



## Report to Safer and Stronger Communities Scrutiny Committee 10<sup>th</sup> January 2013

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**Report of:** Executive Director, Communities

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**Subject:** The Housing Revenue Account (HRA) Business Plan update 2013/14 with a focus on welfare reform as a key risk

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**Author of Report:** Liam Duggan

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### Summary:

This report provides a summary of the key changes influencing the Housing Revenue Account (HRA) Business Plan update for 2013/14 and focuses on welfare reform as a key risk to the business plan.

Resources and forecast efficiencies arising from the decision to bring council housing delivery in-house from 2013 together with an anticipated reduction in capital financing costs, primarily as a result of access to more attractive interest rates means that the forecast long term financial position of the plan has improved and new investment can be planned.

Cabinet will consider investment proposals for making use of this additional spending power on 16<sup>th</sup> January 2013. The Cabinet report will be available online from 8<sup>th</sup> January 2013 and the Scrutiny Committee will have the opportunity to discuss and comment on these proposals at its meeting on 10<sup>th</sup> January.

In the HRA Business Plan 2012-17, welfare reform is identified as the single biggest policy risk to the business plan. It is also consistently high on the agenda of tenants when consulted on council housing priorities.

The business plan set aside resources in order to support tenants through the changes and minimise the impact on the HRA.

Since the business plan was published in January 2012, further detail has emerged about welfare reform and its implementation. This detail has helped the Council revise its estimate of the likely impact of welfare reform on the HRA and council tenants. The current assessment is that welfare reform will have a greater impact than previously thought.

As part of the update report, Cabinet will consider directing additional resources to supporting tenants through welfare reform when it meets on 16<sup>th</sup> January 2013. Whilst these proposals are yet to be considered by Cabinet they are being provided early to the Scrutiny Committee in this report in order to provide for discussion and feedback.

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**Type of item:** The report author should tick the appropriate box

Reviewing of existing policy	
Informing the development of new policy	<b>x</b>
Statutory consultation	
Performance / budget monitoring report	
Cabinet request for scrutiny	
Full Council request for scrutiny	
Community Assembly request for scrutiny	
Call-in of Cabinet decision	
Briefing paper for the Scrutiny Committee	<b>x</b>
Other	

**The Scrutiny Committee is being asked to:**

The Scrutiny Committee is asked to discuss and feed back their views with regard to the proposals for additional support to tenants through welfare reform which are due to be considered by Cabinet on 16<sup>th</sup> January and are set out in this report.

The Scrutiny Committee is also asked to provide feedback and comment on the wider HRA Business Plan update report for 2013/14 which will be considered by Cabinet on the 16<sup>th</sup> January and will be in the public domain from the 8<sup>th</sup> January.

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**Background Papers:**

Report to Cabinet, *Housing Revenue Account Business Plan 2012-17*, 25<sup>th</sup> January 2012

<http://meetings.sheffield.gov.uk/council-meetings/cabinet/agendas-2012/agenda-25th-january-2012>

**Category of Report:**      **OPEN/CLOSED**      (please specify)

# The Housing Revenue Account (HRA) Business Plan update 2013/14 with a focus on welfare reform as a key risk

## 1. Summary

- 1.1 This report provides a summary of the key changes influencing the Housing Revenue Account (HRA) Business Plan update for 2013/14 and focuses on welfare reform as a key risk to the business plan.
- 1.2 Resources and forecast efficiencies arising from the decision to bring council housing delivery in-house from 2013 together with an anticipated reduction in capital financing costs, primarily as a result of access to more attractive interest rates means that the forecast long term financial position of the plan has improved and new investment can be planned.
- 1.3 Cabinet will consider investment proposals for making use of this additional spending power on 16<sup>th</sup> January 2013. The Cabinet report will be available online from 8<sup>th</sup> January 2013 and the Scrutiny Committee will have the opportunity to discuss and comment on these proposals at its meeting on 10<sup>th</sup> January.
- 1.4 In the HRA Business Plan 2012-17, welfare reform is identified as the single biggest policy risk to the business plan. It is also consistently high on the agenda of tenants when consulted on council housing priorities.
- 1.5 The business plan set aside resources in order to support tenants through the changes and minimise the impact on the HRA.
- 1.6 Since the business plan was published in January 2012, further detail has emerged about welfare reform and its implementation. This detail has helped the Council revise its estimate of the likely impact of welfare reform on the HRA and council tenants. The current assessment is that welfare reform will have a greater impact than previously thought.
- 1.7 Cabinet will consider directing additional resources to supporting tenants through welfare reform when it meets on 16<sup>th</sup> January 2013. Whilst these proposals are yet to be considered by Cabinet they are being provided early to the Scrutiny Committee in this report in order to provide for discussion and feedback.

## 2. What does this mean for the people of Sheffield?

- 2.1 Council housing is an important aspect of the Council's housing strategy. The Council owns approximately 41,200 homes that are home to over 48,000 Sheffield people as tenants.
- 2.2 Council housing makes a contribution to tackling poverty and financial inclusion in the city through the delivery of investment and services to some of the city's poorest residents.
- 2.3 Welfare reform will mean reduced household incomes for some tenants in receipt of benefits and tax credits. This is likely to result in more people getting into financial difficulties, increased reliance on illegal money lenders and legal high interest money lenders, more people being at risk of eviction, higher volumes of sanctions, higher rates of arrears and higher levels of homelessness.
- 2.4 Each of the changes proposed by government through the welfare reform

will have specific impacts on certain individuals and families. However, there will also be a cumulative impact of these changes as a significant number of individuals and families will be impacted by more than one of the changes.

### **3. Background**

- 3.1 From April 2012, all Local Authorities with retained stock in England moved from a national subsidy system of council housing funding to a new system of local 'self-financing'.
- 3.2 The introduction of self-financing has been positive for Sheffield as it has meant more resources for council housing than under the old subsidy system.
- 3.3 However, self-financing has brought with it a transfer of risk and responsibility from government to the local authority. This also includes new risks for the HRA including interest rates and cost inflation.
- 3.4 In January 2012 Cabinet approved the Council's first business plan for council housing under the new self-financing arrangements.
- 3.5 The key themes in the 2012-17 Business Plan were efficiencies where possible and investment which reduced costs or optimised income over the long term.
- 3.6 All planned activity in the business plan was considered affordable over the 30 years but financial challenges remained. These were:-
  - High volumes of backlog repairs were delayed until the later years of the plan
  - The plan was unable to make provision to pay off debt in full over 30 years
  - A number of items could not be funded so were not built into the 30 year plan e.g. refurbishment of communal areas
- 3.7 The Welfare Reform Act 2012 introduces government's proposals for reforming welfare to improve work incentives, simplify the benefits system and tackle administrative complexity.
- 3.8 In the HRA Business Plan 2012-17, welfare reform was identified as a key risk to the business plan. Estimates were made and factored into the business plan about what the changes in welfare reform would mean for Council tenants and for the HRA.
- 3.9 Because of its high risk, financial provision was made in the business plan for mitigating the effects of welfare reform. Provision was made to fund additional staff for the Income Management Unit Team, a specialist debt worker based at the Citizens Advice Bureau (CAB) and the Smart Move scheme (previously grant funded).

### **4. HRA Business Plan 13/14 Update**

- 4.1 The first business plan for the HRA under the new self financing arrangements was approved in January 2012. In this first year of 'self financing' it has not been necessary to undertake a wholesale review of the policy choices set out in the original business plan.
- 4.2 However, since the business plan was published, a small number of key

factors have had a significant impact on the plan. These factors have been the focus of the review in 2012 and the focus of the Council's conversation with tenants.

- 4.3 The significant factors which have changed since the original business plan was published can be split into factors that improve and factors that have a negative impact on the financial outlook of the plan.
- 4.4 Key factors **improving** the financial outlook of the plan:
  - The Council's separation of HRA debt from General Fund debt as part of the transition to 'self financing' gave the HRA greater opportunity to take advantage of cheaper borrowing than originally forecast.
  - The decision to bring the delivery of Council Housing in house from April 2013 has been accompanied by efficiency savings. This will also result in the Sheffield Homes reserve being absorbed into the HRA.
- 4.5 Key factors **negatively** impacting the financial outlook of the plan:
  - The Government has changed the Right to Buy policy. This sees the maximum price discount to tenants increase, the ring fence of any additional receipts to new affordable housing and requires that if they are to be retained locally these receipts must be matched by new resources at a ratio of 30 (receipts):70 (new resources).
  - The Council's developing understanding of the likely impact of welfare reform is resulting in higher than originally forecast arrears.
- 4.6 All original planning assumptions and targets in the original business plan have been reviewed and where necessary updated for 2013/14.
- 4.7 The net impact of all the changes is that the forecast long term financial position of the plan has improved and new investment can be planned.
- 4.8 A report to Cabinet proposing what new investment activity is prioritised in the business plan will be tabled on 16<sup>th</sup> January 2013 with the report available online from **8<sup>th</sup> January 2013**. The Scrutiny Committee will have the opportunity to comment on this at its meeting on the 10<sup>th</sup> January.
- 4.9 The report to Cabinet will also include proposals to provide additional support to tenants through welfare reform. Whilst these proposals are yet to be considered by Cabinet they are being provided early to the Scrutiny Committee in this report in order to provide for discussion and feedback. These are set out in section 7.

## 5. Welfare Reform and the HRA

- 5.1 The key risk to income and the single biggest policy risk to the business plan overall continues to be welfare reform.
- 5.2 The Welfare Reform Act introduces many changes that will affect working age council tenants who claim benefits. Last year approximately £77m rent was paid in housing benefit. Of this approximately £44m (57%) of that benefit was paid to working age tenants.
- 5.3 The most significant risks in relation to welfare reform arise from the introduction of Universal Credit, which will be paid direct to tenants of working age, and the linking of household size to Housing Benefit eligibility. Universal Credit will start from October 2013 for new claimants and will be phased in by 2017. Housing benefit eligibility linked to household size

comes into operation in April 2013.

- 5.4 Initial attempts to quantify the risk associated with welfare reform and establish mitigating actions were made in the original business plan. These estimates have now been reviewed, updated and uplifted based on the Council's developing understanding of the Government's proposals.
- 5.5 The proposed elements of welfare reform that pose a risk to the HRA have been identified and further analysis has provided the Council with an estimated impact on arrears each elements is likely to have. These are summarised in the table below.

<b>ELEMENT</b>	<b>WHEN IMPLEMENTED</b>	<b>ESTIMATED IMPACT ON ARREARS</b>
Child benefit rates frozen for 3 years	from April 2011	<b>LOW</b>
An increase in non-dependent deductions	from April 2011	<b>LOW</b>
Restricting the amount of housing benefit for under occupiers	from April 2013	<b>HIGH</b>
Council Tax Reform	from April 2013	<b>HIGH</b>
Benefits cap (£350 p/w for single people and £500 p/w for families)	from April 2013	<b>LOW</b>
Universal Credit paid direct to the tenant (not the rent account)	from Oct 2013	<b>HIGH</b>

- 5.6 The major assumptions that affect the calculation are:
- The Government's timetable for implementation will not be delayed and they will not dilute their original proposals.
  - Current employment opportunities mean most tenants affected will remain on benefits and continue to struggle on a lower benefit income.
  - Large numbers of tenants affected could choose to spend Universal Credits on other outgoings rather than their rent.
  - The number of weeks non-payment before the Council can secure direct rent payments – based on the assumption of 8 weeks (however this could be 4, 8 or 12 weeks but do not know at this time).
  - The percentage of rent arrears caused for every £1 lost in household income through loss of other benefits has been estimated at 15% or 1/7<sup>th</sup>
- 5.7 Gross rent arrears at the end of 2011/12 were £9.6m. Forecasts arising from the most recent calculation are that arrears levels will rise by an amount significantly more than budgeted in the original business plan for the period to 2017/18.
- 5.8 There is also a risk that when the new Universal Credit regulations are announced some charges could cease to be eligible for housing support.
- 5.9 Welfare Reform will also affect other HRA costs such as transaction costs, payment card costs, eviction costs and housing management costs.

## 6. Existing support to tenants

6.2 Support is already provided to council tenants to help them to pay their rent through a range of actions including:

- The promotion of a rent payment culture including promotion of cost effective payment methods, in particular Direct Debit, through regular campaigns, advertising and prize draws.
- An in-house debt prevention team supporting tenants with money management, budgeting, financial education, benefits and debt advice.
- Promotion of Home Swapper and the Smart Move schemes
- Working in partnership with the Citizen Advice Bureau Debt Support Unit, the Credit Union and other partners to ensure the Council's support to tenants is joined up.
- An independent debt advice worker to provide early intervention debt advice to tenants
- Working in partnership with a number of employment support agencies to help unemployed tenants who are looking to get back into work.

6.3 The 2012-17 HRA Business Plan sets out how additional resources would be directed to the support of tenants to pay their rent from 2012/13 in light of the welfare reform proposals. These included;

- Additional staff for the Income Management Unit Team (preventative & arrears work)
- The continuation of the Smart Move scheme (previously grant funded).
- An established medium term budget to fund a specialist debt worker based at the Citizens Advice Bureau (CAB)

6.4 Other work in 2012 to provide support to tenants through welfare reform has included;

- A comprehensive communication strategy (including letters, home visits, local radio etc) to ensure that tenants and active bidders on the rehousing list understand the welfare reform changes and how they could be affected. This has included working with other housing providers in Sheffield and South Yorkshire on joint communications and sharing best practice.
- Briefing Tenants and Residents Associations on all aspects of welfare reform changes so they can support tenants in their areas.
- Consideration of the Welfare Reform underoccupation rules as part of the Allocations Policy Review including specific proposals to extend priority rehousing to tenants under occupying 2 bed dwellings.
- Reviewing the rent arrears policy and procedures in order to ensure the implications of welfare reform are taken into account when dealing with tenants who fall into arrears.
- Supporting tenants affected by the welfare reform to apply for Discretionary Housing Payments.
- Working closely with other council departments to ensure a joined up approach to welfare reform and consideration of the wider implications

for the city, including involvement in the local assistance and council tax support schemes.

- Working with the voluntary sector to support tenants affected by the welfare reform changes including investigating the possibility of budgeting accounts for tenants with the Sheffield Credit Union.

## **7. Additional support for tenants in 2013/14**

7.1 A key priority for the 2012-17 HRA Business Plan was to begin work on mitigating the potential impact of the Government's welfare reforms and to start work on this early.

7.2 Since the original business plan was published, further detail has emerged on the Government's welfare reform proposals and the Council now has a better understanding of the potential impacts on tenants and the HRA.

7.3 It is proposed that from 2013/14 additional resource is allocated to the support of tenants through welfare reform. This is because

- Latest assessments suggest the impacts of welfare reform are likely to be more severe than initially forecast.
- Providing support to tenants is a continuing high priority emerging from tenant consultation.
- The costs associated with specific proposals for supporting tenants through welfare reform are becoming clear.

7.4 Each of the mitigations as set out in the update report to Cabinet (to be tabled 16<sup>th</sup> January 2013) are presented below, together with a brief overview of what each would involve.

### 7.5 a) Visiting affected tenants (*fast-tracked - already underway*)

Social landlords are stressing the importance of face to face contact with tenants when explaining the Government's welfare reform changes to tenants. They say that tenants report they had not understood the changes until they were explained in person. Therefore additional staff have been recruited so that every tenant affected by the benefits cap and the under occupancy rules can be visited at home by April 2013 when the changes come into force. Initially this was targeted at tenants who will see a reduction in benefits paid from April 2013 and those tenants who are claiming housing benefit and who are under occupying their properties. The intention is to visit all those affected to support and advise customers what their options are and help them make informed decisions.

### 7.6 b) Training on welfare benefits for staff

The welfare reform changes are large scale and complex. It is proposed that the staff of the Income Management Unit is provided with training on the reforms to enable them to better signpost tenants to claim appropriate benefits.

### 7.7 c) Support for under-occupying customers who wish to move

In addition to the downsizing support offered through the Smart Move scheme, it is likely that more practical support with moving home (van, utilities, carpets etc) would be beneficial to tenants concerned about the implications of the under-occupancy rules on housing benefit. The cost of



providing this additional support will be factored into the business plan.

7.8 d) Payment methods

The Council will look to increase the use of alternative payment methods such as direct debits and jam jar accounts to mitigate the risk associated with direct payments to rent accounts ending under the Universal Credit. A jam jar account is a type of account that helps customers manage their money. The cost associated with administering these schemes would need to be funded and these costs will be factored into the business plan.

7.9 e) Hardship Fund

The Council will consider the benefits and viability of establishing a limited (HRA) fund that could be accessed by council tenants who are at severe risk of eviction. This would complement the Social Fund which transfers to the City Council from the Department for Work and Pensions in April 2013.

7.10 f) Increased funding to the CAB Debt Support Unit for another specialist debt worker

This would allow a further 150 tenants to be supported each year to help tenants manage and reduce debts, reduce the number of legal actions taken and improve the sustainability of tenancies.

## **8. Next steps**

- 8.1 The HRA Business Plan 2012-17 update for 2013/14 will be reported to Cabinet on 16<sup>th</sup> January 2013.

## **9. Recommendation**

- 9.1 The Scrutiny Committee is asked to discuss and feed back their views with regard to the proposals for additional support to tenants through welfare reform which are due to be considered by Cabinet on 16<sup>th</sup> January and are set out in this report.
- 9.2 The Scrutiny Committee is also asked to provide feedback and comment on the wider HRA Business Plan update report for 2013/14 which will be considered by Cabinet on the 16<sup>th</sup> January and in the public domain from the 8<sup>th</sup> January.

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