Annual Report on Welfare Reform

Follow up Paper: Housing and Social Security

May 2018

Scottish Government
Riaghaltas na h-Alba
gov.scot

Ministerial Foreword

We are pleased to jointly introduce the third report on the impact of UK welfare policies on the people of Scotland. This report follows on from our annual report on the impact of welfare reform which we published in June last year, and looks specifically at the impact of UK Government reforms on housing. The previous two reports covered the impacts on disabled people and families with children.

Housing and social security are both high priority areas for the Scottish Government. We are working to increase the number of homes across Scotland so that everyone has a good quality home that they can afford and that meets their needs. We will spend over £3 billion to deliver at least 50,000 affordable homes, of which 35,000 will be for social rent, by March 2021. This builds on the achievement of exceeding our previous target to deliver 30,000 affordable homes by 2016.

At the same time we are taking a very different approach on Social Security from that of the UK government. Our new social security system will be rights based and has at its core, the firm belief that it represents an investment made in ourselves and in each other, with the founding principles of dignity and respect to guide us.

We are also acutely aware of the impact our housing and social security approaches can have across a range of issues affecting the lives of people in Scotland, including health, education, economic growth and child poverty. While the UK Government has scrapped its targets to reduce child poverty, we have responded by making those targets stronger and reintroducing them to the Scottish Parliament, determined as we are to eradicate child poverty once and for all.

As can be seen then, welfare policies have a huge impact on many of our ambitions and priorities as a government, and it is regrettable that UK welfare reforms add to the challenges we face. We expect to spend over £125m in 2018/19 on welfare mitigation and measures to help protect those on low incomes. This is over £20m more than in the previous year. This includes fully mitigating the Bedroom Tax - ensuring more than 70,000 households save around £650 per year on average and are able to stay in their own home. We also took action to ensure that any 18-21 year old facing a cut to their housing support as a result of Universal Credit changes got the support they needed. But mitigation on its own, though it provides vital relief to those worst affected, is no more than a sticking plaster where every penny we spend on mitigation is money we can't then use to invest in vital work to tackle poverty and provide other services.

The previous reports have spoken to the impacts on specific groups. This report aims to complement that by examining impacts in housing. The impacts of welfare reform ripple out, from tenants directly affected, through to support services, landlords and other tenants who ultimately subsidise UK cuts through the rent they pay. On top of that, the good work being undertaken by councils and landlords to deal with the consequences of UK reforms inevitably adds to the wider financial and resource pressure they are operating under and therefore impacts detrimentally on the services they can provide.

This report not only highlights the detrimental impacts from a Scottish Government perspective, but also shows that in key areas even in their own terms many of the UK reforms are a failure. Often an ideological drive to make cuts has taken precedence over the UK Government's own stated policy intentions.

For example, it surely cannot be the UK Government's intention to make private rented accommodation completely unaffordable in some areas, and yet that is the effect. Neither can it be the UK Government's policy intention that social landlords should have to be burdened with significant increases in levels of rental arrears, yet that is the worrying effect of the move to Universal Credit (UC).

In addition to our mitigation spending, we are also delivering the changes to Universal Credit that we can under the Smith Commission powers, with more frequent payments and direct payments to landlords already in place and being taken up but nothing we can do allows us to change the fundamentals of UC. Changes to UC announced in the recent UK Budget can be viewed as an acknowledgement of the failure of the UK Government to tackle the big problems. Whilst any improvements are welcome often the changes are too little too late with remedial measures lagging behind UC roll out.

The UK Government must end its ideologically-driven assault on those least able to cope. Not only is it causing unnecessary suffering and hardship, but it is placing enormous pressure on all parts of our housing system. Despite these pressures, we will continue to make the case for doing things in a better way, and we will do all we can to maintain our work to deliver a rights based social security system, and to ensuring everyone has a warm, safe and secure home that meets their needs.

Kevin Stewart

Jeane Freeman

Contents

1 Introduction and Wider Context:

The Scottish Government published its annual report on the impacts of welfare reform in Scotland in June 2017[1]. The report analysed the financial impact of the UK Government's welfare policies introduced since 2010 at a Scotland and Scottish local authority level by 2020/21. It also brought together evidence on the impact of welfare reform on income inequality, poverty and child poverty and the impact on women and people with disabilities.

Further to the annual report the Scottish Government committed to providing three further reports, to cover additional ground, and explore the impact of welfare reform to date and in future in three areas. Reports have been published on the impact of Families with children and on disabled people, this report looks at the impact of welfare reform on the housing sector in particular. All three reports build on the context provided by the first report.

The Scottish Government does have some powers in relation to housing and social security which are discussed below, but the majority of the policy responsibility and spending remain reserved to the UK Government. This report considers the impact of welfare reform on the housing sector, with a focus on two specific areas of particular interest, the impact of the benefit freeze and the LHA cap on the private rented sector, and the impact of UC on rent arrears in the social rented sector. These two areas demonstrate that reserved welfare policy has an impact on the operation of the housing sector, that has profound implications for devolved policy.

Considering the full impact of welfare reform on the housing sector is challenging. An approach looking purely at the statistics surrounding individual reforms and benefits will not account for the impact of behaviours that may be driven by reform, or the costs of activity (such as enhanced welfare rights activity) which may reduce the apparent cost of these reforms. Focusing on housing specifically is challenging because it is also not possible to isolate the benefits traditionally associated with the housing sector from the wider context. Although the main focus of this paper is on the changes to support for housing costs, the whole social security landscape will have an impact on the ability of households to meet their rent. Households do not necessarily observe strict demarcations between housing and non-housing related benefits, and reductions in other benefits, and especially the impact of sanctions, may lead to households failing to pay rent, even where the support for housing costs is apparently adequate. Conversely some households will respond to housing losses by reducing their spending on other items, and the impact of this will not be immediately felt by their landlord, nor be visible in any statistical collection.

This paper considers in the main the current, historical or short term impact of welfare reform and does not look to make medium or long term forecasts, this is because the future impact of welfare reforms will be a function of future policy decisions which are unknown and market forces relating primarily to levels of rent. The main data set available to analyse housing support in Scotland is the provision

[1] Scottish Government (June 2017) 'Welfare Reform (Further Provision) (Scotland) Act 2012: Annual Report 2017'. (SG2017 A)

of data on Housing Benefit through the DWPs StatXplore system. The data available for Universal Credit (UC) is much more limited than this and so much analysis in this area relies on Housing Benefit caseload only, this will be an increasing challenge in future years.

Wider context

The overall welfare spending context was described in the annual report, which demonstrated that social security spending is forecast to have reduced by £47.5bn by 2020/21 overall due to UK Government measures, including £21.8bn due to uprating measures introduced during the 2010-15 parliament. The impact in Scotland is forecast to be £3.8bn by 2020/21 compared to the 2010/11 baseline.[2]

In Scotland there are 2.4m households of which around 20% are in receipt of support for housing costs[3] through Housing Benefit or an award of UC which includes housing costs. The total cost of this support in 2015 was about £1.7bn. In addition some households will receive a Discretionary Housing Payment (DHP). The majority of support for housing costs is available for those who rent their homes, although some loan support is available for those with a mortgage. This report focuses on the impact of welfare reform on tenants, as well as their landlords, especially social sector landlords.

Housing costs have a substantial impact on levels of poverty, and in turn levels of poverty vary substantially between sectors and groups. Poverty levels are higher after housing costs for all groups except pension age households. Pension age households are more likely to be owner occupiers, and have been protected from many aspects of welfare reform, (for instance the bedroom tax only applies to working age households). Poverty rates in the social sector are higher before housing costs (28%) than those in the private sector (24%) However after housing costs the rates are identical (at 38%). This reflects higher incomes in the private sector, balanced by higher housing costs.[4]

Changes since the publication of the annual report.

Since the publication of the annual report there has been a substantial policy shift in relation to support for housing costs in the Social Sector. In 2015 the UK Government announced that the level of Housing Benefit, or the housing costs element of UC, for tenants in social rented sector accommodation would be capped at the local housing allowance (LHA) rate. Refinements to this policy in relation to supported accommodation were proposed by the UK Government in 2016, before being abandoned in October 2017. This change had been expected to save in the

[2] Note that the overall impact has been revised down from an estimate of £3.9 billion as published in June 2017. This is due to the reversal of the policy to apply LHA rates to social rented sector accommodation.
[3] Number of households in Scotland: ONS (March 2013) '2011 Census: Population and household estimates for the United Kingdom' Numbers of households in receipt of HB / UC: Analysis of StatXplor and DWP Caseload assesments.
[4] Scottish Government (June 2017) 'Equality characteristics of people in poverty in Scotland, 2015/16'.

region of £68m by 2020/21.[5] New arrangements for supported accommodation will still be put in place, including funding for short-term supported accommodation being devolved to Scotland from 2020[6], however, no further changes are now expected for general needs accommodation in the social sector.

The Autumn Budget 2017 also contained a number of measures designed to mitigate the impact of the move to UC, especially in terms of the impact on the ability of tenants to meet their housing costs.[7] This included an increase in the availability of advances to new claimants, the provision of a two week run on for claimants transferring from housing benefit, and the removal of the controversial seven day waiting period in advance of the first assessment period. Regulations were laid on 22 January 2018, with the majority of these provisions to come into force in April.[8] These regulations also provided that those in temporary accommodation would receive Housing Benefit rather than receiving housing costs through UC, this was to address concerns about the recoverability of costs for homelessness accommodation and services through UC, this is an interim measure and it is not clear how temporary accommodation will be funded in future. The funding of temporary and supported accommodation clearly has implications for the running of devolved services in Scotland.

Shortly before completion of this report the UK Government announced that they would be ending their policy of removing automatic entitlement to the housing element of UC from 18-21 year olds, this decision was linked to the UK government's direction under the Homelessness Reduction Act, although it is not apparent that the DWP have acknowledged that the policy increased the risk of homelessness. The dropping of the policy may have been linked to the low level of savings compared to the administrative burden of managing it, but was nonetheless welcomed by the Scottish Government and by campaigners in the sector. As such the Scottish Government expects to close its mitigation scheme, which was operating on an interim basis with the intention of a more permanent solution being put in place. It is too early to put in place a full evaluation of the history of the policy in Scotland, and it is unlikely that the costs of the short lived policy will ever be quantifiable, but in addition to any hardship for individuals, it is clear a great deal of staffing resource, at local, Scottish and UK Government level was expended to no real benefit.

[5] P.30 SG2017 A
[6] Scottish Government Supported accommodation funding
[7] DWP (November 2017) 'More detail on £1.5bn package of support for Universal Credit'
[8] The Universal Credit (Miscellaneous Amendments, Saving and Transitional Provision) Regulations 2018

2 General impact

2.1 Impact of UK Government welfare reform on the housing sector in Scotland

The Annual Report found that UK Government welfare reform has had a substantial impact on the incomes of individuals. The two previous follow up reports have focused on the impact on families and disabled people, however this report does not focus on a particular cohort of people but on the housing sector as a whole, this includes not only the impact on tenants, but also the impact on landlords. Where possible the implications for wider policy are also highlighted, but these are not explored in depth. The direct costs of welfare reform fall on individuals, however there are a variety of ways in which households respond the costs of welfare reform which can be passed or shared between individuals and landlords. Individuals affected by welfare reform, may absorb the impact through a combination of responses – housing, financial and employment. These responses will have different implications for the wider sector.

Driving behavioural change in terms of increased employment, or a move to more affordable accommodation may be the stated intention of some policies. For instance the UK Government claimed that changes to social sector housing benefit known as the bedroom tax were designed in part to support the more efficient use of social sector housing stock by encouraging those affected to downsize, freeing up larger properties for those who required them, as well as encouraging those who wished to maintain their homes to take on additional work.[9] It was apparent from the policy's inception however that many affected will be unable or unwilling to respond in these ways, and as a result will struggle to pay their rent, and fall into rent arrears. Where people do respond in these ways this may present a challenge to the sector, and to devolved areas of policy. For instance the bedroom tax creates an impetus for households in the social sector to seek accommodation with fewer bedrooms. In the absence of mitigation this would be expected to increase long term demand for transfers into one bedroom accommodation. However devolved supply policy has not favoured such accommodation, (with the majority of new build in the social sector being two or more bedrooms). If the policy had not been mitigated it may have been necessary to reconsider the balance of supply of new accommodation. If the policy had not been mitigated there would also have been a challenge in the meeting of devolved homelessness priorities, as many of those to whom local authorities have a duty to provide permanent accommodation would also have required one bedroom accommodation, under mitigation these households can be moved into two bedroom accommodation if that is all that is available.

Support for housing costs is fundamentally different for the private and social sector. In general support in the social sector is uncapped – in that housing benefit or the housing element of Universal Credit can be payable up to the full value of eligible rent and service changes. In the private sector there are longstanding limits in the

[9] E.g. Lord Freud "…it [may] start to free up properties for the 250,000 or so families who are living in overcrowded accommodation." "Just a few hours' work may help some of those affected cover the shortfall." House of Lords Hansard 14 February 2012

maximum payable against rent, set in relation to household size and local market rents – these are the Local Housing Allowance (LHA) rates, it is common to refer to those receiving housing benefit in the private sector as receiving 'LHA' to distinguish from housing benefit in the social sector.

Across both sectors where housing benefit is being claimed it is likely to meet the majority of the rent payable. In 2015 amongst households claiming housing benefit, social rented households had on average of 94% of the value of their housing costs covered by housing benefit whereas privately rented households received an average of 83%.[10] The differences may partially reflect the higher numbers of working households in the private rented sector – causing Housing Benefit awards to be tapered, and partially reflect the number of households whose rents are capped by the relevant LHA rate, (as unlike the bedroom tax the LHA rate can reduce the amount payable for households who are not deemed to be under-occupying accommodation). These high averages put issues around welfare reform into a useful context. On one hand it is clear that housing benefit, and we can assume UC, continues to meet a great deal of its recipients' rental costs, even after changes to welfare reform. However, it is also clear that losses at an individual level can leave households seriously exposed with few means available to meet any shortfall.

Impact on Landlords

The impact of welfare reform on tenants, and any overall reduction in support for housing costs, risks an impact on landlords in either the social or private rented sector. As noted above tenants will take a variety of responses to welfare reform, but in some cases, especially where other options are more limited, tenants may prioritise other costs (including other bills, food, clothes or repayments of other debt) over the payment of rent, especially in the short term. The opposite is also true, where tenants prioritise rent payments, at least to the extent that avoids action from landlords, but at the cost of skipped meals or missed utility payments etc.[11]

The impact on individual private sector landlords of one or more of their tenants falling into arrears may be substantial, especially where properties are let with a mortgage in place and as such failure of tenants to pay rent may impact the ability of a landlord to maintain their own mortgage payments. In extreme cases this may lead to private landlords withdrawing properties entirely. In general private sector landlords are likely to respond to their own experience and perception of welfare reform by taking steps to protect their income streams, including taking eviction action against tenants in rent arrears and seeking to avoid taking on tenants in receipt of benefits to meet their housing costs.[12]

[10] Scottish Government (February 2017) 'Social Tenants in Scotland 2015' (SG2017 B) (calculation based on a median ratio figure),
[11] Joseph Rowntree Foundation (June 2014) 'The impact of welfare reform on social landlords and tenants '
[12] Research by Shelter identified that perceived or actual problems with housing benefit where a common factor identified by landlords with so called 'no DSS' policies : Shelter Scotland (October 2017) 'No DSS'. A recent court decision in relation to a case brought under the Equality Act found that such policies might represent indirect discrimination. (On the grounds of gender as more women were in receipt of housing benefit than men.) – 'Landlords who say 'no DSS' breaking equality laws'.

The impact on social rented sector landlords will be different reflecting the differences in business models between private and social sector landlords. Social sector landlords will have large numbers of tenants, many of whom will be on low incomes. The impact of lost revenue for these landlords ultimately impinges on the services provided to other tenants, the rents charged, or their ability to invest in new supply.

Social Sector tenants landlords are more exposed to the impact of welfare reform as their tenants are more likely to be in receipt of support for housing costs. Three fifths (62%) of social rented households received housing benefit in 2015, compared to a quarter (25%) of PRS tenants[13] and more broadly are more likely to be on a low income.[14] Social Rented Sector tenants are less likely to say they “Manage well” or “Get By” financially compared to other tenures, and this will also have an impact on their landlords.

Landlord mitigation activity

Social Landlords undertake a range of activities to mitigate the impact of welfare reform, both in their tenants interests and to support their business model. This can take the form of supporting welfare advice employability support or money advice. Landlords have increasingly developed their offering to tenants who may otherwise struggle to meet their rent, this may not be limited to households in receipt of benefits but include other tenants on low incomes. The costs for this activity are often not clear, especially where they reflect a shift in practice by existing staff rather than a new service with new staff hired. There is little or no formal research into the cost of this work, however a case study has been provided from Melville Housing Association (below) to illustrate this point and the extent of this type of activity across the sector was highlighted in work commissioned by CIH[15] which included consideration of mitigation activity undertaken as part of an assessment of likely impact of future welfare reform (the now abandoned introduction of LHA rates into the social sector). These services have been developed over time, and although the original driver has been welfare reform many will now represent general good practice in supporting tenants and a core part of the overall offering of social sector landlords, which is why identifying the costs of these services is challenging. The work of these landlords both at corporate level and in terms of front line work to support tenants affected adversely by aspects of welfare reforms, is most welcome and this increased activity should be considered as part of the overall impact on the sector.

[13] pp.4-5, 73 SG2017 B; Scottish Government (June 2017) ‘Poverty Equality Analysis’

[14] 74% of social rented households had a net income of less than £20k, compared to £49% PRS, 49% owner occupiers and 17% mortgage payers, p.4; 37% are in the lowest income quintile, compared to 21% PRS, 20% owner occupiers and 6% mortgage payers, p.67 : SG2017 B.

[15] CIH (October 2017): ‘The Introduction of the LHA cap to the social rented sector’ p.49

Case Study – Melville Housing Association

Melville Housing Association is a medium sized RSL (stock of under 2000 properties) providing general needs accommodation in relatively less deprived areas in the Lothians and South Lanarkshire. MHA employs two dedicated welfare benefits advisers from a total staff of less than 30, with the associated costs of employment and support for these officers.

In the year 2016/17 these two welfare officers helped 113 tenants access an average of nearly £6,000 each, or almost £700,000 in additional income. This was achieved through support to tenants in identifying and accessing unclaimed benefits, appealing decisions, digital skills and money-saving advice.

Melville Housing Association have provided the following example of their work:

“A single woman in her 50’s contacted the Advice Service for assistance. She was receiving Employment and Support Allowance (ESA) and Personal Independence Payment (PIP) and had claimed Universal Credit (UC). She was given assistance to claim Council Tax reduction and ensure her claim for a Discretionary Housing Payment had been sent to the local authority.

“Once the UC claim was processed by the DWP the Adviser showed the client how to access the information on her online account, and established that not all the correct elements had been included. Assistance was therefore given to contact the DWP and rectify the errors. Further help was then given to complete forms from DWP to ensure continuation of the correct additional element in the UC amount

“Due to restrictions in getting out and because she had disability benefits, a referral was made to "Pass IT on computers", a local charity that supplies reconditioned computers free to people with a disability. A home computer was delivered by the charity and set up for use at home. She also attended some basic computing classes at the Housing Association to improve her skills and confidence. In turn this helped her manage her on line benefits claims.
The financial gain was £7,500.

“The outcome was that this tenant received her correct benefits entitlements and was able to afford her rent to keep her tenancy secure. She improved her digital skills, and received a home computer to manage her online account.”

2.2 Main Reforms

Bedroom Tax

Support for housing costs in the social sector have been affected most significantly by the bedroom tax, although the burden of this, since 2014, has been met in full by the Scottish Government, rather than landlords or individuals. Without Scottish Government intervention the bedroom tax would affect around 70,000 households, who would lose an average of around £650. The Scottish Government budgeted £50m in 2018/19 to fully mitigate the impact of this welfare reform.

Local Housing Allowance

In the private sector the most significant reform has been the changes to Local Housing Allowance rates. Local Housing Allowance rates are set in relation to market rents across eighteen Broad Rental Market Area's (BRMA) in Scotland, and across five bandings reflecting accommodation size, ranging from the cost of sharing accommodation or leasing a single room to the cost of rent on a home with four or more bedrooms. These rates are used to set the maximum payable under housing benefit. The rate payable is set in relation to household size, not the property itself. The lowest rate is the Shared Accommodation Rate (SAR) available to single adults under the age of 35 without dependents.

Previously set at the 50th percentile of market rents the LHA rate was reduced as part of Coalition government welfare reform to the 30th percentile. It has also been subject to limits on uprating, starting with a 1% cap, and, since 2015 a freeze. Since 2015 LHA rates have been set at the lower of the previous year's level, or the 30th percentile of newly advertised rents. This means it is possible for LHA rates to fall, but cannot increase (other than through the provision of targeted affordability funding, small increases allocated, at the discretion of UK ministers, usually to those rates which fall furthest from the 30th percentile). The levels are set for a financial year, and the 2018/19 rates will be the third set of rates to be frozen. The freeze on uprating was announced as a policy for four years, but it is not clear how rates will be uprated following the end of the freeze. This, alongside the unpredictability of rents, makes it impossible to accurately forecast the future impact of LHA policy.

The impact of the freeze on LHA rates are the focus of part five of this report.

Universal Credit

Tenants in both sectors are affected by the introduction of Universal Credit (UC). UC was the key element of the coalition governments programme of welfare reform being continued under the current UK government. It combines a number of existing benefits (now often known as legacy benefits) into a single monthly payment with a single taper rate. The introduction of UC has been complex and there are two main models of UC: the earlier form of UC (the 'Live Service') was rolled out across the entire country for new claimants who met certain gateway criteria, it continues in much of the country but no longer accepts new claimants; the newer 'Full Service' is in the process of being rolled out across the country for new claimants, or claimants with a change of circumstance. The roll out of Full Service is due to be completed in

December 2019. Live Service caseload is transferred into the Full Service with the geographical caseload, and those still on legacy benefits will be migrated into UC following that point. The DWP's intention is that legacy benefits for working age claimants will be completely eliminated in 2022. Pension age households continue to claim legacy benefits, especially Housing Benefit. The main disability benefits (including DLA/PIP) are not part of UC, although Employment Support Allowance is being replaced.

Whilst the Scottish Government remains concerned about aspects of UC that will be less generous than the legacy benefits it replaces (in particular for some transferring from tax credits and for certain disabled people) so far the problems caused by the introduction of UC have primarily been due to administrative and timescale issues. The implementation of UC has been blamed for an increase in overall levels of rent arrears. The impact on rent arrears of UK Government welfare reforms is the focus of part six of this report. Local Authorities and landlords have also reported that it is harder to support households in receipt of UC, and this causes difficulty in the processing of DHPs, Scottish Welfare fund (SWF) applications and Council Tax Reduction, compared to households in receipt of Housing Benefit. In both cases this is largely because neither local authorities or landlords are able to access (or access as easily) information about tenants/claimants UC award, compared to those tenants on Housing Benefit. LAs are able to use information collected in the administration of Housing Benefit in the management of DHPs and CTR schemes, and landlords are able to communicate directly with LAs in their tenants interest.

The Scottish Government introduced the Scottish UC Choices in 2017[16], to give individuals a choice of how frequently UC is paid (monthly or twice a month), and whether they wish to have their housing costs element paid directly to a landlord. These changes are not expected to fully mitigate the negative aspects of UC but to offer claimants some control, and freedom to manage their finances in a way which suits them. The UK Government introduced changes at the 2017 Autumn budget also aimed at increasing the level of support for those claiming UC, and to address certain concerns with this. The majority of these changes were implemented in April, it is not yet clear to what degree they are mitigating negative impacts of UC.

Benefit Cap

Since 2013 households in receipt of a number of UK Government benefits have had their total benefit income capped at a fixed level. Certain benefits, especially disability related benefits, exempt a household from the cap, as does working over 16 hours a week[17] A nine-month "grace period" also operates during which the Benefit Cap does not apply to certain claimants who were previously in work. Under legacy benefits this cap was applied by reducing the housing benefit award, as housing benefit is often the largest part of a households overall benefit income. In UC the reduction is applied to the whole award, and cannot be attributed to any individual element.

[16] Scottish Government Unviersal Credit Choices
[17] A household is excluded from the Benefit Cap under Universal Credit if monthly earnings are more than £520 per week (equivalent to 16 hours at the National Living Wage)

The cap was originally set at £26,000 a year for a couple or household with children or £18,200 for a single claimant without dependents. From November 2016 this was reduced to £20,000 or £13,400 for single claimants. The length of time for which households are capped will vary depending on whether they are able to take action to avoid it (e.g. finding or increasing hours in work, or successfully applying for an exempting benefit).

The benefit cap interacts with the benefits it limits. The Annual Report[18] highlighted that the introduction of the two child limit for support in UC and tax credits will, all else equal, reduce the number of households with three or more children affected by the benefit cap. Currently around 75% of households affected by the cap have three or more children. For those not affected by the limit each child entitles a family to an additional tax credits or UC child element, and for this reason such households have a high benefit entitlement which makes these families more likely to be affected by the cap.

As the impact of the two child limit rolls out to more families with a third child born since April 2017, this is likely to increase the proportion of the overall number of households that are capped primarily because of high housing costs – although high housing costs will of course frequently be associated with larger family sizes.

Conversely it should be recognised that if reductions and cuts in other areas, especially connected to support for housing costs were reversed then the impact of the benefit cap would increase as a result.[19] This is because households already capped would not see any increase in their benefit income (but their nominal level of deduction for the cap would increase), and other households would be brought up to the cap limit. In other words if Housing Benefit awards, or the housing element of UC were to become more generous many households would not receive an actual increase in the benefit income.

In November 2017 (the latest data available), around 3,400 households were capped through housing benefit in Scotland and 140 households through UC[20], however this latter figure only includes UC full service cases. It is not clear how many households were capped in live-service UC areas in Scotland. Of those that were subject to the cap, the range of losses varies substantially, but the average deduction is around £57 a week or the equivalent of just under £3,000 per year if the household was capped for each week across a year.

[18] SG2017 A

[19] This is the case for any change initiated by the UK Government, on Scottish Changes the Fiscal Framework notes that "The Governments have also agreed that the UK government's Benefit Cap will be adjusted to accommodate any additional benefit payments introduced by the Scottish Government." : Paragraph 90, 'The agreement between the Scottish government and the United Kingdom government on the Scottish government's fiscal framework' . A specific agreement was reached between the UK Government and Scottish Government to ensure that the abolition of the bedroom tax was not affected by the application of the benefit cap.

[20] DWP statistics https://www.gov.uk/government/statistics/benefit-cap-number-of-households-capped-to-november-2017

Despite average housing benefit awards being higher for private sector tenants, the majority of those affected by the benefit cap (under housing benefit[21]) are social rented tenants. Around 44% (1,478) of those affected are local authority tenants, 22% (741) are registered social landlord tenants and 34% (1,158) are in the private rented sector.

Due to the fact that households with children are entitled to more in benefits, such as Child Benefit and Child Tax credits, it follows that the vast majority of the households affected by the cap have at least 1 child, with only 10% of households recorded as having no children. IPPR Scotland estimate that ending the benefit cap in Scotland could lift around 5000 children out of relative poverty, at a cost of around £20m in 2019/20.[22]

Support for mortgage interest

Owner occupiers with mortgage costs are eligible for Support for Mortgage Interest (SMI). This was formally administered as a benefit, but is now available as a loan scheme. In April 2018 all existing recipients of the SMI benefit will have payments stopped, to retain support recipients must apply for the payment of the loan. The eligibility criteria for SMI is more limited than that for support with rental costs through either housing benefit or UC, especially for working age households, who need to wait 39 weeks after claiming a passporting benefit (such as UC or Job Seekers allowance (JSA)), and will need to be entirely out of work.[23] The change is expected to affect between 10,000 and 20,000 households in Scotland, reducing Social Security spending by £20 million per year by 2020/21.

[21] Breakdowns of the 140 UC cases affected by the benefit cap were not available at time of writing.
[22] IPPR Scotland (February 2018) 'Reducing Child Poverty in Scotland'
[23] DWP Support for Mortgage Interest

2.3 Mitigation and devolved powers

Scottish Government has acted to support the housing sector as a whole through mitigation, including direct financial mitigation to individuals and households. We expect to spend over £125m in 2018/19 on welfare mitigation and measures to help protect those on low incomes. Housing Benefit and Universal Credit (UC) are reserved benefits. However, the Scotland Act 2016 devolved Discretionary Housing Payments in full from April 2017, and also gave Scottish Ministers a power, held concurrently with UK Government ministers to modify the way in which UC is paid, and the calculation of housing costs.

The Scottish Government has been responsible for Scottish Welfare Fund (SWF) since April 2013, when its predecessor the Social Fund was abolished by the UK Government. The responsibility for this provision was transferred to the devolved administrations and local authorities in England. The SWF is delivered on behalf of the Scottish Government by all 32 local authorities. Since April 2013 nearly 276,000 unique households have received at least one award from the fund, these payments can be made to support someone on a low income who are in crisis or to help people establish themselves or remain in the community (for instance following a period in institutional care, in prison etc) or support those under exceptional financial pressure with large one off costs (such as for white goods). Many SWF payments will have been made to those in receipt of UK Government benefits including housing benefit or UC. In some cases the reason for the crisis or period of exceptional financial pressure may be related to a loss or delay of benefit income. As such SWF may mitigate the impact of welfare reform for those households who receive a payment but they are unlikely to be made in direct relationship to a reduction in support for housing costs, or be a direct means of addressing a rent shortfall.

DHPs more directly mitigate the impact of welfare reform on the sector. Most high profile has been the direct and full mitigation of the bedroom tax. This funding has supported individuals directly, and allowed them to meet their rent payments, preventing a build-up of rent arrears which would have had a negative impact on landlords as well as the households affected. As set out above since April 2017 the Scottish Government has been responsible for all DHPs. Scottish Government funding to mitigate the bedroom tax began in 2013, and was provided to LAs alongside UK Government funding.

The full mitigation of the bedroom tax has been the highest profile element of Scottish Government mitigation. In addition to the substantial financial investment in the sector, the certainty of full mitigation has reduced the need for tenant behavioural change, or activity from landlords and LAs to support those affected. This has had positive impacts across the sector, for example local authorities have been able to continue to make reasonable offers of settled accommodation to homeless households in stock which they will, in terms of the bedroom tax policy, underoccupy, without a risk that this will be unaffordable for the household. Furthermore, landlords, local authorities and advice agencies have been able to focus their support on those affected by other aspects of UKG welfare reform. The Scottish Government's intention to abolish the bedroom tax at source will further reduce the requirement for advice and support to make a DHP application.

DHPs are also available to support those affected by other aspects of welfare reform, largely the benefit cap and LHA rates in the private rented sector. The budget for Other DHPs in 2018/19 is £10.9m.

The other element of housing related mitigation is the support available to 18-21 year olds. The UK Government policy introduced in April 2017 was to remove automatic entitlement to housing costs in UC, for single adults aged 18-21, in full service UC areas. As with bedroom tax the Scottish Government made a commitment to provide support to all young people unable to secure an award of UC that includes housing costs. There are a number of exemptions to the UK Government policy, however the Scottish Government acted with local authorities to put in place a mitigation scheme for those unable to claim an exemption. The UK Government has subsequently indicated that they will reverse the policy introduced in 2017, and that support will be available through UC for young people's housing costs in the same way as older claimants. The overall cost of mitigating the policy is low, and was likely to remain so, even before the announcement.

The Scottish Government is using its powers over UC payment arrangements to give people in Scotland more choice about how they manage their household budget by making UC more flexible. This is known as the "UC Scottish choices" and provides people with the option to receive their UC award twice monthly and have the housing costs in their award paid direct to their landlord in both the private and social rented sector. The UC Scottish choices were made available from 4 October 2017 to people making a new claim in full service areas and this was extended to everyone receiving UC in full service areas from 31 January 2018.

Direct payment of housing costs to landlords and more frequent payments may both support households in managing their budgets in a way that suits their circumstances, and this, plus the security of a direct payment may help prevent the build-up of rent arrears. However these changes do not increase the level of award or address all of the concerns with UC, which would be outwith the Scottish Government's current powers. The take-up rate of the UC Scottish choices has been high with over 2,500 people choosing one or both of the choices between 11 November and 31 December 2017. Of those 2,100 requested to be paid twice monthly, 1,000 elected to have the housing element of UC paid directly to their landlords, and of that around 500 chose both.[24]

The Scottish Government is also committed to introducing Split Payments for UC claimants, where the award is split between two members of a couple, rather than all being received by one member, and work is underway to recommend the form that these will take.

[24] More detailed statistics are available online: 'UC Scottish choices management information'. It is the Scottish Governments intention to publish official statistics on a quarterly basis.

3 Key areas

3.1 Local Housing Allowance in the private rented sector

The apparent intention of the LHA changes made through the Welfare Reform Act 2012 was to ensure that households could access accommodation at the cheaper 30% of the local market (rather than 50% as before), but that those desiring or requiring more expensive accommodation can be expected to pay for this through their own resources, or wider benefit awards. The impact of LHA can be considered both in terms of this original intention, and in terms of whether rates still fulfil this apparent intention in the context of the subsequent freeze in these rates by the UK Government.

In terms of the original intention, households may wish to access more expensive or larger accommodation for a number of reasons, disabled or older households may require level access accommodation, in close proximity to amenities and public transport links. Such tenancies will be less common, and may attract higher rents. Some households may also wish to remain in a more expensive part of a Broad Rental Market Area (BRMA, the geographical areas over which the LHA rates are set and calculated) due to education, work or family links. Some BRMA cover wide geographical areas with substantial variation between rents, especially those BRMA which cover rural and urban areas. It was because of such cases that the DWP provided additional DHP funding alongside the introduction of the LHA policy.

This section considers the policy in its own terms, and is intended to highlight the divergence between what LHA rates were set at in 2013, and what they now afford. It is important to consider that the impact of the freeze compounds the impact on those for who may already not have been able to access or easily access suitable accommodation within the LHA rates, but will also spread the level of impact to a wider range of claimants.

The freeze on uprating has been criticised as in many areas LHA rates are no longer sufficient to access the bottom 30% of the market. This will make it increasingly difficult for households to access accommodation without drawing on other resources (especially for those with more specific requirements). Stakeholders and groups representing private sector tenants have highlighted that in some areas only a very small portion of the market is now available under LHA levels, and that as such a high proportion of tenants need to make substantial additional contributions to their rent.

The tables below show the rates that will apply from 2018/19 and how they relate to the rental market. These tables take the approach taken by the Chartered Institute of Housing (CIH) in their report 'Mind The Gap', but use more recent data.[25] Table 1 shows the rates that will apply from April 2018, in most cases these are the same as those rates that applied in the current year 2017/18, but highlighted are those rates which have actually fallen, to match the true 30th percentile, and those rates that have been uprated by up to 3% through the targeted affordability fund (TAF). The TAF is a UK measure to reinvest some of the savings from the ongoing LHA freeze into increases for those LHA rates that have fallen furthest from the 30th percentile, the majority of such rates are concentrated in London and the south east of England.

[25] CIH (May 2016) 'Mind the gap'

Tables 2 and 3 represent two different ways of putting the LHA rates into context. Table 2 shows the portion of the actual rental market in the area that the LHA rate can access, Table 3 shows the difference in cash terms (per week) between the LHA rate and a property at the actual thirtieth percentile of the rate. Table 2 therefore shows how close or how far the LHA rate is to achieving the original intention of allowing those in receipt of support for private sector housing costs from accessing accommodation in the cheapest thirty percent of the local market. Table 3 shows the amount of additional funding that would be required to afford the rent on a home that was at that actual 30th percentile. Taken together they demonstrate the loss to individuals of the policy, and give an indication as to how easy it is likely to be for someone to move to accommodation that is within the relevant rate.

Table 1 demonstrates the geographical variance between rates, with the biggest variance in the 4+ band (With Dumfries and Galloway attracting the lowest level of support at £129 and Lothian the highest level at £277). Across Table 2 and 3 it is clear that the relevant impact of the LHA freeze varies substantially on a geographical basis, and also in terms of the bands. For instance it is clear that in the Aberdeen and Shire area, the LHA rates continue to meet their original intention of covering the bottom 30% of the market in 4 out of 5 rates, and where it falls short it does so only slightly in cash terms, on the other hand Greater Glasgow and Lothian both diverge significantly from the actual 30th percentile in most bands, and there are significant cash shortfalls. There is not a clear correlation between the overall level of the rates and the degree to which there is a shortfall between those and the true 30th percentile. This is because the shortfalls are a function of the movement in rents since 2012, not the relative level of the market.

Table 1: 18/19 LHA rates

	Shared	**1 bed**	**2 bed**	**3 bed**	**4+ bed**
Aberdeen and Shire	£75.63	£105.86	£138.08	£172.60	£228.99
Argyll and Bute	£61.36	£84.23	£103.85	£120.29	£180.00
Ayrshires	£62.69	£80.55	£97.81	£115.07	£158.90
Dumfries and Galloway	£59.44	£80.77	£97.81	£108.26	£129.47
Dundee and Angus	£57.69	£79.24	£103.85	£128.19	£189.07
East Dunbartonshire	£68.42	£97.81	£116.53	£160.38	£221.42
Fife	£59.95	£81.58	£102.56	£120.29	£174.81
Forth Valley	£62.38	£83.91	£103.56	£126.58	£181.80
Greater Glasgow	£68.28	£92.06	£116.53	£137.31	£206.03
Highland and Islands	£59.04	£91.81	£110.72	£126.92	£160.38
Lothian	£68.27	£123.62	£149.79	£186.47	£276.92
North Lanarkshire	£59.44	£80.55	£99.06	£113.92	£167.31
Perth and Kinross	£57.69	£82.40	£105.94	£137.31	£183.46
Renfrewshire/ Inverclyde	£60.00	£80.55	£101.54	£125.42	£190.80
Scottish Borders	£56.96	£72.00	£92.05	£109.62	£138.46
South Lanarkshire	£63.46	£80.55	£103.56	£126.92	£180.00

West Dunbartonshire	£63.29	£86.30	£103.56	£113.92	£169.69
West Lothian	£60.03	£98.08	£117.69	£133.85	£180.45

Purple Highlighted Cells are those where the LHA rate has reduced to the 30th percentile.
Green Highlighted Cells are those where the LHA rate was increased by 3% through TAF
All other rates frozen at same level as preceding year

Table 2 Actual percentiles

	Shared	**1 bed**	**2 bed**	**3 bed**	**4+ bed**
Aberdeen and Shire	25%-29.99%	>=30%	>=30%	>=30%	>=30%
Argyll and Bute	25%-29.99%	20%-24.99%	25%-29.99%	20%-24.99%	25%-29.99%
Ayrshires	15%-19.99%	>=30%	>=30%	>=30%	20%-24.99%
Dumfries and Galloway	25%-29.99%	25%-29.99%	>=30%	25%-29.99%	25%-29.99%
Dundee and Angus	20%-24.99%	15%-19.99%	20%-24.99%	20%-24.99%	15%-19.99%
East Dunbartonshire	5%-9.99%	25%-29.99%	5%-9.99%	10%-14.99%	10%-14.99%
Fife	15%-19.99%	15%-19.99%	15%-19.99%	10%-14.99%	20%-24.99%
Forth Valley	10%-14.99%	25%-29.99%	10%-14.99%	20%-24.99%	10%-14.99%
Greater Glasgow	10%-14.99%	10%-14.99%	5%-9.99%	15%-19.99%	5%-9.99%
Highland and Islands	15%-19.99%	15%-19.99%	15%-19.99%	15%-19.99%	25%-29.99%
Lothian	10%-14.99%	<5%	5%-9.99%	15%-19.99%	20%-24.99%
North Lanarkshire	10%-14.99%	25%-29.99%	25%-29.99%	>=30%	25%-29.99%
Perth and Kinross	15%-19.99%	5%-9.99%	10%-14.99%	15%-19.99%	10%-14.99%
Renfrewshire/ Inverclyde	20%-24.99%	>=30%	20%-24.99%	25%-29.99%	20%-24.99%
Scottish Borders	25%-29.99%	15%-19.99%	15%-19.99%	25%-29.99%	25%-29.99%
South Lanarkshire	25%-29.99%	20%-24.99%	15%-19.99%	25%-29.99%	15%-19.99%
West Dunbartonshire	25%-29.99%	25%-29.99%	15%-19.99%	15%-19.99%	15%-19.99%
West Lothian	10%-14.99%	15%-19.99%	5%-9.99%	5%-9.99%	15%-19.99%

Table 2 shows how much of the local market can be accessed within the cost of the LHA rate. It demonstrates that in only 10 out of 90 rates does the LHA policy meet its original intention of allowing a household to access a property in the 30% of the local market, in half of the LHA rates less than 20% of the local market can be accessed at the level payable, and in nine rates only the bottom 10% of the market is accessible. In these areas it is seriously questionable whether a household would be able to access suitable accommodation without having to meet at least some of their housing costs out of the household's other resources, including other social security benefits. The most limited market is the Lothian 1 bedroom rate. Fewer than 5% of newly advertised tenancies are accessible at the LHA rate.

Table 3: Cash shortfall between LHA and real thirtieth percentile

	Shared	1 bed	2 bed	3 bed	4+ bed
Aberdeen and Shire	£0.32	£0.00	£0.00	£0.00	£0.00
Argyll and Bute	£1.93	£3.22	£5.47	£6.29	£21.37
Ayrshires	£1.75	£0.00	£0.00	£0.00	£13.70
Dumfries and Galloway	£1.55	£4.23	£0.00	£1.06	£2.86
Dundee and Angus	£5.60	£1.31	£10.07	£9.89	£18.05
East Dunbartonshire	£8.36	£5.75	£10.05	£22.58	£54.74
Fife	£7.79	£4.72	£3.30	£6.29	£9.30
Forth Valley	£7.81	£2.39	£5.76	£11.50	£24.17
Greater Glasgow	£9.97	£11.50	£21.55	£18.03	£81.64
Highland and Islands	£7.70	£6.00	£4.35	£12.31	£0.72
Lothian	£9.98	£23.82	£32.93	£32.16	£33.76
North Lanarkshire	£6.15	£2.30	£4.50	£0.00	£2.42
Perth and Kinross	£5.05	£8.50	£9.13	£18.03	£23.66
Renfrewshire/ Inverclyde	£3.29	£0.00	£2.02	£1.16	£10.57
Scottish Borders	£0.78	£2.79	£2.31	£4.30	£11.13
South Lanarkshire	£0.98	£5.75	£0.00	£5.41	£27.12
West Dunbartonshire	£1.15	£0.00	£0.00	£12.55	£20.17
West Lothian	£7.71	£5.48	£14.64	£14.59	£20.92

Table 3 shows the cash shortfall, there is an apparent discrepancy compared to Table 2, in that although only ten rates appear to meet the 30th percentile, fourteen show here as requiring no additional funding to access a property in the 30th percentile, in a further four rates the shortfall is less than a pound a week. Table 3 and Table 2 need to be considered in conjunction to get a true sense of whether the LHA rate is sufficient to allow a household to access accommodation. Where the shortfall is negligible in cash terms between the LHA rate and the actual thirtieth percentile it is likely that a household will be able to access accommodation with only a limited impact on their overall spending power. On the other hand in some areas there may be a substantial cash shortfall but households may still be able to access affordable accommodation if a substantial portion of the market (albeit it less than 30%) is available under the LHA rate. For instance in Argyll and Bute the shortfall for the 4 bedroom rate is more than £20 a week, but more than 25% of the new tenancies in the area do fall below the LHA rate. Overall in 26 out of the 90 rates the cash shortfall is more than £10 a week. A small number of rates show substantial shortfalls with the most extreme example being the Greater Glasgow 4 bedroom rate of £206.03 a week which falls more than £80 short of that required to access a tenancy advertised at the true thirtieth percentile. It is worth considering that even apparently small shortfalls may have a substantial impact on the outgoings of a household. An under 25 receiving the shared accommodation rate will also be eligible for a lower level of JSA or a lower standard allowance in Universal Credit. The UC standard allowance for a single under 25 year old is £251.77 a month, if such a tenant needs to pay only £6 a week towards their housing costs, that will represent more than 10% of their standard allowance. The highest shortfalls under the shared accommodation rate appear in the Greater Glasgow and Lothian BRMA, and in these areas that shortfall is likely to represent 17% of an under 25s standard allowance.

Comparison to the work by CIH on the same subject shows the shift in these patterns over time. In 2016 CIH found that 20 out of the 90 LHA rates (e.g. the rates for 2016/17) met the 30th percentile of actual market rents, whereas for the 2018/19 rates only 10 do so, at the other end of the range the number of rates where less than 10% of the market is available at the LHA rate has increased from 4 to 9. In terms of shortfall CIH reported 4 rates where the shortfall between the rate and the true 30th percentile was more than £20, whereas this is now the case in 14 of the 90 rates. A comparison shows that the pattern of change is not even across Scotland, for instance the worst affected area identified by CIH was Aberdeen and Shire, but the 2018/19 rates now match the 30th percentile for all but the shared accommodation rate (where the rate is in the 25-29% range and the shortfall is only £0.32). This shift will not be surprising to those familiar with the dramatic shifts in the Aberdeen rental market, largely driven by the fortunes of the oil industry over this period.

<u>Case studies</u>
N.B. Illustrative only, calculations of eligibility based on published rates and broad assumptions as to circumstances.

Single under 25 in Glasgow. “Anita” is a single claimant of Universal Credit under the age of 25 and is eligible to the reduced standard allowance of £251.77, in the Glasgow BRMA she is also entitled to a housing element of up to £295.88, which is the shared accommodation rate. Between 10 and 15% of studio or shared lettings are available at a price of this or lower. To access the bottom third of the market would require a top up of up to £43.20 a month. This would represent around 17% of the standard allowance, and thus be a substantial portion of the funds available for other costs including bills and food. Sharing accommodation is common amongst younger adults, who will frequently rely on arrangements made with peers in similar broad circumstances, for those without peers in a similar situation rooms can be found, usually through sharing websites, there will be challenges, especially for more vulnerable tenants, in identifying a suitable let in an existing flat share or bedsit accommodation. As a single unemployed individual Anita is not tied to a certain location because of work or children schools as many others are. She may however have family links in

certain areas of Glasgow that she wants to maintain, but this will further reduce her options for affordable accommodation.

If Anita was over the age of 25 she would be entitled to the full single rate of Universal Credit (£317.82), the difference between this and the reduced rate would be enough to cover the difference between the shared rate payable and the actual thirtieth percentile of shared lets. If she were over 35 Anita would be able to access the 1 bedroom rate, which in Glasgow is £398.93.

Couple with three young children in Edinburgh

"Will and Catherine" are a couple with three children who live in Edinburgh, assuming that one or both of them are over 25 they are eligible to a shared standard allowance of £498.89. Assuming at least that their eldest child was born before 6 April 2017, and that the household are not affected by the two child cap (either because of the age of the children or because of an exemption.) then they will also be eligible for £740.42 Child Element. They will also separately receive Child Benefit totalling £156.43. The household will be entitled to the three bed rate of £808.01, which is sufficient to access between 15 and 20% of the local market. The monthly shortfall for a flat at the full thirtieth percentile is £139.36, this represents 28% of the couples standard allowance or 10% of their combined standard allowance, child element and child benefit.

The Lothian BRMA covers a highly localised market, and Will and Catherine may not wish to move if their children are in school, or if they are used to family support for those children. As such they may struggle to find suitable lets even at the thirtieth percentile rate in some areas of Edinburgh, if either of the couple work they will further have to balance any savings in cheaper accommodation against travel costs.

Will and Catherine may also be affected by the benefit cap. Unless one or both are working for more than sixteen hours a week, or has an exempting disability, then their UC award will be capped. Without the cap their maximum award is likely to be £2047.32, but the couple will be limited to a total of £20,000 a year or £1666.67 a month, the cap includes Child Benefit as well as UC. As such their UC award will be reduced by £537.08. It is unlikely to be possible to access any suitable accommodation in the Lothians area without the costs being met substantially from other parts of the award, or without access to other sources of funding.

3.2 Impact of welfare reform and Universal Credit on rent arrears

The impact of welfare reform and Universal Credit on rent arrears has been substantially discussed in the media and in parliament. In any case where the means of an individual or household to pay their housing costs have been reduced there is a risk of rent arrears, however the causes of rent arrears are complex and not simply or directly attributable to changes in income. The relationship between welfare reform and rent arrears will depend in part on the response of an individual or household to changes in their income. In some cases a budgeting or wider behavioural response will protect the payment of rent, e.g. where a household reduces other expenditure, increases hours of work or raises formal or informal debt to allow them to pay their rent. Other households may not be able to take effective action to avoid rent arrears, or may choose not to do so. As discussed elsewhere the impact of welfare reform on the ability to pay rent is not limited to the impact on housing related benefits, as deductions in other benefits may lead to rent payments being missed if a household meets other costs and liabilities from their Housing Benefit award, or from the UC award without setting aside money for rent.

In particular Universal Credit has been widely singled out as a cause of increased rent arrears, the relationship between UC and rent arrears has been a feature of wider inquiries into the operation and roll out of UC for both the UK Parliaments Work and Pensions Committee and the Scottish Parliament Social Security Committee.[26] Much of the focus was on the initial transition into Universal Credit, and a number of UK Government budget measures announced in November 2017 were aimed at addressing issues (or perceived issues) at the start of a new claim and/or tenancy.[27] The key changes were the removal of the seven waiting days from those claims were they applied and the introduction of a housing benefit run on period for those moving from legacy benefits including housing benefit. DWP have also increased the availability of advances, in order to support budgeting in the early stages of a claim.

Despite the evidence reported by landlords and councils of their experience of UC the official data concerning the relationship between rent arrears and Universal Credit is not robust enough to draw firm conclusions as to the extent of the impact on arrears. UC has been introduced in a staged approach which means numbers are still small and it is not possible to identify any overall increases in rent arrears (still less, evictions or other negative outcomes) from the data available that can be directly and solely attributed to the roll out of UC. To thoroughly understand the impact that UC has on households would require detailed case level data which is not currently available. This may be an area for future third party research, but could most effectively be carried out by the DWP themselves. As a result it is also not possible to effectively or robustly assess the impact of the changes announced in November, and it may never be possible to do so. Over time, data availability will improve and Scottish Government will continue to consider the data available and whether it is possible to draw any conclusions from that data.

---

[26] Scottish Parliament Social Security Committee inquiry pages, UK Parliament Committee Inquiry: UK Parliament Work and Pensions Committee inquiry pages .

[27] DWP (November 2017)

In the meantime it is possible to consider the information that is available, but which taken together may allow conclusions to be drawn. Local Authorities, and Social Landlords have both provided evidence based on their own experiences, and that of their tenants. The data available at this time is in the form of management information collected by local authority and other landlords, on the impact of UC in the social sector on their tenants. This data has been published and publicised elsewhere, and a short summary of the evidence is presented below. The available evidence allows a reasonable conclusion that Universal Credit, especially the full service of UC, has a substantial impact on levels of arrears in terms of the numbers affected and the average level. There is not currently any evidence available to support the suggestion that arrears for individual households may spike initially and then fall over time, however this is the DWP's hypothesis. Even if arrears can be expected to fall for individual cases it is not clear whether they will fall to the same levels as are seen in the Housing Benefit caseload.

Landlord evidence

On 28 September 2017 the Minister for Social Security and the President of COSLA wrote jointly to the then Secretary of State for Work and Pensions collating a range of local authority evidence on the impact of UC, this was taken from work done by Highland, East Lothian, Inverclyde and East Dunbartonshire council, since this letter was drafted further councils have moved into the full service of UC, and reported similar findings. The letter reported that where local authorities had their own housing stock and were able to report on rent arrears rent arrears, which they found to be 2.5x higher for those on UC than for those on Housing Benefit. It also found that there were a number of other administrative burdens on local authorities in supporting households. Similarly in England two organisations representing council landlords[28] also published a report that found a seven percentage point increase in tenants in arrears associated with the introduction of UC as well as an increase in the average level of arrears.

East Lothian Council published a paper[29] for their Policy and Performance Review Committee on in February 2018, monitoring levels of rent arrears in council housing. As well as being a recent piece of work, East Lothian has a longer experience of full service UC than other areas in Scotland, as such it represents the strongest available case study into the impact of UC on rent arrears. The paper notes that in 2014/15 and 15/16 East Lothian successfully reduced the overall level of rent arrears due to the council (of 10% and 8% respectively), however in 2016/17 overall arrears increased by 30%. Up to the end of quarter 3 arrears had increased by a further 3% in 2017/18. Although this represents an overall slowing of the increase in overall arrears the debt owed by tenants not claiming UC had fallen substantially in this period, and the levels of debt for those claiming UC continue to increase substantially. Considering the volume of tenants in arrears East Lothian found that 72% of Council tenants known to be claiming UC were in arrears at end of December 2017, compared to 30% of all tenants. This report concludes that UC full service has an ongoing impact on the ability of the council to collect rents, in line with

[28] National Federation of Arms Length Management Organisations and Association of Retained Council Housing.
[29] East Lothian Council (February 2018), 'Council House Rent Arrears'

evidence from last year. Landlord reporting of arrears cannot control for the characteristics of the UC and non UC caseload, and as such the comparison between these tenants may not be conclusive, but the combination of that comparison with the overall levels of debts recorded in a council with a recent history of reducing areas is indicative that UC full service is driving these levels of tenant rent arrears. COSLA continues to work with local authorities on the evidence for rent arrears related to UC and will publish further information in future.

The Scottish Federation of Housing Associations has been collecting evidence form its members on the impact of Universal Credit since 2015. In evidence to the Work and Pensions Committee in March 2017[30] they reported that the levels of arrears reported by landlords for those in receipt of UC was substantially higher than that for those in receipt of Housing Benefit, both in terms of the proportion in arrears, and the level of average arrears, echoing the LA experience. SFHA report that their most recent figures show a similar pattern, with reports from landlords showing that average arrears for tenants on UC are substantially higher than for those in receipt of Housing Benefit, in most cases twice as high. The National Housing Federation in England has reported similar patterns. Both organisations continue to monitor the impact of welfare reform on their members and will continue to publish the results of their findings.

Causes

Both LAs and RSLs have identified issues at the start of claims as being responsible for a large part of the build-up of arrears, with the delay in the first payment being particularly identified. It is not therefore clear to what degree the recent changes announced to UC will mitigate this issue. More long term factors include difficulty tenants may find in managing their money, especially if not used to monthly payment cycles or to paying their landlord directly. The Scottish UC choices may mitigate these factors by supporting individuals to better manage their own budgets in a way that suit them. East Lothian in their recent report was optimistic that both the Scottish and UK Government changes into the operation of UC would have a positive impact, but it is not clear how strong this would be.

It is reasonable to conclude that welfare reform in general, and UC in particular does increase rent arrears. A particularly sharp impact at the beginning of claims has been observed but the impact of this may be mitigated by recent changes to UC, landlords have also taken a role in taking steps to prepare their tenants for the change, as roll out continues we can expect landlords to continue to develop and improve the way they support tenants. The nature of the data is such that it is not possible to fairly quantify the impact that UC has, and it is unlikely that more robust data will be available any time soon. Although additional Local Authority and Landlord data will become available in future, to truly understand the impact of UC would require consideration of case level data and the organisation best placed to undertake such research would be the DWP itself, such consideration would also allow the DWP to assess the impact of its own changes to UC as well as the introduction of the Scottish UC choices.

[30] SFHA (March 2017) 'Submission to the UC Update Inquiry'

4 Conclusion

The impact of Welfare Reform, from the 2012 Act onwards, on the housing sector in Scotland is substantial. The impact has been most strongly felt by tenants and their landlords, with different kinds of impact in the private and social rented sectors.

In the private sector this report has highlighted the impact of the freeze on LHA rates on affordability of accommodation, and shown that the freeze on rates has substantially limited the availability of affordable accommodation in a number of areas. In the social sector this report has highlighted the impact of UC on rent arrears, although the data is limited it is clear that the full service of UC is having an effect of the ability of landlords to collect rents. Neither of the impacts highlighted are an apparently intentional impact of the policy. The decision to move the level of LHA to match the 30th percentile was indeed criticised, but this report has highlighted that the actual level of support available has fallen substantially short of that reduced level, which was presumably considered to be a reasonable level of support by the UK Government when it was set at that level. If it is not the intention of the UK Government to increase rent arrears, then it would appear to be incumbent on them to address the consequences of these changes. These are the focuses of this report but this report has also highlighted a number of other social security measures with a direct or indirect impact on housing. In addition to these the overall social security context must be borne in mind. The real terms cut of almost £4bn by 2020/21 will have an impact on households throughout Scotland, even where such households are not affected by a direct housing related cut.

The impact on individuals is matched by an impact on landlords, as well as the impact of rent arrears on business models most social landlords and local authorities are investing in a range of activities which will mitigate the impact of rent arrears, but which are of course paid for in the main through rents for all tenants. Landlords, both private and social may also consider changes to their business models, rent setting and investment patterns based on welfare reform changes, in some case this may be an intention of the policies themselves. In Scotland housing is a devolved area, whereas social security is largely reserved with some benefits, including support for those with ill-health and disability in the process of being devolved. However the benefits being devolved to Scotland account for only 15% of overall welfare expenditure in Scotland. It is clear that the actions of the UK government, in its areas of reserved competence are having an impact on the operation of the housing sector which should be subject to devolved competence. In some cases the impact may be contrary to devolved priorities.

The activity undertaken by landlords to mitigate the impact of welfare reform will also have an impact on their business and represents a hidden cost of welfare reform, these costs will be hard to separate from the broader business of the landlord, but act in many cases to reduce the impact on individuals. These costs, like the additional costs in rent management and collections will be borne by landlords as a whole, and indeed their other tenants, this is especially the case for social landlords. Social landlords also play a valuable role in supporting a range of devolved priorities, supporting place making, new supply, and energy efficiency priorities, and additional burdens on them will have an impact on these roles.

The final cost of welfare reform has been the cost of mitigation borne by the UK Government, the £125m expected to be spent by the Scottish Government in 2017/18 is a substantial sum but it must be considered in the context of the overall level of cuts to support in Scotland. The current and future use of Scottish Government powers, may also help address some of the issues raised in this report, but it is again unlikely that they will be able to address them in full.

Scottish Government
Riaghaltas na h-Alba
gov.scot

© Crown copyright 2018

OGL

This publication is licensed under the terms of the Open Government Licence v3.0 except where otherwise stated. To view this licence, visit **nationalarchives.gov.uk/doc/open-government-licence/version/3** or write to the Information Policy Team, The National Archives, Kew, London TW9 4DU, or email: **psi@nationalarchives.gsi.gov.uk**.

Where we have identified any third party copyright information you will need to obtain permission from the copyright holders concerned.

This publication is available at **www.gov.scot**

Any enquiries regarding this publication should be sent to us at
The Scottish Government
St Andrew's House
Edinburgh
EH1 3DG

ISBN: 978-1-78851-882-6 (web only)

Published by The Scottish Government, May 2018

Produced for The Scottish Government by APS Group Scotland, 21 Tennant Street, Edinburgh EH6 5NA
PPDAS411786 (05/18)