

## COMMUNITY & ENTERPRISE OVERVIEW AND SCRUTINY COMMITTEE

<b>Date of Meeting</b>	Wednesday, 7 <sup>th</sup> November 2018
<b>Report Subject</b>	Housing Rent Income
<b>Cabinet Members</b>	Deputy Leader of the Council and Cabinet Member for Housing; and Cabinet Member for Corporate Resources & Assets
<b>Report Author</b>	Chief Officer (Housing and Assets)
<b>Type of Report</b>	Operational

### **EXECUTIVE SUMMARY**

This report provides scrutiny members with an operational update on rent income collection and the detail of £2.2m of rent arrears in the Housing Revenue Account (HRA).

The report also considers the financial impact on rent arrears within the HRA as a result of UK Government led welfare reforms, especially full service rollout of Universal Credit from April 2017.

There is general consensus across local government and the housing association sector that all social landlords are now needing to change their operations in response to the rollout of welfare reforms, to maximise rent income and mitigate, as far as possible, the impact on those reforms on households.

This report sets out the measures and interventions that have been introduced in the Housing service to protect rent income streams and which are designed to support tenants, especially the vulnerable, to cope with the programme of Government reform, but also ensure rent is paid on time.

### **RECOMMENDATIONS**

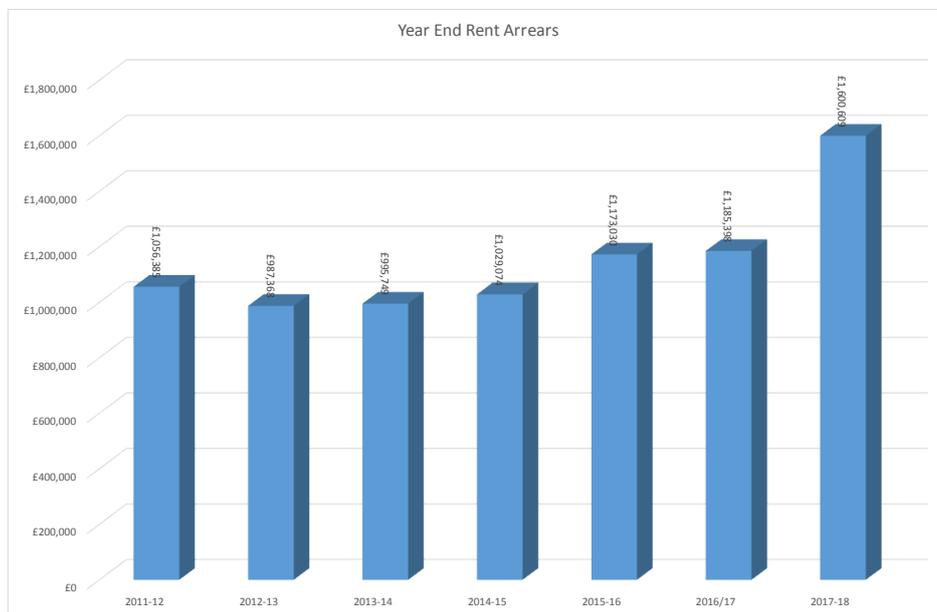
1	Note the latest financial position for rent arrears in 2018-19 in the context of the UK Government welfare reform programme.
2	Endorse the new measures and interventions being taken to maximise rent income but which also support tenants to maintain sustainable tenancies.
3	Support the robust steps that are necessary to recover arrears from tenants who, despite all interventions, make little or no effort to pay.

## **REPORT DETAILS**

<b>1.00</b>	<b>EXPLAINING THE POSITION OF RENT ARREARS IN THE CONTEXT OF WELFARE REFORM</b>
	<b>Spare Room Subsidy and the Benefit Cap</b>
1.01	Welfare reforms, introduced across the UK from 2010, represent a major challenge for the Council's and Housing Associations.
1.02	Many of these reforms, including the introduction of the Benefit Cap and the Spare Room Subsidy (otherwise known as the Bedroom Tax) impact upon tenant household income and Housing Benefit entitlement and therefore have a knock on effect tenant's ability to pay rent to the Council.
1.03	The restriction on the amount of benefit that can be received (otherwise known as the Benefit Cap) means that some tenants are now receiving less housing benefit than they did in the past and as a consequence they need to make up the shortfall in rent themselves. There are 43 council tenants impacted by the Benefit Cap of which 27 (or 62%) are in arrears over £300 to the value of £38k
1.04	Other households are impacted by 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.
1.05	There are around 474 Council tenants impacted by the Bedroom Tax of which 140 (or 30%) are in rent arrears over £300 to the value of £127,000
	<b>Universal Credit</b>
1.06	The biggest reform of the UK welfare system is the rollout of Universal Credit (UC) by the Department of Work and Pensions (DWP) which was introduced in Flintshire as a full service rollout from April 2017. This replaced 6 legacy benefits into a single payment for those tenants migrating over to the UC system.
1.07	The single UC payment includes a housing element for help with housing costs/rent and unlike the Housing Benefit system where entitlement is paid directly to the rent account on a weekly basis (and in advance), the UC system is designed to provide tenants with a single payment from DWP which includes an element towards their housing/rent costs.
1.08	The design of the UC system places an expectation on tenants to manage their own finances and budget to pay rent on time to their landlord. UC therefore imposes a big budgeting and prioritising responsibility on tenants. The theory is plausible, but in reality it is far from straight forward for landlords or tenants to ensure rent is paid on time.

1.09	There is growing evidence within the Council and indeed, across the UK, that the introduction of UC is directly leading to a significant rise in rent arrears and resource challenges for Councils and Housing Associations.												
1.10	Tenants in receipt of the former legacy benefits are naturally accustomed to receiving their benefits on a weekly or fortnightly basis and then paying rent to the Council on a weekly basis. The payment of UC is made on a monthly basis to cover living expenses and housing costs. UC is never paid during the first week of the claim and is typically paid after a period of at least five weeks or more in arrears. Some tenants can even wait up to eight weeks. The payment, when it is made, is designed to replicate the budgeting required by people who receive a monthly wage.												
1.11	There is strong evidence that demonstrates UC risks causing or exacerbating debt problems and tenants in receipt of UC are more likely to be falling into arrears than those on legacy benefits.												
1.12	<p>The table below shows the extent rent arrears for those tenants in receipt of UC as opposed to those still receipt of Housing Benefit.</p> <table border="1" data-bbox="466 869 1240 1128"> <thead> <tr> <th></th> <th>No of tenants</th> <th>Total Arrears</th> <th>Average Rent Arrears</th> </tr> </thead> <tbody> <tr> <td>Universal Credit Claimants</td> <td>449</td> <td>£661,552</td> <td>£1,473</td> </tr> <tr> <td>Housing Benefit Claimants</td> <td>1,313</td> <td>£438,608</td> <td>£334</td> </tr> </tbody> </table>		No of tenants	Total Arrears	Average Rent Arrears	Universal Credit Claimants	449	£661,552	£1,473	Housing Benefit Claimants	1,313	£438,608	£334
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Universal Credit Claimants	449	£661,552	£1,473										
Housing Benefit Claimants	1,313	£438,608	£334										
1.13	The financial risk to the Council is significant, as in reality, the Council is competing for payment of rent from tenants who do not always ensure rent in paid as a priority payment. Other problems that exacerbate the situation and lead to an increase rent arrears, include lengthy delays of a minimum of five weeks before payment of UC is made to claimants leading to the accrual of rent arrears unnecessarily.												
1.14	Vulnerable tenants who have relied on the Housing Benefit previously and who are not used to paying rent themselves can often lack the budgetary skills to prioritise payment of rent and this also leads to a trend of non-payment of rent leading to the Council putting interventions in place to support tenants.												
<b>Rent Arrears – Year End Comparisons</b>													
1.15	Rent arrears are the amount of rent due but not paid to the Council on time and the arrears position is expressed as the accumulated running total amount due across all years which has not been paid. Putting this into context, £223m was due in rent between the 7 year period between 2011 and 2018, and accrued rent arrears as at the end of 2017/18 were £1.6m.												

1.16 Over recent years, rent arrears have fluctuated, as detailed in the chart and table below, but through re-structuring and service re-alignment, the Council's Rent Income team was successful in starting to reduce rent arrears in 2016/17, despite the introduction of a series of welfare reforms starting with the Spare Room Subsidy (otherwise known as a Bedroom Tax) and Benefit Cap.



Financial Year	Gross Rent Yield	Year End Rent Arrears	Movement (£)	Total Rent Arrears as % of in-year Rent Yield
2017-18	£36,153,000	£1,600,609	£415,211	4.4%
2016/17	£34,293,000	£1,185,398	£12,368	3.5%
2015-16	£32,857,000	£1,173,030	£143,956	3.6%
2014-15	£31,452,000	£1,029,074	£33,325	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%

1.17 Accumulated Rent arrears during 2016-17 fell to 3.5% of the in-year gross rent yield, which in monetary terms resulted in a arrears year end position of £1.185m

1.18 However, during 2017/18, UC 'full service' was implemented in Flintshire by DWP from April 2017 to replace the six legacy benefits, including Housing Benefit for working-age claimants, rent arrears have increased significantly since then, largely as a direct result of UC and the cash flow implications of tenants waiting to receive UC and the knock on effect of the Council waiting to receive payment from tenants.

1.19 Although the UC system is designed to be simpler for tenants to access money from DWP in the form of a single payment, of greater concern is the effect on rent arrears during the first year of UC full service implementation which resulted in a 2017/18 year end position total arrears of £1.6m – an increase of £415k compared to 2016/17.

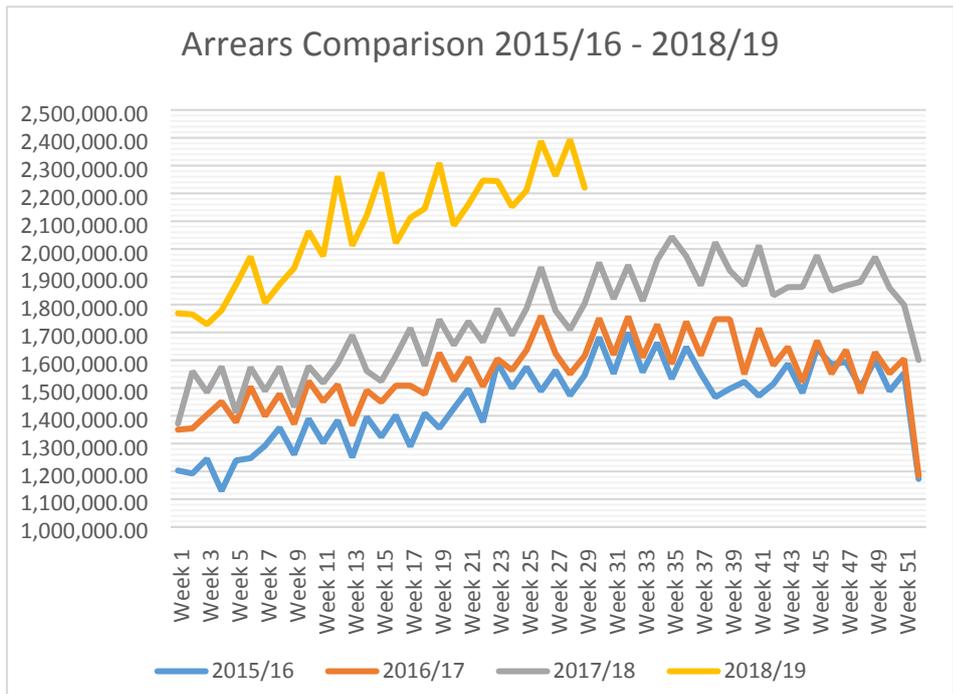
**Rent Arrears – Current Position in 2018/19**

1.20 Accumulated Rent arrears up to the first half of 2018/19 (up to rent accounting week 26) are now £2.22m compared to £1.80m during the same period in 2017/18. In other words, rent arrears have increased by £416k compared to week 29 last year.

1.21 Put another way, since UC full service rollout, accumulated rent arrears up to week 29 in 2018/19 have increased by £1m as a comparison with the year-end position in 2016/17. A significant factor in the increase in rent arrears is attributable to the implementation of UC since 449 council tenants who are in receipt of UC have accumulated rent arrears of £661k. Although some tenants might have been in rent arrears prior to UC sign up, the five week minimum delay in processing UC is a major contributory factor to the efficient collection of rent.

1.22 In an increasing number of cases, the Council is having to apply to DWP for managed payments. This is a system where a landlord can request payment of rent from a tenant’s Universal Credit if a tenant is 8 weeks or more in arrears. There are 75 tenancies where the Council has instigated managed payments, however, not all requests are granted as tenants can be off and on UC or have insufficient UC for rent deductions to be made.

1.23 The graph below illustrates the very latest position with rent arrears which also shows the comparison over a 4 year period:



	<b>Mitigating the impact of Welfare Reform and improving Rent Collection</b>
1.24	<p><u>The duty to prevent homelessness</u></p> <p>The Council has a statutory duty to support tenants and to avoid homelessness. It is widely recognised that homelessness generates significant negative impacts upon a person's and family health, well-being; education and employment. Welsh Government (WG), supported by the Council, has had a long standing commitment to implement strategies that aim to prevent homelessness, where possible. A commitment that WG significantly strengthened through the introduction of a new statutory prevention duty within Part 2 of the Housing (Wales) Act 2014. This duty requires the Council to try to prevent homelessness amongst 'all' households, not just council tenants, who are at risk of losing their homes.</p>
1.25	<p>Collection of rent remains a key priority for the Council, and running alongside the statutory duty to support tenants, is the need to strike the right balance between supporting tenants and targeting those tenants who fail to pay and do not engage with the Council.</p>
1.26	<p><u>Housing Intervention Team</u></p> <p>To mitigate against an increasing in rent arrears position, senior officers across the Housing service have been working together to tackle the increase in arrears.</p>
1.27	<p>During 2018/19, additional resources have been allocated from the Supporting People Grant to ensure that arrears are managed through intensive interventions at the earliest opportunity that prevent arrears building up but ensure that tenants with complex situations or those in financial difficulty receive the 'fast tracked' support they need to address their rent payments. A project team consisting of four additional posts costing £130k per annum was launched in the summer of 2018 initially targeting low level arrears to stem the problem.</p>
1.28	<p>The team consist of two Rent Income officers and two support staff working together to tackle low level arrears. This is done through early intervention using new operating methods by contacting tenants by phone, as opposed to posting out rent reminders, to discuss arrears and also discussing the reasons for non-payment. The new Housing Intervention Team (HIT) has been in place since August with weekly meetings taking place to target specific cases that Income officers have not managed to either contact or get a positive outcome from. Early Support is then quickly provided to those tenants that are in need of help, even if the arrears are at low levels, and a decision made to fast track cases to court where a tenant is refusing to pay or engage with the Council.</p>
1.29	<p>To date a total of 534 cases have been reviewed by the HIT team, this work has seen positive results and has directly led to a collection of £245K to date and assisted 362 tenants in bringing their arrears up to date and provided them with the support with their finances to maintain their ongoing rent.</p>

1.30	Support visits have been carried out by the team for 40 tenants and following non engagement five court orders have been applied for as part of the 'fast track' approach to target rent arrears at low levels.
1.31	In addition to the HIT team, work is also ongoing to review and develop a 'rent first' approach across wider teams including homelessness, managing housing applications, housing allocations and estate management. The work will focus on staff training and revision of procedures to develop a 'rent first' culture. Staff within all teams need to be focussed on ensuring tenants understand the importance of making rent payments; that comprehensive affordability checks have established the rent is affordable and budgeting or debt advice is offered; that homeless applicants are assisted to address former rent arrears.
1.32	The focus of the work across housing is to establish those households that won't pay and deal with arrears firmly and swiftly. There are some instances where a household genuinely cannot pay or they are facing significant difficulties. In these cases the focus has been on providing the necessary intensive support.
1.33	<p><u>Adopting a rent first approach</u></p> <p>To prevent rent arrears from escalating, the Council is also taking a more robust approach to tackling rent arrears by 'fast tracking' cases through the County Courts where necessary for lower levels of arrears to ensure rent is paid as a priority debt. Court action is a necessary recovery tool to secure regular payment from tenants who do not pay on time and who do not engage with the support offered.</p>
1.34	In most cases, initiating the judicial process ensures tenants get into a cycle of paying their rent on time and the referrals into the court system also protect the finances of the HRA.
1.35	Court proceedings can be a lengthy but necessary process. The Council is also bound by the decisions and judgements made by the court in terms of the number of opportunities afforded to tenants to pay. The payment terms are often directed by the courts based on the personal circumstances for each tenant appearing in court. Ultimately, the Council is governed by the decision of the courts.
1.36	Court work is complex and not all hearings lead to a quick resolution to non-payment. As an anecdotal example of this, an eviction recently took place in respect of rent arrears of £2k. The tenant had previously been subject to court proceedings over an extended period of time and yet it did not result in the tenant keeping up to date with the payment order. There had been four court hearings over a nine month period. At the first hearing the tenant had been ordered to pay weekly rent plus £3.70 towards the arrears but the tenant failed to pay. Even if the tenant had kept to the terms of the payment order, it would have taken a period of forty five years to bring the account up date. A second court hearing eventually resulted in an order to pay £5, a third hearing £17 and a fourth hearing £29 but the tenant neglected to pay.

1.37	At a final hearing the court eventually agreed to disallow an application by the tenant to stop the eviction and the tenant was subsequently evicted from the property for non-payment.																					
1.38	<p>The table below provides an analysis of the current position for £417k of arrears that are subject to court action. There are 215 tenants who are currently subject to court action and 80% of cases are subject to payment orders to ensure rent is paid on time.</p> <table border="1" data-bbox="576 465 1214 819"> <thead> <tr> <th>Court Stage</th> <th>Number of Tenancies</th> <th>Value of Arrears (£)</th> </tr> </thead> <tbody> <tr> <td>Eviction pending</td> <td>7</td> <td>24,386</td> </tr> <tr> <td>Court Order</td> <td>7</td> <td>6,389</td> </tr> <tr> <td>Possession Order</td> <td>28</td> <td>57,943</td> </tr> <tr> <td>Postponed Order</td> <td>1</td> <td>2,444</td> </tr> <tr> <td>Suspended Order on Payment Terms</td> <td>172</td> <td>326,336</td> </tr> <tr> <td><b>Total</b></td> <td><b>215</b></td> <td><b>417,498</b></td> </tr> </tbody> </table>	Court Stage	Number of Tenancies	Value of Arrears (£)	Eviction pending	7	24,386	Court Order	7	6,389	Possession Order	28	57,943	Postponed Order	1	2,444	Suspended Order on Payment Terms	172	326,336	<b>Total</b>	<b>215</b>	<b>417,498</b>
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1.39	In most cases, there is a positive outcome at court, but over the past four years there have also been 80 evictions against those tenants who fail to pay, keep to the terms of the court order, or work with the Council.																					
1.40	<p>During 2018/19, the Rent Income service have undertaken seventeen evictions to up to week 26, compared to eleven during the period last year – an increase of 54.5% during the like-for-like period. The increase in evictions is partly due to the Council now needing to take more robust action to tackle rent arrears and to end tenancies for those tenants who refuse to engage or pay the rent which is due.</p> <table border="1" data-bbox="635 1312 1074 1565"> <thead> <tr> <th>Year</th> <th>Evictions for rent arrears</th> </tr> </thead> <tbody> <tr> <td>2018/19 (to date)</td> <td>17</td> </tr> <tr> <td>2017/18</td> <td>22</td> </tr> <tr> <td>2016/17</td> <td>19</td> </tr> <tr> <td>2015/16</td> <td>22</td> </tr> </tbody> </table>	Year	Evictions for rent arrears	2018/19 (to date)	17	2017/18	22	2016/17	19	2015/16	22											
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1.41	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.																					
1.42	Tackling rent arrears, despite the challenges of welfare reform, is business critical. Although the service has increased resource levels in view of increasing caseloads and case complexity, there is also a need to invest in the right technology to help move us forward.																					
1.43	Officers have been in discussion with other social landlords who are grappling with the same challenging environment and a growing number of Councils and social landlords (over 118 organisations in total) have																					

	invested in specialised Housing software systems which deploy analytical applications to predict and risk assess which tenants will and won't pay their rent on time.
1.44	We know from housing providers the deployment of this software is helping to reduce workloads, free up capacity in order to target the limited resources on those cases that are at most risk of not paying rent. Detailed business cases project that reduced arrears levels of 16% can realistically be achieved by deploying this software within the Council.
1.45	Work is therefore at an advanced stage to consider the implementation of this software by February 2019 as part of the wider strategy to tackle rent arrears.

<b>2.00</b>	<b>RESOURCE IMPLICATIONS</b>
2.01	The ongoing welfare reforms and rollout of UC full service will continue to generate financial pressures as a result of deploying additional resources to assist many households who continue to require advice and support to help them manage the transition from housing benefit to UC.
2.02	The deployment of additional resources, at a cost of £130k per annum, are also required ongoing to tackle the issues of recovering unpaid rent from an increased number of tenants.
2.03	The deployment of analytical software in early 2019 will assist with the recovery of unpaid rent.

<b>3.00</b>	<b>CONSULTATIONS REQUIRED / CARRIED OUT</b>
3.01	None.

<b>4.00</b>	<b>RISK MANAGEMENT</b>
4.01	To mitigate the risks of increasing rent arrears, losses in collection and increased bad debt impairment, the formation of the HIT team and fast tracking of cases to court, is designed to ensure financial risks are minimised.
4.02	The deployment of predictive 'risk based' software to support the recovery of rent will also help to increase collection rates and target those cases at highest risk of non-payment.

<b>5.00</b>	<b>APPENDICES</b>
5.01	None.

<b>6.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
6.01	<ul style="list-style-type: none"> <li>• Housing (Wales) Act 2014</li> <li>• Welfare Reform Act 2012</li> </ul> <p><b>Contact Officer:</b> David Barnes, Revenues Manager  <b>Telephone:</b> 01352 703652  <b>E-mail:</b> david.barnes@flintshire.gov.uk</p>

<b>7.00</b>	<b>GLOSSARY OF TERMS</b>
7.01	<p><b>Welfare Reform:</b> 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.</p> <p><b>Benefit Cap:</b> is a limit imposed by the UK Government on the total amount of benefit that most people aged 16 to 64 can get. People of pension age are exempt from the Benefit Cap. 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> <p><b>Spare Room Subsidy:</b> a change to housing benefit was introduced in 2013 by the UK Government (often referred to as the 'Bedroom Tax') which means tenants might receive less in housing benefit if 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% housing benefit entitlement</p> <p><b>Universal Credit:</b> 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 in and out of employment and combines six legacy benefits for working age claimants. The legacy benefits include housing benefit, income support, job seekers allowance, employment support, child tax credits, working tax credits.</p> <p><b>Housing Revenue Account (HRA):</b> 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 general council expenditure. This also allows the rental income to be invested locally to help improve and maintain council owned homes and also build new council homes.</p> <p><b>Housing Benefit:</b> is a means tested scheme that helps tenants pay all, or part of their rent, if they have a low income. Housing Benefit is administered by Local Authorities on behalf of the Department of Work and Pensions (DWP).</p>