September 2013

Policy briefing

Universal Credit and Alternative Payment Arrangements

Shelter

Executive summary

Shelter wants to see Alternative Payment Arrangements (APAs) used to their potential to help claimants become as financially independent as possible under Universal Credit.

Universal Credit is intended to remove barriers to work: the Universal Credit payment will taper off as claimants start to earn or increase earnings, reducing at a slower rate than the current system to ease the transition to work. To support this goal Universal Credit will be paid as a single monthly payment in arrears direct to households to mimic a typical salary. The benefit will automatically reduce as a claimant's earnings increase, but claimants should not notice any meaningful difference between the way they receive Universal Credit and their wages. DWP assumes the vast majority of an estimated 8 million claimants will receive a single monthly payment.

DWP always acknowledged that some safeguards would be required within this to protect the financial stability of social landlords, who currently receive housing benefit directly. The announcement of Alternative Payment Arrangements (APAs) in February 2013 confirmed some claimants will receive flexible payment arrangements. APAs are made up of three payment options including 'managed payments' where the housing element of Universal Credit is paid to the landlord, split payments, and more frequent payment cycles. The intention is that APAs will support claimants to make the transition to a single monthly payment, and act as a longer term option for claimants who are likely to struggle to pay their rent for longer periods.

Shelter recognises that there is a tradeoff between administrative simplicity and individual tailoring that Universal Credit must navigate. We too want to see greater simplicity, but this must recognise the complexities of people's lives. On the issue of APAs we are concerned that this balance hasn't yet been struck. This briefing offers constructive and practical steps to help correct this.

Key points

- Lessons from the roll-out of Local Housing Allowance (LHA) and Universal Credit related trials suggest most claimants will make a smooth transition to new payment arrangements under Universal Credit, but those in vulnerable circumstances may struggle and, a broader group, by virtue of being on a low income, could find the transition difficult.
- Arrears could rise among social tenants when Universal Credit is introduced, ultimately leading to eviction and affecting the financial stability of landlords who have to recoup arrears. The risk for private tenants may be lower because they already receive Direct Payments under LHA, but this group is still at risk given the broad suite of changes under Universal Credit and the potential reaction of nervous landlords.
- With further refinement APAs can help people move towards financial independence and onto Standard Payments under Universal Credit, without them moving into arrears first. A mechanism is needed to swiftly identify claimants upfront who are suitable for APAs. Ownership should be placed with organisations who have data and knowledge on claimants – potentially within Local Delivery Partnerships.
- APAs can be used as a longer term safety net for claimants who are likely to struggle to pay their rent. Those in temporary accommodation (TA) should be put onto managed payments because the transient and ad hoc nature of TA makes payment problems more likely and the chance of landlords recouping arrears is diminished given the rate of churn.

Standard Payments under Universal Credit

Universal Credit is intended to simplify the benefits system, make work pay, and remove barriers to getting and keeping work. If Universal Credit is implemented along these lines with adequate protections for when people cannot work, it will be a welcome move.

Universal Credit is intended to ease the transition from being out of work to being in work and will be paid as a single monthly payment, which ministers say will mimic a salary. For eligible households it will include a housing cost component.

In February 2013 the Government announced Alternative Payment Arrangements can be put in place for claimants who need 'extra support to make their Universal Credit claim.[1] They offer three payment options for those who need support to adapt to Universal Credit: 'managed payments' routing the housing element of Universal Credit to the landlord (either social or private), a 'frequency' option meaning claimants can receive payment at a different frequency to monthly, and a 'split' option meaning payments are divided between members of a household.

Universal Credit will be paid to most claimants through Standard Payments, intended to 'replicate budgeting skills that people will need when working' and help break dependency by increasing financial responsibility[2]. Adjusting to Standard Payments will be a challenge for some claimants, in part because of the budgeting challenges low income households face.

Standard Payments: The five main features

Universal Credit will combine six benefits into a single payment.

It will include: housing benefit; Working Tax Credits; Child Tax Credits; Income Support (including Support with Mortgage Interest); Income-related ESA (including Support with Mortgage Interest) and Income-based JSA (including Support with Mortgage Interest).

Universal Credit will include housing costs.

All claimants regardless of whether they are social or private tenants will receive the housing component of Universal Credit directly as part of a single lump sum. Managed payments to the landlord will be available in exceptional circumstances only. Currently, claimants in the social sector have housing benefit paid directly to the landlord. Under LHA, most claimants in the private rented sector receive their housing benefit. Some tenants are granted direct to landlord payments if they are 'unlikely to pay', will have 'difficulty paying', or if they are in eight weeks of arrears.

Universal Credit will be paid monthly in arrears.

Currently benefits are paid out weekly, fortnightly or monthly. In most cases the claimant cannot choose the frequency, although there is flexibility on a case by case basis.

Universal Credit payment will be paid directly into a claimant's account.

Payments will be made into a bank, credit union or Post Office account.

Universal Credit will be paid directly to the household.

One person in the household will choose to receive the payment.

Context: budgeting challenges faced by households

1. **Being on a low income**
   Everyday money management on a low income is a challenge and can cause rent arrears. Private tenants cited ‘other debts and responsibilities’ as the main cause for the arrears they faced after the introduction of Direct Payments under LHA.[3] Having no spare money and few or no savings means financial shocks – like having to replace a damaged school uniform or losing hours at work – could upset a precarious budget and force households to reprioritise money intended for rent.[4]

   The unification of payment cycles under Universal Credit may increase this risk. Current budgeting techniques that make sense on a low income, such as budgeting over a daily or weekly period, will have to change when the monthly payment is introduced. The experience of LHA shows how misaligned benefit and rent cycles can challenge budget management and risk arrears. The loss of a named ‘housing benefit’ under Universal Credit may also make it less likely that money intended for rent will be spent on housing costs.[5]

2. **Broader welfare reform**
   Universal Credit is being introduced against a backdrop of broader benefit cuts and changes. Households will be £31 per week worse off on average, exacerbating the challenges outlined above.[6] Rising rent arrears could be an early symptom of this.[7]

3. **Practical barriers**
   Standard Payments will not work if claimants do not have a transactional bank account and DWP estimates 1.3 million potential Universal Credit claimants are in this situation. There are also likely to be banked claimants who do not make full use of their accounts because of confusion or prior poor experience of bank changes.[8]

4. **Individual intransient challenges**
   Individual circumstances may make Standard Payments even more challenging.

   For example, frequent moves in temporary accommodation, financial abuse within a household, or a history of drug or alcohol addiction could all make budgeting more difficult.

Landlord concerns

Unsurprisingly many landlords would prefer to receive housing benefit directly to reduce their own costs and risk. Social landlords are now raising concerns, like private landlords under LHA, because of ‘uncertainty into the reliability of future income streams’.[9] This concern is exacerbated further because tenants affected by welfare changes may no longer receive sufficient housing benefit to cover their rent, and may struggle to pay the top up to landlords. Evidence suggests some landlords are gearing up to start, and in some cases have already started, formal eviction proceedings against social claimants struggling to meet their rent payments.[10]Although private tenants already receive their housing benefit directly, uncertainty around the Universal Credit safeguards could deter private landlords from the benefit submarket.

Impact on claimants

Social tenants’ own preference is overwhelmingly for housing benefit to go to landlords. Many expressed the fear that households would struggle to manage their finances leading to overspend, arrears and eviction.[11] Shelter research found a preference for landlord payments among private tenants.[12]

Despite this the majority of claimants can be expected to make a smooth transition to a new process, as borne out by the Direct Payment Demonstration (DPDP). This has included tenants who were not expected to manage well.[13]

Insight from LHA suggests claimants may come to see the benefit of having full responsibility over their income.[14] However the policy intent behind Standard Payments may need to be better communicated to tenants. Evidence from the DPDPs shows tenants are unclear of the benefits and view Direct Payments as ‘an unnecessary burden’.[15]

The introduction of LHA and DPDPs suggests Direct Payments increase arrears, at least initially. If APAs are to provide extra support during the transition they need to work for the range of claimants who will migrate to Universal Credit who do not have a smooth transition.

They must respond to three broad categories of claimants:

- **High-risk claimants who are not moved on to the payment method (eg Direct Payments, Standard Payments) or are moved swiftly off the payment method.** The highest risk tenants were excluded from the DPDPs, including those in TA or Supported Exempt Accommodation. LHA regulations also include safeguards for more vulnerable tenants, exempting approximately 20 per cent from Direct Payments.

- **Claimants who fall into arrears.** Many will have no history of rent arrears and could experience budgeting problems because of wider welfare changes.

- **Claimants that fall into arrears but stabilise their arrears relatively quickly.** In the DPDPs landlords are noticing tenants falling in to arrears but quickly stabilising them. Some of these are tenants who have never been in arrears.

The results from early testing are sufficient to say that moving claimants on to Standard Payments without a transition period risks unneccesary arrears for claimants and landlords.

Alternative Payment Arrangements (APAs)

Alternative Payment Arrangements will be set up to 'support claimants who need help managing their money and paying their bills on time as they transition onto Universal Credit'. The move to a single monthly payment is significant and claimants may need help with the transition or require APAs for a longer period of time.[16]

Payment options

There will be three ways Universal Credit can be paid to a claimant and one or more can be put in place for a claimant as appropriate.

- The **managed payment** option means the housing element of Universal Credit is paid directly to landlords.
- The **frequency** option means payments are made at a different frequency to monthly, with the intention that generally payments will be made twice a month to help ameliorate budgeting struggles.
- The **split** option means a payment is divided between members of a household, in cases of financial abuse and domestic violence.

Criteria for access

A set of tiered factors will be used by Universal Credit advisers to judge whether a claimant will need APAs, with each case assessed on individual merit.[17] There is insufficient detail about how these factors will lead to a decision. Insight from the DPDPs suggest risk factors alone cannot lead to a sophisticated understanding of need.

How criteria or risk factors are used is important. In the DPDPs a risk score was allocated to tenants to determine if managed payments were suitable. Landlords' knowledge of tenants was heavily drawn upon to inform this.[18] Overly proscriptive categories of risk may result in claimants slipping through the net, especially if they do not fit into a typical 'vulnerable' group and are simply struggling with the transition.

A further drawback may be the perverse incentives for claimants (or their landlord) to demonstrate 'vulnerability' to secure an APA.

A range of organisations will support claimants to access Alternative Payments. Claimants will not be able to choose to be on APAs, but can make the case for why they are necessary. APAs are not intended to be long term and when claimants are intended to move back to Standard Payments when appropriate, APAs will sit alongside an offer of money advice for claimants.

Getting access to APAs

Step 1: Four catalysts for APAs

A. Universal Credit application form

Lord Freud has renewed the commitment to 'carefully assess people's capabilities before they are moved on to Universal Credit'.[19] It seems likely this will consist of a sift of claimants when they apply for Universal Credit using information a claimant enters in their online form. This information will then be used by a Universal Credit adviser to decide whether to put APAs in place.

There is insufficient detail about how the first sift will work in practice. Relying on self-disclosure through the application form raises concerns. It may miss the most vulnerable or, conversely, those who think they can cope. Early results from Universal Credit Pathfinders suggest claimants are not requesting APAs even when prompted.[20] Those just coping may not have any obvious challenges, some may be reluctant to share personal information or inaccurately judge their situation.[21]

B: During the claim: rent arrears trigger

One month's arrears will trigger a review of a claimant's case, and managed payments to landlords will automatically apply after two months of arrears.

This mirrors the approach in the DPDPs, and strengthens the eight weeks LHA trigger by inserting the one-month review. Guidance on how this arrears trigger will operate is expected shortly.

This arrears trigger is welcome but does not address the 'risk that [claimants] will fall into debt and hardship before extra support can be provided'.[21] It may alleviate landlord concerns of large arrears mounting up but will not prevent claimants from moving into arrears. Many claimants will be unable to clear two months of arrears without incurring ongoing financial instability. Arrears can be paid back via a deduction from Universal Credit. This is currently set at a maximum of five per cent but is set to increase, which could mean arrears lead to ongoing budgeting challenges for low income households.

C. During the claim: landlord makes request

Landlords will be able to request managed payments if a claimant is in arrears.

Further details are required from DWP on how a landlord will make this request.

It seems likely that landlords will go to DWP, which would differ to the current LHA system where private landlords make the request to local authorities (LAs). Teething problems when LHA was introduced suggest consistent communication is needed to ensure arrangements for switching claimants back to landlord payments are widely understood.

Social sector landlords may adapt to this role in different ways.[22] Identifying claimants in rent arrears could be resource intensive, with one housing provider in the DPDP employing four times as many staff compared to normal arrears recovery.[23] There is an opportunity to encourage a consistent approach to managing rent arrears among landlords, which could help stop arrears escalating.

D. During the claim: local organisation request

Local organisations will be able to trigger an APA review.

Despite a top-line intention, further details are required on who will be able to trigger APAs and how. Under LHA, LAs had sole responsibility for identifying claimants for exceptional payments and they struggled, despite access to HB data.[24]

Multiple agencies could potentially be asked to identify claimant barriers under Universal Credit, but it is unclear how this will work. A lack of clear ownership and ad hoc involvement by multiple agencies could increase complexity and risk. Access to APAs could become dependent on whether a claimant is known to a particular organisation and identified quickly, leading to inconsistent provision and reinforcing concern that some claimants may fall through the net.

It makes sense to allow local organisations to trigger support, but it is optimistic to suggest this will happen in a timely and consistent fashion without more steer on their responsibilities or resources to ensure adequate access to services.

E. During the claim: claimant request

DWP states that claimants will be able to trigger a consideration for APAs during their claim.

Step 2: Making the decision to award APAs

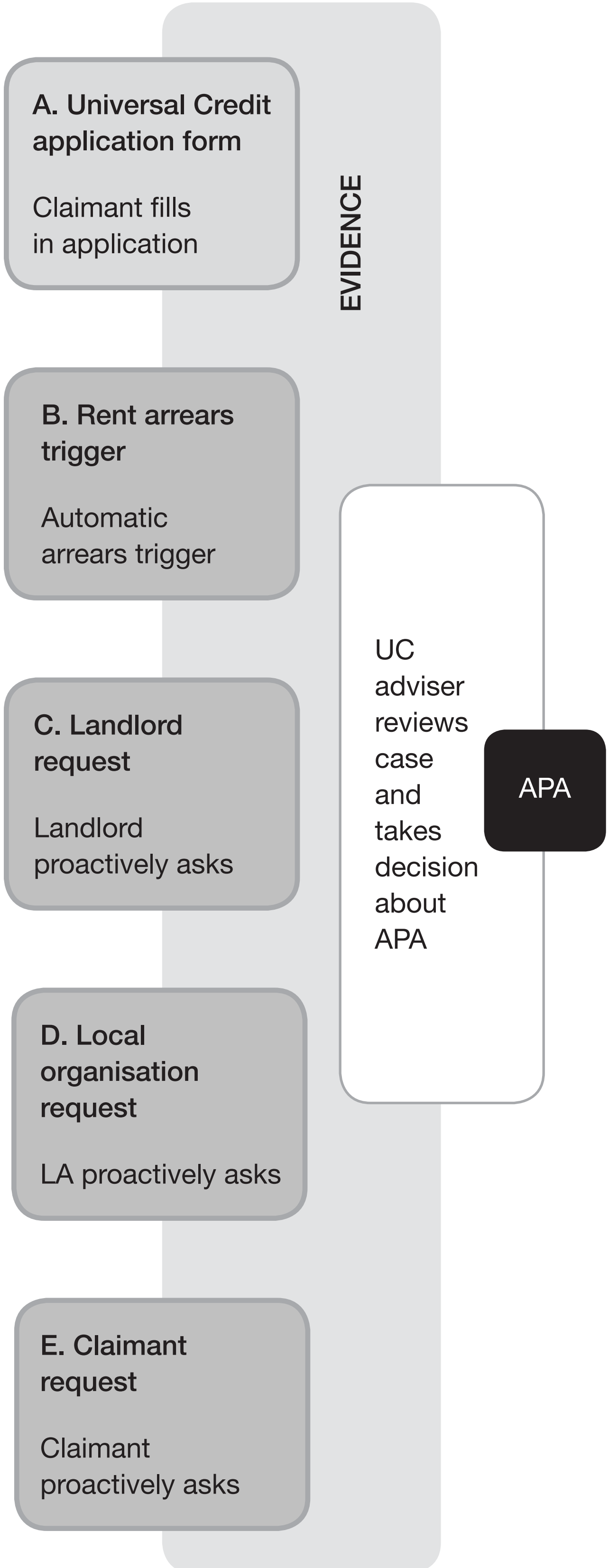
Decisions around APAs will be taken by JCP advisers. Decisions will be reviewed periodically to move everyone to Standard Payments in an appropriate time and with support.

Local organisations may also provide evidence contributing to the case for an APA. These could be doctors, social workers, etc. Clarity is required on what evidence advisers will use and how, to avoid inconsistent application of policy.

In practice there will be a split between the role of Universal Credit advisers (as decision makers) and local partners (as identifiers, and potentially as evidence providers).

This division of labour could result in claimants going back and forth between organisations, incorrectly being turned down for APAs, or prematurely moved back to Standard Payments.

Figure 1: Process for getting an APA



Conclusion

Introducing default Standard Payments without robust mechanisms to identify those for whom this is not suitable risks moving claimants into arrears, either for the first time or entrenching them further into existing debt. Evidence from the DPDPs suggests concern about rising rent arrears is not misplaced, with arrears increasing where Direct Payments have been introduced.

DWP has gone some way to acknowledge landlord concerns. But the pilots suggest some worrying predictions for falling rent collection rates under Universal Credit

Even though private tenants already handle their housing benefit directly, there is a risk that the uncertainty surrounding Universal Credit safeguards will also concern private landlords. At worst, they could withdraw from the housing benefit submarket, reducing the supply of housing to lower income households.

APAs should aim to improve the financial capability of claimants to support greater financial independence, while preventing arrears and eviction.

A scalable and affordable approach is needed to identify the projected third of claimants to move onto APAs, and to move them back onto Standard Payments once they have received support.

Detail on how APAs will work in practice is being developed by DWP, and should respond to the following points:

- how criteria that sets out who could benefit from APAs should be used. The criteria should trigger a thorough assessment of need that can take place at any stage in a claim, not just the initial application

  Without this the risk is that belonging to an easily identifiable and pre-agreed group will become the way to access APAs; those who do not fit neatly into a group may not be identified and put at risk of arrears

- how claimants will be supported to disclose information that can be used to make an accurate assessment of whether they need APAs. The initial sift of claimants will happen at the application stage, relying on self-disclosure by the individual. It is not a given that claimants will recognise or articulate their own needs

- how arrears will be prevented. The central mechanism for triggering APAs during a claim is rent arrears, which is welcome but indicates an emphasis on reacting to arrears rather than preventing them. Even four weeks of arrears represents a significant financial sum for many households and it can be extremely difficult for households to clear this debt

- how further safeguards will work, such as organisations or landlords triggering APAs. Shelter agrees that information from landlords should be used to identify tenants in arrears or at risk of non-payment. But the focus on organisations and landlords as triggers during the process is risky, potentially systematising dependency on external advocacy at a point of crisis, which undermines Universal Credit's goal of supporting claimants to be independent and excludes those not plugged in to existing services. It also creates the risk of landlord harassment if landlords perceive a self-interest in moving tenants to APAs

If Universal Credit is to meet its aim of encouraging self-reliance, APAs should not be a solution any longer than they need to be. It is therefore crucial that the intention of moving to Standard Payments is built in from the start and support – with sufficient resources attached – is offered for those able to progress to Standard Payments. APAs also need to be quickly and decisively put in place when claimants' circumstances shift if they are to uphold the pledge not to put landlords' financial security at risk.

Recommendations

The goal for Universal Credit claimants in settled accommodation should be increased financial independence.

Each claimant moving on to Universal Credit should be assessed to establish their financial capability and suitability for Standard Payments.

- The assessment should be holistic and consider needs beyond money management and debt, including financial literacy; access to appropriate financial products; and other circumstances such as drug and alcohol addiction and other debts. It should result in a broad understanding of how long it might take the claimant to build financial capability and support required to achieve this. This should form an individual plan to make Standard Payments a realistic goal.

- This will require resources; if these cannot be secured, the commitment for near universal Standard Payments must be scaled back.

APAs should be used to prevent arrears occurring in the first place.

- Claimants who need APAs while transitioning to Standard Payments should be identified upfront in collaboration with landlords, JCP, LAs and other appropriate agencies to prevent them moving into, or deeper into, arrears. The Local Delivery Partnerships that are charged with making Universal Credit work locally may be a natural home to oversee this role.

- The process of claimants self-disclosing their circumstances at the application stage should be clear so claimants know what information is relevant and what they are being assessed for. For example if people are homeless, including living in TA, it is vital this is identified.

- Claimants should be able to self-refer for an assessment for APAs during their claim, and proactively suggest if a payment option might be suitable for their situation.

APAs should be highly reactive to the needs of claimants.

- A shift in a claimant's circumstances and needs should trigger APAs swiftly, if appropriate.

- A simple and clear way for all organisations, including landlords, to trigger APAs at any point should be devised and communicated widely, including guidelines on the evidence required.

APAs should be communicated to all those involved.

- Claimants require timely information so they can prepare for payments under Universal Credit. Notification letters should make clear that an award has been made for housing costs and remind claimants that they are responsible for budgeting for and paying their rent directly to their landlord. This will be especially important for households migrating from managed payments to landlords under housing benefit to Direct Payments under Universal Credit, who may have no or little history of paying their rent themselves.

- Before migrating to Universal Credit claimants should be encouraged to self assess their readiness to manage their finances and identify pre-emptive actions to support financial independence, such as opening a bank account with direct debit facilities.

- All other organisations need to know what the government will expect from them upfront so they can plan for their new roles and responsibilities.

Homeless households in temporary accommodation (TA) should receive APAs so the housing component is paid directly to landlord until they move into settled accommodation.

- This additional safeguard will ensure landlords receive rent, and homeless households in TA are not put at risk of eviction and repeat homelessness. Standard payments are unlikely to be appropriate for households who do not have settled accommodation and may move in and out of TA placements at short notice. APAs will provide additional financial security for landlords, who face significant financial losses in a context where they are unlikely to be able to recuperate arrears.

  A mechanism should be built in so that those in TA who do want Standard Payments can move onto them after an initial transition period.

Appendix A – factors to consider for APA arrangements

There are 20 'categories' that indicate the claimants who might be suitable for Alternative Payments. If a claimant has one of the characteristics this does not automatically mean an APA will be put in place.

- Drug/alcohol and/or other addiction problems, eg gambling
- Learning difficulties including problems with literacy and/or numeracy
- Severe/multiple debt problems
- In temporary and/or supported accommodation
- Homeless
- Domestic violence/abuse
- Mental health condition
- Currently in rent arrears/threat of eviction/repossession
- Claimant is young, either a 16/17 year old and/or a care leaver
- Families with multiple and complex needs

Tier two factors – Less likely/possible need for alternative payment arrangements

- No bank account
- Third-party deductions in place (eg for fines, utility arrears, etc)
- Claimant is a refugee/asylum seeker
- History of rent arrears
- Previously homeless and/or in supported accommodation
- Other disability (eg physical disability, sensory impairment, etc)
- Claimant has just left prison
- Claimant has just left hospital
- Recently bereaved
- Language skills (eg English not spoken as the 'first language')
- Ex-service personnel
- NEETs – Not in Education, Employment or Training

Notes

1 *Universal Credit: Personal Budgeting Support* DWP p2

2 Paying the housing element of Universal Credit direct to tenants in social housing House of Commons Library, 2013 p4

3 *Local Housing Allowance Final Evaluation: The survey evidence of claimants' experience in the nine pathfinder areas* DWP p115

4 *Sink or Swim? The impact of the Universal Credit* SMF 2012

5 Research by the Institute of Fiscal Studies found the name of a benefit influences how it is spent with benefits more clearly labelled (eg winter fuel allowance) more likely spent on what they are awarded for. Welfare Reform Bill 2011 – Universal Credit payment issues: Briefing from Women's Budget Group p10

6 *The local impacts of welfare reform: An assessment of cumulative impacts and mitigation* CESI 2013 p17

7 In the private sector an *Inside Housing* report stated English housing survey data prepared by LSL Property Services showed an increase of 4,000 private sector tenants with severe arrears (more than two months behind on rent) across England and Wales between January and March 2013, giving a total number of households in arrears within the sector of 94,000. *Paying Local Housing Allowance direct to tenants in private rented housing* House of Commons Library 2013 p17

8 Sink or Swim? The impact of the Universal Credit SMF 2013 p66

9 *Paying Local Housing Allowance direct to tenants in private rented housing* House of Commons Library 2013 p18

10 *Direct Payment Demonstration Projects: Payment figures December 2012* DWP p18

11 Sink or Swim? The impact of the Universal Credit SMF 2013 p11–12

12 *Research report: For whose benefit? A study monitoring the implementation of local housing allowance* Shelter 2009 p19

13 *Direct Payment Demonstration Projects: Learning the lessons six months in* May 2013 DWP p13

14 Evidence from the LHA experience shows that over time the percentage of those on Direct Payments who would prefer landlord payments declines, suggesting people may start to see the benefit of Direct Payments after time. *Local Housing Allowance Final Evaluation: The survey evidence of claimants' experience in the nine pathfinder areas* DWP p9

15 *Direct Payment Demonstration Projects: Learning the lessons six months in* DWP 2013 p44

16 *Universal Credit: Personal Budgeting Support* DWP p1–2

17 See Appendix A for list of factors

18 *Direct Payment Demonstration Projects: Learning the lessons six months in* DWP 2013 p44

19 http://news.rla.org.uk/lord-freud-changing-lives/

20 The first sift for APAs taking place in Universal Credit Pathfinders is not yet automated, relying instead on a conversation with a Universal Credit adviser once a Universal Credit application has been filled out.

21 In a survey conducted as part of the DPDPs 54 per cent thought they would cope either very well or fairly well with monthly payments and, in contrast, their view of other people being able to cope was more pessimistic with only seven per cent of those asked saying other people would cope either very well or fairly well. *Direct Payment Demonstration Projects: Learning the lessons six months in May 2013* DWP p45

22 *Direct Payment Demonstration Projects: Learning the Lessons six months in* DWP 2013 p70 - 71

23 Guardian Top Tips: lessons from the Direct Payment pilot schemes http://www.theguardian.com/housing-network/2013/apr/13/direct-payment-pilots-housing-benefit-tips

24 *Research report: For whose benefit? A study monitoring the implementation of local housing allowance* Shelter 2009 p19

Shelter helps millions of people every year struggling with bad housing or homelessness – and we campaign to prevent it in the first place.

We're here so no one has to fight bad housing or homelessness on their own.

Please support us at shelter.org.uk

Until there's a home for everyone

Shelter
88 Old Street
London EC1V 9HU

0300 330 1234
shelter.org.uk

Shelter