

## Neighbourhoods and Adult Services – REPORT TO MEMBERS

<b>1. Meeting:</b>	<b>Audit Committee</b>
<b>2. Date:</b>	<b>24<sup>th</sup> April 2013</b>
<b>3. Title:</b>	<b>Housing Rents</b>
<b>4. Programme Area:</b>	<b>Housing and Neighbourhoods Services</b>

### **5. Summary**

This report addresses specific issues asked by the Audit committee in relation to the impact of welfare reform on the Housing Revenue Account and in particular rent arrears

### **6. Recommendations**

6.1 Audit Committee acknowledges the contents of the report and comments accordingly

## 7 Proposal and details

The Chair of Audit Committee Councillor Alex Sangster has expressed an interest in Housing Rents and has asked specific questions in relation to arrears and the impact the Welfare Reforms will have on debt levels in the future

This report will address the specific questioned posed by the Audit Committee

1. Are the level of rent arrears increasing?
2. What are future projections, taking into account the impact of the Welfare Reforms?
3. How is any risk of any increase in arrears being managed?
4. Do we have a Corporate Debt recovery plan that is followed, does this need to be revised to reflect the Welfare Reforms?

### 7.2 Background

In light of the significant changes planned to housing benefit regulations and the introduction of universal credit there exists a very real possibility that some tenants will struggle to pay their rent. Rotherham has traditionally achieved high collection rates, and has sought to be proactive in working with tenants to help them avoid getting into significant arrears.

The proportion of Housing Debt in Rotherham is currently monitored by 2 House Mark key performance indicators which measure performance in terms of rent collection rates in Rotherham. The two indicators are HM220 and HM221. HM220 measures the rent collected as a percentage of rent due (excluding arrears brought forward) and HM221 measures rent arrears as a percentage of rent debit

Over the past 3 years the following performance has been reported.

	<b>Arrears</b>	<b>Debit</b>	<b>HM220</b>	<b>HM221</b>
<b>2009/10</b>	£1,044,039	£57,151,880	99.53%	1.71%
<b>2010/11</b>	£1,002,827	£58,757,704	99.34%	1.72%
<b>2011/12</b>	£1,266,460	£66,651,191	98.89%	1.81%
<b>2012/13</b>	£1,312,293	£66,651,191	100.30%	1.59%

Q1 Are the level of rent arrears increasing?

From the information above it is evident that arrears have risen, but whilst rent arrears have gone up, the level of rent increases in the past 2 years needs to be taken into account. In 2010/11 rents increased by 8.69% and in 2011/12 by 9.45%, which meant the debit and associated arrears increased proportionately to the higher rent roll.

Q2 What are future projections, taking into account the impact of the Welfare Reforms?

The second question relates to the impact the Welfare Reforms will have on bad debt. To make future projections a profiling exercise has been undertaken to look at the effects changes in Housing Benefit legislations relating to under occupation and the introduction of Universal Credit will have on rent arrears in the next 5 years. To some degree this is uncharted territory, and the actual impact will only be known once the changes have taken effect.

The table below highlights the potential impact the Reforms will have on rent arrears in Rotherham, allowing for assumptions based on our own experience and pilot studies. .

Year	Bed tax no. affected	U/C* net no. effected	Collectable Increase	Increase in rent arrears at 10% bad debt
2013/14	3,600	385	£2,411,942	£241,194
2014/15	2,480	2,023	£9,612,738	£961,273
2015/16	1,860	4,075	£19,210,532	£1,921,053
2016/17	1,240	6,543	£32,715,605	£3,271,560
2017/18	620	9,426	£51,467,872	£5,146,787

The table highlights the number of tenants moving from Housing Benefit to Universal Credit over the 5 year phasing in period. It also considers the increased collectable rent and increased risk of indebtedness. This premise is based on two assumptions firstly tenants coming off Housing Benefit will find budgeting more difficult than the current level of self payers; secondly the results of Government's Demonstrator Projects piloting Universal Credit have reported increased arrears, with collection rates falling to 90% and bad debt rising to 10%. If the experience in the pilot studies is transferable to Rotherham and we do nothing to learn the lessons of the pilots and our own experience, it is reasonable to speculate that arrears could increase by £5.1m in 2017/18

Q3 How is any risk of any increase in arrears being managed?

It is critical from two perspectives that we manage the potential for increased arrears proactively; Firstly, we need to recognise that the impact of debt and falling behind on rent payments can have devastating effect on the wellbeing of individuals and families. Secondly spiralling debt levels have the potential to severely impede the councils' plans to continuously improve the quality of council housing in the borough. As such the impact will be felt not only by those subject to changes to benefits, but by all tenants. It needs to be recognised that whilst the HRA is currently healthy, the asset management database indicates that the investment need of the stock outstrips our current resources, and hence needs careful scheduling and management.

As such our approach has been to consider how best we can advise, inform and assist claimants to ensure that they are prepared for the forthcoming changes. We have undertaken several exercises to ensure that tenants are aware of the changes and where they can get help and support. We have also, geared ourselves up for the potential increase in requests for help by a range of measures, including training a wide range of staff and changing call centre scripts. We have written to all affected tenants and provided information booklets.

We are in the process of considering a range of other measures that may assist. These include extending our downsizing policy and associated support; giving more tenants priority status if they wish to move to smaller property. We are looking to change the lettings process so that utilities are in place prior to sign up; this will avoid tenants being charged council tax for a property they cannot inhabit. In the meantime we will meet the council tax charge. We will give consideration to a series of measures which may avoid people unnecessarily downsizing (for example where their personal circumstances will shortly change and they will no longer be classed as under occupying, or where they become exempt from the charge). We are also considering providing additional support for families experiencing debt problems and other underlying problems, which if left unaddressed may lead to family breakdown and transfer risks and costs to Children and Young Peoples Services.

The Income Service is looking to increase staffing levels immediately to enable the service to deal with the increases in 2013/14. This will include provision for tenancy support where staff will work with vulnerable customers to ensure tenancies are sustainable in the future. Housing and Neighbourhood Services are also installing a new housing management system and the rents system will make the arrears recovery process more efficient. During this year we will need to devise a further strategy based upon our learning from the early months of the new systems. This will be a corporate issue as it will also affect other financial recovery services, such as council tax. Increasing our staffing proportionately with increased income collection and debt may not be an acceptable and effective way to operate. Consequently there will need to be a careful appraisal of the various options undertaken. This will need to consider issues relating to effective collection practice and debt treatment issues, but it is important that any proposals are well judged and do not result in costly interventions for problems that in reality do not or would not have arisen. There is a real risk of unintended consequences; addressing a problem for one cohort of tenants could potentially result in the solution being applied to a whole range of other

tenants who do not experience the problem. For example reclassifying bedrooms as box rooms in a particular housing archetype, could potentially assist those who are under occupying but reduce the rent received from those that are not and also reduce the number of properties available to larger families.

We are also working closely with support agencies such as CAB and the Consumer Credit Council, where tenants with multiple debt issues can be offered comprehensive independent support. In addition we are working closely with the Credit Union in Rotherham where tenants can open up bank accounts to accept their Universal Credit payment from which rent direct payments can be made.

Q4 Do we have a Corporate Debt recovery plan that is followed, does this need to be revised to reflect the Welfare Reforms?

Finally the issue relating to Corporate Debt has been considered and was subject to a Scrutiny Review in 2009. The outcome of the review meant that we are now working more closely with colleagues in Council Tax and Sundry Debtors for example case conferences have been held to discuss cases where a tenant has multiple debts owed to the Council. As the impact of the Welfare Reform gathers momentum a review of current procedures will be required. We will also need to reconsider our approach to debt recovery and evictions policy.

## **8 Finance**

To ensure the impact of the Welfare Reforms is kept to a minimum the Income Service has carried out a profiling exercise to determine the resource requirement to maintain current income levels to the Housing Revenue Account.

In terms of the resource requirement the profile suggests that the Income Service will need 2 additional FTE Income Officer at Band F during 2013/4, at a total cost of £52k pa. If we continue to operate as we do now, this could then potentially rise to over 40 additional FTE Income Officers by 2017/18 if bad debt is to be controlled at its current rate. However, this will be subject to careful analysis to determine opportunities for other forms of processes efficiency.

This calculation is based on the assumption that each member of the recovery team is responsible for £126k of debt. This factor has been aggregated into the profile using the increased collectable rent per year, and the assumption that arrears will rise to 10% of collectable income.

In terms of the Tenancy Support Officer it is proposed that this is financed from surpluses generated within the Furnished Tenancy budget, which has been approved in principal by the Housing Options Manager. Resource costs are estimated at £26k pa

## **9 Risks and Uncertainties**

This Legislative change will present considerable risk to the HRA's projected income, as Housing Benefit is gradually phased out. Tenants will have to make rent payments themselves which will place more reliance on the rent collection service for effective arrears control if current income levels are to be maintained.

In terms of statistics an additional £51.5m will need to be collected by 2017 by the Housing Income Service from approximately 10,000 tenants coming off Housing Benefit who will be faced with making rent payments from their Universal Credit.

Monthly direct payments of Universal Credit will undoubtedly cause budgeting problems for low income households because it's unlikely they will have exercised budgetary management techniques in the past. This will result in more tenants falling into arrears, placing additional strain on the Income Management Service and subsidiary services such as CAB, Money Advice, Homeless and the Housing Advice Team.

## **10 Background papers and consultation**

Rotherham Council is adopting a corporate approach to plan the way it deals with the 2013 Welfare Reforms. The plan will assess the impact legislation has on residents and the way services need to be adapted to meet new demands. The Income Team are members of this group

Meetings and joint training sessions have taken place between the Income Service and other parts of NAS to raise awareness of the Welfare Reforms for front line staff.

Leaflets and documentation relating the Welfare Reforms have been published and have been distributed to tenants affected by changes in legislation

## **11 Contact details**

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