Strategic Solutions to Improve Performance & Vfm

How to Survive Welfare Reform

Top Tips To

Prepare for & Survive the Changes

A Free web-briefing first published in October 2011 at

www.phhsl.co.uk/1/post/2011/10/how-to-survive-welfare-reform-top-tips-to-ensure-youre-ready-for-the-changes.html

Key welfare reform changes such as HB underoccupation criteria are due to come into effect in less than 18 months. Here we set out some key tips to help organisations and their customer's prepare for and survive the changes.
(Updated 25/11/11)

Limiting Housing Benefit entitlement for tenants whose accommodation is larger than they need is the first major welfare reform change due to come into effect for new and existing claims from April 2013. DWP estimates are that some 670,000 tenants across the country will be affected - losing on average £13 per week , but saving £440m p.a. on the Housing Benefit bill. This will be followed by HB becoming part of Universal Credit for working age households (and Pension Credit for pensioners) from October 2013 for new claims and April 2015 for existing claims. Both of these are likely to have default positions of being paid direct to tenants.

With the proposals still 16 months away from implementation, the temptation for some may be to wait and see what the final outcomes are as the bill passes through its final stages the House of Lords. However, the changes present significant economic and social risks for all landlords, and indications are that the best the sector can hope for is some form of modified transitional protection for existing tenants.

The government has also confirmed its intent to see through changes on underoccupation in its Housing Strategy published on 21st Nov (Laying the Foundations, a Housing Strategy for England), outlining their focus on " *moving away from a system in which benefits pay for any size of accommodation, even where this accommodation is too large for the household's needs"* , which will *"create movement in the social housing stock to allow people living in overcrowded conditions or who are on the waiting list to access appropriate social homes"*, and work *"in tandem with .. tenancy reforms to help make sure that social housing is used more effectively and better targeted at those who need it most"*

You should be preparing now for the impact, and doing more than just making additional bad debt provision if you are to survive and thrive in the post welfare reform environment. Here we set out some key tips to help organisations and their customer's survive welfare reform.

1. Get to know your customers – and keep them informed.

Customer Insight was quite a fad across the sector in recent years as Audit Commission inspections criticised landlords and downgraded their star ratings for not knowing the makeup of customers or their diversity profiles.

This time it's about more than ticking a box on diversity data collection though. The HB underoccupation changes are focussed on the 32% of all working age HB claimants living in social housing (currently those aged under 60). They are based on one bedroom being allowed for each person or couple living as part of the household, while a child aged 15 or under would be expected to share with one other child of the same gender; and a child age 9 or under would be expected to share with one other child aged 9 or under, regardless of gender. A bedroom for a non-resident carer will also be taken into account in determining HB entitlement where they provide overnight care for the claimant or their partner.

Based on these criteria, households that are under occupying accommodation will have their HB reduced by a given percentage of the rent – which could be as low as £3 per week, or as much as £34, but on average £13.

To understand the potential impact of welfare reform, you need complete profiling information on household composition and income sources, and to be able to cross reference these with the number of bedrooms per property. If you don't have this level of detail, you won't know how many of your customers may be affected to enable you to plan proactively for the impact on them and your business.

Incentives?

Collecting diversity data was a universal problem which many had to incentivise – but when it comes down to reduced money in customer's pockets, there shouldn't be much need for any incentive.

Publicise the proposed changes to your customers. The NHF have produced some handy templates for this but repeat the message with prominence in newsletters, on you web site or in any social media releases. Those who read, or hear through the grapevine about the changes, will probably come knocking at your door.

2. Develop a strategic approach towards underoccupation/overcrowding

Many organisations already have policies on underoccupation or overcrowding – they've just not been that effective. Dusting them off and telling staff to implement them isn't likely to be effective either.

For a start, most underoccupation policies rarely give priority to assisting those

underoccupying by less than two bedrooms, while the DWP estimates the majority of affected householders (530,000 - 78%) are under-occupying their accommodation by just one bedroom.
400,000 (60%) of underoccupiers are also estimated by the DWP to be single people or couples with no children – only eligible for full HB on 1 bedroom properties, which are in scarce supply. 2011 RSR data reveals 1 bed stock accounting for only 21% of all RP stock, with only 60,000 1 bed relets per year, and recent research by the HCA showed new one-bed properties falling from 39% of all completions in 1991/92 to only 17% in 2008/09.

The DWP acknowledge such underoccupation will be higher in rural areas and more difficult to resolve, and that with such scarcity, many 1 bed underoccupiers may sacrifice their security and move to the private rented sector.

The reality is that organisations can't resolve such high levels of underoccuaption in isolation and the private rented sector won't be able to fill the gap either. You will need to work in partnership with Local Authorities, local RP's and voluntary agencies as part of a joined up and strategic approach towards underoccupation and overcrowding.

Joint work should provide your customers more opportunities as part of a coordinated approach to best use of stock across Local Authority areas, but you should also prioritise the use of mutual exchange schemes to broaden opportunities for moves into neighbouring areas or across the country. The government has recently announced a national scheme but there are excellent independent schemes already on the market such as Homeswapper and House Exchange. Just make sure in choosing one , the main criteria is the number of other local landlords already signed up to it or confirmed in the pipeline. There's no point joining if there are limited opportunities at a local level for your customers.

3. Review Your Allocations Policies

Those of us who worked in the sector in the mid 1990's will know the profound impact the 1993 Page Report had on allocations policies aimed at creating sustainable communities. It was a seminal report for its time, highlighting the benefits of mixed, local communities and allowing families room to grow, which led to many adopting sustainable and local lettings policies over the following years. Unfortunately, it also led to what the government has identified as a mismatch between what was built and what was actually needed, particularly in areas of housing pressure. As the HCA research outlines, a third of the new lets and re-lets of two-bedroom homes between 1989 and 2009 went to single people or to childless couples, though in London it was only 10%, compared with 40% elsewhere.

Current levels of underoccupation (and perhaps overcrowding) reflect the legacy of these lettings policies together with low demand in some areas. Regardless of the historic reasons though, there is no point storing up future inability to pay rent and escalating bad debts in either existing general needs or new 'affordable rent' properties. You should begin reviewing allocations policies, joint housing register and choice based lettings schemes in partnership with Local Authorities and tenants as soon as possible to ensure best use of stock is made in advance of the changes; and potential new tenants can make informed choices over their future housing costs.

Existing definitions of overcrowding or underoccupation will also need to be reviewed and perhaps re-aligned to the DWP's criteria outlined above to ensure ongoing affordability for those dependent on state benefits.

4. Develop your Income Management/Financial Advice Services

Estimates of the impact of welfare reform on income collection by housing organisations vary – with some claiming an additional 20% of tenants will fall into arrears, and others that the changes (particularly direct payments) will lead to a doubling of arrears levels.

The 1990's are also significant points to reflect on here too though. 1996 was the year that HB payments changed from being made in advance to 4 weeks in arrears for new and amended claims. At the time, it was claimed that arrears would double, but it didn't materialise. This article in the Guardian highlighted the dire situation with HB administration in 2001, with the NHF estimating that 1.5m of Britain's 4m housing benefit claimants were owed money totalling up to £1.6 bn, and the G15 requesting that LA's be stripped of their responsibility for HB.

Despite both of these, the sector as a whole continued to grow - delivering 1/4m new homes, with almost 1/2m stock transferred to new Housing Associations between 1996/97 and 2008/09. Neither of these would have been possible without effective income management to facilitate borrowing and capacity across the sector.

The sector has an excellent track record of adapting to new regulatory or funding environments built on a firm foundation of generating and collecting income. There is no reason why that shouldn't be the case moving forward.

Many organisations have begun to make provision for increasing the size of their income teams and their contributions towards financial advice services for customers.

Investment in financial advice is a prudent and effective means of preparing for welfare reform – with articles over recent years showing they can pay for themselves. The HB hardship fund will be increased to £30m in 2011/12 and £60m a year from 2012/3, but your customers facing shortfalls in HB will be competing with private sector LHA recipients also affected by welfare reform, and expert advice to ensure your customers can access and benefit from it will be a must.

You should think more strategically about income management staffing though – increasing numbers of staff isn't necessarily going to increase effectiveness or collection rates. Technology solutions are just as important for income management as they have been and are for other core service areas such as repairs.

It is well known that payment of rent by direct debit is the cheapest payment method, and there is no reason why organisation's shouldn't make that the default position for payment by underoccupiers having to make up HB shortfalls or those moved onto direct payments under Universal Credit.

With 89% (and growing) of all adults now owning or using a mobile phone, there is also a strong business case to replace the traditional 'middle class Kalashnikov' arrears letters with investment in bespoke text messaging services being pioneered by some organisations across the sector. These are producing better contact and payment results, delivering lower costs and increasing productivity for existing staff.

The value of internet based contact and access for customers should also be evaluated. The private sector has moved significantly towards a virtual world of transactions with customers built on a platform of IT delivering better value ways of working, and even in Whitehall, the aim is now to lead the world in the digital delivery of public services - because there is a compelling business case for doing so built around research by Sir David Varney which highlighted that it cost organisations:

* £15.00 to solve a problem face-to-face
* £1.50 to solve a problem over the telephone, and
* £0.15p to solve a problem over the internet

By raising the contacts we as citizens make with public services via the internet to 33%, the government will apparently save £2bn a year by 2017. The government's commitment to this is reflected in plans for Universal Credit being an online system – with projected savings by 2017 of £1bn pa. See PHHS article on how I.T. should be used to improve value for money for more details on the rationale and benefits. Where the government leads on Universal Credit, the sector will also need to follow – in particular to replace current links with HB departments for the estimated 10% or more of customers who may continue to have their Universal Credit paid direct to the landlord.

Existing arrears and income management policies and processes will also need to be reviewed and dovetailed with new approaches to underoccuaption and allocations. Some in the sector are already pondering how to approach 'no fault' arrears situations which arise for underoccupiers and continue to escalate because they have no financial means to pay and no other suitable accommodation can be found for them.

5. Review Your Asset Management Strategy

Many across the sector have demand and sustainability problems with housing for older people and supported housing – exacerbated in recent times by cuts to Supporting People , the personalisation of support costs, proposed cuts to LHA for single homeless hostels, and HB only being payable for a room in shared property for the under 35's from January 2012.

Given that over working age tenants are exempt from the underoccupation changes to HB, there will be little additional incentive for them to downsize. Research by the National Housing Federation in 2010 found that the largest number of households with spare rooms is where the main tenant is over 75, that the right home in the right place at the right time is the single most important factor in persuading a tenant to downsize, and this is usually a two-bedroom bungalow.

Given the shortage of 1 bed properties required in the sector, now should be the time to reflect on the future of any low demand 1 bed sheltered accommodation, bedsits or existing flats - and the potential for them to be reconfigured for use by displaced HB underoccupiers, or sold and proceeds reinvested into alternatives . The LB Islington is selling some 1 bed flats into shared ownership, with proceeds used to subsidise additional and larger affordable housing required in the borough.

Likewise, start to review the future of any hostel accommodation you own which may become unsustainable due to supporting people/ LHA cuts or HB restrictions on the under 35's.

6. Review your Development Strategy

The new regime brings affordability to the fore in any development plans. If your organisation is 'fortunate' to have secured HCA funding or has capacity to develop without grant , you need to make doubly sure that what is planned and delivered is what is required in the local area and that HB eligibility or low incomes can sustain 80% of market rent. Many such as Affinity Sutton are already doing this.

There has been a significant shift away from development of 1 bed flats over past decades – in part due to sustainable communities and 'lifetime ' homes issues of ensuring room for households to grow, but also due to changing consumer expectations and choice. While consumer's choice to rent larger properties will remain, their economic ability to do so will diminish if they are (or become) reliant on assistance via HB or Universal Credit for their rent.

There will be an understandable reluctance to begin delivering smaller properties, typically financed over 30 years, when the coalition may only be in power until 2015. However, development strategies which continue to rely on definitions of housing need which don't mirror DWP HB underoccupation eligibility criteria will be storing up economic and social problems for organisations and their customers from 2013 - in the short term at the very least.

7. Develop your Approach to Tenancy Fraud

Aside from being one of the tenancy standard regulatory requirements and high up on the political agenda of late, when hundreds of thousands of under occupiers will be clamouring for scarcely available smaller properties which they can afford to live in, it would be unjust of the sector not to focus its efforts on weeding out those who may be subletting, not occupying, or have obtained their home fraudulently.

Estimates of the extent of tenancy fraud vary, with the Audit Commission/NHF in recent years estimating it at between 1 and 5% (with higher percentages in areas of high demand and the London boroughs) and Experian , based on work with 10 landlords this year estimating there may be 150,000 such illegally occupied properties across the country.

On the basis of Audit Commission estimates of a successful case of tenancy fraud costing £4k, and a new home costing on average £120k, the business case for undertaking such work also stacks up.

Partnership work with Local Authorities and others will remain key to effective detection of tenancy fraud, and could/should be linked to work on strategic underoccupation/ overcrowding work.

8. Focus on Economic Inclusion work

Financial inclusion was the buzzword of the last decade, but moving forward it is perhaps economic inclusion which should take precedence as one of the added value services which the sector should focus on.

The squeeze on benefits is aimed not only to constrain the burgeoning housing benefit bill but also at making work pay. The difficulty comes when the jobs just aren't there. The sector can play a role, either directly through creating apprenticeships and local labour schemes for major contracts, or working in partnership with Local Authorities and the voluntary sector with tenants to help them train or find work.

9. Make every pound count – Focus on Value for Money

There's never been a more pressing time to focus on the value for money of existing services. Welfare reform, self financing for councils, the availability and cost of finance for housing associations and inflation in key areas such as repairs and maintenance drive the need to squeeze more from your bottom line - to ensure you can continue to provide homes and develop and maintain additional 'added value' services for your customers.

In line with the stronger, proactive approach to economic regulation outlined in the Localism Bill and in announcements from ministers, a revised draft Value for Money standard was published on 21st November by the Tenant Services Authority (TSA).

The standard outlines an increased focus on operating costs and using assets effectively, makes boards more accountable for how their organisations deliver value for money, and enables challenge of those who do not. It presumes there should be a continuous focus on improving value for money on running costs and the use of assets – delivering year on year improvements through a rigorous approach to assessing options, including alternative delivery models that may involve partnerships, mergers and/or contracting with third parties.

While many organisations may be looking to gain efficiencies through mergers or from back office services, each and every service should be subject to ongoing review – focussing on the key areas of cost (economy), performance (efficiency) and quality (effectiveness) – outcomes for customers being the key.

10. We can help…

At PHHS we have extensive experience and a track record of improving performance and outcomes for organisations and their customers through innovative and leading edge responses to most of the key areas outlined above.

Our work has included improving customer insight data collection and analysis, and developing innovative responses and services in areas such as underoccupation/overcrowding, allocations, income, asset management, development and tenancy fraud.

Our V3a Value for Money analysis and reporting solution, developed specifically for housing organisations, is being used by several housing associations to improve the focus and delivery of value for money.

To find out how we could help your organisation survive and thrive through the changes that welfare reform is bringing, visit our web site, email us, or call us on 01202 233214.