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Report

The impact of welfare reforms on housing associations

A scoping study

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Sheffield Hallam University and University of Sheffield

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Executive Summary

Welfare reforms introduced since 2010 in the United Kingdom represent a major challenge for housing associations. This report presents the key findings of a **scoping study** which has explored their impact on associations and reviewed the existing evidence base on the subject. The report is an output from the UK Collaborative Centre for Housing Evidence (CaCHE), which was launched in 2017. The centre, which is funded by the Economic and Social Research Council, Arts and Humanities Research Council and Joseph Rowntree Foundation, is a multidisciplinary partnership between academia, housing policy and practice. Over the course of the five-year programme, CaCHE researchers will produce evidence and new research which will contribute to tackling the UK's housing problems at a national, devolved, regional, and local level. CaCHE is undertaking 12 research projects in its first year. This report is one of the first outputs from this work.

The research presented here builds on a review of existing research on the impact of welfare reforms on housing associations, which has been published alongside this report[1]. It is based on interviews with 17 individuals working at ten housing associations in England, and a further 11 individuals from stakeholder organisations operating in England, Scotland, Wales and Northern Ireland. A range of housing association types were included within our sample which contained a mix of small, medium and large providers, operating in different housing market contexts, with stock at local, regional and national levels.

The report focuses on the impact of five welfare reforms in particular: Universal Credit (UC); the Benefit Cap; the Benefit Freeze; Size Criteria (also known as the 'Bedroom Tax' and the 'Removal of the Spare Room Subsidy'); and the one per cent Rent Reduction. It also explores the impact of tenancy reforms (Fixed Term Tenancies; Affordable Rent) as they have important interactions with welfare reforms. Reflecting where CaCHE is in its journey - the first year of a five year programme of research - it is important to note that the research is **exploratory** and, reflecting this, one of its primary objectives has been to highlight key research priorities for CaCHE and research more broadly in the subject area.

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[1] Preece, J. (2018) The impact of welfare and tenancy reforms on housing associations: an evidence review. *CaCHE.*

The key findings of the study are:

Contextualising and understanding the impact of welfare reforms

Welfare reform was seen as a key risk for the housing association sector. Uncertainties surrounding the content and timing of the welfare reform programme emerged as a source of frustration for housing association interviewees. Another challenge for housing associations was the difficulty of accurately predicting the likely impact of a particular reform - for many reforms this was impossible to do. Measuring the impact of welfare reforms is an issue that housing associations are paying increasing attention to. However, as they have been introduced alongside each other, identifying the impact of a specific reform is highly problematic.

The impact of reforms on housing associations' income

There was a consensus amongst interviewees that it was too early to make a definitive judgement about the impact of UC on housing associations' income streams because, at the time of data collection, it had only been rolled-out on a relatively small scale. However, and critically, there was also a consensus that arrears rates for UC claimants were higher than those who still received Housing Benefit. There was concern that, while the impact of UC on housing associations' income streams had been limited to date, this would not be the case when the programme was fully rolled-out. Interviewees were asked why tenants accrued arrears under UC. A number of reasons were given: the difficulty many tenants had with 'direct payment' (that is, being responsible for paying their rent); tenants encountering an unexpected expense; 'accidental' underpayment, which involved tenants underpaying inadvertently; and, the delay between tenants' initial UC claim and their first payment. It was reported that both the Size Criteria and Benefit Cap had had little impact on arrears rates. However, with a high proportion of those tenants subject to these reforms receiving a Discretionary Housing Payment (DHP), there was a concern that if DHPs were to become scarcer in the future, this would change.

Staff and other costs

Managing the impact of welfare reforms, and UC, specifically, is resource intensive. It is important when assessing the resource implications of managing the impact of welfare reforms not to ignore the 'displacement' costs associated with them. That is, the cost of resource being displaced from mainstream, generic services when officers spend a disproportionate amount of time managing and supporting tenants experiencing welfare reforms. A number of housing associations that participated in the study reported that they had appointed additional staff to manage the impact of welfare reforms. The remit of these officers varied with appointments being made in the following areas: benefit advice; money management and budgeting advice; income collection; employment advice and support; IT; data monitoring; managing the Size Criteria; and, well-being and mental health advice and support. There are a number of other costs in relation to managing the impact of welfare reform associated with: additional rent payment transaction costs; automating and digitalising rent payment; updating IT systems; communicating with tenants; and pre-tenancy affordability assessments.

Funding

Interviewees identified a number of risks to housing associations in relation to their funding associated with the introduction of welfare reforms. First, it was felt that their adverse impact on the cash-flows of associations would threaten the financial viability of some of them, with UC identified as being a particular threat. Second, higher levels of arrears associated with UC could potentially result in some associations breaching covenant arrangements on their loans. Third, it was reported that welfare reforms, and UC especially, introduced higher levels of bad debt into the business models of associations. Fourth, welfare reforms introduced another unwelcome element (for both landlords and lenders) into their business plans: uncertainty. As a result of these new risks, there was concern that lenders would increase the cost of borrowing and be more conservative in their lending. To date this has not been the case. However, it was noted that if a housing association was to encounter financial difficulties as a result of welfare reforms, then the confidence lenders had in the sector could soon evaporate.

Development and diversification

In general, although housing associations were still developing new homes, welfare reforms have contributed to changes in development activity. Uncertainties around the impact of welfare reform and Brexit[2] have affected development plans for some associations, especially in relation to supported housing. Regeneration of existing units was a significant

[2] The impact of Brexit on housing in the UK is explored in a recent CaCHE policy briefing: *Brexit and Housing: Policy Briefing* by Ken Gibb and Duncan Maclennan http://housingevidence.ac.uk/wp-content/uploads/2018/04/P2018_02_01_Brexit_Housing_April_2018_web.pdf

concern for many associations. There is some evidence that the context of welfare reform is fostering increased diversification of products, particularly in relation to the Rent Reduction. Diversification was seen as an essential cross-subsidy for social stock, partly stemming from lack of grant funding, yet there were concerns that the trend to intermediate rent products may impact on associations' willingness to house those affected by welfare reforms.

Social mission and values

The social mission and purpose of housing associations is a current issue for providers, partly driven by welfare reform but also bound up with the response to the Grenfell Tower fire. Associations reaffirmed their ethical commitments to affordable housing, and generally did not perceive tensions with commercial activities that were used to bolster social provision. Whilst many associations continued to provide 'housing plus' services, there was a reorientation in provision towards employability, money and benefits advice as a result of welfare reforms.

Tenancy reforms and allocations

Housing associations face complex choices as a result of the interaction between Fixed Term Tenancies (FTTs), Affordable Rents, and welfare reforms. There is evidence that FTTs are being used to manage the risk of exposure to arrears by housing associations. Whilst the intention to renew tenancies was clear, there was lack of clarity about how arrears as a result of welfare reform would be dealt with. As well as managing risks within existing tenancies, housing associations are increasingly using affordability assessments to screen prospective tenants. Tenancy sustainability was highlighted as an over-riding concern, but approaches to the screening of prospective tenants varied. Whilst many expressed clear statements against rejecting tenants on affordability grounds, it was also apparent that tenants may be rejected for higher-cost products like Affordable Rent. In a context where most new supply is let at intermediate rents, this has potentially far-reaching implications for who is housed by housing associations.

Changed operational practices

There was a consensus that welfare reforms had contributed to associations changing their operational practices, a process which, it is important to note, was already underway before their introduction. But welfare reforms have accelerated existing changes in operational practices and prompted new ones. Associations have: increased the level of communication they have with their tenants; placed more onus on the responsibilities of tenants in relation to the services they receive; increased the level of advice and support they provide to tenants; digitalised their services; and, diversified and upskilled their staff base. Furthermore, associations that participated in the study reported that welfare reforms had prompted them to adopt a much more proactive approach to income collection, with many highlighting the importance of intervening as soon as arrears accrued ('early intervention'). It was reported that these changes had resulted in associations: providing an improved and more efficient service; 'knowing' their tenants better; and innovating more. It was also noted that changed operational practices had resulted in changes in the landlord/ tenant relationship.

Geographical differences in the impact of welfare reforms

There has been geographic variation in the impacts of welfare reforms on housing associations. This report has focused primarily on England, but there is evidence that the impacts of welfare reforms have been less marked in Northern Ireland, Scotland and Wales, primarily because measures have been put in place by the devolved governments to mitigate them. In an English context, the impact of the reforms varied regionally and sub-regionally, with London reportedly being particularly hard hit by them. Other geographical factors that were reported to affect the impact of welfare reforms were: whether housing associations were located in rural or urban areas (those operating in rural areas were reported to be more vulnerable to their impact); and, the pattern of where associations' stock was located.

Areas for further research

One of the key aims of this study was to identify areas for further research. The key research priorities for the CaCHE team and research more broadly in this area are:

- Understanding the impact of welfare reforms on tenants, and in particular: i) how they have impacted on their approaches to money management and budgeting; ii), their financial circumstances; iii) their health and well-being; and, iv) the circumstances and experiences of tenants in rural areas.
- Understanding tenants' behavioural responses to welfare reforms and how associations respond to them. This should encompass: conceptualising, understanding and mapping responsibilisation activity in housing association sector; exploring the extent to which tenants have been responsibilised; examining how tenants view the concept; and, unpacking their experiences of being responsibilised.

- Understanding changes in the behaviour of housing associations, specifically in relation to how and why they are changing their operational practices. Attention also needs to focus on the extent to which (and how) associations' values and missions are changing in light of welfare reforms.
- Affordability and housing low-income households.
- Exploring the impact of welfare reforms in Northern Ireland, Scotland, and Wales, in doing so, unpacking the impact of the mitigation measures put in place in each of them.
- Exploring regional, sub-regional and local differences in the impact of welfare reforms.

Key Learning

The study team identified key learning from the research, particularly in relation to the welfare reform that is having the greatest impact on housing associations: UC. The key learning for **Government and regulators of housing associations** is:

- The impact of welfare reforms, and UC in particular, will be felt differently by housing associations.
- Notwithstanding this, when UC is rolled-out fully, it is likely to have a significant adverse impact on the financial position of housing associations.
- One of the reasons that new arrears are likely to accrue under UC is that **there is economic logic in tenants (with no or little arrears) not paying all or some of their rent when faced by a financial emergency.** This is because interest is not charged on rent arrears with underpayment representing an 'interest free loan', although the clawback arrangements ('third party deductions') for repaying unpaid rent under UC are onerous.
- Welfare reforms, and UC in particular, may threaten the financial viability of some associations. Smaller associations may be particularly vulnerable as they are less well placed to manage the impact of declining and fluctuation cash-flow.
- Uncertainty in relation to the income of associations brought about by welfare reforms may result in lenders charging higher interest rates.
- The impact of welfare reforms and UC in particular, may cause some associations to become more commercially oriented, in doing so, being less prepared to house households with a poor 'credit' history. If this happens, **this raises issues about who**

will house these households and the capacity and suitability of alternative housing providers to do so.

- If Discretionary Housing Payments become more difficult to secure, then more households subject to the Size Criteria will encounter financial difficulties, with consequences for the arrears rates of housing associations.
- Whilst many associations were continuing to develop new homes, and were meeting housing demand across a broader client-base, there remains a need for housing at social rents. For those on the lowest incomes, Affordable Rents may not be truly 'affordable', especially when impacted by a number of deductions or caps to the amount of welfare benefits received. Affordability is not only an issue for those in the private rented sector or seeking homeownership, but extends to those in the social rented sector as well.
- There is some evidence that uncertainty as a result of welfare reforms, and the broader context of Brexit, is impacting on development and regeneration programmes. This is particularly relevant to care and support schemes due to uncertainties over funding.
- In response to welfare reforms, and UC in particular, the housing association sector is likely to become more diverse in the future. This will present challenges for both the Government and regulators, whose approach to 'managing' the sector will need to recognise its many contours.

The key learning for **housing associations** is:

- It is difficult to accurately forecast who will manage on UC and who will struggle. As one of the most common reasons for underpayment under UC is tenants encountering an unexpected financial expense, predicting how tenants will fare on UC is very difficult.
- The first few rent payments following a tenant's transition onto UC are critical. Associations therefore need to be particularly proactive in terms of rent collection when tenants first move onto UC. And they need to intervene at the earliest opportunity if arrears accrue.
- It is imperative that adequate support is made available to tenants to help them manage on UC. Landlords need to consider the following issues: What type of support is required? How should it be provided? Do different people require different types of support and advice? Who is best placed to deliver support and advice? When is the support required? What is the impact of the support? Is it making a difference?

- It appears that many tenants treat their rent accounts as 'surrogate' bank accounts. Within the confines of financial regulatory controls, could this be recognised by associations, with overpayment being rewarded in some way?
- It is imperative that landlords 'know' their tenants. They should hold up-to-date and robust information about them, relating to a number of issues including their contact details, key demographic attributes, and housing and payment 'history'.
- Managing rent collection under UC is much more resource intensive than under landlord payment. Landlords are allocating additional resource to rent collection and arrears recovery.
- If they have not already done so, landlords need to review whether they are UC 'ready'. They need to look at a range of issues including: the roles and responsibilities of officers; how they collect rent; how they recover arrears; 'patch' sizes; and IT systems. And they will need to be prepared to adapt.
- Associations need to think carefully about how and when they communicate with their tenants.
- Housing associations have continued to operate beyond the delivery of purely housing services. Capturing the value of services such as debt counselling, money advice and employability support, particularly in sustaining tenancies, is crucial.
- It is crucial to improve monitoring of the use of affordability assessments, in particular, in relation to rejected applications and the longer-term implications they may have in relation to who is housed, and what happens to those households whose applications are unsuccessful.
- There is evidence of organisational sharing on a new level, enabling shared learning and innovation in the sector.

Glossary

CaCHE	The UK Collaborative Centre for Housing Evidence
DHP	Discretionary Housing Payment
DWP	Department for Work and Pensions
FTT	Fixed Term Tenancies
HB	Housing Benefit
UC	Universal Credit

1. Introduction

Introduction

Welfare reforms introduced since 2010 in the United Kingdom represent a major challenge for housing associations. This report presents the key findings of a **scoping study** which has explored their impact on associations and reviewed the existing evidence base on the subject. The report is an output from UK Collaborative Centre for Housing Evidence (CaCHE), which was launched in 2017. The centre, which is funded by the Economic and Social Research Council, Arts and Humanities Research Council and Joseph Rowntree Foundation, is a multidisciplinary partnership between academia, housing policy and practice. Over the course of the five-year programme, CaCHE researchers will produce evidence and new research which will contribute to tackling the UK's housing problems at a national, devolved, regional, and local level. CaCHE is undertaking 12 research projects in its first year. This report is one of the first outputs from this work.

This chapter contextualises the research. It begins by providing the policy context to the study, in doing so, providing an overview of the welfare reform programme that has been undertaken in the UK. It then moves on to highlight the approach taken to the research by the study team and the structure of the report.

Policy context

It has been argued that *"welfare reform has become a defining feature of contemporary UK government policy"* (Beatty & Fothergill, 2017, p.1). Welfare reform has occurred in different phases as: *"the 1997-2010 Labour Government initiated a number of important changes, but the pace of reform quickened dramatically following the election of its Conservative-led coalition successor, when reducing spending on welfare benefits became central to the Government's economic strategy"* (ibid). The Conservative governments elected in 2015 and 2017 *"maintained the momentum with a further round of welfare reforms"* (ibid).

These welfare reforms represented an attempt to 'responsibilise' benefit recipients and reduce expenditure on benefit payments (Ferrari, 2014). The reforms introduced after 2010 incorporated a wide range of different measures. In 2016, the Office for Budget Responsibility identified "*around 150 separate measures affecting welfare spending"* (OBR, 2016, p.31). They concluded that, in total, "all post-2010 measures are estimated to reduce spending by £47.5 billion by 2020/21" (ibid).

The implementation of welfare reforms has varied across the different territories of the UK. All four have implemented a different combination of welfare reforms and mitigating measures. As a relatively small-scale, scoping exercise, it has focused its attention on one territory in particular: England. Analysis within this report refers to England unless stated otherwise. However, through a small number of interviews with stakeholders from Northern Ireland, Scotland, and Wales, the study does provide an insight into the impact of welfare reforms on the devolved territories, which is presented in Chapter 10.

Some welfare reforms are likely to have a negative impact on the financial position of housing associations. Support with rental costs for low-income households through Housing Benefit (HB) and Universal Credit (UC) provides a major source of income for housing associations. In 2016-17, 10 per cent of households in England rented from housing associations. This represented 2.4 million households (MHCLG, 2018) and over half (59 per cent) of social renters were receiving support with their housing costs from HB/UC. It has been estimated that housing associations managed properties where tenants claimed around £7.3bn of Housing Benefit in 2017[3].

Within the wider process of welfare reform, a number of measures are particularly relevant to housing associations. This report focuses on five of these in particular:

- Universal Credit
- Benefit Cap
- Benefit Freeze
- Size Criteria (also known as the 'Bedroom Tax' and the 'Removal of the Spare Room Subsidy')
- The one per cent rent reduction, herein referred to as the 'Rent Reduction'

It also explores the impact of tenancy reforms (Fixed Term Tenancies; Affordable Rent) as they have potentially important interactions with welfare reforms. The key features of these reforms are outlined below. The most ambitious change to social security is the introduction of **Universal Credit**. It has been argued that: "*The introduction of Universal Credit (UC) is one of the most significant reforms to the welfare system since the Beveridge Report. It will replace six existing means-tested benefits and tax credits for people of working age, paying*

[3] Authors' estimates based on data from DWP STAT-Xplore and the English Housing Survey.

more than £60 billion a year to around 7 million households by the time it is fully rolled out" (OBR, 2018, p.3). Under HB, payments are made every two weeks; under Universal Credit, tenants receive one monthly payment[4].

One of the key features of the housing element of UC is that payments will be made directly to the tenant rather than the landlord, with tenants assuming responsibility for paying their rent ('direct payment').[5] The housing cost element of UC can still be paid directly to a landlord if it is deemed that a claimant *"cannot manage the single monthly payment and as a result there is a risk of financial harm to the claimant and/or their family"* (UC, 2018, p.5). This arrangement is known as an Alternative Payment Arrangement. All claimants have an assessment period of one month, meaning that they may have to wait at least five to six weeks[6] before receiving a payment (Wilson, 2017a). UC only applies to working age households and some other claimants are not included.[7] It is being rolled out in different phases and some of the key milestones are:

- UC was "*available in all Jobcentres in Great Britain – although initially for new claims only, for select claimant types"* from Spring 2016 (Wilson, 2017a, p.10)
- the roll-out of the 'full service', with UC for all new claimants started from late 2016 with initial trials started in Sutton, Croydon and Southwark.
- the completion of the roll-out of 'full service' to all Jobcentres is due in September 2018.
- the final 'managed migration' stage is when the remaining legacy benefit and tax credit claimants are moved over to Universal Credit. It is expected to start in 2019 and be completed by 2023 (Kennedy & Keen, 2018)

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[4] In Scotland, claimants "can choose to be paid either monthly or twice monthly" (Scottish Government, 2018); while in Northern Ireland tenants will receive two monthly payments (Department for Communities, 2018).

[5] The approach to direct payment differs across the devolved territories. In Scotland, tenants can choose to opt-out of direct payment (Scottish Government, 2018), while in Northern Ireland direct payment is not a feature of Universal Credit, with the housing element of UC being paid directly to landlords (Department for Communities, 2018).

[6] *"In February 2018 the Government removed the seven day waiting period which applied to some claimants and suggest that the first payment will take five weeks (https://www.gov.uk/government/news/first-universal-credit-payment-paid-quicker). The actual time claimants wait between the submission of a claim and first payment still varies substantially with the National Audit Office reporting large numbers of delayed payments in 2017* (NAO, 2018)."

[7] For example, "residents of supported 'exempt' accommodation have help with their housing costs provided separately to UC in a similar way to Housing Benefit in the short term" (Wilson, 2017a).

It is estimated that only around 5 per cent of households in receipt of support from HB had transferred to UC by December 2017.[8] In June 2018, the National Audit Office raised concerns about the progress of the roll-out of UC arguing that the Department for Work and Pensions *"has a lot to do to improve the efficiency of Universal Credit systems"* (NAO, 2018, p.9). It argued that *"Universal Credit is creating additional costs for local organisations that help administer Universal Credit and support claimants"* (ibid). Housing associations were identified as one of the sectors affected by UC.

The **Benefit Cap** was designed to limit the total amount of welfare benefits that a household could receive: "*As part of the October 2010 Spending Review the Coalition Government announced an intention to cap total household benefits at £500 per week for a family (£26,000 per year) and £350 per week (£18,200 per year) for a single person with no children"* (Kennedy et al., 2016, p.3). The Summer Budget 2015 confirmed the Government's manifesto pledge *"to reduce the cap for families to £23,000 in London (£15,410 for single people) and £20,000 (£13,400 for single people) outside the capital"* (ibid).

The (so-called) **'Benefit Freeze',** which is one of the less well publicised welfare reforms, was introduced in the Summer Budget of 2015. The Budget *"froze most benefits for working-age people for four years, from 2016/17 to 2019/20. This included benefits to top up low earnings and out-of-work benefits, and follows a period when rises were capped at one per cent"* (JRF, 2017, p1). It has been argued that *"the four-year Benefit Freeze is predicted to increase poverty more than any other policy"* (Robb, 2017). In contrast, one of the most discussed welfare reforms is the Size Criteria. Under this reform, which was introduced in April 2013, social housing tenants who are deemed to be under-occupying their home are penalised with a reduction in their benefit entitlement: by 14 per cent for claimants with one 'spare' bedroom and by 25 per cent for those with two spare bedrooms (Wilson, 2017b, p.3).

The **Rent Reduction** was implemented as part of Welfare Reform and Work Act 2016, so may be considered to be a welfare reform. The initiative, which was included in the Summer Budget 2015, involves rents in the social housing being reduced by one per cent a year over a four year period. This will result in a 12 per cent reduction in average rents by 2020-21 (Wilson, 2017c).

[8] Author estimates based on data from DWP STAT-Xplore. This should be treated as an estimate due to high turnover in caseload of households on these benefits.

Tenancy reforms introduced by the Coalition Government in the Localism Act 2011 may have important interactions with welfare reforms. The Act allowed housing associations to offer fixed-term tenancies to all new tenants after April 1st 2012. Previously, housing associations were required to offer tenants the most secure form of tenancy, meaning the majority of tenants were offered 'lifetime' assured tenancies (Parkin & Wilson, 2016). At the same time the Coalition Government introduced a new type of intermediate rent (commonly known as Affordable Rent) which allowed housing associations to charge up to 80 per cent of market rents. The intention was that this would *"generate additional income to be reinvested in the development of social housing*" (Wilson & Bate, 2015, p.4).

Measures to mitigate the impact of welfare reforms

As noted earlier, welfare reforms have been implemented differently across each of the territories of the UK. It is also important to note that different approaches have been taken to their mitigation. The main measure designed to mitigate the impact of welfare reforms are Discretionary Housing Payments (DHPs).

> *"Where a claimant is eligible for Housing Benefit but experiences a shortfall between the rent due and the Housing Benefit payable (e.g. because they live in a property that is deemed to be too large for their needs, or the rent charged is higher than the Local Housing Allowance rate), they can apply to the local authority for a Discretionary Housing Payment"* (Wilson, 2017d, p.3).

In 2017/18, the Westminster government provided £166.5m funding for DHPs (ibid). Local authorities have administered DHPs differently which has led to concerns about a 'post-code lottery' for accessing this support (ibid). In addition, each territory within the UK has a different approach to delivering DHPs (ibid). In England, DHPs represent the principal way in which the impact of welfare reforms has been mitigated. However, in Northern Ireland, Scotland and Wales other measures have been employed.

In Northern Ireland, comprehensive measures have been put in place to mitigate the impact of welfare reforms. In Northern Ireland, *"welfare expenditure is funded directly by HM Treasury but welfare policy is devolved to the local Assembly"* (Northern Ireland Audit Office, 2018). While the provision of social assistance in Northern Ireland is devolved, there is *"a long-standing policy of maintaining parity with Great Britain in this area"* (Bowers et al., 2015, p.17). However, "*following the December 2014 Stormont House Agreement, the Northern*

Ireland Executive agreed a new package of measures to mitigate the impact of welfare reform in Northern Ireland" (ibid). These mitigation measures are planned to run until 2020 and include a fund to cover the shortfall due to the Size Criteria and flexibilities over UC, including direct payment to landlords.

The Scottish Government has chosen to mitigate the impact of many of the welfare reforms. In 2017/18, it expected to spend around £450 million on a range of mitigation measures (Scottish Government, 2017). These measures included Discretionary Housing Payments (DHP) to fully mitigate the Size Criteria and mitigation of the removal of Housing Benefit from 18-21 year olds.[9]

There are similarities between the approaches of the Scottish and Welsh Governments with regard to mitigating the impact of welfare reforms. The Welsh Government stated that it *"sees mitigating the impact of welfare reform as one element of its wider strategy on tackling poverty"* (Welsh Government, 2015, p.3). However, it did not directly mitigate the impact of welfare reforms such as the Size Criteria. Instead, it focused on providing support to mitigate the financial impact of Council Tax, and it was argued that this provided *"a broadly similar level of funding to the Removal of the Spare Room Subsidy" (*National Assembly for Wales Public Accounts Committee, 2015, p.12). The Welsh Government also funded the development of smaller properties that would avoid the Size Criteria and increased advice services.

The impact of welfare reforms on housing associations: existing evidence

There have been a number of studies into the impact of specific welfare reforms (see for example, Gibb, 2015; DWP, 2015, Clarke, 2014, Clarke et al, 2015, Cole et al., 2015, Hickman et al, 2017). However, there has been relatively little analysis of the overall impact of welfare reforms on housing associations, which is one of the key conclusions of the evidence review that accompanies this report (Preece, 2018). This provided the rationale for this **exploratory, scoping** study, which, reflecting where CaCHE is in its journey - the first year of a five year programme of research - is (in part) concerned with identifying key research priorities for the CaCHE team and developing a future research agenda, more broadly, for work in this area.

[9] This measure was reversed in England in March 2018.

The report is timely as housing associations are at a critical moment. This is because the step-change in the roll-out of UC means that the challenges presented by welfare reforms are likely to grow: *"associations have always believed that Universal Credit and the introduction of direct payments to tenants would prove to be the biggest challenge"* (National Housing Federation, 2015, p.13). Linked to this, the continued roll-out of UC is likely to hasten the transformation process currently underway in the housing association sector.

Methodology

The research which forms the basis of this report involved the study team conducting in-depth interviews with members of housing association senior management teams and representatives from 'stakeholder' organisations, including Government departments, professional bodies, tenant organisations, and lenders. These interviews were intended to build on the evidence review of the impact of welfare reforms on housing associations (Preece, 2018), which has published alongside this report, by triangulating and updating its findings, and unpacking the issues raised by it.

Whilst the empirical research with housing associations focuses on England, a number of 'stakeholder' organisations from Wales, Northern Ireland, Scotland, and England have also been included in order to understand the differing context of welfare reform measures across the UK. It is anticipated that future research will consider experiences of welfare reforms in other parts of the UK (see Chapter Eleven).

In order to maintain the anonymity of housing associations, it is not possible to report detailed information on the geographical areas in which they operate, linked to each responding organisation. The ten participating organisations were selected to provide representation across a range of typologies, including:

- Size (small: fewer than 5,000 units; medium: 5,000-30,000 units; large: 30,000+ units)
- Geographically concentrated stock
- National organisations
- Regional representation, reflecting different housing market contexts
- Rural providers

In terms of the stakeholder interviews, our sample included:

- Organisations from Northern Ireland, Wales, Scotland and England

- Professional bodies
- Government departments
- Tenant organisations
- Lenders to the housing association sector

Interviews were carried out with 17 individuals working at ten housing associations, and a further 11 individuals from stakeholder organisations. Throughout the report participants are referred to by an anonymous code, beginning 'HA' for housing association respondents and 'S' for stakeholder respondents. Where appropriate, a brief description may also be included, such as 'lender', or 'housing association director'. Detailed descriptions for organisations and respondents can be found in Appendix 1.

Interview schedules were developed for housing associations and stakeholders to explore issues emerging from the evidence review. Semi-structured interviews were largely carried out by telephone, audio recorded and transcribed. A small number of interviews were carried out face-to-face. Interviews were carried out between February and April 2018. Summaries were shared between the research team throughout data collection in order to enable emerging issues to feed into the ongoing fieldwork. A coding framework was developed collaboratively and thematic coding of data was carried out by each member of the research team.

Report structure

This report is divided into twelve chapters, including this one. Chapter Two is concerned with contextualising and understanding the impact of welfare reforms. Chapter three explores the impact of welfare reforms on housing associations' income. Chapter four highlights the costs associated with managing their impact. These include staff costs and 'other' costs, such as the cost of upgrading IT systems and increased rent payment transaction costs. Chapter five explores whether welfare reforms have had an adverse effect on the funding of associations Chapter six discusses approaches to the development and the diversification of housing association products. Chapter seven builds on this, exploring the mission and values of housing associations and considering the ways in which a context of welfare reform may influence organisational cultures.

Chapter Eight explores the interaction between welfare reforms, Fixed Term Tenancies, intermediate rent products, and affordability assessments, considering the potential impacts on who is housed by associations. Chapter Nine explores how associations have transformed their operational practices in response to welfare reforms. Chapter ten explores how 'geography' has affected the impact of welfare reforms. In doing so, it reflects on the impact of welfare reforms across Northern Ireland, Scotland, and Wales. Chapter Eleven highlights a number of areas for future research. Finally, Chapter Twelve draws out the key learning from the research.

2. Contextualising and understanding the impact of welfare reforms

What we know already

Welfare reform needs to be considered alongside wider changes to the operating environment of housing associations (Jacobs & Manzi, 2014).

Welfare reforms are viewed by housing associations as being one of the important challenges they face (Mullins & Jones, 2015; Gibb et al. 2016)

Isolating the impact of specific welfare reforms is very challenging (Hickman et al., 2017).

Introduction

The chapter begins by providing an assessment of the magnitude of welfare reform as an issue for housing associations. It then moves on to articulate their concerns in relation to the uncertainties surrounding the content and timing of the welfare reform programme. The chapter concludes by highlighting some of the challenges associated with measuring the impact of welfare reforms.

Welfare reforms as a key risk

Our research suggests that the impact of welfare reform was a major concern across the housing association sector. Welfare reform was seen as a key risk by housing associations and stakeholders: *"Welfare reform is one of the major challenges. I think we've identified it as the biggest risk to our organisation. So, it's been there for some time really. So, yeah, it's our number one [priority]"* (HA1R1). Other interviewees concurred noting that: *"Welfare in all its forms has been probably the biggest challenge [for housing associations]"* (S2R1) and: *"it’s [welfare reform] certainly been the main challenge"* (HA7R1). In a similar vein, a housing association director reported that: *"Welfare reform is (and has been) the biggest issue I think for us here within our kind of housing market"* (HA9R1). Welfare reform also reportedly emerged as being a major concern for the boards of associations: *"It's [welfare reform] certainly been the board's number one public policy issue"* (HA3R1).

It was reported that landlords' concerns about the reforms had changed over time. Initially, they were most concerned about the Bedroom Tax: *"Over the last five years it [our principal concern] would have been Bedroom Tax initially, but currently it's Universal Credit without a doubt" (HA7R2).* However, as highlighted in the last quote, UC was now seen as being the biggest challenge facing associations. For example, one housing association officer reported that: *"Universal Credit… is definitely the big one for us"* (HA6R1) whilst another noted that: *"For me the big change is Universal Credit and we're still yet to see the full impact"* (HA7R1).

Uncertainties surrounding the welfare reform programme

The uncertainties surrounding the content and timing of the welfare reform programme emerged as a source of frustration for housing association interviewees: *"It's the unknown isn't it. It's that kind of waiting for something to happen, to see how well you cope with it"* (HA10R1). This uncertainty made it difficult to plan. In the context of UC, a stakeholder noted: *"The devil is in the detail. So it is difficult for any organisation to plan both resources and systems and the cash-flow impact"* (S9R1). Another noted that: *"There's so much uncertainty, and learning still, that it's very difficult to get that full picture"* (S10R1).

There was also concern about how quickly the programme was evolving (and changing) and the frequency of new developments: *"The world of welfare changing so rapidly. There's a new announcement every other day. We've spent quite a lot of time over the last few years kind of modelling for things that didn't happen, and worrying about what's going to be the next thing that's announced"* (HA3R2). There was also frustration about the number of measures which had been proposed and then withdrawn. This had had an adverse effect on the planning process within associations.

Notwithstanding this, a number of interviewees expressed relief that the proposal to introduce Local Housing Allowance rates in social housing was withdrawn, but also frustration that they had unnecessarily invested significant resource into planning for its introduction: *"Things like the proposals around local housing allowance rates being applied to people living in social rented housing caused an awful lot of worry. And now it's gone away. People are glad it's gone away. But they're saying that's two years of effort we could have put into something else"* (S2R1). Housing association interviewees reported that the challenges created by the uncertainties surrounding the welfare reform programme were compounded by the difficulty of predicting the likely impact of a particular reform: *"We've tried to create this affordability assessment that would act as the predictor, and it's barely better than random in terms of predicting who's going to get into trouble and who's not"* (HA3R1).

Measuring the impact of welfare reforms

Measuring the impact of welfare reforms is an issue that housing associations are paying increasing attention to. However, a number highlighted the difficulty of identifying the impact of a specific reform because they have been introduced alongside each other:

> *"I guess part of the issue is it's rarely just one thing that's impacting people. So it's not just the Bedroom Tax. It's also Universal Credit or the Benefit Cap or kind of, you know. One of a whole host of things. And on occasions where we have been dealing with tenants who have fallen into arrears, it's never just one thing that's tipped them over the edge. We can't just say: 'you know, it was the Bedroom Tax that knocked this person from being able to afford it to not being able to afford it'. There's always a host of factors involved".* (HA3R2)

Because of resource constraints, it was noted that smaller associations found it particularly challenging to assess the impact of reforms. As a result, it was reported that many were working together on the issue: *"It's interesting. I think I've witnessed more collaboration over all this sort of stuff [measuring the impact of welfare reforms] than I have over anything for years, in truth"* (HA2R1).

3. The impact of reforms on housing associations' income

What we already know

There is little comprehensive evidence about the impact of UC on housing associations' income, because of delays in its roll-out. There is evidence to suggest that the arrears rates for tenants on UC are higher than those for on 'traditional' HB (The Smith Institute, 2017).

Direct payment has a negative impact on arrears (Hickman et al., 2017).

There is some evidence to suggest that tenants subject to the Size Criteria exhibit higher than expected levels of the arrears (Ipsos MORI, 2014; Clarke et al, 2015). Discretionary Housing Payments are mitigating the impact of the Size Criteria in relation to arrears (Williams et al., 2014b).

There has been a relatively small volume of research specifically focusing on the impact of the Benefit Cap on housing association income. This is largely because the numbers of households affected are small, and even in high-cost areas in which the Cap impacts on more households, these make up a small minority of housing associations' tenants (Power et al., 2014).

Introduction

This chapter is concerned with exploring the impact of welfare reforms on housing associations' income streams. It focuses on the impact of three reforms: Universal Credit; the Size Criteria; and, the Benefit Cap.

Universal Credit

There was a consensus amongst both national 'stakeholders' and housing association representatives that it was too early to make a definitive judgement about the impact of UC on housing associations' income streams. This was because (at the time of data collection) it had only been rolled-out on a relatively small scale. Two respondents referred to UC as being a *"slow burner"* (HA1R1 and HA2R1*)* - with the latter also noting: *"In some ways, it [UC] has felt a little bit like a phony war, I think, at times".* In a similar vein a national stakeholder noted: *"It's difficult to say, at the moment [what the impact of UC is], because, it's not fully rolled out. So a lot of the concerns are coming from housing associations and local authorities that haven't yet rolled-out"* (S10R1).

There was also a consensus that, to date, UC had not had a significant impact on housing associations' incomes because of the relatively low numbers of tenants in receipt of the benefit, with UC claimants only comprising a comparatively small proportion of the tenant population of the associations that participated in the study. However, and critically, most interviewees reported that the arrears rates for UC claimants were higher than their counterparts that still received HB: *"The initial impact [of UC] is that the people go into quite a high level of arrears... significantly higher than on Housing Benefits, tenants on Housing Benefits"* (HA10R1). In a similar vein, a manager from HA5 noted:

> *"So, across all our households, pre Universal Credit, our average arrears last year, was about 1.9 per cent, across our socially rented stock. Looking specifically at those customers, those xx [between 1,000 and 2,000] customers, on new Universal Credit, it's currently about 8 per cent, just slightly under at the moment...It's about 8 per cent, today. o about four times higher. So, the arrears of that are much, much higher. So we know that our customers are really struggling with that".* (HA5R1)

Crucially, they continued, the higher level of arrears was not a result of a small amount of tenants accruing a large amount of arrears as most tenants underpaid: *"With Universal Credit, pretty much everyone that goes onto it goes massively into arrears"* (HA5R1*).*

Respondents were asked why tenants accrued arrears under UC. A number cited the difficulty many tenants had with direct payment, a responsibility which was new to many of them. Some tenants fell into arrears because they had encountered an unexpected expense which had prompted them to 'borrow' from their rent account by underpaying their rent: *"We've had others say: 'well, my fridge broke so I used the money for a fridge'"* (HA4R2). Others did so 'accidentally' because it appeared that they did not fully understand the mechanics of UC, direct payment, and/or bank accounts: *"We have had residents that have said: 'oh, I've spent the money, I didn't realise it was for my rent'* (HA4R2). In a similar vein, one housing association director (HA5R2) felt that tenants found it difficult to understand UC because, unlike the Size Criteria and Benefit Cap, it was relatively *"complicated",* which it made it more challenging for housing associations to successfully articulate how it worked to them:

> *"One of the things that struck me - it's quite interesting - is the thing about Bedroom Tax and Benefit Cap, are quite tangible for residents aren't they? So, you can explain a Benefit Cap or a Bedroom Tax. To explain and articulate to our residents, the consequence of Universal Credit, about benefits and their right to get it, et cetera, et cetera, is much harder. And I think it's much more challenging for them to understand…I think Universal Credit is much more complicated, and its repercussions are much wider, and people still struggle to understand what they need to do, but also the ramifications of it".* (HA5R2)

The most commonly cited explanation for why tenants had accrued arrears was the delay between tenants' initial UC claim and their first payment: *"All the arrears are being accrued because they're waiting for the payment to come through before we've been notified that they've gone on to Universal Credit…it's impossible for someone not to go temporarily into arrears"* (HA1R1). In a similar vein, another respondent (HA5R1) noted that the delay had *"huge ramifications"* for rent arrears rates while another reported: *"I'd struggle for six weeks without any money….if you've got a social experiment to make sure that people can manage their money more effectively, you probably wouldn't start it by not giving them any money for six weeks"* (HA9R2). Reflecting this, and the difficulty that many tenants had adjusting to UC, a number of housing association representatives reported arrears rates *"spiked"* when tenants first transitioned onto UC, although, significantly, arrears still accrued after this period.

There was a consensus amongst interviewees that when UC was rolled-out, fully, it would have an adverse effect on housing associations' income streams. For example, one housing association director noted: *"I'm expecting a huge increase in rent arrears because of that caseload all at once"* (HA1R1), while another noted that their organisation was expecting *"quite a big shock [from the rollout of UC]"* (HA3R2). However, they also added a proviso: *"Obviously, with the caveat that we [housing associations] expected a big shock every time [a new initiative is announced]"* (HA3R2).

Size Criteria

A number of respondents noted that the Size Criteria has great potential to impact on housing associations' income streams. This was because, unlike UC, it directly reduces tenants' income. And when it was first introduced there was concern that it would result in increased rent arrears for those tenants subject to it:

> *"It was substantial, the amount that was going to be lost [as a result of the Size Criteria]. And my concern with that was that people were actually losing money. Whereas with Universal Credit, in the majority of cases…I know some people will lose money but in the majority of cases it's the same. It's just managing it differently. So, we've got the same amount of money to work with. Whereas the Bedroom Tax...would have been a cut for those who were going to be affected. So, there was, I think, to me a bigger concern because it was money going out of the household that they'd have to find; they've got to find that money somewhere".* (HA1R1)

However, in practice there was a consensus that the Size Criteria had had relatively little impact on the incomes of housing associations, with the views of one housing association director being typical of many we spoke to: *"But actually the Bedroom Tax didn't really impact us that much"* (HA7R1).

Respondents attributed this to a range of factors. These included: the relatively small number of tenants subject to the Size Criteria in many of the housing associations that participated in the study; the high level of resource put in place by housing associations, including HA1 cited above, to manage it; the introduction of new allocations policies; and, tenants downsizing. The apparent capacity of tenants who stayed put to (somehow) subsume within their budgets the impact of their HB being reduced, was another contributory factor: *"It was a bit of a mystery why it [Size Criteria] didn't have more of an impact. I couldn't understand how people were able to take that"* (HA3R1). A number of associations highlighted the extensive preparatory work that they undertook prior to the introduction of the Size Criteria as also contributing to its impact being smaller than expected: *"We did a lot of preparation for Bedroom Tax which came in about five years ago and lots of concern at the time that there'd be this huge increase in arrears. And we did a lot of preparation for that"* (HA7R1).

Finally, the extensive use of DHPs was identified as being a critical factor in mitigating the impact of the Size Criteria: *"It [Size Criteria] didn't [result in higher arrears] but one of the main reasons for that is, up until recently, Discretionary Housing Payment was still very much available to residents for those who couldn't move still had it basically paid for them"* (HA7R2). A number of respondents, including HA7R2, were concerned that tenants would find it more difficult to secure DHPs in the future, a development which, it was felt, would result in the accrual of Size Criteria driven arrears.

Benefit Cap

Most of the housing associations that participated in the study reported that relatively few of their tenants had been affected by the Benefit Cap. A number reported that they were surprised how few of their tenants were subject to the Cap: *"We were expecting a huge number [of capped households] and the numbers were really, really low across the borough, because I think everybody in the area was expecting a huge amount of people to be affected and it was a very, very low number"* (HA1R1). With a high proportion of affected tenants receiving a DHP the Cap *"seem[ed] to have had little material impact"* (S11R1). However, as was the case with the Size Criteria, there was concern that if DHPs became more difficult to secure in the future, tenants subject to the Cap would find it more difficult to pay their rent, with obvious potential consequences for landlords' income streams.

4. Staff and other costs

What we know already

Welfare reforms carry with them an unknown but "likely large" opportunity cost, passed onto landlords who must invest in preparation for reforms, mitigation activity, and rent arrears management (Gibb, 2015).

Research suggests that managing the impact of UC is particularly resource intensive (Ipsos MORI, 2014; Williams et al., 2014; & Hickman et al, 2017).

There are additional costs associated with managing income collection under direct payment, the largest being staff costs (Hickman et al, 2017).

Introduction

Welfare reforms are adversely affecting housing associations' income. However, they are impacting on them in other ways, financially. Specifically, there are a number of costs associated with managing welfare reforms. This chapter is concerned with highlighting them. Before doing so, it is important to make (and unpack) a number of important observations, which is the focus of the next three sections.

The cost of managing welfare reforms

Managing the impact of welfare reforms, and UC, specifically, is resource intensive. None of the housing associations that participated in the study had undertaken a systematic evaluation of the non-arrears costs associated with the introduction of welfare reforms. However, there was a consensus that there were costs associated with them, with UC being particularly costly. There was a shared belief that rent collection under UC was resource intensive, with the costs associated with it often being overlooked: *"I think the other issue around that as well is the hidden cost of it [UC]…. It's potentially the additional resource that you might have to put into the process to make sure that you're getting that money back in"* (HA9R2).

With comparatively small UC caseloads, housing associations that participated in the study reported that they were currently 'managing' the resource implications of UC. However, a number expressed concern that, with the step-change in the roll-out of UC, they would not be able to do so in the future, and would have to revisit the level of resource allocated to rent collection under UC. For example, one association reported that it would have to expand the size of its debt advice team: *"I've spoken to the manager of that team [welfare/debt advice] and she has said that at the moment we're just managing with this level. But as more Job Centre areas start rolling it out, we are going to need more resourcing for these teams"* (HA3R2).

Providing support to tenants subject to welfare reforms, and UC especially, is relatively costly. There was a consensus that the most effective way of providing support to tenants in receipt of UC was in the form of personalised, (ideally) face-to-face, support: *"The key lessons were really that there's a human face there to help people who are having particular problems….. So I think it was really that component that people valued. Obviously it's an expense to landlords"* (S7R1). However, this type of support is particularly costly.

It was also noted that supporting tenants for UC could be time consuming, and last for a period of time, which added to its cost: *"The level of support some people need…. it's time intensive, explaining it to them. Trying to get them to a level where they can do it themselves" (HA3R2).* Support had to be provided most intensively when tenants first transitioned onto UC: *"We know operationally [with UC], the team's having to put a lot more work in, to support those customers who are at that transition period"* (HA5R1).

Resources allocated to managing the impact of welfare reforms

While most housing associations, including most of those that participated in this study, have increased the resources they allocate to income collection in response to the welfare reform programme, and UC, specifically, many have not. There appears to be a number of interlinked reasons for this. The most important of these appears to be the impact of the Rent Reduction, which meant that many associations were not in a position to appoint new staff. It was reported that the reform had had a significant adverse effect on the financial position of associations: *"It [the Rent Reduction] has been terrible. It's had a terrible impact on the sector. And the reason that it's had such a negative impact is because the cuts that that's the caused the landlord to make…..So there isn't any housing association that hasn't been able to swallow the one per cent reduction"* (S1R1).

Another reason why some associations have not allocated resource to managing the impact of welfare reforms is their apparent determination to adopt a 'business as usual' approach. This was certainly the case for association HA5 which, ignoring the activities of high profile associations, was continuing with its *"sustainable"* approach to income collection and housing management:

> *"We made a decision from fairly early on, to treat it as business as usual. So we haven't put any specialist services in place that we didn't think were sustainable. So that was quite important to us, because at the start of welfare reform there was a lot of noise wasn't there, in the sector, of people doing huge things and initiatives and bits and pieces. We always wanted to put it into a foundation, to make sure that that service is sustainable, and there for residents as welfare reform takes hold really".*
> (HA5R2)

Finally, some housing associations reported that they 'had' subsumed the additional resource demands associated with welfare reforms by making cost efficiencies elsewhere. They have done this by restructuring their services and/or by 'automating' their rent collection service: *"Because what we've done so far, within the organisation, there's no additional resource been committed to welfare reform debt process and it's a very slick and streamlined process. We're all about automation wherever possible"* (HA9R2).

Displacement costs associated with managing the impact of welfare reforms

There are 'displacement' costs associated with managing the effects of welfare reforms. These are the costs associated with resource being displaced from mainstream, generic services when officers spend a disproportionate amount of time managing and supporting tenants experiencing welfare reforms. Housing associations are increasingly devoting more of their time to working with UC claimants:

> "For tenants, the key group seemed to be the housing officers, when they got into problems that's where they went to get support. So that has implications for the resources of social landlords. If they [housing associations] are not employing more people then those [housing] officers are dealing with Universal Credit rather than something else they've been doing [previously]". *(S7R1)*

Staffing costs

A number of housing associations that participated in the study reported that they had appointed additional staff to manage the impact of welfare reforms. The following types of officers had been appointed:

- **Benefit advisors.** A number of housing associations reported that they had appointed benefit advisors, who were concerned with maximising the income from benefits for tenants: *"We're spending more on our income maximisation services, so that's the welfare benefit advisors. That's where we've spent the money"* (HA2R1). In a similar vein, a lender noted: *"Many have employed benefit officers to ensure that tenants are able to access all available benefits" (S11R1).* One association reported that its benefit advisors had been so effective that they had *"unlocked £1.3 million of unclaimed benefits for our tenants"* (HA9R2).

- **Money management and budgeting advisors.** It was reported that, nationally, many associations have employed officers whose role it is to help tenants to manage their finances.

- **Income officers**. A number of associations that participated in the study reported they had appointed additional income (or rent collection) officers, a trend which was evident, nationally: *"They [housing associations] have probably got more people working in collections…in rent collections. So it costs money to do that, but equally it's going to be, if it isn't already, a core competency of a housing association to collect rent"* (S9R1). In a similar vein, a housing association director noted: *"We've made a conscious decision to continue to build on our resource and our income teams."* Interestingly, the same officer noted that a factor driving their organisation's investment in this area was staff retention - income officers were highly marketable and sought after by other associations*: "So it's a talent pool that's in high demand… We've made a conscious decision to retain people within that as best as we can, although as we say, people are being; you hear stories of income officers being head hunted from one team to another" (*HA5R2).

- **Employment officers:** Several associations reported that they had appointed employment officers whose remit it was to help tenants secure work: *"We're spending more on….. also around employment and getting people into work. We've also got teams who do that"* (HA2R1).

- **IT officers.** As will be explored in Chapter Nine, a number of associations that participated in the study reported that they had invested in new IT systems, some of which overseen by an IT officer(s): *"We have also looked at our IT system, so we've tweaked and changed our IT system slightly, so we've enlisted IT officers"* (HA5R2).
- **Data monitoring officers:** Some associations had also appointed data monitoring officers: *"So we actually employed a guy full time on data… He's been invaluable. He's been able to extract data on this from our housing management system"* (HA8R1).
- **Size Criteria officer.** One housing association reported that it had employed an officer whose task it was to manage the implications of the Size Criteria. They worked intensively with 90 households during their time at the organisation: *"We had somebody for a year to basically assist with our sort of Bedroom Tax-ed households to give them a more intensive sort of caseworker, really, to assist them with downsizing. It's quite resource intensive"* (HA4R3).
- **Well-being and mental health officers.** It was reported that, in response to welfare reforms, some associations have appointed officers whose remit it is to improve the mental health and well-being of tenants. This was the case for one of the associations which participated in the study (HA9), whose mental health workers were a key part of the *"wraparound"* support it offered to its tenants: *"We've also, obviously, put in place the kind of wraparound services to support them as well. So we've got the employment advisors in place, well-being caseworkers in place, mental health workers in place, to really support income management and estate management"* (HA9R1).

Further discussion about the staffing implications of welfare reforms can be found in Chapter Seven, which examines how they have impacted on the 'housing plus' activities of housing associations.

Other costs

There are a number of other costs associated with managing the impact of welfare reforms, and UC, in particular:

- **Transaction costs.** It was reported that payment transaction costs were higher because, with direct payment under UC, more tenants were responsible for paying their rent. It was also reported that these costs will increase markedly in the future as significantly more transactions occur with the step change in the roll-out of UC: *"We've been doing campaigns to move people to self-service options because collection…just* *the collection cost will go up substantially, potentially up to about £60,000 a year if everybody used the dearest form of payment"* (HA1R1).

- ***Automating and digitalising rent payment.*** As part of a broader move to towards the automation and digitalisation of services, which is explored in Chapter Nine, a number of associations reported that they had invested in systems which 'automated' the cost of rent payment, thereby reducing the transaction costs they incurred. One such organisation was association HA1, which as noted above, had introduced a 'self-service' rent payment option.
- **New IT and software systems.** For associations to be able to intervene as soon as arrears accrue, it is essential that they hold live and robust up-to-date data about their tenants and their rent accounts. The introduction of welfare reforms, and UC, in particular, has prompted them to put in place measures to ensure that this is the case. Associations have invested in rent collection software packages, which were reported to be relatively costly: *"We've invested quite a lot in IT… We've already got a thing called xxx [rent collection IT system], which is a project from xxx [software provider] ….. xx [rent collection software] is quite an expensive piece of kit. It's about 20K nearly 30K a year"* (HA8R1). They have also invested in other IT systems. For example, a manager from another association (HA9) described how their organisation had introduced a bespoke UC system, which collated data relating to UC recipients. This information was accessible to anyone within the organisation and was used as a mechanism for triggering support provision and the engagement of key teams: *"We basically developed a…on top of our existing housing management system. We have basically a UC home screen in there….It's the sort of cornerstone of our response that allows anybody within the business to update that, and that fires off workflows for appropriate teams, be that an automatic referral through to xxx [support team] xx, for them to give them a courtesy call to say, it flags it up in the debt management system. So just a very quick automated update for frontline services supplies us with everything that needs to happen in the background". (HA9R2)*
- **Communicating with tenants.** As will be explored in more depth in Chapter Nine, associations reported that, as a result of welfare reforms, they had more communication with their tenants: they paid them more visits; spoke to them more frequently on the phone; they sent them more letters; and, sent them text messages to remind them to pay their rent, all of which incurred a cost. For example, with respect to the last two forms of communication, a housing association manager reported: *"In relation to the*

texts, as we purchase in bulk the cost is around 2.5p per text. As for the calls [there is]. a resource cost/time of the individual officer making the call" (HA9R2).

- **Affordability assessments.** A number of agencies reported that they had invested in the services provided by credit check agencies such as Experian to establish whether prospective tenants were 'tenancy ready', an issue which is explored in Chapter Eight.

5. Funding

What we know already

If, as predicted, welfare reform leads to higher arrears and instability in previously regular rent payments, there may be a negative impact on housing associations' repayments of loans, credit ratings, and the pricing of new loans (Gibb, 2015).

Discussions with lenders revealed low levels of concern about the impact of welfare reforms on the housing association sector (Williams et al., 2014a).

A national survey of housing associations revealed that most respondents did not believe that increased debt resulting from the Size Criteria would make it harder to meet loan covenant arrangements (Ipsos MORI, 2014).

Introduction

There has been a long standing concern that one of the impacts of welfare reforms, and UC in particular, is that they will have an adverse effect on the funding arrangements of housing associations, who, as a result, will have to pay a higher price for their borrowing. This chapter explores whether this has been the case to date, in doing so, exploring the funding behaviour of lenders.

Impact of welfare reforms on the funding of housing associations

Interviewees identified a number of risks to housing associations in relation to their funding associated with the introduction of welfare reforms. First, it was felt that their adverse impact on the cash-flows of associations would threaten the financial viability of some of them, with UC identified as being a particular threat: *"The real core driver of any housing association is its back book of social rent. And anything that impacts the cash generation from that back book is…it's kind of eating right at the heart of the viability of those organisation…. It [UC] has the capacity to be detrimental to cash-flow"* (S9R1).

There was a view that smaller associations would be particularly vulnerable to any changes in their cash-flow: *"Certainly for the smaller organisations [the key issue], it's cash-flow. They're just going to run out of money. If they ain't collecting, they will not be able to service the loans that they might be carrying"* (HA9R1).

Second, higher levels of arrears associated with UC could potentially result in some associations breaching covenant arrangements on their loans: *"So clearly anything like an increase in arrears – that means equals less cash – that is detrimental and will take organisations closer to covenant…to breach of covenant" (S9R1).* However, the same respondent was quick to point out that this scenario was unlikely to occur for well managed housing associations: *"But we'd expect all responsible organisations to monitor that very carefully and…well, have contingencies to cover growth in arrears"* (S9R1).

Third, it was reported that welfare reforms, and UC especially, introduced higher levels of bad debt into the business models of associations: *"There is that challenge. That you're probably going to be carrying more bad debt than we would have as a business previously"* (HA5R2). Fourth, welfare reforms introduced another unwelcome element (for both associations and lenders) into associations' business plans: uncertainty:

> *"When you're going for any, kind of, lending arrangement, what you really want is certainty. Even if those rates are a little bit more expensive. What the markets really hate is uncertainty. So uncertainty of income stream as a result of welfare reform, that's one of the main reasons why it's such a high level risk for housing associations"*. (S1R1)

As a result of these new risks, there was concern that lenders would increase the cost of borrowing and be more conservative in their lending. To date this has not happened. However, there was a consensus that lenders have been carefully monitoring the impact of welfare reforms on the housing association sector. Lenders were particularly interested in associations' "exposure" to welfare reforms:

> *"So if you're going to the bond markets, they're increasingly focused on the credit ratings, so Standard and Poor's and Moody's giving them a positive credit rating. And one of the key things that they'll look at is, well what's your cost base? What are your assumptions? And/or exposure to…what's your exposure to the impact of welfare form? But really, what's your exposure to increasing arrears levels?".* (S1R1)

Unpacking the lending behaviour of lenders

There was a consensus that this interest had not resulted in lenders changing their lending behaviour: it was reported that they had not added a welfare reform 'premium' to the price of loans or reduced their lending because of it. There appears to be two reasons for this. First, according to interviewees, including the two lenders who participated in the study, social housing is seen as an attractive investment for lenders, who see it as providing steady and secure income over the long term: *"There is a model out there that is still very appealing. It's very appealing to investors who want to get long-term returns. It's brick and mortar. So there's pretty good security sitting behind it, notwithstanding what the property market does in the short term, in the long term it usually comes good, doesn't it? So it hasn't dented their view of the sector"* (HA2R1).

Second, the plans put in place by associations to mitigate the risk and uncertainties associated with welfare reforms had helped to reassure lenders and give them confidence in the sector: *"What the lenders like is certainty… I know the ones who have come in and spoken to us, they've gone away feeling like: 'crikey they're on top of this. They're planning for it'. And that's given them [lenders] a lot of confidence"* (HA5R1). However, it was noted that if a housing association was to encounter financial difficulties as a result of welfare reforms, then this confidence could soon evaporate: *"I guess, the bigger they come the harder they fall. So at some stage… my guess is it will happen...and I suppose the problem is when it does happen. And if it happens in a way that the regulator isn't able just to stop it, and lenders end up taking a haircut, then that really does affect their view of the sector".* (HA2R1).

6. Development and diversification

What we know already

There is evidence of diversification in the housing products developed by housing associations, largely framed as a way of cross-subsidising social rent units (Clarke et al., 2015, Morrison, 2016, Chevin, 2013).

The most widely used rental products - Affordable Rents - increase the effect of location on affordability (Clarke et al., 2015). Affordable Rent products may be aimed at those in employment, with an assessment of affordability linked to income (Clarke et al., 2015). However, there are concerns about the ability of working households to afford properties at Affordable Rent levels (Williams et al., 2014b).

There are some concerns that the interaction of the Benefit Cap and Size Criteria may lead to fewer family homes being developed (Clarke and Williams, 2014, Consortium of Associations in the South East, 2012, Ipsos MORI, 2014), although this was of less concern in lower cost housing markets (Williams et al., 2013).

Introduction

This chapter begins by exploring the impact of welfare reforms on housing associations' approaches to development. Over the longer term, an increasing number of housing associations have diversified their activities and the types of housing products that they offer. The second part of the chapter is concerned with exploring the extent to which, and how, welfare reforms have contributed to this process.

Development and regeneration

It is difficult to estimate the impact of welfare reforms on the development of new housing, as *“proving that they would have otherwise developed more is quite tricky”* (S9R1). Nevertheless, one lender did *“suspect that [this] is the case”* (S9R1), and housing associations also confirmed that risks were assessed on a scheme-by-scheme basis. The potential for higher rent arrears as a result of welfare reforms made income streams *“less reliable. It’s more of a risk…it just means we can’t develop as many properties”* (HA8R1).

Some development plans were re-configured to avoid building *"bigger family units, even though there was a need for them"* (S2R1) because the Benefit Cap would make them unaffordable in higher market areas. The uncertainty of the welfare reform programme was also important in such long-term planning, affecting *"your ability to commit to the level of development probably that you might want to"* (HA9R1). This was compounded by uncertainties around Brexit, which was particularly seen as an issue for Northern Ireland, where *"quite a bit of the lending into the associations…was European-based…they're going to have to look at more expensive funding"* (S8R1). However, other specialist associations such as smaller providers and those operating in rural areas, used different mechanisms to develop new stock, and these were less likely to be affected by welfare reforms. For example, a rural provider used exception sites, whilst a smaller provider noted that *"any new developments that we do tend to be hidden homes, so it's within our own land"* (HA6R1), meaning that their borrowing was relatively low.

A number of housing associations emphasised that development was not just about new stock, but also the regeneration of existing units. The Size Criteria was a particularly important factor, as some stock was seen as unviable because households faced Housing Benefit deductions for under-occupying. This *"forced us to shape our capital investment programme…around that kind of principle, ensuring that some of these estates [were] made viable into the longer term"* (HA9R1). In some areas, *"existing stock was borderline not viable anyway, and…the Bedroom Tax might have just shoved it over the edge"* (S2R1). Whilst providers wanted to *"start regenerating those estates…replacing them with accommodation that's more suitable for this century"*, associations' ability to invest in long-term capital programmes was *"fettered by the uncertainty that's around in terms of welfare reform and…Brexit…but principally around our major cash-flow"* (HA9R1). Similarly, others noted that associations were *"having to put the brakes on an awful lot of stuff that was potentially regenerating a community"* (S9R1).

Associations with significant care and support operations highlighted major impacts on development programmes as a result of uncertainty around ongoing welfare reforms. One association argued that proposed reforms to the funding of supported housing and possible caps on benefits *"would make any scheme we looked at completely unviable…so even without those things becoming a reality, just the fact that they were in the offing led to a delay in our development programme around care and support"* (HA3R1). Again, this highlights the significance of proposed reforms and the operational impact of uncertainty.

Whilst Rent Reduction was seen as having high potential to impact on development, a number of associations made the strategic decision to avoid cuts to new supply. Instead, they *“realigned services and made them more efficient, cut our costs in that way because we didn’t want to stop the development programme”* (HA1R1). For these large organisations, *“both for our own purposes and just from a PR perspective, [it] wasn’t acceptable to say it [Rent Reduction] was going to lead to a reduction in development, so we’ve looked to make savings elsewhere”* (HA3R1). Whilst for most, *“development’s still going ahead”* (HA7R2), the composition of plans had in some cases shifted. As one respondent noted:

> *"I guess ultimately it [Rent Reduction] has an impact on our development programme. And whilst interestingly we’re building more homes than we’ve ever done before, the balance of that though has begun to shift from a programme which had been dominated by social and then affordable rents, to one which is more dominated by shared ownership and housing for outright sale".* (HA2R1)

Such diversification is not solely a result of welfare reforms, but is rooted in the longer-running reduction of government grants for the development of new social housing. Yet, welfare reforms have compounded reduced income for housing associations, and this can impact on not only absolute levels of development, but also the type of units that are built.

Diversification of products

In recent years, many housing associations have diversified the type of housing that they offer, from social rent to Affordable Rent (AR), shared-ownership, outright market sale and private renting. This is a long-running trend and it is difficult to disentangle the extent to which welfare reforms have directly influenced diversification. Some associations explicitly linked mixed developments to reforms such as Rent Reduction, but it was more common to discuss lack of grant funding. As one participant noted: *“When you talk to our development team, they’d prefer to build social rents. It’s just we can’t afford to do that with the current funding models”* (HA5R1). Organisations were also moving into *“shared ownership, which we never used to do, and we’re doing our first big market rent scheme”* (HA1R1). In some respects, broader issues of housing affordability were seen as extending housing associations’ missions to new groups, so that *“we’re meeting all sorts of needs…we’re going to attract a range of clients coming into the business”* (HA1R1). As a result, organisations were *“much more complex”* than a few years ago, with *“competing needs and demands that we’re trying to service”* (HA4R3). Whilst this may expose organisations to greater risks, others argued that they benefited from flexibility in housing options, so *“if things go bottoms up, we can always flip to market rent”* (HA3R2).

Some stakeholders were more critical of diversification, arguing that *“the cost for developing those intermediate products is being borne by the most vulnerable in society” (S1R1),* with the rent from existing tenants going towards *“increasing the capacity of the sector to build houses for other groups”* (S1R1). There was also some acknowledgement from housing associations that developing *“shared ownership and build-for-sale in order to cross-subsidise our stock”,* had perhaps skewed their focus, and more recent discussions had seen them move back to *“how we provide quality services to the customers that we already have”* (HA4R1). Whilst welfare reforms may play a part in prompting such conversations, they also stem from a broader atmosphere of reflection in the wake of the Grenfell Tower fire.

One of the concerns around trends towards intermediate rent products is the impact this has on associations’ ability to house those whose income may be negatively impacted by welfare reforms. As one participant noted: *“There’s lots of new build of affordable housing, but not social housing and I think…one of the strands that must address [the housing crisis] at the lowest end must be social housing”* (S8R1). Linked to this, there were acute concerns about the sector’s ability to house those on the lowest incomes, with the shift to AR suggesting that *“you’ve left the most vulnerable individuals in our society out of what you’re creating, where do they go?”* (S8R1). This is a theme that runs through the following two chapters.

7. Social mission and values

What we know already

In recent times, growing attention has focused on the missions of social housing landlords (Gibb et al, 2016). Housing associations have emphasised the continuity of their fundamental social mission (Williams et al., 2013), and there is some evidence that organisational commitments to poorer and more vulnerable households have been reinforced during periods of welfare reform, rather than eroded (Williams et al., 2014b). However, diversification in the development of different housing products, including outright market sale, suggests future tensions between social and commercial goals (Manzi & Morrison, 2017). Diversification has potential implications for housing associations' social obligations to house those with least ability to pay (Morrison, 2016).

This tension is compounded by income pressures, which may force organisations to adopt a more hard-headed, commercial approach to protect income streams in the context of welfare reform (Hickman et al., 2017). Whilst there have been some concerns that housing associations may scale back from wider 'housing plus' activities (Ferrari, 2014), and focus on their ability to demonstrate social and economic value (Chevin, 2013), there is little direct evidence of the impact of welfare reforms on these wider activities within the existing literature.

Introduction

Building on the previous chapter, this one explores whether welfare reforms have impacted on the mission, values and culture of housing associations. It also explores the extent to which (and how) welfare reforms have impacted on the 'housing plus' activities undertaken by them.

Social mission and commercialisation

There was strong agreement among housing association interviewees that the social mission of their organisation had not been eroded by welfare reforms. If anything, organisations reported that context of welfare reform had *"made us focus…look to our values more"* (HA2R1), reiterating what, and who, they were really there for as organisations with *"a social purpose"* (HA8R1). For organisations like mature stock transfers, which had delivered their transfer promises, welfare reforms had *"given them an impetus to think 'what are we here to do…are we still true to local communities no matter what?" (S2R1).* For some, these discussions were also driven by mergers, and across the sector more broadly by the Grenfell Tower fire. It was therefore "*hard to unpick the various strands, but I think…it's caused us to double down on our mission of supporting the most vulnerable". (HA3R1).* Ultimately, *"the question that has always arisen is, if we don't house them, who will?" (HA3R1).* This was not the outcome for all associations, with some stakeholders expressing surprise *"at how hard-nosed some organisations have been"* (S2R1) with others perceived as having *"shifted quite a long way from that charitable purpose and are virtually private sector landlords"* (S5R1).

Some framed welfare reforms as *"just another hit on social landlords",* alongside lack of grant and Rent Reductions, *"which means they can do less and have to be slightly more commercial in their operations"* (S7R1). This balance between social mission and commercialisation was reflected in many discussions. As one respondent noted: *"we know we've got to do other things…but…our ethical stance is around that social rented aspect"* (HA1R1). Activities such as building for outright sale were framed as an opportunity *"to make a load of money…to gift-aid that money back to the charity…so your eye is always on the right prize"* (HA2R1). This flowed through to Board level, where discussions were focused on whether there was *"a proper return, and that return has got to flow back to our beneficiaries. I think that is better understood now that it has been for years"* (HA2R1). Many respondents reflected that it was perfectly possible to combine a strong ethic around providing affordable housing with a large sales programme, "*it's actually having the skills to do both at once and having the culture to do both at once. That's the tricky bit"* (S9R1).

Most organisations reported that they were comfortable with the way in which commercial and social activities co-existed. Organisational choices were inevitably structured by *"government investments and funding for housing [which] has…had a profound impact on the business, particularly in terms of what we build"* (HA2R1*).* As such, commercial activities were *"an essential cross-subsidy for what we do want to do"* (HA3R1). In addition to the funding environment, local market contexts also structured housing association operations, with those operating in low-rent environments noting that they *"have to build more housing for sale"* in order to build as much housing for Affordable Rent *"as we possibly can"* (HA2R1). There were also more nuanced reflections, with one participant noting: *"I'm not always sure that describing it as a tension is that helpful actually…I'd say our purpose is* *always social, we might use commercial means to achieve those social purposes, but the minute that commercial means becomes a commercial end or commercial purpose, we've lost it"* (HA2R1*).*

Similarly, for many respondents the key issue was the balance of provision and the adequacy of supply for a particular area. Therefore, *"there isn't necessarily anything wrong with 80 per cent market rent" as long as profits were reinvested in more housing"* (S5R1). However, one organisation reflected that a prior focus on expanding the *"commercial front"* had created an environment in which *"what has got lost…a little bit has been our social purpose, but I think that's been reinvigorated…you know, we're a charitable organisation, we have a social mission"* (HA4R3).

Housing plus

A distinguishing feature of the housing association sector is the extent to which organisations are involved in the provision of services that go beyond a purely housing function. There was variation in perceptions of change in 'housing plus' activities such as community work, employability support and resident involvement. Some stakeholders expressed concerns that the outcome of the Rent Reduction had been *"a range of cost savings…not legitimised by the scale of the reduction, because the areas that have been cut, almost without exception, have been…discretionary activities"* (S1R1). In particular, there were concerns over cuts to *"tenants' engagement and empowerment teams"* (S1R1). However, the impact of welfare reform on housing plus activities largely depended on the type of service that was provided, with evidence of expansion in some areas of provision.

Rent Reduction was highlighted by a number of associations as the trigger for efficiency programmes and organisational restructuring, resulting in the reassessment of services to *"look at what of our services we've got to provide and what are the add-ons*" (HA1R1). In a similar vein, a director from another association reported: *"We've responded [to Rent Reduction] in a number of ways, but we've responded primarily through going through this huge organisational transformation programme, which isn't just a cost reduction programme, but it has driven efficiency savings, there's no doubt about that"* (HA2R1). This involved a large number of staff losing their jobs: *"So, you know, we're currently going through a process which will remove"….I can't remember what the precise figure is, but in the order of magnitude of 300 posts from the organisation in terms of our staffing complement. [we have] have kind of gone back to basics, and they've redesigned the whole organisation"* (HA2R1).

One stakeholder felt that the welfare reforms had resulted in a marked decline in the discretionary activities undertaken by housing associations in the UK: *"So those discretionary activities….we've seen them on a widespread, almost without exception, being scrapped. At least cut, but in most cases just completely decimated across the country"* (S1R1). But this did not appear to the case for associations which participated in this study. They reported that, whilst some functions were more vulnerable to the withdrawal of support, the context of welfare reform had enhanced certain non-core activities, especially in employment support and advice work in relation to welfare benefits and debt management. Therefore, one organisation *"kept our…welfare benefits advisors because they're absolutely critical…they bring money into the organisation…but then some other stuff, we just had to*

Others had *"reduced back on the additional stuff, and it is more core housing management now"* (HA10R1), with one member of staff working on skills' development and another on welfare rights. Wherever there were additional services, however, organisations still needed *"to demonstrate value and impact…because otherwise you question what is the point? Or are we doing the wrong thing?"* (HA4R3).

Employment support was a particular area in which housing associations emphasised their potential involvement, because being in work, or increasing existing activities, was a key route to avoiding the impact of a number of welfare reforms. This could happen at the pre-tenancy stage, whereby *"moving someone from eight to 20 hours a week can…get yourself out of all the welfare reform penalties"* (HA5R2). In part, as a result of asking more questions about tenants and prospective tenants to manage the risk of welfare reforms, associations had greater power to put in place services *"for every issue that our tenant might have"* (HA9R2). As a result of credit checks for incoming tenants, for example, an association may know that tenants are coming in with significant levels of debt. Work around debt advice as seen as key, with one organisation noting that *"the value of that service is clear"* (HA9R2). However, such roles may require specialist, non-housing skills, with a wider net for recruitment of employees *"from a benefits background, a banking background, money advice service"* (HA9R2).

8. Tenancy reform and allocations

What we know already

The impact of Fixed Term Tenancy regimes on de-facto security was expected to be modest (Fitzpatrick & Pawson, 2014). However, fixed term tenancies reinforce the responsibilisation of tenants, behavioural scrutiny, and conditionality (Fitzpatrick & Watts, 2017, Mullins & Jones, 2015, Richardson et al., 2014, Williams et al., 2014a).

There is some evidence that housing associations are becoming more risk-averse in relation to accommodating those in receipt of benefits, with a stronger emphasis on pre-tenancy affordability assessments and the prevention of under-occupation (Fitzpatrick & Watts, 2017, Williams et al., 2014a, Clarke et al., 2015, Clarke & Williams, 2014, Power et al., 2014, Richardson et al., 2014).

There may be increased tensions between housing associations, which are reassessing who they house, and Local Authorities, who have a duty to house those in priority need (Chevin, 2013).

Introduction

This chapter explores the interaction between welfare reforms, Fixed Term Tenancies, intermediate rent products, and affordability assessments, considering their potential impacts on who is housed by associations.

Fixed Term Tenancies

The operation of Fixed Term Tenancies (FTTs) in a context of increasing rents and pressured household incomes has important implications. Whilst Social Rent (SR) units remain the dominant part of housing association stock, the shift towards Affordable Rent (AR) in new supply, let at up to 80 per cent of local market rents, has increased interest in questions of affordability in a context of welfare reform. The allocation of properties, to whom, and at what rent are key areas of debate. It is in these areas that the mission of housing associations to house the most vulnerable translates into operational policies.

Interviews with housing associations and key stakeholders reveal the complex choices that organisations face at the intersection of tenancy reform, allocations and welfare reform.

Many organisations were using FTTs, with terms ranging from two to ten years. Whilst welfare reforms were not necessarily the motivating factor behind the use of FTTs, the changing context has implications for their operation. Whilst FTTs were a seldom-used product within one association, proposals to apply caps to the Housing Benefit (HB) received by housing associations led to a significant shift, with terms reduced to *“two years, and their use has increased”* because *“if their benefit was capped…they would struggle to pay the rent”* (HA2R1). The use of short tenancies reduced the potential risk to the association and importantly FTTs had become *“a bit of a mainstream product”* (HA2R1), which remained in use even when the proposed reforms were withdrawn by government.

There was a sense that practice was running ahead of policy development in some organisations, particularly in relation to the renewal of tenancies. All organisations expressed sentiments such as *“the intention is very much to renew that Fixed Term Tenancy”* (HA2R2) and the non-renewal of tenancies was thought to affect a very small number. However, at the time of the research there was also limited experience with renewal, especially in organisations that had adopted FTTs more recently, or adopted longer initial terms. As one organisation noted, *“all of a sudden…we need to renew these tenancies and we actually don’t know what we’re doing”* (HA4R3). There was recognition that in practice some of the decisions around tenancy renewal were made more complex as a result of welfare reforms. The impact of arrears was crucial, as *“initially it was thought that if someone’s in rent arrears at renewal…you wouldn’t renew it…[but] those things are difficult to deal with, so we might offer…a shorter term”* (HA4R1).

Flexibility of approach, understanding tenants’ circumstances, and engagement was emphasised, so that *“if somebody made a switch to UC at month 11 [of a 12-month Fixed Term Tenancy], we’re not then going to come down really hard on them and not convert a tenancy as a result”* (HA5R2). However, this raises the potential for some types of arrears to be managed in a different way, and it is important to have clarity over this. Others noted disparity within the tenant population, as those on FTTs *“have to pay that debt back within that remaining period of that Fixed Term tenancy, unlike our assured tenants who’ve got that for the lifetime of their tenancy, because otherwise that debt’s unrecoverable”* (HA4R3).

The use of FTTs also adds to the scrutiny of tenant conduct, with one organisation noting that *“we kick off the process for ending their tenancy potentially a year before the end-date”*

(HA4R3), looking at how the tenancy has been conducted and any rent arrears. Renewal was seen as *"quite a good tool because it means that you engage with those residents and see how they're getting on"* (HA4R3). Similarly, some organisations noted that the renewal of tenancies could be *"a good trigger"* for a resident to engage because *"people want their tenancy converted"* (HA5R2). This is significant in a context of welfare reform because of the potential for more residents to experience arrears.

Affordability assessments

As well as managing risks within existing tenancies, there is considerable evidence that housing associations are using tools to *"risk rank their customers"* (S9R1). The payment of HB direct to landlords has been one of the *"core pillars of strength"* of the housing association sector, but *"that is being undermined"* (S9R1) by Universal Credit. Whilst affordability assessments already existed they weren't *"as rigorous"* (HA3R1) and welfare reforms have led to *"more emphasis on it [affordability] than there has been in the past"* (HA1R1) with associations becoming *"more careful on screening tenants"* (HA6R1). A number of organisations were using specialist tools from providers such as Experian to *"generate whether they have any sort of financial risks"* (HA4R3). However, these tools were not universally seen as helpful. It is also worth noting that in Northern Ireland the perception was that *"allocations on need are sacrosanct…so you cannot have someone denied a tenancy on the basis of their ability to afford it"* (S8R1). As the context of welfare reform changes, however, this stance may come under increasing pressure.

Tenancy sustainability was the overwhelming rationale given by housing associations for assessing affordability. It was seen as *"not in a tenant's interests if you…get a property and then the tenancy fails within the first year because it wasn't affordable"* (HA4R1). The priority was for someone *"to get a home that they can live in successfully, for as long as they possibly can"* (HA5R2). Affordability was an important part of this, as *"what's the point in allocating somebody a tenancy that they basically can't afford? It's just going to fail"* (HA9R1). Whilst associations could assist people in accessing the benefits to which they were entitled and applying for Discretionary Housing Payments, prospective tenants were also expected to *"change your situation, or you've got to recognise that you can't afford this"* (HA1R1). This applies *"in the future as well…we…see what kind of solutions they're thinking they're going to be able to put forward"* (HA7R2). This could extend upstream *"working with potential customers when they're on the waiting list…to…get them into the kind of financial shape that will enable them to manage a tenancy"* (HA9R1).

There is no evidence that housing associations are rejecting significant numbers of applicants on the grounds of affordability. Interestingly, FTTs could be an additional tool that expanded an organisation's ability to offer a tenancy were there were affordability concerns, by offering *"fixed-term tenancies rather than turning them away"* (HA2R1). Organisational risks could therefore be contained by using FTTs. Similarly, others emphasised that where affordability was a concern they would *"probably try and support them"* (HA8R1) or put in place services such as *"welfare advice and debt advice"* (HA3R1). Some highlighted divergence within the housing association sector, with some organisations refusing households that were *"too much of a risk"* whilst *"we put the services around them and try and make it succeed"* (HA9R1).

However, organisations were unable to specify precise figures around rejections on the grounds of affordability. This may be because of the job roles of the individuals who were interviewed, but it may also be that such information is not consistently collected or reported. Some organisations suggested that the major issue was not rejection per se, but the unreliability of affordability assessments in predicting arrears. One organisation *"planned at one stage at least to use this [assessment] as grounds for refusing to grant a tenancy…but the predictive value was so weak that it would be very difficult to turn somebody away".* (HA3R1). Others highlighted the *"weak link between a credit check and someone having a good record of paying their rent"* (HA10R1). This is partly because rent arrears can often arise from unanticipated events. Therefore: *"if you've got a tool that can tell me when someone's going to lose their job, then that's great, but you haven't got it"* (HA9R2).

The implications of affordability assessments are potentially more far-reaching when considering that *"most new rents are now at Affordable Rent levels…which we consider a misnomer"* (S1R1). Some organisations acknowledged that AR units were not necessarily aimed at the same prospective tenants as SR units and *"the cost of the product does lead to some self-selection, it's not just our affordability checks, because you do need to earn more to afford those homes, so it's not for the poorest among us, those Affordable Rent products"* (HA5R1). Therefore, whilst absolute rejections were seen as uncommon, it was more likely that someone could be rejected for a particular housing product. Consequently, an organisation could argue that *"we do not reject anybody on…whether they're able to afford the property or not"* (HA4R3), whilst also noting that they may put them back on the list to *"be nominated for something else"* (HA4R3), and thus *"reject them from an affordable and offer a social"* (HA4R1).

Whilst participants had little experience of what happened if both AR and SR products were found to be unaffordable, absolute refusals could impact on the relationship between housing associations and Local Authorities. Whilst *“there is joint working, there is pragmatism” between housing associations and local authorities"* (S5R1), where associations were *“being more stringent about who they will let to and tightening up their criteria around affordability”*, this could create *“tensions”* because *“it puts more pressure on councils to either pay to house households in temporary accommodation or house them in their own stock”* (S5R1). In particular, there are implications for stock transfer authorities, because they have *“nowhere to house them if their receiving partner was turning away…people who were going to be badly affected by…welfare measures”* (S2R1). Other associations noted that, “*that sort of division of social housing provision wasn’t a very helpful road to go down”* (HA3R1) because the ultimate goal was to house the most vulnerable. Nonetheless, in higher cost parts of the country *“local authorities can end up being the provider of last resort”* because of the move towards *“affordable 80 per cent market rent and protecting their bottom line”* (S5R1).

Allocations and transfers

A number of housing associations also reported reassessing their policies in light of specific reforms. The Size Criteria, for example, moved one organisation to a much more *“risk-based approach”* (HA9R1) in order to allocate properties that would otherwise have been unviable, being *“proactive in terms of the allocations process” (HA9R2).* In another, although the organisation did not alter their eligibility criteria to match welfare reforms, they focused on looking at *“whether people can afford it. If people can afford it…let people have a two-bed”* (HA8R1). Similarly, others reported relaxing restrictions on transferring with rent arrears, as this may have prevented households downsizing due to the Size Criteria, or awarding *“higher priority to people downsizing”* (HA4R1). A rural provider had a broader view of sustainability that encompassed an aim to *“keep that village sustainable”* (HA7R2), which could lead to different allocations decisions such as allowing under-occupation in order to meet legal obligations to let to those with a local connection to the village. However, in so doing the household may be negatively affected by welfare reforms such as the Size Criteria. Associations therefore had to balance a range of possible impacts related to allocations, and whilst flexibility of approach and discretion is necessary it is also crucial to maintain transparency and equity in decision-making.

9. Changed operational practices

What we know already

There is evidence that welfare reforms are contributing to housing associations changing their operational practices, particularly in relation to income management under UC (Hickman et al. 2017; Power et al., 2014).

There is some evidence to suggest that the divisions between arrears monitoring staff and benefits advice staff are intensifying, increasing the focus on income maximisation (Power et al., 2014).

A DWP review (DWP, 2017) also found that social landlords were making significant changes to their IT systems, housing team structures, rent collection practices, and support provision under UC.

In a study of the social housing sector in Scotland, Gibb et al. (2016) noted that welfare reform had prompted landlords to invest more resource into customer market intelligence. It had also prompted them to work more closely with partner agencies.

Introduction

As noted earlier, welfare reforms have impacted on housing associations in a number of ways, including financially and in relation to their 'mission'. However, they have also impacted on them in another way: they have contributed to a transformation in their operational practices. It is important to note that this process predates welfare reform and that a number of other factors have contributed to associations revising their operational practices (Manzi & Richardson, 2017; Gibb et al, 2016). But welfare reforms have accelerated existing changes in operational practices and prompted new ones.

A number of operational changes, including the greater use of pre-tenancy affordability assessments, (for some associations) a reduction in 'housing plus' activities, and a step-change in the level of resource devoted to income collection, have already been highlighted.

However, associations have changed the way they operate in many other respects and this chapter is concerned with highlighting these.

The key role of UC and the Rent Reduction in contributing to changes in operational practice

There was a consensus that all of the welfare reforms introduced since 2010 had, to varying degrees, contributed to associations changing their operational practices. However, two reforms were highlighted as being particularly important: the Rent Reduction (as noted in Chapter Seven), and Universal Credit. There was a consensus amongst all of the associations that participated in the research that UC had contributed to them changing the way they operated:

> *"I think we had to maybe start thinking in a different way about the most efficient ways to do things, trying to pull apart what we kind of do. I think it drove a lot of the… But I think I'd say Universal Credit is part of that for us, and other welfare reforms. But I think just it's made people realise that you just couldn't carry on just thinking it were all going to…. not do anything different".* (HA8R1)

Specifically, UC had prompted associations to change the way they operated because it put an onus on them to: i) maximise their rental income, which inevitably meant more resource being allocated to rent collection activities; and, ii) make cost savings in order to accommodate this cost and offset the financial impact of higher rent arrears. The latter point was made by a stakeholder, who argued that the rationale for digitalising services was often to generate costs savings which would help to *"offset"* the impact of reduced incomes under UC: *"The cost per transaction is much lower for those types of [digital] services. And therefore that is being the rationale for modernising those services and having the reduced cost per transaction offset some of the risks of the increased arrears through Universal Credit"* (S1R1).

Increased level of communication with tenants

There was a consensus amongst all respondents that the level of communication between and associations and tenants has increased markedly as a result of the introduction of welfare reforms. It was also noted that there has been a growth in the number of communication methods used, with digital and text message communication becoming more commonplace. Greater levels of communication has been driven by necessity - i.e. to manage the direct demands of welfare reforms - but also by a desire from landlords to get to know their tenants better: *"I think it [welfare reform] has meant that many housing associations have made the effort to get to know their tenants better: who's living in their properties; what are their wants, what are their needs and what can they do around that. I think that in and of itself is a good thing"* (S2R1).

Interestingly, a director from one association reported that their organisation had taken the decision to limit the communication it had with its tenants as it did not want to "patronise" them: *"If someone's not paying their rent or they've committed anti-social behaviour then we'd contact them, or if they need a repair they contact us and we do the repair, why is there any need [to contact them]… I think it can be patronising"* (HA10R1). In terms of the content of communications emanating from associations, much of it was concerned with 'educating' tenants about welfare reforms and informing them about their responsibilities under them: *"So the way we talk with residents, it's completely different now, trying to get them to understand that it is their responsibility. Literally we can't get that information for them anymore"* (HA4R2). A number of associations reported how difficult it was to communicate welfare reform developments to tenants, with one officer noting that some only 'engaged' when an officer visited them at their homes:

> *"No matter how much we try and be proactive... some residents will be reactive. So I've had conversations recently and they said: 'what are you talking about? The Bedroom Tax? What is the Bedroom Tax?'…I think with some people, if it doesn't knock on your door, you're not really going to take any notice. It doesn't matter how much you try and prepare for it".*
> (HA4R2)

Responsibilisation of tenants

The desire to responsibilise benefit claimants - that is, to give them responsibilities as active citizens in relation to benefit receipt, such as, for example, being responsible for rent payment under UC - was one of the primary motivations for the introduction of the welfare reform programme. A number of associations reported that the introduction of UC, which has as its core, the desire to responsibilise claimants, had prompted them to explore ways that their tenants could be given more responsibilities in relation to key aspects of the housing service, like repairs and the rent payment process: *"The changes in welfare I think have led to a greater focus on rights and responsibilities"* (S2R1). Prompted, in part, by a desire to make cost savings, they had done so in the belief that, with the impending roll-out of UC, an increasing proportion of their tenants would be comfortable taking on additional responsibilities.

One association reported that one of the reasons that it had extended the responsibilities of its tenants was that it was keen to avoid adopting a *"paternalistic"* approach to service delivery: *"I think we've probably gone down a route that expects tenants where they can to help themselves, and not assume that everybody requires a whole help paternalistic approach"* (HA10R1). It was noted that the process of responsibilisation could be a slow and challenging one: [the housing association have been] *"changing the way people view their obligations, it's taken three or four years to really change that mentality, but it does work"* (S2R2). And many tenants found it difficult to adjust to the new responsibilities that they had been given, particularly those who were now responsible for paying their rents under UC.

Increase in the level of advice and support provided to tenants

Welfare reforms, and UC in particular, have resulted in associations significantly increasingly the level of support they provide to tenants in relation to helping them to manage their tenancies. Support, which could be provided in-house or by a 'commissioned' external agency, took many forms including: helping tenants to maximise their incomes from benefits; money management and budgeting advice; debt advice; and mental health and well-being support. In the context of UC, support was targeted at tenants transitioning onto the benefit and those who had underpaid their rent. The approach of association HA9 was typical of most associations that participated in the study: *"[When a tenant under-pays] it's about roping people into support whether that's through the debt team, whether it's through our cash wise money advice service, our well-being workers, our mental health navigators, and the full range of kind of wraparound services that we offer"* (HA9R1):

HA9R1 continued to note that this support had been successful as evidenced by the marked decline in the number of evictions undertaken by the association: *"Over the past three years, we've reduced the number of evictions for debt by around about 50 per cent".* And the officer noted that supporting tenants to sustain their tenancies made economic sense given the relative high costs associated with evicting tenants and reallocating properties: *"Because of* *that intervention, routing people to support at the earliest possible opportunity and…. trying to sustain tenancy rather than picking up the enormous cost of turning it round"* (HA9R1).

Early intervention

As alluded to in the quote above, the sooner that associations intervened when tenants first underpaid their rent, the greater the likelihood that arrears could be managed: *"We get involved from when they first go in arrears so things don't escalate…I guess the issue for them is intervening at the right stage in the right way to ensure it doesn't escalate… We're all about prevention and not reacting afterwards and it does make a significant difference."* (HA7R2).

All of the associations that participated in the study highlighted the importance of 'early intervention'. It worked in two ways, argued interviewees. First, it allowed support to be provided to tenants at the earliest opportunity, in doing so, maximising its potential impact: *"The biggest thing for us, that's why we're trying to get in there quick…. so our main aim is, as I said, to try and get in there early, as soon as we're notified, if it's by the resident or by the DWP to offer that support to the resident"* (HA4R2). Second, intervening as soon as under-payment occurred could prevent arrears becoming unmanageable and overwhelming from the tenant's perspective: *"We got better and better at getting in, you know, talking to people early straightaway…... So that's helped a lot. I think where you see the backend of rent recovery, it's normally where people have kind of just given up. It's just too big a number and I think they're going to get"* (HA8R1).

Digitalising the housing service

The move by housing associations to digitalise their services predates welfare reforms. However, their introduction has accelerated this process and given it greater urgency. For many associations, digitalisation and service transformation were effectively the same process: *"There have been the transformational programmes which have been implemented on top of that which is really about digital reform"* (S1R1).

Respondents cited a number of reasons why associations had digitilised their services. First, and most importantly, they had done so in order to reduce their costs: *"So these smarter ways of delivering services have largely just been digital ways of delivering services, which are reduced cost ways"* (S1R1). Second, they had done so in order to make their services more accessible and responsive, in doing so, giving their tenants more choice: *"It [digitised payment] provides increased levels of choice and a modern form of payment of rent and definitely, you know. You can see that for some that would be a great step because many others now are used to paying for services online. So for some, that is definitely, sort of, progress"* (S1R1). In a similar vein, another association reported how the digitalisation of its services had made it *"sort of easier [for tenants] to do business with us"* (HA4R3):

Third, although it is unclear whether the desire to responsibilise tenants was a factor behind the move to digitalise services, it is important to the note that two agendas are compatible: *"But the rights and responsibilities thing, that will become more of a bigger issue here and we would probably push more that if someone has responsibilities they get rights…. We've got a digital agenda as well which fits in with that"* (HA10R1). Paradoxically, a number of associations and stakeholders noted that, far from 'empowering' them, for those many tenants who were not comfortable engaging digitally, or had no access to digital mediums, the digitalisation of services was disempowering and exclusionary: *"The movement to digital platforms that's excluding - in our view - a number of people from easily being able to access some of those services"* (S1R1). This was also recognised by an association which was considering introducing new technologies and digitalising - it was concerned that some of its tenants would not be able to cope with digital platforms:

> *"We're…. starting now to look into more things like transforming our services in a way where we're looking at different sort of technologies, that sort of digital shift…. But we're also very much minded that that's not going to fit everybody. We've got a very diverse set of needs from our residents, but that's not going to be conducive for everybody. So we need to be thinking about how we make sort of connecting with us easy, for different sort of appetites". (HA4R3)*

Acknowledging this, a number of respondents highlighted the importance of tenants being offered a range of mechanisms (in addition to digital mediums) to engage with their landlords. It was also noted that as more tenants went onto UC significantly more resource would be needed to be invested in supporting them, digitally. And it was reported that supporting tenants to engage digitally was relatively resource intensive, particularly in the context of helping UC claimants: *"It [helping tenants to engage digitally] is time intensive, explaining it to them, trying to get them to a level where they can do it themselves… the level of resource we're putting behind this"* (HA3R2).

Diversification and upskilling of the staff base

It was reported that the demands of managing the impact of welfare reforms, and UC in particular, had prompted associations to diversify their staff base, so that they now employed more staff who did not have 'traditional' housing backgrounds, many of whom were employed in support roles. For example, one association reported that it had recruited mental health and well-being officers: *"Same with the well-being workers, very, you know, narrow skillset that's not traditional housing management, and we've gone out there and found them, basically"* (HA9R1). Another manager from the same association also noted that: *"Our new recruits to our debt team and [budgeting and money advice] team, they're sort of coming from a benefits background, a banking background, money advice service"* (HA9R2).

It was noted that the introduction of welfare reforms had required existing housing staff to upskill and broaden their knowledge base in relation to a number of issues: the mechanics of welfare reforms; benefit maximisation; support provision; and money management and budgeting advice. This was invariably done through the provision of training: *"They're developing a different skillset, I think… We've been training…we took an approach really trying to train up everybody who's dealing with frontline stuff, so that they've all got a knowledge of it"* (HA8R1).

Interestingly, the association that appeared to have most embraced the digitalisation agenda (HA9), provided much of its staff training online: *"We've delivered training through team meetings around Universal Credit and welfare reform. We've done e-learning modules that we've designed in-house to upskill existing staff around the challenges"* (HA9R2). Upskilling staff empowered them, continued the same respondent, as it meant they were well placed to help tenants without the need to seek advice from their colleagues: *"I think it's a really key point around welfare reform with empowering the staff that you've got to feel able to deal with these new changes and to be able to advise people correctly"* (HA9R2).

Impact of changed operational practices

The changes in the operational practices of associations have had a number of consequences, noted interviewees. However, four were of particular importance: an improved and more efficient service; associations 'knowing' their tenants better; associations innovating more; and, changes in the nature of the landlord/ tenant relationship.

An improved and more efficient service

In interviews with representatives of housing associations, a recurring theme was that welfare reforms, and the Rent Reduction and UC, in particular, had given impetus to their on-going drive to become more efficient: *I think you have to become more efficient because you need to be up with Universal Credit"* (HA10R1). The introduction of welfare reforms had also resulted in associations providing a better service: for example, HA9 reported that the service it provided had become more reactive, accessible and tenant centred:

> *"Some of this [welfare reform] has been a really positive experience for us. It's reshaped how we deliver service. It's also reshaped when we deliver services as well. Everything we do has moved to a six-day service, and in some respect seven-day services for some of them. So we've extended service hours as well". (HA9R1)*

Associations 'know' their tenants better

The greater level of communication between associations and tenants and improvements in landlords' data capture and storage functions, has resulted in them having a much better understanding of the circumstances, experiences and needs of their tenants: *"We definitely know more about them than we even did before…We probably didn't know all the things that were going on in their lives. I think some of the customer…there's been some positive impacts from some of the customer stuff…Because we've had to get to know some of our customers a lot better"* (HA8R1). However, one of the lenders we spoke to felt that not all associations had been as (reportedly) successful in this respect as HA8, with larger landlords faring less well than smaller ones which, because of their size and location of their stock, were better placed to understand the circumstances and needs of their tenants:

> *"I think it [how well associations know their tenants] is mixed actually. The generalisation is that they are all having to understand their tenants' means more than they used to. So a smaller organisation… I think the*

chief executive probably knows every tenant … Universal Credit ain't going to be a problem for you because you still know how to get round knocking on doors and collecting rent. And that's a very old-fashioned, small organisation which can probably carry on doing what it's been doing. But bigger [associations], you know, if you are xxx [large housing association] with 120,000 homes and probably over a quarter of a million people living in your houses, knowing your tenants is quite a challenge. And I think there are many kinds of shy LSVTs who probably haven't got a clue who their tenants are. So I think there are very variable standards". (S9R1)

As a result of finding out more about their tenants, associations had uncovered need that they were unaware of. It had also made them reflect on what they could do in response: *"what we can be doing to assist those sort of households that can be quite hidden… [including households] not being able to go to work because they've got caring responsibilities"* (HA4R3). There were challenges for associations associated with seeking to 'know' their tenants better including ethical ones: how much should landlords know about their tenants? And what are the boundaries between 'personal' data and that data that landlords could (and should) be allowed to access (and store)? These dilemmas were highlighted by HA8R1, who noted:

"Some of these things [securing data about tenants] take you into…a bit of an issue for us is because – I don't know how to frame this – I would say before, people didn't want to delve into people's financial circumstances, whether that's helpful or not, and we've always had as an approach, I think. Don't doubt that's people's personal lives, it's nothing to do with us, we're a landlord providing people with accommodation, but we're not…it's took us into some of that territory, I think". (HA8R1)

More innovation

It was reported that welfare reforms had encouraged innovation within associations: *"Some of that [the challenges presented by UC] is quite positive 'cos I think it's galvanised some quite innovative work… that's driven by necessity to get your rent in"* (S5R1). An example of this, noted the same respondent, was the possibility of associations formally recognising (and encouraging) tenants to use their rent accounts as surrogate bank accounts, a practice which was commonplace:

"It [welfare reform] has galvanised some of those conversations and some of that innovation in terms of trying to help low income families to maximise the income they do have and protect them against financial shocks by using their housing account. Rent arrears are often actually people using their rent account as unsanctioned borrowing. So lots of the conversations we're having at the moment are could we legitimise that and make that something that's more formal for people to do, rather than them going into rent arrears?". (S5R1)

Changed relationship between landlord and tenant

A number of respondents noted how the relationship between associations and tenants had changed as a result of the introduction welfare reforms. They had impacted on it in a number of ways. For example, when it was first introduced the Size Criteria strained the landlord/tenant relationship as many tenants erroneously saw associations as being behind its introduction. The introduction of UC, in particular, was seen as having a major impact on the landlord/ tenant relationship. It was reported that it had resulted in it being a less paternalistic one, with tenants increasingly being viewed as 'customers' by associations, and, as noted earlier, taking-on additional responsibilities. It was reported that the introduction of UC had changed the relationship in another way: it had it made it more positive, argued one officer (HA4R2). This was because the nature of the interactions between them were no longer confined to information dissemination or the 'regulation' of 'problematic' behaviour. With the introduction of UC, associations now contacted tenants to offer them support, which had had the effect, it was reported, of making tenants believe *"that we [associations] are working with them rather than against them"* (HA4R2)*:*

I think it's also really good when you're talking to the residents and you're offering them all these support services. And they actually turn 'round and say: 'I didn't realise you did all this'. And you can sort of hear their voice sort of saying: 'oh my god.. …you're actually trying to help me'. They think we're only phoning to say: 'Where's your rent? Why haven't you paid?' But some will say: 'Look, I can't afford it'. You know, at the beginning they used to just not answer our calls. If they saw [the organisation], they would not answer. But now they're fully aware that we've got so much more for them. It's really opened up our relationship, that they know we're here to help them; we're not here to take the property back. As they used to say, a few *years ago, they used to say: 'You just want my flat back. You just want my house back".* (HA4R2)

Associations have forged closer links with existing partners and developed relationships with new ones

Housing associations have always worked closely together and with other service providers and agencies, such as local authorities, the police and voluntary and community sector organisations. However, the implementation of welfare reforms has seen the formation of new relationships. For example, a number of associations that participated in the study reported that they had formed closer links with food-banks and worked closely with them, something which one officer noted: *"Just simply didn't happen before [welfare reform]"* (HA8R1). Associations also reported that they had developed their relationships with existing partners. And they reported they were increasingly working together, collaborating in relation to measuring the impact of welfare reforms and sharing key learning.

10. Geographical differences in the impact of welfare reforms

What we know already

There is increased divergence of social housing policy across the territories of the UK (McKee et al, 2017, Stephens, 2017).

Devolved governments have continued to invest significant amounts of funding into developing new social housing whilst in England the focus has been on support of home-ownership (Perry & Stephens, 2018).

The evidence review suggests that the impact of welfare reforms on housing associations depends on the nature of the housing markets in which they operate (e.g. Beatty and Fothergill, 2014, Hamnett 2014).

Each welfare reform has a different geographic impact (Beatty and Fothergill, 2014, Hamnett 2014).

Introduction

A key finding to emerge from the research is the diversity of the housing association sector: *"When you look at different housing association models, I think already, there's quite a variety out there"* (S10R1). The characteristics of housing associations differ markedly and they vary in a range of ways including in relation to their sizes, operating models, and housing stocks. But there are also a number of differences between them which relate to geography. This research has found that these differences affect how welfare reforms impact on associations, which is the focus of this chapter. It begins by exploring the impact of welfare reforms in the devolved territories - Northern Ireland, Scotland and Wales. It then moves on to explore the geography of impact within England. It concludes by noting that housing associations located in rural areas have reportedly been most affected by welfare reforms, and by exploring how patterns of local stock ownership affected their impact.

Northern Ireland

As noted earlier, a range of measures have been put in place to mitigate the impact of welfare reforms in Northern Ireland. While housing associations and stakeholders there were positive about these measures, they were unhappy about the system that had been put in place to administer them: *"[mitigations] have been an administrative nightmare. They're designed locally, very reactively. It's not a very good system…. the problem with those mitigations is that… the supplementary payments that cover those cuts are made by a different body in a different format at a different time. So it's kind of a bolt on solution"* (S6R1).

There was also concern that some households fell outside the mitigation measures resulting in many accruing arrears. There were also concerns about tenancy sustainment after the end of mitigation measures in 2020. At present, there is a central system for allocating social housing across the whole of Northern Ireland which has not been modified in response to welfare reforms. Stakeholders were concerned that households were still being allocated properties which they would struggle to afford if mitigation of the Size Criteria or other welfare reforms ended.

Of all the welfare reforms, it was reported that associations in Northern Ireland were most concerned about UC. Whilst its impact, to date, has been modest, there was a perception that: *"Reality's kicked in and Universal Credit's here and now we're learning about what it looks like on the ground"* (S6R1). The issue that caused most concern was the implications of the full roll-out of UC and the end of mitigation measures for the Size Criteria and Benefit Cap coinciding after 2020.

There was a desire for a long-term settlement on welfare reform in Northern Ireland, but there were concerns about how this would be achieved in the context of ongoing political uncertainty: *"I think the last five years, obviously, welfare reform would have been one of the greatest challenges. But part of that would be the uncertainty around it. In Northern Ireland we have constant political uncertainty… and the introduction of welfare reform has been delayed a few times"* (S8R1). It was reported that the impact of the political uncertainty surrounding the future of the Northern Ireland Executive made it difficult for housing associations to plan for the future.

Scotland

There was a perception that the measures to mitigate the impact of welfare reforms in Scotland had limited their impact on its housing associations. A policy lead in Scotland noted that housing associations felt that *"the main [welfare reforms] challenge would be Universal Credit... [which] dazzles everything else"* (S4R1). A main concern around UC for housing associations related to rent arrears. There was a view that arrears had increased but this rise had been limited by the measures put in place by associations to mediate the impact of UC. These included the appointment of additional staff and resource being allocated to support tenants during the transition to UC. Arrears had not *"got out of control, but that's been at a price, and the price is the creation of extra jobs and extra staff to support folk, money advice, welfare advice, extra staff time taken up with reconciling everything"* (S4R1).

It was reported that Scottish housing associations had sought to 'humanise' the UC system. They felt that: *"The best way to deal with Universal Credit is to personally engage with tenants, things like writing to them doesn't work, social media doesn't really work. It's the actual face-to-face contact [that works]"* (S4R1). By interacting in person with their tenants, housing associations were becoming more aware of their needs, particularly in relation to mental health and numeracy and literacy skills. Housing associations were frustrated about the lack of support available externally to attend to these issues. Because of budgetary constraints and the high level of need for their services, support providers could not meet the level of demand they faced and there were long waiting lists for their services: *"It's one thing to be aware of those things, but then what services are there to then address those issues?"* (S4R1).

There was also concern that the migration of existing claimants onto UC would significantly increase demand for the support provided by associations: *"I think the frustration is that Universal Credit was supposed to be done and dusted by last year… the scale of this [full roll-out of UC] could be massive…associations are spending a lot of time with those few individuals [moving to UC] to try and sort out their problems. Obviously, if you've got more people coming over it will be much harder to do that"* (S4R1).

There was also a perception that welfare reforms were impacting on Scottish housing associations differently to their English counterparts. The housing association sector in Scotland is very different to the one in England as many housing associations are relatively small and based in one area (Gibb et al. 2016). Those housing associations in Scotland which are larger tend to be former stock transfers from local authorities. This means that most housing associations in Scotland have maintained close links to local communities. It has been argued that welfare reform has strengthened these links: *"I think if there's been any change [due to welfare reform] it's been for housing associations to more directly engage with their tenants"* (S4R1).

Wales

There was evidence that, in the face of welfare reforms, housing associations in Wales *"were struggling to deliver effective and sustainable solutions to address the challenges they face"* (National Assembly for Wales Public Accounts Committee, 2015, p.12). A policy lead stated that welfare reform is *"the number one priority"* (S3R1) for housing associations in Wales. In terms of the geographic impact of welfare reforms in Wales, there was a view that:

> *"The impact has been felt more severely in low market areas in Wales, particularly the old industrial towns where you're then really seeing that the population levels are decreasing in the areas, not particularly attractive areas for housing and employment. And that's led to an increase in voids and that's particularly as a result of the Bedroom Tax and an increase in void larger properties".* (S3R1)

There was concern about the cumulative impact of welfare reforms over time and how little was known about their likely impact. It was reported that welfare reforms had resulted in associations increasingly focusing on supporting tenants subject to them and pre-tenancy support, in particular. However, there were concerns that this had been at the expense of other activities such as regeneration.

Another issue for housing associations in Wales is the on-going roll-out of UC and it was stated that this *"is definitely the number one area of concern"* (S3R1). To date, the roll-out has only occurred in a limited number of areas in Wales. Evidence from housing associations working in these areas suggests that when tenants move onto UC they accrue new arrears. It was reported that arrears 'spiked' when tenants first went onto UC, although associations had been able to recover much of the rent owed to them. Housing associations reported that managing the first few weeks of UC payments was crucial if new rent arrears were to be minimised. Reflecting on the roll-out of UC, housing associations were reporting that: *"Nothing can prepare you. They [housing associations] definitely found it a shock the way that they support tenants has definitely had to change"* (S3R1).

It was reported that the Welsh Government was supportive of social housing: *"We've had a government that's so supportive of social housing and we are very fortunate to have quite high grant levels"* (S3R1). As a result, with grant levels for new social housing preserved, housing associations had been able to maintain their development programmes despite welfare reform. It was argued that this had refocused the housing association sector in Wales on the provision of affordable housing and *"reinforced the mission that we've always wanted to retain"* (S3R1).

England

Interviews with housing associations and stakeholders in England revealed geographic variation in the impacts of welfare reforms across the country. Their impact has varied regionally and sub-regionally: *"There's a massive difference between, Devon and Oxfordshire, for example, and we need to make sure we understand that"* (HA5R2). In a similar vein, a policy lead noted that: *"There was quite a big difference geographically as to how the welfare reforms impact, so in London and the south east it's mainly fuelled by the high cost of housing … whereas in other parts of the country there may be bigger impacts from the Bedroom Tax in particular"* (S5R1).

A number of interviewees reported that the impact of welfare reforms had *"bitten the most"* (S9R1), in London, where affordability was a particular issue, as highlighted in the last quote. The Benefit Cap has created particular issues because of the high cost of renting in London and the scarcity of affordable housing in the city. This demonstrated the importance of the interaction between the private rented sector and housing association stock within areas. It was reported that high rents in the private sector and a lack of private affordable housing placed a major strain on social housing in the city.

The impact of welfare reforms in rural areas

A number of interviewees reported that the impact of welfare reforms has been greater in rural areas: *"[in] some of those remote areas there's much bigger challenges than perhaps the bigger housing providers who work in the larger urban conurbations"* (HA7R1). This was because tenants in these areas faced a unique bundle of challenges, which are explored in the next chapter.

Patterns of local stock ownership

Local patterns of stock ownership between housing association, local authorities and the private rented sector emerged from the interviews as being an important factor in understanding the geographic variation in the impact of welfare reforms. It was argued that larger landlords *"face bigger geographical challenges because they…the stock is spread so widely and sometimes quite thinly across the country"* (S1R1). Another stakeholder noted that *"when you look at some organisations and they operate in over 100 local authorities. That's a massive task [to manage welfare reforms]"* (S2R1). The benefit of associations operating in a number of areas was that the risks associated with welfare reforms were spread. Housing associations whose stock was concentrated in a specific area could target their resources and were better placed to understand the circumstances and needs of their tenants, but there was a downside to this: the problems associated with managing the impact of this spatial concentration: *"This [the spatial concentration of stock] makes it a bit more difficult to be honest, it…because [the impact of welfare reform is] all together. So, it's good in that you can manage it because it's all together. But it's everything at once"* (HA1R1).

11. Areas for further research

Introduction

One of the primary purposes of the evidence review and this report has been to establish current understanding of the impact of welfare reforms on housing associations. In doing this, the study has identified a number of gaps in the existing evidence base. On the back of this, this chapter is concerned with identifying research priorities for the CaCHE team and more broadly developing a future research agenda for work in this area.

Our research focused on the impacts of welfare reforms on housing associations. However, for most reforms, it is tenants who are most directly affected by them. And the ongoing impact of welfare reforms on housing associations will depend on the experiences and responses of their tenants. It is imperative, then, that further research is undertaken into their experiences and the first part of chapter examines some of the issues that need to be unpacked.

The impact of welfare reforms on tenants

The evidence review and the in-depth interviewees highlighted four areas where more research is needed into the impact of welfare reforms on tenants: their approaches to budgeting and money management; their financial situations; their health and well-being; and, the circumstances and experiences of tenants in rural areas.

Budgeting and money management

The introduction of UC has generated considerable interest in how tenants budget and manage their money: *"One of the major areas we need to focus on is a better understanding of… people's management strategies"* (HA3R1). On one level, UC may not necessarily change much: *"[Direct payment] just accentuates people's existing behaviours. So if you're a good money manager, you go onto Universal Credit, you'll carry on being a good money manager"* (HA8R1). However, it was reported that UC made budgeting more difficult because: it changed the budgeting cycle of tenants from (typically) two weeks (under HB) to a month; it made tenants responsible for paying their rent; and, with, the delay in the first UC payment, adversely affected the financial circumstances of tenants transitioning onto the benefit.

There was a consensus that most tenants were effective money managers. The 'issue', then, for many tenants subject to welfare reforms was not their ability to manage their money but their precarious financial situations: *"A lot of people really knew their budget inside out, down to the nearest penny… So more financial literacy wasn't what they needed - they just needed the money"* (S7R1). A housing association director reflected that *"if you don't have any money in the first place…you can't manage it"* (HA10R1). The research also revealed that tenants were uncomfortable accruing arrears, which was a source of anxiety: *"People don't want to be in debt and one of the key groups that they don't want to be in debt to is their landlord cos they cared about staying in their house. So people really want to work with their landlord to find a solution"* (S7R1).

Financial circumstances

Discussion of budgeting and money management focuses attention on the overall financial position of tenants. The precarity of their financial situations was highlighted by most interviewees. It was reported that many had 'shortfalls' in their budgets: *"With the recent reforms you can claim all the benefits you're entitled to and you still have a shortfall, and that's… the real challenge"* (HA4R1). Tenants' incomes had also declined in recent years: *"People's income has gone down considerably… it's just everything's a bit tighter. So there isn't money to pay on rent. And I think it's almost a forgotten because it's a gradual decline in their overall finances. And it's just a squeeze"* (HA4R1).

In many areas of the UK, the paucity of local employment opportunities added to their financial vulnerability. So too did their lack of savings - it was reported that relatively few had any. Savings provided tenants with a 'buffer' when faced by a financial challenge: *"People don't have any savings and we've been thinking about how do you get people to put a buffer in place?"* (HA10R1).

It was noted that many tenants were only able to manage financially by 'going without'. And the presumption that punctual rent payment was a marker that tenants were coping well was challenged by interviewees: *"just because they're paying [their rent] doesn't mean they can afford to pay. Some of them are actually without food"* (HA4R2).

Another potential buffer for tenants was the financial support provided by friends and family. If this support was not available, then when faced by a financial 'emergency' tenants had no alternative but to use the services of high cost lenders: *"The saddest stories were when people didn't have any family or friends they could turn to,… that made them extremely* *vulnerable,… so they had no-one to turn to so it was Cash Converters and the Money Shop"* (S7R1).

Health and well-being

Housing association interviewees were concerned that welfare reforms were affecting the health and well-being of their tenants. For example, one described how the impact of welfare reforms had meant that many tenants were unable to heat their homes properly, with consequences for their health: *"Going in to visit a property and you see it's really cold or there's no furniture or only one room's being heated. And there are, obviously, issues there, but both for the tenant's well-being. But also, obviously, it's our property"* (HA4R2).

It was reported that welfare reforms affected the health of tenants in other ways - for example, they were a source of anxiety for them and made it more difficult for them to eat healthily. It was also noted that the uncertainty and instability in relation to whether they would be able to remain in their homes, created by reforms such as the Size Criteria, in particular, also had an adverse effect on the health of tenants: *"A stable home… actually has a long term impact on health services. So I guess it has a benefit for the home financially and health wise"* (HA4R1).

Exploring the circumstances and experiences of tenants in rural areas

It was reported that tenants in rural areas faced a number of challenges that made it more difficult for them to cope with the impact of welfare reforms. These included the paucity of local transport services and local services: *"In rural areas there's no bus services, no libraries, no outreach service"* (HA7R2). As a result, they were less well informed than their counterparts in urban areas about welfare reforms: *"So they have access to very limited information. They can either get frightened by it because they don't have any information and knowledge, or ignore it completely. It really is the rural areas that are most vulnerable"* (HA7R2).

Tenants in rural areas faced other challenges: it was harder for them to access face-to-face support, which was reported to be most effective way of providing support. They also had difficulties 'going digital' because of the paucity of internet connectivity in many rural areas, and had to manage the challenges of finding work in labour markets where low pay, seasonal employment, temporary and zero hour contracts were often defining features:

"The lack of employment opportunities; there are things like lack of transport and a lot of it is seasonal work, temporary work, zero hours contracts [that make finding work difficult]" (HA7R1).

Understanding tenants' behavioural responses to welfare reforms and how associations respond to them

One of the underpinning rationales for the introduction of welfare reforms such as the Size Criteria and UC is the desire to modify the behaviour of tenants so that they are 'responsibilised'. While the evidence base in this area is growing, it is still relatively under developed. Research is therefore needed into: conceptualising, understanding and mapping responsibilisation activity in the housing association sector; exploring the extent to which tenants have been responsibilised; examining how tenants view the concept; and, unpacking their experiences of being responsibilised.

The importance of understanding behavioural responses was highlighted as a key research priority by a number of associations, as how tenants respond to welfare reforms will be a key determining factor on how they impact on them. Research is therefore needed to into how housing associations understand and manage behaviour change, which should address the following questions:

- How are housing associations attempting to predict and influence the behaviour of tenants?
- To what extent are housing association services linked to particular behavioural expectations?
- Are behavioural models being used to predict tenant behaviour and target support in advance of apparent need?

Understanding changes in the behaviour of housing associations

It is also important that attention focuses on the behaviour of housing associations under welfare reforms. The evidence review and this report have already highlighted a number of issues relating to how welfare reform and other changes in housing policy have affected their mission and values. One example was the changing composition of housing association boards. A stakeholder highlighted this as an evidence gap arguing that *"recent* *changes to the constituency base of boards… and that link with commercialisation is…really is crying out for some further research"* (S1R1).

There are other issues that need to be unpacked with regard to the mission of housing associations:

- How do they explain their core mission and values?
- To what extent has this changed as a result of welfare and tenancy reform?
- Are there tensions at different levels of governance?
- To what extent are commercial and social purposes held in tension by housing associations?

There is considerable evidence that housing associations are changing their operational practices in response to welfare reforms. Further research is needed into how they are doing so and how the approaches taken vary by housing association type and location. Attention should also focus on the impact of changes in operational practice on: the quality of the housing service; tenants; housing association officers; and the landlord/ tenant relationship.

Universal Credit

The ongoing impact of UC repeatedly emerged as a priority for future research. Research priorities include:

- Exploring its impact on tenants. This research should encompass exploring: *"Tenants around the service that they're receiving from DWP and the impact it's [UC] having on their lives".* (HA9R2)
- Unpacking who receives UC: *"A growing proportion of housing association tenants are working, poor people. So understanding the kind of the mixed economy of people who are in work but are also claiming Universal Credit [is a research priority]".* (S9R1)
- Examining approaches to support and tenancy sustainment as the focus of UC shifts with the step-change in its roll-out: *"To date, on Universal Credit it's all been about getting people into employment… I think the focus will be in future years how you help tenants to progress and also sustain employment as well, and not have that cycle of being in and out of work, which will impact on their Universal Credit claim. But also it creates quite a difficult situation for housing associations and sustaining tenancies".* (S3R1)

- Comparing how social and private landlords are dealing with UC, which should involve researching the experiences of private landlords: *"especially those who rent to those on lower incomes: how they're coping; whether they're just not going to rent to those on Universal Credit"* (S7R1).

In addition, research into UC needs to attend to the following questions:

- What is the impact of the roll-out of Universal Credit on housing association income?
- What is its impact on staffing and the organisational structure of housing associations?
- What is the cost of managing the impact of UC?
- How are housing associations identifying potentially vulnerable households?
- To what extent are housing associations attempting to predict tenant payment behaviour and what potential implications does this have?

Housing low-income households

The role of housing associations in accommodating low-income households emerged as another key area for future research. Prompted by concerns over the impact of welfare reforms on the financial situation of their tenants, respondents were particular keen to see research undertaken into the affordability of social housing:

"I think there's a huge gap in research on affordability of… social housing tenants… nothing… comes up with a definition of what an affordable social rent should be. At the moment they [housing associations] are all taking different approaches to how they approach their rent setting; how they approach affordability… there's no consistency at the moment" (S3R1).

A number of interviewees highlighted the tension between two of housing associations' most important organisational goals: providing affordable homes; and, developing new social housing to increase the overall capacity of the sector. This tension had arisen because of a *"mismatch between welfare and housing policy and how welfare is undermining housing policy objectives"* (S2R1). It is important, then, that research is undertaken into how this mismatch plays-out and how associations are responding to this tension.

Several interviewees suggested that there needed to be a broader investigation into the relationship between the private and social rented sectors in accommodating low income households, because there was a need to smooth "*the transition between different types of* *tenure and how we see the relationship between the private rented sector and the social rented sector because I think some of those divisions are really challenging"* (S5R1). The relationship between the private and social rented sector varied dramatically across England, and geographic variation in the intersection between the tenures needs to be better understood.

In addition, research in this area also needs to attend to the following questions:

- To what extent are housing associations applying affordability criteria to potential tenants?
- What are the housing pathways of tenants who do not pass affordability criteria?
- What are the gaps in provision, emerging at the intersection between local authority nominations and housing association affordability criteria?
- To what extent is the diversification of housing products changing the client-base of housing associations?
- What implications does this have for the sector and potential tenants?
- What are the housing pathways of tenants coming to the end of Fixed Term Tenancies?

Exploring the impact of welfare reforms in Northern Ireland, Scotland and Wales

Much of the research that has been undertaken into the impact of welfare reforms has been undertaken in an English context. Given the disparity in the welfare reforms 'stories' of the four territories that comprise the UK and their unique socio-economic, cultural, political, legal, and housing contexts, it is imperative that this issue is addressed. The different approaches taken in them to the implementation of welfare reforms and their mitigation provide a ‘natural experiment’ in how government intervention might alter the impact of reforms on housing associations.

Exploring regional, sub-regional and local differences in the impact of welfare reforms

This research has identified evidence that the impact of welfare reforms also vary substantially within territories. In England, London and rural areas provide examples of geographies where a particular set of economic and demographic circumstances interact with welfare reforms. At the moment there is little detailed analysis of the impact of welfare reforms on housing associations at a regional, sub-regional, and neighbourhood level and even less comparison of the key factors which affect these impacts.

12. Key Learning

Introduction

This chapter highlights the key learning to emerge from the study. It draws on two sources to do so: the evidence review; and primary data collected by study team, specifically data garnered from the in-depth interviews with representatives from national 'stakeholder' organisations and the management team members of a small number of housing associations. Particular attention focuses on highlighting policy messages in relation to UC, because, as noted earlier, of all the welfare reforms, it is the one that is having the greatest impact on housing associations.

Government and regulators of housing associations

- **The impact of welfare reforms, and UC in particular, will be felt differently by housing associations.** There are a number of reasons for this including: their financial circumstances; the characteristics of their tenants; and their preparedness for UC. Those that have proactively planned for the roll-out of UC are better placed to respond to it than those who have adopted a more 'relaxed' and reactive approach to its implementation. A number of associations highlighted the importance of planning for UC and how tenants need to be 'prepared' for it: *"We did a lot of prevention work about three or four years ago where we encouraged our tenants to get their rent account a month in advance in preparation for the switch over… and making sure they were able to manage Universal Credit when it comes into their area"* (HA7R2). The same officer noted that this work had resulted in lower than expected arrears when UC was introduced in areas in which their organisation had properties: *"I think a lot of that [our success in managing UC] is cos of all the preparation [for UC] we did years ago. And with that culture of residents now paying in advance we're now seeing people on full benefits almost getting a month upfront. So that's really helped them to take the impact. If we hadn't done that our arrears would be a lot higher".*

- **Notwithstanding this, when UC is rolled-out fully, it is likely to have an adverse impact on the financial position of housing associations**. Specifically, it will see their income reduce as their arrears increase - a key finding of the evidence review is that arrears rates are higher under UC than under 'traditional', landlord payment - and their costs rise, as they are forced to invest more resource into collecting rents. And as the step-change in the roll-out of UC continues, this impact will be felt sooner rather than later.

- **One of the reasons that new arrears are likely to accrue under UC is that there is economic logic in tenants (with no or little arrears) not paying all or some their rent when faced by a financial emergency.** This is because, in stark contrast to the very high rates charged by many national money lenders and local pay day lenders, interest is not charged on rent arrears. And because arrears may be repaid over a relatively long time period, tenants enjoy a negative real interest rate. However, it is important to note that tenants may (understandably) be deterred from taking this course of action by the onerous clawback arrangements ('third party deductions') for repaying unpaid rent under UC.
- **Welfare reforms, and UC in particular, may threaten the financial viability of some associations.** Smaller associations may be particularly vulnerable as they are less well placed to manage the impact of declining and fluctuating cash-flow.
- The last decade has been challenging for housing associations as they have had to respond to a number of developments, including welfare reforms and austerity measures. **These developments have created uncertainty and flux in the sector, and had the effect of reducing associations' incomes.** This has not been conducive to service delivery, business planning, and the creation of stability within the sector, with potential consequences for the future funding of the sector - **lenders want stability and certainty and may charge higher interest rates if they are absent.**
- The impact of welfare reforms, and UC in particular, may cause some associations to reflect on their values and mission. Some may adopt a more commercial approach to their operations, in doing so, being less prepared to house households with a poor 'credit' history. If this happens, **this raises issues about who will house these households and the capacity and suitability of alternative housing providers to do so.** And tenants that are 'turned-away' by housing associations may find themselves housed in poor quality private rental accommodation or potentially homeless.
- In response to welfare reforms, and UC in particular, the housing association sector is likely to become more diverse in the future. At one end of the spectrum, it is possible that some associations may act in a manner not far removed from private landlords, badging themselves as 'housing providers'. At the other end of the spectrum, other associations will continue to operate very much as 'traditional' social organisations. This

shift will present challenges for both the Government and regulators, whose approach to 'managing' the sector will need to be reflect its many contours.

- To date, it appears that the impact of the Size Criteria on housing associations has been very limited. One of the principal reasons for this has been the widespread availability of discretionary housing payments. **However, there is evidence to suggest that they are becoming more difficult to secure and, if this trend continues, more households subject to the Size Criteria will encounter financial difficulties, with potential consequences for arrears rates.**
- Whilst many associations were continuing to develop new homes, and were meeting housing demand across a broader client-base, **there remains a need for housing at social rents.** For those on the lowest incomes, Affordable Rents may not be truly 'affordable', especially for households impacted by a number of deductions or caps to the amount of welfare benefits received. Affordability is not only an issue for those in the private rented sector or seeking homeownership, but extends to those in the social rented sector as well.
- The uncertainty caused by welfare reforms has had a significant impact across a number of housing associations' operations. Whilst reforms such as the Rent Reduction represented a significant loss of anticipated income for associations, it was easily quantifiable, and in general associations took other actions in order to protect development programmes. However, the potential impact of other reforms such Universal Credit, are much more uncertain. **Development and regeneration programmes are long-term operations that benefit from stability and the ability to map out and control risks. Although housing associations are continuing to develop, there is some evidence that building and regeneration plans are being scaled back or provision altered in order to manage potential risks**. Whilst this is related to other uncertainties, such as the implications of Brexit, which are outlined in a recent CaCHE policy briefing (Gibb & Maclennan, 2016), welfare reforms are also a contributing factor. It is significant that several organisations with care and support operations highlighted a negative impact on developing schemes because of ongoing uncertainty around funding arrangements, particularly for short-term services.
- Interviewees expressed concerns about **the relationship between HB/UC and the cost of renting:** *"In many parts of the country, Housing Benefit is not enough. That's the bottom line"* (S5R1). It was reported that welfare reforms had removed the link between support with housing costs and market rents. This had led to a situation where

"the idea that Housing Benefit would take the strain of higher rents has been completely eroded" (S2R1). Several interviewees highlighted the need for a re-assessment of the limits on HB/UC in high cost areas. One stakeholder argued that "*unless we restore some kind of link between the amount of Housing Benefit that people get and the costs of housing then I don't think anything's going to get any better*" (S5R1).

Social housing landlords

- **It is difficult to accurately forecast which tenants will manage on UC and which will struggle.** Payment patterns are highly complex and do not conform to simple categorisations of 'payers' and 'non-payers'. As one of the most common reasons for underpayment under UC is tenants encountering an unexpected financial expense, predicting how tenants will fare on it is very difficult. It is part of the new landscape that any tenant, at any time, can and may underpay their rent.
- **The first few rent payments following a tenant's transition onto UC are critical.** It is during this period that most arrears accrue. Preventing the build-up of early arrears is crucial because research shows that tenants struggle to repay arrears once they have accrued. Associations therefore need to be particularly proactive in terms of rent collection when tenants first move onto UC. They need to pay particular attention to recovering 'early arrears' and ensuring that these arrears do not become 'standing' arrears, **intervening at the earliest possible opportunity.**
- **It is imperative that adequate support is made available to tenants to help them manage on UC**. While it is the financial circumstances of tenants that are the biggest determinant of how they fare on UC, support does make a difference. Landlords need to consider the following issues:
  - What type of support is required? It is important that tenants receive the appropriate type of support. The support needs of tenants will vary greatly and there are a range of support needs in relation to UC. These include supporting tenants to: 'go digital'; set-up bank accounts and Direct Debits; manage their budgets; maximise their income; find work; and manage their debt.
  - How should support be provided? The way support is provided is important and affects take-up rates and its impact on tenants. Tenants who request support in practice often do not take it up, with this particularly likely to be the case if support is provided collectively, through workshops, seminars, or surgeries.

However, while personalised support appears to be the most effective way of engaging tenants it is also the most resource intensive way of providing support.

- Do different people require different types of support and advice?
- Who is best placed to deliver support and advice? And should it be delivered by a support agency? Landlords may not be best placed to provide some forms of support and advice and should look to work with key local support agencies.
- When is the support required? While it is important that support is offered to tenants wherever they are on the UC journey, it appears that it is particularly important to offer it as tenants' transition onto the benefit.
- How should support be configured and packaged? Providing support for UC as part of broader, generic tenancy support may be more effective than providing financial specific advice and support.
- What is the impact of the support? Is it making a difference? At what cost? And does it represent good value-for-money?

- It appears that many tenants treat their rent accounts as 'surrogate' bank accounts. Within the confines of financial regulatory controls, could this be recognised by associations, with overpayment being rewarded in some way?
- **It is imperative that landlords 'know' their tenants.** They should hold up-to-date and robust information about them, relating to a number of issues including their contact details, key demographic attributes, and housing and payment 'history'. However, this is a complex issue with an ethical dimension. For example, what sort of information should landlords hold on tenants? Should this go beyond information to determine the right to a tenancy? Associations need to think carefully about these and other issues. It was reported that one of the benefits to landlords of finding out more about their tenants is that they will be better placed to answer the following questions about the characteristics of their tenants: *"Who are our tenants? What are they doing? How are they coping?"* (HA3R2).
- **Managing rent collection under UC is much more resource intensive than under landlord payment.** Landlords are allocating additional resource to rent collection and arrears recovery. They are employing more staff and are also investing in new rent collection systems, new IT systems, pre-tenancy credit scoring checks, and, SMS text messaging rent pay payment reminders. Furthermore, as more tenants become

responsible for paying their rent with the continued roll-out of UC, landlords are incurring higher levels of rent payment transactional charges.

- **If they have not already done so, landlords need to review whether they are UC 'ready'.** They need to look at a range of issues including: the roles and responsibilities of officers; how they collect rent; how they recover arrears; 'patch' sizes; and IT systems. And they will need to be prepared to adapt. Furthermore, they will also need to reconcile the tension between their traditional social function and the need to adopt a more hard headed commercial approach in order to protect income streams.
- **Associations need to think carefully about how and when they communicate with their tenants.** The roll-out of welfare reforms has seen more communication between landlords and tenants. The communication process has been challenging for associations in a number of ways including: the complexity of the information that landlords are looking to convey to tenants; identifying the most appropriate form(s) of communication; and the cost of communicating. Another challenge has been the reluctance of many tenants to engage: *"I think the difficulty some have had is getting those more vulnerable people to engage, 'cos by their nature they may not be willing to. But some [associations] have worked really hard with other agencies to get that support in"* (S2R1). Landlords need to think carefully about how and when they communicate and how frequently they do so. In terms of the latter, one stakeholder highlighted the effectiveness of providing tenants with small amounts of information over time:

  > *"I think others, and I can understand why, have bombarded people too soon with all the stuff that was proposed. So in a conversation about the Size Criteria they were also talking about Universal Credit, which at that time was some way off. And I think it was a lot for people to absorb. But I think some learned from that as well and as time went on realised you've got to drip feed information at the right time".* (S2R1)

- The renewal of FTTs was under discussion at a number of housing associations. There is a sense that welfare reforms have introduced a number of complexities at renewal, particularly in the management of rent arrears. FTTs create an inherent disparity between tenants, as those on fixed terms must in theory pay off any rent arrears by the end of the term, while Assured tenants potentially have a lifetime in which to make repayments. **However, if rent arrears accrued as a result of tenants receiving rent payments directly under UC, or by being subject to the Size Criteria, is treated**

differently to arrears accrued in other ways, does this represent equitable treatment for tenants?

- Many housing associations are using affordability assessments to consider the financial circumstances of prospective tenants. There is much variation in how the assessments are used, and their perceived value. **It is crucial to improve monitoring of the use of affordability assessments, in order to record outcomes in terms of rejected applications and the longer-term implications they may have in relation to who is housed and what happens to those who are rejected.**
- Research by Ambrose et al. (2016) suggests that one of the factors that 'squeezes' the budgets of tenants, making it more difficult for them to manage the impact of those welfare reforms that reduce their income levels (Size Criteria, Benefit Freeze, and Benefit Cap), is the cost of furnishing their homes. And many tenants resort to borrowing from high cost lenders to do so. Given the very high interest rates they charge, **landlords should reflect whether they can provide help to tenants in this area, with the provision of furnished lettings being one possibility.**
- Although there has long been collaboration between associations in the sector, for example, through best practice groups and benchmarking services, **it is clear that welfare reforms have strengthened and deepened this tradition**. Associations reported sharing information at a level that would have been inconceivable before welfare reforms, including the sharing of commercially sensitive data. **This has enabled organisations to share concerns, innovations and learning, in order to approach risks alongside others rather than alone.**
- Housing associations have continued to operate beyond the delivery of purely housing services. **Capturing the value of services such as debt counselling, money advice and employability services, particularly in sustaining tenancies, is crucial. O**ther housing associations were interested in exploring the provision of additional services such as providing low-cost white goods to households in order to avoid the use of high-interest lenders.

Appendix 1: Participants

Table 1: Respondent profiles

HOUSING ASSOCIATIONS			
Organisation code	**Organisation description**	**Participant code**	**Participant description**
HA1	Medium sized housing association operating in the North	HA1R1	Director
HA2	Large national housing association, including regionally concentrated stock	HA2R1	Director
		HA2R2	Research Officer
HA3	Large housing association operating in the South	HA3R1	Director
		HA3R2	Policy Officer
HA4	Large housing association operating in the South	HA4R1	Policy Manager
		HA4R2	Welfare Reform Officer
		HA4R3	Policy Officer
HA5	Large housing association operating in the South	HA5R1	Business Manager
		HA5R2	Director
HA6	Small housing association operating in London	HA6R1	Housing Manager
HA7	Medium housing association operating in rural areas	HA7R1	Director
		HA7R2	Housing Manager
HA8	Small housing association operating in the North	HA8R1	Housing Manager
HA9	Large housing association operating in the North	HA9R1	Director
		HA9R2	Welfare Reform Manager
HA10	Medium sized housing association operating in the North	HA10R1	Director
STAKEHOLDERS			
Organisation code	**Organisation description**	**Participant code**	**Participant description**
S1	National tenant organisation	S1R1	Chief Executive
S2	National stakeholder - England	S2R1	Policy lead with a focus on housing associations
S3	National stakeholder - Wales	S3R1	Policy lead with a focus on housing associations
S4	National stakeholder - Scotland	S4R1	Policy lead with a focus on housing associations
S5	National stakeholder - England	S5R1	Policy lead with a focus on

			local authorities
S6	National stakeholder - Northern Ireland	S6R1	Policy lead with a focus on housing associations
S7	National stakeholder - England	S7R1	Policy lead with a focus on housing associations and social security
S8	Key stakeholder organisation in Northern Ireland	S8R1	Senior Manager
S9	Lender	S9R1	Chief Executive
S10	National government representative	S10R1	Not reported for anonymity
S11	Lender	S11R1	Head of Housing Finance

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