



**Scottish Housing
Regulator**

Early impacts of Welfare Reform on rent arrears

Research Report

October 2013

About us

We are the independent regulator of social landlords in Scotland. We regulate around 180 registered social landlords (RSLs) and the housing activities of Scotland's 32 local authorities.

Our statutory objective is to safeguard and promote the interests of current and future tenants, homeless people and others who use services provided by social landlords.

We were established by the Housing (Scotland) Act 2010 and are accountable directly to the Scottish Parliament. Our Regulatory Framework explains how we regulate social landlords. You can download our Regulatory Framework and find out more about us on our website at www.scottishhousingregulator.gov.uk.



HAPPY TO TRANSLATE

Introduction

Between July and September 2013 we undertook research to gather information that would help us understand the early impact of Welfare Reform on social landlords' rental income. We also wanted to find out what early actions landlords were taking and what key challenges they faced. Our research was intended to provide an early snapshot. It consisted of an online survey of all Scottish registered social landlords (RSL) and local authority landlords, and an analysis of RSL data we already hold. We designed the survey to be short and straight forward to complete, because we were mindful that we were requesting information from social landlords outwith the usual year-end performance reporting cycle and with a relatively short turn-around time.

This factual report sets out the findings of our research. It reflects the position to the end of June 2013, three months after the removal of the Housing Benefit Spare Room Subsidy¹ which we refer to in this report as the HB SRS. This is commonly described as the "Bedroom Tax."

The research took place before the introduction of other key elements of Welfare Reform, and so our findings relate only to the early stages of the implementation of Welfare Reform. We did not seek to examine the effect of landlords' own actions to address the impact. Nor did we analyse the influence of Discretionary Housing Payments on landlords' arrears levels. We have drawn no regulatory conclusions from the findings.

This report establishes a baseline for us and is the first of a series of quarterly reports to run throughout the current financial year (2013/2014). Through these reports we will examine impacts over time, tracking trends relating to rental income over the first year of the introduction of Welfare Reform.

Background and methodology

We invited all 187 RSL and local authority landlords² to complete the survey. In total 157 landlords responded (137 RSLs and 20 local authorities), giving an overall response rate of 84%. This gives us survey coverage of 80% of social housing tenants in Scotland³. We are therefore reasonably confident that the survey responses are broadly representative of the position across social landlords as a whole.

¹ For more information in relation to the removal of the Housing Benefit Spare Room Subsidy, see: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/229364/factsheet-hbsssc1.pdf

² The survey did not include the 21 Abbeyfield Societies that are registered with us.

³ See Appendix table 1 for full information on survey coverage.

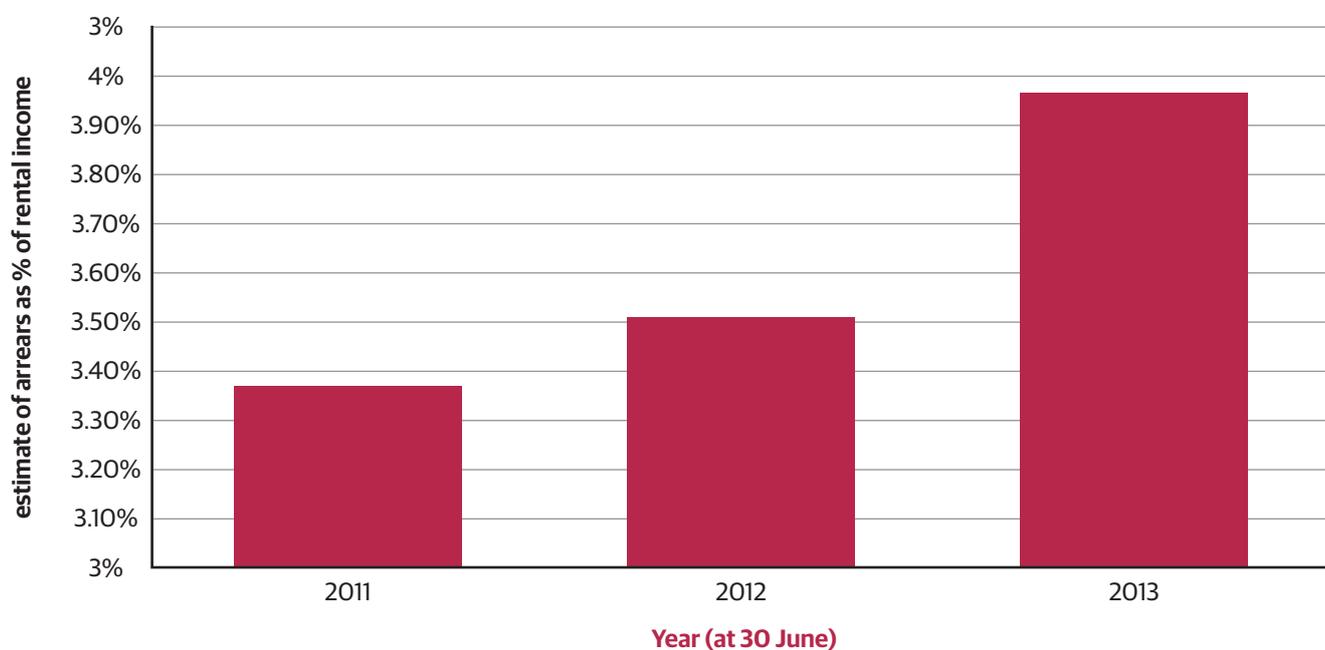
Research findings

Arrears

What can the survey tell us about rent arrears at 30 June 2013 and how this has changed over time?

- » We estimate that the total rent arrears⁴ at 30 June 2013 for responding landlords was 3.97% of rental income due for 2013-14, or £63,125,355.
- » We estimate that the overall arrears percentage has increased over time from 3.37% at the same point in 2011 and 3.51% in 2012⁵. See figure 1 below (and table 3 in appendix for more details).
- » Comparison of data from RSLs and local authority landlords shows a pattern of year on year increase in percentage arrears over time (2011-2013) for both. Local authority landlords reported a higher overall figure for June 2013 (4.62%) and a more marked increase in the last 12 months. See table 4 in the appendix for a more detailed breakdown.

Figure 1: Change over time in estimates of arrears as % of rental income (all landlords)



⁴ The definition of rent arrears in our survey is based on the definition of the arrears indicators we will use to monitor landlords' performance annually against the Scottish Government's Scottish Social Housing Charter through our Annual Return on the Charter (known as the ARC). It excludes 'technical arrears' - arrears relating to outstanding housing benefit that a landlord has not received.

⁵ Estimates based on analysis of survey data for 30 June each year.

RSLs - change in arrears figures from March 2013 to June 2013

Separately from this survey, we gather and publish data on rental income and arrears from all RSLs at each financial year-end. Analysing this data alongside our survey responses, we have been able to produce an early picture of the change in RSL arrears from March to June 2013, that is, the first three months of the removal of the HB SRS.⁶ We were unable to carry out the same analysis for local authority landlords because we do not hold equivalent data. Looking just at arrears data from RSLs, we have compared data we hold on arrears at end March 2013 with survey data at end June 2013.⁷

» We estimate that, for the RSLs that responded to our survey, the level of rent arrears (as a percentage of annual rental income due) at 30 June (3.57%) was lower than the comparable figure for those landlords at 31 March 2013 (3.70%).

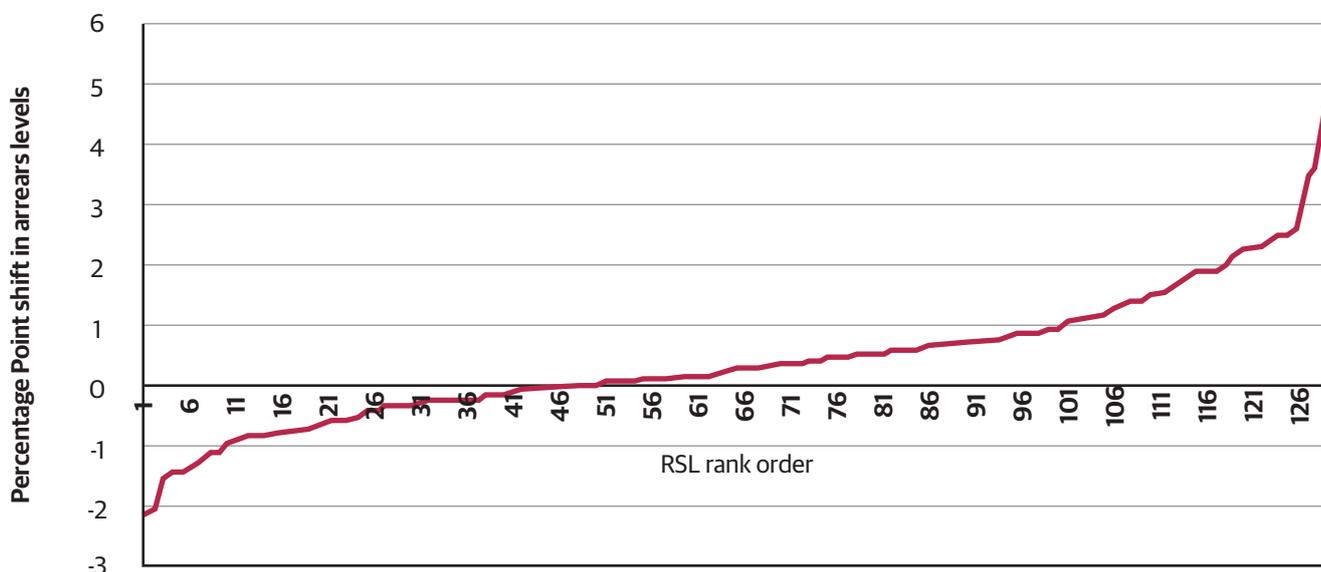
- » In monetary terms, we estimate that there was an increase of approximately £789,000 in rent arrears between March and June 2013 across all RSLs for which we have complete data⁸.
- » A monetary increase in arrears is possible at the same time as a percentage reduction because the annual rental income due in 2013-14 is higher than in 2012-13. See appendix, table 2, for more detail.
- » In terms of patterns of change from March to June, our analysis also shows that 84 RSLs (65%) have seen an increase in their percentage arrears levels between March 2013 (APSR data) and June 2013 (survey data). For the remaining 46 RSLs, arrears as a percentage of rental income has decreased.
- » Figure 2 below shows the pattern of change across RSLs between March and June. The majority of RSLs saw a modest change in the range of -1.5 to +1.5 percentage points.

⁶ We collect and publish data from RSLs through our Annual Performance and Statistical Return (known as the APSR). 2013-14 is the final year of this collection. We have compared our survey data with the latest published APSR data, and our analysis, which is set out in the appendix, suggests that the data we collected from our survey is relatively representative of the broader national picture on levels of arrears; and we can be reasonably confident of the quality of financial data provided by RSLs for the survey.

⁷ As noted above, the definition of rent arrears in our survey is based on the arrears indicator we use to monitor landlords' performance annually against the Scottish Social Housing Charter through the ARC. This definition is also similar to that for the RSL data we have used from the APSR.

⁸ The figure represents the difference in arrears between APSR data and survey data for 130 landlords who provided completed financial information.

Figure 2: Percentage point shift in % arrears for RSLs from APSR March 2013 to Welfare Reform Survey June 2013



- » We compared the above findings (on overall changes between March and June 2013) with changes over the same period in 2012 and 2011. We found that in both 2012 and 2011 there was also a reduction in the level of rent arrears (as a percentage of annual rental income due). In both 2012 and 2011, the reduction was larger than the reduction in 2013⁹.
- » Further, more detailed analysis showed that, as with 2013, arrears as a percentage of rent due had increased for over half of landlords in both 2012 and 2011. The rise in 2013 was more marked however, with 64% of RSLs seeing an increase compared with 60% in 2011 and 55% in 2012.
- » In monetary terms, we estimate that there was an increase of £0.4million between March and June 2013 for those landlords providing full data, compared with reductions of £3.5 million and £2.8million for the same RSLs over the same period in 2011 and 2012 respectively.

⁹ We compared data over three years for all RSLs who provided full three year June data in our survey (120 RSLs). We found that the overall change (March to June) in each year was -0.7 percentage points in 2011, -0.5 percentage points in 2012 and -0.2 percentage points in 2013.

Occupancy

What was the scale of the impact of the removal of the HB SRS reported at 30 June 2013?

- » We estimate that 1 in 8 tenants (13%) were affected by the removal of the HB SRS at 30 June 2013. This represents 59,800 tenants¹⁰ of the landlords who responded to our survey. This is lower than recent estimates published in research by COSLA, where local authorities estimated 82,500 households were affected. The COSLA survey had a wider coverage than ours on this point¹¹.
- » From our survey data, we estimate that 16% of these tenants were affected by the impact of the 2 bedroom reduction, (affecting approx. 9800 tenants) and 84% were affected by the 1 bedroom reduction¹² (affecting approx. 49,900 tenants). See figure 3 below.

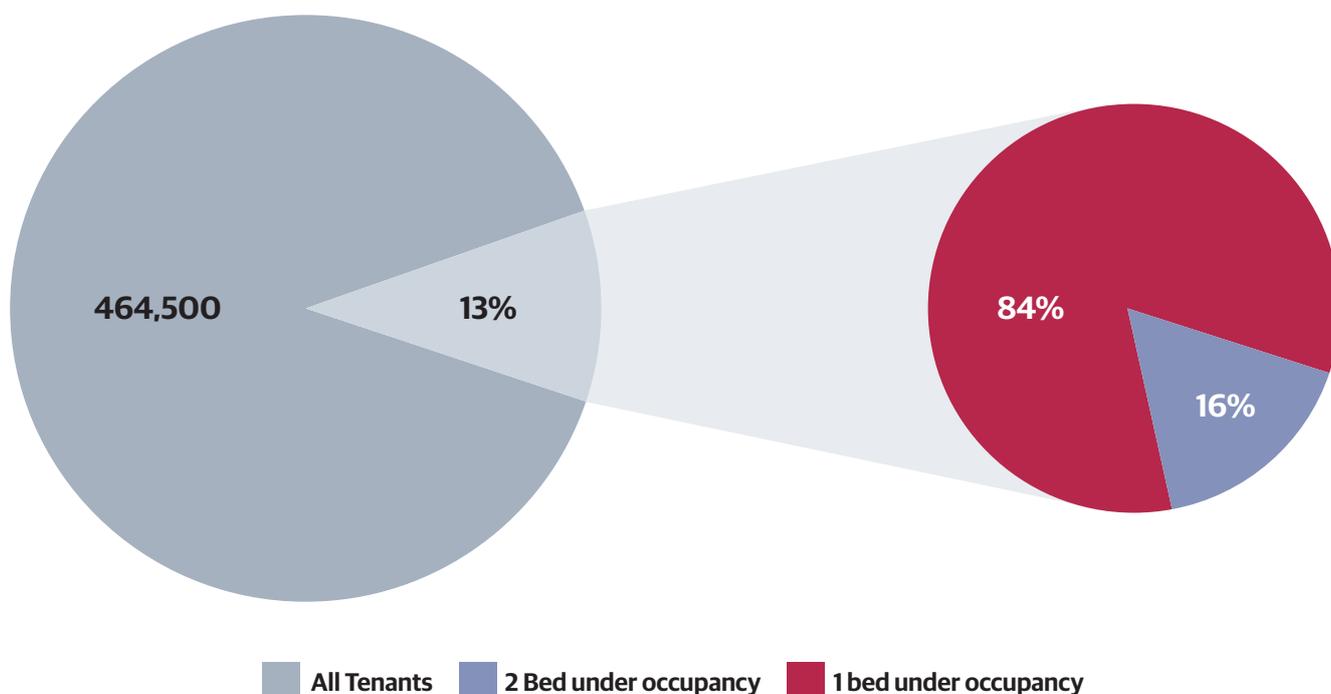
- » In terms of organisation type, local authority (LA) landlords reported slightly higher levels of under-occupancy (14%) than RSLs (11%).
- » The balance across RSL and local authority landlords for 1 and 2 bedroom under-occupancy mirrors the overall split (approximately 16% for 2 bedroom reduction and 84% for 1 bedroom reduction). See table 5 in appendix for details.

¹⁰ Estimates based on complete data on tenancy and under-occupancy from 153 landlords

¹¹ In early June 2013 COSLA conducted a survey of Scottish local authorities, seeking information from officials involved in the administration of revenues and benefits. The COSLA survey estimated that including estimates for non-responses from two local authorities, 82,500 households were affected by the under-occupancy penalty across Scotland at around end May 2013. Further information on the survey is available at: http://www.cosla.gov.uk/sites/default/files/documents/briefing_-_bedroom_tax_main_findings.pdf

¹² Please note that some totals and percentages do not add to 100% as respondent numbers differ for each question

Figure 3: Tenants affected by removal of HB SRS at 30 June 2013



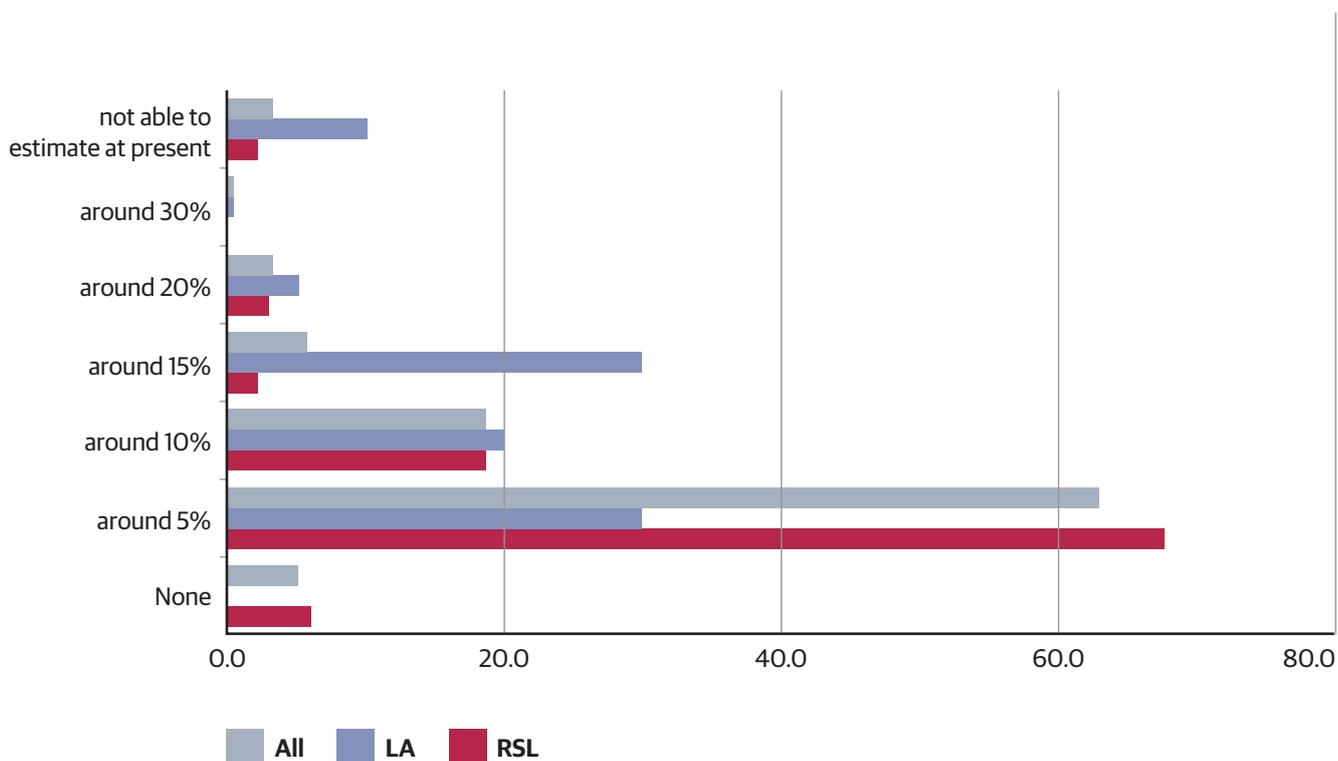
Landlords' perceptions of impacts

What are landlords' perceptions of the early impact on rent arrears of the removal of HB SRS since 1 April 2013?

We asked landlords to estimate approximate percentage of arrears at 30 June 2013 that they felt were attributable to the removal of the HB SRS in 1 April 2013.

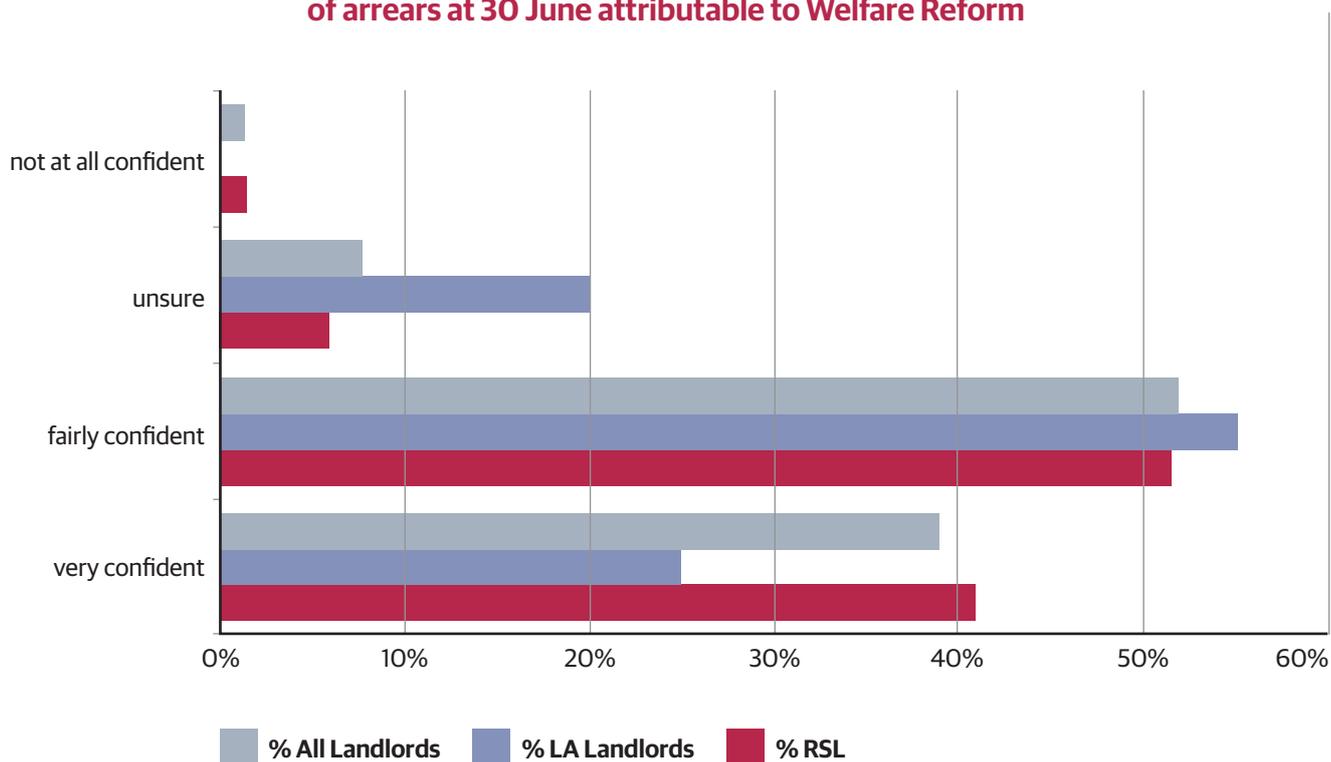
- » The response across landlords was very consistent. Two thirds (68%) of landlords estimated that up to around 5% of current arrears were attributable to the removal of HB SRS. A further 19% estimated the approximate percentage at around 10% of arrears.
- » The figures suggest that RSLs were more likely to report lower levels of impact (at 30 June 2013) on their arrears levels. The vast majority (93%) of RSLs estimated that recent HB reductions accounted for around 10% or less of their arrears, in comparison to only half (50%) of LA landlords estimating the same level of attribution. See figure 4 below (and table 6 in the appendix for more detail).

Figure 4: Estimates of % arrears attributable to Welfare Reform at 30 June 2013



- » We asked landlords how confident they were in their estimates. Again, the response was very consistent, with over 91% of all landlords reporting that they were very or fairly confident in their estimates of the proportion of arrears arising from the removal of HB SRS.
- » Viewed separately, responses from RSLs and local authorities showed a similar pattern overall, with the majority of RSLs and local authority landlords either very or fairly confident in their estimates. However, local authority landlords were more likely to be 'unsure' of their estimates than RSLs (20% of local authority landlords against 6% of RSLs). See figure 5 below (and table 7 in the appendix for more information).

Figure 5: How confident are landlords in their estimates of arrears at 30 June attributable to Welfare Reform



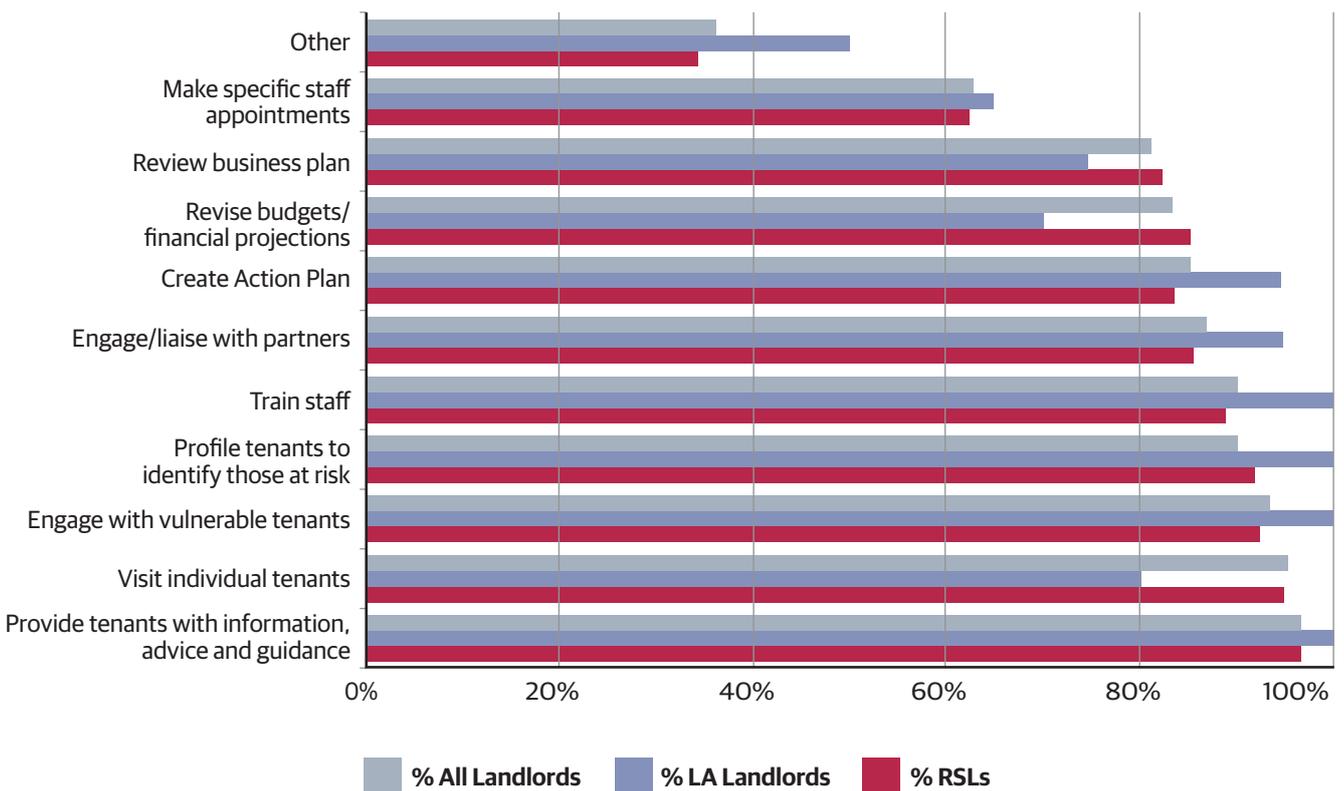
What actions are landlords taking to address the early impacts of Welfare Reform?

A number of other organisations have undertaken research work with landlords recently to identify the challenges arising from Welfare Reform along with the actions being taken to address these. We used findings from recent Scottish research¹³ to develop a range of response options for landlords to select from in identifying challenges and corresponding actions. Results show that:

- » the majority of landlords were undertaking almost all the actions presented; and
- » there was a strong focus on actions to support tenants across all landlords. The top 3 options selected were to provide information, advice and guidance (98%); to visit individual tenants (96%) and to engage with vulnerable tenants (94%). See figure 6 (and table 8 in the appendix for more detail).

¹³ These options were adapted from the recent Scottish Federation of Housing Association (SFHA) survey. See: <http://www.sfha.co.uk/sfha/publications/qbedroom-taxq-early-impacts-report.html>

Figure 6: Actions taken to address the impacts of Welfare Reform

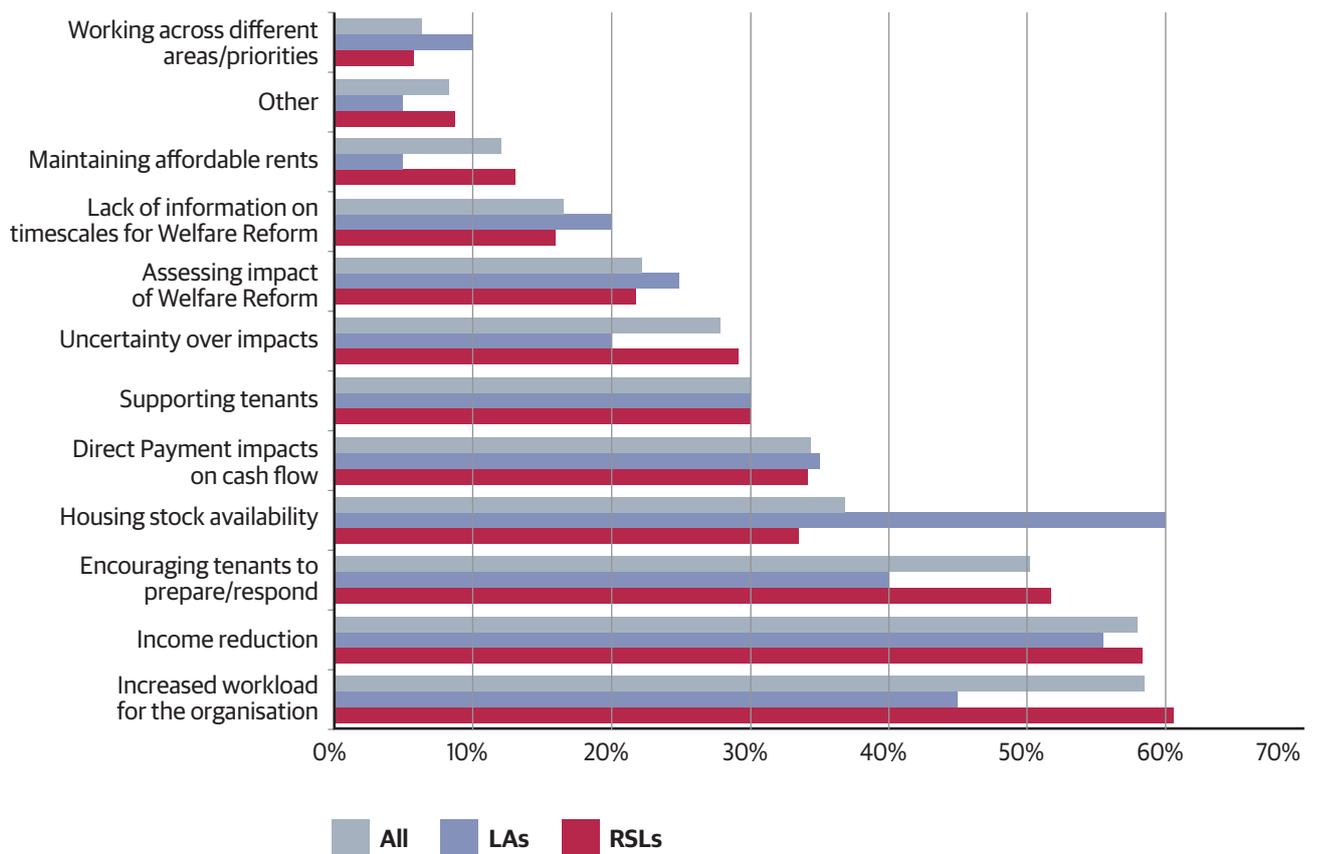


What were the top 3 challenges identified by landlords in dealing with Welfare Reform?

We asked landlords to select the top 3 challenges they are facing in dealing with Welfare Reform¹⁴. Results show that:

- » Landlords identified increased workload for the organisation (59%), income reduction (58%) and encouraging tenants to prepare / respond (50%) as their 3 biggest challenges.
- » Results were again fairly consistent between RSLs and local authority landlords, with the exception that housing stock availability was the most commonly selected challenge by local authority landlords (60%).

Figure 7: Biggest challenges identified by landlords in dealing with Welfare Reform impacts



¹⁴ These options have been adapted from the recent Scottish Federation of Housing Association (SFHA) survey, see footnote 13.

Appendix: Methodology and Data Tables

Methodology

We gathered responses between 31 July and 13 September 2013. Responses focused on figures at 30 June 2013 in order to capture impacts in the first quarter of the financial year after removal of the Housing Benefit Spare Room Subsidy on 1 April 2013. We cleaned¹⁵ the data and verified responses where possible. Not all respondents completed every question, so findings are presented along with respective respondent numbers (n).

Survey Coverage

Table 1 below provides information on the coverage of the survey cohort in terms of tenancies/households.

	(n) survey respondents	Total tenants (survey data)	(n) landlords (all Scotland)	Total dwellings (all Scotland)	Vacant stock/voids (all Scotland)	Household / Tenant (all Scotland)	% survey coverage
RSL	137	232,085	161	277,379	9012	268,367	86%
LA	20	232,394	26	318,160	7664	310,496	75%
ALL	157	464,479	187	595,539	10,519	578,863	80%

Source (All Scotland data):
 LA Stock: <http://scotland.gov.uk/Topics/Statistics/Browse/HousingRegeneration/HSFS/StockPublicSector>
 LA Voids: <http://scotland.gov.uk/Topics/Statistics/Browse/Housing-Regeneration/HSFS/VacantStock>
 RSLs: <http://www.scottishhousingregulator.gov.uk/publications/performance-tables-%E2%80%93-stock>

Measures of arrears

We asked landlords to provide financial data similar to that collected by SHR through the Annual Performance and Statistical Return (for RSLs) and the Annual Return on the Charter (for all social landlords), as explained in footnotes to the main report. This included non-technical arrears at 30 June for 2013, 2012 and 2011 and total rental income for the relevant financial years (2013-14, 2012-13 and 2011-12). From this data, we have calculated non-technical arrears as a percentage of total rental income as the main measure of arrears over time.

Analysis to verify survey results

- » Our analysis shows that the overall APSR figures for non-technical arrears at 31 March 2013 (3.73% for all Scottish RSLs) is very similar to the APSR percentage non-technical arrears for only those RSLs who responded to our survey (3.71%)
- » We attempted to conduct a similar validation exercise for local authority landlords using relevant data from Audit Scotland. Methodological differences in the calculation of arrears and rental income meant that a direct comparison across sources was not possible. The quality of financial data provided for the survey by local authority landlords is therefore taken at face value.

¹⁵ Data cleaning involved, identifying missing data, errors and duplicates and removing or verifying where required/possible.

Table 2: Comparison of APSR data and survey data - non-technical arrears as a percentage of rental income (APSR at 31 March 2013 and Survey at 30 June 2013)

	(n)	Arrears (non-technical)	Rental income	% Arrears
APSR data at 31 March 2013 - All Scottish RSLs	161	£39,364,451	£1,053,870,151	3.73%
APSR data at 31 March 2013 - Survey respondents	130	£31,656,432	£855,246,052	3.70%
Survey data at 30 June 2013 - all RSL respondents	130	£32,445,164	£907,564,864	3.57%

Data Tables (linking to main text)

Table 3. Overall rental arrears (non-technical) at 30 June as a percentage of total rental income for reporting year 2011-2013 NB. cases with outlier data that could not be verified were excluded

	(n) landlords with complete data	Arrears (non-technical)	Rental Income for reporting year	% arrears for reporting year
2013	149	£63,125,355	£1,588,746,171	3.97%
2012	150	£53,513,236	£1,524,898,926	3.51%
2011	138	£45,694,639	£1,357,539,727	3.37%

Table 4: Rent arrears (non-technical) at 30 June as a percentage of total rental income for reporting year 2011-2013 - by organisational type (RSL / Local Authority) NB. cases with outlier data that could not be verified were excluded

	Reporting year	(n) landlords with complete data	Arrears (non-technical)	Rental Income for reporting year	% arrears for reporting year
RSLs	2013	130	£32,445,164	£907,564,864	3.57%
	2012	130	£28,322,893	£848,936,032	3.34%
	2011	120	£25,182,028	£768,832,658	3.28%
LAs	2013	19	£31,493,483	£681,181,307	4.62%
	2012	20	£25,190,343	£675,962,894	3.73%
	2011	18	£20,512,611	£588,707,069	3.48%

Table 5: Total tenants and tenants under occupying at 30 June 2013 by landlord type

	RSLs	LAs	ALL
Total tenants	232,085	232,394	464,479
Under-occupying tenants	26,525	33,293	59,818
2 bed or more	4372	5424	9796
1 bed under occupancy	22,009	27,926	49,935

Table 6 / Figure 4: Estimate of % arrears attributable to Housing Benefit reduction (at 30 June 2013)

	% RSLs (134)	% LA Landlords (20)	% All landlords (154)
none	6%	0	5.2%
around 5%	67.9%	30%	63%
around 10%	18.7%	20%	18.8%
around 15%	2.2%	30%	5.8%
around 20%	3%	5%	3.2%
around 30%	0	0.5%	0.6%
not able to estimate at present	2.2%	10%	3.2%

Table 7 / Figure 5: Reported level of confidence in estimates of arrears attributed to Housing Benefit reduction (at June 2013)

	% RSLs (134)	% LA Landlords (20)	% All landlords (154)
very confident	41%	25%	39%
fairly confident	51.5%	55%	51.9%
unsure	6%	20%	7.8%
not at all confident	1.5%	0	1.3%

Table 8 / Figure 6: Actions taken to address the impacts of Welfare Reform (ranked by score for all landlords)

	% RSLs (134)	% LA Landlords (20)	% All landlords (154)
Provide tenants with information, advice and guidance	97.1%	100%	97.5%
Visit individual tenants	94.9%	80%	95.5%
Engage with vulnerable tenants	92.7%	100%	93.6%
Profile tenants to identify those at risk	92.0%	100%	90.4%
Train staff	89.1%	100%	90.4%
Engage / liaise with partners	86.1%	95%	87.1%
Create Action Plan	83.9%	95%	85.4%
Revise budgets / financial projections	85.4%	70%	83.5%
Review business plan	82.5%	75%	81.5%
Make specific staff appointments	62.8%	65%	63.1%
other	34.3%	50%	36.3%

Table 9 / Figure 7: Biggest challenges identified by landlords in dealing with Welfare Reform impacts (ranked by score for all landlords)

	% RSLs (134)	% LA Landlords (20)	% All landlords (154)
Increased workload for the organisation	60.6%	45%	58.6%
Income reduction	58.4%	55.5%	58%
Encouraging tenants to prepare / respond	51.8%	40%	50.3%
Housing stock availability	33.6%	60%	36.9%
Direct Payment impacts on cash flow	34.3%	35%	34.4%
Supporting tenants	29.9%	30%	29.9%
Uncertainty over impacts	29.2%	20%	28%
Assessing impact of Welfare Reform	21.9%	25%	22.3%
Lack of information on timescales for Welfare Reform	16.1%	20%	16.6%
Maintaining affordable rents	13.1%	5%	12.1%
Other	8.8%	5%	8.3%
Working across different areas / priorities	5.8%	10%	6.4%

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