Falling behind:

The impact of Universal Credit on rent arrears for council tenants in London

Paul Hunter

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The research for this report was undertaken by Paul Hunter, deputy director at the Smith Institute. For more information, please email: paul.hunter@smith-institute.org.uk

This Smith Institute report was commissioned by Southwark Council, with the support of eleven other London local authority landlords and coordinated by London Councils.

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Foreword

The 2019 Conservative Party Manifesto pledged to *"do more to make sure that Universal Credit works for the most vulnerable"*. London boroughs firmly support this ambition. However, in order to realise its pledge, the government must first ensure that Universal Credit claimants are able to meet their essential costs from the very start of their claim. Unfortunately, this report demonstrates that this is not currently the case.

The findings are clear – for the majority of tenants the experience of claiming Universal Credit is accompanied by a significant increase in rent arrears. Arrears rise sharply in the weeks immediately following a Universal Credit claim, before plateauing after approximately 12 weeks. Although arrears generally stop increasing further, they do not get paid down, suggesting that the five-week wait creates a spike in claimant debt that they are then unable to pay off.

These rent arrears not only pose a significant, ongoing financial risk for local authorities at a time when the financial pressures faced by local government have never been greater, it also has a detrimental impact on the claimants themselves. Perhaps an even greater concern is the potential impact of claimants in the private rented sector, where this level of arrears could place vulnerable claimants at direct risk of being made homeless.

London local government has now had more than five years of experience of Universal Credit. As one of the very first places in the country to see the introduction of Universal Credit full-service, Southwark set out to learn from this experience and in 2016 commissioned the Smith Institute to examine the connection between Universal Credit and rent arrears. The subsequent *Safe as Houses* research programme provided a valuable evidence base, proving a definite link between Universal Credit and increased rent arrears.

This report builds on the experience of Safe as Houses by applying the same research methodology to more than three thousand social housing tenants resident across 12 London boroughs. Yet despite the significant differences that exist between these 12 London local authority landlords this report has found that their tenants' experience of Universal Credit is broadly the same.

This research was conducted before the economic impact of COVID-19 led to almost half a million Londoners claiming Universal Credit. Yet this historic increase in the Universal Credit caseload is unlikely to have meant any changes to the financial difficulties experienced by claimants that this report identifies.

These findings come after a series of change have been made to Universal Credit, including the abolition of the seven-day waiting period and the introduction of a Housing Benefit run-on payment, that have been touted by successive Secretaries of State as the solution to the problems of Universal Credit. While these changes have undoubtedly improved the position of claimants this research has found that Universal Credit continues to place claimants into financial insecurity that prevents them from paying their rent.

This leave us with the unavoidable conclusion that it is the fundamental design of Universal Credit in the form of the five-week wait that it is driving increased financial insecurity, and until the negative impact of those five-weeks without support is ameliorated claimants will continue to suffer. London Councils has previously argued that the simplest and fairest way to fully nullify any negative financial consequences arising from the waiting period would be to replace advance payments with a non-repayable grant. The findings of this report serve to underline the urgent need for this change.

Cllr Muhammed Butt, Executive Member for Welfare, Inclusion & Empowerment, London Councils

Preface

Preface

This report was commissioned by Southwark Council, with the support of eleven other London local authority landlords and coordinated by London Councils. The research and report focus on two main questions:

- How has the roll-out of Universal Credit (UC) affected rent payment behaviours among residents in local authority-owned housing across London?

- How are identified changes in behaviour – or the absence of behaviour change – affecting the tenancies of those tenants who are receiving housing cost support under the new arrangements?

The research was commissioned against the backdrop of growing evidence of the impact that UC is having on rent payment behaviour and rent arrears, as well broader concerns about how it is affecting the financial wellbeing of recipients.

Much of the previous research in this field has focused on one or two housing providers. The intention of this research was to understand what the overall impact might be across multiple providers and locations.

To achieve that objective the research covered 12 participating London boroughs, who collectively own over 210,000 homes – 13% of council housing in England.[1] Including data from these 12 boroughs also offered a larger sample of cases.

The study examined those making a new claim for the housing element of UC during a three-month period (July – September 2019) in the 12 London boroughs with final rental data running until December 2019. This falls after the roll-out of Universal Credit full service to all parts of London, which was completed by December 2018. It also follows a series of reforms made in 2018, including: the abolition of the seven-day waiting period and the introduction of a two-week Housing Benefit (HB) run-on.

However, the study comes before the coronavirus pandemic and the social and economic fallout from measures taken to halt its spread. This has dramatically changed the level of households claiming UC, although is unlikely to change the financial difficulties that many people face as they move onto UC.

The report tells this story of financial stress through analysis of tenant rent accounts. As such, it does not bring to light the real-life stress and misery attached to rent arrears. The report also does not quantify the full cost to social landlords, which alongside rent arrears includes the additional costs of collection and working with tenants as they move onto UC.

However, the financial and emotional stress is perhaps implied in the data showing the extent to which households fail to pay their rent and new arrears mount up. The scale of the costs to social landlords is also apparent in escalating arrears after tenants make an effective UC claim. It is not possible to know whether tenants remained on UC after they made a claim, but the data clearly highlights the impact after a claim has been made for those of working age who rely on the benefit system to pay their rent.

By examining this impact and tracing rent behaviour over time, the analysis points towards what kind of reforms might be needed to improve UC to the benefit of both tenants and social landlords. The main recommendations are presented in the conclusion as well as in the executive summary.

Executive summary

Executive summary

This research is based on the analysis of 3,373 rent accounts of tenants across 12 London boroughs. The research aimed to understand the impact of Universal Credit (UC) on rent payments and the level of rent arrears.

Headline findings

- Tenants' rental balance worsens for the majority after they claim UC.
- Rent arrears are high in the initial weeks as tenants move on to UC and are not repaid.
- On average tenants build-up £240 of rental arrears after they make a UC claim.
- In the initial week the majority of accounts are in arrears - suggesting payment issues are not confined to a minority but are widespread.
- However, a minority of larger underpayers contribute significantly to the total level of arrears.
- Alternative Payment Arrangements (APAs) are shown to slow the growth of such large arrears and their early use does so faster.

The main findings suggest:

- The level or likelihood of new rent arrears after a claim for UC cannot be predicted from the level of arrears at the time the claim is made.
- The high level of arrears in initial weeks suggest that efforts to reduce the wait between a successful claim and a tenant receiving payment would help reduce arrears, which appear hard to pay down.
- Advances are available for those making new claims for UC and who need money urgently. While advances are not identified in the report, the availability of advances seems not to prevent significant and lasting new arrears from occurring.
- New arrears may be hard to pay down due to other features of the UC system. First, UC is paid one month in arrears which effectively creates a cash-flow loss for claimants and social landlords compared with the legacy system – especially for council tenants. Second, that loss may be compounded by the very high levels of deductions from ongoing benefit that are a feature of UC that are known to affect large numbers of claimants.
- The impact that APAs have suggests that greater freedoms for tenants and landlords to have UC payments made directly from DWP to landlords should be considered as a way of reducing arrears. One option would be to direct payment to the landlord as the default option, as in Northern Ireland.

Based on the results on the analysis the report makes three main recommendations:

- **Recommendation 1:** Reduce the five-week wait to help prevent the build-up of large arrears in the period. While this change is being implemented advance payments should be replaced with a non-repayable grant to provide immediate support to claimants.
- **Recommendation 2:** Greater use of APAs by social landlords to reduce the number of tenants with large arrears.
- **Recommendation 3:** Direct payment to landlords as the default to more fully reduce the number of tenants with large arrears.

Detailed findings

How rent arrears change

- Arrears are high as tenants move onto UC. Two-thirds of tenants underpay in the first week with 30% of rent owed in the first week going unpaid.
- Weekly arrears decline to around 5% of rent owed in week 9 and decline to being in balance by week 20.

What impact could this have on councils?

- The rent arrears that accumulate in the initial weeks are not found to be paid back.
- The results show that on average rent arrears by the end of the period (week 27) are around £240.
- This equates to around 8% of rent owed. Rent arrears for councils across their stock are around 3%.
- On this basis, moving working age council tenants from housing benefit to UC in London could cost around £23m.

Large underpayments and underpayers are important to the level of arrears

- One in three (35%) of accounts in the first week on UC underpay by 75% or more. This drops to around one in ten by week 20.
- These larger underpayments contribute to two thirds of the value of total underpayments.

- Larger underpayers disproportionately contribute to arrears. Those with the highest 20% of arrears contribute to half of the total arrears.
- Those accounts that consistently underpay contribute most to arrears. The 15% of accounts that underpay three quarters of the time amass 62% of total arrears.

Arrears build up before the UC Rent Verification date

- The analysis shows that arrears start to accumulate before the UC Rent Verification (UCRV) date.
- Arrears rise from around 2%-4% four months prior to the UCRV date to around 6% by two months before, rapidly rising to 17% a week before the UCRV date after which they increase to over 30% on the week of UCRV date.
- On average this results in a rise of just under £400 between eight weeks before the UCRV date and 12 weeks after (for those accounts that data is available).
- These arrears that build up are not paid down.

Alternative Payment Arrangements (APAs) make a significant difference

- One in five (20%) of accounts had an alternative payment in place, which means their housing element of UC is paid directly to their landlord.
- APAs appear to have a significant impact on limiting further arrears.
- For those accounts, arrears average 48% before the APA was in place. At a similar point arrears totalled 18% for non-APA accounts. After that point arrears average around 10% for both APA and non-APA accounts.
- For accounts with two-months of arrears, those with APAs saw arrears rise by £279 but those without APAs saw a larger rise – averaging £640.
- Early use of APAs also matters, those with APAs within four weeks of the UCRV date had £337 of arrears by week 13. However, arrears rose to £692 for those whose APA was in place eight weeks after the UCRV date.

Introduction and approach

Introduction

It is now eight years since UC legislation was enacted. Since then there has been considerable scrutiny of the system, mostly around simplifying the benefit system, improving work incentives and the financial impact on recipients.

There were some initial concerns about the administration of the system - with complaints of consistent late payments. Longer standing concerns have centred on the design of the system, which leaves a period of weeks where recipients do not receive their benefit entitlement. Research by the Trussell Trust, StepChange Debt Charity and others have highlighted the impact on demand for foodbanks and debt advice as some recipients are left without money to meet basic needs.[2]

Another area of concern has been the impact that UC is having on rent arrears. The Smith Institute has undertaken several studies on this aspect for the London Borough of Southwark. Shelter and housing providers have also published details on how UC is affecting tenants.[3]

Universal Credit
UC 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.

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

At the end of 2019, there were 2.4m households claiming UC. 1.5m of these households were claiming the housing element, of which over 0.8m were in the social rented sector. Within London there were 112,000 households claiming the housing element of UC in the social rented sector and a similar number in the private rented sector. Since the onset of the COVID-19 emergency the number of people claiming UC has risen from 2.9m in February 2020 to 5.3m in May 2020 (the number of households claiming the housing element of UC since the outbreak was not released at the time of writing).[4]

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. Landlords can also request direct payment for other reasons, including the tenant being vulnerable.

Although these studies have created a growing evidence base about the impact that UC was having on rent payment behaviour it is often focused on one or two housing providers. To address this the Smith Institute was commissioned by Southwark Council, with support from 10 other local authority landlords, one ALMO and London Councils, to understand the impact that UC was having on the rent payment behaviour of tenants across the capital.

The sample for this study is much larger than previous studies. And, by having multiple participating landlords the analysis looks beyond the impact on a specific landlord or location

The research also provides a picture of the impact within London – home to one in five of England's social housing tenants. As the purpose of the research was to look at the impact across the capital, the analysis does not break down the results by borough but focuses on the overall picture in London.

12 participating London local authority Landlords
The landlords that took part in the research were:

- Barking & Dagenham
- Brent
- Camden
- Greenwich
- Hackney
- Harrow
- Hounslow
- Islington
- Lewisham Homes
- Newham
- Southwark
- Waltham Forest

To understand the housing implications of UC, the research sought to answer two specific questions:

- *How has the roll-out of UC affected rent payment behaviours among residents in local authority-owned housing across London?*
- *How are identified changes in behaviour – or the absence of behaviour change – affecting the tenancies of those tenants who are receiving housing cost support under the new arrangements?*

These questions are addressed by examining the rent accounts of tenants to give a quantitative picture of change. The data and analysis are presented in the main section of the report and done so through a series of questions about rent payment behaviour over time and the overall levels of arrears.

Approach

The Institute analysed rent account data from the 12 participating boroughs. Information was provided for May to December 2019 with all tenants having made a successful claim for the housing element of UC between July and September 2019.

In total 3,373 accounts were examined. The table below provides details about tenants, thereby giving context about household profile and rent levels.

Tenant profile of new UC claimants

Gender	
Women	71%
Men	29%
Age	
18-24	5%
25-34	22%
35-44	27%
45-54	26%
55+	21%
Property type	
House	18%
Flat	64%
Maisonette	16%
Other (bedsit, bungalow, studio)	2%
Household size	
1	28%
2	23%
3	17%
4	13%
5	9%
6+	9%

Year rent account starts	
2019	16%
2018	5%
2013-17	25%
2008-2012	21%
Pre 2008	33%
Surplus or arrears at UCRV date	
Surplus	27%
Balance	7%
Arrears	66%
Weekly rent	
Less £100	16%
£100-£112.50	26%
£112.50-£125	26%
£125-£150	24%
£150+	8%

Rebasing rent payments

To enable an analysis of the impact of UC the rent accounts were rebased to compare the accounts from the same starting point.

As tenants are moving onto UC at different times - but rent account data is provided on a monthly basis - there are different lengths between moving onto UC and the next rent arrears/surpluses data point. As the analysis seeks to understand how rent payment changes over time it is important to rebase to enable this.

The data on arrears or surpluses accrued between two data points was split into arrears/surpluses per day. This data was then converted into weekly figures for each of the accounts.

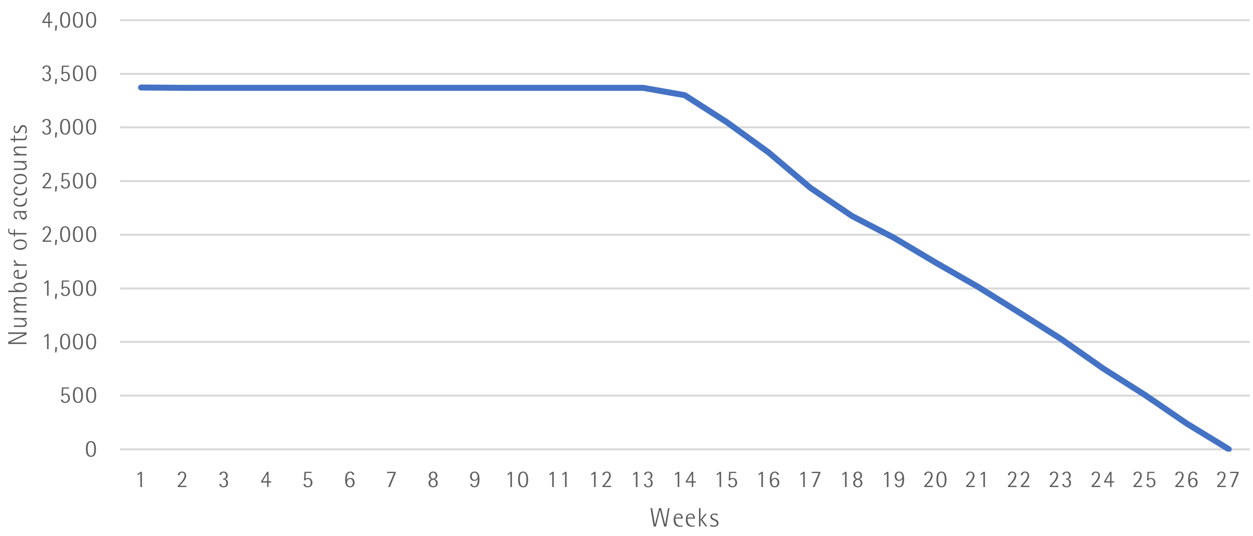
Accounts were therefore rebased so each starts from the same point. This is the UC Rent Verification (UCRV) date which is where the research assumes is the UC start date. To fully understand the impact of UC the accounts were also rebased to start from a balance of £0.

In some of the analysis total arrears (including pre-UC arrears) are used to give an overall picture - this is done by adding an account's actual balance at the UCRV date to the rebased weekly figures.

This method of rebasing accounts has been used for similar reports, including a study for the DWP into the impact of direct payments makes to rent arrears, which was undertaken as UC was developing.[5]

Due to the different points at which tenants move on to UC and the fixed length that the data runs, the number of tenants there is rent account data for reduces. The graph on the next page shows this decline.

Figure 1: The number of rent accounts by week



Final results

Final results

This section provides the results from the rent account analysis.

The primary focus of the analysis is what happens after tenants make a claim for the housing element of UC. To understand this the analysis tracks the levels of arrears over time, both in weekly and cumulative terms. The research also examines the impact of APAs and the impact of large underpayers on arrears.

Data was also available for a short period prior to the UC claim. This allowed an examination of the way that arrears change ahead of the UC claim.

Did arrears worsen under Universal Credit?

Most accounts were in arrears at the UC Rent Verification (UCRV) date. After the UCRV date the proportion of accounts with arrears increased slightly.

Proportion of accounts in arrears or surplus

	At UCRV date	End of period
Surplus	27%	22%
Balance	7%	5%
Deficit	66%	72%

The shift in rent payment behaviour was much more noticeable when examining the number of rent accounts that were in a worse financial position by the end of the period. Approaching two thirds (64%) of tenant rent accounts were in a weaker position at the end of the period than when they first claimed UC.

Proportion of accounts in better or worse position from UCRV date to end of the period

	Proportion of accounts
Better	35%
Same	1%
Worse	64%

This figure does not appear to be affected by how long tenants are on UC, as suggested in the table below. This would point to the problems that tenants face as not being short term as they move onto UC but there being a lasting negative impact.

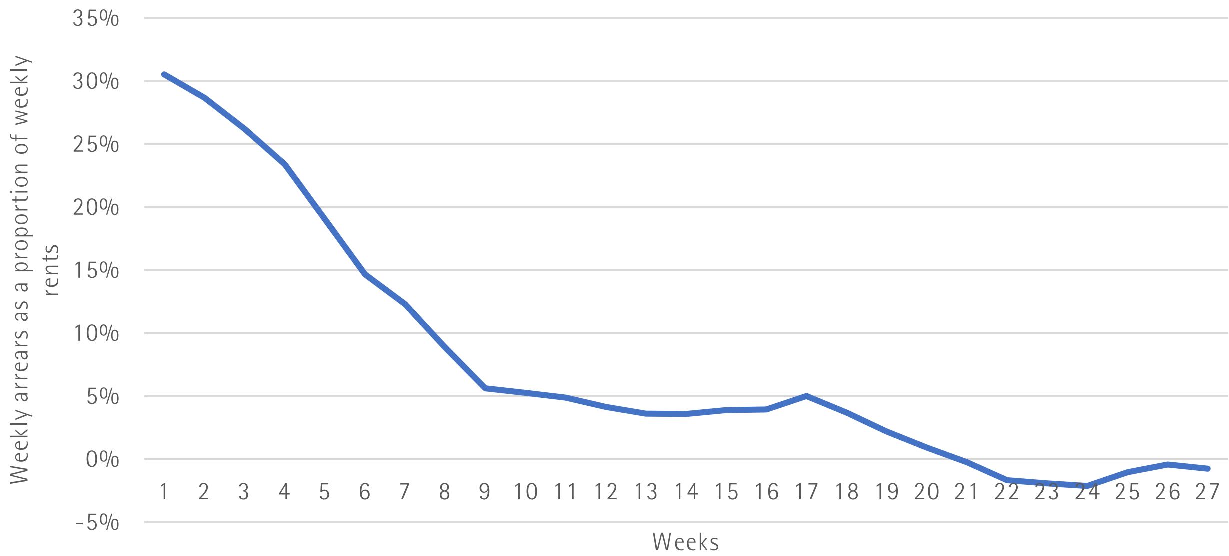
Proportion of accounts in better or worse position from UCRV date to end of the period, by number of weeks on UC

	Under 20 weeks	20 or more weeks
Better	36%	34%
Same	1%	1%
Worse	63%	65%

How did rent payment behaviour and arrears change over time?

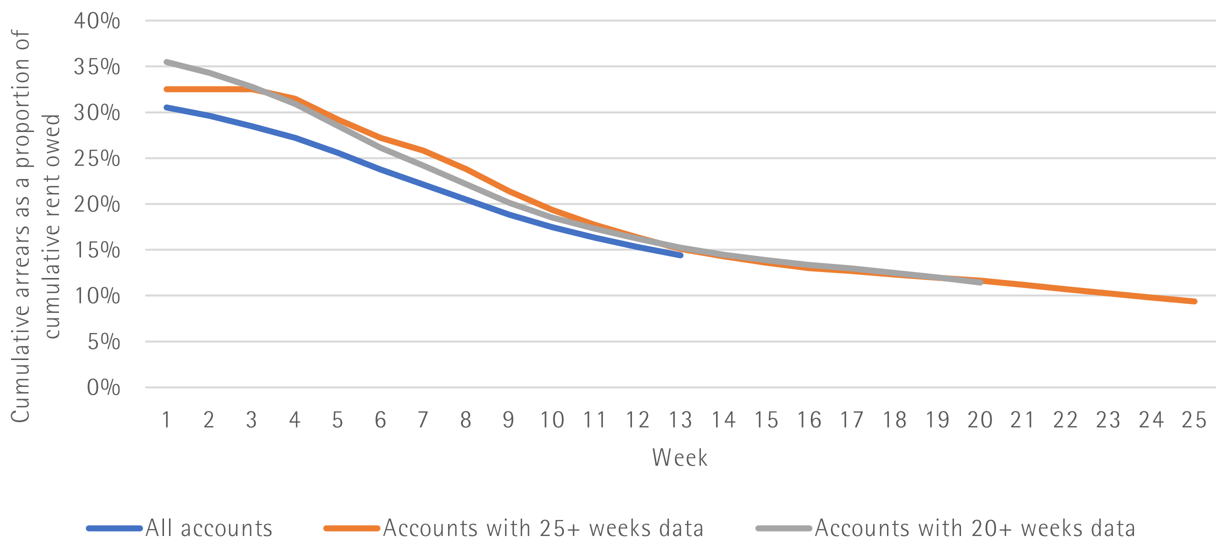
The data shows that tenants struggle most to meet their rents owed in the initial weeks when they move on to UC. In aggregate terms the weekly arrears of tenants are highest at the start of UC claim – with 31% of rents owed by UC claimants not paid in the first week even with advance payments being available. This declines rapidly to 19% in week five and 5% by week 10. For those accounts with data over a longer period there are small surpluses after week 20.

Figure 2: Weekly arrears as a proportion of weekly rents



In cumulative terms, arrears as a proportion of rents owed decline. Cumulative arrears fall from 31% in week 1 falling to 17% in week 10.

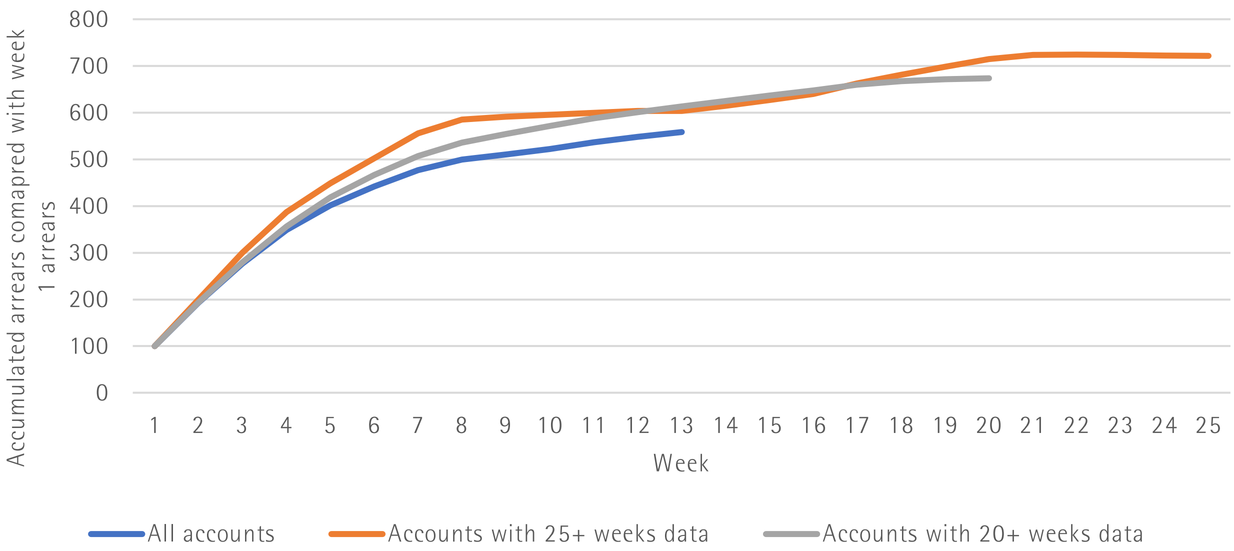
Figure 3: Accumulated arrears as a proportion of cumulative rents



Note: all accounts include 3,373 accounts, 20+ weeks includes 1,724 accounts and 25+ weeks includes 538 accounts

Although arrears as a proportion of rents owed decline, this is not due to falling levels of arrears. Rent arrears (the numerator) remain stable after a time but instead the amount of rents due (the denominator) increases. The figure below shows how cumulative arrears build up quickly in the initial weeks. The pace slows in the middle period before plateauing thereafter. Worryingly, there is little sign of the rent arrears built up in the initial weeks being paid back.

Figure 4: Accumulated rent arrears
Week 1= 100



Note: all accounts include 3,373 accounts, 20+ weeks include 1,724 accounts and 25+ weeks include 538 accounts

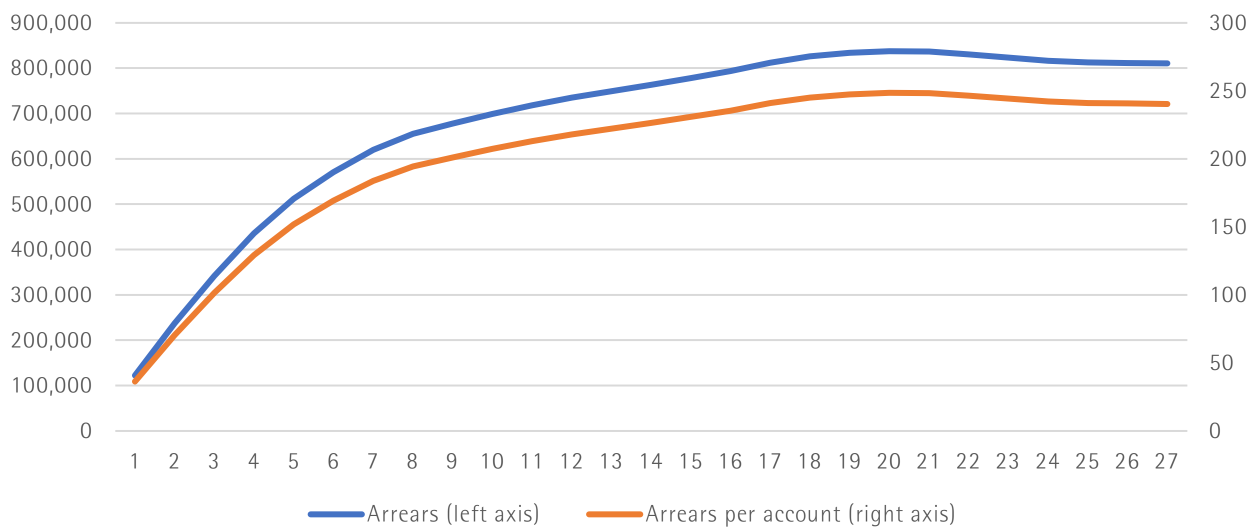
The arrears that build up in the first weeks may be hard to pay down because of in-built features of the UC system. As UC is paid a month in arrears it creates a cash-flow loss to tenants, and therefore landlords, compared with the legacy Housing Benefit system. This means tenants are effectively always chasing their tail and tenants often on very low incomes with little spare money will find it hard to play 'catch up'.

A second challenge is likely to be the repayment of debt. A response to a Freedom of Information request showed that around 60% of UC claimants were not getting their full entitlement due to the payment of debt and loans.[6] DWP has also suggested that just under 30% of claimants are repaying tax credit overpayments via UC.[7] Such levels of debt are likely to make repayment of rent arrears harder.

What levels of arrears were built up in the period?

The graph below shows how average cumulative arrears build up and add to the total level of arrears. As data is not available for every account the weeks are scaled up based on the account data available. The chart shows again that arrears plateau with little sign of repayment.

Figure 5: Modelled accumulated arrears for all accounts (£)



Note: Modelled for all 3,373 rent accounts. Data for over 13 weeks based on weekly arrears data for remaining accounts.

The data suggests that arrears total just over £810,000 for the 3,373 accounts with average arrears totalling slightly above £240.[8]

Average rent arrears for local authority housing run at around 3%[9] - similar to comparisons of rent arrears for those making a claim under the legacy housing benefit system.[10] Assuming that rent payments return to more normal payment habits after six months, as the data suggests,[11] it would mean that significant arrears build up that are not repaid.

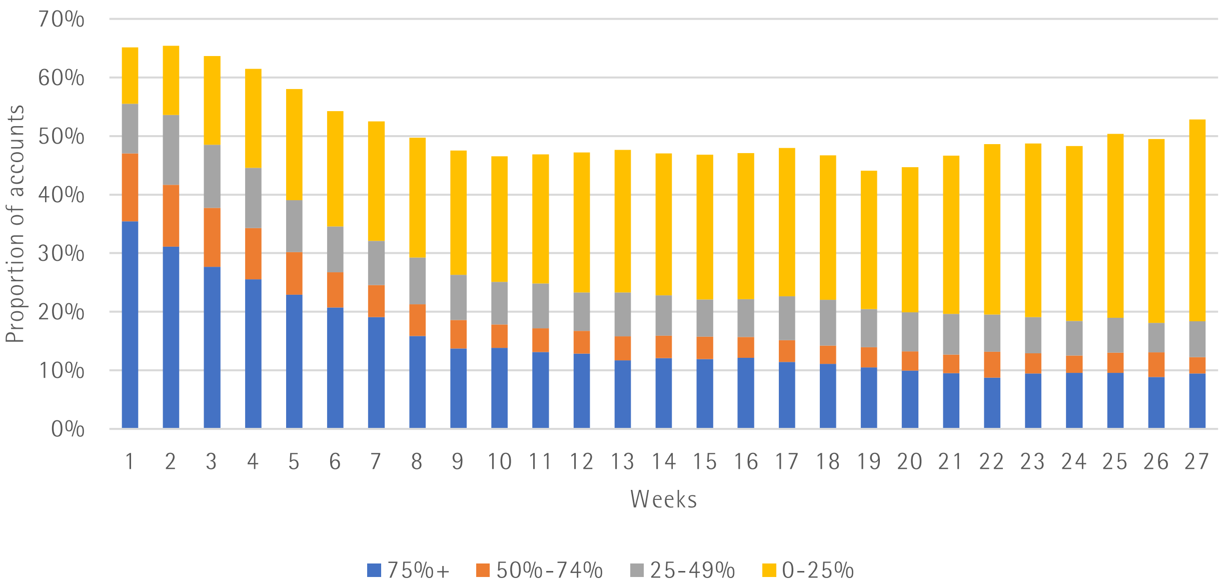
Prior to the coronavirus pandemic there were around 135,000 working age council tenants in London claiming housing benefit.[12] To give an estimate of the scale of the costs of UC, if they were moved to UC at cost of £170 (£240 less 3% expected arrears) it would cost stock owning local authorities in London over £23m. Although this is a rough estimate it highlights the financial implications. Furthermore, observing the way that arrears accrue before tenants move on to UC (examined later in the report), this figure could be a significant underestimate of the financial ramifications for both tenants and landlords.

These figures suggest there will be knock on consequences for investment in new and existing properties. There will also be additional cost and resource implications of having to try to collect the arrears. All these costs are unlikely to be just a one-off cost as housing benefit claimants transfer to UC. There will also be a continuing flow of new tenants requiring support to meet their rent, which they may not have required before. This has been particularly the case during the coronavirus pandemic with rapid rises in both unemployment and take up of new UC claims.[13]

Do large underpayments and underpayers contribute most to the level of arrears?

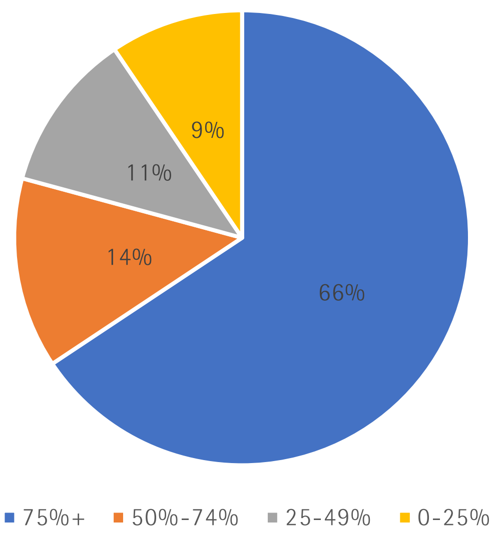
The proportion of accounts underpaying their rent by large amounts (75% and more) is highest in the initial weeks after making a UC claim. Around a third of accounts underpay by 75% or more in week one which declines to around 20% by week six, falling to 12% in week 13 and settling around 10% in the later weeks.

Figure 6: Proportion of accounts by level of arrears



Of the total arrears that accrue, it is large weekly underpayments that contribute most. In total they contribute two thirds (66%) of arrears despite only totalling a third of the weeks that accounts are in arrears.

Figure 7: Large weekly underpayments contribution to total arrears



It is not only large weekly underpayments that contribute to arrears but also large underpayers. The top 20% of accounts by level of arrears contribute half of the total arrears. This suggests that action to reduce levels of arrears may be most effective if concentrated on this group.

Contribution to total arrears by level of arrears

Quintile 1	Quintile 2	Quintile 3	Quintile 4	Quintile 5
48%	24%	15%	9%	4%

Do accounts with higher arrears at the start end up with larger arrears?

If there was a relationship between those underpaying large amounts at the start and final level of arrears, then efforts by social landlords concentrated on these tenants might help reduce arrears.

The data in aggregate terms for those accounts that have large underpayments in the first week suggests they have higher combined levels of arrears. On average those underpaying by 75% or more in week one have £450 of arrears. Those who do not who have £104 of arrears – four times less.

Large arrears at start equal higher overall areas

	Total arrears
Arrears per head for those underpaying by over 75% of rent owed in the first week on UC	£450
Arrears per head for those not underpaying by over 75% of rent owed in the first week on UC	£104

However, analysis at an individual account level showed that first week arrears were not highly correlated with final arrears levels[14] and nor were they found to be statistically significant.[15] As such focusing efforts on whether a tenant underpays by a large amount in the first week seems unlikely to be the most effective approach.

Similarly, examining the actual amount of arrears that accounts have (rather than rebased to zero) shows that there is no correlation between the amount of arrears a tenant starts with at the UCRV date and their rent arrears increase.

Do tenants consistently underpay?

In the first week after the UCRV date two thirds (65%) of accounts underpaid their rent. This had dropped to under half (48%) for week 13. Over the 13 weeks more than half (54%) of rental weeks saw rent underpaid.

For those accounts with 20 weeks of data, 67% underpaid their rent in the first week and 45% in week 13 – similar proportions as the full sample. By week 20 the decline had eased, with 43% of accounts underpaying - suggesting again that improvements slow. Over the whole 20-week period the average figure was 50%.

Underpaying rent was not confined to a small group. The vast majority of accounts (93%) had at least one week of underpaying their rent. For those with 20 weeks of data around half underpaid in 10 of the 20 weeks and one in seven (15%) underpaid in 15 of the 20 weeks. For these accounts 46% of rent was not paid in the 20-week period as opposed to 11% for the whole group.

Consistent underpayers and contribution to rent arrears, 20 weeks

	Proportion of arrears to rent	Contribution to total arrears	Proportion of accounts
Underpaying three quarters of the weeks	46%	62%	15%
Not underpaying three quarters of weeks	5%	38%	85%
All	11%	100%	100%

Note: 1,918 accounts included in the analysis of which 296 accounts were underpaid three quarters of the weeks

On an individual account level, the amount of arrears is positively correlated with a higher number of weeks that a tenant is in arrears and was shown also to be statistically significant.[16]

Perhaps this is unsurprising, but together with the impact that large underpayers make to arrears it highlights the importance of reducing consistent and large underpayers to reducing a landlord's overall levels of arrears.

How does the rent payment behaviour of large underpayers compare with other tenants?

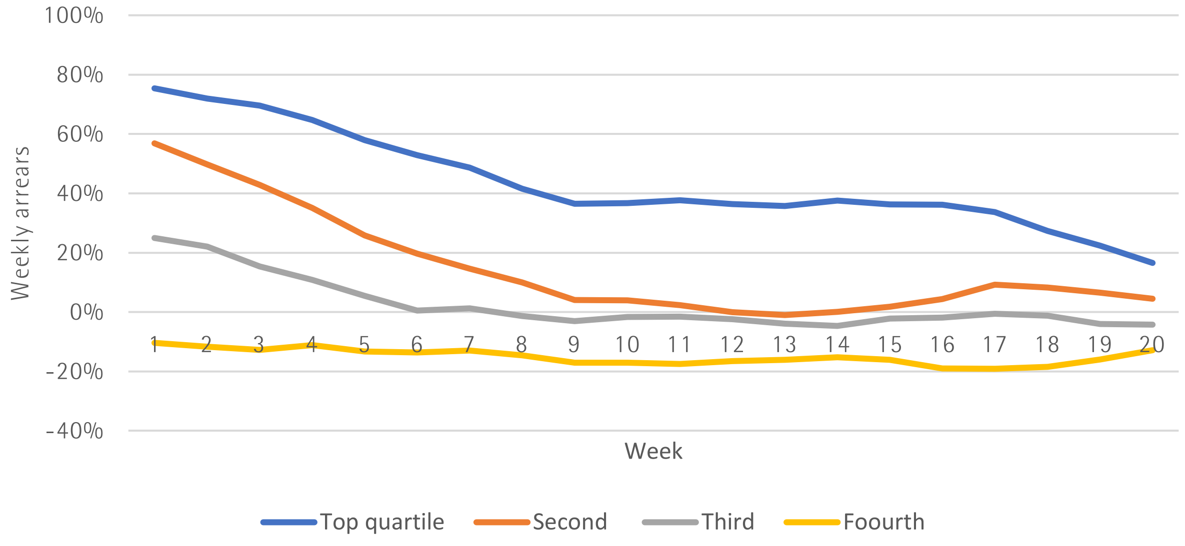
The rent payment path of those that underpay a lot and those in surplus differs markedly. At an aggregate level those with highest quarter of arrears had extremely high rates of arrears at the start. Weekly arrears stabilise at week 9 but at very high rates and reduce further in week 17.

Those in the second quartile follow a similar path but from a lower start and have a lower end point. Those in the third highest quartile see arrears start lower and reduce to being in weekly balance and plateau there around week 6.

For the best quarter of payers, at an aggregate level they are consistently overpaying a small proportion of their rent in each of the 20 weeks.

This analysis suggests that at an aggregate level, larger underpayers not only underpay large amounts in the initial weeks but are also consistently underpaying by larger amounts thereafter. By week 20 they are still underpaying 17% of rent due.

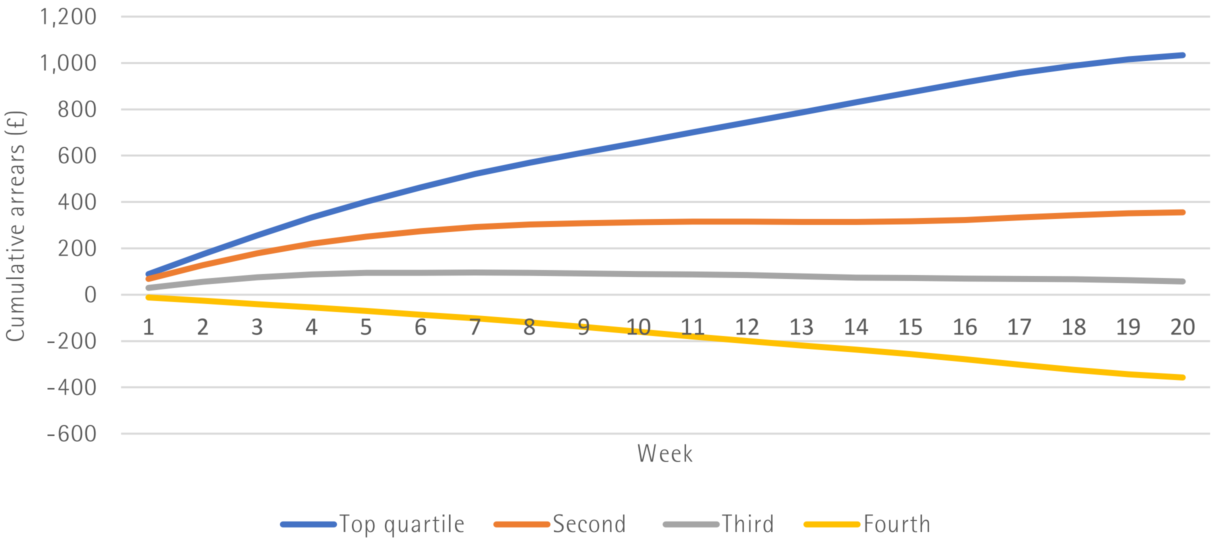
Figure 8: Weekly arrears of tenants by overall quartile of cumulative rent payment rate, 20 weeks
The top quartile is the worst 25% of payers



Note: 1,918 accounts included in analysis

Cumulatively arrears continue to build up at speed for the largest underpayers, whereas they stabilise around week 8 for the middle two quartiles and are reduced for the fourth quartile.

Figure 9: Cumulative arrears of tenants by overall quartile of cumulative rent payment rate, 20 weeks
The top quartile is the worst 25% of payers

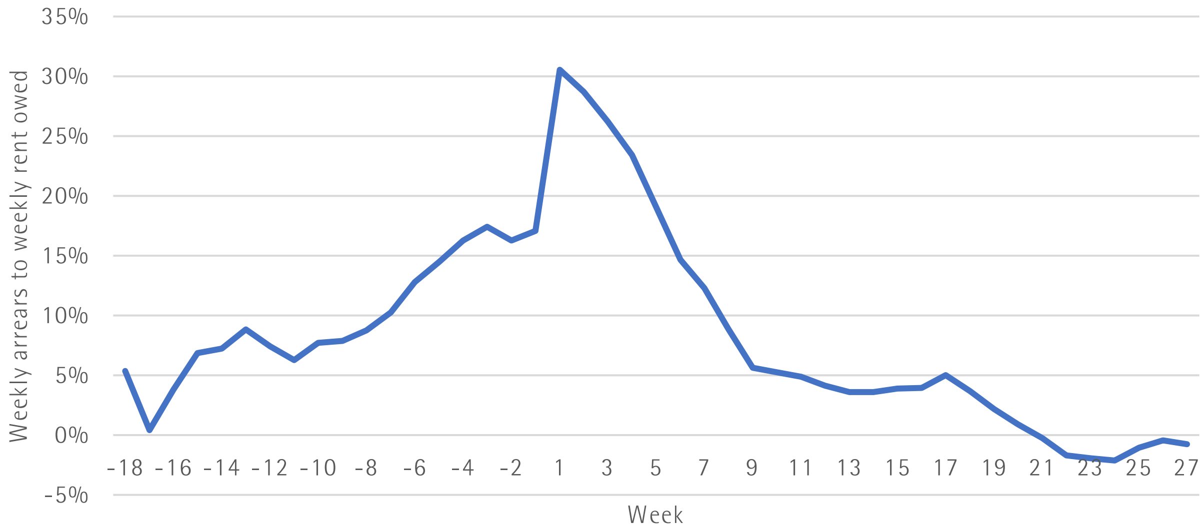


Note: 1,918 accounts included in analysis

How do arrears change in the period prior to the Universal Credit Rent Verification date?

The data shows that arrears start to build up in the period prior to the UCRV date. The level of arrears starts to rise rapidly in the weeks immediately prior to the UCRV date and then peak in the first weeks that someone makes a claim, before making the decline described earlier.

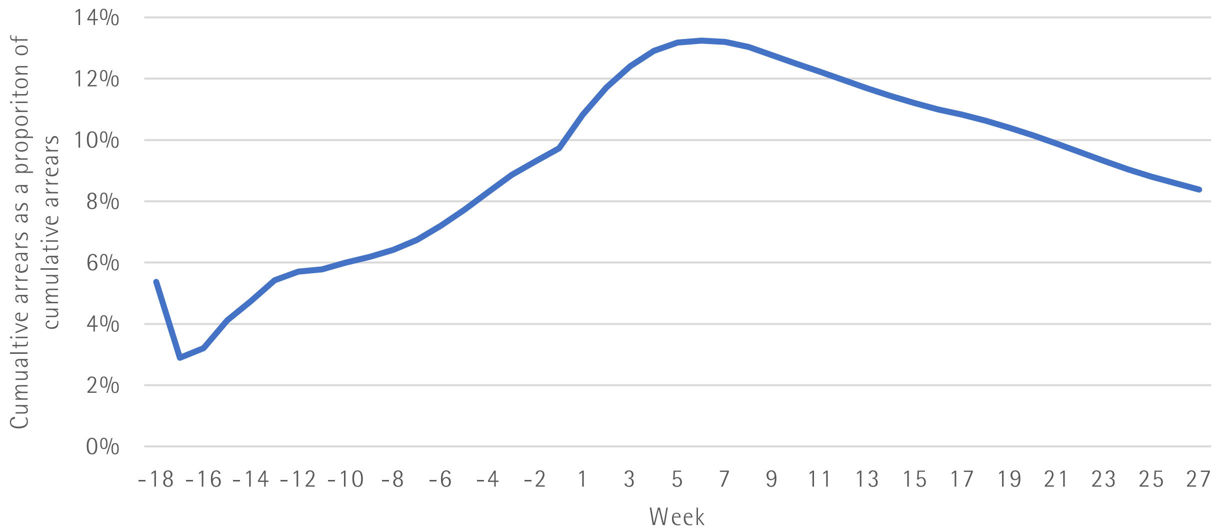
Figure 10: Weekly arrears before and after a claim



Note: Data for all accounts there are for the specific week. For the weeks preceding the UCRV date there were 509 accounts in week -16, 1,437 accounts in week -12, 2,252 in week -8 and 3,000 in week -4.

The impact of cumulative arrears as a proportion of rent is that they mount up over a considerable period before they start to reduce as a proportion of total rent owed.

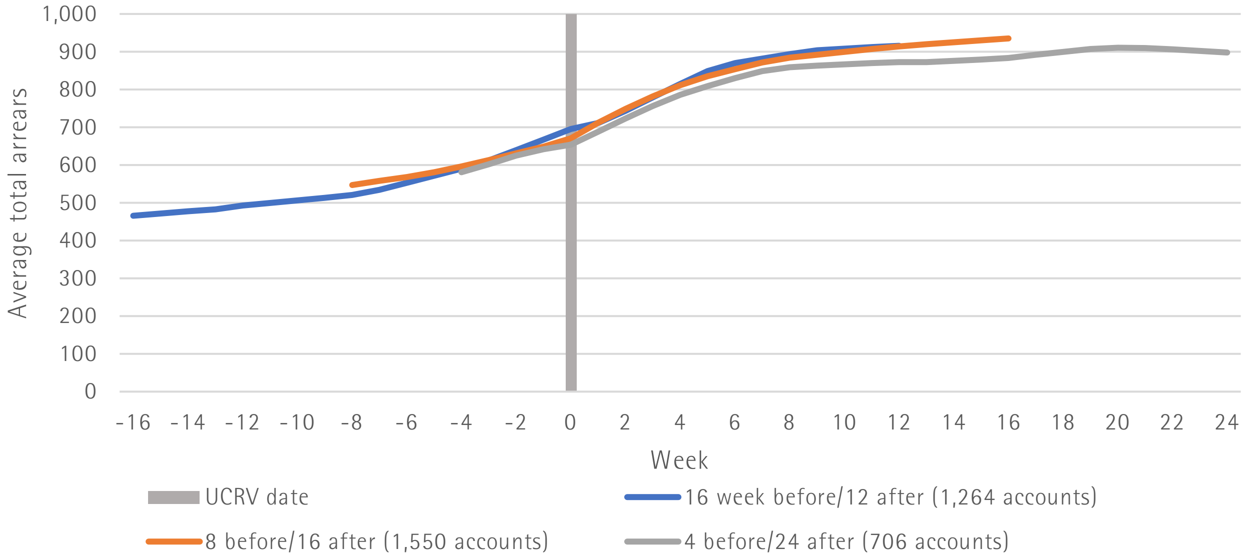
Figure 11: Cumulative arrears as a proportion of total rent owed



Note: figures adjusted to reflect the different number of accounts there is data for in each week

However, as noted earlier this does not mean in absolute terms arrears are paid back. Instead they plateau but are not paid back. What the graph on total arrears also shows is that arrears follow a S-curve. They slowly creep up, then start rising rapid around 6-8 weeks prior to the UCRV date which continues for a similar period after and then stabilise.

Figure 12: Levels of arrears by week



What happens after this point is not known. If weekly rent payments met rent owed thereafter it would still take around two years after the UCRV date before arrears were 3% of rent owed (the average for council tenants). A previous study has suggested that after a similar two-year period absolute levels of arrears crept up again and did not settle down at the 3% average arrears level.[17]

Do Alternative Payment Arrangements make a difference?

As the data has highlighted, those with large amounts of arrears contribute disproportionately towards overall levels of rent arrears. One means of limiting large arrears is the use of Alternative Payment Arrangements (APAs), where the housing element of UC is paid directly to the landlord. APAs can be agreed in specific circumstances such as if a tenant is vulnerable or if they have two months' worth of rent arrears.[18]

Of the accounts examined, one in four (24%) had an APA.

The evidence suggests that APAs reduced the levels of arrears after they were put in place. The table below demonstrates the difference. On average APAs were put in place 38 days after the UCRV date. At this point average arrears were around half (48%) of rent owed. At the same point (38 days), non-APA accounts had arrears of 18%. After the APA date average arrears are around 10% of the rent owed in the period - the same as for non-APA accounts. Nevertheless, due to the large level of arrears that built up prior to the APA, those accounts had much higher levels of arrears.

Impact of APAs

	APA accounts			Non-APA accounts		
	Before APA	After APA	Total	38 days	105 days	Total
Arrears as a proportion of rent	48%	10%	18%	18%	9%	11%
Arrears per day	£7.75	£1.66	£3.00	£3.18	£1.58	£1.93

Note: There were 703 APA accounts and 2,247 non-APA accounts. Some accounts did not have details on APAs so were excluded from the analysis.

The difference an APA can make is also observable when comparing arrears amongst those with over two months' worth of arrears and whether or not an APA is in place. The table below shows that those accounts with an APA have a much lower level of rent arrears.

Change in arrears (UCRV date and week 13) of those with 2+ months of arrears and APA within 13 weeks

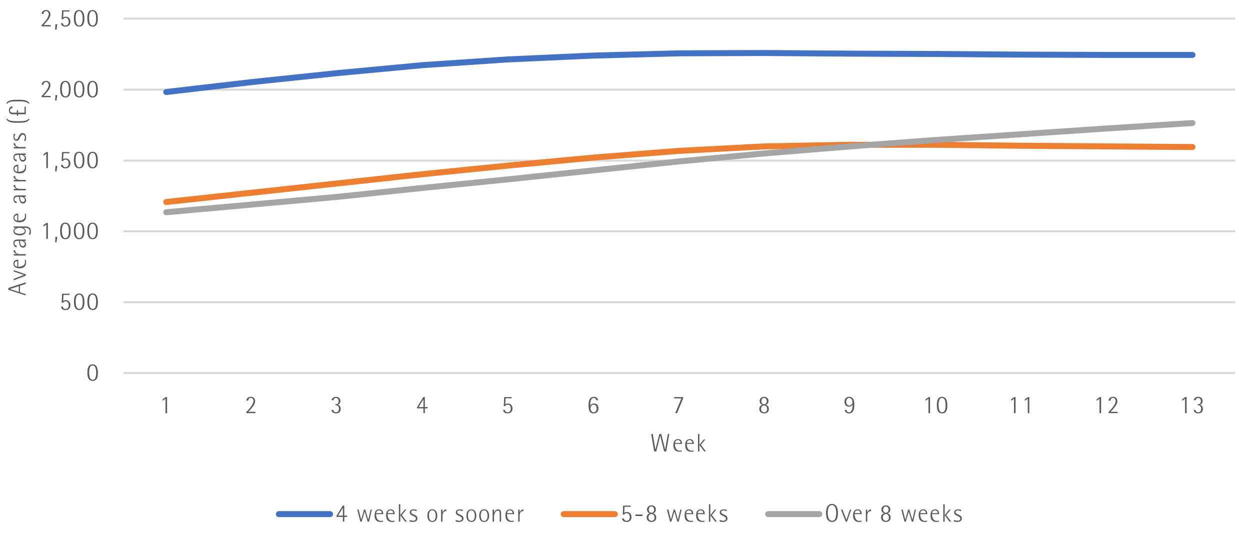
	Arrears at 13 weeks (£)
Non-APA	£279
APA	£640

Note: There were 495 APA accounts and 1,035 non-APA accounts

The timing of when APAs are put in place also matter to the level of arrears. For accounts where APAs are used within four weeks, arrears start to plateau around week six. Arrears peak around week 8-9 for those with an APA between 5-8 weeks. Those with an APA after 8 weeks see the growth on an upward trajectory at week 13 (some will have APAs in place after week 13).

The accounts that have APAs in place earlier are associated with a higher original level of areas, although having an APA in place earlier curbs arrears growth sooner.

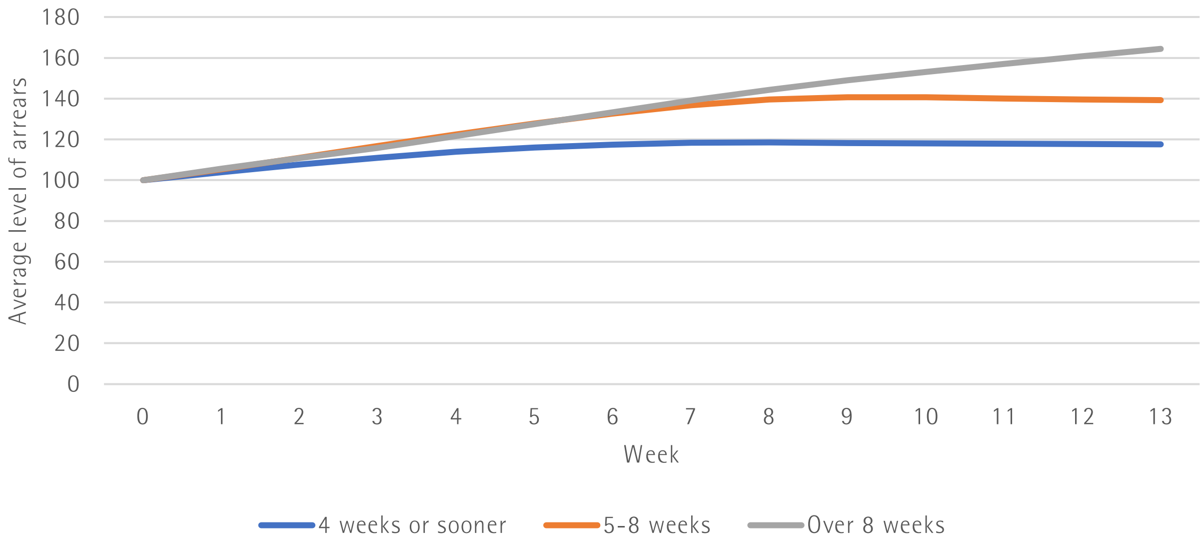
Figure 13: Average total arrears for those with an APA, by when APA in place



Note: 449 accounts that had APAs 4 weeks or sooner, 116 with APAs between 5-8 weeks and 138 accounts with APAs over 8 weeks

The difference in the trajectory of arrears can be seen clearly when rebasing accounts to the UCRV date. This shows that accounts where APAs are placed earlier see increases in arrears curtailed earlier. Those with APAs in place over weeks 5-8 see arrears stop rising earlier than those over 8 weeks, which see arrears continue to rise.

Figure 14: Change in average arrears by when an APA was introduced
Week 0 = 100



Note: 449 accounts that had APAs 4 weeks or sooner, 116 with APAs between 5-8 weeks and 138 accounts with APAs over 8 weeks

As a result, post-UC arrears are much higher for those tenants whose APA is put in place later. Indeed, those where an APA is put in place after 8 weeks of the UCRV date have arrears 80% higher than those with APAs in place within the first four weeks.

Average increase in total arrears between UCRV date and week 13 by period APA in place

	Increase in arrears
4 weeks or sooner	£337
5-8 weeks	£450
Over 8 weeks	£692

Note: 449 accounts that had APAs 4 weeks or sooner, 116 with APAs between 5-8 weeks and 138 accounts with APAs over 8 weeks

Conclusion

Conclusion

The sample data across the 12 London boroughs shows the extent to which tenants on average fall into arrears, and regardless of the level of arrears they had when making a claim. It highlights the extent to which the majority of tenants struggle to pay their rent in the initial weeks on UC, how arrears build up, and how a small number of tenants owing larger sums make up a large share of total arrears.

In the initial weeks arrears levels tend to be high – peaking at over 30% of rent due. Whilst weekly arrears improve, they are not paid down and most tenants were in a financially worse position at the end of the period than when they first claimed.

The cost of arrears averages around £240 and greater still when considering how they build up immediately before a claim is made. Social landlords meet this cost as tenants move onto UC. They also carry the burden of unpaid rent. For tenants in arrears - whose incomes are already low - significant sums can accrue quickly. This could mean lengthy periods repaying debt and in some cases arrears may never be paid off.

Tracking rent payment behaviour demonstrates that arrears are highest in the immediate period after the UCRV date. This is when tenants have made a successful claim but are still waiting for their first payment. On this evidence, the five-week wait until the first payment, which is designed into the system, would appear to be a contributing factor. After this period tenants return to more normal payment behaviours (although the data does not extend long enough to suggest whether this is maintained). While weekly arrears reduce, tenants remain heavily indebted because of the initial weeks. Although advances to support new claimants who urgently need money are not examined in the report, the results suggest their availability is not enough to prevent a significant build up of new arrears.

Given that the arrears position of tenants worsens under UC, especially as they first transition onto the benefit, the research suggests there is scope for improvement. Reforms which seek to reduce the long wait before housing support is received and limit the levels of arrears tenants on UC can find themselves in could significantly improve the situation of tenants and landlords, as well as making the system more effective and fairer. These reforms are not a zero-sum game. They are not costly to the DWP, and for tenants and landlords could make the situation much better. Addressing these issues would appear to be a win for all concerned.

The evidence in this research suggests three over-arching improvements to the UC system:

1. **Reduce the five-week wait**
   The results from this analysis suggest that reducing the five-week wait (and payment in arrears) should be viewed as a priority to improving UC for tenants, landlords and the DWP. Reducing the waiting period may not be an administratively straightforward as the UC system is reliant on employers reporting pay to HMRC. Nevertheless, it is feasible (as is the case for tax credits) and would not change the cost of entitlements. As the data shows - and as qualitative research has indicated - this initial period where tenants have no money is a cause for significant emotional and financial distress.

   However, as noted the five-week wait is central to the current system design of UC and removing it would require a redesign that could take some time to deliver. In the interim the negative financial consequences arising from the waiting period could be nullified by replacing advance payments with a non-repayable grant. Like the existing advance payments, this grant would be based on an estimate of the claimants UC entitlement and can be paid immediately upon a UC claim being verified. This change could be quickly implemented utilising the existing advance payment infrastructure.

2. **Greater use of APAs**
   The analysis highlights both the extent to which large underpayers contribute most to overall levels of arrears and the scale of rental debt that tenants are at risk of accruing. This appears to be in non-one's interest. However, there does appear from the results of the research to be at least one way of addressing this issue - APAs. The analysis shows that APAs stop high levels of arrears mounting up further and are most effective when put in place early. There appear lessons that could be learnt for housing providers in extending their use, which could be supported by greater freedoms to agree them earlier.

3. **Direct payment to landlords as the default**
   The analysis suggests that while APAs should be used more widely there is a strong case for policy reform which sees the direct payment of the housing element to landlords being the default position (as they are in Northern Ireland) with the tenants having the ability to opt out. Doing so could go a long way to reducing high arrears and avoid future financial hardship.

Endnotes

Endnotes

1 MHCLG, Live Table 100

2 Trussell Trust, *The next stage of Universal Credit: Moving onto the new benefit system and foodbank use*; Foley, B *Delivering on Universal Credit* (Citizens Advice); Trussell Trust and StepChange, *Hardship now or hardship later? Universal Credit, debt and the five week wait* (2019)

3 For example, see Peabody, *The Impact of Universal Credit Examining the risk of debt and hardship among social housing residents* (2019) and Shelter, *From the frontline: Universal Credit and the broken housing safety net* (2019)

4 DWP, Stat-Xplore – figures for December 2019

5 See Centre for Regional Economic and Social Research's Direct Payments Evaluation for government: https://www4.shu.ac.uk/research/cresr/ourexpertise/direct-payments-evaluation

6 Timmins, N *Universal Credit: Getting it to work better* (Institute of Government, 2019); Jayanetti, C "Million universal credit households 'do not get full entitlement'" *The Observer*, 23 November 2019

7 DWP, *Volumes of Universal Credit claimants with tax credit overpayments*, 31 May 2019 and compared with data for UC claimants in April 2019 taken from DWP, Stat-Xplore

8 There are similar levels of arrears for the actual (non-modelled) level of arrears which total £815,000 and average arrears of £241 per account

9 London Councils, *Universal Credit rollout inquiry* (2017)

10 See figure 15 of *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* (Smith Institute, 2016) which showed cumulative arrears over the period 14 weeks before moving on to housing benefit and 20 weeks after totalled around 3% of rent owed for the period

11 *Safe as Houses 3: Have government reforms to Universal Credit reduced the rent arrears of Southwark's tenants?* (Smith Institute, 2019) examined accounts over a two-year period and found that after a period where rent arrears plateaued arrears started to worsen again further indicating that initial arrears at an aggregate level are not repaid

12 Estimate based on data from DWP, Stat-Xplore, MHCLG, *English Housing Survey* and MHCLG, Live Tables

13 According to DWP all UC starts (including non-housing element ones) increased from 176,000 in March 2020 to 1.2m in April.

14 R squared value of 0.12

15 A p-value significantly above 0.05

16 Adjusted R squared value of .586 and a p-value under <0.05

17 Hunter, P *Safe as Houses 3: Have government reforms to Universal Credit reduced the rent arrears of Southwark's tenants?* (Smith Institute, 2019)

18 For more detail see DWP, *Guidance: Alternative Payment Arrangements*, 13 May 2020

The Smith Institute

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If you would like to know more about the Smith Institute please contact us on:

Telephone +44 (0)20 3141 7536
Email info@smith-institute.org.uk
Website www.smith-institute.org.uk
Twitter @smith_institute

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