Department
for Work &
Pensions

GOVERNMENT SOCIAL RESEARCH
Social Science in Government

Direct Payment Demonstration Projects: Key findings of the 18 months' Rent Account Analysis exercise

December 2014

Research Report No 891

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 64 5

Summary

This report is one of a series of outputs from the independent evaluation of a programme of projects demonstrating the direct payment of Housing Benefit to social renting tenants across the UK. It highlights the key findings of an analysis of participating landlords' rent accounts for the 18 months the programme was 'live'.

Contents

List of tables

List of figures

Acknowledgements

This report is based on rent account data supplied by Direct Payment Demonstration Project landlords, so we would like to thank them for giving up their time so willingly to contribute to the research and for commenting on earlier drafts of the report. We very much appreciate the ongoing valuable support and constructive advice from our research manager at the Department for Work and Pensions (DWP): Claire Frew. We would also like to thank her predecessors: Ailsa Redhouse; Andy Brittan; Vicky Petrie; and 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. Finally, we would like to thank Sarah Ward, Jess Bamonte, Emma Smith and Louise South for their help in putting together this report. Any inaccuracies or omissions that remain in the report are, of course, solely our own responsibility.

The Authors

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

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

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

Chris Dayson is a Research Fellow at the Centre for Regional Economic and Social Research at Sheffield Hallam University. He works closely with Ian on the Rent Account Analysis.

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.
Credit	This a payment onto the rent account (see below for a definition of 'payment').
CRESR	Centre for Regional Economic and Social Research at Sheffield Hallam University.
Debit	This is a charge onto rent accounts which include rent and service charges.
DP	Direct payment
DPDP	Direct Payment Demonstration Project. The DPDPs, of which there are six, demonstrated the payment of Housing Benefit directly to social rented sector tenants. The six projects are: Edinburgh; Oxford; Shropshire; Southwark; Torfaen; and Wakefield.
Direct payment	The payment of Housing Benefit direct to tenants.
DWP	Department for Work and Pensions
HB	Housing Benefit
Eligible rent	Rent and service charges eligible for 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

Rebasing	This technique, which involves reconfiguring rent account data so that tenants' direct payment 'journey' starts at the same point, allows the study team to factor into its analysis the (important) fact that tenants have been moved onto DPDP at different times through a phased process, which makes disentangling the impact of DP over time more difficult.
Rent arrears	Rent arrears are accrued when rent payments over a given period are less than the rent owed.
Rent owed	This represents all credits – rent and service charges – going onto rent accounts.
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.
Rate of payment per payment period	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.
Switchback	The return of a tenant who has fallen into arrears on direct payment back to landlord payment.
Switch forward	The return to direct payment of a tenant who has been switched back.
Third Party Payments	Payments onto a tenant's rent account made by a third party, not the tenant.
Trigger point	The length of time that may elapse before tenants return to landlord payment in demonstration projects. The trigger period varies across the six demonstration projects.
UC	Universal Credit

Executive summary

Context

This report is one of a series of outputs from the independent evaluation of a programme of projects demonstrating the direct payment of Housing Benefit (HB) to social renting tenants across Great Britain. The evaluation was undertaken by a research consortium from the Centre for Regional Economic and Social Research (CRESR) at Sheffield Hallam University, the Institute of Social Policy at the University of Oxford, and Ipsos MORI (IM). The evaluation, which began in January 2012 was funded by the Department for Work and Pensions (DWP).

In January 2012, DWP established a programme of Direct Payment Demonstration Projects (DPDP) to pioneer and test the direct payment of HB to social rented tenants in five areas (Oxford, Southwark, Shropshire, Torfaen, and Wakefield), with a sixth area (Edinburgh) joining in May 2012. Under the present system, HB for tenants living in the social rented sector is usually paid directly to the landlord. However, in October 2013, the process of rolling out direct payment to all HB recipients began as part of the new Universal Credit (UC).[1] UC is a new integrated benefit for people of working age, comprising a single monthly payment and replacing a range of income-related in-work and out-of-work benefits, including HB.

DWP commissioned the research consortium to conduct an evaluation of the DPDP with an emphasis on continued learning and feedback into UC design. A key objective of the research was to highlight the impact of direct payment on landlord cash flows and their financial sustainability and this was principally achieved by analysis of landlords' rent account data and HB data. Interim results were presented after 12 months of the DPDP (see *Direct Payment Demonstration Projects: 12 months in extended learning report*, DWP Research Report No. 876 and *Direct Payment Demonstration Projects: Key findings of the 12 months' Rent Account Analysis exercise*, DWP Research Report No. 879), while this report presents the results for the full 18 months of the DPDP. It is important to note that this report is one of many outputs produced by the study team and should be read alongside them.

The report is timely because:

- it represents one of the most comprehensive and in-depth analyses of the rent accounts of social housing landlords in this country;
- with the roll-out of UC gaining momentum, the findings should be of interest to a range of stakeholders including government, regulators of social housing, social housing landlords, lenders, support agencies, and tenants.

---

1 This process began in the UC Pathfinders: www.gov.uk/government/news/universal-credit-progress.

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. Direct payment in the DPDP did have a financial impact on landlords and tenants but much of this burden was borne in the first few months following migration. In fact, nearly half of the difference between the amount of rent paid and owed during the 18 months of the DPDP was accrued in the first month/four-week period[2] 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[3] of direct payment in these later payment periods[4] 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. These results point clearly to the need for mitigating action during the transition to direct payment, whether 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.

The detail of these key findings is as follows.

- 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[5] was 99 per cent.

---

2 The English and Welsh project areas operated a four-weekly benefit cycle while in Edinburgh tenants' HB was paid monthly.

3 '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.

4 'Payment periods' or 'rent payment periods' refer to the four-week period, or a month in the case of Edinburgh, over which landlords would expect tenant rent accounts to balance. 'Payment period' 1 therefore refers to the rent cycle (i.e. the period for which rent is due) following a first direct payment of HB, regardless of the calendar month in which that payment was made. Payment period 2 refers to the rent cycle following the second direct payment of HB and so on. By payment period 18, only those tenants who were transferred onto direct payment at the start of the DPDP remain in the sample.

5 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.

- 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.
- Being on direct payment was found to increase the likelihood of tenants not paying all of their rent. In total, 61 per cent of direct payment tenants had accrued arrears in their time on DPDP compared with 39 per cent of a comparator sample. Again, however, the proportion of tenants underpaying 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. It is important to note here that the value of underpayment continued to be higher under direct payment so although the overall proportion of tenants underpaying fell dramatically, those who did underpay tended to do so by a larger amount. This explains how direct payment continued to have an impact even though the proportion of tenants underpaying did not differ greatly from the baseline level.
- In total, 48 per cent of the shortfall in rent not collected during the 18 months of the DPDP accrued in the first payment period and 65 per cent accrued in the first three payment periods.
- The 'arrears spike' which emerged at the start of the DPDP cannot be explained just with reference to the infancy of DPDP and the experimental nature of early implementation. 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. An arrears spike was less pronounced, but still evident. Relatively low initial payment rates are, therefore, likely to be a feature of the implementation of direct payment going forward unless mitigating action is taken.
- The particularly low payment rate in the early stages of being on direct payment has the effect of depressing overall DPDP payment rates. The question arises, then, of what effect might mitigating action have? If the first three payment periods are removed from the analysis (or the 'arrears spike' were completely mitigated going forward) the impact of direct payment reduces dramatically. Overall the proportion of rent paid to rent due, for example, increases from 95.5 per cent to 97.9 per cent; the net additional impact of direct payment reduces from 5.5 per cent less rent paid to 2.5 per cent less rent paid; and the value of the shortfall between total rent due and paid falls from £1.9m to £648,000.
- The fact that payment rates improved significantly after the first few payment periods is good news. Direct payment does continue to impact on landlords and tenants in the longer term, however. Once tenants have been receiving direct payment for 16 periods or more they still, on average, pay 2.1 percentage points less rent in a given period than if their HB were paid to their landlord. In effect, direct payment introduced a step-change in rent accounts in the DPDP and landlords will need to manage the financial implications of that shift.
- 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.

- Underpayment was much more common than non-payment in the sense that more tenants underpaid than did not pay at all. However, non-payment had a more significant impact on the total value of arrears than underpayment.
- Amongst those tenants who failed to pay some or all of their rent, underpayment by a 'large' amount was more prevalent under a direct payment system. Those who underpaid by more than half their rent doubled in the first 12 months of the DPDP and non-payment trebled.
- Tenants who failed to pay all their rent were more likely to underpay erratically than persistently.
- The majority of the 'best payers' (i.e. tenants who paid all their rent while on direct payments), paid their rent late at some point. Late payment has an impact on landlord cash flow. However, DPDP tenant payment patterns did not differ markedly from the comparator sample suggesting that late payment is an issue that transcends, and precedes the introduction of direct payment. In total, 79 per cent of tenants who paid all their rent while on direct payments made at least one late payment, compared with 77 per cent of the comparator sample.
- There was no clear 'arrears spike' at any particular time of the calendar year, including the Christmas period.
- Although the payment behaviour of tenants who initially failed to pay some or all of their rent quickly improved (see above), much of the difference between the value of rent paid and rent owed accrued in the early stages of direct payment had not been repaid by the end of the 18 months of the DPDP. The shift to direct payment, therefore, represented a negative step-change in the overall rent account balances for those who did not pay all of their rent in the first three payment periods. Seventy-nine per cent of tenants who accrued arrears during the first three direct payment periods were still in arrears in the final period.
- A series of factors relating to the circumstances and characteristics of tenants were found to affect the impact of direct payments on rent arrears. Tenants who paid their rent by Direct Debit were less likely to underpay, as were 'older' tenants, i.e. those over the age of 55. Conversely, tenants with relatively high rents (i.e. more than £115 per week), non-working tenants and those under the age of 25, were more likely to underpay, as were 'single person' households.
- Analysis of the impact of the Removal of the Spare Room Subsidy (RSRS) suggests that the RSRS impacted slightly on payment rates in the DPDP but not markedly. There is some evidence that the RSRS had slightly less impact on direct payment tenants' payment rates, than on the comparator sample.
- In the DPDP, direct payment was associated with a greater likelihood of entering employment, although 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. This difference is statistically significant at a 0.05 level.
- Landlords involved in the DPDP reported costs associated with delivering direct payments, over and above any additional arrears accrued. They were unable to provide comprehensive and robust data and so it is not possible to quantify those costs, or the full impact of direct payment on landlord finances. However, the evidence landlords have supplied as part of the wider evaluation suggests that areas where increased costs were incurred include: 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; and transaction costs.

1 Context

1.1 Introduction

This report is one of a series of outputs from the independent evaluation of a programme of projects demonstrating the direct payment of Housing Benefit (HB) to social renting tenants across Britain. The evaluation was undertaken by a research consortium from the Centre for Regional Economic and Social Research (CRESR) at Sheffield Hallam University, the Institute of Social Policy at the University of Oxford, and Ipsos MORI (IM).

The evaluation, which began in January 2012 and which concluded with publication of this report and the two that accompany it,[6] was funded by the Department for Work and Pensions (DWP).

In January 2012, DWP established a programme of Direct Payment Demonstration Projects (DPDPs) to pioneer and test the direct payment of HB to social rented tenants in five areas (Oxford, Southwark, Shropshire, Torfaen, and Wakefield), with a sixth area (Edinburgh) being added in May 2012. Under the present system, HB for tenants living in the social rented sector is usually paid directly to the landlord. However, in October 2013, the process of rolling out direct payment to all HB recipients began as part of the new Universal Credit (UC). UC is a new integrated benefit for people of working age, comprising a single monthly payment and replacing a range of income-related in-work and out-of-work benefits, including HB.

DWP commissioned the research consortium to conduct an evaluation of the DPDPs with an emphasis on continued learning and feedback into UC design. The DPDPs tested some key elements of the social sector housing support under UC:

- they explored and tested a range of safeguard mechanisms for tenants and landlords;
- they supported tenants through the process in different ways; and
- they engaged with par tner agencies and financial institutions, to greater and lesser degrees.

A key objective of the research was to highlight the impact of direct payment on landlords' cash flows and their financial sustainability. This was principally achieved by analysis of landlords' rent account data at two points in time: 12 and 18 months into the DPDP programme. This report presents the findings for the full 18 months of the DPDP programme.

In order to keep this report as accessible as possible technical information relating to the approach and analysis is presented in technical endnotes which appear at the end of the document. These technical endnotes appear as roman numerals, while chapter specific footnotes appear as numbers.

---

6 *Direct Payment Demonstration Projects: Key findings of the programme evaluation – final report*, DWP Research Report No. 890 and *Direct Payments Demonstration Projects: The longitudinal survey of tenants*, DWP Research Report No. 889.

1.2 Direct Payment Demonstration Projects 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 UC while protecting social landlords 'financial position'. This would involve two significant changes for (the up to 2,000) working-age[7] claimants in each of the six Project Areas:

- receiving HB payments once every four weeks[8] (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 were:

- 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;
- 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

---

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

8 In the Edinburgh project, HB is being paid to tenants monthly.

had fallen into arrears.[9] 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 four 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.'*[10]

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. 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.

9 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.

10 Written submission provided by a DWP Relationship Manager.

According to DWP monitoring data, 1,993 tenants were switched back during the 18 months of the programme, with Shropshire recording the lowest number of switchbacks and Southwark the highest (see Table 1.2).

Table 1.2 Number of tenants switched back

Project Area	Number of switchbacks
Edinburgh	306
Oxford	398
Shropshire	114
Southwark	447
Torfaen	343
Wakefield	385
Total	**1,993**

Source: DWP monitoring data.

By March 2013 nearly two-thirds of the 1,031 'switchbacks' that had occurred by that time been under triggers 3 and 4. Reflecting this, DWP asked the research consortium to undertake bespoke research into this group when it decided to extend the DPDP programme and evaluation in May 2013.[11]

1.3 Research objectives and approach

The main aim of the research programme was to monitor and evaluate the preparation, delivery and effectiveness of the DPDPs, learning lessons about effective implementation to feed into relevant aspects of UC design and future housing policy and strategy. The evaluation monitored the effect of direct payment on tenants, landlords and other stakeholders such as support agencies, lenders, and local authorities.[12]

In exploring these issues the evaluation employed a mixed-methods approach which comprised the following activities: tenant surveys; in-depth qualitative interviews with tenants and stakeholders; and an analysis of participating landlord rent accounts and management costs, a process which was referred to as 'Rent Account Analysis (RAA)'. RAA took place at two points in time (12 months and 18 months) so as to assess the impact of direct payment over time. The approach taken to the 18-months' exercise, the findings of which are presented in this report, is highlighted in the next chapter. In addition to this report, the study team has published eight others, details of which can be found in the technical endnotes.

1.4 Nature, scope and structure of this report

In order to keep this report as accessible and digestible as possible, the analysis is arranged around a series of research questions that the study team generated in partnership with

[11] DWP only collected disaggregated data at one point in time: March 2013 and so more recent information on the breakdown of switchbacks by trigger point is not available.

[12] These objectives did not change with the extension of the evaluation. However, the study team were also asked to explore if (and how) recent welfare reforms, such as the Removal of the Spare Room Subsidy (RSRS), impacted on the DPDP.

DWP and projects. Before moving on to consider the findings, it is important to highlight a number of health warnings about this report:

- again with accessibility in mind, the commentary focuses on highlighting noteworthy findings and, quite intentionally, does not 'mechanically' report on all the analysis presented within the report;
- it is important that the report is not seen in isolation as it is one of many outputs being produced by the study team that seek to highlight the impact of direct payment. And, as such, it should be read alongside them, with the Final Learning Report being of particular relevance;
- the report is concerned with updating the 12-months' report which was published earlier this year. In doing so, it highlights noteworthy trends and patterns to emerge from the final six months of the programme and provides complete, programme level data for its entirety – the DPDPs ended after 18 months.

Notwithstanding these important caveats, the report is timely in two principal ways. Firstly, it represents one of the most comprehensive and in-depth analysis of the rent accounts of social housing landlords in this country. Secondly, with the roll-out of UC beginning to gain momentum, its findings should be of interest to a range of stakeholders including government, regulators of social housing in this country, social housing landlords, lenders, support agencies, and tenants.

The report is divided into four chapters, including this one. Chapter 2 examines the approach taken to the 18 months' Rent Account Analysis exercise. Chapter 3 presents the key findings to emerge from the exercise, and like Chapter 2, is arranged around a series of key questions. The last chapter highlights the key implications for policy to emerge from the research.

2 Approach to the 18 months' Rent Account Analysis exercise

2.1 Introduction

This chapter explores the study team's approach to the 18 months' Rent Account Analysis (RAA). It begins by exploring its analytical approach and then moves on to examine the data it analysed, how it derived the tenant samples that provide the basis for the analysis, and the analytical tools it used. It concludes by offering definitions of the key terms and constructs used in the report.

2.2 What is the purpose of the exercise?

In line with the previous RAA exercise, the primary purpose of the 18 months' one was to assess the impact of direct payment on landlord cash flow and their financial sustainability. Specifically, the analysis provides answers to a number of questions including:

- what was the impact of direct payment on the amount of rent arrears?
- what was the impact of direct payment on the number of tenants entering into arrears?
- what was the impact of direct payment on rent arrears recovery and rent collection costs?
- what was the impact of direct payment on the overall financial sustainability of landlords?

2.3 What is the study team's analytical approach to the exercise?

In line with the recommended guidance on impact evaluation, the study team adopted a quasi-experimental approach to assessing the impact of direct payment through RAA. This involved comparing the behaviour of Direct Payment Demonstration Project (DPDP) tenants with those of a comparator sample of tenants with similar characteristics who were not in the DPDP programme.

2.4 What data has been used in the analysis?

An extensive consultation exercise was undertaken with Project Areas to establish what data would be included in the RAA exercises. It was agreed the following data would be included:[13]

---

[13] It is important to note that the response for one research question – *'What is the impact of direct payment on rent arrears recovery and rent collection costs?'* – was not secured through the rent account analysis exercise. Instead, it was generated through in-depth interviews with key stakeholders in Project Areas, with most of it being qualitative in nature.

- direct payment monitoring data, such as whether a tenant had reached a trigger point or been switched back;
- rent account data, including: opening and closing balances; weekly information on rents, service charges, rent payments, third party payments; and methods of rent payment;
- Housing Benefit (HB) data, including: the amount received each period; the destination of payment; payment error; the duration of claims; eligible rent; entitlement amount; and the value of additional discretionary payments;
- data relating to the characteristics and circumstances of tenants, specifically their: age; household composition; work status; tenancy status (i.e. whether the tenancy is single or joint); length of residence in their current property; and housing history (i.e. whether they had moved in recent times). Data on their property (property type and number of bedrooms) and their eviction status (i.e. whether they were subject to eviction process) were also included within the analysis.

This data was compiled at the individual tenant level. The resulting dataset enabled the RAA to respond to the research questions outlined earlier by allowing assessment of:

- individual level change: what has happened to individual tenant rent account behaviours?
- overall change and impact, by summing across individual tenants;
- sub-group analysis in relation to a range of factors which may influence payment behaviours or impact, such as: payment method; household composition; work status; HB status (i.e. whether tenants were in receipt of full or partial HB);
- if (and how) tenant behaviour and payment patterns vary over time;
- the impact of other factors (such as the Benefit Cap, the Removal of the Spare Room Subsidy (RSRS) and Discretionary Housing Payments).

2.5 How was the DPDP sample put together? And what does it look like?

Project Areas were asked to provide data for all their tenants who were, or had been, on direct payment as part of the DPDP programme – tenants with no experience of direct payment were not included in the sample (and analysis). The direct payment sample included tenants for which the projects provided both rent account and HB data in at least one rent account period and for whom there was some activity on their rent account.[14]

As Table 2.1 reveals, 7,252 tenants were identified as having been paid their Housing Benefit direct. This compares with the total included in the *Direct Payment Demonstration Project: Learning and Payment Figures*[15] note released by the Department for Work and Pensions

[14] i.e. rent has been owed or a payment has been made.

[15] See: www.gov.uk/government/uploads/system/uploads/attachment_data/file/228925/direct-payment-demo-figures-may-2013.pdf

(DWP) in May 2013, which stated that 7,426 tenants had been paid in this way.[16] As highlighted in Table 2.1, reflecting the numbers of tenants 'in scope', the sample size varied between Project Areas.

Table 2.1 Number of records by area

	Direct payment sample	Comparator sample
Edinburgh	**909**	**666**
Dunedin Canmore	909	0
Port of Leith	0	666
Oxford	**1,968**	**1,129**
GreenSquare	373	0
Oxford City Council	1,595	1,129
Shropshire	**1,038**	**0**
Bromford	275	0
Sanctuary	148	0
Shropshire	530	0
Wrekin Housing Trust	85	0
Southwark	**1,302**	**1,042**
Family Mosaic	374	0
Southwark	928	1,042
Torfaen	**1,058**	**1,014**
Bron Afon	963	1,014
Charter	95	0
Wakefield	**977**	**1,090**
Wakefield and District Housing	977	1,090
Total	**7,252**	**4,941**

Source: 18 months' RAA exercise.
Base: All tenants; see table.

2.6 Why use a comparator sample?

The comparator sample has been used to improve the measurement of the impact of direct payment on the rent payment behaviours of tenants. In doing so, it provides a benchmark of what might have happened in the absence of direct payment.

16 The difference in these figures can be attributed to the effect of the data cleaning exercise undertaken by the study team on its DPDP sample – it removed tenant accounts that were incomplete because no HB or rent account data was provided. These records are assumed to be missing at random: there is no evidence to suggest that their absence would have led to systematic bias in the results (either over or underestimating the overall effect).

2.7 How was the comparator sample generated?

Comparator data were provided by four Demonstration Project landlords: Oxford City Council, Southwark Council, Bron Afon in Torfaen and Wakefield and District Housing. In addition, Port of Leith,[17] which was not part of the Demonstration Project, agreed to provide a comparator sample drawn from their tenants for Dunedin Canmore in the Edinburgh project. In total, data for 9,111 comparator tenants were provided. It was not possible to obtain comparator data for Shropshire because all of the tenants of the landlord that contributed most tenants to the programme in the area – Shropshire Council – were included in the DPDP programme. A comparator sample for Shropshire was therefore derived from the samples provided by other Project Areas.

When using comparator samples it is imperative that their characteristics are as similar as possible to the target sample, in this case DPDP tenants. Therefore, Project Areas were instructed to provide samples that were consistent with this objective. The suitability of the comparator sample was improved by using the data matching technique, propensity score matching,[18] which matched tenants in the two samples in relation to a number of attributes, which are listed in Section 2.8. Employing this technique resulted in the removal of some tenants[19] from the comparator sample with 4,941 tenants being used in the analysis, as Table 2.1 reveals.

2.8 How similar are the characteristics of tenants in the comparator and DPDP samples?

As a result of the astute selection of the comparator samples by the Project Areas and the employment of propensity score matching, the samples are very similar, as Table 2.2 illustrates. Specifically, they are similar in relation to the attributes used to propensity score match: rent account balance; proportion of rent covered by HB; rent level; age; household size/composition; work status; property size; and HB receipt and duration of entitlement. Quite intentionally, and consistent with impact evaluation guidance, the comparator sample does include tenants on full HB who, as a result, cannot fall into arrears, unlike their counterparts in the DPDP sample.

[17] Port of Leith was approached as they were known to have a similar profile of tenants and housing stock to Dunedin Canmore in the City of Edinburgh.

[18] See endnote vii for further information about propensity score matching.

[19] That is, those tenants whose characteristics did not match those of tenants from the direct payment sample.

Table 2.2 Comparison of direct payment and comparator samples on key characteristics

	Sample	
	Direct payment %	Comparator %
Rent account balance relative to rent		
More than one period worth of arrears	9	10
Between one period worth of arrears and credit	88	86
More than one period worth of credit	3	3
Full or partial HB		
Full	73	73
Partial	27	27
Duration of current HB claim		
0 – 1 years	25	30
2 – 4 years	31	28
5 – 9 years	35	34
10 years and over	9	9
Age of lead claimant		
16 – 24	6	6
25 – 34	22	22
35 – 44	27	26
45 – 54	30	31
Over 55	14	14
Household composition		
Couple	5	4
Couple with 'dependents'	13	13
Single person	36	38
Lone parent	32	32
Other multi	14	14
Partner present		
No	77	79
Yes	23	21
Bedrooms		
0 or 1	23	24
2	36	37
3	35	35
4 or more	5	5
Claimant hours of work per week		
None	79	78
Less than 16	2	2
16-30	15	15
30 or more	3	4
Partner hours of work per week		
None/no partner	96	96
Less than 16	0	0
16-30	2	2
30 or more	2	1
Unweighted base	*7,252*	*4,941*

Source: 18 months' RAA exercise.
Base: All tenants; see table.

2.9 What do the samples look like when they are disaggregated to the area level?

Table 2.3 profiles the characteristics of residents in the direct payment sample at the area level (please use Table 2.2 to see how the direct payment sample compares with the comparator sample). This information is important as it may help explain any geographical differences in the findings presented in the next chapter. The emphasis on 'may' is important because there may be a range of other explanatory factors including:

- 'other' characteristics of tenants, such as their income level, education, socio-economic grouping, and financial capabilities;
- the socio-economic and physical attributes of the neighbourhoods tenants live in;
- the quality of the civic and support infrastructure within neighbourhoods;
- the housing context within them; and
- the approach taken to direct payment and housing management more broadly by landlords.

Notwithstanding this important caveat, the area profiles should be read alongside the geographical analysis presented in Chapter 3.

Table 2.3 Comparison of direct payment samples on key characteristics by area

	Sample						
	Edinburgh %	**Oxford %**	**Shropshire %**	**Southwark %**	**Torfaen %**	**Wakefield %**	**Direct payments %**
Rent account balance relative to rent							
More than one period worth of arrears	4	9	6	19	10	6	9
Between one period worth of arrears and credit	91	88	92	77	88	93	88
More than one period worth of credit	5	3	3	4	2	1	3
Full or partial HB							
Full	79	69	72	72	76	73	73
Partial	21	31	28	28	24	27	27
Duration of current HB claim							
0 – 1 years	32	28	26	19	19	30	25
2 – 4 years	29	32	38	25	30	31	31
5 – 9 years	40	25	37	56	22	39	35
10 years and over	0	16	0	0	29	0	9
Age of lead claimant							
16 – 24	5	6	7	5	6	11	6
25 – 34	16	24	21	23	23	24	22
35 – 44	28	28	29	30	22	23	27
45 – 54	35	31	27	28	31	29	30
Over 55	16	12	15	14	17	13	14
Household composition							
Couple	5	3	7	2	9	7	5
Couple with dependants	6	16	16	9	15	16	13
Single person	64	28	33	34	34	31	36
Lone parent	19	37	30	38	26	32	32
Other multi	7	15	14	16	17	13	14

Continued

Table 2.3 Continued

	Sample						
	Edinburgh %	Oxford %	Shropshire %	Southwark %	Torfaen %	Wakefield %	Direct payments %
Partner present							
No	88	76	73	85	70	72	77
Yes	12	24	27	15	30	28	23
Bedrooms							
0 or 1	51	21	15	30	14	9	23
2	30	39	42	35	34	35	36
3	14	35	40	25	48	51	35
4 or more	4	4	3	10	4	5	5
Claimant hours of work per week							
None	83	76	79	74	85	81	79
Less than 16	2	3	2	4	2	2	2
16-30	12	18	15	17	11	14	15
30 or more	2	3	4	6	2	2	3
Partner hours of work per week							
None/no partner	98	94	95	98	95	96	96
Less than 16	0	0	0	0	0	1	0
16-30	1	2	3	1	2	2	2
30 or more	0	3	2	1	2	1	2
Ever paid part/all using Direct Debit							
Yes	44	73(a)	58	22	16	59	41
No	56	27(a)	42	78	84	41	59
Unweighted number	*909*	*1,968*	*1,038*	*1,302*	*1,058*	*977*	*7,252*

a) Note this only included GreenSquare tenants.
Source: 18 months' RAA exercise.
Base: All tenants; see table.

2.10 Overall, how useful is the comparator sample?

Because of the similarity of the two samples, and its relatively large size, the comparator sample is very useful and provides a robust benchmark (and counterfactual) against which to assess the impact of direct payment on DPDP tenants.

2.11 What analysis has the study team undertaken?

The study team have employed a range of descriptive, econometric and accounting techniques to explore the data. These include: cross-sectional modelling techniques, such as logistic regression, and longitudinal modelling techniques.[20]

2.12 How transferrable are the findings to emerge from the analysis?

The findings have been derived from a programme which is in many ways unique and unlikely to be repeated – Universal Credit (UC) will be very different to the DPDP. Furthermore, the programme only involved a relatively small number of landlords: 12. These factors, of course, place a check on the transferability of the report's findings: the findings hold for the 12 participating landlords and may not be representative of what would happen nationally or for other tenant populations. However, it is also important to note that there are a number of other factors which enhance their transferability: direct payment is one of the central tenets of UC; all types of social housing landlords were represented in the DPDP programme; and, the (relatively) large number of tenants included in the programme.

2.13 What are the key terms and concepts used in the analysis?

For people not familiar with the workings of rent accounts, the language associated with them may appear inaccessible and confusing. With this in mind, it is perhaps useful here to provide definitions of some of the key terms used in this report, noting that, for reasons of accessibility, we have adopted a 'looser' interpretation of some of them:

- **Rent owed.** For the purpose of this research, rent owed is an all-encompassing term covering all debits – rent and service charges[21] – going onto rent accounts.

---

[20] The technical endnotes provide further information about analytical methods.

[21] Service charges are payments for, or towards, services or facilities for use or benefit of the tenants. Some of these charges, such as maintenance of communal grounds, cleaning of external windows, secure building access may be covered by Housing Benefit. In some instances service charges are monies collected by landlords on behalf of other companies for things such as: insurance, heating, lighting and hot water for the tenant's accommodation.

- **Payments.** This represents all credits – rent payments and third party payments, such as water bills – to rent accounts.
- **Rent arrears.** Rent arrears are accrued when rent payments over a given period are less than the rent owed.
- **Rent payment periods (RPPs).** RPPs 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.
- **Rate of payment (ROP) per rent payment period.** ROP is the rate of period rent payments to rent owed with the value indicating the percentage of debits accounted for by credits in the period. If in an RPP payments equal rent owed then the tenant has not over or underpaid. In order to make the analysis as digestible as possible, we have presented the ROP as a rate. In this context:
  - a ROP of one implies the value of additional rent owed on the account in the period equals the value of rent paid: payments cover all rent owed. So if a tenant owed £100 worth of additional rent in a period he/she had paid £100;[22]
  - if the ROP is greater than one, tenants have paid more than the additional rent owed onto their rent accounts: for every £1 of new rent owed more than £1 in payments was received. Thus, if the ROP is 1.2 a tenant will have paid £1.20 for every £1 of additional rent owed, representing, when scaled-up, £120 of rent payments over an RPP when £100 was due;[23]
  - if the ROP is less than one, tenants have paid less than the rent owed: for every £1 of rent owed less than £1 in payments was received. So if the rate is 0.8 a tenant has paid 80 pence for every £1 of additional rent owed, representing, when scaled-up, £80 of rent payments over an RPP when £100 was due.
- **Rebasing.** This technique allows the study team to factor into its analysis the important fact that tenants were moved onto the DPDP at different times through a phased process, which makes disentangling the impact of DP over time more difficult. For example, assessment of the impact of direct payment on tenants at Christmas 2012 would include tenants who had been on direct payment for as little as a month and as long as six months. Without rebasing, differences in the experiences of these tenants would be lost in the analysis. Thus, where appropriate, the data for questions has been reconfigured – or rebased – so that tenants' direct payment journeys start from the same departure point. However, it is important to note that rebasing does not fully account for any improvement in landlord processes improving over time.

---

22 Please note tenants may underpay in a given period because their account is in credit (i.e. has a positive balance) – the effect of this on the measurement of impact is controlled for through the use of the comparator sample.

23 Please note tenants may over pay in a given period to repay standing arrears on their account – again, the effect of this on the measurement of impact is controlled for through the use of the comparator sample.

3 Findings

This chapter presents the findings from analysis of tenants' rent accounts over the full 18 months of the Direct Payment Demonstration Project (DPDP). It updates the results of analysis at the end of the first year of the DPDP (see *Direct Payment Demonstration Projects: Key findings of the 12 months' Rent Account Analysis exercise*, DWP Research Report No. 879), as well as offering firmer conclusions on some issues that could only be explored tentatively at that time. Patterns and trajectories are easier to discern over an 18-month, rather than 12-month timeframe and, for this reason, the extension of the DPDP from one year to 18 months has increased confidence in the conclusions drawn from analysis of tenants' rent accounts.

The chapter is configured around a series of key questions, the answers to which provide insight into the impact of direct payment on social landlords' financial viability in terms of the proportion of rent recovered during this period. It also tells us something about payment patterns and the characteristics of those apparently most at risk of accruing arrears as a result of direct payment. A series of technical endnotes provide additional information about analytical methods, robustness and the detail of some findings.

3.1 Overview of 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. Direct Payment in the DPDP did have a financial impact on landlords and tenants but much of this burden was borne in the first few periods following migration. In fact, nearly half of the total difference between rent collected and rent owed 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 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. These results point clearly to the need for mitigating action during the transition to direct payment, whether 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.

Q1. What proportion of the rent owed by tenants on direct payment in the DPDP was paid?

Tenants who went onto direct payment during the DPDP paid 95.5 per cent of all the rent owed[24] from that point onwards.[25] 4.5 per cent of rent owed was, therefore, not collected, amounting to £1.9 million.[26] This includes tenants who switched back[27] to landlord payment (i.e. stopped receiving their HB directly) or stopped receiving Housing Benefit and so the results show the combined effect of receiving direct payments and the switchback process on payment.[28] If we remove tenants from the analysis while they were switched back, and count only rent owed and paid while they were receiving HB directly, 94.7 per cent of rent was paid. Using this calculation, over the 18 months 5.3 per cent of rent owed was not collected.[29] Rent collection rates are therefore lower without the effect of a switchback mechanism, suggesting that switchbacks do help suppress the amount of rent which is not collected.

Tenants in the comparator sample, none of whom received direct payment, paid 99.1 per cent of their rent over the same periods. Their rent not paid amounted to 0.9 per cent of rent charged.[30] 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 once they switch back) over the 18 months of the DPDP.

---

24 For the purposes of this report, the term 'rent owed' refers to the debits charged to tenants' rent accounts during the period.

25 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 are only included once they start to receive direct payment and not before. The number of rent payments due during the first year of the DPDP therefore varied depending on when a tenant was first put onto direct payment.

26 Note these figures include overpayments. Excluding overpayments the sum of individual DPDP tenant's arrears was £2.3 million: 5.6 per cent of rent owed.

27 Project Areas were testing different switchback triggers. Some Project Areas switched tenants back to landlord payment once they had accrued four weeks'/one month's arrears, some eight weeks arrears and one Project Area switched tenants back after 12 weeks' arrears had accrued. The trigger level therefore affects the amount of arrears that can accrue. Under UC the trigger level is two months and so tenants will not have the opportunity to accrue 12 weeks' arrears, nor will they be switched back once they accrue four weeks' arrears.

28 Tenants who switched back could only accrue further arrears if they were in receipt of partial rather than full HB, and many will have had a repayment plan in place subsequently, both of which would have affected rent payment levels following switch back. This figure is, therefore, skewed slightly by the switchback mechanism. Some tenants, for some of the time, could not have underpaid because their HB went direct to their landlord during the time they were switched back.

29 Note these figures include overpayments. Excluding overpayments the sum of individual DPDP tenant's arrears whilst they received DP was £2.1 million: 6.5 per cent of rent owed.

30 Excluding overpayments the sum of individual comparator tenant's arrears was £1.0 million: 2.5 per cent of rent owed.

However, this overall picture masks significant shifts over time, with rent payment rates improving markedly after the first few direct payments of HB. In payment period 1,[31] for example, 67 per cent of rent owed was paid but by payment period 18, the payment rate of direct payment tenants was 99 per cent.[32]

Tenants in the DPDP were staggered onto direct payment so that some received their first payment in June 2012, some in July 2012, some in August 2012 and so on. In June 2013, when the DPDP was scheduled to end, a decision was taken to extend for a further six months. Some Project Areas brought additional tenants into scope during this period, resulting in a further 413 tenants being put onto direct payment.[33] For the purposes of this analysis, the data were rebased so that 'rent payment period 1' represents the rent period following a tenant's first direct payment, regardless of the calendar month in which that payment was made.[34]

Figure 3.1 presents average rent payment rates for each payment period (including the six payment periods prior to tenants receiving their first direct payment). It shows that, following the sharp reduction in rent payment rates in 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 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 sharp reduction in payment rates in period 1 is reflected in the total value of rent not collected when tenants first move onto direct payment (£1.9m – see above). Just under half of the shortfall in rent paid (48 per cent) accrued in the first payment period[35] and 65 per cent of the total value of rent not paid accrued in tenants' first three payment periods.[36] In total, 461 tenants recorded in the RAA data were switched back during the first three payment periods, just under a third of all tenants who switched back during the course of the DPDP.

---

31 '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.

32 This is based on rent account data for 1,890 tenants. the remainder of direct payment tenants received fewer than 18 direct payments of HB.

33 A slightly higher number of tenants were put onto direct payment in the DPDP extension period but the evaluation team were provided with data for 413 tenants.

34 Rebasing to a common baseline allows analysis of impact by duration of time on direct payment. It also prevents estimates of impact on payment periods being skewed because of the length of time on direct payment.

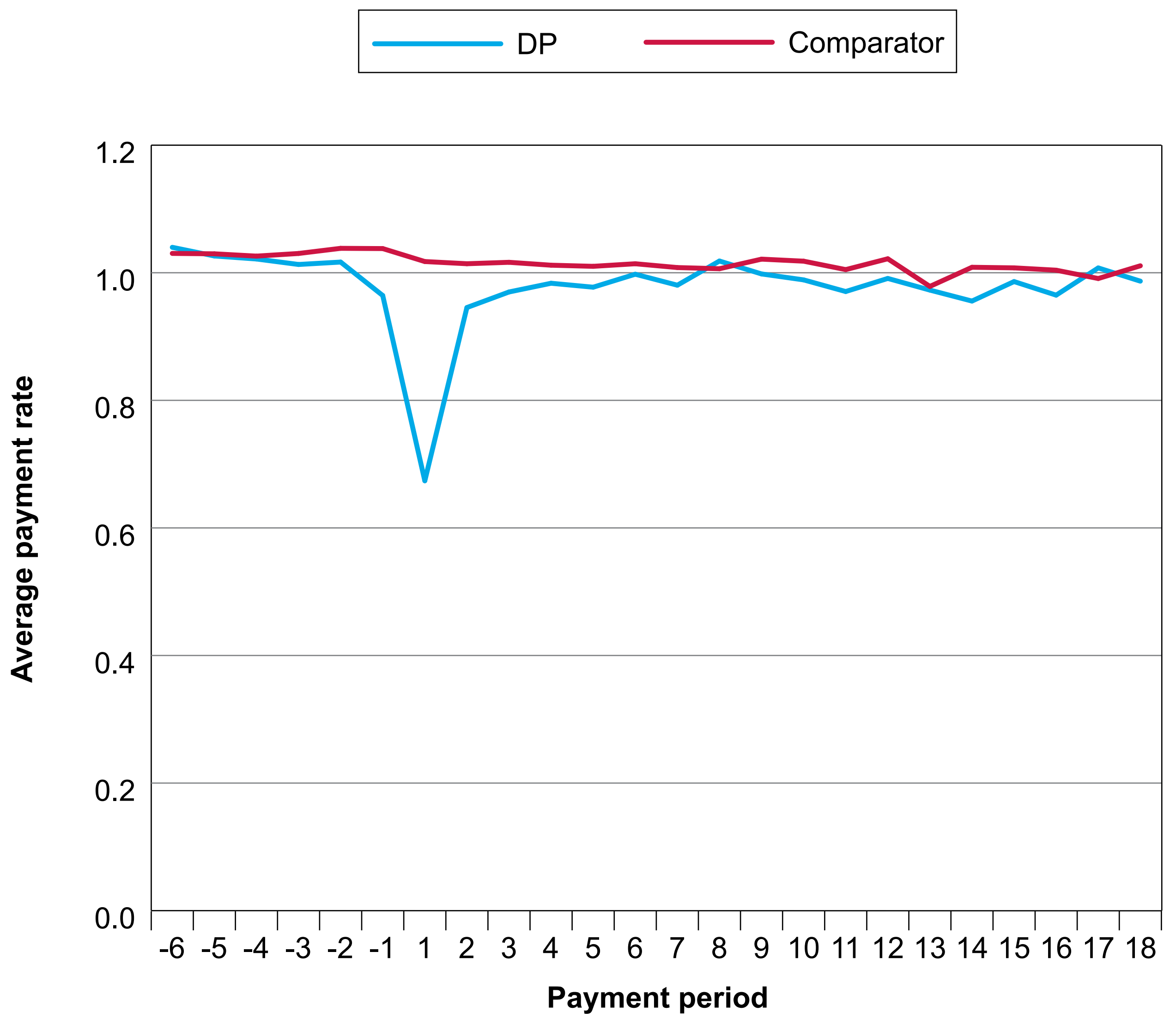
35 Forty-three per cent of the total sum of individual tenants' arrears on DPDP accrued in the first period.

36 Sixty-one per cent of the total sum of individual tenants' arrears on DPDP accrued in the first three periods.

Oxford, Torfaen and Wakefield recorded the highest overall payment rate (97 per cent), while Shropshire and Southwark recorded the lowest overall payment rate (92 per cent and 94 per cent respectively). Local authority landlords recorded slightly lower overall payment rates than HA or LSVT landlords (94 per cent compared to 97 per cent). (See Table A.1). The payment trajectory over time was broadly replicated across the six demonstration areas. The period 1 rental payment rate drop was greatest in Shropshire and Oxford, where payment rates fell to 48 and 52 per cent, respectively. Oxford did encounter some administrative problems which may help explain the lower rental payment rate there.

The overall arrears picture has improved since the last phase of analysis, undertaken 12 months into the DPDP. After 12 months, tenants who received direct payment at some point during that period had paid 94.3 per cent of all the rent owed, while the comparator sample had paid almost 100 per cent of their rent owed (a difference of 5.7 percentage points).

Figure 3.1 Payment rates: rebased



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

Q2. What is the impact of the direct payment of HB on rent payment?

The fact that direct payment tenants failed to pay 4.5 percentage points worth of rent owed (see Question 1) does not tell us anything about the isolated impact of direct payment on rent payment. We can only determine the additional impact of direct payment by comparing the rent payment rates of direct payment tenants with those in a comparator sample[37] using statistical modelling.[38]

This analysis reveals that, on average, tenants receiving direct payment of HB paid 5.5 percentage points less rent per payment period (5.5 pence for every £1 of rent owed) during the 18 month period, than they would have done had their HB had been paid direct to their landlord. It is important to stress that this impact is additional, over-and-above what would have happened with landlord payment.

The impact of direct payments did, however, lessen significantly over time. In the first three rent payment periods (a total period of approximately 12 weeks) after being put onto direct payment,[39] tenants paid on average 15.7 percentage points less rent per payment period than they would have done had direct payment not been introduced. By payment periods 4-6 this figure had fallen dramatically to 2.8 percentage points with it falling again in payment periods 7-9 (1.3 percentage points less rent). This remains consistent with the picture when the first 12 months' rent account data were analysed, raising the possibility of the trajectory continuing until direct payment had no impact at all.

Analysis of the full 18 months of rent data shows that direct payment did continue to have an impact, even once tenants had been receiving their HB directly for a year or more, although the impact remained well below that of the first three rent payment periods. Rent payment rates in the final eight months of the DPDP were as follows:

- rent payment periods 10-12 (the point at which the 12-month analysis was completed): 2.2 percentage points less rent;
- rent payment periods 13-15: 3.5 percentage points less rent;
- rent payment periods 16-18: 2.1 percentage points less rent.

It is important to reiterate that tenants' rent payment periods do not all coincide. For example, rent payment period 1 is June 2012 for some tenants and January 2013 for others. For this analysis, then, fluctuations are unlikely to be explained by seasonal or time specific changes (RSRS for example).

---

37 See Chapter 2 for more details about how the comparator sample was derived and used.

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

39 Tenants in the DPDP were staggered onto direct payment so that some received their first payment in June 2012, some in July 2012, some in August 2012 and so on. Where relevant, to remove potential bias created by the staggered start to the DPDP, the data were 'rebased' so that 'payment period 1' represents the rent period following a tenant's first direct payment, regardless of the calendar month in which that payment was made. Where the phrase 'first payment period after being transferred onto direct payment' or similar is used, analysis will have been based on rebased data.

The impact of direct payment on rent payment rates varied by Project Area, with Wakefield and Torfaen recording the smallest impact and Southwark and Edinburgh the greatest impact. In terms of landlord type, Large Scale Voluntary Transfer (LSVT) tenants witnessed the lowest impact of direct payment compared to housing association or local authority/ ALMO tenants. This helps explain the relatively low impact in the Wakefield and Torfaen project areas (the Wakefield Project areas comprised one LSVT landlord and in Torfaen the majority of tenants were provided by an LSVT landlord). The impact was greatest on housing association tenants.

It is of interest that Southwark and Edinburgh – where the greatest impact was felt – operated triggers providing the highest level of safeguard (four weeks and one month respectively),[40] suggesting that the trigger level is only part of the picture. The levels of non-payment and underpayment will be a factor (for example, if a relatively high proportion of people fail to pay their rent, even if they are then removed from the programme, or there are a significant number of underpayers over time) as will the behaviour of the comparator sample. On the latter point, if, for example, there was an increase in the number of people in receipt of full HB in the comparator sample (and therefore unable to underpay) the difference between the DP sample and the comparator sample would have become greater. It may be relevant that in Southwark a relatively small proportion of tenants initially paid their rent by Direct Debit and that this payment method was found to positively affect payment rates (see Question 15).

Q3. What proportion of tenants in the DPDP accrued arrears after moving onto direct payment?

Sixty-one per cent of tenants who received direct payments during the 18 months of the DPDP had not paid some or all of their rent owed: they had accrued arrears while on the programme.[41] Counting only rent owed and paid in rent payment periods when rent was paid direct to the tenant, 65 per cent of tenants who received direct payments during the 18 months of the DPDP had underpaid while on the programme. Over the same timeframe, 39 per cent of the comparator sample, none of whom received direct payments, had accrued arrears.[42] Of the direct payment tenants who had not accrued arrears by the end of DPDP, some had accrued, but repaid arrears at some point. In total, 88 per cent of direct payment tenants had accrued arrears at the end of a payment period compared with 76 per cent of the comparator sample.

---

40 Southwark shifted to a 4+4 model whereby tenants were effectively given four weeks to settle into the new system before applying the four-week switchback trigger. Some tenants may, therefore, have accrued eight weeks' rent arrears before being switched back to landlord payment.

41 As with the analysis for Question 1, this includes tenants who went onto direct payment but switched back. After this point they could only accrue further arrears if they were on partial HB, having deductions made from their HB, or if HB did not cover their full rent liability for other reasons. Some will also have been repaying arrears via a repayment plan agreed with their landlord.

42 Tenants in the comparator sample were only able to accrue arrears if their HB did not cover all the rent owed (i.e. charges made to their account), for example, if they were on partial HB, or having deductions made from their HB, or if there HB did not cover their full rent liability for other reasons.

An increase in the number of tenants underpaying (regardless of the value) can have implications for landlord collection and recovery costs: the greater the numbers of people in arrears, the more actions are required to recover those arrears.

There has been little change since the end of the first year of DPDP when 61 per cent of direct payment tenants and 35 per cent of the comparator sample had not paid all of their rent since first going on to direct payment. This could suggest that tenants are slow to repay arrears once accrued (see Question 12 below), or that tenants newly accruing arrears equal those repaying their arrears.

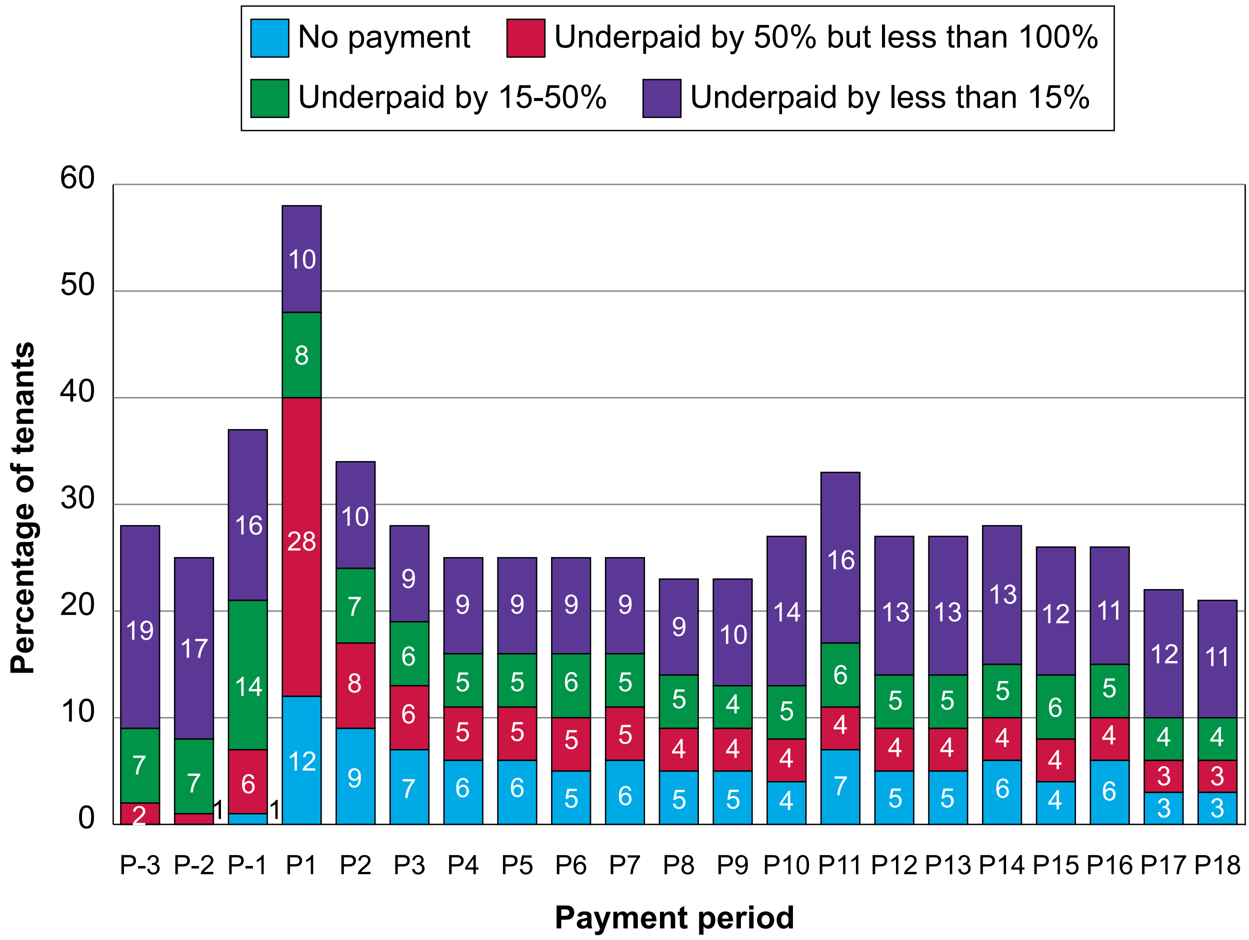
Analysis of the proportion of tenants underpaying over time, shows a marked spike similar to that described in Q1 and Q2 (see Figure 3.2). Fifty-nine per cent of direct payment tenants underpaid or did not pay their rent following their first direct payment of HB, compared with only 26 per cent of tenants in the second payment period before moving onto direct payment.[43] The proportion of tenants who underpaid or did not pay quickly returned to baseline levels in payment periods 2-4. In some payment periods, the proportion of tenants who underpaid their rent was lower than before the introduction of direct payment.

It is important to note here that although the proportion of tenants underpaying their rent reduced over time the composition of underpayment changed once direct payment was introduced and did not return to baseline levels. Figure 3.2 shows that, although the overall proportion of tenants underpaying or not-paying their rent changed little when direct payment was introduced (notwithstanding the spike in payment period 1), the composition of underpayment did change. In particular, the proportion of tenants who failed to pay 50-100 per cent of their rent was higher under direct payment. This explains how the total value of arrears can continue to increase, even though the overall proportion of tenants underpaying changed little after period 1.

This is not surprising: pre-direct payment, only those eligible for a small amount of HB could underpay significantly and no tenants could fail to pay altogether other than through administrative error. It does raise issues, however, because significant underpayment/non-payment has a far greater effect on landlord income streams than underpayment by a small amount.

43 The comparison is made with the second period before transferring onto direct payments because payment behaviours in the first period before direct payment appear to have been affected by the transition.

Figure 3.2 Proportion of direct payment tenants underpaying by payment period: rebased



Source: 18 months' Rent Account Analysis exercise.
Base: All tenants; DPDP (7,216-1,890).

A higher proportion of local authority tenants had not paid all of their rent due by the end of the DPDP than LSVT or HA tenants (72 per cent compared with 55 per cent and 53 per cent). Shropshire witnessed the highest proportion of tenants underpaying (70 per cent) and Edinburgh the lowest (54 per cent). (See Table A.2)

Q4. What is the impact of direct payment on the proportion of tenants failing to pay some or all of their rent?

Direct payment increased the likelihood of tenants underpaying in a given rent payment period by an average of five per cent. This is on top of the base average likelihood of tenants on landlord payment underpaying. Exploring this in more detail reveals that the likelihood of tenants underpaying their rent by a small amount increased negligibly, whereas the likelihood of tenants underpaying by large amount increased markedly. For example: tenants on direct payment were just under 1.3 times as likely to underpay by five per cent or more but eight and a half times more likely to underpay by 75 per cent or more.

Over time, however, the impact of DP on the likelihood of tenants underpaying, even by a large amount, reduced significantly. For example, tenants on direct payment were 16 times more likely to underpay their rent by 75 per cent or more in their first three rent payment periods but by their 16th payment[44] tenants were just five times more likely to underpay by 75 per cent or more.

The overall picture has improved since the last phase of analysis, undertaken 12 months into the DPDP, at which point direct payment of HB was associated with an 11 per cent (rather than five per cent) average increase in the likelihood of underpaying in a given rent payment period. The reduction in impact is due to a greater proportion of tenants being on DP for longer (length of time on DP is associated with reduced impact, further reinforcing the overall picture of markedly improved payment rates over time), thus weighting the average impact downwards.

The impact of direct payment on rent payment rates varied by project area and landlord type:

- impact was greatest in Edinburgh and Torfaen; and least in Shropshire, Southwark and Oxford;
- impact was greatest for HA tenants and least for LSVT tenants.

Q5. We know that tenants are more prone to accruing arrears when they first go onto direct payment (see Questions 1-4). But did this change over the course of the Demonstration Project as the programme developed and learning accrued?

The 'arrears spike' which emerged at the start of the DPDP cannot be explained just with reference to the infancy of DPDP and the experimental nature of early implementation. 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. An arrears spike is less pronounced, but still evident.

Analysis thus far has revealed a distinct 'arrears spike' in rent payment periods 1-3, suggesting that the shift from one system of HB to another may be a critical point for tenants and landlords. However, it is not clear from these results alone whether the trajectory reflects inherent challenges associated with moving tenants onto the new system and so is a pattern likely to persist, or reflects the infancy of direct payment as a policy when the DPDP went live, in which case it may not.

The sharp reduction in rent payment rates in period 1, and the arrears spike over payment period 1-3, could indicate inherent challenges associated with moving from one HB system to another – a period of transition during which tenants acclimatise to the new system and learn to manage direct payment. If so, landlords may want to closely monitor tenant rent accounts during this period and the need for a programme of transitional support for tenants is indicated.

---

44 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.

On the other hand, in the first few months of the DPDP, when the majority of direct payment recipients were first transferred to the new system, Project Areas and the Department for Work and Pensions (DWP) had not yet accrued any learning, and new systems and processes were being trialled and tested. The early arrears spike may, therefore, be attributable to the experimental nature of early implementation and with factors specific to the DPDP (i.e. processes and systems employed which will not be rolled out) or which can be rectified based on learning accrued. These include:

- technical and administrative errors when collecting rent, for example, incorrect bank account numbers (incorrectly provided by the tenant and/or incorrectly entered by the landlord). To varying degrees, Project Areas encountered early problems in this regard and learnt lessons from this first payment period that they sought to rectify in future periods;
- Housing Benefit payment errors such as late payment or payment to the wrong bank account. Again, early problems were identified and rectified;
- the support assessment process initially used by Project Areas to identify those who should be safeguarded was found to be generally ineffective, but was also designed to safeguard only a small proportion of tenants. Thinking has since shifted and safeguarding processes and criteria have developed, partly as a result of learning from the DPDP. Tenants who, under the current Universal Credit (UC) system would not be considered ready for direct payment, were included in the early phases of the DPDP (with some quickly accruing arrears and switching back). Different claimant assessment processes and higher numbers of tenants being safeguarded going forward will reduce the 'spike' in periods 1-3.

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 adapted accordingly. This is achieved in two ways:

- comparing the 'payment period 1' payment rate of tenants who were transferred onto direct payment in the first few months of the DPDP with those who went onto direct payment subsequently;
- comparing the payment rates of the 413 tenants who were brought into scope following the decision to extend the DPDP for a further six months[45], with those of the first cohort selected in 2012. The process of communicating the changes to these tenants, assessing their readiness for direct payment, and engaging with them only began towards the end of the first year of the DPDP. Project Areas were therefore able to apply the learning accrued in the first year of the DPDP to early implementation with these tenants.

The results of this analysis show that tenants put onto direct payment a little later in the DPDP did pay more of their rent in payment period 1[46] than those who went onto direct

---

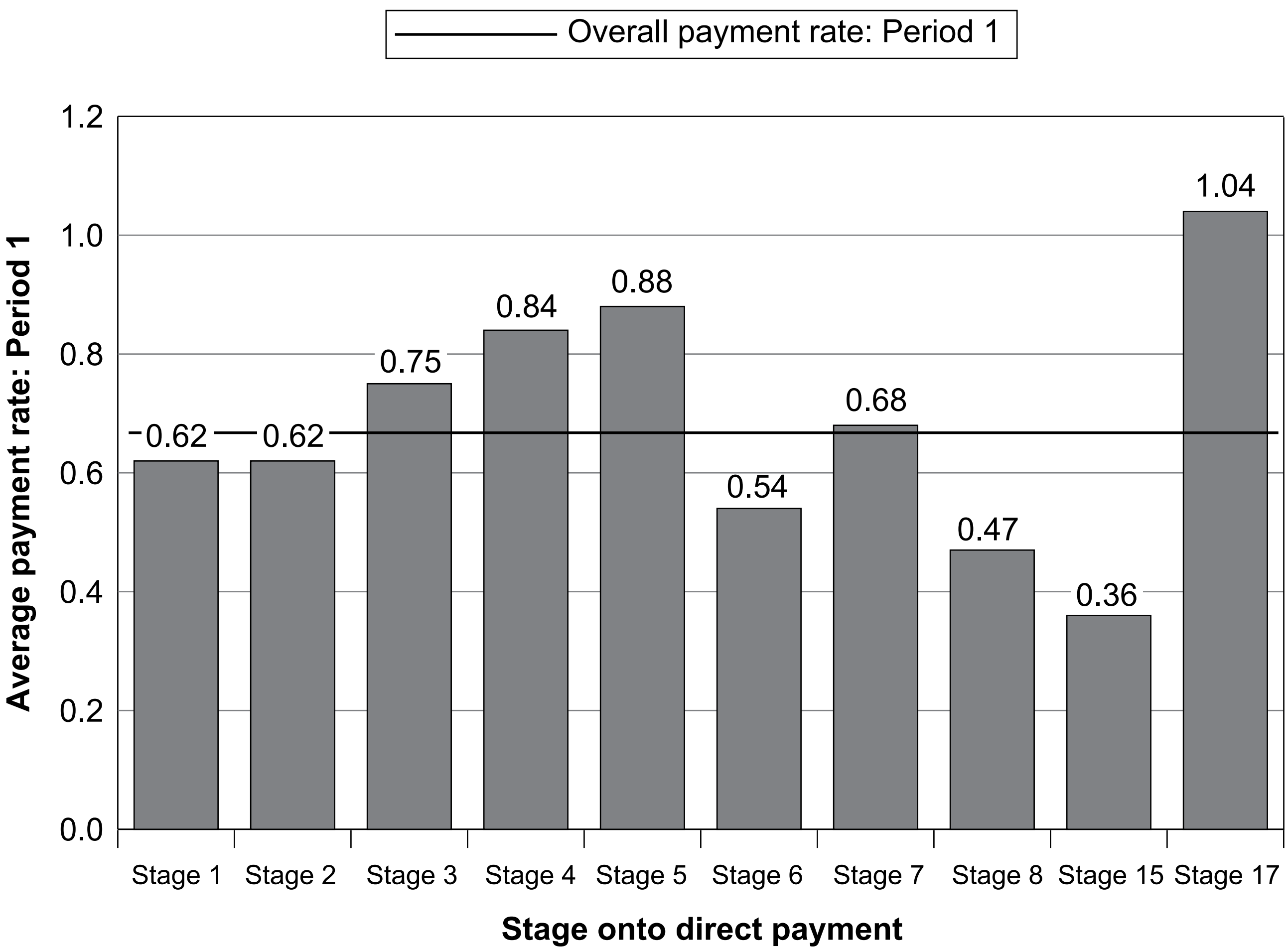
45 Although a small sample drawn mostly from the same Project Area (Oxford), these tenants were not part of the original cohort of 2,000 tenants selected in each Project Area to participate in the DPDP, which makes for a better comparator. Tenants who went onto direct payment later in the DPDP but who 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.

46 As in previous questions, 'payment period 1' is used here to represents the rent period following a tenants' first direct payment, regardless of the calendar month in which that payment was made. To do this analysis the data are rebased.

payment in the first two periods of the programme. Figure 3.3 presents the average first payment rate of tenants transferring onto direct payment in every 'stage'[47] of the DPDP in which at least 100 tenants received direct payment for the first time. It shows that tenants who transferred onto direct payment in stages 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, and increased stage on stage. Those starting in stage five, for example, paid 88 per cent of their rent in their first rent payment period.

However, 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 six, 68 per cent in stage seven, 47 per cent in stage eight and 36 per cent in stage 15 of the DPDP.

Figure 3.3 Period 1 payment rates for tenants on direct payment; rebased[48]



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

47 '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.

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

These results suggest that the 'arrears spike' which emerged at the start of the DPDP cannot be explained just with reference to the infancy of DPDP and the experimental nature of early implementation.

Comparison between first payment rates of the original cohort of DPDP tenants and those brought into scope in the extension period corroborates this further. Comparing the average first payment rate (i.e. the first rent payment following the first direct payment of HB) for tenants who were brought into scope in the extension period (the final six months of the DPDP) against that of the original cohort of DPDP tenants shows that:

- 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;
- in addition, the average first payment rate amongst tenants brought into scope during the DPDP extension was less 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

The support assessment process initially used by Project Areas to identify tenants' readiness for direct payment was not very effective and, reflecting UC thinking at that time, was also designed to safeguard only a small proportion of tenants. In addition, in some Project Areas support structures were not fully in place in the early stages of the DPDP. As a result, some tenants were put onto direct payment who would now be safeguarded and/or supported. Many of these quickly accrued arrears and switched back. This begs the question of how much of the arrears spike was attributable to these tenants – i.e. to people who, under the current direct payment/UC design, would not go onto direct payment or would be supported to do so? If a significant proportion of the arrears spike is attributable to these tenants then we would not expect the pattern to repeat going forward.

We cannot test this precisely, but insight can be gleaned by removing from analysis all those tenants who switched back in their first three payment periods, as a (imprecise) proxy for those who should not have gone onto direct payment.

Excluding tenants from the analysis who switched back within their first three payment periods gives the following results:

- tenants paid 95.8 per cent of rent due, 4.2 per cent was not paid (compared with 95.5 per cent of rent due if early switchbacks are included – see Question 1)
- on average, tenants paid 5.0 percentage points less rent per payment period than they would have done had their HB had been paid direct to their landlord (compared with 5.5 percentage points if early switchbacks are included – see Question 2)
- 61 per cent of tenants had not paid some or all of their rent by the end of the programme (no difference – see Question 3).

A similar picture emerges if tenants who switched back within their first six payment periods are excluded from analysis.

We can confidently conclude from these results that the 'arrears spike' 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.[49]

Q6. If the 'arrears spike' in payment periods 1 to 3 could be mitigated, what difference would this make to the impact of direct payment on rent payment?

The particular low payment rates in the first couple of months of the DPDP have the effect of depressing overall DPDP rent payment rates. This is not a 'skewed' picture – we saw in Question 5 that the payment trajectory seen in the DPDP could repeat going forward, although perhaps with higher initial payment rates. The obvious response to these results is to pay close attention to early implementation, perhaps offering intensive support, monitoring rent accounts, and making cautious assessments of vulnerability during the transition period. The question is, what effect might effective mitigating action have? Removing the first three payment periods – i.e. the spike – from analysis sheds some light on the likely impact.

If the first three payment periods are removed from analysis (or the 'arrears spike' were completely mitigated going forward) the impact of direct payment reduces dramatically. For example:

- 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).[50] Overall the value of rent not paid to rent due therefore reduces from 4.5 per cent to 2.1 per cent if the first three payment periods are removed from analysis. The comparator sample paid 98.8 per cent of rent from the fourth payment periods onwards (1.2 per cent of rent owed was not paid) and so **direct payment tenants paid 0.9 per cent less rent than the comparator sample** if the first three payment periods are excluded;
- including only periods when DPDP tenants received a direct payment (i.e. excluding tenants during any periods in which they were switched back), rent collected was 97.7 per cent of rent due. Therefore the percentage not collected reduces from 5.3 per cent to 2.3 per cent if the first three payment periods are excluded. This represents 1.0 per cent less rent paid than the comparator sample from the fourth payment period onwards;
- 65 per cent of the total value of the shortfall in rent collected accrued during the DPDP accrued in the first three rent payment periods (see Question 1) and so the **total shortfall in rent collected reduces from £1.9 million to £648,000** if the first three payment periods are removed from the analysis;[51]
- the estimated net additional impact of being on direct payment, i.e. over and above being on landlord payment, reduces from 5.5 percentage points less rent paid per payment period to 2.5 percentage points less rent paid per payment period;

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

[50] This analysis excludes tenants who were switched back permanently in the first three periods on direct payment.

[51] Excluding overpayments the total value of individual tenants' arrears accrued on DPDP reduces from £2.3 million to £0.9 million.

- discounting tenants' first three rent payment periods, 42 per cent of tenants had underpaid their rent (accrued arrears) while on the programme. This is only three percentage points higher than the comparator sample over the whole period. For only eight per cent of tenants were these arrears 15 per cent or greater of rent charged onto their accounts.

The results of this, albeit hypothetical, analysis underscores the importance of developing effective intervention to mitigate problems when tenants first move onto direct payment.

Q7. Did arrears accrue because a few people paid no rent, or because lots of people underpaid?

Partial payment was much more common than non-payment in the DPDP. Tenants paying no rent formed a relatively small proportion of all those who accrued arrears – 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 underpaid their rent (see Figure 3.4).

However, non-payment had a greater impact on the total value of arrears than partial payment. Although non-payers accounted for a relatively small proportion of those who underpaid their rent, they accounted for as much 50 per cent (in rent payment periods 2, 9, 11, 14 and 16) of the total value of the arrears. Across the final six payment periods non-payment accounted for an average of 44 per cent of the total value of arrears (see Figure 3.5).

Q8. When tenants underpay[52] their rent, do they underpay by a lot or a little?

The proportion of tenants who underpaid their rent by a relatively large amount (i.e. by 50-100 per cent of the rent due) increased with the introduction of direct payment. This is consistent with the findings from the first 12 months of DPDP.

Figure 3.4 shows that in the three payment periods prior to the introduction of direct payment this group (represented by the blue and red sections of the first three columns) accounted for an average of 10 per cent of those who underpaid.[53] For the 18 payment periods following the launch of the DPDP the proportion grew to an average of 39 per cent.[54]

However, Figure 3.4 also shows that underpaying by a relatively large amount was more prevalent in the early stages of the DPDP, particularly in payment period 1. This group constituted 69 per cent of all those who underpaid in payment period 1 (including non-payers) but reduced to 39 per cent in payment period 6, 33 per cent in payment period 12, and 28 per cent in payment period 18.

---

52 In this report the term 'underpayment' refers to a failure to pay some or all of the rent owed and therefore includes non-payment as well as partial payment.

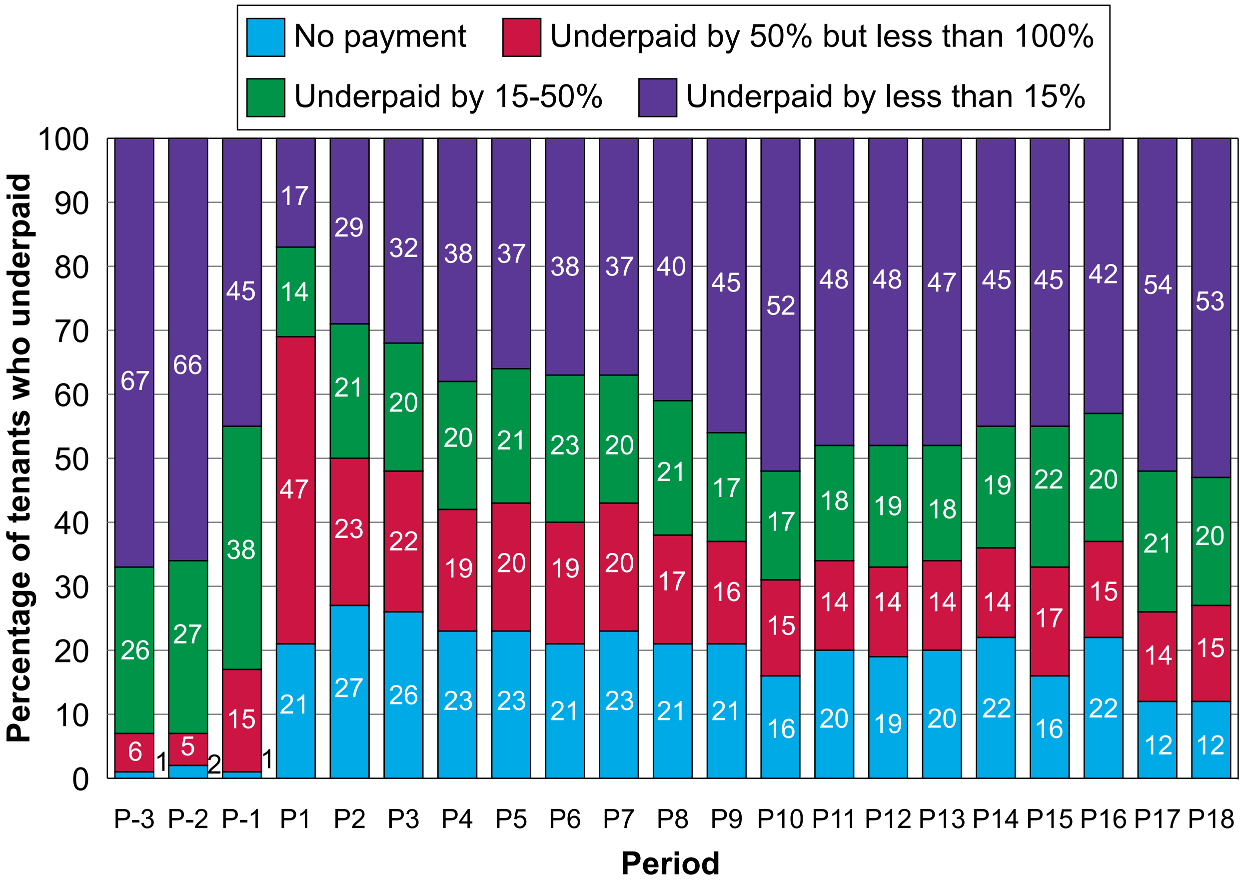
53 Prior to the introduction of direct payment non-payment could only occur as a result of administrative problems although significant underpayment would be possible amongst those on partial HB.

54 A series of switchback triggers operated in the Project Areas, designed specifically to remove tenants displaying particular payment patterns from remaining in the programme. This included triggers designed to switchback high value persistent underpayers, and triggers designed to switch back non-payers after a period of time. This will, therefore, have affected the patterns of underpayment which emerged. Chapter 1 provides further details about the switchback process and triggers.

Looking in more detail at the payment patterns of tenants who underpaid further highlights this trajectory – over time the profile of tenants underpaying each period shifted, with a greater proportion underpaying by a smaller amount, perhaps indicating increased capacity to manage direct payment over time. For example:

- tenants underpaying by 50 per cent but less than 100 per cent accounted for 47 per cent of all those who underpaid in the first period of the DPDP but averaged just 15 per cent between payment periods 12 and 18;
- the proportion of underpaying tenants who underpaid by a smaller amount (i.e. less than 15 per cent of the rent owed) increased from 17 per cent in payment period 1 to an average of 48 per cent between payment periods 12 and 18 (or a high of 54 per cent in payment period 17).

Figure 3.4 Distribution of underpayers by category of underpayment



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

Improved patterns of underpayment over time is encouraging but it is worth noting that, despite this, in payment periods 12 to 18 the proportion of 'underpayers' who paid no rent or who underpaid by more than half the rent owed was still more than treble what it had been in the baseline payment period.

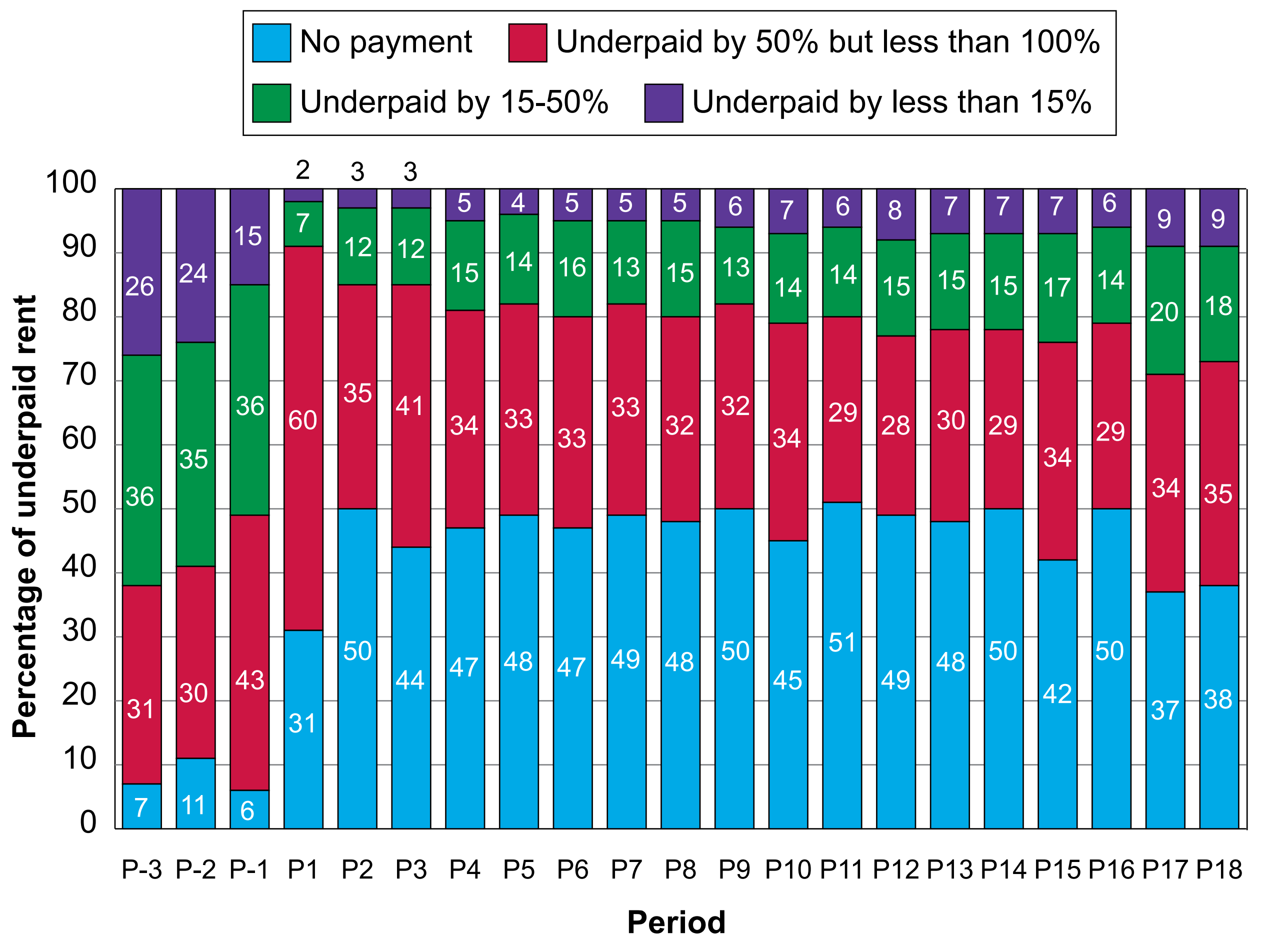
A greater proportion of tenants underpaying by a large amount has implications for the distribution of underpayment by value and will affect the ways in which landlords manage underpayment by their tenants. They may, for example, choose to focus on those tenants whose arrears represent the highest proportion of overall debt.

Figure 3.5 presents the distribution of underpayment by value and shows that although non-payers were smaller in number, non-payment had a more significant effect on the total value of the underpayment, while underpayment of less than 15 per cent had a more limited effect. Specifically:

- in the three payment periods prior to the start of direct payment, non-payment accounted for an average of eight per cent of the total value of underpayment. In the 18 payment periods following the start of direct payment this average figure increased to 46 per cent, remaining consistently above at least 37 per cent over the course of the DPDP, with peaks of 50 per cent or more in five separate periods;
- in the three periods prior to the start of direct payment, underpayment by less than 15 per cent accounted for an average of 22 per cent of the total value. However, in the 18 payment periods following the start of direct payment, this figure decreased to an average of 6 per cent.

Non-payment of rent was, therefore, the most significant payment factor affecting the value of arrears.

Figure 3.5 Distribution of underpayment value by category of underpayment



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

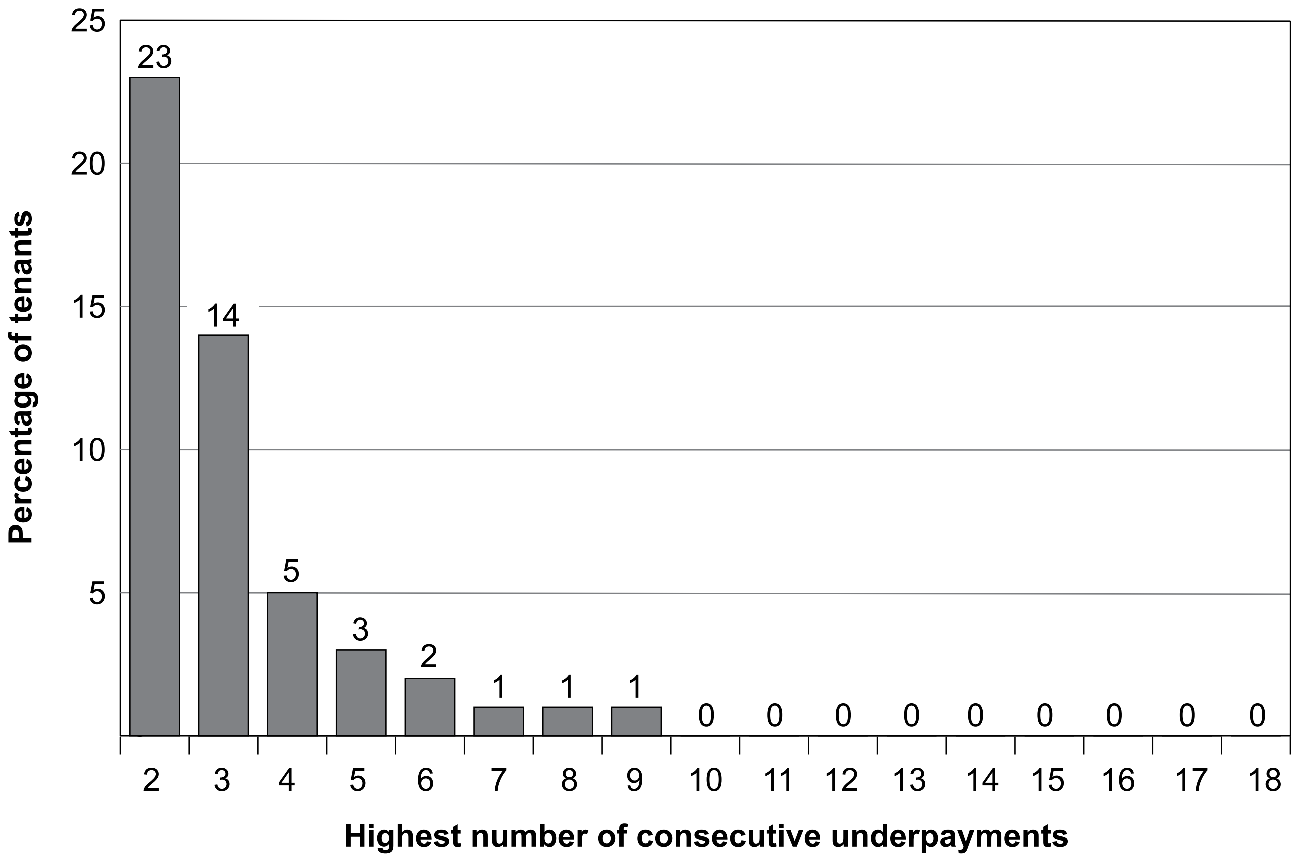
Q9. Is underpayment persistent or erratic?

Examining rent payment patterns of tenants who received at least seven direct payments[55] reveals that tenants were more likely to underpay erratically than persistently. 'Persistence' has been defined as making a least three consecutive underpayments while in receipt of direct payment.

Nearly half (46 per cent) of all underpayers made no consecutive underpayments and 25 per cent of underpayers (23 per cent of all direct payment tenants) underpaid in two consecutive periods (see Figures 3.6 and 3.7). Those who underpaid in three or more consecutive periods comprised 29 per cent of all underpayers (27 per cent of all direct payment tenants) and Figure 3.7 shows that, of these:

- 15 per cent underpaid in three consecutive periods (14 per cent of all tenants);
- six per cent underpaid in four consecutive periods (five per cent of all tenants);
- nine per cent underpaid in five or more consecutive periods (eight per cent of all tenants).

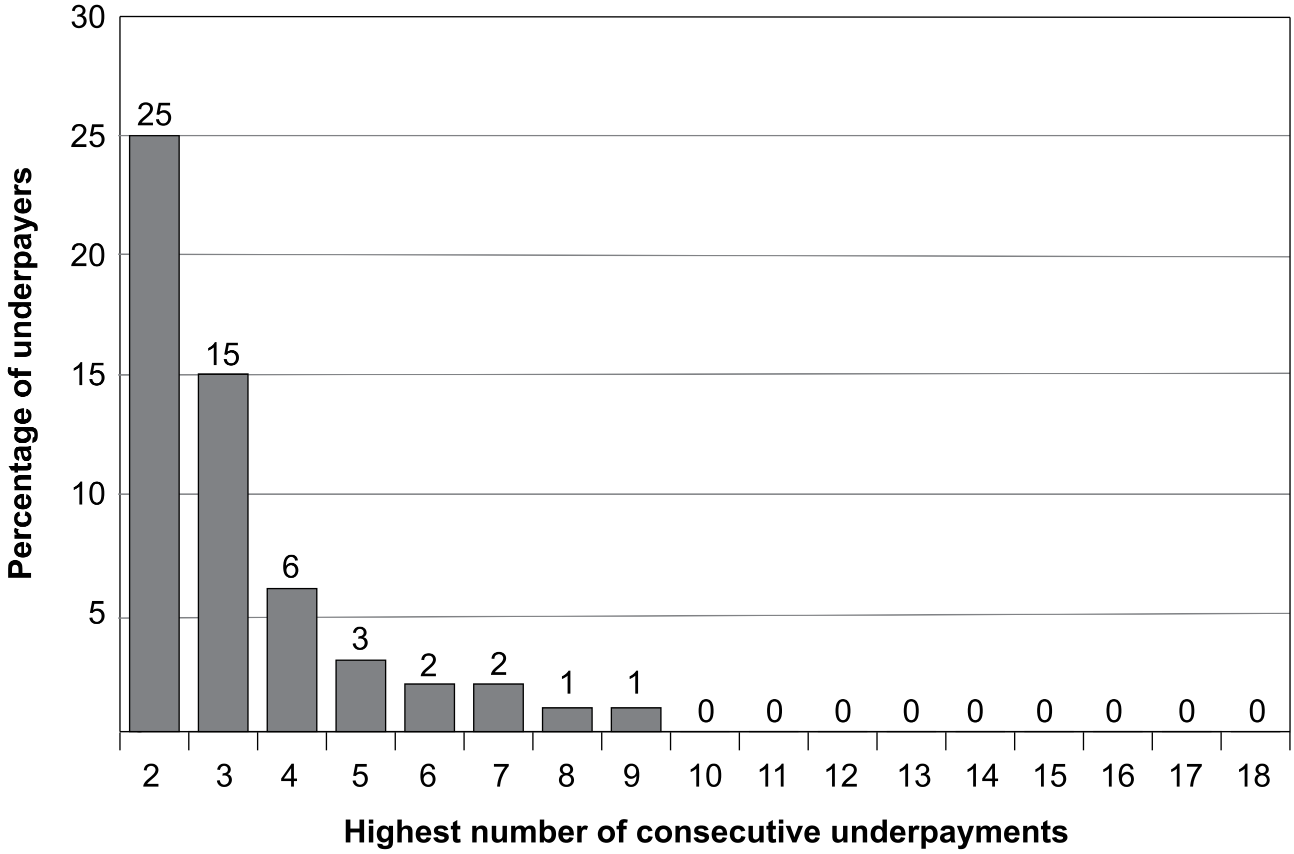
Figure 3.6 Highest number of consecutive underpayments



Source: 18 months' Rent Account Analysis exercise.
Base: Tenants with 7+ direct payments of Housing Benefit; DPDP (5,382).

55 This analysis was restricted to the 5,031 tenants who had received at least seven direct payments of HB because persistence is difficult to establish over a shorter time frame.

Figure 3.7 Highest number of consecutive underpayments; proportion of underpayers



Source: 18 months' Rent Account Analysis exercise.
Base: Tenants with 7+ direct payments of Housing Benefit who are underpayers; DPDP

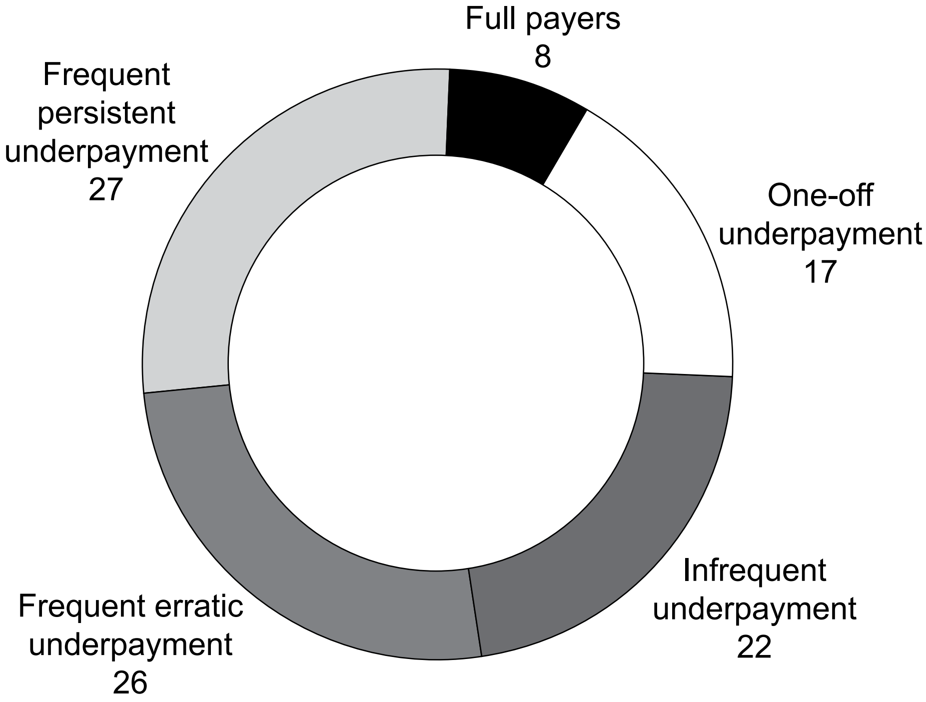
Analysis of tenant payment patterns reveals the following typology of payment (see Figure 3.8):

- **full payment**: no underpayment[56] made while in receipt of direct payment (eight per cent of tenants who received at least seven direct payments);
- **one-off underpayment**: only one underpayment made while in receipt of direct payment (17 per cent of tenants who received at least seven direct payments);
- **frequent, persistent underpayment**: at least three underpayments, made consecutively, while in receipt of direct payment (27 per cent of tenants who received at least seven direct payments);
- **frequent, erratic underpayment**: at least three underpayments for tenants who received seven to nine direct payments and at least four underpayments for those who received ten or more direct payments, with no more than two underpayments made consecutively (26 per cent of tenants who received at least seven direct payments);
- **infrequent underpayment**: two or fewer underpayments for tenants who received 7-9 direct payments, and three or fewer underpayments for those who received ten or more direct payments, with no more than two made consecutively (22 per cent of tenants who received at least seven direct payments).

56 In this report the term 'underpayer' refers to tenants who fail to pay some or all of their rent in a given payment period. It therefore includes non-payers as well as partial payers.

Of the four underpayment groups, three could be described as 'erratic' underpayers: those underpaying once; those underpaying frequently but erratically; and those underpaying infrequently. In total 27 per cent of tenants in the DPDP who received at least seven direct payments were persistent underpayers (29 per cent of all underpayment) and 65 per cent were erratic underpayers (71 per cent of underpayers) suggesting that, while persistent underpayment is certainly a feature of tenants' payment patterns, it is not as common as erratic underpayment.

Figure 3.8 Underpayer types



Source: 18 months' Rent Account Analysis exercise.
Base: Tenants with 7+ direct payments of Housing Benefit; DPDP (5,382).

Persistent underpayment was particularly common early in a tenant's direct payment career, which could suggest teething problems during the transition period. For example:

- approximately one-third of all persistent underpayers (six per cent of all tenants) made the first of several consecutive underpayments in one of their first three payment period;
- just under one quarter of all persistent underpayers (four per cent of all tenants) had a run of at least three consecutive underpayments starting in the first payment period.

Q10. Amongst those tenants who pay all their rent, do they usually pay on time?

The majority of tenants on direct payments who paid all their rent, paid late[57] at some point but their payment patterns did not differ markedly from the comparator sample. In other words, late payment in full only increased a little as a result of direct payments.

Late payment in full may not affect landlords' overall rental income[58] but it does impact on cash flow. It is of concern, therefore, that only 21 per cent of the 'best payers' (i.e. those who paid their rent in full while on direct payments) did not pay any rent late, with 79 per cent making at least one late payment. On the other hand, the figures from the comparator sample suggest that this is not an issue specific to direct payments but one which landlords encounter regardless of the method of HB payment: 77 per cent of the 'best payers' in the comparator sample made at least one late payment.

It is likely that some late payment reflects tenants 'juggling' different income sources, for example using their HB to pay other bills and subsequently paying their rent from other benefits such as JSA or Child Benefit.

Q11. Is there an 'arrears spike' at particular times in the calendar year?

There was no significant increase in arrears at any particular time of the year (see Figure 3.9).[59] Some stakeholders anticipated an increase in arrears in late autumn/winter as higher fuel bills and Christmas stretched tenants' budgets or during the summer holiday and back to school period (a period not fully coved by the 12 months analysis of rent accounts).

Figure 3.9 shows that payment rates do fluctuate amongst direct payment tenants but no more so than the comparator sample and without stark seasonal variation. Payment rates did 'flat-line' round November/December 2012, book-ended by periods showing payment rate growth, but there was no marked fall in payment rates. In other words, payment rates did not increase in line with the payment trajectory, and an 'interruption' such as this in a general trend can suggest other influences at play, but the results are certainly not marked. Some Project Areas engaged in activities designed to maintain collection rates over the Christmas period which may have had an impact.

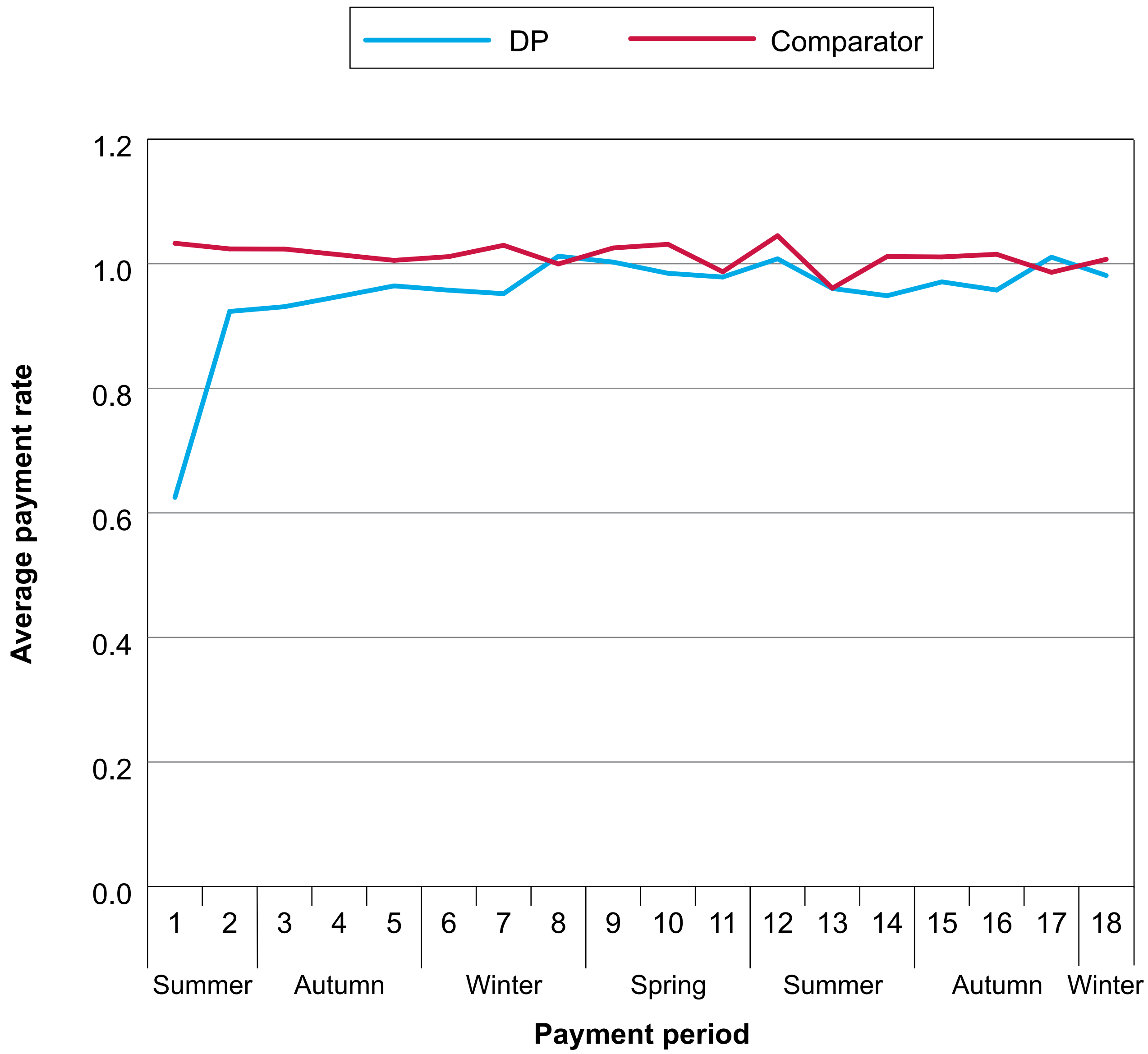
---

57 Late payment refers to those tenants who underpaid in one payment period but over paid in other rent payment periods to cover this shortfall.

58 Although other costs may be incurred such as arrears recovery and collection costs.

59 This analysis is based on tenants who were put onto direct payment in the first three months of the Demonstration Project (June – August 2012). Those who transferred onto direct payment subsequently were excluded because the tendency for tenant payment rates to be lower in their first payment period would have skewed the results.

Figure 3.9 Payment rates for tenants starting on direct payment in first quarter; not rebased



Source: 18 months' Rent Account Analysis exercise.
Base: All tenants; DPDP (5,720-3,549); Comparator (4,743-3,408).

Q12. Do arrears that accrue in the early stages of direct payment get paid back?

Much of the arrears that accrued in the early stages of direct payment had not been repaid at the end of the 18 months' programme, even though tenant payment behaviour improved markedly with time.

A clear picture has emerged from the analysis presented so far: arrears 'spiked' in the early stages of direct payment implementation but payment patterns improved over time. This means that tenants who ultimately showed themselves to be 'good payers' and able to manage their own rent payments nevertheless encountered difficulties when they first transferred to direct payment.

However, although the payment behaviour of many of those tenants who initially failed to pay all their rent improved over time, much of the 'standing arrears' remained. They may have quickly established positive payment behaviour but they did not repay the arrears already built up. Tenants and landlords did not 'recover' sufficiently from this period of transition to remedy the financial impact of it. At the end of the first three payment periods the difference between rent paid and owed was £1.2 million; at the end of the final payment period the value was £1.9 million – an increase of just under £650,000 (54 per cent). Early arrears, therefore, were not repaid and arrears continued to accumulate, albeit at a slower pace.[60] Under UC, there will be repayment mechanisms to address this and recoup arrears from tenants.

The shift to direct payment, then, represented a negative step-change in the overall rent account balances of the majority of tenants on direct payment. Of the 60 per cent of DP tenants who accrued arrears during their first three periods since moving onto DP, just under four-fifths (79 per cent) were still in arrears[61] at the end of the 18 months of DPDP. If this pattern repeats when direct payment is rolled out as part of UC it could have a serious impact on landlord income – in effect landlords have 'lost' a proportion of rental income. 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. DWP has already announced that under UC automatic switchback to direct payment will be considered if claimants accrue a certain level of arrears.

Examining these findings in further detail, Figure 3.10 shows the final rent account positions, for their time on DPDP, for tenants who were in arrears for periods 1 to 3, broken down by the extent to which they underpaid. It shows that few of these tenants had managed to repay all their arrears by the end of the demonstration project and that those who underpaid by a significant amount were the least likely to do so. Specifically, Figure 3.10 shows:

- of the tenants who underpaid significantly (by 50 per cent or more – represented by the blue columns in Figure 3.10) in their first three rent payment periods[62], 87 per cent were in arrears, 76 per cent were in arrears of five per cent or more, 44 per cent were in arrears of 15 per cent or more, and 15 per cent were in arrears of 50 per cent or more by the end of the demonstration project. These findings suggest that this cohort of tenants managed to repay some, but not all of the arrears accrued;
- of the tenants who underpaid by between 15 per cent and 50 per cent in their first three rent payment periods (represented by the red columns in Figure 3.10): 82 per cent were in arrears, 46 per cent were in arrears of five per cent or more, 14 per cent were in arrears of 15 per cent or more, and just one per cent were in arrears of 50 per cent or more after 18 months by the end of the demonstration project;

---

60 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.

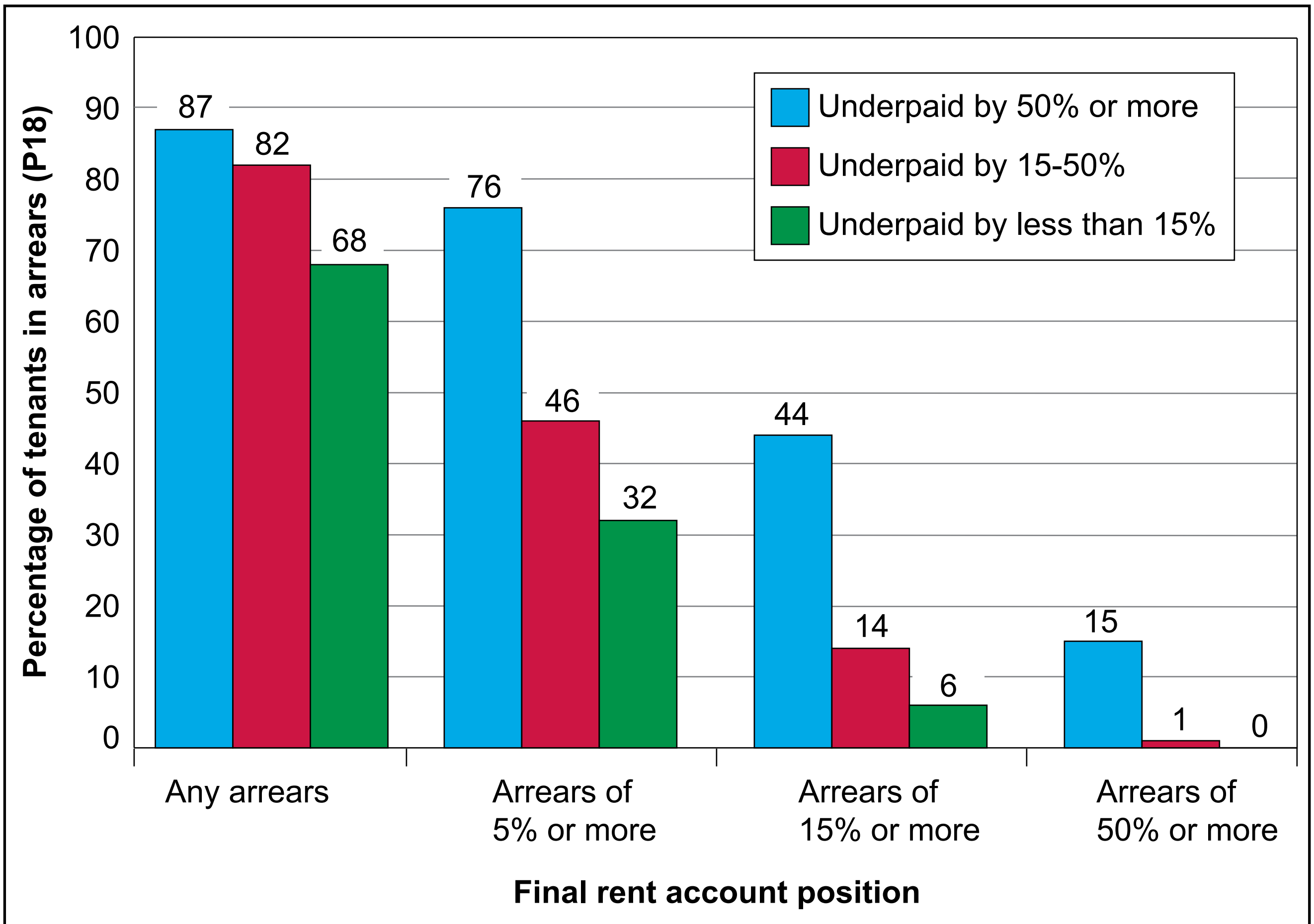
61 For their time on DPDP.

62 i.e. the first three rent payments due (four weeks rent per period in all Project Areas except Edinburgh where one month's rent was due each period) following the first direct payment of HB.

- of the tenants who underpaid by less than 15 per cent in the first three payment periods (represented by the green columns): 68 per cent were in still arrears at the end of the demonstration project, but the majority were in arrears of less than five per cent.

This pattern is more pronounced for tenants who underpaid by 50 per cent or more and tenants who underpaid between 15 per cent and 50 per cent when tenants who switched back to having their HB paid to their landlord (usually because they had accrued arrears) are removed from the analysis.

Figure 3.10 Overall underpayment by underpayment level in rent periods 1-3



Source: 18 months' Rent Account Analysis exercise.
Base: Tenants who underpaid in rent periods 1 to 3; underpaid by less than 15% (1,101); underpaid by 15-50% (2,680); underpaid by 50% or more (545).

Figure 3.11 demonstrates the overall payment rates for tenants who accrued arrears during the first three periods in which they were in receipt of direct payments[63]. It provides a payment rate figure for the first three rent payment periods following transfer to direct payment, the final 15 rent payment periods combined, and the full period for which tenants were in receipt of direct payment.[64] It shows that:

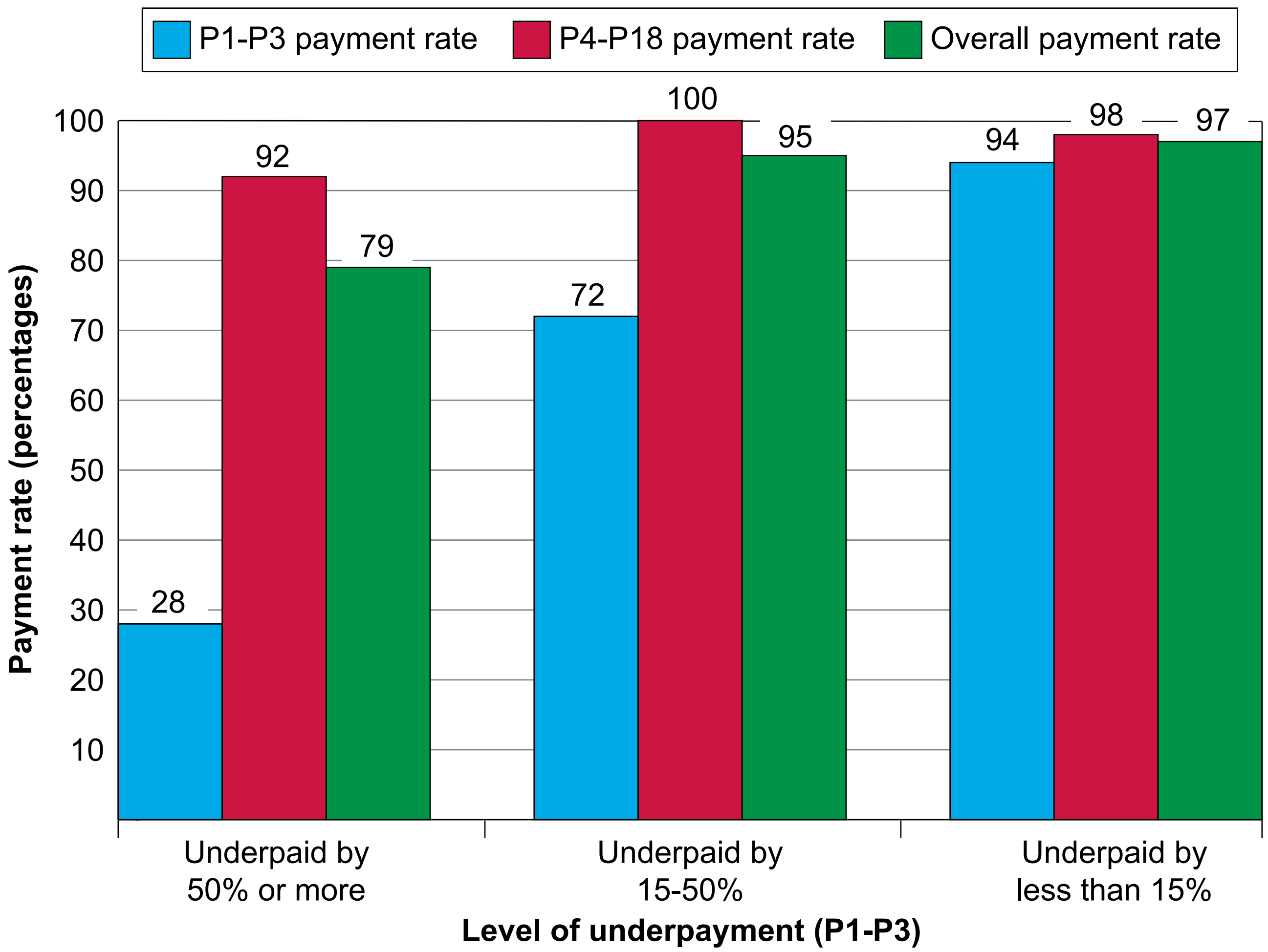
[63] This analysis removes tenants once they switch back so that each payment period includes only those who are still on direct payment.

[64] The length of time tenants were on direct payment will vary, depending on when they were transferred onto direct payment. Some received 18 direct payments of HB during the first 18 months of the DPDP while others only received 5 or 6.

- the total amount of arrears was not repaid during the 18-month programme; if arrears accrued in payment periods 1 to 3 had been repaid, the overall payment rate in periods 4 to 18 (represented by the red columns) would exceed 100 per cent and at no point do we see an overall payment rate of more than 100 per cent. There will be an averaging out effect here – some individual tenants will have paid more than 100 per cent of rent owed that period (i.e. paid all their rent and additionally repaid arrears from a previous payment period) but others will have paid less, bringing the overall payment rate down;
- tenants who underpaid significantly (by 50 per cent or more) in their first three payment periods had the lowest overall payment rates. The overall payment rate for tenants who underpaid significantly in the their first three periods is represented by the first green column in Figure 3.11, showing that this cohort of tenants only paid 79 per cent of the rent owed during the time they were on direct payment. In contrast, the overall payment rates for those tenants underpaying by 15 to 50 per cent and by less than 15 per cent were higher: 95 per cent and 97 per cent respectively;
- the payment behaviour of tenants who accrued arrears during the first three periods improved considerably in subsequent periods, more closely mirroring the average payment rate across the whole direct payment sample. This pattern is made clear by comparing the blue columns (representing the first three payment periods) and the red columns (represented payment periods 4 to 18) in Figure 3.11. For example, the overall payment rate amongst those who underpaid by 15 to 50 per cent in their first three periods increase from 72 per cent in the first three payment periods to 100 per cent in the final 15 payment periods. Again, this pattern is more pronounced – and change more marked – amongst those who underpaid significantly in their first three payment periods. Their average payment rate increased from 28 per cent in the first three payment periods to 92 per cent in the final 15 payment periods.

DWP has already announced that under UC automatic switchback to direct payment will be considered if claimants accrue a certain level of arrears.

Figure 3.11 Payment rates for tenants who accrued arrears during the first three periods in which they were in receipt of direct payments (but were not switched back)



Source: 18 months' Rent Account Analysis exercise.
Base: Tenants who underpaid in rent periods 1 to 3 and never switched back; underpaid by less than 15% (889); underpaid by 15-50% (2,067); underpaid by 50% or more (237).

Q13. What effect does the 'trigger point' have on the value of arrears and the number of people entering arrears? And which 'trigger point' seems most effective?

As was the case at the 12-month stage, it remains impossible to provide robust answers to these questions. 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.[65]

[65] Some Project Areas were operating a 4-week/one month switchback trigger, some an eight-week trigger and one a 12-week trigger (meaning that tenants who accrue 4 weeks/one month/eight weeks/we 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.

- 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 switch back 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[66] – 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 switch back. 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.

In total, 1,438 tenants (20 per cent of all direct payment tenants) switched back to landlord payment at least once during the DPDP.[67] 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.

---

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

67 The switchback figures produced by the rent account analysis differ from those collected by DWP as part of the monitoring data. See endnote xviii for full details.

The switchback figures generated differ from those collected by DWP (see Table 1.2), 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 rent account analysis 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.[68]

Q14. Some tenants who were switched back subsequently switched forward: What do we know about them?

Only 10 per cent of the tenants who were switched back after being on direct payment were subsequently 'switched forward' (i.e. begun receiving direct payments again) – this compares to six per cent in the 12-month analysis. As the number of 'forward switchers'[69] remains low the possibilities for detailed analysis of this sub-group are limited. As a result any findings must be treated with caution. Notwithstanding this, it is interesting to note that of the tenants who were 'switched forward':

- 37 per cent were subsequently switched back again, raising questions about the effectiveness of efforts to reintroduce direct payments to people who initially failed to manage. This is a similar figure to the 12 months' analysis (39 per cent);
- the average time taken to switch forward was just under five payment periods: 22 per cent were switched forward after only one payment period and 17 per cent were switched forward after two payment periods but the majority – 55 per cent – were switched forward after at least four payment periods (i.e. after at least a quarter of a year). Although a relatively high proportion of tenants were switched forward after one or two payment periods the figures are much lower than reported in the 12 months' analysis when more than two-thirds were switched forward in the first two periods. This might indicate that the number of tenants who were initially switched back due to administrative or short-term problems rather than ongoing difficulties managing direct payments has reduced over time.

---

68 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.

69 Switching tenants forward was not a key focus of the DPDP which partly explains why so few switchback tenants were put back onto direct payment.

Q15. Do people with certain characteristics seem more prone to arrears than others? What factors seem to most affect the impact of direct payment?

In order to target collection activity effectively and minimise the financial risk associated with direct payment, landlords and other stakeholders need to identify those tenants most at risk of accruing arrears and the factors which drive underpayment. Only then can appropriate intervention, prevention and action be implemented. Of course, landlords will need to do their own local analysis and make efforts to understand the payment behaviour of their own tenants. However, analysis across the DPDP suggests that the following factors, circumstances and characteristics impacted most[70] on the likelihood of tenants accruing arrears in a rent payment period:

- tenants who paid part or all of their rent by Direct Debit were statistically less likely to underpay their rent (including non-payment) than those using other payment methods. For example, 54 per cent of tenants who ever paid their rent by Direct Debit underpaid at some point while on direct payment.[71] This compared with 67 per cent of those who never paid by Direct Debit. Direct Debit also has relatively low transaction costs which may make this payment method even more attractive. Landlords will, however, need to balance this against evidence from the wider evaluation that tenants appreciate being offered a range of payment methods and that Direct Debit is not appropriate for everyone;
- the likelihood of underpaying reduced with age. Households in which the lead HB claimant was under 25 years were most likely to underpay or not pay their rent, and those in which the lead claimant was aged 55+ years were least likely to do so;
- single people and 'other households'[72] were on average more likely to underpay their rent, while 'couples with no dependants' were least likely to underpay their rent;
- rent levels were found to have some influence payment rates: tenants with relatively 'high' rent levels (over £115 per week) were more likely to underpay by levels greater than 15 per cent than those tenants with relatively 'low' rent levels;
- tenants where either the lead claimant or a partner worked 16 hours or more per week were less likely to underpay by 'any amount', to underpay by 50 per cent or more and by 75 per cent or more than those where neither the claimant or partner worked;
- compared with tenants on full HB, those on partial HB were significantly more likely to underpay by any amount, by 15 per cent or more and by 5 per cent or more. However, they were less likely to underpay by larger amounts: 50 per cent or more, 75 per cent or more or not pay at all. This raises the question whether tenants on partial HB, who were already paying part of the rent themselves, were better equipped to manage the shift to direct payment;

---

70 Rent account data provides only limited profile information, including tenants' age, housing type, and whether they are on full or partial HB. The analysis is necessarily limited by the information available and there will be other factors affecting a tenant's vulnerability to arrears.

71 This refers to tenants who were recorded by landlords as paying by Direct Debit at some point while on direct payment. Underpayments may have occurred in a period when they were not paying by Direct Debit. In addition, one landlord allowed tenants to set up partial Direct Debits so that the Direct Debit covered part, but not all of the rent owed.

72 Households which are not any of the following: couples, couples with dependent children, lone parent or single person.

- compared with tenants not affected by Removal of the Spare Room Subsidy (RSRS):
  - those affected by the 14 per cent reduction in their HB[73] rate were more likely to underpay by 5 per cent or more; they were not significantly more or less likely to underpay by levels greater than that which their HB had been reduced;
  - those who were affected by the 25 per cent reduction in their HB were more likely to underpay by any amount, 5 per cent or more and 25 per cent or more; they were not significantly more or less likely to underpay by an amount greater than the reduction in their HB as a result of the RSRS;
- interestingly there were no discernible differences between the characteristics and circumstances of tenants who underpaid, and those who paid no rent at all.

These findings offer some insight into those tenants who may be more vulnerable to accruing arrears, the potential 'risk factors', and circumstances that correlate with positive payment behaviour (Direct Debit, for example). And because the same trends have been identified here as were in the 12-month analysis there can be a high degree of confidence in these findings. But rent account data can only tell us so much. It cannot, for example, reveal the relationship between tenants' attitudes or financial capabilities and their vulnerability to arrears. A survey of tenants has, however, been conducted and the results will help build the picture further (see *Direct Payments Demonstration Projects: The longitudinal survey of tenants*, DWP Research Report No. 889).

Q16. What impact have other welfare reforms had on direct payment? Does being on direct payment better equip tenants to manage other welfare reforms?

In terms of the various welfare reforms introduced during the DPDP it was only possible to examine the impact of the RSRS. Information was also provided about tenants affected by the Benefit Cap but they were too few in number to permit robust analysis.

Analysis of the impact of the RSRS suggests that it had a slight impact on payment rates in the DPDP but not markedly. There is some evidence to suggest that the RSRS had slightly less impact on direct payment tenants in terms of payment rates, than on the comparator sample. However, caution is required, as it is still too early to assess the impact of this reform – introduced in April 2013 – as the last rent account data analysed for this report dates from November 2013.

Figure 3.12 shows that:

- the average payment rate for the six periods before DPDP tenants were first affected by the RSRS was £1.00 per £1 of rent charged;
- once the RSRS was introduced, the average payment rate amongst direct payment tenants affected fell to £0.98 per £1 of rent charged: a reduction in the average payment rate of 1.9 pence per pound of rent;
- as might be expected, the reduction in average payment rates was greater for tenants affected by the 25 per cent rate compared to the 14 per cent rate: reductions of 3.7 pence per £1 of rent and 1.5 pence per £1 of rent respectively.

---

[73] In April 2013 new HB rules for working-age people living in social housing were introduced whereby households with one spare bedroom (i.e. one bedroom in excess of their households needs) have their HB reduced by 14 per cent while households with two or more spare bedrooms have their HB reduced by 25 per cent.

However, there is some evidence that the RSRS had slightly less impact on direct payment tenants, than on tenants not in receipt of direct payment. The average reduction in payment rates amongst direct payment tenants affected by the RSRS was 1.9 pence per £1 of rent, compared with 2.8 pence per £1 of rent for the comparator sample.

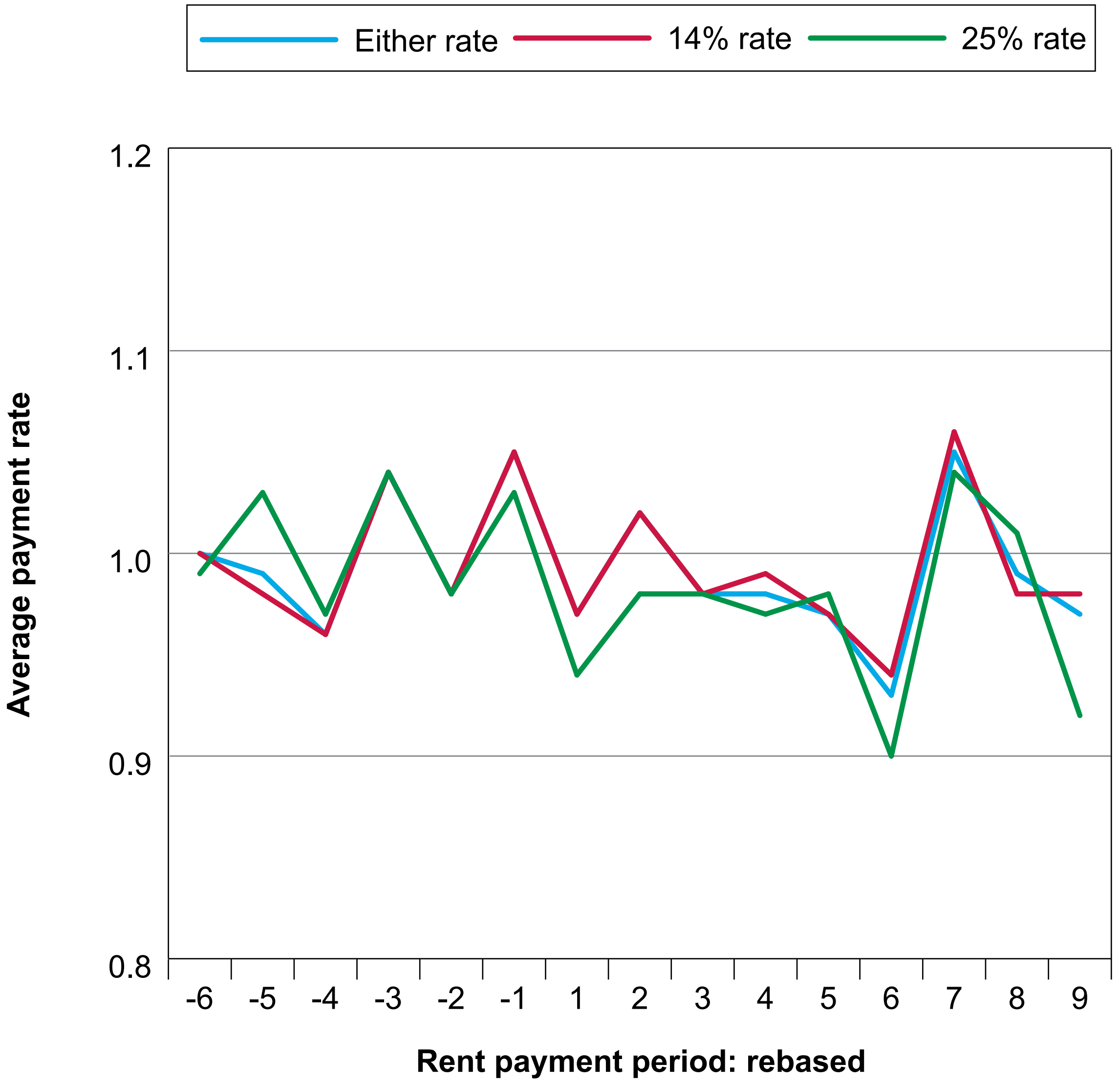
Looking at the proportion of DPDP tenants failing to pay some or all of their rent reveals a similar pattern. Figure 3.13 shows that:

- the percentage of tenants affected by the RSRS who underpaid their rent in a given payment period was at least six percentage points higher than the average rate for the six periods prior to the RSRS;
- the average proportion of tenants underpaying increased from 24 per cent prior to the RSRS to 36 per cent once the policy was introduced;
- tenants underpaying by less than 15 per cent and between 50 per cent and 15 per cent saw the largest increases;
- there is some evidence that DPDP tenants have been affected slightly less than those in the comparator sample: the average proportion of direct payment tenants underpaying increased by 12 percentage points (to 36 per cent) while the proportion of comparator sample tenants underpaying increased by 19 percentage points (to 46 per cent).

Tenants affected by the RSRS who are awarded Discretionary Housing Payments (DHPs) fared better, particularly amongst the comparator sample:

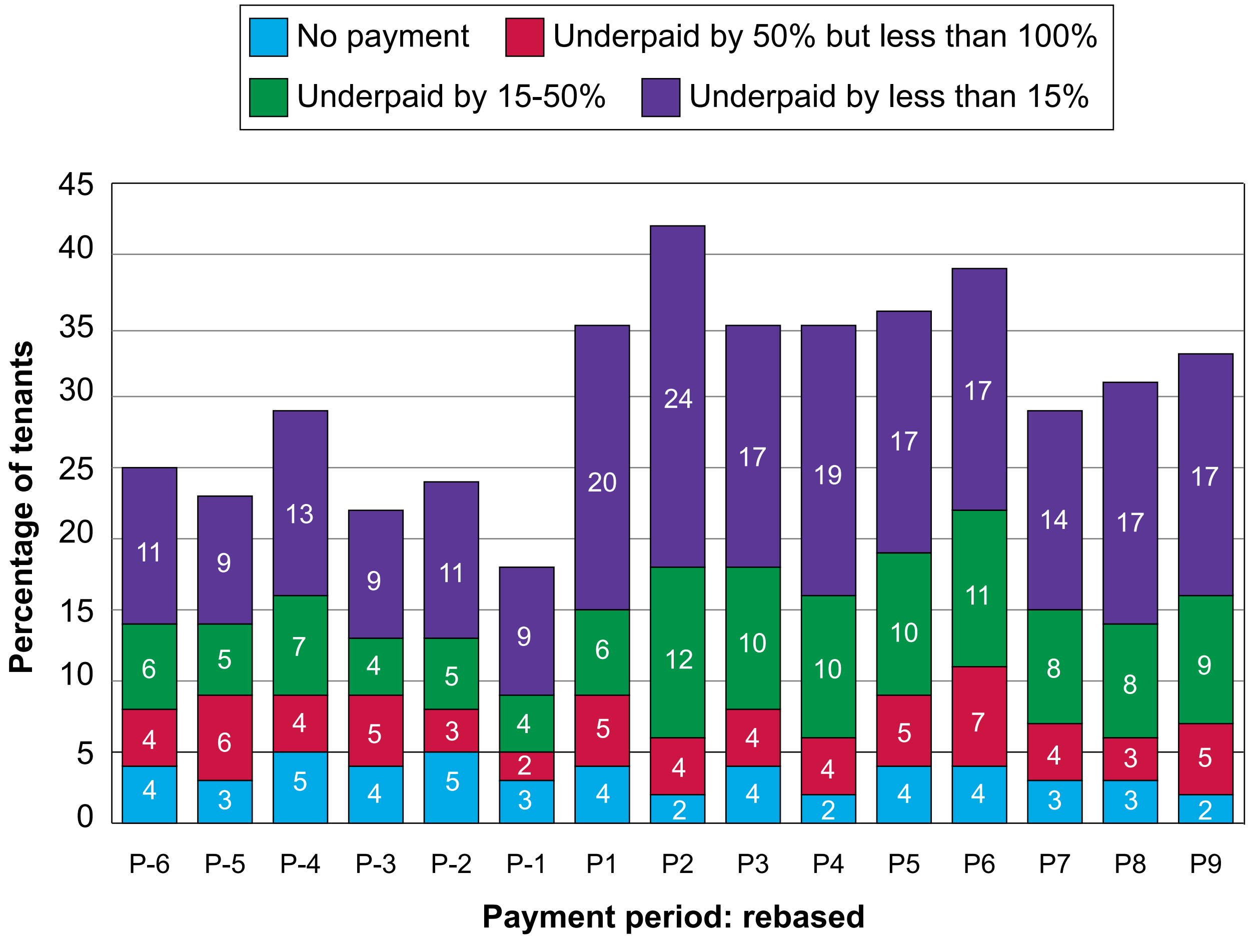
- the average proportion of direct payment tenants affected by the RSRS who underpaid (including non-payment) was 1.8 percentage points lower amongst those receiving DHP; in the comparator sample the rate of underpayment was some 17 percentage points lower for those receiving DHPs
- the average payment rate of tenants affected by the RSRS was slightly higher for those receiving DHPs: 98.8 pence per pound of rent compared with 98.2 pence per pound of rent for tenants who did not receive a DHP
- there was a more marked difference in average payment rates when looking at the comparator sample: £1.04 per pound of rent for tenants who did receive a DHP compared with 97.6 pence per pound of rent for tenants who did not.

Figure 3.12 Payment rates for tenants affected by the RSRS



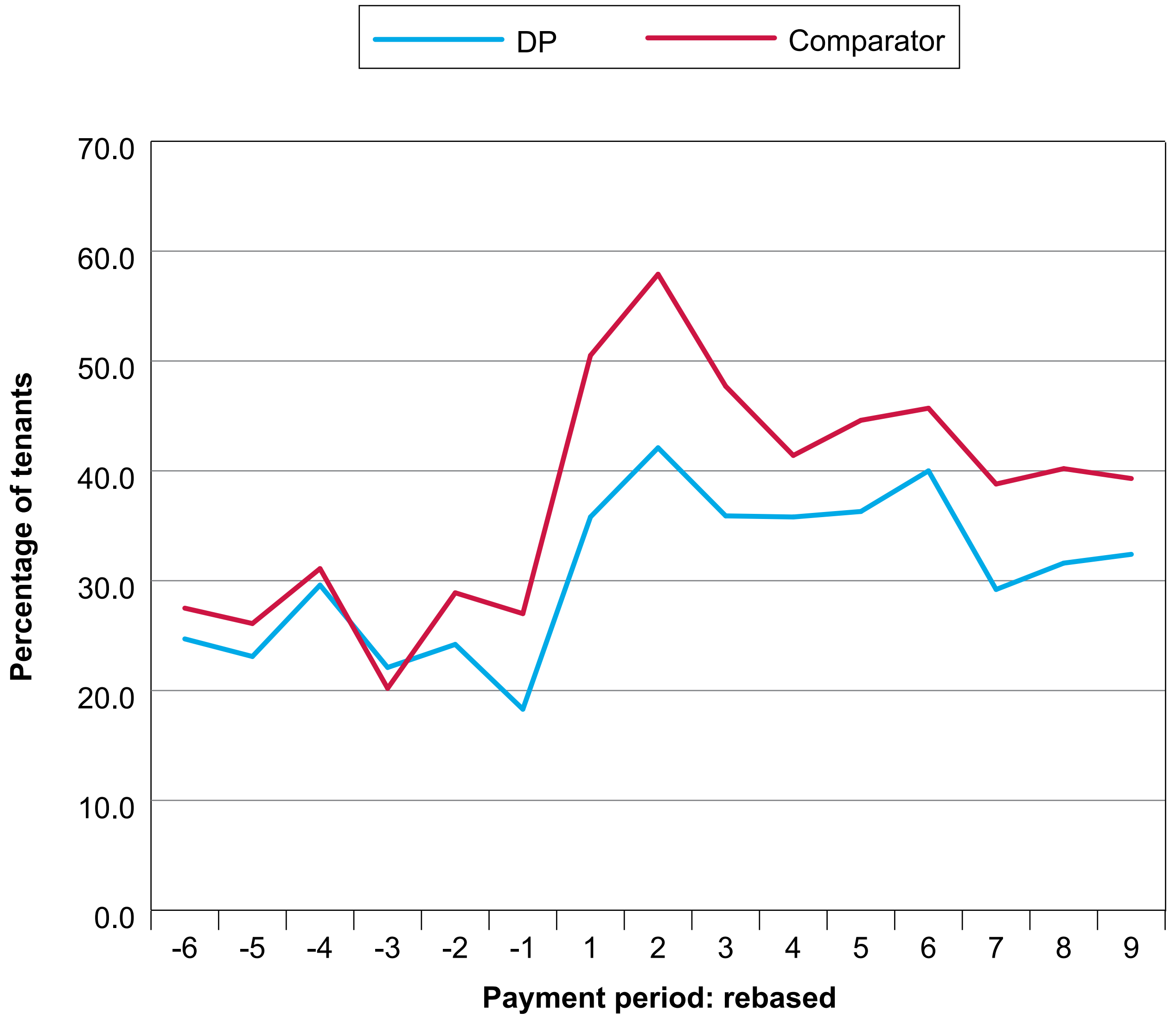
Source: 18 months' Rent Account Analysis exercise.
Base: Tenants affected by RSRS; DPDP either rate (1,395-659);
DPDP 14% rate(1,168-542); DPDP 25% rate (227-117).

Figure 3.13 Percentage of tenants affected by the RSRS underpaying



Source: 18 months' Rent Account Analysis exercise.
Base: Tenants affected by RSRS; DPDP (1,395-659).

Figure 3.14 Percentage of DP and comparator tenants affected by the RSRS underpaying



Source: 18 months' Rent Account Analysis exercise.
Base: Tenants affected by RSRS; DPDP (1,395-659); Comparator (1,179-628).

Q18. Does direct payment increase the likelihood of tenants entering employment?

In the DPDP, direct payment was associated with a greater likelihood of entering employment, although the results must be treated with caution. We cannot assert causality here – other factors may have been at play – and the method used gives indicative results only. The analysis could, for example, include people whose income increased significantly for reasons other than employment. Nevertheless, a higher proportion of direct payment tenants entered employment than comparator sample tenants.

A proxy 'in work indicator' was created using HB records where 'in work' was defined as:

- the claimant or the claimant's partner doing 16 hours or more remunerative work per week; or
- the HB claim has ended because the household income has increased above the HB threshold.

Under this definition 21 per cent of DPDP tenants were in work when they started receiving direct payment. An equivalent proportion of comparator tenants were also in work. By the last period when HB data were available:

- the proportion of DPDP tenants in work had increased to 23 per cent, an increase of 1.3 percentage points;[74]
- the proportion of comparator tenants in work had remained static at 21 per cent.[75]

Q19. In addition to arrears, are there other costs to landlords of implementing direct payment?

Yes, there are additional costs associated with delivering direct payment but it is not possible to quantify them, because no systematic assessment of costs was undertaken by Project Areas as part the DPDP, and comprehensive monitoring data were not available to generate an estimate of additional costs. However, 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, but they were unable to quantify this important 'hidden' cost:

> *'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]*….'*

---

74 Statistically significant at a 0.05 level; the 95 per cent confident levels on change are 0.006 to 0.020.

75 The 95 per cent confident levels on change are -0.007 to 0.007.

- **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 texting. 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. For example, one landlord noted:

  '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 also 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 of 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.

Q20. 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 and more to do with the scale of the DPDP programme – for most 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 was a question posed to participating landlords and lenders[76] interviewed as part of the study. There was a consensus amongst both groups that UC 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)

[76] Interviews were conducted with representatives from lender institutions, a credit rating agency, and the Council for Mortgage Lenders at the beginning and end of the DPDP programme, with in all, 16 interviews being conducted.

However, there was concern that direct payment under UC would erode landlords' surpluses, making it more difficult for them to build. For example, a DPDP landlord noted:

> *'The big impact is the ability to 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)

Furthermore, it is also important to note that some landlords and lenders believed that direct payment under UC may pose a threat to the overall sustainability of some smaller landlords.

> *'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 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)

4 Conclusion

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. Direct payment in the DPDP did have a financial impact on landlords and tenants but much of this burden was borne in the first few months following migration. Over the full 18 months of the DPDP, direct payment tenants failed to pay 4.5 per cent of the rent owed (compared with 0.9 per cent in a comparator sample of tenants not on direct payment) but nearly half of these 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 had fallen to two percentage points lower than the comparator sample; and the net additional impact[77] 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, with payment rates improving dramatically over time, stabilising at slightly below both baseline and comparator rates. Average rent payment rates were very low during tenants' first few payment periods (tenants' first rent payments averaged 67 per cent of rent owed) and the proportion of tenants accruing arrears very high (59 per cent of tenants failed to pay all their rent following their first direct payment of HB). But tenants' payment behaviour quickly improved, such that payment rates were only slightly lower than the comparator sample once tenants had been receiving direct payment for a few months, and the proportion of tenants failing to pay their rent reduced dramatically. In fact, the proportion of tenants failing to pay their rent in a given period quickly returned to near baseline levels (i.e. before direct payment was introduced) and, in some periods, the proportion of tenants failing to pay all their rent was lower than before the introduction of direct payment. Of the £1.9m shortfall in the value of rent not paid during the DPDP, 65 per cent was attributable to tenants' first three rent payments following migration to direct payment.

Interim analysis after the first 12 months of the DPDP had already identified this early spike in arrears.[78] At that time it was not clear whether early arrears reflected challenges inherent in migrating tenants to a new system – a period of transition during which tenants acclimatise to the new system and learn to manage direct payment – or simply reflected that direct payments was in its infancy and was implemented in the DPDP as part of an experimental programme trialling and testing the policy. The majority of direct payment recipients were transferred to the new system during the first six months or so of the DPDP, when learning was still accruing and new systems and processes were being tried and tested. In this context, an arrears spike was, perhaps, to be expected in the DPDP but would be unlikely to repeat during roll out. The purpose of the DPDP was, after all, to learn lessons so that systems and processes could be adapted and problems and challenges rectified for roll out.

However, further analysis for this report strongly suggests that the early arrears spike cannot be attributed primarily to the infancy of the direct payment policy or the experimental nature of the DPDP. Relatively low initial payment rates are likely to be a feature of direct payment going forward. The transition to direct payments appears to be a critical point in the process,

77 '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.

78 See www.gov.uk/government/uploads/system/uploads/attachment_data/file/334357/dpdp-key-findings-of-the-12-months-rent-account-analysis-exercise.pdf

particularly as most of the debt accrued during this period remained as 'standing arrears'. In other words, the overall picture is one where some tenants struggled initially, quickly learned to manage direct payments, but did not repay (or landlords struggled to collect) the early arrears accrued.

These results point clearly to the need for mitigating action during the transition to direct payment, whether 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 landlords' income significantly. For example, if we remove the first three payment periods (the 'spike') from analysis, the overall difference between the amount of rent tenants paid and owed drops from 4.5 per cent to 2.1 per cent, against the comparator sample arrears rate over the same period of 1.2 per cent, a difference of just 0.9 per cent.

The fact that payment rates improved significantly after the first few payment periods and that effective action in the transition to direct payment has the potential to mitigate the negative overall impact of direct payment is good news. A few words of caution, however. Firstly, direct payment does continue to impact on landlords and tenants in the longer term. The impact may be well below that of the first few payment periods but even once tenants have been receiving direct payment for 16 periods or more they still, on average, pay 2.1 percentage points less rent in a given period than if their HB were paid to their landlord. In effect, direct payment has introduced a step change in rent accounts and landlords will need to manage the financial implications of that shift. Some may be better equipped to do so than others. Secondly, although the proportion of tenants accruing arrears quickly returns to baseline levels, the value of their arrears increased. In other words, the composition of rent underpayment shifts under a direct payment system. In many respects this has been the key consequence of the introduction of direct payment: it introduced the potential (or risk) for tenants to underpay rent by a significant amount. Put simply, when tenants do underpay they are more likely to do so by a larger amount than under the previous system. Thirdly, it is important to acknowledge that even if the spike can be mitigated, more tenants enter arrears under a direct payment system. Direct payment has not just introduced a degree of risk for landlords, but also for tenants, many of whom are managing on limited budgets and already have debts and financial commitments they are struggling to meet. The package of help and support available is important in this context.

Of course, the introduction of direct payment in the DPDP had impacts on both landlords and tenants that reached far beyond the financial implications detailed in this report. For example, the introduction of direct payment prompted participating landlords to consider new ways of working and to reflect on organisational and cultural changes required to meet these new demands, as well as on their relationship with their tenants. Small but significant shifts were also seen in tenants' attitudes, behaviours and money management skills. Such issues were outside the scope of this report but are detailed further in two accompanying reports (see *Direct Payments Demonstration Projects: The longitudinal survey of tenants*, DWP Research Report No. 889, and *Direct Payment Demonstration Projects: Key findings of the programme evaluation – Final report*, DWP Research Report No. 890).

Appendix
Additional tables

Table A.1 Proportion of rent paid in all payment periods, and in all direct payment payment periods

	All periods	DP periods
Landlord type		
HA	97	96
LSVT	97	96
Council/ALMO	94	93
DPDP Project Area		
Edinburgh	96	95
Oxford	97	95
Shropshire	92	95
Southwark	94	93
Torfaen	97	97
Wakefield	97	96
Rent account compared with opening balance		
More than 1 period's arrears	97	94
Between 1 period's worth of arrears and credit	96	95
More than 1 period's credits	91	90
Household type		
Couple	97	96
Couple with dependents	96	95
Single person	95	95
Lone parent	95	94
Other	96	95
Ever paid by Direct Debit		
Paid by DD	97	97
Not	94	93
Underpayer type		
Full-payers	101	101
One off underpayment	98	99
Infrequent underpayment	98	98
Frequent erratic underpayment	96	96
Frequent persistent underpayment	93	92
Stage onto DPDP		
Stage 1 or 2	96	95
Stage 3 to 5	95	94
Stage 6 or later	94	91
Affected by RSRS		
Affected by RSRS	97	96
Not affected by RSRS	95	94

Source: 18 months' RAA exercise.
Base: All tenants; All periods (7,252); DP periods (7,252).

Table A.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
Landlord type		
HA	53	55
LSVT	55	60
Council/ALMO	72	75
Area		
Edinburgh	54	55
Oxford	66	71
Shropshire	70	70
Southwark	63	65
Torfaen	56	60
Wakefield	56	61
Rent account compared with opening balance		
More than 1 period's arrears	48	59
Between 1 period's worth of arrears and credit	62	65
More than 1 period's credits	80	77
Household type		
Couple	57	60
Couple with dependents	61	65
Single person	60	63
Lone parent	63	66
Other	62	65
Ever paid by Direct Debit		
Paid by DD	53	54
Not	64	67
Underpayer type		
Full-payers	5	0
One off underpayment	63	63
Infrequent underpayment	55	56
Frequent erratic underpayment	66	68
Frequent persistent underpayment	76	78
Stage onto DPDP		
Stage 1 or 2	64	66
Stage 3 to 5	60	63
Stage 6 or later	54	58
Affected by RSRS		
Affected by RSRS	61	65
Not affected by RSRS	62	64

Source: 18 months' RAA exercise.
Base: All tenants; All periods (7,252); DP periods (7,252).

Technical 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 DPDPs programme and, working alongside the DWP, 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] 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 have fallen into arrears are transferred back to landlord payment from direct payment. How Project Areas have approached these tasks and the other DPDP tasks they have undertaken, is explored in the publication: *Direct Payments Demonstration Projects: Learning the lessons, six months in*, which can be downloaded at: www.shu.ac.uk/research/cresr/sites/shu.ac.uk/files/direct-payments-learning-lessons.pdf

[iii] In addition to Rent Account Analysis (RAA), the research comprised the following key elements:

- **Tenant surveys.** A key element of the study was three (face-to-face) household surveys:
  - a 'Baseline' 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 589 tenants being interviewed, many of whom had participated in the Baseline and Second Surveys.
- The study team also undertook a telephone survey of tenants who had been switched-back under the two underpayments triggers: triggers 3 and 4. This involved 95 tenants being interviewed in the autumn of 2013.
- **Qualitative interviews 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 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 in-depth interviews, with two 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.

- **Qualitative interviews with stakeholders.** This included: telephone interviews with national stakeholders, such as lenders and people with expertise in money management, conducted in two waves at the beginning and towards the end of the evaluation; focus groups with Department for Work and Pensions (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.

[iv] In addition to five (succinct) learning reports, which highlighted the key learning to emerge from projects areas, the study team has produced the following written outputs:

- *Direct Payments Demonstration Projects: Findings from a Baseline Survey of tenants in five Project Areas in England and Wales*. This report, which was published in 2012, was concerned with establishing a baseline position for tenants in the Project Areas and drew on data generated by the 'Baseline Survey' to do so. The report can be downloaded from the DWP website at:

  www.gov.uk/government/uploads/system/uploads/attachment_data/file/193327/rrep822.pdf

- *Direct Payments Demonstration Projects: Learning the lessons, six months in*. This report, which was published in May 2013, focused on highlighting the key learning to emerge from the first six months of the programme being 'live'. It drew solely on qualitative material 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 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 two survey and rent account data. The report can be downloaded from the DWP website at:

  www.gov.uk/government/uploads/system/uploads/attachment_data/file/333076/dpdp-12-months-in-extended-learning-report.pdf

- *Direct Payment Demonstration Projects: Key findings of the 12 months' Rent Account Analysis exercise*. This report, which was published in July 2014, 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 2013. The report can be downloaded from the DWP website at:

  www.gov.uk/government/uploads/system/uploads/attachment_data/file/334357/dpdp-key-findings-of-the-12-months-rent-account-analysis-exercise.pdf

- *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/uploads/system/uploads/attachment_data/file/333072/dpdpd-report-from-the-stage-2-survey-of-tenants.pdf

- *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.

  www.gov.uk/government/uploads/system/uploads/attachment_data/file/333073/dpdp-rent-underpayment.pdf

- *Direct Payments 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 Payments Demonstration Projects: The longitudinal survey of tenants*, DWP Research Report No. 889.
- *Direct Payment Demonstration Projects: Key findings of the programme evaluation – final report*. This report, which has been published at the same time as this report, pulls together all the analysis undertaken by the study team to highlight the evaluation's key findings. *Direct Payment Demonstration Projects: Key findings of the programme evaluation – final report*, DWP Research Report No. 890.

[v] The HM Treasury Magenta and Green Books and Value for Money and Assessment Guidance.

[vi] The adoption of a quasi-experimental approach involves comparing change in rent account behaviours (primarily, rent payment rates) for DPDP tenants before and after switching to direct payment with a sample of 'comparator' tenants from the same local authority area who are not on direct payment. Adopting this approach gives net additional impact over and above what might plausibly have expected to happen in the absence of direct payment: the counterfactual. It also factors into the analysis recognition that payment rates may in any case vary through time, for example, due to:

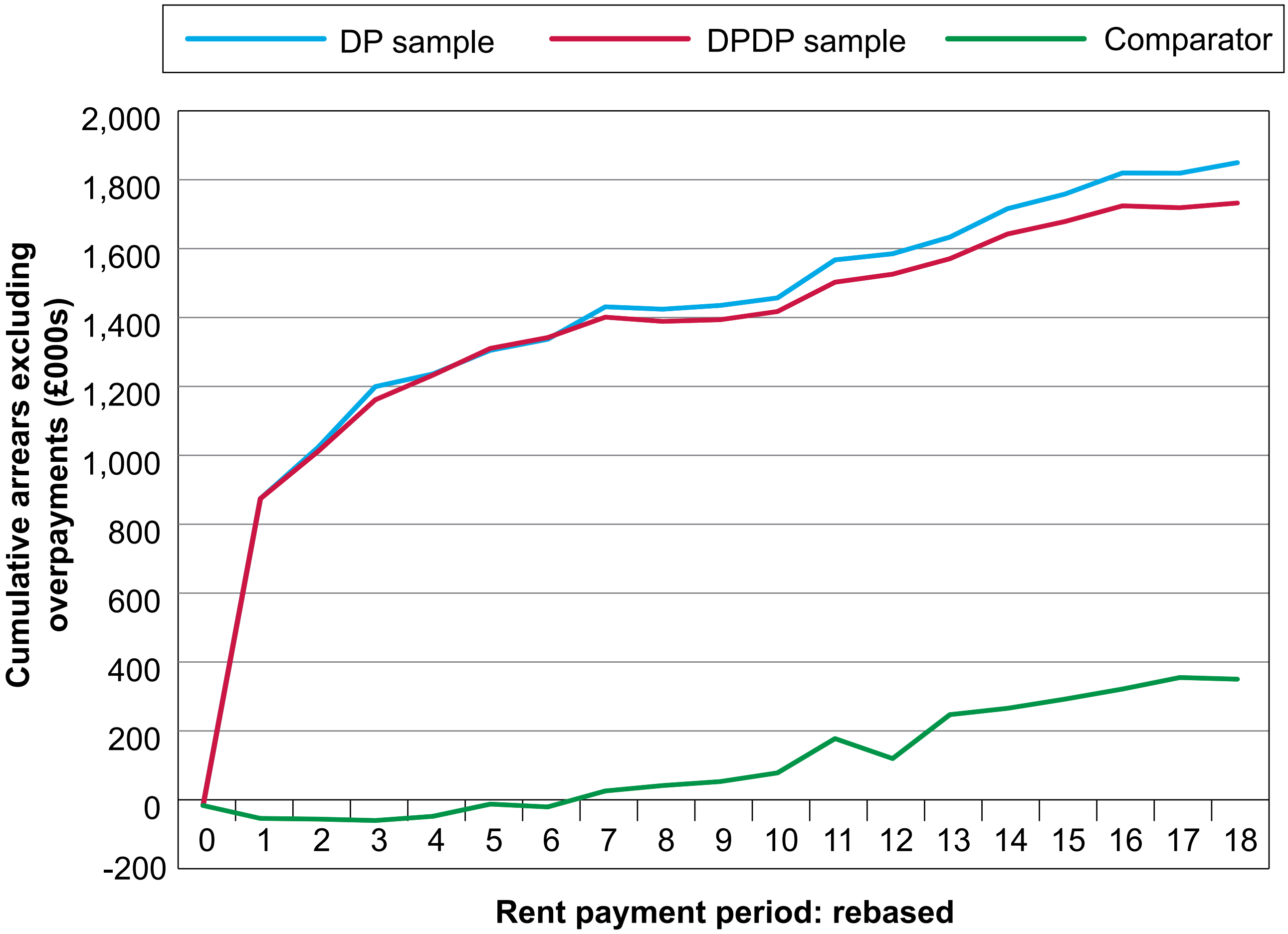
- seasonal factors, such as Christmas, summer holidays or annual rent changes;
- landlords operating rent free weeks;
- changes to economy;
- and the introduction of other welfare reforms.

[vii] Propensity score matching gives tenants an overall score based on their characteristics, with discrete characteristics being assigned different scores. Direct payment tenants were matched to a comparator tenant with the nearest score: their 'nearest neighbour'. Comparator tenants were allowed to be matched with more than one direct payment tenant depending on how many direct payment tenants they were 'nearest neighbour' to. The number of direct payment tenants which comparator tenants were matched against was then used as a weighting factor in the final analysis. Some comparator tenants were not matched and were removed from the analysis.

[viii] Rent payment periods have been linked to HB payments and allow for a reasonable timeframe for the tenant to receive their benefit and to make a payment(s). They end on the last day which landlords allowed for payments to be made after which they determined that payment was late and therefore additional actions could be adopted to reclaim the monies owed. The grace period between HB payment and the end of the rent payment period was determined locally and often depended on dates which the landlord ran arrears reports.

[ix] Note figure 1 shows how the shortfall in rent collected accumulated during the first 18 payment periods of the DPDP

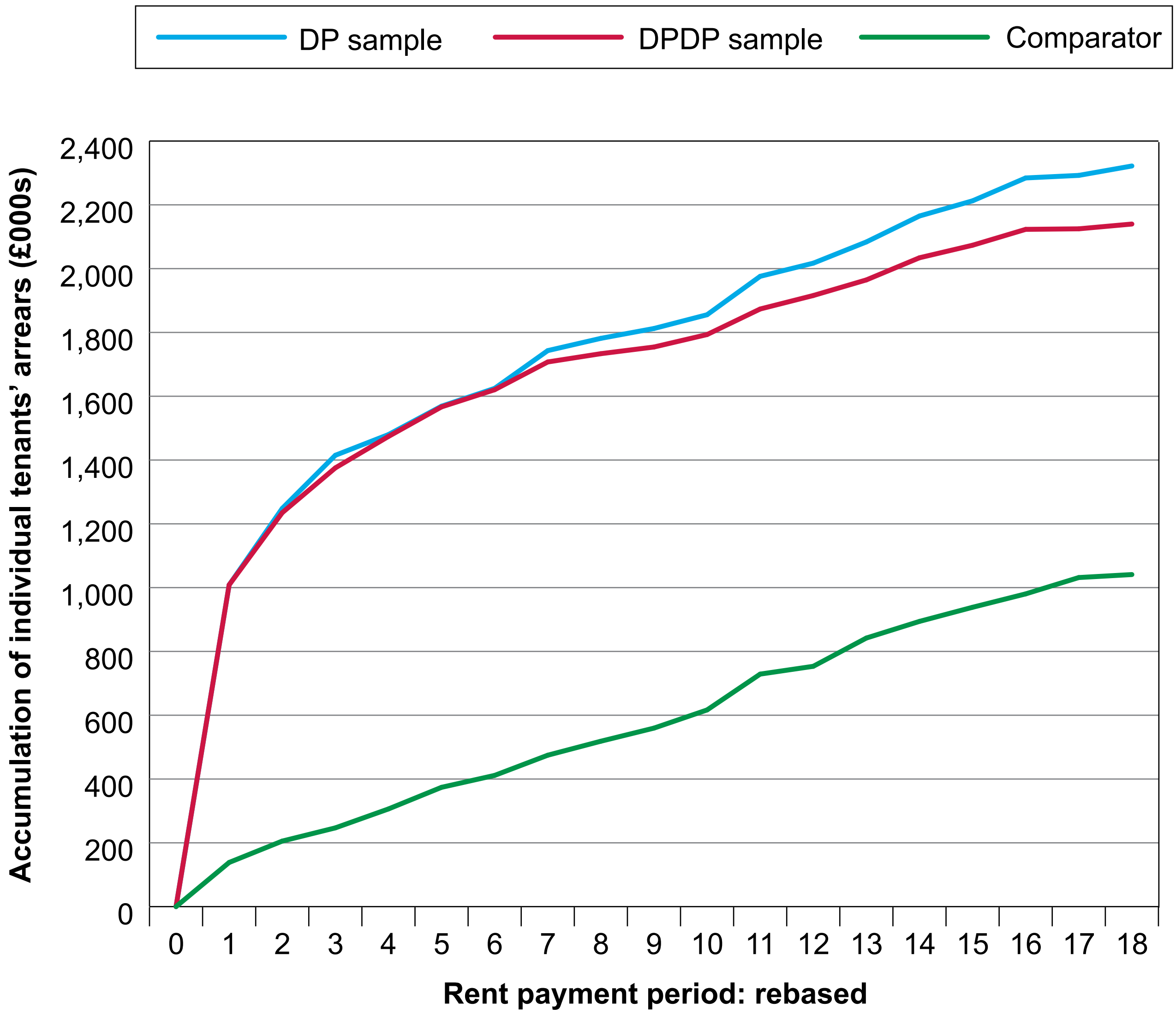
Note figure 1 Accumulation of shortfall in value of rent not collected during first 18 payment periods



Source: 18 months' Rent Account Analysis exercise.
Base: All tenants; DP sample (7,252); DPDP sample (7,252); Comparator (4,941).

[x] Note figure 2 shows how the sum of individual tenant's arrears (payments excluding over payments) accumulated during the first 18 payment periods of the DPDP.

Note figure 2 Accumulation of individual tenant's arrears during first 18 payment periods



Source: 18 months' Rent Account Analysis exercise.
Base: All tenants; DP sample (7,252); DPDP sample (7,252); Comparator (4,941).

The analysis developed in this report has involved creating artificial rent accounts for tenants covering their period of DPDP. Analysis of what has happened to actual rent accounts reveals at the point of transfer onto direct payment 4,217 DPDP tenants (59 per cent) had arrears, totalling £1.9 million (equivalent to 2.3 per cent of their total annual rent roll). By the end of the demonstration project 5,647 DPDP tenants (78 per cent) were in arrears, the value of which had increased to £2.953 million (equivalent to 6.3 per cent of their total annual rent roll).

In comparison 55 per cent of comparator tenants were in arrears at the baseline, with their value of arrears being equivalent to 2.4 per cent of their total annual rent roll. This had increased to 58 per cent of comparator tenant by the end of the demonstration project. The value of arrears had increased to 3.6 per cent of their total annual rent roll.

[xi] The analysis revealed that direct payment has had a net additional impact of -0.055, which is statistically significant at a 0.001 level. If we include the opening balance for the rent period in the model – so, for example, taking into account that a tenant maybe overpaying to payback previous arrears – the estimated impacts are higher. Overall impact is estimated to be -0.067: tenants on direct payment paid 6.7 percentage points less per rent payment period. Similarly impacts by quarter on direct payment become: 16.3 percentage points higher arrears quarter 1; 3.9 percentage points higher arrears in quarter 2; 2.3 percentage points higher arrears in quarter 3; 3.4 percentage points higher arrears in quarter 4, 4.6 percentage points higher arrears in quarter 5 and 3.1 percentage points higher arrears in quarter 6.

[xii] Significant at a 0.001 level

[xiii] Significant at a 0.001 level

[xiv] Significant at a 0.001 level

[xv] Significant at a 0.001 level

[xvi] Significant at a 0.001 level

[xvii] Significant at a 0.001 level

[xviii] 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 generating by analysis of rent accounts differs, recording fewer 504 switchbacks, from the Monitoring Information collected by DWP (see Note table 1). 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 RAA because their full rent account or Housing Benefit data were not available.

Note table 1 Comparison of switchbacks in the Rent Account Analysis data with monitoring data collected by DWP

Project Area	Rent Account Analysis data	DWP monitoring data
Edinburgh	193	306
Oxford	343	398
Shropshire	40	114
Southwark	366	447
Torfaen	281	343
Wakefield	266	385
Total	**1,489**	**1,993**

Source: 18 months' RAA exercise and DWP monitoring data.
Base: All tenants.

Note table 2 Number of switchbacks in the Rent Account Analysis data by rent payment period; rebased

Rent payment period	Number of switchbacks	Percentage of all switchbacks	Cumulative number percentage of tenants on DP
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' RAA exercise.
Base: All tenants; DPDP (7,252).

[xix] Statistical modelling techniques were used to explore whether the characteristics and circumstances of tenants impacted on the likelihood of them underpaying or not paying their rent under direct payment . The analysis looked at the likelihood of underpayment in six contexts: i) any underpayment; ii) underpayment by 5 per cent or more; iii) 15 per cent or more; iv) 50 per cent or more; v) 75 per cent or more; and vi) no payment.