

IMPACT OF WELFARE REFORM CHANGES ON INCOME COLLECTION

Report of the Director of Housing and Customer Service

1. SUMMARY

- 1.1 This report explains the likely impact of Welfare Reform on income collection during 2013/14. It also forecasts the possible impact through to 2017 when this is due to be fully implemented.
- 1.2 The report explains the strategy Derby Homes will adopt to minimise the impact and collect as much income as possible

2. RECOMMENDATION

Derby Homes Board notes the report and agrees to receive further update reports.

3. MATTER FOR CONSIDERATION

- 3.1 Welfare reform will introduce new risks and challenges to income collection during 2013/14 in the following ways.
 - From April 2013, the under occupation charge or 'bedroom tax' will increase the amount of money which is due to be collected from tenants by approximately £1 million a year at current rent levels
 - From October 2013, 'Universal Credit' will be paid direct to some tenants. These are those tenants who have a 'significant' change of circumstances. This will mean the Housing Benefit element will have to be collected from them instead of it being paid direct to Derby Homes. There is a significant risk that many tenants will not pay all of the money due
 - Whilst the 'Benefit Cap' is due to be implemented in July, this will only have a very small impact in 2013/14.
- 3.2 The effects during 2014/15
 - Universal Credit may be implemented in Derby for all tenants from April 2014 onwards. At the moment though, the timetable is unclear and full implementation may not happen until 2017
 - There will continue to be an incremental implementation of Universal Credit due to changes of circumstances. This means the 'mix' of tenants receiving Housing Benefit weekly paid direct to Derby Homes and those tenants receiving the Housing element within their Universal Credit will perhaps reach a ratio of 50/50 by the end of 2014, even if Universal credit is not implemented in full during 2014/15

- Payment of a high proportion of rent monthly against a weekly debit will result in very high 'technical arrears' or 'arrears of cycle' - on top of 'real' arrears
- The impact of the 'benefit cap' will start to be felt. This will reduce the money large families will have available to pay their rent

3.3 Universal Credit will be fully implemented in Derby during the period 2015/2017 if it is not implemented before. This will mean all tenants will receive their benefit monthly in arrears by then. The impact of the Benefit cap will be increasingly felt during this period. This is for two reasons:

- Rents in both the public and private sectors are due to rise at a much faster rate than benefit levels which have been capped at 1% per year for the next 2 years from 2014
- The number of people affected by the Benefit Cap in London and the South East is already much higher than in Derby and elsewhere in the country generally. This is starting to cause migration of tenants to the North, some of which is being directly arranged by Local Authorities in London. This process will accelerate which in turn will increase demand and force up rent levels in the private sector.

3.4 A report to Derby Homes Board on 29 November 2012 explained the preparation for the implementation of the Under Occupation Charge. We have contacted all tenants who we thought were likely to be affected. We have discussed their options with them and checked their benefit entitlement to ensure their income is as much as possible. In addition the following actions have been taken to ensure that all affected tenants know exactly what they will have to do. We have:

- Carried out personal visits to those tenants who had not responded to our letters
- Sent a leaflet to all affected tenants explaining the under occupation charge
- Completed applications for Discretionary Housing Payments for any tenants who we know have major adaptations to their properties
- Asked any affected tenants who have said they will pay to stay and who are in arrears to pay extra now to show they can meet the payment
- Put in place a project worker within our allocations team to coordinate moves for tenants who want to downsize jointly with other housing organisations in Derby
- The March edition of Derby Homes News is a welfare reform special
- Carried out a range of publicity campaigns including an event on 19 March in partnership with Derwent Living and the City Council Welfare rights team.
- Sent out the normal rent variation letters with an additional letter explaining the under occupation charge.

3.5 During week commencing 4 March 2013, The City Council has:

- Sent out letters to all individuals they have identified who will have to start paying 20% of their Council Tax. Many of these will be the same people who will also have to start paying the under occupation charge
- Written to all of those individuals who they believe will be subject to the under occupation charge in both the public and private sectors. There are 1785 Derby Homes tenants on that list
- Provided Derby Homes with a list of those our tenants whose benefit will be reduced

- 3.6 Derby Homes has carried out a great deal of preparatory work with tenants on the under occupation charge. We are now preparing to collect this money. The process we will follow is:

During March we will send out different letters to 3 different categories of people

- People who currently are on full Housing Benefit with no arrears and who will have to start to pay the charge
- People on part Housing Benefit who are in arrears already and who will have to pay more
- People on part Housing Benefit who have clear rent accounts.

The letters will tell individuals how much they will have to pay. This is because we now know which accounts Housing Benefit are definitely going to apply the reduction to. We will of course have already have spoken to all of these people several times now. The letters will make clear that this money must be paid and explain what will happen if it is not. The under occupation charge will be treated as rent and collected in line with Derby Homes rent arrears procedure.

The first week in April is a rent free week. The under occupation charge will start from 8 April. Derby Homes 'Academy' IT system will identify any tenants who do not pay the first week's charge.

Any tenant who has not paid the first week of the charge will receive the first arrears letter and a text message in line with rent arrears procedure. However in addition they will receive a personal visit by a member of staff and an arrangement put in place to pay this money and to provide whatever support and assistance is necessary.

Further letters, text messages and other attempts at personal contact will be made each week until the tenant owes four weeks rent. We will then serve a Notice of Seeking Possession. We will ensure that a visit is made by a Benefit Advisor or Money Advisor at the same time. We need to ensure early and positive action is taken to collect this money. If the tenant does not pay then the case will be taken to Court and an application made for possession in line with Derby Homes rent arrears procedure.

- 3.7 We will have a good idea how many people will not pay the charge by the end of April. The report to Derby Homes Board of 29 November estimated that rent arrears due to non-payment of the charge could rise by £350,000 during 2013/14. There is an increasing groundswell of organised resistance to paying the charge in other cities but this has not been particularly noticeable in Derby.
- 3.8 The timing of the introduction of the under occupation charge and Universal Credit will mean that our Income Management team should be able to have the under occupation charge arrears cases under control before the impact of Universal Credit is felt. By October, those cases that have become 'hardened' arrears cases will be well into the Court and eviction process and by 2013/14 will have either paid all or most of the arrears or have been through the process. Derby Homes carries out around 60 evictions a year at the moment. I would estimate that we may carry out a further 10 evictions as a result of the under occupation charge. The attitude of the Courts towards possession actions for Under Occupation Charge is as yet unknown. It is likely though that several 'stay' hearings will happen in many cases before

possession is granted. This is because for purely under occupation charge cases, the overall balance owed will be quite low even though the tenant may owe many weeks rent. This is why early action is imperative.

- 3.9 Universal Credit is currently due to start being implemented in Derby from October 2013 and this is the date we have to work to. However there is a possibility that this could be delayed, primarily because of concerns about the Department of Work and Pensions IT system being ready on time.
- 3.10 At the moment we are working on the assumption that Universal Credit will start to come on line for 'significant changes of circumstances' cases only from October 2013. A significant change of circumstances is one affecting the main income benefit the person is receiving. This means that from October 2013 to March 2014 the rate at which Universal Credit will impact on Derby Homes will be incremental.
- 3.11 There are approximately 150 such changes of circumstances affecting Derby Homes tenants each week. This includes new tenancies. This would be 3,900 cases over the 26 week period to April 2014. However we may assume that some of those 150 cases would have a further change of circumstances during a six month period so it is perhaps safe to assume that the total figure would be lower, perhaps nearer to 3,000. Derby Homes has around 9,500 Housing Benefit cases in payment each week. This suggests that around a third of current housing benefit cases could switch to Universal Credit during the period October 2013 to March 2014.
- 3.12 Derby Homes expects to receive approximately £16 million in Housing Benefit payments during that period. This means that perhaps £5 million of that could switch to Universal Credit during 2013/14.
- 3.13 The Department of Work and Pensions has been carrying out a range of 'Demonstration Projects' to evaluate the likely impact of direct payments. The latest outcome reports from those were made available in January 2013.

The demonstration projects are being held at six different locations and are testing a range of issues. One of these is the time period after which a Housing Authority could apply to have the housing element within Universal Credit paid direct. There are already categories of tenants such as vulnerable people for whom direct payments can be made from the start. However it looks likely that direct payments could be applied for at either eight or twelve week's arrears. The Department of Work and Pensions appears to favour twelve weeks. It must be remembered though that twelve weeks, for example, would be when Derby Homes could apply for direct payments. It is likely that the DWP may take a further four to six weeks to process the application. How this will work is still not clear. The DWP have said that they would want to interview the tenants in these circumstances which would be administratively probative given the likely numbers. However the fact that we will be able to apply for direct payments will be a crucial safeguard. It may be envisaged that arrears would eventually level out and start to come down over time as more and more people have been switched to direct payments.

- 3.14 Collection rates for the demonstration projects average 92%, ranging from 89% to 95%. It needs to be stressed that the demonstration projects can only give an indicative position because they are not following a 'true' Universal Credit position as:

- Organisations taking part are using a small sample of relatively 'low risk' tenants
- The project has only run for a short time
- Housing Benefit is being paid direct but not as part of a single unified benefit payment.

3.15 Nevertheless, a 92% collection rate seems not unreasonable for Derby Homes. If we were to achieve this then it is possible that arrears could rise by £400,000 in the period October 2013 to April 2014 based on an assumption that £5 million worth of Housing Benefit could switch to Universal Credit during that period. The target for arrears for 2013/14, which Derby Homes has suggested to the Council and put in the HRA Business Plan is £1.8 million. This would be around £1 million carried forward plus £350K for under occupation charge and around £400K Universal Credit arrears.

This would be 'true' arrears and not include 'technical' arrears or 'arrears of cycle as discussed in point 3.19 of this report

3.17 Tenants who receive Universal Credit will fall into three categories

- Those who are on the equivalent of 'full housing benefit' for whom the 'housing element' within their Universal Credit will cover the whole of their rent
- Those whose Housing element would cover the whole of their rent but is reduced because of an under occupation charge. Such people would have to use some of the rest of their Universal Credit to make up the shortfall
- Those people who are in low paid employment and receive wages and Universal Credit.

This third category of people will be the most difficult to collect from. This is for two reasons

- People in low paid or short term jobs tend to go in and out of employment frequently. This results in benefit claim problems and consequent rent arrears
- They may receive their wages weekly or monthly but at a different time than their Universal Credit. This in turn means that we are likely to be expecting more than one payment each month.

The benefit 'tapers' are set up so as to encourage people to find work rather than rely on Universal Credit. The application of the Benefit Cap will add to this. This means that in the future there is a likelihood of a higher proportion of these difficult to collect cases.

3.18 The approach to collecting this money will be as follows

- Wherever possible, new Universal Credit cases will be signed up to pay by Direct Debit as soon as they arise. The most obvious opportunity for this will be at sign up for new tenancies. However we will put in place a system for notifications of changes of circumstances for existing tenants to trigger contact from a member of staff to sign the tenant up to Direct Debit. We have a range of Direct Debit dates available, including weekly direct debits. It is critically important that the Direct Debit is set up to pay the rent as soon as possible after the Universal Credit is paid into the tenants account. We anticipate that Universal Credit will be

paid at varying times of the month. There will be many different 'payment dates' that we will have to set up the system to monitor. It is however capable of doing this.

- We will sign those tenants who do not have a bank account or cannot get one to a budget or 'jam jar' account which will pay the money to Derby Homes.
- The management of rental control and arrears will be joined up from April 2014. This is important because the management and monitoring of direct debits will be critical
- We will set the Academy system to 'prompt' on a daily basis instead of weekly. This will be necessary to control part payments in particular. These are cases where tenants make more than one payment each month depending on their sources of income and other commitments. Daily monitoring will be necessary until we are satisfied that an individual's payment pattern is stable. This is connected to the fact that there will be a whole range of different payment dates during the month. We will make arrangements that money is expected on a particular day and follow up immediately if it is not received
- We will need to put even more staff time into helping tenants make their claims than we do now. The Income Team has been strengthened particularly in the area of financial inclusion. I would expect much closer and more joined up working between the team and the Welfare Rights team particularly the money advice service. However we will not be able to advocate on the tenants behalf or see details of their claim as we can now. So the relationship will be to support the tenant with the claim, but as soon as a decision is made, collect the money in accordance with our arrears procedure. We understand that the Department of Work and Pensions will look to make a determination on a claim within five weeks as a maximum. This will make collection easier in some ways.
- Apply for direct payments immediately for those cases that fall into arrears. As has been explained, the Department of Work and Pensions has yet to clarify the trigger point but it is likely to be either 8 or 12 weeks arrears.
- We hope to have an Academy module which will help to manage Universal Credit cases in addition to the current arrears system
- Follow Derby Homes arrears procedure strictly and ensure that immediate action is taken where tenants do not pay when they have been given all the help and assistance they need.

3.19 Wakefield District Council is one of the demonstration projects with around 1000 tenants getting their Housing Benefit paid to them. Their collection rate is lower than average at around 89%. They have served 100 Notices of Seeking Possession since the project started. We would expect a similar increase in Notices of Seeking Possessions after October 2013 but this does not necessarily translate to a large increase in evictions. In any case, timescales and the Court process mean that it is unlikely that we would see many evictions due to Universal Credit in 2013/14. I expect perhaps 10 evictions in 2013/14, but it is very likely that there would be a sharp rise in evictions during 2014/15. At the moment the precise outcomes are not easy to predict though.

3.20 An increase in monthly in arrears payments will result in 'technical' or 'arrears of cycle' if we continue with a weekly debit. At any one time our arrears would be inflated by around £4 million in 'technical arrears' if all current Housing Benefit claims were paid monthly in arrears instead of weekly. This is one of the reasons for discussing moving to a monthly debit with the City Council, probably to start from April 2014

4. CONSULTATION IMPLICATIONS

Derby Homes is consulting widely with tenants, stakeholders and the City Council about the Welfare Reform agenda and Income Collection.

5. FINANCIAL AND BUSINESS PLAN IMPLICATIONS

Welfare Reform has a critical impact on Derby Homes Business if rent is not collected. Forecasts for arrears and write offs have been written into the HRA Business Plan and Risk Register

6. RISK IMPLICATIONS

As above

The areas listed below have no implications directly arising from this report:

Legal and Confidentiality
Equalities Impact Assessment
Health & Safety
Policy Review

If Board Members or others would like to discuss this report ahead of the meeting please contact:

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Background Information: None

Supporting Information: None