

# Direct Payment of Housing Benefit: *Are Social Landlords Ready?*

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# Executive Summary

This summary presents the key findings of a survey of social landlords in England, Scotland and Wales exploring the readiness of landlords for the introduction of direct payment of housing benefit to tenants.

A total of 172 social landlords (councils, ALMOs and housing associations) responded to the survey, which set out to explore whether landlord data and IT systems are fit for the purpose of managing changes wrought by direct payments. Landlords were also asked a series of questions about the likely impact of direct payment on their organisation. The research was commissioned by Housing Partners and undertaken by a team from the Centre for Regional Economic and Social Research, Sheffield Hallam University. The next phase of the research will explore further the issues raised by the survey through a series of landlord case studies.

## Key Findings

- Most landlords (88 per cent) do not have access to the data they need to manage the introduction of the direct payment of housing benefit to tenants.
- Landlords estimated that 26 per cent of tenants will need support with the move to direct payment or will struggle with direct payment even with support.
- Many landlords are likely to struggle identifying individual vulnerable tenants who should not move onto direct payment or will need support with direct payments.
- Landlords have limited intelligence about which tenants are likely to struggle paying their rent. Difficulties were reported accessing information about financial inclusion and financial difficulties, important predictors of whether a tenant is likely to struggle paying their rent.
- Landlords are taking steps to improve the data they hold on tenants, but 81 per cent reported that data protection issues limit access to data on tenants.
- A change in the law allowing the Department for Work and Pensions (DWP) to share universal credit claimants' personal data with social landlords, councils and charities might help address some of these data problems, but managing the impact of direct payment also involves landlords having IT systems that are fit for purpose.
- Over half (56 per cent) of landlords reported that the suitability of their IT system was limiting their ability to prepare for direct payments. The majority of landlords (81 per cent) reported that data on tenants is currently held on more than one system, 42 per cent reporting that tenant data was held on a combination of electronic and paper-based systems.
- Landlords expect the introduction of direct payment to have a major impact on their operations and more than one-third consider direct payment to be a threat to their financial stability. Virtually all landlords (98 per cent) expect to see an increase in rent arrears. Just under one-third expect direct payment to impact on their relationship with institutional lenders and one-quarter consider direct payments to be a threat to their new build programme.

# Introduction

Universal Credit (UC) is a new integrated benefit introduced by the Welfare Reform Act 2012. It replaces a number of in-work and out of work benefits received by people of working age, including Housing Benefit and Local Housing Allowance. Under UC, claimants receive one single monthly payment. The introduction of UC is a cornerstone of reforms intended to simplify the benefit system, encourage more people into work, and encourage greater responsibility amongst benefit recipients for managing their finances and making rental payments.

The introduction of UC represents a major change for social landlords and their tenants. Under the previous system, all local authority tenants and the majority of housing association tenants had their housing benefit paid directly to their landlord. The result was that social landlords were guaranteed payment of rental income from tenants receiving housing benefit. Under UC, housing benefit will be paid directly to tenants as part of the single monthly payment. It will then be the responsibility of tenants to pay their rent. The Government believes that this approach will help replicate the budgeting skills that people need when working and will help break the cycle of welfare dependency that they consider to be a feature of the current benefit system.

Pensioners will be excluded from UC and residents of exempt supported housing will continue to have their housing benefit paid outside UC and directly to their landlord. The DWP also accepts that there will be some vulnerable working age people for whom direct payment to the landlord will continue (referred to as an Alternative Payment Arrangement). The original intention was that UC would apply to new benefit claimants from October 2013. The timetable for completing the transfer of all claimants onto UC was 2017, but the deadline for completing the roll out of UC was subsequently pushed back to December 2019.<sup>1</sup>

## 1.1. Focus of this study

Social landlords have voiced various concerns about the potential impact of direct payment of housing benefit to social tenants.<sup>2</sup> Central are concerns about people on low incomes using the housing element of UC to cover other bills or debts, resulting in an increase in rent arrears, as witnessed in the six demonstration project areas

<sup>1</sup> National Audit Office (2014) *Universal Credit: Progress Update*. HC 786, 26 November.

<sup>2</sup> Wilson, W. (2014) *Paying the Housing Element of Universal Credit Direct to Tenants in Social Rented Housing*. Standard Note SN/SP/6291. House of Commons Library; Ipsos MORI (2013) *Impact of Welfare Reform on Housing Associations - 2012 Baseline Report*; Williams, P., Clarke, A. and Whitehead, C. (2013) *Intended and unintended Consequences? A case study survey of housing associations and welfare reforms*. University of Cambridge; Hickman, P., Reeve, K. and Green, S. (2014) *Direct Payment Demonstration Projects: 12 months in extended learning report*. London: DWP.

where direct payment to tenants has been trialled.<sup>3</sup> In response, social landlords will have to dedicate more resources to collecting rental payments and chasing arrears, which could limit investment in other services for tenants. There is also the possibility that rising rent arrears will make it more difficult for landlords to negotiate favourable rates with lenders and will erode surpluses, with knock-on consequences for landlord new build programmes and financial stability.

To be able to minimise these risks, social landlords need reliable, up to date intelligence about their tenants: which tenants are vulnerable and should continue to have their housing benefit paid direct to their landlord; which tenants might struggle with the practicalities of paying their rent, for example, because they do not have a bank account with a direct debit facility; which tenants are in debt and might benefit from financial advice and guidance? Landlords will also require effective systems for rent collection, real-time monitoring of rent accounts and targeting recovery action. These systems will need to be capable of supporting queries across variable data ranges, rather than fixed payment cycles, and supporting analysis of payment patterns over time.

This study set out to explore the extent to which social landlords have the data and IT systems required to effectively manage the risks arising from the introduction of the direct payment of housing benefit to tenants.

## 1.2. Approach

An online survey was sent directly to over 700 social landlords in England, Scotland and Wales in July 2014. Responses were also invited via publicity in the housing press and some landlords were contacted by telephone in an attempt to boost the sample. In total, 172 social landlords responded to the survey between July and October 2014.

More than three-quarters (77 per cent) of these landlords were housing associations (24 per cent were large scale voluntary transfer associations) (Table 1). Just under one quarter were local authorities (13 per cent) or Arm's Length Management Organisations<sup>4</sup> (nine per cent). The stock base of responding landlords varied from less than 300 units to over 40,000 units. The 172 responding landlords were managing more than 130,000 units across England, Scotland and Wales (Table 2). On average, landlords reported receiving 60 per cent of their total rent roll in housing benefit payments.

The survey asked a series of questions about the coverage, quality and accessibility of tenant data and explored the readiness of landlord IT systems for the introduction of UC and the direct payment of housing benefit to tenants. Headline findings are presented below.

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<sup>3</sup> Reeve, K., Wilson, I., Hickman, P. and Dayson, C. (2014) *Direct Payment Demonstration Projects: Key findings of the 18 months' Rent Account Analysis exercise*. London: DWP.

<sup>4</sup> An Arm's length management organisation (ALMO) is a not for profit company that manages housing and provides housing services on behalf of a local authority.

**Table 1: Type of landlord**

<i>All respondents</i>		
	<b>Count</b>	<b>Per cent</b>
Local authority	22	13
ALMO	15	9
LSVT housing association	39	24
Housing association	87	53
Housing coop	0	0
Other	2	1
<b>Total</b>	<b>165</b>	<b>100</b>

**Table 2: Regions/Nations organisation operates in**

<i>All respondents</i>		
	<b>Count</b>	<b>Per cent*</b>
South East	26	16
South West	15	9
East Anglia	15	9
East Midlands	22	13
West Midlands	18	11
London	19	12
Yorkshire	15	9
North East	10	6
North West	22	13
Scotland	21	13
Wales	22	13
<i>Base</i>	<i>164</i>	

\*Some organisations operate in more than one region/nation. Hence, percentages do not sum to 100

# Findings

# 2

## 2.1. Data to manage direct payment

**Most landlords do not have access to the data they need to manage the introduction of direct payment of housing benefit to tenants.** The majority of landlords (69 per cent) reported that they have (very or fairly) good data about their tenants and some 80 per cent of landlords reported that data are easily accessible. The majority also reported that it is very easy for staff to access information about tenant telephone numbers, their household situation, whether they pay their rent by direct debit, whether a tenant is receiving housing benefit and whether a tenant is in rent arrears. However, only 20 per cent of landlords agreed that they have access to all the information they need about tenants to successfully manage the introduction of direct payment (Table 3).

**Table 3: To what extent do you agree or disagree with the following statement: "We have access to all the information we need about tenants to successfully manage the introduction of Direct Payments"**

	<i>All respondents</i>	
	<b>Count</b>	<b>Per cent</b>
Strongly agree	2	1
Agree	18	11
Neither agree nor disagree	55	34
Disagree	66	41
Strongly disagree	19	12
Don't know	2	1
Total	162	100

**Landlords estimated that, on average, 26 per cent of tenants will need support with the move to direct payment or struggle with direct payment even with support (Table 4). However, many landlords appear likely to struggle to identify individual vulnerable tenants who should not move onto direct payments or are likely to need support with direct payments.** Concern about access to the information required to manage direct payments is reflected in the difficulties reported identifying vulnerable tenants. Only 20 per cent of landlords said that staff could very easily access information about the vulnerabilities or support needs of tenants and 33 per cent reported that this information was difficult to access (Table 5).



**Table 4: Please estimate the proportion of your tenants in receipt of Housing Benefit (full or partial) you think...**

	<i>All respondents</i>				
	<b>Min.</b>	<b>Max.</b>	<b>Mean</b>	<b>Median</b>	<b>Base</b>
Can go on to Direct Payments with little or no support (%)	0	90	37	34	140
Will need support with the move to Direct Payments (%)	5	80	38	39	140
Would struggle with Direct Payments even with support (%)	5	100	26	20	142

It is not clear at present what role, if any, social landlords will play in assessing tenant suitability for direct payment, but the Government is currently trialling a scheme whereby social landlords can apply for 'Trusted Partner Status'.<sup>5</sup> As trusted partners they will be able to request an Alternative Payment Arrangement for tenants they know to be vulnerable. Difficulties accessing information about the vulnerabilities or support needs of tenants raises questions about the potential of some landlords to play this role and identify tenants who should continue to have housing benefit paid directly to their landlord.

Safeguarding vulnerable tenants and ensuring those who need it are adequately supported is vital for minimising the financial risks associated with direct payment. If tenants who are unable to manage their own rent payments are transferred onto direct payment then landlords' rent collection rates will fall. The impact on tenants could also be significant - introducing indebtedness (rent arrears), financial hardship (repaying arrears) and, potentially, repossession. **Landlords have little intelligence about which tenants are likely to struggle paying their rent.** Difficulties were reported accessing information about financial inclusion and financial difficulties, important predictors of whether a tenant is likely to struggle paying their rent. Only 22 per cent of landlords could very or quite easily access information about whether a tenant has a bank account with a direct debit facility; only 15 per cent could very or quite easily access information about the financial capabilities of tenants; and only 37 per cent could very or quite easily access information about whether a tenant has any debts (other than rent arrears) (Table 5). Smaller landlords managing fewer properties reported being more easily able to access information about financial inclusion and financial difficulties faced by tenants. This information is needed if accurate safeguarding decisions are to be made, appropriate support offered, and rent collection activities (including preventative interventions and rent account monitoring) targeted most effectively.

**Landlords are taking steps to improve the data they hold on tenants.** The majority of landlords (83 per cent) reported that they are taking steps to improve the quality of the information they hold on their tenants in preparation for the introduction of direct payments and 15 per cent reported intending to do so in the future. Most (89 per cent) reported that they would benefit from sharing data about tenants with other organisations (only 26 per cent reported currently sharing data about tenants with other organisations, such as DWP or social services). However, a large majority of landlords (81 per cent) reported that data protection issues limit access to data on tenants.

<sup>5</sup> See Inside Housing 19<sup>th</sup> June 2014 Government considering new rules for Universal Credit.

**Table 5: How easy or difficult is it for relevant staff to access the following information about tenants?**

	<i>All respondents</i>													
	Very easy (readily available from IT system)		Quite easy		Neither easy nor difficult		Quite difficult		Very difficult (only available by engaging with tenant)		Don't know		Total	
	Count	Per cent	Count	Per cent	Count	Per cent	Count	Per cent	Count	Per cent	Count	Per cent	Count	Per cent
Their telephone number	142	87	16	10	4	2	0	0	1	1	0	0	163	100
Their email	103	63	29	18	12	7	7	4	8	5	4	2	163	100
The type of household they live in	114	71	23	14	13	8	6	4	5	3	0	0	161	100
The number of people (including dependents) in a household	79	48	36	22	18	11	22	13	8	5	0	0	163	100
The ethnicity of tenants	86	53	52	32	8	5	11	7	4	2	1	1	162	100
Whether a property is under-occupied	62	38	47	29	22	13	22	13	10	6	0	0	163	100
If a tenant is in rent arrears	152	93	10	6	0	0	0	0	1	1	0	0	163	100
If a tenant has any debts (other than rent arrears)	19	12	25	15	23	14	34	21	60	37	2	1	163	100
The financial capabilities (budgeting skills etc.) of a tenant	4	2	13	8	28	17	41	25	75	46	2	1	163	100
Whether a tenant has a bank account with a direct debit facility	15	9	13	8	23	14	41	25	68	42	1	1	161	100
Whether a tenant currently pays by direct debit	124	76	33	20	4	2	1	1	1	1	0	0	163	100
Any vulnerabilities or support needs (health problems, alcohol and drug related problems etc.) of a tenant	32	20	45	28	32	20	25	16	27	17	0	0	161	100
Whether a tenant is in receipt of Housing Benefit (full or partial)	136	83	25	15	2	1	0	0	0	0	0	0	163	100
Whether tenants in a household are working age adults in employment	38	23	39	24	22	13	32	20	31	19	1	1	163	100

The fact that most landlords do not have access to data they need to manage the introduction of direct payment of housing benefit to tenants helps explain why the vast majority of landlords responding to government consultation supported a change in the law to allow DWP to share universal credit claimants' personal data with social landlords, councils and charities<sup>6</sup>. The stated objectives of this data sharing agreement are to help landlords identify households where the tenant may need advice, support or assistance. The information to be shared could include information about debts, benefits received, medical records and computer literacy. The national tenant body, the Tenants' and Residents' Organisations of England (TAROE), has condemned the proposals, saying they went 'too far' and were 'very, very dangerous'<sup>7</sup>. Whether they address the data problems identified above will depend upon the quality of the data and the extent to which they capture the range and extent of issues likely to increase the vulnerability of tenants to the risks associated with direct payment. Landlord IT systems will also need to be fit for the purpose of managing and processing data.

## 2.2. An IT system fit for purpose

A series of questions explored whether IT systems are fit for purpose given the demands placed on landlords by the introduction of direct payments.

**Landlord IT systems appear limited in their ability to help landlords effectively manage the impact of direct payments.** Over half (56 per cent) of landlords reported that the suitability of their IT system was limiting their ability to prepare for direct payments (Table 6). There was some variability in landlord views about the suitability of their IT system, with local authority landlords being less likely than housing associations to identify the suitability of their IT system as a factor undermining preparations for direct payments (43 per cent).

**Table 6: Is anything limiting your ability to prepare for Direct Payments?**

<i>All respondents</i>		
	<b>Count</b>	<b>Per cent</b>
Clarity about what Direct Payments will involve	97	59
Clear timetable for introduction	157	95
Resources (staffing and finance)	90	55
Suitability of IT systems	93	56
Availability of data about tenants	124	75
Other	16	10
<i>Base</i>	165	

The majority of landlords (81 per cent) reported that data on tenants is currently held on more than one system, 42 per cent reporting that tenant data was held on a combination of electronic and paper-based systems (Table 7). Less than 10 per cent of local authority landlords and ALMOs reported having tenant data on one electronic system, compared to more than 20 per cent of housing associations. However,

<sup>6</sup> see [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/397566/response-universal-credit-data-sharing-local-support-providers-consultation.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/397566/response-universal-credit-data-sharing-local-support-providers-consultation.pdf)

<sup>7</sup> Spurr, H. (2015) Benefit claimants' personal data to be shared from February. *Inside Housing*, 27 January.

almost half of housing associations reported holding some tenant data on a paper system. Only five per cent of all landlords holding data about tenants on different systems reported that it would be very easy to pull these data together and one-third reported that it would prove difficult to pull data together (Table 8).

It is likely that some of the difficulties reported accessing information about tenants noted above can be explained with reference to limited functionality of IT systems and the fact that some information remains paper based. Information about tenants support needs and financial capabilities, for example, may be more likely to be kept in the form of case notes or in paper based systems where specific details are harder to retrieve. To effectively manage direct payment, landlords may need to bring together data on tenants' financial circumstances, household situations and support needs, and their rent account information to make decisions about safeguarding, intervention and appropriation collection activity.

**Table 7: Please indicate the form in which your organisation holds data about your tenants:**

<i>All respondents</i>		
	<b>Count</b>	<b>Per cent</b>
On one electronic system	32	19
On more than one electronic system	65	39
On electronic and paper-based systems	70	42
On paper-based system only	0	0
Total	167	100

**Table 8: How easy or difficult is it to pull together data about tenants from different systems?**

<i>All respondents using more than one system</i>		
	<b>Count</b>	<b>Per cent</b>
Very easy	7	5
Quite easy	52	39
Neither easy nor difficult	32	24
Quite difficult	35	26
Very difficult	9	7
Don't know	0	0
Total	135	100

The majority of landlords reported that their IT system supported basic monitoring of their rent accounts, such as running real-time reports about rent accounts on a daily basis, identifying tenants late with rental payments and identifying tenants who have underpaid over a number of months. A majority also reported being able to run reports across variable date ranges. This is important: landlords will need systems capable of flagging those rent accounts where intervention is required so that

collection activity/action can be targeted where it is most needed. Simply running off a list of all tenants currently in arrears is not enough - many will be of no real concern, being just a few days late with their rent, experiencing very short term difficulties that they manage and soon rectify, or having historic arrears they are repaying satisfactorily. Sifting these manually to identify those where action is required will be an impossible task once the majority of tenants are paying their own rent. However, only 31 per cent of landlords reported that their IT systems would allow them to link data about rental payments with data about tenant situations.

For landlords to manage direct payment in a way that minimises the impact on their income streams, they will have to develop a more sophisticated understanding of the payment patterns and behaviours of their tenants, including the predictors of arrears. To do so, may require analysis of the relationship between tenant circumstances and their rent payments. Only 40 per cent of landlords (36 per cent of housing associations and 57 per cent of local authorities) reported having an automated system for contacting tenants if there is an urgent matter, a necessity for responding promptly to and minimising rent arrears.

### 2.3. The impact of direct payments

**Many landlords are sceptical about the timetable for rolling out direct payments.** Less than one-third reported thinking that direct payments will be rolled out by 2017. This scepticism proved to be well placed; it was announced on 26 November 2014 that the timetable for the completion of the transfer of 93 per cent of claimants onto Universal Credit had been pushed back to December 2019. Only half (54 per cent) of landlords who did not think UC would be rolled out by 2017 reported thinking that direct payments would ever be rolled out. The vast majority (95 per cent) consider the lack of a clear timetable to be limiting their ability to prepare for the introduction of direct payments. However, virtually all landlords (96 per cent) are taking steps to prepare for the introduction of direct payments.

**The introduction of direct payments is expected to have a major impact on landlords.** Virtually all landlords (98 per cent) expect to see an increase in rent arrears (Table 9). In response, most (95 per cent) expect they will have to devote more time to rent collection and recovery. Three-quarters (76 per cent) expect more staff will be required and 57 per cent expect changes to staffing structures. A majority of landlords (61 per cent) also think they will have to invest in non-staffing resources, such as IT systems. These concerns appear consistent with landlord experiences in the direct payment demonstration projects.<sup>8</sup>

Local authorities were more likely than housing associations to report that direct payment would impact on staffing, including prompting the need for more staff (86 per cent of local authority landlords compared to 71 per cent of housing associations) and demanding changes in staffing structures (81 per cent of local authorities compared to 52 per cent of housing associations). Larger landlords were also more likely to report that direct payments would require more staff and a change in staffing structures. Housing associations were more likely to report that direct payments would result in a change in their letting policy (43 per cent compared to 29 per cent of local authorities). This is likely to be a more risk averse approach to lettings and closer scrutiny of applicants' financial circumstances prior to allocation. In total, three-quarters (76 per cent) of landlords expect the changes wrought by direct payments to impact on relations with tenants.

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<sup>8</sup> Hickman, P., Reeve, K., Kemp, P., Wilson, I. and Green, S. (2014) *Direct Payment Demonstration Projects: Key findings of the programme evaluation*. London: DWP.

**Table 9: Do you think the introduction of Direct Payments will impact on your organisation in any of the following ways?**

	<i>All respondents</i>							
	Yes		No		Don't know		Total	
	Count	Per cent	Count	Per cent	Count	Per cent	Count	Per cent
Increase rent arrears	162	98	2	1	2	1	166	100
Require more staff	124	75	19	11	23	14	166	100
Require more staff time to be devoted to rent collection and recovery	157	95	8	5	1	1	166	100
Require a change in staffing structures	95	57	42	25	29	17	166	100
Require more non-staffing resources (IT systems for example)	101	61	35	21	30	18	166	100
Change the nature of your relationship with tenants	126	76	27	16	13	8	166	100
Prompt a change to your letting criteria/agreement	68	41	65	39	33	20	166	100
Threaten your new build programme	46	28	71	43	49	30	166	100
Impact on your relationship with institutional lenders	52	31	56	34	58	35	166	100
Threaten the financial viability of your organisation	60	36	70	42	36	22	166	100

**Some landlords think that direct payments will undermine their financial stability.** More than one-third (36 per cent) of landlords consider direct payments to be a threat to their financial viability. Housing associations expressed particular concern, 42 per cent (excluding LSVT associations) reporting that direct payments will threaten their financial viability. Such concerns appear, at least in part, to be rooted in worries about the impact of direct payments on their relationship with institutional lenders (31 per cent of all landlords and 41 per cent of housing associations reporting concerns). One-quarter (28 per cent) of all landlords also considered direct payments a threat to their new build programme.