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# **Universal Credit – Impact of Full Service on Council Tenants**

Housing Scrutiny Commission: 15<sup>th</sup> January 2018

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Assistant Mayor for Housing: Cllr Andy Connelly  
Lead Director: Chris Burgin

## Useful information

Ward(s) affected: ALL

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### 1. PURPOSE OF REPORT

- 1.1 To inform Members of the Scrutiny Commission of the potential impact of Universal Credit (Full Service) on Council Housing Tenants and HRA.

### 2. SUMMARY

- 2.1 Universal Credit (UC) FULL SERVICE is due to commence in Leicester from **June 2018**. This will affect existing UC claimants, new claimants of 'legacy' Benefits, and changes in circumstances. Once introduced all claimants will be expected to manage their UC claim and job search activities online.
- 2.2 Currently a total number of 7,881 council tenants have been identified as working age and receiving full or partial housing benefit. These tenants will potentially migrate on to UC over the coming years, at an estimated rate of 173 council tenants each month starting June 2018.
- 2.3 The extra collectable rent in the first year (2018/19) is *estimated* to be £1.66m, rising to £25.2m by 2022/23, when all existing benefit claims have been migrated to UC. This is an increase of 67.7% additional cash to be collected from tenants from the amount of cash currently being collected (£37.3m – 2016/17)
- 2.4 Once UC is fully implemented a total increase in arrears of £1.26m is estimated. This is an increase of 86.5% using the arrears at the end of the financial year 2016/17.
- 2.5 The experience of other landlords who have gone onto full service earlier than Leicester has been that additional intensive support has been necessary for tenants, particularly the vulnerable and those with low literacy skills, to successfully navigate the online claims process. Many of these have put in place dedicated support officers.
- 2.6 The Income Management Team have begun work on an implementation project plan, that incorporates communications, support, development of stakeholder relations (including key one with DWP), additional access channels, rollout of online DD's, and a drive towards more direct payment.
  - 2.6.1 Consideration is also being given to roll out new hardware in the IMT to facilitate increased working in tenants homes and support three way communications with the tenant and DWP while at tenants homes through the roll out of laptops.

### 3. REPORT

#### WHAT WE KNOW ABOUT UNIVERSAL CREDIT (UC)

- 3.1 Universal Credit (UC) was introduced as part of the Welfare Reform Act 2012, aiming to simplify the benefits system and making transitions to work easier. UC is administered by the Department Of Works & Pensions (DWP) and is for people on low incomes, or those that are not in work to help meet their living costs. UC can also affect people that are disabled, single people, childless couples, those with families and people who own their own home or have to pay rent.
- 3.2 UC replaces six means tested benefits and tax credits that are currently known as Legacy Benefits’.
1. **Job Seekers Allowance (JSA)**
  2. **Employment & Support Allowance (ESA)**
  3. **Housing Benefits (HB)**
  4. **Income Support (IS)**
  5. **Child Tax Credit (CTC)**
  6. **Working Tax Credits (WTC)**
- 3.3 UC is paid calendar monthly and in arrears, directly into a bank, building society or Post Office account. Claimants liable for rent charges will receive a housing cost element to cover their rent and any eligible service charges. This means that any Council tenant in receipt of UC will become responsible for paying their full rent directly to Leicester City Council.
- 3.4 Experience from other authorities indicate that tenants may potentially be waiting between **6 to 9** weeks to receive their first UC payment from the date of their first claim. The significant delay is due to UC being paid a month in arrears and due to other administrative delays caused by DWP. For tenants this will increase financial hardship and there will be increased pressures on food banks. Tenants may request a ‘hardship’ payment in advance from the DWP which they will have to later pay back from their ongoing UC award.
- 3.5 DWP regulations say that tenants will not receive any benefit for the first 7 days of the claim, which are known as the “waiting days.” Our research from other landlords shows that when benefit is paid up to 9 weeks later, the rent account will already be approaching an approximate debt of £600 - £1k. This level of debt may potentially provide a psychological barrier to the tenants, reducing the likelihood of them ever being able to catch up again.
- 3.6 In order to receive UC, tenants must have a bank account capable of making payments and receiving funds by electronic transfer, and UC will only be paid into this type of account. Most high street banks offer a basic account that will allow this. Information shared from Revenues and Customer Support indicates that at

least 21.5% of the 7,881 customers potentially affected do have suitable bank accounts. Some of those on pass-ported benefits will have bank accounts, but that information is not recorded.

- 3.7 Where tenants already have a current account but are in overdraft the banks can use monies deposited to offset their debts, leaving insufficient funds for the tenants to pay their bills. However, tenants are able to open a separate, basic account that does not allow overdrafts, these types of accounts can be opened with any major high street banks.
- 3.8 Backdating of UC will be in specified circumstances only, not automatic, and limited to one month only. Tenants who don't have access to the internet or lack digital skills may face difficulty claiming in a timely manner. We know from our research that vulnerable tenants are likely to require help to make a claim and ongoing support to manage the claim to avoid financial hardship.
- 3.9 Council Tenants will also be required to make a separate application for Council Tax Support Grant, this is to be made directly through LCC Revenues & Customer Support. From other authority experiences, DWP do not always give claimants this advice, which can result in delayed claims with only four weeks backdate allowed, causing further hardship.
- 3.10 Tougher Sanctions are being applied by DWP, e.g. for non-compliance with work-related activities. Sanctions are applied to their Standard Allowance, the amount awarded for their daily living costs, *not* the Housing Costs element, but overall the money they receive will be reduced, impacting on their ability to pay the rent. The sanctions can be for 3 months, six months or three years. The Welfare Rights team can help people challenge a sanction that has been applied to them, and this service is free. At the moment there is little information available on sanctions in Leicester as only about 200 of our tenants are on UC.
- 3.11 The DWP can apply Civil Penalties of £50, and other fines can be applied if false or incorrect information is provided deliberately, or for failing to report changes in circumstances.
- 3.12 Alternative Payment Arrangements (APA's) also referred to as Managed Payment are direct payments of the Housing Costs element paid directly to the Landlord from the DWP. APA requests will be considered by the DWP if the landlord has identified that the tenant is vulnerable, there is a history of rent arrears or failed tenancies. APA's can be reviewed by the DWP at any given time and the maximum time this can be paid for is 24 months. There have been no known cases that have gone past the two year limit yet, and the DWP guidance on what happens after that is not clear. No rules have been published on what criteria, if any, may have to be met before a re-application can be made.
- 3.13 Those landlords in the Trusted Partner Pilot scheme, e.g. Newcastle, are allowed to decide whether a tenant would meet the DWP criteria of vulnerability. The practical result of this is that turnaround on applications for APA's is much quicker for them. There have been suggestions that the Trusted Partner Pilot be extended

to all social landlords as the roll-out progresses, but this has not yet been confirmed by DWP.

- 3.14 There were 499 (6.3%) of the 7,881 potentially affected who have arrears more than four times the gross rent, who would probably be considered vulnerable. Identifying others who may be vulnerable for other reasons – e.g. having been housed from hostels – will be considered.
- 3.15 Third party deductions, for fines, utility bills, etc. can be made from UC payments as they are currently for other benefits. However, these can now be for up to 40% of their *standard allowance*, much higher than previously. This could result in tenants using their housing costs element for their daily living to help them manage, consequently creating a rent arrears situation.

## **UC ROLL OUT**

- 3.16 Universal Credit commenced in Leicester January 2016, for single claimants' not In work and who would have previously claimed Job Seekers Allowance. This phase was known as UC 'Live Service.'
- 3.17 The second phase of UC is known as 'FULL SERVICE' and can also be referred to as Digital Service. This is due to be introduced in Leicester from **June 2018**.
- 3.18 Full Service continues roll-out across Great Britain with a completion date of September 2018. From mid-2019, DWP will begin the migration of all remaining benefit claimants to UC with a view to fully complete UC implementation by 2022.

## **WHO IS AFFECTED FROM JUNE 2018**

- 3.19 Anyone making a new claim for the six main Legacy Benefits will be required to make a new claim for UC instead. Certain changes in circumstances will also trigger a new UC claim.
- 3.20 Any existing UC claimants will be invited to make a new Full service Claim. This means they will be required to submit and manage their UC claim online including their claimant commitment activities. DWP has advised that this will take place 3 months after implementation of Full Service in June 2018.
- 3.21 Any families with 3 or more children are unlikely to be affected until Autumn 2018.
- 3.22 Pensioners are not affected unless the youngest of a couple is *not* Pension Credit age. Pension Credit age is variable, depending on gender and date of birth. Generally, at the moment this is about 63 years old, but this will increase gradually to match the State Pension age of 67.

## **UC FULL SERVICE FROM JUNE 2018**

- 3.23 UC must be claimed **online** and tenants must have access to the internet. Partner's will be required to make a new claim in their own right and are expected to link their claims with one another online. Partners will also be required to have a separate claimant commitment interview with the JCP.
- 3.24 Tenants will have a UC online account and will be expected to manage all claim activity online and digitally.
- 3.25 Tenants will be expected to check their UC payments and must report any changes in circumstances online. This includes notifying DWP of any changes in their rent charges, or members of their household. Non-dependant deductions like those for Housing Benefits will continue to be applied, as will under-occupancy charges (Bedroom Tax).
- 3.26 Tenants Claimant Commitments and Work Coach advice will be carried out online via DWP. This includes managing an online journal and carrying out their work search activities online.

### **IMPACT OF FULL SERVICE – EXPERIENCE OF OTHER LOCAL AUTHORITIES**

- 3.27 We have undertaken desktop analysis and contacted a number of authorities who have had Full Service implemented within their areas. Some of their findings are set out below.
- 3.28 East Lothian Council went on to UC Full Service in March 2016. By the end of Quarter 2 in the same year, they had 590 council tenants claiming UC. At the end of Quarter 2 when rent arrears would normally be reducing the rent arrears increased by 19.95%. This would equate to an overall full year increase of 12.09% increase in their arrears.
- 3.29 A recent survey by the National Federation of Arm's-Length Management Organisations (NFA) and the Association of Retained Council Housing (ARCH) includes findings that:-
- 73 per cent of UC claimants were in arrears
  - 40 per cent of UC claimants in arrears were not in arrears prior to going onto the benefit
  - Average arrears for UC households amounted to £772.21, increased from £611.73 a year earlier. This is an **average increase of £160.48 per case** in the first year of making a UC claim.
- 3.30 Hounslow Borough Council are experiencing many court case adjournments due to lack of information to hand regarding tenants UC claim. At one hearing the judge ordered that the DWP had to submit a witness statement setting out what had been paid and when. The courts can request that a DWP representative attend court to explain the UC benefit situation.
- 3.31 Melton Borough Council have a stock size of 1,300 properties with UC full service in place since October 2016. A total of 13% of their tenants are on Universal

Credit and their UC cases equate to 46% of their total rent arrears. They have not yet evicted any UC claimant tenants, nor have Your Homes Newcastle.

## LEICESTER CONTEXT

- 3.32 Currently In Leicester a total number of 14,880 tenants have been identified as working age tenants. From this total, **7,881** tenants are receiving some form of housing benefit. The remaining 6,999 are **not** in receipt of any housing benefit but may be claiming other Welfare Benefits.
- 3.33 At any given point from June 2018, all these tenants will potentially be required to make a new claim for UC or a change in their circumstances might trigger a claim for UC. Therefore the total number of working age tenants that may be affected by UC full service is 14,880.
- 3.34 When full service starts in June 2018, the Income Management Team (IMT) Officer's will be unable to view and give advice to those tenants affected by UC as DWP will not engage without tenant's consent. From our research we know that gaining consent will be problematic in most cases.
- 3.35 Explicit consent from the claimant will be needed before the DWP will disclose any information to the landlord. This consent does not last indefinitely, and will cease when the specific query is resolved. The claimant should provide explicit consent for each new query raised.

## RATE OF MIGRATION

- 3.36 Across all tenures, it's estimated there will be approximately 500 households per month in Leicester going on to UC – Full service at first and this pace will increase rapidly once existing claims are migrated.
- 3.37 Looking at the current proportion of all HB claimants within the city, 34.6% are LCC tenants. If this ratio stays the same, then out of the 500 migrating each month, an estimated **173** are likely to be council tenants. The table below shows the anticipated migration rate and the effect this could have on arrears:

### 3.38 Table 1. Potential Migration of Cases & possible impact:

Year	Cases By Year End	Potential Arrears Increase	Extra Rent Collectable	Comment
2018/19	2,076	£83,289	£1,663,395	<i>(half cases for half year)</i>
2019/20	4,152	£416,446	£8,316,975	<i>(half new cases for half year + old cases for full year)</i>
2020/21	6,228	£749,602	£14,970,555	
2021/22	7,881	£1,065,788	£21,285,206	All claims migrated by year end
2022/23	7,881	£1,264,743	£25,258,605	All claims migrated for full year

- 3.39 The potential increase in arrears has been based on figures published in the

survey carried out by the NFA & ARCH mentioned in 3.29 above. They saw an increase in average arrears of £160.48 per case in the first year. No information is yet available as to the impact beyond the first year, but anecdotally some landlords report having seen arrears decreasing on some cases after the initial shock of the transition period.

- 3.40 The actual number of cases will accumulate over the course of the year, and most cases will not have run for a whole year. The figures for potential arrears increase in the table above assume that half of the cases will run for half the year.
- 3.41 If this experience was to be repeated in LCC stock then arrears would be expected to **increase** by **£1,264,743** by the time UC has been fully Implemented, if the assumptions and comparisons turn into reality. Using the arrears as they were at the end of financial year 2016/17, this would result in an **86.5%** increase in arrears.
- 3.42 As can be seen, even a modest migration rate of just 173 cases per month will have a rapidly escalating impact on the arrears, if the assumptions and comparisons made come to pass in reality. The impact may seem slow in the first year, but this will quickly heighten when the full-year effect of previous cases becomes apparent.

## IMPACT ON RENT COLLECTION

- 3.43 The Table below shows that at 4<sup>th</sup> Sept 2017, there were a total of 7,870 (52.93%) tenants in receipt of full or partial housing benefits and who were in rent arrears. Their rent arrears equated to only 27.9% of the total, in comparison to those receiving *no* housing benefit, who accounted for which amounted to 72.1% of the total arrears. There *will* be a need to continue working with this group, some of whom may be drawn into UC through claiming other, non – HB benefits, such as tax credits.

- 3.44 **Table 2. Number of Tenants in Arrears by Housing Benefit Entitlement (snapshot at 4<sup>th</sup> September 2017)**

HB Band	Total Cases	% Total Cases	Rent Arrears	% Total Arrears	Avg Arrears per tenant
Full	3977	26.75%	£91,207	4.71%	£22.93
Partial	3893	26.18%	£449,162	23.19%	£115.38
Nil	6999	47.07%	£1,396,250	72.10%	£199.49
<b>Grand Total</b>	<b>14869</b>	<b>100.00%</b>	<b>£1,936,620</b>	<b>100.00%</b>	<b>£130.25</b>

- 3.45 Other authorities, e.g. Rugby Borough Council, have experienced an adverse impact on cash collection rates for those with full rent due, whilst resolving and managing the intense complexities involved within their UC caseloads.



- 3.46 UC roll-out will mean that IMT resources will be under further pressures to support those transitioning to UC whilst also monitoring and collecting rent from those tenants liable to pay full rent. It remains crucial to maximise rent collection whilst preventing further accrual of rent arrears.
- 3.47 Some landlords have recruited extra resources specialising in assisting people in the transition to UC. At this early stage it is difficult to assess what impact increasing the number of staff has had in controlling the rise in arrears. From the landlords contacted there were none who did not recruit additional resources to make a comparison with.

## **FUTURE RISK TO HRA INCOME**

- 3.48 The average amount of housing Benefit paid to working age tenants was £64.10 per week as at 27<sup>th</sup> August 2017. Currently there are 7,881 working age tenants in receipt of housing benefit, so the **POTENTIAL RISK** to the Housing Revenue Account (HRA) once migration is *fully* completed in 2022 is that there would be around **£25.25m**, more actual cash to be collected in a full year.
- 3.49 If all 7,881 tenants likely to be affected paid monthly by Direct Debit, the additional transaction costs to collect this revenue would be:
- 7881 X .02p per transaction X 12 months = £1,891
- However, if they all paid weekly by PayPoint, the cost would be:
- 7881 X .32p per transaction X 50 weeks = £126,096
- 3.50 The additional cash that will need to be collected from the tenants will be an **increase** of **67.7%** on the amount of cash currently being collected, which was £37.3m in 2016/17 financial year.
- 3.51 Other risks include delays at court, and a likely increase in the number of cases being taken to Court, thus incurring greater Court Costs. The courts will not make an Order whilst the UC Housing Costs element is being assessed. Such claims will be adjourned until the benefit assessment has taken place, causing delays resulting in the ongoing accrual of rent arrears. None of the landlords contacted thus far have evicted any tenants on UC, so it is difficult to say what the impact will be on post-Court actions.

## **MITIGATION**

- 3.52 The IMT have developed a Project Plan to prepare for UC full service. This sets out the approach that IMT will be taking to mitigate the risk of rent arrears accruing as a result of UC full service roll-out. Dialogue with the DWP on the possibility of co-locating Housing staff at the JobCentre + Offices are currently underway.

- 3.53 The Income Management Team will continue to liaise with key stakeholders and work closer together to share good practice. They continue to develop a good understanding of issues and concerns and discuss the best way forward to ensure tenants receive the correct guidance and support i.e. carrying out Personal Budgeting Referrals (PBS).
- 3.54 Additionally, the Income Management will continue to carry out effective promotion of the self-serve facilities and the IT skills support available across the city i.e. library services and completing referrals for Assistive Digital Technology (ADS).
- 3.55 There is a need for greater flexibility in working from different locations, including other offices where hot desking is practiced. A request is under consideration for IMC officers to use laptop devices, which will enable them to work in a more agile manner, including from tenants homes. This will increase efficiency, and help them to support tenants with online UC applications.
- 3.56 It is proposed that additional, specialist resources be provided to the IMT to assist tenants migrating onto UC. All of the other landlords that have been contacted have increased their resources, and report that this has helped them to mitigate the effect of UC significantly.

3.57 The number of additional staff required cannot be calculated exactly. The following gives an idea of the scale of the work involved:

Current total UC 'Live' caseload:	200
Potential new Full Service UC cases by end 2018/19 financial year:	2076
Total estimated UC cases by end of first year 2018//19:	2276

Other landlords have reported that an average initial appointment to help a UC claimant takes 2 hours. If only 60% of tenants required such help, the workload involved would be:

$$2276 \times 60\% \times 2 \text{ hrs} = \underline{2,731 \text{ hours. (1.6 full-time equivalent staff)}}$$

- 3.58 Many of those requiring assistance will need several further appointments to complete their claim, and to assist with their weekly maintenance of online work related activity logs, etc. It is known from Housing Benefits information that among LCC tenants of working age, with families, there were last year 830 cases that had three or more changes of circumstances per year.
- 3.59 Management therefore feel that the provision of four additional full time resources would be appropriate. These could initially be on a short-term basis, and kept under review as the migration unfolds.

**4. REPORT AUTHORS**

4.1 Zenab Valli, Interim Income Collection Manager, tel.37 3573

## 5. Legal Comments

5.1 The report properly identifies the likely impact on existing court proceedings, which will often have to be adjourned to await the outcome of a UC application, and the potential for an increase in possession proceedings to address the increasing number of tenants falling into arrears.

Jeremy Rainbow – Principal Lawyer (Litigation) - 371435

## 6. Finance Comments

6.1 The report clearly highlights the forecast increase in rent arrears of £1.26m. The department anticipates a greater level of debt write-off, and this has been budgeted for. The cost of additional officers to support tenants would be offset by avoiding a proportion of the cost of debt being written off. Including on-costs, the annual cost of each officer would be in the region of £35k.

Stuart McAvoy, Principal Accountant (37 4004)

7. **Equality Impact Assessment** – recently completed exercise by the UC Strategic Steering group and agreed by Executive

