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For the attention of:  
Chief Executives,  
Revenue and Benefits Managers  
GB Local Authorities

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*Dear Colleague*

## **UNIVERSAL CREDIT FULL SERVICE**

As you know we have been gradually expanding the numbers of locations that have the Universal Credit Full Service (UCFS) for all claimant types, whilst we develop the system and learn from the experience. By the end of July we reached the milestone of being in 101 locations, which is around a sixth of our jobcentre network.

Today, my Secretary of State has announced that building on this success the Universal Credit Full Service will be expanded to the rest of the country as previously planned, beginning with a further 134 jobcentres between October and December 2017. Local Authorities have had a key role to play in this success and I would like to put on record my thanks to you all for your continued support.

Over the last few weeks there has been some comment and press interest in Universal Credit, citing issues with rent arrears and receiving payments. I would like to take this opportunity to set out what we have learned about housing payments via UC and what steps can be helpful for Local Authorities to take in both preparation and once the full service has arrived.

### **Arrears and the impact of UC**

All the evidence from the first live sites has stressed the importance of getting housing payments right and the risk that rent arrears can build where there are delays in verification or other problems.

Arrears are an important and complex issue. There are many factors at play and arrears can arise in broadly three ways - the charging policies of landlords can create "book" arrears from the outset of a tenancy; the fact that UC is paid monthly can create "time lag" arrears and failure by a small minority of claimants to pay the money we pay them over to their landlords creates a further category of debt.

It is also important to note that many people are coming into Universal Credit with pre-existing arrears. For example, recent research by the National Federation of ALMOs showed an estimated 60% of tenants were already behind with their rent before their Universal Credit claim started. They also reported that year on year the proportion of UC tenants in arrears had fallen. So the oft-quoted effect of UC on rent arrears is overstated.

### **Improving the administration of housing costs in DWP**

In a minority of cases we have experienced issues with housing cost payments under UC which has led to arrears accruing. The reasons for this are varied. Some claimants were not identifying that they had housing costs at the start of their claim - for example, because they have been on housing benefit for some time and therefore failed to appreciate that they had any rent liability. In other cases we were given different figures or breakdowns of housing costs by the landlord and the tenant and had to resolve the mismatch before full and accurate payment could be made.

These kinds of comprehension and handling issues are part of the reason why we kept the numbers with access to the full service low, so that we could analyse, understand and react to how claimants, landlords and our staff were using the new system. And that is what we have done. Over the last few months we have improved and stream-lined our internal processes, made modifications to the system to more easily identify those claimants who are on HB and resolve more quickly the cases where there are mismatches in information through the development of "I agree with the landlord" buttons. Finally, we have developed a 'landlord portal', which we will allow social sector landlords direct access into the service for sharing information and arranging managed (or direct) payments to landlords where claimants fail to pay their rent.

All of that work has paid off in terms of increasing the volume of cases that are verified in order to make full payments to around 80% of all cases at the end of the claimant's first assessment period.

### **How Local Authorities can help DWP improve further**

I want to thank in particular those Local Authorities who have had the full service deployed in their area. The way in which they have worked with local jobcentre and partnership staff and given feedback via our established forums and communications channels has been exemplary. Their willingness to share detailed information, supported by data, has been influential in making changes to the full service and to policy.

The link between our respective teams administering housing, council tax and UC are crucial. Getting those relationships right from the start takes effort on the DWP side and in Local Authorities too. So as your area gets ready to move onto the full service it is worth ensuring that good working arrangements are in place. We hold quarterly workshops with Local Authorities who are live or about to go live, these have been really well received and are an important opportunity to hear how UC is working from a Local Authority perspective. I would encourage your teams to attend as you near go-live.

You can also expect to receive an extensive UC Full Service Local Authority Support Pack from your local DWP Partnership Manager. Please do contact them if you do not receive one.

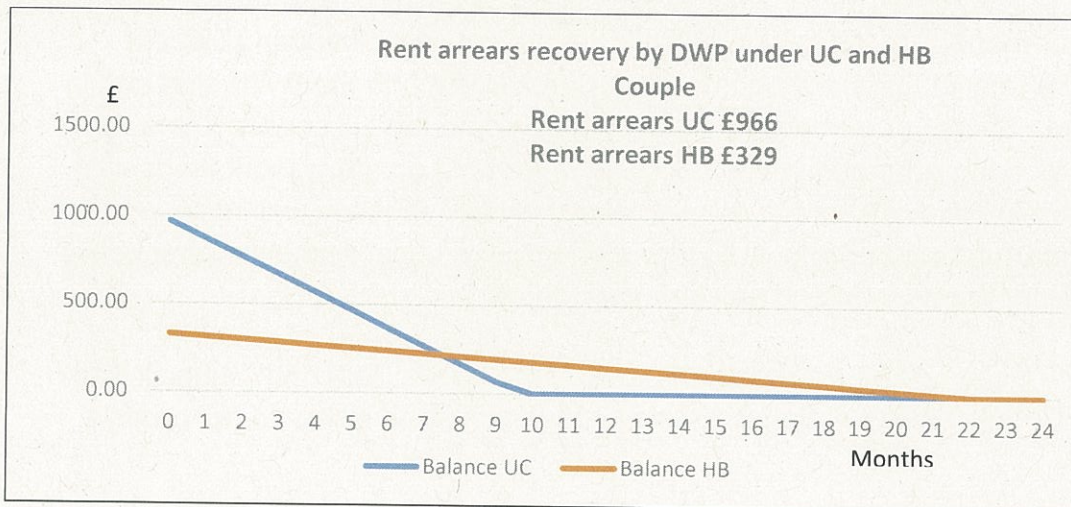
Another issue Local Authorities could help us with is ensuring the Customer Information Service (CIS) is kept up to date and in particular that the Housing Benefit interest markers are set. It is important that these markers are recorded correctly so that DWP colleagues know that there is a Housing Benefit claim which needs to be closed down. Doing so will help remove the risk of benefit overpayments which will then need to be recovered. Your support on this issue would be most welcome.

DWP is currently looking at the options for automating the interest setting on CIS. This would remove the need for Local Authorities to manually set or update the interest. We are in the early stages of this work and will be looking to provide more information to Local Authorities as the work progresses over the coming months.

### **How LAs can help landlords to prepare**

It makes sense for landlords, especially those who charge rent in advance, to make financial plans that take UC into effect. Because UC is paid a month in arrears, landlords who charge rent in advance will experience a temporary cash-flow effect. However, it is important not to overstate this effect. I have set out in more detail in the attached annex this is a timing issue that relates to 0.33% of total rental income in any one year. When UC was designed we knew a 38/45 day period before payment, we understood for a minority of claimants it would take some time to get use to the new payment structure.. So we included in the design of UC two features designed to help those claimants who need it.

First, claimants have the ability to request a recoverable **advance payment** of up to 50% of their entitlement. Half of all new claimants currently take these out. Second we **increased the maximum rate of recovery of rent arrears** from benefits from 5% to 20% so that arrears will clear more quickly than in the legacy system. So in UC larger arrears clear more quickly than a lower level of arrears, and landlords would not be impacted over the lifetime of a rental agreement - they would have a cash flow not total income issue. So with good planning we believe landlords can manage the effect on their cash-flow in the short-term and the long-term effects at worst should be negligible.



### The Future – including The Landlord Portal and ‘Trusted Partner’ status

The Minister for Employment recently announced that from October we will rollout of the landlord portal capability that I mentioned earlier. The portal will represent a significant improvement of the service from a landlord perspective, allowing landlords to input information and receive it direct, and allow us to improve verification rates and the identification of claimants who need direct payments. We will begin by supporting the largest social-sector landlords to enrol and engage with the portal, with the intention of covering 80% of tenancies, including the vast majority of Local Authorities. Eventually we hope to expand the portal to all social sector landlords and retrofit it to those councils already working with the full service.

Coupled with the rollout of the portal we will offer every social sector landlord the opportunity to become a ‘Trusted Partner’. We have been trialling this approach with a range of landlords over the last two years, drawing on their knowledge of their own tenants to identify those who need to have their rent paid direct to the landlord as well as other forms of support, thus helping to minimise the risk of arrears building up. The trial has gone well and the rollout of the portal is a good opportunity to also expand Trusted Partner status.

In addition, I can confirm that work has begun with Local Authority IT suppliers to develop a solution to automate Local Council Tax Credit notifications within the full service. I know that to date these cases have had to be actioned clerically and that volumes have been high, so hope that this development is welcome news.

*Neil Couling*

**Neil Couling**  
Director General  
Universal Credit Programme

## ANNEX 1

### How does UC affect arrears?

1. The biggest reaction to the UC payment cycle has come from landlords because this is where the biggest “book arrears” effect from UC arises as the following example shows.
2. The example is based on the following scenario. The UC claim starts on 1 January. So the first assessment period ends on 31 January; the UC award is always therefore calculated on information pertaining on the last day of each month including for the final calculation on 31 December. The UC payment is made 7 days later so always on 7th of the month. The tenancy starts on 1 January and last day of tenancy is 31 December – so exactly one year.
3. Weekly rent is £100 payable in advance. This is of the same order of magnitude of average rent in Housing Benefit for people entitled to the full amount. There are no rent free weeks. The UC Housing element is weekly rent times 52 divided by 12 to give a monthly figure of £433.33. We assume the claimant pays the landlord immediately on receipt of UC (same day).

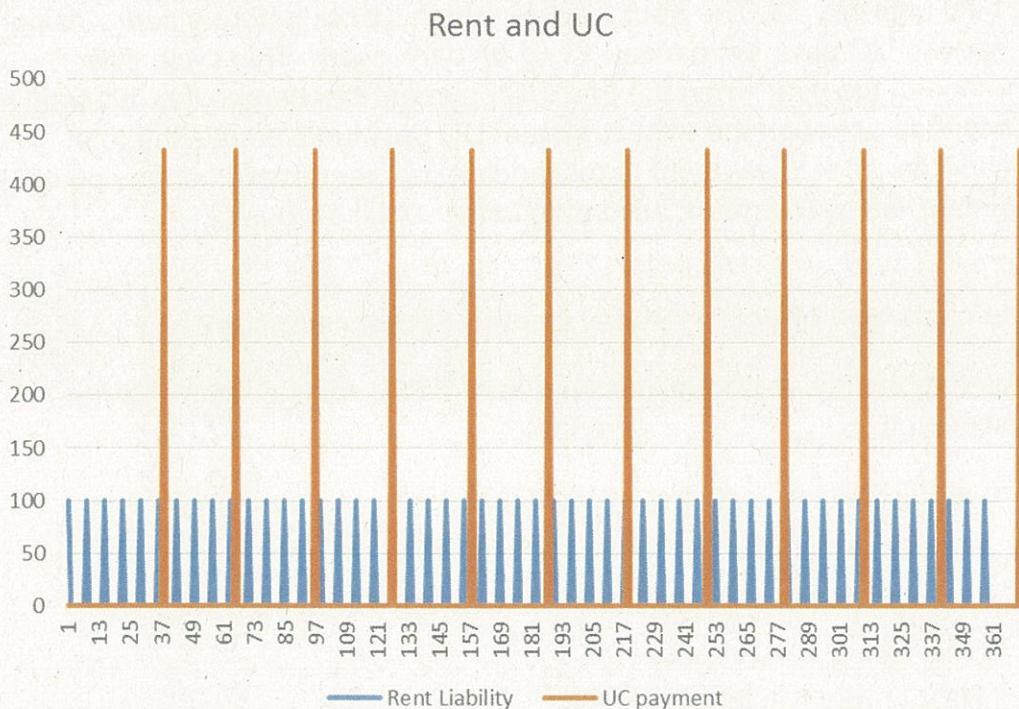
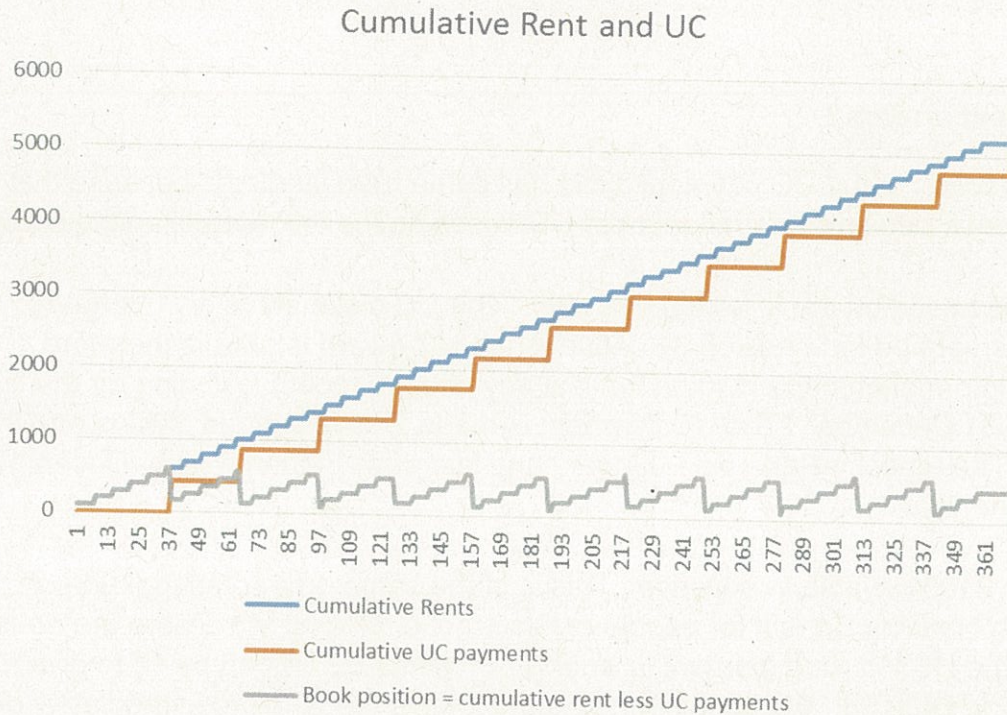


Figure 1 Payments (Time in days)



4. As the cumulative picture shows, book arrears grow steadily as weekly liabilities accrue that cannot be paid until day 38. The book arrears then fall back before steadily rising again until the second UC payment causes it to drop back again. This cycle then repeats until the end of the year when the final UC payment discharges the outstanding rent liability. Note that, although the total stream of UC payments equals the total stream of rent liabilities and no payment to the landlord is ever missed, at any point in the year the claimant will be in arrears according to the rental accounts.

**How serious is this cash flow effect for Social Rented Sector finances?**

5. Assuming for illustration only an annual discount rate of 5%, we find the following:

|  |           |
|--|-----------|
| Rent liabilities undiscounted                | £5,200    |
| Net Present Value of rent liabilities        | £5,077.22 |
| Net Present Value of UC payments             | £5,060.67 |
| Difference in absolute terms                 | £16.54    |
| Difference as a % of NPV of rent liabilities | 0.33%     |

6. This suggests that the cash flow effect, although undeniable, is relatively insignificant. The payment non-compliance impact is far more substantial – one week’s missed and non-recovered payment of £100 being six times the cash flow impact.