



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

WELFARE REFORM COMMITTEE

Tuesday 3 December 2013

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WELFARE REFORM COMMITTEE

20th Meeting 2013, Session 4

CONVENER

*Michael McMahon (Uddingston and Bellshill) (Lab)

DEPUTY CONVENER

*Jamie Hepburn (Cumbernauld and Kilsyth) (SNP)

COMMITTEE MEMBERS

*Annabelle Ewing (Mid Scotland and Fife) (SNP)

*Linda Fabiani (East Kilbride) (SNP)

*Alex Johnstone (North East Scotland) (Con)

*Ken Macintosh (Eastwood) (Lab)

*Kevin Stewart (Aberdeen Central) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Ewan Fraser (Dunedin Canmore Housing Ltd)

Graeme Russell (Dunedin Canmore Housing Ltd)

CLERK TO THE COMMITTEE

Simon Watkins

LOCATION

Committee Room 4

Scottish Parliament

Welfare Reform Committee

Tuesday 3 December 2013

[The Convener *opened the meeting at 10:00*]

Decisions on Taking Business in Private

The Convener (Michael McMahon): Good morning, everyone, and welcome to the 20th meeting in 2013 of the Welfare Reform Committee. I ask everyone to please ensure that their mobile phones and electronic devices are switched off.

Agenda item 1 is a decision on whether to take in private agenda item 4, which is consideration of our approach to petition PE1496, on bedroom tax mitigation. Do members agree to do that?

Members *indicated agreement.*

The Convener: Agenda item 2 is a decision on whether to take consideration of a draft report on the bedroom tax in private at all future meetings.

Linda Fabiani (East Kilbride) (SNP): At all future meetings?

The Convener: Whenever it is on the agenda.

Do members agree to do that?

Members *indicated agreement.*

The Convener: I can see that it is going to be one of those mornings.

Direct Payments Demonstration Project

10:01

The Convener: Under agenda item 3, we are taking evidence from Dunedin Canmore Housing Ltd on its Department for Work and Pensions direct payment demonstration project. From the association, I welcome Ewan Fraser, the chief executive, and Graeme Russell, the housing services director.

I invite you to make an opening statement, which will be followed by questions from the committee, if that is okay with you.

Ewan Fraser (Dunedin Canmore Housing Ltd): Thank you very much. I will kick off by putting into context some of the work that we have done, then I will hand over to Graeme Russell, who has been running the project on a daily basis, to deal with some of the detail.

First, I express our thanks to City of Edinburgh Council for working in partnership with us. It would have been pretty difficult to do the work without the involvement of the main local authority in Edinburgh. We are highly appreciative of that.

Our board has asked us to make it clear that we have taken a practical and professional approach right from the beginning of the project. We have tried to make the changes to welfare work. The whole point of the demonstration project was to make the process as successful as possible. We have resourced the project properly and have tried to be extremely positive about making the changes happen. As practitioners, we have put politics to one side and have said, "This is the law of the land, so let's make it happen."

It has been a very resource intensive and challenging process, so it has not been an easy project. We have had to address a range of challenges, the detail of which we will return to. We have found some things almost impossible to manage properly. We have been successful in certain areas, but some aspects have been extremely difficult to manage. We will come back to those.

One of the key things that we had to do was to share information. Basically, Graeme Russell has been on a speaking tour of Scotland for the past 18 months. Because a lot of learning has taken place, it was important that, through the Scottish Federation of Housing Associations and the Chartered Institute of Housing in Scotland, we went to speak to everyone. We are trying to support tenants in the long term, and the more people who find out about the challenges that exist and the resources that are required, the better.

That information must be shared. When more welfare reform is eventually rolled out, the better positioned we are as organisations, the more protection we will be able to give to tenants. That is why we felt that the sharing of information was extremely important.

What we are saying to you is what Dunedin Canmore has found out during the demonstration project. Five other consortia across England and Wales have been involved in the project, and I am sure that they have found out certain things as they have gone through the process. The DWP has been trying to pull the whole learning experience together and is marginally sensitive about individual parts of the country giving out their information. However, the committee has asked us what we have found out, and we will tell you; I simply make it clear that we cannot speak for others.

We have found the exercise invaluable. Without our involvement, I think that our organisation would be more worried about welfare reform. Although the learning experience has been difficult and challenging, I hope that we will be able to share our learning experience across the housing sector for the protection of tenants in the longer term.

I hand over to Graeme Russell to comment on some of the detail.

Graeme Russell (Dunedin Canmore Housing Ltd): I have prepared a short statement and I am happy to answer any questions afterwards. Thank you for the opportunity to meet the committee again—we met last October when members visited our office.

I will discuss some of the key learning points that Dunedin Canmore has gained and shared with the Scottish housing sector in the past 18 months. The demonstration project has now in effect been operating for 18 months. It commenced in July 2012 for the five pilot areas south of the border in England and in Wales, as Ewan Fraser indicated, and in August 2012 for Dunedin Canmore Housing in Edinburgh.

The objectives during that period have been consistent throughout and the recent six-month extension—which I hasten to add ends this month—was agreed for the purpose of assessing the impact of underoccupancy charges on direct payments as well as learning more from the pilot areas. It was evident after only 12 months that an awful lot more could be learned about engagement, advice and support and how we best engage with households to manage changes from welfare reform.

During the project, direct payments have been introduced for tenants whose housing benefit was previously paid direct to their landlords. I

emphasise that that is not the premature introduction of universal credit or any other adjustments to welfare benefits, other than those that are being introduced generally.

My presentation pack, of which members have been provided with copies, details some of the key findings of the demonstration project and, more important, some of the key learning points that Dunedin Canmore Housing and our tenants gained and the adjustments to practices and procedures that we introduced.

During the demonstration project, my association has as far as possible shared our experience and knowledge with the wider housing sector. As Ewan Fraser indicated, my staff and I have addressed more conferences in the past year than we care to remember. We have provided information fairly regularly to the City of Edinburgh Council, the SFHA, the Scottish Housing Regulator, the Convention of Scottish Local Authorities, the Scottish Government and the Chartered Institute of Housing.

We have sought to communicate a number of key learning points and messages, which I will summarise briefly. As Ewan Fraser indicated, the exercise has been more resource intensive than we or anyone else could have reasonably predicted. To meet the demands of the demonstration project, we have committed additional resources, employed additional staff and ultimately adjusted our organisation's priorities to ensure that we are in the best position to provide advice and assistance to the tenants who are affected.

For us, the introduction of direct payments took a big-bang approach. We had comparatively little time to prepare for the introduction—that differs from the gradual and incremental introduction of universal credit. I contend that landlords should use the time that we now have to prepare for and commit resources to the major changes in the relationship with tenants, the procedures that will be required and the structural adjustments that will be required to working practices.

Communication has been a major eye-opener for us. As a direct result of the direct payment project, we have learned a great deal about how we will have to adjust systems and practices to ensure that we communicate effectively with our customers. We can no longer rely on traditional written communication methods. We have discovered that there is a need to move towards more personal, electronic or telephone-based methods of communication to engage effectively with our tenants.

The provision of appropriate advice and assistance has been the most challenging aspect of the work. Only a minority of tenants seem to be

prepared to accept referrals or signposting to advice agencies from the association. In fact, recent learning reports from the DWP research department have indicated that for tenants in all the project areas there seems to be a disconnect between being provided with advice from their landlord and taking up support services from the third sector or advice agencies. That will prove to be a major challenge with the ultimate introduction of universal credit, but the issue requires attention and resolution.

Even in our operational area, which as you are aware is the Edinburgh area, there are a variety of support and advice agencies. At Dunedin Canmore, we have adopted a triage approach to assessing tenants' needs and we seek to make the best and most appropriate advice referrals, whether internal or external. However, there is wide-scale duplication of advice and support agencies, with no apparent strategic approach to the provision of appropriate guidance for those who seek it.

Access to digital means of communication will be a challenge. The issue is not one of hardware provision; rather, the challenge for landlords is how to raise the confidence and capability of the least able and most vulnerable members of our communities to use information technology. We at Dunedin Canmore envisage that staff will have to provide tenants with considerable assistance with IT applications, particularly for welfare benefit applications and also other beneficial online services. The time and resources required to achieve that will, in the absence of alternate resources, require other aspects of landlords' work to be adjusted.

I draw your attention to our comments on data sharing. For many years, registered social landlords, local authorities and housing benefit departments have worked in tandem to address housing benefit issues—more successfully in some cases than in others. The introduction of universal credit will require new relationships and practices to be devised if the benefits to customers are to be preserved. Universal credit places considerable emphasis on improving tenants' capability and financial confidence, but the absence of coherent data-sharing arrangements between landlords and the DWP will not aid the traditionally close working relationships that have been developed over many years between ourselves and local authorities.

That was a very brief statement. I am more than happy to answer any questions related to the direct payment project at this meeting if I can. If I cannot, I will certainly return with any other information that the committee wishes.

The Convener: Thank you both for giving us an overview of how things have developed since the

project started and—more importantly from our point of view—since we came to see you in October 2012. I recall that when we came, you raised a few issues with us—alarm bells were starting to ring at that point. One issue was the sharing of information: it had become clear that there might be some sort of disconnect between housing departments and yourself. If people who had difficulties had gone to you, the social work department or the housing department, you could not share the information. Has that problem been overcome or is it still an issue?

Graeme Russell: That remains an issue. If a tenant reverts to direct payments, we as the landlord will not necessarily know their situation. If their benefit has been cancelled or adjusted, the first that we would hear about it would be if the tenant accrued arrears. The relationship between us and what is currently the City of Edinburgh Council's housing benefit department has been broken as a consequence of direct payments.

It remains an issue. We have worked incredibly hard to raise tenants' confidence and find other ways of communicating with them.

The Convener: Another issue was money advice and assistance. You had someone seconded to you from Citizens Advice Scotland.

Graeme Russell: That is correct.

The Convener: There was always a recognition that that could not last beyond the term of the project. Has anything else emerged in relation to facilitating debt advice or other support? Are you concerned about how big a gap will be left when you do not have that direct input from a Citizens Advice staff member?

Graeme Russell: We are in a fortunate position as the association received additional funding from a trust fund to engage an advice worker for the next few years, so the immediate threat has been removed. The issue is the scale of the challenge and the time that is available given the number of tenants who require advice. As I alluded to in my opening statement, providing the sheer volume and variety of advice that is required would be a challenge for any landlord, irrespective of its size.

The advice worker that we have seconded from Citizens Advice works with us three or four days a week and is fully engaged in money advice issues. In our association we also have five welfare rights officers—we got some funding through the Scottish Legal Aid Board funding arrangements to supplement the number of officers to five. Those staff members are fully engaged in general welfare and benefits advice and also address some of the issues that are arising from direct payments.

As more and more individuals experience the consequences of welfare reform changes—as

direct payments and universal credit start to impact—the challenge will be the crying need for more and more independent financial advice. As I alluded to, I am not confident that even within Edinburgh we are geared up and have sufficient resources to cater for the demand that will come forward.

The Convener: When we met you, you said that you were aware of just how important it was to have that person there. We knew at that point that not every housing association—especially the smaller ones—would be in a position to provide such support and advice. Are you still concerned about that?

10:15

Graeme Russell: Yes.

Ewan Fraser: Yes, we still have that concern. However, we are quite lucky in that we are an organisation of reasonable size. We have a board that recognises the needs of tenants and that we are a business as well as a housing association, and that if we invest in the right areas for staff, we can help to run our business, which is to support tenants and keep a roof over their head but also to get rent collected. By investing in and providing appropriate advice to tenants, we can help that process. We can afford to invest in the right areas, but I do not think that a lot of other organisations are big enough or have the financial capacity to do that, so they will struggle more than we are struggling.

Graeme Russell is quite right to say that across the city, when people get into trouble, they do not go directly to their landlord; they like to go for independent advice. That is where the problem might well lie.

Jamie Hepburn (Cumbernauld and Kilsyth) (SNP): Thank you for your evidence, gentlemen. It does not seem all that long ago that we were with you at your headquarters, so I was surprised to hear that it was in October last year.

I want to raise the issue of switch back, whereby a person can switch from having direct payments come to them as an individual to having payments go to the registered social landlord. I understand that, at the start of the demonstration project, criteria were agreed—different criteria applied in each project area. I think that the criteria that you used included rent not having been paid by the 25th of the following month—

Graeme Russell: It was effectively a one-month switch back.

Jamie Hepburn: Yes. The other criterion was that the tenant had been contacted on a number of occasions but had not engaged in finding a satisfactory repayment arrangement.

This will have wider implications, not just for you but for other housing associations. How was the DWP at dealing with this? Did you encounter any recalcitrance in getting switch backs? Did you get the sense that the DWP was questioning any of the people that you wanted to switch back, or was there not a problem?

Graeme Russell: It was not a problem, but I should clarify that the DWP was not involved in the switch back process. It set the criteria, but the switch back arrangement that we had was with the City of Edinburgh Council. We still had a relationship if somebody fell a month into arrears.

Of the six demonstration projects when we started last August, two were on a one-month switch back; two were on a two-month switch back; and another two were on a three-month switch back arrangement. We in Scotland—indeed, we in Canmore—were on the one-month switch back.

Earlier this year, in preparation for the roll-out of the pathfinder arrangements elsewhere in the United Kingdom, the DWP undertook consultation on the general view of the switch back arrangements. Our view, after our initial experience, was that one month was too short a period, because it did not enable us to engage or work with the tenant. The experience of our colleagues in the other demonstration projects was that two months was about right. If somebody fell into arrears, the landlord at least had the opportunity to provide advice and work with the tenant, rather than just reverting to switch back.

I understand that as a consequence of that consultation, pathfinder arrangements and what is proposed for the roll-out of universal credit will involve a two-month switch back. So, in some small way, Dunedin Canmore's participation and the demonstration project have aided what will eventually be the switch back arrangement once the DWP takes responsibility for the arrangements.

Jamie Hepburn: So, the DWP did not have a role in the switch back?

Graeme Russell: No.

Jamie Hepburn: But it is likely to in future.

Graeme Russell: Yes. The DWP will be the agency that is paying universal credit. A landlord would need to notify its local DWP office, or whatever, to get switch back. Alternative payment arrangement criteria to aid that are being tested in the pathfinders just now.

Jamie Hepburn: You have picked up on an issue relevant to my next question. The DWP has set out its thinking on the criteria, which is as you have suggested. Will it be a labour-intensive process for RSLs to identify individuals? I presume

that RSLs would then have to go to, for example, the DWP, to inform it about those individuals.

Graeme Russell: That additional administrative exercise will be labour intensive. Our process identifies individuals who fall into arrears whether that is by one, two or three months, so identifying the individual will not be the issue. We have been fortunate under the demonstration project that, because of our relations with the City of Edinburgh Council revenues and benefits department, we can contact it if tenants switch back. I am not aware that the DWP has put in place the protocols whereby we would have to notify a local jobcentre that an individual whom we know to be on universal credit has fallen into arrears and we want a switch back of the rent element of the universal payment paid to us.

The key challenge is that, with the introduction of universal credit, the landlord will not necessarily know whether someone is in receipt of that or what their entitlement is. There could be additional administrative and potentially aborted work with landlords contacting Jobcentre Plus to intimate that a tenant has fallen into arrears with rent and that they want to look at alternative payment arrangements while not knowing whether that person is in receipt of universal credit.

Jamie Hepburn: That makes it even more labour intensive not only for you but for the DWP, because all that data must be gathered, even if such individuals fall into the criteria by which they would be allowed to switch back.

Graeme Russell: Potentially, yes.

Jamie Hepburn: A lot of resource will be expended in the future that you, other registered social landlords and the DWP would previously not have needed to spend.

Graeme Russell: That is correct.

Jamie Hepburn: Lord Freud made a speech to the Chartered Institute of Housing in June stressing that, even though there will be a switch back arrangement, the underlying assumption will be that that will only be an interim measure before people receive direct payments again. Is there not a danger that we could fall into cyclical behaviour? Individuals could be coming in and out of direct payments regularly, making it even more labour and resource intensive than the situation that we have just discussed.

Graeme Russell: Yes. An individual could, as a consequence of falling into arrears, move on to alternative payment arrangements, and the DWP is creating a whole raft of different practices for that. Its intention is that nobody would be switched back permanently and that, with advice and guidance, they would revert back to direct payments. The potential is there for individuals to

switch back and forth if they fall into arrears, and dealing with that would be labour intensive.

Jamie Hepburn: You must wonder whether that is the best use of public resources at a time of constrained finances.

Graeme Russell: Yes.

Ewan Fraser: I have spoken directly to Lord Freud about that. I agree that there is uncertainty about what will happen. He stated that the switch back process will be of benefit to the RSL, because it will be worth while for tenants to switch and make payments directly because deductions will be made by doing so. However, he also said that the DWP did not have the whole process sorted out. I am therefore not quite sure what will be done about reducing universal credit to pay us directly when tenants are in arrears. Lord Freud is very aware that there will be a problem because of the uncertainty and the exact points that you are making. The DWP is to look at processes that will make it worth while for the tenant to pay their rent, but I do not know what those are yet.

Jamie Hepburn: You say that the processes will be worth while but that you do not know what they are yet. It sounds to me like a punitive measure, with deductions to universal credits. Did I catch you correctly?

Ewan Fraser: The DWP is suggesting that it might take a deduction from the universal credit to repay directly the landlord with whom the tenant is in arrears. Lord Freud made it clear that he was aware of the problem, he knew that there would be an issue with this and that they were working on something, but he has not been clear what the exact answer to that will be. Undoubtedly, it will be an issue.

Jamie Hepburn: The committee will need to consider whether to explore that matter with Lord Freud.

I see that the average rent collection rate across all the projects was 94 per cent. Yours is a little higher at 95.98 per cent—nearly 96 per cent—but you still had nearly £150,000 rent arrears attributable to the project. It may be hard to answer the question, because we are in a new realm, but how do the arrears accrued in this case compare with your previous experience of arrears? I am sure that you will have had arrears in the past. What is the arrears position for your organisation, having gone through the project, compared with the position in previous years?

Graeme Russell: Prior to the introduction of the project, Dunedin Canmore Housing Association's net arrears operated round about 2.2 per cent of our gross rental debit, which is £21 million. The figure is now up to about 2.74 per cent, so there has been an increase in our rent arrears as a

result of direct payments. I stress, however, that we have been on a one-month switch back, so arrears are tempered by that ceiling of one month.

Arrears are increasing but, to be perfectly frank, it would have been naive a year ago to assume that they were not going to increase in those circumstances. What we have done at Dunedin Canmore and through the demonstration project is to change a lot of the practices that we previously took for granted. We have provided far more advice to tenants than we ever did in the past and have been far more communicative with them, and our arrears levels have stabilised and are even starting to reduce this month. It has been a major behavioural change, both for our tenants and for the association, and with hindsight I feel that if we had had more time, we could have planned to provide extra resources and put procedures in place, but it has necessitated a change in the way that we think about the collection of rent and engaging with our tenants. To be honest, it has taken a year to get us to the position where, although we are not happy with the increased arrears, we feel more confident about the level of engagement and about the advice that we can provide to our tenants.

Ewan Fraser: Graeme Russell came to me mid-year and said that he had to restructure his department. It is not just about mindset and behaviour; we had to look at the structure of our organisation to target the debt recovery side of our operation, which was more generic with housing officers before but which has become more difficult.

Graeme Russell and I have both touched on the resource implication. We need additional resources to stand still, so there is definitely more work, and our job is to put all the money that we collect back into services for tenants. We may have been diverting money to the wrong places, but we still have to divert it to ensure that the structure of the business is right with the new regime.

The Convener: Linda Fabiani had a supplementary question, I believe.

Linda Fabiani: My question has sort of been answered in the responses that followed, so I am happy to wait if there are other members before me.

Kevin Stewart (Aberdeen Central) (SNP): In your conclusion and recommendations, you say that you have

"Identified that traditional rent collection and accounting systems will not be suited to the environment in which Universal Credit operates."

You have given some examples. You also say that rent collection

"Has been considerably more resource intensive than originally anticipated."

You have talked about the restructuring of departments and about additional funding from trusts for advice services. We know from our own visit that you were pretty well organised in terms of co-operation with the city council, Citizens Advice Scotland and others. Have you estimated how much it has cost you and your partners to deal with the project?

Graeme Russell: In terms of additional administrative or staff costs?

Kevin Stewart: In terms of additional administrative and staff costs, and any other associated costs that you would not have had to bear if you were not participants in the project.

Graeme Russell: I will be frank. We have not made a detailed assessment of the costs, and neither has the DWP asked us for that. However, the costs have been not inconsiderable, both in additional resources committed and in the deflection of services towards the project. I could not with any confidence tell the committee what the total cost of the project would be.

Kevin Stewart: But it would be significant?

Graeme Russell: Yes.

10:30

Kevin Stewart: How many additional members of staff have you and other organisations put into dealing with the demonstration project?

Graeme Russell: Dunedin Canmore has put in additional staff. Some are funded by trusts, and we have rejigged the department—

Kevin Stewart: How much did you get from trusts?

Graeme Russell: I think that the Robertson Trust provided about £100,000 over a five-year period.

We have effectively employed the equivalent of four additional members of staff, in a welfare rights capacity and an administrative capacity, and we have rejigged and recalibrated some of our staff complement.

Ewan Fraser: We have also had to work on our IT systems. You have asked a good, searching question.

Because we have been running a pilot project, we have been learning, so we were getting some funding to help us learn. Other organisations will have to do what we have done, though. We work with a lot of trusts to try to get money to give additional support to tenants. If you look at what we have done with the IT systems, the customer

service centre and the debt recovery team, you will see that we have been reshaping the organisation as a whole.

We could try to get further information for you. We have not yet worked out the final figure. Our view was that, if welfare reform is here to stay, we have to make adjustments to suit our organisation, and there will be a cost to that.

Kevin Stewart: It would be useful if you could do that. Obviously, those costs will have to be borne by other associations across the country as the changes roll out. It will be difficult for people to access other funding from trusts—organisations will be beating each other up to get to the trusts, I would imagine. You are a fair-sized housing association. How will the smaller housing associations and co-operatives manage to deal with the changes?

Graeme Russell: As I mentioned earlier, in the past year or so, my colleagues and I have spent a considerable amount of time speaking to others. There are benefits to Dunedin Canmore's size. The critical mass that we have enables us to employ additional resources. Smaller housing associations—the traditional ones that have around 1,000 or 1,200 houses—probably know their tenants better than we or large local authorities do. With regard to their ability to find resources, they will have to forge alliances with local support agencies and citizens advice bureaux as soon as possible. In the past, they might not have had prominent relationships with those bodies, but if they do not have the required resources they will have to think differently about their engagement with the third sector, the voluntary sector and the advice sector, and about how to make effective referrals to those third parties.

One of the key things that we have found is that, on those occasions on which the advice is more specialist than our staff can provide, or is of such a nature that it would be inappropriate for us to provide it—for instance, if it concerns debt management—there seems to be a reluctance or trepidation on the part of tenants to take advice from the people we are directing them to. That is common to all the demonstration projects. We find that more than half of the people whom we refer to third parties do not turn up for the interviews. I am not yet sure how we broach the issue of raising confidence with tenants. We have to say, "Here is someone who can help you. We can provide you with the means of gaining benefit from that advice, but you have to take it on board yourself." That will be a major challenge.

Some of the smaller, more locally based associations might be in a better position than we are to have community links, should the support exist in their communities.

Kevin Stewart: However, again, if they are overreliant on advice services that are already stretched, that might be difficult.

Yesterday, I met some representatives of housing associations in the north-east and Aberdeen. Some were saying that they had already employed additional people to deal with the bedroom tax aspect. That is what I want to turn to next. In your paper, you say that 75.9 per cent of the participants in the project have paid their bedroom tax and that 44.8 per cent of non-participants had. Is that higher rate due to the fact that you have had a more intense working relationship with the participants?

Graeme Russell: That is undoubtedly the reason. There is raised awareness about the responsibilities of paying rent. Our level of engagement with the tenants over the past year has given them a heightened level of awareness about their responsibilities for rent payment, which they perhaps did not have in the past when direct payments were sent.

Kevin Stewart: Is it fair to say that, in the main, the folk that you have been working with intensively have been better at paying the underoccupancy charge—the bedroom tax—and that those who you have not worked with intensively have been less likely to pay up?

Graeme Russell: The people who we have not had the opportunity to work with intensively have been less likely to pay—yes, I would suggest that that is the case.

Kevin Stewart: Will some intensive work have to be done by housing associations and local authority housing departments across the country to ensure that folk are helped to try to get them to pay the bedroom tax?

Graeme Russell: Yes, if the potential exists that they can pay it. The figures that we have are for individuals who have clearly made choices. Our association has helped a number of tenants to downsize or to reduce their bedroom tax and we have helped tenants to apply for discretionary housing payments.

As the bedroom tax has been in place only since April, it is probably too early after the first six months to give a definitive answer, but there is a noticeable difference in the payment of the underoccupancy charge or bedroom tax between those who are on the demonstration project and those who are not. Although neither we nor the DWP have done a major assessment of the situation, I think that that is down to our engagement with the tenants, their raised awareness and confidence about rent payment and some of the mechanisms that we have put in place to help them pay their rent—something has

happened with the payment of the underoccupancy charge.

Kevin Stewart: But this is pretty costly not only for those who are affected by the bedroom tax but for the associations and other housing services that are having to put in such intensive work.

Graeme Russell: As Ewan Fraser and I have said a few times, the demonstration project has required us to re-examine a lot of the administrative assumptions that we made in the past about the collection of rent. I have worked in the business for 30-odd years and, with every respect, I think that landlords—local authorities and housing associations—became a wee bit complacent about rent collection. Our finance director could guarantee that on the 28th of the month, 60 per cent of our monthly revenue would drop into our bank account with little or no effort on our part to collect it. Universal credit and changes to welfare reform will fundamentally change that assumption, so we will have to invest more to ensure that we get the rental income to deliver services to tenants.

Kevin Stewart: Representatives from the City of Edinburgh Council who gave evidence to us the other week said that it had relaxed the criteria for direct housing payments and that they were going back to folk who maybe had not been in receipt of discretionary housing payments before. That will probably mean even more work for you guys to help the council out by trying to get DHPs for more of your tenants so that there is less of a problem.

Graeme Russell: Up until last Friday our welfare rights officers—sorry Ewan; I am interrupting my chief executive, which is a first—had helped 101 tenants across our entire scope to get a DHP. Something like 368 of our tenants are affected by underoccupancy charges. We have helped more than a third of them in Edinburgh, West Lothian, Fife, East Lothian and Midlothian to apply for a DHP. It has required a considerable resource commitment on the part of the association's welfare rights staff to help our tenants access that transitional additional funding.

Kevin Stewart: You had maybe better let your chief executive in.

Ewan Fraser: I was going to ask the convener if it was okay to speak, but maybe I should ask Graeme if it is okay to speak.

I said in my introductory comments that some of our work on areas around the bedroom tax has been almost unmanageable, because we just do not have the stock. It comes back to the things that we have been saying. A lot of tenants are just realising that it is their responsibility to pay rent. There is an educational element to the process. It all comes back to the fact that we have to support our tenants and we must get away from the

automatic welfare system that delivers straight to the landlord and must give some responsibility back to the tenant. The situation arose through no fault of the tenant; it is the way that the system has worked for many years. A huge resource will be required to get tenants to accept the fact that they have a responsibility to pay for the house they live in, but they will be supported in the means of making payment.

We have had representations from one MSP who had someone come to their surgery saying that they had a plastic bag full of letters that they were scared to open. A lot of people are really worried about the change, so we have to use our resources to work more closely with tenants and let them understand the processes. We must also take a long-term view of the housing stock and allocations processes, and we cannot do that overnight as has been expected of us.

Kevin Stewart: I have one final question. Obviously, it is a big-bang change and seems to be costing you a fair whack of money to implement. You have also seen a rise in arrears. With more administrative costs and a rise in arrears, your cash flow is obviously affected. Are we at a stage where your future investment in housing stock is affected? If things continue in the same vein, will your plans to refurbish your existing stock or to build new housing in future be affected?

Ewan Fraser: The financial management of our organisation is a lot more difficult, undoubtedly, and we must be careful. We know that we have an income, and we now know what that income is, and we had to put a cap on the rise in arrears—Graeme Russell's department has restructured and we hope that, with the cap, arrears will start to come down. To date, investment in property has not been affected, so we are still putting in kitchens and new central heating systems and doing all the things that need to be done to maintain the houses properly.

However, the change has brought a degree of nervousness to financial institutions that could invest in housing associations, so I am finding things a little bit more difficult when I speak to the banks. I tell them that we have a grant to build houses but need some private finance as well, and they now ask how risky that is and whether our management processes will allow them to invest more money in us. I could not exactly quantify that degree of nervousness among the financial institutions, but they are nervous about putting money into housing associations, which could stop new build programmes going forward. We have not been stopped to date, and we have not stopped investing in maintaining our properties, but that is only because being involved in the demonstration project has been a valuable

experience, as I said in my introduction, and has allowed us to make the changes and spend a bit of time working out how we can manage our finances more strictly and target money at the right areas. It will be interesting to see how that goes over the next two or three years, but it will be hard work.

The Convener: Before we come to Ken Macintosh's questions, I have one small question. You might not be able to help me with this now, but it would be useful if you could get the information to us after the meeting. You mentioned that you had helped to get DHP for around 100 people. What would your normal level have been in previous years? Do you have an average figure?

Graeme Russell: I can check with my welfare rights staff, but it would have been infinitesimal. You will appreciate that discretionary housing payments have existed for some years, and my welfare rights staff would have helped with DHP applications previously in rare and unusual circumstances.

The Convener: It would help the committee if we could get a figure, so that we can compare what you are dealing with now with the previous situation. Could you do that?

Graeme Russell: I am more than happy to do that. If I can find that information I shall provide it to the clerk.

The Convener: Thank you. I appreciate that.

Ken Macintosh (Eastwood) (Lab): Do you mind if I ask a few basic questions? I was not a member of the committee last year, so I have not had the advantage of coming to visit you. My questions relate to the key information on page 2 of your paper. First, are the tenants who are participating in the project volunteers, or are all your tenants involved? If just some of your tenants are involved, how did you recruit them?

10:45

Graeme Russell: Let me explain the position. A year past May, Dunedin Canmore and the City of Edinburgh Council agreed to participate in the project. At that time, the DWP and the research organisations wanted a sample of no fewer than 2,000 tenants to make the results statistically valid. Having volunteered for the project, we did our sums along with the City of Edinburgh Council and saw that we had only 1,800 tenants in Edinburgh who met the criteria of being in receipt of housing benefit and being between the ages of 18 and 59. All 1,800 tenants were notified initially by the local authority, because it paid the housing benefit.

One of the criteria that the tenants had to meet was to agree to provide the local authority with bank account details so that the money could be paid into their account. If a tenant did not agree to participate by providing that information, we could not pursue them, because the council would not be able to pay housing benefit into their bank account. As a consequence, something like 1,020 out of the 1,800 originally participated in the project. That number has gradually reduced as a consequence of switch backs over the past year to the number that we are looking at now.

I suppose that there was a degree of self-selection, in the sense that if somebody refused to give the housing benefit department their bank information, they could not participate. We were not in a position to force anybody to move on to the project, so there was a degree of volunteerism. However, the tenants in the demonstration project—the 1,000 who started—were a fairly representative cross-sample of our tenants, ranging from those who were in work and receiving partial benefit to meet their housing costs through to individuals who, in some cases, had quite profound housing needs and vulnerabilities and who were supported by the agencies that we work with.

I am fairly confident that those 1,000 tenants, and even those who are still involved today, are a fairly representative sample of our tenant base. However, Ken Macintosh is right to say that there was a degree of volunteerism or self-selection at the very outset. That has continued to some extent, bearing in mind the one-month switch back, because some individuals have made a strategic choice, knowing full well that if they fall into arrears they will be switched back after a month and then they will pay us the arrears incrementally. Nevertheless, the information that I have provided in the paper on the 600 or so tenants who are now involved demonstrates that tenants of Dunedin Canmore come from a wide variety of backgrounds and have a range of different household and financial circumstances, and it is against that background and that cohort that we are testing direct payments.

Ken Macintosh: That is helpful. You have provided a helpful list of "Tenant characteristics and key information". Are those facts drawn from the entire cohort of Dunedin Canmore's tenants, from the 1,800 in the working-age population who were on DHP, or from the 1,020 who participated in the project?

Graeme Russell: From the 1,020.

Ken Macintosh: So they are drawn from those participating in the project.

Graeme Russell: Those are the ones who participated at the outset. The DWP

commissioned the research company Ipsos MORI to undertake that survey on its behalf, and each of the demonstration projects received a summary of the characteristics of the tenants in the cohort. What is in the report is a summary of the characteristics of our tenants.

Ken Macintosh: Do you have a further summary of those who originally engaged as compared with those who are still participating? You have lost a third through switch back. The Ipsos MORI survey makes a couple of observations, including a comment about arrears accumulation being

“a product of ‘Attitude and Previous Behaviour’”.

Graeme Russell: Those are my comments.

Ken Macintosh: Could you expand on that? First of all, did the survey cover those who participated and then dropped out?

Graeme Russell: The survey was undertaken at the very commencement of the project. I can confirm that, partly as a result of the extension of the project, the DWP has commissioned Ipsos MORI to undertake additional research work, which I understand will be published in the spring or summer of next year. It is particularly interested in assessing the circumstances in which people were switched back and the reasons for that, as well as the reasons why people did not participate. In the fullness of time—probably next year, when all the research has been pulled together—there will be more information in the public realm. I have not seen that information or been involved in the research, but it should tease out the specific reasons why people went into arrears, why they were switched back and what the challenges have been for them. That is one of the reasons for having an extended research project.

Ken Macintosh: The paper says:

“83% of participating tenants have a functioning bank account”,

but I thought that they all had to have a bank account in order to participate.

Graeme Russell: That was at the start of the project. Some have initiated bank accounts since then, having had advice to develop them.

Ken Macintosh: On page 3 of your paper, there are two graphs, one of which is entitled “National Picture”, but I do not understand what it is showing us.

Graeme Russell: The first graph, which is headed “National Picture”, shows rent arrears, and the second one shows switch back. I beg your pardon for not highlighting them—they are a compendium of all the arrears and all the switch backs for all six demonstration projects over the period up to payment 12, which was in June of this

year. They show the general trend of rent arrears and switch backs for all six projects during the first 12 months of the project.

Ken Macintosh: Are the figures for Dunedin Canmore quite similar to those shown in the graphs?

Graeme Russell: They are not dissimilar. Our arrears have been marginally less, and the graph for our switch backs—because we were on a one-month switch back—would be steeper and then would level off a lot quicker than would be the case for the other projects.

Ken Macintosh: Does the picture for national rent arrears, where the trend is declining slightly, include those on switch back who are paying back their arrears?

Graeme Russell: I understand that it does.

Ken Macintosh: Is the trend declining because, now that they have switched back, those people are actually better at paying off their arrears?

Graeme Russell: I would have to assume that that was the case.

Ken Macintosh: What is a switch forward? Your report shows a figure of 24, with “10 reneged”.

Graeme Russell: Switch back is what happens when a tenant falls into arrears and their housing benefit is paid to us. Switch forward is where, having had the opportunity to work with tenants, we put them back on to direct payments. We took the decision early on in the association—most landlords did the same—that if somebody fell into arrears they should not be damned to be on switch back. We worked with some of those tenants, worked out what their arrears problems were, got them to repay some of the money on an incremental basis, and provided them with the advice and information that they required. That is a switch forward. They had switched back, but now they have switched forward. To date, we have had 24 of those, but 10 have reneged already and have been switched back, so they have been switched back, switched forward and switched back again.

Ken Macintosh: Did you ask all the 300 or so who have been switched back to switch forward?

Graeme Russell: The opportunity to switch forward has been presented to them. If they engage with us and start to pay off the arrears that they have accumulated, we would consider that. However, communication with tenants can be difficult, particularly with those who fall into arrears, because they bury their head in the sand—that is common to people who face any issue—so we have had major challenges in engaging with tenants who find themselves in a

month's arrears and are unwilling to pay back, or to do so in a manner that would be commensurate with the project.

Ken Macintosh: I have two more questions, just to make sure that I understand the figures. How did you calculate the cumulative rent arrears, which you have estimated at £150,000?

Graeme Russell: That figure represents the arrears that have accumulated among those tenants involved in the demonstration project over the year.

Ken Macintosh: Would there not have been rent arrears among those tenants anyway?

Graeme Russell: The figure relates only to the period of the project. If somebody had rent arrears beforehand, that is not included. The figure includes arrears only from the commencement of their participation in the demonstration project.

Ken Macintosh: But you would have expected some of those participating in the project to go into rent arrears, even if they had not been involved in the project. I am trying to work out how much of the arrears is attributable to the system. You recruited 1,000 tenants on to the project, of whom 671 are still on it. Some of them would have ended up with rent arrears anyway.

Graeme Russell: They may well have done, just because of the cost of living.

Ken Macintosh: Or because of the bedroom tax, for example, or any number of issues.

Graeme Russell: Yes.

Ken Macintosh: Have you subtracted an estimate for those whom you would have expected to get into rent arrears?

Graeme Russell: No, and I think that it would be difficult for us to identify them. The other reason for that arrears figure is that, because we are on a month's switch back, the vast majority of the £149,000 equates to one month's switch back for 300 or so tenants. We have not had the opportunity to analyse whether those tenants would have gone into arrears anyway, or whether there was any other reason for the arrears accruing. However, the figure of £149,000 is attributable to the demonstration project from its commencement.

Ken Macintosh: Your report includes the interesting fact that 75 per cent of participants pay their bedroom tax in full. However, the bedroom tax has impacted on all tenants, has it not?

Graeme Russell: The impact is not on all tenants; some are not affected by the bedroom tax.

Ken Macintosh: That is true.

Graeme Russell: Dunedin Canmore has 4,500 tenants, and 368 of them are affected by the bedroom tax.

Ken Macintosh: So the number is only small.

There is an issue to do not just with people having a bank account and payments being made monthly but with when the payment comes, which will be on the date when a person signed up—that could be the 13th or 27th of the month or whatever. You moved all the tenants in your project on to direct payments. How did you do that? Did you move them all on a date that suited your organisation?

Graeme Russell: We used the date when housing benefit was traditionally paid. Before the demonstration project took place, the City of Edinburgh Council paid housing benefit into our bank account on the 27th or 28th of the month. All that happens now is that, on the 27th or 28th of the month, the housing benefit payment that formerly came to us goes into tenants' bank accounts.

Ken Macintosh: So the idea that people would struggle if they were paid the whole month's amount on the 4th of the month but payment was not collected for another 28 days was not a factor.

Graeme Russell: That was not a factor that we replicated in the demonstration project, because housing benefit was paid when the local authority would normally have paid it to us.

Ken Macintosh: You say that one of the issues is the number of people who use weekly budgeting and cash budgeting. Do you collect cash from them weekly?

Graeme Russell: No. The rent accounts remain on a monthly cycle, because housing benefit is paid to us on a monthly cycle. We have not changed that. No change has been made in any other benefit entitlement; the change is simply in the payment of housing benefit. The payment cycle has remained exactly the same as it was before the demonstration project commenced.

Universal credit will vary the payment cycle for tenants—you are right to say that they will be paid on the date of the universal credit claim. If a landlord does not know when that is or whether a tenant is receiving universal credit, and if rent is not paid on the first of the month, we will have to assume that the tenant is in rent arrears.

Ken Macintosh: Thank you—that was helpful.

Linda Fabiani: Before I talk about the main issue that I want to raise, will you give me an idea of how many people in your overall tenant base receive full or partial housing benefit?

Graeme Russell: Over our entire stock, something like 45 per cent of our tenants receive

full housing benefit and about 20 per cent receive partial housing benefit. It is fairly common among most associations for between 65 and 70 per cent of tenants to receive some form of housing benefit.

Linda Fabiani: I will expand on some of what Jamie Hepburn asked about. You mentioned the difficulty of knowing—the inability to know—which elements of a tenant's universal credit relate to housing benefit. It strikes me that, within the overall universal credit sum, people's circumstances might change—

Graeme Russell: —on a weekly basis.

Linda Fabiani: Absolutely. People might start off with full housing benefit, then get work and go on to partial housing benefit. One of the 35 per cent who have never had housing benefit might hit hard times and end up on housing benefit. It will be difficult to know what housing benefit is due, if you like, and what you have to collect.

Graeme Russell: The only thing that we will know with any certainty is what a tenant's rent is. Under universal credit, an individual's benefit entitlement—which I understand will be based on their application date—could vary weekly. That will depend on the hours that they work, tax credit changes and a variety of things. Under the principles on which universal credit is founded and will be introduced, a landlord—like any creditor—will not know what the payment is or when it is received.

In my paper and in my introduction, I made the point that the link that has existed for a generation between landlords and housing benefit departments will be broken. We will need to forge new relationships and new ways of working with the DWP and Jobcentre Plus, which will administer universal credit.

Linda Fabiani: When the Chartered Institute of Housing in Scotland gave evidence fairly recently, it said that it foresaw difficulty for many of its members in knowing what is due for rent or any component of rent.

Graeme Russell: Yes.

Linda Fabiani: That leads me on to the last of your conclusions and recommendations, which is that

“The sharing of information between Revenues and Benefits Depts and RSLs”

is “critical”. You talked about the need for your staff to check with Jobcentre Plus and all sorts of things.

11:00

Graeme Russell: We do not do so at present, but we could in the future.

Linda Fabiani: Right. I am sorry—I picked that up wrongly. Such sharing is going to have to happen. Development of effective data-sharing arrangements and so on sounds straightforward, but the debate about it has been going on for many years.

Graeme Russell: I am not suggesting for one minute that it will be straightforward. It will be a major challenge.

Linda Fabiani: Exactly. When you first consider data sharing, it absolutely makes sense, but then you see all the component parts that are involved and the constantly changing circumstances of all the individual people. I believe that there is also a data-protection element. A bit of me says that when a person gets a lump sum that can vary depending on circumstances, it is no one's business how much it is, as long as the rent is paid.

Graeme Russell: You are perfectly right.

Linda Fabiani: What business is it of the other components of the system what proportion of the lump sum is for the bedroom tax or whatever? As I said, data sharing is a great theory that we have all been talking about for years, but there are restrictions that do not allow it to work in practice.

Graeme Russell: The parallel is to ask what right we, as a landlord, have to ask what the wages are of a tenant who is not in receipt of any benefits.

The founding principle of the universal credit is that it is a tenant's monthly salary from Jobcentre Plus or whatever. To reiterate, as a landlord, the only certainty that we have is that our rent is due on the first of the month. For many landlords, including us, that will be a major cultural change. With the introduction of universal credit, we will no longer have the certainties that we have had in the past that housing benefit will drop into a tenant's rent account if they are in receipt of benefit. As we have learned, landlords will have to adopt new practices and procedures and we will—dare I say it?—have to adopt a more robust and commercial approach to rent collection than we have taken in the past, while still providing advice to those who need it.

Linda Fabiani: If I remember rightly, one of the great benefits—to use the word in a different sense—of the universal credit, according to Lord Freud and Iain Duncan Smith, is its simplicity for the recipient.

Graeme Russell: Yes. It is simple from the recipient's perspective.

Linda Fabiani: There is also simplicity of administration. Do you have a view on that?

Graeme Russell: The welfare benefits system that my staff and I have been used to working with for many years is overly complex and prone to failures. From a personal and professional perspective, the underlying principles of universal credit make common sense—it is a simplified system using one payment and it places some responsibility for the financial affairs of the household on the householder. From a landlord's perspective, the challenge will be to change a culture that has existed for more than one generation that rent is due on the first of the month.

Any landlord who came before the committee would say that they have tenants who think that they do not pay rent and never have done. As a housing professional, I do not think that that is a healthy attitude or state of mind for tenants to be in. One of the single most important elements of their tenancy is payment of rent, but some people think that they do not have any responsibility for that. As landlords, we are not fostering a sense of responsibility in our households if we perpetuate that. Therefore, I agree in principle with many of the underlying principles of universal credit, but from a landlord's perspective, we have major challenges with collection of rent, because the new system will fundamentally change what have been long-held certainties.

The few years in the lead up to roll-out of universal credit will be a real challenge. Landlords will have to use the time between now and then to prepare and to think carefully about how to engage with their tenants to make it work. Otherwise, there could be serious problems.

Ewan Fraser: Putting in place simple systems is actually quite easy; the problem is the cultural change. We should remember that we are dealing with people who are in the greatest housing need and who need the most support. It boils down to the fact that the people whom we house struggle with a range of things. We can put in place a simple system, but the difficult bit is to get people to change the way they have worked for years. The cultural change is much more difficult than the creation of a simple system.

Alex Johnstone (North East Scotland) (Con): It is interesting to come into the discussion at this point, because there is a rights issue here in relation to tenants, and I do not think that we should be prepared to suggest that people's rights can be suspended just because they are on benefits. However, it is the nature of such meetings that we jump around a bit, and I want to go back and take up an issue that we have discussed already and explore it a wee bit further in a slightly different way.

Mr Russell said in his opening remarks that he was surprised to discover how poor the

relationship between the landlord and the tenant had been prior to the trial. You indicated that the work that had been necessary as a result of the trial had significantly enlarged and improved the relationship between landlord and tenant. Is that your view?

Graeme Russell: "Poor" is not the word that I would use. However, if a tenant was having housing benefit paid direct and we had no need to see them, we did not engage with them. Our organisation has that in common with most landlords. Unless there was a problem, we had no communication with many of our tenants so long as they had their rent paid. The demonstration project has required and forced us to engage with tenants with whom we previously had little engagement or communication, and about whom we knew little.

We have uncovered issues concerning our tenants during the demonstration project—about their household circumstances, vulnerability and domestic issues—that we had no idea about before because we had no formal engagement with them. There was no need for us to engage with them, and nor did they have any need to engage with us, because their rent was being paid. To some extent, the situation has changed the relationship between us and a number of our tenants. As universal credit is rolled out, it changes the relationship and functionality between landlord and tenant; all landlords will have to look differently at how they communicate with and understand their tenants.

Alex Johnstone: Previous lines of questioning have touched on resource issues; the implications for workload on the ground and the cost of covering that additional workload. I accept that there is an issue. When it comes to the improved relationship that you now have, how constructive has that change been?

Graeme Russell: It has been very positive. I suggest that, for many of our tenants, the association was in the past a remote landlord to which to report repairs. For a significant number of our tenants, the demonstration project has resulted in a level of engagement that they had not previously experienced, which has enabled us to gain additional information and to target resources in a way that might not have happened in the past. That has been a positive consequence of the demonstration project. We have had to engage with tenants with whom we had not engaged in the past, because we needed to ensure that they were able to pay the rent.

Ewan Fraser: It is also a question of understanding tenants' profiles. When we allocate a house, we know who is moving in, but with time the profiles of tenants change as circumstances and family sizes change. To ensure that we have

a real understanding of our tenants, it is good to have a stronger profile of the tenants who live in our houses, because that can affect how they pay rent and how they engage with us. That is something that we had wanted to do anyway, just to ensure that we understood our tenants' needs, and also with regard to what is kept on IT systems, so that when people call us we can help and support them.

Graeme Russell: I can think of a number of specific personal circumstances in which tenants are now engaging with the association for reasons and at a level that they would never have considered a year ago, because they had no need to. The introduction of direct payments—in addition to some of the challenges that it has presented—has made our association, as a landlord, more self-aware and more aware of the situation in which many of our tenants find themselves and of the services that we need to resource and target. In that sense, the change has been positive.

Alex Johnstone: When Mr Fraser expressed that view in answer to an earlier question, I almost jumped in and said that that is the policy intention behind the change.

I am going to ask you to speculate. You have told us quite clearly where you are, a year into the project. Based on your experience over that period, will the project fundamentally change the attitude of your tenant base—the people you work with—to their relationships with not only their landlord but society as a whole?

Graeme Russell: I think that it has already changed the attitude of a number of tenants; if the association continues on the path that we are going down and continues with the changes that Ewan Fraser mentioned we have already taken, I think that that will continue. The demonstration project is fundamentally changing the way in which our staff perceive tenants and their relationships with them. It has enabled us to better target our resources so that we can assist those who are in the greatest housing need, and we have uncovered issues with services to tenants that would have remained unknown to us had it not been for the project.

That is the position on the positive side, notwithstanding some of the administrative challenges that we have had. The other week, somebody asked me, "Would you do it again, Graeme?" My answer was yes. It has been a fascinating learning experience for us, and I think that Dunedin Canmore is a far better organisation for having been involved in the demonstration project than it was a year ago.

Ewan Fraser: The question of how society as a whole will be changed is a broad one. Technically,

we are a landlord, if we take it down to the basics, but we really take people from homelessness to trying to sustain a tenancy. The only way in which someone can sustain a tenancy is to be employed, and I think that the policy is to get people back into employment. However, a lot of the people whom we house are not ready for employment, and if the societal change is going to take place, we have to do more than just give people a house.

We have been queuing up at the doors of the trusts and so on to try to get additional money to look at employment initiatives whereby we can do training, help people to build a CV and give them experience that will help them to get a job. There is now a lot more to housing organisations and a lot more depth to RSLs, and that work has to happen to assist people who are really struggling to do those things themselves.

Alex Johnstone: Will you clarify that? Are you expressing an ambition to do more if you had the resources?

Ewan Fraser: We already do more, but we could do even more with more resources. The way in which an organisation such as ours is financed is that we get a bit of grant and a bit of private finance, and then we charge affordable rents. We pay a mortgage, and what we have left is for basic housing management and maintenance; that is all. Now, we are being charged with doing more with the people whom we house in order to help the changes to take place.

We do not have the traditional means of finance because our only source of income is tenants' rents. We have to look at different ways of using that rental money, or find additional sources of income to support our tenants through real changes in their lives. Somebody who has gone through hard times may come into our organisation through, say, our hostel route. We give them a training flat and then a tenancy, and at the same time we try to support them to budget, to mix with society and to become employed so that they can sustain the tenancy. RSLs do a wide range of things. Welfare reform is making it even more challenging, but we will rise to the challenges.

Alex Johnstone: There is no deep-seated, hidden desire to just throw your tenants back into the pond and have the money paid directly into your bank account again.

Ewan Fraser: Absolutely not. I do not think that that would help anybody.

Graeme Russell: That would be self-defeating. The demonstration project is the start of a journey for a lot of our tenants. Ultimately, as the housing services director at Dunedin Canmore, I think that the best way for us to raise our tenants' standards of living is to help them to get off welfare. We can

do that through various means including training, volunteering and employment initiatives, and that is what the association is working on just now.

The changes to welfare provision that will occur in the future will necessitate people gaining employment or other sources of income. I appreciate that that will be a major challenge in that there are not as many jobs out there as we would like but, irrespective of which political party or which institution is in power, welfare reform is going to occur, and landlords such as Dunedin Canmore have to gear themselves up for it.

11:15

The Convener: Linda, did you want to ask a short supplementary question?

Linda Fabiani: Yes. I am a bit wee concerned about the way the conversation is going.

Alex Johnstone: I am sure you are.

The Convener: Thank you, Alex. I do not think we need any interventions. Linda, do you want to ask your question?

Linda Fabiani: Yes. I just want to put on record the fact that we are not talking about welfare housing. Many people take social housing, whether from housing associations or councils, as a positive choice; they work hard, pay their rent and consider that house to be their home. We heard that about 35 per cent of Dunedin Canmore tenants are such people. Do you agree?

Ewan Fraser: Yes. In Dunedin Canmore, at one end we have homelessness hostels and at the other end we have shared ownership—and we have everything in between. We are a rounded housing company that provides for a wide range of people in housing need. In 2007-08, housing needs changed significantly; people who might previously have bought a house now cannot do so. We have been looking at mid-market rent and market rent and offering better-supported products. We are a rounded landlord that provides for everybody and people stay with us for the long term.

Linda Fabiani: Thank you.

Annabelle Ewing (Mid Scotland and Fife) (SNP): Good morning, gentlemen, and thank you for coming along. It has been very interesting to hear how things have panned out since last we had a chat about all this in October 2012.

I have a few questions that pick up on the discussion that we have had this morning. Perhaps this is axiomatic, given what is said in your report, but what is the position with respect to the tenants participating in the demonstration project, which I understand is to expire at the end

of the year? Will they continue with the new system or go back to the old system?

Graeme Russell: They will continue with the new system. We discussed that with the City of Edinburgh Council and we are in agreement. We will write to the tenants to thank them for participating in the project and will tell them that if they want to revert to direct payments to us, they should notify the local authority, and that if they want to maintain the status quo, they are welcome to do so.

We did that because at the outset of the demonstration project it was anticipated that universal credit would be being rolled out now—it was supposed to start in October 2013. Our board's view was that if people were in the new system and they were paying the rent, we should not need to switch them back. The delay in the introduction of universal credit will inevitably delay us. I see very little benefit or point in our proactively encouraging people to switch back to the old system only to move them again when universal credit is introduced.

The project will end in December. In January, people will have the option to revert to the traditional system or not. The choice will be theirs.

Annabelle Ewing: It will be interesting to see what they do and how easy it is for people to switch back to that system if that is what they wish to do.

Mr Fraser, forgive me if I did not pick this up correctly, but you referred to a comment that Lord Freud had made in the past wee while about an incentive—either a stick or a carrot, depending on how you wish to term it—such that in the event of a tenant getting into arrears, one possibility would be to deduct a proportion of the universal credit and pay it to the RSL. I guess that that would be going back to where we were before we started. Can you clarify what he said and when he said it, so that we can go away and conduct our own investigations?

Ewan Fraser: There was a meeting between Lord Freud and the SFHA in London to look at a range of changes as part of welfare reform. I was coming from consideration of how manageable the process would be. We have always said that we would take a practical and professional approach to management practices in order to make things work. That is what we are interested in.

Lord Freud's view was that the system should be more simple, which is a point that has been picked up. If we have concerns about switch backs, direct payments and so on, the Government has to look at ways to manage the process. If people are being switched back into welfare and universal credit is causing problems

for them, they will not be paying their rent and landlords will have a problem.

We must look not only at how the landlord is protected, but at how the tenant is encouraged to engage more with the landlord and to pay the amount of universal credit that they are given for the rent directly to the landlord without the intervention of the DWP. Lord Freud said that there is nothing definitive yet, that the Government is aware that there could be an issue and that it is working on that behind the scenes. Lord Freud often says, "We understand there is an issue and we'll work behind the scenes to try to resolve it." I do not have anything definitive, but he said that he understands that there is an issue and will try to resolve it.

Annabelle Ewing: We all wait with bated breath. Perhaps the committee will make its own inquiries.

We have not dealt with the issue of exemptions this morning. What exemptions to direct payment do we anticipate? Will there be any that are of relevance to RSLs such as yourselves?

Graeme Russell: A year and a half ago, when our association first got involved in the demonstration project, at one point in the early planning of it, in my early meetings down in Birmingham, the general mantra was that there would be no exemptions and that everybody would be involved. However, as a direct consequence of the research that was undertaken in the demonstration project, the DWP's mindset has shifted considerably. It is evident from the work of the demonstration pilots that there are individuals out there who, with the best will in the world, cannot manage direct payments. The last that I heard was that the DWP accepts that perhaps 30 per cent of claimants will not be in a position to manage direct payments, although advice and assistance will be provided.

There has been a fundamental, almost seismic, shift in thinking over the past 18 months. At the outset, it was anticipated that everybody would be involved in direct payments irrespective of their circumstances. Now, as a direct result of learning from the demonstration pilots, we know that there are individuals out there who, with the best will in the world, cannot manage direct payments. That is why the pathfinder projects that have been introduced throughout the country will provide mechanisms to help those who cannot manage direct payments whereby alternative payment arrangements will be put in place.

I do not envisage that, with the introduction of the universal credit in the next two years, everybody will be on direct payments. There is a core in society who cannot manage such payments. However, it is not clear to me how

people will be assessed and who will make that decision. Jobcentre Plus, the DWP and landlords will be involved, but I cannot comment on how that will work.

Annabelle Ewing: I have no doubt that we will make further inquiries.

The last issue that I want to raise is the "critical" importance—as you termed it in your submission—of adequate

"data-sharing arrangements between RSLs and DWP",

which has been evident throughout the discussion of the technical aspects this morning. You said that financial institutions are becoming a bit nervous about replacement opportunities in the housing sector in areas such as yours. There is a lot of uncertainty about how arrears will be collected, how information about arrears will be arrived at, how the switching back will be managed—how quickly that will be done and how effective it will be—and so on. That comes back to the need to have a workable arrangement with the DWP.

There seem to be lots of gaps in the system, the timetable has slipped massively and we hear that there are considerable problems with the IT systems. How are the financial institutions marking risk? What information will they have about whether the final system will be adequate and in place at the right time? The press reports do not express any degree of confidence about that critical element of universal credit working.

Ewan Fraser: That is a very big and difficult question. How does a bank assess the risk associated with a recipient of its funds? It usually does that through the margin—the amount of interest that it charges. You will find that interest rates creep up, because the banks build risk into their lending profile. That will change for every individual organisation, so it will not be the case that every housing association is charged 5 per cent, for example. That would not happen; the banks would look at each organisation.

In fact, our banks had a tour of our offices just a week or so ago, when they came along to have a look at the new customer service centre and the debt recovery team, and at the state of our housing stock and our works department to see how we are geared up to manage and use technology and how efficient we are. They had a good, hard look at us before agreeing to lend us money, to ensure that we are properly managed.

The banks look at every housing association individually. I do not think that there is a magic formula that they could use, but the banks are certainly aware that they need to look at the management processes and the change. People do not like uncertainty, and it is true to say that

there is a huge amount of uncertainty about the future. We are a bit ahead of the game, because we have been involved in the demonstration project, so we are probably taking steps more quickly than others, but there is a lot of data sharing and sharing of good practice and learning, as well as working directly with the DWP on housing benefit to share information about tenants. It is about the whole way in which we work.

Annabelle Ewing: Has there been any evidence of potential downgrading at this point? Dunedin Canmore has been involved in the demonstration project, but other RSLs that are not part of the project and have not had help with meeting costs to change systems or hire people will have a big step ahead of them if the project is rolled out. Dunedin Canmore is already a wee bit further down the road, not least because of the assistance provided. Has there been any talk in the circles that you mix in about the investment side of things and about financial institutions being seriously worried and discussing downgrading?

Ewan Fraser: I did not say that they were seriously worried. There is a degree of nervousness, but that is different from being seriously worried. There is a discussion, but the Scottish Housing Regulator is also taking a big interest and is monitoring closely the arrears, rent levels and financial capacity of organisations, so the regulatory side of things involves trying to gather and distribute information and working more closely with the sector. It also has to work with the financial institutions to ensure that there is a degree of regulation and monitoring. The banks and the regulator ask for 30-year cash flows, five-year cash flows and management accounts, and a range of checks and balances is built in to ensure that the confidence in the sector remains.

There is no panic yet and no downgrading yet, in my view, but if the housing sector does not manage the process properly there could be in the longer term. At the moment, however, with proper management and a good collection of information by the regulator, and liaison with financial institutions and banks, and sector wide, we should get through this okay.

Graeme Russell: The demonstration project is a precursor to the introduction of universal credit. We are not involved in liaisons with the DWP just now. The committee will be aware that there are a number of pathfinders operating, mainly in north-west England, in which people are on universal credit, and that relationship between the landlords and DWP is live just now. It is far too early to say, and I do not have a great deal of detailed knowledge about how that liaison is taking place, but I can reiterate what I said earlier—that, whereas in the past we have had a constructive

and positive relationship with housing benefit departments regarding housing benefit payments, that relationship will have to change. With the introduction of universal credit, we will have to forge new relationships, and I do not yet know how that will pan out over time. The demonstration project is not universal credit; it is only the payment of housing benefit, and only time will tell how things pan out in the future.

Annabelle Ewing: I guess that the IT issue is a big one, which the committee looked at a while back, and it might be timely to revisit it, because it is pivotal. You can have any relationship that you like, but if it rests on a functioning IT system, which is clearly not there at the moment, that raises issues. Thank you, gentlemen, for your answers.

The Convener: We have factored in the need to look at the universal credit pilot, and we are working on how we can do that.

11:30

Kevin Stewart: I have a small supplementary question, following on from what Annabelle Ewing just said. Yesterday, I heard anecdotally that some housing associations had been downgraded by the ratings agencies—I am not sure whether it was Standard and Poor's, Moody's or one of the others. I take it that you gentlemen have not heard about any of that.

Ewan Fraser: No. In a Scottish context, we do not really get the same grading. Some of the huge English RSLs are looking at the bond markets, and the big financial institutions tend to grade them more in that case, but the Scottish ones are not at that size.

Kevin Stewart: It would be useful for the committee to find out whether there has been any downgrading, although I realise that it is more likely to be happening south of the border, and to find out whether that downgrading has happened because of other issues or whether welfare reform has acted as the real risk factor.

The Convener: That is a fair question and we should get that checked out as soon as we can.

We seem to have exhausted our questions. Is there anything that the witnesses want to add before we conclude?

Graeme Russell: I shall furnish your clerk with the information that you sought.

The Convener: Yes, we asked for information on the increase in DHP and on the additional costs that you have incurred in running the project. That would be beneficial to our work.

I thank you for coming and being so candid with us about the project, and for helping us by

informing us of how things have rolled out since we first met you a year ago. We may have the opportunity to get more information from you as things move forward, but we appreciate the time that you have given us this morning.

Ewan Fraser: If there are any points that you reflect on later, please do not hesitate to contact us and we will try to help you.

The Convener: The next item of business will be taken in private.

11:32

Meeting continued in private until 11:47.

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