Policy Briefing

Debt advice and social landlords

Key report headlines:

- The need for effective debt advice is expected to grow as the financial health of social residents deteriorates in the face of adverse economic conditions and forthcoming welfare benefit reforms.
- Social landlords face a 'double whammy' of rising arrears and reduced financial resources (as a result of deficit reduction measures).
- Costs of evicting residents are seen to be increasing with an estimated £39.1 million being spent in 2008/09 by the sector removing general needs residents in rent arrears.
- Provision of free independent debt advice services, particularly face-to-face support is expected to diminish as sources of funding from local and national government are significantly curtailed.
- This research study is extremely timely, providing a much-needed business rationale for social landlords to invest in effective debt advice interventions for their overindebted residents.

Next steps for the study

The Financial Inclusion Centre is currently undertaking longitudinal analysis with six of the of the country's most established housing associations to analyse the effectiveness of a range of debt advice interventions on the rent arrears and behaviour of indebted social housing residents. The Friends Provident Foundation sponsored research will establish if there is a business case for social landlords to provide debt advice services for its residents.

Following this interim report, the study will concentrate on analysing a representative sample of data from indebted residents who have received debt advice via their landlord and those who have, tracking changes to their rent arrears levels and patterns as well as landlord interventions. This will be undertaken both retrospectively prior to the debt advice as well as the tracking of current year data. It will also speak to residents that have received the service and gauge their feelings on the impact and effectiveness of the debt advice.

The final report with detailed findings and recommendations will be published towards the end of 2011.

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Background

Overindebtedness can crush vulnerable households. It affects living standards, health and wellbeing, the ability to afford a decent home, opportunities to save and build up assets, or afford insurance, and so on. It is a fact of life for many vulnerable social housing residents due to their socio-economic profile[i]. However, the future debt landscape and financial health of vulnerable households is being reshaped by a range of economic, political, regulatory, and financial market 'environmental' trends. Many vulnerable households will see their financial health deteriorate given their vulnerability to external events such as: deficit reduction measures announced in emergency budget in June 2010 and Comprehensive Spending Review in November 2010 (resulting in major cuts to public sector spending and welfare benefits, and an increase in certain taxes such as VAT); adverse economic conditions such as risk of unemployment and rising inflation, and pay freezes and/or reductions in overtime payments leading to a real term net reduction in household incomes. Financially excluded households have less room for manoeuvre with low levels of savings and/or insurance to cushion the blow in difficult times. Therefore, the report believes it is prudent to plan for an increase in overindebtedness, arrears levels and, ultimately, evictions amongst social housing residents.

In line with the increase in demand for debt advice amongst the general population, social landlords are already reporting that demand for debt advice is growing amongst their residents - even before the full effects of the external events outlined above are felt. The report expects, therefore, that the latent need for objective debt advice will grow. However, just as the need grows, public sector spending cuts may reduce capacity in the not-for-profit debt advice sector. The potential for social landlords to fill the gap is constrained by limited financial resources. The net effect is that growing numbers of overindebted residents may not receive the objective advice they need to manage their debts. Social housing residents are more exposed to sub-prime lending. So, we may now see consumers who had been previously targeted by aggressive lenders could find themselves targeted again by commercial debt management companies who charge high fees and often provide poor quality debt advice.

Moreover, in response to tougher regulation, mainstream lenders are restricting lending to consumers they consider to be high risk. In future, marginalised consumers who need access to affordable credit to tide them over difficult times may be even more exposed to sub-prime lenders or even illegal loan sharks.

Scale of advice challenge facing social housing providers

(Section 2, main report)

Overindebtedness is a major problem for many households. Average household unsecured debt (i.e. excluding mortgages) stands at £8,556. However, many households do not have any unsecured debt, so if the figure is based on those who have some form of unsecured debt, the average is nearly £18,000[ii]. Personal debt accounts for 33% of enquiries received by Citizens Advice Bureaux services. CABs received 2.37 million new problems in 2009/10 – a 22% increase on 2008/09[iii].

Household debt affects those on lowest incomes hardest. A fifth of working age adults in the lowest income quintile group are in arrears with one of more bills – three times the rate for those on average incomes[iv]. Data on rent arrears in the social housing sector is mixed. Comprehensive up to date research is limited. Certain indicators point to slight reduction to rent arrear levels, while others show the situation to have worsened over the last few years. For example, Performance Indicators released by the Tenant Services Authorities (TSA) show that amount of unpaid rent due to social landlords has decreased fairly steady over recent years, with the mean rate of rent arrears falling from 5.6% of total rent owed to 4.9% in the four years to 2008/09[v].

However, this is no reason for complacency. To begin with, the level of arrears reflects the effectiveness of rent collection and rent arrears management processes, not just the amount of debt owed. Moreover, the data is not up to date and there is a lag effect to account for – the effects of deteriorating economic conditions will not have yet shown up in the sector arrears data.

Other sources point to arrears worsening. Citizens Advice Bureau (CAB) dealt with just over 73,000 rent arrears cases from social housing residents. 36,500 of those came from housing association residents, and 36,600 from local authority/ALMO residents. The CAB data suggests that rent arrears problems are growing especially amongst housing association residents which showed a 10% increase in arrears compared to just 3% from local authority/ ALMOs residents[vi]. Rent arrears and debt problems amongst residents are acknowledged by housing providers themselves. The quarterly survey of Finance Directors of housing associations in July 2010[vii] continues to identify 'rental arrears and bad debts' as a key risk resulting from the financial downturn. Demand for debt advice and counselling appears to have also increased as a result of the current economic climate with 84% of social landlords having experienced rising need amongst their residents[viii].

Debt prevention and early intervention are high priority amongst providers. It is important to reiterate that the confluence of adverse economic events outlined above will be disproportionately felt by vulnerable, low income households – many of whom will be social housing residents. Overall, it is prudent to assume that levels of overindebtedness, arrears, and ultimately evictions in the social housing sector will increase at great personal cost to residents and high financial and reputation cost to social landlords. A 10% rise in evictions would imply an additional annual £4 million spent on eviction costs alone (see below, Why social landlords should address the problem).

Why social landlords should address the problem

(Section 3, main report)

Social housing residents are more likely to be financially excluded than the general population. This is illustrated by some killer facts:

- Of the poorest 10% of households in the UK, over half live in social rented housing[ix].
- 61% of social households have no-one working within the household, compared to 35% nationally[x].
- Social housing residents earn on average half as much as private renters with a median annual income of £10,900[xi].
- 81% have no savings account and 91% have no insurance cover[xii] to fall back on in the event of shocks such as having to pay an unexpected bill making them reliant on short term debt.
- Lower income households are more likely to be exposed to unfair practices in the sub-prime lending sector - 20% of people in social housing have used doorstep lenders.
- According to Citizen's Advice[xiii], the proportion of social rented residents amongst their debt service users is twice as high as in the general population.
- 83% of social housing residents fail to make sufficient plans for their financial future and 94% are making poor product choices[xiv].

Providing access to effective debt advice and promoting financial capability/ inclusion should be mutually beneficial for residents and social landlords. For residents, debt advice and financial inclusion activities perform a preventative role enabling them to manage finances and prevent overindebtedness, and a remedial role if they get into financial difficulties. For social landlords, there is a very real commercial (and moral) imperative to intervene to help residents manage their finances well to minimise the high costs associated with arrears and evictions. Rent arrears are a significant drain on the resources of social landlords. With rent arrears amounting to tens of millions of pounds, this represents a major reduction in cash flow constraining the ability of social landlords to service debt on finance required for new developments and major repair programmes, and lost revenue and interest which could be invested in better homes and services. Specifically, with 7,700 general needs resident evictions in 2008/09 relating to rent arrears alone, we estimate that social landlords spent around £39.1 million on eviction related costs alone that year[xv]. Social landlords already undertake a significant amount of debt advice work with residents as well as more general financial inclusion activities (see, what the sector is already doing, below).

However, with deteriorating financial conditions for residents and landlords on the cards, effective debt advice interventions will become even more important to control arrears and evictions. If evictions were to rise by 10% compared to the 2008/09 figure, this would imply an additional £4 million spent on eviction costs alone. Moreover, as social landlords face significant resource constraints of their own, identifying the most effective debt advice interventions will be critical to protect the financial interests of residents and social landlords.

What the sector is already doing

(Section 4 and Section 5, main report)

Social landlords, with their direct relationship with large numbers of residents, are in a unique position to make a major contribution to promoting financial inclusion and debt management. Indeed, this is reflected in the current scale of social landlords' activities in the field. The majority of housing associations provide access to some form of debt advice and are involved in a wide range of financial inclusion activities and projects. 50% have financial inclusion strategies in place with a further 22% developing their strategy[xvi]; nearly 80% are offering access to some form of debt prevention and early intervention; over 80% are offering access to money advice[xvii]. Some prefer to use internal resources, others prefer to outsource the provision of debt advice to third party providers or indirectly refer clients on to established debt advice agencies.

The majority of housing associations were found to be helping their residents access advice on their rent arrears. This is undertaken through referral mechanisms to external advice agencies, with 56% having established such referral mechanisms and a similar number having in-house debt advice. However, this masks the extent of specialist services being offered with much of the reporting of external referrals simply being the provision of contact details, where actual use of the service will be minimal and in-house debt advice actually being rent arrear staff trained in basic money advice.

A more recent survey of 223 housing associations by the Tenant Services Authority demonstrates this distinction and highlights that access to professional debt advice service through specialist in-house teams or formal[xviii] referrals were much lower than more basic support offered via money advice by rent arrear staff or by making informal referrals.

The least popular method of delivering debt advice for residents was the establishment of in-house specialist debt advice teams with only 30% of responding housing associations having chosen this approach. Over half of housing associations chose to have formal referral mechanisms to third party debt services. The most common response made by over 75% of respondents was for debt advice provision that was made via informal referrals or the provision of contact details for external advice agencies.

Despite this acceptance of the value of debt advice, support for social residents in arrears has still been found to be uneven and concerns have been raised about access to advice and information prior to court hearings. In a study by Pawson et al (2004)[xix], over a quarter of housing associations were found not to provide any access to debt management advice for resident in rent arrears.

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[i] Comparatively low incomes, a greater reliance on welfare benefits, tendency to live in economically deprived communities, comparatively high levels of risky personal debt

[ii] Credit Action – Debt facts and figures, December 2010

[iii] Citizens Advice Bureau – Advice Trends, Q1 2010

[iv] Family Resources Survey 2007/8

[v] Tenant Services Authority (2009): Performance indicator data

[vi] Citizens Advice Bureau – Advice Trends, Q1 2010

[vii] Tenant Services Authority (2010) - Quarterly Survey of Housing Associations: July 2010

[viii] Chartered Institute of Housing (2009) - Financial Inclusion and Housing: Baseline Survey.

[ix] Demos and Toynbee Hall (2005) - Widening the Safety Net.

[x] Department for Communities and Local Government (2009) – Housing in England 2007/08

[xi] Department for Communities and Local Government (2009) – Housing in England 2007/08

[xii] National Housing Federation (2007) - Data analysis of Family Expenditure Survey.

[xiii] Citizens Advice Bureau (2006) - Deeper in Debt - The Profile of CAB Debt Clients.

[xiv] FSA (2006) Financial Capability in the UK, Establishing a Baseline.

[xv] Based on our modelling that the cost of evicting a resident ranges from £2,498 - £7,677. A total of 7,703 general needs evictions were undertaken in 2008/09. This implies that the sector spent between £19.2 million and £59.1 million. We have taken the mid-point to be £39.1 million.

[xvi] Chartered Institute of Housing – Financial Inclusion and Housing: Baseline Survey (2009)

[xvii] 881 individuals from social housing sector completed survey - 8% of these from London

[xviii] Formal referrals were deemed as appointments made directly with an external debt management agency and more often than not a formal contract arrangement was in place to facilitate this.

[xix] Pawson H, Flint J, Scott S, Atkinson R, Bannister J, McKenzie C, and Mills C. (2004) - Possession Actions and Evictions by Social Landlords.

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