhaps even more so as landlords may be less well equipped to help tenants manage and respond to debt. SG’s survey data indicated willingness on the part of landlords to end tenancies or evict due to debt (Scottish Government, 2011).

2.30 Scottish Government Welfare Analysis (2013) also reports US experience of sanctions where sanctioned households are more likely to face utility disconnections (p10). This has health implications for adults and children regardless of tenure but as the PRS is likely to have higher proportions of tenants experiencing fuel poverty (Arneil Johnston, 2013) this may again impact disproportionately in the PRS.

2.31 A variety of submissions to the Independent Review of Sanctions report cases of tenancy loss but tenure is rarely if ever specified. Webster (2013) reports the steep rise in sanctions under the coalition government and that half of advice agencies responding to Homeless Watch reported tenancy loss as an outcome for some clients. Webster and CAB Scotland (2014) give case studies that indicate the harshness and whimsicality of sanctions impositions. However there seems to be no way of assessing the contribution of sanctions to PRS landlord’s experience of welfare reform.
3 PRIVATE TENANTS AND LANDLORDS

3.1 Key points

- The UK Government largely assumes that landlords will respond to constraints on rent support by holding rents below market levels (thus assuming that Housing Benefit sets the "market rent") but there is little evidence to support this assumption. Evaluation of the LHA pilots showed that 50% of landlords had not acted in the short term on arrears arising from the LHA shortfall, but arrears had arisen and tenants are in breach of tenancy conditions.

- Research to date often captures the concerns and intentions of landlords (particularly) but also of tenants and other stakeholders, rather than actual behaviours in response to benefit changes affecting tenant income. Measurable impacts may not be immediate and some intentions may not be achievable (e.g. in some market locations landlords may not be able to readily exit the LHA level market).

- It is vital to consider time lags in the behavioural responses to policy changes. This seems particularly important in the cumulative (second round) effects that forced mobility may have over time on household support networks, health and well-being and communities.

- While some impacts are immediate (HB cap) there is concern that over the long term the erosion of the value of LHA (through uprating limits over future years and the setting of LHA at the 30th percentile rather than 50%) will drive down standards and/or increase mobility.

- One impact therefore is that welfare support for PRS housing will increasingly be set in relation to poor quality or sub-standard housing stock. It is unlikely that evidence of this impact will emerge unless it is actively sought.

- The outcome of LHA reform combined with other aspects of welfare reform is to make households poorer and less able to secure positive outcomes in the housing market. The analysis in the literature anticipates that there will be increased levels of evictions, homelessness, child poverty, fuel poverty, overcrowding (with health impacts), and community breakdown as a result of these policies.

- Early indicators are that some landlords have already moved away from HB level markets, and others will in the future move away from HB level markets rather than reduce rents and that higher rents are their response to market constraints rather than increased supply.

- Equalities impacts are considerable but reflect the proportions of vulnerable or minority households living in the PRS.
Overall Scotland is less affected by LHA reforms than other areas of the UK due to a smaller overall proportion of PRS stock.

Introduction and Background

3.2 Private tenants face a number of important changes to the benefit income they can access from the Local housing Allowance (LHA) as a result of the reforms enacted since 2010. There are caps placed on the LHA by room size, the LHA itself is set at the 30th percentile rather than the median as before, the shared accommodation charge has been widened from single people aged under 25 to all singles aged under 35. Direct payments for non-vulnerable cases had already been ended and other broader changes to welfare affect working age private tenants as they do social tenants (e.g. uprating limits, household caps, revised non-dependent deductions and the prospect of Universal Credit).

3.3 The Scottish Government has identified the key areas where welfare reform will impact on the Private Rental Sector (PRS). These are covered in almost all substantial assessments (DWP, 2013b and c; Scottish Government, 2011, Beatty et al 2013; Edwards et al 2013; Beatty and Fothergill 2013). The results of the rental market impacts review are presented in this chapter (with housing dynamics covered in chapter 6). Not all of the benefit changes have been evidenced under each sub-heading as evidence is not yet available and some changes have yet to be implemented (e.g. Universal Credit, limiting future benefit uprating).

3.4 There are some detailed local/regional studies although these often focus on London as the area most likely to be affected, (Beatty et al, 2013; Edwards et al, 2013; Horwitz, 2013; Trealor 2013). Indeed it could be argued that some of the major reforms (various caps on benefits) are designed specifically for London where housing demand and housing costs are rising fastest.

3.5 The emphasis in the literature is to studies using DWP and other government data rather than surveys. Fenton (2010) points out that “discrepancies between survey reports of welfare receipt and counts from administrative data are well known to the literature, but they create difficulties for estimating total numbers affected by policy measures” (p13). However surveys, along with any qualitative evidence available, will identify impacts on households and are reported. Beatty et al (2013) point out that “Time lags in terms of behavioural responses.....need to be borne in mind” (p9) and it seems probable that some of the government’s anticipated second round changes will not have occurred yet and surveys (e.g. Arneil Johnston 2013) capture concerns and intentions rather than actual changes in behaviours.

3.6 We have also drawn upon “grey literature” that includes housing agencies observations, internal reporting and analysis, lobby and campaign groups’ press releases and reporting, and linked material available on the web. These

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3 These are classified in the welfare programme impact research as: reach and diversity, tenant finances and behaviour, landlord finances and behaviour and housing dynamics.
latter are particularly interesting in the context of tenant and landlord finances and behaviour. The findings can be very contradictory reflecting fragmentation of suppliers (Rugg and Rhodes, 2008; Arneil Johnston, 2013), a largely amateur sector (RLA (2014) reports 21% of landlords earning “no income at all” from their stock which implies it is some kind of hobby), uncertainty, lack of understanding of reforms, length of time in the business and so on.

3.7 All of the reforms affecting the PRS arise in a context of a rapidly growing PRS largely acquiring stock from a declining home ownership sector in the UK. In this way an increasing number of working households find themselves, all over the UK but to varying degrees, confined to “choices” within the PRS and increasingly dependent upon welfare support (Tunstall et al 2013). HB/LHA costs have been a significant driver of rising welfare costs; since 2000/01 total benefits expenditure has almost doubled while Housing Benefit more than doubled with PRS related HB payments more than trebling in the 8 years to 2011/12 (DWP Statistical and Accounting Data – see also Beatty et al 2013).

3.8 The Resolution Foundation (2013) reports that in many places “the private rented sector ... is now...the most expensive form of housing but also the only option for most low to middle income households” (p3). This captures the tightness of the market, the likely rewards for those able to invest in rental as a business, and the inflexibility that is unlikely to produce the large scale rent reductions government hopes the reforms will achieve. In an increasingly low wage and insecure employment economy, a growing number of working households are becoming dependent upon HB to meet housing costs (see for example Beatty et al 2013c; NHF, 2013; Lister et al, 2011; DWP, 2011). The detailed analysis and modelling undertaken by the Resolution Foundation shows that at the lowest 25% income and PRS rent level households would, in Scotland, be spending 30% or more of their income on one bedroom rental in 10 authorities, on 2 bedroom rental in 11 authorities, and on 3 bedroom rental in 17 authorities. Given that LHA support is now based on the lowest 30th percentile rents and will decline in value over the next 3 years the prospects for low income households, working or not, in the PRS look precarious.

3.9 More broadly, studies identify that the ability of households to cope with changes may depend upon their continued access to support networks and other place based factors which will clearly be disrupted where households are forced to move. Vale (2009) identified six main factors behind individual resilience. Four of these directly relate to location, namely:-

- Habits and routines of communal behaviour
- Stable family roles
- Communication with family members
- Strong support networks

3.10 Welfare Reform is likely to break down these resilience factors for many households and communities. Edwards et al (2013, p36) conclude that, as particular targets of some aspects of reform, those adults (and their children)
who live alone may be particularly affected. Resilience of individuals and communities remains a complex issue that can only be evaluated in the long term. Studies seeking to evaluate short run impacts have, and are likely to continue, to consider more immediately measurable direct household level impacts (relocation, changing spending priorities, etc.) but may not look at individual and community resilience. Arneil Johnston (2013 p31) report that 25% of homeless applicants in Argyll and Bute left a PRS tenancy due to financial stress, confirming the likelihood that the combined impacts of reforms may increase homelessness and debt. Loss of a PRS tenancy is a growing cause of homelessness, which reflects both the insecurity of the PRS and its rapid growth as a tenure.

Reach and Diversity

3.11 In terms of reach and diversity almost all households in the PRS will be affected by changes and by the changes in market dynamics. These seem most likely to bring worsening housing conditions and “choice” of poorer conditions within the LHA limits. However there could be positive change if rents fall in some localities. As shown above several disadvantaged groups are identified as being disproportionately affected.

3.12 Many impacts of welfare reforms arise from a combination of factors; consequently, the literature inevitably conflates causes and effects. As all working age benefit dependent tenants in the PRS are affected by the changes, the impacts fall on those groups disproportionately represented in the sector. For example, a study by the Pro-Housing Alliance (2012 – citing Disability Review 2009) indicates that 47% of people with disabilities in the PRS live in unsuitable housing. Their circumstances are likely to worsen as the combined impact of reforms will make it harder for them to move, especially where LHA will not cover rent, without diverting other income to make up the shortfall (diverting income to the landlord and away from the need).

3.13 NHF (2013) analysis shows that claims for housing benefit by working people in England has doubled since 2009. As a target group these would not have been expected to be high on the government’s agenda, but they will be affected by all elements of change to LHA.

LHA cap

3.14 Undertaking an ex ante, that is, before the reforms are introduced, quantitative study of household impacts, Beatty and Fothergill (2013) calculate the impacts of the LHA changes to affect 80,000 Scottish households. The number of households per 10,000 affected is the lowest in the UK (regional comparisons) at 340, as is the financial loss per working adult, at £25 per annum. This reflects the fact that in Scotland the PRS is a smaller tenure proportion compared to other areas the UK. However the spatial concentration of impact varies.
3.15 Vickery (2012) highlights the fact that in general women are impacted most by reduced housing options as “low pay and welfare reform impact disproportionally” on them (see also DWP 2013a). She adds that this undermines the security necessary for widening employment opportunities. Women are also the most likely carers for children where there are single parent families. The extent to which welfare reform is driving children into poverty (600,000 more by 2016 according to ex ante government estimates) is highlighted by Judge (2013). Specifically the LHA cap contributes to this in any situation where LHA payments no longer meet the full costs of rental in the PRS (see below for landlord responses) and parents take the housing costs from other sources. This is where cuts to other benefits such as child benefit have cumulative impacts with families having to make less money go further in meeting living costs including rent. This context of reducing resources and rising rents is also one of the main causes of concern for private landlords in providing services to low-income households (see below).

3.16 Clearly London is the earliest area to identify significant impacts on households and children as rents are highest there. However, over time the combination of the capping policies and rising rents could see these effects spread. Dixon (2013) analyses the early ex post impacts of LHA caps in London and finds increased use of temporary accommodation for homeless people (first rise since 2005) and no evidence of reducing rent levels. Even in the lowest quartile, rents are rising in London and are commonly above LHA. The long term impact will be to force low income working and non-working households out of the city. His analysis of other examples in England is less pessimistic as the impacts are expected to be greatest in London where PRS rents and rates of rental cost increase are highest (e.g. Fenton, 2011; Harding, 2011; Tunstall et al 2013 – which also links housing costs to poverty).

**Non Dependent Deductions (NDD)**

3.17 Beatty and Fothergill (2013) report these largely affecting HB rather than LHA claimants. DWP Equality Impact Assessment (2011) anticipates 300,000 claimants being affected by NDD revisions of whom 18% will live in the PRS. There is no further tenure breakdown but the impact is expected to fall most heavily on younger single men although 7% will have children; BME groups will be heavily represented (extended families).

**Benefit Cap**

3.18 Again the impact of the overall household benefit cap in the PRS is low in Scotland compared to London and the South East but with 2,600 households affected Scotland is affected more, or similarly, to the North East, Yorkshire and Humberside, the East Midlands, South West, and Wales. The number of households per 10,000 affected is equal lowest at 10 (Beatty and Fothergill 2013).

3.19 DWP (2012a and b) estimated that in 2012/13, 56,000 households including 190,000 children would be impacted by the overall Benefit Cap. Many of these are in London and 29% of them will lose more than £100/week implying that debts will rise fast unless households relocate with “clear risks of causing
major disruptions to their children’s education and to maintaining local employment, as well as undermining other family and social support structures” (Trealor 2012, p101). It is reasonable to conclude that rising overcrowding and “beds in sheds” are likely to be in part an intended consequence of policies that seek to encourage labour market and housing behavioural change (i.e. health risks and hazards are more prevalent in overcrowded and poor quality accommodation which is often all that is available at the lower support levels; the changes to the local housing allowance affecting single young people under 35 (see 3.2 above) will inevitably direct them increasingly into shared living space; and, the DWP’s own LHA risk assessment acknowledged that poorer standards of repair and maintenance would arise as a result of welfare reform). Horwitz (2013, p267) reports early impacts of housing reforms in Newham as affecting older working age people and single women.

**Uprating changes**

3.20 Writing in 2011 Harding expressed “deepest concern” for the proposed changes to uprate LHA by CPI then 1%. As a change with the capacity to “affect where people can live and work” (p177) by decreasing, over time, the value of housing support which “over a decade or more could make whole swathes of the country [UK] unaffordable” (p178). In the 10 years to 2007/08 CPI rose 20% while average rents rose by 70%: a 1% cap on increases will, in his view, have widespread effects. He says affordability will decrease as “analysis of London shows that the changes will mean that 36% of areas in the city will be affordable by 2016, down from 75% now” (p177 citing Fenton 2011).

**Tenant Finances and Behaviour**

3.21 In one of the early attempts to (ex ante) assess the impacts of reforms, Fenton (2011) points out that “It is tricky to forecast how tenants will respond to the fall in their incomes; there are few or no comparable precedents of such large income shocks affecting such a large proportion of households within a housing sector simultaneously” (p16). Of course one of the impacts of such unprecedentedly large changes may be changes to the wider rental and housing markets in which tenants are expected to function, this is considered further below and will emerge over time. This will be so for all tenants and not just those in market renting.

3.22 One thing that seems clear is that the range of welfare reforms will have the effect of increasing household mobility in what is already the tenure demonstrating the least residential stability. Nationally in Scotland 58% of PRS tenants have been in their tenancy for 1 year or less (Scottish Government, undated) but there are regional and more local variations. Arneil Johnston’s (2013 p9) report from Argyll and Bute indicated that 49% of PRS tenants had lived in their home for less than a year. Cumulatively, 91% of Argyll and Bute PRS tenants had lived in their home less than 5 years (compared to 80% nationally). These levels of mobility are in line with findings from other local surveys over the past decade across the UK. There may be community and wider social impacts from increasing this level of
mobility. Scottish Government (2012) monitoring of LHA reforms shows tenants largely responding to reforms by seeking advice, registering on social landlord registers, and seeking cheaper accommodation in the PRS.

**LHA cap**

3.23 What will tenants do when rent in their tenancy exceeds the new LHA cap? Rhodes and Rugg (Undated but probably 2005 reporting a 2004 survey of landlords and agents) provided rare behavioural evidence on likely tenant responses to the shortfall in the PRS as LHA payments fail to meet the costs of rising rents. Landlords and agents in this survey reported that 28% of them had been asked to negotiate on a shortfall while 64% had experienced such a shortfall. They were more likely to agree reductions with tenants where the shortfall was small which would leave tenants with large amounts to find in a difficult position. Even as early in the reform process as 2004 the most recent shortfall averaged nearly £19 and 64% of tenants made the shortfall up in full according to the landlords. Tenants have little choice in this as 84% of landlords report not amending the rent in light of the LHA shortfall (Ibid p43). For benefit dependent households this means taking income from other essentials to pay for rent. Section 3.29 below is also directly relevant.

3.24 The UK outcome is that “between 136,000 and 269,000 tenant households will find themselves in severe difficulty, and finding it very hard or impossible to keep out of rent arrears or other debt” (Fenton 2011 p17) with around half of these being families with children.

3.25 “In terms of employment incentives, Fenton (2011 p19) foresees little impact from LHA changes because most are already in work or not in the labour force and because in those regions where there is strong labour demand, those facing problems are likely to already be in work or retired.

**Benefit Cap**

3.26 Overall it was anticipated that 54% of affected households would live in the PRS and 49% of affected households would live in London.

3.27 The government anticipates a range of tenant behavioural responses to the benefit cap. They assume that people will enter work (and that work is available) or increase their working hours (and that this option is available) or that they will make up any shortfall from additional income (as indicated above) by reducing non-housing spending (food, heating, clothing etc.) or that they will simply relocate to cheaper accommodation or a cheaper area if they cannot negotiate a rent reduction. (e.g. Beatty et al, 2013 p60).

3.28 It is too soon to assess the full extent to which any of this is happening. But reports from social landlords in the grey literature indicates a combination of tenants making up rents, reducing spend on essentials to cover rental shortfalls arising through income reductions or seeking moves within the PRS or seeking social housing (Dixon, 2013; Gibb, 2013; CIH/Haringey council, 2013). However, these are cases outside London and it is likely that these are
being treated very differently in different localities depending upon how local authorities use their various discretionary powers.

3.29 Beatty et al (2012) report an ex ante impact survey conducted for DWP on household responses to the reduced income. In London and the UK as a whole the most likely household response was to have cut back on essentials and non-essentials (p40) and that in the face of future shortfalls cutting back on essentials remained the most likely response (39% in London and 48% in rest of GB – p49). Households also report that they would look for (more) work, which is no guarantee of finding it, and begin borrowing from friends, loans or credit cards. These latter responses are not sustainable but may have a lag effect on observable impacts in the housing market.

Universal Credit

3.30 The DWP are evaluating the Universal Credit pilots. The analysis of the claimant survey (DWP 2013) does not specify responses by tenure but the implications of the impacts on full implementation are serious for PRS tenants. The pilots specifically exclude people in supported accommodation, those with children or pregnant, those paying child maintenance, carers and others. As noted elsewhere the PRS has many households in these categories. The analysis (p10) reports that 78% of those receiving monthly payments were confident of their ability to manage their budgets. However 34% needed to seek additional funds (family, friends, loans etc.: ibid p11). Many of the groups excluded from the pilot are among those most likely to have great pressure on household budgets so on full implementation lone parents, people with disabilities, carers, etc. may find it harder to budget on a monthly basis and be inadvertently driven into new timing-based debt problems. PRS landlords may be less sympathetic to these problems where they affect PRS rents.

Uprating changes

3.31 DWP (March 2012) refers to these “notional losses” as possibly affecting “the choice of accommodation” made by households and the limit on the rate of increase will “give claimants greater certainty over their Benefit entitlement” in the longer term.

3.32 In relation to reach and diversity implications of the uprating changes, DWP (Nov 2013) identify that some households may be forced to move as rents move beyond LHA rates (Ibid, Section 20). They also indicate that a range of factors may increase demand for PRS stock (Ibid, Section 21) without acknowledging that this will tend to drive up PRS rents rather than increase supply. Women are identified as disproportionately affected by the change but only because they are over-represented in the PRS (indicating their weakness in the wider housing market – see Vickery 2012). The likely negative impact on children and their educational opportunities is also noted (DWP Nov 2013, Section 32 & Section 48). Around 47% of disabled people in the PRS already live in unsuitable homes in England (Pro-Housing Alliance 2012 p5). Responsibility for resolving these problems is passed to local authorities (DWP Nov 2013, Sections 60ff)
Landlord Finances and Behaviour

3.33 Interestingly, in terms of future rent-setting, the UK government seems ambivalent or at least uncertain regarding landlord’s likely behavioural responses to LHA changes. There is the suggestion (e.g. DWP 2012a) that the effects of the reforms will be to drive down rents (Ibid, p7 refers to landlords “accepting the going rate” and the reduced LHA level “restricting rent rises” p8) implying that it is the availability of HB, rather than the market, that sets rents. But there is also the recognition that the market may not respond to HB reforms and that many households are likely to be forced to move to areas where demand is high and landlords can choose tenants with a different income source (e.g. see DWP impact assessments 2011-14).

LHA cap

3.34 There is limited evidence to date that the cap itself is forcing down rents (see below). When LHA changes were first proposed landlord reactions recorded in studies were varied (Sprigings and Knight-Markiegi 2005; Nevin Leather Associates 2011). Some expressed the view that in the face of benefit reductions they would exit the benefit level market altogether. Others recognised that the benefit level market was the only one for the type of accommodation they had. Their ability to take the ‘hit’ would largely depend upon when they bought the property and how the purchase was funded. Where property carries low debt or is owned outright lower rents were feasible if there was no other market (students and migrants considered as alternatives in some locations).

3.35 Grey literature confirms increasing ex post reluctance to engage with the claimant market. The NLA (30th July 2013) reports only 27% of landlords letting to LHA claimant tenants with the same press release saying 51% of all landlords and 60% of small landlords choosing not to let to this client group. The NLA (Press Briefing 6th August 2013) also reports 39% of landlords experienced tenant arrears in the past 12 months (not LHA specific). Kent landlord Fergus Wilson told the Guardian (7th Jan 2014) “All the landlords will tell you that there is so much default now with Housing Benefit tenants that you are just simply better off with somebody working”; he is terminating the tenancies of 200 tenants on HB as a pre-emptive move for business reasons and as a response to both the cap and direct payments (see below). While it is only impressionistic and does not claim to be representative, it is interesting that the NLA survey response showed that “the incidences of arrears have fallen to their lowest level for over two years” (NLA Press Briefing 6/8/13). Much of this evidence seems confusing and contradictory which is probably is an indication that insufficient robust evidence exists within the industry itself.

3.36 Landlords are reporting growing arrears (Beatty et al 2012) causing them to withdraw from the HB level market; also rents are going up as part of a continued inflationary trend rather than being held back as government anticipated. (see Dixon 2013a, 2013b and 2013c).
3.37 There are other (isolated) indicators that landlords do not find HB dependent tenants either bad payers or an administrative risk and point out that under the new regime there are no HB “clawbacks” for overpayments that affected many landlords badly when direct payments were in place. Landlords may also prefer not to let to HB claimants but where household circumstances change may not evict once they become HB claimants. Arneil Johnston’s study for Argyll and Bute shows a higher proportion of landlords (43%) have tenants claiming HB than would let to such tenants (36%). In reality, many landlords may not know the claimant status of their tenants.

3.38 “The evaluation of the LHA pathfinders found that 50% of landlords whose tenant did not pay the difference between the old rate and the new took no further action” (Fenton, 2010, p20) so that in practice rents reduced but technically tenants were accruing arrears and increasingly vulnerable should landlords find new potential tenants. Thus up to 134,000 households in England may be forced to move.

3.39 As housing shortages develop the cap may begin to impact more significantly beyond London so the experience of London is of some relevance in the long term. Interestingly there is no evidence of the market mechanism working to create new supply even in high demand areas. Kent landlord, Fergus Wilson, simply sees shortage as an opportunity to charge more rent and to change the market he works in away from LHA dependent tenants. Shortage here acts as an inflationary driver rather than a supply stimulus.

Shared Accommodation charge

3.40 There is some evidence (Nevin-Leather Associates 2011) that landlords see this as an opportunity to sub-divide small houses to bedsits to make up for potential losses elsewhere in the market. In fact landlords may make more money per house through this (Nevin-Leather Associates 2011). No accessed studies report this actually happening yet.

Non Dependent deductions

3.41 The DWP Equality Impact Assessment (2011) anticipates 300,000 people across the UK being affected by NDD revisions, of whom 18% will live in the PRS. For landlords this may be an additional source of arrears but no details are available.

Universal Credit

3.42 Although the roll out of Universal Credit arrangements is delayed, landlords are aware of its potentially negative impact. Arneil Johnston (2013 p 74) reports welfare reform generally as the only issue reported as a negative impact by landlords across all their study areas. In this study of a rural area in Scotland 25% of landlords said they may leave the sector in the next 5 years. Although welfare reform is not cited here as a reason for this (retiring/hassle and costs cited by 36%, p51), if there is a negative impact in costs or administration it could influence their decision making. Loss of rental stock in largely tight markets would be a negative outcome for renters.
Ending Direct Payments

3.43 Direct payments to tenants are part of the “responsibility” agenda of welfare reform but create problems for some landlords. An early response to the ending of direct payments to tenants was for some landlords (reported in interviews in a small study involving landlord interviews with a small but not necessarily representative sample of landlords as the make up of PRS landlords in the UK as a whole is not known) to increase rents to cover losses (ECOTEC and Sprigings 2010). The reports were of large payments going to tenants once LHA was calculated and paid. Sometimes tenants kept the money but also if this went into a bank account that was overdrawn, the bank would keep the money. Either way landlords carried a debt. DWP (2013a) Local Housing Allowance evaluation confirmed landlord and agent scepticism about LHA reforms in terms of direct payments causing problems and confirming other studies in the extent of reluctance to let to benefit dependent tenants. There is no mention of the effects of capping or uprating.

3.44 Some landlords are being creative in seeking direct payments due to vulnerability, perhaps getting tenants to agree to addictions that have no visible signs, such as gambling (Nevin-Leather Associates 2011). Another later option being considered (Nevin-Leather Associates 2011) was the subdivision of small houses into bedsits because 3 people on the shared room rate was worth more that LHA rent to one family. This may or may not be pursued but landlords do adapt quickly to secure profits.
4 SOCIAL TENANTS AND LANDLORDS

4.1 Key Points:

- Compared to the PRS, and apart from extensive ex ante analysis (i.e. research carried out prior to the reforms forecasting or projecting impacts), evidence on social housing impacts is less developed as most of the key salient effects have either been only very recently introduced or have yet to be implemented.

- Working age social tenants are at the forefront of welfare reforms introduced and still to be enacted. While the overall household benefit cap impacts on relatively few Scottish households, the under-occupation charge affected around 80,000 households when introduced. Both for the cap and for the increase in non-dependent deductions, concerning those actually affected, the reduction in income is significant. Regarding the under-occupation charge: there is a marked impact on households with disabled persons and there is also a clear spatial variation in household capacity to downsize.

- Research thus far suggests that it is quite difficult and relatively early to accurately assess behavioural responses in terms of down-sizing, attitudes to arrears and work incentives.

- Going forward there is much concern (though less evidence) from landlords and commentators on the financial exclusion and budgeting risks facing significant numbers of tenants – and acknowledgement of the opportunity costs of managing this problem to an acceptable level.

- Landlords have expended considerable resource in preparing and seeking to mitigate problems, actively manage arrears and support tenants as they adjust to the new regime.

4.2 Working age social tenants confront (or will when fully enacted) five key changes: changes to non-dependent deductions, the under-occupation charge, the household benefit cap, the changes to the uprating of benefits and the end of direct payments in normal circumstances under Universal Credit. In this section we review evidence collected either before or after specific reforms were introduced (obviously this is only the former type of evidence for the last two changes). We start with tenant reach and diversity issues, followed by finances and behaviour before moving onto social landlord questions. Again, aspects of the latter dimension regarding resilience and business impacts are postponed until section 6 of this report.

Tenant reach and diversity issues

Under-occupation

4.3 DWP anticipated that 4 in 5 affected tenants will be under-occupying by one room (DWP, 2011). The DWP Equalities Impact Assessment (2012c) noted,
based on modelling, that 56% of those affected by the under-occupation charge would be disabled and it is assumed that this can be addressed via Discretionary Housing Payments. McCafferty (2013) sets out how the under-occupancy charge affects the sick and disabled. Across Great Britain, she argues that two-thirds of households affected by the charge (i.e. of the order of 420,000 people) contain sick and disabled tenants.

4.4 In their report to the Welfare Reform Committee Beatty and Fothergill (2013) relatively accurately predicted 80,000 tenants liable for the bedroom tax. They also suggested that the average cost per working age adult (i.e. not per tenant) would be higher in Scotland than Great Britain as a whole. In his later report to the same committee, Gibb (2013) summarised the position in the autumn of 2013 based on an update of the Scottish Government/COSLA survey of local authorities (COSLA/Scottish Government, 2013) as: “The under-occupation charge is presently estimated by the Scottish Government to affect around 82,000 households in Scotland and cost them an average of £50 a month with 80% of those households including a disabled adult and 15,500 of the total cases consisting of families with children”. Subsequent official numbers used in the recent (February 2014) debate in the Scottish Parliament suggested a slightly lower figure of 76,000 affected households. The Welfare Reform Committee of the Scottish Parliament (2014) more recently quoted DWP statistics for the year up to November 2013 indicating just under 71,700 were affected in Scotland with around 61,000 under-occupying one bedroom. The total figure amounts to around one in eight of all social tenants. Moreover, 80% of those affected households contained a disabled adult. DWP figures released in May 2014 which cover the year up to February 2014 suggest a further decline in the total to 69,916 (DWP: Housing Benefit Caseload February 2014, Table 3).

4.5 Research in England found that 19% of all working age housing association tenants would face the benefit reduction, 78% of those with one excess bedroom (Wilcox, 2011a). A survey of tenants in three English housing associations (Burkitt, 2012) found that 40% had been under-occupying since commencing their tenure but that only 7% wanted to downsize.

4.6 The Northern Ireland Housing Executive estimated that in May 2012, 26,200 working age social tenants would be affected, 19,000 of them with an excess of one room. Gibb et al, (2013) estimated the number of working age social housing households in Northern Ireland affected by the under-occupation charge (note that the under-occupation charge has not yet been introduced in Northern Ireland) and found that 58% of working age tenants would under-occupy – 23,400 with one excess bedroom and 10,700 with more than one excess bedroom.

4.7 An NHF Merseyside study (2013) indicated that across 18 housing associations, and against a context of historically building larger family social renting homes, that more than 26,000 households would be affected by the under-occupancy charge (17,000 plus of which were under-occupying one bedroom). More generally in the North West of England four times as many households were under-occupying as were overcrowded (110,000 to 25,000) and that if even a small proportions of people wanting to downsize would
rapidly expand an already long list for social homes in the region. Two-thirds of those affected in Merseyside (just over 19,000) have disabled or illness affected household members.

Non-Dependent Deductions

4.8 Gibb et al 2013 report that it is expected while the numbers affected are relatively small, the increase in NDDs will at the margin encourage young people to leave home though this may be offset by the new single sharing rate expanding to the under 35s in the private rented sector (also see Scottish Government, 2011). Littlewood (2011) estimated that the change to NDDs would only affect 2% of Scottish housing association households. Beatty & Fothergill (2013) predicted that 28,000 Scottish households (private and social tenants only but about 1.2% of all Scottish households) would be affected financially by the increase to non dependent deductions. However, in Northern Ireland Gibb et al (2013) estimated that 13% of working age social tenants would be affected by the NDD changes.

Household Benefit Cap and uprating

4.9 Already discussed above in the previous section, Beatty & Fothergill (2013) conducted an ex ante (before the fact) analysis of official statistics, impact assessments and the like in order to estimate that around 2,600 Scottish households would be affected by the household benefit cap and this would disproportionately impact on urban areas like Edinburgh, Glasgow and Aberdeen (but also to a lesser extent in Fife). They estimated annual loss associated with a 1% uprating ceiling at £390 million for Scotland. Gibb et al, (2013, p.13) report DWP’s (2012b) assessment that the household benefit cap “may affect 90,000 adults and 220,000 children in 2013-14. Less than 8% of affected households are in Scotland or Wales and more than half are in Greater London.” Scottish Government’s benefit cap review (2012) suggests that the issue will apply comparatively rarely in Scotland where social rents would need to exceed £200 per week, probably in the council sector, and where households are both out of work and have large families.

Universal Credit and Direct payments

4.10 The Universal Credit has not yet been fully introduced and its precise timing and indeed details relating to its housing component remain uncertain. But nonetheless it has one specific feature that has generated research and discussion: the end of direct rent payments and the requirement in general that tenants should make their own arrangements to pay for their rent out of UC unless they are already in arrears or are deemed vulnerable. This was discussed above in relation to the PRS but the general point is that while it is difficult to assess the extent of the problem of shifting across to tenant responsibility in this way, it is evident that landlords are very concerned about questions of financial inclusion, budgeting skills and financial management (Gibb, 2013). This is not just a concern about arrears but the fundamental challenges it will raise for many thousands of financially excluded and sometimes unbanked tenants. We discuss this further in the following sections.
Tenant Finances and Behaviour

Under-occupation

4.11 False Economy, an anti-austerity trade union campaign group, undertook a Freedom of Information (FoI) request of local authorities on the under-occupancy charge. In total 114 local authorities returned data from the summer of 2013 from England, Scotland and Wales. The numbers focus on local authority housing tenants and suggest that as many as 50,000 tenants were in arrears as a result of the under-occupancy charge. This included 21 Scottish local authorities.

4.12 Gibb (2013) argued that it is inherently difficult to accurately estimate the potential scale and pace of downsizing to ameliorate the under-occupation charge. This is in part because of the stock-flow problem (i.e. we need an annual flow for the turnover figure), it is also because of the difficulty in identifying what proportion of vacancies are actually relevant or available for downsizers. The range of numbers currently available for the speed that the backlog might be cleared for under-occupiers – 3 to 10 or more years is a very wide spectrum.

4.13 Centre for Public Scrutiny (CfPS) (2013) noted that several English councils expected the under-occupation charge to lead to considerable churn and internal transfers but that there was typically insufficient smaller properties coming vacant to allow down-sizing. Reflecting the evidence also found by Gibb (2013), there was concern that ill and vulnerable households may be ‘compelled’ to move to other areas lacking support networks. CfPS also expressed concern that community cohesion in the form of people moving to low cost housing areas and requiring to change their GPs, schools, etc. would have wider damaging effects on communities. CHP (2013) called into question the assumptions DWP made about the savings that might be made by the under-occupation charge. DWP had claimed that they would save £480m in 2013-14 but the CHP analysis said on the one hand that savings would probably be significantly less, that assumptions about implicit behaviour e.g. downsizing were contestable and furthermore there would be considerable costs to social landlords running the policy.

4.14 Arrears data directly arising from the under-occupation charge has not been consistently defined or interpreted (Gibb, 2013) with assumptions made about the source of tenant arrears and the adequacy of looking at specific samples and certain moments in time and generalizing accordingly. COSLA (2013) described the arrears picture as complex and changing. However it is clear from qualitative evidence in Scotland, England and Northern Ireland (e.g. Gibb, 2013; NHF, 2013; Aragon Housing association, 2013; Gibb et al, 2013) and from more robust quantitative analysis (e.g. SHR, 2013; SFHA, 2014) that arrears are potentially significant both numerical and in terms of individual burdens and hardship. While discretionary housing payments have the potential to meet more than 70% of the expected additional cost of the bedroom tax on tenants in Scotland in 2013-14 (and of course the Scottish government is seeking to alleviate all of the expected cost through this route in 2014-15), it needs to be recognised that this support is therefore
unavailable to help with other housing related impacts of welfare reform arising at the same time.

**Household Benefit Cap and uprating**

4.15 Judge (2013) argues that sub-inflation indexing of benefits for a period of years disproportionately affects low income groups because of their reliance on basics (i.e. fuel, utilities and food) which have, in recent years, inflated at a rate above the general rate of price inflation. Judge comments that the Office of Budget Responsibility expects these key family budget components to continue to rise at higher than average levels. Judge notes (p.15) that the Institute of Fiscal Studies modeling of welfare reforms singled out the prior decision to index most working age benefits to CPI as one of the most cumulative regressive features of welfare reform – and this was prior to the likely lower 1% cap.

4.16 A joint study by CIH and Haringey council (2013) examined the effects of the household benefits cap on tenants in that borough. More than 700 households affected by the cap were studied and the research found that other benefits like Council Tax Benefit still ‘got through’, that while the cap is changing attitudes to work at the margin, few people had actually yet managed to find work for 16 hours a week (and thereby receive relief from the cap) and that the cost in DHP to alleviate the problems faced by affected households appeared to offset any prospective savings.

**Universal Credit and Direct payments**

4.17 The Centre for Public Scrutiny (2013) assessed that many local authorities recognise the potential problems with arrears that will flow from UC and the end of direct payments and suggest that several councils have identified that a minority of tenants will struggle with the new system and will not be likely to find favour with private landlords if they end up looking for housing in the market sector. They also note that several councils have detailed action plans that seek to address these issues through assistance and practical support but CfPS are skeptical that such plans are in place consistently across the country.

**Wider Effects on Tenants**

4.18 A number of studies have sought to bring a wider sense of the impact on tenants of combined welfare reform measures (e.g. Alexander, 2012; CLES, 2012; CPAG, 2012; Gibb, 2013; Wilson, et al, 2013; Real Life Reform, 2013; Beatty and Fothergill, 2013; 2013b; Institute for Local Governance et al, 2013; Coventry Partnership, 2013). Mitigation is discussed in the next section.

4.19 The evidence suggests:

- Beatty and Fothergill (2013) conclude from their estimates based on official statistics that the overall loss per annum associated with the welfare benefit cuts were large, with Glasgow city facing the largest absolute and standardised (per working age adult) figure.
The effect of the first round of loss of benefits across England and Wales was estimated at £1615 per annum per household in 2015-16 (excluding Universal Credit) according to Beatty and Fothergill (2013b). While high housing costs draw attention to London and other higher cost regions, they also point out that high benefit dependency ratios in northern regions and coastal towns will also be hit hard. They also estimate that for most council areas, losses will be higher in households with, rather than without, working adults. This is due in part to the combination of working households receiving benefits like Housing Benefit which are being cut (including non-dependent deductions), but also due to changes to benefit uprating, tax credits and Child Benefit.

A study (Alexander, 2012) for Glasgow Housing Association (GHA) suggested that between a fifth and a third of GHA tenants did not have a bank account. Real Life Reform (2013), Gibb (2013) and Gibb et al (2013) provide different examples of individual landlords in Scotland, England and Northern Ireland identifying the detrimental effects of cuts to benefits on their clients, many of whom are not adequately prepared for budgeting and financial management. Qualitative tracking of households over time by Real Life Reform indicates reduced spending on food, higher personal debt and higher council tax debt.

Regional English studies of London, the South East, the North East and towns like Coventry and Manchester and wider comparative analysis (see: CASE, 2012; CLES, 2012; Coventry Partnership, 2013; Edwards, et al, 2013; NHF, 2013; and, Wilson, et al, 2013) present an increasingly coherent picture of cumulative effects on tenants. Impacts in Coventry included disproportionate income loss from reforms and the recession that exacerbated labour market inequalities for groups such as women, young people, young families and BME households. The North East England research identified the cumulative losses to disabled people, growing evidence of the importance of reliance on both charitable giving and pay-day loans. There is also growing evidence of financial stress being associated with wider social and personal problem such as relationship breakdown and mental health concerns. Evidence here and in Manchester stressed that the localised place impacts are often hard to discern or for patterns to be identified. Beatty and Fothergill (2013b) argue that while the HB reforms are ‘modest’ compared to those to incapacity benefits, tax credits and the uprating restrictions, the cumulative effects will impact in different combinations at a personal level and will also have distinct regional spatial impacts as a result of different degrees of working age benefit dependency and cost levels (in general, however, the higher the level of deprivation, the worse the impact).

**Social Landlords**

4.20 A feature of the phased introduction of welfare reform is the extent to which landlords have sought to prepare their tenants and their businesses for the anticipated impacts (and build in flexibility to respond better to unanticipated or unintended effects). In this section we look at the interaction with tenants and leave the business impacts to the next section of the report.

4.21 Prior to many of the effects commencing, IPSOS MORI/CCHPR (2012) undertook a baseline report on housing association preparations and found
associations working hard to confront the changes but that tenants were at this point largely unconcerned or in denial about the welfare reforms. They also found, as did Gibb (2013) in Scotland, that English associations were most concerned about the consequences of the end of rent direct payments. Similar findings were reported from the South East of England also prior to introduction of the main social housing-related changes (CASE, 2012).

4.22 The housing consultancy IS4 calculated that housing associations and co-operatives in Scotland would lose around £20 million in lost income on under-occupation charges alone from 2010-11 to 2016-17 (IS4, 2012) and 38,500 RSL tenants would be under-occupying (similar to the one in three level found by Littlewood in her study (2011)). Littlewood also estimated the average cost to exposed tenants to be £11 a week. SFHA (2013) presented early findings suggesting that across 63 surveyed associations, the pressures of coping with the new regime were substantial.

4.23 A February 2013 survey by CIH/Circle Housing asked how 75 English landlords of all sizes were preparing for the under-occupation charge. They found that most landlords were amending their allocations systems to encourage and incentivise downsizing to smaller properties, offering exchanges within the stock and mutual exchanges with other partner landlords - but they recognised that most landlords would only be able to rehouse a small proportion of those affected because of a lack of suitable stock. They also noted that under-occupation is much more prevalent among older tenants (i.e. over 61) who are not affected by the charge but are seeking to down-size and a further important challenge to helping working age households facing the charge.

4.24 Based on focus groups, a member survey and follow-up interview, SCVO conducted a broader (sectorally-speaking) account mapping preparation for welfare reform (SCVO, 2013). Key areas identified suggest that:

- Gaps in provision already exist and organisations do not have the resources to provide advice, information, advocacy and information to IT and financial services.
- Many report poor understanding by the public of the reforms and the challenge of benefit stigma is important.
- Demand for support and the services of Third Sector organisations is growing strongly.
- While there are important collaborative innovative projects underway in mitigation there lessons need to be continuously disseminated and shared more widely by the sector.
- A key issue for landlords is of course arrears. SHR (2013) estimate from a sample of Scottish housing associations that in the period to June 2013, arrears were higher than previous years prior to the introduction of the under-occupation charge and stood at just under 4% of rental income and that over time both RSL and LA rent arrears had been on an upward
trajectory starting prior to the welfare reforms. It is too soon to interpret the impact of the under-occupation charge on the arrears trajectory. While the monetary value of RSL arrears had risen year on year to June 2013, as a proportion of rental income it had actually fallen. The SHR survey also indicated extensive mitigation activities were underway across the sector involving recruitment and training of staff, redeployment (e.g. into visits and rent collection), visits, advice and information provision to clients, profiling those at risk – and that good practice was being shared across the sector. Similar evidence is apparent from the work of SFHA and CIH in Scotland and their counterparts in England. Evidence at the individual landlord level is also apparent in Gibb (2013), Gibb, et al (2013) and regional impact studies identified earlier (e.g. CFPS, 2013; Coventry Partnership, 2013; NHF Merseyside, 2013).

4.25 The Scottish Housing Regulator (2014) undertook an online survey of all Registered Social Landlords (mainly housing associations) and local authority landlords between November and December 2013. SHR attempted to explore landlord ability to quantify the direct impact (in monetary terms) of housing benefit changes on arrears.

4.26 Almost half of landlords (47%) estimated that up to around 5% of current arrears were attributable to the new under-occupation charge. A further 19% estimated the proportion at around 10% of arrears. Just over 69% of RSLs estimated that the HB reduction accounted for around 10% or less of their arrears, in comparison to just over half (48%) of local authority landlords. Nearly 30% of the local authority landlords estimated that HB reduction accounted for around 20% of their arrears with a small number of authorities estimating up to 50% of arrears attributable to HB reductions.

4.27 Individual landlords identified the need to reconsider their allocations systems with respect to under occupation, delivering DHP and improving methods of working. For example an increased focus on rent collection practices, preventative work on arrears, budgeting financial inclusion. They also stressed the need to prepare for the wider impacts of Universal Credit, in particular, the changing relationship between tenants and their landlords. In this regard an important issue concerns the end of the direct HB client relationship which will mean that local authorities will have less information on tenants and will have to strike up new relationships even though they have the same financial requirements in terms of regular rent payments, etc. (Gibb, 2013).

4.28 Evidence gaps are interesting in this area. While many of the ex ante (before the fact) studies make claims about arrears and possible evictions, in the light of actual practice, there is much less ex post (i.e. after introduction) objective evidence about evictions and what has caused them. There have been many headline-catching news stories highlighting individual stories in the popular and specific housing press but robust evidence is, perhaps not surprisingly, as yet much harder to come by and it is not clear how well the courts are geared up to presenting and publishing such data.
4.29 A recurring refrain from landlords (SFHA, 2013; 2014; Gibb, 2013) is the opportunity cost of making these alterations to service and switching staff into mitigation activities (or alternatively having insufficient funding to invest in additional activities such as welfare rights advice, money advice, etc.). In particular, concern is regularly voiced that this must and is impacting on service quality and value for money. Other costs identified by a survey of English council responses by CFPS (2013) include possible legal work associated with arrears, IT systems and pressure on other services (e.g. consumer advice). SFHA (2014) model the direct and indirect costs of welfare reform (under-occupation) on Scottish housing associations and co-operatives. They estimate an implied cost of £79million and £16m lost rental income over three years and that the opportunity cost can be translated into 800 new homes.

4.30 Williams et al (2013) draw on 15 detailed interviews with housing associations to focus on the wider consequences for housing associations. Respondents suggested that apart from higher expected rent arrears, there is considerable uncertainty both for tenants and for the organisations' future plans. There was a general sense that associations will have to focus down into rent collection and basic services as a critical way in which they will ‘get through’ the short to medium run’, with possible negative effects on willingness to develop and invest in wider activities at the margin.

Conclusions

4.31 The social sector housing benefit reforms have had less time to impact on the ground compared to the private rented sector and there is correspondingly less hard ex post evidence. Much of the evidence that has been provided has been necessarily preliminary (and is therefore provisional) though in terms of reach it is evident that there is important geographic variation (e.g. in terms of the potential to down size or otherwise overcome the charge) and disproportionate effects on disabled working age benefit recipients. Landlords were exposed to the evidence from trade bodies and other regional consortia producing estimates of effects before the reforms were introduced and this evidently provoked considerable efforts to mitigate impacts, but in so doing had opportunity costs on service delivery and took place in a context where many argued for more resources for financial inclusion measures, advice, etc. prior to Universal Credit’s full introduction. We look more closely at social housing provider business impacts in the following section.
5 PROVIDER BUSINESS IMPACTS

5.1 Key points:

- Landlords’ cash flows are highly dependent on benefit income.

- The immediate threat to social landlord revenue comes from already introduced welfare reforms like the under-occupancy charge and other reductions in tenant income: mitigating action includes identifying and supporting tenants at risk of losing benefits via budgeting and financial inclusion advice and training.

- New risks arising from welfare reform include their impacts on business planning and borrowing capability

- Longer-term challenges associated particularly with the introduction of Universal credit and the end of direct payments in social housing affecting the sustainability of some tenancies.

5.2 In this section we look more closely at the longer-term business impact of welfare reform on social landlords. The profile of tenants has changed over time, with increasing proportions of tenants in some parts of Scotland characterised by low income, benefit dependence, chronic ill-health and economic inactivity. Landlords themselves are in consequence heavily dependent on benefit income, especially in areas of concentrated social and economic disadvantage. Reforms intended to curb benefit costs and incentivise work therefore put considerable pressure on the income cash flow of landlords in this situation and potentially threaten long term planning and capacity to pursue opportunities to develop their business, given that landlords will need to demonstrate the ability to service long term debt in order to secure investment. As suggested earlier, the most immediate threat to revenue is the end of direct payments but welfare reform has other equally challenging consequences for the business model of social landlords in Scotland.

5.3 In the short term, efforts are focused on helping current tenants avoid arrears and manage their finances in the new environment. But just how resilient are social housing organisations faced with income disruption or loss as a consequence of changes in the level and method of payment of benefits and to what extent are they aware, preparing for and actually tackling these challenges? In addition to reviewing the evidence we could find, it has been possible to review a number of internal documents from a series of Scottish local authorities as well as revisiting former research interviews that touched on these matters (Gibb, 2013) with both Scottish councils and housing associations.

5.4 Looking specifically at the under-occupation charge, Gibb (2013) interviewed a number of social housing providers. The under-occupation charge represents a challenge to the plans of landlords in housing investment, maintenance and development terms. At the same time, higher than
previously anticipated arrears will impact on capacity to access private finance on acceptable terms. The terms and conditions associated with financing housing investment will be affected by higher-level provision for bad debts. A recurring refrain was that these problems will worsen once Universal Credit is introduced more widely. Landlords also reported that the under-occupation charge threatened community strategies in terms of supporting settled communities, defending fragile rural communities by speeding up the break-up of established neighbourhoods or settlements.

5.5 Case study analysis in Northern Ireland (Gibb, et al, 2013) stressed the variety of housing association models and client groups and that strategic responses to welfare reform had to be properly aligned to the specific sector involved and also that it had to be embedded in a deep understanding of demand and need in that sector.

5.6 In a study for the SFHA, IS4 (2012) argued that the reforms have the potential to create a number of financial risks for social landlords: rental income risk in the form of rent loss, arrears and heightened risk of tenancy terminations, evictions and subsequent income loss through voids. Slower collection of cash as a result will also increase the costs of managing social housing organisations and may restrict future income growth. To the extent that financial performance is weakened, this could also affect lender covenants and diminish the wider credit rating of the provider. In response IS4 argued that the sector should: undertake rigorous customer profiling, operate best practice financial inclusion, money advice and digital inclusion; that data-sharing ought to be significantly increased and that social landlords should become much more externally-facing, strategic and seek new business opportunities to help diversification. Similar challenges are identified in Maclennan and Chisholm (2013).

5.7 Finance is a key concern. IPSOS MORI/CCHPR (2012) found that 22% of surveyed English associations thought that the welfare reforms might threaten their ability to fulfill their loan covenants and 10% thought it might threaten their ability to deliver new affordable homes supply targets. Most respondents also said, however, that they were revisiting their business plans in the light of these new risks. Providers in Scotland have voiced similar concerns (e.g. Link in their submission to the Work and Pensions Committee Inquiry in September 2013). Clarke and Penrhyn-Lowe (2012) raise concerns about the impact that higher costs as a result of welfare reform mitigation alongside pressure to reduce rents to help vulnerable tenants may have on financial capacity and ability to sustain covenants.

5.8 Housemark (2013) estimates the costs of lost rental income for the housing association sector and they expect lenders to re-price loans on the basis of the higher risks faced as a result of both lower grant rates making rental income more important and because of the impact of ending direct payments. CASE (2012) also suggests that borrowing capacity will be lessened by welfare reform. There is no firm evidence so far on the extent of re-pricing of existing loans - presumably this will emerge as loans are renegotiated at fixed periods. We could also find no hard evidence on upward trends in interest charges for new loans, although lenders have previously made it clear to
landlords that income security was a factor in assessing risk from their point of view.

5.9 The SHR (2014) survey asked what were the greatest challenges landlords face in relation to welfare reform, both currently and in the longer term? The main challenges reported by landlords were:

**Current Challenges:**

- Providing adequate support to affected tenants;
- Encouraging tenants to pay rent shortfalls;
- Availability of smaller properties for down-sizing;
- Processing Discretionary Housing Payment (DHP) applications; and
- Uncertainty about timescales for DHP.

**Longer-term challenges:**

- Universal credit roll-out and Direct Payments;
- Engaging with tenants affected;
- Tenant’s ability and motivation to prioritise rent payment;
- Tenant’s IT skills and access to requisite IT facilities; and
- General uncertainty over timescale for roll-out of Universal Credit and Direct Payment.

5.10 In addition to the above points, immediate but also longer term concerns included increasing arrears, adverse impacts on staffing and resource pressure, pressure on IT systems and existing financial constraints. The SHR report quoted evidence from the Universal Credit pilots that suggested that tenants who manage to cope initially with a reduction in income may get into difficulties over time, leading to rent and other arrears accruing.

5.11 In follow-up interviews, housing association managers reported additional workload for staff arising from interruptions to rental income as benefit was paid to the tenant, and from having to monitor benefit payments and chase up rent. This was compounded by the pattern of payment that varies by tenant entitlement dates so there is no consistent pattern of payments. Keeping track of payments is very time-consuming for staff and it is difficult to manage in terms of tracking and maintaining IT records.

5.12 Internal documents from four Scottish local authority housing departments were made available to the team to help assess the way actual practice corresponds or otherwise to the emerging evidence picture. This was not meant to be a representative exercise. The four authorities are all from one
part of Scotland and all have significant council housing stock based in a mix of towns and smaller settlements.

Council A is among other things wrestling with substantial rent arrears (about 3 in 5 facing the charge are in arrears and around 45% of total arrears are wholly attributable to the under-occupation charge – December 2013). Subject to take up and other uses of DHP, it looks like there is sufficient funding to meet the arrears. Less than 40 households are affected by the benefits cap. A small amount of DHP was allocated to benefit cap but the balance was directed to the under-occupation charge. It is also striking how extensively used is the local administration of the Scottish Welfare Fund (that replaced the Social Fund) with several thousand applications in Council A alone.

Council B is involved in several appeals made by tenants regarding under-occupation. They face a similar small number of households affected by the cap. However for all such cases, these ceilings can nonetheless imply large reductions in benefit income. Council B intends to use its DHP allocation in full for both under-occupancy charge and the cap. The distribution of the Scottish Welfare Fund is also seen as a key issue for this council with the sense that they wish to maximise its use in the face of growing demands. The council recognises the importance of welfare reform to its future housing business plan and work is underway to quantify this impact and how therefore their plans will be modified.

Council C is one of the larger housing departments and conducted an exercise to assess why under-occupation numbers had fallen by a sixth from the beginning of the final year to November 2013. While most of those facing the charge had been ‘mitigated’ by DHP, nearly 40% of the reduction was due to tenants exiting social housing, appealing the charge or achieving the post working-age age limit (or children reaching an age where they need a separate room). At a wider level with Scottish Welfare Fund demand high, the council notes a 70% increase in financial inclusion welfare checks in the current financial year.

Council D has established its own welfare fund alongside that of DHP with a view to sustain tenancies through this period of upheaval as far as it can. It has also invested as a council in employability measures and tried to encourage internal mobility and transfers to reduce under-occupation. Other internal reports show that Council D like others is trying to learn form and anticipate as a result of the Universal Credit Pilots – they focus on digital inclusion, budgeting and financial management, data sharing, employability ‘triage’ for vulnerable tenants and developing more effective delivery partnerships.

5.13 There are general messages to draw from the council documents. First, the undoubted importance of DHP is widely recognised in mitigating the short run effects of the under-occupation charge. Second, councils have taken the view that though the benefits cap only affects a comparatively small number of households, they are often severely affected and hence a priority use of DHP. Third, they are being forward-looking and are clearly responding to the signal indicated by growing demand for the Scottish Welfare Fund and financial inclusion challenges. To an extent, councils can be interpreted as have taken the view that tenant sustainability in the short to medium term is the priority for their longer term plans to be viable.
6 WIDER HOUSING SYSTEM IMPACTS

6.1 Key Points:

- Landlords and tenants will be responding to an accumulation of changes in the welfare regime affecting the PRS. It is unlikely that responses to individual changes could be isolated out for mitigation activity.

- While some impacts are immediate (HB cap) there is concern that over the long term the erosion of the value of LHA through uprating limits and the setting of LHA at the lowest 30% (rather than 50%) will drive down standards and/or increase mobility.

- There is an advice deficit in terms of the capacity of agencies to meet demand for advice on their reduced circumstances but also in terms of advice staff themselves understanding the reforms and potential mitigation.

- The purpose of LHA reform combined with other aspects of welfare reform is to reduce benefit (as a work incentive). Households will be less able to secure positive outcomes in the housing market without a major restructuring of that market and the operating practices of landlords. The analysis in the literature leads most commentators to anticipate the longer term impacts of reform as being increased levels of evictions, homelessness, child poverty, fuel poverty, overcrowding (with health impacts), and community breakdown.

- We can distinguish people, place and service impacts of welfare reform. These should also be contextualised by wider forces such as the regionally varied pattern of deprivation, tenure change and the capacity of different landlords to fund new development given the levels of benefit-dependence they confront.

6.2 It would not be reasonable to imagine that the welfare reform impacts stop at their direct effects on tenant and housing providers. By encouraging mobility and tenure change, there will be second round effects on local housing systems through shifting occupation rates, encouraging movement within and across local areas. This will affect housing demand, possibly shift private rents and alter the opportunities available for lower and moderate-income households. The welfare reforms will impact on other parts of housing policy such as homelessness alleviation and options and also via interactions with the labour market (itself affected by the new emerging incentives arising from the welfare reforms).

6.3 However, in assessing impacts, there are at least two caveats that should be recorded. First, these effects will be slow to emerge and cumulative. Again, we might expect to see more evidence in the rental market than in the social housing system. Second, we must take care not to ignore the possible other drivers of local housing change: economic growth and decline, neighbourhood change tipping into decline or alternatively gentrifying. These may reinforce or offset benefit-induced effects or confound understanding of causal forces.
Housing Dynamics and Private Renting

6.4 The literature cannot separate out responses to specific causes. Overall tenants and landlords are responding to a range of changes that they experience as a “package”.

6.5 Overall the early monitoring and surveys indicates a likelihood that tenants’ housing responses to the reforms will broadly be to look for social housing or cheaper PRS housing. In both instances this will increase pressure on existing limited stock. In the PRS this is likely to have an inflationary effect on rents (as it seems to be in London) or a downward pressure on space and quality standards (sub-division of housing, overcrowding, etc.).

Shared Accommodation charge and the Benefit Cap

6.6 One community-based social landlord we interviewed that operates in areas with high PRS provision indicated they had anticipated a big response as a result of this but that it has not yet materialised. Their view was that this indicates movement away from the area, sofa surfing, or return to family/friends on a semi-permanent basis. There seems to be no way of tracking this easily. The Benefit Cap regarding private tenants has mainly been important in London but some families are affected in Scotland. There is no indications yet of outcomes. It was also suggested by the same social landlord that DHP may be taking the strain temporarily.

Uprating changes

6.7 In the short term the uprating changes will lead to LHA support falling behind rental increases. The housing dynamics impacts of this may include:-

- Reductions in supply and for those who need to rent this may lead to increased demand for social housing through homelessness and other routes;
- There may be an increase in rental supply for households not dependent on benefits easing tight markets in the short term;
- If landlords accept lower rents for this segment of the market this may reduce their willingness to invest in repairs and improvements;
- Reduced investment in housing quality arising from a range of welfare reforms may stimulate the re-growth of ‘bedsit-land’ as landlords have reported in earlier studies (Nevin-Leather Associates (2011));
- If landlords leave the market there may be an increase in lower value homes for sale that could affect wider housing market dynamics (reducing prices, perhaps creating negative equity, reducing the ability of households to release equity, etc.).
Housing conditions, the PRS and LHA levels

6.8 One factor receiving a passing mention in the literature that relates to setting LHA at the 30th percentile and subsequent low levels of uprating, is that of forcing households into lower quality stock (Pro-Housing Alliance 2012). If the government succeeds in driving down PRS rent levels through caps on LHA then the issue of the condition of the properties on which rent levels are set becomes increasingly important. DWP has also acknowledged (2010) that as a consequence of reforms landlords “may do less to maintain properties” (S 75).

6.9 The PRS, as a tenure, generally has the largest proportion of stock unfit, lacking amenities, or below tolerable standards in the UK (Pawson and Wilcox 2013 for UK, Scottish House Condition Survey (SHCS) 2013 for Scotland: note that as the PRS expands it can improve overall quality performance by acquiring new stock rather than improving existing). This stock will be at the low end of the rental market and while it would have influenced rents set at the 50th percentile it will have a greater influence under the new framework restricting rent to the 30th percentile.

6.10 The picture is more complex in Scotland where the low quality of social rented stock often compares with the PRS. So for Scotland as a whole the SHCS (2013 Table 42) shows the social and private rental sectors as comparable with 12% and 13% respectively of stock below the Tolerable Standard. However there are regional variations, for example from Argyll and Bute (Arneil Johnston, 2013 p25ff) the figures below give conditions in the PRS from a recent Argyll & Bute house condition survey:

- Require major repairs: 25%
- Require urgent repairs: approx. 66%
- Below Tolerable Standard: 7%
- Fail SHQS: over 90%
- Tenants in fuel poverty: 52%

6.11 This last item partly reflects poor energy performance ratings in parts of the PRS. There are large variations across Housing Market Areas. It seems likely that LHA rent levels will increasingly be set in relation to housing stock that has significant and growing repairing needs, fails the SHQS and has tenants in fuel poverty while landlords claim that rent levels do not cover their costs (NLA 2013).

6.12 Poorly repaired and unfit housing will increasingly set the standard government expects welfare recipients to live in. No element of the new LHA regime is likely to militate against this.

6.13 Poor housing conditions increase health risks for tenants (see below). Arneil Johnston’s study (2013 p13) shows that in Argyll and Bute, 36% of homeless applicants left a PRS tenancy for physical or mental health reasons. In terms
of the broad agenda of “choice” and “responsibility” it seems counter-productive that government is forcing working households, people with health problems and disabilities and on low income towards poor standard housing that is likely to get worse.

6.14 It may be worth noting also the potential for increased levels of poor standards in the PRS. In their prospectuses for Housing Market Renewal, seven of the nine Pathfinders cited concentrations of PRS stock as “causal or characteristic” of neighbourhood and housing market decline in their localities (Sprigings 2007).

Health Risks and Welfare Reform

6.15 There are many studies over the decades that identify the risks associated with HMO housing, overcrowded housing, and housing in poor condition. The Pro-Housing Alliance (2012) has put this into the context of welfare reform for England but the issues are relevant for Scotland. They report welfare reform having a “detrimental effect on the health and well-being of private tenants” who, because of lack of alternatives and fear of landlord reprisals, “... choose to remain living in cold and unsafe housing” (Ibid, p5). Low income and benefit supported households are increasingly occupying a PRS “in which over 1.3 million homes are not decent” and 900,000 have a category 1 hazard under the HHSRS (Ibid p6). High levels of fuel poverty are associated with the PRS and this is associated with increasing debt (to pay bills) or having insufficient funds to wash and wash clothes regularly (Ibid p7).

6.16 The rate of overcrowding in PRS tenures is also increasing faster than in other tenures and is at a higher level. This and other factors combine to impact on individuals' physical and mental health. This is confirmed by discussions with practitioners as part of this study. Again the impact on children is great because of the combination of factors affecting low income families and single parents in the PRS. In their survey 63% of tenants report missing meals and 84% have reduced their food budgets. “These include tenants with long-term health conditions and dependent children.” (Ibid p10).

6.17 In discussion, other agencies (e.g. Govanhill HA) indicated the negative impact of reforms on vulnerable households’ physical and mental health. In some instances the increased instances of stress through reductions in income, reassessments and sanctions (see earlier) cause already ill people to withdraw from the pressures and increasingly aggressive bureaucracy of welfare and try to live on nil income. Edwards et al (2013, p38) identify potential crime and health impacts. As PRS tenants may find themselves particularly affected by benefit reductions and administrative changes those in the PRS may be particularly vulnerable.

6.18 DWP impact assessments (various) for elements of HB reform do not report negative health and well-being impacts from the reforms.
**Advice deficit**

6.19 Several agencies (GHN 2013; Pro-Housing Alliance; 2012; staff at RSLs, CAB 2014) reported increased demand and advice staff feeling overwhelmed by the range, depth, and complexity of reforms and their profound impact on clients. This includes impact on staff dealing day to day with poor people who are “simply being battered”. The Low Commission (2014) is a comprehensive assessment of the post reform situation in England and Wales. Small surveys conducted by Glasgow Homeless Network indicated that many front line staff felt ill equipped to deal with the advice role regarding welfare reform. This will impact on households in all tenures but perhaps more so in the PRS where landlords may be less sympathetic to tenants’ financial difficulties.

**Housing and System-wide Effects**

6.20 The Resolution Foundation & Shelter (2012) marshal evidence to argue that England (and the UK too) is undergoing important housing transition as private renting grows and access to home ownership becomes structurally more difficult. At the same time, area-based and regional differences in deprivation are important sources of variations in working age benefit dependency (Beatty and Fothergill, 2013b). These twin factors are important contextual factors when contemplating the impacts of welfare benefit reform apparently parameterized by the very high demand particularities of the London housing system.

6.21 Williams et al (2013) argued that most of the housing associations they interviewed could generally cope with welfare reform impacts but could not also develop new housing – an unintended consequence of the reforms may be to threaten the ambitious low subsidy and higher rent affordable homes programme and its proposed second wave.

6.22 Several of the studies (e.g. CASE, 2012) recognise the interactive effects that may flow from evictions or exits from social housing into private housing and the likelihood of increased churn and micro mobility with possible dislocating effects on hitherto settled communities. This may also have harmful effects on other local public services (CfPS, 2013). In their analysis of Manchester CLES (2012) identified a series of possible effects, particularly in areas of high deprivation and benefit dependence:

- **Place impacts** e.g. multiplier effects of reduced benefit spending in the local economy; also churn and migration effects as lower income households seek cheaper housing solutions in the light of benefit cuts.

- **People impacts** e.g. those people adversely affected by the changes especially those facing multiple reductions will clearly have larger problems, such as private tenants, under-occupying social tenants, the compounding effects of disability and larger families.

- **Service impacts** e.g. the expected increase in demand for money advice, debt advice and financial inclusion services, as well as expected indirect effects increasing usage of adult, children and health services locally.
An early study by Beatty, et al (2011) looking specifically at Hampshire captures the risks and uncertainties associated with the way welfare reforms play out in a wider context of public spending cuts. Similar points are made by Wilson, et al (2013) and in Coventry (Coventry Partnership, 2013). As a result of their ex ante estimation of households affected by different benefit changes, they stress the likely economy wide impacts of:

- household income reductions for some households reducing demand
- a combination of households seeking to downsize and increased incidence of overcrowding
- growing incidence of arrears, evictions and homelessness
- more intense concentrations of poverty and the risk of households being priced out of private renting and thus increasing demand for social renting.

This will indirectly increase pressure on landlords and statutory bodies to beef up and resource their monitoring and demand assessment functions at exactly the time when they are forced to cut back and redeploy resources into front line services.

The Institute of Local Governance et al (2013) examined the impact of welfare reforms in the North East of England. They focus on the demand side loss of income associated with benefit cuts and the ‘clear spatial dimension’ of where locally these impacts will be most felt. They report evidence of greater reliance on charitable giving, payday and illegal lending and other indicators of weak resilience. The authors also stress the comparative weak nature of housing and labour markets which will in turn do less to incentivise the people so affected to seek work. A further concern is that with relatively low waiting list demand even comparatively small amount of downsizing relocation could threaten the sustainability of marginal social housing schemes and areas.
7 CONCLUSIONS: EVIDENCE AND GAPS IN EVIDENCE

7.1 In the conclusion, we do three things: first, we highlight key qualifying caveats about this study; second, we summarise the key positive points found in the evidence review and; third, we focus on what we see as the key gaps in the evidence.

7.2 An evidence review - in the midst of far-reaching policy reform with an array of important impacts on people, housing systems and local economies coming out of recession – is highly challenging. But of course, this is also precisely why it is so useful. We have stressed that the evidence available is likely to be mixed in quality, content and robustness, and so it undoubtedly is. It is also at turns provisional, preliminary and partial. Several of the welfare reforms have not yet commenced (including arguably the most important one, the Universal Credit) and it is early to expect to find clear directions and extent of impact. Instead we rely on regional studies, ex ante survey-driven or DWP-data driven analysis as well as limited early impacts type evidence. In short, despite our efforts at comprehensive review over an admittedly limited and truncated study period, there are indeed significant gaps in the evidence.

7.3 A related point is that this evidence review is for the Scottish Government. Their team of analysts and researchers conducted a detailed series of investigations and impact assessments of welfare reform on Scottish households, drawing on good practice techniques and making the best use of available data. This evidence review hopefully complements that primary analysis. As the introduction points out, the Scottish Government’s own on-going work provided a coherent organising framework with which to examine the evidence. However, in practice, because of gaps or cross-overs in the material, it was not always possible to neatly follow this structure.

7.4 What are the key conclusions arising from the evidence review?

7.5 First, changes to a series of working age benefits not related to housing (as well as housing-related reforms) have increased the financial risks for applicants and large numbers of disabled people in particular have lost entitlement to some or all of their benefits. The introduction of Universal Credit is predicted to generate large numbers of winners and losers financially. The increased use and severity of sanctions for several conditional benefits related to employment (but will also include the housing element of Universal Credit) is an increasingly important and controversial feature of the benefits and low income landscape in Scotland.

7.6 Second, there is generally less interest in looking at the impact of one reform, with the exception of the under-occupation charge, rather than the impact of the reforms as a whole. This is an important factor categorizing the evidence available because of the way the reforms have been phased in.

7.7 Third, the welfare reforms are interacting with the private rented sector in ways that flow from the dynamism of that sector but there are issues about whether landlords will risk benefit-dependent tenants, stay in that part of the
market or indeed lower rents in response to lower levels of benefit income. The evidence in this sector raises a broader point that the behavioural effects of the welfare changes will be cumulative via forced mobility to find lower cost housing with attendant issues for household support networks, health, well-being and community sustainability.

7.8 Fourth, HB claims by working people have doubled since 2009 – they will be deeply affected by the reforms and it is not clear that that will have beneficial labour market implications. The uprating and overall household benefit caps will induce more working but of course this in part critically a function of how robust local labour demand is to accommodate new workers or those seeking to work more hours.

7.9 Fifth, Specific cuts to PRS HB seem focused on the high cost London market but will of course have wider effects, not least by forcing those affected to seek lower cost housing further afield. Already the sector with the least residential stability, the cumulative effect of the welfare changes on the PRS is likely to exacerbate turnover and degrade neighbourhood and local service cohesion. Overall, Scotland is less affected by Local Housing Allowance reforms than other parts of the UK due to its smaller overall size of the rental market. However, in the Scottish private renting sector, as elsewhere in the UK, there is a significant advice deficit in terms of the capacity of agencies to meet demand for advice or in some cases to understand the implications of the reforms or indeed possible mitigation.

7.10 Sixth, there is less ex post evidence (that is, after the introduction of the reforms) from the social rented sector but considerable ex ante analysis has been undertaken along with initial evidence from local case study level impacts. Most has been written about the under-occupation charge and we know quite a lot about its reach, who is affected and we possess an increasingly sharper focus on arrears. We know DHP is critical to alleviating the problem. The evidence would suggest that it is difficult to calculate how much downsizing there will be and how long it would take.

7.11 Seventh, social landlords and agencies are most concerned about the financial inclusion issues surrounding whether tenants can cope with responsibility for rent payments following the introduction of Universal Credit and the ending of the general principle of direct payments.

7.12 The impacts on housing systems, eighth, are best understood in the wider context of welfare reform reducing incomes and creating new uncertainties for recipients e.g. as a result of changes to Employment Support Allowance and Personal Independence Payments, as well as the sanctions regime. The latter in particular directly interacts with housing benefit and the caseloads are evidently rising.

7.13 Ninth, these reforms are important strategic drivers for housing organisations. They must now consider their business plans, development and investment strategies both in the light of lower rental income security and in the light of possible less attractive lending (and this coming out slowly of the difficulties following the credit crunch). Government policies aimed at building more
affordable and social units may be compromised in this squeeze between lender stance and provider income risk.

7.14 Finally, we have found evidence of inter tenure and place effects of these reforms on local housing systems. One recurring theme is the concern that settled neighbourhoods and indeed more marginal areas will be threatened by increased turnover and mobility as households seek lower cost housing, thereby undermining local services and community cohesion.

7.15 At the end of this review, where are the outstanding evidence gaps?

- We know little about the ‘second round’ effects on behaviour i.e. willingness to move and seek cheaper housing versus pull factors keeping people where they presently live; labour supply effects of the new incentives; private landlord responses.

- We need comprehensive studies of local markets taking account of other drivers of housing outcomes (e.g. demographic change), as well as welfare reform impacts, inter-tenure and inter-location interactions. This might include A detailed study of the interaction between sanctions, welfare reforms and housing/labour market processes and outcomes.

- Policy would benefit from detailed research evidence on lender attitudes to the new risks they perceive to have arisen as a result of the welfare reform programme. Linked to this could be a more comprehensive assessment of the investment and development planning implications for housing providers flowing from their assessment of the financial and related impacts of welfare reforms on revenue and borrowing security.

- A clearer picture would be very useful about the pattern and dynamic of tenant arrears and the actual practice of evictions decisions across our courts system relating to arrears. This might include clearer evidence on the options, the use, discretion and effects of the DHP system at a local level.

- It would be valuable to undertake an accounting of the full public sector cost of running the new system including DHP, the Scottish Welfare Fund, employability measures and the financial inclusion and rent collection costs; also, the other service costs such as the NHS and mental health etc.

- It would also be important to construct a detailed assessment of the impacts of welfare reforms for temporary accommodation homelessness solutions.
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Appendix A
Universal Credit Conditionality

a. Full conditionality. This will be the default option for recipients including lone parents and couples with older children. Recipients in this group will be subject to the same requirements to actively seek work and to be available for work as they would under Jobseeker’s Allowance.

b. Work preparation. Recipients will be in this group if they are disabled or have a health condition which means they have limited capability for work at the current time. They will be expected to take reasonable steps to prepare for work.

c. Keeping in touch with the labour market. Recipients will be in this group if they are a lone parent or lead carer in a couple with a child over one but below age five. They will be expected to attend periodic interviews to discuss their plans for returning to the labour market.

d. No conditionality. Recipients will be in this group if they are: disabled or have a serious health condition which prevents them working and preparing for work; a lone parent or lead carer in a couple with a child younger than one; or have intensive and regular caring responsibilities. People receiving Universal Credit but earning above the relevant threshold would also not be subject to conditionality.

Box 1. Conditionality under Universal Credit extracted from DWP (2010: 31)
Appendix B

Universal Credit Sanctions and Fines

Universal Credit involves work conditionality for most claimants, administered via the Claimant Commitment and enforced by a tiered system of very harsh benefit sanctions and a new range of civil penalty fines (DWP, 2010). Claimants, both in and out of work, and their partners, may have their benefit payments reduced or stopped for failure to comply with the work related requirements stated in the Claimant Commitment.

Sanctions

There are four levels of sanction escalating according to the severity of the ‘offence’ (Gillies et al., 2013: 6), for example:

Lowest level of sanctions (e.g. for failure to attend a work focussed interview) applies until the claimant complies.

Medium level sanctions (e.g. for not taking all reasonable action to get work):

- First failure = 28 day sanction
- Second/third failures = 91 days.

Highest level sanctions (e.g. for failure to apply for a job)

- First failure = 91 days
- Second failure = 182 days
- Third failure = 1095 days.

Whilst claimants can offer ‘good cause’ as a defence, wider factors, such as the availability of suitable jobs in local labour markets, are not taken into account. Multiple sanctions can be applied at the same time under UC and the Work Programme.

Fines

A new system of fines has been introduced (see Gillies et al., 2013: 6) for e.g.:

- negligently making an incorrect statement = £50
- alternative to prosecution for suspected benefit fraud = £350.