

Briefing:

Universal Credit and rent accounts

Potential impacts

10 July 2018

Summary of key points:

The roll out of Universal Credit to households is approximately 10% complete, as of December 2017.

- Research suggests that Universal Credit claimants have higher average arrears than tenants on legacy benefits
- There appears to be a spike in arrears prior to and immediately following a claim, with a return to pre-claim level after approximately 52 weeks
- The reasons for increased levels of arrears are complex, but relate to the delay in a claimant receiving first payment, design of Universal Credit and carrying over of pre-existing arrears
- There are differences in levels of arrears between housing providers. While some of these differences are due to use of Alternative Payment Arrangements, research so far has not explored why these differences exist

1. Introduction

This briefing outlines information on the roll out of UC and existing research on Universal Credit (UC) and rent accounts, exploring evidence of higher rent arrears for claimants in comparison with legacy benefits.

2. UC roll out so far

According to the House of Commons Library research briefing on UC roll out, published in May 2018, 262 jobcentres were operating the full service as of 1 May 2018¹.

This is around 40% of the total 643 expected to administer UC once roll out is complete. A further 381 jobcentres are scheduled to launch the full service between May 2018 and the end of the year.

In terms of claimants, as of December 2017 there were around 660,220 households on UC across Great Britain (917,590 people in Great Britain as of May 2018). This compares to around 5.2 million households claiming at least one of the benefits/tax credits UC is replacing. The Office for Budgetary Responsibility estimates that 6.7 million households will be on Universal Credit by 2023. As such, roll out in terms of households was around 10% of the way through. The briefing states that roll-out “*to those claiming unemployment benefit specifically is likely to be considerably more advanced than to other benefit claimants (such as those receiving housing or incapacity benefits)*”.

The House of Commons Library has produced a downloadable UC roll out tool where users can select their constituency and view the job centres most relevant to them. It also provides an estimate of the proportion of working age benefit claimants who have moved to UC so far:

<https://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-8308#fullreport>

3. Summary of existing research

UC includes a housing element for help with housing costs. This is paid monthly in arrears to the claimant, unless an Alternative Payment Arrangement (APA) has been agreed. In England, 155,669 households living in social housing have a housing element to their UC.

There is some evidence that the introduction of UC is leading to an increase in rent arrears. The reasons for this are complex, but relate to the delay in a claimant receiving first payment, design of UC and carrying over of pre-existing arrears.

Existing research suggests that UC claimants have higher average arrears than tenants do on legacy benefits, but there is some evidence that arrears do return to pre-UC levels 3-6 months after the first claim.

One issue with looking at the effect of UC on rent arrears is that it hasn't been rolled out wide enough for any examination in national datasets (for example, the English Housing Survey) and there is very little published data.

DWP have published some ad hoc analysis and answers to Parliamentary Questions on UC and rent arrears. Smith Institute, Association of Retained Council Housing (ARCH) with the National

¹ House of Commons Library (2018) Universal Credit: roll out
<https://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-8308#fullreport>

Federation of ALMOs (NFA) and Citizen's Advice have also undertaken research. A summary of their findings is below.

3.1 Department for Work and Pensions

One-off analysis by DWP in May 2016² showed that 36% of UC awards include support for housing costs, while 7% have this support paid directly to their landlord via a Managed Payment to Landlord (MPTL) APA. This means that, in May 2016, 20% of UC awards that include support for housing costs have a MPTL APA.

MPTL APAs are more widely used by social landlords. DWP analysis showed that 34% of UC claimants with support for housing costs and in social housing had a MPTL APA, compared to 5% for those in private rented.

DWP commissioned Ipsos MORI to look at family claimants' experiences of UC³. This found that many claimants fell into arrears for the first time, but the number of UC tenants in arrears fell over time. They summarise their findings on rent arrears as:

- Around two in five (41 per cent) renters were in arrears with their rent payment in Wave 1, falling to 31 per cent at Wave 2.
- For those who took part in both waves of the research it remained the case that significantly fewer were in rent arrears in Wave 2 than in Wave 1 – 38 per cent versus 31 per cent .
- The majority of UC family claimants reported that this was the first time they had been in rent arrears in their current accommodation (77 per cent at Wave 1, 82 per cent at Wave 2).
- At Wave 1, half of those family UC claimants in rent arrears said that their arrears started after they made their current claim (49 per cent).
- There were a variety of reasons for claimants being in rent arrears but the five-week wait for the initial UC payment was highlighted as a key factor.

DWP did some ad hoc analysis on wait for UC payments last year⁴. This doesn't directly touch on rent arrears, but shows that there is more likely to be a delay in payment for a new claim (76% of full claim paid on time) compared to existing claims (92% full payment on time).

Damian Hinds MP wrote to Frank Field MP to address some of the concerns about UC raised by the Work and Pensions Committee inquiry 2016-17⁵ and set out how the Department was responding.

² DWP (2016) Universal Credit Statistical Ad Hoc: Data on Alternative Payment Arrangements Data for September 2015 to May 2016
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/543907/universal-credit-data-on-alternative-payment-arrangements.pdf

³ DWP (2017) Universal Credit Test and Learn Evaluation: Families Findings from qualitative and quantitative research with claimants
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/643978/research-into-families-claiming-universal-credit.pdf

⁴ DWP (2017) Universal Credit Statistical Ad Hoc: Payment Timeliness Data for Jan 2017 to June 2017 (updated in October 2017 with UC Full Service data to September 2017)
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/648800/universal-credit-payment-timeliness-statistical-ad-hoc.pdf

⁵ DWP (2017) Letter from Damian Hinds MP 1 March 2017 <https://www.parliament.uk/documents/commons-committees/work-and-pensions/Correspondence/Letter-from-Minister-for-Employment-to-Frank-Field-re-Universal-Credit-plus-Annex-1-3-2017.pdf>

In terms of rent arrears, the Minister stated that these were likely to be short in duration and cleared quickly, with similar numbers of rent arrears cases as the historic JSA position:

- *We believe that any arrears of rent associated with UC are likely to be of a short duration, cleared relatively quickly and should not present an insurmountable obstacle to landlords over the lifetime of a tenancy. The early evidence from UC backs up this hypothesis. In 2015 we found that 48% of UC claimants with housing costs were in arrears in the first month of a claim (compared to 31% in JSA), but by month 3 the UC cases in rent arrears had fallen to 33% - very close to the historic JSA position.*

3.2 National Audit Office (2018) Rolling out Universal Credit

The National Audit Office has scrutinised spending by the Department for Work and Pensions on UC to understand if it represents good value for the public purse⁶.

In terms of value for money, they concluded that:

- There is no practical alternative to continuing with Universal Credit.
- While recognising the determination of the DWP to drive the programme, the Department has been defensive in terms of issues raised around hardship arising from claiming UC. This has often led it to dismiss evidence of claimants' difficulties instead of working with organisations supporting claimants to establish an evidence base of what is happening.
- NAO and DWP doubt it will ever be possible for the Department to measure whether UC has led to an increase in employment. This means that the extended timetable and cost of running UC compared to legacy benefits cause NAO to conclude that the project is "not value for money now, and that its future value for money is unproven".

With regard to rent arrears, NAO gives details of the research that DWP have done to match UC claimants with tenant data held by a housing association. It found there is an increase in average rent arrears as claimants move on to Universal Credit (Figure 1). This increase starts to accelerate before a tenant makes their Universal Credit claim, indicating that there could be a delay before they make their claim. Arrears then rise starkly during the wait for first payment before plateauing 10 to 12 weeks following a claim. Individuals then start to repay their arrears. The Department are currently conducting further analysis with five housing providers to understand whether similar patterns are evident.

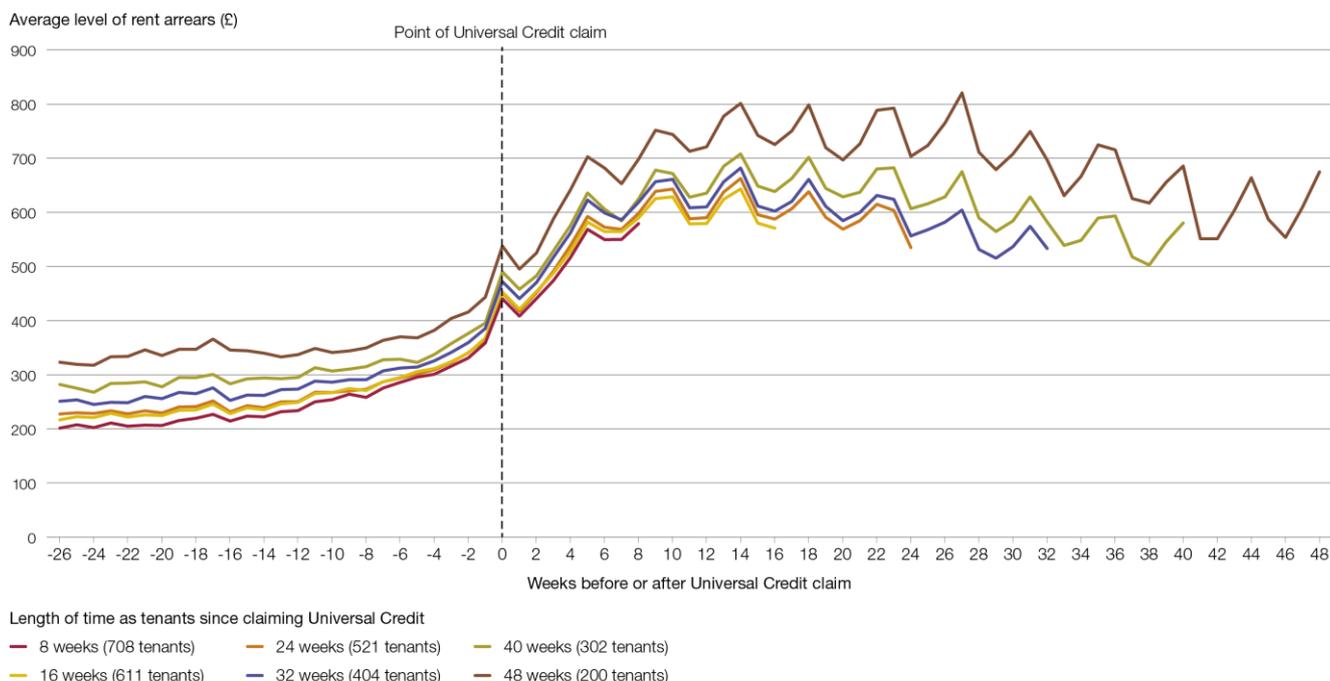
⁶ National Audit Office (2018) Rolling out Universal Credit <https://www.nao.org.uk/wp-content/uploads/2018/06/Rolling-out-Universal-Credit.pdf>

Figure 1 Rent arrears before and after UC is introduced locally. Source: NAO (2018) Rolling out Universal Credit

Figure 15

Rent arrears before and after Universal Credit is introduced locally

The Department's analysis with one housing association showed an increase in rent arrears as claimants move onto Universal Credit. This reduces over time but has not reached its pre-Universal Credit level



Notes

- 1 The cyclical pattern in arrears is due to weekly debits on rent accounts, but Universal Credit payments are made monthly.
- 2 The shortest line includes all 708 tenants who were tenants 26 weeks prior to their Universal Credit claim to eight weeks after their claim. The longest line includes a smaller number of claimants who were tenants 26 weeks prior to their Universal Credit claim to 48 weeks after their claim.
- 3 The Department states that this analysis took place when payment timeliness was lowest and functionality for recovering arrears was not in place. It intends to update the analysis with a further five housing associations.

Source: Department for Work & Pensions' analysis of rent arrears

3.3 Association of Retained Council Housing (ARCH) and the National Federation of ALMOs (NFA)

In June 2016, the Association of Retained Council Housing (ARCH) and the National Federation of ALMOs (NFA) published welfare reform survey findings in their report 'Universal Credit – one year on'⁷. This research was carried out in April and May 2016 across 20 stock retaining councils and Arms-Length Management Organisations (ALMOs) who housed around 3,000 households in receipt of UC.

The research identified that 79% of UC claimants were in rent arrears compared with 31% of tenants overall. On average, UC claimants in arrears each owe £321.05, which is also slightly higher than the average of £294.57 among all households in arrears.

The research identified some specific aspects of UC contributing to higher levels of rent arrears, including:

- the six-week wait for a tenant's first UC payment (i.e. the seven-day waiting period, plus payment in arrears)

⁷ ARCH and NFA (2016) Universal Credit – one year on www.almos.org.uk/include/getDoc.php?did=7534&fid=8807

- DWP not notifying landlords promptly when a tenant goes on to UC
- tenants already being in rent arrears before going on to UC
- UC payments not being made on time and/or correctly
- tenants already having difficulty with money management before going on to UC and/or using UC to pay off
- other debts
- mismatches between rent due dates and UC payment dates (i.e. tenants paying rent when they receive UC, rather than when it is due)
- tenants not recognising that they have a rent liability because their rent was previously covered by housing benefit
- delays in DWP processing UC applications
- tenants who require support going on to UC before they are ready (i.e. the tenant requires an APA but does not receive one until eight weeks' arrears are accrued)
- tenants having difficulty managing variable income (and therefore variable UC payments)
- tenants not realising that their final payment from job they are leaving can be considered savings to live on for the next month.

The two organisations also recently published their 2017 survey results⁸. A total of 42 organisations responded to the survey (29 ALMOs and 13 stock-retaining councils) managing 563,985 homes. Of these households, 2.6% received UC. In terms of arrears, nearly three quarters of UC households (73%) were in arrears (8,656 out of 11,845), compared with 31% of all households. This data comes from 37 organisations (respondents with 500,352 households).

ARCH and NFA could provide matched data for 16 organisations who completed the survey in both 2016 and 2017. This allowed them to track changes in level of arrears. The group had an average level of arrears of 69% at March 2017. This compares with 76% in March 2016. They explain that this large drop is due in the main to a significant improvement in arrears for Your Homes Newcastle (YHN), which dropped from 71% to 58%, and which makes up 31% of the households within the cohort group. Without YHN figures, the arrears percentage rises to 75%, which is more in line with the March 2016 figure. Again, respondents largely blamed the six-week wait period for the high level of arrears.

For 10 organisation who could provide figures, 60% of households in arrears were a tenant and already in arrears prior to the UC roll out, while 40% were not in arrears prior to their UC claim either because they were a new tenant (16%) or a tenant with a clear rent account (24%).

3.4 Residential Landlord Association (2017) Welfare reform and impact on the private rented sector

The Residential Landlord Association (RLA) undertook a survey of 2,974 landlords in August 2017⁹. The findings show that of those who let to tenants on UC or housing benefit:

⁸ ARCH and NFA (2017) Pause for Thought: Measuring the impact of Welfare Reform on tenants and landlords – 2017 Survey Results http://www.arch-housing.org.uk/media/102697/pause_for_thought_-_welfare_reform_report_2017_.pdf

⁹ RLA (2017) Welfare Reform and Universal Credit: The impact on the private rented sector <https://research.rla.org.uk/wp-content/uploads/Welfare-Reform-and-Universal-Credit-The-impact-on-the-private-rented-sector-2017.pdf>

- 38% of landlords reported that they have experienced UC tenants going into rent arrears in the past 12 months
- This is especially concerning with the finding that on average, landlords were owed £1600.88 in rent arrears
- 53% of landlords successfully request an APA
- 45% of landlords reported that the DWP were unhelpful when contacted
- The issue of rent arrears for UC tenants, is also one of the leading reasons for a landlord attempting to regain possession of the property (64% of landlords)

3.5 Smith Institute (2017) Safe as houses: the impact of universal credit on tenants and their rent payment behaviour in the London boroughs of Southwark and Croydon, and Peabody

LB Southwark, LB Croydon and Peabody recently commissioned Smith Institute to look at the impact of UC on tenants and their rent payment behaviour¹⁰. This was published in October 2017 and sought to understand the impact of UC on social housing tenants and their rent payment behaviour.

For arrears, Smith Institute examined 775 UC accounts for those moving onto UC with a comparator control group of those on housing benefit (249 rent accounts paid using housing benefit). Their main findings were that rent arrears for UC claimants rose over the period of their claim, were larger than for HB tenants, but fell over time. They summarise their findings as follows:

- Growing rent arrears: Arrears for UC claimants rose by £89,000 over the period (an increase of £115 per claimant).
- Rent shortfalls were highest at the start: In week 1, 36% of the total value rent owing was not paid. By week 8 this had dropped to around 6% and accrued arrears started to be paid down around week 13.
- Arrears were larger for those on UC than HB: By week 20, UC tenants were on average £156 in arrears while HB tenants overpaid by 4% of rent due (reflecting repayments).
- Those on UC were more likely to underpay by more: Whilst UC tenants were no more likely to underpay than HB tenants the level of underpayment varied widely. 39% of cases of underpayment being by more than 75% of rent due. The HB figure was just 8%.
- Big underpayments and underpayers contributed most to arrears: 69% of the value of underpayments was from those failing to pay more than 75% of rent owed. The top fifth of those in arrears collectively owed over half of the level of arrears.
- Arrears accrued early are paid down, but stabilise with time: There is a pattern of arrears accumulating each week for 11 weeks. After around week 11 arrears do start to be paid down, but not enough to pay back all arrears accumulated.
- Arrears fall as a percentage of total rents owed with time: As a result of arrears being paid down after week 11 and then being around the amount owed from week 20, accumulated arrears as a proportion of total rents steadily falls from just below 40% in week 1 to around 5% in week 28.
- There are likely to be significant costs to landlords: If after the period covered by the available data tenants continued to meet their rent overall (as the data for the latter weeks suggests) levels of arrears to rent would fall to around 2% for the year. Nevertheless, for a landlord with 20,000

¹⁰ Smith Institute (2017) Safe as Houses <http://www.smith-institute.org.uk/wp-content/uploads/2017/10/Safe-as-Houses.pdf>

tenants this would represent around £5.4m more than HB claimants, with arrears accumulating quickly within the space of three months.

- APAs have a positive impact on arrears: Overall those who moved onto APAs saw arrears fall.
- Arrears are accumulated before transitioning to UC: There was a ratcheting up in weekly arrears before people transitioned onto UC. The data for HB claimants suggests arrears accumulate, but not to the same extent. Furthermore, they fall rapidly immediately after the claim. As a result, accumulated arrears (including the period before the claim) peaks higher and later than for HB claimants, and is much higher after 20 weeks.
- There are differences between landlords: Arrears are higher amongst Southwark tenants (at around 8% of rent owed) than in Croydon or for Peabody/Family Mosaic tenants, where tenants pay down arrears accrued before moving onto UC. Some of the difference may be due to APAs not being used as much in Southwark, but this does not explain the whole difference.

3.6 Citizens Advice (2017) Universal Credit and Debt: Evidence from Citizens Advice about how Universal Credit affects personal debt problems

The main findings were that UC risks causing or exacerbating personal debt problems. UC clients were more likely to have debt problems than those on legacy benefits. A quarter (26%) of the people who came to Citizens Advice for help with UC also needed help with debt, compared to 19% for legacy benefits. Claimants were also struggling to pay off their debts, with more than 2 in 5 (41%) debt clients on UC having no spare income to pay creditors, compared to a third (33%) on legacy benefits.

A number of evidence sources covering England and Wales informed this report¹¹. It included analysing Citizens Advice existing service data on the advice provided to clients, a survey of people who came for advice in UC full service areas about their experience of making a claim (sample size 792) and a survey of 169 advisers.

The research with claimants and advisers found that claimants had difficulty budgeting for a number of reasons. These included being unused to budgeting monthly from a single benefit payment, adjusting to paying rent to a landlord themselves, wages and UC payment periods not being aligned and claimants not being aware of budgeting support or APAs.

The survey also found administrative issues were a problem. The survey of claimants found that only 1 in 4 (26%) claimants in UC full service areas were told about APAs allowing UC housing payments to be paid direct to landlords. There were also issues with clarity over evidence required to prove rent payments for a tenancy. Claimants reported not being able to obtain easily the necessary documents, or receiving incorrect information from DWP about the evidence they need to provide. This led to delays in receiving the housing element of UC and exacerbating rent arrears.

¹¹ Citizens Advice (2017) Universal Credit and Debt
<https://www.citizensadvice.org.uk/Global/CitizensAdvice/welfare%20publications/Universal%20Credit%20and%20Debt%20-%20final.pdf>

4. What does our survey say

From the figures given by respondents, our survey shows that UC claimants are more likely to be in arrears than non-UC claimants, with the median average arrears for UC claimants higher than for those paying by other means.

For 43 organisations who provided data on both tenant rent accounts paid for by UC and those not paid for by UC, 73% of UC tenancies were in arrears, compared to 29% of other tenancies on 31 December 2017. Tenants on UC were more likely to be in arrears than those not. A median of 72% of UC tenants were in arrears (min. 0%, max. 90%). This compares to a median of 29% for those not paying their rent using UC (min. 0.28%, max 70%). In one organisation (out of 43), tenants not on UC were more likely to be in arrears.

Figures for Q4 2017/18 were across 22 organisations; a total of 68% of UC tenancies were in arrears and 36.5% of non-UC tenancies as of 31 March 2018. When looking at percentage of tenants in arrears across these organisations, a median of 70.3% of UC tenancies (min. 35.9%, max. 93.0%) were in arrears compared to a median of 31.6% of non-UC tenancies (min. 11.2%, max. 58.2%).

As of 31 December 2017, 46 housing associations had a median average arrears for UC claimants of £691.08 (min. £0, max. £9,763) and for non-UC tenants in arrears it was £367.70 (min. £26.17, max. £28,504.46). In the latest survey (31 March 2018), 22 organisations could provide figures on numbers of tenants in arrears and their total arrears. For these organisations, the median average arrears for UC claimants was £589.95 (min. £260.59, max. £1,173.50) and for non-UC tenants in arrears it was £364.34 (min. £126.08, max. £722.27).

When asked about historic arrears in the latest survey, 12 organisations were able to provide figures on historic arrears for claimants. 5,523 of 6,034 UC tenants were in arrears prior to their claim (91.5%) with a total arrears of £3,621,421.74 prior to a claim, compared to £4,367,843.62 after claiming UC.

The picture here is complicated and without any apparent pattern. Some saw the number of tenants in arrears reduce following a claim, even if the total arrears figure rose (so higher average arrears for those in arrears). Some saw both the number of tenants and level of arrears rise, one the number of tenants in arrears rise but the total arrears figure fall, and some saw both the number of tenants in arrears and level of arrears fall after a claim.

The median average arrears across all 12 associations increased once a claim was made – from £586.26 (min. £373.72, max. £1,313.83) to £621.16 (min. £473.06, max. £987.05). This does not mean that all 12 organisations saw their average arrears rise after a claim; five organisations saw their average arrears fall.

Looking at comparison data for 11 organisations who responded to both the Q3 and Q4 2017/18 survey, the total arrears for UC claimants rose from Q3 to Q4. The total amount of arrears for UC tenancies has grown from £5,163,726.62 to £5,436,699.96. In general, however, while there has been a 10% increase in UC claimants in arrears in Q4 when compared to Q3 (from 6,292 to 6,948), this is less of a rise than the 19.3% increase in UC tenants (from 8,396 to 10,016). Even as the number of claimants rise, the number of claimants in arrears is not increasing at the same rate.

Ten of the 11 organisations had fewer UC tenants in rent arrears as a percentage of total UC tenants (though the median remained at 69% of UC claimants in arrears). There was a fall in non-UC claimants from a median of 38% in arrears in Q3 to 33% in Q4. The median average arrears for UC claimants rose from £651.76 in Q3 2017/18 to £689.00 in Q4, with median average arrears for non-UC tenants falling from £409.03 to £378.87. This means median average arrears for UC claimants are higher than for those paying through housing benefit or other means.

One housing association stated on the most recent survey “*We have low numbers on UC at present but are set up to measure payment trends on UC cases. It is producing very interesting data and shows immediate peak of arrears at 8 weeks, however, by 52 weeks most accounts have reduced balances to less than their pre-existing arrears situation. So it's about holding our nerve as transition affects greater numbers at once.*”

5. Money and Mental Health Policy Institute (2018) Where the heart is: social housing, rent arrears and mental health

The Money and Mental Health Policy Institute explored why people with mental health problems are more likely to fall behind with their rent and how housing associations can respond to this issue¹². The research was sponsored by Hexagon Housing Association, The Hyde Group, Optivo, Orbit, Origin Housing Ltd and Southern Housing Group.

The research found two specific links between mental health and rent arrears:

1. Offers of help with arrears fail to reach tenants experiencing mental health problems
2. People experiencing mental health problems are more likely to experience income shocks leaving them more vulnerable to arrears

The Institute identified barriers to people with mental health issues taking up support offered by housing providers. This included offers of support going unnoticed, as they are included in unopened arrears letters, and the debt recovery process moving faster than the relationship building between housing advisers and tenants.

They recommend two main courses of action to assist with this:

- Stop the clock on court proceedings, with social housing debts included in the Government’s proposed Breathing Space scheme (where interest, charges and enforcement action is frozen for six weeks to allow people to seek debt advice)
- Improving communication to increase uptake of support, including:
 - Reframing standardised letters, such as seeing an offer of help to sustain a tenancy before any warning their home is at risk
 - Offering a choice of communication channels, not just post or telephone
 - Collect emergency contacts for tenants, along with consent, to allow friends and family to be contacted for help should a tenant fall behind with rent and not respond to contact

¹² Money and Mental Health Policy Institute (2018) Where the heart is: social housing, rent arrears and mental health <https://www.moneyandmentalhealth.org/wp-content/uploads/2018/04/Where-the-heart-is-social-housing-rent-arrears-and-mental-health.pdf>