Safe as Houses 2:

A follow-on report into the impact of Universal Credit on Southwark Council's housing tenants rent payment behaviour

The Smith Institute

The Smith Institute

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Foreword

Southwark was amongst the very first places in the country to see Universal Credit (UC) full service roll out. The first claims for UC in the borough were just over three years ago and Southwark now has one of the largest numbers of households claiming UC of any local authority area in the country.

As the largest local authority landlord in London, we feared that UC would have a significant negative impact on our tenants, which is why we commissioned independent research, in partnership with Croydon Council and Peabody, to examine rent payment behaviours among social housing tenants. The first, ground breaking report (Safe as Houses) was published in the autumn of last year. The research confirmed our concerns that more tenants were falling into significant or deeper rent arrears under UC than the previous housing benefit system, and struggling to pay those arrears down.

A year on, this new research adds to a growing body of independent evidence of deep-seated problems in UC. The report shows a similar picture, with tenants claiming UC a year after the first cohort having an almost identical experience in terms of underpayment of rent and mounting rent arrears. This suggests that the problems of rent arrears evidenced in the first Safe As Houses report were not just a consequence of teething problems in what was at that time a new system. The findings also suggest that, despite an initial levelling off of rent arrears evidenced in the first report, significant underpayment of rent due and rising rent arrears may be a longer term consequence of UC for many social housing tenants and their landlords. For local authority landlords these impacts would add to existing uncertainty on the future health of their housing fund. More worrying still is the new evidence that those who struggle to claim UC or who drop in and out of UC over time, due to changing circumstances, appear to be at greatest risk of building up rent arrears. This would suggest that UC is failing to address one of its fundamental principles of supporting people to more easily move into work than the previous benefits system.

It is deeply concerning that as the rollout of UC progresses, more of our tenants are finding themselves with growing debt that they are struggling to pay off. Despite the steps that the Department for Work and Pensions (DWP) has taken to address the problems with UC, we know that too many people are still waiting too long to receive their full payment, and even after receiving payment many are left with too little money to pay bills. Added to this is a growing picture of tenants only being able to manage their finances by entering into Alternative Payment Arrangements (APA) with the Council. Rather than just being used in a handful of cases these are now being agreed with 40% of tenants.

It was welcome that a number of our recommendations following the first Safe as Houses report were accepted by the government, including the abolition of the seven day waiting period and the introduction of a housing benefit run-on. We intend to publish a third wave of research in early 2019 to assess whether the changes have made a significant difference to those claiming UC. It remains to be seen whether these reforms go far enough. For now, the government must acknowledge that the current system is unworkable and broken. We strongly argue that the rollout of UC should be halted until radical steps are taken to fix the ongoing issues outlined in this research.

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

Preface

Preface

This report was commissioned by the London Borough of Southwark. Its purpose is to examine the impacts that Universal Credit (UC) has had on the rent payment behaviours of the borough's own social housing or 'council' tenants.

To meet this objective the report scrutinises and compares the experiences of two groups of tenants that have transitioned onto UC at different times: the first doing so between August-October 2016 and the second between August-October 2017.

The analysis in this report follows on from the Smith Institute's previous UC impact study for Southwark Council, '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' (October 2017).[1]

The previous study, which involved other social landlords whose tenants were affected by the early experience of UC full service rollout, examined the impact of UC roll-out on rent payments among those claiming the new benefit compared with those on Housing Benefit (HB).

This latest study draws on that research and seeks also to understand the longer-term impact of UC on rent payment behaviour. The report also addresses whether the rent payment behaviour of the new cohort (the 2017 group), who started claiming UC after the system had more time to bed in, was different, and, if so, in what way?

The analysis is exclusively focused on tenant's rent accounts. It does not examine the human cost and personal impacts of UC, which were explored in the previous the report. Nor does the analysis provide details on the externality costs either to tenants (such as increased levels of personal debt to cover rent when waiting for UC payments) or to the landlord (increased cost and workloads of officers supporting tenants). The analysis reflects the experience of those who are known to have made an effective claim for UC either between August and October 2016 or August and October 2017. 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 cost support for those of working age reliant on the benefit system to help pay their rent that were an integral feature of UC.

These findings do not take account of a number of significant changes to UC policy announced in Budget 2017 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 run-on. The impacts of those changes will be considered as part of a planned, third wave of Safe As Houses research, results of which are expected to be available in spring 2019.

1. https://www.southwark.gov.uk/news/2017/oct/safe-as-houses-stark-report-findings-reveal-worrying-picture-for-universal-credit-recipients

Executive summary

Executive summary

The following analysis examines a total of 1,028 rent accounts of tenants of the London Borough of Southwark: 377 moved to UC in August-October 2016 (covering 74 weeks of complete data) and 651 did so between August-October 2017 (covering 22 weeks of complete data).

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 2017 claimant groups as the UC system beds in. The rent account analysis shows:

Headline findings

- There is little difference in the rent payment behaviour between the 2016 and 2017 groups.
- At week 20 overall tenants are paying the rent owed. However, as time progresses, a pattern of underpayment re-emerges and longer term arrears appear, suggesting that UC is an on-going cost rather than a short-term call on cash flow (with rents repaid) or a one-off cost for the landlord to absorb as tenants transition onto UC.
- The findings suggest that those with multiple claims for UC have higher arrears and that multiple claims could be a cause of persistent arrears. Further research may be needed to examine the extent to which this is the case, and who may be most susceptible to multiple claims including those who are frequently in and out of work, have varying wages or facing other forms of income volatility.

Growing rent arrears

- Arrears over the respective periods rose by £221,000 for the 2016 group and £201,000 for the 2017 group.
- The increase in arrears per claimant averaged £586 for the 2016 group and £309 for the 2017 group (which covers a shorter period).
- On average, each person in the 2016 group moving onto UC accrued £1.05 of arrears per day and £1.57 in the 2017 group.
- On average, each person in the 2016 group was five weeks in arrears at the end of the period. It was just under three weeks for the 2017 group (whose rent accounts were analysed over a shorter period).
- In total 7% of rent owed was not paid over the period for the 2016 group and 10% for 2017 group.
- Those on UC in both the 2016 and 2017 groups accrued more arrears than those on HB examined in the first Safe as Houses report.

Rent shortfalls were highest at the start

- In week 1, 41% of rent was not paid for the 2016 group. It was slightly higher (49%) for the 2017 group.
- By week 10 it had dropped more steeply for the 2017 group standing at 6%, compared with 14% for the 2016 group.

Arrears for both 2016 and 2017 UC groups were larger than those on HB in the original Safe as Houses report

- By week 20, accumulated arrears for both UC tenants in both the 2016 and 2017 groups was 14% of the rent due. This compared with a 5% *overpayment* for tenants claiming HB.
- Comparing total rents paid to rents owed for each week shows that those claiming HB immediately paid more rent than was due before stabilising around the level of rent owed in week 9. UC claimants follow almost the exactly opposite trajectory, accruing arrears for the first 19 weeks.

Those on UC were more likely to underpay by more

- Tenants were just as likely to fail to pay their rent for the two UC groups as those on HB.
- However, whilst the level of underpayment was similar for the two UC groups with large underpayments (where people underpaid by 75% or more) forming 36% (2016) and 41% (2017) of cases, it was just 8% of cases for those on HB.

Big underpayments and underpayers contributed most to arrears

- 68% (for 2016) and 72% (for 2017) of the value of underpayments was from those failing to pay more than 75% of rent owed.
- The top fifth of those in arrears collectively owed over half of the levels of arrears in both the 2016 and 2017 groups.

Arrears accrued early, plateau in the medium term, but over the longer term start to rise again

- For both the 2016 and 2017 groups, arrears are high when people first claim UC declining until week 20 where rent payments cover rent owed.
- The first report suggested that in time rents start to be paid back. However, whilst this is briefly the case, arrears plateau to week 40 for the 2016 Group (for which there are more weeks data available).
- After week 40 arrears start to rise again, doubling in amount over a 30-week period. This would suggest that UC could be a long term, ongoing expense for social landlords.

Arrears fall as a percentage of total rents owed with time, but then are persistent

- As a result of accumulated arrears plateauing over the medium term, arrears as a proportion of total rents owed decline with time. The two groups follow a similar trajectory, falling from over 40% in week 1 to under 20% in week 14 and to under 15% by week 20.
- For the 2016 group, accumulated arrears as proportion of total rents owed stabilise around 7% of rent owed around week 35 where it stays until week 74 (the last point data is available).
- As suggested this would indicate a long-term cost for a landlord. For a landlord such as Southwark with fifteen thousand working age tenants expected to be claiming UC and paying an average of £110 rent a week, the cost of arrears among UC claimants could eventually reach £6m per year.

Who are most vulnerable to underpaying?

- The data for both the 2016 and 2017 groups suggest there is little difference between the time when people transitioned with or between the groups; those who have had rent accounts for longer (and therefore more used to the old system); different age groups; or different household sizes (although single households may be slightly more prone); or gender.

Before and after UC

- Arrears ratchet up in the weeks prior to people moving onto UC.
- The previous Smith Institute report on rent accounts showed that HB claimants' arrears accumulate but not to the same extent. Moreover, they rapidly start overpaying after they claim.
- As a result, for both the 2016 and 2017 groups the accumulated arrears peak higher and later than for HB claimants and is much higher after 20 weeks. Both UC groups accumulated arrears of around 15%, compared with 3% for tenants on HB.

Alternative Payment Arrangements have a beneficial impact on arrears

- There was an increase in the use of Alternative Payment Arrangements (APAs) compared with the previous Smith Institute analysis, with around a third in both the 2016 and 2017 groups having APAs.
- Arrears reduced for those with an APA, suggesting there are benefits in their greater usage. Nevertheless, because of accumulated arrears before the APA is accepted, those accounts with them have higher arrears than those without.

Multiple UC claims appear to have significant impact on arrears

- The rent accounts cover those moving onto UC, some of whom will move off and then back on, or have changes in circumstances that revise the level of entitlement to UC. This prompts additional rent verification requests to be received by the Council, indicating multiple claims for UC or changes in circumstances over the period as they do so. As the 2016 group covers a longer period, more of its tenants appear to have multiple rent verifications attached to their rent accounts.
- Data suggests that those making four or more claims for housing costs have much higher levels of arrears than those who appear to have claimed just once (£413 v £1,257).
- Even after the initial period of transitioning on to UC, making a further claim or there being a change in circumstance appears to impact on arrear levels.
- This could explain why arrears continue to accumulate. The data analysis suggests there would be merit in the DWP examining this further and more fully understanding the possible causes for why arrears arise and how to address the issue.
- One possible cause is changing employment status and earnings of tenants. The data examined for this report proved inconclusive but the issue should be considered in future analysis to ensure that a system designed to make work pay is doing just that.

Introduction

Introduction

The Smith Institute produced a report for the London Borough of Southwark, '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' in the Autumn of 2017.

The research took the form of analysing 775 tenants' rent accounts, half of which were from Southwark and half tenants from Croydon Council and Peabody. It gave a quantitative understanding of how rent behaviours were changing (compared with rent accounts of those moving onto HB). The research also included a qualitative study, comprising 36 in-depth telephone interviews and four focus groups with tenants to understand their UC journey and experience of the new system (what worked and what could be done better).

The analysis of the rent accounts showed that, under UC, rent arrears were worse than under the previous HB system. It also demonstrated that after the initial period of large rent underpayments (as claimants waited for their UC payment to come through), tenants started to meet their ongoing rent obligations. However, repayments of accrued arrears tailed off. Given the limited timeframe for which data was available (inevitable because UC had only recently started to be rolled out) it was not possible to view the impact of UC on rent payment behaviour much beyond an eight-month period after the UC claim was known to have been made. As a result, it was not possible at that time to see whether this trend continued or whether tenants started to pay back and clear their arrears. Or, indeed, whether their arrears worsened – something which could be possible as the qualitative research highlighted that some tenants borrowed money to get through the waiting period, which over the longer term would need to be paid back.

In addition, since the 2017 study there have been ongoing adjustments to the UC system and expectations that the administration of UC would improve as it bedded in. In the qualitative research component of the initial work, tenants spoke of long delays beyond the waiting period built into the design of UC. Some comments from DWP in response to the research focused on the administrative improvements being made, which they felt would improve the system and help reduce the initial level of arrears accrued. Again, because data was not available, it was not possible to assess whether these changes had an impact and, if so, what level of change had occurred.

As such, in June 2017, 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 behaviour.

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 the system had more time to bed in.

The research also examines how arrears change over time, how rent behaviour compares in the run up to a claim and after, whether rents accrued are paid down, the impact of APAs and whether people with certain characteristics are more likely to underpay.

Universal Credit
UC has been a flagship policy for the government since 2010. It seeks 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 though recent announcements suggest that the 2023 end date may be pushed back further.

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 the landlord can apply for an Alternative Payment Arrangement, thereby allowing rent to be paid directly to the landlord.

Approach

To understand whether the impact of UC on rent payment behaviour has changed for those who transitioned onto UC in 2016 compared with those who did so a year later, the report examines the rent accounts for the two periods (in both cases claimants moved to UC in August-October of their respective years). The report also compares how payments differ to those on HB explored in the previous report. Using the dataset from the 2016 Southwark UC cohort the report is able to examine the longer-term impact on rent payment behaviour among those claiming UC.

As per the previous report, the rent accounts are analysed to see what differences there may be in payment rates, levels of underpayment, payments over time, whether certain groups underpay more than others, and whether APAs make a difference?

The accounts examined

To examine the potential impact of UC on rent payment behaviour the report is based upon an examination of the rent accounts of Southwark Council tenants. Unlike the previous report the accounts of other social landlords are not examined – this needs to be borne in mind when comparing the results for the UC dataset for the Safe as Houses 2017 report (as the other social landlord tenants made up half of the rent accounts).

This report examines two cohorts: those who transition in August, September and October 2016, shortened in this report to the 2016 group; and those who claimed UC in August, September and October 2017, shortened to the 2017 group. Data for both groups end on 31 March 2018.

The 2016 group contains 377 accounts and the 2017 group includes 651 accounts. Due to some missing data 17 accounts were not used.

The HB cohort used in the 2017 report, data for which is used in this report, included 249 accounts.

Analysis of the data shows similar characteristics in the 2016 and 2017 datasets. The table below profiles the demographics of claimants, their rent levels and information on when they made their claim and how long they have been a Southwark tenant.

	2016	2017
Average weekly rent		
Less £100	27%	25%
£100-£112.50	42%	40%
£112.50-£125	21%	24%
£125-£150	8%	10%
£150+	2%	1%
Average age		
16-24	2%	3%
25-34	33%	25%
35-44	23%	20%
45-54	27%	29%
Over 55	16%	23%
Gender		
Male	42%	34%
Female	58%	66%

	2016	2017
Average household size		
1	42%	41%
2	20%	24%
3	15%	18%
4+	23%	17%
Property type		
Flat	68%	75%
Maisonette	25%	18%
House	7%	7%
Account start date		
2015 onwards	15%	35%
2010-2015	35%	49%
2005-2010	23%	31%
2005-2010	11%	25%
Pre 2000	16%	33%
Account balance at UC claim		
Surplus	20%	35%
Balanced	1%	4%
Arrears	79%	62%
UC/HB claim date		
August	38%	33%
September	36%	32%
October	25%	35%

Rebasing rent payments

To analyse and compare the rent accounts over time the rent accounts, as they were for the previous report, are rebased.

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 making for 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.

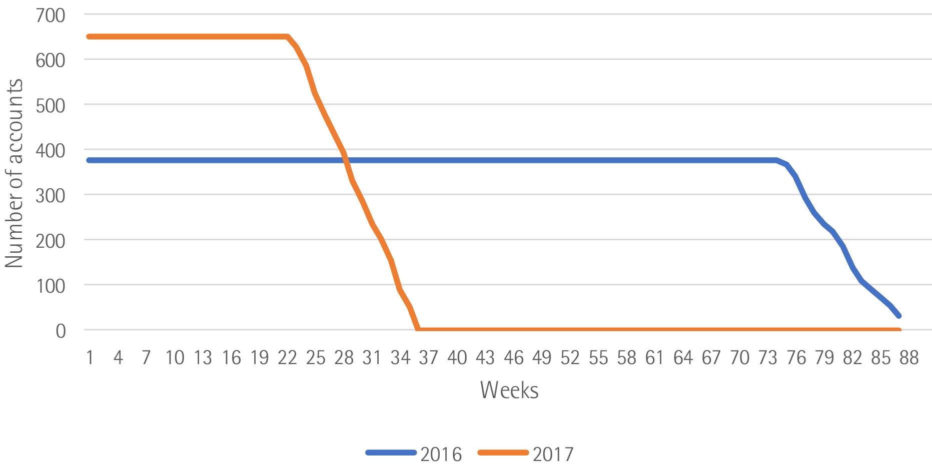
As tenants were moving onto UC at different times in the year and given the relatively recent roll out of UC the rent accounts were split into weekly periods. This meant splitting arrears/surpluses accrued between two data points into arrears/surpluses per day and doing so for however many data points 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 week 25. 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 report, including using 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 at a later point. This means the sample becomes much smaller towards the latter weeks. To ensure comparability, week 22 for the 2017 group and week 74 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 report 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 2017 groups, but also makes reference to the comparator HB rent accounts used in the previous report.

It should be noted that the 2016 cohort covers a longer period than the 2017 Group. This means that comparisons should only be drawn when comparing the two groups when the period covered is the same.

Did the tenants build up arrears after they moved onto UC?
There was an improvement in the number of accounts that moved from arrears to surplus after moving to UC for the 2016 group, but for the 2017 group more tenants had a deficit at the end of the period covered.

	2016	2017
Surplus/arrears at first claim		
Surplus	20%	35%
Balance	1%	4%
Deficit	79%	62%
Surplus at end of period		
Surplus	28%	26%
Balance	1%	2%
Deficit	71%	72%

However, overall the rent accounts highlight the worsening levels of rent owed, for both the longer (2016 Group) and shorter period (2017 Group).

	2016	2017
Worse	57%	65%
Same	0%	0%
Better	43%	35%

Whilst a large number of accounts were in a better position the general position worsened with total arrears rising by over £200,000 for both groups:

	Total arrears at start	Total arrears at end	Difference
2016	£336,349	£557,344	-£220,995
2017	£449,419	£650,741	-£201,322

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

- The increase in arrears per claimant averaged £586 for the 2016 Group and £309 for the 2017 Group.
- The average period since the first UC claim was 559 days for the 2016 group and 197 days for the 2017 group.
- On average, each person in the 2016 group moving onto UC accrued £1.05 of arrears per day and £1.57 in the 2017 group.
- On average, each person in the 2016 group was five weeks in arrears at the end of the period. It was just under three weeks for the 2017 group.
- In total 7% of rent owed was not paid over the period for the 2016 group and 10% for 2017 group.

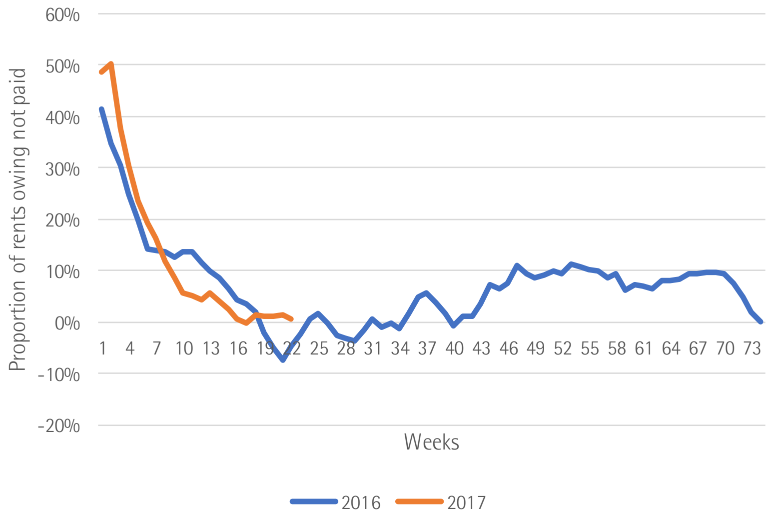
How did rent accounts change over time?
The following graph provides a picture at an aggregate level of how much rent payments were short of the rent owed in each period.

The graph shows a similar trajectory for both 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 49% for the 2017 Group.

The drop in underpayments thereafter is steeper for the 2017 Group – falling to 6% by week 10. This compares with 14% at week 10 for the 2016 Group. However, the 2016 Group starts paying back arrears in week 19. Nevertheless, there is a similar trajectory for both groups.

The graph also provides a longer picture of what happens to rent payments for those on UC. The initial report showed what happened until around week 30. The graph highlights that after this period where payments were covering the rent owed, underpayments start to creep up and are steady at around the 10% mark for around half a year (week 46-70). This would suggest that for social landlords, underpayments, whilst not as large as when people first make a claim for UC, continue into the longer term. At an aggregate level this may mean that arrears that are built up are unlikely to be repaid (see page 23 for more detail).

Figure 2: Proportion of rents owing not paid each week



What proportion of the rent is owed by tenants on UC, how does this compare with those on housing benefit and are there differences between those claiming UC in 2016 and 2017?

Understanding the comparative impact of UC depends on having a baseline for the previous system.

The HB group used in the previous report showed that by week 20 week, rent payments were 5% in excess of what was due (reflecting repayments) and 4% by week 28.

For both the 2016 and 2017 groups accumulated arrears were 14% of the rent that were owed by week 20. It was 9% by week 28 for the 2016 group.

2016 group compared with 2017 group

As the data suggests there are similar levels of accumulated arrears with both groups owing 14% of rent by week 20.

This totalled £120,000 (£317 per tenant) for the 2016 group at week 20 and £197,000 (£303 per tenant) for the 2017 group at week 20. This lower absolute per head figure for the 2017 group is likely to be at least partly a reflection of falling rent levels over the period due to annual rent reductions for all social housing tenants mandated by the Welfare Reform and Work Act 2015.

Splitting the groups into monthly underpayments, the table shows the higher rates of underpayment for the 2017 cohort in the first month. However, underpayments decline more steeply so it is in a similar position as the 2016 group after 20 weeks.

	Month 1	Month 2	Month 3	Month 4	Month 5
2016	-33%	-15%	-13%	-7%	0%
2017	-42%	-18%	-6%	-3%	-1%

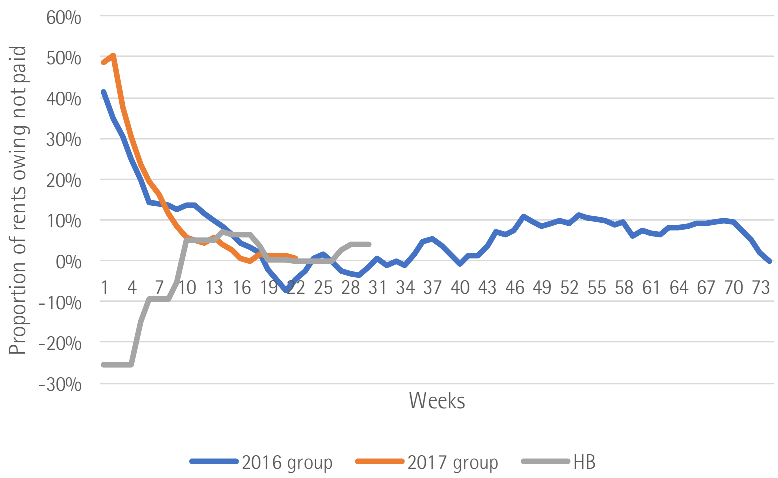
Looking at the 2016 group over the longer term, arrears as a proportion of rents fall with time but then stabilise as the earlier graph indicated. So after 22 weeks arrears are around 12% (similar to the 2017 group), fall to around 7% after a year but are no better at week 74. This would suggest that if all things are equal and remain the same, arrears are unlikely to be repaid and are instead likely to accumulate further in absolute terms.

	Arrears
2017 (first 22 weeks)	-13%
2016 (first 22 weeks)	-12%
2016 (first 52 weeks)	-7%
2016 (second half)	-8%
2016 (all 74 weeks)	-7%

Shifting patterns of arrears

The way that arrears accumulate on claiming UC is the mirror opposite for those on HB, with HB claimants overpaying when first making a claim. The graph below shows that HB claimants overpay in the first six weeks – presumably as back-dated rent is paid. The graph shows the long period it takes for UC claimants in both the 2016 and 2017 groups to start to fully pay their rent.

Figure 3: 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%
2017	-42%	-18%	-6%	-3%	-	-	-
HB	25%	11%	-2%	-6%	-3%	0%	-1%

This table suggests that over the longer term, UC tenants start to pay all their rent and start repaying debts accrued. However, as the graph for the longer period suggests arrears consistently start to build up again after week 40. 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 proportion of tenants accrued arrears after moving onto UC?

Whilst this information provides insights into underpayments at an aggregate level it tells us little about individual tenant behaviour. But by examining the first and last recorded rent period up to 20 weeks, we can see that 61% of UC tenants in the 2016 group went into arrears and 69% of the 2017 group did so.

	2016	2017
Arrears	61%	69%
Balance	1%	0%
Surplus	38%	31%

The picture is worse still when examining the numbers in arrears, as people are often in arrears before making a claim. This shows that almost eight out of ten tenants on UC have a negative balance in both groups.

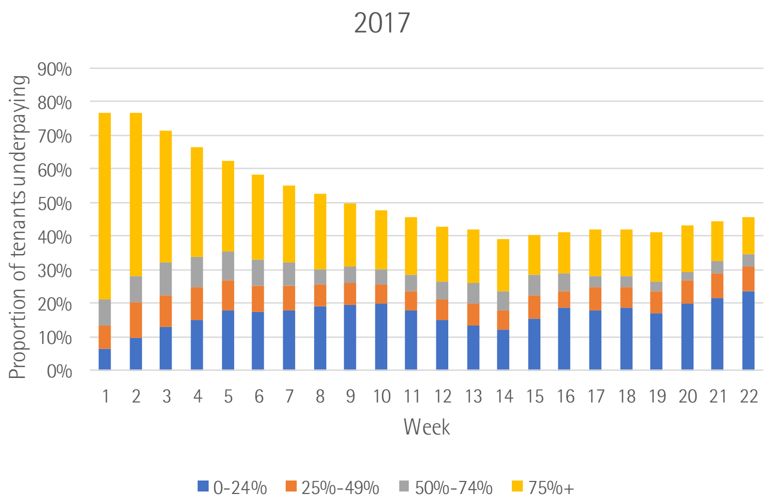
	2016	2017
Surplus	20%	24%
Balance	0%	0%
Arrears	79%	76%

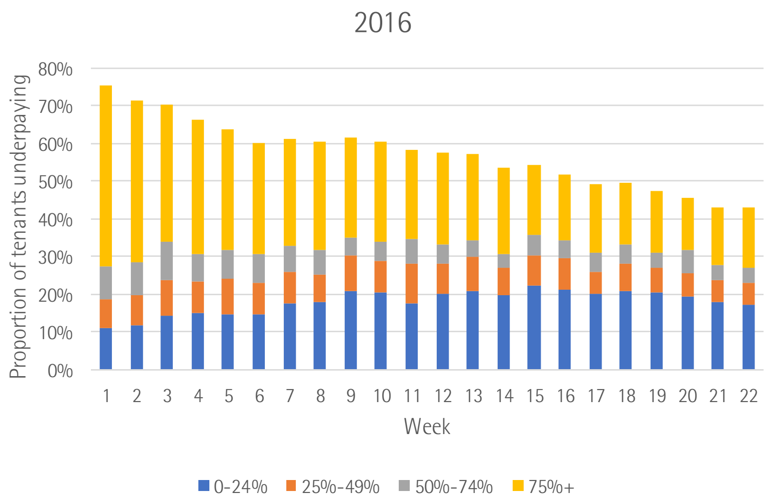
Levels of underpayment by period

Examining the individual rent accounts, we can see when they are most likely to underpay and by how much and whether there are differences between the 2016 and 2017 cohorts.

The graphs below show a similar pattern at the start with high numbers not paying their rent and the high proportion not paying large proportions of their rent – three quarters of those who moved onto UC do not pay all their rent in week one and around half underpaid by 75% of their rent. The picture improves with a higher proportion of people paying, and those underpaying doing so by less. By week 6, around 60% are underpaying. By the end of the period around 40% in both groups are underpaying and a higher proportion of those underpaying are doing so by smaller amounts (less than 25% of rent owed).

Figure 4: Proportion of tenants underpaying each week by how much





This reduction in high value underpayments can more clearly be observed in the following table (split into four-week months), which highlights a similar pattern between the 2016 and 2017 groups.

		Month 1	Month 2	Month 3	Month 4	Month 5
2016	0-24%	13%	16%	20%	21%	20%
	25%-49%	8%	8%	9%	8%	6%
	50%-74%	9%	7%	5%	5%	5%
	75%+	41%	29%	25%	20%	16%
2017	0-24%	11%	18%	18%	15%	18%
	25%-49%	9%	8%	6%	6%	7%
	50%-74%	9%	7%	5%	6%	3%
	75%+	44%	24%	17%	14%	14%

Over the longer term, for the period after a year, the data shows that around 15%-20% of accounts are consistently underpaying by over 75% of rent due. This would suggest that whilst larger underpayments reduce from the initial period they don't decline further and instead seem to rise slightly.

Figure 5: Proportion of tenants underpaying each week by how much until week 74, 2016 group

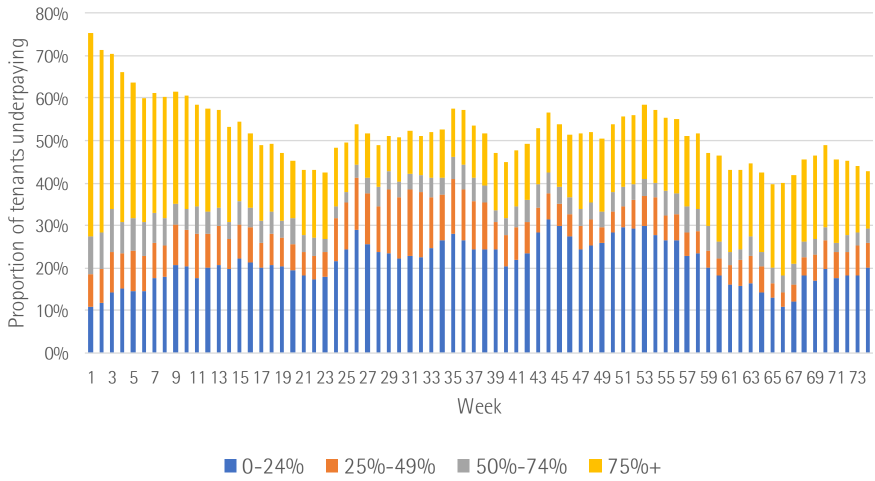
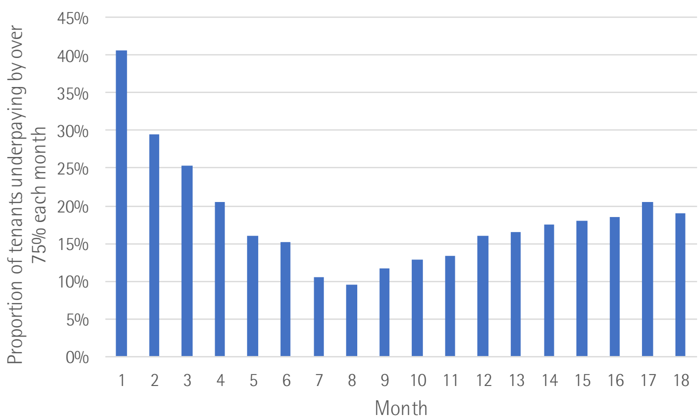


Figure 6: Proportion of tenants underpaying by over 75% each month, 2016 group



What is the impact of UC on the proportion of tenants failing to pay some or all their rent?
Tenants failed to make their full rent payments 51% of the time for the 2016 cohort and 49% for the 2017 cohort under UC. For those on HB the figure is similar at around 49%. The main difference between HB and UC claimants is the extent to which UC tenants are likely to underpay by large amounts. In 36% (for 2016) and 41% (for 2017) of cases rents were underpaid by more than 75%. As highlighted in the previous report, for those on HB the figure was just 8%.

Were the total arrears accrued due to a few paying very little rent, or because lots of people underpaid a little?
As was shown in the previous report, examining underpayments by proportion of rent owed emphatically demonstrates that the largest

component of rent owed was due to large underpayments. This is true in both the 2016 group where 68% of rent unpaid is due to large (75%+) underpayments and 72% for the 2017 group.

	2016	2017
0-24%	10%	7%
25%-49%	11%	9%
50%-74%	11%	12%
75%+	68%	72%

Part of this is explained by the large number of large underpayments, but by no means all:

	2016	2017
0-24%	41%	35%
25%-49%	15%	14%
50%-74%	9%	10%
75%+	35%	40%

Furthermore, it is not just large underpayments which contributed most to arrears but individuals who underpay by a lot. Of those in arrears, the top 20% accounts (in terms of value of arrears at the end of the period) had around half the value of arrears for both the 2016 and 2017 groups.

	Quintile 1	2	3	4	Quintile 5
2016	53%	26%	15%	6%	1%
2017	50%	25%	15%	8%	3%

Do people consistently underpay?

The evidence shows that most people underpay at some point. The data suggests that 99% of tenants in the 2016 group and 93% of tenants for the 2017 group underpay have both underpaid and paid the full amount in different periods. This suggests that most have varied rent payment history. Given rent payment behaviour over time it suggests people may underpay at the start and improve thereafter.

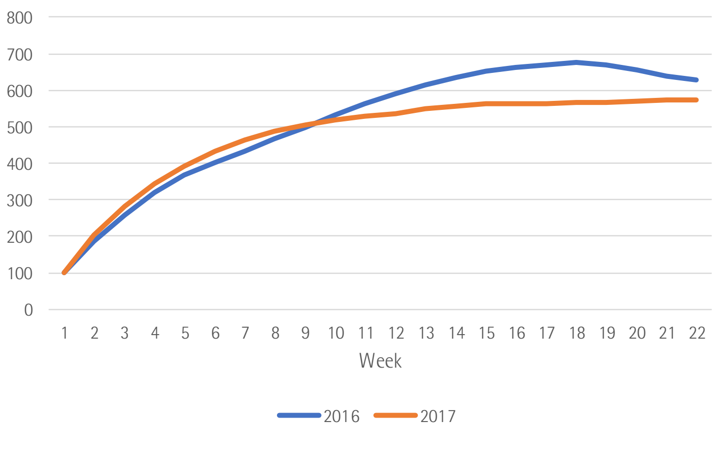
Are arrears accrued in the early stages paid down over time?

The previous research showed that the number underpaying drops with time and the weekly shortfall in rent payments declines. It also showed that some of the arrears built up start to be repaid.

This can be observed in the 2016 group data in the graph below with accumulated arrears increasing in the first weeks and then declining around week 18. The 2017 group shows a slightly different trajectory with arrears not being paid back, but nevertheless tailing off around week 10 so that they are in a similar position at week 22.

Figure 7: Accumulated rent arrears by week up to 22 weeks

Week 1= 100

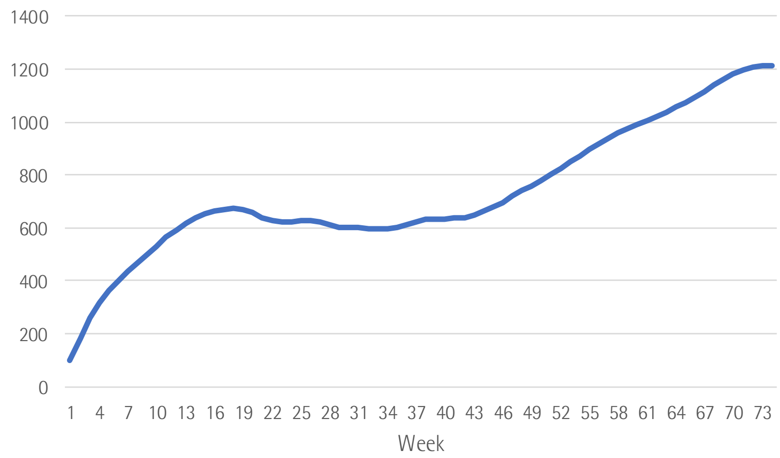


The additional data for the 2016 group allows an examination of the longer-term impact of UC to see whether the downward trend continues.

After the fall at week 18 there is plateauing. However, rather than arrears plateauing or declining the additional data highlights a worsening position after 40 or so weeks. Thus arrears start to be built up further rather than the original arrears being paid down.

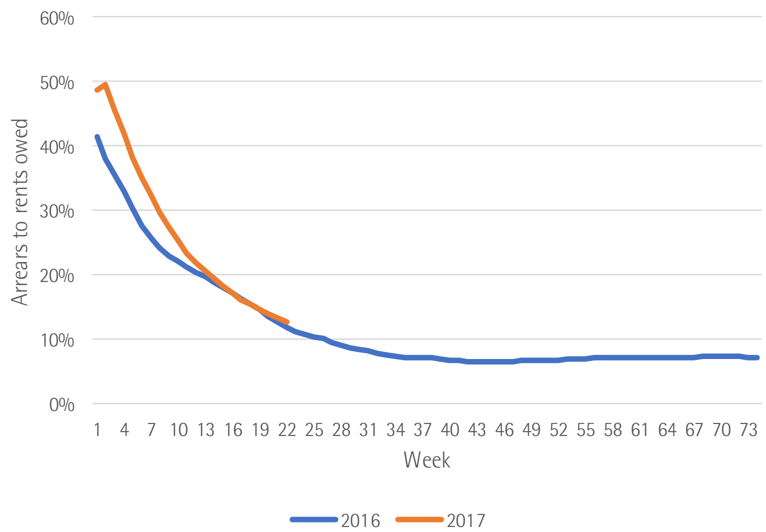
Figure 8: Accumulated rent arrears by week up to 74 weeks, 2016 group

Week 1= 100



This data highlights the total arrears, but not the arrears as a proportion of rent owed. If rents stabilised then arrears as a proportion of rent would decline and thus become relatively less significant. However, as arrears are built up the proportion of arrears to rent owed remains stable at around 7% after 30 weeks. If this was to continue, the implication for social landlords is that they could expect a 7% shortfall in rents per year for UC claimants. As the graph below also shows, although the rent shortfall in the initial week is slightly higher for the 2017 group it follows a similar trajectory to the 2016 group, and may be expected to do so in the future, including on longer term levels of arrears.

Figure 9: Accumulated rent arrears as a proportion of accumulated rents owed



The implications for landlords are somewhat more worrying than those presented in the previous report where the trend suggested the arrears stabilise at a lower level. Latest analysis, carried out over a longer period, would suggest that UC could be an ongoing cost for landlords rather than an initial one-off cost as people first transition onto UC. Analysis of rent accounts of those claiming UC over a period of more than a fifteen months after they did so indicates that, were that pattern to continue, for a landlord such as Southwark Council, with some fifteen thousand working age tenants expected to be claiming UC and with an average weekly rent of £110, the cost of underpayment of rent (or arrears) among UC claimants could eventually reach £6m per year. At 2018 rent levels that figure would equate to 7% of rent due for those claiming UC and 3.2% of all rent due. Whether this will be able to continue into the long-term will depend on a number factors, which might include the level of new tenants, the degree of forbearance by the landlord and the extent to which APAs are used. It may also be influenced by recent or future changes to UC policy.

Are people with certain characteristics more likely to underpay?

The rent account dataset included information on different characteristics of claimants. Data on employment status and number or ages of dependents was not available. Nevertheless, the data could suggest that particular groups were more at risk of falling into arrears and that resources could be focused on supporting them. The table below shows the different characteristics and the arrears as a proportion of rent owed. However, no group particularly stands out as underpaying by more, including those in arrears before they transitioned onto to UC or particular age groups.

	2016 (20 weeks)	2017 (20 weeks)	2016 (74 weeks)
Average weekly rent			
Less £100	-15%	-14%	-10%
£100-£112.50	-10%	-13%	-6%
£112.50-£125	-19%	-13%	-7%
£125-£150	-11%	-21%	-6%
£150+	-23%	-5%	-4%
Age			
16-24	-8%	-15%	-5%
25-34	-17%	-7%	-9%
35-44	-12%	-14%	-8%
45-54	-12%	-19%	-7%
Over 55	-13%	-14%	-5%
Gender			
Male	-15%	-16%	-8%
Female	-13%	-13%	-6%
Household size			
1	-13%	-16%	-7%
2	-9%	-11%	-8%
3	-18%	-10%	-8%
4+	-15%	-18%	-6%
Property type			
Flat	-13%	-13%	-8%
Maisonette	-15%	-14%	-5%
House	-16%	-23%	-5%
Account start date			
2015 onwards	-12%	-9%	-3%
2010-2015	-15%	-8%	-8%
2005-2010	-10%	-19%	-8%
2005-2010	-14%	-15%	-6%
Pre 2000	-17%	-21%	-8%
Account balance at UC claim			
Surplus	-13%	-18%	-7%
Balanced	4%	-10%	-2%
Arrears	-14%	-12%	-7%

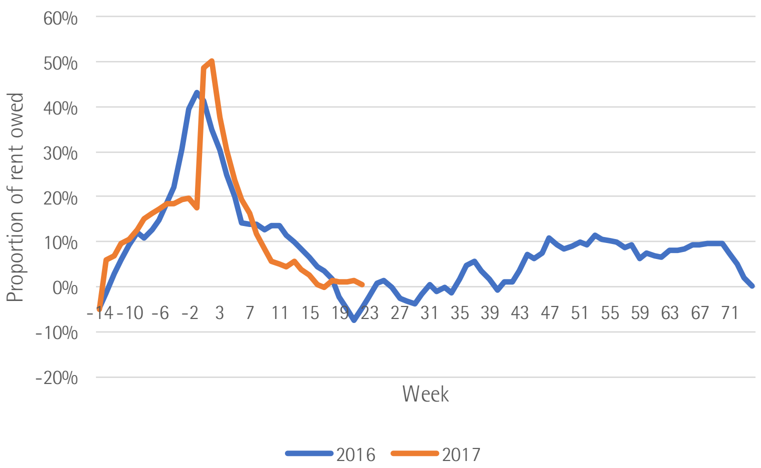
	2016 (20 weeks)	2017 (20 weeks)	2016 (74 weeks)
UC/HB claim date			
August	-18%	-9%	-8%
September	-11%	-15%	-6%
October	-11%	-18%	-6%

Before Universal Credit

The analysis so far has examined what has happened after the point someone makes a claim. However, this could mask the level of arrears as there will inevitably be a period between there being a change in someone's circumstances and someone making their claim and additionally a lag between the claim being made and Southwark Council knowing about it.

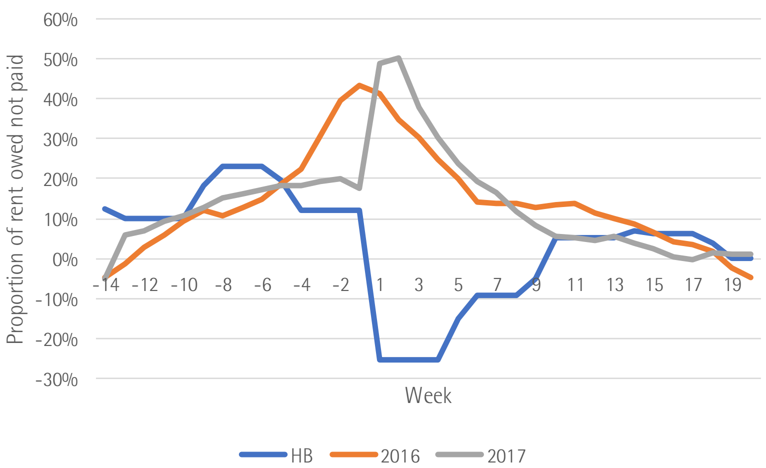
While it is not possible to know the precise causes from the data, there is a clear ratchetting up in the levels of arrears before a first claim is made. This is similar for both the 2016 and 2017 groups and both spike at the time of first claiming.

Figure 10: Proportion of rent owed not paid each week before and after transition to UC



This contrasts with the HB data where the arrears peak earlier and lower before being paid back in the weeks that the first claim is known about. There is also a noticeable difference between 2016 and 2017 groups regarding the timings of underpayments with the 2017 seeing a much sharper spike. This could be a reflection of when Southwark was informed about a claim being made. If the system has improved then the data for 2017 may be a more accurate reflection of when the claim was actually made. It is quite likely that the system has improved following the implementation of a new Landlord Portal introduced by DWP and adopted by the Council in spring 2017. However this, as figure 12 highlights, does not seem to have an overall impact on levels of arrears among those tenants claiming UC after its introduction.

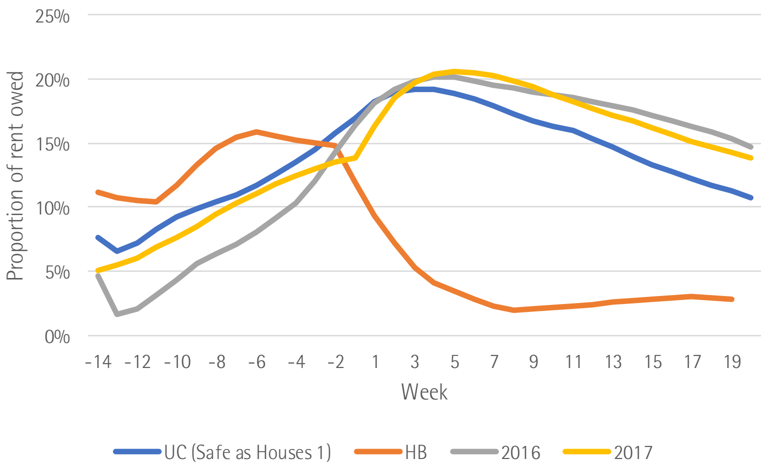
Figure 11: Proportion of rent owed not paid each week before and after transition to HB and UC



Tracking accumulated arrears as a percentage of rent shows that those moving onto HB build up arrears in the weeks prior to making a claim. This peaks at around 15% of rent owed and is rapidly paid down by week 8 where arrears are around 2-3% of the amount owed. It then plateaus at this level thereafter.

For the two different UC groups (plus the dataset from the initial 'Safe as Houses' cohort), arrears rapidly build up to around 20% of rent owed shortly after transitioning. After that arrears as a proportion of total rent (until that point) slowly tail off. By week 20 on UC (34 weeks covered in total) arrears are around 10% of what was owed over the 34-week period. As the graph below illustrates, the gap between HB and UC arrears widens dramatically from around two weeks before the claim and then narrows. However, even by week 20 there is still a significant gap.

Figure 12: Accumulated rent arrears as a proportion of accumulated rent owed each week before and after HB and UC claim



What impact do Alternative Payment Arrangements have on arrears?
The previous report highlighted the beneficial impact that Alternative Payment Arrangements (APAs) could have on rent payment. This can be triggered when a claimant is deemed to be vulnerable or if arrears are too high.

Of the 2016 accounts, 37% had APAs and 32% of 2017 accounts did. 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 original '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. Under Trusted Partner, the Council enjoys greater discretion on whether an APA should be set in place when one of its tenants claims UC.

The average time before an APA was 44 weeks for 2016 accounts and 12 weeks for 2017 group. Probably for this reason, as arrears are highest as a proportion of rent soon after claiming; the arrears were higher at the point at which an APA was agreed for the 2017 Group (at 52%) than the 2016 Group (20%). This difference in timeframe makes it difficult to compare the impact of the two. Nevertheless, in both cases arrears are reduced.

Perhaps most notably, the 2016 group sees arrears fall slightly for the average of 30 weeks. Whereas there is a more than a doubling of arrears for those not on an APA. This said, it is worth noting that arrears amongst those not on APAs are still lower. For the 2016 group, arrears for those on APAs was £911 and £580 for 2017 group, compared with £397 and £182 respectively for those not on APAs.

		Arrears pre-APA/Before 44/12 weeks	Arrears post APA/After 44/12 weeks	Overall arrears	Arrears per person	Arrears per-person at end	Arrears per day
APAs	2016	-20%	1%	-11%	-£944	-£911	-£1.63
	2017	-52%	4%	-19%	-£651	-£580	-£2.93
No-APA	2016	-4%	-7%	-7%	-£179	-£397	-£0.71
	2017	-13%	0%	-6%	-£174	-£182	-£0.93

Do multiple UC claims for housing costs impact arrears?
The analysis covers rent accounts of those who have moved on to UC. Some of these people will in time find employment, their earnings increase or their household circumstances change. This will cause changes in the level of their UC award and some will transition off, 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.

As would be expected there are more tenants with multiple claims for housing costs in the 2016 group which covers a longer period (74 weeks versus 22 weeks).

Number of claims	Proportion of tenants (2016)	Proportion of tenants (2017)
1	44%	78%
2	35%	17%
3	16%	4%
4+	6%	1%

Analysis of the 2017 group into the impact on arrears reveals that there appears to be a small increase in arrears for those with two or three verifications compared with those with only one.

Number of claims	2017
1	-12%
2	-15%
3	-15%
4+	-20%

For the 2016 group, the initial examination of the level of arrears and the number of housing cost claims appeared to show a positive correlation over the longer term (stronger than the 2017 group perhaps because of the longer period covered). Additional data was provided by Southwark Council to examine the issue further, this included the timings of each claim/rent verification notice.

Using this data, the analysis showed that those only making one initial housing cost claim are in 5% of arrears by week 74, this increases to 7% for those making an additional claim rising further to 11% for those claiming three times.

Number of claims	Proportion of arrears to rent owed
1	-5%
2	-7%
3	-11%
4+	-14%

In absolute terms those claiming three times are in arrears of around £900 rising further for those claiming four or more times.

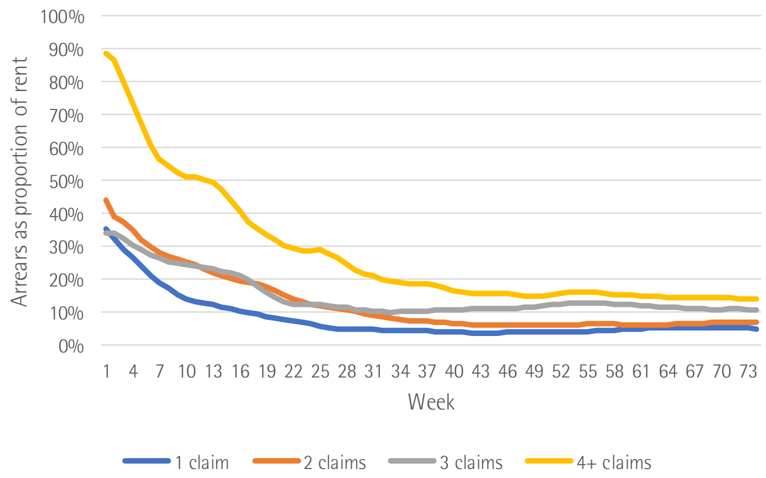
Number of claims	2016 Arrears
1	-£413
2	-£558
3	-£893
4+	-£1,257

If the baseline is those making just one claim for housing costs, then each additional UC claim or change in circumstances on average adds £145 to a tenant's arrears for those make one further claim and over £200 per claim for those claiming three or more times.

Number of claims	2016 Arrears
2	-£145
3	-£240
4+	-£224

Tracking the data over time shows that those claiming 4 or more times is something of an outlier, with extremely high arrears at the start. However, those claiming three times (whilst taking a similar path as those with fewer claims) diverges around week 35.

Figure 13: Accumulated arrears as proportion of rent by number of UC claims



It could be that the arrears that appear to be associated with multiple claims or changes in circumstances are in fact linked to the problems that tenants face when they first move onto UC. To examine whether this is the case, the rent accounts where examined for the period after the first 20 weeks so as to exclude the impact of the transition period. This meant there were fewer tenants with multiple rent verifications – the majority, in fact, were associated with only one.

For those that did make further claims for housing costs, their arrears were higher. Those making one additional claim after week 20 had £364 of arrears compared with £182 for those not making an additional claim. For those making two or more claims, arrears rose to 9% of rents owed or £690 – over £500 more than those claiming once. This would suggest that even after the initial transition period, those making further claims for housing costs were more likely to get into arrears. Based on the numbers below if making a further claim made no difference, then for the 125 accounts examined the savings would be around £28,000. And if applied for all tenants then it could be associated with significant rents arrears for a social landlord.

Additional claims after week 20	Proportion of arrears to rents	Arrears per head	Number of accounts
0	-3%	-£182	252
1	-6%	-£364	91
2+	-9%	-£690	34

One of the possible explanations for multiple housing cost claims is that claimants have fluctuating income due to changing employment status, pay rates or hours. Whilst not a perfect match, Southwark Council provided data on whether a claimant's main source of income was Universal Credit, which is done by cross matching Universal Credit data with those tenants who had claimed Council Tax Reduction from the Council. Analysis of this data proved inconclusive with little discernible difference between the two groups, both having arrears of around 7% of rents owed.

This could be because employment status has little or no impact. However, it is very difficult to say this with any certainty. Hours and earnings could be one cause alongside changing household circumstances (beyond employment). And some people whose main source of income is UC could still be in work with changing take home pay from week to week. Given that multiple claims appear to be associated with additional arrears, it would appear wise for DWP and others to examine this further. In particular, by examining the link between arrears and the number of claims, the size and strength of the link, the causes of multiple claims and how the reasons behind any link can be addressed.

Closer analysis of a sample of these cases by Southwark Council indicates that in some instances the original "claim" for UC was unsuccessful for the reason that the claimant journey was not completed. This may be significant. DWP have acknowledged that during the period of this research almost 30% of all UC claims "failed" for reasons such as the claimant not attending an interview or not providing evidence required in support of their claim. Such a high level of failure suggests that a significant minority of UC claimants may have required greater support to make their claim, or to have been offered a simplified claimant journey. They also suggest that a more permissive approach to backdating of UC housing cost payments, for first time claimants whose initial claim was unsuccessful, may have helped reduce risk of some claimants falling into rent arrears or other debt.

Conclusion

Conclusion

This analysis of the rent accounts shows a similar picture to the first Safe as Houses report. Under UC arrears are worse than the legacy HB system. For both groups of tenants in 2016 and 2017 the move to UC sees a rapid rise in arrears in the first weeks, much of which is not repaid quickly.

Whilst the picture is similar, the data provides some important insights into where efforts might be focused and new issues that the data for the additional period reveals. These include:

- The data from the 2017 groups confirms the picture in the previous report - that arrears build up quickly in the first few weeks and a reduced waiting period could significantly reduce the initial arrears built up.

- It also confirms that the top 20% of underpayers contribute most to arrears and should therefore be the main focus of attention for social landlords.

- The data suggests that the use of Alternative Payment Arrangements reduces arrears and stops high arrears getting worse. Their use has increased and should continue to be seen as an important way of limiting rent arrears.

- There does not appear to be many differences in payment behaviour between the 2016 and 2017 groups. This would suggest that if the UC system has become more established it has not had an impact on rent payments. This is echoed by the National Audit Office's 'Rolling out Universal Credit' report from June 2018 which found that 25% of all new claims in 2017 were paid late and that 1 in 5 claimants did not receive full payment on time.

- NAO also found that between January and October 2017, of those UC claims that were not paid in full and on time, 40% waited 11 weeks or more for full payment and 20% waited 5 months or more. This information is not provided at local level but assuming similar delays were experienced by those Southwark Council tenants who claimed UC at that time and whose rent accounts have been analysed here, those delays seem highly likely to account for some of the sharp build up in arrears seen in the period immediately following the claim. Unfortunately, DWP do not yet publish information on what proportion of those cases where full payment is not made on time are those where the shortfall was partly or wholly comprised of the housing cost element of their UC award. Additionally, it is not possible to determine from the data available the extent to which delays are attributable to administrative issues for UC in DWP, or to behavioural issues or non-compliance with claim requirements on the part of tenants - or the extent to which the latter may reveal unmet support needs among tenants.

- A worrying finding is that those claiming multiple times or with changing circumstances appear to have worse arrears. This finding should merit further investigation by the DWP to assess whether this is the case across the country and, if so, to identify who these tenants are and how to help them. If it is due to people moving into and out of work, then understanding this interaction between UC and rent payment will be particular important to meeting the employment objectives of UC.

- Part of the solution to this problem could well be reducing the waiting period which leads to rent arrears which are not paid back. Steps have been taken recently to reduce the waiting period and their impact will be assessed as part of next wave of Safe As Houses research in 2019.

- In the medium term arrears appear to stabilise among tenants claiming UC, over the longer term they start to build up again. Based on this evidence, social landlords should perhaps begin to regard the impact of UC as an annual, ongoing cost not a one-off cost on initial roll out or even a short-term expense which is repaid. This may require significant changes to how the Council or other social landlords, with their distinctive responsibilities as social landlords, manage rent collection – and in particular rent arrears among those claiming UC – at the same time as continuing to increase their understanding of the interplay between the design of the new system and tenants behavioural responses in terms of how and when they pay - or do not pay – rent owed.

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