Department for Work & Pensions

Research Summary

GOVERNMENT SOCIAL RESEARCH
Social Science in Government

Direct Payment Demonstration Projects: 18 month stage reports

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Background

Under current arrangements Housing Benefit (HB) is paid to the landlord rather than the tenant in the great majority of cases. However, along with five other social security benefits, HB is being incorporated into Universal Credit (UC). The housing component of UC is based on the present system of HB but simplified. However, because UC is paid as a single sum of money, the housing component by default will be paid to the tenant and not directly to the landlord. The Direct Payment Demonstration Projects (DPDPs) were established in six local authority areas in 2012 to test the direct payment of HB to tenants living in social housing. The projects were 'live' from June 2012 to December 2013.

The Department for Work and Pensions commissioned the Centre for Regional Economic and Social Research at Sheffield Hallam University, in partnership with the University of Oxford and Ipsos MORI, to monitor and evaluate the projects; in order to learn lessons from the DPDPs to provide feedback into the implementation of the projects and the design of UC. The evaluation began in November 2011 and concluded in December 2014.

The Government is simplifying the benefit system to make it easier to move into work; ensuring that there are as few disruptions as possible when moving into employment. The Demonstration Projects have informed the design of mechanisms, support and financial tools available to both landlords and claimants.

About the reports

The final package of evaluation reports consists of an overarching learning report, which summarises the main findings from all the strands of research and analysis at the 18 month stage, and two other technical reports: the *Key findings of the 18 months' Rent Account Analysis exercise* and the *Report from the stage 3 survey of tenants* (titled the longitudinal survey of tenants).

The outputs are 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.

Research methods

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.

Key findings

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/four-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 £1.9 million 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 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, ongoing 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,[1] 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

1 This analysis was conducted for the 5,382 tenants who received at least seven direct payments of HB because patterns are more difficult to discern amongst tenants who received fewer direct payments.

were reporting being in 'steady state'.[2] 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.

[2] It is important to note that these findings are specific to DPDP and, in this context, UC will be different.

The full report of these research findings is published by the Department for Work and Pensions (ISBNs 978 1 910219 62 1, 978 1 910219 63 8 and 978 1 910219 64 5. Research Reports 889–891. December 2014).

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