

Report to the Board

15 May 2014



Title: Impact of Welfare Reform 2013/14

Report of: Director of Customers and Communities

Purpose of Report

1. To update the Board on the impact of welfare reform on council tenants and council housing as at the end of the financial year 2013/14.

Background

2. The Welfare Reform Act 2012 introduced a range of reforms to the welfare benefit system. The most significant change was to be the replacement of a number of existing benefits with a new Universal Credit, but this has not yet been implemented in Gateshead and current projections suggest we may not see many tenants receiving Universal Credit until 2017 at the earliest.
3. The major change affecting council tenants in 2013/14 was the introduction of housing benefit reductions for tenants of working age who underoccupy their homes. 2,838 council tenants in Gateshead were initially affected by this as at 1 April 2013.
4. Other changes included a benefit cap, which has only affected 15 council tenants in Gateshead to date – but with significant impact.
5. Board have previously received a number of updates on the impact of welfare reform on council tenants. This report provides a position statement at the end of the year 2013/14.
6. Previous reports have shown that although rent arrears have risen, the increase has been within expected levels. A greater impact has been seen in the increase in tenancy terminations, relet costs, and levels of vacant properties.

Benefit reductions for underoccupation in 2013/14

7. At the start of 2013/14, as at 1 April 2013 2,838 council tenants had their housing benefit entitlements adjusted as a result of underoccupation. 2,319 faced a 14% reduction for having one spare room, and 519 faced a 25% reduction for two or more spare rooms.

8. The saving (to the housing benefit bill) that could potentially have been made in reducing benefit to these 2,838 tenants would be around £1,775,000 over the full year. In other words, this was the maximum cost of paying housing benefit on those spare rooms, if each tenant were in receipt of full housing benefit.
9. The impact of the benefit reductions, and numbers of tenants affected has been tracked throughout the year. It should be noted that there are constant changes in tenants coming off and going on to benefit, so there is always a different set of tenants affected each week, and some tenants have been affected for several periods during the year.
10. The overall trend has been a reduction in numbers affected – down to 2,482 at year end (2,081 of these with one spare room, and 401 with two or more). The total had been slightly lower in February and March, reducing to 2,413 at one point - but there were increases in tenants affected in the last few weeks of the year.
11. 179 tenants were helped to downsize to smaller homes during the year, using the additional priority award contained within the lettings policy. Contributions towards removal costs totalled £44,907 in the year. 203 tenants in total have now moved with this award since it was first introduced in December 2012. 335 further tenants were registered for a transfer with this priority award by year-end.
12. Most tenants chose to stay in their home and pay the higher contribution to their rent. Tenants who could demonstrate they needed additional help in meeting their increased housing costs could apply for Discretionary Housing Payments (DHP), for which the government provides each council with a grant. 783 tenants affected by underoccupation made successful applications for DHP in 2013/14 for varying periods. The total sum covered by DHP was £430,586.

Rent Arrears

13. Despite the use of DHP funds, the total amount of rent owed by current tenants increased by £207,591 during the year (an 11.7% increase). This was much larger than in previous years. In 2012/13 current tenants' arrears had increased by £85,087 (a 5% increase), and the figure was lower still or an actual decrease in arrears in the years before. The impact of welfare reform can be assessed as the additional increase beyond 5% - calculated as £118,789.
14. Tenants were also more likely to end tenancies with higher arrears sums in 2013/14. A large increase was seen in the amount of debt passed to former tenant accounts at tenancy termination. This had actually reduced year on year for the previous seven years, but in 2013/14 increased by £228,593 (a 52.6% increase). This sum needs to be added to the increase in current arrears.

Vacant Properties

15. Although the number of tenants affected by benefit reductions has reduced, this has partly been due to tenants giving up their tenancies. Overall tenancy terminations (where the property is intended to be relet) increased from 1,579 in 2012/13 to 1,926 in 2013/14 (a 22% increase). This leads in turn to higher void rent loss and relet costs.

16. Resultant vacancies have in some cases become difficult to let, with increased levels of vacant properties. This has become most apparent in two multi-storey blocks, Redheugh Court and Eslington Court in the Teams area. There were 31 vacant two-bedroom flats in these blocks at year end, compared to only two vacancies before the penalty was implemented at the start of the year. High levels of vacant properties are a risk to the sustainability of these blocks, and the council is to consider redesignating the flats with a one-bedroom rent.
17. Vacant property rent loss shows one of the highest levels of impact with an increase of £564,408 in 2013/14 on the previous year (60.5% increase). Levels of vacant properties have risen from 234 to 440 over the year.
18. The increased level of vacant property activity has meant higher expenditure on relet works. Relet expenditure had reduced in each of the previous three years, but in 2013/14 increased by £1,030,000 (24.6% increase).

Staffing Resources

19. Staffing resources have needed to be targeted at managing and mitigating the impact of welfare reform. Gateshead Council's Finance, Revenues and Benefit teams have needed to manage both the implementation of benefit reductions and the payment of DHP. Within the housing company we have focused on advice and support to affected tenants, helping them to move or stay.
20. In the Rent and Income Service we have streamlined and consolidated staffing structures, effectively enabling us to meet the cost of providing two x Advice and Support Officer posts (at a total cost of around £54,000)
21. In order to tackle the increased workload caused by the higher levels of lettings and voids activity, we have recently reported to Resources Committee a need for three additional officers in the lettings and voids teams for a period of 12 months. The maximum cost of this in 2014/15 will be around £70,000.

Summary of impact

22. Summarising the various elements of the financial impact of housing benefit reductions on council housing in Gateshead as detailed above shows:

<u>Saving to housing benefit 2013/14</u>		<u>Costs to Housing Revenue account 2013/14</u>	
Max saving	£1,775,000	Removal costs	£44,907
less:		Net increase - current arrears	£118,789
cost of DHP	<u>£430,586</u>	Increased former tenant debt	£228,593
Net saving	£1,344,414	Increased void rent loss	£564,408
		Additional relet expenditure	£1,030,000
		Staffing (RAIT)	<u>£54,000</u>
		Total costs to HRA	£2,040,697
		(+ in 2014/15:	
		Staffing – voids / lettings)	£70,000

Link to values

23. This report related to the company value of being honest, accountable and transparent.

Impact on tenants

24. 2,838 tenants were initially affected by a weekly reduction in housing benefit for under-occupation. By year end this had reduced to 2,482

Risk Management Implications

25. The impact of welfare reform is a key strategic risk for The Gateshead Housing Company. In 2013/14 increases in arrears were well within predicted parameters, but increases in tenancy terminations and voids exceeded expectations. In 2014/15 it is perhaps less likely that as many tenants will give up their tenancies, and this in turn could increase the risk of higher current rent arrears.

Financial Implications

26. The report calculates the cost of the implemented welfare reforms on council housing in Gateshead to have been £2,040,697 in 2013/14, with more expenditure planned for 2014/15.

Equality and Diversity Implications

27. There are no implications directly associated with this report.

Value for Money Implications

28. The report shows that savings for central government are more than offset by costs locally.

Health Implications

29. There are negative health implications if tenants experience difficulties managing income or struggle to sustain their tenancies.

Environmental Implications

30. There are no environmental implications directly associated with this report

Consultation carried out

31. It has not been necessary to carry out any consultation for this report.

Recommendation

32. The views of the Board are sought on the summary impact of welfare reform.