Chartered Institute of Housing

The practical implications of universal credit

Part three: Payment methods

This is the third briefing in a series of guides to the practical implications of universal credit (UC). Parts one and two, which focus on eligibility and the calculation of awards respectively, can be downloaded from the CIH website.

This guide focuses on how UC is paid and covers the following specific areas:

- principles of UC payment
- advance payments
- alternative payment arrangements
- qualifying for alternative payment arrangements
- rent arrears under managed payments.

Principles of UC payment

UC is intended to act as a 'surrogate wage', and is paid in a similar way to most salaries. It is therefore paid:

- directly to the claimant, with no automatic right for a third party (e.g. a landlord) to know the details of the claim
- as a single payment, where money intended to cover the claimant's rent is not separated out from the rest of their claim, except in Scotland where claimants can choose to have the housing element paid directly to their landlord
- electronically, meaning all claimants need to have at least a basic bank account
- monthly in arrears (except in Scotland where claimants can choose to have UC paid twice a month)
- as a single payment for each household.

UC is therefore a significant change from housing benefit (HB).

Claimants need to take greater responsibility for managing their money, as payments are made less frequently and as the housing element is not normally separated out and paid directly to the landlord.

Experience suggests that many claimants can cope with this change. However some need additional support, such as money advice, and a small number need considerable ongoing help.

Advance payments

Because UC is paid monthly in arrears, new claimants face a significant wait (usually around five weeks) from making their claim to receiving their first payment. For many households, particularly those who have previously received all their income on a weekly or fortnightly basis, this can cause real problems, if they do not have any savings to fall back on.

To help with this, claimants can apply to receive some or all of their (estimated) first payment in advance.

However advance payments are loans, which are repaid to the Department for Works and Pensions (DWP) via deductions from future UC payments. All advances must be repaid within a maximum of 12 months. This means that claimants may still experience hardship as a result of the switch to UC but in the form of a long period of receiving reduced payments, rather than a single period without any income at all.

Alternative payment arrangements

In some cases the government makes alternative payment arrangements (APAs) for specific claimants who are having, or are likely to have particular difficulty managing their money. These arrangements are intended to be temporary to give the landlord and other agencies time to work with the claimant and to improve their ability to manage money independently, without them running up large levels of rent arrears in the meantime.

There are three types of APAs which can be used:

- paying the housing costs element of UC directly to the landlord (sometimes referred to as managed payments or switch back). This is the most common form of APA
- making UC payments at more frequent intervals, for example twice instead of once a month
- splitting payments between more than one member of a household.

APAs generally last for a pre-determined period of time after which they are reviewed. The intention is that as many claimants as possible should eventually return to receiving their UC via a single monthly payment. The only exception to this is in Scotland where all claimants can choose to have their award paid twice a month and/or to have the housing costs element paid directly to the landlord.

Qualifying for alternative payment arrangements

There are two 'triggers' which determine that a claimant is in need of an APA:

- an arrears trigger – if a claimant falls behind on their rent so that they have two months' (or eight weeks) worth of arrears they become eligible for an APA
- a vulnerability trigger – if a landlord has reason to believe that a claimant is likely to have difficulty managing their money they can ask for an APA. There is however an expectation that landlords will support as many claimants as possible to manage their money under the standard payment arrangements. Furthermore learning from the direct payments demonstration projects (pilot projects which tested making payment of HB direct to claimants, instead of to landlords) suggests that, in practice, predicting which households are likely to fall into arrears can be difficult.

Most social landlords qualify for 'trusted partner status'. This means that DWP allows them to exercise their own judgement on whether a particular claimant meets the qualification criteria for an APA. They will not need to provide evidence to the DWP in each individual case, instead they can simply request an APA through the 'landlord portal' (an online system through which landlords manage all of their tenants' UC cases).

Trusted partner status is intended to significantly speed up the process of arranging APAs. However it is not intended to enable landlords to secure APAs for larger numbers of their tenants than usual. DWP will expect partners to apply the same qualification criteria as they would and could review the decision to award trusted partner status to an organisation if it has reason to believe they are not doing this.

Rent arrears under managed payments

When a claimant is put onto managed payments as a result of rent arrears, the housing costs element of their claim is paid directly to their landlord. In addition to this a further amount can also be deducted from the remainder of their claim and added to the amount paid to the landlord, as a means of paying down the arrears that have already been accrued.

This is equivalent to third party deductions being taken from jobseeker's allowance or other benefits under the existing HB system. Under HB these deductions are set at a flat rate of 5% of the standard allowance for a single person over 25, which equates to £3.70 per week. Under UC this has been increased to a minimum of 10% and maximum of 20% of the claimant's standard UC allowance. This means that, where landlords choose to apply for them, deductions will vary depending on the claimant's age and household type, but are likely to be significantly higher than they would have been under HB.