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# **The impact of welfare reforms on housing associations: a scoping study**

**Professor Paul Hickman**

**SFHA Conference**

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## Outline

- **Research approach**
- **Findings**
- Perceptions of welfare reform
- Dimensions of impact
  - Financial
  - Operational
  - Cultural
- **Key learning**
  - For government and regulators
  - For housing associations
- **Discussion**



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# The research



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## UK Collaborative Centre for Housing Evidence (CaCHE)

Launched in 2017

The Centre is a multidisciplinary partnership between academia, housing policy and practice

Funded by the Economic and Social Research Council, Arts and Humanities Research Council and Joseph Rowntree Foundation

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**

More information about the work of CaCHE can be found on its website:

<https://housingevidence.ac.uk/>



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## Investigating partners



[housingevidence.ac.uk](http://housingevidence.ac.uk) Twitter: @housingevidence

The UK Collaborative Centre for Housing Evidence is a consortium of ten universities and three non-academic partners, as follows: University of Glasgow, University of Sheffield, University of Reading, University of Cardiff, Heriot-Watt University, University of Bristol, Ulster University, University of Adelaide, Sheffield Hallam University, St Andrews University, Chartered Institute of Housing, Royal Institution of Chartered Surveyors, Royal Town Planning Institute.



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## About the Research

Study team: myself; Dr Jenny Preece (University of Sheffield) and Dr Ben Pattison (Sheffield Hallam University)

Undertaken in 2018

Scoping, exploratory study

Two elements:

- Evidence review
- Interviews with 17 people from 10 Housing Associations, plus representatives from 11 stakeholder organisations from across the UK



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## About the Research *continued*

Focused on the following Post-2010 reforms:

- **Universal Credit (UC)**
- Benefit Cap
- Benefit Freeze
- Size Criteria / Bedroom Tax
- Rent Reduction

**Today's presentation will focus, in particular, on the impact of UC**

Interactions with tenancy reforms, e.g. Fixed Term Tenancies, Affordable Rents

Research outputs available from the CaCHE website

- Hickman, Pattison and Preece (2018) *The impact of welfare reforms on housing associations: a scoping study*
- Preece (2018) *The impact of welfare reforms on housing associations: Evidence Review*



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# Findings





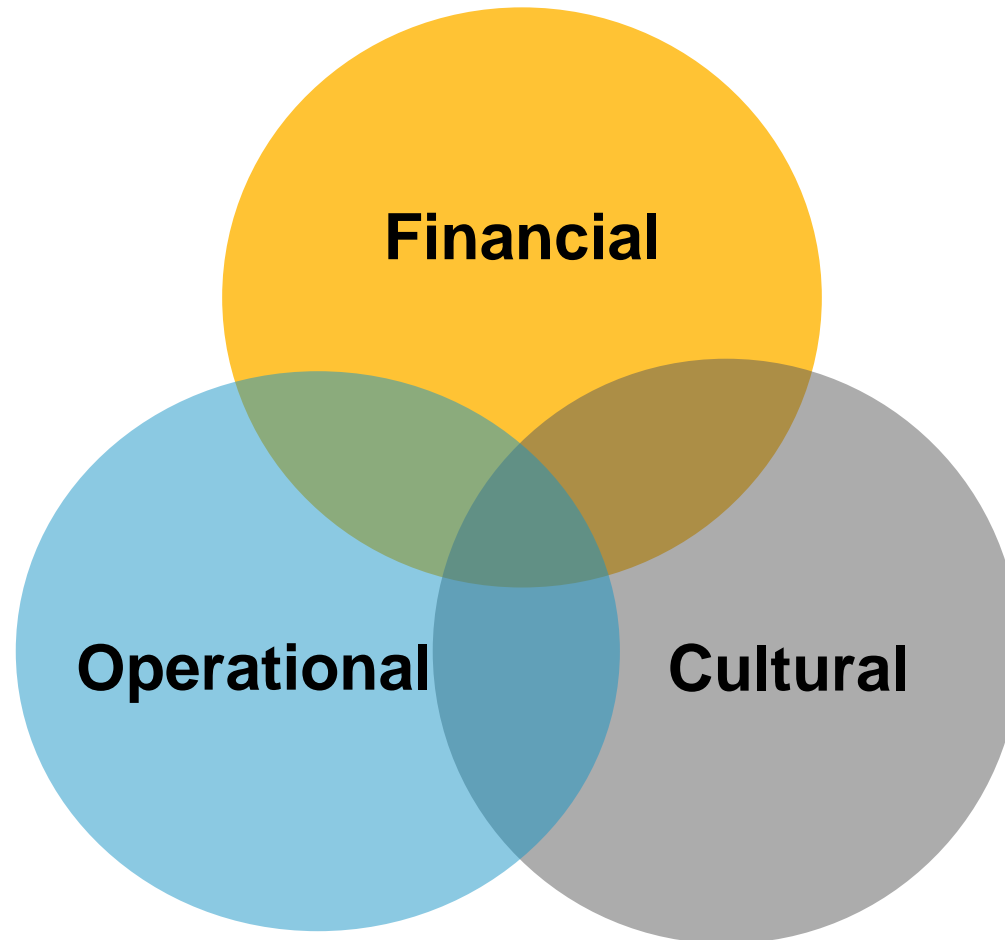
## Perceptions of welfare reform

- “...the biggest risk to our organisation” (HA1R1)
- “...the board’s number one public policy issue” (HA3R1)
- **Especially UC and direct payment**
- “There’s so much uncertainty and learning still” (S10R1)
- **Context**
  - Geographical complexity (country, regional, local) as well as organisational variation
  - Impacts are not static – build on earlier reforms; worsening climate for residents
  - Wider issues – Brexit, Grenfell



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## Dimensions of impact





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# 1. Financial



## What do 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)



## What do we know already *continued*?

### Rent arrears increase under direct payment/ UC

- 'Safe as Houses' reports from the Smith Institute
- Direct Payment Demonstration Projects Evaluation (Hickman et al, 2017)
  - unpredictability of rent underpayment.....
  - ....'borrowing' from the rent account when faced by a financial 'emergency'....
  - ... which for tenants with little or no arrears represents rational economic behaviour



## Income

### Universal Credit

- “Slow burner” (HA1R1) and “phony war” (HA2R1)
- Uncertainty - “Sometimes it’s a little bit like fishing in the dark” (HA4R3)
- “...pretty much everyone that goes onto it goes massively into arrears” (HA5R1)
- Delay in first payment; direct payment

### Size criteria

- “Actually [it] didn’t really impact us that much” (HA7R1)
- Importance of Discretionary Housing Payments

**Benefit cap** – “little material impact” (S11R1)

**Rent reduction** – “...clear financial hit...in a much more significant way” (HA4R1) → efficiency strategies



## Funding

- UC – “has the capacity to be detrimental to cash flow” (S9R1) (lender)
- Crucial for smaller organisations
- “You’re probably going to be carrying more bad debt” (HA5R2)
- Uncertainty of exposure to arrears – “what the markets really hate is uncertainty” (S1R1)
- But overall, welfare reform “hasn’t dented their view of the sector” (HA2R1)
- “...they’ve gone away feeling like, crikey, they’re on top of this, they’re planning for it” (HA5R1)



## Costs

- Resource intensive, especially maintaining rent collection under UC – “we are going to need more resourcing” (HA3R2)
- Some evidence of investment in income collection and benefit maximisation
- Importance of services that are “sustainable” (HA5R2), especially for associations operating over wide geographies, e.g. automated services to prioritise caseloads
- Training staff
- Other costs – e.g. self-service / digital services





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## **2. Operational**



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## What do 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)

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)



## What do we know already? *continued*

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)

Social landlords are making **significant changes to their IT systems**, housing team structures, rent collection practices, and support provision under UC (DWP, 2017)

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



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## Operational impact – changed operational practices (1)

**The key role of UC in helping to drive organisational change:**

*"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)*

### **Increased level of communication with tenants**

Driven by necessity - i.e. the need 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)*



## **Operational impact – changed operational practices (2)**

### **'Responsibilisation' of tenants**

*"The changes in welfare I think have led to a greater focus on rights and responsibilities" (S2R1)*

### **Increase in the level of advice and support provided to tenants**

*"[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)*

### **Early intervention**

*"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)*



## Operational impact – changed operational practices (3)

### Digitalising the housing service

- Reduce costs
- Make services more accessible and responsive
- 'Responsibilising' tenants?

***"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)***

### Diversification and upskilling of the staff base

***"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)***



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## Impact of Changed Operational Practices

### A more efficient and improved service?

*"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

***"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)

### More innovation?

*"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)



## Impact of Changed Operational Practices *ctd*

### Changed relationship between landlord and tenant

*"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).





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## **3. Cultural**



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## What do we already know? Social mission of associations

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)

While 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

Income pressures 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)



## **Social mission and values**

- Reinforcement of social mission – “what are we here to do?” (S2R1), “look to our values” (HA2R1), “if we don’t house them, who will” (HA3R1)
- Sits alongside diversification – “we’re meeting all sorts of needs...we’re going to attract a range of clients” (HA1R1)
- Commercial – “an essential cross-subsidy” (HA3R1)
- And Affordable Rents – “you’ve left the most vulnerable individuals in our society out of what you’re creating, where do they go?” (S8R1)
- Not just about new homes – regeneration



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## What do we already know? Allocations and affordability

Fixed term tenancies reinforce the 'responsibilisation' of tenants, behavioural scrutiny, and conditionality (see for example, Fitzpatrick & Watts, 2017, and Mullins & Jones, 2015)

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 (see for example, Fitzpatrick & Watts, 2017, Williams et al., 2014a)

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)



## **Allocations and affordability**

### **Fixed Term Tenancies**

- Growing use of Fixed Term Tenancies – “their use has increased because “if their benefit was capped...they would struggle to pay the rent” (HA2R1)
- Complexity of renewal in context of austerity – “initially it was thought that if someone’s in rent arrears at renewal...you wouldn’t renew...those things are difficult to deal with” (HA4R1)

### **Affordability assessments**

- Driven by 'tenancy sustainment'? – “what’s the point in allocating somebody a tenancy that they basically can’t afford?” (HA9R1)
- “Predictive value was so weak” (HA3R1)
- Nature and scale of 'rejections'?



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# Key learning



## **Key learning – for government and regulators**

- Welfare reforms, and UC in particular, are having an adverse impact on the income streams of housing associations
- This may threaten the financial viability of some associations
- Uncertainty may result in lenders charging higher interest rates
- There are concerns about the affordability of housing; associations are reluctant to allocate solely on need
- Associations are developing for a broad client-base and the sector continues to diversify, but there remains a need for housing at social rents



## **Key learning for housing associations (1)**

**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'

**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
- Importance of early intervention





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## **Key learning for housing associations (2)**

### **Importance of providing the 'right' support to tenants**

- How should support be provided?
- 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?
- When is the support required?
- How should support be configured and packaged?
- What is the impact of the support?



## **Key learning for housing associations (3)**

**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**

**Managing rent collection under UC is much more resource intensive than under landlord payment**

**Associations need to think carefully about how and when they communicate with their tenants**



## Key learning for housing associations (4)

### Supporting tenants to furnish their homes

- 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



## **Key learning for housing associations (5)**

### **The benefits of collaboration**

- 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



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