

# DOES DEBT ADVICE PAY?

## A business case for social landlords

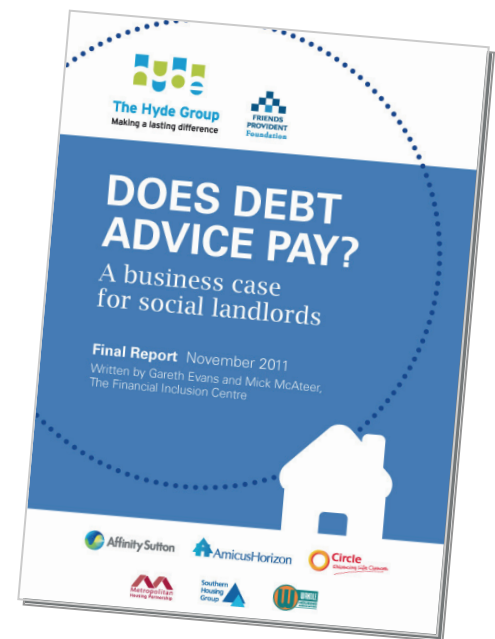
### SUMMARY

Deteriorating economic conditions, changes to the welfare benefits system and the squeeze on household incomes are likely to exacerbate the financial stress faced by financially vulnerable residents in the social housing sector.

Equally, these are extremely challenging times for social housing providers. An estimated £350m is already owed to social housing providers in unpaid rent and over 7,000 social tenant households were evicted in 2010/11 due to substantial rent arrears. The worsening financial outlook for residents will have a knock-on effect for landlords, with rent arrears and the costs associated with rising numbers of court and eviction actions expected to grow. Moreover, the negative impact of welfare changes are already being felt by social landlords, despite the consequences of major housing benefit reforms, particularly direct payments via 'Universal Credit' still to be felt.

Escalating demand and diminishing resources are putting pressure on external 'free-to-customer' debt advice, limiting the opportunities for social housing landlords to simply signpost without specifically investing funds.

Therefore, identifying effective interventions that help financially vulnerable residents manage their finances and deliver commercial benefits for social landlords is both crucial and timely for the sector. There is a *prima facie* case for social landlords to invest resources in debt advice – with evidence from the private sector demonstrating how funded specialist debt advice for over-indebted consumers gives creditors a financial return.<sup>1</sup>



Yet, there has been little objective corresponding evaluation of the potential benefits of direct debt advice for social landlords. The Financial Inclusion Centre was commissioned to evaluate the effectiveness of providing access to debt advice to residents and establish a business case for extending access to advice. It examines the support provided by seven leading housing associations over two years and survey responses of randomly selected service recipients.

### Key findings:

- Debt advice is highly valued by residents and effective with almost half of residents (48%) who responded to our survey indicating that debt advice helped them avoid eviction and a similar proportion (47%) from facing court proceedings.
- Seventy-one percent claimed their rent arrears had reduced following debt advice and 36% of those said their arrears levels are 'a lot less'.
- Although some landlords are apprehensive about intervening, 73% of residents had no concern about accessing debt advice via their landlord.
- We estimate that residents that received some form of debt advice had their average level of arrears fall by 37% over the 12 months following referral, while estimated average arrears rose by 8% over the same period for among those who received no support at all.
- Direct access to specialist debt advice delivers significant net financial gains for social landlords – equivalent to an estimated £239 for every resident supported compared to those not getting support.
- For every £100 invested in debt advice interventions, we estimate there is a

*"It helped me to not be so afraid of opening the letters and to talk about it to someone."*

<sup>1</sup> Wells, J. Leston, J., Gostelow, M. (2010) - *The Impact of Independent Debt Advice Services on the UK Credit Industry*. Friends Provident Foundation.

commercial gain of £122 (a return of 22%) in the form of reduced arrears and associated costs.

- With total rent arrears across the housing association sector estimated to be over £350 million, if the impact of these debt advice interventions was replicated nationally, we believe that this would deliver an annual net benefit of £49 million for the social housing sector.
- Each prevented eviction due to rent arrears saves landlords up to £8,287.
- Removing the 7,188 residents evicted because of their rent arrears in 2010/11 cost large housing associations an estimated £40.9 million.
- Each type of direct debt advice intervention achieved significant benefits when compared to not offering support for tenants.
- In terms of reducing arrears, the most effective model was in-house debt advice. However, the most effective in terms of the overall reduction in arrears and associated costs<sup>2</sup> was outsourced debt advice, followed by in-house debt advice and telephone debt advice.
- There is a strong rationale for social landlords to intervene when arrears levels reach £600 or more given the cost-benefit trade-off.

*“I think all social housing tenants should be advised.”*

Yet, uptake of debt advice often takes place much later, when arrears have already built-up and residents are facing more serious action.

Just over half (56%) of our survey respondents were facing court action and a third (36%) facing eviction when they were given debt advice appointments. Nearly two-thirds of residents stated they would have benefited more by accessing support earlier.

<sup>2</sup> It should be noted that outsourced debt advice referred residents much sooner than both in-house and telephone debt advice, therefore it would have avoided much of the additional associated cost of arrears management.

## Conclusions:

This report presents compelling evidence that funding specific debt advice interventions should present a win-win situation for already over-indebted social housing residents and social landlords.

Our research shows that funding debt advice services for residents is much more effective than simply pointing residents in the direction of informal support and delivers significant value for money for social landlords. There is strong evidence to suggest that increased investment by social landlords would ensure that more residents could access services and at an earlier stage and, therefore, prevent rent arrears accumulating to serious levels.

*“It's been very useful to me, I wish I got it [advice] a bit earlier, but it helped me to resolve a lot of situations I got myself into.”*

This business case should be a useful aid for all social landlords. It provides the evidence, impetus and guidance to inform their approach to direct debt advice delivery. It will help social landlords to take the difficult, longer-term investment decisions that should ultimately ensure the continued viability of their business and allow for future investment in much-needed new homes and neighbourhood services.

The full report can be downloaded at:  
**[www.housing.org.uk/debtadvice](http://www.housing.org.uk/debtadvice)**

To help individual social landlords establish their own unit costs associated with the rent arrears management, we have developed a financial model for download at:  
**[www.housing.org.uk/debtadvice](http://www.housing.org.uk/debtadvice)**

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