

Community and Enterprise Overview Scrutiny

Date of Meeting	Monday, 23 rd January 2017
Report Subject	Housing Rent Arrears
Cabinet Member	Cabinet Member for Housing
Report Author	Chief Officer (Community & Enterprise)
Type of Report	Operational

EXECUTIVE SUMMARY

This report provides scrutiny members with an operational update on income collection in the Housing Revenue Account (HRA). It also explains the financial impact to date of the welfare reform programme and identifies key risks to the HRA as Universal Credit is rolled out in full from April 2017.

Despite the emerging impact of welfare reform and the individual impacts on households affected, maximisation of rent collection remains a key priority to protect essential income streams for the HRA.

Last year, Scrutiny Committee asked for consideration to be given to the potential of the Welsh Housing Quality Standard (WHQS) work being deferred for tenants in serious rent arrears. This report makes recommendations not to implement any changes to the WHQS programme.

RECOMMENDATIONS

1	Note the latest projections on rent arrears for the year ending 2016-17.
2	Endorse the measures being taken to support tenants and to deliver sustainable tenancies.
3	Support the robust steps taken to recover arrears from tenants who, despite all preventative measures, make little or no effort to pay.
4	Endorse the recommendation not to link rent arrears with the rollout of the WHQS Programme and to continue to deal with rent arrears using existing procedures and protocols.

REPORT DETAILS

1.00	EXPLAINING THE CONTEXT AND PROJECTED POSITION ON RENT ARREARS																																			
1.01	The Council manages 7,197 housing tenancies with an in-year rent yield of approximately £34.3m per annum in 2016-17.																																			
1.02	<p>Latest projections* indicate total rent arrears will be £1.19m by week 52 (31st March 2017). This represents total arrears of 3.5% as a percentage of the annual rent yield, compared to an outturn figure of 3.6% in 2015-16.</p> <table border="1"> <thead> <tr> <th>Financial Year</th> <th>Gross Rent Yield</th> <th>Year End Rent Arrears</th> <th>Movement (£)</th> <th>Rent Arrears as % of Rent Yield</th> </tr> </thead> <tbody> <tr> <td>2016/17</td> <td>34,293,000</td> <td>1,196,030*</td> <td>23,000</td> <td>3.5%</td> </tr> <tr> <td>2015/16</td> <td>32,857,000</td> <td>1,173,030</td> <td>143,956</td> <td>3.6%</td> </tr> <tr> <td>2014/15</td> <td>31,452,000</td> <td>1,029,074</td> <td>33,326</td> <td>3.3%</td> </tr> <tr> <td>2013/14</td> <td>30,859,000</td> <td>995,749</td> <td>8,381</td> <td>3.2%</td> </tr> <tr> <td>2012/13</td> <td>29,222,000</td> <td>987,368</td> <td>-69,017</td> <td>3.4%</td> </tr> <tr> <td>2011/12</td> <td>28,097,000</td> <td>1,056,385</td> <td></td> <td>3.8%</td> </tr> </tbody> </table>	Financial Year	Gross Rent Yield	Year End Rent Arrears	Movement (£)	Rent Arrears as % of Rent Yield	2016/17	34,293,000	1,196,030*	23,000	3.5%	2015/16	32,857,000	1,173,030	143,956	3.6%	2014/15	31,452,000	1,029,074	33,326	3.3%	2013/14	30,859,000	995,749	8,381	3.2%	2012/13	29,222,000	987,368	-69,017	3.4%	2011/12	28,097,000	1,056,385		3.8%
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1.03	The UK led welfare reform programme results in social landlords now operating in an increasingly challenging financial environment as many of the reforms are having an impact upon household incomes and reduced entitlement to housing benefit. In many cases, tenants are no longer entitled to full housing benefit and must make up the financial shortfall in rent.																																			
1.04	This report also details the underlying factors impacting on rent arrears, highlights council initiatives to help mitigate the effect of welfare reform and the steps taken when, despite all the interventions, tenants do not make efforts to pay or refuse to engage with the Council.																																			
1.05	The process of managing rent arrears is undoubtedly presenting an increasing challenge for all social landlords, especially in the context of the increasing number of welfare reform changes that directly impact on the ability of some tenants to make payment of rent.																																			
1.06	For example, the restriction on the amount of benefit that can be received (otherwise known as the Benefit Cap) means some households are now receiving less in housing benefit but needing to make up the shortfall in rent. There are currently around 47 council tenants impacted by the Benefit Cap of which 19 (or 40%) are in rent arrears over £300.																																			
1.07	The total financial impact of the Benefit Cap on tenants in weekly terms is around £2,600 and annually this will equate £132,000. This means that with no increase in household income, each tenant affected has to find an extra £56 per week (or £2,800 per year) to pay towards their rent.																																			

1.08	As an example, an introductory tenant had Housing Benefit reduced from £100 to just £0.50p per week and has then built up rent arrears of £1,800 as the tenant struggled to make up the shortfall. Several agencies are currently engaged to support the tenant and four dependent children from becoming homeless.																											
1.09	<p>Rent arrears in these cases amount to £20.5k, as shown in the table below:</p> <table border="1" data-bbox="533 454 1142 848"> <thead> <tr> <th>Banded Arrears (£)</th> <th>No of Tenancies</th> <th>Value (£)</th> </tr> </thead> <tbody> <tr> <td>0-300</td> <td>20</td> <td>2,966</td> </tr> <tr> <td>300-600</td> <td>9</td> <td>3,959</td> </tr> <tr> <td>600-1000</td> <td>6</td> <td>4,234</td> </tr> <tr> <td>1000-2000</td> <td>3</td> <td>4,502</td> </tr> <tr> <td>2000-3000</td> <td>0</td> <td>0</td> </tr> <tr> <td>3000-4000</td> <td>0</td> <td>0</td> </tr> <tr> <td>4000+</td> <td>1</td> <td>4,904</td> </tr> <tr> <td>Total</td> <td>39</td> <td>20,565</td> </tr> </tbody> </table>	Banded Arrears (£)	No of Tenancies	Value (£)	0-300	20	2,966	300-600	9	3,959	600-1000	6	4,234	1000-2000	3	4,502	2000-3000	0	0	3000-4000	0	0	4000+	1	4,904	Total	39	20,565
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1.10	Other households are impacted by welfare reforms such as the Spare Room Subsidy (otherwise known as the Bedroom Tax) which places a restriction on the amount of housing benefit that can be paid to households that are deemed to have one or more spare bedrooms. In many cases, tenants are not easily able to move to smaller properties, or do not wish to move, so they need to make up the shortfall between their restricted housing benefit entitlement and the amount of rent charged.																											
1.11	<p>There are currently around 720 council tenants impacted by the Spare Room Subsidy of which 181 (or 25%) are in rent arrears over £300. Officers continue to work with these households and provide as much intervention and support as far as is practicable, but ensuring rent is also paid in line with the law. This is illustrated in the table below:</p> <table border="1" data-bbox="552 1406 1123 1800"> <thead> <tr> <th>Banded Arrears (£)</th> <th>No of Tenancies</th> <th>Value (£)</th> </tr> </thead> <tbody> <tr> <td>0-300</td> <td>369</td> <td>29,122</td> </tr> <tr> <td>300-600</td> <td>84</td> <td>35,850</td> </tr> <tr> <td>600-1000</td> <td>54</td> <td>40,330</td> </tr> <tr> <td>1000-2000</td> <td>32</td> <td>47,493</td> </tr> <tr> <td>2000-3000</td> <td>7</td> <td>17,087</td> </tr> <tr> <td>3000-4000</td> <td>2</td> <td>6,968</td> </tr> <tr> <td>4000+</td> <td>2</td> <td>10,280</td> </tr> <tr> <td>Total</td> <td>550</td> <td>187,130</td> </tr> </tbody> </table>	Banded Arrears (£)	No of Tenancies	Value (£)	0-300	369	29,122	300-600	84	35,850	600-1000	54	40,330	1000-2000	32	47,493	2000-3000	7	17,087	3000-4000	2	6,968	4000+	2	10,280	Total	550	187,130
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1.12	The financial impact of the Spare Room Subsidy on tenants in weekly terms totals around £12,000 and over the 2016-17 financial year this equates to around £600,000. This means that with no increase in household income, each tenant affected has to find an extra £16.60 per week (or £830 per year) to pay towards their rent.																											

1.13	Despite the increasing difficulties to keep arrears under control, the Council continues to develop ways of addressing rent arrears at an early stage, encouraging tenants to engage with tenancy support services, signposting tenants to advice agencies and taking action quickly to prevent arrears building up to unacceptable levels where tenants are unable to meet their ongoing payment obligations.
1.14	To assist with rent collection and to mitigate for welfare reform, the organisational structure for the Rent Income service changed in late 2015-16 and the Housing Rent Income service now forms part of the Councils Revenue and Benefit services. These changes now help to ensure that all debt owed to the Council is co-ordinated and prioritised, especially for those tenants who have other debts owing to the Council, for example Council Tax and other Sundry Debts.
1.15	The structure and line management changes have taken time to bed in and the Rent Income service also operated with 20% less 'front line' resources for a period of nearly 12 months until staffing levels were finalised in September 2016. The service is now operating with sufficient resources to manage rent arrears effectively, including the additional pressures resulting from welfare reform. The new structure and close alignment to the Benefit service will also help to support the wider efforts to control rent arrears during 2017-18.
1.16	The Council also has a responsibility to support tenants and to avoid homelessness. It is widely recognised that homelessness generates significant negative impacts upon a person's health; well-being; education and employment. Therefore, the Welsh Government (WG), supported by the Council has had a longstanding commitment to implement strategies that aim to prevent homelessness. A commitment that WG significantly strengthened through the introduction of a new statutory prevention duty within Part 2 of the Housing (Wales) Act 2014.
1.17	The duty requires local authorities to try to prevent homelessness amongst 'all' households who are at risk of losing their accommodation within the next 56 days through the delivery of prevention services that are person centred, proactive and aligned to the needs of a household. Importantly, households have a legal right to challenge the Council, if we do not take all reasonable steps to try to prevent their homelessness. This ensures that we undertake comprehensive and meaningful homelessness prevention activities with all households and do not target their efforts and resources upon households, whom the authority will have a statutory duty to accommodate, should their homelessness not be prevented, i.e. households with a priority need status.
1.18	Running alongside the measures to support tenants and prevent homelessness, the service also continues to address levels of arrears by way of early intervention and taking recovery action at an early stage to avoid cases escalating into more serious level of arrears. Although court action and evictions are always undertaken as a last resort, we are now adopting a more commercial approach to the collection of rent arrears, taking a more targeted approach to those tenants who fail to pay and refuse to engage with the Council.

1.19	Court proceedings are a necessary tool to secure payment from tenants who refuse to engage with the Council. In most cases, the judicial process usually results in the vast majority of tenants making payment or receiving an order from the court to pay rather than being evicted.																								
1.20	In 2016-17, 14 evictions have taken place up to Q3 against those tenants who fail to pay or work with the Council. This compares to a total 22 evictions in 2015-16 and also 22 in 2014-15. Although we may see a reduction in numbers of evictions this year, this is a positive outcome to ensure sustainable tenancies and is primarily due to earlier intervention and engagement with tenants to make reasonable repayment arrangements.																								
1.21	In addition to this, there are 262 tenants currently subject to court action for non-payment of rent but in the vast majority of cases payment is now being made to remedy the arrears and to ensure tenants meet their payment obligations.																								
1.22	<p>The table below provides an analysis of the current position for the level of arrears at court stage:</p> <table border="1" data-bbox="427 898 1246 1335"> <thead> <tr> <th data-bbox="427 898 884 976">Court Stage</th> <th data-bbox="884 898 1058 976">Number of Tenancies</th> <th data-bbox="1058 898 1246 976">Value (£)</th> </tr> </thead> <tbody> <tr> <td data-bbox="427 976 884 1016">Applying to Court for a Warrant</td> <td data-bbox="884 976 1058 1016">3</td> <td data-bbox="1058 976 1246 1016">8,655</td> </tr> <tr> <td data-bbox="427 1016 884 1095">Waiting Eviction Date from Court</td> <td data-bbox="884 1016 1058 1095">1</td> <td data-bbox="1058 1016 1246 1095">2,708</td> </tr> <tr> <td data-bbox="427 1095 884 1135">Eviction Date Granted</td> <td data-bbox="884 1095 1058 1135">2</td> <td data-bbox="1058 1095 1246 1135">5,369</td> </tr> <tr> <td data-bbox="427 1135 884 1176">Adjourned at court</td> <td data-bbox="884 1135 1058 1176">9</td> <td data-bbox="1058 1135 1246 1176">5,793</td> </tr> <tr> <td data-bbox="427 1176 884 1216">Possession Orders</td> <td data-bbox="884 1176 1058 1216">29</td> <td data-bbox="1058 1176 1246 1216">51,829</td> </tr> <tr> <td data-bbox="427 1216 884 1294">Suspended Order on payment terms</td> <td data-bbox="884 1216 1058 1294">218</td> <td data-bbox="1058 1216 1246 1294">354,191</td> </tr> <tr> <td data-bbox="427 1294 884 1335">TOTAL</td> <td data-bbox="884 1294 1058 1335">262</td> <td data-bbox="1058 1294 1246 1335">428,545</td> </tr> </tbody> </table>	Court Stage	Number of Tenancies	Value (£)	Applying to Court for a Warrant	3	8,655	Waiting Eviction Date from Court	1	2,708	Eviction Date Granted	2	5,369	Adjourned at court	9	5,793	Possession Orders	29	51,829	Suspended Order on payment terms	218	354,191	TOTAL	262	428,545
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1.23	By way of anecdotal examples, in a recent arrears case, the tenant failed to pay or engage and recovery action was taken through the courts. Three days before the eviction was due to take place, the tenant made the full payment of £2,400 including all court costs. This was the sixth time the tenant had built up large arrears and then cleared the arrears in full when faced with the prospect of eviction.																								
1.24	In another case, arrears of £3,100 were cleared in full on the day of eviction. The tenant had been subject to a previous warrant which was suspended on condition of paying rent plus £25 towards arrears. This tenant is now making regular weekly payments and no longer falling into arrears.																								
1.25	Not all cases result in full payment being made prior to eviction. For example, in another recent case, the tenant had failed to engage throughout arrears recovery procedures until an eviction date was granted. At court the day before the eviction, the eviction was suspended by the court, with an order to pay normal rent plus £3.70 a week towards the arrears of £2,300. Although the Council attempted to secure full payment, the court made an order to accept payment of the arrears over a 12 year																								

	<p>period. Rent Income officers continue to closely monitor these type of cases to ensure tenants meet the conditions of the court order and fulfil their payment responsibilities.</p>
1.26	<p>In a more complex case, recovery of rent arrears remains a significant challenge even after all recovery action has been taken to remedy the debt. In this recent case, the tenant has had six eviction dates over the last four years. Each one has been suspended by the court and every time the tenant has failed to keep to the terms of the suspended order and the Council has needed to apply for a further eviction date. At a recent hearing the eviction was suspended yet again on condition of the tenant paying rent plus £10 a week off the arrears of £4,900. Even if the tenant maintains payment of the court order, this will take nine and a half years to repay the current arrears. Ultimately, the Council is always governed by the decision of the courts.</p>
1.27	<p>These examples help to demonstrate that in many cases there are no quick wins and repayment terms can extend over many years. Using these examples also illustrates the need to ensure that recovery strategies centre on early intervention, signposting tenants to tenancy support services but taking quick and decisive action with rent arrears cases to avoid arrears escalation.</p>
1.28	<p>The collection of an in-year gross rent yield of £34.3m during 2016-17 remains the highest priority for the Rent Income service, as well as making in-roads into tackling rent arrears from previous years. Tackling rent arrears cannot be achieved in isolation from offering support and the service will continue to work other advice and support agencies to support vulnerable tenants, especially those impacted by welfare reforms to prevent homelessness and ensure sustainable tenancies going forward.</p>
1.29	<p>POTENTIAL DEFERRAL OF WHQS WORKS AND REPAIRS FOR TENANTS WITH RENT ARREARS</p>
1.30	<p>At a previous Scrutiny meeting in September 2015, as a practical way of tackling rent arrears, committee members asked for consideration to be given to the deferment of WHQS works for those tenants in serious rent arrears or causing Anti-Social Behaviour (ASB).</p>
1.31	<p>As a landlord, the Council has no legal power to deny property improvements, which are enshrined in legislation and further endorsed through WHQS (part one – ‘in good state of repair’).</p>
1.32	<p>The Council provides three tiers of repairs under its statutory obligations, these include, emergency, urgent (referred to as qualifying repairs), through to non-urgent repairs (non-qualifying repairs). Non urgent repairs are those repairs provided to maintain the fabric of the property and for the Council to maintain the quality of its assets thereby reducing the need for detailed and costly improvements.</p>
1.33	<p>The WHQS capital programme is providing a range of internal and external component elements often linked to non-urgent repairs. Delivery of the WHQS programme is in line with WG guidance which provides clarity on what the government deems to be an acceptable minimum.</p>

	In the delivery of the WHQS programme, reporting arrangements require notification of acceptable fails (i.e. where the Council have not completed installation). There is no reference in the guidance associated to delaying works because of rent arrears.
1.34	Officers have given this careful consideration having due regard to the legal position, the logistics and complexities of delaying works at an individual address until the end of the WHQS Programme, together with the overall fairness and equality of adopting such a stance.
1.35	<p>Having considered the proposal, it is recommended that WHQS works are not linked to rent arrears or ASB for the following reasons :</p> <ul style="list-style-type: none"> • As a landlord, the Council has no legal power to deny property improvements • There is no provision within WHQS guidance to delay works for rent arrears. • Notwithstanding the legal position, it would be highly complex to develop such a scheme which is fair, and equitable. For example, making a subjective assessment of those tenants who are in serious levels of arrears but making efforts to pay or those tenants affected by welfare reform and struggling to pay make this proposal impractical to implement. • Tenants can fall into arrears often due to vulnerability issues, either with the tenant or other members of the household. • Such a scheme could be open to legal challenge from tenants on the grounds of discrimination, • Delaying improvements to the Councils housing assets due to rent arrears would implicitly not accord with other policies adopted by the Council • WHQS is really about the Council protecting and investing in its assets and delivering quality housing rather than an incentive scheme to reward tenants who are up to date with their rent. <p>WHQS costs would be incurred as a result of the deferment of isolated cases in rent arrears in an area that is otherwise undergoing large scale refurbishment, especially having to undertake at a later date isolated works at additional costs to the Council.</p>

2.00	RESOURCE IMPLICATIONS
2.01	The ongoing welfare reforms will continue to generate additional financial pressures for tenants. Many of these households will require appropriate advice and support to help them manage the difficulties in the reduction in their household income or in the case of UC, tenants being in receipt of housing costs that needs to be paid to the Council.
2.02	To manage the increased demand, the Council will need to re-develop work procedures and review staffing levels in order to respond to the needs of residents. This may also result in the need to divert existing people resources into responding to welfare reform to meet demand.

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	None.

4.00	RISK MANAGEMENT
4.01	We are starting to see an increase in rent arrears and greater financial risk for the HRA as a direct consequence of the welfare reform programme, especially as a result of the spare room subsidy, benefit cap and other reforms.
4.02	From April 2017 Universal Credit will roll out in Flintshire, this poses significant risk to rent payments to the council as the tenants will face a whole new culture of managing their money. For example tenants entitled to help with their rent (HB) have always had this directly credited to their rent account, however, under Universal Credit payments will be made directly to the tenant into their own bank account and they will have to budget for their rent out of their payments.
4.03	To mitigate this against these risks, an operational board has been created with a key focus on support for affected households, work procedures are being redeveloped to identify and support affected tenants at an early stage.

5.00	APPENDICES
5.01	None.

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	<p>None</p> <p>Housing Act 2014 Welfare Reform Act The Welsh Housing Quality Standard (WHQS)</p> <p>Contact Officer: David Barnes, Revenues Manager Telephone: 01352 703652 E-mail: david.barnes@flintshire.gov.uk</p>

7.00	GLOSSARY OF TERMS
7.01	Welfare reform: these are changes being introduced to a range of social security benefits and tax credits which aim to ensure that the United Kingdom has an affordable benefits system.
7.02	Benefit cap: is a limit imposed by central government on the total amount

	<p>of benefit that most people aged 16 to 64 can get. People of pension age are exempt. The Benefit Cap depends on family situations and circumstances and when all benefits are calculated, housing benefit must be reduced so that the total benefits being received by a tenant don't go above the benefit cap limit.</p>
7.03	<p>Spare Room Subsidy: a change to Housing Benefit was introduced in 2013 by central government (often referred to as the 'Bedroom Tax') which means tenants might receive less in housing benefit in they live in a property that is deemed to have one or more spare bedrooms. Having one spare bedroom usually results in the loss of 14% of housing benefit entitlement and having two or more spare bedrooms results in the loss of 25% of housing benefit entitlement.</p>
7.04	<p>Universal Credit: is an integrated means-tested benefit for people of working age whose income is below a specified minimum amount. UC can be claimed by working age people who become unemployed.</p>
7.05	<p>Housing Revenue Account (HRA): The Council is required to keep a HRA to record all expenditure and income relating to the provision of local authority social housing. All rental income must be held within a ring fenced HRA account. This means the income can only be used for council housing purposes and not for the other general council expenditure. This also allows the rental income to be invested locally to help improve existing council owned homes and build new council homes.</p>
7.06	<p>Wales Housing Quality Standard (WHQS): is a set of standards that all council and housing association homes in Wales must meet by 2020. The standards, set by Welsh Government, ensure that all homes are brought up to an acceptable level to provide social housing tenants with the opportunity to live in good quality homes, which are adequately heated, fuel efficient and equipped with up to date kitchens and bathrooms.</p>