Housing association rent income

Rent collection and arrears management by housing associations in England
The Audit Commission is an independent body responsible for ensuring that public money is spent economically, efficiently and effectively, to achieve high-quality local and national services for the public. Our work covers local government, housing, health and criminal justice services.

As an independent watchdog, we provide important information on the quality of public services. As a driving force for improvement in those services, we provide practical recommendations and spread best practice. As an independent auditor, we monitor spending to ensure public services are good value for money.

The Housing Corporation is the Government agency responsible for regulating and funding over 2,000 housing associations in England. It is a leading player in revitalising and building sustainable communities by providing affordable homes where people will want to live now and in the future.

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John Gaughan (1950-2002)

This report is dedicated to the memory of John Gaughan who was the study's project manager until his untimely death on 13 October 2002. In his years at the Audit Commission, John was responsible for many high-quality, influential reports. He is sadly missed by his colleagues.

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Preface

Effective income management is central to the financial health and viability of housing associations. Rent and other arrears represent a real income or cashflow loss, even if associations allow for it in their financial and business planning. Reducing arrears can release resources that could, for example, fund repairs and maintenance or help to meet development costs.

Housing associations’ performance in collecting rent has, on average, been deteriorating. This is despite a long-standing consensus about, and widespread availability of, good practice. Evidence also shows that associations are paying increasing attention to arrears and are now more willing to take legal action. It is not the purpose of this report to replicate previous good practice advice. Instead, it identifies the importance and impact on associations of collecting rent, explores differences in performance between associations, identifies any barriers to adopting good practice and identifies any previously unrecognised good practice.

The study is based on fieldwork carried out at 12 associations (including interviews and discussion groups with staff, tenants and other stakeholders); a review of key information sources, including other Audit Commission reports about housing benefit (HB), stock transfer and the experience of local authorities and housing associations in Wales in managing rent arrears (Refs. 1-5); other published reports and articles; and analyses of trend and performance data. This report is one of a series published by the Commission looking at rent collection by local authorities and housing associations. A parallel study looking at rent collection by local authorities in England and Wales, and drawing largely on findings from the Commission’s auditors and inspectors, will be published shortly (Ref. 6). Where direct comparisons can be made to this companion report these are highlighted by the following symbol . The Commission is also producing supplementary information that will be available on our website at www.audit-commission.gov.uk. We have used the following symbol to indicate where further information is available on our website.

This study was carried out under S. 55 and Schedule 3 of the Housing Act 1996, and S. 40 of the Audit Commission Act 1998. Under this legislation, the Housing Corporation and the Audit Commission may agree programmes of comparative studies that are designed to allow the Commission to make recommendations for improving the economy, efficiency and effectiveness of housing associations. Considerations of economy, efficiency and effectiveness are clearly key to maximising rent collection performance. However, a simple focus on economy could be counter productive, as cost savings in relation to rent collection and arrears recovery are not necessarily the most important issue. Instead the focus is on efficiency and effectiveness; efficiency because this has the biggest impact for the tenant as the ‘user’ of the housing service, and effectiveness because of housing associations’ primary focus on providing social housing.
The study team consisted of the late John Gaughan and Rita Patel with assistance from Katie Smith and Tara Garde. Consultancy support was provided by Angie Smith, and the team received overall direction from Greg Birdseye of the Commission’s Public Services Research Directorate. The Commission is grateful to those who have contributed to the study and report and, in particular, to the housing associations that participated in the study and to the external Advisory Group for its helpful suggestions and comments (Appendix A, page 62). However, responsibility for the report’s conclusions rests with the Commission alone.
Context

Rents are the prime source of income for housing associations. Rent collection performance has been declining recently. Socio-economic factors, housing association arrears management practices and problems with housing benefit administration have all contributed to this decline in performance.
Introduction

1. This chapter looks at the historical context of housing association rent collection performance and rent arrears levels. It also explores the environment in which associations operate. It covers:
   - why rental income is important;
   - rent collection performance over time;
   - levels of rent arrears over time;
   - comparison between the housing association and local authority sectors; and
   - the factors that affect performance.

Why is rental income important?

2. For housing associations the main sources of revenue funding, that is, income that is required to meet the day-to-day running costs of the business, are rental income and service charges from tenants and revenue grants. Some associations also receive financial support from associated charities and from private donations and bequests. Associations that are registered with the Housing Corporation are also eligible for government subsidies (Ref. 7). Capital is sourced separately through loans from private lenders, grants from central government, accumulated reserves and capital income from the sale of assets.

3. In 2001/02, housing associations had a rent roll of £4.4 billion and an additional £0.5 billion in service charges. This report concentrates on the collection of rental income, as this was by far the largest category of income collected by associations: gross rental income (rents and service charges) was on average 93.4 per cent of total revenue funding from social housing activities (Exhibit 1, overleaf).

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I. Rent roll is the total amount of potential rent (including service charges eligible for HB) collectable for the financial year for all stock owned by the housing association, whether occupied or vacant for whatever reason.

II. Housing Corporation, 2002 Global Accounts data. Based on data from 489 housing associations.

III. The terms ‘rents’ and ‘rental income’ are used interchangeably in the rest of the report and include service and other charges.
Exhibit 1
Breakdown of revenue funding for housing associations (2001/02)

Rents and service charges represent 93.4 per cent of total revenue funding.

- Rents (83.4%)
- Service charges (10.0%)
- Grants from local authorities and others (4.2%)
- Revenue grants from Housing Corporation (2.1%)
- Major repairs grants (0.3%)

Source: Housing Corporation, 2002 Global Accounts data

Rent collection performance over time

4 On average, housing associations’ reported performance on rent collection has been deteriorating (Exhibit 2). Between 1996/97 and 1999/2000 the average rent collection rate fell from 98.9 per cent of gross rental income to 97.3 per cent (Ref. 8). Until 1999/2000 the Corporation had minimum standards that associations had to meet: in that year only two-thirds of associations met the Corporation’s minimum standard of collecting at least 97 per cent of gross rental income (Ref. 9).

5 In 2002 the Housing Corporation published The Way Forward: Our Approach to Regulation (Ref. 10): the new framework does not include minimum standards for housing associations. In assessing an association’s financial performance the Corporation looks at trends and comparators rather than promoting formal benchmarks for arrears performance. The Corporation’s Regulatory Code and Guidance states that associations should deliver continuous improvement and apply best value techniques.

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1 All the figures used in this report relate to housing associations included in the Housing Corporation’s PI data set, that is, associations that own more than 250 dwellings (around 17 per cent of the total number of associations owning 95 per cent of all stock).
To reflect this the Corporation introduced a new performance indicator (PI) framework, which has applied from 2000/01 and which is more focused on service delivery to tenants. The new rent collection PI is defined as the rent collected as a percentage of the rent available for collection (gross rent due in the year, plus current tenants’ arrears brought forward from previous years less rent that could not be collected due to vacancies). These changes mean that the Corporation’s PIs for housing association rent collection are now aligned with the equivalent best value PIs that the Government has set for local authorities. This change has facilitated comparison between the two sectors. However, it also means that time series analysis of trends in rent collection is more difficult.

Under the new PI definition, for those housing associations that own more than 250 properties, performance has deteriorated over the last year for which data is available. In 2000/01, associations collected 94.6 per cent of the rent available for collection; in 2001/02 they collected 93.7 per cent. These are of course averages across the sector. Individual housing association performance varies considerably – from 82.0 to 103.5 per cent in 2001/02.

Exhibit 2
Rent collection performance over time
Rent collection performance has been deteriorating over time.

Note: The definition of the rent collected PI changed between 1999/2000 and 2000/01.

Source: Refs. 8, 9, 11 and 12

In 2000/01, 427 housing associations were included in the PI set.

In 2001/02, 489 housing associations were included in the PI set.

Further deterioration in rent collection performance could make it more difficult for some housing associations to maintain current levels of service: reducing services such as repairs and maintenance or extending debt repayment periods. Those most likely to be affected are those associations that have a high debt to asset ratio.
Levels of rent arrears over time

9 Average rent arrears rose from 4.7 per cent to 6.8 per cent of gross rental income from 1996/97 to 1999/2000 (Ref. 9). In 1999/2000 only 36 per cent of associations met the Corporation’s minimum standard – that arrears should be no more than 5 per cent of gross rental income (Ref. 9).

10 The new rent arrears PI is defined as the rent arrears of current tenants as a proportion of the rent roll. While the previous and current PI information for rent collection shows deterioration in performance, there is a small improvement in current rent arrears levels. In 2000/01 rent arrears were 5.8 per cent of the rent roll, improving slightly to 5.5 per cent in 2001/02 (Exhibit 3).

Exhibit 3
Rent arrears levels over time
Rent arrears levels have improved in the last two years.

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Note: The definition of the rent arrears PI changed between 1999/2000 and 2000/01.

Source: Refs. 8, 9, 11 and 12

11 In 2001/02, current housing association tenants owed £231 million. These figures show an increase from the previous year of 10 per cent or £21 million. Some of this may simply be delayed HB payments. However, even if some of the remainder is ultimately received, there is still a revenue impact on the association, which may require additional borrowing to cover it.

All rent outstanding from both current and former tenants, including any arrears carried forward from previous years and before any deductions have been made for bad debts and voids.
12 Housing associations have to balance the cost of the additional effort required to manage arrears against the likely success of this strategy. Different associations will have different levels of success based on the local circumstances that they work within. In fact, due to diminishing returns it would become uneconomic to pursue arrears below a certain level – there will always be a minimum level of arrears that cannot be collected. Nevertheless, not pursuing arrears may send negative messages to those tenants that do pay their rent and means that the housing association has to meet the resulting cashflow losses.

13 Particular problems may arise with the recovery of former tenants’ arrears, and it is difficult to compare these over time, as there is currently no formal requirement to record them. Associations should have a debt management strategy that sets out the actions to take when debt is outstanding. Associations should also make a bad debt provision in their accounts for debt that might not be recovered (because, for example, it is not economically viable to collect it).

14 It is up to the housing association to decide the specific criteria that should be used for writing off debt, for example, how long to chase the debt and at what stage, if any, to refer it to debt collection agencies. Write-off policies vary widely between housing associations, ranging from ‘never writing anything off’ to ‘writing everything off as soon as a tenant leaves’ (Ref. 16). One fieldwork site had not written off any arrears in five years, but was looking to change this policy and was also considering writing off some current tenants’ arrears. These different approaches to write-off criteria means that it is difficult to make comparisons between associations.

15 Writing off bad debts should be seen as a last resort. Rent write-offs have increased from 1.17 per cent of the rent roll in 2000/01 to 1.21 per cent in 2001/02, an increase of £9 million to £52 million. Despite the small increase in write off it is difficult to determine whether this represents a change in performance or simply points to variations in write-off policy among associations. An increase may mean that some associations have started to write-off arrears from previous years through a change in policy and that the arrears problem has not actually worsened. Conversely, some associations have increased the amount of write-off as arrears have increased. In local government the Chartered Institute of Public Finance and Accountancy (CIPFA) provide guidance to help local authorities in implementing write-off policies. Given the increasing convergence of the two sectors, for example through greater stock transfers and a single Housing Inspectorate there would be merit in considering extending this application of the guidance to the housing association sector.
Comparison between housing associations and local authorities

The PI regimes for housing associations and local authorities were aligned in 2000 to facilitate cross-sector comparisons (Ref. 13). For 2001/02, housing association performance was slightly worse than that of local authorities (Table 1), even after an adjustment for HB delays (although direct comparison is complicated by the different HB payment rules applied to the two sectors).  

<table>
<thead>
<tr>
<th>Rent collected as a percentage of rent available for collection</th>
<th>Local authority</th>
<th>Housing association</th>
<th>Housing association (adjusted for four-week rule)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent arrears as a percentage of the rent roll</td>
<td>3.4</td>
<td>6.3</td>
<td>4.5</td>
</tr>
</tbody>
</table>

Source: Refs. 12 and 14

There is always some debate about the validity of PI comparisons between the local authority and housing association sectors. Clearly, simple PI comparisons cannot tell the whole story, but associations can use them as a starting point in assessing how well they are performing. When used along with local information they can help associations to prioritise their policies.

The factors that affect performance

There is already plenty of research into rent collection and rent arrears performance. This has provided a framework for this study. This research suggests that the reasons behind declining performance can be split into three broad areas (each of which is explored in more detail in later chapters, alongside findings from fieldwork visits):

- socio-economic factors;
- housing association practices; and
- factors relating to HB payments.
Socio-economic factors

19 There is a long-standing consensus that most rent arrears are caused by a genuine inability, rather than an unwillingness, to pay. There is some evidence that this inability to pay is increasing, for a number of reasons:

- the number of ‘poor’ tenants is increasing (Ref. 15);
- changing work patterns affect income and eligibility for benefits; tenants who are in low-paid or intermittent work are more vulnerable to falling into arrears (Ref. 15); and
- over the last 30 years it has become easier and more acceptable to borrow and to accumulate debts, leading to difficulties for some tenants.

Housing association practices

20 Reported rent collection performance has deteriorated despite the availability of good practice material, such as that published by the Chartered Institute of Housing, the Housing Corporation and the Audit Commission (Appendix B, page 63). The deterioration is due partly to:

- inadequate attention to preventing arrears;
- not following through on tenants’ obligations – giving the impression that housing associations will not evict; and
- court performance: housing associations report that delays for hearings, repeated suspensions/adjournments and delays for bailiff dates have influenced the level of arrears (Ref. 16).

Factors relating to housing benefit

21 Approximately two-thirds of housing association tenants receive HB, which provides about 60 per cent of an association’s rental income. (Approximately two-thirds of local authority rental income is from HB. 😄) Perceived problems with HB administration have been widely cited as one cause of poor rent collection and rent arrears (Ref. 16). Problems include:

- the payment of HB four weeks in arrears; associations estimate that this is equivalent to 28 per cent of all their arrears;
- the delays on the part of some local authorities (or their contractors) in processing new claims, claim renewals and reports of changes in circumstance;
- in some instances, where HB is paid direct to the association rather than to the tenant (‘HB direct’), tenants do not always regard themselves as responsible for the rent or arrears;
- the increased recovery by local authorities of HB overpayments; and
- ineffective liaison between housing associations and local authorities about, for example, individual claims or the implications of IT upgrades (Ref. 3).
How serious is the problem?

22 Housing associations argue that much of the debt is attributable to the payment of HB in arrears. The majority of housing association tenants who receive HB authorise the local authority to make the payments direct to their landlord. These payments are made four weeks in arrears and therefore affect the cashflow of the association. Technically the rent is late, which distorts the ‘true arrears’ position.

23 Similarly, many tenants pay their rent regularly, by standing order or by Post Office giro, but the payment does not reach the rent account by the due date. This affects both the headline rent collection performance of the housing association and its cashflow, but it also does not represent true arrears. The challenge for associations is to accurately distinguish these late payments or ‘technical arrears’ from missed payments – the true arrears. Because of weaknesses in information systems, the majority of housing associations find it difficult to solve this problem.

24 The impact of these factors can be quite complex. Neighbouring tenants in the same street may have different HB eligibility, use different payment methods and have different payment histories. The examples [Box A] demonstrate the importance of having accurate information about:
   ● tenants’ benefit status, particularly partial benefit cases;
   ● how and when individual tenants make payments; and
   ● the timing and likely outcome of outstanding HB claims.

25 The analysis also illustrates how arrears performance overall can apparently fluctuate (from 10.2 per cent in week 30 to 13.1 per cent in week 33) due solely to the timing of receipts, while ‘true’ arrears remain fairly stable in the region of 3.9 to 4.9 per cent.

26 Nevertheless, even at the relatively low level of the estimated true arrears, some housing associations may be experiencing significant problems (since these are only average figures). Delayed HB payments also impact on cashflow, which causes some associations major concern. This could be alleviated by better information and liaison arrangements with the local authority (or their HB contractor). The rest of this report looks in more detail at why housing association performance in collecting rent is deteriorating and what can be done to arrest the trend: Chapter 2 considers the challenges of paying the rent from the tenant’s point of view, investigating why some tenants pay their rent promptly and some don’t; Chapter 3 focuses on the housing association’s view of collecting the rent, looking at how association strategies and practices are changing; and finally Chapter 4 suggests the way forward for associations.
### Box A

Illustrative example showing the complexity of the system, providing a comparison between true and technical arrears (two sample weeks, four weeks apart)

<table>
<thead>
<tr>
<th>Address</th>
<th>Rent due and payment method</th>
<th>Technical arrears week 29</th>
<th>Payments received week 30</th>
<th>Technical arrears week 30</th>
<th>‘True’ arrears week 30</th>
<th>Payments received weeks 31-33</th>
<th>Technical arrears week 33</th>
<th>‘True’ arrears week 33</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Acacia Rd</td>
<td>£52.50 (HB direct)</td>
<td>£157.50</td>
<td>£210.00</td>
<td>nil</td>
<td>nil</td>
<td>nil</td>
<td>£157.50</td>
<td>nil</td>
</tr>
<tr>
<td>2 Acacia Rd</td>
<td>£64.00 (giro)</td>
<td>nil</td>
<td>£64.00</td>
<td>nil</td>
<td>nil</td>
<td>£192.00 (3 giro payments of £64.00 per week)</td>
<td>nil</td>
<td>nil</td>
</tr>
<tr>
<td>3 Acacia Rd</td>
<td>£52.50 (of which £27.50 is the tenant’s responsibility) (partial HB direct)</td>
<td>£322.50</td>
<td>£100.00</td>
<td>£275.00</td>
<td>£275.00</td>
<td>nil</td>
<td>£432.50</td>
<td>£357.50 (tenant is not paying his contribution of £27.50 per week)</td>
</tr>
<tr>
<td>4 Acacia Rd</td>
<td>£75.00 (standing order)</td>
<td>£225.00</td>
<td>nil</td>
<td>£300.00</td>
<td>nil</td>
<td>£300.00 (standing order received after rent due date)</td>
<td>£225.00</td>
<td>nil</td>
</tr>
<tr>
<td>5 Acacia Rd</td>
<td>£75.00 (to be agreed)</td>
<td>£1,050.00</td>
<td>nil</td>
<td>£1,125.00</td>
<td>£375.00 (guess)*</td>
<td>nil</td>
<td>£1,350.00</td>
<td>£450.00 (guess)</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>£319.00</strong></td>
<td><strong>£1,700.00</strong> (10.2%**)</td>
<td><strong>£850.00</strong> (3.9%)</td>
<td><strong>£2,165.00</strong> (13.1%)</td>
<td><strong>£807.50</strong> (4.9%)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*In the case of 5 Acacia Rd there is an outstanding HB claim. In such cases housing associations can only make an estimate of the true debt owed by the tenant.

**The percentage of arrears is not the same as the Housing Corporation performance indicator.**

Source: Audit Commission drawing on data from fieldwork
Paying the rent

Housing association tenants have lower incomes than average. Many tenants find it difficult to meet the rent and other bills. They also find the housing benefit system difficult to understand.
Introduction

27 This chapter looks at the challenge of paying the rent from the tenant’s point of view. It covers:

- the profile of new and existing tenants;
- why some tenants pay promptly and some don’t, drawing on a number of user scenarios to explore the issues; and
- the tenant’s view of HB.

The profile of new and existing tenants

28 Renters are typically poorer than owner-occupiers and they are less likely to be in stable employment (Ref. 17). People who live in social housing have lower incomes, are more likely to be in receipt of welfare benefits and are more likely to be unemployed than owner-occupiers (Ref. 18).

29 There is a general perception among housing associations that the proportion of ‘poor’ tenants is growing (Ref. 15). Those in low-paid work are seen as particularly vulnerable. The unemployment trap deters some people from taking on a low-paid job as the up-front costs of returning to work, such as transport costs and work clothes, outweigh the loss in benefits. Moreover, there has been a gradual shift in the profile of housing association tenants over the past 15 years towards the most vulnerable members of society (Ref. 19).

30 Many housing association tenants are ‘financially excluded’; for example, they may not have access to bank accounts or hold formal qualifications. In the UK, 8.3 million people are systematically denied access to mainstream financial services from banks, building societies and finance houses. The New Economics Foundation estimates that 80 per cent of financially excluded people live in social housing (Ref. 20). One of the Commission’s fieldwork housing associations calculated that 25 per cent of its tenants do not have access to a bank account.

31 However, some housing associations are trying to tackle this problem and improve the accessibility of financial services for their tenants by, for example, setting up credit unions. London and Quadrant Housing Trust has set up a community finance company. It offers free information and advice, current accounts, savings accounts, savings incentives, insurance and loans (Ref. 21). Also, under new arrangements from the Department for Work and Pensions (DWP) all benefits, pensions and tax credits will be paid into bank and building society accounts or the new Post Office card account by 2005. This introduction of universal banking services will also help to combat financial exclusion, as the main banks and building societies make available their basic bank account facilities at Post Office branches free of charge. With the introduction of such measures, financial exclusion does not have to be an insuperable problem.

I Although these are illustrative they are based on information from fieldwork visits.

II The Post Office card account can only be used for the receipt of benefits, pensions and tax credit payments and for cash withdrawal at local Post Office branches.
As a further step, tax credits have been introduced by the Government to tackle child poverty and low pay (Ref. 22). Although estimates of take-up have been increasing since the tax credits were introduced, approximately 35 per cent of all eligible families with children are still failing to claim (Ref. 23).

The profile of social housing tenants is changing over time. Those households moving out of social housing and into owner-occupation tend to be younger, more likely to be married or cohabiting, and with at least two economically active adults. They have a significantly higher income than those remaining in social housing (Ref. 24).

Additionally, tenants of new housing association lettings have a different demographic and socio-economic profile from existing tenants and from the general population (Table 2). New tenants are likely to be younger, economically inactive, have a female head of household and be lone parent families. The figures show that new tenants are more likely to be in work, on average, than existing tenants, but of those not working, the proportion of new tenants who are unemployed is double that for existing tenants. By contrast, the proportion of retired new tenants is significantly lower than that for existing tenants.

Table 2
Comparison of new and existing tenant profile, and general population

<table>
<thead>
<tr>
<th></th>
<th>New housing association lettings&lt;sup&gt;1&lt;/sup&gt; 2001/02 (% of all new tenants)</th>
<th>Existing tenants survey 1999/2000&lt;sup&gt;2&lt;/sup&gt; (% of all existing tenants)</th>
<th>General population (Census data, 2001 England)</th>
</tr>
</thead>
<tbody>
<tr>
<td>In work</td>
<td>31&lt;sup&gt;3&lt;/sup&gt;</td>
<td>27</td>
<td>61</td>
</tr>
<tr>
<td>Not working, of which:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- unemployed</td>
<td>16</td>
<td>8</td>
<td>3</td>
</tr>
<tr>
<td>- retired</td>
<td>20</td>
<td>33</td>
<td>14</td>
</tr>
<tr>
<td>- full-time education</td>
<td>1</td>
<td>1</td>
<td>7</td>
</tr>
<tr>
<td>- sick</td>
<td>11</td>
<td>11</td>
<td>5</td>
</tr>
<tr>
<td>- looking after the home</td>
<td>21</td>
<td>17</td>
<td>7</td>
</tr>
<tr>
<td>- other</td>
<td>0</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>Families</td>
<td>13</td>
<td>18</td>
<td>36</td>
</tr>
<tr>
<td>Lone parent families</td>
<td>23</td>
<td>17</td>
<td>6</td>
</tr>
<tr>
<td>Total single adult</td>
<td>49</td>
<td>37</td>
<td>30</td>
</tr>
<tr>
<td>Total couples no children</td>
<td>10</td>
<td>17</td>
<td>18</td>
</tr>
<tr>
<td>Other</td>
<td>5</td>
<td>11</td>
<td>10</td>
</tr>
</tbody>
</table>

Source: CORE data 2001/02; Existing Tenants Survey 1999/2000, Census 2001

<sup>1</sup> The Housing Corporation’s COntinuous REcording (CORE) system records information on all new lettings by housing associations that own over 250 dwellings.

<sup>2</sup> Data from the 1999/2000 Housing Corporation Existing Tenants Survey based on 10,226 interviews carried out with randomly selected housing association tenants in 30 local authority areas. Original data does not add up to 100 per cent.
As a consequence of these changes in income and personal circumstances, gradual tenancy turnover means that the overall socio-economic mix of association tenants is likely to shift, over time, to mirror more of the characteristics of newcomers. This may increase the already high proportions of rent income met by HB payments for an individual association and may contribute to the problems of rent collection and arrears. This pattern is not necessarily true for new associations formed by stock transfer, for example, where a local authority has a higher proportion of older tenants. (From December 1988 to March 2002, 574,000 homes were transferred to housing associations (Ref. 25). Although in aggregate the overall national figures may tend to balance out, for some existing associations there could be marked changes, the consequences of which will need to be recognised and planned for.

Why some tenants pay promptly and some don’t

Individual debt is an increasing problem in the UK (Ref. 26) and low-income households, which include the majority of housing association tenants, are the most likely to fall into debt. Rent debt may be one of many debts that they shoulder. Despite this trend, and despite the budgeting difficulties that tenants on low incomes experience, most still manage to pay the rent due (and indeed some pay early).

Others cannot manage to balance their household budgets and miss rent payments occasionally, or often. A minority of tenants wilfully pay little or no rent at all, in some cases because they know that the system enables them to avoid paying the rent for many months before they are finally evicted for non-payment.

But the position of individual tenants is fluid. Many tenants will move back and forth between these categories – prompt payers, late payers and non-payers — as their personal circumstances change. The Lord Chancellor’s Department has used a similar typology: splitting debtors according to whether they ‘can’t pay’ or ‘won’t pay’. The two major factors that determine whether people pay their creditors are their ability to pay and their commitment to doing so (Ref. 27).
## User Scenario 1: Mr and Mrs Green

<table>
<thead>
<tr>
<th>Tenant profile</th>
<th>Rent account</th>
</tr>
</thead>
<tbody>
<tr>
<td>Married couple, both over 75</td>
<td>Current rent £48 per week; 1 week in credit</td>
</tr>
<tr>
<td>Income: £115 per week state pension</td>
<td></td>
</tr>
<tr>
<td>Landlord</td>
<td>Tenancy</td>
</tr>
<tr>
<td>Large Scale Voluntary transfer 1996; 6,000 units</td>
<td>Start date 1970; 1-bedroom ground floor flat unmodernised</td>
</tr>
</tbody>
</table>

Mr and Mrs Green lived in the private rented sector until 1970 when they became council tenants. Mr Green retired ten years ago. They have savings of £2,000 and have never been in debt. Apart from the £200 pa winter fuel allowance, state pension and free TV licence, the Greens do not receive any other state benefits. They have heard of HB but are not sure if they are entitled to claim it. Every Thursday they collect their pension money and use it to pay the following week’s rent at the Post Office.

Their home, built in the 1930s, was transferred to the housing association in 1996. The following year the new landlord offered them a package of improvements including double-glazing, which they declined because they did not wish to pay the resulting increase in rent. They have not seen a representative of the association since. Their son works for a maintenance contractor and he carries out any small repairs for them.

Because their home is draughty they struggle to meet the gas bills in the winter. At such times they cut down on food, but would not consider missing a week’s rent instead. This is partly because they do not understand the legal processes or the housing association’s procedures and believe that eviction would be an immediate consequence. But it is mainly because they regard it as a moral obligation to pay their creditors on time.

### Issues raised in this user scenario
- Importance of age/culture in keeping arrears low.
- Housing associations know little about circumstances of tenants who do pay the rent promptly.
- Long-standing transfer tenants do not receive advice on the benefit implications of stock transfer, in contrast to advice received by new association tenants.
- Perception of landlord policy based on tenants’ out-of-date knowledge.
The prompt payers

One of the characteristics of tenants who pay the rent promptly is that they tend to be in regular, secure employment. Tenants in secure jobs (that is permanent, not contract work) have greater certainty about the level of their income and so can budget more easily.

Older tenants are better payers than younger tenants. There is an attitude among older tenants that the rent should always take priority, and they have a real fear of eviction. In addition, there is a link between attitude to debt and age, with older people being more anxious about owing money (Ref. 28). Long-standing tenants, whatever their age, are better payers than new tenants.

*The ethos has changed: people used to talk about duty, now they talk about rights... Before, tenants would rather have an empty tummy but a roof over their head.*
Housing manager

Many late payments are because of delays in HB payment or the time taken for payments to clear. One housing association, Home Housing Association, has reviewed the processes by which tenants pay in order to identify where the greatest delays occur (Case study 1).

**Case study 1**

*Home Housing Association payment tracking*

As part of a corporate review of key business processes, Home Housing Association is looking at rent collection methods in its north-west region. The review aims to identify what adds value to the customer and what represents ‘waste’ through a ‘check’ with the people who are doing the work and with customers. Home is redesigning the processes to focus on adding value rather than unproductive effort. Changes are made as they are identified.

As part of the review Home has tracked problems with Post Office payments, noting, in particular, how the majority of tenants actually paid the wrong amount. The tracking exercise, which included a series of exit interviews with tenants paying their rent in Post Offices, has enabled Home to prioritise the improvement of rent receipts so that tenants know:

- the precise amount due; and
- that if they pay the rent after the due date, their account will show as being in arrears the following week.

Another element of the review has tracked HB claims. This exercise revealed that tenants who submitted ‘clean’ claim forms (that is, those that were properly completed and included all the appropriate supporting documentation) on average had HB posted to their accounts within 16 days. For those submitting ‘dirty’ claims, the average increased to 83 days.
This information has persuaded Home to shift resources into ‘front-end’ welfare benefit support. This gives new tenants/new claimants every opportunity to get their claim right first time and to prevent arrears accruing while the claim is being processed.

Source: Audit Commission fieldwork

Late and non-payers

Many housing association tenants who struggle to pay the rent have multiple debts. The burden of debt on low-income families has increased in recent years more than for any other group (Exhibit 4). Tenants are more likely to have debts if they are younger and have children. Often, they have to borrow because of a change in circumstance, for example, relationship breakdown, the birth of a baby or the loss of income through job loss or illness. Low-income families often have both rent arrears and utility arrears and they have widespread borrowing from sources other than financial institutions, for example, doorstep credit companies and debt consolidation companies (Ref. 29). Doorstep credit companies send a representative on a weekly basis to collect the amount due. Because of these competing priorities, tenants may see eviction as a less immediate problem than the termination of fuel supplies or the repossession of the TV.

[Tenants are] juggling other debts – whoever is on the doorstep gets the money.

Housing officer

Exhibit 4

Unsecured debt as a percentage of income

The burden of debt on low-income families has increased.

Source: Bank of England
User Scenario 2: The Brown family

Tenant profile
Mr and Mrs Brown both under 30 with two children under 5

Income
Variable

Landlord
London community-based housing association; 500 units

Rent account
Rent £78 per week; current arrears £600

Tenancy
Start date June 1999; 3-bedroom terraced house on small, new-build estate

Mr and Mrs Brown both worked until 2002 when their second child was born. At that point, Mrs Brown gave up her job, reducing their shared income to £250 per week. The couple struggled to pay their bills and asked the housing association if they could be a bit late with the rent for a month or so. Their housing officer (HO) helped them to put in a successful claim for HB. Later, Mr Brown was made redundant but found regular casual work and they managed their part of the rent not met by HB. To fund essential purchases, they borrowed £500 from a finance company. The Annual Percentage Rate (APR) on this loan was 40 per cent. Shortly afterwards Mr Brown asked the finance company for another £300, which he used to pay some rent and buy a new car exhaust. The housing association received the payment at the same time as the HB. The account therefore only showed a small debit so no action was triggered.

The following month, after the finance company agent called for his payment, the Browns had no money left for the rent. Their HO noticed that the monthly payment had not arrived so called on the Browns. Mrs Brown told her about their financial difficulties, although she was not aware of the full extent of the finance company debt. The HO suggested that the Browns seek advice on debt management from a Citizens Advice Bureau (CAB). An agreement was made to pay off the arrears in instalments and the HO wrote setting out the consequences of reneging on the agreement.

Mrs Brown took a part-time job. The extra income enabled them to keep to the repayment agreement but they didn’t know that they needed to tell the HB department about the extra income. At the end of the year, when the local authority became aware of the additional income, an HB overpayment of £300 was debited to the Brown’s account and they were advised that they were no longer entitled to benefit. They again found it difficult to pay the rent. The arrears rose to £500 and the housing association served a Notice Of Seeking Possession (NOSP). The finance company agent then suggested the advantages of only having one debt so they borrowed another £500 and cleared most of the arrears, but with an increased burden of interest and repayments.
This vicious circle continues. Each time Mr Brown has a period of unemployment, the family struggles, and bills take precedence over the rent while there is no immediate threat of eviction. The housing association now has a suspended possession order but will not enforce it while the tenants make strenuous, if erratic, efforts to repay the arrears. The association has many tenants in similar circumstances and has started work to develop a community-based credit union in the area.

**Issues raised in this user scenario**

- Dependence of low-income families on both partners earning.
- Difficulties for low-income families in setting aside contingencies.
- Lack of awareness by claimants of the HB rules.
- Value of face-to-face contact between landlord and tenant.
- Problems for housing associations in distinguishing tenants’ rent and HB payments in partial HB cases.
- Susceptibility of low-income families to easy and expensive credit.
Another characteristic of tenants who struggle to pay the rent is that they are more likely to be employed in intermittent or part-time work. The tenants most vulnerable to accruing arrears are those who are both in intermittent work and also in receipt of benefits. Because their employment status and their income changes so frequently, their entitlement to HB also fluctuates. If the local authority does not receive timely information about claimants’ changing circumstances, benefit payments are stopped or delayed and arrears build up. Those in seasonal work are likely to experience similar problems.

Over the past ten years the number of people in temporary employment has increased by 20 per cent in the UK and the percentage of all workers in part-time employment has increased by 17 per cent, possibly contributing to a decline in rent collection performance. The increases in part-time employment are most noticeable for London (34 per cent) and the south-west (32 per cent). These increases may cause difficulties for the tenant and the housing association due to the complexities of HB administration. In some cases there may be a perverse incentive for tenants to stay on HB rather than seek employment.

Some tenants are poor financial managers with little experience of running a home, for example, younger people who have not had to budget for themselves before. They may buy on credit and then experience difficulties in keeping up repayments. In addition, young people who are leaving care or who are living with support from social services departments may lack the financial management skills needed to maintain a tenancy.

It’s taken us a lifetime to get our budgeting right.

Tenant

Some tenants, in particular pensioners, are unaware of all their benefit entitlements and are failing to maximise these (Ref. 30). One-third of pensioners entitled to council tax benefit and 10 per cent of pensioners entitled to HB do not claim. They perceive the system to be complex and daunting and feel that questions about income and capital are intrusive. They also feel that there is a stigma attached to claiming benefits or have a perception that it is not worth the effort of making a claim.

Of those who have difficulty paying, there is a small core of tenants who have little intention of paying: in particular, younger, single tenants who are unconcerned about losing a tenancy or potential homelessness, as fallback accommodation is readily available from family or friends or from other housing associations in areas of low demand. They are not concerned about debt or the longer-term implications of defaulting on court orders.

There is a culture of non-payment…not too much to lose – they go back to families or girlfriends.

Chief executive

Low demand – tenants less likely to pay as they can go to [the council] and get another property.

Rent arrears controller

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\[Based on data from the Labour Force Survey, 1992-2002. The Labour Force Survey is a continuous survey designed to interview 57,000 households each quarter.\]
In November 2000, Wayne responded to an advertisement placed by the housing association in a local paper. He had recently abandoned an association tenancy in another city, on which he owed over £1,000 rent, but he told the new association that he had been living with his parents. He was allocated a 2-bedroom flat on the basis that his five-year-old son stayed with him every other weekend.

Wayne paid the first week’s rent in advance in cash and produced three wage slips as proof of income. He took in a lodger and charged him £50 per week. Wayne did not pay any more rent and did not respond to the housing association’s standard arrears letters or NOSP served at eight weeks’ arrears.

In response to a neighbour’s complaint about noise nuisance the housing officer (HO) visited without advance notice. Wayne explained that he had had a family bereavement, and had lost his job. The HO helped him fill in an HB claim form that Wayne promised to take to the HB office the following day. As the HB department is known to take a while to process new claims, the HO waited four weeks before seeking confirmation from the HB office that Wayne’s claim had been agreed. However, the person who dealt with Wayne’s area was on sick leave and no one else was able to give a clear response. It was not until two weeks later that the HB department confirmed that they had not received a claim. The association had no response from Wayne to their subsequent letters.

The housing association decided to seek a suspended possession order. The case was listed for three months and Wayne made no further payments so that the arrears had risen to £1,500. Wayne appeared and told the court of recent events. He produced a receipt for an HB claim made that week. The judge adjourned the case for a month pending a decision on the HB claim.
At the second hearing four weeks later, the housing association produced confirmation that Wayne was not eligible for HB and asked for outright possession. Wayne pleaded for another chance. The judge awarded a suspended order. For the next four weeks, payments of £50 were made to Wayne’s account. As this was not enough to meet even the current rent, the association applied for an eviction warrant. At this point, Wayne’s lodger attended court and explained that Wayne had left and claimed that Wayne had passed on the tenancy to him. The lodger didn’t realise the rent was more than £50. He and his pregnant girlfriend had nowhere else to live. The judge adjourned for another four weeks, directing the association to liaise with the local authority about housing options for the couple.

At the next hearing, before a different judge, the housing association stated that the flat was needed for another homeless applicant. The warrant was issued but not enforced for six weeks due to a backlog. At the eviction, it was clear that the flat had been abandoned and the doors, cupboards and fittings removed. As the debt outstanding was over £3,000, the association instructed its debt collection agents to trace Wayne. They have not yet found him.

Issues raised in this user scenario
- Playing the system and getting away with it – easier if no family.
- Relaxed lettings procedures in low-demand areas, particularly checks of new tenants (although this is not just a low-demand phenomenon).
- Claims and court processes add months to the debt.
- Dilemma for housing association of taking action against tenants during HB claim.
- Need for closer liaison with the local authority about HB and accommodation for homeless people.
A minority of tenants ‘play’ the system, knowing when the housing association is likely to take action and so postponing payments until this time. They then clear the arrears that they have built up with a lump sum payment. These tenants know that the rent has to be paid but they are using the rent money initially on other priorities (Ref. 15). These tenants may prolong the eviction process by making occasional payments only, or entering into repayment agreements that they do not intend to keep.

A small minority of tenants make the system work to their advantage. [They] don’t provide the information, as they know they won’t get benefits.

Chief executive

A small minority of tenants sometimes withhold the rent on principle, for example, if they believe they have received poor service from the landlord, are unhappy with the home they have been allocated, or with the level of the rent. This can result in long-running disputes and historic debts even when agreements are reached on, for example, partial rebates for genuine poor service.

The tenant’s view of HB

There is a perception among tenants and housing associations that HB is often the main cause of rent arrears. For those tenants where the HB is paid direct to the landlord, the tenant may not feel responsible for the rent. Often the tenant believes that the association and the HB administration department should be able to sort out any queries between themselves. This can lead to a breakdown in what should be an ongoing, constructive three-way relationship (Exhibit 5).
Exhibit 5
The tenant’s view of HB
There is a perception among tenants that HB is the main cause of rent arrears.

“I’ve filled in the HB forms – why don’t they talk to the HB admin department?”

“At least that’s one of my bills sorted out”

“It’s up to the housing officer to sort it out – I just don’t understand it”

“The rent’s nothing to do with me – the council pays it”

Source: Audit Commission

The HB system undoubtedly causes problems for some tenants. The claims process itself (new claims, renewals and change of circumstances) is difficult for some claimants to understand (Exhibit 6, overleaf).
The complexities of the HB system

The HB system is difficult for some claimants to understand. Tenants now have to provide original certificates and evidence of their financial affairs. For most tenants this will be an inconvenience, but for vulnerable tenants it may be difficult. Providing the relevant documents for the Verification Framework has been a cause of concern for older tenants and is perceived as onerous. Some older tenants may be confused about having to prove their identity when they have been resident in a property for a number of years. In a move to address these concerns, from April 2003 the DWP has simplified the HB arrangements for pensioners. Instead of renewing their claims every year they have to renew only every five years. In addition, returning to employment is treated as a change of circumstance, simplifying the current procedure.

The Verification Framework was introduced in 1998. It sets out the minimum standards of evidence and checks required for the administration of HB.

My 74 year old father-in-law, who has been living in his property for 37 years (first with the council and then with the transfer housing association), was recently asked to provide two proofs of identification – he doesn’t understand why.

Tenant
53 ‘Non-dependant deductions’ can also cause difficulties for tenants. This occurs particularly where children reach the threshold age (18) for non-dependant deductions. A tenant may not be able to establish how much a non-dependant is earning or to supply the local authority with updated information each time the non-dependant’s income or employment alters. The local authority may claim back any overpayments from the tenant directly.

54 As HB is paid four weeks in arrears for the majority of housing association tenants, their rent statements show that their accounts are in arrears. This causes concern, particularly for older people and other vulnerable tenants. Several housing associations stagger rent statements because of the volume of queries that they generate. Tenants prefer to receive regular and frequent – at least quarterly – statements. Tenants are also confused by apparent ‘shortfalls’ in HB: some charges, such as water rates and service charges, are not eligible for HB. As it takes several weeks to process HB claims, the shortfalls can accumulate to significant amounts before the tenant receives confirmation of which elements of the charge (s)he must finance from other sources.

55 This chapter on ‘Paying the rent’ is clearly the starting point, as it directly relates to the user experience. But the tenant’s experience must be taken in the context of individual housing association’s policies and practices in collecting the rent. These are the subject of the next chapter.

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1 If the tenant has an adult friend or relative living with them, these ‘non-dependants’ will be expected to contribute to the rent. The tenant has to inform the local authority of the non-dependant’s employment status and income so that the tenant’s HB can be reduced accordingly.
Collecting the rent

Rent collection performance varies widely between associations. Associations adopt different strategies and practices as a result of their local circumstances. Associations believe that the housing benefit system is a major obstacle to improved performance.
Introduction

This chapter is concerned with rent collection from the perspective of the housing association. It explores how and why approaches to rent collection and the control of rent arrears vary between associations. In particular it covers:

- differences in rent collection performance;
- different strategies used by housing associations;
- changing practices used by associations; and
- the association’s view of the HB system.

Differences in rent collection performance

A range of factors affect the rent collection performance of individual associations. Because of the complicated nature of these factors and the interaction between them, it is not possible to explain all of the variation in performance. However, it is useful to illustrate some of these variations, such as regional differences and differences between associations formed through the Large Scale Voluntary Transfer (LSVT) programme and other associations.

Regional differences

Housing association performance varies by size, with rent collection rates for smaller associations overall a little below that of larger associations. Among smaller associations, overall performance in the London area is well below average, while performance in the south is above average (Exhibit 7, overleaf). The average rent collection rates varied between 82.0 and 103.5 per cent. As with housing associations, reported local authority collection levels and arrears levels are, on average, worse in London than elsewhere.

In addition to rent collection performance, there are also regional variations in average rent arrears, estimated rent arrears due to the four-week HB rule and rent written off. Among smaller associations, London has the worst average figures for arrears.

The Housing Corporation PI set categorises associations initially according to the number of dwellings that they own; those with more than 5,000 dwellings are included in the ‘large’ group. Those housing associations that own more than 250 but less than 5,000 dwellings are further split according to the region where their head office is located (not necessarily where the majority of the stock is located). The regions are Central, London, North and South. Associations that have more than 90 per cent of their stock being sheltered housing, unregistered or residential care homes, or for asylum seekers or other supported housing purposes are categorised as Specialist – these have been excluded from this analysis.
Rent collection performance varies across the regional peer groups. Differences between LSVT and non-LSVT housing associations

There are marked differences in collection between associations formed through the LSVT programme and traditional associations. Although the performance of the best traditional associations matches that of associations formed through the LSVT programme, in general, traditional housing associations have worse rent collection performance (Exhibit 8).

There are several reasons for these variations. Housing associations that were formed through the LSVT programme have the majority of their properties in one local authority area. This reduces the burden of HB administration, as the association has an established relationship with the HB department and only deals with one set of forms. In addition, the majority of early stock transfer associations were located in the south, and were mainly shire districts. Collection rates tend to be higher in the south for smaller associations than for the other peer group regions.
Other factors affecting performance

62 The preceding section demonstrates that a range of underlying factors affect the rent collection performance of housing associations. Understanding these factors will help associations to target resources effectively. For example, there is a statistically significant relationship between the rent collection rate and the number of properties owned by an association: the larger the stock then the higher the collection rate. But not all of the variation in rent collection performance can be explained by this one factor. There is also a statistically significant relationship between the rent collection rate and the level of rent: the higher the rent levels the lower the collection rate. But again, not all of the variation in rent collection rates can be explained by rent levels.

Additional analysis available on the Commission website helps to throw light on these factors.

63 Individual housing association performance varies considerably, which suggests that for some there may be potential for improvement. These variations also show that many factors affect an individual association’s performance. Many associations benchmark with similar associations to themselves (in terms of, for example, location, size and tenant profile) in order to compare performance, as it is more difficult to compare to national average figures.

Different strategies

64 Benchmarking is an important first step to understanding the factors that affect rent arrears. It also helps associations to exchange good practice on what works in different circumstances. In the context of these variations this section looks at the different strategies that housing associations adopt to improve rent collection performance. It covers:

- approaches to enforcement;
- balancing housing association responsibilities with ‘running a business’;
- leadership/strategic direction;
- tenant responsibilities; and
- dealing with former tenants’ arrears.

Approaches to enforcement

65 There is some evidence that housing associations have been paying more attention to arrears in recent years. As more of their capital is borrowed from institutions than is provided by grant funding, there is a greater need to demonstrate viability and effective cashflow, and associations are tending to tighten their procedures. There has also been a corresponding shift in local authorities. There is also some evidence that rent collection and arrears procedures are tightened following a stock transfer, as rental income becomes more critical for cashflow than it was for the council. Although collection rates may slip before transfer because of a focus on preparing for transfer and winning a ballot, managers of the new associations are able to refocus on the arrears position once the transfer has gone through.
Evictions

The Housing Corporation Regulatory Code (Ref. 10) expects housing associations to pursue evictions only as a last resort. Over the past eight years the number of notices seeking possession, suspended orders and outright orders granted to social landlords has increased, although with some levelling out more recently. A landlord can make an application to the courts for a warrant for eviction following an outright order for possession or breaching of the terms of a suspended order. A stay of warrant can be applied for by the tenant to delay enforcement. Eviction occurs if no stay of warrant is applied for or made. Actions entered have increased by 81 per cent, suspended orders have increased by 39 per cent and outright orders made by 70 per cent (Exhibit 9).1

Exhibit 9
Possession actions by social landlords in England and Wales
Possession action increased between 1995 and 2002.

![Graph showing possession actions by social landlords in England and Wales from 1995 to 2002.]

Source: Lord Chancellor’s Department

67 The number of evictions by English housing associations increased between 1998 and 2000 by 36 per cent to 6,800 (Ref. 31). This is equivalent to 5.8 evictions per 1,000 dwellings per year. These figures are based on Housing Corporation CORE data, using the reason for termination of the previous tenancy as a proxy for the number of evictions. This shift occurred as the size of the sector increased, for example, because of LSVTs. However, even if this figure is adjusted to take account of LSVTs, association eviction rates still rose by 14 per cent in the period. Increases were greatest in the north and lowest in London. The highest rate of eviction is by associations in the East Midlands. (This data is for all evictions and not just those resulting from rent arrears. Abandonments, which may also result from rent arrears, are also not included.)
Ground 8

Ground 8 of the Housing Act 1988 (amended by Section 101 of the Housing Act 1996) is the mandatory ground that grants outright possession to housing associations, without court discretion, when the tenant is eight weeks in arrears at the time of the proceedings. The use of Ground 8 is available to associations as one of the remedies that the law allows for assured tenancies. Although the Chartered Institute of Housing’s most recent guidance on recovering housing debt states that ‘there is growing evidence that housing associations and trusts are relying on Ground 8’ (Ref. 32), only 4 out of 12 fieldwork sites were using it. A survey by Roof magazine found that only 3 out of 15 large associations reported using Ground 8 in 2000/01. The 13 evictions granted through Ground 8 represented around 2 per cent of the evictions for rent arrears by the associations that responded to the survey; and 12 of these were by a single association (Ref. 33).

We would never dream of using Ground 8.

Housing officer

The Law Commission recently consulted on a change to the types of tenancy agreements currently used by social landlords. The proposed changes would mean that instead of secure and assured tenancies there would be a single ‘Type 1’ agreement for all social landlords, bringing them closer to current council tenancies. Under this proposal, housing associations would no longer be able to use the mandatory Ground 8 and instead eviction would be at the discretion of the courts. A final report on the consultation and draft bill is expected in the summer of 2003.

Balancing housing association responsibilities with running a business

Housing associations must inevitably strike a balance between supporting tenants and protecting their income stream. Some associations are very concerned about the impact of uncollected income on their activities. Evictions can be seen as a failure by the association and their local authority partners to provide the support needed to sustain a tenancy. They can also lead to the ‘revolving door’ syndrome for some, especially vulnerable single people, such as care leavers or those with alcohol or mental health problems.

When tenants are evicted because they fall into arrears they may forfeit their rights to assistance under the homelessness legislation if they are judged to be ‘intentionally homeless’. Councils’ statutory duties are to provide permanent housing only for those who are unintentionally homeless and in priority need (Ref. 34), (although when families are ‘intentionally’ homeless there will often be local authority responsibilities under the Children Act 1989). The responsibility for housing the tenant is simply passed from the housing association to the local authority that has responsibility for homelessness, which in LSVT authorities might then require negotiation between the two. Evicted families may have to go to the private sector, where they would get a short lease, leaving them homeless again when this expires – although this time not

Tenancy crisis can lead to homelessness, and a lack of ongoing support after being rehoused means that these tenants fail to establish a firm foothold in the community.
‘intentionally’ homeless. They may then expect to receive help from the local authority, which may nominate them to an association. This may cause difficulties if associations have policies of not rehousing anyone with a history of arrears locally.

Some associations operate in areas of high demand, where it is easier for them to let properties. By contrast, those associations that operate in low-demand areas are sometimes reluctant to evict rent defaulters, because of the management and security implications if a new tenant cannot subsequently be found for the property. Associations must find the balance that is in their best ‘business’ interests, while still reinforcing the message to all tenants that paying the rent is important.

Leadership/strategic direction

At fieldwork sites the arrears service was often regarded as low priority. Increasing attention was often paid to the service only when the arrears position had been deteriorating over time. This was often coupled with increased monitoring by the Board of the arrears position and a review of the delivery of the service, sometimes leading to more resources, as the service became a higher priority. But the service should be a higher priority, not just when things go badly wrong.

Tenant responsibility

Some housing associations are placing an increased emphasis on tenant obligations, even where HB may be involved. They believe that tenants should take full responsibility for paying the rent and that HB payments direct to the landlord should cease, thus passing the onus to the tenant to resolve any problems. The DWP is piloting a flat-rate standard housing allowance for tenants (paid to the tenants themselves) in the private sector. There is a gradual shift of policy towards payments to tenants, and the DWP will also in principle, look to extend standard allowances to the social rented housing sector. There is a risk to the landlord from this process if the tenant does not then use the HB to pay the rent; although one of the safeguards of the system is that the first payment is paid to the landlord, informing the landlord that the claim has been processed (Ref. 35).

Dealing with former tenants’ arrears

Former tenants’ arrears are particularly difficult to collect, because of the challenge and cost of tracing the former tenant, and because the ultimate sanction of repossession no longer applies. Eviction converts current tenants’ arrears into former tenants’ arrears. Abandonments, of which there were 10.4 per 1,000 housing association dwellings in 2000, can have the same effect (Ref. 36).
Former tenants’ arrears recovery is often outsourced, which can allow the association to spend more time on other aspects of the service. Outsourcing the recovery of the arrears sends the message to former tenants that the debt has not been abandoned: a policy is still in place and the association is still chasing the arrears. Although the cost of the outsourced contract has to be met from the recovered rent, the association still benefits from a proportion. Of the 12 fieldwork sites, 7 outsourced the collection of former tenants’ arrears to an external debt collection agency and 3 used a tracing agency.

Changing practice

In carrying out the fieldwork and analysis for this report, the Commission explored a range of factors and influences that are relevant to tackling arrears. As discussed above, housing associations have varying approaches and attitudes as to how to collect rent. These are determined by regional and other differences between associations and by the varying organisational attitudes towards issues such as enforcement. But the way that associations approach operational or procedural issues is also important. Relating to evidence from fieldwork visits, this section explores:

- how consistently housing associations are following good practice advice on rent collection and debt recovery;
- new structures and procedures;
- housing staff recruitment and retention;
- payment options;
- use of the courts; and
- performance management.

How consistently are housing associations following good practice advice on rent collection and debt recovery?

There is a wealth of good practice guides and information on rent collection and debt recovery (Appendix B, page 63). However, while all the fieldwork sites incorporated elements of good practice in their procedures, most had difficulty in putting them into effect. This section reports the findings from those fieldwork visits.
Early intervention and early contact with tenants, based on the accurate recognition of arrears, is key to successful arrears management (Case study 2). However, some housing associations with limited resources were not prioritising appropriately: typically, they were targeting high-value cases at the expense of early action on new cases. This can lead to arrears building to such a level that it will be practically impossible for the tenant to repay them. Where tenants were in receipt of partial HB, there were particular problems. If HB ceases and the tenant does not pay the rent, the association may not identify this until the tenant is six weeks in arrears, even assuming that no delay occurs in HB notification. Difficulties in early identification can result from the interplay of rent, benefit and IT systems.

Case study 2
Tenant survey of rent collection at Solon South West Housing Association

Solon South West Housing Association has carried out a survey to gauge tenants’ views on the association’s approach to rent collection. Solon employed Questline/Quest Trust to undertake two teleconferences – one with a sample of tenants who paid regularly and one with people who had been taken to court for arrears.

The survey covered:
- preferred payment method;
- preferred contact and communication methods;
- rent statements;
- arrears procedures, including the timing and wording of letters;
- HB arrears; and
- transfer restrictions for tenants in arrears.

Solon has used the information from the survey to adapt and improve its procedures. For example, housing officers now review their arrears caseloads on a fortnightly cycle, starting at the top of the list one week (the highest cases) and the bottom of the list (tenants owing one week) the next. This is helping to strike a balance between tackling serious arrears cases and early intervention to prevent arrears building up and to give tenants prompt notification of the problem.

Solon intends to repeat the survey annually.

Source: Audit Commission fieldwork
Prevention is better than cure. The housing officers at Westway Housing Association know their tenants personally and call them (either face-to-face or telephone contact) as soon as a payment is missed. This allows them to monitor arrears more effectively.

Other elements of good practice were being followed more consistently. These cover the spectrum from having clear internal procedures in place and providing advice to tenants, to knowing when to resort to legal action (see section on use of the courts, below). For example, it is recognised as good practice both to encourage tenants to claim HB and then to support them through the claim and claim renewal processes. Fieldwork associations tended to perform well in this area, helping tenants to complete the forms and, if their systems held renewal dates, reminding tenants at the renewal stage. Some associations also used software to calculate the tenant’s likely HB entitlement to help them to budget for any element of the rent payment for which they might be responsible. However, not all associations provide this service. Some are concerned that the calculation they provide may be incorrect if they are not aware of all the tenant’s circumstances.

Similarly, some associations provide in-house advice on money and debt management. However, there is a potential conflict of interest here as the housing association is also a creditor of that tenant. To avoid this conflict and to ensure access to specialists, the majority of fieldwork associations refer tenants to independent debt management agencies and Citizens Advice Bureaux (CAB). One helps to fund an external debt management agency to which it then refers tenants.

It is also important to provide tenants with clear information about their responsibility to pay the rent and to explain how the housing association will deal with arrears. This is critical both when letting the property and if arrears arise. Many fieldwork associations provide information for their tenants at sign-up which outline their duties, in the most appropriate medium. Some associations, for example Home Housing Association, have their leaflets endorsed by Crystalmark (The Plain English Campaign) or have their letters approved through the local CAB.

Not all the fieldwork housing associations implemented all these approaches. In short, while awareness of good practice may be high, in reality the associations were encountering significant difficulties in delivering it.
New structures and procedures

Historically, almost all rent arrears recovery work in housing associations has been undertaken by generic, rather than specialist, housing officers (Ref. 37). In some cases, housing officers were supported by a welfare rights adviser or a debt counsellor. However, since the late 1990s there has been a move towards specialist income recovery teams, although the majority of associations still have a generic structure in place (Ref. 16). A survey by HACAS Chapman Hendy found that one-third of associations that have adopted a specialist approach report a steady decrease in arrears (Ref. 38).

This trend towards specialist structures has continued, with four of the fieldwork sites having a specialist arrears structure in place and eight having a generic structure. The majority of sites that still had a generic structure in place were smaller associations, where the housing officers were responsible for all aspects of housing management. The larger associations tended to be moving towards a more centralised structure. Many of the fieldwork sites had reviewed, or were about to, review their structures. Fieldwork site associations had not yet fully evaluated the impact of a change in structure.

Different structures suit different local circumstances such as the size of an association and local recruitment issues. It is this analysis of the situation and a focus on the solution that means associations should develop locally adopted structures. Increasing the focus on rent arrears management rather than solely on the team structure is essential to making improvements.

There was some evidence that not all housing officers in the fieldwork site associations wanted to specialise. One fieldwork association had difficulty in recruiting specialist staff in one local office. Housing officers were particularly worried about career progression if they became specialists. This is part of general recruitment and retention issues that are discussed below.

Housing staff recruitment and retention

Recruitment and retention of skilled staff is key to improving performance. Several of the fieldwork sites reported that recruitment and retention was a problem area. Some associations were recruiting specialist income recovery officers from the private sector credit control market, because of the difficulty of attracting people from a housing management background. The recruitment problem was not limited to any single geographical area and in some places it was coupled with a high turnover of skilled staff. Some associations also reported that vacancies were taking a long time to fill. These problems mirror the experiences of the public sector in general, which were highlighted in the Commission’s report, Recruitment and Retention (Ref. 39). The report found that, while the remedy for problems of overall supply and demand in the public sector workforce is inevitably long term, local bodies can take action to help alleviate the situation. It highlighted organisations that had successfully addressed such problems through innovative approaches to recruitment, ensuring that steps are taken to encourage workers to stay and making the most of the skills and capacity of existing staff.
Payment options

Widening the range of payment options means that the tenant is given every opportunity to pay. Several fieldwork associations had undertaken a review of the payment options on offer, looking at tenants’ preferences, cost, safety or security issues and effectiveness. They found that tenants thought that paying at the local office was convenient, as they could, for example, also report any repairs at the same time. Tenants also liked to pay at the Post Office, as they could pay other bills at the same time. At some associations, direct debit was not an option for payment, although standing orders were offered. For the latter option, however, if the payment needs to be altered – for example, following rent increases – a new standing order form has to be completed. If the tenant does not take responsibility for this then arrears accrue. Variable direct debits allow the amounts to be changed by the association (with prior notice given to the tenant). The fieldwork sites used a variety of payment options (Table 3). Although none used door-to-door collection this method is still used by some associations.

Table 3
Current range of payment options used by fieldwork sites

<table>
<thead>
<tr>
<th>Fieldwork site</th>
<th>Cash or cheque at the housing office or bank</th>
<th>Post Office</th>
<th>Standing order</th>
<th>Direct debit</th>
<th>Credit card (Allpay or Paypoint)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td>✓</td>
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<tr>
<td>2</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>3</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>4</td>
<td></td>
<td>✓</td>
<td></td>
<td>✓</td>
<td></td>
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<tr>
<td>5</td>
<td></td>
<td>✓</td>
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<tr>
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<tr>
<td>8</td>
<td></td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>9</td>
<td></td>
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<td>12</td>
<td></td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Audit Commission
Use of the courts

91 Many associations regard court policy and practice as a significant barrier to improving arrears performance. Some reported long delays between starting action and the court hearing take place, for example, one fieldwork site reported between 8 and 12 weeks. The performance standards for courts are a maximum of eight weeks between a claim being issued and the hearing taking place. Associations also reported that the outcome of a case often depended on the judge, and that judgements were not consistent between judges at the same court or between courts. One fieldwork association reported that a warrant was suspended on six separate occasions, by a number of different judges, despite the tenant never having made any payments.

92 Some housing associations attend court user groups (used to facilitate liaison and co-operation between the courts and their users). The Court Service would welcome greater participation in these forums.

93 Housing associations also report an unwillingness by courts to make orders if there are delays processing a HB claim made by the tenant. Some associations have adopted a policy of taking tenants to court where there is an outstanding HB claim in order to expedite the claim. However, courts have criticised this approach and are increasingly reluctant to grant possession. The practice also causes unnecessary anxiety, embarrassment and expense for tenants (Ref. 5). Nonetheless, where the tenant is only eligible for partial HB, the association has to ensure that the rent the tenant is responsible for is being paid and that arrears are not building up. Similarly, where the outcome of an HB claim is not known, the association needs to follow procedures, otherwise there is a risk that if the claim fails, the tenant will have a high level of arrears accrued.

94 There is evidence that eviction is more likely if the tenant does not attend court or is unrepresented. In courts where tenants have access to a duty solicitor, the courts are more likely to rule in favour of that tenant (Ref. 36). Fieldwork sites also report that courts are more sympathetic to tenants where there is an outstanding HB claim. Judges tend to give tenants the benefit of the doubt if they mention HB.

Debt recovery officer

Performance management

Target setting and monitoring

95 Housing associations that are seeking to improve standards must have realistic targets in place that don’t provide perverse incentives for housing officers to take inappropriate recovery action. At a small number of fieldwork sites only senior managers were aware of the targets that were monitored by the board. Housing officers were not aware of, or did not have, any personal targets. At other sites, the top-level association targets were cascaded down to the housing officers, ensuring that everyone knew what was expected of them and how this affected the association as a whole (Case study 3). Differential targets are appropriate for different areas, or
types of patch, for example a single estate. In several sites, targets were based on the size of the patch, the tenant profile and the location of that patch, with managers recognising that some patches require more housing officer time to follow up on arrears.

**Case study 3**  
**Metropolitan Housing Trust**

Metropolitan Housing Trust is divided into three distinct regions operating in South London, North London and the East Midlands. Metropolitan Housing Trust’s rent collection performance had declined in recent years. A generic team structure was in place, but housing officers found that the workload was unsustainable and officers were failing to achieve a significant reduction in arrears. A Housing Services Review was therefore carried out.

One of the key aims of the review was to maximise income. In order to do this a review was undertaken of the arrears recovery processes. A process mapping exercise was conducted by region: comparing the amount of time spent on a case, and the cost of that case, against the level of arrears. This exercise showed that the most expensive processes, that is the ones that involved the most contact with the tenant, resulted in the lowest level of arrears.

Two-thirds of Metropolitan Housing Trust’s tenants are on full or partial HB. The association analysed local factors that may affect arrears, for example, exploring the relationships between HB speed of processing, deprivation and the level of arrears. Local authority HB processing times (slower processing is linked to higher arrears) can explain some of the variation in arrears between areas. As a large proportion of their income is from HB, and local authority HB performance affects arrears, the association decided to prioritise improving HB liaison.

In response to these findings Metropolitan Housing Trust’s housing services structure changed to include specialist Income Teams. New association-wide targets were introduced. The main arrears target was a 2 percentage point reduction in current tenant arrears (as a percentage of the rent roll) over two years (informed by analysing trend data). This target was then translated into regional, team and individual targets allowing for the local differences between the three regions.

The Income Teams were also given a new performance framework to work to, stressing such targets as increased use of personal contact for tenants in arrears and improved HB liaison. In the first year of the new structure arrears performance has improved from 8.2 per cent at March 2002 to 6.6 per cent in March 2003.

*Source: Audit Commission fieldwork*

**IT/IS**

Many housing associations struggle to estimate the ‘true’ level of arrears based on the reports produced by their IT systems. Often, more than one report has to be compared, or the true level of arrears is only clear at certain times. This hampers effective and timely remedial action. Particular problems can occur when IT systems are changed: staff at all levels should be consulted in order to smooth the transition (Case study 4, overleaf).
Case study 4
Muir Housing Association

Muir Housing Association’s rent arrears had been increasing, so a best value review of the rents service was undertaken. Following this review a service improvement plan was put in place, which included implementing a new IT system and restructuring the teams responsible for income collection.

The association changed from a generic to a specialist structure, introducing a Legal Services Team (LST). The LST was involved from the outset in specifying what the new IT system should do and what management information reports it should produce. There was ongoing liaison between IT and the LST while the IT system and reports were being developed. The new IT system was reviewed six months after it had gone ‘live’. This review resulted in one major and a few minor changes.

An essential element of this reporting function was the capacity to differentiate between tenant and HB debt. Individual cases were flagged according to certain criteria; the reports produced were of the cases that required action.

The system now provides weekly reports on tenants who have not paid what is expected: for full HB cases checking the amount of HB against rent outstanding and for partial HB cases checking payment of the residual amount. A similar system operates for those tenants where a repayment agreement or suspended possession order is in place. These reports summarise key information and preclude the necessity to investigate individual accounts in order to determine action.

Source: Audit Commission fieldwork

Consistency in calculating the PIs

Not all housing associations were calculating their PI data in a consistent manner. Some adopted rent-free weeks at the end of the financial year, with the effect that the reported arrears position was improved: no debit exists for the week but payments are still received from, for example, the local authority. One association used a ten-day working week at the end of the financial year, again with the effect that payments are credited for the previous year and hence the reported position is improved.

The housing association’s view of HB

At strategic and operational levels, housing associations see the framework and implementation of the HB system as the biggest obstacle to improving performance (Exhibit 10). Problems with the administration of HB have been widely suggested as one cause of poor rent collection and of rent arrears. Associations estimate that between one-quarter and one-third of arrears were due to the payment of HB four weeks in arrears (Exhibit 11, overleaf). At least some of these difficulties would be overcome if housing association tenants were put on the same footing as local authority tenants, and paid weekly in advance (Ref. 4).
Exhibit 10
The housing association’s view of HB
There is a perception among associations that HB is the biggest obstacle to improving rent arrears.

“Tenants can play us and the council off against each other”

“It may be late, but most of our income is guaranteed”

“It’s difficult to work out the true arrears position”

“We should not be judged for poor performance of councils on HB”

Source: Audit Commission
Exhibit 11
Percentage of rent arrears estimated by housing associations to be caused by the four-week rule
Associations estimate that as much as one-third of their arrears are due to the payment of HB four weeks in arrears.

99 Attention has also focused on delays by local authorities in processing new claims, renewals and reports of changes in circumstance. Performance among councils varies widely, for example, some councils process new claims in less than 20 days on average, while others take 100 days or more (Ref. 2). Nevertheless, HB average performance times are in fact a little better for housing associations than for other landlords, both public and private sector, coupled with greater success rates for new and renewal claims (Table 4).
Table 4
Comparison of HB performance by tenure (2001/02)

<table>
<thead>
<tr>
<th></th>
<th>Percentage of successful new claims</th>
<th>Percentage of successful renewal claims</th>
<th>Average process time for new claims (calendar days)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing association</td>
<td>88.7</td>
<td>97.0</td>
<td>45</td>
</tr>
<tr>
<td>Local authority</td>
<td>82.3</td>
<td>96.6</td>
<td>46</td>
</tr>
<tr>
<td>Private tenant</td>
<td>77.1</td>
<td>94.9</td>
<td>57</td>
</tr>
</tbody>
</table>

Source: DWP

The majority of local authorities try to recover overpaid HB (Ref. 40). Since the Government introduced targets/inducements for those local authorities reclaiming overpayments fieldwork associations report an increase in the number of reclaimed overpayment cases. The majority of local authorities use deductions from ongoing benefits as their most frequent method of recovery, which can compound the rent payment problems for some tenants. Some fieldwork sites reported that they had had overpayments reclaimed by the local authority direct from ongoing benefits, causing them short-term cashflow problems. Associations also report that they do not always receive enough information with the overpayment schedules and require further clarification for a number of cases (particularly older ones).

For housing associations that operate in more than one local authority area the challenge of maintaining effective liaison is considerable. They may find it difficult to access the HB administration department for liaison meetings or discussions on complex cases if the association has only a few properties in one local authority area. However, some associations are more proactive than others (Case study 5).

Case study 5
Welfare Benefits Officer at ASRA Greater London

ASRA Greater London has properties distributed among 25 local authorities. It employs a Benefits Officer who deals solely with HB issues, providing advice on HB regulations to internal staff and on the welfare system to tenants. The Benefits Officer deals with HB backlog and overpayment cases and builds up relationships with nominated officers in HB administration departments and benefit fraud units. Monthly liaison meetings with local authorities provide an opportunity to talk about general issues and to discuss complex cases. All HB correspondence is initially filtered by the Benefits Officer and then passed on to the relevant person for a response, ensuring that, for example, renewal dates are put on the IT system. Because the association has a record of renewal dates for tenants on HB, it can now write to those tenants before a renewal is due, reminding them that the claim should be sent to the HB department and minimising delays caused by the renewal process.

Source: Audit Commission fieldwork
Many fieldwork sites had nominated contacts at the HB administration department to whom they could refer cases. However, some associations still reported only being able to refer a small number of cases at certain times of the week. Many associations also attended liaison meetings with the HB administration department (although attendance at these meetings was more likely when there were specific issues that needed to be resolved). Often, these liaison meetings provided an opportunity to discuss ongoing cases.

Service level agreements (SLAs) set out standards, procedures and joint working arrangements for the housing association and HB administration department. They can include details of liaison meetings, performance monitoring, information sharing and responses to enquiries. Simply signing an SLA achieves little, but if a range of officers are involved in agreeing the standards, gathering information and attending constructive meetings then SLAs can focus attention and effort on what needs to change.

Previous Commission reports have focused on the council’s view of the HB system (Exhibit 12) (Refs. 1 and 2). The DWP recently issued self-assessment performance standards for HB administration departments on working with landlords (Ref. 41). These standards cover:

- effective communication with landlords;
- making appropriate use of direct payments to landlords and preventing evictions; and
- reducing overpayments to landlords by ensuring that they have a better understanding of their responsibilities and by taking prompt and appropriate action when overpayments occur.

In October 2001 the DWP piloted a scheme that would enable housing associations to check claims and verify evidence required under the Verification Framework. This scheme has been welcomed by local authorities, housing associations and tenants (Ref. 42). Some of the benefits resulting from the scheme include:

- an improvement in the quality of HB claim forms submitted to HB administration departments;
- an improvement in HB processing times;
- a reduction in the number of expired renewal claims;
- a small reduction in housing association arrears; and
- associations having increased confidence that a complete claim has been submitted.

A number of tenants welcomed the support from their landlord in completing a claim. This will go in some way to addressing the concerns that some tenants have about the Verification Framework. This scheme has been extended on a voluntary basis to cover all Verification Framework compliant local authorities.
The council's view of HB

Councils also view the HB system as complex.

Exhibit 12

This chapter has looked at housing associations' strategies and practices in relation to collecting rent payments, as evidenced by Commission fieldwork. These activities will be more successful in some areas than others, and perhaps all have inherent difficulties. Nevertheless, the Commission believes that improvements can be made to the arrears position in most circumstances. The steps that can be taken are outlined in Chapter 4.
The need to rethink arrears strategy and practice

To make a step change in rent collection performance associations should:

● move from penalty to reward;
● further the empowerment of their tenants; and
● tackle the housing benefit blockages.
Housing associations’ rent collection performance is declining at the same time as opportunities for growth and diversification are emerging. Community regeneration programmes and new affordable homes targets offer social housing providers a range of expansion options. For many general needs associations therefore, the focus is more on business planning than on arrears prevention and recovery: the incentive for them to apply more or better resources to debt recovery is limited when their attention is focused elsewhere. However, there is a wide range of performance among associations, and all arrears have at least an impact on cashflow: cost effective reduction in arrears can free up resources to improve tenant services.

As the dependance of housing association tenants on benefits increases, the risk of lost income to associations decreases. The local authority may pay late but it is a very safe creditor. The incentives for associations to make a step change in performance are, therefore, much more about exploiting opportunities than about minimising risk. These are, principally:

- shifting the focus of tenancy management from penalising default to rewarding compliance;
- coupled with this, making a strategic shift towards arrears prevention by enhancing information, advice and guidance services to tenants, particularly new tenants; and
- seizing the initiative to break the HB impasse.

**Moving from penalty to reward**

Recent research (Ref. 43) by Citizens Advice argues that social landlords are often too hasty in taking court action against rent defaulters. Housing Corporation statutory housing management guidance states that ‘legal repossession of a property is sought as a last resort’. The Commission also found that associations most commonly sought possession:

- as a precaution in cases where eligibility for backdated HB was unclear; and/or
- as an ultimate inducement to persistent defaulters – associations cited examples of tenants who cleared their arrears only when they received a court summons or when a possession order was granted.
Both of these reasons are indicative of system and policy failures. Tenants who play the system by paying only when eviction appears imminent are often encouraged by the overuse of legal notices and proceedings that are not followed through. The challenge for associations is to strike a balance between appropriate enforcement of a tenant’s obligations and excessive use of punitive measures. More effective two-way communication with tenants and with HB departments should improve associations’ grasp of their tenants’ entitlement and reduce the necessity to use court action as a precautionary measure. Another way of avoiding court action is for landlords to request direct deductions from those tenants who are in arrears and in receipt of Income Support or Jobseeker’s Allowance. This method recovers debt from the tenant (at a rate of £2.70 per week) but does not increase the tenant’s total level of indebtedness by adding court costs onto the debt.

Housing associations do not want to evict people: they want tenants in their housing stock and they want them to pay the rent. Some are looking at alternative strategies that combine incentives to pay with selective but committed use of legal enforcement. A number of associations have introduced loyalty schemes through which tenants are offered bonuses for responsible behaviour. In the case of rent payment, tenants who consistently pay on time may receive a discount or refund (Case studies 6, 7 and 8).

**Case study 6**

**Irwell Valley ‘Gold Service’**

The Gold Service scheme rewards the good conduct of tenants by allowing them to become members and access a range of incentives. These include £1 per week Bonus Bonds, accepted at 20,000 retail outlets and negotiated discounts with local or national businesses. Gold Service members also access improved housing services, such as a more responsive repairs service.

Eligibility for membership is based upon a rent account being clear for six weeks, or where there are arrears, an agreement to pay the arrears being made and maintained for 12 weeks. The tenancy must also not be the subject of antisocial behaviour or other tenancy breaches. The aim is to bring about a change in behaviour and ensure that agreements are made and adhered to. Tenants who call to report a non-urgent repair have their rent accounts checked before the repair is undertaken. If accounts are in arrears, an agreement is made to pay and only then is the repair request processed. This reinforces a rights and responsibility ethos among tenants.

Over 80 per cent of tenants are members of Gold Service, although membership status can be suspended due to breaches, with rent arrears being the most prevalent reason for suspension.
The success of Gold Service for Irwell Valley Housing Association is measured through improved performance. Rent arrears have fallen from 8.9 per cent of gross rental income in 1997/98 to 4.8 per cent of the rent roll in 2000/01. There has been a 25 per cent reduction in rent arrears cases below £250 and the average current arrears has fallen by 13 per cent over the same period. This has resulted in estimated savings of £160,000 in 1999/2000, rising to £260,000 by March 2001.

Source: Ref. 44

Case study 7
Wyre Housing and Northern Counties incentive schemes

The Wyre Housing ‘clear advantage’ initiative was launched in November 2001. The aim of the scheme is to encourage clean estates, sustainable communities and low tenancy turnover. Membership currently stands at 500 of the 3,000 tenants that Wyre Housing covers. To join the scheme tenants have to have a clear rent account for two months. Tenants who avoid arrears, look after their properties and contribute to the control of antisocial behaviour are eligible for discounts from local shops and leisure outlets. They are also entered into quarterly draws for prizes, including cash, room and garden makeovers and electrical appliances. Wyre Housing is looking at extending the scheme.

Northern Counties Housing Association has introduced a free prize draw for tenants who have a clear rent account, or who have kept to a repayment agreement for 13 consecutive weeks – a prize of £500 is drawn quarterly.

Source: Audit Commission fieldwork

Case study 8
Castle Vale Housing Action Trust (HAT) VIP Gold

VIP Gold relates to the HAT’s housing management service. It provides an added benefit to people who are living in HAT properties or in leasehold or freehold properties on the estate, who have chosen to become VIP members.

Members receive a range of benefits including ‘Bonusbonds’, a ‘countdown’ card, home contents insurance, a club magazine and specific appointments for repairs. Owner-occupiers in Castle Vale can also become members of VIP Gold and can access the repairs service.

The scheme has been in operation for a year and rent arrears reduced from £245,000 to £159,000 in the first nine months. Castle Vale HAT, while using VIP Gold to cast housing management in a more positive role, has also shown how it can be adopted both to support wider regeneration activities and to give incentives across mixed tenure estates.

Source: Ref. 44
Prevention through empowerment

112 One of the key characteristics that distinguish social landlords from commercial landlords is the support that they provide to tenants to help them maintain their tenancies. Tenancy support is a long-established service offered by housing associations and it has resulted in many examples where defaulting tenants have been able to maintain their tenancies.

113 However, housing associations could do more, within existing resources, to provide individual tenants with the tools that they need to avoid default. As far as rent payment is concerned, high-quality information, advice and guidance services are crucial to enable tenants to:

● understand fully their statutory and contractual rights and responsibilities as tenants (Case study 9);
● access and understand the benefits system;
● plan and manage tight household budgets, including avoiding easy, but expensive credit; and
● communicate effectively with their landlord when they have queries about their rent and service charges, or when payment problems arise (Box B).

Case study 9
Northern Counties Housing Association: encouraging a payment culture

In order to improve arrears awareness among new tenants, Northern Counties Housing Association has revised its sign-up pack to highlight the importance of rent payment and the payment methods available. The association has extended payment options to include direct debit and payment by debit card. It also plans to introduce payment via the internet when the service can be provided free to the tenant, and is considering having swipe cards pre-printed with the tenancy reference number to ensure that new tenants can pay their rent immediately.

To improve benefit awareness among new and existing tenants, the association has produced benefit leaflets aimed at specific client groups. It is also planning to revise the quarterly rent statement to ‘credit card statement standard’ to improve its impact/image. The statement will also be revised to include a tear off payment slip and information on the payment methods available.

Source: Audit Commission fieldwork
Box B

Basic information requirements to prevent arrears

Information that tenants need

1. A face-to-face briefing in plain English or other first language about:
   ● the key responsibilities of both parties under the tenancy agreement;
   ● the association’s rent arrears policy; and
   ● who needs to be contacted in the event of difficulties with rent payment.

2. All options for paying rent and the time taken for clearance of different methods.

3. In respect of HB:
   ● principal triggers for entitlement to HB and details of the information/documentation needed to support the claim;
   ● an offer of assistance to make the claim;
   ● details of the HB claims procedure and typical process times in the area;
   ● an understanding of who needs to do what in the event of a query or delay; and
   ● procedures for notifying the HB administration department of a change of circumstance, with guidance on what constitutes such a change.

4. Details of in-house and independent money and benefit advice services available locally.

5. Detailed breakdown of rent and other charges due.

6. Information about which charges are ineligible for HB.

7. Regular rent statements in an easily understood format.

8. Advance notice of changes in rent and charges due, with a clear explanation of the reasons for the change and guidance on who needs to do what to amend HB payments.

Information that housing associations need

1. Sufficient information about the tenant’s circumstances to make an estimate of HB entitlement.

2. Authority from the tenant to receive information direct from HB administration about claims.

3. Early notification of any practical problems – for example, an error with the standing order or illness preventing the tenant from getting to the Post Office to make payment.

4. Details of change in circumstance that might affect HB entitlement.

5. Early notification of any financial problems.

Source: Audit Commission
Housing associations that provide specialist welfare benefits advice and debt management guidance directly are able to demonstrate significant success in preventing and controlling arrears. Home Housing Association piloted a new style of sign-up interview on a particular estate involving both rent arrears officers and welfare benefits specialists. Greater emphasis was placed on rent obligations and benefit entitlements at sign-up stage. During the first 12 months of this pilot only one NOSP had to be served. At the other end of the spectrum, tenancy support goes no further than recommending to tenants that they seek specialist help. While it is appropriate for them to encourage tenants to take responsibility for their own affairs, associations should expect people who have been socially excluded for most of their lives to need practical support as well as encouragement. The importance of investing officer time in induction for new tenants cannot be overemphasised.

Although the support that they provide to individual tenants through advice and guidance contributes significantly to tenant empowerment, housing associations are predominantly housing providers. Provision of the financial, educational and employment services that their tenants need if they are to participate fully in society can only be done in partnership with other organisations – local authorities, voluntary bodies and statutory agencies. A number of associations have invested resources in developing credit unions or similar schemes that encourage good financial planning and management: Marches Housing Association and London and Quadrant Housing Trust are developing credit unions. Such schemes also enable tenants individually and collectively to resist the approaches of commercial lenders who prey on poorer communities.

Tackling the HB blockages

In addition to the arrears caused by the payment of HB direct four weeks in arrears, housing associations typically attribute much of the remaining arrears to HB delays. These are genuine problems and in some areas where local authority HB performance is particularly poor the impact on association cashflow is significant.

However, in the minds of many housing associations and their staff, HB has become an insurmountable barrier to improved performance. This has led to long periods of inaction by housing officers in cases where there is known to be an outstanding claim. Because of the difficulty associations have in distinguishing outstanding HB from true arrears, they make the choice between:

- giving the tenant the benefit of the doubt and delaying action until the claim is finally determined, during which time arrears could be spiralling out of control; and
- taking action on the whole debt as a precautionary measure, causing anxiety for the tenant and ultimately wasting housing association and court resources.
Both of these strategies are unsatisfactory compromises that could be avoided if associations could properly identify how much of any debt is due to: HB paid in arrears; an outstanding HB claim, and payments due from, but missed, by the tenant.

Housing associations are, of course, aware of the advantages of this and those that are making the greatest headway are those that have:

- developed the appropriate rent accounting technology and information systems;
- the capacity to make an accurate assessment of the tenant’s HB entitlement. Some have, for example, invested in a type of ready reckoner software package. Others, like ASRA Greater London (Case study 5), Home and Northern Counties have employed specialist benefits officers; and
- improved their communications in the three-way relationship (Exhibit 13), in particular, by sharing the problem and developing solutions both with their tenants and with the local authorities (Case study 10).

Case study 10
Taking the initiative to tackle the HB blockages

In October 2001 Northern Counties Housing Association in Sheffield, along with North British Housing Association and in partnership with Sheffield City Council’s Benefit Service, participated in the DWP pilot that allowed association staff to verify their tenants’ HB applications. By March 2002, processing time had reduced from an average of 12 weeks prior to the commencement of the pilot to 14.7 days.

Northern Counties Housing Association also receives the HB schedule on disk from Manchester City Council, which saves several hours’ processing time and ensures that payments reach rent accounts more quickly.

Since agreeing designated email contacts with HB departments in almost all its area of operation, Westway Housing Association has noted significant improvement in claim turnaround times.

Source: Audit Commission fieldwork
Housing rent arrears will never be eliminated: some tenants will always have financial/debt management problems; others may give paying their rent a lower priority by choice. But it is possible to address the problems caused by the burden of rent arrears both for tenants and their landlords. It is not sufficient simply to find easy explanations, for example ‘the HB system’, or to accept arrears as a fact of life – a ‘business cost’. Some housing associations – as evidenced by the findings of the Commission’s research – are tackling the problems, often in difficult circumstances. Their efforts need to be emulated by all.
Recommendations

For housing associations:

1. To enable them to understand and manage arrears better, develop information systems that enable differentiation between arrears due from the tenant, arrears due to payment of HB in arrears and arrears that accrue pending the outcome of an HB claim.

2. Develop mutually supportive working relations with the courts in order to minimise delays, smooth the legal process and facilitate the sharing of good practice.

3. Work closely with the HB service to ensure that the local authority provides tenants with appropriate information and advice, with claims being processed as quickly as possible, overpayments being minimised and the take-up of benefits maximised.

4. Avoid taking court action where arrears are due to HB delays. (Court action may be appropriate in partial HB cases where substantial arrears have accrued because the tenant has failed to pay the proportion of the rent not covered by HB.)

5. Consider introducing incentive schemes that reward tenants with clear rent accounts and those who maintain repayment agreements.
6. Implement key elements of tried and tested good practice:

- Providing comprehensive pre-tenancy information and advice to ensure that prospective tenants understand the terms of the tenancy and the importance of making regular rent payments, where to go if they need help and the importance of submitting a HB claim form as quickly as possible if they think they might be eligible.

- Supporting tenants to submit properly completed HB forms promptly, where this is necessary.

- Making early contact with new tenants to reinforce the responsibilities they have for paying the rent. Ensuring that information, independent advice and support is available to tenants to help them to maximise their incomes and manage their finances.

- Having flexible payment options that suit tenants’ circumstances and preferences.

- Ensuring that letters, rent statements and other correspondence about rents and service charges are written in plain English and clearly set out what is due directly from the tenant and what is due from the local authority. Associations should provide translations appropriate to their tenants’ needs.

- Issuing regular rent statements, at least each quarter.

- As far as possible, making early personal contact with tenants who are in arrears, before starting legal action, for example to encourage them to seek independent debt advice where appropriate.

- Monitoring compliance with recovery policies and procedures.

- Monitoring the impact of arrears action on the number of possession orders, evictions and abandonments.
**The Government should:**

7. Put housing association tenants on the same footing as local authority tenants for HB payments.

**The Housing Corporation should:**

8. Promote and publicise the purpose and value of national performance indicators to housing associations.

9. Review guidance on rent collection and arrears PIs to ensure that associations collect accurate data and report on performance in a consistent manner.

10. Commission an additional study on rent collection for supported housing following the implementation of ‘Supporting People’.

11. Consider the introduction of guidance on writing off bad debts, similar to CIPFA guidance in local government.

**For its own part the Commission will:**

12. Explore how to make PIs as useful as possible.

13. Consider reviewing rents and service charge collection as part of the Inspection methodology for those housing associations where performance on rent collection is less than average.
Appendix A –
Acknowledgements

Advisory group

The Commission is grateful to members of the advisory group for their advice during this study. They were:

Angela Clapp  Tenants’ Participation Advisory Service
David Dixon  Liverpool City Council
Mike Donaldson  London and Quadrant Housing Trust
Ann Egginton  National Housing Federation
Angela Evans  Audit Commission Operations Directorate
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Richard Horsman  Office of the Deputy Prime Minister
Deborah Ilott  Housing Corporation
Roger Jarman  Audit Commission Housing Inspectorate
Karl Limbert  Benefits Fraud Inspectorate
Sam Lister  Chartered Institute of Housing
Andrew Newberry  Swaythling Housing Society
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Andrew Sanderson  Department for Work and Pensions
Gwyneth Taylor  Local Government Association
Michele Walsh  Housing Corporation

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ASRA Greater London Housing Association
East Dorset Housing Association
Home Housing Association
London and Quadrant Housing Trust
Longhurst Housing Association
Marches Housing Association
Metropolitan Housing Trust
Muir Group Housing Association
Northern Counties Housing Association
Solon South West Housing Association
Spelthorne Housing Association
Westway Housing Association
## Appendix B – Sources of good practice material

### Publications

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<tr>
<th>Title</th>
<th>Description</th>
<th>Available from</th>
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<tbody>
<tr>
<td>Preventing and Managing Rent Arrears (forthcoming) (Ref. 6)</td>
<td>Audit Commission study of rent collection in the local authority sector in England and Wales</td>
<td><a href="http://www.audit-commission.gov.uk">http://www.audit-commission.gov.uk</a> Tel: 0800 502030</td>
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<tr>
<td>Rent Arrears and Housing Benefit in the Welsh Social Rented Sector</td>
<td>Audit Commission in Wales/Cardiff University study, covering both local authority and housing association sectors in Wales</td>
<td><a href="http://www.audit-commission.gov.uk">http://www.audit-commission.gov.uk</a> Tel: 0800 502030</td>
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<tr>
<td>(2002) (Ref. 4)</td>
<td></td>
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<tr>
<td>Closing the Gap: Working Together to Reduce Rent Arrears (2002)</td>
<td>Good practice guide by the Audit Commission in Wales/Cardiff University, aimed at local authorities and housing associations in Wales</td>
<td><a href="http://www.audit-commission.gov.uk">http://www.audit-commission.gov.uk</a> Tel: 0800 502030</td>
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<tr>
<td>(Ref. 5)</td>
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<tr>
<td>Homelessness: Responding to the New Agenda (2003) (Ref. 34)</td>
<td>Audit Commission report based on evidence from inspection, audit and research</td>
<td><a href="http://www.audit-commission.gov.uk">http://www.audit-commission.gov.uk</a> Tel: 0800 502030</td>
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<td>(Ref. 1)</td>
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<tr>
<td>Social Landlords to Recover Rent Arrears (2003) (Ref. 43)</td>
<td></td>
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<tr>
<td>House Keeping: Preventing Homelessness through Tackling Rent Arrears</td>
<td>Shelter research report</td>
<td><a href="http://www.shelter.org.uk">http://www.shelter.org.uk</a> Tel: 020 7503 4699</td>
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<td>in Social Housing (2003)</td>
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<td>Rents and Service Charges (1997)</td>
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<td>Housing and Anti-Poverty Strategies (1998)</td>
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<td>Getting the Best out of the Court System (2001)</td>
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<td>HB/CTB Performance Standards (2002) (Ref. 41)</td>
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<tr>
<td>Housing Management Standards Manual (regularly up-dated)</td>
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<tr>
<td>National Housing Federation good practice guide</td>
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<td>Housing Corporation standards for housing associations</td>
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<tr>
<td>Chartered Institute of Housing good practice briefing</td>
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<td>Chartered Institute of Housing good practice guide</td>
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<tr>
<td>Guidance from the Office of the Deputy Prime Minister on handling possession cases in the county or high court</td>
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<tr>
<td>Department for Work and Pensions/Benefit Fraud Inspectorate performance standards for local authority housing benefit services</td>
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<tr>
<td>Chartered Institute of Housing manual outlining legal requirements, standards and good practice in all areas of housing management</td>
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<td><a href="http://www.housing.org.uk">http://www.housing.org.uk</a> Tel: 0870 010 7676</td>
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<td><a href="http://www.cih.org">http://www.cih.org</a> Tel: 024 7685 1767</td>
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<td><a href="http://www.housing.odpm.gov.uk">http://www.housing.odpm.gov.uk</a> /local/court/index.htm Tel: 020 7944 4400</td>
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<tr>
<td><a href="http://www.dwp.gov.uk/housingbenefit">http://www.dwp.gov.uk/housingbenefit</a> /publications/perf-stands/index.htm Tel: 020 7712 2171</td>
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<td><a href="http://www.cih.org">http://www.cih.org</a> Tel: 024 7685 1767</td>
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Useful websites

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<tr>
<td>Audit Commission Inspection Service</td>
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<td>Audit Commission national performance indicators</td>
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<td>Audit Commission Library of Local Indicators</td>
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<td>Benefit Fraud Inspectorate</td>
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<td>Cabinet Office good practice database</td>
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<tr>
<td>Website with information about all inspection activity, including full reports of all housing inspections, indexed by subject</td>
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<tr>
<td>Website containing all national performance indicators, including those relating to rent collection, arrears and housing benefit</td>
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<td>Website containing all local performance indicators developed by local authorities</td>
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<tr>
<td>BFI inspection reports</td>
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<tr>
<td>Information on a wide range of initiatives that have been introduced in the public sector to improve service delivery</td>
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<tr>
<td><a href="http://www.bestvalueinspections.gov.uk">http://www.bestvalueinspections.gov.uk</a></td>
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<td><a href="http://www.audit-commission.gov.uk">http://www.audit-commission.gov.uk</a></td>
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<td><a href="http://www.local-pi-library.gov.uk/index.shtml">http://www.local-pi-library.gov.uk/index.shtml</a></td>
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<td><a href="http://www.dwp.gov.uk">http://www.dwp.gov.uk</a></td>
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<td><a href="http://www.benchmarking.gov.uk">http://www.benchmarking.gov.uk</a> /default1.asp</td>
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References


19 Housing Corporation, *Longer Distance Movement into RSL Housing*, Sector Study 3a, Housing Corporation, 2001.


Preventing and Managing Local Authority Rent Arrears. This report outlines the scale, causes and effects of rent arrears, looking at how to prevent arrears accumulating and how to recover rent arrears without jeopardising other corporate aims, such as reducing poverty, homelessness and social exclusion. It includes advice on using resources more effectively as well as identifying and sharing good practice.

Price £25, National Report, will be published June 2003
stock code LAR3008, ISBN 1862404402
www.audit-commission.gov.uk

Homelessness: Responding to the New Agenda. The aim of this report is to help managers to improve homelessness services in light of the Homelessness Act 2002. By setting out examples of good practice in local service delivery, it highlights the common issues for service providers, as well as ways to improve service delivery and use resources more effectively.

Price £25, National Report January 2003
stock code LLI2939, ISBN 1862404208
www.audit-commission.gov.uk

Housing Benefit: The National Perspective. This study makes recommendations to central government about how the housing benefit system could be improved from a national perspective. The report argues that the system needs to be made easier for local authorities to administer and, most importantly, more focused on the three million households that rely on this service.

Price £25, National Report June 2002
stock code LNR2766, ISBN 186240366X
www.audit-commission.gov.uk

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