Safe as Houses 3:

Have government reforms to Universal Credit reduced the rent arrears of Southwark's tenants?

The Smith Institute

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Foreword

Southwark was one of the first areas of the country to see Universal Credit (UC) full service roll out. As the largest local authority landlord in London, we were committed to monitoring the impact of Universal Credit (UC) on our tenants, which is why in 2016 we commissioned the Smith Institute to undertake the first in-depth analysis of UC full service rollout. Safe as Houses 3 is the third independent report in this series evaluating the impact of UC on Southwark tenants' ability to keep up with their rent payments. Following the first Safe as Houses report we made recommendations to government, a number of which were adopted in changes to national UC policy. This report assesses the impact of those changes, looking at whether they have made a difference for tenants claiming UC.

The report shows that new rent arrears continue to be significantly higher for UC claimants compared with the previous housing benefit system. While a degree of teething problems for the new system may have been expected, rent arrears for those claiming UC from summer 2016 were still not being paid back more than two years later. If we assume that we see a similar picture among all those tenants who eventually claim UC, the council would be left with a total rent debt of £5.6m by 2024/25. Meanwhile, UC will continue to have a persistent and significant negative impact on our tenants, who would be left to deal with the stress of growing debt which they struggle to pay back.

There is some positive news in the report; the research shows there is a noticeable decrease in the levels of arrears for the 2018 group compared with those transitioning to UC in 2016. However, on the face of it, the data suggests that it is the earlier and increased use of Alternative Payment Arrangements (APAs), rather than other reforms, which have contributed most to reductions in arrears levels observed. Originally designed to apply to a handful of cases, more than 40% of Southwark tenants claiming UC have now entered into APAs with the council to help manage their finances. It is important to stress that while the research demonstrates that APAs are an effective means of controlling rent arrears, they do not prevent them.

The report's findings suggest that the reforms of April 2018 did not go far enough to tackle the fundamental, underlying flaws of UC. All three waves of research indicate that most of the new arrears among tenants claiming UC build up during the two or three months after they claim. It is increasingly evident that the minimum five week waiting period and the fact that UC is paid monthly in arrears are the key drivers of new rent arrears we have seen among tenants claiming UC. While a degree of mitigation and remedial action by the council can be taken to address rent arrears, more fundamental reform of UC is required to prevent and tackle the root causes of new rent arrears before they emerge. Additionally, separate evidence has emerged that the majority of working people claiming UC are paid weekly or fortnightly, rather than monthly, so the current system simply does not reflect their lived experience. There must therefore be a question over whether UC actually needs to be paid monthly at all. Creating a cash-flow saving to the Treasury is not a good enough reason to leave UC claimants in dire financial difficulties as they wait for that first payment and, as we have seen, sometimes for much longer.

Beyond the flaws of UC, the research findings also prompt a question over the consequences for a local authority such as Southwark and its residents of being required to host early "testing and learning" for a major reform such as UC. The rollout of UC in Southwark may well have been small scale in the context of the UK as a whole, but the impact on our tenants has been no less significant. Thousands of our tenants had already been affected by the early roll-out, before the government introduced a series of changes to UC policy based on learning from their experience and which at least implicitly acknowledged that there were aspects of the new policy that it had got wrong. These changes, while welcome, have come too late for many households in our borough who found themselves in significant rent arrears, which the research shows many are still struggling to pay down. The changes have also come too late for the council, which as a landlord has been left with a significant gap in our rent income and without compensation.

It is clear that Universal Credit in its present form still represents a significant, ongoing financial risk for local authorities and other social landlords. It is also clear that the system is having a serious detrimental effect on the lives of claimants. UC is failing to improve the support, resilience and financial independence of those who are claiming it compared to the previous benefits system. We believe that the rollout of UC should be urgently halted until radical steps are taken to tackle the issues outlined in this research and to fix the broken system.

Cllr Victoria Mills
Southwark Council, Cabinet Member for Finance, Performance and Brexit

Preface

Preface

This report was commissioned by the London Borough of Southwark. The aim of the report is to better understand the impact that Universal Credit (UC) has had on the rent payment behaviour of the borough's own social housing or "council" tenants.

The report focuses on two main questions: first, whether there has been an improvement in rent payment behaviour since reforms to UC were introduced in 2018; and second, to see what the impact of UC has been long after tenants have transitioned onto the new benefit.

To answer these questions the report analyses and compares the experiences of two groups of tenants that transitioned onto UC at different times. The first group did so between August to October 2016 and the second between April and June 2018.

By examining the rent payments for the second group the report captures a group that should have benefited from a number of significant changes to UC policy announced in the 2017 Budget and that were fully implemented from April 2018 – for example the abolition of the seven-day waiting period and the introduction of a two-week Housing Benefit (HB) run-on.

This report is the third the Smith Institute has produced for Southwark Council tracking the impact of UC on rent payments but the first to look at UC post reform. The first report, 'Safe as Houses: the impact of Universal Credit on tenants and their rent payment behaviour in the London boroughs of Southwark and Croydon, and Peabody' was published in October 2017.[1] It involved other social landlords whose tenants were affected by the early experience of UC full service rollout and examined the impact of UC roll-out on rent payments among those claiming the new benefit compared with those on HB. The second report, 'Safe as Houses 2: A follow-on report into the impact of Universal Credit on Southwark Council's housing tenants rent payment behaviour' was published in November 2018.[2] Unlike the first report it examined only tenants in Southwark's housing stock. The focus was on the longer-term picture and comparing the two different cohorts transitioning to UC a year apart to see if the system was improving with time.

Like the 2018 report the analysis in this report is focused on tenant's rent accounts. As such, it does not include the human cost which was highlighted in the first Safe as Houses report. Nor does the report provide details about other costs that the council has to bear, be it the impact on its Housing Revenue Account, development or housing improvement plans or the additional workload on officers supporting tenants. Nor does it include the additional burden facing tenants, including the emotional stress or knock on financial implications such as personal debt.

What the data does demonstrate through the rent accounts analysis is the experience of those who are known to have made an effective claim for UC either in 2016 or 2018. The Council has no way of knowing whether any of those who claimed UC continued to do so, or for what period. What the Council does know is that all those whose rent accounts were analysed for purposes of the research had "migrated" to UC and the new arrangements for meeting housing costs. These tenants were of working age and reliant on the benefit system to help pay their rent.

This latest study draws on previous findings, including using the results from the first report on the rent payments of tenants that moved onto the legacy HB system to act as a baseline for some comparisons. The report also seeks to understand whether rent payments improve with time and arrears are paid down. It also compares the two groups to examine whether reforms at a national level or within the council have led to improved outcomes, and, if so, in what way. Such insights presented without prejudice are intended to help improve what remains a relatively new and untested system.

1 https://www.southwark.gov.uk/news/2017/oct/safe-as-houses-stark-report-findings-reveal-worrying-picture-for-universal-credit-recipients
2 https://www.southwark.gov.uk/news/2018/nov/safe-as-houses-2-new-in-depth-report-reveals-deepening-concerns-for-universal-credit-recipients

Executive summary

Executive summary

The following analysis examines a total of 738 rent accounts of tenants of the London Borough of Southwark: 377 moved to UC in August-October 2016 (2016 group) and 361 did so between April and June 2018 (2018 group). The previous report, 'Safe as Houses' (2017), included data from 249 accounts of claimants on the legacy HB system. Data from that study is used as a comparator in this report.

The analysis in this report is designed to better understand the impacts of UC on rent payments, especially the longer-term effects. The data has also been evaluated to see if there are differences between the 2016 and 2018 groups in order to assess whether reforms to the UC system were having an impact. The post-reform 2018 group moved onto UC after government had abolished the seven-day waiting period and introduced a two-week housing benefit run-on.

The rent account analysis shows:

Headline findings

- There is a noticeable decrease in the levels of arrears for the 2018 group compared with those transitioning to UC in 2016. However, arrears are still higher than under the legacy HB system.
- The analysis of the causes of the decrease suggests that there are fewer weeks where tenants are underpaying by large amounts and fewer underpaying any amount.
- The data suggests the reason for this is the use of Alternative Payment Arrangements (APAs) which were on average agreed earlier in the 2018 group than for the 2016 group. This had the impact of essentially capping rent arrears at a lower level. This could point to where further improvements, specifically aimed at reducing rent arrears, could have most impact.
- For 2016 group, the data suggests that rent arrears at the end of 110-week period have plateaued. However, as the data suggests this could get worse. What appears clearer, is that at an aggregate level rents that have been accrued are not being paid back.
- The findings highlight (as they did for the previous report) that those with multiple claims for UC have higher arrears for the 2016 group. To understand the relationship and examine any causal relationships the DWP should consider undertaking research looking at whether certain groups such as those in and out of work or with fluctuating earnings are more susceptible to arrears.

Growing rent arrears

- Arrears rose by £244,000 for the 2016 group and £75,000 for the 2018 group.
- The increase in arrears per claimant averaged £648 for the 2016 group and £207 for the 2017 group (which covers a shorter period).
- On average, each person in the 2016 group moving onto UC accrued £0.75 of arrears per day and £0.84 per day for the 2018 group.
- On average, each person in the 2016 group was six weeks in arrears at the end of the period. It was just under two weeks for the 2018 group (whose rent accounts were analysed over a shorter period).
- In total 5% of rent owed was not paid over the period for both the 2016 and 2018 groups.
- Those on UC in both the 2016 and 2018 groups accrued more arrears than those on HB.

Rent shortfalls were highest at the start

- In week 1, 41% of rent was not paid for the 2016 group. It was slightly lower (38%) for the 2018 group.
- It was not until week 20 that weekly rent payments started to meet weekly rents owed.

Before and after UC

- As shown in the previous Safe as Houses reports arrears start to increase in the weeks before people move onto UC. This is also true for those claiming HB but to a lesser extent. However, the HB group start overpaying shortly after.
- This means that arrears over a 32-week period (including four weeks prior to making a claim) were 12% for 2016 UC group and 10% for the 2018 UC group. While for the HB group there was a 2% surplus.

Arrears were lower for the 2018 group than the 2016 group

- Both the 2016 and 2018 groups had similar trajectory in arrears levels. However, levels were noticeably lower for the 2018 group and were lower in all weeks to week 15.

- At week 20 post-UC arrears were £216 per tenant in the 2018 group compared with £317 for the 2016 group.
- By week 30 post-UC arrears for the 2016 group were 8% compared with 6% for the 2018 group.
- Despite the 2018 group having lower levels of arrears than the 2018 group, post-UC arrears were lower under the legacy system where there was a 5% overpayment for tenants claiming HB in week 20.
- Whilst there has been an improvement the data from the rent accounts demonstrate that UC comes at a cost, and negatively affects the council's Housing Revenue Account.

There are fewer large underpayments for the 2018 group and large underpayers contribute less to arrears

- One of the explanations for why arrears are lower for the 2018 group is that there are fewer large underpayers.
- Over a thirty-week period, four in ten (39%) underpayments were over 75% of rent owed for the 2016 group. This compared with three in ten (31%) in the 2018 group.
- This is coupled with the 2018 group having more weeks where tenants were paying all their rent.
- Furthermore, in the weeks where there are underpayments levels are lower for the 2018 group (54% of rent owed versus 47%)
- Previous reports have shown that large underpayers contribute most to arrears. This is found again in this report with the top 20% of underpayers accounting for half of all arrears.
- However, there is a very noticeable reduction in the levels of these arrears. In the 2016 group arrears totalled 64% of rent owed (for after 30 weeks) amongst the top quintile of underpayers. For the 2018 group this figure was much lower at 44%.
- As a result, for the 2018 group: there are fewer weeks where there are large underpayments or no underpayments; those weeks where there are underpayments, underpayments are lower; and whilst there are similar numbers in arrears those underpaying are doing so by less

APAs seem to be driving down large arrears

- There are noticeable differences between the 2016 and 2018 groups regarding the use of APAs. In the 2018 groups APAs are agreed earlier (on average after 4 weeks) compared with 58 weeks for the 2016 group.
- As a result, average arrears at the point an APA was accepted was £1,237 for the 2016 group compared with £206 for the 2018 group.

APAs appear to be the main reason for the difference between the 2016 and 2018 group

- The variance in the levels of arrears for those on APAs in the 2016 and 2018 groups appears to be the difference in the overall level of arrears between the two groups.
- Those not on APAs have a similar trajectory in both groups, with those in the 2016 group having lower levels of arrears.
- Whilst it is difficult to disaggregate a number of factors (which could mean comparisons are not like for like), the data on the face of it does suggest that it was the earlier use of APAs rather than other reforms which have led to reductions in arrears levels.
- As such, further use of APAs early could potentially have the biggest impact on the specific issue of rent arrears (this may not address other non-housing cost issues the first Safe as Houses report highlighted that resulted from the delay between making a claim and receiving any money).

Large underpayments in the first week appear to predict larger arrears at the end of the period

- Examining accounts of those that underpaid by over 75% in the first week suggests that they go on to accumulate higher levels of arrears.
- The data shows that for those not on APAs in the 2016 group large underpayers are in £277 of arrears versus £116 for those who underpaid by less or met their first payment in the first week. For the 2018 group it was £369 versus £107.

Arrears accrued early plateau then rise and then plateau again

- Tracking the 2016 group over 110 weeks shows that arrears accumulate rapidly in early weeks. They then plateaued in week 20 before rising again in week 40. They then plateau again around week 70.
- The data in the previous report ended during the second period where arrears were rising suggesting that if the trend continued then Southwark could face an ongoing cost of arrears. However, if the trend at the end of the period covered in this report continued then arrears may not further increase.
- What is evident to date is that there are few signs that at an aggregate level arrears are being paid down.
- Arrears could of course start to increase again as they have in the past. However, the more extensive use of APAs may act as a brake on any further rise and may explain the latest plateau in arrears.

Multiple Universal Credit claims could be driving higher arrears

- The rent accounts cover not just when someone moves onto UC, but also if they move on and off UC, apparently making multiple claims for UC over the period as they do so.
- The previous report highlighted that for this group they appeared to have higher levels of arrears than for those making the one UC claim at the start.
- This finding remains true for the 2016 group, with those in arrears making three or more claims being 7% in week 110 versus 3% for those making one or two claims.
- As noted in the previous report a possible explanation for someone making multiple claims is that tenants have fluctuating incomes from being in and out of work or hours of work changing. As such this evidence may warrant further research by the DWP to explore if there is any casual relationship.

Introduction and approach

Introduction

The Smith Institute has produced two previous reports for Southwark examining the impact of Universal Credit on rent payment behaviour: 'Safe as Houses 1'and 'Safe as Houses 2' Both of these reports were based on rent account analysis of tenants. They showed that under UC (see the box below for more details about the UC system) rent arrears were worse than on the legacy HB system. The reports also showed how arrears were high as tenants transitioned onto UC before weekly rents started to meet arrears. However, the reports also showed that arrears that built up were not paid down and over the longer term they actually started to accumulate further. The reports also showed the important role that Alternative Payment Arrangements (whereby the landlord rather than tenant receives the housing element of UC directly).

The research for these reports covered the initial period of UC roll out and was before tenants were affected by government reforms introduced in April 2018. The reforms included:

- Ending the 7 waiting days from the application process
- Introducing the 2-week HB run-on to smooth the transition for an applicant moving to UC from the previous system
- Advance payments could be applied for from day 1 of the application process, for up to 100% of a person's indicative total claim

In addition, there have been ongoing adjustments to the UC system and expectations that the administration of UC would improve as it bedded in.

Equally the previous report highlighted increasing levels of arrears a year and a half after they had moved onto to UC, but as the data was not available it was not possible to see if this trend continued.

As such, the Smith Institute was commissioned by the London Borough of Southwark to undertake further research to assess these issues as well as providing additional quantitative evidence into the impact of UC on rent payment.

The terms of reference were to examine:

1. The impact of UC on rent payment behaviour of those captured in the previous Safe as Houses research but over an extended period
2. The rent payment behaviour of new a cohort who started claiming UC after reforms to the system were introduced in April 2018 compared with a pre-reform group to assess whether UC changes were resulting in lower rent arrears

Universal Credit
UC has been a flagship policy for the government since 2010. It aims to simplify the benefit system, and by so doing make work pay, reduce poverty and promote greater independence. Since legislation was enacted in 2012, UC has been trialled in various pathfinder areas and subsequently rolled out in stages in other areas.

"Full-service" Universal Credit (UCFS) was tested in a single postcode area in south London in late 2014. UCFS was subsequently expanded to an area that included a small part of Southwark by the end of 2015. This was part of the first phase of the government's plan to extend UCFS to all parts of Britain by December 2018. Since 2016 it has been rolled out further in Southwark. From July 2019 the government intends to start to transfer existing benefits and tax credits claimants across to UC, a process they intend to complete by 2023 - although recent announcements suggest that the 2023 end date may be pushed back.

As part of the government's welfare reform programme UC will replace the following benefits:

- Income-based Jobseeker's Allowance
- Income-related Employment and Support Allowance
- Income Support
- Working Tax Credit
- Child Tax Credit
- Housing Benefit

The simplification of several payments into one involves a number of changes, including:

- Recipients applying and managing their account online
- A single, household monthly claim
- Payment of rent to the claimant rather than directly to the landlord
- A time delay from when housing cost support can be claimed and when claimants will receive their first payment

Whilst the rent component of UC is made to tenants not landlords, if a tenant's arrears do become too high, then local authorities can apply for an APA, thereby allowing rent to be paid directly to the landlord.

Approach

This report examines two cohorts of rent accounts, the first who moved onto UC in August to October 2016 and the second that did so in April to June 2018. These accounts were analysed to understand differences between the cohorts to see if any policy changes might be affecting rent behaviour. Data from the 2016 group has already been presented in previous Safe as Houses reports. However, this report tracks the rent payment behaviour over a longer period, covering over two years of data. By doing so it attempts to see what the longer-term implications of UC might have for tenants and social landlords. The report also compares how payments differ to those on HB, using the results produced in the previous reports.

As per the previous report, the rent accounts are analysed to see differences in payment rates, overall levels of underpayment, payments over time and the impact that APAs can make.

The accounts examined
Like the Safe as Houses 2 report but unlike the first report the information is exclusively focused on the rent accounts of Southwark Council tenants. This needs to be borne in mind when comparing the results for the 2016 UC dataset with data presented in the first Safe as Houses report (where other social landlord tenants made up half of the rent accounts).

This report examines two cohorts: those who transition onto UC in August, September and October 2016, shortened in this report to the '2016 group'; and those who claimed UC in April, May and June 2018, shortened to the '2018 group'. Data for both groups end on 31 January 2019.

The 2016 group contains 377 accounts and the 2018 group includes 361 accounts.

Information on the HB cohort is taken from the first Safe as Houses report and is comprised of 249 accounts all of whom were Southwark Council tenants.

As the table below profiles there are similar characteristics in the 2016 and 2018 datasets. Furthermore, as previous reports have suggested there has been little observable differences in rent payment behaviour by these characteristics.

Average weekly rent	**2016**	**2018**
Less £100	27%	25%
£100-£112.50	42%	42%
£112.50-£125	21%	22%
£125-£150	8%	9%
£150+	2%	1%
Average age		
16-24	2%	5%
25-34	32%	25%
35-44	22%	23%
45-54	26%	24%
Over 55	18%	23%
Gender		
Male	42%	32%
Female	58%	67%
Average household size		
1	42%	33%
2	20%	26%
3	15%	18%
4+	23%	22%

Property type		
Flat	68%	73%
Maisonette	25%	20%
House	7%	5%
Account start date		
2015 onwards	15%	31%
2010-2015	35%	25%
2005-2010	23%	15%
2005-2010	11%	10%
Pre 2000	16%	18%
Account balance at UC claim		
Surplus	20%	33%
Balanced	1%	4%
Arrears	79%	62%

Rebasing rent payments

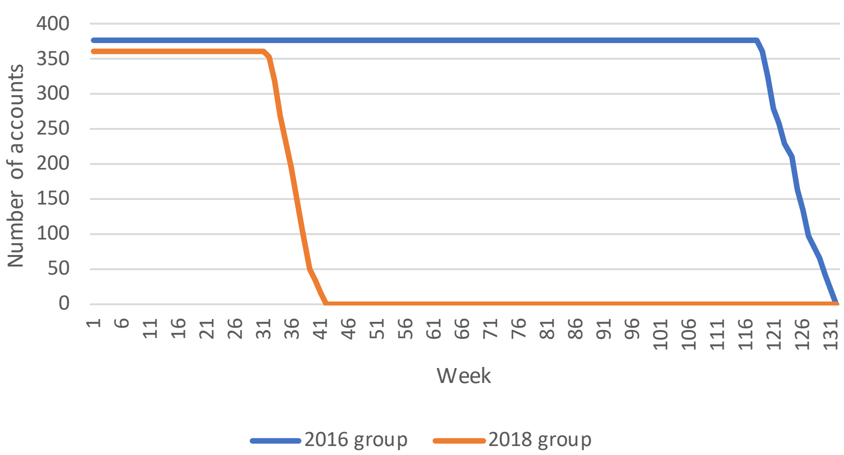
Rent accounts are rebased, as they were in the previous reports, to analyse and compare the rent accounts over time. Within the rent account data, people are moving onto UC at different times and staying on for different periods. Furthermore, data on levels of arrears is taken at the end of each month meaning that there are different lengths of periods between measures of rent arrears/surpluses – i.e. some might be claiming UC and due to pay rent for a whole month and others will enter half way through a month.

As tenants were moving onto UC at different times in the year and given the implications of UC in the immediate period after making a claim the rent accounts were split into weekly periods. This meant splitting arrears/surpluses accrued between two data points into arrears/surpluses per day, and doing so for however many data points were available. This data was then plotted into weekly arrears/surpluses for each account.

Accounts were thus rebased. All start at the same point in order to track their position in each week from the start to the last week that data is available. Accounts may be in arrears or surplus at the start, but all are rebased to start from £0. This method was used for the previous reports, including for the comparator (HB) group. However, the HB data was not available for the precise time they claimed HB, so the first available monthly figure is used as the starting point.

Due to rebasing, the number of rent accounts that have data decline with time as some tenants transitioned to UC at a later point. The sample therefore becomes much smaller towards the latter weeks. To ensure comparability, week 30 for the 2018 group and week 110 for the 2016 group are used at times for cut off points for data.

Figure 1: The number of rent accounts by week



What happens for the two groups when people move onto UC?

What happens for the two groups when people move onto UC?

The following section examines the rent payment behaviour of tenants after the date they need to make a UC claim. It examines similar questions to the previous reports for Southwark Council and similar to questions explored in studies into the pilots of the direct payment demonstration project. The report focuses on the 2016 and 2018 groups, but also makes reference to the comparator HB rent accounts used in the previous reports.

It should be noted that the 2016 cohort covers a longer period than the 2018 group. This means that comparisons between the two groups should only be drawn when the period covered is the same.

Did the tenants build up arrears after they moved onto UC?

There was a slight improvement in the number of accounts that moved from arrears to surplus after moving to UC for the 2016 group, but for the 2018 group a similar proportion of tenants had a deficit at the end of the period covered.

	2016	2018
Surplus/arrears at first claim		
Surplus	20%	34%
Balance	1%	4%
Deficit	79%	62%
Surplus at end of period		
Surplus	28%	34%
Balance	1%	1%
Deficit	71%	65%

However, overall the rent accounts highlight the worsening levels of rent owed, for both the longer (2016 group) and shorter period (2018 group).

	2016	2018
Better	28%	34%
Same	1%	1%
Worse	71%	65%

In aggregate, arrears worsened after tenants moved on to UC with arrears rising by over £244,000 for 2016 group and £75,000 for the 2018 group:

	Total arrears at start	Total arrears at end	Difference
2016	£336,349	£580,780	-£244,431
2018	£236,208	£310,767	-£74,558

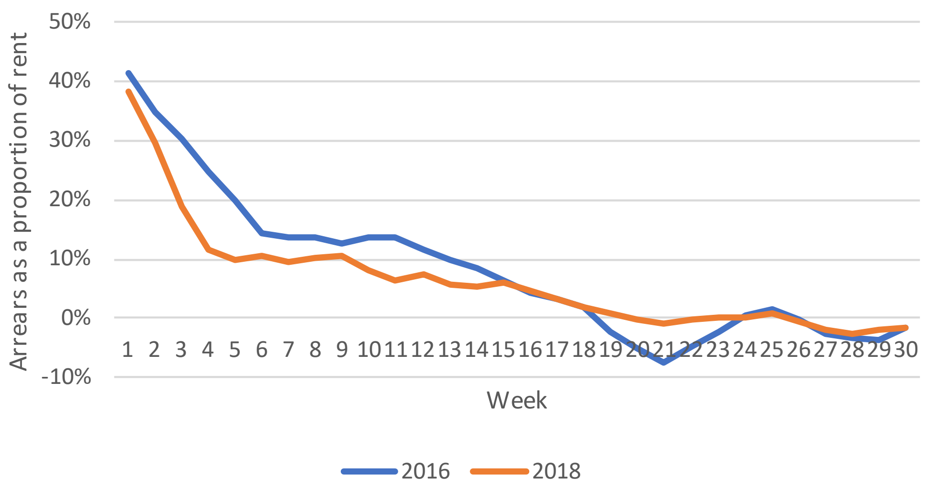
Examining the data for when tenants were on UC (the date that they made a claim to the last period data is available), the accounts show that:

- The increase in arrears per claimant averaged £648 for the 2016 group and £207 for the 2018 group.
- The average period since the first UC claim was 865 days for the 2016 group and 247 days for the 2018 group.
- On average, each person in the 2016 group moving onto UC accrued £0.75 of arrears per day and £0.84 in the 2018 group.
- On average, each person in the 2016 group was six weeks in arrears at the end of the period. It was just under two weeks for the 2018 group.
- In total 5% of rent owed was not paid over the period for both the 2016 and 2018 groups.

How did rent accounts change over time?

The following graph provides a picture at an aggregate level of how much rent payments were short of the rent owed in each week.

Figure 2: Proportion of rents owing not paid each week to week 30

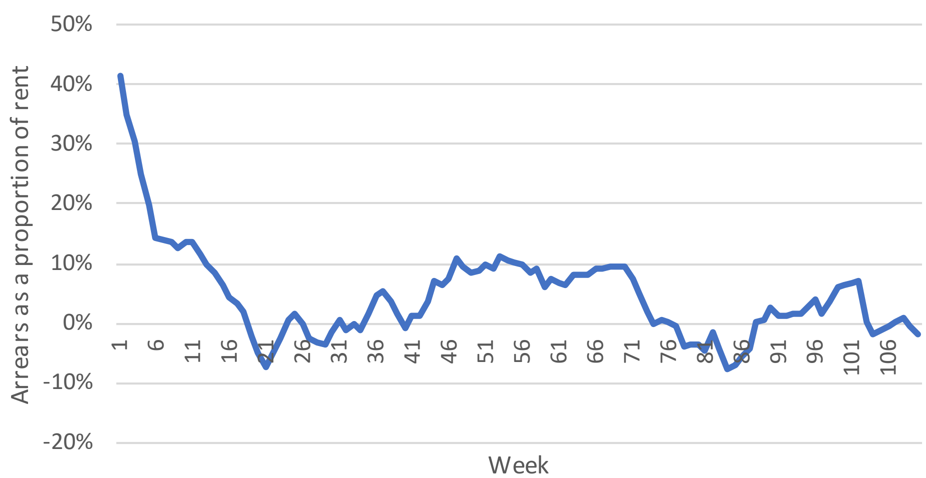


The graph shows a similar trajectory between the 2016 and 2017 groups, with large amounts of rent not paid in the first week that a claim is made. In week 1, 41% of rent is not paid in the 2016 group and 38% for the 2018 group, and it is not until around week 20 that rent payments are matching rents owed for both groups.

Despite the similar trajectory there is a noticeable difference. There is a sharper decline in weekly arrears for the 2018 group compared with the 2016 group, and week on week arrears are lower for the 2018 group until week 15.

The data can be tracked longer term for the 2016 group. The graph shows that after the initial weeks where arrears are highest, payments start to meet rent owed around week 20. However, around week 40 underpayments start to creep up and are steady at around the 10% mark for around half a year (week 46-70). However, after this point arrears then start to be closer to rents owed.

Figure 3: Proportion of rents owing not paid each week to week 30

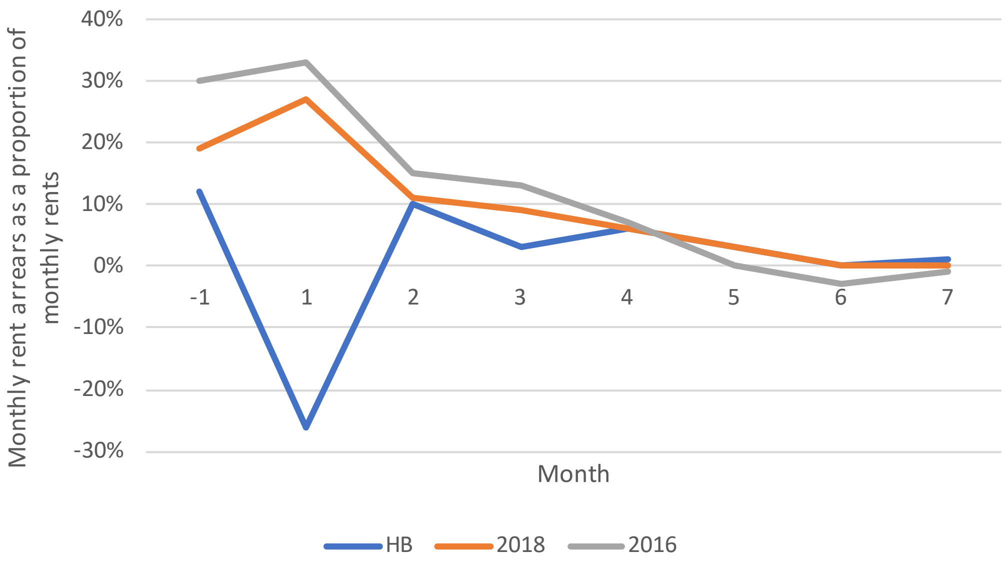


Before Universal Credit

The report focuses on rent accounts after the period someone has made a claim for UC. However, as the previous Safe as Houses reports have highlighted arrears ratchet up prior to households transition onto to UC. These arrears could be due to a period between a change in someone's circumstances and someone making their claim or a lag between the claim being made and Southwark Council knowing about it.

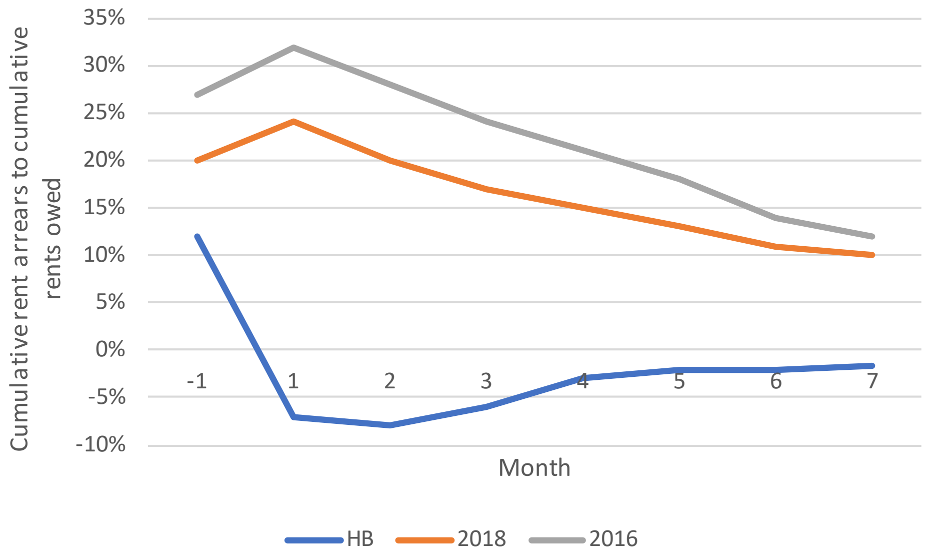
The data in the following chart presents arrears as monthly totals. It shows the relatively high levels of arrears in the month prior to someone making a claim. The data highlights again the contrast between the HB and the UC groups. It also indicates a better position for 2018 group the month prior to moving on to UC.

Figure 4: Weekly arrears from month before claiming UC/HB



When arrears are accumulated the contrast is again stark between the HB and UC groups. The data also shows the improvement in arrears for the 2018 group compared with the 2016 group. Nevertheless, arrears from over the 32-week period are 12% for 2016 group, and 10% for the 2018 group. While for the HB group there was a 2% surplus.

Figure 5: Cumulative arrears from a month before claiming UC/HB



Do those underpaying most in the first week go on to have more arrears?

As noted arrears are highest in the initial weeks as people transition onto UC. Whilst averaging around 40% of rent owed not being paid it is higher for some households. Analysis of the data suggests that the rent payment in the first week appears to be a good indicator of overall arrears at the end of the period that the data extends to. Those tenants (not on APAs) underpaying by over 75% of rent owed go on to accrue larger arrears. The table shows the level of arrears per head that first-week large underpayers end up accumulating which is two and three times higher than that of other tenants.

	Arrears per head for those underpaying by over 75% of rent owed in the first week on UC	Arrears per head for those *not* underpaying by over 75% of rent owed in the first week on UC
2016	-277	-116
2018	-369	-107

Are there differences between the pre and post-reform UC tenants?

A central question for the research was whether there was a difference between UC tenants who claimed before the 2018 reforms were introduced and tenants who transitioned after. The previous Safe as Houses report highlighted that there was little difference between the 2016 and 2017 UC groups - both groups had tenants that moved onto UC pre-reforms. This report compares the 2016 group and the 2018 group who transitioned post-reforms.

Are arrears lower for the 2018 group than the 2016 group?
As noted, the data shows that there does appear to have been an improvement in the levels of arrears in the 2018 group compared with the 2016 group.

For the 2016 group, accumulated arrears were 14% of the rent owed by week 20 compared with 10% for the 2018 group. By week 30 arrears stood at 8% for the 2016 group and 6% for the 2018 group.

It should be noted that for the HB group used in the first report, by week 30 week, rent payments were 3% *in excess* of what was due (reflecting repayments) and 5% in surplus in week 20.

The data suggests there is a noticeable difference which is evident in levels of accumulated arrears between the 2016 and 2018 groups.

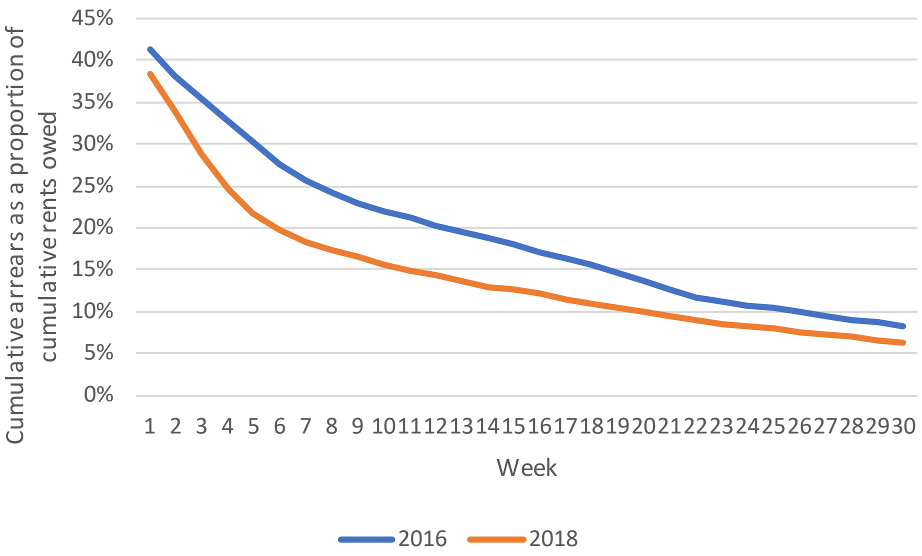
This totalled £120,000 (£317 per tenant) for the 2016 group at week 20 and £78,000 (£216 per tenant) for the 2018 group at week 20.

Splitting the groups into monthly underpayments, the table shows that underpayments are noticeably lower in the first three months with rates similar in the subsequent weeks.

	1	2	3	4	5	6	7	8
2016	33%	15%	13%	7%	0%	-3%	-1%	-1%
2018	25%	10%	8%	5%	1%	0%	-1%	-1%

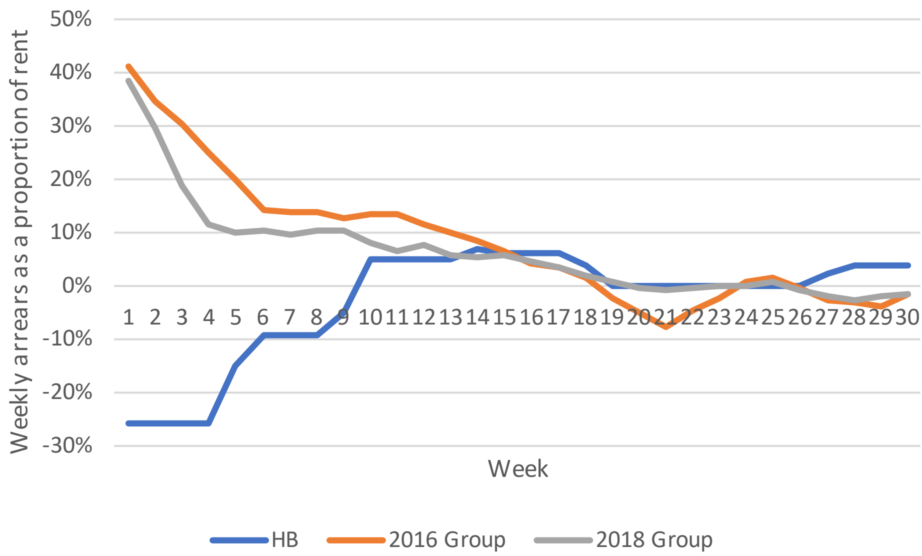
Presented in cumulative terms the data shows the 2018 group has lower levels of arrears which total 6% of rent owed in week 30 compared with 8% for the 2016 group.

Figure 6: Cumulative arrears for the 2016 and 2018 groups



Does the improvement for the 2018 group mean arrears are closer to legacy HB group?
Despite arrears being lower for the 2018 group than the 2016 group and thus pointing to an improvement, it is not comparable to the HB rent accounts. Indeed, the way that arrears accumulate for the UC group is the opposite of the HB claimants, who overpay when first making a claim (presumably as back-dated rent is paid).

Figure 7: Proportion of rent owed not paid each week, HB and UC



This difference is further illustrated in the table below which splits rent payments (the amount of rents paid as a proportion of total rents owed) into seven periods of four weeks:

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7
2016	33%	15%	13%	7%	0%	-3%	-1%
2018	25%	10%	8%	5%	1%	0%	-1%
HB	-25%	-11%	2%	6%	3%	0%	1%

The table again shows the improvement between the 2016 and 2018 group, although the 2018 group is still more comparable to the 2016 group than the HB group. It also highlights (as the previous Safe as House reports have) that over the longer term UC tenants start to pay all their rent. However, as the data covering the longer period demonstrates, arrears are not repaid. Whereas for HB claimants, underpayments that may have accrued before the claim immediately start to be repaid, before rent payments start to settle down at a level close to the amount due.

What might explain the differences between the 2016 and 2018 groups?

The data has highlighted differences between the 2016 and 2018 groups but it tells us little about what might be driving the differences. For example, are all households underpaying by less or are there just fewer large underpayers? And do differences in payments point towards the impact of reforms or other changes Southwark may have made?

Does the proportion of tenants accruing arrears after moving onto UC explain the difference?

To answer these questions, it is important to look at individual rent accounts, including whether arrears are widespread or concentrated in a few households and if there are differences between the two groups.

By examining the first and last recorded rent period up to 30 weeks, we can observe that a majority accrued arrears for the two groups (60% for the 2016 group and 63% for the 2018 group).

	2016	2018
Arrears	60%	63%
Balance	1%	0%
Surplus	39%	37%

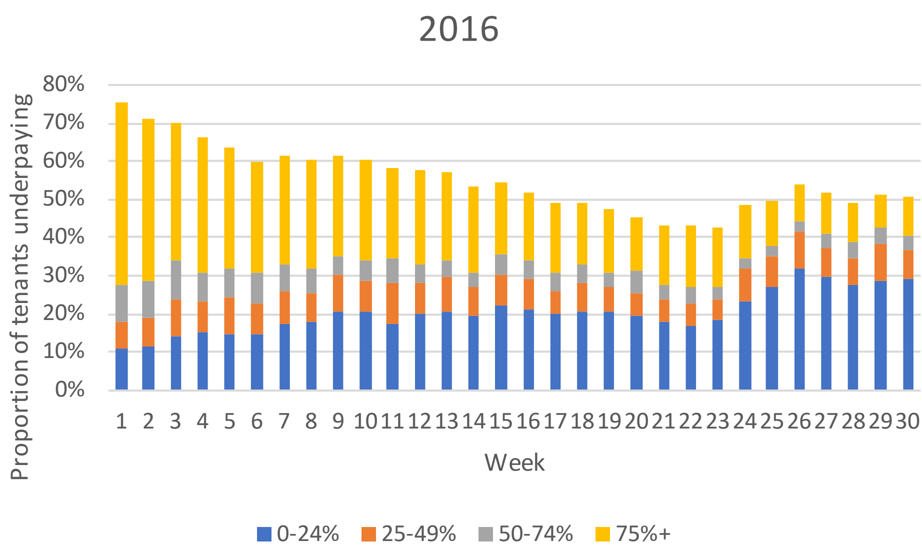
The picture is worse still when examining the numbers in arrears – i.e. including arrears households have before making a claim. However, there are noticeably fewer, if still a high proportion, that have a negative balance at the end of the 30-week period.

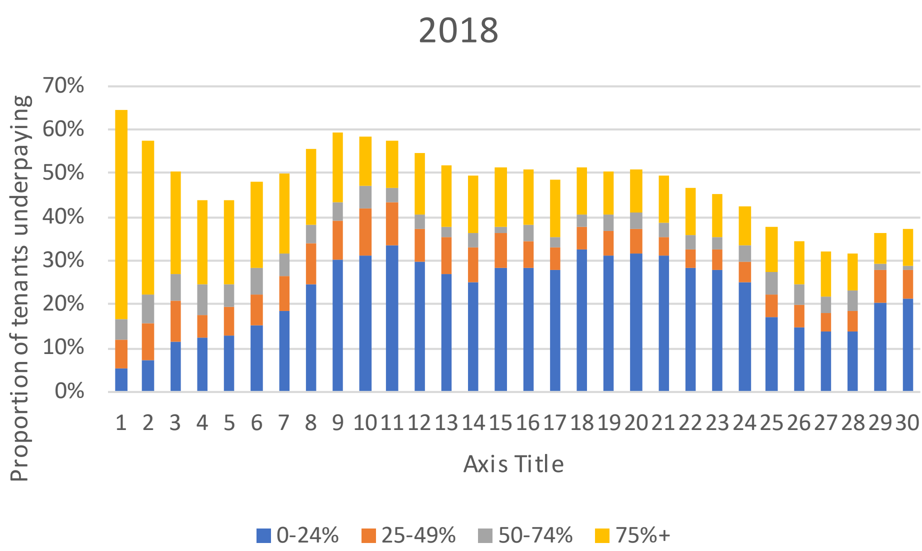
	2016	2018
Surplus	21%	32%
Balance	1%	1%
Arrears	79%	68%

Is there a difference between the two groups in the levels of underpayment by each period?
Another reason why arrears might be lower for the 2018 group is that there are fewer large underpayments.

The graphs below show that for the 2018 group there are fewer big underpayers and more paying by smaller amounts in each week.

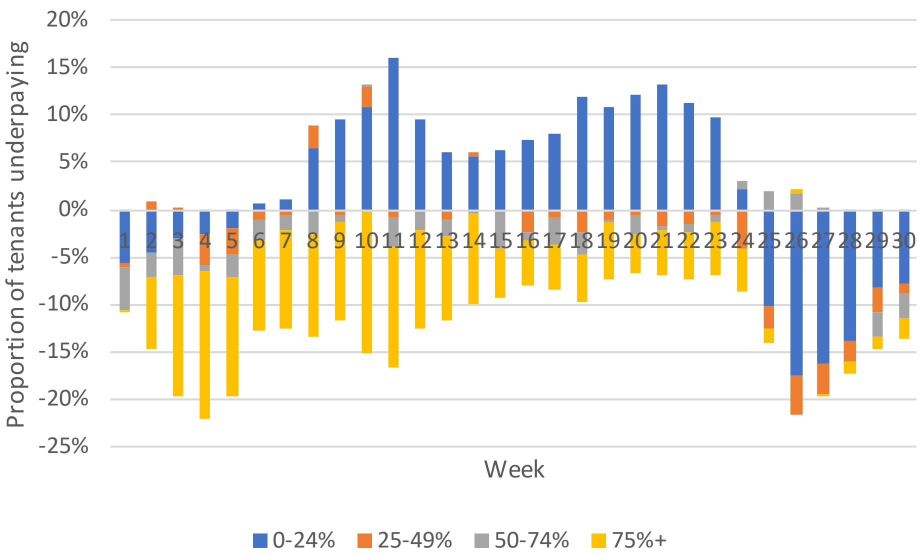
Figure 8: Proportion of tenants underpaying each week by how much





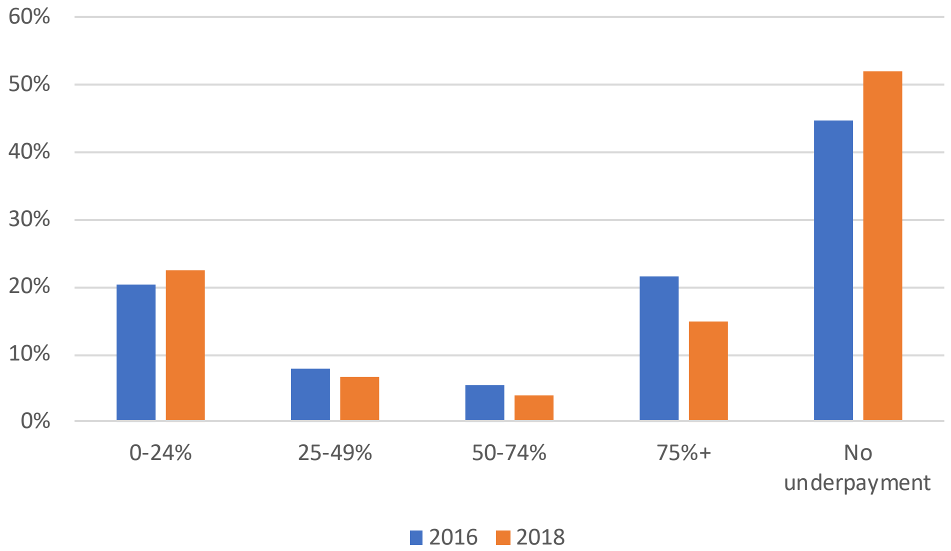
This difference can be seen more clearly when subtracting the proportion of tenants underpaying by each amount in 2018 from the data from the 2016 group. Put another way it subtracts the proportion underpaying by 75%+ in 2018 from those underpaying by 75%+ in 2018 and for those underpaying by 50%-74% etc. As such we can see (the yellow bars) that there are significantly fewer underpaying by 75% in the 2018 group than the 2016 group for most weeks, especially up until week 25. Whereas there are more underpaying by less than 25% in most weeks.

Figure 9: Percentage point difference in underpayments between 2016 and 2018 groups



Presented another way, the graph below, which also shows the level of 'no underpayments', highlights the proportion of payment amounts in all weeks. The graph shows that for the 2018 group there are more weeks where tenants are meeting their rent or better (52% v 45%), and fewer underpaying by 75% or more (15% v 22%).

Figure 10: Proportion of weekly accounts underpaying or meeting rent



Just focusing on those underpaying, overall there is a shift from large underpayments to smaller ones.

	2016	2018
0-24%	37%	47%
25%-49%	14%	14%
50%-74%	10%	8%
75%+	39%	31%

As a result, we see both the proportion of weeks that there is an underpayment lower for the 2018 group, and the rent arrears for underpayment weeks being lower.

	2016	2018
Proportion of weeks with an underpayment	55%	48%
Rent arrears as proportion of rents for underpayments	54%	47%

Focusing just on those underpaying, there are similar proportion of tenants in arrears after 30 weeks – around 60% for both groups.

As was observed in the previous reports, large underpayers contribute most to arrears with the top 20% of groups contributing to around half of overall arrears. And there is little difference between the 2016 and 2018 groups.

	Quintile 1	Quintile 2	Quintile 3	Quintile 4	Quintile 5
2016	53%	26%	14%	6%	2%
2018	54%	23%	13%	7%	2%

Where there is a noticeable difference is in the levels of arrears. The table below shows arrears as a proportion of rent for underpayers. What is apparent is that levels of arrears are considerably lower for the 2018 group. So, whilst the top 20% of underpayers (quintile 1) contributes similar levels of arrears these arrears are noticeably less as a proportion of rents owed.

	Quintile 1	Quintile 2	Quintile 3	Quintile 4	Quintile 5
2016	-64%	-31%	-17%	-7%	-2%
2018	-44%	-19%	-11%	-6%	-2%

To summarise the data suggests that:

- For the 2018 group, there are fewer weeks where there are large underpayments and more where there are no underpayments
- Those weeks where there are underpayments, the amounts were lower for the 2018 group
- And whilst there are similar numbers in arrears after 30 weeks, those underpaying are doing so by less for the 2018 group

Is it APAs or other changes that explain variations between the two groups?

A notable finding from the previous Safe as Houses reports was the impact that APAs made. This section looks at their impact but also compares it to the non-APA groups to tentatively see whether other reforms or changes to the use of APAs made the larger difference to the levels of arrears and explains the variation in levels of arrears. This might not be entirely possible because reforms would have affected both groups and may have impacted one group more than another but nevertheless the comparison may provide useful insights.

Of the 2016 accounts, 44% had APAs. For the 2018 accounts it was 36%. This was higher than the 11% that were in place in the first 'Safe as Houses' report. It is understood from discussions with the Council that they are now more proactive in applying for APAs (on the back of the findings of the 'Safe as Houses' research) and that the number of APA applications is growing thanks to new a new agreement between the Council and DWP called Trusted Partner and introduced in early 2017. As noted in the previous report, under trusted partner status, the Council enjoys greater discretion on whether an APA should be put in place when one of its tenants claims UC. It is also understood that the Council has adopted a policy of requesting an APA if a tenant is eight weeks in arrears.

The impact of these changes is seen in the length of the time before an APA was accepted. Although timeframe of the data for the two groups is different (30 weeks v 110 weeks), the variance in the average point at which an APA is introduced is large - for the 2016 group the average time between a UC claim and an APA being accepted is 58 weeks. For the 2018 group it is just 4 weeks.

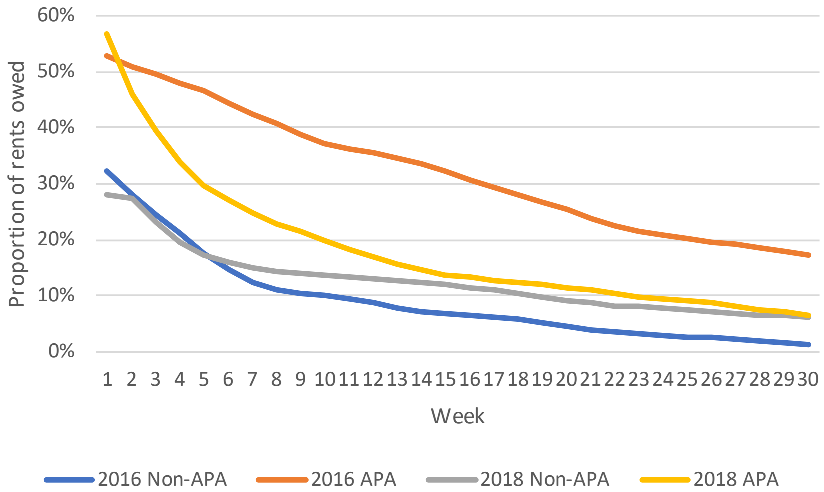
The table below shows the stark difference between the 2016 and 2018 groups. As arrears are highest as a proportion of rent soon after claiming, the arrears as a proportion of rent were higher at the point at which an APA was agreed for the 2018 Group (at 35%) than the 2016 Group (21%). However, the absolute amount of arrears is very different - totalling £1,237 in 2016 compared with £206 for the 2018 group. As a result, arrears are effectively capped at a much lower level (or at least the rent covered by the housing element of UC), and with some arrears being paid back.

What is also noticeable is that levels of arrears are on average higher for the non-APA group. This might not relate to total arrears as tenants in general accrue arrears prior to the UC being accepted and the notification given to the council that a tenant has claimed the housing element of UC. Nevertheless, it appears to demonstrate first, how effective APAs are in stopping arrears accumulating. And second, that having an APA in place early results in much lower levels of debt accumulate.

		Arrears pre-APA/ Before 58/4 weeks	Arrears post APA/ After 58/4 weeks	Overall arrears	Arrears per person when APA made	Arrears per-person at end	Arrears per day
APAs	2016	21%	-2%	9%	1379.12	1236.9	£1.43
	2018	35%	0%	5%	205.918	192.865	£0.77
No-APA	2016	2%	1%	4%	140.563	185.334	£0.21
	2018	19%	4%	6%	83.7237	216.569	£0.88

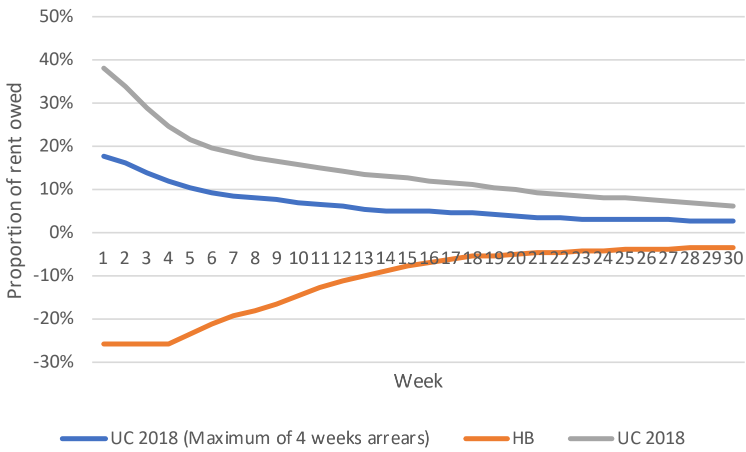
To see whether APAs have made more of a difference compared other possible changes, the 2016 and 2018 groups are split into APA and non-APA groups and compared. The graph below suggests that much of the difference between the groups is that the accumulated arrears for the 2018 APA group are much lower than for the 2016 APA group. This suggests again that having APAs in place early is likely to make a significant difference in levels of arrears. In contrast there appears little difference in the first weeks for the two non-APA groups. However, by the end of the period the 2016 non-APA group has lower levels of arrears. Whilst caution might be needed regarding any potential differences in the two groups (they might be capturing differences in tenant circumstances or reforms might be having a bigger impact on the APA group), it would suggest on the evidence as it stands that wider reforms may being having less of an impact on arrears compared with the positive impact early APAs have had.

Figure 11: Accumulated arrears for 2016 and 2018 APA and Non-APA



This could point towards possible future changes, which could result in further reductions in the level of arrears. This could include introducing an APA when arrears are lower (e.g. four weeks of arrears rather than eight). The impact this might have is crudely estimated below. This is done by assuming no additional repayments are made and it assumes rents are paid immediately on a UC claim being logged by the Council. Nevertheless, it highlights the differences with arrears at the end of the period being 3% rather than 6% - although it is worth noting that arrears would be larger than under HB where the landlord received the rent directly from DWP regardless of arrears levels.

Figure 12: Predicted accumulated arrears if APAs introduced for accounts in over 4 weeks of arrears



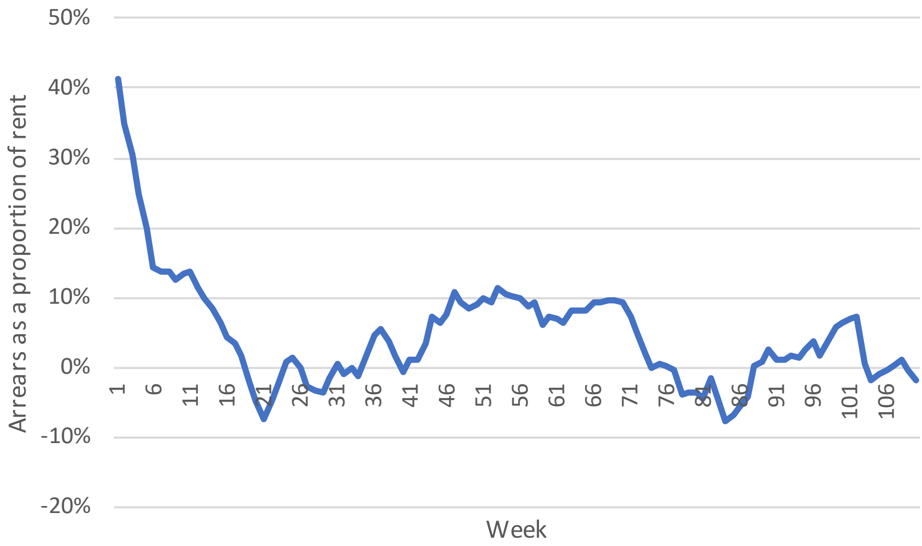
Are there changes in arrears over the longer term?

The report to this point has looked at differences between the 2016 and 2018 groups, which cover around 30 weeks of data. This section looks at the longer-term impact of UC by focusing on the 2016 group for which there is 110 weeks of data.

Do arrears improve with time?

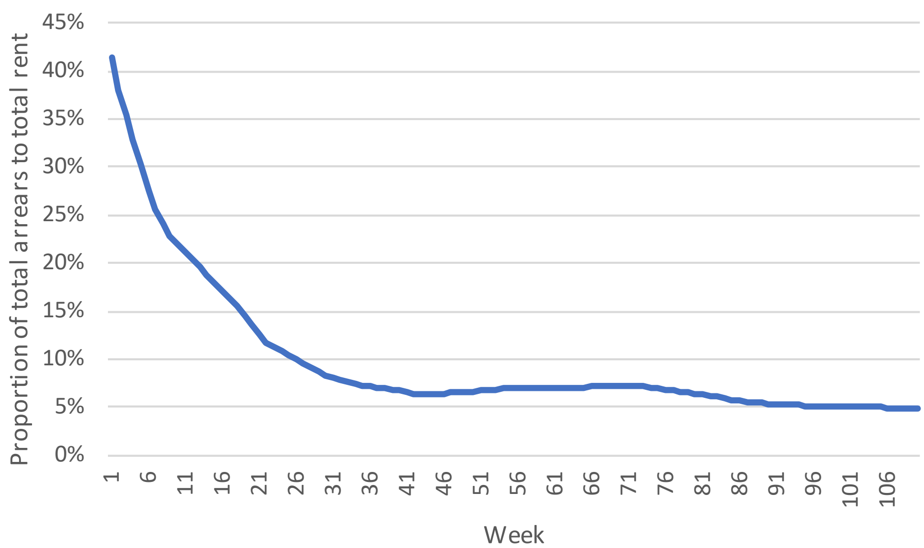
The graph below tracks weekly arrears. It shows the high level of arrears at the start which by around week 20 start to meet rents owed. However, as the last report indicated arrears start to creep up and are around 10% of rents owed from around week 48 until week 70 where the last report finished. After this point arrears start to meet rents owed again.

Figure 13: Proportion of rent owed not paid each week, 2016 group – 110 weeks



Shown as in accumulated arrears to accumulated rents owed, the graph below highlights that arrears are around 7% during weeks 40 to 80. After that they come down slightly to around 5%.

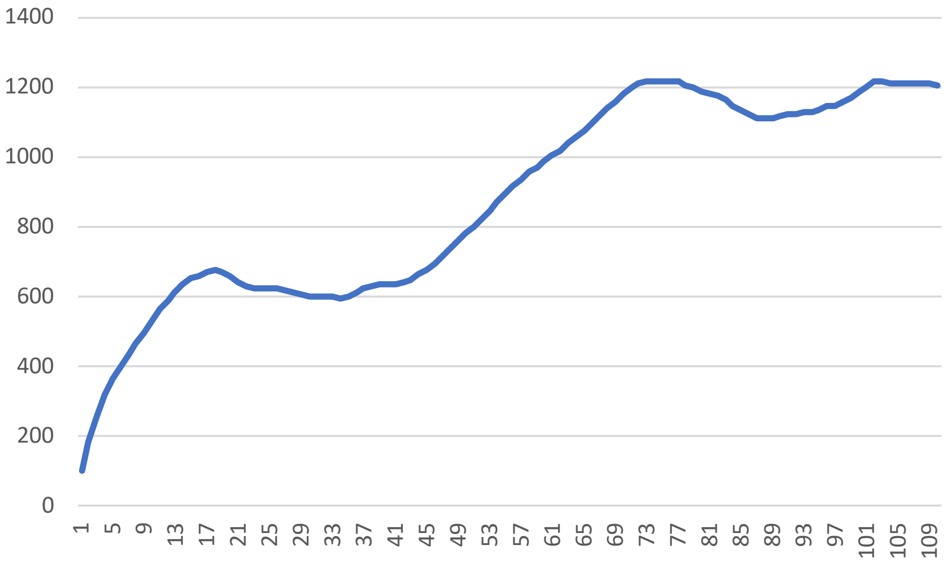
Figure 14: Accumulated arrears as proportion of accumulated rent, 2016 group – 110 weeks



If we look at total arrears compared with week 1, we can see arrears increase in the early period, then plateau before rising again. After around week 70 arrears are paid down slightly but not by much before increasing slightly before plateauing.

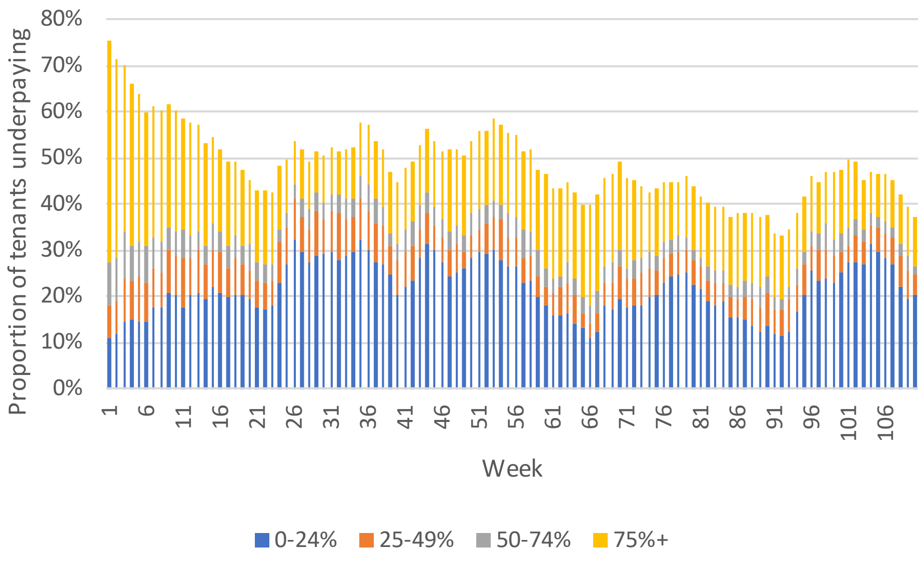
This is a better picture in some respects to the previous report where the data suggested arrears were on an upward trajectory suggesting ongoing costs to landlords for tenants on UC regardless of when they transitioned. Of course, this is a snapshot in time and things could further deteriorate. Furthermore, overall the graph suggests that once arrears are built up they are not generally paid down so the position might not be worse but shows no signs of housing debt being repaid.

Figure 15: Accumulated rent arrears by week, 2016 group – 110 weeks
Week 1 = 100



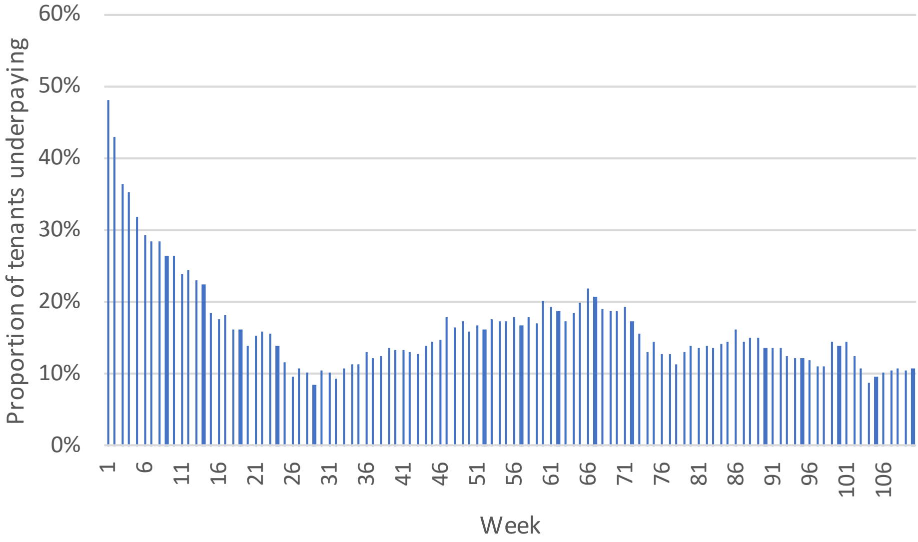
The chart below highlights how much tenants underpay in different periods. It shows that after the initial period 40% plus of accounts are underpaying, despite the picture improving in the latter third of the period.

Figure 16: Levels of underpayments each week, 2016 group – 110 weeks



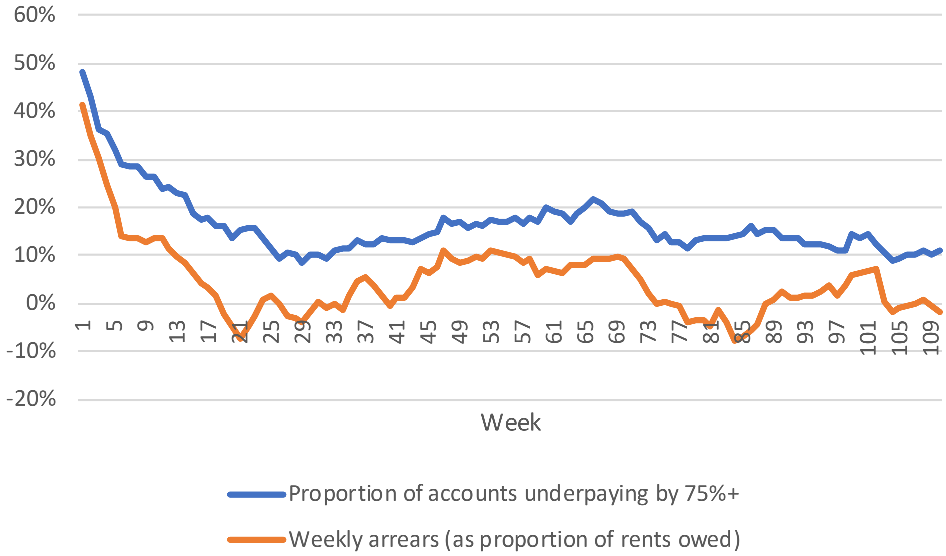
What is noticeable, and consistent with the finding that large underpayers drive arrears levels, is that in periods where there are improvements the proportion of tenants underpaying by large amounts is in decline.

Figure 17: Proportion of accounts underpaying by 75% or more of rents owed



This can also be seen in the graph below comparing weekly arrears with the proportion of tenants underpaying by 75% or more. This could possibly be an indicator of the steady increase in the use of APAs which drive down the levels of underpayments.

Figure 18: Large arrears and weekly arrears, 2016 group



Do multiple Universal Credit claims impact arrears longer term?

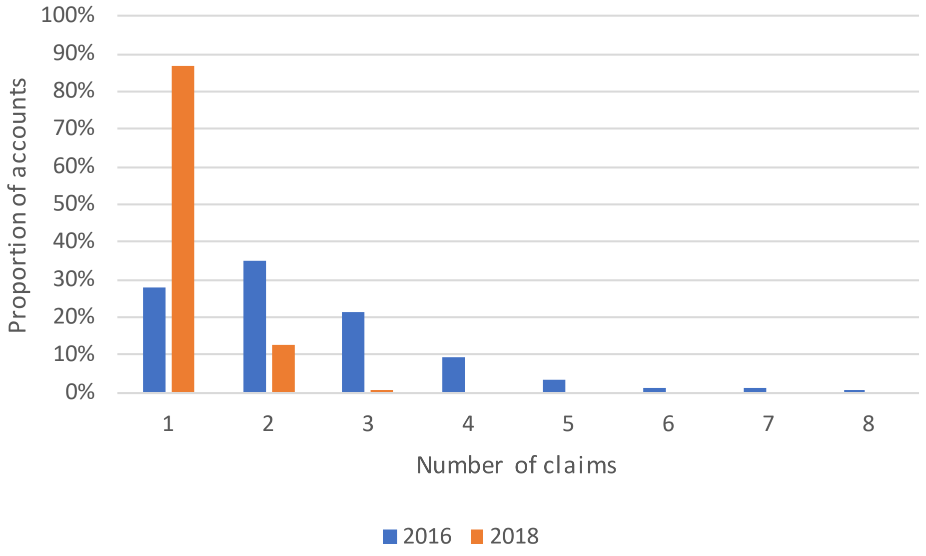
The previous Safe as Houses report highlighted a correlation between higher levels of arrears and multiple claims. This was found to be an issue not just at the start of a claim and had longer term implications for arrears.

A multiple claim refers here to the number of times the council has been notified that someone is claiming for the housing element of UC. The data highlights rent accounts of those who have moved on to UC, some of whom will in time transition off UC as they find employment, their earnings increase or their household circumstances change but may later claim again and move back on. The data used in the report is based on Southwark receiving a rent verification indicating a claim for UC that includes housing costs has been made. The Council receives subsequent notification when another claim or a change in circumstance, such as a change in rent is reported.

To see whether there was still a link over a longer period but also to see whether this held true for the 2018 group, an analysis of the data by multiple claims was conducted.

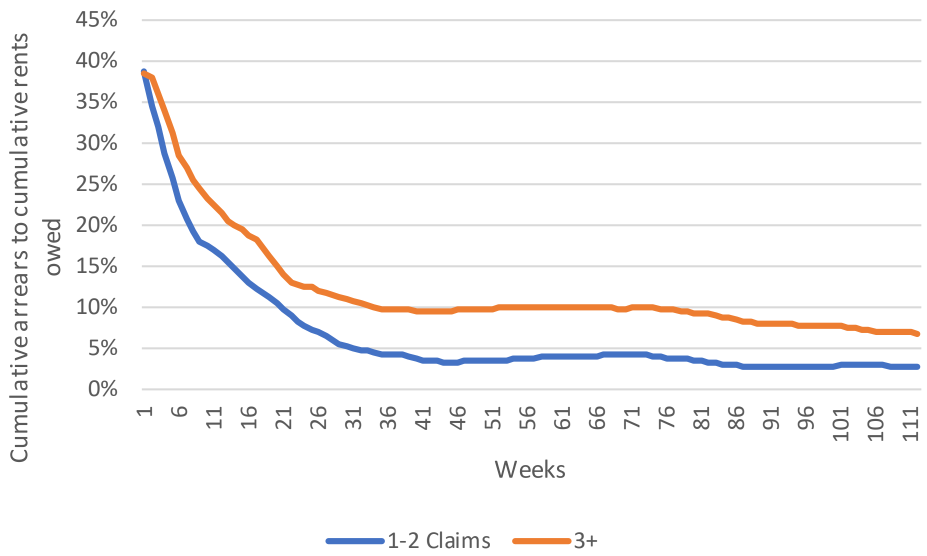
The link for the 2018 group was not observable in the data. However, there are much fewer accounts with multiple claims than for the 2016 group. Indeed, nine in ten accounts in the 2018 group made a single claim, making for a very small sample for those making multiple claims.

Figure 20: Proportion of accounts making multiple claims



For the 2016 group where there are more claims the link is still evident. The graph below shows that those accounts making three or more claims have higher levels of arrears than those with one or two claims (7% v 3% in week 110).

Figure 21: Cumulative arrears by number of UC claims, 2016 group



As the data on the number of accounts making multiple claims for the 2018 suggests, there may have been improvements in the administration. This could mean that there is a smoother transition onto and off UC with fewer people having to make a new claim. This could point towards an improvements for tenants. However, equally it could also mean that some of the issues associated with changing household circumstances or fluctuating incomes which may have been flagged up by observing the link between multiple claims and rent arrears may still continue but cannot be so easily seen in the data.

The evidence from the 2016 group suggests that there is still merit in a research by DWP, who will have information on household and employment circumstances, to see whether there is a link between these factors and increased rent arrears.

Conclusion

Conclusion

This analysis of rent accounts highlights improvements in the overall levels of arrears. However, it also demonstrates the ongoing problems facing Southwark as a landlord and for its tenants, especially when comparing the current situation to the results from the legacy HB system. The data also highlights the problems for tenants and landlords long after households have transitioned onto UC.

The main insights from the analysis are:

- Levels of arrears are noticeably better for those who moved onto UC in 2018 compared with those that did so in 2016.

- However, the underpayments follow a similar trajectory with large underpayments in the initial weeks that tenants move onto UC. This results in arrears which are not paid down and comes at a significant cost to the landlord.

- This was not the case for the HB group where arrears accrued prior to a claim being accepted (and Southwark being notified) were paid down.

- The reason behind the improvement in the 2018 group compared with the 2016 group appears to be concentrated amongst those that are on APAs. For the 2016 group APAs were on average agreed later, meaning large arrears had already mounted up. In contrast, the 2018 groups on APAs are agreed much earlier meaning post UC arrears are comparable to those not on APAs.

- This suggests that introducing APAs even sooner would further reduce overall levels of arrears. This is likely to be cost neutral for HM Treasury and reduce the anxiety felt by tenants highlighted in the first Safe as Houses report.

- Caution should be applied in comparing the groups because of different circumstances (reforms may have impacted APA claimants more) and changes to the application of APAs. Nevertheless, on the evidence in the report the data suggests that for those not on APAs reforms appear to have made little overall difference to arrears and that the big difference in reducing arrears lies with changes to the application of APAs. It is worth stating though that APAs may not be a solution for other challenges facing UC claimants not covered in the report, not least the long period in which claimants do not receive any social security payments.

- The period between making a claim and receiving payment is still evident in the data, which still suggests that action to reduce the period could help to reduce both financial stress on affected households and levels of arrears faced by social landlords.

- The data highlights once again highlights that large underpayers contribute most to arrears - even if there are fewer of them in the 2018 group. This could again be read as a reason for agreeing APAs earlier to stop escalating arrears for tenants and landlords alike.

- The report again highlights that there appears to be an issue with multiple claimants. This holds true for the 2016 group and there should be merit in the DWP undertaking to research to fully understand if there is a relationship between multiple claims/ fluctuating incomes and rent arrears.

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