Department for Work & Pensions

GOVERNMENT SOCIAL RESEARCH

Social Science in Government

Direct Payment Demonstration Projects: Key findings of the programme evaluation

Final report

December 2014

Research Report No 890

A report of research carried out by the Centre for Regional Economic and Social Research on behalf of the Department for Work and Pensions.

This document/publication is also available on our website at:
www.gov.uk/Government/organisations/department-for-work-pensions/about/research#research-publications

If you would like to know more about DWP research, please email:
Socialresearch@dwp.gsi.gov.uk

First published 2014.

ISBN 978 1 910219 63 8

Summary

This report is the final output from the independent evaluation of the Direct Payment Demonstration Project (DPDP). It is concerned with pulling together all the analysis undertaken by the study team, which has been presented in 13 other outputs. It does so particularly with the roll-out of Universal Credit (UC) in mind – because of differences between the programmes, not all the lessons to emerge from the DPDP are directly transferable to UC, but many are. The report draws on three main sources: analysis of participating landlords' rent accounts; a survey of DPDP tenants; and qualitative work with tenants and officers from the six Project Areas: Edinburgh; Oxford; Shropshire; Southwark; Torfaen; and Wakefield.

Contents

List of tables

List of figures

Acknowledgements

We would like to thank Demonstration Project staff for giving up their time so willingly to contribute to the research and for commenting on earlier drafts of the report. We would also like to thank Relationship Managers at the Department for Work and Pensions (DWP) for sparing time to talk to us. We very much appreciate the ongoing valuable support and constructive advice from our research manager at DWP: Claire Frew. We would also like to thank her predecessors: Ailsa Redhouse; Vicky Petrie; Andy Brittan; Preeti Tyagi. This report has greatly benefited from the helpful comments and suggestions they, along with colleagues at DWP and Communities and Local Government, have made. We would like to thank our colleagues, Aimee Ambrose, Nadia Bashir, Elaine Batty, Chris Dayson, Will Eadson, Stephen Green, David Robinson and Elizabeth Sanderson for undertaking much of the fieldwork and analysis that this report is based on and Ben Collins, Lauren Bridges, James Stannard, and Stephen Finlay at Ipsos MORI for all their hard work on the tenant surveys. Finally, we would like to thank Jess Bamonte, Louise South, Emma Smith and Sarah Ward for their help in putting together this report and for all their help over the last three years. Any inaccuracies or omissions that remain in the report are, of course, solely our own responsibility.

The Authors

Paul Hickman is Professor of Housing and Regeneration at the Centre for Regional Economic and Social Research at Sheffield Hallam University. He was the Project Director for this evaluation of the Direct Payment Demonstration Projects.

Dr Kesia Reeve is a Principal Research Fellow at the Centre for Regional Economic and Social Research at Sheffield Hallam University. She managed the evaluation and, like Paul Hickman, was involved in all aspects of the research.

Peter A. Kemp is a Professor of Public Policy in the Blavatnik School of Government, and a member of the Oxford Institute of Social Policy, at the University of Oxford. He was responsible for the questionnaire design, analysis and reporting of the tenant surveys.

Ian Wilson is a Senior Research Fellow at the Centre for Regional Economic and Social Research. He led the study team's work on Rent Account Analysis.

Dr Stephen Green is a Research Fellow at the Centre for Regional Economic and Social Research. He was involved in the qualitative research activities undertaken by the team.

Glossary of terms and list of abbreviations

Baseline survey	This was a household survey that was undertaken at the beginning of the evaluation in order to generate a 'baseline' position for tenants in the Project Areas. It involved 1,965 tenants being interviewed by researchers from Ipsos MORI between May and July 2012.
CRESR	Centre for Regional Economic and Social Research at Sheffield Hallam University.
DD	Direct Debit
DP	Direct payment: the payment of Housing Benefit directly to tenants.
DPDP	Direct Payment Demonstration Project. The DPDPs, of which there were six, were concerned with demonstrating the payment of Housing Benefit directly to social rented sector tenants. The six projects were: Edinburgh; Oxford; Shropshire; Southwark; Torfaen; and Wakefield.
DWP	Department for Work and Pensions
HB	Housing Benefit
IM	Ipsos MORI
In-scope	Tenants in the Project Areas eligible for DPDP i.e. those of working age and not in temporary accommodation and short-term supported accommodation.
Landlord payment	The payment of Housing Benefit directly to landlords.
Payments	This represents all debits – rent payments and third party payments, such as water bills – to rent accounts.
Project Area	Direct Payment Demonstration Project Area
RAA	Rent Account Analysis
Rent arrears	Rent arrears are accrued when rent payments over a given period are less than the rent owed.
Rent payment periods	Rent payment periods are a construct devised by the study team to facilitate its analysis. They comprise four week periods, or a month in the case of Edinburgh, over which landlords would expect tenant rent accounts to balance.

Rent payment rate	This is the rate of period rent payments to rent owed with the value rent indicating the percentage of debits accounted for by credits in the period.
RSRS	Removal of the Spare Room Subsidy
Safeguarding	The process by which tenants who were assessed as being unsuitable for direct payment were removed from the DPDP programme.
Stage 3 tenant survey	This was a survey of DPDP tenants undertaken at the end of the programme. It involved 650 tenants being interviewed by Ipsos MORI, 459 of whom had participated in the baseline and second surveys.
Stage 2 tenant survey	This survey was undertaken towards the end of the first year of the programme and involved 1,827 tenants being interviewed by Ipsos MORI, 1,218 of whom had been interviewed as part of the baseline survey.
Stakeholder Panel	Panels were set up in each of the Project Areas comprising representatives from all the participating landlords. Their experiences were tracked over the DPDP programme.
Switchback	The transferal of a tenant who had fallen into arrears on direct payment back to landlord payment after a switchback ‘trigger point’ (see below) had been ‘hit’.
Switch-forward	The return to direct payment of a tenant who had been switched back.
Tenant Panel	This comprised 48 tenants from the across the six Project Areas whose experiences were tracked over the course of the DPDP programme.
Trigger point	The length of time that elapsed before tenants returned to landlord payment in the demonstration projects. The trigger period varied across the six demonstration projects.
UC	Universal Credit

Executive summary

This report is the final output from the independent evaluation of the Direct Payment Demonstration Project (DPDP) conducted by the Centre for Regional Economic and Social research at Sheffield Hallam University in conjunction with Ipsos MORI and the University of Oxford. The evaluation team published eight other reports over the course of the evaluation that this report should be read alongside. They are:

- *Direct Payment Demonstration Projects: Findings from a baseline survey of tenants in five Project Areas in England and Wales*. This report, which was published in 2012, can be downloaded at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/193327/rrep822.pdf
- *Direct Payment Demonstration Projects: Learning the lessons, six months in* (2013) www.shu.ac.uk/research/cresr/sites/shu.ac.uk/files/direct-payments-learning-lessons.pdf
- *Direct Payment Demonstration Projects: 12 months in extended learning report* (July 2014), DWP Research Report No. 876.
- *Direct Payment Demonstration Projects: Key findings of the 12-months' Rent Account Analysis exercise* (July 2014), DWP Research Report No. 879. www.gov.uk/government/publications/the-direct-payment-demonstration-projects-dpdp
- *Direct Payment Demonstration Projects: Report from the stage 2 survey of tenants* (July 2014). *Direct Payment Demonstration Projects: Report from the stage 2 survey of tenants*, DWP Research Report No. 878. www.gov.uk/government/publications/the-direct-payment-demonstration-projects-dpdp
- *Direct Payment Demonstration Projects: Rent underpayment* (July 2014). *Direct Payment Demonstration Projects: Rent underpayment*, DWP Research Report No. 877. www.gov.uk/government/publications/the-direct-payment-demonstration-projects-dpdp
- *Direct Payment Demonstration Projects: The longitudinal survey of tenants,* DWP Research Report No. 889 (2014). www.gov.uk/government/publications/the-direct-payment-demonstration-projects-dpdp
- *Direct Payment Demonstration Projects: Key findings of the 18 months rent account analysis exercise* (December 2014), DWP Research Report No. 891.

In addition, a series of five 'learning reports', produced for the Department for Work and Pensions (DWP) to inform the development of Universal Credit (UC), were made available to social housing landlords and other stakeholders who joined an online Learning Network facilitated by the Chartered Institute of Housing (www.cih.org/directpaymentslearningnetwork).

This report synthesises the key findings to emerge from the evaluation, with particular emphasis on those most relevant for the roll out of direct payment under UC. As such, it necessarily repeats those early results that remained valid or unchanged at the end of the programme, and which have been previously reported in the outputs listed above. It updates other results and trends, for example rent collection rates, to reflect the full 18-month DPDP period, and it offers new insights, particularly into those issues that could only be assessed, identified and evaluated over a longer timeframe. These include the risk factors associated with arrears, the impact of welfare reforms on delivery of direct payment, and the extent to which direct payment has affected behaviour change – for example, improved money management skills – amongst tenants.

The overall aim of the DPDP was to highlight key lessons and learning points in terms of the direct payment of Housing Benefit (HB) to feed into UC design ahead of its introduction. More specifically, the projects were concerned with: exploring the effects of direct payment on landlords and tenants; examining the effectiveness of the different types of support provided to tenants to help them prepare for and manage direct payment; and testing direct payment safeguard mechanisms for landlords. The six projects that comprised the DPDP were: Oxford; Shropshire; Southwark; Torfaen; Wakefield; and Edinburgh. Projects were live between June 2012 and December 2013.

Because of differences between the DPDP and UC programmes, not all the lessons to emerge from the DPDP are directly transferable to UC. But many are as there are numerous similarities between the two programmes, not least that direct payment is one of the two key central tenets of UC (the other being the combining of benefit payments into one single payment). The evaluation employed a mixed methods approach which involved four principal elements:

- **tenant surveys**: in addition to a distinct survey of underpayers, household surveys were undertaken just before the DPDP went live (the baseline), at the end of the first 12 months, and at the end of the DPDP programme;
- **Rent Account Analysis**: this involved the analysis of the rent accounts of all those tenants who went onto direct payment in the DPDP and of a comparator sample at two points in time – 12 months into the DPDP programme and at its conclusion;
- **qualitative work with tenants**: in total, more than 180 in-depth interviews were carried out with tenants, in addition to regular telephone 'catch-up' discussions with a panel of 48 tenants whose experiences were tracked over time;
- **qualitative work with stakeholders**: this comprised face-to-face and telephone interviews and focus groups with key stakeholders in the DPDP programme, specifically representatives from the Project Areas, financial institutions, national money management organisations and DWP, who were interviewed over the course of the study. Approximately 125 interviews were conducted with stakeholders over the course of the evaluation.

Overarching findings from the evaluation

The overarching findings from the evaluation are:

- When the DPDP programme was conceived there was concern that the rent arrears of participating landlords would increase very dramatically. This did not happen – there was a consensus amongst local stakeholders and lenders that they had not increased as much as had been anticipated.
- But direct payment in the DPDP did have a financial impact on landlords and tenants. However, much of this burden was borne in the first few months following migration. In fact, nearly half of the total arrears that accrued during the 18 months of the DPDP were accrued in the first month/4 week period following migration. By the end of the 18 months of the programme: rent payment rates amongst tenants who had been on direct payment for the duration were 2.2 percentage points lower than amongst a comparator sample of tenants not on direct payment; and the net additional impact of direct payment in the later payment periods was 2.1 percentage points less rent paid than if direct payment had not been introduced. A clear picture emerged, then, of a distinct and significant drop in rent payment rates when tenants first migrated to direct payment. Payment rates then improved dramatically over time, stabilising at slightly below both baseline and comparator rates.

- Overall, tenants who went onto direct payment in the DPDP paid 95.5 per cent of all the rent owed, compared with a comparator sample (not on direct payment) who paid 99.1 per cent of rent owed (a difference of 3.6 percentage points). However, this masks significant variation over time. The average payment rate immediately following migration to direct payment was just 67 per cent – an arrears rate of 33 per cent – but by tenants' 18th direct payment it had risen to 99 per cent. Direct payment in the DPDP did, therefore, have a financial impact on landlords (a total of £1.9m of rent owed was not paid over the 18 month period) but much of this burden was borne in the first few months following migration.
- Controlling for other factors, overall, the net additional impact of direct payment was 5.5 percentage points less rent paid, i.e. tenants paid 5.5 percentage points less rent, on average, than they would have done had their HB been paid direct to their landlord. However, the net additional impact reduced dramatically over time from 15.7 percentage points less rent paid in the first three payment periods, to 2.1 percentage points less rent paid in payment periods 16-18.
- Further analysis strongly suggests that the early arrears spike was not driven primarily by factors specific to the DPDP – e.g. the infancy of the policy and experimental nature of the DPDP programme – but is a pattern likely to repeat unless mitigating action is taken. The 'spike' may be less pronounced going forward, reflecting the influence DPDP has had on UC design, but focused intervention and close monitoring of rent accounts may be needed. On the last point, landlords will only be able to closely monitor rent accounts if they know which of their tenants are in receipt of UC.
- A decrease in payment rates of this order is less significant than initially feared but would, for some landlords, represent a 100 per cent or more increase in their arrears rate. Financial surpluses may be eroded, with consequences for housing associations' capacity to build, and the impact of late/underpayment on cash flow could pose significant problems for small landlords. Larger landlords, meanwhile, face the prospect of a significant reduction in income once the few additional percentage points arrears are scaled up to tens of thousands of tenants. Large local authority landlords may find this particularly difficult to accommodate in the context of austerity measures and public sector funding cuts.
- These considerations point to the benefit of a phased introduction of direct payment so that financial risk can be spread over time and the need for mitigating action during the transition to direct payment. This could be in the form of support to tenants, close monitoring of rent accounts, cautious assessments of tenants' readiness for direct payment, on-going support assessment processes or other intervention. Improving payment rates during tenants' first three payments would reduce the negative impact of direct payments on tenants and on landlords' income significantly.
- Tenants who switched back had much lower overall payment rates during their time on direct payment than tenants who did not switchback (79.5 per cent compared with 96.8 per cent of tenants who never switched back). While we cannot predict these tenants' future payment behaviour had they not switched back, these results strongly suggest that the switchback mechanism did contribute to limiting further arrears.

- There are cost and resource implications of direct payment, over and above rent arrears. Landlord transaction costs and rent collection costs increase, as does the resource required to manage direct payment. IT systems are likely to need upgrading or renewing, and some tenants need support to help them manage. However, tenants in the DPDP programme highlighted a number of benefits of being on direct payment – some reported that it had made them better at money management and some reported that it had made them more likely to look for work, hold down a job or increase their hours.
- The proportion of tenants with a bank account increased over the course of the programme; with some tenants also reporting that they had a better standing with their bank (such as improved credit ratings), changes which are indicative of DPDP promoting greater financial inclusion.
- When the DPDP programme was launched, there was a widely held view amongst participating landlords that they 'knew' their tenants well. However, it soon became apparent that this was not the case – in order to prepare for and implement direct payment, participating landlords had to develop relationships with tenants with whom they previously had little contact. They improved their knowledge and understanding of tenants, which has been a positive consequence of direct payment for landlords.
- In order to target rent collection activity effectively, to target support appropriately, to make the right safeguarding decisions and to minimise the financial risk associated with direct payment – for landlords and for tenants – it is imperative that the 'risk factors' associated with arrears are understood, and that tenants potentially vulnerable to arrears can be identified. In the DPDP, tenants' financial circumstances emerged as a key driver of arrears. Tenants in precarious financial situations – with low or fluctuating incomes, or who had experienced negative income shocks, or who had existing debt – were most vulnerable to arrears under direct payment. Socio-demographic characteristics, in contrast, were not a significant driver of arrears. Good money management skills, particular payment methods and attitudes helped mitigate financial precarity and so these factors also have a role to play. Similarly, advice and support can make a difference – and those who received support tended to appreciate it – but it is not a panacea for negative payment behaviour.
- The concept of 'vulnerability' may, therefore, be different in a direct payment context than in other contexts (e.g. assessing work readiness or personal support needs), and more closely aligned to financial vulnerability. Some tenants who, in other contexts, would be considered vulnerable can manage well under direct payment and others considered ready and capable may not. This was certainly the experience of DPDP landlords and was true of some tenant panel members. Some panel members who would be considered vulnerable in other contexts managed very well (i.e. paid all their rent and reported not finding direct payment burdensome) including a tenant with schizophrenia and another with learning disabilities. This has implications for assessment and for support provision. It suggests that tenants' financial circumstances should be key to any assessment of readiness for direct payment and that income maximisation, for example through benefit checks, assistance securing employment and reducing expenditure, and debt advice, may be a particularly appropriate form of support. On the latter point, however, it is important to note another of the evaluation's key findings: that 'branding' support in general terms (e.g. as tenancy support), rather than as financial advice (e.g. money or debt advice) resulted in higher levels of engagement.

- Tenants' payment behaviour is erratic making it difficult to accurately forecast payment patterns, and past payment behaviour is not a good predictor of future payment patterns. The fact that only ten per cent of direct payment tenants in the DPDP paid all their rent – despite many managing well most of the time – illustrates this well. In total, 65 per cent of tenants could be described as displaying erratic payment patterns, including 17 per cent of tenants who failed to pay all their rent just once, 22 per cent who did so infrequently, and 26 per cent who did so frequently but erratically. Many tenants who managed well for months unexpectedly missed a payment, while others moved from full payment to underpayment to non-payment (and, sometimes, overpayment) over time. The amount by which tenants underpaid their rent also fluctuated. Erratic payment patterns reflect that the triggers of arrears/underpayment shift and change, and often reflect an income shock, financial emergency or unexpected life event that has financial consequences. However, as stated above, the research did demonstrate that financial circumstances do influence the likelihood of getting into arrears.
- Strategic underpayment of rent (i.e. as a deliberate strategy to be removed from the programme or secure an 'interest-free' loan) was very rare in the DPDP. Typically, tenants underpaid or failed to pay their rent to cover essentials such as food and fuel, because of an unexpected expense or by accident.
- The task of preparing for direct payment under DPDP took longer, and was more complex than envisaged. Engaging with, gathering basic details from, and assessing tenants, forging relationships with support providers, helping tenants open bank accounts, and checking, testing and developing IT capabilities were resource-intensive activities. This early phase of the DPDP proved most challenging to local stakeholders but approximately six months after 'go live' (when the first direct payment was made in the DPDP) stakeholders in the Project Areas were reporting being in 'steady state'[1]. One of the main benefits of the process was that by the end of DPDP landlords were much more aware of the support needs of their tenants. Furthermore, it had brought them into contact with more tenants.
- The research explored whether DPDP had triggered any 'behaviour change' amongst tenants. It found behavioural change to be a slow process with there being little perceptible change in the first year of the DPDP. However, as the DPDP continued, small, but significant changes in tenants' attitudes, behaviours and money management skills started to emerge. There was evidence that some tenants had been incentivised to look for work as a result of direct payment, that participation in the DPDP had made tenants more aware of the rent they pay, and had made them better at, and more confident about managing their money. In addition, there was an increase in tenants using Direct Debit to pay their rent.
- The introduction of direct payment in the DPDP prompted participating landlords to consider new ways of working and reflect on organisational changes required to meet the demands – and the associated costs and resources – of the new regime. This included reconfiguring income teams, commissioning new IT systems, developing and trialling new rent collection techniques, becoming more 'customer focused', and taking a more commercial approach to lettings and rent collection. However, it is important to remember that by the end of the programme DPDP landlords had a much clearer understanding of the support needs of their tenants. Direct payment demanded changes in staff roles and responsibilities and altered the expectations placed upon them, and scrutiny from CEOs, Boards, members and Councillors increased because of the potential impact of direct payment on income streams.

---

1 It is important to note that these findings are specific to DPDP and in this respect, UC will not function in this way.

1 Introduction

1.1 About the report

The Centre for Regional Economic and Social Research at Sheffield Hallam University, in partnership with the University of Oxford and Ipsos MORI (IM), was commissioned by Department for Work and Pensions (DWP) to monitor and evaluate the Direct Payment Demonstration Projects (DPDPs). There were six demonstration projects: Edinburgh; Oxford; Shropshire; Southwark; Torfaen; and Wakefield. The first direct payments (DPs) were made in the English and Welsh case studies in June 2012 and in the Scottish case study in August 2012. The DPDPs ended in February 2014. The primary purpose of the evaluation was to learn lessons, providing feedback into the design of both the programme and Universal Credit (UC).

This report is the final output from the evaluation. It is concerned with pulling together all the analysis undertaken by the study team, which has been presented in the 13 other outputs produced by it. It pays particular attention to highlighting findings likely to be of most interest to stakeholders preparing for the roll out of direct payment as part of UC (social landlords, DWP, tenants) and others potentially affected by it, such as support agencies and lenders.

1.2 What was the DPDP Programme?

On 14 September 2011 Lord Freud, the Minister for Welfare Reform, announced that six DPDPs would be created to *‘test some key elements of social sector housing support under Universal Credit while protecting social landlords’ financial position’*. This would involve two significant changes for (the up to 2,000) working-age[2] claimants in the participating projects:

- receiving Housing Benefit (HB) payments once every four weeks[3] (broadly in-line with monthly payments under UC) as opposed to weekly or fortnightly; and
- paying rent to tenants themselves.

Social housing landlords were invited to take part in the programme, which was originally planned to run for a year, and DWP received over 70 expressions of interest from local authorities and registered housing providers. From these, DWP received 23 applications. A range of criteria was used to select projects including geography: the sample selected ideally had to include partnerships from London, the North of England, the South of England, Scotland and Wales. It also had to ideally include at least one Large Scale Voluntary Transfer (LSVT) housing association. Five successful partnerships in England and Wales were announced on 19 January 2012 and a sixth – in Scotland – joined the programme in May 2012. The six DPDPs[4] were:

---

2 In addition to non-working-age tenants, it should also be noted that tenants in temporary and supported accommodation on a short-term basis were also exempt from the programme.

3 In the Edinburgh project, HB was paid to tenants monthly.

4 Profiles of the DPDPs can be found in the baseline survey report: www.gov.uk/government/uploads/system/uploads/attachment_data/file/193327/rrep822.pdf

- Oxford – Oxford City Council and Oxford Citizens Housing Association (OCHA), trading as part of the GreenSquare Housing Group, Southern England;
- Shropshire – Shropshire Council, Bromford Group, Sanctuary Housing and The Wrekin Housing Trust, West Midlands;
- Southwark – London Borough of Southwark and Family Mosaic, London;
- Torfaen – Torfaen Borough Council, Bron Afon Community Housing and Charter Housing, South-east Wales;
- Wakefield – Wakefield Council and Wakefield and District Housing, Northern England; and
- Edinburgh – City of Edinburgh Council and Dunedin Canmore Housing Association, Scotland.

The overall aim of the DPDP was to highlight key lessons and learning points in terms of the direct payment of HB to feed into UC design ahead of its introduction from October 2013. More specifically, the projects were concerned with: exploring the effects of direct payment on landlords and tenants; examining the effectiveness of the different types of support provided to tenants to help them prepare for and manage direct payment; and testing direct payment safeguard mechanisms for landlords.

This was achieved by a support assessment process and varying across the projects the length of time (or switchback trigger period) for a return to landlord payment after tenants had fallen into arrears.[5] Three of the projects had an eight-week (or equivalent) trigger period (Oxford, Torfaen, and Wakefield); Edinburgh had a one-month trigger period, while Southwark and Shropshire had four-week and 12-week triggers respectively. In terms of the criteria to be used for determining when tenants were to be switched back and how arrears were to be measured and defined, there was a programme-wide agreement that it would happen when:

- *'Trigger 1 – the tenant's rent arrears arising during the Demonstration Project period equalled the amount of (a month/4/8/12 weeks) rent for that tenant;*
- *Trigger 2 – the tenant had not paid any rent for (a month/4/8/12 weeks) during the Demonstration Project period;*
- *Trigger 3 – the tenant had underpaid her/his rent by 15 per cent or more in each of the periods of 4 weeks in the preceding 12 weeks, falling within the Demonstration Project period;*
- *Trigger 4 – the tenant had underpaid her/his rent by 15 per cent or more in the preceding period of 12 weeks, falling within the Demonstration Project period.'*[6]

In practice, more than two-thirds of the 1,031 'switchbacks' that had occurred by March 2013 had been under the two underpayment triggers: 3 and 4.[7] Reflecting this, DWP asked the research consortium to undertake bespoke research into this group when it decided to

---

5 It is important to note that, in many respects, including how tenants are assessed for direct payment, the context under UC will be different to that in the DPDP. This issue is explored in-depth in the next section.

6 Written submission provided by a DWP Relationship Manager.

7 By the end of the programme, 1,993 tenants had been switched back (DWP Monitoring data).

extend the DPDP programme and evaluation in May 2013, with the findings of this work being published in July 2014.[8] Lord Freud explained that the rationale behind the decision to extend the programme, which was to be extended by six months until December 2013, was to generate learning *'to further develop the support needed for social housing tenants moving onto Universal Credit'*.[9]

Working alongside the DWP, the English, Welsh and Scottish projects began work preparing for direct payment in their areas in January 2012, with work beginning in Edinburgh in May 2012.[i] The English and Welsh projects went 'live' in June and July of 2012 when the first phase of tenants were moved onto direct payment, with Edinburgh following suit in August 2012. Reflecting differences in the preparedness of tenants to move onto direct payment, it was decided to adopt a phased approach to moving tenants onto the programme, with those in the first phase assessed as being most prepared to go onto it.[10] Although the number of phases varied by Project Area, all had undertaken their last one by the beginning of 2013. In all, by March 2013, a total of 7,004 tenants had gone onto direct payment. As Table 1.1 reveals, 'in-scope' numbers were fairly similar in five of the areas (Edinburgh, Shropshire, Southwark, Torfaen, and Wakefield) with there being one 'outlier', Oxford, which put 1,742 tenants onto direct payment.

Table 1.1 Number of tenants transferred onto direct payment

Project Area	Number of tenants
Edinburgh	1,013
Oxford	1,742
Shropshire	1,060
Southwark	1,179
Torfaen	1,008
Wakefield	1,002
Total	**7,004**

Source: DWP monitoring information, March 2013.

8 The report, *Direct Payment Demonstration Projects: Rent underpayment*, can be downloaded at: www.gov.uk/government/publications/the-direct-payment-demonstration-projects-dpdp

9 See DWP Press Release of 16 May 2013, *Direct Payment projects extended by 6 months*, which is available at: www.gov.uk/government/news/direct-payment-projects-extended-for-6-months

10 After the programme went 'live', Project Areas began undertaking other tasks: rent collection; recovering rent arrears; and the switchback process i.e. the process by which tenants who had fallen into arrears were transferred back to landlord payment from direct payment. www.shu.ac.uk/research/cresr/sites/shu.ac.uk/files/direct-payments-learning-lessons.pdf

1.3 How transferable are the DPDP findings to a Universal Credit context?

The DPDP has provided important information and lessons about the impact of direct payment. The purpose of generating learning is so that direct payment can be rolled out successfully as part of UC. Before considering the implications of the findings summarised in this report – for landlords, for tenants, for other stakeholders and for the development of UC – it is useful to reflect, therefore, on how transferable these findings are to a UC context. In answer to this question, the following differences need to be considered.

- UC has a far longer lead-in time than the DPDP, and learning has now accrued. The purpose of the DPDP was to test direct payment ahead of roll-out as part of UC. Direct payment in the DPDP was introduced without the benefit of learning, while direct payment as part of UC will be introduced having considered a body of evidence and learning over a significant period of time.
- Support structures were not well developed when the direct payment went live in the DPDP.[11] Few tenants received advice or support before going onto direct payment in the early months of the DPDP, and understanding about the type of support likely to be most effective was limited. The value of support has been considered further as part of UC policy development, a Personal Budgeting Support process developed which is being tested in the UC Pathfinders, and a Local Support Services Framework developed, setting out an approach to build local partnerships to support people moving onto UC.
- Some of the budgeting strategies employed by tenants to manage direct payment will need to be revised under UC. Receiving HB directly, but separately from other income sources, is very different to receiving it as part of a single monthly benefit payment. Ring-fencing income to expenditure (the 'jam jar' approach), juggling payments and income through the month (e.g. 'borrowing' from the HB for food but repaying the following week with the Child Benefit) and operating short budgeting cycles were all common techniques employed by tenants. Tenants will need to develop new financial management and budgeting strategies, or find ways to replicate current systems under UC (for example, opening several bank accounts or using internet banking to move money around). On the other hand, some tenants may find budgeting easier once their income from benefits is rolled into one monthly payment.
- The process for assessing tenants' readiness for direct payment under UC will be different to that employed by the DPDP. Some tenants who were put onto direct payment in the DPDP, and who subsequently did not manage, are likely to be safeguarded under UC.
- In the DPDP, administration of HB was the responsibility of local authorities and data sharing between them and landlords was commonplace. Under UC the responsibility for administering HB (or the housing component of UC) will pass to DWP. The close relationship between landlords and HB staff, their local presence and knowledge, and the sharing of information about claimants proved key to effective implementation of the DPDP. It is not clear what the consequences of this change will be.
- In the DPDP landlords knew which of their tenants were in receipt of HB (and direct payment) and could monitor their rent accounts and target support and other interventions accordingly. At the time of writing it was not clear whether landlords will have this information once HB is subsumed within UC.

---

11 Putting in place adequate support for claimants has been a key concern for UC.

- In the DPDP, Project Areas were testing different switchback 'triggers' – one month, four weeks, eight weeks and 12 weeks. Some also employed additional triggers to capture persistent underpayers. Switchback triggers affect the amount of arrears that can accrue. Under UC the switchback trigger will be two months.[12]
- In the DPDP, landlords took the lead in engaging with tenants, assessing their readiness for direct payment, identifying support needs, collecting bank details and so on. This placed considerable pressure on landlords in the early phases of implementation. Under UC, the role of landlords in these processes is limited and the responsibility will fall to DWP.
- Direct payment was not mandatory in the DPDP. Tenants were not given a choice to 'opt out' but, in practice, a tenant could avoid direct payment by refusing to respond to requests for bank details. Under UC, a tenant's benefit claim will not be processed and UC will not be paid if they do not engage. Engagement may, therefore, be easier and less resource intensive under UC. However, little is known about the characteristics of non-engagers in the DPDP so it is possible that their participation in the DPDP would have altered the results (for example, if they are particularly good money managers the overall impact on arrears may have been less, or if they are particularly vulnerable it may have been more).

The context in which direct payment was implemented in the DPDP, and some of the systems and processes employed, will be different when direct payment is rolled out as part of UC. The lessons to emerge from the DPDP are crucially important, but the 'results' – the ease or difficulty with which the programme was implemented, the arrears that accrued and the patterns of underpayment – will not be identical.

1.4 What approach did the study team take to the research?

The study team employed a mixed methods approach which involved four principal elements:

- **Tenant surveys**. A key element of the study was three (face-to-face) household surveys:
  - a 'baseline' (or first stage) survey of 1,965 tenants in the six Project Areas was conducted between May and July 2012;
  - a second stage, follow-up survey of 1,844 tenants (including 1,227 who were surveyed in the baseline survey) was undertaken between June and November 2013;
  - a third and final survey took place early in 2014, which involved 650 tenants being interviewed, 459 of whom had participated in the baseline and second surveys.

  As part of the work on underpayment, the study team also undertook a telephone survey of trigger 3 and 4 'underpayers'. This involved 95 tenants being interviewed in the autumn of 2013. Owing to the relatively small number of completed interviews, the results of this survey should be treated with a degree of caution and be seen as indicative not authoritative.

---

12 See: *The Government Response to the Communities and Local Government Select Committee Report: Implementation of Welfare Reform by Local Authorities*. Presented to Parliament by the Secretary of State for Communities and Local Government by Command of Her Majesty. June 2013. Cm 8635. Available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/228845/8635.pdf

- **Rent Account Analysis (RAA)**. This entailed the analysis of the rent accounts of all those tenants who went onto direct payment under DPDP and those of a comparator sample at two points in time – 12 months into the DPDP programme and its conclusion.
- **Qualitative work with tenants**. This encompassed a number of strands, including: a panel of six tenants in each area who were interviewed face-to-face in June/July 2012, January/February 2013, June 2013, and January/ February 2014, and with whom regular telephone contact was maintained; a panel of two tenants in each area who had switched back to landlord payment, interviewed in January 2013, June 2013 and January 2014, and with whom regular telephone contact was maintained; and face-to-face interviews with at least 24 additional tenants across the six Project Areas in January 2014. In addition, the study team also undertook bespoke qualitative exercises, which involved interviewing in-depth members of groups of particular interest to it and DWP: 'new' tenants (i.e. those tenants who have been put onto the programme since August 2013) and 'underpayers'. In all, more than 180 in-depth interviews were conducted with tenants over the course of the evaluation.
- **Qualitative work with stakeholders**. This included: telephone interviews with representatives of national stakeholder organisations, such as lenders, credit rating agencies,[13] and money management and budgeting advice organisations, conducted in two waves at the beginning and towards the end of the evaluation; focus groups with DWP officers (in February 2013 and January 2014); interactive feedback events, which brought together stakeholders from the six Project Areas (in January 2013, December 2013 and March 2014); and a local stakeholder panel comprising approximately six key officers in each Project Area who reported on emerging issues, through face-to-face and telephone interviews and emails, between June 2012 and early 2014. In all, 125 in-depth interviews were conducted with stakeholders over the course of the evaluation.

1.5 What outputs have the study team produced? And where does this output 'fit' amongst them?

In addition to five (succinct) Learning Reports, which were published on the Chartered Institute of Housing-administered learning network associated with the DPDP programme,[14] the study team has produced the following written outputs:

- *Direct Payment Demonstration Projects: Findings from a baseline survey of tenants in five Project Areas in England and Wales*. This report, which was published in 2012, highlighted the key findings to emerge from the 'baseline survey'. It can be downloaded from the DWP website at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/193327/rrep822.pdf
- *Direct Payment Demonstration Projects: Learning the lessons, six months in*. This report, which was published in May 2013, was the first of three extended learning reports produced by the study team. It focused on highlighting the key learning to emerge from the first six months of the programme being 'live'. It drew solely on qualitative material

13 In all, 16 interviews were conducted with representatives of lending and credit rating institutions.

14 See: www.cih.org/directpaymentslearningnetwork

garnered from stakeholders and tenants. The report can be downloaded from the DWP website at: www.shu.ac.uk/research/cresr/sites/shu.ac.uk/files/direct-payments-learning-lessons.pdf

- *Direct Payment Demonstration Projects: 12 months in extended learning report*. This report, which was published in July 2014, highlighted the key learning to emerge from the first 12 months of the programme being 'live', i.e. from June 2012 until June 2013. While it made extensive reference to qualitative material gathered from a range of sources, it also drew on quantitative material, specifically data generated from the stage 2 survey and rent account data. The report can be downloaded from the DWP website at: www.gov.uk/government/publications/the-direct-payment-demonstration-projects-dpdp
- *Direct Payment Demonstration Projects: Key findings of the 12-months' Rent Account Analysis exercise*. This report, which was published in July 2014, was the second of the extended learning reports produced by the team. It highlighted the key issues to emerge from the 12 months' RAA exercise. It analysed rent account data generated for the first 12 months of the DPDP programme being 'live', i.e. from June 2012 until June 2013. The report can be downloaded from the DWP website at: www.gov.uk/government/publications/the-direct-payment-demonstration-projects-dpdp
- *Direct Payment Demonstration Projects: Report from the stage 2 survey of tenants*. This report, which was published in July 2014, highlighted the key findings of the second stage tenant survey. It can be downloaded from the DWP website at: www.gov.uk/government/publications/the-direct-payment-demonstration-projects-dpdp
- *Direct Payment Demonstration Projects: Rent underpayment*. This report, which was published in July 2014, was concerned with highlighting the key issues to emerge from the research into underpayment. It drew on data generated from: landlord rent accounts; a telephone survey of underpayers; and in-depth interviews with 20 tenants who took part in this survey. The report can be downloaded from the DWP website at: www.gov.uk/government/publications/the-direct-payment-demonstration-projects-dpdp
- *Direct Payment Demonstration Projects: The longitudinal survey of tenants*. This report, which has been published at the same time as this report, presents the key findings of the third stage tenant survey. In doing so, data gleaned from this survey is compared with that derived from the 'baseline' and second stage surveys.
- *Direct Payment Demonstration Projects: Key findings of the 18-months' Rent Account Analysis exercise*. This report, which has been published at the same time as this report, presents the key findings to emerge from the 18 months' RAA.

1.6 What do I need to know about this report?

Before highlighting the report's key findings, it is important to note the following about it:

- This report synthesises the key findings to emerge from the evaluation that have relevance for the roll out of direct payment under UC. As such, it sometimes repeats those early results that remained valid or unchanged at the end of the programme, and which have been previously reported. It updates other results and trends, for example, rent collection rates to reflect the full 18-month DPDP period, and it offers new insights, particularly into those issues that could only be assessed, identified and evaluated over a longer timeframe. These include the risk factors associated with arrears, the impact of welfare reforms on delivery of direct payment, and the extent to which direct payment has affected behaviour change – for example, improved money management skills – amongst tenants.

- Notwithstanding this, quite intentionally and for reasons of accessibility, the report does not present all the analysis undertaken by the study team over the last three years but instead highlights its most important findings. It is therefore important to read the report alongside the others produced by the team.
- It pays particular attention to highlighting any learning to emerge from the last six months of the programme and since the publication of the *12 Months In Extended Learning* report. As such, it effectively acts as the last of the three extended learning reports produced by the team.
- Given its focus on highlighting learning, the report focuses on presenting programme-wide level findings and learning. However, where there are significant differences at the area level, these are highlighted.

One of the primary objectives of the DPDP programme was to inform UC development. However, because of differences between the programmes, not all the lessons to emerge from the DPDP are directly transferable to UC and in the context of this report, where this is the case this is flagged up. Nevertheless, as noted earlier, there are many similarities between the two programmes not least tenants receiving a monthly payment.

1.7 What does existing research tell us about direct payment of Housing Benefit to social housing tenants?

The existing literature on HB sheds relatively little light on direct payment in the context of social housing. This is despite there being a rich history of academics undertaking research on HB, which is reflected in a number of excellent publications on the subject – see for example, King (1999), Kemp (2000), Priemus and Kemp (2004) and Stephens (2005). It is true that academic interest in HB has grown in recent times but the focus of this interest has been on the impact of the introduction of the Local Housing Allowance, a key element of which is the direct payment of HB to private tenants (see Beatty et al., 2012; Beatty et al., 2014a, 2014b, and 2014c). Furthermore, the growing literature on the impact of welfare reforms is relatively silent about the likely impact of the introduction of direct payment (see for example, Beatty and Fothergill, 2013a,b and c; NHF, 2012 and 2014; Wilcox, 2014).

This silence is not surprising because landlord payment has been the norm for most social housing tenants. However, direct payment was trialled by London and Quadrant Housing Trust (LQHT) in 2002. The Trust included 800 tenants in a pilot testing out two approaches to direct payment that lasted for a year. One of the key findings of the pilot, which were never formally published, was that arrears increased from three per cent to seven per cent over the course of the programme, peaking at nine per cent (Donaldson, 2004). The pilot also found that there were additional transactional costs associated with the direct payment, which amounted to approximately £300,000, with further costs accruing as a result of *'additional staff time* [incurred] *pursuing individual residents for their arrears'*. (Donaldson, 2004, p21).

However, the findings of LQHT should be treated with caution and should be seen as being indicative not authoritative. This is because of the relatively small number of tenants who took part in the pilot; the lack of a robust counter-factual (i.e. a comparator sample of tenants); and the relatively limited data collection exercise undertaken by LQHT.

The other noteworthy research undertaken into direct payment in the social housing sector was undertaken by Peter Kemp and colleagues at the University of Oxford on behalf of the Joseph Rowntree Foundation. This important piece of research, which was conducted in 2007, examined how 82 claimants, 42 of whom were renting from social housing landlords, thought they would fare under direct payment. The study found that most study participants had a preference for landlord payment, although *'many did not think that it would be particularly difficult to adjust to receiving HB and paying full rent to their landlord'.* (Irvine *et al.*, 2007, p4). While the study provides a valuable insight into how tenants might fare under direct payment, highlighting groups which were likely to find it more challenging, it sheds no light on how they do in practice.

This is something that the DPDP evaluation (and this report) does do, which, in addition to highlighting the key learning from the DPDP programme, seeks to add to knowledge of direct payment in the social housing sector. It does so by drawing on one of the most comprehensive and robust data sets ever compiled on the impact of HB reform, or indeed, any welfare reform.

Given this, it is hoped the report will be of interest for academics researching in the fields of HB and welfare reform. And with the roll-out of UC beginning to gain momentum, it should also be of interest and relevance to a wide range of stakeholders including Government, regulators of social housing in this country, social housing landlords, lenders, support agencies, and tenants.

1.8 How is the report structured?

The report is divided into eight chapters, including this one. Chapter 2 explores how the DPDP areas implemented direct payment, in doing so highlighting some of the challenges they faced. Chapter 3 examines how tenants managed on direct payment, drawing on a range of data sources to do so. At the heart of the chapter is analysis which highlights the key drivers of managing on direct payment. Chapter 4 highlights the key findings to emerge from the bespoke research the study team undertook for DWP into an issue that was of particular interest to it: underpayment. Chapter 5 highlights the impact of direct payment on tenants, exploring whether it resulted in any behavioural changes, while Chapter 6 examines the impact of direct payment on landlords. In doing so it highlights the cost of direct payment to landlords, including how direct payment impacted on arrears. Chapter 7 offers some suggestions on how direct payment under UC may pan out while the last chapter highlights the key learning to emerge from the study.

1.9 What are the key terms used in the report?

Some of the language associated with the DPDP programme may seem a little opaque to people not familiar with it,[15] so it is helpful here to provide definitions of some of the key terms used in this report, noting that a list of all the key terms used in the report can be found in a glossary at the beginning:

- **Baseline (or first stage) survey**: This was a household survey that was undertaken at the beginning of the evaluation in order to generate a 'baseline' position for tenants in the Project Areas. It involved 1,965 tenants being interviewed by researchers from Ipsos MORI between May and July 2012;
- **Direct payment**: the payment of Housing Benefit (HB) directly to tenants;
- **Landlord payment**: The payment of HB directly to landlords;
- **Payments**: This represents all credits – rent payments and third party payments, such as water bills – to rent accounts;
- **Rent Account Analysis (RAA)**: The analysis of landlords' rent accounts, as highlighted earlier;
- **Rent arrears**: These are accrued when rent payments over a given rent payment period are less than the rent owed;
- **Rent payment periods**: These are a construct devised by the study team to facilitate its RAA. They comprise four week periods, or a month in the case of Edinburgh, over which landlords would expect tenant rent accounts to balance;
- **Rent payment rate**: This is the rate of period rent payments to rent owed, with the value rent indicating the percentage of debits accounted for by credits in the period;
- **Safeguarding**: This was the process by which tenants who were assessed as being unsuitable for direct payment were removed from the DPDP programme;
- **Stage 2 tenant survey**: This was a survey of DPDP tenants undertaken towards the end of the first year of the programme. It involved 1,827 tenants being interviewed by Ipsos MORI, 1,218 of whom had been interviewed as part of the baseline survey;
- **Stage 3 tenant survey**: This was a survey of DPDP tenants undertaken at the end of the programme. It involved 650 tenants being interviewed by Ipsos MORI, 459 of whom had participated in the baseline and second surveys;
- **Switchback**: This was the transferral of a tenant who had fallen into arrears whilst on direct payment back to landlord payment after a switchback 'trigger point' (see below) had been 'hit';
- **(Switchback) trigger point**: This was the length of time that elapsed before tenants returned to landlord payment in demonstration projects. The trigger period varied across the six demonstration projects.

---

15 DPDP and UC share some key terms. However, they interpret some of them in (slightly) different ways. It is therefore important to note that this report adopts the DPDP language and definitions.

2 Delivering direct payment

2.1 Introduction

This chapter outlines how the Direct Payment Demonstration Projects (DPDPs) delivered direct payment. In doing so, it explores their experiences of direct payment and the challenges they faced. While the chapter focuses on the landlord experience across the programme as a whole, it pays particular attention to their experiences during the DPDP transition stage, i.e. the stage where tenants were prepared for, and put onto, direct payment. It is important to note that the chapter also explores the payment methods used by tenants to pay their rent, in doing so exploring the prevalence of bank accounts.

2.2 What was the programme design process? And how well did it go?

With the aim of being a collaborative and participant-led programme, the DPDPs' design and implementation process was not preordained by the Department for Work and Pensions (DWP). Many implementation decisions were taken and processes designed collaboratively through a series of design workshops with Project Areas. Input from Project Areas was invaluable, resulting in a programme of activity more feasible and less likely to face insurmountable challenges than if they had not been integral to the design process.

Project Areas were selected six months before the DPDPs went live, a timeframe that did not permit distinct and consecutive design and implementation phases. These phases effectively had to be 'concertinaed', raising resource and project planning issues as well as challenges with front-line delivery. For example:

- design and implementation work placed significant demands on Project Area stakeholders' time. Some expressed the view that the burden would have been eased if DWP had prepared more extensively before bringing them on board;
- certain implementation activities had to be prioritised – for example, engaging with tenants and assessing their readiness for direct payment – leaving others trailing. Support mechanisms were not, for example, fully in place when DPDP went 'live' in June 2012;
- front-line staff were sometimes unable to respond to tenant queries, for example, regarding timescales for transferring onto direct payment. Nor were they always able to communicate sufficient detail to local support agencies so they could accurately advise tenants who independently sought advice from them.

Reflecting on these issues and the challenges encountered preparing for 'go live' it became clear that six months was not long enough to design and prepare for direct payment.

2.3 At the beginning of the programme, how did landlords communicate with tenants? How well did this process go?

It was not possible to implement the DPDPs without direct contact with tenants. Local authorities needed tenants' bank account details to administer payment of HB and landlords required information from tenants to help them identify those in need of support. This process began three months prior to 'go live'. Engaging with tenants proved to be a more challenging element of the preparation for direct payment than anticipated. Despite numerous letters and a variety of personal contact methods (phone calls, home visits, texts), one-third of tenants had not engaged when the DPDPs went live. A few months later this figure had reduced substantially suggesting that a period of six months would have been a more realistic timeframe to engage, assess and process tenants ready for direct payment. But limited lead-in time is only part of the picture. Other factors which help explain the challenges encountered include:

- **The non-mandatory nature of the DPDPs** (in contrast to the way in which Universal Credit (UC) will operate) contributed to non-engagement. For example, some tenants made a conscious decision not to respond to letters to avoid being transferred onto direct payment. And, over time, some Project Areas' written communication became more forceful, and these tactics were effective in prompting some tenants to engage.
- **The limitations of written communication.** Most Project Areas initially relied on letters to engage with tenants although all subsequently used various forms of personal communication. Project Areas found that using multiple methods of communication was important in terms of responding to tenant preferences and achieving good response rates. There is evidence that tenants prefer personal communication and that it is effective for engaging with them. However, very few landlords have the capacity or resources to contact all of their tenants personally.

2.4 How were tenants selected to go onto direct payment?

In order to assess tenants' readiness for direct payment, a support assessment matrix was devised which gathered information on criteria believed to indicate tenants' readiness for direct payment.[16] On the basis of this information, Project Areas generated scores for their tenants, allowing them to identify those ready for direct payment and those in need of support. Project Areas agreed that an assessment tool was a useful way of assessing tenants' readiness for direct payment but that the matrix used for the DPDPs was not particularly workable or effective. More specifically:

There was an expectation that landlords and local authority departments would hold much of the data needed to complete the matrix. However, departmental systems were not always compatible, data from other departments not readily accessible, landlord data revealed far less about their tenants than they and DWP had anticipated, and the data that did exist was not always compatible with the requirements of the matrix. Mining individual tenant records was too time-consuming for many landlords (although some did so) and primary data

[16] It should be noted that this tool was specific to DPDP and will not be used under UC.

collection – i.e. gathering information directly from tenants – resulted in imperfect information and was dependent upon being able to engage with tenants.

The criteria used were not accurate predictors of financial capability and, therefore, of readiness for direct payment. As will be explored later in the report, tenants who accrued arrears were not always those whom landlords expected to struggle, and many tenants assessed as higher risk managed well. Landlords with a good working knowledge of their tenants reported that the scores generated did not always match their views of tenants' financial vulnerability. Their view often proved more accurate.

2.5 How did landlords find the direct payment transition stage?

By the end of the first 12 months of the programme more than 7,000 tenants had received direct payment of HB across the six Project Areas[17]. This was no mean feat. It quickly became apparent, during the project set-up phase, that the task of designing and preparing for direct payment was more extensive than anticipated. As was highlighted by the support assessment process, landlords did not hold the data about their tenants that DWP expected them to, and they did not know as much about their tenants' circumstances as they thought they did. Gathering basic details and bank account numbers from tenants was a long and arduous task, there were IT issues to resolve, and relationships with local support providers and financial product providers to develop. Meanwhile, programme design was still ongoing.

During this intensive early phase of the project there were frustrations and challenges. Project Area stakeholders were surprised that more design work had not been done prior to selecting the DPDP Project Areas and felt DWP's expectations and timescales were unrealistic. DWP, meanwhile, were surprised that social landlords were not able to draw down more information about their tenants to help with early engagement and assessment.[18] Some mistakes were made (for example, administrative errors) and lessons quickly learnt.

However, by June 2012 (August in the case of Edinburgh),[19] when the DPDP was due to 'go live' all Project Areas were ready to make their first direct payment of HB. Fewer tenants were ready to be transferred onto the new system than originally projected and some elements of DPDP preparation had not been given full attention (developing support structures, for example) but the Project Areas and DWP had achieved a great deal in a limited timeframe.

This early phase of the DPDP proved the most challenging to local stakeholders. About six months after 'go live', stakeholders in the Project Areas reported being in 'steady state'. Challenges remained and there was work still to be done but the process of administering direct payment and collecting rent was running relatively smoothly, allowing Project Areas

---

17 The remaining tenants in scope were not put onto direct payment because they failed to engage (for example, they did not respond to efforts at contact, or did not provide bank details) or were assessed as not being ready for direct payment or needing support before moving to the new system.

18 See *Direct Payment Demonstration Projects: Learning the lessons, 6 months in*, DWP Research Report No. 839 – Publications – GOV.UK for a more detail discussion of the challenges encountered during the preparation phase of the DPDP.

19 Edinburgh joined the DPDP later than the other Project Areas.

to shift their attention to longer-term activities and challenges. This included working with tenants who had been safeguarded, developing support structures, and restructuring or expanding staff teams to meet the ongoing demands of direct payment. Having learnt lessons from the early phase of the DPDP programme some Project Areas, for example, restructured rent teams, separated the rent collection function and tenancy support function more clearly, increased capacity in some teams, particularly in income and tenancy support teams, reduced housing officer 'patch' sizes, and employed a DPDP project manager. Once the administrative side of implementation was running smoothly, Project Areas were able to make, and test, these kinds of operational changes to determine those that were most effective locally.

2.6 How did Project Areas deliver and manage the DPDP?

Each of the Project Areas had a project lead and manager, although not all managers were in place during the transition phase, which added to its complexity. Many of the participating landlords also appointed DPDP lead officers. Some also appointed new staff to work on the programme, most of whom fulfilled administrative and support functions. In addition to staff working directly on the programme, other staff members also contributed to its delivery. As a result, some landlords reported that the DPDP programme had had an adverse knock-on (or displacement) effect on the services provided to tenants outside the programme, as staff members spent a disproportionate amount of their resource on the DPDP programme – as will be explored in-depth in Chapter 6, direct payment was perceived by local stakeholders to be relatively resource intensive.

2.7 Did landlords change their approach to rent collection and arrears recovery for the DPDP?

When asked whether they had changed their approach to rent collection and rent arrears recovery under DPDP, half of landlords reported that they had not and were adopting a 'business as usual' approach. While in many respects this was an accurate reflection of what happened – for example, they had sought to recover the monies owed to them by tenants who had fallen in arrears under DPDP and had evicted tenants who did not repay them[20] – in some respects this was most definitely not the case. Specifically, and as will be explored in more depth later in the report, they had devoted more resources to rent collection and rent arrears than was normally the case. And they had also utilised new communication methods, such as SMS messaging, had more contact with their tenants, and devoted more resources to finding out about them.

The other half of landlords explicitly recognised that their approach to rent collection and arrears had changed, highlighting in particular the additional resources that they had needed to devote to the task.

---

[20] It is important to note that landlords' approach to eviction varied, with some being more reluctant to evict DPDP tenants than others, with the Scottish-based landlord being particularly reluctant to do so.

2.8 How did landlords support tenants for direct payment? And what did this support entail?

In the context of the DPDP programme and the evaluation, support is a catch-all term used to describe two activities: advice and support, although the distinction between them is blurred, with landlords interpreting them in different ways. Advice tended to be provided on a one-off and ad hoc basis and confined to basic, functional tasks such as setting up a Direct Debit. Support, on the other hand, tended to be more systematic, was more likely to be continuous and related to 'higher order' tasks such as debt management and budgeting. Project Areas were tasked with providing tenants with support and advice in two contexts: preparing and making them ready for direct payment; and helping to ensure that once on direct payment, they remained so.

2.9 What role did support play in helping tenants manage on direct payment?

For most tenants, support did not play a role in helping them to manage on direct payment: the stage 3 survey found that 84 per cent had not received any. This is broadly in line with data generated from the baseline survey, which found that only 24 per cent of tenants thought that they would require support to help them manage on direct payment.

2.10 Of those tenants who have received support, what support did they receive?

Not unexpectedly, the areas where tenants had received support varied over the course of the programme. At the end of the first 12 months of the programme, the most common areas were: managing rent payments (which was cited by 31 per cent of respondents to the second tenant survey who had received support and who were on direct payment at the time of the survey); household budgeting (23 per cent); using bank accounts (20 per cent); and opening bank accounts (19 per cent). However, at the end of the programme, the most commonly cited were: managing rent payments; using bank accounts; and money management.

2.11 Who provided the support?

The stage 2 survey[21] revealed that two-thirds of support was provided by just two providers: the 'local council' (38 per cent) and landlord (29 per cent). The next most commonly cited providers were 'other advice service' (11 per cent) and 'family and friends' (nine per cent). Perhaps surprisingly, only four per cent of respondents had received advice from a Citizens Advice Bureau.

21 This question was not asked in the stage 3 survey.

In terms of the nature and form of support provided by providers, qualitative data collected by the evaluation team suggests that landlords tended to offer basic, one-off support, such as providing advice on how to set-up a bank account or a Direct Debit, with more complex and comprehensive support being outsourced to specialist, external agencies. However, there is evidence to suggest that this dichotomy became less marked as the DPDP programme progressed as landlords increasingly undertook more complex support tasks.

2.12 What has been the experience of Project Areas in terms of support provision?

Landlords found that providing support to tenants was relatively resource intensive and time consuming. This was because of the numbers of tenants who wanted support and the intensity of the support required. However, it is important to remember that by the end of the programme DPDP landlords had a much clearer understanding of the support needs of their tenants.

Many tenants who requested support did not take-it up, which was a source of frustration for Project Area officers. There were a number of reasons for this. These include the form that support took, with ‘one-on-one’ personalised support having a higher take-up rate than collective approaches such as workshops, seminars, or surgeries. The time delay between support being commissioned and provided, which resulted in some tenants being unclear about what was being offered to them or feeling that they no longer required it, appeared to be another contributory factor. One local stakeholder argued that low take-up was also a result of some tenants requesting support as a ruse to delay their entry onto the DPDP programme: *‘We’ve had a high number of non-engagers. Some may have sought advice as a means to delay participating in the project’*.

It is difficult to assess the impact of support interventions. This is because, reported a number of officers, there was a dearth of information about the impact of support provision, particularly if provided externally. And there was frustration amongst officers in the Project Areas that they had little sense of what was working, when, how and why.

Many tenants have very little understanding of banking products and how to bank. However, as will be explored in Section 5.3 of Chapter 5, this changed over the course of the DPDP programme.

A benefit of the support process was that by the end of it landlords were much more aware of the support needs of their tenants. Furthermore, it had brought them into contact with more tenants. A corollary of this, is that by the end of the programme participating landlords knew much about their tenants, as will be explored in Chapter 6.

2.13 What was the impact of support? Did it make any difference?

This important issue is explored in Chapter 3.

2.14 What payment methods were used by tenants to pay their rent?

As Table 2.1 illustrates, the most common method used by tenants to pay their rent was rent payment card which was the preferred payment method of a third of tenants. The next most common payment methods were: cash (30 per cent); and debit card (17 per cent). Perhaps surprisingly given that it was the preferred payment for DPDP landlords, only 17 per cent of tenants paid by Direct Debit. Many of those tenants who paid by Direct Debit adopted the good practice money management practice of synchronising their HB and rent payments, so that they did not 'see' it, thereby lessening the temptation for them to spend it.

Table 2.1 Methods tenants normally used to pay their rent

Payment methods	Follow-up sample at stage 1
Cash ***	30
Postal order	0
Cheque	0
Debit card	17
Credit card	0
Standing order **	3
Direct Debit	17
Electronic transfer from e-bank account	1
Rent payment card (e.g. Allpay)	33
Other	2
Base: excludes tenants on landlord payment whose HB covers all of the rent	*126*

Tenants could mention more than one method.
Statistical significance: *** $p<0.001$; ** $p<0.05$.

It is important to note that the prevalence of payment methods changed over the course of the programme – how they did so is explored in Chapter 5.

2.15 How many tenants had bank accounts? And how did they use them?

The stage 3 survey revealed that exactly nine out of ten tenants had at least one bank account. Again, as will be explored in Chapter 4, the proportions doing so changed over the course of the study. Data garnered from the stage 3 survey revealed that:

- three-quarters of tenants with bank accounts used them to pay at least one bill by Direct Debit or Standing Order;
- 36 per cent of tenants who paid any bills by Direct Debit reported that they paid rent by this method;
- 12 per cent of tenants with a bank account had one that they used to receive HB or pay the rent;

- 17 per cent of tenants were overdrawn on a bank or building society account. Tenants who were still on direct payment (12 per cent) were the least likely to be overdrawn. Those who had been on direct payment and had come off it (23 per cent) and those that had never been on it (21 per cent), were most likely to be overdrawn. Further information about the final circumstances of DPDP tenants is provided in Chapter 3.

2.16 What factors facilitated the effective delivery of direct payment?

The following factors emerged as key in the effective management and delivery of direct payment in the DPDP. The question is whether these can be preserved, or replicated in a UC context.

- **The relationship between HB departments and landlords**. The cooperation and close working between HB departments and landlords has been crucial for effective implementation in the DPDP. There was frequent contact and communication between landlords and HB departments throughout the programme and landlords valued the local knowledge and presence of HB staff. As one HB manager explained: *'we are in constant communication about these cases, and we know the landlords, and their issues and their tenants'*. The switchback process (or, more specifically, ensuring people were switched back promptly) sometimes relied upon landlords' relationship with, and access to, HB staff. In most cases, HB staff and landlords were able to share claimant data and local stakeholders emphasised that data sharing was key to the smooth running of the DPDP.
- **A dedicated Project Manager**. Few Project Areas started out with a dedicated Project Manager but all ended up with one, which is testament to the value of strong governance structures, particularly in the intensive early implementation phase. In the words of one DWP Relationship Manager, reflecting on the benefits of strong project management, it is important that someone is *'responsible for drawing together the whole view, having a collective activity plan, project plan and be that person to draw it together'*. In terms of the nature of their roles, they engaged in two activities: project management, which involved coordinating the activities of participating landlords, and being the principal conduit between the Project Area and DWP; and implementing and sustaining direct payment activities in their area.
- **Additional resource**. All Project Areas highlighted the importance of allocating additional resource to the programme with all noting that it was relatively resource intensive. Most participating stakeholders emphasised that the effort, focus, and resource associated with the DPDP would be difficult to maintain. However, it is important to note that it was the business of the DPDP to learn how to deliver direct payment, in order that other organisations could do so more readily, easily and effectively. With the right design, and the right systems in place, when direct payment is rolled out it should not require the same level of resource.

2.17 What were the key challenges faced by landlords and other stakeholders?

- **Engaging with tenants.** Much effort went into contacting the 12,000 tenants brought into scope for the DPDP and approximately one-third had still not engaged (i.e. not responded or refused to comply with requests) by the time the DPDP went 'live'. By the seventh direct payment of HB approximately 1,500 had not engaged. Of the 536 tenants surveyed at the end of the first 12 months[22] who had never gone onto direct payment, 24 per cent reported not responding to attempts at contact. Evidence from the tenant panel suggests that some non-responders resisted contact as a strategy for maintaining the status quo, seeking to avoid direct payment. Nearly one-quarter (23 per cent) of stage 2 survey respondents reported never having been contacted, despite the fact that all tenants were sent letters several times. Engaging with tenants presented a real challenge in the DPDP but is unlikely to be as much of an issue for UC. Direct payment in the DPDP was not mandatory and there were no sanctions against those who did not engage. The situation will be very different under UC, as one stakeholder explained: *'when UC happens, people will go to the end of the world to get in touch with us and give us their bank details because they will want their money'*.
- **Assessing tenants' readiness for direct payment and forecasting who will manage and who will fail.** In order to target rent collection activity, minimise the financial risk associated with direct payment, and safeguard the most vulnerable tenants, landlords (and DWP, in a UC context) need to be able to identify those tenants most at risk of accruing arrears and the factors driving underpayment. However, this task proved highly problematic and assessment processes trialled in the DPDP to identify those ready for direct payment and those unlikely to manage without support were not wholly effective[23]. Some tenants assessed as 'high risk' managed well, paying their rent fully, and some assessed as 'low risk' did not. As one stakeholder explained *'It wasn't the people I expected to fail with direct payment have failed … I was really shocked … some of the people who have failed with direct payment you just wouldn't have expected and have no history of rent arrears'*. Identifying risk to direct payment was one of the primary aims of the evaluation, and it is an issue that is explored in-depth in subsequent chapters.
- **Securing trust and commitment from tenants.** Support from claimants is not a necessary condition for delivery of direct payment (or UC). However, it does influence engagement, willingness to establish payment methods that help keep arrears low (for example, Direct Debits), and willingness to accept support to manage direct payment. There was little support from tenants for the policy, and little confidence that the system would work (i.e. pay the right amount of benefit into the right bank account at the right time). Amongst those who stopped receiving direct payment, 78 per cent of respondents to the stage 2 survey[24] reported wanting to leave the programme. It is not surprising, then, that Project Areas struggled to engage switchback tenants in support to help them 'switch-forward' (i.e. return to direct payment). Over half (58 per cent) of the tenants surveyed as

---

22 Second stage data is used here as this question was not included in the third stage survey.

23 DWP developed a support assessment tool which was used by Project Areas to determine a tenant's readiness for direct payment. Some Project Areas adapted this tool or used supplementary information and methods to assess tenants.

24 This question was not asked in the stage 3 survey.

part of the stage 3 survey who were on direct payment expressed a preference for landlord payment, 22 per cent expressed a preference for direct payment and 21 per cent had 'no opinion'. Amongst those not on direct payment (including tenants who received direct payment but switched back) when surveyed only six per cent expressed a preference for direct payment (89 per cent expressed a preference for landlord payment).

- **Effective rent collection and arrears recovery using existing IT systems.** The IT systems used by most Project Area landlords did not have the reporting capabilities necessary to manage direct payment in the most efficient way. Landlords need to target collection and recovery action and devise strategies and tools for early intervention. This is only possible if system reporting functions can support relevant queries (for example, looking at variable date ranges rather than fixed cycle periods) and landlords can begin to unpick tenants' individual payment patterns over time. One landlord, for example, explained that until they made recent changes to their system, hundreds of cases of rent arrears were revealed each month with only a proportion requiring intervention. A Housing Officer manually sifted the cases to identify those where action was needed. In some Project Areas, identifying tenants to be switched back was undertaken manually: *'Switchbacks are very laborious. Every month XX* [staff member] *has to spend three or four days doing this as everything has to be done manually ... it's a real pain'*.[25]
- **DWP's limited understanding of how social housing landlords operated at the beginning of the programme.** The social housing sector is very diverse with landlords' operational practices differing markedly. Notwithstanding this, there was consensus amongst stakeholders in the Project Areas that, at the beginning of the programme, DWP's lack of understanding of how social housing landlords operated impacted on the design, development, and implementation of the DPDP. This point was also acknowledged by a Relationship Manager at DWP *'We didn't understand what their standard business was … cos it was being done through the vehicle of existing council benefit process it is the local authority process …* [it] *is revs and bens and housing in the local authority area and so we don't have that expertise … So we had to think about the process we wanted. But we needed their [landlords] direct input to understand what the practicalities were and how they would manage their 2,000 tenants against the rest of their business, and make it work in terms of all the stuff like the IT and all the other things over and above. So we couldn't have done it without them.'* However, the DPDP programme provided DWP with an important opportunity to develop its understanding of the housing sector, and to spread that learning more widely for the benefit of tenants and landlords
- **Complex payment patterns, which made it difficult to develop early interventions or preventative measures.** As will be explored later in the report, the payment patterns that resulted in rent arrears during the DPDP programme were far more complex than anticipated, with tenants not falling neatly into 'good' and 'bad' payers.

25 It is important to remember that these findings are specific to DPDP and, in this respect, UC will not function in this way.

2.18 Summary

- With the aim of being a collaborative and participant-led programme, the DPDPs' design and implementation process was not preordained by DWP. Many implementation decisions were taken and processes designed collaboratively through a series of design workshops with Project Areas. Six months was not long enough to design and prepare for direct payment.
- Engaging with tenants proved to be a more challenging element of the preparation for direct payment than anticipated. Despite numerous letters and a variety of personal contact methods (phone calls, home visits, texts), one-third of tenants had not engaged when the DPDPs went live.
- In order to assess tenants' readiness for direct payment, a support assessment matrix was devised which gathered information on criteria believed to indicate tenants' readiness for direct payment. Project Areas agreed that an assessment tool was a useful way of assessing tenants' readiness for direct payments but that the matrix used for the DPDPs was not particularly workable or effective.
- The task of designing and preparing for direct payment was more demanding than anticipated. About six months after 'go live', stakeholders in the Project Areas reported being in 'steady state'.
- Each of the Project Areas had a project lead and manager, although not all managers were in place during the transition phase, which added to its complexity.
- Landlords changed their approach to rent collection and rent arrears recovery under direct payment, although not all recognised this. The principal change in their approach was that they devoted more resources to these tasks than normal.
- In the context of the DPDP programme and the evaluation, support is a catch-all term used to describe two activities: advice and support. However, the distinction between them is blurred and landlords interpreted them in different ways. Advice tended to be provided on a one-off and ad hoc basis and confined to basic, functional tasks, such as setting up a Direct Debit. Support, on the other hand, tended to be more systematic, was more likely to be continuous and related to 'higher order' tasks such as debt management and budgeting.
- For most tenants, support did not play a role in helping them to manage on direct payment: the stage 3 survey found that 84 per cent had not received any.
- Not unexpectedly, the areas where tenants had received support varied over the course of the programme.
- The stage 2 survey revealed that two-thirds of support was provided by just two providers: the 'local council' (38 per cent) and landlord (29 per cent). The next most commonly cited providers were 'other advice service' (11 per cent) and 'family and friends' (nine per cent).
- Landlords found that providing support to tenants was relatively resource intensive and time consuming.
- Many tenants who requested support did not take-it up, which was a source of frustration for Project Area officers.

- The most common method used by tenants to pay their rent was rent payment card which was the preferred payment method of a third of tenants. The next most common payment methods were: cash (30 per cent); and debit card (17 per cent). Perhaps surprisingly given that it was the preferred payment for DPDP landlords, only 17 per cent of tenants paid by Direct Debit.
- The stage 3 survey revealed that exactly nine out of ten tenants had at least one bank account.
- A number of factors emerged as key in the effective management and delivery of direct payment in the DPDP:
  - the relationship between HB departments and landlords
  - a dedicated project manager
  - additional resource
- The key challenges faced by landlords and other stakeholders when delivering direct payment were:
  - engaging with tenants
  - assessing tenants' readiness for direct payment and forecasting who would manage and who would fail
  - securing trust and commitment from tenants
  - effective rent collection and arrears recovery using existing IT systems
  - DWP's limited understanding of how social housing landlords operated at the beginning of the programme
  - complex payment patterns, which made it difficult to develop early interventions or preventative measures

3 Managing direct payment: tenants

3.1 Introduction

This chapter focuses on the experiences of tenants in the Direct Payment Demonstration Project (DPDP), giving consideration to their preparedness for the change, and exploring how tenants managed while on direct payment. Crucially, it draws conclusions about the 'risk factors' associated with arrears and, in doing so, offers insight into the question of what constitutes 'vulnerability' in a direct payment context.

3.2 How well equipped were tenants to make the transition to direct payment?

Prior to the DPDPs, very few participating tenants had experience of receiving their Housing Benefit (HB) directly, although a small number of housing association tenants were doing so. A greater number were responsible for paying some rent or other associated charges to their landlord and others will have done so in the past. This applies to tenants on partial HB, those previously not in receipt of HB and those living in properties with service charges or whose utility bills are charged with their rent. However, many tenants had no experience of receiving their HB directly or paying their rent.

A baseline survey of, and interviews with tenants prior to the start of the DPDP in the summer of 2012 confirmed that direct payment was likely to represent a significant change for many and that some were not in an ideal situation to make the transition. For example:

- **prior to DPDP, many tenants were already in precarious financial situations.** For example, levels of indebtedness were high with nearly half (46 per cent) of the 1,965 tenants surveyed having rent arrears and/or other debts[26] prior to the DPDP.[27] In total, 21 per cent had existing rent arrears. Exploring the financial circumstances of members of the tenant panel revealed a similar picture – it was common for respondents to have existing rent arrears (being repaid weekly or monthly by arrangement) and to be behind with other payments including council tax, loans, catalogues, and water rates. In addition, more than half (55 per cent) of tenants surveyed reported 'often' running out of money by the end of the week or month and less than half (48 per cent) agreed that *'I am never late at paying my bills'*;
- **very few tenants had savings** to act as a buffer against unexpected expenses or interruption to income. Saving can help avoid the need to borrow money and the interest payments that go with it; and can also provide a buffer to reduce the risk of getting into arrears or other debts. There was concern amongst stakeholders and tenants that, with

[26] 'Debt' was defined as being behind with a payment for household bills or loans. It does not include loans which are being repaid in accordance with the loan agreement.

[27] In the rent account data, 59 per cent of DPDP tenants had arrears at the point of migration onto direct payment. The arrears totalled £1.9 million, which was equivalent to 2.3 per cent of their annual rent roll.

the introduction of direct payment, tenants may use HB income to pay other bills, debts, to cover unexpected expenses or the shortfall that so many encountered at the end of the week or month (see above). Such a scenario seems more likely if a tenant has no savings to fall back on. In total, 94 per cent of tenants surveyed reported having no savings when the DPDP went live in June 2012;

- an important feature of the DPDP was that HB was paid at monthly or four-weekly intervals in order to mirror the payment arrangements in Universal Credit (UC). Yet **most tenants were operating weekly or fortnightly budgeting cycles** prior to the DPDP. Short budgeting cycles were an important financial management strategy. Prior to the DPDP, nearly all members of the tenant panel were budgeting on a weekly or fortnightly basis, as were 90 per cent of the survey respondents who operated a spending limit to help them manage their finances (see: www.gov.uk/government/uploads/system/uploads/ attachment_data/file/193327/rrep822.pdf). Respondents could spend their income relatively quickly, safe in the knowledge that the cycle could begin again a few days later. The principal concern about receiving income monthly was the potential for a larger shortfall towards the end of the month and lengthier periods of time spent without funds;
- **few tenants entered the DPDP with a positive attitude towards direct payment, or high expectations about their ability to cope**. Tenants were largely ignorant of impending welfare reform at the start of the DPDP and information about the introduction of UC was not widely available. Without this context, direct payment made little sense to tenants in the DPDP and they were generally unsupportive of the policy. The policy was generally perceived as 'pointless', placing unnecessary burden on tenants, and certain to lead to rent arrears and homelessness. A very small proportion (seven per cent) of tenants expressed a preference for direct payment over landlord payment in the baseline survey. Lack of trust in the organisations and the administrative process – for example, scepticism that the right amount of HB would be paid into the right account at the right time – fuelled negative views about direct payment, which in turn affected tenants' willingness to use automated rent payment methods. Kaylynn's comment was fairly typical:

  > *'Cos it* [HB] *wasn't going in on a certain date, I was worried about if it got set up by Direct Debit they'd try taking it out before the money was in, and I'd have overpayments to pay from my bank.'*
  >
  > (Kaylynn)

A significant minority of tenants (31 per cent) thought they would cope poorly with direct payment and 38 per cent thought it would be difficult to 'manage their finances' if HB were paid directly to them. In the event, many tenants managed far better than they expected and their predictions did not transpire but their views and attitudes at the time did generate significant stress and anxiety in households frequently already dealing with a range of difficulties (poor health, low income, unemployment, family problems and such like).

On the other hand, there were some ways in which tenants were potentially very well equipped to manage direct payment. In particular:

- despite (or, perhaps because of) indebtedness, **the majority of tenants were careful budgeters and organised money managers** utilising a range of skills and techniques to balance their household budget and ensure essential payments and purchases were made. The baseline survey, for example, revealed that 66 per cent of tenants agreed with the statement *'I am very organised when it comes to managing my money day to day'* and 79 per cent disagreed with the statement I prefer to buy things on credit rather than wait and save up. In addition, most (71 per cent) kept a regular spending limit to help them manage their finances. Members of the tenant panel similarly described finely tuned systems for managing their budget, keeping written records of incomings and outgoings, knowing precisely when payments were due and which income stream was allocated to that payment. For example:

> *'Yeah, my Friday money is for food shopping, my monthly money is for my electric and gas and the other money is for anything for the house or extra food; or some months you may want certain things … I have my little pots in the cupboard for Christmas and things like that.'*
>
> (Kirsty)

> *'I have all me bills and amounts and I check all my statements and I have it all wrote down on my calendar so I know when everything's going out.'*
>
> (Annabel)

- a bank account is a prerequisite for receiving HB directly[28] and the **majority of tenants (88 per cent) had a bank account[29]** before the DPDP went live although 23 per cent of these opened the account after hearing about the Demonstration Project. Most members of the tenant panel also had a pre-existing bank account(s), although not all had been actively using it, and several opened a new account (typically a second account) when they heard about direct payment, which is, of course, a positive development in terms of developing financial inclusion.

3.3 How did tenants manage on direct payment?

The majority of tenants who were transferred onto direct payment paid some or all of their rent, despite their early concerns and anxieties about coping with the new system. By the end of the 18 months, 87 per cent of direct payment tenants (i.e. those still on direct payment when surveyed) reported coping well with direct payment and the majority (73 per cent of those in receipt of HB) reported that it was easy to manage their finances while on direct payment.

Direct Payment did have a financial impact on tenants. However, much of this burden was borne in the first few months following migration. In fact, nearly half of the total arrears that accrued during the 18 months of the DPDP were accrued in the first month/4 week period following migration. For example:

- Overall, direct payment tenants paid 95.5 per cent of the total rent owed during the 18 months of the DPDP, compared with a comparator sample (not on direct payment) who paid 99.1 per cent of rent owed (a difference of 3.6 percentage points). However, this masks significant variation over time. For example, in payment period 1 the average

---

[28] One Project Area issued some cheques but all participating landlords were very reluctant to do so and did not see cheques as a viable method of payment.

[29] It is important to note that the survey did not ask for further details about respondents' bank accounts. It is possible that respondents' bank accounts will not all have been capable of receiving the BACS payment of HB. Project Areas found that some of the bank details provided to them by tenants related to other accounts (including Post Office accounts).

payment rate was 67 per cent (33 per cent of rent owed not paid) but after payment period 3, average payment rates stabilised at slightly below baseline and comparator levels, and occasionally higher. The payment rate in payment period 18[30] was 99 per cent;

- over the 18 months of the DPDP tenants paid 5.5 percentage points less rent, on average, than they would have done had their HB been paid direct to their landlord but, again, this masks significant variation over time. In the first payment period tenants paid, on average, 15.7 percentage points less rent than they would have done on landlord payment but by payment periods 16-18 this reduced to 2.1 percentage points less rent paid (see *Direct Payment Demonstration Projects: Key findings of the 18 months rent account analysis exercise*, DWP Research Report No. 891);
- 61 per cent of tenants who received direct payment during the DPDP failed to pay some or all of their rent: i.e. they had accrued arrears while on the programme.[31] Over the same timeframe 39 per cent of a comparator sample, none of whom received direct payment, accrued arrears, or additional arrears.[32] The proportion of tenants falling into arrears was far greater in the first payment period: 59 per cent of tenants underpaid or failed to pay their rent following their first direct payment of HB but the proportion underpaying or failing to pay quickly returned to baseline levels;
- under direct payment, when tenants underpaid their rent they did so by a larger amount than under the old system. Before the introduction of direct payment very few tenants failed to pay more than 50 per cent of their rent. On average, 10 per cent of all tenants who accrued arrears in the few months leading up to the DPDP failed to pay 50-100 per cent of their rent, with the remainder underpaying by less than 50 per cent. In the 18 months duration of the DPDP the proportion of underpayers failing to pay 50-100 per cent of their rent rose to 39 per cent. Direct payment, then, increased the average scale of arrears;[33]
- as is explored in more detail in Chapter 6, rent account data shows that, although payment rates improved dramatically over time, total arrears (in value) continued to rise, albeit at a much slower pace. This suggests that once tenants had accrued arrears, they struggled to repay even if they subsequently managed well on direct payment.

---

30 Payment period 18 refers to the period following a tenant's 18th direct payment of HB. This figure therefore only relates to tenants who went onto direct payment at the start of the DPDP and remained on direct payment for the duration. Tenants who were transferred onto direct payment later in the DPDP could not have received 18 direct payments of HB.

31 By the end of the Demonstration Project, 78 per cent of DPDP tenants had arrears on their rent account, up from 59 per cent at the point of migration onto direct payments. The value of arrears had increased to £2.953 million, equivalent to 6.3 per cent of their annual rent roll.

32 58 per cent of comparator tenants had arrears on their rent account, up from 55 per cent at the baseline. The value of arrears had increased from 2.4 per cent to 3.6 per cent of their annual rent roll.

33 This report tends to present results from analysis of tenant rent accounts in terms of 'repayment rates' rather than 'arrears rates'. This is because although a reduction in rent payment rates usually represents increased arrears this is not necessarily the case. For example, if a tenant's rent account is significantly in credit they can fail to pay all their rent for some time before their account enters arrears. However, for ease of reading the term arrears is sometimes used.

3.4 Did rent payment patterns fluctuate, or were they relatively stable?

As is explored in more detail in Chapter 6, analysis of rent account data shows that rent payment rates amongst direct payment tenants improved dramatically over time after an initial arrears 'spike'. However, tenants' payment histories were far more complex than a simple upward trajectory. In particular, once tenants' payment patterns appeared to have stabilised, there was no guarantee this would continue indefinitely. Many tenants who managed well for months, unexpectedly missed a payment or encountered changes in their lives that affected their ability to manage. Payment behaviour fluctuated, with tenants moving between underpayment, non-payment, and full payment (and sometimes overpayment) over time. The amount by which tenants underpaid also fluctuated over time with the value of tenants' underpayment tended to be by a random, varying amount.

Fozia's payment history illustrates this point well. She is a single parent with a teenage son. She explained that when her first direct payment was paid into her bank account she had not realised it was her HB. Fozia was adamant about having received no notification that her HB would be paid into her account at that time, although Project Areas did have a process in place for doing so. Rather than questioning the additional funds she spent the money:

> *'It* [HB] *paid for my son's birthday. I bought him presents. We had a bit of a party. Not a big party. We had a little party and the rest went on bills'.*

She was subsequently sent a rent card by her landlord and used this to make her second rent payment in full through the Post Office. Fozia's third direct payment of HB coincided with the last few days before her next Jobseeker's Allowance (JSA) payment was due, and she had no money to put in her gas and electricity meters. She used £20 of her HB for gas and electricity with the intention of repaying this as soon as her JSA arrived a few days later. Fozia did not repay the £20 shortfall that month. She explained why:

> *'When I got my giro I ended up with more bills that I had the previous month, so I didn't end up paying that £20 back. I did eventually pay the £20 back, it wasn't instant, though.'*

Fozia, then, moved from non-payment to full payment to underpayment. If she had managed to repay the £20 she 'borrowed' from her HB the following month she would have been an overpayer in that period.

The number of one-off rent underpayments (including non-payment) over the 18 months of the DPDP similarly indicates a degree of unpredictability in tenants' payment behaviour. Some 17 per cent of all direct payment tenants made one single underpayment during their time on direct payment. The rest of the time, they paid fully (18 month RAA). In total, 65 per cent of all direct payment tenants could be described as 'erratic payers' in the sense that they neither persistently paid, nor underpaid their rent while on direct payment. This is discussed further in Chapter 4 where we summarise the main evaluation findings relating to 'underpayment' of rent.

3.5 Are some tenants more vulnerable to accruing arrears than others? What factors impact on tenants' ability to manage direct payment?

In order to target rent collection activity effectively, to target support appropriately, to make the right safeguarding decisions, and to minimise the financial risk associated with direct payment, it is imperative that the 'risk factors' associated with arrears are understood and that tenants most vulnerable to accruing arrears are identified. Only then can appropriate intervention, preventative measures and action be taken.

Identifying the drivers of arrears proved challenging for the DPDP and for the evaluation. The assessment processes trialled in the DPDP and the criteria used to identify those ready for direct payment and those unlikely to manage without support were not wholly effective. Common sense measures of vulnerability were used to assess tenants in the DPDP (drug and alcohol dependency, history of arrears and such like) but the link between these characteristics and arrears were not known. As a result, tenants who were expected to manage well did not and others were safeguarded who need not have been.

We also saw in the previous section that tenants' payment patterns were erratic, suggesting that the drivers of payment behaviour shift and change. This raises challenges, indicating as it does that it may not be possible to accurately forecast who will manage going forward and assess where intervention or safeguarding is required. It also suggests that there is no easy formula for identifying those at most risk of arrears and, even if a tenant can be accurately assessed at the outset their position is unlikely to remain static nor the assessment valid.

Some insights could be gleaned about the risk factors associated with arrears from analysis of tenants rent accounts and the qualitative interviews with tenants but no firm conclusions could be drawn from these data alone. However, the final wave of the longitudinal survey of tenants does provide some clarity on this issue. In summary, drawing together the results from the different strands of the evaluation, the following conclusions can be drawn:

- **financial circumstances are a driver of arrears**. Tenants in precarious financial situations – with low or fluctuating incomes, or who had experienced a negative income shock such as a reduction in HB (due, for example to the Removal of the Spare Room Subsidy (RSRS) or other deductions), or had debts – were most vulnerable to arrears. It is worth noting here, however, no evidence of an overall arrears spike at particular times of the year (Christmas, school summer holidays) when one might expect households to incur additional expenditure (see *Direct Payment Demonstration Projects: Key findings of the 18 months rent account analysis exercise*, DWP Research Report No. 891, Chapter 3).

- **good money management skills, particular payment methods and attitudes towards money management and rent payment can help mitigate vulnerable financial circumstances** and so these factors also have a role to play. Qualitative interviews with tenants, for example, suggest that those with systems in place for monitoring and managing their budgets, and who were organised money managers were better able to cope with changing financial circumstances or income shocks. Those with higher incomes – even if associated with higher needs such as disability, or additional members of the household – also seemed generally better able to manage the demands of direct payment, primarily because of the increased flexibility additional income provided, for example, to juggle income and outgoings.

- **key socio-demographic characteristics are not a significant driver of arrears**. Socio-demographic characteristics were not a significant driver of arrears, however, some DPDP tenants were more likely to have accrued arrears than others, including single people and 'other' households, those under the age of 25 (see *Direct Payment Demonstration Projects: Key findings of the 18 months rent account analysis exercise*, DWP Research Report No. 891), workless households (see *Direct Payment Demonstration Projects: Key findings of the 18 months rent account analysis exercise*, DWP Research Report No. 891, Chapter 3 and *Direct Payment Demonstration Projects: The longitudinal survey of tenants*, DWP Research Report No. 889, Chapter 5), women, and minority ethnic tenants (*Direct Payment Demonstration Projects: The longitudinal survey of tenants*, DWP Research Report No. 889, Chapter 5).

  However, when other factors are held constant[34] these characteristics were not found to be driving arrears.[35]

A statistical technique known as logistical regression was used to analyse the tenant survey data. This technique makes it possible to explore statistically the relationship between a number of independent variables (age, gender, being an organised money manager, being behind with household bills, etc.) and a categorical dependent variable (e.g. being in rent arrears) while holding all other independent variables constant. Table 3.1 shows the five independent variables that emerged as significant for accruing arrears or additional arrears during the DPDP. It shows that the odds of having accrued arrears or additional arrears during the DPDP were higher amongst tenants who:

- had experienced a reduction in their HB due to the RSRS or the total Benefit Cap (or both);
- were behind on one or more household bills;
- received HB that was less than the full amount of their rent;[36]
- had automatic deductions from their wages or benefits to pay back arrears or other debts;
- said they would use their HB money to pay for an unexpected expense or large bill that was difficult to pay.

---

[34] The ability to hold all other characteristics constant when comparing two groups – men and women, for example – is a very important feature of logistic regression. That is because the two groups may have different characteristics. Compared with men, for example, women are more likely to be at home looking after children or to have caring responsibilities. More women than men work part-time and in low-paid occupations. Hence, differences between men and women may not be a function of their sex, but reflect the other characteristics that they are more likely to have than men.

[35] The RAA did use statistical modelling to derive results but these data did not include information about tenants' financial circumstances, attitudes or money management skills as the tenant survey did. These variables could not, therefore, be included in the model.

[36] A claimant's HB may be less than their rent for a variety of reasons including being in paid work and having an income that is in excess of the amount at which benefit begins to be withdrawn; having non-dependents in the household; and having had a reduction in benefit due to the Removal of the Spare Room Subsidy or the Benefit Cap.

Four of these factors are related to tenants' financial circumstances and none to demographics or housing situations. The same analysis was applied to all tenants who were in arrears at the end of the DPDP regardless of when those arrears were accrued (and so including historical arrears). Some of the factors emerging as significant differed from those driving arrears amongst tenants who accrued arrears or additional arrears during the DPDP but the general picture was similar in that financial and income-related variables (fluctuating income, being behind with household bills) featured while demographic characteristics did not.

Table 3.1 Logistic regression odds of being in 'new' rent arrears at stage 3

		Column percentages
	New arrears at stage 3	
	Sig.	**Odds**
Welfare reform benefit reduction *	.014	2.0
Behind on 1+ household bills **	.002	2.1
Automatic deductions from earnings or benefits **	.001	2.3
Would use HB if had a bill that was difficult to pay **	.006	2.1
HB covers only part of the rent *	.011	1.9
Base: all tenants		*632*

Statistical significance: ** $p<0.01$; * $p<0.05$.
Non-significant variables included in the model = gender, age group, ethnicity, household type, and disability.
'New arrears' = arrears that had occurred, or increased, after the tenant went onto the DPDP.
Source: Stage 3 survey.

The significance of finance-related issues is reflected in the reasons tenants gave for getting into arrears. Tenants who were behind with their rent when they were surveyed at the end of the DPDP were asked to cite the single most important reason for their arrears. The three most commonly cited reasons were: loss of income due to the RSRS (10 per cent); low income (10 per cent); and unexpected expenses (eight per cent).

Amongst the tenants interviewed in-depth, an income shock such as an unexpected expense, was also often found to precipitate underpayment (see Direct Payment Demonstration Projects: Rent underpayment, DWP Research Report No. 877. www.gov.uk/government/publications/the-direct-payment-demonstration-projects-dpdp).

The fact that willingness to use HB money to cover an unexpected expense or large bill was a risk factor associated with arrears (see Table 3.1) suggests that tenants' attitudes also have some role to play here. The majority of tenants theoretically recognised that their rent was a 'priority' payment. In practice, however, some were more willing to use/'borrow'/ dip into their HB than others. The demands on Carly's budget, for example, increased while she was on direct payment and she regularly found herself unable to pay all her bills. She explained:

Carly: *'My partner's epilepsy's got worse and I had surgery in October. We've had a lot of hospital runs so we've been paying out a lot more money in fuel. And cos I've been using my car more I've had problems with my car, and that's something I have to pay, cos if I don't have the car I've got no way of getting to the hospital and that's vitally important … I've cut down on my other bills … I have had to miss some other bills and say: 'you're going to just have to wait' cos at this point in time the car's more important than my TV licence:' take the TVs – I need my car'.'*

Int.: *So while you've cut back in other areas you haven't actually delved into the Housing Benefit?*

Carly: *No, that to me is not my money. So it's not mine to delve into; that's my roof over my head; that's my number one priority and after that it goes to other things.'*

Carly, then, was clear that rent was a priority payment, an attitude that she translated into financial practice. But this was not true of everyone. The survey results show that a minority of tenants did not prioritise rent in the same way or, even if they did, could foresee a situation where they would use their HB to pay for something other than rent. For example:

- although 83 per cent of tenants surveyed reported that falling behind with their rent would concern them a great deal or a fair amount, 16 per cent said it would not concern them very much or at all;
- 26 per cent of tenants agreed with the statement *'I am unlikely to be evicted if I always or sometimes pay only part of the rent'*;
- although 65 per cent of tenants said they would choose to pay their rent if they could only afford to pay one household bill, 35 per cent chose a different bill (electricity, gas or other fuel bills, most commonly);
- although 81 per cent of tenants disagreed with the statement that *'I could be tempted to spend some or all of the HB money on something other than the rent'*, 17 per cent agreed with this statement;
- although 75 per cent of tenants disagreed with the statement *'if I had an unexpected expense of large bill that was difficult to pay I would use HB money to pay for it'*, 22 per cent agreed.

Money management skills, techniques, and facilities were also found to be a mediating factor in managing financial precarity, including income shocks. Annabel is a case in point. A lone parent with two children whose income comprises a combination of benefits and a wage from part-time (minimum wage) employment, Annabel incurred a 14 per cent deduction from her HB following the RSRS. Annabel maintained full rent payments during her time on direct payment despite the change in her income. She did so by monitoring her account on a daily basis using internet banking (via an app on her phone), budgeting carefully every week, and making active decisions about how to accommodate the shortfall in her HB. She explained:

> *'Yeah, I just get by. I can manage my money but I have to budget everything cos everything's really tight. But I manage to manage … I have all me bills and amounts and I check all my statements and I have it all wrote down on my calendar so I know when everything's going out. So I just hope I've got enough income for my outgoings, shuffle things round … it's something I think about almost every day. But definitely, I sit down week by week and note what's going in and out every week.'*

Not all organised money managers avoided arrears while on direct payment but such skills certainly helped. This being the case, it is encouraging to note the small but significant increase in tenants' financial capabilities indicated by the tenant survey (see Chapter 5 for more detail). Factors that improved financial capability, and financial inclusion, in ways that helped tenants manage direct payment and mitigate the potential negative impact of low income, income shocks and such like were:

- **good money management skills and financial literacy.** As with Annabel, tenants who set and monitored budgets, prioritised payments, and proved to be organised money managers were generally better equipped to cope with financial precarity;
- **ready access to bank account transaction information.** Online banking (via a smart phone, tablet or computer) proved vital to some tenants, allowing them to monitor funds daily and take immediate remedying action to prevent, e.g. a potential declined Direct Debit and associated charges. Annabel, mentioned above, paid most of her bills by Direct Debit but checked her account daily, via an app on her phone, to make sure expected income had arrived in her account to cover the Direct Debits due to be taken. She explained that was particularly important during holiday periods when bank holidays can alter the dates on which income is paid and Direct Debits taken. She described one Christmas period that she monitored particularly closely for this reason, managing to avoid difficulties (refused DDs, charges etc) that she otherwise would have encountered. Annabel's situation contrasts starkly with Harriet's, whose lack of access to her bank account appears to have contributed to her difficulties with direct payment. Harriet has no access to the internet and, since her bank has ceased to provide monthly paper statements, she has to visit the bank in person to check her transactions. Harriet accrued rent arrears during a period in hospital when she was unable to monitor her account, and during which her income changed (her HB was reduced because of the RSRS and she started receiving Discretionary Housing Payment (DHP) to cover the shortfall);
- **appropriate payment methods.** Analysis of rent account data showed that rent payment rates amongst tenants who paid by Direct Debit were much higher than those using other payment methods (see *Direct Payment Demonstration Projects: Key findings of the 18 months' rent account analysis exercise*, DWP Research Report No. 891). However, DD is not appropriate for all tenants because of the problems associated with its use: specifically bank charges if a payment is declined. In addition, evidence from the tenant surveys and qualitative interviews suggests that the flexibility of non-automated payment methods, and the increased control these give tenants, is preferred by some tenants. The evidence, therefore, points to the importance of offering a range of payment options so that tenants can opt for the method most appropriate to their circumstances;
- **synchronising HB receipt with rent payment reduced the risk for tenants.** Aligning HB payment with rent payment using Direct Debit was a popular strategy used by tenants (and promoted strongly by some landlords) to ensure their rent was paid and any temptation to use the money for other purposes removed. Several members of the tenant panel lamented that advice about synchronising payments had not been offered at the outset, expressing the view that had they thought to do this, the arrears they accrued early in the DPDP could have been prevented;

- **knowledge, information and comprehension** about the payment process (when the HB will be paid, when the rent is due, by what method, responsibilities of the tenant, HB department, landlord), payment methods and financial products helped tenants manage direct payment and make appropriate and informed decisions, for example about payment methods. There was much confusion amongst tenants about Direct Debits and how they function and about where responsibility lies for different elements of the process.

The implication of these results is that the concept of 'vulnerability' may be different in a direct payment context than in other contexts (for example assessing work readiness or personal support needs) and may be more closely aligned with financial vulnerability than it is with personal vulnerability such as disability, age, household circumstances and health. Financial management skills and attitudes are also likely to be important in the extent to which financial vulnerability does or does not translate into rent arrears.

3.6 What impact did support have? Did it make any 'difference'?

The most effective way of answering this question would be to explore the payment patterns of tenants in receipt of support via the RAA. However, rent account data provided by landlords does not identify support recipients.[37] Fortunately, other data collected by the team does shed some light on this important issue: qualitative data garnered from in-depth interviews with tenants and stage 3 survey data. On a positive note, this data revealed that:

- several of the small number of in-depth interviewees who reported that they had received support said that they found it useful: *'Both Dunedin* [Canmore] *… and CAB were fantastic. I had a specific person who helped me out, having a look at all my finances, seeing if I could re-jig …. Just being terribly aware of what was coming in and going out, it helped me to have a good look at my finances and deal with it, just be very aware of what was going in and out'*;
- 79 per cent of current DPDP tenants in the stage 3 survey (or 37 out of 47 who responded to the question)[38] who were still on direct payment agreed with the statement: *'The advice or support I received helped me to manage my rent payments'*;
- 64 per cent (or 29 out of the 45)[39] tenants who were still on direct payment agreed with the statement: *'The advice or support I received helped me to manage my money on a four weekly or monthly basis'*;
- 46 per cent (or 21 out of the 46)[40] tenants who were still on direct payment at the end of the programme agreed with the statement: *'The advice or support I received helped me to improve my confidence about money management'*;

---

37 It is important to note that, in order to reduce their workload on the RAA, landlords were not asked to provide this information.

38 69 per cent (or 129 out of the 188) tenants who were on direct payment responded in the same way in the stage 2 survey.

39 61 per cent (or 115 out of the 188) tenants who were on direct payment responded in the same way in the stage 2 survey.

40 48 per cent (or 90 out of the 188) tenants who were on direct payment responded in the same way in the stage 2 survey.

- it is also interesting to note that, at the end of the of the DPDP programme, support had had a positive impact beyond the DPDP per se: precisely a quarter of tenants (or 6 out of 24 respondents) who were still on direct payment agreed with the statement: *'The advice or support I received helped me to think about moving into paid work'*.

But it is important to remember that only one in six tenants interviewed at stage 3 had received any advice or support to help them manage while HB was being paid directly to them. However, 96 per cent of participants who had not received advice or support reported that they did not need it. Moreover, only two-fifths of those ex-DPDP participants in the stage 3 survey who had received advice or support reported that it had helped them to manage direct payment. This self-perception is supported by the logistic regression analysis, which found that rent arrears were no higher or lower among tenants who had been in receipt of advice or support compared with those who had not received such help. (The factors that were associated with rent arrears are discussed in Section 3.5 and listed in Table 3.1.)

Nevertheless, a third of current participants who had received advice or support said they still needed it to help them manage their HB while it was being paid directly to them. By contrast, almost all of the current participants who had not received advice or support said they did not need it. It appears, therefore, that local stakeholders were targeting advice and support on the right tenants (96 per cent of current participants who had not received advice said they did not need it), even though more often than not, they were failing to provide assistance that in practice was helping recipients to successfully manage their HB payments.

3.7 Did other welfare reforms affect tenants' ability to manage direct payment?

A range of welfare reforms potentially impacting on DPDP tenants were introduced in April 2013, just before the end of the first year of the DPDP.[41] These were:

- the national Council Tax Benefit scheme being replaced by local Council Tax support schemes and accompanied by a 10 per cent reduction in funding to local authorities;
- the RSRS, whereby social housing tenants deemed to have a bedroom additional to their needs had their HB reduced by 14 per cent and those deemed to have more than one additional bedroom had their HB reduced by 25 per cent;
- the benefit cap, placing a limit on the total value of welfare benefits a household can receive.

It is important here to distinguish the impact of these reforms generally from the impact on the experience and delivery of direct payment specifically. It is the latter that we are concerned with here, and other welfare reforms did not emerge as particularly significant or relevant in direct payment outcomes and delivery. Landlords certainly had much work to do in order to prepare, particularly for the RSRS, but by then most reported being in 'steady state' in terms of the DPDP and so preparation (resources, activities etc) for the RSRS did not impact on delivery of direct payment. No stakeholder reported changing the way they managed or delivered direct payment and associated services (support, HB administration)

[41] The decision to extend the DPDP by a further six months was partly driven by acknowledgement that the introduction of other welfare reforms could impact on delivery and impact of direct payment.

as a result of the introduction of these reforms. Nor did these welfare reforms appear to impact on rent payment rates over and above the impact they would have had if tenants not been on direct payment. In fact, there is some evidence that direct payment tenants may have fared a little better in terms of the RSRS than those not on direct payment:

- the average reduction in payment rates amongst tenants on direct payment affected by the RSRS was 1.9 percentage points, compared with 2.8 percentage points amongst the comparator sample (also affected by the RSRS but not on direct payment) raising the question of whether being on direct payment better equipped tenants to manage the RSRS;
- of those affected by the RSRS: the proportion of non-DPDP tenants who underpaid or failed to pay their rent increased by 19 percentage points (to 46 per cent), compared to an increase of 12 percentage points (to 36 per cent) for DPDP tenants;
- in addition, there was no evidence to suggest that this cohort of tenants typically underpaid by more than the reduction in their HB. In other words, some tenants did not 'make up' the shortfall in HB, but this did not prompt further arrears beyond that.

This is not to say that direct payment tenants and landlords were not impacted by other welfare reforms. These changes did, for example, have an impact on rent payment rates, as the following results show, even if those payment rates were in line with, or even slightly higher than, the comparator sample:

- tenants who were behind with their rent at the end of the DPDP were asked to cite the single most important reason for their arrears and the most commonly mentioned reason, along with 'low income', was loss of income due to the RSRS. In total, 10 per cent of all tenants in arrears provided this reason, even though only 20 per cent of all tenants reported having their HB reduced because of the RSRS. (*Direct Payment Demonstration Projects: The longitudinal survey of tenants*, DWP Research Report No. 889);
- analysis of tenant rent accounts found that payment rates dropped amongst direct payment tenants affected by the RSRS when the change was introduced in April 2013;
- a reduction in income due to the RSRS or benefit cap was found to be a significant driver of arrears. Logistical regression analysis applied to tenant survey data found this to be one of five independent variables significantly correlated with accruing rent arrears during the DPDP (see Chapter 3 for more detail on the risk factors associated with arrears). (*Direct Payment Demonstration Projects: The longitudinal survey of tenants*, DWP Research Report No. 889);
- tenant panel members emphasised the difficulties of making up shortfalls due to the RSRS while also experiencing a reduction in their Council Tax Benefit.

In particular, managing the combined impact of the RSRS and the reduction in Council Tax Benefit, alongside rising fuel and food prices, was felt by most households affected to be unsustainable. This is of relevance because we know that financial circumstances are a key driver of arrears under direct payment. Respondents talked about managing the financial impact of these changes by reducing expenditure and relying more on financial assistance from friends and family. However, many households' expenditure had been pared down as far as it could go and respondents' friends and family were often in similar situations to themselves. Many tenants had already reduced fuel use over the past couple of years, heating only one room, not using central heating or 'only when it's really cold or the little ones are poorly' and were concerned about their longer term capacity to manage.

Some tenants had identified expenditure they felt was non-essential, such as going out and a television bought through Hire Purchase, and had removed this from their budget (but others described cutting back on food and fuel. Kulvinder explained how his family were managing now their HB and Council Tax Benefit (CTB)) had been reduced:

'[We] *go without a lot of things. Before* [the RSRS and CTB change] *if we need to go anywhere, cos we need a bit of a break, we used to save up. That [the RSRS and CTB change] now has knocked us back. It's like me having to ask for hand-outs from my other children if I want to go somewhere which I don't like doing…I put £70 in the winter on the gas and £60 on electric… we're lucky this year cos the snow's not been, cos last year it was really bad. People think: 'take £19 or 20/week'. But that's 20 quid towards the heating and electric.'*

Tenants with sophisticated budgeting techniques in place, monitoring their incomings and outgoings on a weekly basis, seemed to fare best. Annabel, for example, managed her money in this way and simply adjusted her budget once the RSRS was introduced.

The quantitative and qualitative findings suggest, then, that many tenants affected by other welfare reforms were still managing to balance their budgets. However, the qualitative data strongly suggests that many of these households have no further room for manoeuvre in their budgets and it is precisely in these circumstances when a further income shock, and unexpected expense, a large household bill or particularly cold winter can push tenants into underpayment, as is highlighted in the next chapter.

3.8 Summary

- Direct payment represents a significant change for many tenants, few of whom have had experience receiving their HB directly and some of whom have had little experience of paying their own rent. Tenants' circumstances prior to migrating to direct payment suggested that, in some respects, tenants were not well equipped to manage the change. For example:
  - many tenants were in precarious financial situations. For example: levels of indebtedness were high with 46 per cent of the 1,965 tenants surveyed having rent arrears and/or other debts;[42] more than half reported 'often' running out of money by the end of the week or month; and very few had savings to act as a buffer against unexpected expenses or interruption to income.
  - most tenants were operating weekly or fortnightly budgeting cycles, and this emerged as an important financial management strategy. Yet HB was to be paid at monthly or four-weekly intervals in order to mirror the payment arrangements in UC.
  - few tenants entered the DPDP with a positive attitude towards direct payment, or high expectations about their ability to cope.

[42] 'Debt' was defined as being behind with a payment for household bills or loans. It does not include loans which are being repaid in accordance with the loan agreement.

- On the other hand, there were some ways in which tenants were potentially very well equipped to manage direct payment. In particular:
  - despite indebtedness, the majority of tenants were careful budgeters and organised money managers utilising a range of skills and techniques to balance their household budget and ensure essential payments and purchases were made.
  - the majority of tenants had a bank account before the DPDP went live.
- The majority of tenants who were transferred onto direct payment paid some or all of their rent and, at the end of the 18 months, 87 per cent of direct payment tenants reported that they were coping well.
- However, direct payment did introduce risk to tenants and many did not manage (measured in terms of paying their rent) as well as they had done, or would have done, on landlord payment, with 61 per cent of tenants accruing arrears, or additional arrears while on direct payment. In addition, it is important to consider what is meant by 'managing' on direct payment. Some tenants who did pay their rent, would not have described themselves as 'managing well' in an emotional or psychological sense, finding the experience difficult and demanding.
- Rent payment rates improved dramatically over time after an initial arrears 'spike'. However, once tenants' payment patterns appeared to have stabilised, there was no guarantee this would continue indefinitely. Payment behaviour fluctuated, with tenants moving between underpayment, non-payment, and full payment (and sometimes overpayment) over time.
- Financial circumstances emerged as a key driver of arrears. Tenants in precarious financial situations – with low or fluctuating incomes, or who had experienced negative income shocks, or who had existing debt – were most vulnerable to arrears under direct payment. Socio-demographic characteristics, in contrast, were not a significant driver of arrears. Good money management skills, particular payment methods and attitudes helped mitigate financial precarity and so these factors also have a role to play. Similarly, advice and support can make a difference – and those who received support tended to appreciate it – but is not a panacea for positive payment behaviour.
- Just before the end of the first year of the DPDP, a range of welfare reforms were introduced (April 2013) including the RSRS, the benefit cap and the localisation of Council Tax benefit. When introduced, these changes did have an impact on rent payment rates in the DPDP. However, it is important to distinguish the impact of these reforms generally, from the impact on the experience and delivery of direct payment specifically. And in fact, they did not emerge as particularly significant in the overall outcomes of direct payment and their delivery.

4 Underpayment in the DPDP

4.1 Introduction

In the first year of the Direct Payment Demonstration Project (DPDP), underpayment[43] of rent (as opposed to non-payment of rent) emerged as being more prevalent than expected. More than two-thirds of the 1,031 'switchbacks' that had occurred by March 2013 were under the triggers 3 and 4 – the two switchback triggers designed to capture those who underpaid their rent.[44] Whether overall arrears accrued because a few tenants paid no rent or because lots of tenants failed to pay some rent is a key question for landlords. There are implications for collection and recovery costs: the higher the number of non/underpayers (regardless of the amount they owe) the more actions are required to recoup that debt. In addition, the drivers of non-payment are likely to be different to the drivers of, for example, low value underpayment and this will influence the interventions and support landlords develop going forward into Universal Credit (UC). Reflecting this, the Department for Work and Pensions (DWP) asked the evaluation consortium to undertake bespoke research into the issue of underpayment when the decision was taken to extend the DPDP programme in May 2013. The results are reported in full in www.gov.uk/government/publications/the-direct-payment-demonstration-projects-dpdp

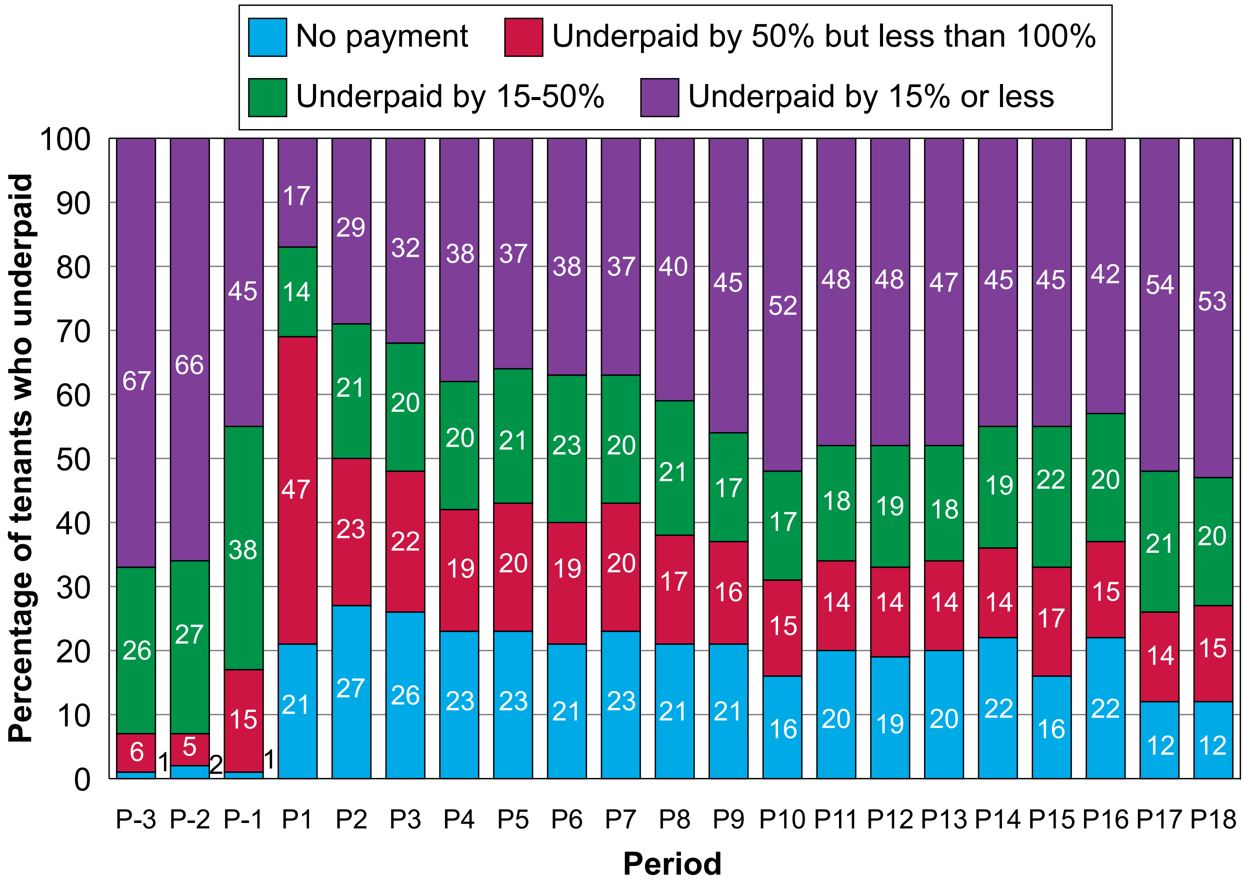
4.2 How common is underpayment of rent?

Underpayment of rent (i.e. paying some but not all of one's rent) was much more common than non-payment in the DPDP. Tenants paying no rent formed a relatively small proportion of all those who failed to pay all of their rent – between 27 per cent in the second rent payment period and 12 per cent in in the 17th and 18th payment periods. Across the final six payment periods, non-payers averaged just 17 per cent of the sample of those who had not paid all of their rent (see Figure 4.1).

43 Detailed analysis of underpayment was undertaken at the end of the first year of the DPDP and was not repeated at the end of the programme. Some results were updated as part of the rent account analysis but a different definition of underpayment was employed (comprising non-payment and partial payment). Some of the results presented in this section therefore relate to data from the first 12 months of the DPDP only.

44 In fact, it transpired that one of the 'underpayment' triggers inadvertently captured tenants who had failed to pay any rent for one month and this explained the relatively high numbers switching back under these triggers. Nevertheless, analysis of rent accounts conducted by the study team did reveal underpayment to be prevalent and so the focus on this issue proved to be worthwhile.

Figure 4.1 Distribution of underpayers by category of underpayment



Source: 18 months' Rent Account Analysis exercise.
Base: Tenants who underpaid; DPDP (4,231-413).

4.3 How common is persistent underpayment?

The prevalence of underpayment raised questions in the DPDP about whether some tenants were strategically underpaying by a small amount each period, assuming that this would keep their arrears low enough to evade action, eviction, or switchback but provide them with some additional income. The term 'persistent underpayers' was coined to refer to tenants behaving in this way.

In fact, analysis of rent account data strongly suggests that, although persistent underpayment was a feature of tenants' payment patterns, tenants were much more likely to underpay erratically than persistently[45] in the sense that:

- when this analysis was conducted 12 months into the DPDP nearly half of all underpayers had made no consecutive underpayments and 27 per cent (21 per cent of all tenants) had underpaid in just two consecutive periods. Those who had underpaid in three or more consecutive periods – the persistent underpayers – comprised 24 per cent of underpayers

45 Analysis of tenants' payment patterns was restricted to the 5,031 tenants who had received at least seven direct payments of HB because patterns are difficult to establish over a shorter time frame.

(19 per cent of all tenants).[46] The remaining underpayers had erratic payment patterns in the sense that they only underpaid occasionally or they underpaid regularly but not in consecutive periods.

- the amount by which tenants underpaid fluctuated, even amongst the persistent underpayers. Very few tenants underpaid by the same amount each time they underpaid. Rather, tenants underpaid by varying amounts over time.
- individual tenants' payment behaviour fluctuated over time. Tenants who routinely paid their rent in full and on time unexpectedly missed payments, and many tenants moved from full payment to non-payment to underpayment and, in some cases, to overpayment.

4.4 Can underpayers be categorised into distinct types?

Detailed analysis of tenants' payment patterns revealed three broad types of underpayment: one-off underpayment; frequent underpayment; and infrequent underpayment. Breaking this down further to capture the extent to which payment was erratic or persistent gives the following typology of underpayment:

1. **one-off underpayment**: only one underpayment made during the period on direct payment (DP);
2. **frequent, persistent underpayment**: at least three underpayments, made consecutively, during the period on direct payment;
3. **frequent, erratic underpayment**: at least three underpayments for tenants who received 7-9 direct payments and at least four underpayments for those who received 10 or more direct payments, with no more than two underpayments made consecutively;
4. **infrequent underpayment**: two or fewer underpayments for tenants who received 7-9 direct payments, and three or fewer underpayments for those who received 10 or more direct payments, with no more than two made consecutively.

In addition to these 'underpayer' groups were tenants who paid no rent in one or more periods (non-payers) and tenants who paid all their rent in every period (full payers). Figure 4.2 presents this typology of payment and shows that at the end of the first year of the DPDP:

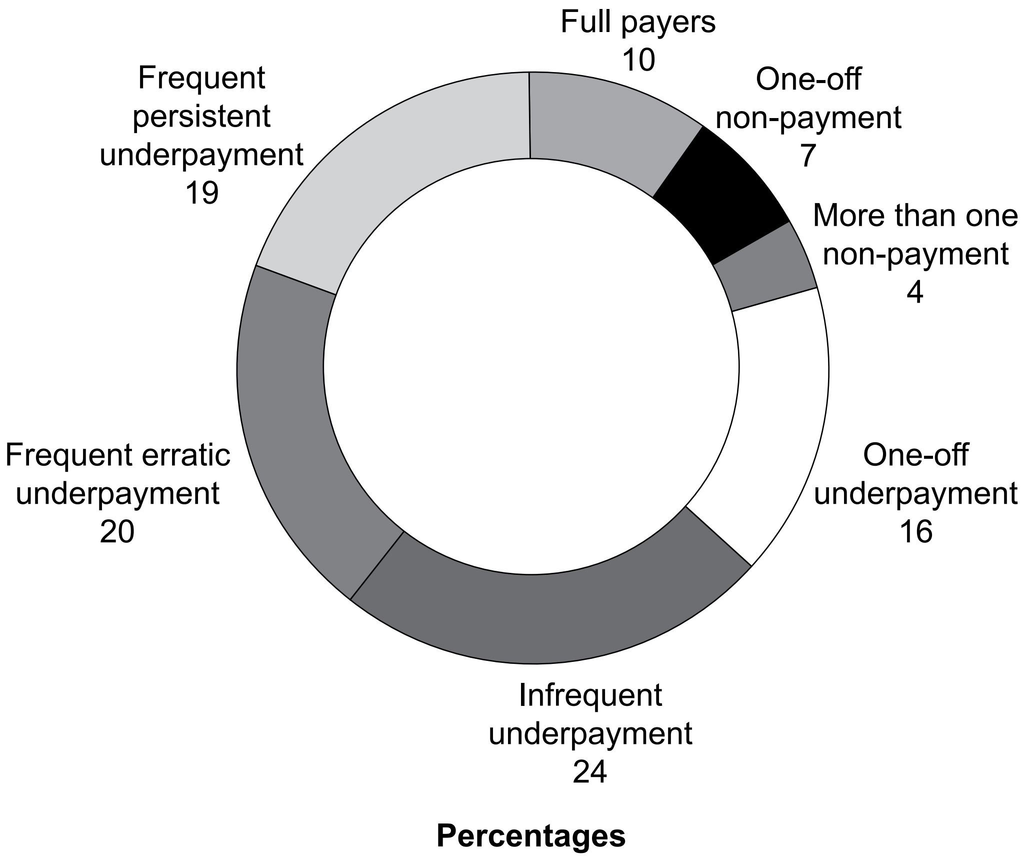
- 79 per cent of all tenants underpaid in at least one payment period. Of the remainder, ten per cent paid their rent in full and 11 per cent paid no rent in at least one period but never underpaid;
- 39 per cent of tenants underpaid frequently (49 per cent of underpayers), just under half of whom underpaid persistently;

---

46 At the end of the programme these results were updated but for the purpose of that analysis a broader definition of 'underpayment' was used which encompassed non-payment. Using this definition, 46 per cent of underpayers had made no consecutive underpayments by the end of the DPDP, 25 per cent (23 per cent of all direct payment tenants) had underpaid in two consecutive periods, and persistent underpayers comprised 29 per cent of all underpayers (27 per cent of all direct payment tenants).

- 60 per cent of all tenants (76 per cent of underpayers) could be characterised as having erratic underpayment patterns. This includes:
  - a one-off underpayment (16 per cent or all tenants, or 20 per cent of underpayers);
  - infrequent underpayment (24 per cent or all tenants, or 30 per cent of underpayers);
  - frequent erratic underpayment (20 per cent of all tenants or 25 per cent of underpayers).

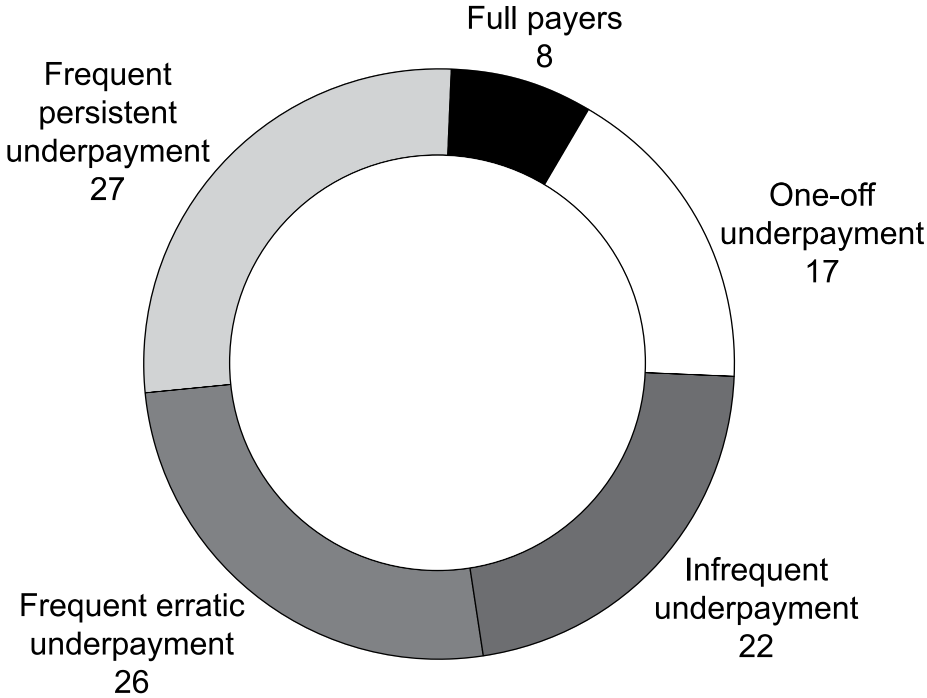
Figure 4.2 Payment types (at 12 months)



Source: 12 months' Rent Account Analysis exercise.
Base: Tenants with 7+ direct payments of Housing Benefit; DPDP (5,031).

Focused analysis on underpayment was only carried out once – as a bespoke piece of work responding to a particular issue arising in the DPDP – and so these results were not updated at the end of the programme. However, similar analysis was carried out and, although not directly comparable, the results suggest that little changed in the last six months of the DPDP. This analysis used a broader definition of underpayment that included non-payment meaning that, for example, 'one-off non-payers' were subsumed within a 'one-off underpayment' group. Figure 4.3 presents the results of this analysis and shows broadly similar results to the underpayment analysis at the end of the first 12 months, although the proportion of persistent underpayers is higher (27 per cent).

Figure 4.3 Underpayment types (at 18 months and defining underpayment to include non-payment)



Percentages

Source: 18-months' Rent Account Analysis exercise.
Base: All tenants, 7+ direct payments of Housing Benefit (5,382).

The fact that DPDP tenants' payment patterns were erratic and unpredictable does not support the idea of a strategic persistent underpayer – i.e. someone who withholds a little rent each month on the assumption that this will go unnoticed or not warrant severe action against them. Exploring the circumstances under which DPDP tenants accrued arrears, and their reasons for underpaying confirms this. We examine why tenants underpay in the following section.

4.5 Why do tenants underpay?

When the DPDP programme was conceived there was concern that some tenants would underpay (or not pay) their rent as part of a conscious and deliberate strategy to be taken off direct payment, to secure some additional income for themselves, or as an 'interest free loan', i.e. to purchase 'luxury' items they could not otherwise afford. There were tenants in the DPDP strategically underpaid in order to switchback to landlord payment and who wilfully spent their HB on low priority items. Carole is a case in point:

> *'I'm having problems with work and benefits at the moment, I'm not working enough hours to be entitled to child care so I've had to give up working and go back on Income Support…it's just doing my head in really and last week I did go on a bit of a bender*

> *and I spent my rent and I always said that's something I wouldn't do but it is worrying me now so I am paying it back … I could have kicked myself but last week I just didn't care, I thought I've had to give up my job cos I'm not getting the right benefits, I'm not entitled to Working Tax Credit cos I'm not working enough and I thought I was and I thought "actually thanks very much I'm going to spend it".'*

However, these tenants were in the minority. In the main, tenants underpaid (or failed to pay) their rent because they had used the HB money for other essentials such as food and fuel, to pay for what were commonly described as (financial) 'emergencies', or by accident . Broadly, in terms of the reasons for underpaying (and not paying) rent, tenants can be categorised into three groups:

1 **strategic, intentional underpayers.** As noted above, these were a small minority;

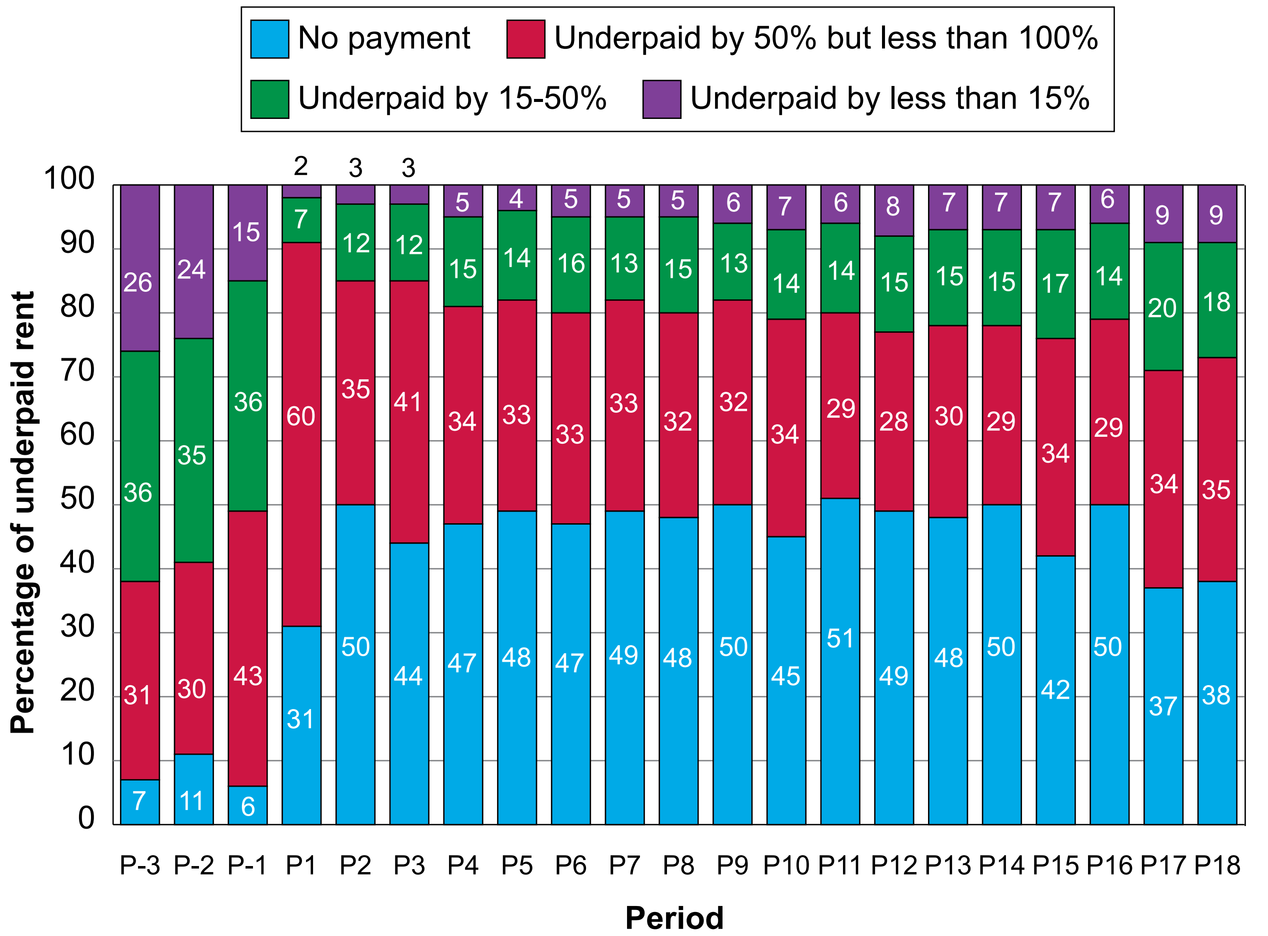
2 **accidental underpayers.** This was a relatively large group and included those who miscalculated their finances (sometimes through poor financial management but often despite good money management skills), were unclear about the mechanics of direct payment, Housing Benefit (HB), rent payments, Direct Debits and Discretionary Housing Payment (DHP), or who fell foul of administrative errors that impacted on their income or outgoings.

3 **'trigger' prompted underpayers.** Under/non-payment was often prompted by a specific trigger – sometimes a day-to-day issue such as running out of food or money for gas and electricity meters and sometimes a personal or life event such as breaking-up with a partner, family illness or bereavement. These triggers impacted in two ways: emotionally, making it more difficult for tenants to manage their lives generally; and financially, by putting a strain on their budgets. Angie, for example, used some of her HB to pay for food and electricity and the cost of her mother's funeral: '[I used my HB to pay for] *food, electric. I did give to my sister some money towards the flowers for my mum cos we bought flowers and everything, money towards the pedigree [funeral] and towards the food'*. In a similar vein, Minnie used some of the money to cover the transport costs of visiting her sick mother in hospital, and Harry used it to cover the cost of visiting his ill mother in Belfast. These tenants were fully aware that they were using their HB to pay for something other than rent. In that sense, their underpayment was intentional and could be seen as a means of securing an 'interest free loan'. But the tenants did not see it in that way, as a calculated way to secure extra money or 'beat the system'. Rather, they were making difficult financial decisions in the face of unexpected circumstances and low incomes. This was by far the most common reason for underpayment and helps explain the apparent randomness, and unpredictability of tenants' payment patterns.

4.6 What is the impact of underpayment of rent on landlord income?

Although underpayment was more common than non-payment in the DPDP, non-payment had the greater impact on the total value of arrears. Non-payers accounted for a relatively small proportion of those who accrued arrears but they accounted for as much 50 per cent (in rent payment periods 2, 9, 11, 14 and 16) of the total value of arrears (see Figure 4.4). Nevertheless, around half of all arrears can be attributed to underpayment because of the relatively high number of tenants underpaying. Figure 4.4 presents the distribution of underpayment by value, with the proportion attributable to non-payment represented by the blue columns, and the proportion attributable to different levels of underpayment, represented by the red, green and purple columns.

Figure 4.4 Distribution of underpayment value by category of underpayment



Source: 18-months' Rent Account Analysis exercise.
Base: Tenants who underpaid; DPDP (4,231-413).

Analysis conducted at the end of the first year of the DPDP showed that frequent underpayers (persistent and erratic) made a greater contribution to overall arrears than infrequent or one-off underpayers. And persistent underpayers made the greatest contribution of all underpayment groups. Table 4.1 shows that of the £840,000 underpaid by the four underpayment groups (one-off, infrequent, frequent erratic, and frequent persistent) nearly half was accrued by persistent underpayers, almost double that accrued by frequent erratic underpayers and four times that accrued through one-off underpayers.

Table 4.1 Rent paid by payment type

	Rent charged	Rent paid	Percentage paid	Value of under/ non-payment
Full payers	1,974,000	2,004,000	102	-30,000
One-off non-payment	1,355,000	1,325,000	98	30,000
More than one non-payment	910,000	859,000	94	52,000
One-off underpayment	3,655,000	3,555,000	97	99,000
Infrequent underpayment	5,272,000	5,153,000	98	118,000
Frequent erratic underpayment	4,315,000	4,104,000	95	211,000
Persistent underpayment	4,204,000	3,792,000	90	412,000
All	**21,684,000**	**20,792,000**	**96**	**892,000**

Source: 12 months' Rent Account Analysis exercise.
Base: Tenants with 7+ direct payment of direct payment of Housing Benefit; DPDP (5,031).

4.7 Summary

- Underpayment of rent was much more common than non-payment of rent in the DPDP. However, non-payment had a more significant impact on the total value of arrears than underpayment.
- Underpayers can be categorised into four broad groups. These are:
  - one-off underpayers;
  - persistent underpayers;
  - frequent erratic underpayers;
  - infrequent underpayers.
- In total, 60 per cent of all tenants could be characterised as having erratic payment patterns and 19 per cent were 'persistent underpayers'
- In terms of the reasons for underpayment, tenants can be categorised into three groups:
  - strategic, intentional underpayers – a very small minority who underpaid as a deliberate strategy to remove themselves from the programme, to secure an 'interest free loan' to purchase non-essential items that they otherwise could not afford;
  - accidental underpayers – a relatively large group who miscalculated their finances, who were unclear about the mechanics of direct payment, HB, Direct Debit and Discretionary Housing Payment (DHP) or who fell foul of administrative errors;
  - 'trigger' prompted underpayers who used their HB to cover unexpected income shocks, financial emergencies and necessities or who encountered difficulties in their lives that made it more difficult to keep on top of their finances.

5 The impact of direct payment on tenants

5.1 Introduction

This chapter is concerned with highlighting the impacts of direct payment on DPDP tenants. The most obvious (and biggest) of these was that many fell into arrears, as is explored elsewhere in the report, principally in Chapters 4 and 6. This chapter, then, is concerned with exploring the 'other' impacts of direct payment on tenants, with particular attention focusing on whether it has resulted in any behavioural changes. However, it is important to note that behaviour change is a slow process with some changes taking time to work through. Thus, it is highly likely that this evaluation does not do justice to the full extent of behavioural changes accruing from direct payment. Notwithstanding this, there is evidence to suggest that direct payment has affected a number of behavioural changes, which are highlighted below.

5.2 Has direct payment resulted in tenants changing their approach to money management and how they bank?

The answer to both questions appears to be 'yes' and both quantitative and qualitative data collected by the study team supports this assertion. The following money management changes and banking changes occurred over the course of the programme:

The proportion of tenants who had a regular spending limit fell as the programme progressed. Among the stage 2 sample about three-quarters of tenants reported that they had a regular spending limit to help them manage their finances. But by stage 3, only two-thirds of them said they had such a limit. This change was statistically significant.

Tenants' budgeting periods grew over the course of the programme, with the duration that spending limits applied for increasing as it progressed. At both stage 1 and stage 3 the most common period that tenants used for their spending limit was weekly; and the second most common was fortnightly. Only a small minority had a monthly spending limit. However, there was a significant shift, between the stage 1 baseline and the stage 3 survey in the spending limit periods that tenants used to manage their money. Among tenants who had a spending limit, between stage 1 and stage 3:

- weekly budget limits declined from 60 per cent to 53 per cent of tenants;
- fortnightly limits increased from 31 per cent to 35 per cent;
- monthly limits increased from nine per cent to 12 per cent of tenants.

Thus, while fewer tenants had spending limits, there was a shift towards longer time periods for the spending limits that tenants used to help them manage their finances. Although fewer tenants had spending limits at stage 3 than at stage 1, they were more likely to manage to keep to them:

- at stage 1, 73 per cent of tenants with a spending limit reported that they managed to keep to it 'always' or 'most of the time'; but at stage 3, 79 per cent of them managed to do so;
- the proportion of tenants who were able to keep to their limit 'sometimes' or 'hardly ever' declined from 27 per cent to 21 per cent.

The way tenants paid their rent changed over the course of the programme, as Table 5.1 illustrates. Payment by Direct Debit became much more commonplace: while only 17 per cent of respondents to the stage 1 survey reported that they used it nearly a third (31 per cent) did the same in the stage 3 survey. This development is an interesting one in the context of broader behavioural change because many tenants who used Direct Debits (understandably) synchronised their Housing Benefit (HB) and rent payments, so that they simply did not 'see' their HB. Therefore, while Direct Debit may be an effective mechanism for safeguarding both landlords and tenants and synchronising payments is undoubtedly good practice in terms of money management, it also removes the tenant from the equation, perhaps lessening the potential for behavioural change. As one tenant explained:

> *'Yeah, I set up another account. I gave her* [DPDP landlord] *the account details and I had nothing to do with that account. Money goes in, money goes out. I leave it, I forget about it. It* [direct payment] *just doesn't affect me. I've got the account and money goes in, money goes out. I just forget about, I don't really think about rent cos the money's nothing to do with me'.*

Table 5.1 Methods tenants normally used to pay their rent

			Column percentages
Payment methods	**Follow-up sample at stage 1**	**Follow-up sample at stage 3**	**All tenants at stage 3**
Cash ***	30	11	11
Postal order	0	2	1
Cheque	0	1	<1
Debit card	17	16	19
Credit card	0	1	1
Standing order **	3	12	8
Direct Debit	17	19	31
Electronic transfer from e-bank account	1	5	4
Rent payment card (e.g. Allpay)	33	29	23
Other	2	4	3
Base: excludes tenants on landlord payment whose HB covers all of the rent	*126*	*126*	*513*

Statistical significance: *** p<0.001; ** p<0.05.
Tenants could mention more than one method.
Source: Stage 3 survey.

While at the end of the programme cash remained as one of the two most common methods that tenants normally used to pay their rent, its usage declined over the course of it. In the longitudinal sample there was a statistically significant fall in the proportion of tenants who normally paid their rent by cash. The number doing so decreased from 30 per cent at stage 1 to 11 per cent at stage 3. While there are a number of possible explanations for this, landlords' promotion of Direct Debit as the default payment for most tenants is likely to be a contributory factor. Another change was the growth in the use of standing orders: over the course of the programme, the proportion of tenants paying in this way increased from three to 12 per cent.

The proportion of tenants with a bank account increased over the course of the programme. The proportion with at least one bank account rose from 88 per cent at stage 1 to 90 per cent at stage 3. This increase was statistically significant and was indicative of DPDP promoting greater financial inclusion.

5.3 Have tenants' money management skills improved as a result of being on direct payment?

Data collected by the study team suggests that this has been the case:

- 41 per cent of stage 3 participants agreed that taking part in the DPDP had made them better at managing their money (45 per cent disagreed). This view was echoed by a number of tenants who were interviewed in-depth: 'But for me it's definitely worked and it has helped me manage money a lot better.' In a similar vein, another tenant noted: *'Yeah, I'm more aware of everything [as a result of being on direct payment]. I can't miss a week. Before I were a bit more lenient with myself and it might be a monthly thing that I used to do with my finances, writing it all down and planning it all out. Yeah, it's made me more aware that I need to check it all time and I need to be on top of it all… Yeah, I do manage a lot easier now, maybe that practice.'*;
- 42 per cent of stage 3 participants agreed that taking part in the DPDP had made them more confident at managing their money (42 per cent disagreed and 17 per cent neither agreed nor disagreed).

5.4 Has direct payment resulted in tenants being incentivised to look for work?

Data collected by the study team suggests that the DPDP programme has incentivised some tenants to look for work, although this finding should be treated with some caution. First, the stage 3 survey found that 38 per cent of respondents agreed that their participation in the DPDP had made them more likely to look for a job (50 per cent disagreed and 13 per cent neither agreed nor disagreed). Furthermore, the same survey found that 35 per cent of participants agreed that taking part in the DPDP had made them more likely to hold down a job (52 per cent disagreed and 13 per cent neither agreed nor disagreed), with 22 per cent agreeing with the statement that taking part in the DPDP had made them increase their hours of work (67 per cent disagreed and 11 per cent neither agreed nor disagreed).

Second, rent account data also supports the supposition that the DPDP has had a positive impact on tenants' willingness to look for work – Rent Account Analysis (RAA) undertaken at the end of the programme revealed that direct payment was associated with a greater likelihood of entering employment, although, as noted earlier, the results must be treated with great caution. Using (imprecise) proxy indicators, the proportion of DPDP tenants in work increased from 21 to 23 per cent while the proportion of comparator sample tenants in work remained static at 21 per cent.

While taken together this evidence suggests that direct payment incentivised DPDP tenants to find work, it is important to note that (because of limitations in the data) the research was unable to establish whether this had resulted in DPDP tenants actually finding work specifically as a result of being on direct payment.

5.5 Has direct payment resulted in tenants being more aware of the rent they pay?

Yes: participation in the DPDP programme appeared to have made tenants more aware of their rent: 54 per cent of stage 3 participants agreed that taking part in the DPDP had made them more interested in how much rent they were being charged for their accommodation (31 per cent disagreed).

However, this heightened awareness did not manifest itself in a more positive relationship between tenant and landlord. More than three-quarters – 77 per cent – of participants reported that their experience of the DPDP had made no difference to how they felt about their landlord, with only seven per cent reporting that it had made them feel better.

Interestingly, some 16 per cent reported that it made them feel worse about their landlord. There appear to be a number of reasons for this including the greater level of communication between landlord and tenants, particularly when tenants fell into arrears, and linked to this, the arrears recovery process which, not unexpectedly, for most tenants was a difficult experience. For example, a tenant in Shropshire resented receiving SMS messaging rent payment reminders from his landlord while another tenant told the story of how his relationship with his landlord had broken down when he fell into arrears:

> *'I get a text message when the money is in my account which says: 'we look forward to you paying your rent.' I know it's a bit tongue in cheek but it's a bit cheeky!'*

> *'All I get off them [my landlord] is xxx [expletive] letters, basically….* [the contact from my landlord] *is not to help me, more to give me grief. I've got one bloke, this is why my social worker dealt with it, he rung me and really spoke down to me like a naughty child, so I went through a stage where I wouldn't answer the phone to them'.*

5.6 Has direct payment impacted on tenants in other ways?

Yes: it has impacted on tenants in a number of other ways:

i. **A number of tenants who were interviewed in-depth reported that being on direct payment had resulted in an improvement in their standing with their banks.** This was because more monies were going into their accounts. As a result, they were eligible for overdrafts, were receiving account 'rewards', and had better credit ratings:

> *'The direct payment thing has actually helped a lot because more money's been going into my account. It's built my credit rating up so I've been able to have an overdraft on my account which I've never been able to have, cos I didn't have that amount of money going in to build up the credit for an overdraft. So by having that money go into my account and coming out my credit rating has got really good. So it's allowed me to have an overdraft on that account which has given me more security now to know that if anything was to happen I actually do have some money there I can fall back on, now. Whereas I never had that before and I don't have family that I would have been able to lend money off.'*

> *'Me bank saw it differently, cos then I were going through me bank account to get me £5 reward with 'em, so on that side it were better as well…Yeah, on my current account, if you get so much per month through your account, which I don't usually cos I only work 16 hours. I usually get paid it in cash, so if on an off chance I pass bank I put it in. But with me Housing Benefit coming straight into my bank and then going out it were giving it that boost so I got me £5 reward on top of that as well.'*

ii. **Attitudes towards direct payment became more favourable over the course of the programme.** When the stage 1 survey was conducted just prior to the commencement of the DPDP programme, most tenants reported that their preferred HB payment method was landlord payment. However, there was a significant shift in opinion about the direct payment of HB among the longitudinal sample of tenants who answered this question at both stage 1 and at stage 3. Significantly fewer tenants in the stage 3 follow-up survey than in the stage 1 survey preferred landlord payment; and correspondingly more preferred either tenant payment or did not mind which of them was paid the HB.

Table 5.2 To whom would tenants prefer their HB to be paid?

			Column percentages
Paid to	**Follow-up sample at stage 1**	**Follow-up sample at stage 2**	**All at stage 3**
Prefers tenant payment	7	14	14
Prefers landlord payment	84	71	72
No opinion	9	15	15
Base: tenants on HB	*426*	*426*	*602*

Statistical significance: $p<0.001$ (for technical reasons the test of significance (McNemar) compares prefers payment to tenant v prefers payment to landlord).

However, it is important to note that when stage 3 tenants were asked whether they would like to remain on direct payment, most did not with 62 per cent reporting that they would prefer to revert to landlord payment, and only 12 per cent indicating that they wanted to remain on direct payment (27 per cent reported that they did not mind either way).

iii. **Direct payment had resulted in some tenants seeing HB as an income and 'wage'.** Data garnered from the tenant panel found that as the DPDP programme progressed members increasingly viewed their HB as part of their overall income or 'wage'. Such an outlook may better prepare people for UC, which is intended to replicate a wage (i.e. income is paid in one sum so the claimant must take responsibility for calculating and covering their outgoings from that sum). However, moving away from the notion of ring-fencing, where tenants attempt to reproduce the 'old' system by making a rent payment as soon as their HB is received, also prompted some to use their HB payment to cover expenses other than rent and subsequently pay their rent from other income sources. The risk of tenants managing their money in this way, which one could argue, is an example of good money management, is that having 'borrowed' from their HB, they may find they are unable to make up the shortfall.

iv. **Many tenants found being on direct payment demanding.** The telephone survey of underpayers found that when asked why they wanted to leave the DPDP programme, 34 per cent of respondents (or 25 out of 73) stated: *'It* [direct payment] *was just too stressful'*. And a number of tenants interviewed in-depth by the study team highlighted how stressful they found direct payment, particularly when transitioning from landlord payment. The experience of one tenant was typical of many: *'It* [direct payment] *did make me worry and panic … cos obviously I'm ringing them saying: "this is what I've been paid, is it right?" And they're: "well if that's what's been paid". And I'm: "no I want to make sure it's right. I don't want you sending me a letter saying you owe us £15 from last week 13 from the week before". And then it all mounts up and you've got loads of rent arrears and I don't want that.'*

v. **Some tenants had incurred bank charges as a result of falling into arrears when on direct payment.** For example, a tenant panel member reported that his HB had been 'taken' by his bank to pay for an unauthorised overdraft on his current account and bank charges: *'The vast majority of it went on bank charges and things like that. You've only got to miss one Direct Debit and you get a £30 payment of unauthorised overdraft charges, then you get something else comes out and takes up that £30 and that won't go out and so that's another £30, it soon adds up.'*

vi. **Falling into arrears and being switched back was a source of embarrassment for some tenants.** A number of switchback tenants reported that they were 'embarrassed' and 'ashamed' about the situation they found themselves in: *'I felt ashamed. I felt like I was robbing somebody, but I spent it and I shouldn't have … At the time I thought I'd be in trouble, really big trouble. I thought I'd end up losing my house. I was embarrassed; I was ashamed, you know? But at the time it was in my bank and it was…I needed it.'* A small number of tenants who switched back reported (when interviewed in-depth) that they would have liked the opportunity to remain on direct payment in order to 'prove' themselves, lessening their embarrassment: *'I would have liked to have continued* [on direct payment] *because I know now … I would have been able to do it.'*

vii. **Some tenants found it very difficult to repay their arrears.** For example, one tenant who was repaying his arrears noted: *'I'm struggling to pay it [my arrears] back…me social worker set up a payment plan just before Christmas but I've been struggling to find it, and then they're trying to get me out, or that's the impression I get, so I've had to do without to pay it.'* 'Doing without', in order to repay arrears was a common theme amongst tenants interviewed in-depth. For example, one described *'cutting back on gas, I only buy electric now so I don't have the central heating on'*, while another explained that she was not left with enough money *'that I can eat every day'*. A small number of tenants who were interviewed as part of the qualitative work undertaken by the study team were repaying at a relatively high rate; £40 and £50 per fortnight or month.

5.7 Has direct payment impacted on how tenants manage, prioritise and pay their bills and payments? Specifically, have they paid their rent at the expense of other bills and payments?

There was little evidence that tenants had paid their rent at the expense of other bills and payments. However, there was evidence to suggest that the opposite had occurred – that is sometimes tenants 'dipped' into their HB to pay a bill.

The stage 3 survey revealed that if they could afford to pay just one household bill, 65 per cent of tenants said they would pay the rent. However, a third reported that they would prioritise other bills including an electricity bill (17 per cent) and gas or other fuel bill (nine per cent). This behaviour was also evident amongst in-depth interviewees, many of whom reported that they prioritised gas and electric bills over paying their rent: *'I make sure I've got plenty of gas and electric and stuff. Yes, I pay that every week.'*

There were a multitude of reasons why some tenants prioritised the payment of other bills over the payment of their rent. However, perhaps surprisingly, given that most reported that they were concerned about being in arrears, the relative security of tenure that tenants appeared to feel in terms of their home appears to be a contributory factor. Only 26 per cent of stage 3 respondents with arrears believed that their landlord would evict them. And a commonly held view amongst in-depth interviewees was that they would not be evicted:

> *'No, no* [I won't be evicted]*, I think probably, because I think what's happened now because the council when you're owing them rent if they know you're on benefits they don't put too much pressure on you. But if it's a private landlord I'm pretty sure they will put pressure on you to for eviction at you know 1 month, 2 months but the council they have not been, before they used to do that but I think it's costing the council more money taking you to court and so on, that the reason why.'*

5.8 Summary

It appears that direct payment may have prompted some behavioural change amongst tenants who went on it. Specifically, it appears that it may have resulted in:

- Tenants **changing their approach to money management and how they bank**:
  - The proportion of tenants who had a regular spending limit fell as the programme progressed.
  - Tenants' budgeting periods grew over the course of the programme with the duration that spending limits applied for increasing.
  - The way tenants paid their rent changed over the course of the programme, with payment by Direct Debit becoming more common and cash less so, although it remained as was one of the two most common methods that tenants normally used to pay their rent.
  - The proportion of tenants with a bank account increased over the course of the programme
- **An improvement in tenants' money management skills.** 41 per cent of stage 3 participants agreed that taking part in the DPDP had made them better at managing their money, while 42 per cent agreed that taking part in the DPDP had made them more confident at managing their money.
- **Tenants being incentivised to find work.** Data collected by the study team suggests that the DPDP programme has incentivised some tenants to look for work.[47] First, the stage 3 survey found that 38 per cent of respondents agreed that their participation in the DPDP had made them more likely to look for a job (50 per cent disagreed). Second, RAA undertaken at the end of the programme revealed that direct payment was associated with a greater likelihood of entering employment.[48] Using (imprecise) proxy indicators, the proportion of DPDP tenants in work increased from 21 to 23 per cent while the proportion of comparator sample tenants in work remained static at 21 per cent.
- **Tenants being more aware of their rent.** 54 per cent of stage 3 participants agreed that taking part in the DPDP had made them more interested in how much rent they were being charged for their accommodation (31 per cent disagreed).
- Other impacts of direct payment were:
  - a number of tenants who were interviewed in-depth reported that the being on direct payment had resulted in an improvement in their standing with their banks;
  - attitudes towards direct payment became more favourable over the course of the programme;
  - direct payment had resulted in some tenants seeing HB as an income and 'wage';
  - some tenants interviewed in-depth by the study team reported that they found being on direct payment demanding;
  - some tenants had incurred bank charges as a result of falling into arrears when on direct payment;

---

[47] This finding should be treated with some caution.

[48] The results must be treated with great caution.

  - falling into arrears and being switched back was a source of embarrassment for a small number of tenants interviewed in-depth by the study team;
  - some tenants who were interviewed in-depth reported that they found it very difficult to repay their arrears.

- There was little evidence that tenants had paid their rent at the expense of other bills and payments. However, there was evidence to suggest that the opposite had occurred – that is, sometimes tenants 'dipped' into their HB to pay a bill.

6 The impact of direct payment on landlords

6.1 Introduction

When the DPDP programme was conceived there was some concern that participating landlords would see a marked increase in their arrears and management costs. This chapter explores whether this has been the case as part of a broader exploration of the impact of direct payment on landlords. Whilst it draws on a range of data sources to do so, it pays particular attention to the Rent Account Analysis (RAA) undertaken by the study team.

6.2 Was the impact of direct payment felt evenly across Project Areas? And did it play out in different ways?

The DPDP Project Areas are very different in terms of their characteristics and this is precisely why they were selected by the Department for Work and Pensions (DWP), who wanted to ensure that they were as 'representative' as possible. Furthermore, the characteristics of participating landlords also differed markedly and represented in their relatively small number were the following types of landlord: local authorities; housing associations; Large Scale Voluntary Transfers (LSVTs); rural landlords; urban landlords; landlords with a national presence; large landlords (the largest had 79,000 units); small landlords (the smallest had 3,000 units); landlords with geographically concentrated stock; and landlords with geographically dispersed stock. Furthermore, represented in the programme were landlords from different parts of England (London, Oxfordshire, Yorkshire and Shropshire) and Scotland and Wales.

Given the diversity of both the Project Areas and participating landlords, it is perhaps surprising, then, that one of the key findings of the research is that the experience of participating landlords was remarkably similar, with direct payment impacting on them in very similar ways.

For example, as will be explored in-depth later in this chapter, all landlords reported that direct payment had had an effect on their rental income, and all witnessed the same arrears trajectory: a sharp drop in overall rent payment/collection rates when tenants first transferred to direct payment, followed by a dramatic improvement over time. However, the precise scale, pattern and nature of these increases differed across Project Areas. This pattern was repeated for the other impacts of direct payment, which often played out differently across the areas. This was because, as highlighted above, the context within which direct payment was implemented differed markedly across them. A number of contextual factors appeared to influence how the impacts of direct payment worked through in the Project Areas, and these are highlighted in Figure 6.1. These factors can be bundled into four groups.

6.2.1 Socio-political, legal, cultural and housing policy and practice context

The socio-political, legal, cultural and housing context within which landlords operated influenced their approach to direct payment and how it impacted on them. For example, the Scottish landlord, Dunedin Canmore, operated under a different political and legal system than its English and Welsh counterparts: *'We've got our own devolved authority and our housing legislation is quite distinct from what you have down south.'* It also operated in a cultural and political context where evicting tenants was highly problematic and an option it was very reluctant to take.

In a similar vein, an English-based landlord noted that across the region where it operated (the Midlands) judges held differing viewpoints on when eviction was appropriate, therefore influencing the approach taken by it and other landlords to dealing with tenants who had fallen into arrears: *'There's a real geography on that [judges approaches to evictions]. You speak to people in Birmingham:* [they say] *you wouldn't go to court for arrears of less than £1,000. They'd chuck you out of the court and you're not likely to get a possession order, two or three grand is the minimum. It's a different world here at the moment and our tenants know ….Yeah, they know we will evict people and serve a notice on 300 quid. And we'll get a possession order for less than 1,000. So I think contextually in terms of the geography, Birmingham courts are totally different. They wouldn't entertain the idea of a possession order for less than £1,000.'*

6.2.2 Place

The characteristics of the areas where the DPDPs were located also influenced how the impact of direct payment played out across them. Place-based factors included: the scale and nature of disadvantage within an area; the nature of the local housing market, including the one for social housing; and the prevalence, nature and capability of banks and banking products, payment providers, such as Allpay, credit unions, and support providers. The capacity of local support agencies to support tenants on direct payment was a particularly important issue and influenced how landlords approached direct payment, with consequent knock-on effects for how it impacted on them.

6.2.3 Organisational factors

The characteristics of participating landlords also affected how direct payment impacted on them, with there being a multitude of influencing factors. These included whether the landlord was a housing association or local authority and where its stock was located (landlords whose stock was dispersed faced greater challenges communicating with their tenants). Another factor was the proportion of landlords' tenants included within the DPDP programme. Those landlords contributing relatively high proportions, such as Dunedin Canmore, Greensquare and Oxford City Council, all of whose tenants were in-scope,[49] were potentially more at risk to their cash flows being affected by direct payment.

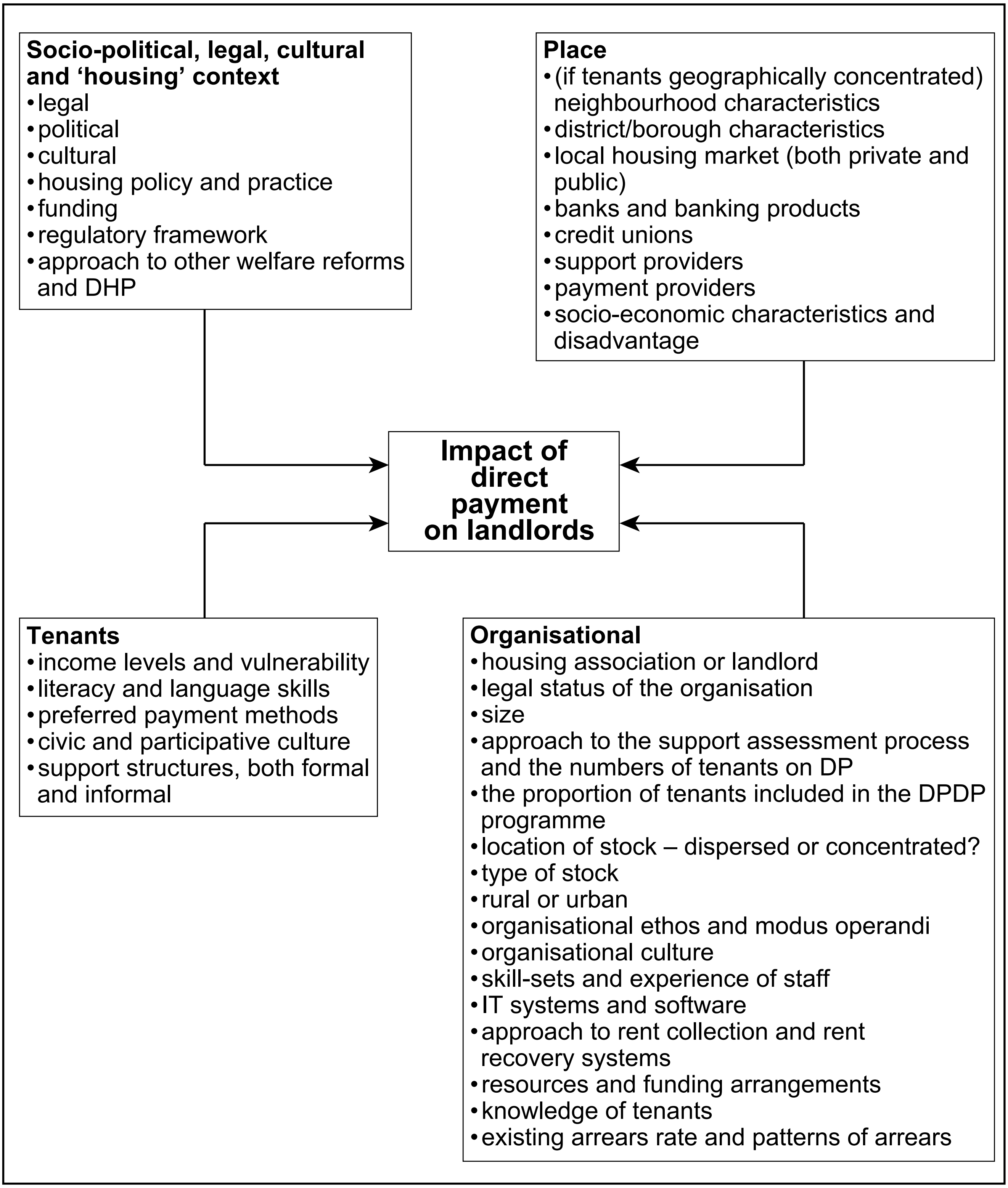
The approach taken to the support assessment process also influenced how the impact of the programme worked through in Project Areas. Specifically, the decision of Oxford to take a 'relaxed' approach to the process and include as many tenants as possible in the programme undoubtedly affected how direct payment impacted in the area. This is because Oxford included tenants in their programme that other areas did not, specifically many who could be described as being vulnerable to direct payment.

6.2.4 Tenants

The characteristics of in scope tenants also affected the impact of direct payment across the study areas. For example, landlords with relatively high proportions of tenants with low incomes faced additional pressure on their rental income because, as noted in Chapter 3, low income was found to be an important contributory factor towards arrears. Furthermore, the civic and participative culture within areas also affected how direct payment played out across them – for example, engaging tenants in Wakefield proved particularly challenging and resource intensive as the area has a relatively low level of civic engagement (Wells *et al.*, 2011).

49 As noted earlier, not all in-scope tenants actually went onto direct payment, with approximately 62 per cent doing so across the DPDP programme.

Figure 6.1 Factors affecting the impact of direct payment on landlords



6.3 What have been the key impacts of direct payment on landlords and other local stakeholders?

The key impacts of the introduction of direct payment on landlords and local stakeholders have been:

- **organisational change:** the introduction of direct payment has prompted participating landlords to consider new ways of working. Income teams have been reconfigured, roles have needed to change, new rent collection methods have been developed and trialled (SMS reminders, for example), 'patch' sizes have been reconsidered, and IT systems have been re-evaluated. Direct payment has demanded changes in staff roles and responsibilities and has altered the expectations placed upon them. Income officers in some areas, for example, are now providing support and advice to tenants where this was previous absent from, or a marginal component of their job. There is increased attention and scrutiny from CEOs, boards of directors, members and councillors because of the potential consequences for landlord income streams – pressure which bears down more directly on staff than was previously the case;
- **cultural change:** landlords are having to reconcile the tension between their traditional social function and the need to adopt a more hard headed commercial approach in order to protect income streams. As one landlord explained: *'Landlords are going to have to have a good look in the mirror … we're going to have a good think about the way we operate … we may be forced into a particular role …we may be forced to act more commercially … and we may have to tell tenants: "you either pay up or you go" … we don't want to do this but this is something that we are having to give a lot of thought to.'*;
- ***'we are getting to know our tenants in a way we didn't before'*****:** When the DPDP programme was launched, there was a widely held view amongst participating landlords that they 'knew' their tenants well. However, it soon became apparent that this was not the case – in order to prepare for and implement direct payment, participating landlords have had to develop relationships with tenants with whom they previously had little contact. They have had to improve their knowledge and understanding of tenants – for example, so they can be adequately supported, their readiness for direct payment assessed, early intervention developed, and effective collection methods employed. This has been a positive, if unintended consequence of direct payment for landlords;
- **additional demands on other organisations and services.** Contact with tenants was found to frequently uncover existing (and often longstanding) issues and difficulties unrelated to direct payment which, once identified, needed to be addressed by other services, including health, social care, and education. However, while not discounting this important resource issue, it is important to remember the 'bigger picture': that is, the needs of vulnerable tenants, a point acknowledged by Lord Freud in a recent speech: *'Because of the projects, and the increased intervention that followed, the relevant authorities were able to step in and provide the appropriate support … for some people direct payment has proved a useful mechanism for highlighting where they need support.'*[50];

---

[50] See: www.gov.uk/government/speeches/transforming-welfare

- **impact on other aspects of the landlord service.** The resource directed at managing direct payment – and seen as necessary to maintain acceptable rent collection rates – can have consequences for other aspects of the service. If effort and resource is being directed towards direct payment activities and tenants, that can mean it is being directed away from other activities and tenants. This phenomenon was reported by a number of landlords who reported that the DPDP had displaced resources from other activities;
- **landlord income and costs** have been affected by the introduction of direct payment. First, as is highlighted in the next section, their rental income has reduced as arrears have increased. Second, the direct payment has resulted in landlords incurring additional delivery costs, an issue which is explored later in this chapter.

6.4 What has been the impact of direct payment on landlords' rental income?

A key objective of the DPDP evaluation was to assess the impact of direct payment on social landlords' financial viability, principally through exploring the impact on landlords' key income stream: rent revenue. Under the current system, a proportion of social landlords' income – the proportion equal to their tenants' HB entitlement – is, in effect, guaranteed.[51] HB is paid directly from the local authority to the landlords' bank account every four weeks. Rent arrears on rent payments covered by HB are generally, therefore, very small. For many social landlords, around half of rental income has been guaranteed in this way, providing assurances to the lenders upon whom they rely for finance, in turn ensuring advantageous loan terms.

Under direct payment, this income is not guaranteed.[52] Maintaining existing rent collection rates relies upon tenants passing all the HB received onto their landlord in rent payments. Not surprisingly, the introduction of direct payment has prompted concern amongst social landlords about the potential impact on their income.[53] Arrears were expected to rise in the DPDP. The question was, by how much? Analysis of tenants' rent account and HB data over the 18 months of the DPDP provides the answer to this crucial question. Full results of this analysis can be found in *Direct Payment Demonstration Projects: Key findings of the 18 months rent account analysis exercise*, DWP Research Report No. 891.

Direct payment was not mandatory in the DPDP. Tenants were not given a choice to 'opt out' but, in practice, a tenant could avoid direct payment by refusing to respond to requests for bank details. Under Universal Credit (UC), a tenant's benefit claim will not be processed and UC will not be paid if they do not engage. Engagement may, therefore, be easier and less resource intensive under UC. However, little is known about the characteristics of non-engagers in the DPDP so it is possible that their participation in the DPDP would have altered the results (for example, if they are particularly good money managers the overall impact on arrears may have been less, or if they are particularly vulnerable it may have been more).

---

51 Some housing association tenants have already been receiving their HB directly, although numbers are relatively small.

52 When direct payment is rolled out under UC, some tenants will continue to have their HB paid direct to their landlord. This will apply to tenants who have been assessed as not ready for direct payment, those in need of support, and those who have switched back having accrued arrears.

53 As was the case with DPDP, under UC there will be mechanisms in place to recover arrears at source.

Direct payment in the DPDP did have a financial impact on landlords and tenants (a total of £1.9m of rent owed was not paid over the 18-month period) but much of this burden was borne in the first few months following migration. In fact, nearly half of the total arrears that accrued during the 18 months of the DPDP were accrued in the first month/four-week period[54] following migration. By the end of the 18 months of the programme: rent payment rates amongst tenants who had been on direct payment for the duration were 2.2 percentage points lower than amongst a comparator sample of tenants not on direct payment; and the net additional impact[55] of direct payment in these later payment periods was 2.1 percentage points less rent paid than if direct payment had not been introduced.

A clear picture emerged, then, of a distinct and significant drop in rent payment rates when tenants first migrated to direct payment. Payment rates then improved dramatically over time, stabilising at slightly below both baseline and comparator rates. The following section provides detailed figures for rent payment rates over time in the DPDP.

6.5 Did the impact of direct payment on DPDP landlords change over time?

Overall, tenants who went onto direct payment during the DPDP paid 95.5 per cent of all the rent owed[56].[57] The amount of rent paid over this period therefore represented 4.5 per cent of rent owed was, therefore, not collected, amounting to £1.9 million. This includes tenants who switched back to landlord payment (i.e. stopped receiving their HB directly) and so could only accrue further arrears if they were in receipt of partial rather than full HB or were having deductions taken from their HB. If we remove tenants from the analysis while they were switched back, i.e. count only the rent owed and paid while tenants were receiving HB directly, 94.7 per cent of rent was paid. Using this calculation, arrears over the 18 months represented 5.3 per cent of rent owed. Arrears are, therefore, higher, without the effect of a switchback mechanism, suggesting that switchbacks do help suppress overall arrears levels.[58]

54 The English and Welsh Project Areas operated a four-weekly benefit cycle while in Edinburgh tenants' HB was paid monthly

55 Net additional impact refers to the estimated impact over and above what might have been expected in the absence of DP and is assessed using statistical modelling.

56 The term 'rent owed' is used to refer to the debits charged to tenants' rent accounts during the period.

57 Some tenants went onto direct payment in June 2012, some in July 2012, some in August 2012 and so on. For the purposes of this analysis tenants were only included once they start to receive direct payment. The number of rent payments due during the DPDP therefore varied depending on when a tenant was first put onto direct payment.

58 Following the learning from DPDP, UC has both a switchback mechanism in place and a way to recover outstanding arrears owed to landlords.

Tenants in a comparator sample[59], none of whom received direct payment, paid 99.1 per cent of their rent over the same period. Their combined arrears amounted to 0.9 per cent of rent charged.[60] Direct payment tenants therefore paid 3.6 percentage points less rent than the comparator sample, or 4.4 percentage points less rent if tenants are excluded from the analysis while switched back.

However, the overall DPDP payment rate of 95.5 per cent masks significant variation over time. Figure 6.2 presents average rent payment rates for each payment period, including the six periods prior to tenants receiving their first direct payment of HB. It shows that, following the sharp reduction in rent payment rates in payment period 1 (to 67p per £1 of rent), payment rates increased in periods 2 and 3 but remained below baseline and comparator levels. After period 3, average rent payment rates stabilised and were typically between 1 and 5 pence less rent paid per £1 of rent charged than the comparator sample. The main exceptions were the eighth and 17th direct payment periods, when payment rates exceeded that for the comparator sample, before falling back. The payment rate in payment period 18[61] was 99 per cent (compared with 101 per cent amongst the comparator sample).

The fact that direct payment tenants in the DPDP failed to pay 4.5 per cent of rent owed does not tell us anything about the isolated impact of direct payment on the rent payment of the rent owed. We can only determine the additional impact of direct payment by comparing the rent payment rates of direct payment tenants with those in the comparator sample using statistical modelling.[62] This analysis reveals that, on average, tenants receiving direct payment of HB paid 5.5 percentage points less rent per payment period[63] (5.5 pence for every £1 of rent owed) during the 18 month period, than they would have done had their HB been paid direct to their landlord. However, in line with payment rates, the net additional impact reduced dramatically over time: from 15.7 percentage points less rent paid in the first three payment periods, to 2.1 percentage points less rent paid in payment periods 16-18.

---

59 In every other respect, the comparator sample was similar to the direct payment sample. Project Areas provided comparator samples with similar characteristics and the suitability of the comparator sample was improved further by using propensity score matching. See *Direct Payment Demonstration Projects: Key findings of the 18 months rent account analysis exercise*, DWP Research Report No. 891 for full comparison of the characteristics of the direct payment and comparator samples.

60 Tenants in the comparator sample could only accrue arrears if they were on partial HB, if deductions were being made from their HB, or due to administrative errors.

61 Payment period 18 refers to the period following a tenant's 18th direct payment of HB. This figure therefore only relates to tenants who went onto direct payment at the start of the DPDP and remained on direct payment for the duration. Tenants who were transferred onto direct payment later in the DPDP could not have received 18 direct payments of HB.

62 Modelling controls for certain factors, such as the impact of the switchback mechanism and the RSRS.

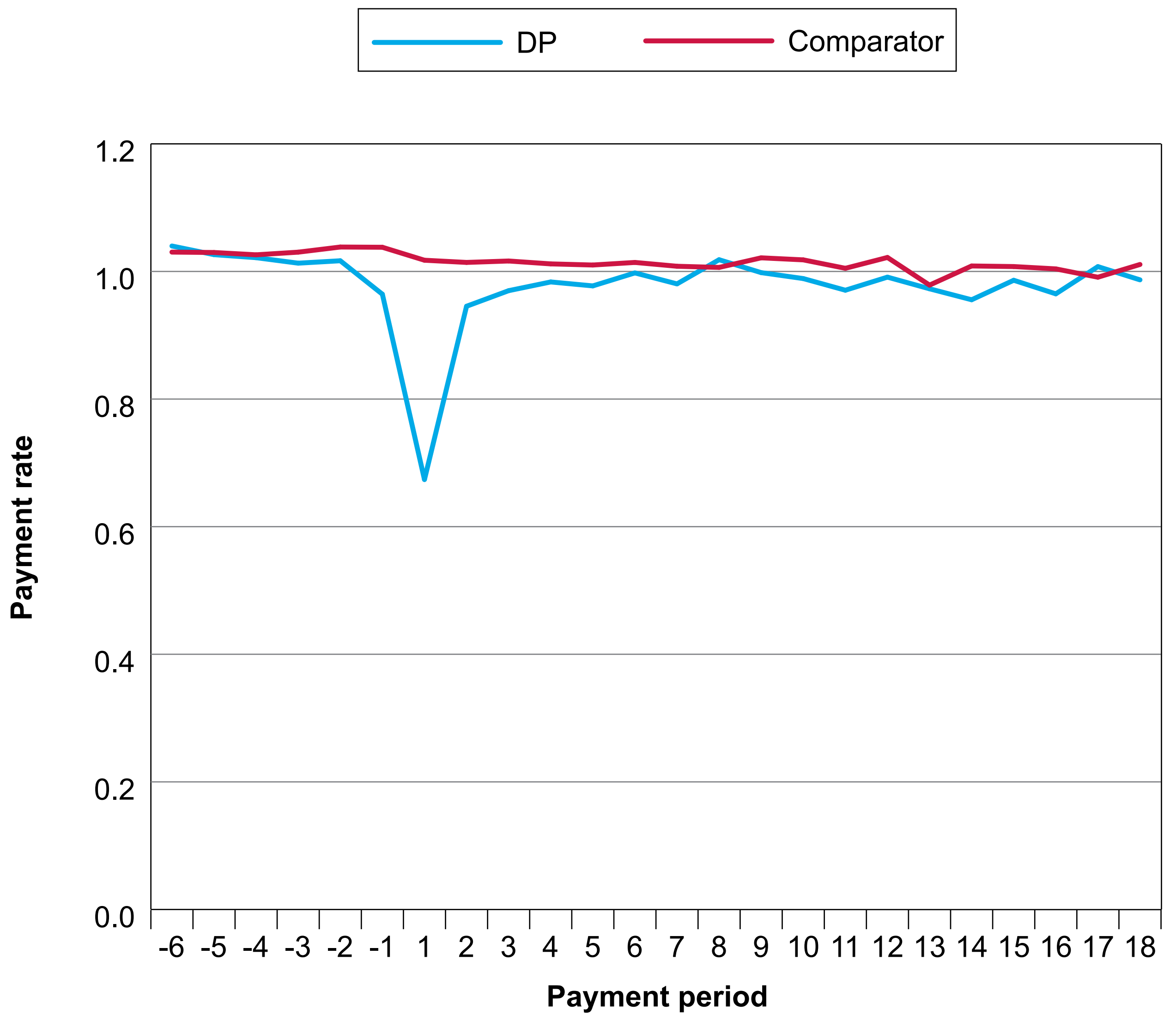
63 'Payment periods', also referred to as 'rent payment periods' are a construct devised by the study team to facilitate analysis. They comprise four week periods, or a month in the case of Edinburgh, over which landlords would expect tenant rent accounts to balance. All Project Areas except Edinburgh paid HB every four weeks. In Edinburgh payments were made every calendar month. 'Rent payment period' 1 would therefore refer to the rent cycle (i.e. the period for which rent is due) following direct payment of the first four weeks HB (the first month in Edinburgh). Payment period 2 refers to the rent cycle following HB payment for weeks 4-8 (the second month in Edinburgh) and so on.

The proportion of tenants managing to make full rent payment was also markedly lower during the transition period. Fifty-nine per cent of direct payment tenants in the DPDP underpaid or did not pay their rent following their first direct payment of HB but the proportion of tenants who underpaid or did not pay quickly returned to (and in some periods fell below) baseline levels.

It is important to note here that although the proportion of tenants accruing arrears returned to baseline levels, those who did accrue arrears tended to do so by a larger amount. In particular, the proportion of tenants in arrears who failed to pay 50 to 100 per cent of their rent was higher under direct payment, and remained so, and so the value of arrears remained consistently above baseline levels. This explains how arrears (in £) can continue to increase throughout the DPDP even though the proportion of tenants underpaying changed little after payment period 1.

DWP has already announced that under UC automatic switchback to direct payment will be considered if claimants accrue a certain level of arrears, and there will also be mechanisms in place to enable arrears to be paid to landlords.

Figure 6.2 Payment rates: rebased



Source: 18-months' Rent Account Analysis exercise.
Base: All tenants; DPDP (7,216-1,519); Comparator (4,908-1,372).

Nevertheless, a clear picture emerged of an 'arrears spike' in tenants' first few periods on direct payment. Removing the first three payment periods from the analysis brings the impact of this early arrears spike on DPDP landlord income into sharp focus, providing insight into the potential impact of direct payment if the arrears spike were to be mitigated. For example:

- 67 per cent of total DPDP arrears (i.e. over the full 18 months) accrued in the first three rent payment periods[64] and so total arrears reduces from £1.9 million to £648,000 if the first three payment periods are removed from the analysis;
- in total, tenants paid 97.9 per cent of the rent due from the fourth rent payment period onwards (including those who subsequently switched back). Overall arrears therefore reduce from 4.5 per cent to 2.1 per cent if the first three payment periods are removed from the analysis, demonstrating that the first three months are critical for direct payment.

It is important to note that although much of the impact of direct payment on landlord income can be attributed to the first few payment periods, the policy did continue to have an impact in the longer term. For example, in payment periods 1 to 3 statistical modelling revealed that tenants on direct payment paid 15.7 percentage points less rent in a given payment period than they would have done had their HB been paid direct to their landlord. By payment periods 16 to 18 the impact had lessened dramatically but tenants were still estimated to be paying 2.1 percentage points less rent than they would have done under the old system.

The arrears spike in rent payment periods 1 to 3 suggests that the shift from one system of HB to another may be a critical point for tenants and landlords. However, it was not clear from these results alone whether the trajectory reflected inherent challenges associated with moving tenants onto the new system and so is a pattern likely to persist, or reflected the infancy of direct payment as a policy in the first few months of the DPDP, when most tenants were transferred onto direct payment, and the experimental nature of early implementation.

We can cast further light on this issue by comparing the payment rates of tenants who transferred onto direct payment early in the DPDP with those who went onto direct payment later in the programme, when lessons had been learnt and systems and processes had adapted accordingly. This is achieved in two ways:

- comparing the 'payment period 1' payment rate of tenants who transferred onto direct payment in the first few months of the DPDP (when the programme was new and learning not yet accrued) with those who went onto direct payment subsequently;
- comparing the payment rates of the 413 tenants who were brought into scope following the decision at the end of the first year to extend the DPDP for a further six months,[65] with those of the first cohort selected in 2012.

---

64 It is important to remember that the first three rent payment periods is not the same as the first three months/four weekly periods of the DPDP (June – August 2012 in most Project Areas and August – October 2012 in Edinburgh). Some tenants were transferred onto direct payment later in the DPDP and so their first three payment periods will have commenced later in the programme.

65 Although a small sample drawn mostly from the same Project Area (Oxford), these tenants were not part of the original cohort of 2,000 tenants selected in each Project Area to participate in the DPDP, which makes for a better comparator. Tenants who went onto direct payment later in the DPDP but who were part of the original DPDP sample would have been subject to some of the same processes as those who transferred earlier (for examples methods of communicating the changes, support assessment processes). In addition, the reasons for later transfer onto direct payment amongst this cohort may have reflected issues potentially impacting on likely payment rates such as reluctance to engage, or higher support needs.

The results show that:

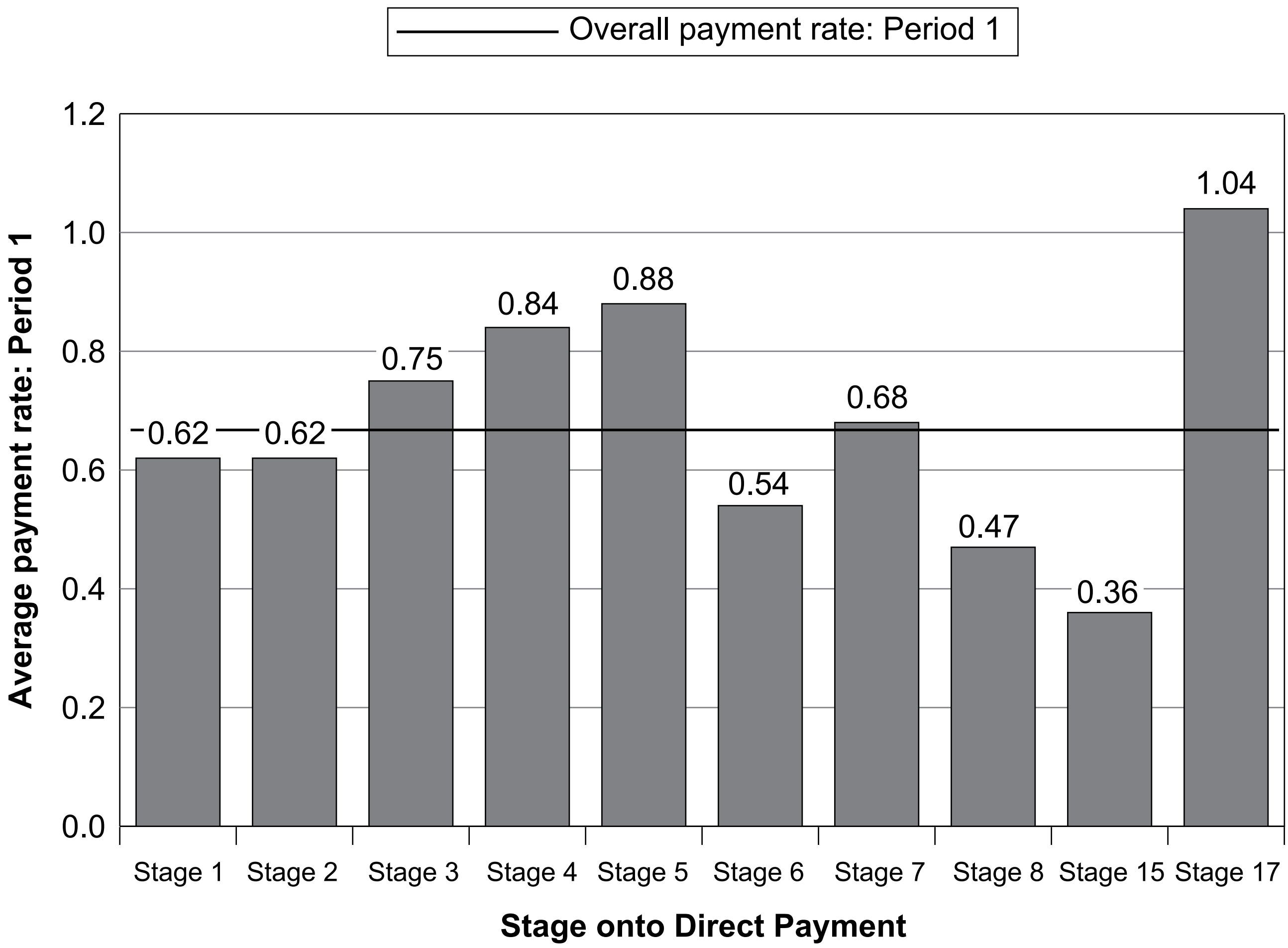
- **tenants who went onto direct payment later in the DPDP, once learning had accrued and processes adapted accordingly, still displayed relatively low first payment rates.** Tenants who transferred onto direct payment in stages[66] 1 and 2 of the DPDP (June and July 2012 in most Project Areas) recorded broadly similar first payment rates (62 per cent). The first payment rate of tenants starting in stages 3 through to 5 were markedly higher but, with the exception of the final stage of the DPDP, lower first payment rates were recorded by tenants who transferred onto direct payment in later stages: 54 per cent in stage 6, 68 per cent in stage 7, 47 per cent in stage 8 and 36 per cent in stage 15 of the DPDP (see Figure 6.3 which presents the average first payment rate of tenants transferring onto direct payment in every 'stage' of the DPDP in which at least 100 tenants received direct payment for the first time);
- **tenants brought into scope during the DPDP extension did have a higher average first period payment rate than those in scope in the first 12 months, but it remained relatively low:** 77 per cent of rent owed was paid in payment period 1, compared with 67 per cent of the original cohort of DPDP tenants. The average first payment rate amongst tenants brought into scope during the DPDP extension was lower than the average first payment rate for the original cohort of tenants who moved onto direct payment in stages 4 (0.84) and 5 (0.88) of the DPDP. In-depth interviews with tenants who became part of DPDP during the extension period confirmed that their experiences did not differ markedly from those who had joined earlier in the programme. But they did differ in that they were more aware of the UC context generally.

These results suggest that the 'arrears spike' which emerged in the DPDP was not driven primarily by factors specific to the DPDP. Relatively low initial payment rates are likely to be a feature of the implementation of direct payment going forward unless mitigating action is taken. The spike may be less pronounced during roll out, reflecting the influence DPDP has had on UC design, but focused intervention during transition may be needed for those currently on HB.[67]

66 Stage 1 refers to the first direct payment of HB made by Project Areas, which in most Project Areas was made in late June 2012, stage 2 to the second payment four weeks later (or one month later in Edinburgh) and so on. The Edinburgh demonstration project made the first payment slightly later, in August 2012 and then every month, rather than every four weeks.

67 All participating tenants in the DPDP were existing HB claimants rather than new claimants, who may respond differently to direct payment.

Figure 6.3 Period 1 payment rates for tenants on direct payment; rebased[68]



Source: 18-months' Rent Account Analysis exercise.
Base: Tenants whose first direct payment was in the stage; DPDP (3,631-228).

6.6 Did the impact of direct payment on landlord income vary by area or landlord type?

The impact of direct payment on rent payment rates did vary by Project Area, but not significantly. The overall payment rate (proportion of rent owed that was paid over the 18-month duration of the DPDP) ranged from 92 per cent in Shropshire to 97 per cent in Oxford, Torfaen and Wakefield (see Table 6.1). The proportion of tenants who accrued arrears or additional arrears during the DPDP was also highest in Shropshire, but lowest in Edinburgh (see Table 6.2). The proportion of tenants accruing arrears was highest amongst council tenants and lowest amongst housing association tenants (see Table 6.2).

68 Only stages where at least where at least 100 tenants first received direct payment were included in the analysis.

Table 6.1 Proportion of rent paid in all payment periods, and in all direct payment payment periods (i.e. counting only periods where HB was paid directly to the tenants)

	All periods	DP periods
DPDP Project Area		
Edinburgh	96	95
Oxford	97	95
Shropshire	92	95
Southwark	94	93
Torfaen	97	97
Wakefield	97	96
Landlord type		
HA	97	96
LSVT	97	96
Council/ALMO	94	93

Source: 18 months' Rent Account Analysis exercise.
Base: All tenants; all periods (7,252); DP periods (7,252).

Table 6.2 Proportion of tenants who had accrued arrears, or additional arrears by the end of the DPDP (counting all periods, and counting only periods where HB was paid direct to the tenant

	All periods	DP periods
DPDP Project Area		
Edinburgh	54	55
Oxford	66	71
Shropshire	70	70
Southwark	63	65
Torfaen	56	60
Wakefield	56	61
Landlord type		
HA	53	55
LSVT	55	60
Council/ALMO	72	75

Source: 18 months' Rent Account Analysis exercise.
Base: All tenants; all periods (7,252); DP periods (7,252).

6.7 Did the 'trigger point' affect the value of arrears and the number of people entering arrears? And which 'trigger point' was the most effective?

It is impossible to provide robust answers to these questions. This is because a number of factors make it very difficult to determine the effect of each of the main switchback triggers (4 weeks/one month/8 weeks/12 weeks) on arrears.[69]

- The relatively high number of tenants who switched back under the additional 'partial' repayment triggers (i.e. triggers 3 and 4) and the relatively small number of 'full' trigger switchbacks.
- The inclusion of trigger 4 – underpayment by 15 per cent or more in the preceding 12 weeks – undermined the ability of those landlords with an eight-week or 12-week switchback trigger to test their salience. This was because it was possible to meet the criteria for trigger 4 with just one missed payment, i.e. before reaching the threshold for the main 8/12 week trigger. For example, if after 12 weeks on direct payment, a tenant whose rent is £100 per week fails to make one payment (£400) they would switchback under trigger 4 (12 weeks rent is £1,200 and 15 per cent of this is £180). If applied rigorously, it is only tenants who fail to pay their rent as soon as they transfer onto direct payment that can switch back under the terms of the main trigger. This is reflected in the high number of trigger 4 switchbacks at a programme level – 495 out of 1,031 made by March 2013[70] – and the acknowledgement by Project Areas that many had occurred as a result of only one underpayment.
- Project Areas implemented switchback triggers, and the switchback process differently: while some followed agreed protocols to the letter and very mechanistically others adopted a more flexible approach, viewing the criteria as loose guidelines. Some landlords used a relatively high degree of local discretion, drawing on their knowledge of the tenants. The result was tenants who switched back before meeting the criteria for one of the triggers, as well as those remaining on direct payment who had accrued the requisite arrears to switchback. In addition, the boundary between safeguarding as a result of vulnerability, and switching back was sometimes blurred. If information came to light about a tenant suggesting that they should have been safeguarded (not put onto direct payment) some landlords operated 'discretionary reversions', switching a tenant back on these grounds.

Although assessment of the relative impact of each trigger point is not possible, analysis shows that a switchback mechanism does help limit arrears.

---

[69] Some Project Areas operated a 4-week/one-month switchback trigger, some an eight week trigger and one a 12-week trigger (meaning that tenants who accrue four weeks'/one-month's/eight weeks' arrears revert back to having their HB paid to their landlord). One objective of the DPDP was to trial these different trigger points in an effort to identify which was the most effective. To provide additional safeguards, other switchback triggers were also devised, designed to prevent tenants from accruing arrears over time through underpayment rather than non-payment. Not all Project Areas employed all four switchback triggers.

[70] DWP only collected disaggregated switchback data at one point in time: March 2013. More recent figures are not therefore available.

In total, 1,438 tenants (20 per cent of all direct payment tenants) switched back to landlord payment at least once during the DPDP.[ii] Some tenants switched back more than once and so 1,489 switchbacks were recorded in total. For the purpose of this analysis a tenant was categorised as having switched back if:

- the 'rent destination' variable changed from 'payment to tenant' to 'payment to landlord'; and
- within two rent payment periods either side of this:
  - the Project Area flagged the tenant as a switchback; or
  - the Project Area flagged that the tenants had reached the trigger point for switching back.

The switchback figures generated by RAA differ from those collected by DWP, which are higher. This reflects the following:

- some switchbacks occurred at the very end of the DPDP after the final rent account data were collected. We know, for example, that approximately 20 tenants in Edinburgh were switched back just as the DPDP came to an end but after their final data were submitted;
- some tenants flagged as a 'switchback' continued to receive their HB directly. They may have been flagged in error, or the decision to switchback may have been reversed. These tenants were removed from analysis but may still have appeared in DWP monitoring data;
- the RAA excludes some tenants because their full rent account or HB records were not supplied (see Chapter 2). Some of these may have switched back.

Analysis of the rent accounts of those tenants who met the criteria outlined above and who were, therefore, categorised as having switched back revealed that half (51 per cent) of all switchbacks occurred in tenants' first six rent payment periods, 36 per cent in payment periods 7-12 and 17 per cent in payment periods 13-18.

Tenants who switched back had much lower overall payment rates during their time on direct payment than tenants who did not switch back (79.5 per cent compared with 96.8 per cent of tenants who never switched back). While we cannot predict these tenants' future payment behaviour had they not switched back, these results strongly suggest that the switchback mechanism did contribute to limiting further arrears.[71] Further analysis of rent account switchback data can be found in the Appendix.

[71] It is important to note that the process and tools for assessing tenants' readiness for direct payment has changed since the DPDP started. Under current practice many tenants who went onto direct payment in the DPDP would not do so now.

6.8 Did arrears that accrued in the early stages of the DPDP get paid back?

The payment behaviour of tenants who initially failed to pay some or all of their rent quickly improved but much of the arrears accrued in the early stages of direct payment had not been repaid by the end of the 18 months of the DPDP.[72] In total, 79 per cent of tenants who accrued arrears during the first three direct payment periods were still in arrears in the final period. Tenants may have quickly established positive payment behaviour but tenants and landlords do not appear to have 'recovered' sufficiently from this period of transition to remedy the financial impact of it. At the end of the first three payment periods the value of arrears was £1.2 million; at the end of the final payment period the value of arrears was £1.9 million – an increase of approximately £650,000 (54 per cent).

The shift to direct payment therefore represented a negative step-change in the overall rent account balances for those who accrued arrears in the first three payment periods. Some landlords will be better able to accommodate this than others. Ways of focusing efforts on recovering 'early arrears', and/or of covering this 'one-off' loss in the medium term is something that landlords will want to think about.

6.8.1 In addition to arrears, are there other costs to landlords of implementing direct payment?

Yes: there are additional costs associated with delivering direct payment and there was a consensus amongst landlords that it was more resource intensive than landlord payment. However, it is not possible to quantify them and to answer the second question because of a lack of corroborating data. This is because none of the Project Areas had undertaken a systematic and comprehensive assessment of these costs or held monitoring data on them, although some were able to offer estimates of the additional cost. For example, one landlord noted that it had to devote three times more resource than 'normal' to secure a payment under direct payment:

> *'So on average we're putting three times the work in to get the same debit that we used to have before, our transactional costs have gone up cos of people paying in different fashions, setting Direct Debits up when they could set one up.'*

However, as alluded to in the above quote, it is important to note that landlords were aware of the type of costs associated with direct payment – they simply had not collated and quantified them in a systematic way. For example, one noted that some of the staff costs associated with direct payment were indirect i.e. accrued by staff not working directly on the project. However, this landlord was unable to quantify this important 'hidden' cost:

---

72 This overall picture will mask the fact that while some tenants overpay (to repay arrears) others accrue further arrears and that some tenants who keep to repayment arrangements may, simultaneously, underpay their rent, The point remains, however, that overall, the payment rate did not rise above 100 per cent – the point at which arrears start being recouped.

> *‘I think whatever the costs were we probably underestimated the real cost of it. I think we’ve had* [Project Lead] *and her team who’ve been managing the project very well and their direct costs. But supporting* [Project Lead] *in order to get the information she needs to do her job and feed the different machines that need feeding. There’s a myriad of other teams who will have invested a lot of time and capacity which will have been indirect and hidden. But all of that will have been very helpful in us understanding what we need to do for the future so it’s helpful but we can’t underestimate the cost of that investment.’*
>
> (Finance Director, housing association)

When exploring the issue of the cost of direct payment it is important to focus not just on costs but also on resource as many of the additional activities undertaken by landlords did not result in direct, additional costs to them, even though additional resource was employed. Landlords identified a number of areas where the delivery and management of direct payment had resulted in the use of additional resource and increased costs:

- **staff time**, which was seen as being the biggest cost. For example, all Project Areas appointed a dedicated DPDP project manager and in most areas this represented additional staffing and several employed additional housing/tenancy support workers (ranging from 0.5 – 1.75 FTE) when it became clear capacity in existing teams was not sufficient;
- **the cost of upgrading and improving rent collection and recovery IT systems.** A number of landlords purchased new software packages because their existing IT systems were not compatible with direct payment, with a common ‘gripe’ being that they could not provide the ‘live’, current data, that direct payment demanded. These packages could be relatively expensive – one landlord, for example, reported spending £50,000 on purchasing one: *‘Our biggest challenge is our IT system … we were having to do so many things manually … so we invested £50,000 in xxx* [rent collection software package] *….’*;
- **the cost of communicating with tenants.** There were (non-staff) cost/resource implications for all four of the most commonly used communication methods used by landlords: letter writing; telephoning; face-to-face visits; and SMS messaging. A number of landlords used texts to remind tenants to pay their rent and reported that it was an effective way of boosting payment rates: *‘SMS messaging in advance reminding tenants about making future payments* [has been important] *… it was very effective in early December* [2012]*’*;
- **payment transaction costs.** Because more tenants were paying their rent, transaction costs increased. However, there is another reason behind this increase: the fees charged by pre-payment card providers. *‘Our transaction costs have gone up because we have to pay a fee every time a tenant pays their rent using a pre-payment card … and there’s a ceiling of £150 … I think they pay 40 pence per transaction … it’s costing us a lot of money…. we worked out that it is costing us £440 in additional costs for our tenants’* (Lead Officer, housing association).

However, it is important to note that there were **cost savings associated with the introduction of some of the activities above**. For example, a number of landlords reported that text reminders improved their collection rates. And the landlord that had introduced a new £50,000 IT system believed that it resulted in less staff hours being spent identifying tenants in arrears and a much more effective IT system: *‘that* [£50,000] *sounds a lot of money but it provides data on weekly basis, which is a big improvement on our old system* *which provided it monthly'*. However, none of the DPDP landlords could provide an accurate assessment of the cost and resource savings accruing from the introduction of these types of measures.

6.9 What was the total cost of direct payment?

Because we do not know the cost of delivering direct payment it is impossible to answer this question. However, even if it were possible to generate a figure one would have to treat it with a degree of caution, particularly in the context of the development of UC. This is because in three respects the UC context is very different to the one for DPDP, with obvious (and conflicting) resource implications:

- first, DPDP landlords devoted considerable resources to managing and supporting tenants on direct payment. However, they report that it will be difficult to devote the same level of resource when UC is rolled out in full: *'We had to make DP work and thrown loads of resources at it…. but we won't be able to do this under UC and we will have to spend less resource…. so I'm not sure what any costings for DPDP tells you about UC.'* (Project Lead, housing association). However, it is important to note that DPDP, with its emphasis on testing and learning, is a very different model to UC, which is unlikely to require the same level of resource;
- second, a number of Project Area officers reported that management costs would be higher under UC than under the DPDP. This was because they felt that greater resource would have to be devoted to rent collection and rent arrears recovery as some tenants would struggle to manage when all their benefit was combined into one, UC payment (DPDP is concerned only with the housing element). However, it is important to remember that tenants are accustomed to handling the rest of their welfare payments themselves;[73]
- third, in the DPDP relatively senior members of staff were heavily involved in managing and delivering the programme and took a more 'hands-on' approach than they would normally do, with consequences for the costs associated with delivering direct payment. However, these relatively expensive staff are unlikely to fulfil the same role when UC is fully rolled out: *'Our costs for direct payment are not realistic … and it's been more expensive that it will be under UC … you won't get senior staff like me working on it or xxx in xxx. It will be more junior staff. And that will push the cost down … and we won't have the resource to do all the face to face visits we are currently doing.'*
(Project Lead)

6.10 What was the impact of direct payment on the overall financial sustainability of landlords?

The impact was very limited. However, this has less to do with impact of direct payment per se but more to do with the scale of the DPDP programme – for many participating landlords, DPDP tenants represented a relatively small proportion of their tenants. Therefore, it is perhaps more pertinent to ask what will be the impact of direct payment under UC. This issue is explored in the next chapter.

73 It is also important to remember that these views were articulated before UC had been rolled out and that savings may accrue from these investments, as noted earlier.

6.11 Summary

- One of the key findings of the research is that the experience of participating landlords was remarkably similar, with direct payment impacting on them in very similar ways. However, how these impacts played out varied across the areas. This was because the context within which direct payment was implemented differed markedly across them.
- A number of contextual factors appeared to influence how the impacts of direct payment worked through in the Project Areas. These factors related to: the socio-political, cultural and housing policy and practice context; place; organisation; and (the characteristics of local) tenants.
- The key impacts of the introduction of direct payment on landlords and local stakeholders have been:
  – organisational change;
  – cultural change;
  – landlords getting to know their tenants better;
  – additional demands on other organisations and services;
  – other aspects of the landlord service have been impacted on;
  – landlord income and costs have been affected.
- Direct payment in the DPDP did have a financial impact on landlords, although not as much as had been expected (a total of £1.9m of rent owed was not paid over the 18-month period), but most of this burden was borne in the first few months following migration. In fact, nearly half of the total arrears that accrued during the 18 months of the DPDP were accrued in the first month/four-week period following migration. Overall, tenants who went onto direct payment in the DPDP paid 95.5 per cent of all the rent owed, compared with a comparator sample (not on direct payment) who paid 99.1 per cent of rent owed (a difference of 3.6 percentage points). However, this masks significant variation over time. For example, in payment period 1 the average payment rate was 67 per cent but after payment period 3, average payment rates stabilised at slightly below baseline and comparator levels, and occasionally higher. The payment rate in payment period 18[74] was 99 per cent.
- In addition to arrears, there are additional costs associated with delivering direct payment and there was a consensus amongst landlords that it was more resource intensive than landlord payment. Landlords identified a number of areas where the delivery and management of direct payment had resulted in the use of additional resource and increased costs:

[74] Payment period 18 refers to the period following a tenant's 18th direct payment of HB. This figure therefore only relates to tenants who went onto direct payment at the start of the DPDP and remained on direct payment for the duration. Tenants who were transferred onto direct payment later in the DPDP could not have received 18 direct payments of HB.

  - staff time, which was seen as being the biggest cost;
  - the cost of upgrading and improving rent collection and recovery IT systems;
  - the cost of communicating with tenants;
  - payment transaction costs.
- However, it is important to note that there were cost savings associated with the introduction of some of the activities above. For example, a number of landlords reported that text reminders improved their collection rates. And the landlord that had introduced a new £50,000 IT system believed that it resulted in fewer staff hours being spent identifying tenants in arrears and was a much more effective IT system.
- The impact of direct payment on landlords' cash flows was very limited. However, this has less to do with impact of direct payment per se but more to do with the scale of the DPDP programme – for many participating landlords, DPDP tenants represented a relatively small proportion of their tenants.

7 Direct payment under UC for landlords

7.1 Introduction

Previous chapters have highlighted the impact of direct payment on landlords under the Direct Payment Demonstration Projects (DPDP). This chapter looks forward to explore how direct payment is likely to impact on them under Universal Credit (UC). Before doing so, it is important to make the following cautionary points:

- disentangling the impact of direct payment from those of other elements of UC, such as monthly payment and the consolidation of benefit payments into one payment, is highly problematic. Furthermore, so too is disentangling the impact of UC from other welfare reforms, such as the Removal of the Spare Room Subsidy (RSRS). It is therefore not possible to highlight with any degree of certainty the future impact of direct payment per se;
- linked to this point, and as noted earlier, direct payment under UC will be different to direct payment under DPDP, reflecting the significant differences between the two programmes, one of which was a geographically tightly constrained and single benefit (Housing Benefit (HB)) pilot, and one of which is a multi-benefit and nationwide programme;
- reflecting the heterogeneity of the social housing sector, the impact of direct payment will play out unevenly across it and will affect landlords differently and in different ways, as was the case for DPDP, as the previous chapter has highlighted.

7.2 Direct payment under UC

Notwithstanding these caveats, data garnered from the DPDP evaluation does provide a valuable insight into how direct payment may play out under UC, with the interviews conducted with lenders and local stakeholders being a particularly valuable source of information. The roll-out of direct payment under UC is likely to result in the following:

i. **Housing associations are likely to become more commercially orientated as they look to protect their rental incomes.** There was a consensus amongst lenders interviewed as part of the study that direct payment under UC would 'push' landlords into adopting a more commercial approach to their operations. As noted earlier, a number of DPDP associations had already started this journey, a journey which is likely to continue under UC. This journey may result in some housing associations taking a more commercial approach to letting, although, of course, they will still be required to fulfil their traditional role of housing vulnerable groups. As part of the increasing emphasis on financial imperatives, some associations may look to house more tenants who are in full-time work and therefore not in receipt of HB, with the aim of reducing their risk to direct payment. One DPDP association reported that it had already begun to reconfigure its approach to lettings, albeit as part of a broader strategy to protect its rental income: *'So what we're doing as a business, and that's why it's turned out so well, we're getting people who can afford to pay the rent, primarily it's Europeans that have come in who are in employment round here, cos there's a lot of farming and in food producing factories, we've gone out and knocked on their door cos they thought they couldn't get a house with us';*

ii. **Landlords will initiate new ways of working**, like many of the DPDP landlords. Under UC landlords will makes changes to the way they operate as they seek to protect their incomes. Many of these could be beneficial to tenants. Specifically, direct payment under UC is likely to result in:

- landlords changing their approach to rent collection and recovery. They are likely to become more proactive with there being greater levels of communication between landlord and tenant. And for some landlords, this will result in the utilisation of new forms of communication such as SMS messaging;
- landlords becoming more visible on their estates. As part of changing their approach to rent collection and recovery, it is likely that some landlords will employ more rent collection officers on the ground who, in many ways, will fulfil the role performed by the traditional 'rent collector';
- landlords employing more outward facing staff. These staff will be concerned with working directly with tenants, with their primary aim being to ensure that landlord rental income is protected;
- landlords are likely to devote more resources to providing advice and support to their tenants. This support will fund internal activities, such as the employment of advice and support workers, and/or external agencies to undertake support activities;
- the delineation between landlords' rent collection and recovery and support functions may become more marked. In the past, these functions may have been performed by the same teams/officers, who would provide tenants with both the 'carrot' and 'stick'. However, in line with the likely increasing commercialisation of landlords and with that, the growing importance of the 'stick', it is likely that an increasing number of landlords will seek to create clear boundaries between the functions, with there being a clear divide between rent collection and support officers;
- reflecting the changes above, landlords are likely to devote more resources to training their staff. Training is likely to focus on the following issues: rent collection and recovery; communicating with tenants (who will increasingly become customers); data collection (i.e. recording and storing information about tenants); and support and advice.
- landlords will make greater efforts to 'get to know their tenants better'. As noted earlier, this was something that a number of DPDP landlords were already doing. There will be more communication between tenants and landlords, who will hold more information about their tenants. In terms of the challenge of landlords getting to know their tenants better, one lender felt that the task would be more difficult for medium sized landlords. This was because they did not have the resource that larger landlords had to invest in comprehensive IT systems and, unlike small associations, were too big and not 'local' enough to 'know' all their tenants;
- landlords will update their IT and data storage systems. Consistent with the objectives of improving their approach to rent collection and arrears recovery and getting to know their tenants better, landlords are likely to update their IT and data storage systems. As a result, they will:
  - hold more data on tenants, allowing them to form a more rounded assessment of their circumstances;
  - create systems which allow data held on a tenant to be stored in one place, as one DPDP landlord did; and

– hold rent account data that is up-to-date and 'live' (as noted earlier, many DPDP landlords reported being frustrated that this was not the case for them).

A number of DPDP landlords had already begun on this journey. For example, one was in the process of introducing a CRM (customer relationship management) software system. *'We've actually be investing in technology to help us understand our customers better so we've got better, more relevant knowledge … a CRM system, what that helps us with is understand the contacts and relationship with our customers, it's not perfect yet but it will become more and more important. The things we had to understand about our tenants in the past, their ethnicity or religion, are irrelevant when it comes to their ability to pay their rent.'* This landlord was exploring the possibility of profiling their tenants in new ways, including in relation to their credit history.

R *'We're starting to think about different ways of* [profiling tenants]*, certainly when we sign up new tenants. We've not got there yet but there's a lot of information out there in the big data world.*

I *Like Experian?*

R *Exactly, that can help us paint a picture of the tenant and their likely behaviours'.*

iii. **Landlords' rent arrears rising.** When the DPDP programme was conceived there was concern that the rent arrears of participating landlords would increase very dramatically and to unacceptable levels. While defining what constitutes 'very dramatically' and 'unacceptable' is, of course, impossible as both are subjective constructs, the consensus amongst local stakeholders and lenders was that they had not increased as much as had been anticipated:

> *'No,* [DP under DPDP] *it's not worked out as we thought it would. I can't say that with UC if that came in. I think that's something the financial world has gone very quiet over. They're not as noisy, so that's something they've never put forward to us but I think that's cos a lot of us manage it well and where there is challenges on that I think they've looked at merging. So I think there are a lot of mergers that have gone off and bond finance has come up so the whole traditional way of lending has gone. So I think it's more that in terms of the business plan, we are going to be in a situation where we're going to be self-sufficient on borrowing, so the lending situation doesn't come into play and that's not what a lot of organisations can say they're in. So it's worked quite well for us.'*
>
> (Chief Executive, housing association)

> *'The impression I got is that arrears have been impacted. Whether that's out of line with the expectations that these organisations had I'm not sure, so an increase in arrears has been noticeable. I think probably at the lower end of expectations, not as severe as might have been expected.'*
>
> (Lender)

However, notwithstanding this and the assimilation of the key learning from the DPDP programme into UC design and development, and the greater preparedness of landlords for UC, one of the key learning points to emerge from the evaluation is that the introduction of direct payment results in higher arrears rates. Under UC, landlords will have to adjust to this like the DPDP landlords did.

iv. **Landlords are likely to devote greater resource to rent collection and rent arrears recovery.** As more of their tenants pay their rent, they will have to work harder to secure their rental income, dedicating more resources to the task. These resources will be spent on staffing, training, IT and software systems, and transactional costs – a Direct Debit payment, which is likely to be the most common payment method under UC, typically costs landlords three or four pence, while payment by a pre-payment card can cost them as much as 40 pence per full rental payment, as noted earlier.

v. **Notwithstanding this, the financial viability of most landlords is unlikely to be threatened although their financial surpluses are likely to reduce.** Both lenders and local stakeholders were asked what they thought the impact of direct payment under UC would be on landlords' cash-flow and overall financial position. There was a consensus amongst both lenders and local stakeholders that it would not threaten the financial viability of most landlords, particularly those with larger housing stocks. And there was a widespread belief that one of the concerns highlighted by some housing commentators about direct payment at the beginning of the programme – that it would result in loan covenants being breached because of higher arrears – was unlikely to be an issue under UC:

> *'I'd be very surprised if it's that extreme* [in terms of loan covenants being breached] *...Something's got to have gone seriously wrong in that association for it to have that level of impact. Putting decent reporting in place, having the right people to react quickly and having the fall back of switching people out of direct payment. I'd be very surprised if it goes to that extent'.*
>
> (Lender)

However, a number of landlords and lenders believed that landlords' surpluses would be reduced under direct payment under UC as result of the greater costs associated with this HB payment method:

> *'If you look at the level of expenditure, additional costs*[75] *that people are incurring, there will be a reduction* [in surpluses]*, in reality how much that is in terms of actual properties?'*
>
> (Lender)

vi. **But the financial viability of some smaller landlords may be affected.** When interviewed, some landlords and lenders believed that direct payment under UC would pose a threat to the overall sustainability of some smaller landlords, particularly those located in disadvantaged neighbourhoods and with a high proportion of vulnerable tenants[76]. One lender noted:

> *'I think for the nature of our customers, which tend to be large financially robust housing associations, we're not seeing it* [direct payment] *as a huge risk. I think the issue is more around if you're a small housing association and you haven't got the liquidity and cash flow; if you've potentially got customers with complex needs it may be a different outcome … some associations might only have a couple of hundred units, if you have a delay in their rent payments for a couple of weeks it could be quite serious for them*

---

75 As noted earlier, there will be benefits accruing to both landlords and tenants associated with some of these costs.

76 There are a number of measures under UC designed to lessen the risk of direct payment, including alternative payment arrangements and arrears repayment mechanisms.

> *if they haven't got the cash resources to deal with that … the big boys, the likes of* [DPDP landlord] *won't have that problem cos they've got sufficient resources elsewhere to manage any … if you've got a specialist housing association dealing with particular people… if there's a delay in their payments it could be troublesome for them'.*
>
> (Lender)

Landlords and lenders also reported that in the future some landlords could find it more difficult to build. This is because, as noted above, their surpluses will be eroded, making it more difficult for them to self-fund any development or to borrow to develop – they will not have the financial resources to finance development debt. One medium sized DPDP housing association was concerned that this would be an issue for itself:

> *'The bad debt provision has been doubled on the basis that when we put this year's budget together UC was still a possibility. The big impact is the ability to, whilst we generate a reasonable surplus that goes into developing new homes … the real impact is we develop fewer homes which as a social landlord is not where you want to be at … you soon reach a point where we're hardly building, that's the big risk for us.'*

In a similar vein, a lender noted:

> *'I think the narrative is more about it affects their ability to develop … they* [social housing landlords] *would dip into more funding. But the Government is reducing grant rates so therefore they're having to take on exponentially more funding. So the first thing they do is not borrow; stop developing; just batten down the hatches.'*
>
> (Lender)

It is worth noting that when the DPDP programme was conceived there was concern that the rent arrears of participating landlords would increase very dramatically. However, this did not happen – there was a consensus amongst local stakeholders and lenders that they had not increased as much as had been anticipated.

7.3 Summary

Data garnered from the DPDP evaluation provides a valuable insight into how direct payment may play out under UC, with the interviews conducted with lenders and local stakeholders being a particularly valuable source of information. The roll-out of direct payment under UC is likely to result in the following:

- Housing associations becoming more commercially oriented as they look to protect their rental incomes, although, of course, they will still be required to fulfil their traditional role of housing vulnerable groups.
- Landlords initiating new ways of working. Specifically, in addition to the delineation between landlords' rent collection and recovery and support functions becoming more marked and some housing associations taking a more commercial approach to letting, this will manifest itself in landlords:
  - changing their approach to rent collection and recovery;
  - becoming more visible on their estates;

  - employing more outward facing staff;
  - devoting more resources to training their staff;
  - devoting more resources to providing advice and support to their tenants;
  - making greater efforts to ‘get to know their tenants better’;
  - updating their IT and data storage systems. As a result, they will:
    - hold more data on tenants, allowing them to form a more rounded assessment of their circumstances;
    - create systems which allow data held on a tenant to be stored in one place, as one DPDP landlord did; and
    - hold rent account data that is up-to-date and ‘live’.
- Landlords’ rent arrears rising, although not as much as anticipated. When the DPDP programme was conceived there was concern that the rent arrears of participating landlords would increase very dramatically and to unacceptable levels. While defining what constitutes ‘very dramatically’ and ‘unacceptable’ is, of course, impossible as both are subjective constructs, the consensus amongst local stakeholders and lenders was that they had not increased as much as had been anticipated. While, this is, of course, good news, arrears did still increase.
- Landlords devoting greater resource to rent collection and rent arrears recovery.
- Notwithstanding this, the financial viability of most landlords is unlikely to be threatened although their financial surpluses are likely to reduce.
- The financial viability of some smaller landlords may be threatened.

8 Key lessons to emerge from the DPDP for Universal Credit

8.1 Introduction

This chapter is concerned with highlighting the key learning to emerge from the programme for the following groups:

- social housing landlords;
- the Department for Work and Pensions (DWP) and the Universal Credit (UC) programme team; and
- 'other' stakeholders, specifically support agencies, lenders and tenants.

8.2 Key lessons

8.2.1 Social housing landlords

- **Start preparing for the introduction of UC as early as possible.** Learning from the DPDP has shown that implementing direct payment has taken longer, and has been more complex, than had been envisaged when the programme was conceived. In particular, making IT systems ready and communicating effectively the changes to tenants are elements that require a long lead-in period.
- **It is difficult to accurately forecast who will manage on DP and who will struggle.** Payment patterns emerged as highly complex, evading simple categorisations of 'payers' and 'non-payers'. Landlords reported often being surprised by who struggled on direct payment and who managed. Instead, the answer often lies in a tenant's personal and financial circumstances and happenstance, things that are very difficult to predict. It is part of the new landscape that any tenant, at any time, can and may underpay their rent.
- **The importance of 'knowing' your tenants.** There was a consensus amongst the DPDPs that it is imperative under direct payment that landlords hold up-to-date and robust information about their tenants, relating to a number of issues including their contact details, key demographic attributes, and housing and payment 'history'. Ideally, it would be desirable for landlords to hold information about the financial circumstances of their tenants, specifically, in relation to their income, indebtedness and savings, because the research has shown that this is the most important determinant of their ability to manage on direct payment. However, in practice, it is likely that landlords will find it very difficult to secure this information. For the many landlords that do not hold up-to-date information about their tenants, resource will have to be allocated to collecting data on their tenants. While there are, of course, a number of ways that they can do this, including undertaking one-off surveys and visiting tenants in their homes, it is imperative that landlords' records are updated on a continuous basis. This is because, as noted earlier, many tenants lead very complex and 'fluid' lives, with their circumstances (and telephone numbers) changing regularly. Furthermore, this is a complex issue with an ethical dimension. What sort of information should the landlord hold on the tenant? Should this go beyond information

to determine the right to tenancy? Landlords need to think carefully about what it is they should know about their tenants by considering: i) exactly what their role is as a landlord, and ii) how much they need to 'know' (and should know) about their tenants' financial circumstances.

- **Making support available to tenants.** The research has shown that it is financial circumstances of tenants that is the biggest determinant of how they fare on direct payment, with support not being a statistically significant driver. However, that does not mean that support does not make a difference and does not help tenants manage on direct payment. Indeed, both quantitative and qualitative data collected by the study team suggests that it does. However, there are bundle of issues associated with the provision of support which landlords must pay attention to:
  - What type of support is required? It is important that tenants receive the 'right' type of support. The support needs of tenants will vary greatly. Some will need help setting up and managing bank accounts and Direct Debits; some will require money management and budgeting advice; and some will need debt advice. Some may also need advice on how to maximise their income from benefits – given the importance of tenants' financial circumstances in determining how they fare on direct payment, it is imperative that landlords do not neglect this important support area.
  - How should support be provided? The way support is provided is important and affects take-up rates and its impact on tenants. Tenants who request support in practice often do not take it up, with this particularly likely to be the case if the support was provided collectively, through workshops, seminars, or surgeries. However, while personalised support appears to be the most effective way of engaging tenants it is also the most resource intensive way of providing support.
  - Do different people require different types of support and advice?
  - Who is best placed to deliver support and advice? And should it be delivered by a support agency? Landlords may not be best placed to provide some forms of support and advice and should look to work with key local support agencies, in line with guidance in the Local Strategic Support Framework for UC, and they may seek to form local support partnerships.
  - When is the support required? While it is important that support is offered to tenants wherever they are on the direct payment journey, it appears that it is particularly important to offer it as tenants transition from landlord payment.
  - How should the support be configured and packaged? Several Project Areas found that providing support for direct payment as part of broader, generic tenancy support was more effective than providing financial specific advice and support. One Project Area estimated that their general support workers had an engagement *'hit rate'* three times greater than money advice workers. This is not a reflection on the quality of the advice offered by these staff, and specialist money advisers have a very important role to play, but in some areas tenants will be more willing to engage initially with general, rather than financial specific advice or support, even though the issues uncovered may be financial.
  - What is the impact of the support? Is it making a difference? At what cost? – does it represent good value for money?

- **The first few rent payments following a tenant's first direct payment of HB are critical.** It is during this period that most arrears accrue and some tenants whose rent accounts were up-to-date when the DPDP went 'live' fell into arrears in these early payment periods. Therefore preventing the build-up of early arrears is crucial because analysis shows that tenants struggle to repay once arrears have accrued. Landlords therefore need to be particularly proactive in terms of rent collection when tenants first go onto direct payment. And it is important that they pay particular attention to recovering 'early arrears' and ensuring that these arrears do not become 'standing' arrears. Finally, landlords should target resources on minimising non-payment as it results in greater arrears (by value) than underpayment.
- **Delivering direct payment is more resource intensive than landlord payment and landlords will need to allocate additional resource to rent collection and arrears recovery.** And they will also need to consider (and implement) new and better ways of working, such as using text rent payment reminders, employing rent collection staff in different ways, and upgrading IT systems. Some of these initiatives will have a cost. However, it is important to remember that their introduction is likely to result in cost savings in the medium and long term.
- **Landlords need to review the way they operate.** They need to look at a range of issues including: the roles and responsibilities officers; how they collect rent; how they recover arrears; 'patch' sizes; and IT systems. And they will need to be prepared to adapt. Furthermore, they will also need to reconcile the tension between their traditional social function and the need to adopt a more hard-headed commercial approach in order to protect income streams.
- **Landlords should review the suitability for UC of their IT systems.** Many will need to invest heavily in this area. This is because without investment, some may find it a challenge to manage the resource implications of direct payment under UC as they deal with more rent payment transactions, and more tenants in arrears. For these landlords, investment in IT will not be purely about securing cost efficiencies but also about ensuring that they provide an effective service under UC. However, improving IT systems is not a straightforward task. Firstly, 'off the shelf' IT packages are not yet available for landlords. While some of the Project Areas have made strides in developing their own systems, these are not easily transferable between organisations for a variety of practical and business reasons. Secondly, landlords need to direct adequate resources to IT projects, particularly ensuring that project leaders have requisite knowledge and understanding of IT requirements.
- **Landlords need to become better at assessing the impact of their interventions.** Specifically, they need to be better at measuring the cost and impact of their initiatives to help them manage the implications of direct payment. This will allow them to highlight the value for money they provide, thereby facilitating optimal resource allocation. And linked to this, it is important that they undertake impact and value for money assessments of the support they provide, whether directly or indirectly through external agencies.

8.2.2 DWP and the Universal Credit programme team

- **For many tenants, direct payment can (and does) work. However, for some it does not as evidenced by the increase in arrears on the DPDP programme.**[77]
- **Tenants do not fall into neat categories of 'good' and 'bad' payers.** If it was this simple, the 'bad' payers would quickly be removed from the system through the switchback process, or their characteristics could be examined so they could be targeted for preventative action or safeguarded altogether. However, as noted above, payment patterns are far more complex than that. Tenants who pay their rent fully, and on time, can miss a payment one month and some of those who struggle when they first go onto direct payment subsequently manage well.
- **In the context of direct payment, it is primarily financial precarity that makes people 'vulnerable'**, more so than demographic characteristics, housing situation, skills and attitudes. Money management skills and attitudes can help mitigate the risk of financial vulnerability but financial vulnerability (low income, fluctuating income, existing debt and such like) is the key driver of arrears. In order to minimise the financial risk (to tenants and landlords) associated with direct payment and safeguard the most vulnerable tenants, the tool used by DWP to assess tenants' readiness for direct payment will need to take account of this fact.
- **The impact of direct payment under UC will be felt differently by landlords.** One of the key findings of the research is that the experience of participating landlords was remarkably similar, with direct payment impacting on them in very similar ways. However, the scale, pattern and nature of these impacts varied across DPDP landlords, reflecting their diversity. This pattern is likely to be repeated under UC, with the impacts of direct payment being played out unevenly across the social housing sector. Linked to this point, the experience of the DPDP programme and research elsewhere (NHF, 2014) is that some landlords are better prepared for direct payment under UC than others. These landlords have begun to change the way they operate, making themselves more customer oriented and outward facing, revamped their IT systems and made efforts to know their tenants better.
- **It is the financial circumstances of tenants that is the most important determinant of how tenants fare on direct payment.** Therefore, all other things being equal, the most effective way of reducing arrears under direct payment is to increase the income of tenants on it. Conversely, decreasing income levels will result in arrears increasing. Linked to this, while support 'matters' it is not the solution to lower payment rates under direct payment. And investing more resources in support is unlikely to result in significant improvements in payment rates. As noted above, while it was valued by many of the tenants that received it, it was found not to be a key driver of managing on direct payment.
- **Direct payment can change the attitudes and behaviour of tenants.** DPDP tenants reported that being on direct payment had made them better money managers. They also reported that it had made them more inclined to look for work, although it is important to note that the study was unable to establish whether this had resulted in DPDP tenants finding work specifically as a result of being on direct payment.

[77] This important message has informed UC design.

- **However, the scope for broader behavioural change for some tenants paying by Direct Debit may be limited.** Many tenants using Direct Debit synchronised their benefit and rent payments. While this behaviour is entirely positive and an example of good money management, it limits the scope for broader behavioural change. This is because tenants simply do not 'see' their benefit. Therefore, whilst Direct Debits may be an effective mechanism for safeguarding both landlords and tenants, and it is the payment method which correlates most strongly with high rent payment rates, to a large degree it also removes the tenant from the equation, and lessens the potential for broader behavioural change.
- **Designing and initiating the DPDP programme took much longer than anticipated, with challenges, problems and issues emerging on a regular basis.** Given the scale and scope of UC, it is imperative that its timetable for roll out acknowledges this and that time is factored into it to allow for the 'unexpected'.
- **Key to the success of the DPDP was the relationship between the Housing Benefit (HB) administrator (local authorities) and social housing landlords.** Under UC, the challenge for DWP, who will be responsible for the administration of HB, and landlords will be (as far as is possible) replicating this relationship. One way to help ensure that this happens is through some form of data sharing.
- **While considerable progress has already been made in this area and learning is ongoing, DWP needs to further develop its understanding of how social housing landlords operate and the issues they face.** It also needs to recognise that they are entering a period of great uncertainty and change, principally triggered by UC, leading them to review (and potentially revise) their operating practices, organisational structures and culture, and ethos, as they grapple with the conflict between their social and commercial functions.
- **In both quantitative and qualitative terms, the banking offer to tenants needs to be improved.** There needs to be more and better products, with products being better suited to the needs of tenants. DWP needs to work closely with the banking sector to ensure that this happens.

8.2.3 Support agencies, lenders and tenants

Support agencies

- The roll out of UC is likely to see an increase in demand for the services provided by support agencies.
- In the context of scarce resources, support agencies need to be better at demonstrating the impact of their work and the value for money it provides. As part of this process, they need to work much more closely with landlords.

Lenders

- The impact of direct payment on arrears has not been as great as was feared when the policy was first announced.
- Based on the experience of the DPDP, when UC is rolled out the arrears rates of social housing landlords are likely to increase, with higher rates becoming the norm and the rent arrears 'bar' rising. However, it is likely that most landlords will adapt to these changes and will continue to operate successfully and, as the DPDP landlords did, they will put in place a raft of measures to protect their income.
- As noted earlier, social housing landlords are entering a period of uncertainty and many will transform the way they work. This process will undoubtedly (and understandably) be accompanied by some teething problems, which lenders need to be sympathetic to.

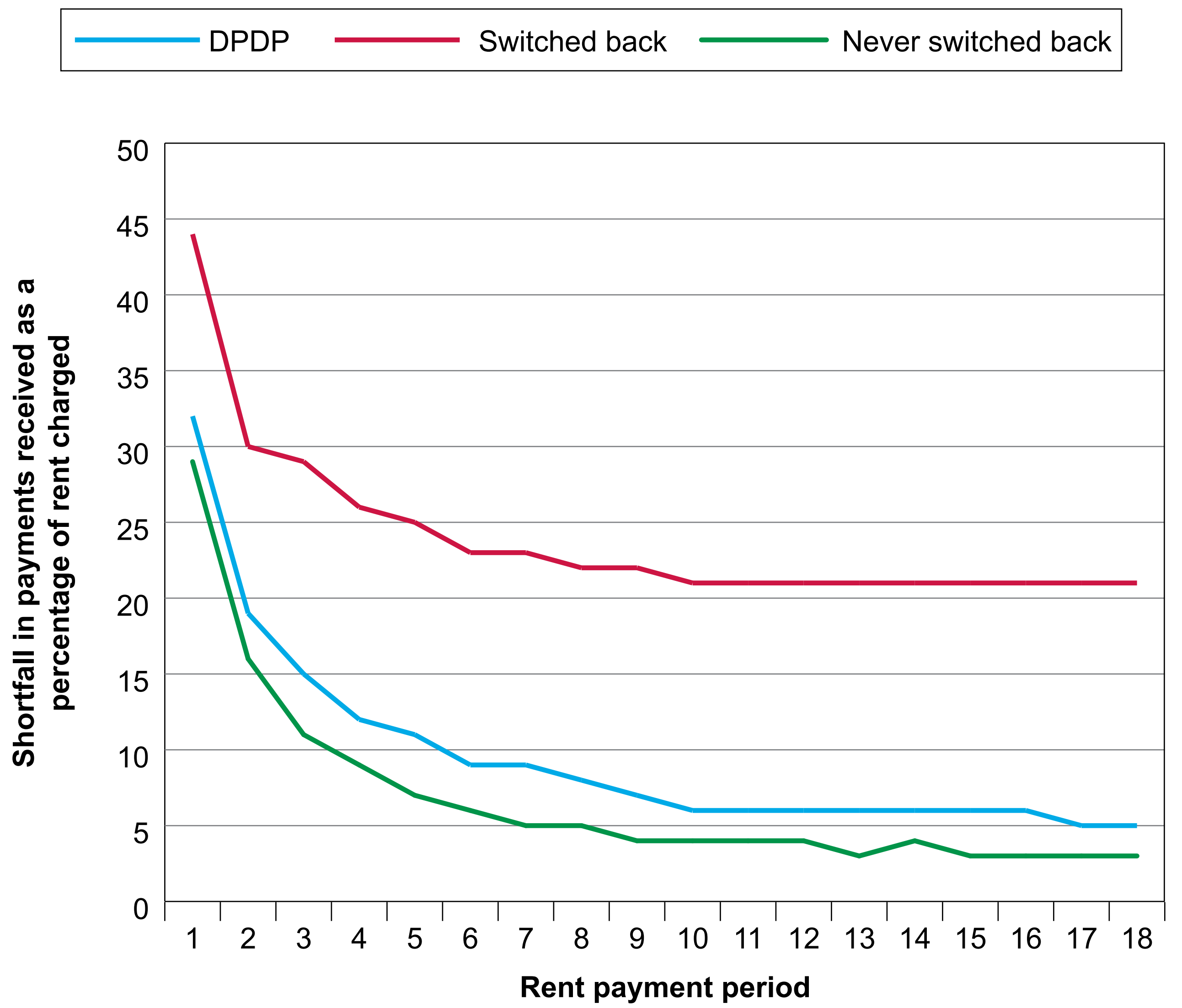
Tenants

- Tenants in the DPDP programme highlighted a number of benefits of being on direct payment – some reported that it had made them better at money management and some reported that it had made them more likely to find work. And many managed on direct payment with relative ease.
- The DPDPs have shown that the first two months of receiving direct payment is the time when tenants are most likely to get into rent payment difficulties. Therefore, tenants need to start planning for UC as early as possible. This should involve them:
  - finding out more about UC and what it entails, information which should be readily available from their landlord;
  - securing good money management advice and support if they feel they need to. In terms of establishing how to secure this support, again, tenants may consider contacting their landlord in the first instance. However, the Citizens Advice Bureau also holds this information and can provide support in its own right. Tenants specifically seeking budgetary advice and budgeting tools and with access to the internet, may find the budgeting website run by the Money Advice Service helpful.
- When moving onto UC, tenants should think very carefully about the payment method they use and synchronising their HB and rent payments.
- Where tenants do experience payment difficulties, it is advisable to contact the landlord as soon as possible. There will be many ways in which the landlord can assist.

Appendix
Additional Rent Account Analysis

Figure A.1 shows cumulative shortfall in rent paid expressed as a percentage of rent charged while receiving direct payment (DP) broken down by whether a tenant was ever switched back. As one might expect, tenants who had switched back had a markedly higher rate at all rent payment periods.

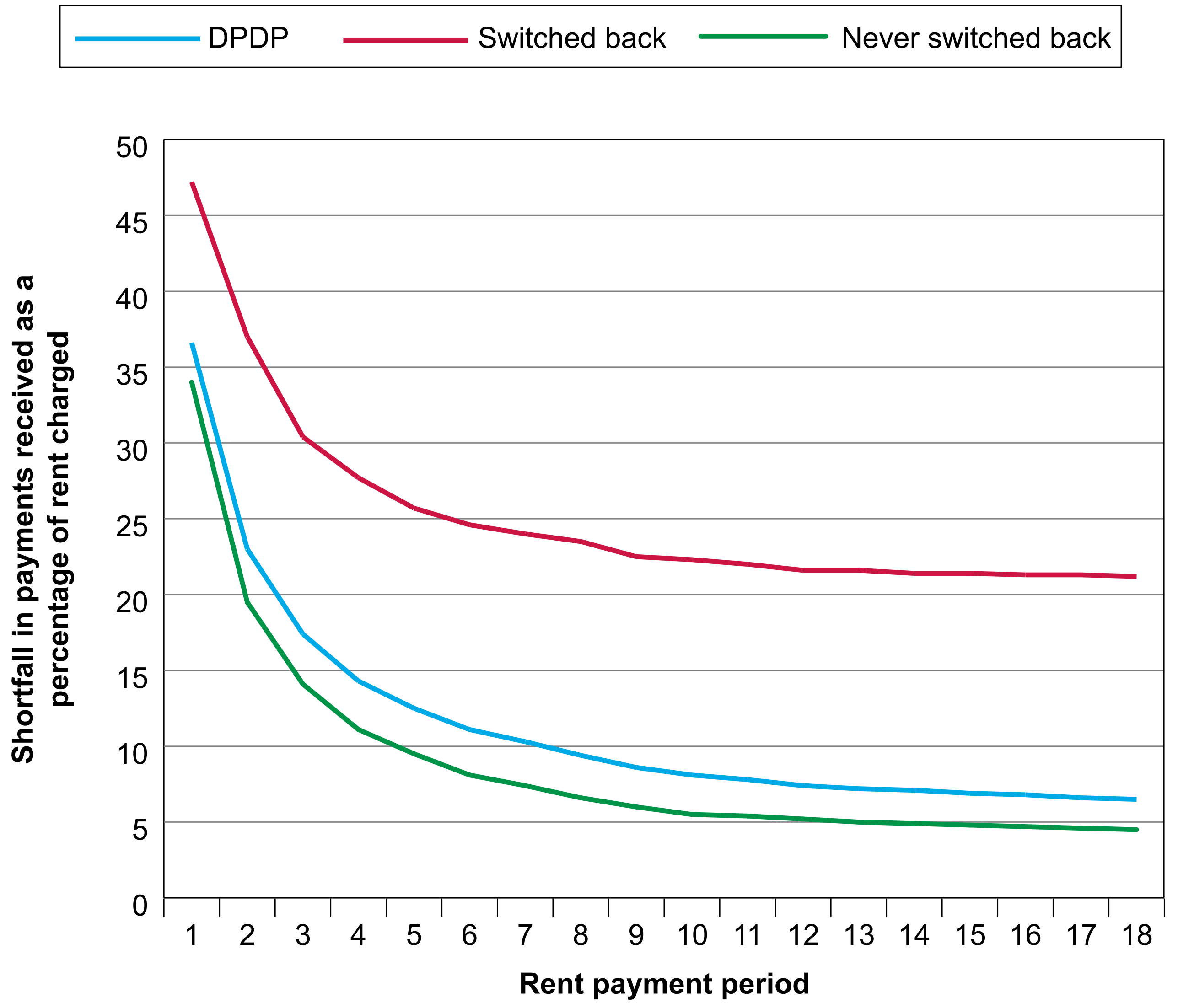
Figure A.1 Cumulative shortfall of rent paid expressed as a percentage of rent charged while receiving direct payment



Source: 18 months' Rent Account Analysis exercise.
Base: All tenants; DP sample (7,252); switched back (1,489); never switched back (5,763).

Figure A.2 shows the cumulative sum of individual tenants' arrears expressed as a percentage of rent charged while receiving direct payment broken down by whether a tenant was ever switched back. As one might expect, tenants who had switched back had a markedly higher cumulative rate at all rent payment periods.

Figure A.2 Sum of individual tenants' arrears expressed as a percentage of rent charged while receiving direct payment



Source: 18 months' Rent Account Analysis exercise.
Base: All tenants; DP sample (7,252); switched back (1,489); never switched back (5,763).

Table A.1. presents the number of switchbacks at each rent payment period. It reveals that 50 per cent of switchbacks occurred in the first six periods on direct payment.

Table A.1 Switchbacks broken down by rent payment period

Rent payment period	Number of switchbacks in rent payment period	Percentage of all switchbacks	Cumulative number of switchbacks as a percentage of DPDP tenants
1	0	0	0
2	75	5	1
3	148	10	3
4	238	16	6
5	143	10	8
6	144	10	10
7	126	8	12
8	115	8	14
9	71	5	15
10	119	8	16
11	63	4	17
12	41	3	18
13	41	3	18
14	39	3	19
15	33	2	19
16	31	2	20
17	50	3	20
18	12	1	21
Total	**1,489**		

Source: 18 months' Rent Account Analysis exercise.
Base: All tenants; DPDP (7,252).

Table A.2 highlights cumulative arrears as a percentage of rent charge while receiving direct payment of Housing Benefit by area. It reveals marked differences across the areas.

Table A.2 Cumulative arrears as a percentage of rent charge while receiving direct payment

Rent Payment Period	Edinburgh	Oxford	Shropshire	Southwark	Torfaen	Wakefield	DPDP
3	5.6	17.7	20.3	18.5	10.3	8.4	14.8
6	2.6	10.3	11.1	13.7	6.2	5.6	9.3
9	2.1	7.7	8.2	9.9	4.6	4.3	6.9
12	2.9	6.4	6.8	8.3	4.0	4.2	6.0
15	4.2	5.8	5.8	7.8	3.4	4.2	5.6
18	4.7	5.2	5.3	7.1	3.3	4.1	5.3

Source: 18 months' Rent Account Analysis exercise.
Base: All tenants; DPDP (7,252).

Endnotes

[i] This involved a number of key tasks:

- for those landlords not submitting all of their tenants into projects, selecting which of their tenants would participate in projects;
- providing input into the design of the DPDP programme and, working alongside the Department for Work and Pensions, designing the delivery framework in their areas;
- engaging with the tenants selected and informing them about the DPDP;
- selecting tenants to be included in the direct payment programme;
- assessing tenants' preparedness for direct payment, the so-called support assessment process;
- making tenants ready for direct payment;
- putting in place support mechanisms to help tenants manage on direct payment.

[ii] For this analysis a tenant was categorised as having switched back if the 'rent destination' variable changed from 'payment to tenant' to 'payment to landlord' and either (a) the Project Area flagged the tenant as a switchback (all Project Areas were asked to do this) or b) the Project Area flagged that the tenants had reached the trigger point for switching back. The switchback figures generated by analysis of rent accounts differs from the monitoring information collected by DWP, recording fewer switchbacks. This reflects that: a) some switchbacks occurred at the very end of the DPDP after the final rent account data were collected; b) some tenants flagged as a 'switchback' continued to receive their HB directly and so would not have been included in the rent account analysis, and c) some tenants were removed from the Rent Account Analysis (RAA) because their full rent account or HB data were not available.

References

Beatty, C., Cole, I., Kemp, P., Marshall, B., Powell, R. and Wilson, I. (2012). *Monitoring the impact of the changes to the Local Housing Allowance system of Housing Benefit: Summary of early findings*. London: Department of Work and Pensions.

Beatty, C. and Fothergill, S. (2013a). *The Impact of Welfare Reform on Northern Ireland*. Belfast: NICVA.

Beatty, C. and Fothergill, S. (2013b). *Hitting the Poorest Places Hardest: The local and regional impact of welfare reform*. Sheffield: CRESR, Sheffield Hallam University.

Beatty, C. and Fothergill, S. (2013c). *The Impact of Welfare Reform on Scotland*. Sheffield: CRESR, Sheffield Hallam University.

Beatty, C., Cole, I., Green, S., Kemp, P., Powell, R. and Sanderson, E. (2014). *Monitoring the impact of recent measures affecting Housing Benefit and Local Housing Allowances in the private rented sector in Northern Ireland: Final Report*. London: Department for Work and Pensions.

Beatty, C., Cole, I., Foden, M. and Powell, R. (2014). *The impact of recent reforms to Local Housing Allowances: Differences by place*. London: Department for Work and Pensions.

Beatty, C., Cole, I., Foden, M. and Kemp, P.A. (2014). *The impact of changes to the Local Housing Allowance in the private rented sector*. London: Department for Work and Pensions.

Crowe, M., Gilbertson, J., Gore, T. and Wells, P (2011). *A Big Society in Yorkshire and Humber?* Sheffield: CRESR, Sheffield Hallam University.

Donaldson, M. (2004). *Lost Benefits. Inside Housing*, 27 February 2004, p21.

Irvine, A., Kemp, P. A. and Nice, K. (2007). *Direct Payment of Housing Benefit: What do claimants think?* Coventry: Chartered Institute of Housing.

Kemp, P. (2000). 'Housing Benefit and Welfare Retrenchment in Britain'. *Journal of Social Policy*, 29,(02),pp. 263-279.

Priemus, H. and Kemp, P. (2004). 'The present and future of income-related housing support: debates in Britain and the Netherlands'. *Housing Studies*, 19,(4), pp. 653-668.

King, P. (1999). 'The Reform of Housing Benefit', *Economic Affairs*, 19,(3),pp.9-13.

NHF (2014). *One Year On: the Impact of Welfare Reforms on Housing Association Tenants*. London: NHF. Available at: www.housing.org.uk/publications/browse/monitoring-the-impact-of-welfare-reform

NHF (2012). *Impact of Welfare Reform on Housing Associations – 2012 Baseline Report*. London: NHF. Available at: www.housing.org.uk/publications/browse/monitoring-the-impact-of-welfare-reform

Stephens, M. (2005). 'An Assessment of the British Housing Benefit System'. *European Journal of Housing Policy*, 5, (2), pp.111-129.

Wilcox, S. (2014). *Housing Benefit Size Criteria: Impacts for Social Sector Tenants and Options for Reform*. York: Joseph Rowntree Foundation. Available at: www.jrf.org.uk/publications/housing-benefit-size-criteria-impacts-social-sector-tenants