

## RENT ARREARS UPDATE

Report of the Director of Housing and Customer Service

### 1. SUMMARY

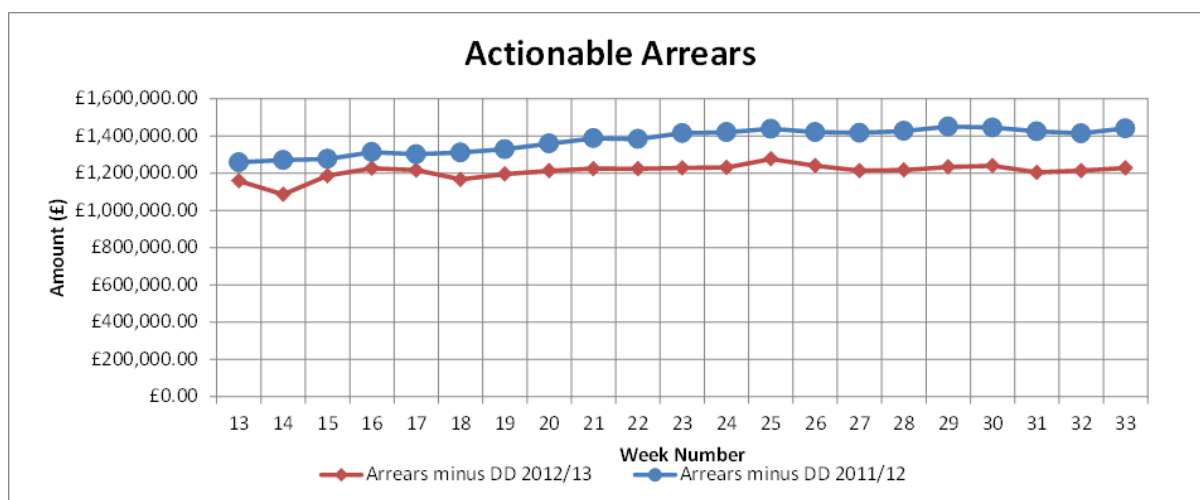
This report gives an update on progress on arrears recovery this year in comparison to last year. It also provides information on the likely impact of the under occupation charge (sometimes called the 'bedroom tax') during next financial year

### 2. RECOMMENDATION

That the Board notes the report and agrees to receive further updates on arrears progress

### 3. MATTER FOR CONSIDERATION

- 3.1 Performance on rent arrears recovery during this financial year has been good and is an improvement on the last financial year. On 20 September Derby Homes Board received a report showing comparative performance on actionable arrears for rent weeks 13 to 23. The following table shows performance from week 13 to date and indicates that the improvement over last year has been sustained and even increased since the last report to the Board.



- 3.2 Actionable arrears is the total of rent owed by tenants. It does not include balances created by the system through the management of direct debits and standing orders. The total actionable arrears at rent week 33 were £1,227, 875. At the same point in 2011/12 they were £1,441,081.

3.3 Progress on rent arrears this year is due to two main factors

- A reorganisation and strengthening of staffing resources for arrears recovery put in place during the latter part of 2011/12
- Continued good performance by Derby Benefits in processing claims. Derby Homes continues to assist with this by funding an additional post dedicated to Local Authority claims

3.4 We recognise though that there is still room for improvement. We have visited Nottingham City Homes and will implement aspects of their process that will help improve performance.

3.5 The implementation of welfare reform will have a considerable impact on rent arrears from April 2013 onwards. This report will concentrate on the possible impact of the under occupation charge (sometimes called the 'bedroom tax') during next financial year.

3.6 The Under Occupation charge, or 'bedroom tax' will be implemented from 1 April 2013. People of working age will have a reduction in the amount of housing benefit they can claim applied based on the number of 'spare' bedrooms they have. This means they will have pay this themselves. The reduction will be as follows

- Under occupying by 1 bedroom – 14% or £10.36 based on a target average rent of £74 per week
- Under occupying by 2 bedrooms – 25% or £18.50 based on a target average rent of £74 per week

3.7 Our original estimate, based on Derby Homes and Derby Benefit records, was that we had around 2500 tenants under occupying. We are writing to all of these people at the rate of 50 each week and have now written to 1166 people. We have now put extra resources into the team and will increase the rate at which we are contacting people. Our staff speak to people who respond to the letters and contact people from the original list. We have so far spoken to 877 people. Of the 877 there were 629 people or 72% who, when we talked to them in detail about their circumstances, are actually affected by the charge.

3.8 For this reason I believe our original estimate of 2500 may be too high and the real number of people likely to be affected by the under occupation charge to be nearer 1800, with around 1520 under occupying by 1 bedroom and 275 by two bedrooms.

3.9 The worst case scenario of course would be that none of these people pay any of this charge. In the very unlikely event that would happen then the impact next financial year would be an overall increase in arrears of approximately £1 million. To estimate what the real impact is likely to be, we need to consider two additional factors

- Changes to Council Tax benefit are also being implemented from 1 April. This means that in a similar way to the under occupation charge, tenants of working age will have a deduction applied to their Council Tax benefit which they will have to pay. Most of our tenants are in band A, which will mean they will have to pay

an additional amount of £2.61 for single people or £3.48 for couples. This means that some tenants will be affected by this and the under occupation charge so potentially a couple under occupying by two bedrooms would have to find an additional £22 per week

- Government funding for Discretionary Housing Payments has significantly increased from April 2013. The exact settlement is normally known in February but may be released earlier this year. This is funding that Derby Benefits can use to support those people in 'exceptional hardship' by way of additional discretionary awards of Housing Benefit. The intention behind the large increase in this budget is that it will be used to smooth out the effects of the implementation of welfare reform. The Council are in the process of working out how this will work so it is not possible to quantify at this stage just how much this might counteract arrears due to the under occupation charge. It has been suggested though that the definition of 'exceptional hardship' may include those people who have indicated they are prepared to move, but for whom there are not sufficient smaller properties available.

- 3.10 We have no precedent to base a real comparison on, however there has been an increase in the amount of non-dependant charges of around £4 per week for the lowest level charge spread over the last two years. We have not experienced any impact on arrears because of this. The combined impact of the under occupation charge and Council tax benefit changes will mean a much bigger single increase in outgoings though, and there is no doubt some tenants will not pay it.
- 3.11 Of the 629 people we have spoken to so far, 119 have said they will definitely pay the charge. Of these about 25% already have rent arrears. A further 126 people, or 20%; have said they definitely want to move. The remaining 384 were not sure what they were going to do at this stage.
- 3.12 Derby Homes' collection rate has been roughly 100% over the last few years. This means that in general terms we collect all of the 'new' rent due and the arrears have remained fairly static within the range of £850K – 950K at year end, or approximately 2% of the annual debit.
- 3.13 To estimate how much occupation charge we are likely to collect is impossible to do with any degree of certainty because of variables we cannot quantify. However
- it seems likely that we might be able to facilitate claims for Discretionary Housing Payments for perhaps 20% or more of the tenants affected – those who we cannot find properties for and those in other forms of exceptional hardship. So that would make our maximum possible exposure closer to £800K
  - average arrears levels are approximately 2% of total debit. Some people will not pay any of the charge, but most who go into arrears will pay some or most of it
  - of the people who have said they are going to pay, 30% are in arrears but only 10% owe over 7 weeks rent.
- 3.14 We will not know for sure until next year, but it seems unlikely that we will not collect less than 60% of the £800K 'worst case' which suggests arrears may rise by around £300 – 350K in 2012/13 as a result of the occupation charge.
- 3.15 An Institute of Housing (Scotland) 'practice guide' publication on preparing for

collecting under occupation charge says that:

*'Some landlords are exploring transferring bedroom tax arrears out of rent accounts into separate accounts as a way of separately quantifying, monitoring and recovering these charges'*

- 3.16 We have a system of working sub accounts in our rent accounting process which would facilitate this. We will be investigating whether this approach could be helpful at Derby Homes.

#### **4. FINANCIAL AND BUSINESS PLAN IMPLICATIONS**

Any significant increase in rent arrears will have implications for the Housing Revenue Account and potentially for Derby Homes income

#### **5. COUNCIL IMPLICATIONS**

Staff from Derby Homes are working with the Council on preparations for welfare reform including discussions around the potential impact on income

#### **6. PERSONNEL IMPLICATIONS**

Increased staffing resources dedicated to the preparation for welfare reform have been put in place. This will be closely monitored and further resources made available if necessary

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

- Financial and Business Plan
- Council
- Personnel

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