



**RESIDENTIAL LANDLORDS ASSOCIATION**  
**PAYMENT PROCEDURES FOR TENANTS CLAIMING UNIVERSAL**  
**CREDIT**  
**BAD NEWS FOR LANDLORDS**

**Introduction**

The Government have announced new procedures as to how payment will be made under the Universal Credit system when it is rolled out from 2013 onwards. It means the end of direct payment to landlords for rent as we have known it. The intention for the new procedures will apply across the board to local authority tenants, housing association tenants and tenants in the private rented sector. To some extent it is “work in progress” because the Government are conducting pilot schemes in the social sector between now and June 2013. At the heart of the new procedures is the idea of promoting tenant’s abilities to manage their own finances and to bring the benefit system in line with conditions that affect working people.

The key is that there is no longer any back stop. Landlords will no longer be able to insist on direct payment to the landlord if the tenant is 8 weeks or more in arrears.

**How the new system will work**

As such, the existing system of regulations will disappear. Vitally, there will be no long stop date. It will no longer be possible for the landlord to insist on direct payment once there are 8 weeks arrears or indeed any other amount of arrears owing. Decisions as to payment will be made individually on a case by case basis according to guidance. All cases will be reviewed from time to time even if direct payment to landlords is being made.

We have yet to see the guidance. Grant Shapps, the Housing Minister, has said that the intention is to replicate vulnerability/safeguarding provisions under the present local housing allowance system but it is clear that a different approach will be taken to decide on those who are vulnerable.

Worryingly, from the landlord’s perspective, DWP’s stated intention is that only 10% of the caseload should be paid direct to landlords. At the moment for local housing allowance this could be at least 25% of a Council’s case load in the private rented sector and a much much higher number in the social sector.

Universal credit will be paid calendar monthly in arrears. The effective date of the claim will fix the first calendar month and the intention is that payment be made seven calendar days after the end of this initial period of one month (brought forward to a working date if it falls on a Bank Holiday/weekend). Thus, if you have a claim made on the 7<sup>th</sup> July the first payment should be due on the 14<sup>th</sup> August and thereafter on the 14<sup>th</sup> of the month. Assessments will also be made on a calendar monthly basis (rather than weekly, as at present).



The fundamental rule is that there will be one single payment to the claimant, including the housing element. This will be paid into a nominated Bank account. This could be at a High Street Bank or a Credit Union. For those who do not have a conventional account payment will be made by the new Simple Money Transmission Service operated for DWP by Citibank.

As regards claims the intention is that these should be made on line or by telephone and where made by telephone the agent taking the call will complete the details. Exceptionally, claims can be made face to face at an office or by home visit.

Each claim period will be dated from the date of the original claim e.g. if the claim is made on the 7<sup>th</sup> of the month then each subsequent claim period will start on the 7<sup>th</sup> of the month and the amounts will not be varied because individual months are of a different length in terms of the number of days in them.

The intention is that to help people budget there will be advice services available and financial product offering automatic payment facilities operating direct debit. Credit Unions will no doubt offer this kind of service as at present.

It is proposed that for a minority of claimants alternative systems may be paid otherwise than monthly. However, this sort of arrangement will be time limited. Third parties will act for those who are incapable of looking after their own affairs e.g. due mental disorder.

### **When can direct payments to landlords be made**

Eligibility for direct payment to landlords will be subject to combined financial and vulnerability risk factors. There will be a screening process. Measures short of direct payment to the landlord may be applied instead. This will take a number of stages:

1. **Referral** – this includes self referral, referrals by advisers such as the CAB and third parties such as landlords. Information currently held under the present system will also be used to identify cases.
2. **Screening** – only those claimants who have reasonable grounds for exceptional payment arrangements will be considered and this will be done by decision makers; rather than automatically. The intention is to target those claimants who will benefit most from such an approach. Claimants most likely to be able to manage their money but require suitable budgeting support as well as those with additional needs who may require more frequent than monthly payments will be identified. Likewise, those where payments should be made directly to the landlords. The approach is going to be tried out in the Housing Benefit Demonstration Projects being undertaken at the moment in the social sector.
3. **Decisions** - Final decisions on eligibility for payment exceptions will be taken by a member of staff. They will be considered on a case by case

basis with a range of vulnerability and financial risk criteria taken into account. These criteria are being worked on at the moment. One of the possible outcomes could be a decision to pay direct to the landlord.

4. **Review** – The Government’s intention is not to label any claimant as financially incapable and for that reason they say payment exceptions will be on a time limited basis. DWP will look to put in place the appropriate support to ensure claimant’s circumstances can be reviewed, moving them over time to a point where they can manage under normal arrangements.

There is no provision for the first payment of benefit to the landlord.

### **Deductions from Universal Benefit**

As with the existing system Universal Credit will permit deductions to be made from benefit entitlement including for rent arrears. This is intended to be as a last resort. Deductions are prioritised and rent arrears along with mortgage arrears are in the first priority category. To qualify for deduction for arrears of rent the following conditions will have to be met:-

- (a) The claimant must be receiving Universal Credit including an element of housing cost.
- (b) The claimant must be in debt for rent payments (or service charges included in the claimant’s rent).
- (c) The claimant must still occupy the accommodation to which the debt relates.
- (d) The claimant’s earnings must be below the relevant minimum earnings disregard.

Where these conditions apply DWP may decide to deduct a monthly amount from the Universal Credit. This can then be paid to the landlord. The deduction must be no more than 5% of the standard allowance applicable to the claimant.

The circumstances and cases where this deduction can be made will be set out in guidance. Deductions must stop if the claimants earned income reaches the applicable earnings disregard for three months. Overall for the total of all kinds of deductions there is a 40% maximum of the standard allowance although in exceptional circumstances deductions and direct payment to landlords can be made as a last resort to allow someone to remain in their home or to receive fuel and water supplies on an ongoing basis. The standard allowance is the basic element of Universal Credit to cover living costs.

### **What does this all mean for private rented sector landlords?**

The introduction of the Local Housing Allowance and the resulting switch to paying benefit to the tenant instead of direct to the landlord has already had profound implications and landlords have reported increasing problems with arrears. This can



only get worse. We do not know how efficient the administration of Universal Credit will turn out to be. At the moment, although far from satisfactory, at least landlords do have an entitlement to direct payment once rent arrears reach 8 weeks. This will no longer be the case. The current system of regulations accompanied by guidance which are reasonably clear cut, although implementation can be variable, will be replaced by a far more flexible system of “guidance” applied on a case by case basis.

There is no mention at all about appeal rights even for claimants let alone for landlords. At the moment if a local authority fails to implement a request properly made where there are 8 weeks arrears then potentially the landlord has remedies against the local authority but this is unlikely under the new system. There appear to be no safeguards for landlords.

Landlords will have to wait longer for payment with increased risk of default. If systems work correctly it may be that the first payment could be received quicker under the new system but only time will tell. The greater interval between payments, however, poses risks.

If the Government deliver on its intentions of restricting direct payment to landlord cases to around 10% of the caseload then this will have profound consequences and will lead to increased levels of arrears and problems surrounding collection.

At the moment, we are still somewhat in the dark because we do not know what criteria will apply and how the new system will operate.

### **What can landlords do?**

Private rented sector landlords who rent to benefit claimants have learned to adapt and are going to have to adapt even more. Clearly, many will consider giving up renting to claimants altogether. The Universal Credit will be received by more people because it is intended to be both out of work benefit and an in work benefit to replace the existing system of tax credits. Different considerations for the landlord will depend on whether the tenant is out of work and solely dependant on state benefits; in work receiving benefits as a top up; or retired/a pensioner. You have to remember that people will be able to switch in and out of receiving benefits more readily under the new system; or at least that is the Government’s intention. Even a landlord who only takes on tenants who are in work may become involved because their tenant may become unemployed.

More and more landlords may well decide on a policy of not taking on out of work claimants. This, however, very much depends on local conditions and whether there is a sufficient supply of working tenants. In a lot of areas this is simply not practicable.

The one thing that comes to me is that landlords will have to tighten up their procedures and monitor payments more closely than they do at present. The norm for



the tenancy agreement is likely to become that the rent is paid calendar monthly now rather than weekly and in advance as at present. Landlords are going to have to decide what they do about payments at the beginning of the tenancy. At the moment many landlords are prepared to wait until benefit is paid. Even in those cases where payment is to be made to the tenant some authorities make the first payment direct to the landlord. There is no provision for this under the new Scheme although there is talk of notification to landlords so that they know that a claim is in payment.

Landlords will have to consider other ways of protecting themselves if they take claimants e.g. taking a guarantee from a householder. Landlords would also normally consider taking a tenancy deposit but whether this is practicable for a claimant is another matter.

### **RLA concerns**

Our concerns about the new arrangements are as follows:-

1. No back stop provision under which a landlord can demand payment direct.
2. Lack of clarity/much greater individual discretion in operating these rules because “guidance” replaces regulations.
3. No means of redress for landlords if things go wrong/no rights of appeal.
4. No proposal that the guidance should reflect the landlords interests to make sure that rent is paid and that a roof is kept over the head of the claimant.
5. The whole concept of trying to improve tenant’s responsibility at the cost of much greater risk to landlords with strong likelihood of significantly higher arrears.
6. Much less likelihood of landlords being willing to take on benefit claimants. This could even translate into less likelihood of a willingness to taken on claimants who are in work especially part time work because the same rules will apply to them.
7. No provision for first payment of benefit direct to the landlord.
8. We have argued with DWP that there should be a right for landlords to be paid direct payments once there are six weeks arrears and also that the whole system of vulnerability should be assessed according to the tenant’s interest of keeping a roof over their head and the landlord’s interest to receive the money, as well as the public interest of making sure that the benefit is used for its intended purpose.

We strongly believe that the Government’s whole approach is flawed and although the objective of helping tenants manage their financial affairs is in isolation a laudable one, the Government has wholly failed to appreciate the consequences of this. There will be a much higher level of arrears, an unwillingness of landlords to house benefit claimants (at a time when there is huge pressure on social housing), increased



unwillingness by banks to lend for this kind of property (or increased interest rate to reflect the risk), much higher levels of evictions and much greater homelessness.

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Note: This Guidance is based on currently available information but without seeing any detailed guidance. The rules may well change.