
REPORT TO:	OVERVIEW and SCRUTINY COMMITTEE	AGENDA ITEM: 7
DATE OF MEETING:	26th OCTOBER 2011	CATEGORY: RECOMMENDED
REPORT FROM:	CHIEF EXECUTIVE OFFICER	OPEN
MEMBERS' CONTACT POINT:	KEVIN STACKHOUSE (01283 595811) HEAD OF CORPORATE SERVICES Kevin.stackhouse@south-derbys.gov.uk	DOC: u/ks/benefits/analysis for scrutiny Oct 11
SUBJECT:	REIMBURSEMENT OF HOUSING BENEFIT SUBSIDY	REF:
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE:

1.0 Recommendations

- 1.1 That the details, facts and figures underpinning current levels of subsidy reimbursement are considered and noted.
- 1.2 That the alternative options contained in the report for reducing costs and maximising subsidy is considered.

2.0 Purpose of Report

- 2.1 To provide the background and further information arising from the scope of work approved for a review of housing benefit subsidy. The terms of reference (through the scoping document) for this review were agreed by the Committee on 14th September 2011 and are attached at **Appendix 1** for information.

3.0 Detail, Background and Issues

Terms of Reference and Scope

- 3.1 The area of housing benefits is very broad and includes areas of technicality and complexity. The scope is not intended to review the detailed framework and processing arrangements, etc. but has intentionally been narrowed down to specific areas.
- 3.2 Consequently, the agreed terms of reference are to review the amount of housing subsidy due to the Council in respect of:
 - Homeless Persons
 - Vulnerable Groups in Supported Accommodation
 - To support the administration of Housing Benefits

- 3.3 The main aims are to determine alternative options which would reduce the costs to the Council of providing accommodation, together with maximising the amount of subsidy which can be reclaimed.
- 3.4 This review was formulated following the Committee's annual scrutiny of the 2011/12 budget round. It is based on the increasing costs of housing benefit falling on the Council and from limitations being placed on the amount attributable for subsidy.

Background

- 3.5 Housing benefit is an allowance to persons on low income to meet, in whole or part, their rent. Benefit is assessed and paid by local authorities in accordance with guidelines and allowances issued by the Department for Works and Pensions (DWP).
- 3.6 For most people in receipt of benefit, the DWP subsequently reimburses authorities 100% for correctly processed claims. They also pay a grant towards the administrative costs incurred by authorities. This is calculated on a formula basis but may not fully reimburse total costs incurred locally. Therefore, any difference falls on local council taxpayers.
- 3.7 Benefit paid to a council's own tenants is known as rent rebate and that paid to private sector tenants as rent allowance. Where a council secures temporary accommodation from private landlords to discharge its homelessness responsibilities, benefit paid to tenants is known as non-HRA rent rebate.
- 3.8 The Government's Budget in 2010 included a range of changes to benefit which have been implemented over the last 18 months. These changes were aimed at reducing the cost of benefit but seem to have put further pressure on local authorities.

Benefit Claims

- 3.9 Where tenants of social housing are unable to meet the cost of their accommodation from their own resources, they may claim assistance with reasonable accommodation costs through the benefit system.
- 3.10 As highlighted above, in broad terms, benefit payments are covered by 100% reimbursement from the DWP. However, the cost of eligible benefit claims for homeless persons together with people classed as vulnerable and residing in supported accommodation may not be fully reimbursed through the subsidy system. The difference falls on councils.

The Local Housing Allowance (LHA)

- 3.11 This is a key factor in the benefit system which impacts upon this review. The LHA was introduced in April 2008. It is not a benefit but is a "standard rent" which is used to calculate an individual's entitlement to benefit and is the limit for subsidy purposes.

- 3.12 It only applies to claimants in the deregulated private sector. Tenancies in the social housing sector are exempt from the LHA. The amount of LHA a tenant will qualify for will depend on how many people occupy the property and the area in which they live. The LHA for each size of property is based on localised average market rents.
- 3.13 The LHA is determined independently by Rent Officers employed by the Valuation Office. For private sector tenants, benefit entitlement is set at the relevant LHA subject to not exceeding actual rent by more than £15 per week but, this element is being phased out and will disappear by 31 March 2012.
- 3.14 Non-HRA rebates for homeless families are subsidised up to the one bedroom local housing allowance (LHA) for non self-contained accommodation and 90% of LHA plus a management fee for other accommodation. Non self-contained accommodation, for subsidy purposes, includes board/lodging, together with bed and breakfast type accommodation

Eligible Rent

- 3.15 The rental charged on a property by the landlord is not necessarily the same as that which is eligible for benefit. Eligible rent for tenants of social housing constitutes the basic dwelling rent plus charges associated with providing adequate accommodation such as communal areas. Optional services such as those provided direct to the tenant, for example social/personal care, are not eligible.
- 3.16 Services provided to tenants in special or supported accommodation are subject to separate rules.
- 3.17 Rents of council dwellings are not directly subject to any limits for claimant benefit, with the exception of social/personal services as set out above. However, rents for properties in the private sector are subject to limits/LHA, which adds complications and caps the amount reimbursed through benefit.

Homeless Families

Families in non self-contained bed/breakfast and licensed accommodation are charged a rate set by the authority. However, this is influenced by the amount that has to be paid to secure the accommodation, generally the published overnight-stay rate.

- 3.18 Prior to 2009/10, rebates for homeless families in bed and breakfast accommodation attracted subsidy at 100% up to a DWP-set local rent threshold and 10% beyond that up to a cap. Since 2010/11 this has been limited to the one bedroom self-contained LHA rate which generally is lower.

Self-Contained Accommodation

- 3.19 For those in self-contained licensed and short-term lease accommodation, the maximum housing benefit is 90% of the LHA rate for the size of property plus

an element for management costs at £60 per week for local authorities outside London.

Discretionary Payments

- 3.20 In appropriate cases the local authority may make additional discretionary housing payments (DHPs) to meet housing costs from cash limited funds. In 2011/12 the DWP has set a maximum amount of £62,000 which the Council may set aside for this purpose. Of this, £25,000 is funded by the DWP. As the remainder is not funded, the Council's expenditure is limited to this, lower, amount.
- 3.21 The circumstances under which a DHP may apply have changed recently and a policy review document will be put to Members early in the new year

Tenants in Supported Accommodation

- 3.22 This applies to people who are placed in accommodation such as a hostel or specialised units. Typically, tenants will be receiving some form of support or care package. Landlords will be Housing Associations, Charity Organisations or other Registered Social Landlords.
- 3.23 Subsidy is paid at 100% up to a figure determined by the Rent Officer as valid for a particular property. Over the last 2 years, the gap between this figure and the amount applicable for benefit has widened considerably.
- 3.24 This is due to landlords increasing the nature and cost of accommodation and adding this onto the rent. Besides the core rent, landlords can add in property and overhead costs, including staffing and property related costs such as repairs and utilities. However, personal care costs are excluded.
- 3.25 The total cost is charged to tenants, who reclaim most of it through benefit. However, the amount councils can reclaim is limited by both the decision of the Rent Officer and the subsidy funding arrangements.

Benefit Administration Subsidy

- 3.26 At a national level, the Government determine the total resources to be distributed to local authorities based on their assessment of the costs of administration.
- 3.27 Due to efficiency savings expected by the DWP, the national pot has reduced in recent years, although some additional resources (recession funding) have been provided over the last two years as a top-up to recognise the impact of the economic downturn. The overall subsidy is paid as non ring-fenced grant.
- 3.28 Once the national pot has been determined, each authority receives a proportion to reflect its share of the national benefit work done, adjusted for differences in regional costs.

3.29 The distribution methodology uses weightings that reflect the time needed to administer cases of different tenure types. For example, weightings are greater for cases regarding tenants of private landlords (rent allowances) compared to council tenants (rent rebates) to reflect additional checks and information required.

3.30 The weightings are applied to the caseload for each authority over the previous 12 months. Once set, the grant is fixed for the following year.

4.0 The Situation for South Derbyshire

4.1 Since 2009/10, additional costs of approaching £100,000 per year have been borne by the Council due to changes in the benefit rules affecting homeless persons and people living in supported accommodation. In 2010/11 alone, additional costs of over £60,000 were incurred compared to the previous year.

4.2 In addition, the Council's core grant for administering benefits has reduced on a per capita (caseload basis) between 2008/09 and 2011/12.

Homeless Persons

4.3 In 2010/11, approximately £45,000 was paid out in benefit to homeless persons (non-HRA) tenants, of which just £23,000 was recouped in subsidy, a shortfall of £22,000.

4.4 As a last resort, the Council places homeless persons in guest house/cheap hotel accommodation such as ETAP and Travelodge, where alternatives such as a hostel are not available or appropriate.

4.5 Rates charged in hotel type accommodation vary between £30 and £50 per night per room.

4.6 Benefit subsidy is currently capped at around £90 per week depending on location, giving rise to the above shortfall. The cap is based on the LHA single room rate and excludes costs relating to heat, light and hot water, together with breakfast, if provided. These are ineligible expenses and are borne by the claimant.

4.7 A specific example of how the shortfall arises is set out below.

	£:p
Hotel - Daily Charge per Room	45.00
Weekly Cost - Rent for Housing Benefit Purposes	315.00
Less Ineligible Services	-12.90
Eligible Amount for Housing Benefit	302.10
Benefit entitlement (assume 100%) this is paid to the claimant	302.10
Less Subsidy Cap - based on LHA	91.15
Cost to SDDC - after Cap	210.95

- 4.8 Clearly, this assumes that the claimant is on 100% benefit (which is likely in most cases) and stays for a week. In some instances, stays are for longer and this why the overall shortfall is now fairly significant over a year.
- 4.9 The LHA rate is set annually and is not subject to change. In principle it should represent a “true cost” but clearly the Council subsidises a shortfall from bed and breakfast provision.
- 4.10 If the Council wishes to proceed with this policy (administratively it may be the most efficient) then better rates could be negotiated with service providers. This could include undertaking a formal competitive price/tender exercise and entering into some form of service level agreement.
- 4.11 Besides lobbying the Government to take account of South Derbyshire’s situation, a further option is for the Council to provide alternative accommodation, such as short-term leased accommodation.
- 4.12 Short-term leased accommodation could comprise, for example, the Council identifying empty properties and leasing these from the owner or landlord.
- 4.13 In these cases, the maximum weekly subsidy amount would be 90% of the LHA rate plus £60 per week for management, i.e. around £142 per week for a one bedroom property – 55% higher than the current cap for bed and breakfast.
- 4.14 An example of how this could work, based on an indicative cost of renting a property in the District, is shown below.

	£:p
Estimated Rent of Property (per week)	150.00
Plus Overheads and Other Charges	37.50
Eligible Amount (assume 100% cost of provision) for Housing Benefit	187.50
Benefit entitlement (assume 100%) this is paid to the claimant	187.50
Less Subsidy Cap - based on LHA	142.04
Cost to SDDC - after Cap	45.46

- 4.15 Clearly, the cost could be reduced substantially, but depends on identifying suitable property and a willing owner or landlord. However, this has the added benefit of bringing empty homes back into use.

Supported Accommodation

- 4.16 The shortfall between eligible rent for subsidy and that, at which the council reclaimed from the DWP, was £40,400 in 2010/11 (£101,000 benefit less £60,600 subsidy). This is calculated from approximately 60 individual cases, eligible for help. An example is shown below.

	Sep-11 £:p	Apr-09 £:p
Weekly Rent and Eligible Costs	188.66	126.38
Less Ineligible Support for Personal Care	-13.31	0.00
Eligible Amount for Housing Benefit	175.35	126.38
Benefit entitlement (assume 100%) this is paid to the claimant	175.35	126.38
Market Rent Assessment – Limit for Subsidy	75.00	61.00
Amount above subsidy limit (excess)	100.35	65.38
Subsidy at 60% of excess amount	60.21	39.23
Cost to SDDC	40.14	26.15

4.17 As part of the benefit assessment, the overall costs are challenged and the landlord has to provide evidence. Where sufficient evidence is provided it is difficult to dispute the costs and it has to be taken that they represent the true and fair cost of provision.

Subsidy for Benefit Administration

4.18 The overall caseload for the number of claims in payment is summarised in the following table.

Trend in Housing Benefits Caseload

Year	Claims
2008/09	9,710
2009/10	10,680
2010/11	10,770
2011/12	10,742 (latest)

4.19 Clearly, there was a fairly significant increase between 2009 and 2010 of 10%. Although this has since levelled off it is being sustained and shows no sign of reducing.

4.20 The level of grant is shown in the table below.

Grant Compared to Caseload

Year	Claims	Core Grant (£)	Recession Funding (£)	Total Grant (£)	Grant per Claim (£:p)
2008/09	9,710	476,452	0	476,452	49.07
2009/10	10,680	450,724	63,987	514,711	48.19
2010/11	10,770	448,950	58,008	506,958	47.07
2011/12	10,742	440,770	44,461	485,231	45.17

4.21 The Council's core grant has fallen by approximately 7.5% in total over the last 4 years, although the recession funding has about maintained the overall grant in 2011/12 at 2008/09 levels in absolute terms (These figures take no account of inflation).

4.22 However, with the caseload level being sustained, the grant per claim has fallen over the 4 years by approximately 8% in total. Funding for individual authorities for 2012/13 is yet to be announced, but the overall amount, including recession funding, for distribution has been reduced by 5% from 2011/12.

4.23 For South Derbyshire, this equates to approximately £25,000 and based on the current caseload, the grant per claim would reduce to around £43.

5.0 Corporate Implications

5.1 As detailed in the report, a review of options concerning service provision will impact upon the Council's Housing Services.

6.0 Community Implications

6.1 The review should not impact upon the entitlement for benefit. Any reduction in costs or additional subsidy generated would reduce the burden on the local taxpayer.

7.0 Background Papers

None

Draft Scoping Document

Name of Review/Project:

Reimbursement of Housing Benefit Subsidy

Terms of reference:

To review the amount of subsidy reimbursed from the Government to the Council in respect of:

- Homeless Persons
- Vulnerable Groups in Supported Accommodation
- To support the administration of housing benefits

Please provide details of relevant Corporate Plan Themes and Priorities:

Value for Money – maximising resources for the Council to enable it to deliver appropriate housing services that address community requirements (i.e. the “**Safe and Secure Theme**”).

Key Issues and Aim(s) of the Review

- To review options on whether there are more efficient ways in which the costs of accommodation for homeless persons and vulnerable groups can be provided.
- To look at ways of lobbying the DWP (possibly in conjunction with other authorities) to increase the maximum amounts that are applicable for subsidy.

Why should the review take place now?

The cost of providing benefits to these groups of people has increasingly been falling on local authorities due to national limits on allowances not keeping pace with actual costs. In addition, the amount of grant for administering benefits nationally has also fallen when caseloads (people claiming benefit) has been increasing.

The Council has had to absorb these costs within its budget. Given the overall amount involved (the Council currently administers 10,000 benefit cases and pays out £22m per year) this is not insignificant given the Council's overall budgets.

It is true that the whole system for dealing with benefits with the introduction of Universal Credit will change wholesale by 2013/14. However in the meantime, the cost falling on the Council continues to increase and this could be exacerbated if there is a delay in the introduction of Universal Credit.

Potential outcome/s

- New method of housing homeless and vulnerable people in need and on benefit.
- Generation of greater subsidy and administration grant to reflect actual costs.

What will not be included:

The administration of benefits with all its different components is complex. Therefore, the review deliberately concentrates on specific aspects and the terms of reference reflect that.

Consequently, the review will not include day to day processes and procedures for

dealing with claims including error and fraud, nor will it include people's actual entitlement to benefit.

Risks:

Transition to the new system of Universal Credit will take over any review and consume resources accordingly.

In addition, if Universal Credit is implemented as planned, any financial benefit to the Council from changing the housing arrangements of the people groups concerned could transfer to another agency.

Members undertaking the Review (if a sub-group is to be used):

Possible co-options:

Which policy committee(s) does it relate to?

Finance and Management Committee

Key stakeholders/ consultees:

- Vulnerable groups concerned
- Service providers – bed and breakfast accommodation (hotels), charities, private landlords, housing associations, etc.
- DWP
- Other local authorities

Potential contributors and research required:

Head of Client Services (Revenues and Benefits)
Housing Services (SDDC)
Northgate (Administrator of benefit claims)

Potential research on options for type of accommodation used, etc. and how other authorities deal with these issues.

Potential visits:

Other local authorities
Other landlords

Are there any Budgetary Implications?

- Could be travel costs but these should be contained within current resources
- May need to reprioritise officer time

Officer support required:

To be co-ordinated and advised by the Chief Finance Officer and Head of Environmental/Housing Services.

Period for Review:

Start date: **1st October 2011**

Approximate meeting dates:

Proposed completion date: **31st March 2012**

Report date(s) to committees:

- Background, Initial Research and Approach – 26th October
- Updates and discussion at subsequent planned meetings

