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Direct Payment Demonstration Projects: Key findings of the 12-months' Rent Account Analysis exercise

July 2014

Research Report No 879

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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 England, Scotland and Wales. It highlights the key findings of an analysis of participating landlords' rent accounts for the first 12 months of the programme. In doing so, it highlights the impact of direct payment on the amount of rent arrears and the number of tenants entering into arrears.

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List of abbreviations

CRESR	Centre for Regional Economic and Social Research
DD	Direct Debit
DP	Direct payment
DPDP	Direct Payment Demonstration Project
DWP	Department for Work and Pensions
HB	Housing Benefit
IM	Ipsos MORI
RAA	Rent Account Analysis
RSRS	Removal of the Spare Room Subsidy
UC	Universal Credit

Glossary of terms

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').
Debit	This is a charge onto rent accounts which includes rent and service charges.
Direct Payment Demonstration Project	The DPDPs, of which there are six, are demonstrating 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.
Eligible rent	Rent and service charges eligible for Housing Benefit.
In-scope	Tenants in the Project Areas eligible for DPDP i.e. those of working age and not in temporary accommodation or short-term supported accommodation.
Landlord payment	The payment of Housing Benefit directly to landlords.
Payments	This represents all credits – rent payments and third party payments, such as water bills – to rent accounts.
Project Area	Direct Payment Demonstration Project Area.
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 would otherwise make 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 charges – 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.
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	A point at which a tenant may return to landlord payment in demonstration projects. The trigger period varies across the six demonstration projects.

Executive summary

Context

This report, which was written in January 2014, 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 is being 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 will conclude in September 2014, is 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).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 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 partner agencies and financial institutions, to greater and lesser degrees.

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

This report is concerned with highlighting the key findings to emerge from the first of these exercises. Before highlighting its key findings, it is important to note the following about the report:

- it should not be seen in isolation as it is one of many outputs being produced by the study team and should be read alongside them;
- it does not explore in any depth the impact of those welfare reforms introduced in April 2013, such as the Removal of the Spare Room Subsidy (RSRS), on DPDP rent accounts as it is too early to do so: the last payment period for the analysis presented in this report is May 2013. However, the 18-months' Rent Account Analysis (RAA) report will address this issue;

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

- because fieldwork is ongoing and the study team is still in the process of profiling the Project Areas, it is not possible in this report to contextualise and interpret the results presented within it, to any great degree. However, again, this will be done in the 18-months' RAA report.

Notwithstanding these important caveats, the report is timely because:

- it represents one of the most comprehensive and in-depth analysis of the rent accounts of social housing landlords in this country;
- 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.

Key findings

The key findings of the report are:

- Receiving direct payment of HB was found to reduce the average amount of rent which tenants paid each payment period by 6.6 percentage points². However, the impact of direct payment 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 in payment period 8 average rent payment rates achieved parity with a comparator sample of tenants³, although differences did emerge later. The impact of direct payment on arrears fell from a high of 15.8 percentage points less rent paid (i.e. than would have been paid had direct payment not been introduced) in the first three payment periods on direct payment to an average of 1.2 percentage points 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 payment was found to increase the likelihood of a tenant accruing arrears in a given payment period 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 are 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.

- Tenants put onto direct payment later in the programme – once learning had accrued, systems developed and support put in place – paid more of their rent in payment period 1 than those who went onto direct payment in the early stage of the project. Tenants who were put on direct payment in the first couple of months of the DPDP paid, on average, 62 per cent of their rent in their first payment period, whereas those who went onto direct payment approximately five months into the DPDP paid an average of 87 per cent of their rent in the first payment period. However, payment rates did decline again amongst those transferred onto direct payment in the latter part of the first 12 months. Analysis of data relating to the full 18 months of the DPDP should shed light on longer-term trends and help explain this pattern.
- A series of factors relating to the circumstances and characteristics of tenants were found to affect the impact of direct payment on rent arrears. Tenants who paid their rent by Direct Debit (DD) 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 accrue arrears, as were ‘single person’ households.
- 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.
- 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. Almost a quarter of direct payment recipients underpaid their rent at least five times, but most underpaid by a relatively small amount: only seven per cent of all underpayers made an underpayment of 15 per cent or more at least five times. Processes were in place in some Project Areas to remove high value persistent underpayers from direct payment via the ‘switchback’ system⁴ which may partly explain these results.
- The majority of the ‘best payers’ (i.e. tenants who paid all their rent while on direct payment) paid their rent late at some point. Late payment has an impact on landlords’ 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 payment made at least one late payment, compared with 71 per cent of the comparator sample.
- There was no clear ‘arrears spike’ at any particular time of the calendar year, including the Christmas period. The data available did not encompass a full ‘summer’ and so the picture at this stage is partial and will be revisited in the 18 months’ RAA report.

⁴ Tenants were switched back to landlord payment if they accrued arrears over a certain amount or underpaid by a certain proportion of their rent over time. The switchback process is described in more detail in Chapter 1.2.

- 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 was 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.
- It was too early to assess the impact on direct payment of those welfare reforms introduced in April 2013 because the last month for which rent account data were available at the time of writing was May 2013. Early analysis suggests that the RSRS initially had a negative impact on payment levels, but that tenants on direct payment fared better than the comparator sample. This raises the question of whether being on direct payment may better equip tenants to manage the RSRS, but these results must be treated with caution.
- Landlords involved in the DPDP reported costs associated with delivering direct payment, 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, which was written in January 2014, 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 is being 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 will conclude in July 2014, is 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 partner agencies and financial institutions, to greater and lesser degrees.

A key objective of the research is to highlight the impact of direct payment on landlords' cash flows and their financial sustainability. This is principally achieved by an analysis of landlords' rent account data at two points in time: 12 and 18 months into the DPDP programme. This report is concerned with highlighting the key findings to emerge from the first of these exercises.

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.

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-age⁵ claimants in the participating projects:

- receiving HB payments once every four weeks⁶ (broadly in-line with monthly payments under UC) as opposed to weekly or fortnightly;
- and paying HB to tenants or rent to landlords 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.

⁵ 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.

⁶ In the Edinburgh project, HB is being paid to tenants monthly.

This was achieved by a support assessment process and varying across the projects the length of time (or switchback trigger period) for a return to landlord payment after tenants had fallen into arrears.⁷ 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.”⁸

In practice, more than two-thirds of the 1,031 ‘switchbacks’ that had occurred by March 2013 had 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. A separate report focused on rent underpayment is being published alongside this report. Lord Freud explained that the rationale behind the decision to extend the programme, which was to be extended by six months until December 2013, was to generate learning ‘to further develop the support needed for social housing tenants moving onto Universal Credit.’⁹

Working alongside the DWP, the English, Welsh and Scottish projects began work preparing for direct payment in their areas in January 2012, with work beginning in Edinburgh in May 2012.ⁱ The English and Welsh projects went ‘live’ in June and July of 2012 when the first phase of tenants were moved onto direct payment, with Edinburgh following suit in August 2012. Reflecting differences in the preparedness of tenants to move onto direct payment, it was decided to adopt a phased approach to moving tenants onto the programme, with those in the first phase assessed as being most prepared to go onto it. Although the number of phases varied by Project Area, all had undertaken their last one by the beginning of 2013. In all, by May 2013 7,426 tenants had gone onto direct payment.¹⁰

⁷ 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.

⁸ Written submission provided by a DWP Relationship Manager.

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

¹⁰ Ibid.

As Table 1.1 reveals, 'in-scope' numbers were fairly similar in five of the areas (Edinburgh, Shropshire, Southwark, Torfaen, and Wakefield) at around 1,000 tenants, with there being one 'outlier', Oxford, which put more than 1,700 tenants onto direct payment.ⁱⁱ

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 ¹¹

Source: DWP monitoring information, March 2013.

1.3 Research objectives and approach

The main aim of the research programme is 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 is monitoring 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 is employing a mixed-methods approach which comprises the following activities:ⁱⁱⁱ tenant surveys; in-depth qualitative interviews with tenants and stakeholders; and an analysis of participating landlord rent accounts and management costs, a process which is referred to as 'Rent Account Analysis' (RAA). RAA is taking 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 12-months' exercise, the findings of which are presented in this report, is highlighted in the next chapter. The study team are producing a number of written outputs, two of which have already been published.^{iv} In addition to this report, the study team is publishing eight more outputs, three of which have been published at the same time as this report – these are described in Chapter 4.

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

¹¹ This figure, used in DWP's May 2013 press release, does not present in-scope numbers at the area level.

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

- 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 *Direct Payment Demonstration Projects: 12 months in extended learning report*, DWP Research Report No. 876, being of particular relevance;
- the report does not explore in any depth the impact of those welfare reforms introduced in April 2013, such as the RSRS, on DPDP rent accounts as it is too early to do so: the last payment period for the analysis presented in this report is May 2013. However, the 18-months’ RAA report will do this.
- because fieldwork is ongoing and the study team is still in the process of profiling the Project Areas, it is not appropriate in this report to contextualise and interpret the results presented within it to any great degree. However, the 18-months’ RAA report will do this and will also provide a more definitive account of the impact of direct payment on landlord cash flows as it will draw on data for the programme in its entirety.

Notwithstanding these important caveats, the report is timely in two principal ways. First, it represents one of the most comprehensive and in-depth analysis of the rent accounts of social housing landlords in this country. Second, 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 12-months’ RAA exercise. Chapter 3 presents the key finding 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 12-months' Rent Account Analysis exercise

2.1 Introduction

This chapter explores the study team's approach to the 12-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?

As is the case with 18-months' exercise, the primary purpose of the 12-months' exercise one is to assess the impact of direct payment on landlord cash flow and their financial sustainability. Specifically, the analysis will seek to provide answers to a number of questions including:

- what is the impact of direct payment on the amount of rent arrears?
- what is the impact of direct payment on the number of tenants entering into arrears?
- what is the impact of direct payment on rent arrears recovery and rent collection costs?
- what is 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,^v the study team has adopted a **quasi-experimental approach** to assessing the impact of direct payment through RAA. This involves 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.^{vi}

2.4 What data have 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

- 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;
- 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.

These data were 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);
- the impact of other factors such as the Removal of the Spare Room Subsidy (RSRS);
- if (and how) tenant behaviour and payment patterns vary over time.

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

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.

¹⁴ i.e. Rent has been owed or a payment has been made.

As Table 2.1 reveals, 6,834 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 (DWP) in May 2013, which stated that 7,426 tenants had been paid in this way.¹⁶ As highlighted in Table 1.1, 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	905	661
Dunedin Canmore	905	0
Port of Leith	0	661
Oxford	1,596	1,028
GreenSquare	373	0
Oxford City Council	1,223	1,028
Shropshire	1,016	0
Bromford	260	0
Sanctuary	147	0
Shropshire	525	0
Wrekin Housing Trust	84	0
Southwark	1,300	1,038
Family Mosaic	374	0
Southwark	926	1,038
Torfaen	1,048	980
Bron Afon	956	980
Charter	92	0
Wakefield	969	1,103
Wakefield and District Housing	969	1,103
Total	6,834	4,810

Source: 12-months’ RAA exercise.

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

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 were 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 under-estimating the overall effect).

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**.

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 matching¹⁸, which matched tenants in the two samples in relation to a number of attributes, which are listed below. Employing this technique resulted in the removal of some tenants¹⁹ from the comparator sample with 4,810 tenants being used in the analysis^{vii}, as Table 2.2 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.²⁰ 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.

²⁰ Tenants in the comparator sample did differ to those in the main sample in one respect: they receive their HB monthly (DPDP tenants in all areas except Edinburgh receive their benefit every four weeks).

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	10	9
Between one period worth of arrears and credit	87	87
More than one period worth of credit	3	3
Full or Partial Housing Benefit		
Full	74	74
Partial	26	26
Duration of current HB claim		
0 – 1 years	25	29
2 – 4 years	31	27
5 – 9 years	36	34
10 years and over	8	10
Age of lead claimant		
16 – 24	6	7
25 – 34	22	22
35 – 44	27	28
45 – 54	30	31
Over 55	14	14
Household composition		
Couple	5	4
Couple with 'dependents'	13	12
Single person	36	38
Lone Parent	31	32
Other multi	14	14
Partner present		
No	77	79
Yes	23	21
Bedrooms		
0 or 1	23	23
2	36	37
3	35	35
4 or more	5	5
Claimant hours of work per week		
None	79	79
Less than 16	2	2
16 – 30	15	15
30 or more	3	3
Partner hours of work per week		
None/no partner	96	96
Less than 16	0	0
16 – 30	2	2
30 – 35	2	2
Un-weighted base	6,834	4,810

Source: 12-months' RAA exercise.

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:²¹

- '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						Direct Payments
	Edinburgh	Oxford	Shropshire	Southwark	Torfaen	Wakefield	
	%	%	%	%	%	%	%
Rent account balance relative to rent							
More than one period worth of arrears	4	10	4	19	10	6	10
Between one period worth of arrears and credit	91	87	91	77	88	93	87
More than one period worth of credit	5	3	5	4	2	1	3
Full or Partial Housing Benefit							
Full	80	71	73	72	76	74	74
Partial	20	29	27	28	24	26	26
Duration of current HB claim							
0 – 1 years	31	25	26	19	19	29	25
2 – 4 years	29	31	37	25	30	31	31
5 – 9 years	40	27	36	56	21	39	36
10 years and over	0	16	0	0	29	0	8

continued

²¹ The 18-months' RAA report (to some extent) and the final report (especially) will seek to unpick the importance or salience of these factors.

Direct Payment Demonstration Projects: Key findings of the 12-months' Rent Account Analysis exercise

Table 2.3 Continued

	Sample						Direct Payments
	Edinburgh	Oxford	Shropshire	Southwark	Torfaen	Wakefield	
	%	%	%	%	%	%	%
Age of lead claimant							
16 – 24	5	5	7	5	6	11	6
25 – 34	16	23	22	23	23	23	22
35 – 44	28	28	29	30	22	23	27
45 – 54	35	31	27	28	32	29	30
Over 55	16	12	15	14	17	13	14
Household composition							
Couple	5	3	7	2	9	7	5
Couple with dependents	6	16	16	9	15	17	13
Single person	64	28	33	34	33	31	36
Lone Parent	19	37	30	38	26	32	31
Other multi	7	16	14	16	17	13	14
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	52	35
4 or more	4	5	3	10	4	4	5
Claimant hours of work per week							
None	84	77	79	74	85	81	79
Less than 16	2	3	2	4	2	2	2
16 – 30	12	17	15	17	11	15	15
30 or more	2	3	4	6	2	2	3
Partner hours of work per week							
None/no partner	98	95	94	98	95	96	96
Less than 16	0	0	0	0	0	1	0
16 – 30	1	2	3	1	2	2	2
30 – 35	0	3	2	1	2	1	2
Paid part or all using Direct Debit							
Yes	24	55	20	9	10	44	23
No	76	45	80	91	90	56	77
Un-weighted number	905	1,596	1,016	1,300	1,048	969	6,834

Source: 12-months' RAA exercise.

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.²²

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 – 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 two key 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 charges²³ – going onto rent accounts.

²² Technical endnotes provide further information about analytical methods.

²³ 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 HB. 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 (RPP).** 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.^{viii}
- **Rate of payment per rent payment period (ROP).** 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:
 - an 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;²⁴
 - 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;²⁵
 - 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 over time.

²⁴ 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.

²⁵ Please note tenants may overpay 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 first 12 months of the Direct Payment Demonstration Project (DPDP). It 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.

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

Tenants who went onto direct payment during the first year of the DPDP paid 94.3 per cent of all the rent owed²⁶ from that point onwards.²⁷ Arrears over this period therefore represented 5.7 per cent of rent owed, amounting to £1.6 million.^{ix}

This analysis includes tenants who switched back²⁸ to landlord payment (i.e. stopped receiving their Housing Benefit (HB) directly) or stopped receiving HB and so these results show the combined effect of receiving direct payments and the switchback process on arrears. 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 switchback.

Almost 100 per cent of the rent owed by tenants in a comparator sample, none of whom received direct payments, was paid.

²⁶ For the purposes of this report, the term 'rent owed' refers to the debits charged to tenants' rent accounts during the period.

²⁷ 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.

²⁸ 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 Universal Credit (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 4-weeks' arrears.

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

The fact that direct payment tenants accrued 5.7 per cent of rent arrears (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 using statistical modelling.²⁹

This analysis reveals that, on average, **tenants receiving direct payment of HB paid 6.6 percentage points less rent per payment period (6.6 pence for every £1 of rent owed)** during the 12-month period, than they would have done if their HB had been paid direct to their landlord.^x If we take the average rent owed by tenants per payment period across the Project Areas (£370), this would amount to approximately £24 less rent received.

The impact of direct payment did, however, lessen significantly over time. In the first three 'rent payment periods' (RPPs)³⁰ (a total period of approximately 12 weeks) after being put onto direct payment,³¹ tenants paid on average 15.8 percentage points^{xi} less rent per payment period than they would have done if direct payment had not been introduced. By payment periods 4 to 6 this figure had fallen dramatically to 3.2 percentage points^{xii} with it falling again in payment periods 7 to 9 (1.5 percentage points^{xiii}). **By payment periods 10 to 12 direct payment tenants paid, on average, 1.2 percentage points less of their rent per rent payment period than they would have done had their HB been paid direct to the landlord.**^{xiv}

It is not clear whether this trajectory reflects inherent challenges associated with moving tenants onto the new system and so is a pattern likely to persist. For example, the improvement in payment rates over time could reflect a period of transition during which tenants acclimatised to the new system and learned to manage direct payment. And it is a feature of the system (and will be, under UC) that a period of time lapses before the switchback process can serve its function, removing those who are not managing on direct payment, in order to safeguard tenants and landlords.

²⁹ See Chapter 2 for more details about how the comparator sample was derived and used.

³⁰ All Project Areas except Edinburgh paid HB every four weeks. In Edinburgh payments were made every calendar month. Rent payment period 1 refers 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 5 to 8 (the second month in Edinburgh) and so on.

³¹ 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.

However, it may also reflect that during the first few months of the DPDP, when the majority of direct payment recipients were first transferred to the new system, direct payment was in its infancy. Project Areas and the Department for Work and Pensions (DWP) had not yet accrued any learning, and systems and processes were being trialled and tested. If so, the learning and policy development flowing from the DPDP should help other landlords minimise the impact of direct payment in the early stages of implementation as part of UC. The results do indicate, however, that close attention to the first few months of direct payment implementation will be crucial.

The impact of direct payment on rent payment rates varied by Project Area. Impact was smallest in Wakefield and Shropshire and greatest in Southwark and Edinburgh.³² It is of interest that Southwark and Edinburgh operated triggers providing the highest level of safeguard (four weeks and one month respectively)³³ yet witnessed the greatest impact of direct payment on payment rates, demonstrating 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 if 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 had been 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 direct payment 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 (DD)³⁴ and that this payment method was found to positively affect payment rates (see Question 18).

Q3. What proportion of tenants accrued arrears since they first moved onto direct payment?

Just over three-fifths of tenants (61 per cent) who received direct payments during the first year of the DPDP had accrued arrears (or additional arrears, for those already in arrears) by the end of the first 12 months of the programme.³⁵ Over the same timeframe, 35 per cent of the comparator sample, none of whom received direct payments, had accrued

³² Edinburgh's baseline payment rate was higher than in any other area so although the impact was greatest, payment rates remained high compared with other areas.

³³ 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.

³⁴ See Table 2.3.

³⁵ 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.

arrears.^{36, 37} This has implications for landlord collection and recovery costs: the more people in arrears, the more actions are required to recover those arrears.

Of the 39 per cent of direct payment tenants who had not accrued arrears (or additional arrears) by the end of the first 12 months of the DPDP, some had underpaid at some point. In total, 92 per cent of direct payment tenants had underpaid **at some point** during the first 12 months of the DPDP compared with 81 per cent of the comparator sample, but this includes tenants who paid a day or two late or encountered administrative problems which were quickly rectified and are, therefore, of less concern than the 61 per cent whose arrears apparently proved more intractable.

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

Being on direct payment was found to increase the likelihood of tenants accruing arrears, particularly in the first few payment periods, after which the likelihood of accruing arrears lessened markedly.

Direct payment increased the likelihood of tenants accruing arrears in a given rent payment period by an average of 11 per cent and also increased the likelihood of underpaying rent by a significant amount. For example, on average:

- tenants on direct payment were nearly nine times more likely to underpay by 75 per cent or more;
- tenants on direct payment were over six times more likely to underpay by 50 per cent or more;
- tenants on direct payment were over twice as likely to underpay by 15 per cent or more;
- tenants on direct payment were just under 1.4 times as likely to underpay by 5 per cent or more.

However, the impact of direct payment on the likelihood of accruing arrears did lessen over time, and this holds true for each of the underpayment levels above. For example, tenants on direct payment were, on average, 15 times more likely to underpay their rent by 75 per cent or more in their first three rent payment periods after transferring onto direct payment.³⁸ By their seventh payment period,³⁹ tenants were five times more likely to underpay by 75 per cent or more.^{xv}

³⁶ 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 their HB did not cover their full rent liability for other reasons.

³⁷ This may seem contradictory with the finding in Question 1. However this can be explained by two factors: firstly additional arrears accruing for comparator tenants being small; secondly comparator tenants underpaying are matched by comparator tenants who have overpaid during the same time period.

³⁸ i.e. the three rent cycles following their first direct payment of HB.

³⁹ Amongst those who remained on direct payment for at least six rent payment periods.

This trajectory – increased likelihood of arrears in the early stages, improving over time – mirrors the findings presented in Question 2 and points to particular risks associated with the transition period.

Q5. Have arrears accrued because a few people have paid no rent, or because lots of people have underpaid?

Underpayment was much more common than non-payment. 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 13 per cent in the 11th payment period. By payment period 12, non-payers comprised just 16 per cent of the sample of those who had accrued arrears.

However, non-payment had a greater impact on the total value of arrears than underpayment. Although non-payers accounted for a relatively small proportion of those who accrued arrears, they accounted for between 32 per cent (in rent payment period 1) and 50 per cent (in rent payment period 2) of the total value of arrears (see Figure 3.2).

Q6. When tenants underpay 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 per cent but less than 100 per cent of the rent due) increased with the introduction of direct payment. Figure 3.1 shows that in the three payment periods prior to the introduction of direct payment this group accounted for an average of ten per cent of those who accrued arrears (represented by the blue and red sections of the first three columns).⁴⁰ For the 12 payment periods following the launch of the DPDP the proportion grew to an average of 41 per cent.⁴¹

However, Figure 3.1 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 68 per cent of all those accruing arrears in payment period 1 (including non-payers) but 29 per cent in payment period 12.

Looking in more detail at the payment patterns of tenants who accrued arrears further highlights this trajectory – over time the profile of tenants accruing arrears each period shifted, with a greater proportion underpaying by a smaller amount. For example:

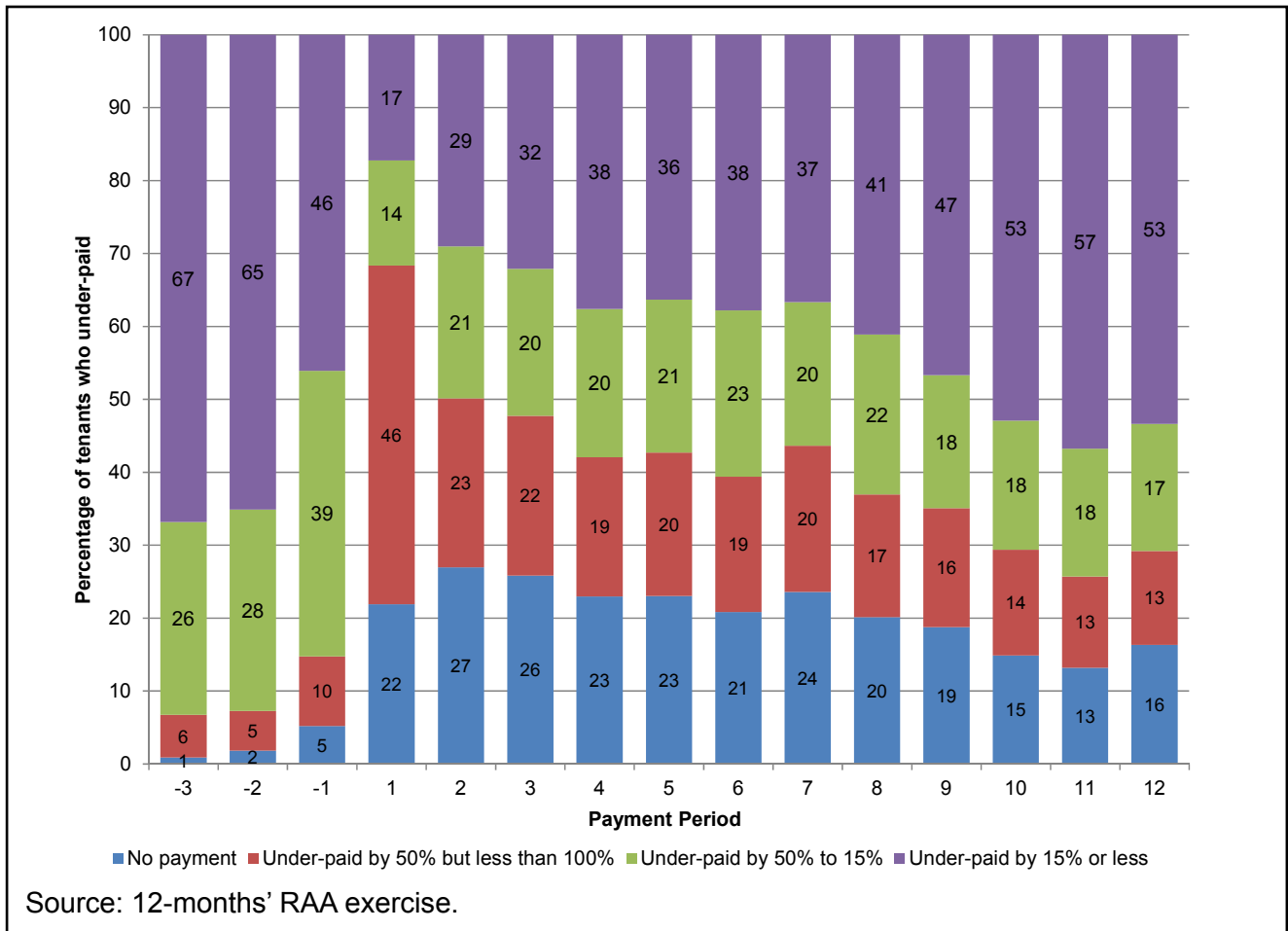
- tenants underpaying by 50 per cent, but less than 100 per cent accounted for 46 per cent of all those who accrued arrears in the first period of the DPDP but just 13 per cent in payment periods 11 and 12; and

⁴⁰ 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.

⁴¹ 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 switchback 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.

- the proportion of tenants accruing arrears 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 53 per cent in payment period 12 (or a high of 57 per cent in payment period 11).

Figure 3.1 Distribution of underpayers by category of underpayment



Improved patterns of underpayment over time is encouraging and raises the possibility that efforts to minimise risk in the early stages of direct payment would improve overall payment rates and minimise any overall adverse impact of the policy. Nevertheless, by payment period 12 the proportion of underpayers who paid no rent was six times greater, and the proportion who underpaid by more than half the rent owed (but excluding non-payers) was double compared to the three baseline payment periods.⁴²

A greater proportion of tenants accruing arrears 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.

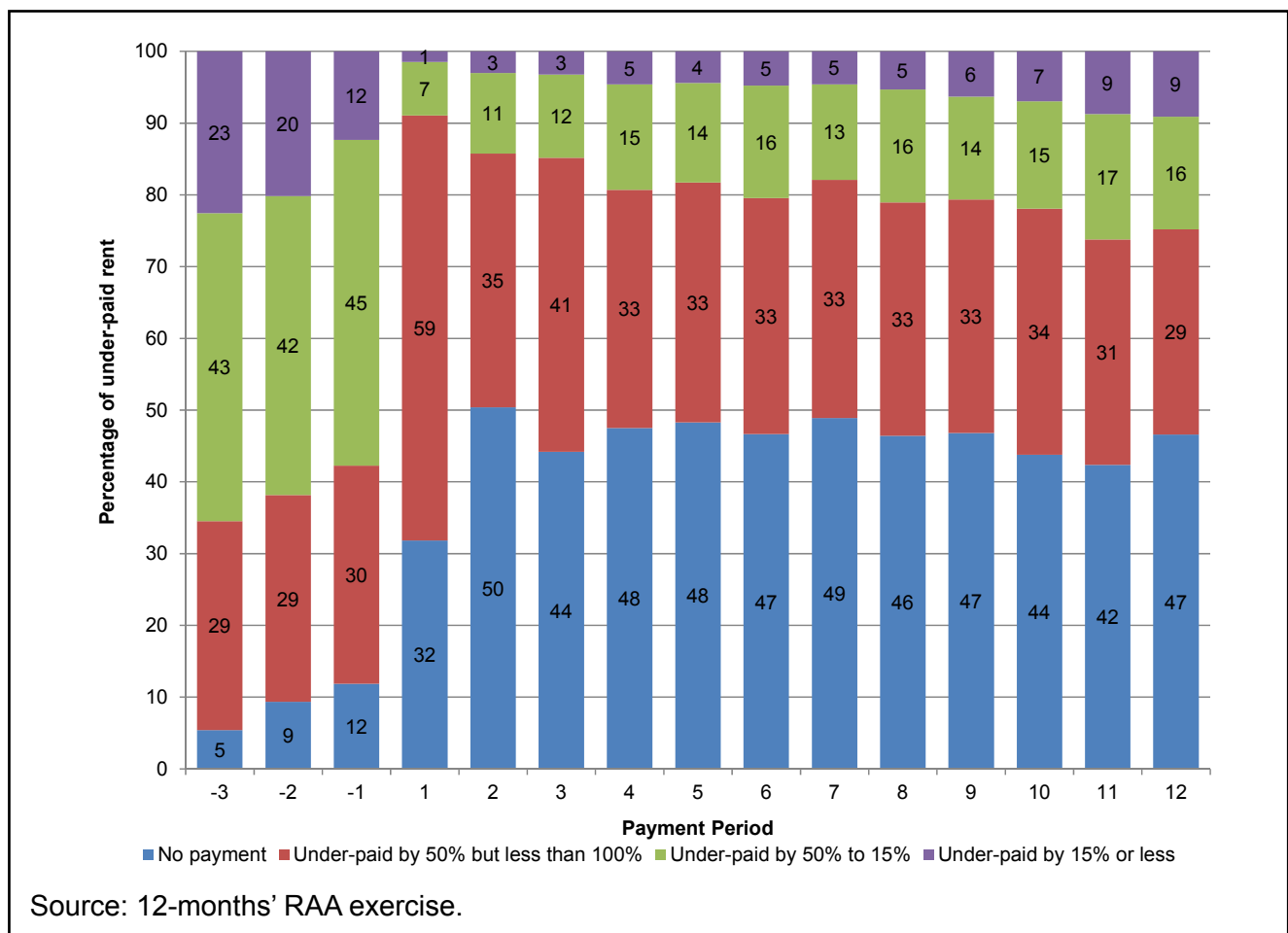
⁴² Non-payment of rent by those on HB could only occur as a result of administrative errors and only those whose HB covered a small proportion of the rent would have been able to significantly underpay.

Figure 3.2 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 arrears, while underpayment of 15 per cent or less had a limited effect on the value of arrears**. Specifically:

- in the three payment periods prior to the start of direct payment, non-payment accounted for an average of nine per cent of the total value of arrears. In the 12 payment periods following the start of direct payment this figure increased to 45 per cent, remaining relatively constant over the course of the DPDP;
- in the three periods prior to the start of direct payment, underpayment by 15 per cent or less accounted for an average of 18 per cent of the total value of arrears. However, in the 12 payment periods following the start of direct payment, this figure decreased to 5 per cent.

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

Figure 3.2 Distribution of underpayment value by category of underpayment

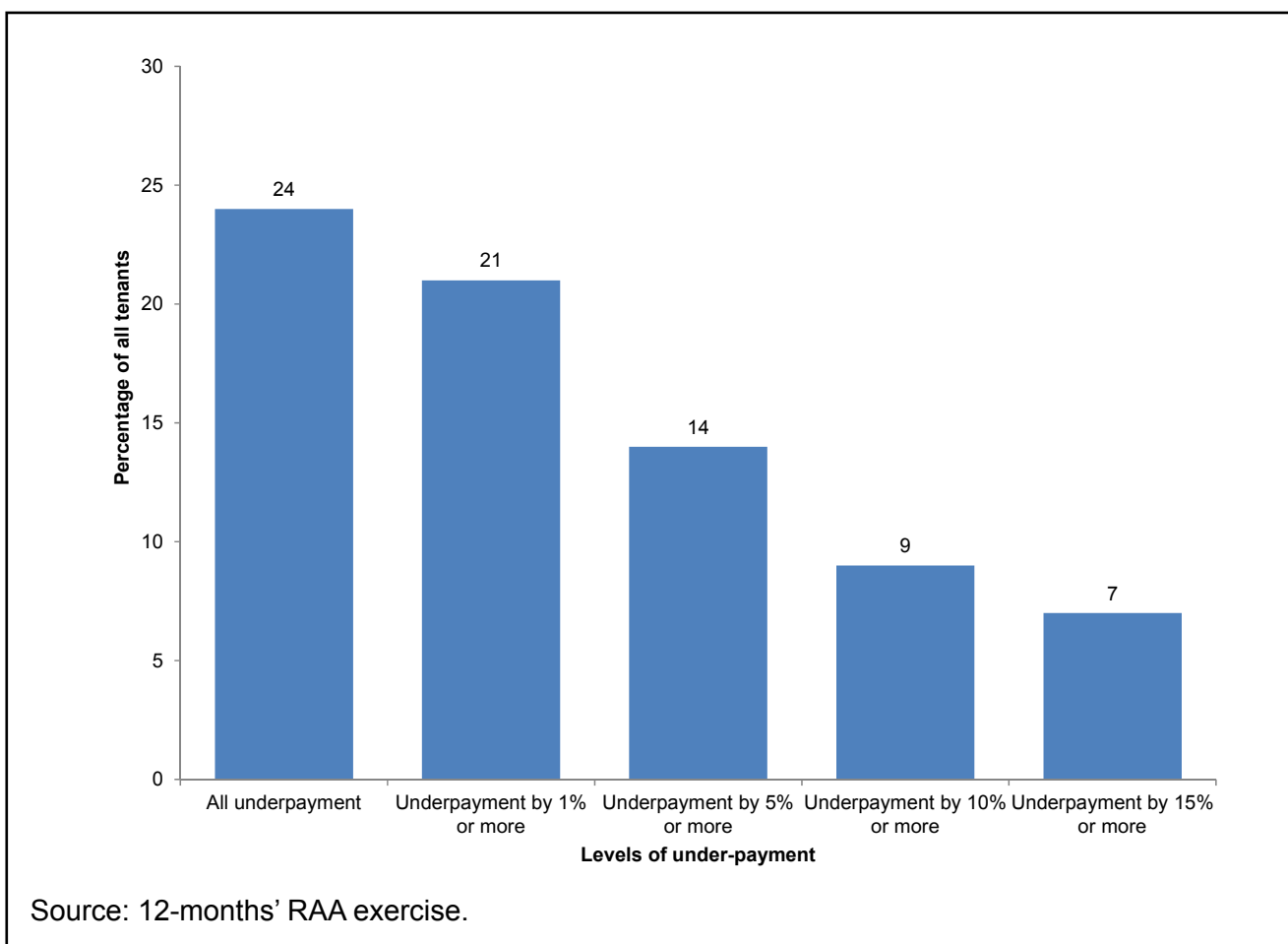


Q7. Is underpayment persistent or erratic?

Persistent underpayment was relatively common: 24 per cent of direct payment recipients underpaid their rent at least five times.⁴³

However, as Figure 3.3 shows, a much smaller 7 per cent of tenants in receipt of direct payment persistently underpaid their rent by 15 per cent or more, suggesting that **persistent underpayment involved relatively small amounts**, or included at least one smaller amount. This may reflect the use of two switchback triggers, which operated in some but not all Project Areas, and which were designed to prevent high value persistent underpayment by switching tenants displaying this pattern of payment back to landlord payment (i.e. removing them from the programme).⁴⁴

Figure 3.3 Overview of ‘persistent’ underpayment: the proportion of tenants underpaying in five periods or more



⁴³ This analysis was conducted on the sample of tenants who received at least ten direct payments of HB. For the purposes of this analysis the five or more underpayments need not be consecutive.

⁴⁴ As with the previous question, the operation of the four switchback triggers more generally affects patterns of underpayment. See previous footnote.

Low value persistent underpayment may have been more common than high value persistent underpayment, and the results presented in Question 6 showed that low value underpayment had a more limited impact on the overall value of arrears than high value underpayment, but it will, nevertheless, be of concern to landlords that nearly one-quarter of direct payment tenants habitually underpaid. The reasons for this are unclear – the extent of persistent underpayment, and underpayment more generally, was not anticipated by stakeholders involved in the DPDP – but need to be better understood. Effective intervention will depend upon understanding the reasons why, month on month, a relatively high proportion of tenants fail to pay all their rent.

To this end, the study team have written a specific report on underpayers, which has been published alongside this report (*Direct Payment Demonstration Projects: Rent underpayment*, DWP Research Report No. 877).

Q8. Has the impact of direct payment on rent payment rates been consistent through time?

Rent payment rates were not consistent through time, but improved markedly after the first few direct payments of HB. There was a distinct reduction in rent payment rates⁴⁵ when tenants received their first direct payment. In the eighth direct payment, payment rates achieved parity with the comparator sample. In total, **three-quarters of the value of arrears accrued during the DPDP were accrued in the first three payment periods following tenants' first direct payment.** Over half of all arrears (54 per cent) accrued in the first payment period. The shift from one system of HB to another is, therefore, a critical point for tenants and landlords.

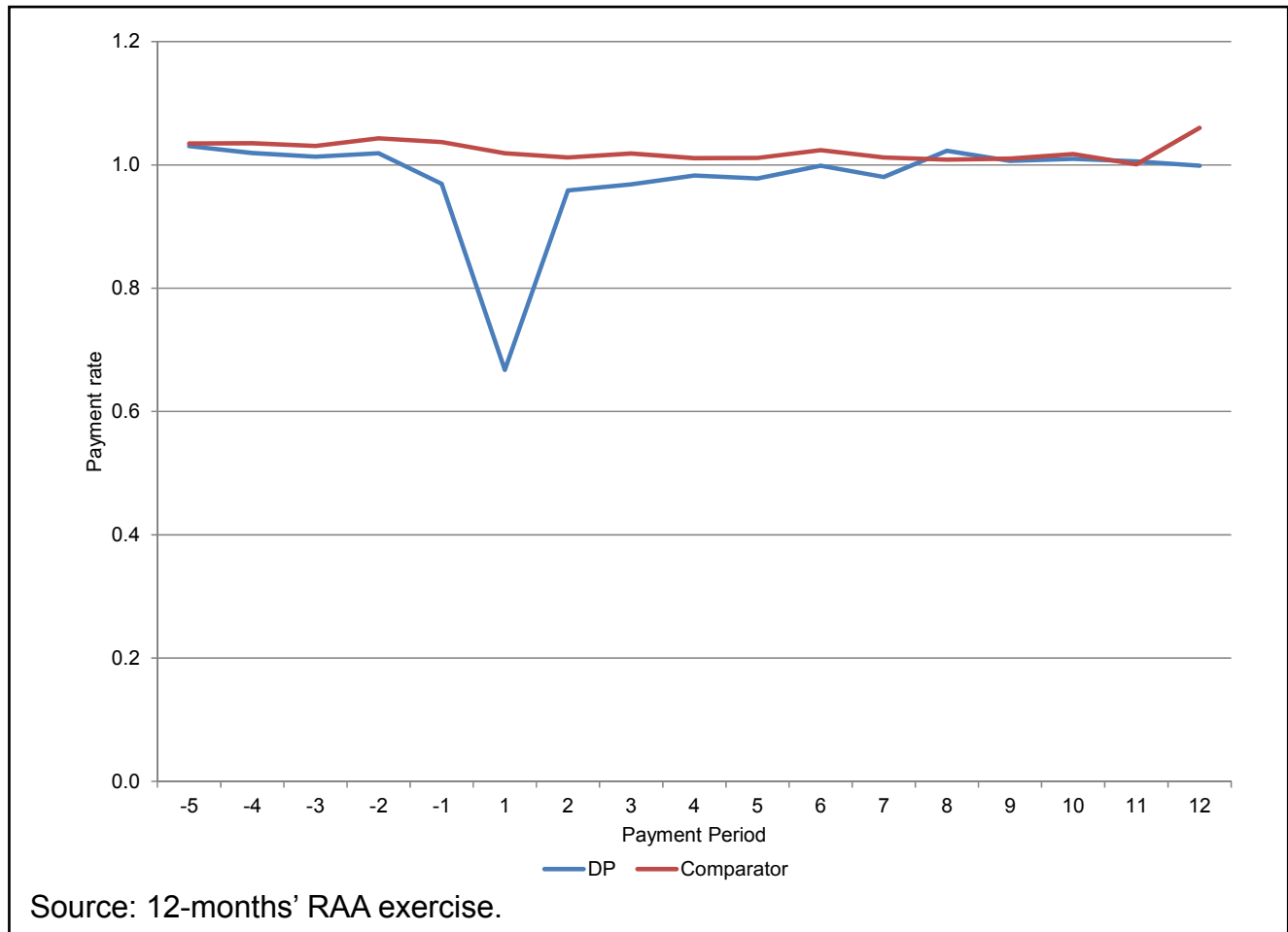
Tenants in the DPDP were staggered onto direct payment so that some received their first payment in June 2012, some in July 2012, some in August 2012 and so on. For the purposes of this analysis, the data were 'rebased' so that 'period 1' represents the rent period following a tenant's first direct payment, regardless of the calendar month in which that payment was made.⁴⁶

⁴⁵ In practice, a reduction in rent payment rates usually represents increased arrears but this is not necessarily the case hence use of the term 'reduced payment rates' rather than 'arrears'. If a tenant overpays their rent for a few months and then pays all their rent this would show as a reduction in the rent payment rate, but the tenant would not be in arrears.

⁴⁶ 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.

Figure 3.4 presents average rent payment rates for each payment period (including the five payment periods prior to tenants receiving their first direct payment). It shows that, following the sharp reduction in rent payment rates in period 1, payment rates increased in periods 2 and 3 but remained below baseline and comparator levels. After period 3, average rent payment rates converged further, at a more gradual pace, towards baseline and comparator rates, before reaching near parity with the comparator sample from period 8.⁴⁷

Figure 3.4 Payment rates: rebased



⁴⁷ In period -1 the average rent payment rate is below 1, this implies that in this baseline period tenants who would receive direct payment in the next period did not pay all of the rent owed: on average arrears accrued during this period. It does not imply that the direct payment tenants were in arrears. Please note: Figure 3.4 also shows that the average rent payments rate in the period immediately preceding a first direct payment (i.e. period -1 and period -2) are lower than the comparator and previous baseline levels (p-3, p-4 and p-5). There is no obvious reason for this.

It is important to note that **the sharp reduction in rent payment rates in period 1 may be attributed to a wider range of factors than just tenant payment behaviour, some of which are specific to the DPDP** (i.e. processes and systems employed which will not be rolled out) or can be rectified now the learning has accrued. They 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 problems in this regard and learnt lessons from this first payment period that they sought to rectify in future periods;
- HB payment errors, for example, late payment or payment to the wrong bank account;
- 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 UC system (the 'tier 1' and 'tier 2' categorisation) would not be put onto direct payment, were included in the early phases of the DPDP.

In addition, some of the bounce back in average rental payment rates will be explained by the use of switchbacks, removing tenants with lower payment rates out of the sample in latter payment periods. This general pattern is likely to repeat going forward – switchbacks are a key safeguarding feature of UC. However, under the current UC system, some of the DPDP tenants who accrued arrears in the early stages of being on direct payment and switched back would not have gone onto direct payment in the first place because different processes are in place to assess tenants' suitability for direct payment under UC. Improved claimant assessment processes and higher numbers of tenants being safeguarded is likely to reduce the 'spike' in period 1 going forward.

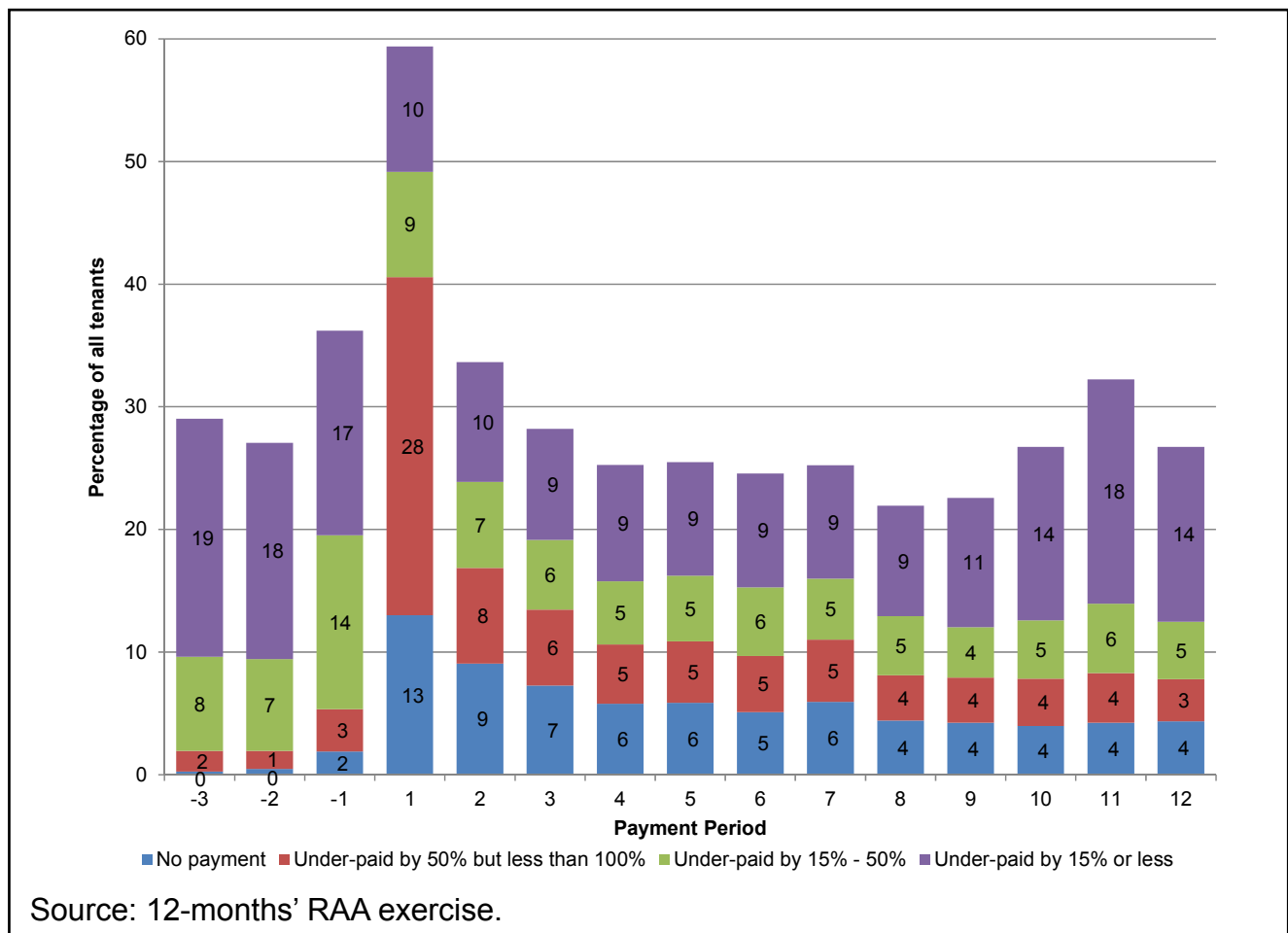
This overall pattern was broadly replicated across the six Project Areas. The period 1 rental payment rate drop was greatest in Oxford and Shropshire, where payment rates fell to 46 and 47 per cent, respectively. Oxford did encounter some administrative problems which may help explain the lower rental payment rate there.

Analysis of the **proportion of tenants** who underpaid their rent (i.e. failed to pay some or all of their rent) shows a similar marked spike in the first payment period (see Figure 3.5). Sixty 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. The proportion of tenants who underpaid or did not pay then quickly returned to baseline levels in payment periods 2 to 4. In some payment periods, the proportion of tenants who underpaid their rent was actually lower than before the introduction of direct payment.

However, **the composition of underpayment** changed once direct payment was introduced and did not return to baseline levels. Figure 3.5 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 per cent or more of their rent (including non-payment) was higher under direct payment and remains so. This explains how arrears can increase with the introduction of direct payment, even though the overall proportion of tenants underpaying changes little.

This is not surprising: pre-direct payment only those eligible for a small amount of HB could underpay significantly and, barring an administrative payment error by the Housing Department, no tenant could fail to pay altogether. It does raise issues, however, in light of the conclusion drawn in Question 6 that significant underpayment/non-payment has a far greater effect on landlord income streams than underpayment by a small amount. It also raises the possibility that some of those who previously could not underpay by more than 50 per cent (for example, those on partial HB) did so once direct payment was introduced.

Figure 3.5 Proportion of direct payment tenants underpaying by payment period: rebased



Q9. We know that tenants are more prone to accruing arrears when they first go onto direct payment (see Question 5). But has this changed over the course of the Demonstration Project as landlords and tenants have become more familiar with direct payment and the programme has developed?

Tenants put onto direct payment later in the DPDP – once learning had accrued, systems developed and support put in place – paid more of their rent in payment period 1⁴⁸ than those who went onto direct payment in the early stage of the project. This suggests that the initial ‘arrears spike’ is partly attributable to the infancy of the DPDP and so can be mitigated to some extent by the learning accrued from the programme.

Rental payment rates following a first direct payment of HB were markedly lower than any subsequent payment period (see Question 8). However, the majority of tenants who went onto direct payment did so in the first few months of the DPDP, a period of time when Project Areas were new to direct payment, when learning had not yet accrued, and when methods and processes were being trialled and tested. The arrears ‘spike’ could, therefore, reflect the relative infancy of the direct payment programme and the experimental nature of early implementation rather than issues inherent with transferring tenants to a new system. If so, we would expect payment rates in period 1 to be higher amongst those who transferred onto direct payment later in the DPDP programme and this proved to be the case.

Figure 3.6 shows that the average payment rate for period 1 was 67 per cent (33 per cent of rent owed is not paid) but that this masks variability over time. Tenants who transferred to direct payment in stages 1 and 2⁴⁹ of the DPDP (June and July 2012 in most Project Areas) recorded broadly similar payment rates: 62 per cent. The payment rates of tenants starting in stages 3 through to 5, however, were markedly higher, and increased stage on stage. Those starting in stage five, for example, paid 87 per cent of their rent in the first payment period. This could reflect that:

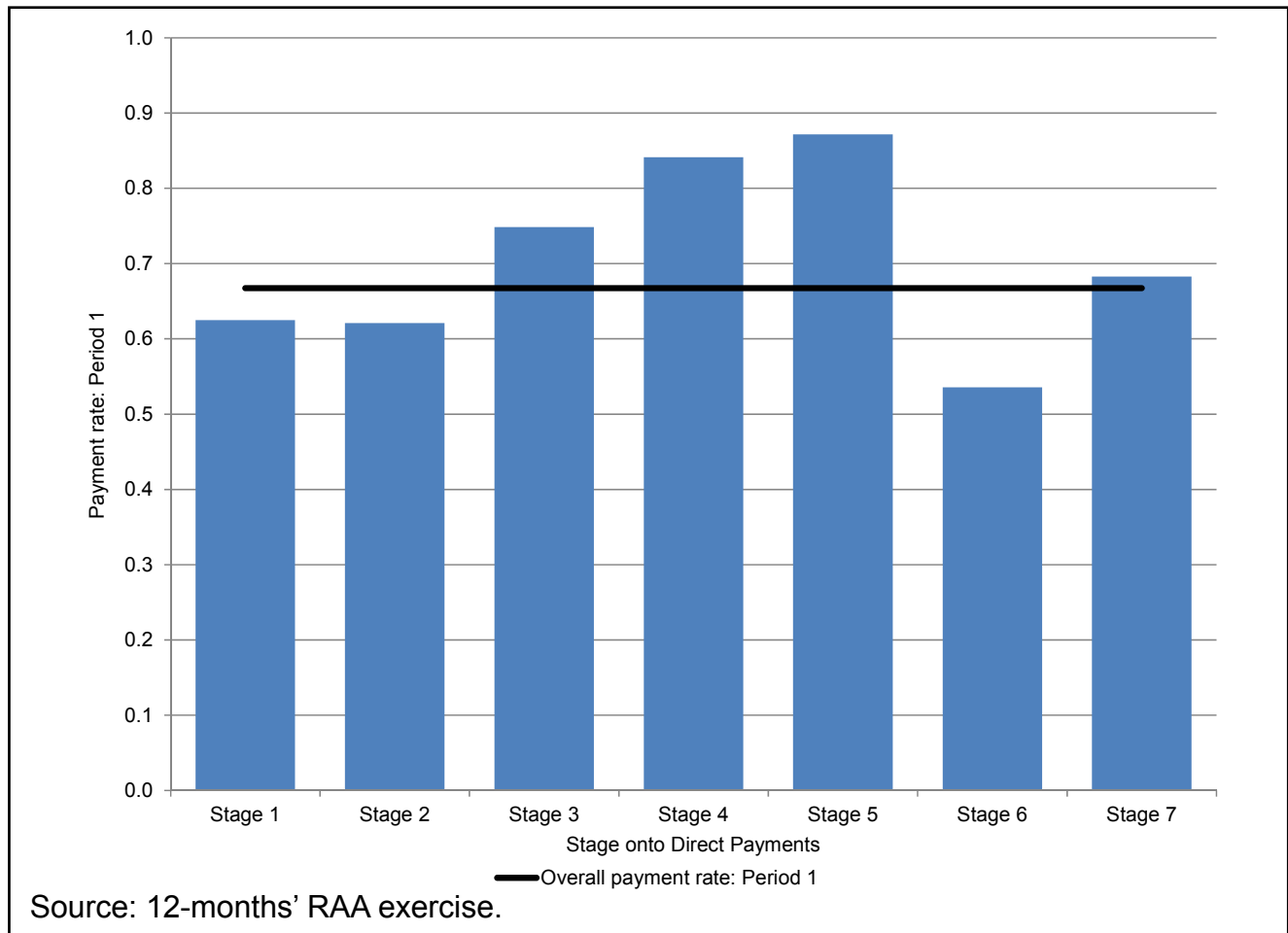
- tenants were better equipped to deal with direct payment, in some instances, because of additional support provided by the landlords. Most Project Areas were only able to turn their attention to support provision once the programme had ‘gone live’ and successfully made several direct payments of HB;
- landlords were more aware of the scale of the rent collection task and had started putting additional resource in place. Several landlords reported increasing capacity or reorganising their income teams after a few months once it was clear the existing capacity was not sufficient;
- learning had taken place and systems and procedures required to mitigate teething troubles had been implemented.

Before drawing firm conclusions from these findings, however, it is worth noting the **lower** first payment rates recorded by tenants who transferred onto direct payment in stages 6 and 7 of the DPDP (52 per cent and 68 per cent respectively). The reasons for this are not entirely clear and will be explored further through subsequent rent and qualitative data collection.^{xvi}

⁴⁸ As in previous questions, ‘payment period 1’ is used here to represent 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.

⁴⁹ ‘Stage 1’ refers to the first direct payment of HB which in most Project Areas was made in June 2012, Stage 2 to the second payment and so on. This is sometimes referred to by DWP as ‘payment 1, payment 2’ etc. the Edinburgh demonstration project made the first payment slightly later, in August 2012.

Figure 3.6 Period 1 payment rates for tenants on direct payment: rebased



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

The majority of tenants on direct payment who paid all their rent, paid late⁵⁰ 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 payment.

Late payment in full may not affect landlords' overall rental income⁵¹ but it does impact on cash flow. It is of concern, therefore, that only 20 per cent of the 'best payers' (i.e. those who paid their rent in full while on direct payment) did not pay any rent late, with 80 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 payment, but one which landlords encounter regardless of the method of HB payment: 71 per cent of the 'best payers' in the comparator sample made at least one late payment.

⁵⁰ Late payment refers to those tenants who underpaid in one payment period but over paid in other rent payment periods to cover this shortfall.

⁵¹ Although other costs may be incurred such as arrears recovery and collection costs.

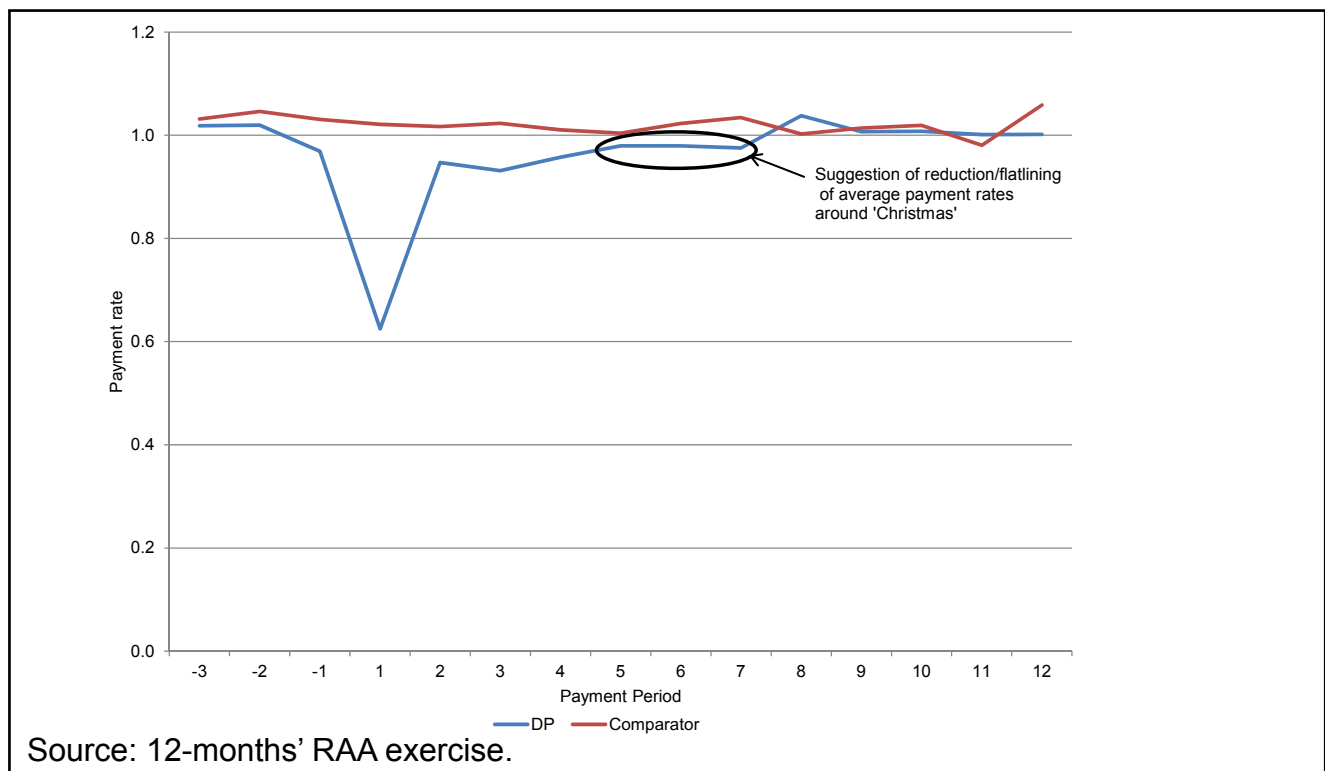
It is likely that some late payment reflects tenants 'juggling' different income sources, for example, using their HB to pay other bills and subsequently paying their rent from other benefits such as JSA or Child Benefit. The capacity to juggle income sources will diminish under UC conditions when most benefit income will be received in one sum. Late payment may, therefore, reduce.

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. Some stakeholders anticipated an increase in arrears in late autumn/winter as higher fuel bills and Christmas stretched tenants' budgets but this did not come to pass (see Figure 3.7).⁵² Payment rates flatlined round November/December 2012, book-ended by periods showing payment rate growth, but there was no 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.

Seasonal variations will be easier to identify in the 18-months' RAA exercise. This analysis will include a full summer period (which this analysis does not), another time of the year when an arrears spike might be anticipated.

Figure 3.7 Payment rates for tenants starting on direct payment in first quarter: not rebased



⁵² 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.

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

In short, no, much of the arrears that accrued in the early stages of direct payment had not been repaid at the end of the first 12 months of the 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, almost to baseline levels (see Questions 2 and 8, for example). 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. This would indicate that challenges associated with the shift to a new system, rather than tenant characteristics or financial capabilities may be driving arrears amongst this cohort of tenants. It suggests, perhaps, that some early arrears were the product of a period of 'bedding in' during which tenants were acclimatising to the new system, teething problems were encountered (systemic and administrative problems, for example) but issues, and the financial consequences of them, were quickly rectified.

However, **although the payment behaviour of many of those tenants who initially failed to pay all their rent improved over time, much of their '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 value of arrears was £1.2 million; at the end of the final payment period the value of arrears was £1.6 million – an increase of £0.4 million (33 per cent). Early arrears, therefore, were not repaid and continued to accumulate, albeit at a slower pace.

The shift to direct payment, then, represented a negative step-change in the overall rent account balances of many of those who accrued arrears during the early stages of direct payment. The majority (79 per cent) were still in arrears at the end of the first 12 months of the programme. 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 3.8 shows the proportion of tenants whose final rent account positions were in arrears, broken down by the extent to which they underpaid during their first three rent payment periods after being transferred onto direct payment. It shows that few of these tenants managed to repay all their arrears but that those who underpaid by a significant amount were the least likely to do so. Specifically, Figure 3.8 shows:

- of the **tenants who underpaid significantly (by 50 per cent or more – represented by the blue columns in Figure 3.8)** in their first three rent payment periods,⁵³ 90 per cent were in arrears, 83 per cent were in arrears of five per cent or more, 63 per cent were in arrears of 15 per cent or more, and 19 per cent were still in arrears of 50 per cent or more at the end of the first year of direct payments. These findings suggest that this cohort of tenants managed to repay some, but not all of the arrears accrued;

⁵³ 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 between 15 per cent and 50 per cent** in their first three rent payment periods (represented by the red columns in Figure 3.8): 81 per cent were in arrears, 68 per cent were in arrears of five per cent or more, 16 per cent were in arrears of 15 per cent or more, and just two per cent were in arrears of 50 per cent or more at the end of the first year of direct payments;
- of the **tenants who underpaid by 15 per cent or less** in the first three payment periods (represented by the green columns): 67 per cent were in arrears at the end of the first year of direct payments, 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 3.8 Overall underpayment by underpayment level in rent periods 1 to 3

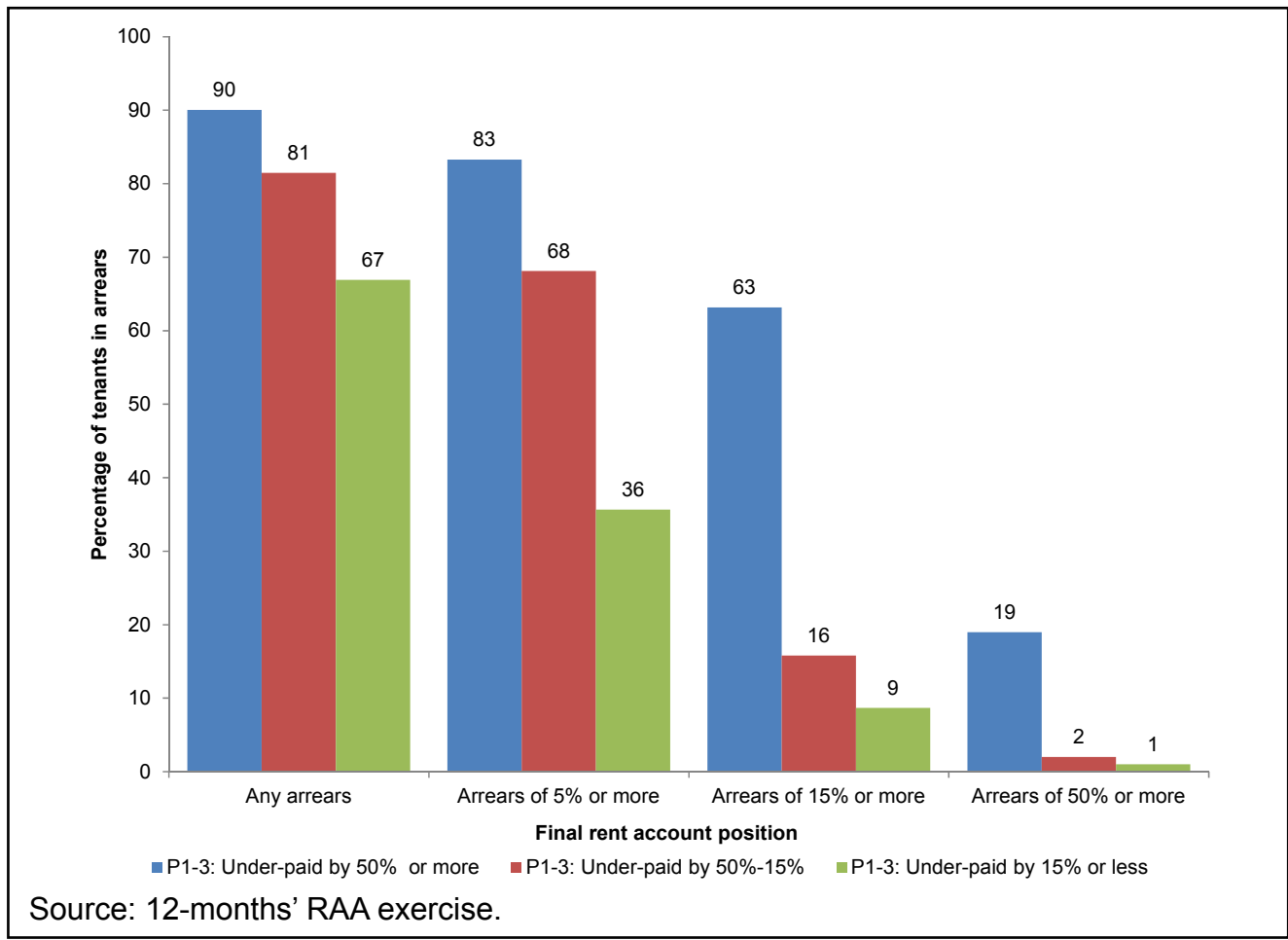


Figure 3.9 demonstrates the overall level of arrears for tenants who accrued arrears during the first three periods in which they were in receipt of direct payments.⁵⁴ It provides a figure for the first three rent payment periods following transfer to direct payment, a figure for the final 9 rent payment periods combined, and the full period on which tenants were in receipt of direct payment.⁵⁵

It shows that:

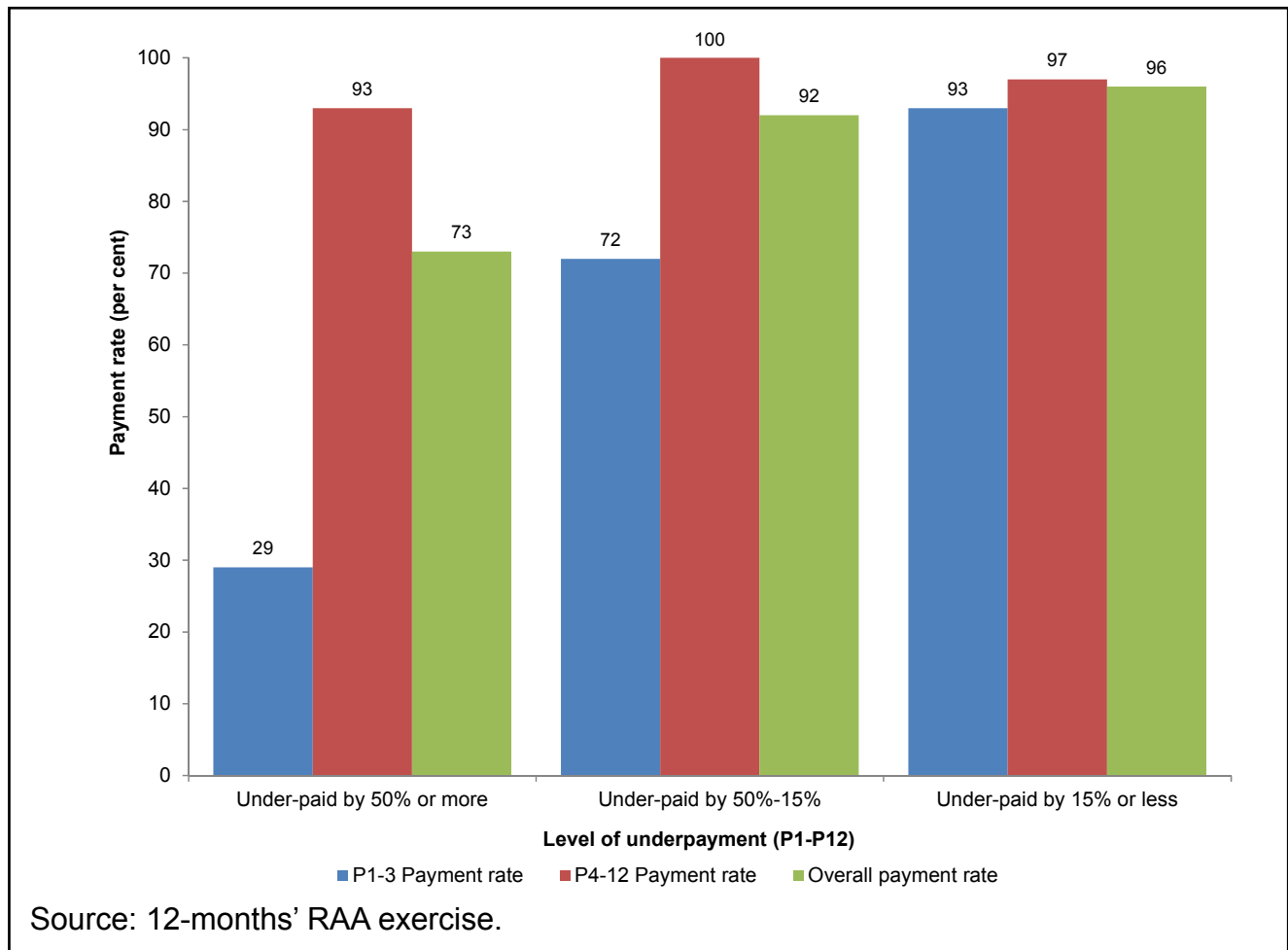
- **the total amount of arrears was not repaid;**
- **tenants who underpaid significantly (by 50 per cent or more) in their first three payment periods had the lowest overall payment rates.** The overall payment rate for tenants who underpaid significantly in the first three periods is represented by the first green column in Figure 3.9, showing that this cohort of tenants only paid 73 per cent of the rent owed during the time they were on direct payment: an arrears rate of 27 per cent. In contrast, the overall payment rates for those tenants underpaying by 15 to 50 per cent and by 15 per cent or less were higher: 92 per cent and 96 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 repayment 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 12) in Figure 3.9. For example, the overall payment rate amongst those who underpaid by 15 to 50 per cent in their first three periods increased from 72 per cent to 100 per cent. Again, this pattern is more pronounced – and change more marked – amongst those who underpaid significantly in their first three payment periods. Their payment rate increased from 29 per cent in the first three payment periods to 73 per cent in the final 9 payment periods.

As mentioned earlier in this chapter, DWP has already announced that under UC automatic switchback to direct payment will be considered if claimants accrue a certain level of arrears.

⁵⁴ This analysis removes tenants once they switchback so that each payment period includes only those who are still on direct payment.

⁵⁵ The length of time tenants were on direct payment will vary, depending on when they were transferred onto direct payment. Some received 12 direct payments of HB during the first 12 months of the DPDP while others may have only received five or six.

Figure 3.9 Level of arrears for tenants who accrued arrears during the first three periods in which they were in receipt of direct payments, but were not switched back



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?

It is not possible to provide robust answers to these questions. This is because the switchback process did not work in the way that was envisaged when the programme was conceived, with its complexity making it difficult to analyse and interpret rent account data relating to it. 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.⁵⁶

⁵⁶ 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/12 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 – nearly two-thirds of all switchbacks – who switched back under the additional ‘partial’ repayment triggers (i.e. triggers 3 and 4) and the relatively small number – 362 – of ‘full’ trigger switchbacks (i.e. triggers 1 and 2).
- The inclusion of trigger 4 – underpayment by 15 per cent or more in the preceding 12 weeks – undermined the ability of those landlords with an eight week or 12 week switchback trigger to test their salience. This was because it was possible to meet the criteria for trigger 4 with just one missed payment, i.e. before reaching the threshold for the main 8/12 week trigger. For example, if after 12 weeks on direct payment, a tenant whose rent is £100 per week fails to make one payment (£400) they would switchback under trigger 4 (12 weeks rent is £1,200 and 15 per cent of this is £180). If applied rigorously, it is only tenants who fail to pay their rent as soon as they transfer onto direct payment that can switchback 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 – and the acknowledgement by Project Areas that many had occurred as a result of only one underpayment.
- Project Areas implemented switchback triggers, and the switchback process differently: while some followed agreed protocols to the letter and very mechanistically others adopted a more flexible approach, viewing the criteria as loose guidelines. Some landlords used a relatively high degree of local discretion, drawing on their knowledge of the tenants. The result was tenants who switched back before meeting the criteria for one of the triggers, as well as those remaining on direct payment who had accrued the requisite arrears to switchback. In addition, the boundary between safeguarding as a result of vulnerability, and switching back was sometimes blurred. If information came to light about a tenant suggesting that they should have been safeguarded (not put onto direct payment) some landlords operated ‘discretionary reversions’, switching a tenant back on these grounds.

Q14. Is there an ‘arrears tipping point’, i.e. a point beyond which tenants typically continue to accrue arrears and switchback?

Unfortunately, **this analysis is rendered virtually impossible by the way in which the switchback process has been implemented (see Question 13)**. Variable practice, differing levels of discretion employed, and the use of ‘discretionary reversion’ (particularly for people landlords judged should not have been put on direct payment in the first place) complicate the task to the point where results appear meaningless. The relatively high number of tenants switching back after one missed payment under trigger 4 creates added problems.

Q15. Some tenants who were switched back subsequently switched forward: What do we know about them?

Only six per cent of the tenants who were switched back after being on direct payment were subsequently ‘switched forward’ (i.e. began receiving direct payments again). Given the low number of ‘forward switchers’⁵⁷ it is not possible to conduct detailed analysis of this sub-group at this point, and any findings must be treated with caution. Notwithstanding this, it is interesting to note that of the tenants who were switched forward:

⁵⁷ 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.

- 39 per cent were subsequently switched back again, raising questions about the effectiveness of efforts to reintroduce direct payment to people who initially failed to manage;
- the average time taken to switch-forward was 2.5 payment periods: 44 per cent were switched forward after only one payment period and 24 per cent were switched forward after two payment periods. The relatively high proportion of these tenants switching forward after just one payment period might indicate that they had initially switched back due to administrative or short-term problems rather than ongoing difficulties managing direct payment.

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

It is too early to assess the impact on direct payment of those welfare reforms introduced in April 2013. The last rent account data analysed for this report is from May 2013. However, preliminary analysis of the impact of one reform – the Removal of the Spare Room Subsidy (RSRS) – suggests that the RSRS initially impacted adversely on payment rates but not markedly. In addition, tenants on direct payment affected by the 14 per cent reduction in HB fared better than the comparator sample.⁵⁸ For example, Figures 3.10 and 3.11 show that:

- payment rates for direct payment tenants affected by the RSRS did not change markedly in the two payment periods following the introduction of the RSRS, although they did decrease a little amongst those affected by the 25 per cent rate. (Figure 3.10);
- in contrast, payment rates amongst comparator tenants affected by the RSRS dropped markedly. There was a large decrease in the payment rates for this group in the first payment period following the RSRS, particularly amongst those affected by the 25 per cent RSRS rate: 13 percentage points compared with a seven percentage point drop for tenants affected by the 14 per cent RSRS rate. (Figure 3.10);
- payment rates did rise again in the second payment period following the RSRS amongst all tenants except direct payment tenants affected by the 25 per cent rate. (Figure 3.10) As the payment rate exceeds one it is likely that some of the arrears accrued in payment period one were being repaid. It will be easier to interpret these figures once data are available over a longer time frame;
- looking at the proportion of tenants failing to pay some or all of their rent reveals a similar pattern. In the first period following the RSRS, the percentage of direct payment tenants and comparator tenants who underpaid their rent increased, particularly amongst those affected by the 25 per cent RSRS rate. The increase was greater, however, amongst comparator tenants. In the second payment period following the RSRS the proportion of comparator tenants who failed to pay some or all of their rent reduced (see Figure 3.11).

⁵⁸ Tenants from Oxford were not included in this analysis due to outstanding queries with their data. these issues should be rectified by the time the 18-month analysis is conducted.

With only two months' rent data no firm conclusions can be drawn, but the fact that direct payment tenants seemed to fare better in the period immediately after the RSRS does raise the question of whether being on direct payment better equips tenants to manage the RSRS.

Clearer insight into the impact of recent welfare reforms on the DPDP will be provided in the 18-months' Rent Account Analysis (RAA) report, which will draw on a further six months of data. There was great flux between the first two payment periods following the RSRS so it will be interesting to track change in the longer run. For example:

- will payment and underpayment rates remain unstable?
- if rates stabilise, how will they differ to the baseline position?
- does experience of direct payment appear to make any noticeable difference to management of the RSRS in the longer term?

Figure 3.10 Payment rates for tenants affected by the RSRS

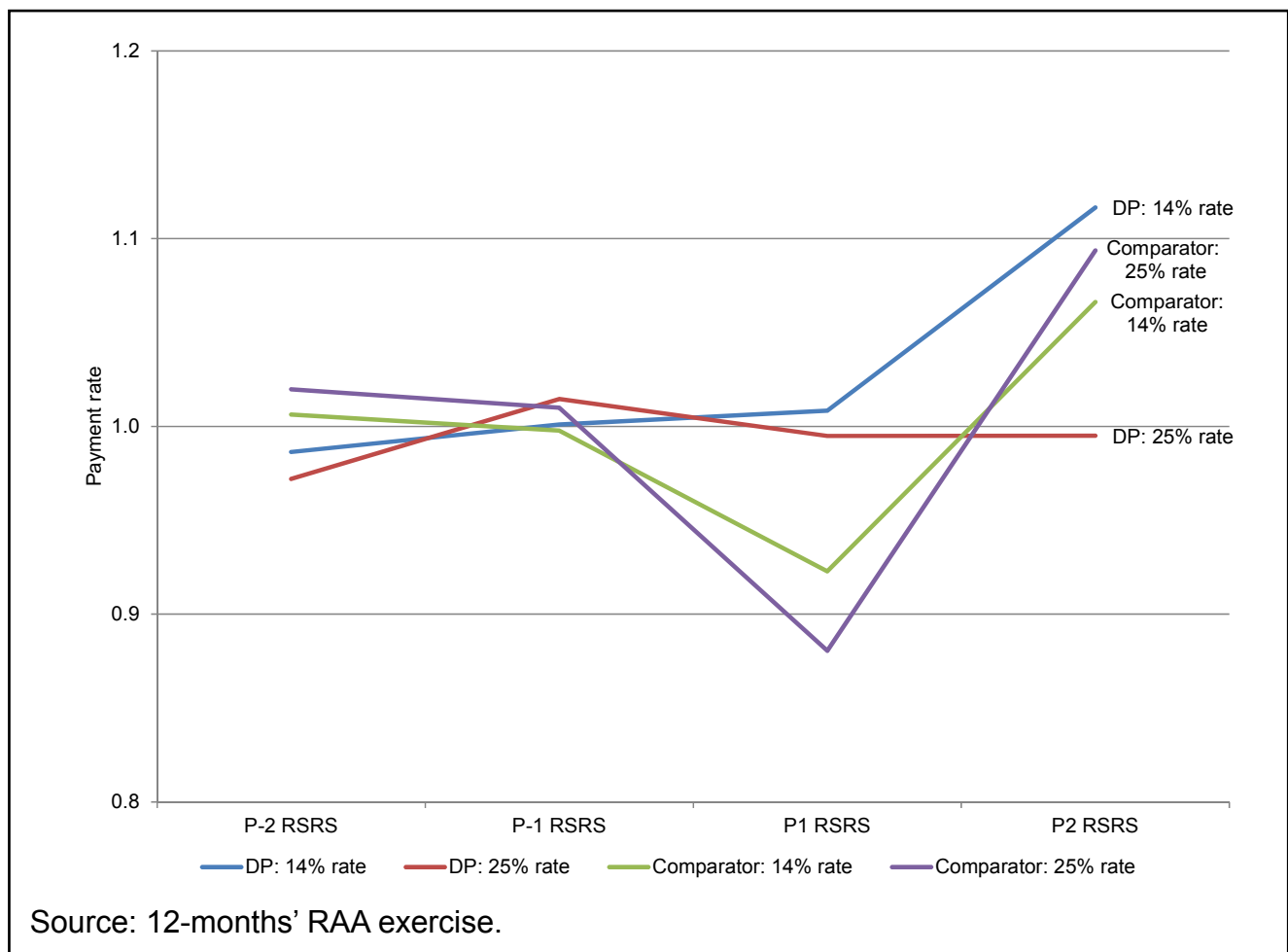
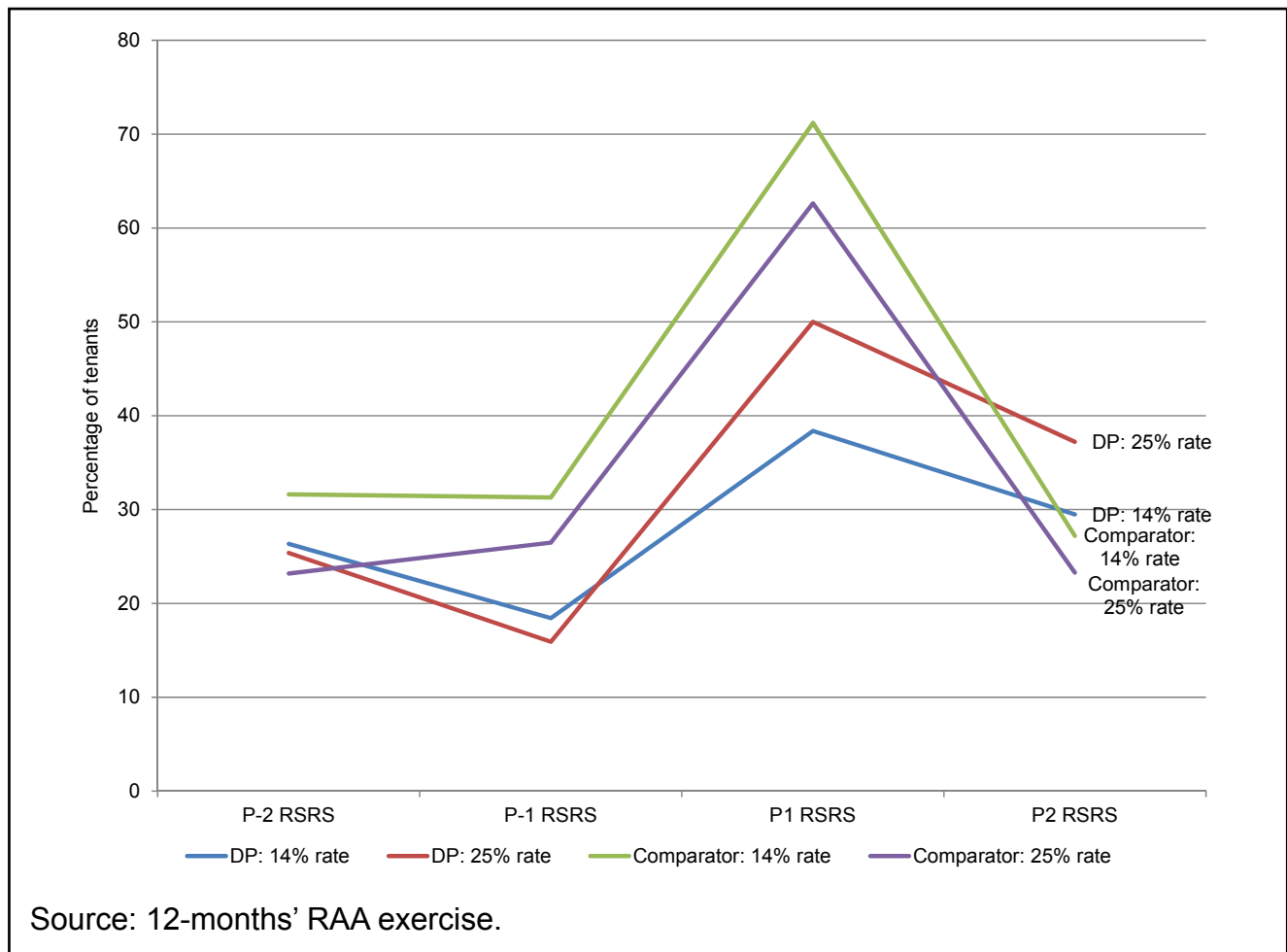


Figure 3.11 Percentage of tenants affected by the RSRS underpaying



Q17. In addition to arrears, are there other costs to landlords of implementing direct payment? And what is the total financial impact on landlords of direct payment?

In answer to the first question, yes: there are additional costs associated with delivering direct payment and there was a consensus amongst landlords that it was more resource intensive than landlord payment. However, it is not possible to quantify them and to answer the second question because of a lack of corroborating data. This is because none of the Project Areas have undertaken a systematic and comprehensive assessment of these costs or held monitoring data on them.⁵⁹ And, as noted earlier, the data that were secured by the study team on the subject were garnered through in-depth interviews with key local stakeholders.

⁵⁹ Over the remainder of the evaluation the study team are going to work closely with the Project Areas in an attempt to shed more light on this issue.

When exploring this issue 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 to 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 [rent collection software package] ...'*;
- **the cost of communicating with tenants.** There were (non-staff) cost/ resource implications for all four of the most commonly used communication methods used by landlords: letter writing, telephoning, face-to-face visits, and SMS 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 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.

Q18. 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 most⁶⁰ on the likelihood of tenants accruing arrears in a rent payment period:^{xvii}

- tenants who paid part or all of their rent by DD were statistically less likely to underpay or not pay their rent than those using a different payment method. DD 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 DD 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' were particularly likely to underpay their rent by 75 per cent or not pay at all, while 'couples with no dependants' were least likely to underpay or not pay their rent;
- rent levels were found to influence payment rates: tenants with relatively 'high' rent levels (over £115 per week) were more likely to underpay 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 nor partner worked;
- compared with tenants on full HB, those on partial HB were significantly more likely to underpay by a relatively small amount – they were more likely to underpay by 15 per cent and 5 per cent or more, but less likely to underpay by larger amounts. 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;
- interestingly there were no discernible differences between the characteristics and circumstances of tenants who underpaid, and those who paid no rent at all.

⁶⁰ Rent account data provide only limited profile information, including tenant's 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.

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 (DD, for example). 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.

As part of the process by which tenants were transferred onto direct payment (or not), landlords undertook a risk assessment of the likelihood of them encountering difficulties under direct payment. Central to this process was a scoring matrix which allowed landlords to derive risk scores. It drew on a range of criteria that were believed to be related to tenants' suitability for direct payment including previous rent arrears, learning disability, mental health, and substance misuse problems, and allowed Project Areas to generate readiness scores for their tenants. Tenants were classified into three risk groups: low; medium and high.⁶¹ Comparing data generated by the support assessment scoring process with that from the 12-months' RAA exercise did not produce clear results. This is not surprising given reports by Project Areas of difficulties using the assessment tool, and the variable approach to doing so.

⁶¹ More information about the matrix and the support assessment process can be found in the *Learning the Lessons: Six Months In report*, which can be downloaded from the DWP website at: <http://www.shu.ac.uk/research/cresr/sites/shu.ac.uk/files/direct-payments-learning-lessons.pdf>

4 Conclusion

Analysis of the rent accounts of tenants who received direct payments during the first year of the Direct Payment Demonstration Project (DPDP) shows that rent arrears increased as a result of the change in the way Housing Benefit (HB) is paid to social housing tenants. This is not a surprise. The question has never been ‘will rent arrears increase?’ but ‘by how much will they increase?’

Analysis suggests that a decrease in rent payment rates of 6.6 percentage points can be attributed to the direct payment of HB. In other words, 6.6 percentage points less rent was paid in each rent payment period than would have been had direct payment not been introduced.⁶² For some, this figure will be significantly better than the worst case scenario envisaged. But 6.6 percentage points less rent will represent a significant decrease for most social landlords, affecting income and cash flow. The introduction of direct payment has also seen an increase in the proportion of tenants accruing arrears: being on direct payment increased the likelihood of accruing arrears in a payment period by 11 per cent. This has an impact on landlord resource – the higher the number of non-/underpayers (regardless of the amount they owe) the more actions are required to recoup that debt.

On a more positive note, a key finding is that payment rates improved markedly over time. There was a distinct and significant ‘spike’ in arrears in the first three periods in which tenants received direct payments. In fact, three-quarters of all additional arrears that accrued in the first 12 months of the DPDP accrued in the first three payment periods. This is important. By the end of the first 12 months, payment rates were only slightly lower than they had been prior to the introduction of direct payment and had been on an upward trajectory from the outset. Direct payment tenants reached parity with the comparator sample by their eighth payment. The negative impact of direct payment reduced dramatically as the programme progressed. It will be interesting to see if this remains the case going forward.

It is not clear whether the early arrears spike reflects problems inherent in transitioning tenants to a new system, or reflects that direct payment was in its infancy and was implemented as part of the DPDPs trialling and testing the policy, with Project Areas learning as they went. The fact that tenants who went onto direct payment a little later in the programme fared better suggests the latter. On the other hand, first payment rates still remained relatively low amongst this group and decreased again for those who went onto direct payment in the final three payment periods.

The picture, then, is complicated but certainly suggests that the transition to direct payment is a critical point in the process, 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 (and/or landlords) struggled in the early periods, quickly learned to manage direct payment and improved payment rates, but did not repay/collect the early arrears accrued. Improving payment rates in the first three payment periods will, therefore, reduce the negative impact of direct payment on landlords’ income significantly. These findings also suggest that those landlords able to absorb a ‘one-off’ reduction in income may be better placed to manage the

⁶² In practice, a reduction in rent payment rates usually equates to increased arrears but this is not necessarily the case. If a tenant overpaid and then paid all their rent in full this would appear as a reduction in the rent payment rate, but the tenant would not be in arrears.

overall impact of direct payment. Three Project Areas brought additional tenants into scope during the six-month extension of the DPDP and it will be interesting to see whether they display similar payment patterns to those who went onto direct payment during the first 12 months.

The analysis also offers insight into those groups who may be particularly at risk of accruing arrears, and at whom intervention could, perhaps, be targeted. This includes younger people (under the age of 25), single person households, people with relatively high rent levels, and households where neither the claimant nor their partner was in work. This analysis will be supplemented by results from the second stage of the tenant survey which will examine 'risk factors' associated with arrears. Direct Debit (DD) was found to be an effective method for collecting rent – tenants paying some or all of their rent by DD were much less likely to underpay than those using different payment methods – although evidence from other strands of the evaluation suggests that DD is not always an appropriate, or preferred method of payment for all tenants.

One unexpected finding to emerge from the DPDPs, and confirmed by the analysis of rent accounts presented in this report, relates to the proportion of tenants who paid some, but not all of their rent. Of all those who accrued arrears on direct payment, more were 'underpayers' than 'non-payers'. In an effort to understand the issue of underpayment in more detail, the research team has conducted a bespoke piece of research into this important group and produced a report on the back of this (see below).

In this report, it is too early to assess the impact of other welfare reforms (for example, the Benefit Cap and the Removal of the Spare Room Subsidy) on the capacity of tenants and landlords to manage direct payment, but these changes may well alter the picture to some extent. The 18-months' Rent Account Analysis (RAA) exercise will reveal whether this is the case. Similarly, a longer time frame will allow the results to be interpreted with more certainty as well as confirming the apparent direct payment trajectory from an arrears spike to baseline payment levels.

4.1 Future outputs from the evaluation

Three reports have been published alongside this report:

- **an extended learning report** which highlights the key learning to emerge from the first 12 months of the programme being 'live', i.e. from June 2012 to June 2013. While it makes extensive reference to qualitative material gathered from a range of sources, it also draws on quantitative material, specifically data generated from the stage two tenant survey and rent account data. See *Direct Payment Demonstration Projects: 12 months in extended learning report*, DWP Research Report No. 876;
- **a short report highlighting the key findings of the second stage tenant survey.** See *Direct Payment Demonstration Projects: Report from the stage 2 survey of tenants*, DWP Research Report No. 878;
- a report highlighting the key issues to emerge from the research into **underpayment.** The report, *Direct Payment Demonstration Projects: Rent underpayment*, DWP Research Report No. 877, draws on: an analysis of landlords' rent accounts; a telephone survey of underpayers; and in-depth interviews with 20 tenants who took part in this survey.

Later in the year, the following reports will be published:

- **a report highlighting the key issues to emerge from the 18-months' RAA exercise.** This will analyse data for the programme for its entire duration and will seek to identify any impact of welfare reforms, such as RSRS, on payment and arrears levels in the DPDP programme;
- **a report highlighting the key findings of the third stage tenant survey.** In doing so, data gleaned from this survey will be compared with those derived from the 'Baseline' and Second Stage surveys;
- **an overarching final report.** This will pull together all the analysis undertaken by the study team to highlight the evaluation's key findings.

5 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 Direct Payment Demonstration Projects (DPDPs) programme and, working alongside the Department for Work and Pensions (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; and
- 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: <http://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 comprises the following key elements:

- **Tenant surveys.** A key element of the study is three (face-to-face) household surveys. Two of them have already taken place: a 'baseline' survey of 1,965 tenants in the six Project Areas was conducted between May and July 2012; and a second, 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 will take place early in 2014, which will again involve the reinterviewing of tenants who participated in the baseline and second surveys. The study team is also undertaking a telephone survey of trigger 3 and 4 underpayers, i.e. those tenants who were switched back under these triggers.
- **Qualitative interviews with tenants.** This encompasses a number of strands, including: a panel of six tenants in each area who are interviewed face-to-face in June/July 2012, January 2013, June 2013, and January/February 2014, and with whom regular telephone contact is maintained; a panel of two tenants in each area who have switched back to landlord payment, interviewed in January 2013, June 2013 and January 2014, and with whom regular telephone contact is 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 is also undertaking bespoke qualitative exercises, which involves 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 includes: 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 DWP officers (in February 2013 and January 2014); interactive feedback events, bringing together stakeholders from the six Project Areas (in January 2013, December 2013 and April 2014); and a local stakeholder panel comprising approximately six key officers in each Project Area who report on emerging issues through face-to-face interviews in June 2012 and early 2014.

^{iv} In addition to five (succinct) *Learning Reports*, which have highlighted the key learning to emerge from Projects Areas since the evaluation began, the two reports published by the study team to date are:

- 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:

https://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 focused on the key learning to emerge from the first year of the programme, which encompassed the six-month period leading up to its launch in June 2012, and the first six months of the programme being 'live'. It draws solely on qualitative material garnered from stakeholders and tenants. The report can be downloaded from the DWP website at: <http://www.shu.ac.uk/research/cresr/sites/shu.ac.uk/files/direct-payments-learning-lessons.pdf>

^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 been 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:

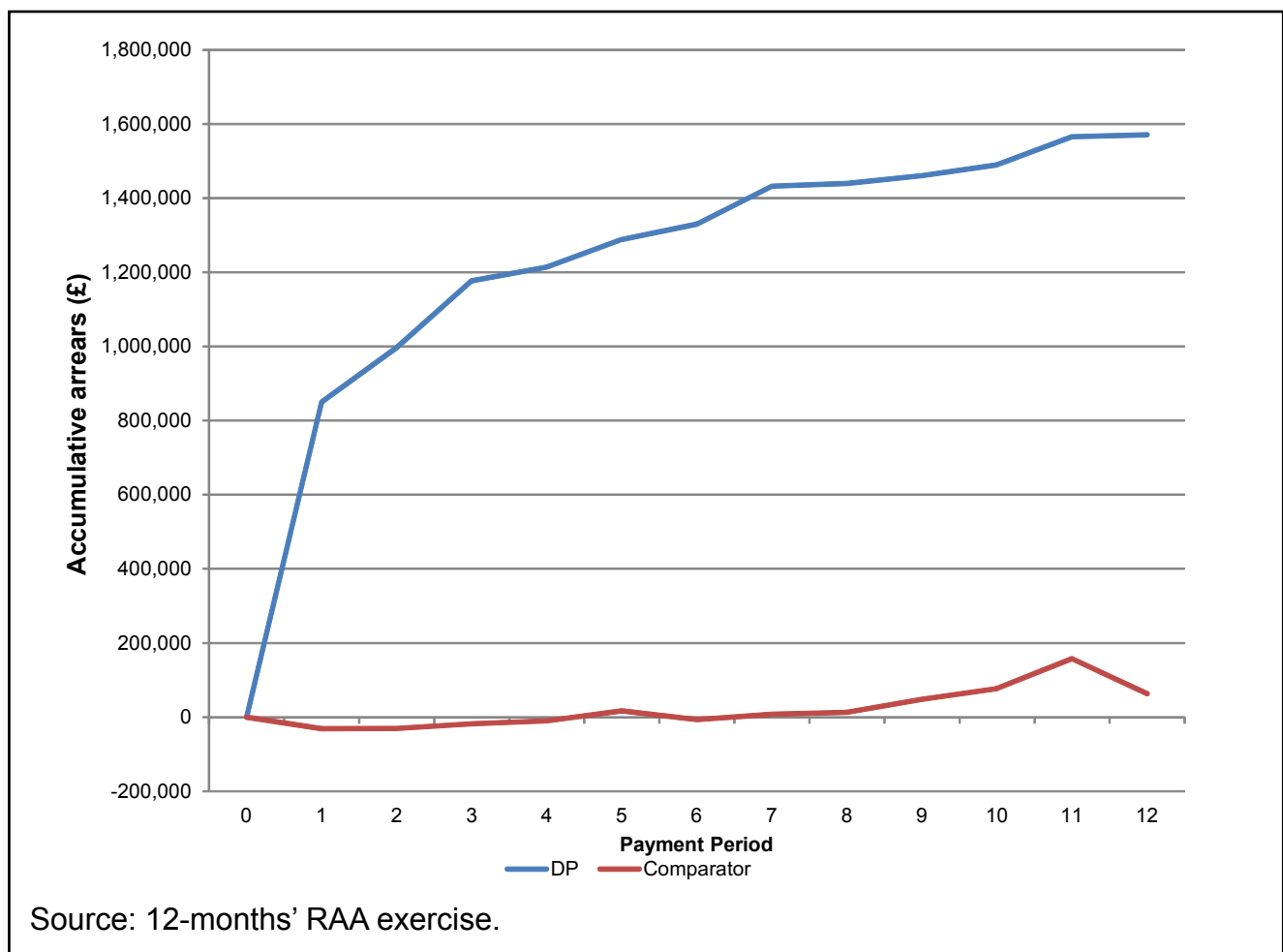
- seasonal factors, such as Christmas, summer holidays or annual rent changes;
- landlords operating rent-free weeks;
- changes to economy; and
- and the introduction of other welfare reforms.

^{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 Housing Benefit (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 Figure 5.1 shows how these rent arrears accumulated during the first 12 payment periods of the DPDP.

Figure 5.1 Accumulation of rent arrears during first 12 payment periods



x The analysis revealed that direct payment has had a net additional impact of -0.066, 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 may be overpaying to pay back previous arrears – the estimated impacts are higher. Overall impact is estimated to be -0.075: tenants on direct payment paid 7.5 percentage points less per rent payment period. Similarly, impacts by quarter on direct payment become: 16.4 percentage points higher arrears in quarter 1; 4.3 percentage higher arrears in quarter 2; 2.5 percentage points higher arrears in quarter 3; and 1.9 percentage points higher arrears in quarter 4.

xi Significant at a 0.001 level.

^{xii} Significant at a 0.001 level.

^{xiii} Significant at a 0.001 level.

^{xiv} Significant at a 0.005 level. As such, however, the difference in the figures for quarters 3 and 4 average rent are not statistically significantly.

^{xv} Including the opening balance for the rent period in the model – i.e. taking into account that a tenant may be overpaying to pay back an earlier arrears – the estimated impacts are higher. Being on direct payment was estimated to increase the likelihood of tenants accruing arrears in a given rent period by 17 percentage points.

^{xvi} The same pattern is observed when considering the percentage of tenants recording arrears in period 1 on direct payment by stage. 64 per cent of stage 1 and 66 per cent of stage 2 tenants recorded rent payment arrears in Period 1. This percentage fell dramatically, stage on stage, to only 38 per cent of stage 5 tenants recording rent payment arrears, but increased to 71 per cent of stages 6 tenants and 53 per cent of stage 7 tenants who recorded rent arrears.

^{xvii} 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.

^{xviii} 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.