

Paying Housing Benefit to claimants

Findings
Informing change

May 2007

The UK Government has proposed that Housing Benefit (HB) should be paid to claimants rather than landlords. Critics argue that paying this will result in increased rent arrears. This study examined claimants' views and experiences of HB payment in the context of their household budgeting and attitudes to rent paying.

Key points

- Most claimants had a strong commitment to rent payments and almost all knew that failure to pay would lead to recovery action being taken by their landlord.
- With few exceptions, people preferred the HB payment arrangement that they currently had, whether that was payment to them or to their landlord.
- People who preferred HB to be paid to them said it gave them greater control of their finances, was simpler where HB covered only part of the rent, and meant they potentially could conceal their HB status from the landlord.
- People who preferred HB to be paid to the landlord said that it was less hassle, gave them peace of mind that the rent had been paid, meant they did not have to deal with problems with their claim, made it easier for them to manage their money and removed the temptation to spend HB money on other things. Some people felt it was the landlord's money, and should not be paid to the claimant as a 'middle man'.
- People on HB employed different approaches to money management, which could be broadly classed as *ordered*, *flexible* or *chaotic*.
- Ordered money managers and people who made considerable use of automated banking facilities were more likely to prefer having HB paid to them. Chaotic money managers generally preferred HB being paid to their landlord.
- Most of the people whose HB was paid to the landlord said that it would not be difficult to adjust to it being paid to themselves. But a minority were anxious about the extra hassle they thought it would entail or were worried that they might spend the money on other things.

The research

By a group from Oxford and York Universities led by Peter Kemp.

Policy background

The UK Government plans to introduce a radical reform of Housing Benefit for *private* tenants. Known as the Local Housing Allowance (LHA), the new scheme has been piloted over a two year period prior to a planned national roll-out. Subject to parliamentary approval of the Welfare Reform Bill, the LHA will be implemented across the UK for claimants in privately rented housing in 2008.

The radical feature of the LHA is that, unlike the present Housing Benefit (HB) scheme, entitlement is no longer based on the tenant's rent. Instead, within each local market area, there is a flat-rate allowance for all privately rented claimants, which varies only by household size and composition. Yet most of the controversy has focused, not on the flat-rate allowance, but on the associated proposal to pay it to claimants rather than to their landlords. Local authorities will only be able to pay the LHA to the landlord if they consider that the tenant is 'vulnerable' and incapable of managing their financial affairs, is unlikely to pay their rent or has accrued eight weeks' rent arrears.

The Government does not currently plan to extend the LHA to social housing, but it does hope to encourage the payment of HB to claimants instead of landlords in that sector and clause 37 of the Welfare Reform Bill makes this possible. The Government hopes that paying HB to claimants will promote personal responsibility and empower them to budget for themselves; that it will help workless tenants to develop the skills they will need when they move into paid work; and that it will encourage them to open bank accounts and pay their rent by standing order or direct debit, thereby helping to promote financial inclusion and payment modernisation. But critics argue that, if HB is paid to claimants rather than landlords, they will spend the money on other things rather than use it to pay their rent; and hence that it will result in increased rent arrears and evictions.

This research examined HB claimants' understanding, attitudes and experiences of the two different payment methods, that is, payment to the claimant and payment to the landlord. It explored this issue in the context of claimants' attitudes towards their liability to pay the rent and how rent payment fitted into their household budgeting more generally.

Managing money and paying bills

People on HB are necessarily living on relatively low incomes and this is likely to affect the ways in which they manage their money and pay their rent and other bills. The research team identified three main approaches to money management: *ordered*, *flexible* and *chaotic*.

Ordered money managers either made comprehensive use of automated banking or operated strict routines in collecting income and paying bills. Many of the pensioners in the study, but few of the young people, were ordered in the way they managed their finances. *Flexible* money managers were less rigid than ordered money managers in their approach to monitoring and using money. They preferred payment methods that they felt provided control over when and how much they paid, such as cash, cheques, and internet banking. People were flexible in their approach either through choice or because of financial and other constraints. Chaotic money managers were found only among young people and lone parents. They had difficult financial situations and many of them said they could be forgetful about paying bills and or were generally careless with money.

Four ways of using banks, and automated payments in particular, were identified:

- no bank use;
- person-controlled banking;
- limited use of automated banking; and
- comprehensive use of automated banking.

People who made most use of automated payments found them convenient, reliable and helpful in organising their finances. Some people felt that paying bills by automated methods was sensible, but that it could only be done for all bills if there was sufficient income to feel happy about losing some control over exactly when payments were made. Non-automated payment methods, which gave personal control and thus flexibility, were favoured when finances were delicately balanced. Some people with bank accounts nevertheless did not use automated banking, in some cases because they believed they did not have access to such facilities. Non-automated methods were preferred by people who were confused about automated payment options. Post Office Card Accounts were used by people without bank accounts.

Paying the rent

There was a strong commitment among claimants to keep up to date with the rent. Paying their rent was generally viewed as the most, or one of the most important, household bills. However, less organised money managers found it more difficult to maintain their rent payments. A small number of families said that at times of extreme financial hardship, rent may be secondary to food and fuel expenses. Some young people felt that, when money was tight, they would consider the relative consequences of falling behind on different bills.

Almost all claimants were aware that failure to pay the rent would lead to recovery action being taken by their landlord and that this could ultimately result in eviction. However, a lack of clarity about landlords' procedures, and perception of slow action on arrears recovery, was evident among some claimants.

The majority of claimants felt they were responsible for paying the rent due on their accommodation. Even among those who were not contributing any of the rent money or personally handing over the payment to the landlord, over half felt that they were nonetheless responsible for ensuring the rent was paid. However, a small number of claimants viewed payment of HB to the landlord as effectively removing them from any involvement in the rent payment process.

The great majority of people were aware of the amount charged for rent on their home and how much HB was being paid. Many also retained and filed documents relating to rent payment and HB claims. However, for people who had HB paid to their landlord, there seemed to be relatively little communication about HB transactions from the local authority. While many people did not raise this as a particular problem, some would have liked clearer and more frequent statements of when and how much HB had been paid on their behalf.

HB payment preferences

With few exceptions, people preferred the arrangements currently in place, be that paying HB to them or directly to their landlord. This was as true among council and housing association tenants as private rented tenants, even though many people in social housing said they had not been given a choice in the matter. There was an association between greater use of automated banking facilities and a preference for receiving HB. People who were more organised in managing money were also more likely to prefer payment to the claimant, compared to those who demonstrated a more chaotic approach.

Four main themes emerged from the data in relation to the advantages of paying HB to the claimant.

- It was perceived as giving people greater awareness of the status of their HB claim and rent payment process, and enabled them to respond quickly to any problems or delays.
- There was a desire to retain control and responsibility for personal finances.
- Paying HB to the claimant was also seen as a simpler option where HB covered only part of the rent or was paid on a different date from when rent was due.
- Payment to the claimant meant their HB status could be concealed from the landlord, making a wider choice of private sector housing available.

Six major themes were mentioned by people who preferred HB to be paid to their landlord.

- Some people felt that it avoided the 'hassle' of making HB and rent transactions. Several people were unaware that if they were paid HB it could be paid directly into their account and thought that they would have to deposit a giro cheque in person.
- Some people gained peace of mind from having the council pay HB directly to their landlord. In this way, they 'knew the rent had been paid' and had 'one less thing to worry about'.
- Many claimants felt HB was very much labelled as 'the rent' and, as such, was not their money. They felt it made more sense, therefore, for HB to be paid directly to the landlord rather than to them as a 'middle man'.
- Some claimants believed that, if HB was paid directly to the landlord, they would avoid involvement in any administrative problems with their claim.
- The temptation to spend HB on things other than the rent if it was paid to them was a concern for some claimants. Some people worried about balancing competing priorities when money was short, while others admitted that they might spend the money on impulse.
- Some people found that keeping HB separate from other household income was an aid to budgeting.

Moving to claimant payment

Although claimants who had HB paid directly to the landlord generally wanted to keep that arrangement, many did not think that it would be particularly difficult to adjust to receiving HB and paying full rent to the landlord. People who thought the transition would be straightforward tended to have more organised approaches to money management and to be more familiar with using automated banking facilities. Overall, pensioners seemed less concerned about this change than families or young people. People's views on how difficult they would find dealing with HB

and paying the full rent did not seem to be affected by whether they rented from a private or a social landlord, or whether HB covered all or just part of the rent.

Some of the claimants who were anxious about dealing with HB and paying rent in full were concerned about the 'hassle' this would involve (for example, going to the bank to deposit HB giro). This could be addressed by moving to more automated methods of financial management, including paying HB directly into bank accounts and paying rent by standing order or direct debit. For this to work effectively, HB must be paid to claimants in a timely and regular manner, as many people on benefits do not have sufficient leeway in their finances to accommodate any administrative delays, which might result in unauthorised overdrafts and penalty charges.

A minority of young people and families were worried about using the HB money for other things, whether consciously or inadvertently. Potentially useful strategies might be the use of a separate bank account for dealing with rent and major bills, alongside one for more general day-to-day spending. There was evidence that use of automated bill payment methods could be an aid to effective budgeting. However, people on low incomes did not always have the flexibility in their cash flow to pay all major bills by standing orders or direct debits. The evidence suggested that a change to paying HB directly to claimants as standard would not necessarily result in greater use of standing orders or direct debits for rent payment.

The Government's argument that paying HB to claimants might help people prepare for work was not immediately obvious to claimants. However, people generally agreed that being responsible for HB and rent could potentially help to enhance the money management and budgeting skills of some claimants. Additionally, some thought that being familiar with an income and outgoing of this size may contribute to an easier transition into work.

About the project

The study was carried out by Peter Kemp from the University of Oxford, and Annie Irvine and Katharine Nice from the University of York. It involved qualitative interviews with 82 HB claimants renting from local authority, housing association and private landlords in three local authority areas in England. The interviews were focused on three potentially vulnerable demographic groups: single people under 25, families with children, and pensioners. Just under a quarter of the sample were from a minority ethnic group. Among people of working age, a quarter had a disability or limiting long-term illness. A majority of the pensioners had ailments or impairments of some kind.

For further information

The full report, **Direct payment of housing benefit: what do claimants think?** by Annie Irvine, Peter A. Kemp and Katharine Nice, is published for the Foundation by the Chartered Institute of Housing (ISBN 978 1 905018 46 8 price £14.95).

It is available from the Chartered Institute of Housing, Octavia House, Westwood Way, Coventry CV4 8JP, Tel: 024 7685 1752/64 Fax: 024 7642 2022 email: pubs@cih.org (Please add £3.00 p&p.)

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