Submission

Shelter submission to the APPG on Poverty inquiry into the poverty premium

April 2018

shelter.org.uk

Shelter

Shelter helps millions of people every year struggling with bad housing or homelessness through our advice, support and legal services. And we campaign to make sure that, one day, no one will have to turn to us for help.

We're here so no one has to fight bad housing or homelessness on their own.

Summary

- Low-income households face additional costs and barriers in accessing housing, some of which interact to compound difficulties
- Tenants in the private renter sector who are in receipt of benefits face discrimination from landlords
- Even if a household could find somewhere they can afford to rent, the large upfront costs involved in private renting, including deposits and letting fees, makes the hurdles even higher
- The upfront cost of private renting prohibits low-income households from accessing the PRS and means that many are forced to borrow, starting a tenancy in debt. For households experiencing multiple moves, the repeated costs of fees, deposits and rent in advance can pull them further into debt
- Moving in to a new home should be a fresh start for families who have previously been homeless. But ideas of what makes a 'home' can be severely tested if families are forced to move in without basic household goods, such as a cooker, fridge, carpets or curtains. At Shelter, we see far too many families move into new tenancies with few, or no, possessions with which to make a home, and too little money to buy them
- Our Services report increasing numbers of clients prioritising payment to rent-to-own companies over their rent, risking arrears and homelessness
- Our Shelter advisers report increasing concerns about clients who are in rent arrears faced with high levels of deductions from Universal Credit, both for third party debts and advance payments, leaving people with impossibly low incomes
- Employees in any company will experience housing issues from time-to-time. Shelter's expertise in providing housing support to millions of people across Britain, means that we are able to support employers to engage with employees, understand and address their housing issues.

Introduction

Shelter welcomes this opportunity to submit evidence to the APPG on Poverty's inquiry into the poverty premium. Low-income households face additional costs in accessing housing.

Our evidence is largely drawn from our work on the barriers low-income households face in accessing the private rented sector (Shut Out), alternatives to local welfare schemes to prevent and relieve homelessness (Support of last resort) and evidence from our Services about the impact of high deductions from Universal Credit.

1.How do you think the poverty premium affects low income families?

Access to PRS tenancies

A range of barriers stop people from finding a home in the private rented sector and some of them interact to compound difficulties for low-income households. Changes in the housing market, which have increased demand in recent years, have interacted with the shortfalls in housing benefit to make landlords less willing to house housing benefit/LHA claimants. Even if a household could find somewhere they can afford to rent, the large upfront costs involved in private renting, including deposits and letting fees, makes the hurdles even higher.

Landlord attitudes

Tenants in the private renter sector who are in receipt of benefits face discrimination from landlords. Two-thirds (66%) of private renters on HB/LHA say it is harder now to find a decent, affordable, property than it was five years ago.[1] Common reasons include media perceptions, bad previous experiences, rent arrears, market competition and mortgage company requirements banning the renting of housing to benefit claimants.

Almost a third of renters (28%) claiming LHA/HB said they have not been able to rent a home they wanted in the last five years because of a ‘no DSS’ policy by the landlord/letting agent. A majority of landlords (61%) are against renting to households claiming HB/LHA, and 43% of landlords bar claimants outright. Thirteen per cent of landlords in our Landlord survey said that they prefer not to let to people on housing benefit because their insurance of mortgage provider does not allow it.[2]

Upfront costs

[1] Shelter/You Gov, 2017, Private renters survey
[2] Shelter/You Gov, 2017, Survey of private landlords

The upfront cost of private renting prohibits low-income households from accessing the PRS and means that many are forced to borrow, starting a tenancy in debt. For households experiencing multiple moves, the repeated costs of fees, deposits and rent in advance can pull them further into debt. Our advice services tell us that private landlords are increasingly asking for guarantors, routinely earning 36 times the monthly rent, who can be difficult for low-income households to secure.

In 2015, more than half (55%) of private tenants were asked to pay rent in advance, while 42% had to pay a deposit and 42% a letting agent fee. More than a quarter (28%) had to pay a fee for credit checks.[3] Low-income tenants may be liable for the largest costs: Shelter's private landlord survey found that two-thirds (61%) of private landlords who rent to housing benefit claimants ask for one month's rent in advance, compared with 49% who do not have tenants on housing benefit.[4] Not all landlords require upfront costs and some will waive deposits and credit checks, but this accommodation often tends to be in poor condition.

- **Why are upfront costs a barrier to low-income tenants?**

The most common ways that tenants pay for upfront costs is from their current account and from savings. 40% of renters who have moved said they had financed upfront costs from their current account, over a third (35%) dipped into their savings.[5] However, borrowing is more common than average among families, female renters, younger renters and those receiving housing benefit.[6] Shelter's private renters survey found "a clear association" between tenants that did move voluntarily and having to borrow to fund the move. This risks leading families into unsustainable debt.

If low-income households do not have immediate funds and are unable to borrow, they may be prevented from securing a new property, leaving them vulnerable to homelessness.

Support for families in crisis situations

Moving in to a new home should be a fresh start for families who have previously been homeless. But ideas of what makes a 'home' can be severely tested if families are

[3] Unpublished findings from Shelter's survey of private tenants, 2015
[4] Shelter, 2016, Survey of private landlords, https://england.shelter.org.uk/_data/assets/pdf_file/0004/1236820/Landlord_survey_18_Feb_publish.pdf
[5] Unpublished findings from Shelter's survey of private tenants, 2015
[6] ibid.

forced to move in without basic household goods, such as a cooker, fridge, carpets or curtains. At Shelter, we see far too many families move into new tenancies with few, or no, possessions with which to make a home, and too little money to buy them.

Many families see little alternative but to take on risky and unmanageable debt, in order to secure these items essential to setting up a home. This exposes them to the risk of rent arrears, threatening their ability to make a success of their new tenancy, right from the start. Rent arrears can quickly lead to eviction and families facing homelessness again, with devastating impacts on their health, wellbeing and their children's education. Families are forced to go without, to cut back on other essentials, or to resort to very high-cost, short-term loans with unfair consumer contract terms. Our Services report increasing numbers of clients prioritising payment to rent-to-own companies over their rent, risking arrears and homelessness.

We have identified two key groups at particular risk of arrears and homelessness if they are unable to access essential household goods without taking on unmanageable debt[7]:

- Our **'bump in the road'** group are families facing a temporary, albeit significant, crisis – including families struggling to access the private rented sector, or who are moving into an unfurnished property from temporary accommodation, and families who are just about making a go of a longer-term tenancy, who face a sudden emergency which they cannot afford to remedy, such as a broken washing machine or fridge.

- Our group of **'constant strugglers'** are families who are barely scraping by, have no savings and nothing to spare at the end of the month. These families might be living with a disability that stops them working or accrues additional costs; they might also be struggling to make up the difference between their housing benefit and local housing allowance and their rent, slipping further into arrears every month. These families are the most likely to suffer from the 'poverty premium', finding everyday costs more expensive than families with higher incomes

[7] Shelter, 2017, Support of Last Resort: Alternatives to local welfare schemes to prevent and relieve homelessness*:*

For these households, taking on another debt to manage a move into a new property, or replace a broken cooker or washing machine – even at low or no cost – would risk arrears and homelessness.

Within these groups, we further identified four types of household on low incomes who need support from local welfare schemes to prevent or relieve homelessness:

- Squeezed income, 'poverty premium' families
- Growing numbers of people who are struggling to access the PRS
- Homeless households moving into a settled home
- Families unable to save and increasingly reliant on credit leading to debt.

Squeezed income, 'poverty premium' families

The combined effect of welfare reforms, higher living costs, low levels of wage growth and an increase in part-time and temporary work has been to heap pressure on the already fragile finances of low-income households, leaving them with even fewer resources to deal with an unexpected emergency – like a broken washing machine.

The previous government's decisions to freeze some benefits, and award below-inflation increases to others, is reducing the spending power of already struggling families; while rising prices means what they do have goes less far. Rather than a sudden drop in the amount of cash a family has, this is felt in an extra few pence on a loaf of bread or pint of milk, an increase in the price of a pair of school shoes or having to put an extra £1 in the meter to get the same amount of electricity.

These same families are also hit by a 'poverty premium'[8] – the extra costs people on lower incomes typically pay for goods and services, compared with what is paid for the same goods and services by people on higher incomes. The best bank accounts, borrowing rates and energy tariffs are only available for people who have a good level of income, credit rating and/or employment record and who are therefore in a position to shop around.

Despite being able to afford the least, low-income families have no option but to pay the most for basic essentials, like heating their homes with expensive pre-payment meters or buying a cooker or washing machine through a high-cost rent-to-own company. Families might also spend more on food because they cannot access big

[8] End Child Poverty (2017) *Feeling the Pinch*

supermarkets, which are often cheaper, and because they do not have the storage space, or money, to buy in bulk. When every penny counts, struggling families can ill-afford to be charged extra for the same goods and services, and it leaves them even more vulnerable to unexpected costs

2. Growing numbers of people who are struggling to access the PRS

Over the last 20 years, the private rented sector (PRS) has seen considerable expansion, and has grown to overtake the social rented sector.[9] A total of 4.5m households now live in privately rented housing.[10]

But, as detailed above, the evidence suggests that even at a time of significant growth, it has become harder for people on low incomes to access or sustain a tenancy in the PRS.

For households that are experiencing multiple moves, the repeated costs of fees, deposits and rent in advance can pull them further into debt and leave them with no resources to begin to furnish their new home, even with basic household essentials such as beds or curtains. 80% of PRS tenancies are let unfurnished, although white goods might be included.[11]

Our advisers report that families often feel like they are left with little choice but to take on such high-risk, expensive loans, often with disastrous results. All too often, families find themselves prioritising the repayment of these loans over their rent, risking homelessness.

3. Homeless households moving into a settled home

Growing numbers of households are living in unsuitable temporary accommodation provided by local housing authorities while they wait for a settled home. At the end of December 2016, almost 76,000 households were living in temporary accommodation, of which 60,000 are families with children or pregnant women. This is an increase of 10% from the previous year and 58% from December 2010, when just over 48,000 households were living in temporary accommodation.[12]

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[9] DCLG (2017), English Housing Survey: 2015 to 2016: headline report

[10] Ibid.
[11] DCLG (2015) English Housing Survey - Households 2013/14
[12] DCLG (March 2017) Statutory Homelessness and Prevention and Relief Statistical Relief October to December 2016

The need to pay deposits and fees, or obtain or quickly replace essential household items can lead families, who may be on very limited incomes, with no savings and with little access to traditional high-street (because they don't have a credit history, or their history means they would be unlikely to pass credit rating tests), to turn to short-term, high-cost credit.

4. **Families unable to save and increasingly reliant on credit leading to debt**
The increasingly fragile finances of low-income families leave many unable to save for an unexpected expense or to manage a drop in income. Recent research[13] has found that 14.5m British adults report having no spare money to put aside as rainy day savings, in any of the previous 12 months. A further 9.5m (19%) said that even when they could save, they had just £50 or less available each month. The same research found that low-income families were the worst affected, with 45% of people earning less than £20,000 a year saying they were unable to save in any of the previous 12 months.

As a result, the use of credit as a 'safety net' to plug gaps in household finances is becoming an increasingly widespread problem.[14] Over seven million people in Britain are turning to credit to pay for their everyday essentials, and over 13 million would need to borrow money to cover an emergency cost.

It is estimated[15] that over four million people in Britain are likely to be using credit to meet everyday living costs, emergency costs and relatively small specific purchases. This group is largely made up of working families on lower to middle incomes, although some are households on the lowest incomes and in more insecure, 'casual' employment. Those using credit as a safety net are more likely to be struggling financially as over a third (36%) are falling behind on bills and credit commitments, compared with just 7% of the overall population who are in financial difficulties.

We could call these families 'constant strugglers' - families who are only surviving by cutting back or going without, have no savings and nothing at all to spare at the end of the month to meet unexpected costs. These families might be living with a disability that stops them working or accrues additional costs; they might also be struggling to

[13] Stepchange (2017) Press release: Almost a third of Brits saved nothing in the last 12 months
[14] Stepchange (2016) The credit safety net: how unsustainable credit can lead to problem debt and what can be done about it
[15] ibid.

make up the difference between their housing benefit and local housing allowance and their rent, slipping further into arrears every month.

These families are the most likely to suffer from the poverty premium - finding everyday costs more expensive than families with higher incomes.

2. Deductions from Universal Credit

Our Shelter advisers report increasing concerns about clients who are in rent arrears faced with high levels of deductions from Universal Credit, both for third party debts and advance payments, leaving people with impossibly low incomes. They report deductions being made at a seemingly automatic rate of £33 or £66 per month, without any apparent means assessment, costing the client nearly double the usual court ordered minimum of £3.70 per week – even in cases where there is a court order in place for that lesser amount:

> A client in Manchester had high rent arrears and high deductions taken at the UC limit of 40%. Shelter advisers managed to reduce the rent arrears and council tax arrears deduction to the minimum 10% and 5% respectively, but the UC system increased other non-deferrable deductions so that the end result remained a 40% deduction overall, leaving the client with just £169 per month.
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> Another Manchester client had deductions being made to pay off three advance payments and a social fund loan, at 46%, considerably higher than even the UC limit. Advisers managed to defer some of his payments, but were struggling to get the rest to a manageable amount below the 40% limit.
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> A third client struggled to buy food and pay bills after losing 40% of his standard allowance to deductions resulting from fines, a housing benefit overpayment and the repayment of a UC advance payment.
>
> Another client found that, without his permission, DWP were deducting £31.78 from his UC and paying it directly to his landlord. The client had agreed to pay £5 a week (£22.66 a month) – a huge difference.

This problem arises because the Regulations[16] specify a minimum payment of 10% of standard allowance. If a claimant faces hardship because of a third party deductions, the amount taken can be reduced if requested by the applicant in accordance with the DWP's guidance but not to anything lower than 10%.

The debt charity, Stepchange, has recommended that a new minimum deduction of £1 should be introduced.[17] We recommend that the APPG investigates this further.

3. A business tool kit – help from employers

Employees in any company will experience housing issues from time-to-time. This has an impact on performance and staff retention, and also general well-being. Companies that employ large numbers of young people in cities and towns are more likely to have employees who are experiencing housing issues. The challenge for employers is to understand and help to address these issues.

Shelter's expertise in providing housing support to millions of people across Britain, means that we are able to support employers to engage with employees, understand and address their housing issues:

Employee Housing Health check

The first step to supporting employees is understanding the challenges that they face. Shelter's research team works with employers to survey staff about their housing issues and understand what support they require. We can then work with employers to put this support in place.

Tenancy Deposit Loan Scheme

One of the biggest challenges for people in rented accommodation is pulling together a rental deposit. This can force your employees to take on dangerous levels of debt and struggle with basic expenses for weeks or months. Shelter works with employers to introduce a loan that will help staff to cover this cost and avoid these issues while

[16] para 7(5), Sch 6, Universal Credit, Personal Independence Payment, Jobseeker's Allowance and Employment and Support Allowance (Claims and Payments) Regulations 2013 SI 2013/380
[17] https://www.stepchange.org/policy-and-research/debt-research/third-party-deductions.aspx

demonstrating employer's commitment to their team. The following is taken from our Employers Guide to Rental Deposit Loans:

1) What is the Rental Deposit Loan Scheme?

It's an employee benefit, offering interest free loans towards private tenancy deposits. Like you might offer help with a season ticket for travel, any money loaned is paid back through salary deductions (usually over 12 months).

2) Which organisations currently offer Rental Deposit Loans?

A range of public, private and third sector organisations. These include Shelter, The Greater London Authority, The Department of Communities & Local Government, The Ministry of Defence, The Co-Operative Group and Starbucks.

3) How does the Rental Deposit Loan Scheme benefit staff?

It helps staff secure a home without having to take on high-risk debt or get into financial difficulty. The average deposit is £1,006, and a YouGov Survey[18] of private renters found 30% had to borrow money or receive a gift from friends and family to fund this.

The scheme is particularly useful to younger staff, who may be moving into a rental property for the first time and have no previous deposit to help towards costs. For example, Lauren (Development Officer at the Greater London Authority) says the scheme has helped her enormously:

> "This has taken some of the stress out of a difficult situation," she adds. "With minimal fuss, I was able to access the loan. I received it within seven days, which left me plenty of time to pay the deposit across."

5) How much will it cost to implement the Rental Deposit Loan Scheme?

The loans are fully repayable over the course of a year, so costs are limited to the opportunity cost of investment or saving the money elsewhere. At Shelter, 22 staff have taken out a loan to date and the annual opportunity cost of the scheme is around £195 per annum. Associated administrative costs are minimal.

[18] Shelter/You Gov, 2014, *Private renters survey*

Bespoke support and training

Shelter provides bespoke support, whether resources, sessions with employees or training for senior staff, to ensure that staff feel supported.

Better Renting Guide

Sometimes, a more discreet, quiet approach is needed, and Shelter has a large amount of online or offline resources to help employees, such as our Better Renting Guide, which helps tenants to understand their rights and solve common housing issues.

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