Paying the housing element of Universal Credit direct to tenants in social rented housing

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Section Social Policy Section

Council tenants currently receive their Housing Benefit as a rent rebate and their rent accounts are adjusted accordingly. Housing associations, the other main providers of social housing, cannot require the direct payment of tenants' Housing Benefit entitlement but the vast majority of their tenants opt for this method of payment.

When Universal Credit is rolled out nationally (expected to be complete by 2017) the Government intends that the housing component will be paid direct to tenants; although it is envisaged that certain vulnerable tenants and pensioners will continue to have their housing costs paid direct to the landlord. This will bring the social housing sector in line with the private rented sector where tenants, except in certain limited circumstances, have received their Local Housing Allowance direct since April 2008 (see Library note SN/SP/3211, *Paying Local Housing Allowance direct to tenants in private rented housing*).

Direct payment of the housing element of Universal Credit to social housing tenants is controversial. Social landlords are concerned that it will result in increased rent arrears and impact on their revenue streams.

This note explains the Government's approach to the introduction of direct payments and social landlords' responses. Information published by the Direct Payment Demonstration Projects in December 2013 indicated an average rent collection rate of 94% across the areas piloting direct payment of Housing Benefit to social housing tenants.

Detailed provisions setting out how housing costs will be calculated under Universal Credit are contained in the *Universal Credit Regulations 2013* – for more information see Library note: *The housing element of Universal Credit* (SN/SP/6547).

The DWP has published a guide for landlords: *Universal Credit and rented housing – frequently asked questions.*

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1 Background

1.1 Current arrangements

The Housing Benefit (HB) entitlement of tenants living in council housing is not paid to the tenants. Council tenants receive their HB as a rent rebate and their rent accounts are adjusted accordingly. Housing associations, the other main providers of social housing, cannot require the direct payment of tenants' Housing Benefit entitlement but the vast majority of their tenants opt for this method of payment (in these cases the HB is paid direct to the association by the local authority).

This is a different arrangement to that which applies to Housing Benefit (Local Housing Allowance, LHA) claimants in the private rented sector. Since April 2008 claimants in receipt of the LHA, except in some very limited circumstances, have received their HB direct and have had to take responsibility for making their rent payments.[1]

1.2 The Labour Government's approach

In January 2006 the Labour Government published a Green Paper, *A new deal for Welfare: Empowering people to work.* In June of 2006 a consultation report of the same title set out how the then Government intended to take the welfare reform agenda forward.[2] Respondents to the Green Paper commented on the possibility of the LHA (and direct payment to tenants) being rolled out in the social housing sector; they highlighted several difficulties:

> "We believe that as a general principle, the LHA approach should be extended to the social sector. However, a range of complex issues need to be addressed when considering how this might be achieved …" Housing Corporation

> "Although we support the principle of extended LHA to the social housing sector, we believe that any roll-out must proceed with extreme caution. The relatively high

[1] For more information see Library note SN/SP/3211

[2] Cm 6859, *A new deal for Welfare: Empowering people to work,* consultation report, DWP, June 2006

> proportion of … vulnerable people in social housing could result in widespread financial instability for both tenants and landlords." Tenant Participation Advisory Service
>
> "In terms of the flat-rate element of LHA, Citizens Advice can see no merit in introducing this in the social rented sector …" Citizens Advice
>
> "We are strongly against introducing a flat-rate for the social sector." Shelter
>
> "The introduction of LHA would have serious negative consequences for the sector." Council of Mortgage Lenders
>
> "In the short term it would be easier to make payment to the claimant the default method rather than, as now, payment direct to the landlord." Joseph Rowntree Foundation
>
> "A voluntary approach should be taken to the promotion of direct payments to tenants." Citizens Advice
>
> "We believe that the way to achieve personal responsibility is through financial inclusion initiatives, not by withdrawing choice over how tenants pay their rent." National Housing Federation
>
> "… suggest that some form of pilot scheme be introduced to examine the effect of a benefit direct scheme within the social sector." Local Government Association[3]

In light of these responses the then Government decided not to take forward legislation to introduce the LHA for social tenants at that stage.[4] This was welcomed by the social housing sector. However, there was a desire to improve work incentives amongst social sector tenants and, as with private tenants, the then Government wanted to encourage tenants to take greater personal responsibility for managing their rent payments. Provisions were included in the *2007 Welfare Reform Act* 'to provide powers to extend financial responsibility to tenants in the social rented sector.'[5]

In *Supporting people into work: the next stage of Housing Benefit reform* (December 2009) the Labour Government stated that the gradual introduction of a standard rate element into Housing Benefit (which applies to tenants in private rented housing) would eventually be applied to the social rented sector. However, the Labour Government said they would not press ahead with direct payments in the social housing sector:

> The Local Housing Allowance is also paid, in most cases, directly to customers and any integrated provision would have to be paid in a similar way. But we recognise that this would be a major change for customers in the social rented sector. This is why we have agreed not to press ahead with plans to extend the principle of direct payments into the social rented sector.[6]

1.3 The Current Government's approach

At the end of November 2010 the Government published its White Paper, *Universal Credit: Welfare that Works.*[7] This paper proposed the replacement of several different benefits, including Housing Benefit, with a single payment of Universal Credit:

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3 *Ibid* pp46-47
4 *Welfare Reform Bill: Regulatory Impact Assessment,* p.41
5 *ibid,* p41
6 DWP, *Supporting people into work: the next stage of Housing Benefit reform,* December 2009, Cm 7769, p36
7 Cm 7957

> Universal Credit is an integrated working-age credit that will provide a basic allowance with additional elements for children, disability, housing and caring. It will support people both in and out of work, replacing Working Tax Credit, Child Tax Credit, Housing Benefit, Income Support, income-based Jobseeker's Allowance and income-related Employment and Support Allowance.[8]

The impact of the Universal Credit (which will generally be paid direct to claimants) on social landlords was considered in the White Paper:

> 31. There are advantages in paying the housing component to individuals, rather than the current system of payments direct to landlords. This would encourage people to manage their own budget in the same way as other households. <u>However, we also recognise the importance of stable rental income for social landlords to support the delivery of new homes and will develop Universal Credit in a way that protects their financial position.</u> Options for achieving this could include some ongoing use of direct payments to landlords, use of direct debits, and a protection mechanism which safeguards landlords' income. We will work closely with the devolved administrations, providers and lenders in developing the new system.
>
> 32. There are many policy and operational issues to work through in respect of housing. The Government will work closely with Local Authorities and the housing sector as plans develop.[9]

Measures to enable the introduction of Universal Credit were included in the *Welfare Reform Act 2012.*

2 The housing element of Universal Credit

2.1 Introduction

Section 11 of the *Welfare Reform Act 2012* provides for an amount to be included in the Universal Credit (UC) in relation to housing costs. These housing costs may take the form of rent payments, mortgage costs or "other housing related costs." The detailed rules on calculating assistance with housing costs under the Universal Credit are set out in the *Universal Credit Regulations 2013*. The rules around claiming and paying UC are contained in *The Universal Credit, Personal Independence Payment, Jobseeker's Allowance and Employment and Support Allowance (Claims and Payments) Regulations 2013.* These regulations were published in draft and were submitted for consultation to the Social Security Advisory Committee (SSAC) in June 2012. The regulations came into force on 29 April 2013.

Of the Universal Credit pilots planned for four local authority areas (Tameside, Warrington, Oldham and Wigan) only the one in Greater Manchester (Ashton-under-Lyne) went live for new claimants on 29 April 2013. This pilot is testing some new claims from single jobseekers and includes housing costs. Oldham and Warrington began to trial the new claimant commitment. On 1 July Wigan also began to take new claims for UC – this was extended to Warrington and Oldham on 29 July[10] – thus completing the Pathfinder roll-out.

The original intention was that UC would apply to new benefit claimants from October 2013. The timetable for its introduction has changed although implementation is expected to be

[8] *Ibid* p19
[9] *Ibid* p20
[10] DWP Press Release, 29 July 2013

complete by the end of 2017. Lord Freud wrote to local authorities in August 2013 with the following information:

> In addition to the four pathfinder sites that have already started taking claims, an additional six Jobcentres will start to accept new claims from unemployed single claimants from October 2013. Alongside this, we will start the cultural transformation that the benefit will bring through the national implementation of the Claimant Commitment and enhanced jobsearch support across all Jobcentres. Ten in-work conditionality pilots will test how best to encourage claimants to progress in work and we will improve access to digital services across Jobcentre Plus, to ensure that jobseekers become used to online transactions.
>
> The Government remains on track to deliver Universal Credit safely and securely by 2017.[11]

In December 2013 the Secretary of State provided information on the future roll-out of UC:

> It is now live in 7 areas across the country, growing to 10 by spring 2014. From there, the roll out will expand beyond the existing single claimant group, to new claims from couples and families in all of these areas. By the end of next year, Universal Credit will start also to expand to cover more of the north-west. Universal Credit will therefore expand in scope and scale over the next 2 years.[12]

The DWP press release provided details on where UC is currently being implemented:

> Claims are currently being taken for Universal Credit in Ashton-under-Lyne, Wigan, Warrington, Oldham, Hammersmith, Rugby and Inverness.
>
> By spring 2014, claims will be taken in Shotton, Bath and Harrogate.
>
> By spring 2014, the Claimant Commitment for new claims to Jobseeker's Allowance will be completely rolled out to all Jobcentres.
>
> 25,000 Jobcentre Plus staff are currently being retrained to deliver the Claimant Commitment.
>
> Eleven in-work progression pilots are being run to trial the best way to encourage people to increase their earning from work.[13]

It is the Government's intention that recipients of UC will receive one payment monthly in arrears – this will include the element of UC to cover housing costs:

> *(b)* The Government's intention is to pay universal credit to the claimant in the majority of cases. The Government believes that this policy will replicate the budgeting skills that people will need when working and will help to break the cycle of welfare dependency that is a feature of the current benefit system.[14]

Regulation 58 of the Claims and Payments Regulations provides for alternative payment arrangements under UC – this will enable direct payment of all or some of a claimant's UC to a third party (such as a landlord) in certain circumstances. The explanatory notes to the regulations state:

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11 Lord Freud, Universal Credit – further information on roll-out, 1 August 2013

12 DWP Press Release, 5 December 2013

13 *Ibid*

14 HC Deb 10 October 2011 c255W

> Regulation 58 provides that Universal Credit and Personal Independence Payment may be paid to another person where it is deemed necessary to protect the interests of the claimant or, for Universal Credit, to protect the claimant's family or any severely disabled adult in respect of whom the claimant receives a carer element. Similarly, regulation 57 provides for circumstances in all benefits for the Department to appoint a representative for a claimant where the individual is unable to act for themselves, as in the current system.[15]

The regulations do not define vulnerable claimants or the circumstances in which direct payment to a landlord (or an alternative payment arrangement such as more frequent payments) may take place:

> In order to provide greater flexibility, the detailed circumstances about when payment exceptions will be appropriate will be set out in guidance, rather than in regulations. This approach will enable cases to be assessed on their individual merits.[16]

In the UC Pathfinder area a two month "trigger" is being used to pay landlords direct when tenants fail to pass over the housing costs element.

In its Third Report of 2012-13 the Work and Pensions Select Committee published the conclusions of its inquiry into *Universal Credit implementation: meeting the needs of vulnerable claimants.* The Committee called for a clear definition of vulnerability:

> The Department for Work and Pensions should publish a clear definition of "vulnerable" groups within Universal Credit, for who it will not be appropriate to include housing costs in their benefit payment. There must be a robust process for identifying claimants who are struggling with housing costs, so they can be assisted before they fall into arrears.

The Government published its response in February 2013:

> The Department will, alongside this change, provide claimants help with monthly budgeting, and provision has been made within Regulations to make alternative payment arrangements in exceptional cases, such as paying rent direct to landlords. **We are not, however, seeking to define "vulnerability" for the purposes of administering Universal Credit.** Any attempt to do so would risk some people with complex needs falling outside of the prescribed definitions and then not receiving help that they may genuinely need. As a result full guidance, including financial and vulnerability factors that would trigger a conversation with a claimant about their budgeting needs (including whether they need an alternative payment), will be made available to support staff handling these cases. Third parties including caseworkers and landlords will also be able to make a case for additional budgeting support. We are already working with Housing Associations about how we can work together to identify these families prior to the introduction of Universal Credit.
>
> [...]
>
> ...we are clear that Universal Credit must be designed in a way that protects the financial position of landlords. In particular, we believe it is important to get the safeguards right, including triggers for moving to direct payments to landlords, and the need to put in place an effective process to ensure arrears don't build up. Where claimants are in arrears or fall into arrears they will be switched back so that payment is made direct to their landlord. This will give landlords the security of knowing that

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15 Explanatory Memorandum to SI 2013/380

16 Explanatory Memorandum to the draft claims and payments regulations, June 2012

> payments will be made, and that the long-term accumulation of arrears is not an option under this system. Equally, it will enable us to identify which claimants need help with money advice and debt management, and protect claimants by preventing them from falling into significant debt.[17]

The DWP published *Guidance on personal budgeting support under Universal Credit* in February 2013. This Guidance details the factors that should be taken into account when considering whether an alternative payment arrangement should be put in place for someone in receipt of UC, including direct payment of the housing element to landlords. February 2013 also saw publication of *Universal Credit – Local Support Services Framework.* This Framework sets out the principles on which support should be provided for vulnerable claimants and which the DWP would be willing to fund.

A DWP decision maker will be responsible for managing and administering direct payments to landlords, splitting payments between two adult members of a household, and increasing the frequency of UC payments. Local delivery partners will be able to identify cases where alternative payment mechanisms may be needed, refer claimants to the DWP and mediate 'between landlords and claimants to help a claimant retain a tenancy'. Groups that could qualify for extra support are listed in Annex C to *Universal Credit – Local Support Services Framework.* The groups include homeless people, those with mental health issues, domestic violence victims, and households supported by the troubled families programme.

The Communities and Local Government Select Committee carried out an inquiry into the implementation of welfare reform by local authorities over 2012-13 in which it made several recommendations concerning direct payments along similar lines to those of the Work and Pensions Select Committee.[18] The Government's response was published in June 2013.[19] In its response the Government reiterates the intention not to define vulnerability in regulations and states that alternative payment arrangements will be considered in the following order of priority:

> - In order to safeguard the claimant's home, paying rent direct to the landlord through 'managed payments' will be the first priority where rent is part of the Universal Credit award.
>
> - Secondly we should consider if a more frequent payment is needed. Two payments every month is recommended for those who will struggle to manage monthly. Exceptionally, a different frequency may be considered.
>
> - The split payment of an award between partners should only be considered in certain specific situations. For example, financial abuse where one partner mismanages the Universal Credit award or in some domestic violence situations where the couple decide to remain together in the same household and a separate claim to Universal Credit is not made. In these situations we should first consider paying the rent element directly to the landlord (where appropriate), before deciding on the proportion to be split between the couple.
>
> - Wherever possible, these exceptional arrangements will be time-limited and claimants helped to make the transition to monthly budgeting. A Support and

[17] Cm 8537, February 2013
[18] HC 833, Ninth Report of 2012-13, April 2013
[19] Cm 8635, June 2013

Exceptions Working Group helped design this approach and included representatives from social landlords, local authorities, and the third sector.[20]

The response noted that up to 5% of a claimant's standard allowance can be deducted to cover debt repayments under current provisions. The Government is "considering whether this level is appropriate for UC or if it should be increased in future."[21] The extract from a parliamentary answer reproduced below also emphasises the possibility of landlords receiving direct payments of HB in some circumstances:

> Managed payments to landlords will continue where claimants are deemed to be at risk of non-payment or where arrears build beyond a certain level. Once on managed payments, we will recoup arrears on behalf of the landlord from the claimant's universal credit and will continue to do so even if the claimant moves to a new address.
>
> We are working with DWP to ensure the right safeguards for landlords and tenants are designed into universal credit through learning from the direct payment demonstration projects.
>
> These safeguards will apply in both the private and social sectors.[22]

When speaking at the Chartered Institute of Housing's annual conference on 27 June 2013 Lord Freud outlined the support for Universal Credit claimants who will receive direct housing payments, how the DWP will work with social landlords to identify tenants who should be exempt and when action will be taken if tenants fall into arrears:

> Three levels of protection will exist:
>
> Decisions about whether tenants should receive direct payments will be made in collaboration with social landlords.
>
> If arrears build up to the equivalent of **1 month's rent** the decision to make direct payments will be reviewed
>
> If arrears reach the equivalent of **2 months' rent**, the claimant will have housing payments switched to the landlord, or managed payments
>
> Lord Freud added:
>
> The key to making direct payments work will be our on-going collaboration with landlords, but I am determined that managed rent payments should not be a permanent solution.
>
> Once arrears have been paid, we will look to return tenants to direct payments, with the right support in place.
>
> Once arrears have been cleared, the DWP will work with landlords to return tenants to direct payments. In most cases, following the tenant being offered budgeting support, they will return to direct payments within 6 months of the arrears being paid off.[23]

Lord Freud also announced the acceleration of the rate at which rent arrears will be recovered from tenants who are moved off direct payments:

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[20] *Ibid* pp9-10

[21] *Ibid* p11 (the Government subsequently confirmed the intention to accelerate the rate at which rent arrears will be recovered from tenants in debt – see page 8)

[22] HC Deb 4 June 2013 c1061W

[23] DWP Press Release, 27 June 2013

> We have decided to provide additional protection for landlords by accelerating the rate at which we recover the arrears for those switched back to managed payments.
>
> Typically, if a claimant is not repaying other debts we would expect to recoup the rent arrears from tenants hitting the two month trigger point within six to nine months. This will help ensure that landlords' cash flows are protected.[24]

2.2 Social landlords' concerns

The potential difficulties social landlords might face in relation to direct payments to social housing tenants include:

- people on a low income using the housing element of UC to cover other bills instead of prioritising rent payments – leading to increased levels of rent arrears and debt;
- increased administration and legal costs as a result of dealing with the predicted increase in rent arrears and the need to provide financial advice to tenants;
- increased difficulties in collecting rent payments due – exacerbated by the difficulties low income groups experience in opening bank accounts – leading to a need for additional housing management staff;
- knock-on effects of a cash shortfall from rising rent arrears and administration costs – preventing improvements in services to tenants. There is a view that a significant increase in arrears would leave some associations struggling to survive; and
- if the rental stream of housing associations is jeopardised it may impact upon lenders' willingness to invest in the sector.

In 2004 L&Q Housing Association piloted direct payment of Housing Benefit to tenants in response to growing numbers of overpayment claims associated with direct payments and with a view to reinforcing resident responsibility for managing their rent accounts. L&Q experienced substantial increases in rent arrears:

> In areas where it had moved a significant number of tenants to the new system as a "big bang" approach, the rate of arrears increased from 3% to 7%. L&Q estimated that if this pilot was replicated across the association then arrears would increase from £2.5 million to more than £6 million (2004 figures).[25]

L&Q concluded that direct payments to tenants would increase its administrative burden such that an additional 30 staff would have to be employed. More information on the L&Q pilot can be found in an *Inside Housing* article, *Lost Benefits* (27 February 2004).

As the *Welfare Reform Bill* progressed through Parliament social landlords argued that their tenants should have the freedom to choose to have their housing costs paid direct to their landlord. During the Commons Committee Stage Karen Buck (for Labour) moved an amendment to allow for the housing costs element of Universal Credit to be paid direct to landlords.[26] She referred to social landlords' concerns around the possibility of increased rent arrears and the impact this may have on their ability to secure private finance.[27] In response, the Minister, Chris Grayling, said the importance of a stable income for social landlords was recognised and that there was an intention "to develop Universal Credit in a way that protects

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24 DWP Direct Payments System, 27 June 2013

25 National Housing Federation (NHF) Briefing on direct payments, June 2011

26 PCB Deb 5 April 2011 c359

27 PCB Deb 5 April 2011 c362

their financial position." He advised that the amendment was unnecessary as the Bill already made provision for direct payments to landlords "where this is necessary."[28]

In Grand Committee in the House of Lords, Lord Best moved a similar amendment to the *Welfare Reform Bill* to enable tenants to opt out of direct payments or consent to the housing cost element of UC being paid direct to the landlord.[29] He cited research by the Policis consultancy which had found that 93% of tenants in the social sector wanted Housing Benefit to be paid direct to their landlord.[30] He also raised concerns around tenants' benefit payments being swallowed up if they have overdrafts.[31]

Social housing providers have stressed the importance of a secure income stream for the future provision of new affordable housing:

> Secure income streams enable social housing landlords to maintain ongoing investment in new homes.
>
> Housing associations are not for profit social businesses that invest in communities and new affordable housing. The reliable stream of income that payment of Housing Benefit direct to landlords provides has played a key role in enabling associations to secure access to long-term finance at favourable low rates, allowing them to maximise the number of new homes that they can build. There is a major risk that proposals to end payment direct to landlords will result in significantly reduced funding overall for existing and new affordable housing.
>
> This risk is increased by the move to the affordable rent regime. David Montague, Chief Executive of L&Q has said: "We will all be borrowing a lot of money over the next four years. This leaves big question marks over our capacity in the long-term to maintain the momentum of development." Any move away from enabling tenants to opt to have their rent paid direct to the landlord, would place further pressure on the capacity of social landlords to engage in development activity. This impact would be far from marginal.[32]

Lord Best quoted the Council of Mortgage Lenders (CML) when speaking to his amendment in Grand Committee:

> "For social landlords the certainty of benefit payments that reflect actual rents has been important to their ability to secure private investment at highly competitive rates and ensure that they can maximise their capacity to build much needed social housing. This principle should be carried over into the new Universal Credit".
>
> It goes on to say:
>
> "Institutional investors place great importance on cash flow underpinned by direct payments and the view of rating agencies is key to the continued success of this type of investment ... It will not be sufficient to maintain the confidence and commitment of lenders and investors to leave the important elements around housing credit to secondary legislation. There are potential implications for existing loan agreements ... The existing levels of rent direct payment have been a major factor for funders in

28 PCB Deb 5 April 2011 c363
29 HL Deb 20 October 2011 GC160
30 HL Deb 20 October 2011 GC161
31 HL Deb 20 October 2011 GC162
32 NHF, *Housing Benefit direct payments to social landlords and the design of the Universal Credit* , June 2011

offering the social housing sector preferential loan rates. It is estimated that these benefit the sector by some £500m pa."[33]

Responding for the Government, Lord Freud, Minister for Welfare Reform, said:

> My Lords, one of the key principles of our welfare reforms is to make the whole experience of claiming benefits as close as possible to the experience of receiving a wage or salary. The choices available to working households do not include opting for their employer to pay the landlord directly. I am not convinced by the argument that so-called tenant choice is genuine choice. Effective choice exists only when the balance of power is equal between tenants and landlords. When power is in the hands of landlords, tenant choice becomes landlord choice, and that, of course, leads to the situation we have at the moment where 95 per cent of claimants reputedly choose to have their housing benefit paid direct to the landlord.
>
> A gulf has opened up in the social rented sector between the experience of being unemployed and the experience of being in work. That is why this Government are absolutely committed to making a single universal credit payment per household, wherever possible. I repeat the statement that I made to the National Housing Federation last month. I am determined that the introduction of universal credit, and therefore direct payments to tenants, does not undermine the financial stability of the housing sector. I assure noble Lords that we have been in constant and regular dialogue with the DCLG to make sure that we are proceeding along a path that does not undermine the financial stability of the housing sector.[34]

Lord Best withdrew his amendment but emphasised that a large alliance of organisations, including Shelter, Crisis, the Tenants and Residents Organisation of England, CML, and NHF, were in agreement on this issue.[35]

In March 2012 a report by Audit Scotland warned of ‘significant implications’ for councils over the introduction of Universal Credit, and in particular direct payment to tenants, as part of the Government’s welfare reforms:

> The UK government is bringing forward legislation to reform the welfare system. This will start to come into effect from April 2013 and by 2017 all benefits, such as job seekers’ allowance, child benefit and housing benefits, will form part of the new ‘Universal Credit’ (UC). Scottish councils currently administer housing and council tax benefits but because housing benefits will be part of UC, this responsibility will end after 2017. Currently, there is uncertainty as to the arrangements for replacing council tax benefit.
>
> These changes have significant implications for councils. They face challenges in communicating the position to claimants and in maintaining services and performance in a period of change. In addition, councils face reduced funding as the housing benefit caseload moves from council administration to UC and the likelihood of staff reductions.
>
> There are also implications and risks for councils as landlords. The majority of Scottish councils (26 of the 32 councils) manage their own council housing stock. For Scotland around 60 per cent (£615 million in 2009/10) of the rental income for these properties comes directly from housing benefits. Currently, where councils operate both housing rent and housing benefits, the systems are linked and benefits are automatically

[33] HL Deb 20 October 2011 GC162
[34] HL Deb 20 October 2011 GC169
[35] HL Deb 20 October 2011 GC171

applied against rents due. However, under UC, claimants receive benefits directly and it will be the claimant's responsibility to pay rent to the council. Social and private landlords will be similarly affected.

Overall, substantial changes are ongoing and planned which will have a significant impact on structures and services. These need to be managed alongside existing resource and demand pressures while managing service performance and improvement.[36]

The National Housing Federation has commissioned Ipsos MORI to carry out research into the impact of welfare reform on housing associations. A baseline report was published in January 2013 – the potential impact of direct payments is covered in section 8.[37] The report states that more than nine in ten associations (92%) believe that direct payments are likely to require increased resources for money advice and arrears management; 90% believe they are likely to face increased difficulties in collecting rent. The findings are uniformly high across all regions with the proportion ranging from a low of 80% to a high of 100%. Fewer, but still a majority (78%) think the introduction of direct payments will result in a fall in rental income. As part of this work Ipsos MORI has also published Regional welfare reform research summaries. Each summary covers:

- perceptions of the impact of welfare reform;
- potential impacts of the size criteria;
- household benefit cap and direct payment of benefit to tenants; and
- what housing associations are doing to prepare.

In January 2013 the Communities and Local Government Select Committee took evidence from Kevin Dodd, CEO of Wakefield District Council, one of the direct payment demonstration authorities, in relation to its inquiry into the implementation of welfare reform by local authorities. Mr Dodd referred to the potential impact on the ability of associations to build new housing:

Kevin Dodd: We are a business, so we need money, which is cash flow. We need to be able to use that cash flow and asset strength, which we have, to borrow more money to build more houses. For example, to build the houses needed in the locality, in conjunction with the local authority, our projection is that we will be treading water at least until we understand the impact of universal credits and the bedroom tax. We project that we will have a shortfall in income of about £100,000 a week. We have 31,000 properties in one local authority area; we are not geographically spread around the district. For every pound we put into the local community we expect to generate at least £3 to £4 social value of return. We are quite pleased that we measure that, and measure it productively. Our concern is that, if we cut back on that kind of activity, the support people need will get worse, because we are seen as people to turn to in order to provide support in times of difficulty. When I give you the case studies we have got, you will see the support we provide as a landlord to help people live hopefully happy, content and independent lives, and currently we are concerned that that might be at risk.

Q171Heather Wheeler: So, that is X number of units a year you won't be able to build.

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36 Audit Scotland, *An overview of local government in Scotland: Challenges and Change in 2012*, March 2012

37 Ipsos MORI, *Impact of welfare reform on housing associations – 2012 baseline report*, January 2012

> Kevin Dodd: It works out that that would be the case. I cannot give you exact figures, but, in light of our business plan, overall we are losing the equivalent of one house per week. Over the life of our business plan it could be £220 million to £250 million in lost capacity to build new homes, which means about 3,000 to 4,000 homes will not be provided in the Wakefield district.[38]

HouseMark, a body specialising in benchmarking social landlords' performance, released the *HouseMark welfare reform club benchmarking report* at the beginning of May 2013. The report sets out the baseline position of around 350 social landlords from whom data was submitted at the start of the reforms. Key findings from the report include:

- Participating organisations charge £13 billion a year in rent which translates to around £20 billion for the sector as a whole.
- Every 1% reduction in rental income is worth about £200 million annually to the sector. If rent collection rates drop by 7%, the sector will lose £1.4 billion a year.
- UK-wide, we estimate that £1/2 billion is already spent by social landlords on collecting rent.
- The cost per property of collecting rent is twice as high as anti-social behaviour, and three times higher than lettings costs.[39]

HouseMark intends to use the findings as a baseline from which to measure subsequent changes in costs and performance for social landlords on a quarterly and annual basis.

2.3 Payment demonstration projects

Background

On 14 September 2011 Lord Freud announced that the DWP would establish six small-scale demonstration projects to assist with preparation for direct payments to tenants in the social sector. These projects, which were initially set up to operate from June 2012 to June 2013 but which were extended to the end of 2013, tested how claimants can manage Housing Benefit monthly payments ahead of the roll-out of Universal Credit. The projects also monitored the impact of the under-occupation deduction from Housing Benefit which was implemented on 1 April 2013 for social housing tenants.

January 2012 saw the announcement of the local authority and housing association partnerships taking part in the project:

- Southwark Council and Family Mosaic, London
- Oxford City Council and Oxford Citizens, (part of the) Greensquare Group, Southern England
- Shropshire Unitary County Council and Bromford Group, Sanctuary Housing and The Wrekin Housing Trust, West Midlands
- Wakefield Metropolitan Borough Council and Wakefield and District Housing, Northern England
- Torfaen Borough County Council and Bron Afon Community Housing and Charter Housing, Wales

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38 Uncorrected transcript of oral evidence to be published as HC 833-iii, 28 January 2013

39 *HouseMark welfare reform club benchmarking report,* May 2013

The DWP said that each partnership would be involved in testing out different elements of the project:

> ...including testing different trigger points when social landlords should receive direct payments if tenants fall into specified levels of arrears. The projects will also inform how best to communicate the changes to claimants, provide assistance with budgeting to successfully pay their rent, and support claimants and landlords experiencing financial difficulties.[40]

As noted in section 2 (above) the Government has said that vulnerable claimants and pensioners will continue to have their housing costs paid direct to their social landlord. This prompted discussion around how "vulnerability" would be defined. Social landlords operate needs-based allocation systems and, given supply constraints, this means that there is a high concentration of vulnerable households living in the sector. The NHF argued that "careful thought" would be required in assessing vulnerability:

> A narrow category of people defined by receipt of a disability benefit or residence in specialist housing would miss out large numbers of vulnerable people. There is also a danger of stigmatising groups.
>
> If eligibility for payment direct to landlords is defined by vulnerability to losing your home, tenant profiling by Home Group suggests that over the last 5 year period, 37% of tenants had arrears at some point totalling over 8 weeks rent and 70% of tenancies had arrears amounting to over 4 weeks of rent9. There are no prior common identifying markers that would have led to these tenants necessarily being classed as vulnerable at the commencement of tenancy.
>
> These arguments have greater force following the introduction of the Government's affordable rent regime. As well as the greater dependence on private finance, rents will be charged at higher levels, so the impact of arrears is much greater proportionately. Eight weeks of arrears in an affordable rented home in London could easily total in excess of £3,000 a devastatingly large sum for a household in receipt of benefit and a major impact on the revenue streams of the landlord.[41]

The demonstration projects are being evaluated by a team led by Professor Paul Hickman from the Centre for Regional Economic and Social Research at Sheffield Hallam University. The review will evaluate the impact of direct payments on claimants and vulnerable groups, as well as local authorities and social rented sector landlords.

Progress & research

In September 2012 the Social Market Foundation (SMF) published *Sink or Swim? The impact of Universal Credit* in which it referred to survey evidence of 93% of social housing tenants preferring their Housing Benefit to be paid direct to the landlord.[42] The SMF emphasised the need for caution:

> Given the vulnerability of the population at whom the reforms are directed, considerable care needs to be taken in the design of the Universal Credit to ensure that it does not contribute to financial instability among low income households. Indeed, failure could damage broader welfare goals by triggering indebtedness and undermining an individual's ability to remain within the labour market. More positively, if

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40 DWP Press Release, 19 January 2012

41 NHF, *Housing Benefit direct payments to social landlords and the design of the Universal Credit* , June 2011

42 Social Market Foundation, *Sink or Swim? The impact of Universal Credit,* September 2012, p12

> done well, these reforms could make big strides towards the Government's stated aim of assisting households to better manage their finances.[43]

A special issue of Housing Benefit Direct (October 2012) reported on early findings from the first month of the payment demonstration projects:

- Engaging with and assessing the needs of tenants had taken longer than anticipated.
- Landlords do not have immediate access to the information needed to assess tenants' readiness for direct payment.
- The role of support partners in the project is crucial.
- There is a general lack of awareness among tenants of wider benefit reforms.
- Developing appropriate safeguards had helped to reassure landlords.

On 30 October 2012 Lord Freud reported on early findings from the projects:

> The early findings from the Department for Work and Pensions Direct Payment Demonstration Projects - following six projects set up across the country to determine what support people living in social housing need to prepare for the start of Universal Credit - reveal 54 per cent of tenants surveyed said they were confident receiving their Housing Benefit payment directly to their own bank account.[44]

The key lessons identified were:

- Social landlords need to contact and work with tenants early - and they need to have a greater understanding of their tenants and their financial circumstances and ability to budget.
- Tenants prefer a range of payment options to take control of the budgets including standing orders, payment cards or cash, as well as direct debits.
- Most tenants prioritise the payment of their rent, fully understanding that non-payment would result in eviction. But some could imagine a situation when their housing benefit could be spent to cover unexpected expenses.
- Budgeting support needs to recognise that people on low incomes often budget on a fortnightly or weekly basis.
- Accounts that allow customers to separate several 'pots' of money are likely to be helpful.
- Close working between local authority housing benefit departments and landlords has been crucial for effective implementation.[45]

However, one of the pilot areas, Wakefield District Council, reportedly calculated that direct payments would lead to losses of £8 million annually in bad debts:

> Speaking at the Northern Housing Consortium's northern summit last week, Kevin Dodd, chief executive of WDH, warned the reforms would mean it and other landlords would struggle to continue to deliver community services, such as helping people into

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43 *ibid*

44 DWP Press Release, 30 October 2012

45 *ibid*

> work. He calculated WDH's total social benefit to the community since 2005 to be worth £1.4 billion.
>
> Mr Dodd said: 'We are into the third month of our pilot and people are now stopping to pay [their rent] at all. They're spending the money on something else and I've got to find £5 million each year to plug a hole my budget due to rising bad debts.'
>
> He added that WDH would also have to spend a further £3.5 million each year on collecting rent.[46]

In his evidence to the Communities and Local Government Select Committee's inquiry into the implementation of welfare reform by local authorities Mr Dodd said:

> Kevin Dodd: We are part of a demonstration project. We have got experiences that we are going through. Overall, we have seen an increase in debt to about 11% of the debit, which normally on 31,000 properties is 2.9%. People who came into the demonstration pilot with no arrears now have an average of £180 debt going forward. On arrears cases, we used to make five, six or eight visits; now it is 40 visits in each particular case. One thing that is not understood is that the cost of administration of the system by the landlord, which could be an extra £3 million to £5 million of bureaucracy, is being borne by full and partial rent-payers. For every rent-payer who has paid the full amount, £6 will go towards the administration costs passported by DWP to landlords to maintain an effective rent account. The social value of the work that landlords put in is a cost borne by other rent-payers. That is quite important to us as a landlord.[47]

Kate Webb, for Shelter, also gave evidence to the Select Committee and commented on the resource intensive nature of the support needed for tenants:

> Kate Webb: On this change, as with the package of reform, we are looking at our own advice provision, particularly online digital advice, and trying to make sure that is promoted as widely as possible and is ready to support people. That taps into one of our concerns about the demonstration projects. There is big emphasis in the pilots on providing support for households so they can manage direct payments. It might well be that achieves what look like very positive results, but our concern is that they are very resource intensive. We certainly could not step in to provide that on a nationwide basis to support the potential number of households who will need support, based on what people say they need to receive, to feel confident about managing their affairs.
>
> Q143Simon Danczuk: Are you worried that in areas that are not demonstration projects there will not be the intensity of support to help vulnerable people?
>
> Kate Webb: Yes. It is the inevitable problem you have when you pilot something. When you pilot it, you want it to work so you put in the resources. Our concern is that those results will not be replicable on a nationwide scale because the resources will not be there to replicate some of the support packages.[48]

Research carried out by Policis on behalf of the National Housing Federation, *Optimising welfare reform outcomes for social housing tenants,* (November 2012) found that a "significant proportion" of social tenants will need help with the shift to direct monthly payments. A "substantial sub-set" of this group will, the report argued, need to be exempted from aspects of Universal Credit:

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[46] *Inside Housing*, Direct payment to cost pilot landlord £8m a year, 7 December 2012
[47] Uncorrected transcript of oral evidence to be published as HC 833-iii, 28 January 2013
[48] *ibid*

> The key indicators to where risk lies are to be found in current patterns of financial stress and rent arrears. Segmentation analysis demonstrates that **risk of failure within the new regime is concentrated in a key segment of vulnerable social tenants we have called the "Troubled reform resistant strugglers**", primarily family households and overwhelming weekly, cash-based managers:
>
> - Eight in ten (79%) say they will find it more difficult to manage money monthly, with 65% saying it will be "a lot" more difficult.
> - Almost all, 94%, fear that they will be unable to prioritise their rent within their budgets with half (49%) not confident that they will be able to keep up rental payments.
> - This segment represents 33% of the value of all housing benefit payments to those of working age.
>
> The "Troubled reform-resistant struggler segment represents 29% of working age social tenants, and would appear both vulnerable and already highly stressed:
>
> - In the last twelve months, 45% of these tenants have struggled to afford food and 39% fuel, while 49% have struggled to afford shoes and clothing.
> - Seven in ten exhibit at least one of a range of vulnerability factors. One in five (20%) have numeracy issues, 17% literacy issues, one in four (25%) mental health issues, 28% a major health condition.
> - A half (50%) are experiencing problematic credit use and a third (34%) have consulted debt advice.[49]

The report recommended a widely drawn definition of vulnerability:

> The definition of vulnerability in relation to the transition to the new welfare regime needs to be widely drawn and to take in the full range of factors that pose a risk to successful execution of reform and tenants' financial well-being. Risk factors should include not only narrow indicators of vulnerability such a mental health issues or learning disability, but also a wider range of contextual issues such as lack of financial capability, problematic credit and debt and existing problems with meeting rental and other commitments.[50]

The Work and Pensions Select Committee's inquiry into the implementation of Universal Credit, with particular emphasis on meeting the needs of vulnerable claimants,[51] has already been referred to in section 2 of this note, as has the Government's response (published in February 2013). The Committee took evidence from various housing organisations on the issue of direct payments, for example:

> 76. Gavin Smart of the CIH told us that the early results were "encouraging in the sense that landlords are managing to make it work, but it requires a huge amount of additional effort." He highlighted concerns about levels of arrears and bad debts and the impact that might have on the ability of landlords to meet their financial obligations. Shelter made similar points and argued that it was crucial for the Government to put systems in place to identify tenants who were vulnerable or in arrears so that direct payments to landlords were triggered quickly to avoid arrears building up. The Council of Mortgage Lenders highlighted the potential combined impact on landlords of direct

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49 Policis, *Optimising welfare reform outcomes for social housing tenants,* November 2012

50 *ibid*

51 HC576, Third Report of 2012-13, November 2012

payments to tenants, the new social sector size criteria and the benefit cap. It believed this might "destabilise landlords' income streams with consequential impacts on lender and investor confidence in the sector, particularly small to medium sized associations".[52]

The DWP published the first report from the independent evaluation of the Direct Payment Demonstration Projects on 11 December 2012. This report provided information on the baseline position prior to the Projects going 'live' with regard to: tenants' awareness of, and attitudes towards direct payments; their financial history, circumstances and capability and their perception about the likely impact of direct payments.[53] The authors found that a "substantial minority" of respondents believed they would "not cope well" with direct payments and many thought that it would be "difficult to manage their finances" when Housing Benefit is paid directly:

> A substantial minority of tenants also anticipated that they would need support to help them manage if HB was paid directly to them. Some of these tenants felt they would need a 'great deal' of support and some thought they would need support 'for the long term', rather than just at the beginning while they adjusted to the new arrangements.[54]

The first results from the demonstration projects were published on 17 December 2012:

> The findings show over the first four months, 6,220 social tenants were paid their housing benefit directly. Of a total level of rent charged of £7,692,844 over the period, rent collection rates stood at 92%.
>
> Across the different areas, levels of payments by tenants on the projects varied from 88% to 97% – demonstrating the different conditions and approaches being tested in each area
>
> A total of 316 tenants have been switched back to payments to their landlords – either because they have reached triggers for switch back or have been switched back due to early invention.[55]

Landlords regard rent arrears at these levels as unsustainable in the longer term but there was hope that collection rates would improve as new systems and approaches began to bed in.

The Centre for Regional Economic and Social Research (CRESR) at Sheffield Hallam University published a report on *Learning the lessons from the demonstration projects, six months in* (February 2013). The report identified risks for tenants in the move to direct payments:

- According to data released by DWP in December 2012, rent collection rates are lower in all Project Areas than before the DPDPs. Some tenants who have never had rent arrears before are now in arrears.

- Direct Debit (DD) as a method for rental payments is favoured by many landlords but there are questions about how appropriate DD is for some social housing tenants. A small miscalculation or an administrative error can result in bank charges, leaving tenants with no funds for food and other bill payments. Non-

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52 *ibid*

53 *RR 822 Direct Payments Demonstration Projects: Findings from a baseline survey of tenants in five project areas in England and Wales*, December 2012

54 *Ibid,* chapter 9

55 DWP*, Direct Payment Demonstration Project: Payment figures*, December 2012

automated methods of payment remain crucial to some tenants' budgeting systems.

- Short budgeting cycles and compartmentalising different income sources emerged as important financial management strategies. Many tenants were uncomfortable about having all their income in one place or receiving it at the same time, and expressed alarm at the prospect of a monthly budgeting cycle. This raises obvious issues for UC which will be delivered in precisely this way.

Landlords found that the cost of preparing for and delivering direct payments in order to protect income had "exceeded everyone's expectations." Common experiences and challenges had emerged:

- The capacity of Project Areas to provide support to tenants is limited, yet local support agencies in many areas are also overstretched, with obvious implications for UC – will local support agencies be able to cope with the additional demand for their services that it will inevitably bring?

- Evidence indicates that many tenants want support in order to successfully manage direct payments, yet tenants do not always take up support offered to them.

- Personalised support appears to be the method preferred by tenants and the form of support they are most likely to engage with.[56]

Nine months' worth of learning and payment figures from the demonstration projects were published in May 2013 – some improvement in collection rates was recorded:

> The payment rates have been calculated by comparing total payments received against the total rent charged for the first nine payment periods in England and Wales' projects and the first 8 payments in Edinburgh.
>
> Across the different areas, levels of payments by tenants on the projects varied from 91% to 97%. The total level of rent changed stood at £19,204,022 and the average rent collection rate stood at 94%.
>
> A total of 6,168 tenants are currently paid by direct payment, another 1,258 tenants had been paid by direct payment but have now had the payments switched back to their landlord.
>
> This compares with findings over the first four months showing 6,220 social tenants were paid their housing benefit directly, total level of rent charged of £7,692,844, and rent collection rates at 92%.[57]

June 2013 saw publication of the fourth learning report from the demonstration projects. The following key learning points were highlighted:

- tenants were asked to use two online budgeting tools. Feedback from this exercise suggested that budgeting tools can improve and prompt positive changes to tenants' money management but that simply sign-posting to online budgeting and money management tools and websites may not be effective;

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56 CRESR, *Learning the lessons from the demonstration projects, six months in*, February 2013

57 Direct Payment Demonstration Project – learning and payment figures, May 2013

- engaging tenants in the support structures established in the Project Areas has proved very difficult, despite intensive efforts to do so. There have been particular problems in engaging with tenants who have been switched back on to direct payments due to rent arrears;

- the IT systems being used by most Project Area landlords do not have the reporting capabilities necessary to manage direct payments in the most efficient way and this is likely to hold true for others in the sector;

- Project Areas are now in an administratively 'steady state' in terms of administering direct payments and are placing more emphasis on collection methods and activities, to which significant resources are being directed. This represents a change for landlords (in terms of the scale of the task), some of whom report that other aspects of their service will inevitably suffer as a result. Landlords are not in a position to provide a comprehensive and robust assessment of the additional resource required but all agree that it is significant;

- the under-occupation deduction from Housing Benefit is having an effect on the delivery of direct payment projects, with some Project Areas identifying this as the greatest challenge faced over the past couple of months. The resource required to implement the under-occupation deduction has had consequences for the capacity of some landlords to resource DPDP. It is acknowledged that the data informing the report had been gathered only two months after the introduction of the under-occupation deduction.[58]

In December 2013 the DWP published the results of the first 14 payments of Housing Benefit direct to tenants in the demonstration project areas. The headline findings on payments and arrears are reproduced below:

- The payment rates have been calculated by comparing total payments received against the total rent charged for the first 14 payment periods in England and Wales' projects and the first 13 payments in Edinburgh.

- Across the different areas, levels of payments by tenants on the projects varied from 89% to 97%.

- The range of payment levels in part reflects the range of intervention and different switchback triggers being tested.

- The total level of rent charged stood at £27,943,948 and the average rent collection rate stood at 94%.

- A total of **4,719** tenants are currently paid by direct payment, another 1,647 tenants had been paid by direct payment but have now had the payments switched back to their landlord. 107 tenants have had payments switched forward, so direct payments have been restored after a period of managed payments.

- Over the first nine months, levels of payments by tenants on the projects varied from 91% to 97%. The total level of rent changed stood at £19,204,022 and the average rent collection rate stood at 94%.[59]

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[58] *Monitoring and Evaluation of the Direct Payment Demonstration Projects*, June 2013

[59] DWP, *Direct Payment Demonstration Project - Learning and Payment Figures – Payment 14*, December 2013

At the end of January 2014 *Inside Housing* reported call from the National Housing Federation for an overhaul of the alternative payment arrangements under UC (i.e. the arrangements which apply when a tenant falls into arrears). This was in response to pathfinder areas in the north-west experiencing "delays to APA decisions, poor communication from the Department for Work and Pensions about whether APAs have been granted and concerns about the 'labour-intensive' APA application process."[60]

In addition to the direct payment demonstration projects the DWP is progressing work to explore budgeting accounts for claimants:

> Alongside this measure, Ministers are working with the banking sector, credit unions, supermarket financial services and the Post Office to explore opportunities to develop cost-effective budgeting accounts for claimants moving onto direct payments.[61]

According to the Family Resources Survey 2008/09 more than 15% of local authority tenants and 13% of housing association tenants did not have a bank account (this excludes Post Office accounts which do not accept direct debit payments).

The Work and Pensions Select Committee considered the availability of bank accounts in its inquiry and noted that housing providers were particularly concerned about this issue due to the number of social tenants who will be expected to manage their own rent payments for the first time and the desirability of them having direct debit facilities to do this:

> The Council of Mortgage Lenders was concerned that there might be insufficient financial products available to support direct payments to claimants and that claimants might be unlikely to opt for banking products which could assist them in household budgeting and making rent payments direct to their landlords because of the associated charges.P123F[124]P Shelter said that the provision of bank accounts with direct debit facilities would be necessary to enable Universal Credit claimants to manage their rent payments and to support social tenants to handle their rent for the first time. It pointed out that Post Office accounts did not support direct debits, and recommended that DWP continue its work with the banking industry to develop products which would prevent the housing element of Universal Credit being diverted to cover overdraft fees and other direct debits.P124F[125]P The Halton Housing Trust suggested that DWP should support housing providers to encourage and promote bank accounts as the preferred mechanism for benefit payment.P125F[126]P Some housing associations have started providing a financial incentive to tenants to open credit union accounts in order to help protect their rent payments.P126F[127].[62]

The Committee's conclusions are reproduced below:

> 99. Some potential Universal Credit claimants do not have a bank account. Some witnesses were concerned that these claimants may have particular problems managing monthly payments and housing costs and may be vulnerable to exploitation, particularly from those loan companies and operators charging excessive interest rates. We welcome the Government's support for credit unions, but note that it is likely to be some time until credit unions have sufficient national coverage and capacity to offer a solution to everyone who needs it. We therefore welcome the Government's intention to ensure a range of financial product options are available to claimants. However, it is essential to ensure that any new products provide the same protection for customers as mainstream bank accounts. We note that DWP is proposing to

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60 *Inside Housing,* "White knuckle ride," 31 January 2014
61 DWP Press Release, 19 January 2012
62 HC576, Third Report of 2012-13, November 2012

> subsidise the first year of customer charges under the proposed new scheme. The Government must assess during that year whether support for subsequent years will also be required, and plan accordingly.[63]

The Government responded:

> 55. The Government already has in place a voluntary agreement with the major UK banks to offer basic bank accounts alongside their other retail current accounts. The majority of Universal Credit claimants will continue to be paid through mainstream current or basic accounts.
>
> 56. Some claimants may need additional help to budget over a monthly period, particularly during the transitional period. The Government are working with the advice sector to ensure that claimants are able to access appropriate budgeting support services to enable them to manage their money successfully.
>
> 57. The Government recognises that up to 1.3 million potential Universal Credit claimants currently do not use a transactional bank account to manage their benefit payments. In addition to encouraging claimants to open and use bank accounts, we are also seeking providers who can supply products with extra budgeting functions to support claimants as they move to Universal Credit. Such accounts will be required to meet certain criteria, including offering support to claimants to budget and manage their money, provision for regular payments for housing and other main bills and access to all claimants, irrespective of credit history.
>
> 58. The Government is continuing to consult financial providers across the private, social and third sectors about the arrangements for these products, including the structure of any payments by Government, and will announce the detailed approach and requirements shortly.[64]

The issue of budgeting/jam jar accounts was also raised in the Communities and Local Government Select Committee Report, *Implementation of Welfare Reform by Local Authorities.*[65] The Government's response notes:

> While the majority of Universal Credit claimants will continue to be paid through mainstream current or basic accounts, we are looking at ways to make accounts with budgeting functionality more widely available. We are considering the best ways to make these types of products more available, in consultation with financial providers across the private, social and third sectors.
>
> DWP is also planning to provide up to £38 million over the next three years to credit unions to support growth and modernisation in that sector and to support more of their members to have increased access to financial products. We will be making further announcements in due course about what other financial products will be available and how these will complement our over-arching personal budgeting and support strategy.[66]

The think-tank, Demos, has advocated the use of pre-paid cards for the housing element of UC as a means of minimising rent arrears:

> ...if housing benefit was distributed on a prepaid card in these pathfinders, it would be possible to ensure that this money was only spent on paying rent. There would be no

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63 *ibid*

64 Cm 8537, February 2013

65 HC 833, Ninth Report of 2012-13, April 2013

66 Cm 8635, June 2013

> need to develop 'triggers' (as the pathfinders are doing) to identify when a person goes into arrears and landlords needed to be paid directly, because a prepaid card would be able to flag up instantly if the housing benefit destined for the landlord was spent elsewhere or if a rent payment was missed – allowing for action to be taken immediately, without a family having to accumulate arrears first.[67]

A number of Local Authority Led Pilots have been set up to inform UC design and roll-out and to support authorities in their planning for UC delivery. The pilots began in September 2012 and ran through to December 2013. A summary of early learning from local authority led pilots was published in July 2013. The pilot authorities explored the core themes of:

- budgeting and financial management support;
- digital inclusion;
- work access;
- vulnerable groups and the triage process;
- partnership development; and
- data sharing.[68]

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67 Demos, *The power of prepaid*, January 2013
68 DWP Research Report 848, July 2013