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Direct Payment Demonstration Projects: 12 month stage reports

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Background

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

The Department commissioned the Centre for Regional Economic and Social Research at Sheffield Hallam University, in partnership with the University of Oxford and Ipsos MORI (IM), to monitor and evaluate the projects; in order to learn lessons from DPDP to provide feedback into the implementation of the projects and the design of Universal Credit. The evaluation began in November 2012 and will conclude later in 2014.

About the reports

By the end of the evaluation, the study team will have produced nine reports, in addition to five 'learning reports'. Two reports have already been published. These focused on highlighting the findings to emerge from a baseline (first stage) survey of DPDP tenants and the key learning to emerge from the first six months of the programme being 'live'. Three more reports, including the study's final report, will be published later in 2014.

This document summarises the key findings to emerge from a package of four reports: an overarching 12 month extended learning report, which summarises the main findings from all the strands of research and analysis at the 12 month stage; and three technical reports: rent 'underpayment' in DPDP; 12 months' Rent Account Analysis (RAA) exercise; and a stage 2 survey of tenants.

It is important to note that the reports should be read alongside the others produced by the study team and that the DPDP programme was ongoing when data collection for them was undertaken. The key issues to emerge from the remainder of the programme, and the programme as a whole, will be highlighted in the evaluation's final research outputs.

These reports draw on the following strands of the evaluation:

- **RAA.** This entailed analysis of the rent accounts of all those tenants who went onto direct payment during the first 12 months of the DPDP and the rent accounts of a comparator sample;
- **three surveys of tenants.** The first one (the Baseline Survey) was conducted just before the introduction of direct payment and involved 1,628 tenants being interviewed by IM. The second (Stage Two Survey), which was conducted between July and November 2013, involved 1,827 tenants being interviewed, 1,218 of which were interviewed in the Baseline Survey. The study team has also undertaken a telephone survey of underpayers (i.e. those tenants who partially paid their rent). This involved a telephone survey of tenants who had been switched back to landlord payment on the two underpayment switchback triggers being interviewed in the autumn of 2013;
- **qualitative activities.** This encompassed a number of elements including: a longitudinal tenant panel (which comprised 48 tenants whose experiences have been tracked through the DPDP programme); a longitudinal stakeholder panel in each of the six Project Areas; focus groups; stakeholder events; and lender interviews.

12 month extended learning report

Rent payment rates fell following the introduction of direct payment. As a result, rent arrears increased during the programme as did the number of tenants entering into arrears. However, payment patterns were found to improve significantly over time, reducing the impact of direct payment considerably by the end of the first 12 months. Notwithstanding this, much of the arrears accrued in the early stages of DPDP were not repaid and so total arrears continued to rise, albeit at a slower pace.

The payment patterns that resulted in rent arrears were far more complex than anticipated, evading simple categorisations of 'payers' and 'non-payers'. If it was this simple the 'bad payers' would quickly be removed from the system through the switchback process, or their characteristics could be examined so they could be targeted for preventative action or safeguarded altogether. But tenants who routinely pay their rent in full and on time can, unexpectedly, miss a payment one month and some of those who struggle when they first go onto direct payment subsequently manage well. It is, therefore, difficult to accurately forecast who will (or will not) manage on direct payment.

At the end of first year of DPDP in June 2013, the circumstances and characteristics which make tenants vulnerable to accruing arrears remained unclear. The assessment processes that were trialled to identify those ready for direct payments and those unlikely to manage without support were not effective. In order to target rent collection activity, minimise the financial risk associated with direct payment, and safeguard the most vulnerable tenants, landlords (and the Department for Work and Pensions (DWP), in a UC context) need to be able to identify those tenants most at risk of accruing arrears and the factors driving underpayment. This is an area where further learning is needed.

Designing and initiating the DPDP programme took longer than anticipated, with challenges, problems and issues emerging on a regular basis. Given the scale and scope of UC, it is imperative that its timetable for roll-out acknowledges this and that time is factored into it for responding to unforeseen issues.

Key to the success of DPDP was the (local) relationship between the HB administrator (local authorities) and social housing landlords. Under UC, the challenge for DWP, which will be responsible for the administration of HB, and landlords will be (as far as is possible) replicating this relationship.

At the end of the first year of the programme, there was some evidence to suggest that direct payment was impacting on tenants' attitudes and behaviour, although this is a preliminary finding. It was also impacting on the behaviour of landlords who were changing the way they operated, including introducing new ways of working and new roles and responsibilities for their staff; changing their organisational culture, in order to be more commercially oriented; and linked to this, in some cases, reviewing (and rethinking) their overall organisational objectives, goals and ethos.

In addition to arrears, there are other costs associated with direct payment, specifically in relation to its delivery. However, although delivering direct payment was perceived to be considerably more resource intensive than landlord payment, at the end of the first year of the DPDP programme, landlords did not hold robust quantitative data to back up this assertion. Furthermore, it is important to note that cost savings may accrue from many of the direct payment triggered initiatives implemented by landlords, such as rent payment text reminders and improved rent collection and arrears IT systems.

Stage 2 survey of tenants

Twenty-seven per cent of participants¹ agreed, and 37 per cent disagreed, that taking part in the DPDP had made them better at managing their money. Whereas 60 per cent of participants disagreed, and 17 per cent agreed with the statement that taking part in the DPDP had made them less confident at managing their money. Sixty-eight per cent disagreed and three per cent agreed, that taking part in the DPDP had made them less likely to look for work.

Thirty-six per cent of participants disagreed, and 25 per cent agreed, with the statement that taking part in the DPDP had made them more likely to hold down a job. About four out of ten

current and ex-participants neither agreed nor disagreed. Whereas 49 per cent of participants disagreed, and 15 per cent agreed, with the statement that taking part in the DPDP had made them more likely to increase the hours they work. The responses of ex-participants to this statement were not significantly different from those of current participants.

Advice and support

Twenty per cent of current and 18 per cent of ex-participants had received advice or support while HB was being paid direct to them. Sixty-eight per cent of participants who had received advice or support agreed that it had helped them to manage their rent payments; 16 per cent disagreed. Sixty-one per cent of participants who had received advice or support agreed that it had helped them to manage their money on a four-weekly or monthly basis; 17 per cent disagreed.

Experience of direct payment

Two per cent of tenants in the stage 1 baseline survey reported that they were receiving HB direct; by the stage 2 follow-up survey, it had risen to 59 per cent. Among current participants on direct payment, 59 per cent said they had managed about the same as they had expected; 19 per cent said they had managed better than expected and 22 per cent that they had managed worse than expected. Seventy-four per cent of current participants reported that they were coping well with direct payment and 16 per cent that they were coping poorly.

Using bank accounts

Eighty-eight per cent of tenants in the stage 1 baseline survey reported that they had a bank account; by the stage 2 follow-up survey, it had risen to 94 per cent. Fifteen per cent of tenants in the stage 2 survey who had a bank account reported being overdrawn.

¹ 'Participants' were an amalgam of current participants and ex-participants.

Rent arrears

Twenty per cent of tenants in the stage 1 baseline survey reported that they were behind with their rent; by the stage 2 follow-up survey it was 30 per cent.

Among current participants who were already in arrears before the DPDP, 32 per cent reported that their arrears had increased, 34 per cent that the arrears had decreased, and 34 per cent that their arrears had stayed the same, since they joined the DPDP. Among ex-participants who were already in arrears before the DPDP, 63 per cent reported that their arrears had increased, 27 per cent that the arrears had decreased, and 10 per cent that their arrears had stayed the same, since they joined the DPDP.

Tenants in arrears reported a wide range of 'main reasons' as to why they were behind with their rent. The most commonly cited were: problems with HB administration (20 per cent of tenants in arrears), low income (17 per cent), problems with HB being paid directly to me (13 per cent), and unexpected expenses (13 per cent).

Money management

At the stage 2 survey current participants (70 per cent) were significantly more likely than either ex-participants (64 per cent) or non-participants (61 per cent) to have a regular spending limit to help them manage their finances. The extent to which tenants managed to keep to their regular spending limit was no different at stage 2 from what it had been at the stage 1 baseline survey. In both surveys, about three-quarters of them reported that they were able to keep to their spending limit always or most of the time. In both the stage 1 baseline survey and the stage 2 survey, 54 per cent of tenants reported that they had 'often' run out of money before the end of the week or month in the previous year. However, there was a decrease from 27 to 23 per cent in the proportion who reported that they had 'hardly ever', and an increase from 19 to 24 per cent in those who said they had 'never', run out of money.

Rent 'underpayment' in the Direct Payment Demonstration Projects

Patterns of underpayment

There are four main types of underpayment: one-off underpayment; frequent erratic underpayment (i.e. where underpayments are made often but not usually consecutively); frequent persistent underpayment (i.e. where underpayments are made often and consecutively); and infrequent underpayment. Many tenants who underpaid did so on a regular basis. Nearly half of all underpayers could be classed as 'regular' underpayers in the sense that they underpaid more than three or four times (depending on how long they had been in receipt of direct payment). However, most underpayment was also 'erratic' (76 per cent of all underpayers could be classed as erratic) in the sense that tenants' payment behaviour one month was not a good predictor of their payment behaviour going forward. Payment behaviour fluctuated, with tenants underpaying by different amounts and moving between underpayment, non-payment and full-payment over time.

No underpayment group was associated with a particular amount of underpayment. In each underpayment group there were tenants who underpaid by a small amount and those who underpaid by a large amount. Just under one-quarter of underpayers (19 per cent of all tenants who received seven or more direct payments of HB) could be classed as persistent underpayers in the sense that they made regular and consecutive underpayment. However, the amount by which tenants underpaid varied period on period. Underpayers and non-payers are not distinct groups. Non-payment is a feature of underpayers payment patterns.

The impact of underpayment

Underpayment has a less significant impact on the total value of arrears than non-payment. Nevertheless, underpayment accounted for more than half of the total arrears accrued in the first 12 months of DPDP. Low value underpayment (less than 15 per cent of rent owed underpaid) has a limited impact on arrears, despite low value underpayers being the largest underpayment group in terms of percentage of rent underpaid. Frequent underpayers made a greater contribution to the overall value of arrears than infrequent or one-off underpayers. Nearly half of the total value of arrears was accrued by frequent persistent underpayers. Arrears arising from underpayment compounded tenants' debt problems – 44 per cent had existing debts or rent arrears – and put some tenants in arrears whose rent accounts had previously balanced. Tenants also reported an emotional impact of underpaying, frequently expressing feelings of guilt, shame and embarrassment.

Understanding underpayment

Analysis of data garnered from a telephone survey and in-depth interviews with one key underpayer sub-group – tenants who switched back under the underpayment switchback triggers, 3 and 4 – and RAA, provides an insight into how and why underpayment occurs and who underpays. It appears that a bundle of factors contribute to underpayment. These include: the socio-demographic characteristics of tenants; the vulnerability of tenants and the complexity of their lives; tenants' financial circumstances; poor money management; tenants' attitudes to spending and saving; the prioritisation of other bills over rent; confusion about direct payment, HB monies and rent.

12 months' rent account analysis exercise

Receiving direct payment of HB was found to reduce the average amount of rent which tenants paid each payment period by 6.6 per cent². However, the impact of direct payments lessened significantly over time. There was a marked reduction in rent payments rates in payment period 1, when tenants received their first direct payment of HB, but by payment period 8 average rent payment rates reached parity with a comparator sample of tenants³. The impact of direct payments on arrears fell from a high of 15.8 per cent less rent paid (i.e. than would have been paid had direct payments not been introduced) in the first three payment periods on direct payment to an average of 1.2 per cent less rent paid in payment periods 10 to 12.

Being on direct payment was found to increase the likelihood of tenants falling into arrears, particularly in the first few months, after which the likelihood of accruing arrears lessened markedly. In total, 61 per cent of direct payment tenants (i.e. those who were put onto direct payment at some point during the DPDP) accrued arrears, compared with 35 per cent of a comparator sample. Overall, being on direct payments was found to increase the likelihood of a tenant accruing arrears by 11 per cent (compared to if they had not been on direct payment). However, the situation improved markedly over time.

² The impact of direct payment on rent payment rates was assessed using statistical modelling techniques and a comparator sample. The 'rent payment rate' is not the same as the 'arrears rate', although a reduction in rent payment rates will often result in increased arrears. For example, if a tenant has been overpaying their rent for several months and is in credit on their rent account and then underpay for a period of time until their rent account balances, their 'rent payment rate' would have reduced but they would not have accrued arrears.

³ None of whom were in receipt of direct payment.

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 greater impact on the total value of arrears than underpayment. 'Persistent' underpayment was relatively common but tended to involve small amounts.

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, 80 per cent of tenants who paid all their rent while on direct payments made at least one late payment, compared with 71 per cent of the comparator sample.

The payment behaviour of tenants who initially failed to pay some or all of their rent quickly improved. Payment rates amongst this group soon mirrored average payment rates across the full sample of direct payment recipients (i.e. including those who paid all their rent). However, much of the early arrears they accrued were not repaid. The shift to direct payment, therefore, represented a negative step-change in the overall rent account balances for those who accrued arrears in the first three payment periods. Seventy-nine per cent of tenants who accrued arrears during the first three direct payment periods were still in arrears in the final period and, amongst tenants who remained on direct payment (i.e. did not revert back to having their rent paid direct to the landlord, as some tenants who accrued arrears did under agreed protocols) the value of arrears had not reduced.

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