

RENT ARREARS AND WELFARE REFORM UPDATE

Report of the Director of Housing and Customer Service

1. SUMMARY

This report gives an update on:

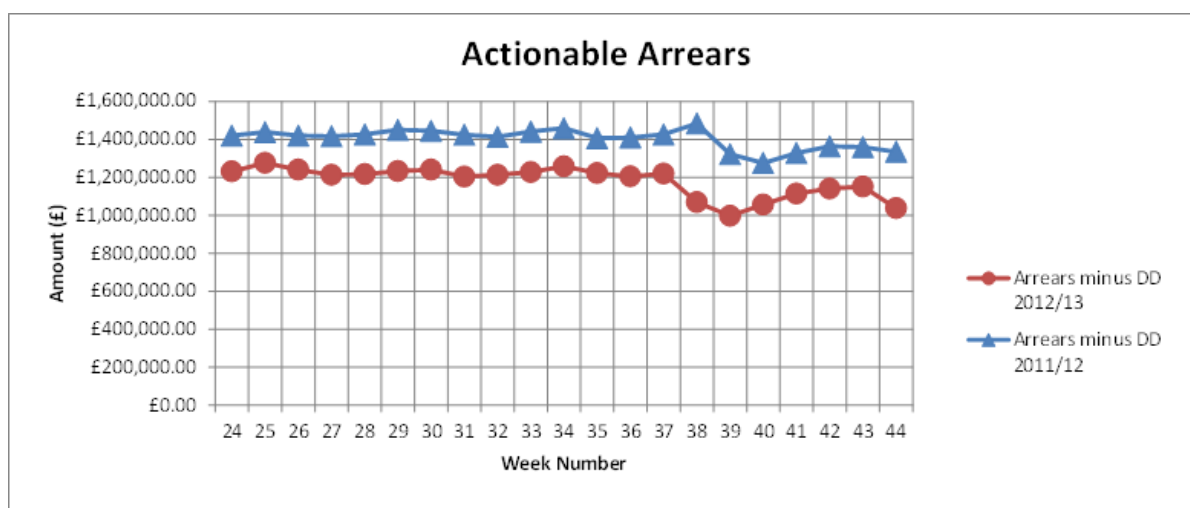
- progress on arrears management this year in comparison to last year
- an updated assessment of how the under occupation charge (sometimes called the 'bedroom tax') will impact on rent arrears during next financial year
- preparation for Welfare Reform, including information on the direct payment 'demonstration projects'. The potential impact of the introduction of Universal Credit on rent arrears levels can be gauged by this.

2. RECOMMENDATION

That the Board notes the report and agrees to receive further updates on arrears and Welfare Reform.

3. MATTER FOR CONSIDERATION

- 3.1 Performance on rent arrears during this financial year continues to be very good. The following table shows comparative performance up to week 44 which is week commencing 28 January 2013



- 3.2 Actionable arrears at week 44 were £1,037,809 compared to £1,335,166 at the same point last year, a reduction of £297,357. This is very encouraging and suggests that arrears levels at year end will come in well under target.

- 3.3 The implementation of Welfare Reform will have a considerable impact on rent arrears from April 2013 onwards. This impact will start with the under occupation charge from April 2013, and there will then be two further main impacts:
- the 'Benefit Cap' which will start to impact from July 2013
 - Universal Credit and particularly the fact that this will be paid direct to claimants from October 2013 onwards.
- 3.4 There is however a number of other aspects to Welfare Reform that will also have a big impact on tenants' ability to pay the rent because of reduced income.
- 3.5 The update report to Derby Homes Board on 29 November 2012 suggested that the number of people likely to be affected by the under occupation charge will be around 1800. That estimate was based on our welfare report team statistics available at that time. We now have more up to date figures and also estimates from Derby Benefits which suggest that the figure of 1800 is reasonably accurate.
- 3.6 Derby Benefits will have a final and accurate list of cases that will be subject to the charge towards the end of February. They will be writing to those people during March to say that their Housing Benefit is to be reduced from 1 April. Derby Homes will have a paragraph included in that letter advising people to contact us for help and assistance. In addition we are:
- continuing to telephone people who may be affected by the charge
 - carrying out home visits and using Local Housing Office staff to contact people who we have been unable to contact by telephone
 - contacting those people who are already in arrears and who we know are going to be affected by the charge and asking them to start paying more now
 - carrying out a targeted benefit campaign jointly with the Welfare Rights Service including an open day in March
 - putting warnings about the under occupation charge on Derby Homes vans
 - starting an 'if you want to stay you will have to pay' advertising campaign during March. This includes leaflets, posters, advertisements on TV screens in reception areas and Derby Homes News.
- 3.7 The previous report explained that there were two other main factors that would impact on how successful we might be in collecting this additional £1 million in 'lost' Housing Benefit:
- changes to Council Tax Benefit are also being implemented from 1 April. We now know that all people will have to pay a minimum of 20% of their Council Tax. Most of our tenants are in band A, which will mean they will have to pay an additional amount of £2.61 per week for single people or £3.48 per week for couples
 - Government funding for Discretionary Housing Payments has significantly increased from April 2013. We now know that the settlement for Derby is approximately £500K. Derby Benefits is working up proposals on how this money will be used and propose to take a report to Council Cabinet in March. We have been talking to Derby Benefits about this to try to ensure as much of this money is available to support Derby Homes' tenants as much as possible. However, the Council's proposals are that the money will be apportioned according to particular tenure types and identified vulnerable groups and that it

will be allocated on a monthly budgeted basis. Whilst it is likely that the definition of 'exceptional hardship' will include those people who have indicated they are prepared to move, but for whom there are not sufficient smaller properties available, we understand that it will not be possible to make 'block' early applications as we had hoped.

- 3.8 The 29 November Board report suggested that we may be able to access up to £200,000 of discretionary housing payment budget and that therefore Derby Homes' maximum total exposure to increased arrears due to the bedroom tax would be in the region of £800K. This still seems a reasonable assumption, but unfortunately we will not know for sure until later in 2013.
- 3.9 For the moment, we believe it is reasonable to stay with the forecast in the 29 November 2012 Board report that arrears may rise by around £300 – 350K in 2012/13 as a result of the occupation charge.
- 3.10 We have looked at the practicalities of accounting for under occupation charges separately from the main rent account. Whilst it is possible to do this by utilising sub accounts we have on balanced decided against the idea. The administration side of separating out charges would be excessive and it would also be confusing for tenants who had to make payments on both their main account and then sub account.
- 3.11 The benefit cap was originally to be implemented from April 2013. We now understand that this is to be 'Summer' 2013, although the exact date is not yet known. We have identified around 70 families that we believe will be subject to the benefit cap according to our records. However the exact number and amount of exposure to the cap for each individual family is not known at this stage. We cannot therefore estimate the likely impact on arrears during 2013/14, but we expect it to be a low impact.
- 3.12 We do though have significant concerns about the impact of the benefit cap in the longer term. Universal Credit will only rise on an annual basis by 1%. Rents in Derby need to rise by 9% in real terms overall over the next 3 years, and will rise by 5.2% in April. This will mean that over time more people will be subject to the benefit cap. Over the next few years, more and more people will have less money to pay their housing costs. This may well be on top of an under occupation charge
- 3.13 Universal Credit is due to be implemented for new claims and changes of circumstances from October 2013. A detailed report on the potential impact of Universal Credit and how we propose to manage it will be brought to Derby Homes Board in March.
- 3.14 There is no doubt that Universal Credit and particularly the fact that the benefit will be paid direct to the tenant will have a big impact on arrears levels. The Department of Work and Pensions (DWP) have worked with six housing organisations to set up 'demonstration projects' in various different parts of the country. These demonstration projects were set up to test various aspects of direct payments. There are a total 6,220 tenants who are having their Housing Benefit paid directly on a monthly in arrears basis. Collection rates for the first four months varied between 88% and 97% with the average being 92%.

- 3.15 An overall 92% collection rate at Derby Homes would mean a £4 million increase in rent arrears in the period October 2013 to October 2014 or an additional £2 million in 2013/14. This would be on top of the expected rise in arrears due to the under occupation charge.
- 3.16 Clearly we must ensure that we effectively manage this risk. Much preparatory work has been done, and our current arrears collection performance is good. We have put in place staffing structures that will help us deal with this. The fact must be faced though that arrears will rise. We have proposed to the Council a target of £1.8 million for 2013/14.

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:

Consultation
Legal and Confidentiality
Environmental
Equalities Impact Assessment
Health & Safety
Risk
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.