Shelter briefing: Westminster Hall debate on Universal Credit and debt

Summary

Shelter is the UK's largest housing and homelessness charity. Last year we gave information, support and advice to millions of people experiencing bad housing and homelessness, many of whom now receive Universal Credit (UC).

Since UC has been rolled out, worryingly, increasing numbers of people are coming to Shelter for help after experiencing multiple problems with the new benefit system. They are being forced to make up shortfalls, where their UC housing element (or Local Housing Allowance) does not cover their private rents, having to accept prolonged periods with no payment or having to take out further debt through advance payments knowing they'll be hit by high deduction rates later.

Our benefit system is ultimately pushing people into debt and other hardships, and putting them at risk of homelessness, rather than being the safety net so many of us need.

Key Recommendations

- The Local Housing Allowance (LHA) **rate freeze must come to an end** and rates **must be restored to reflect at least the bottom 30th percentile** (i.e. the cheapest third) of local rents. Those receiving the housing element under UC, for their private rent, would benefit from this
- There needs to be a **robust mechanism going forwards** that keeps LHA rates covering at least the 30th percentile of local rents in the future, regardless of fluctuations in private rents
- The **five-week wait** at the start of a UC claim **must be abolished**
- At the very least, the advance payments remain easily available but are **changed from a loan to a grant.** This would seek to **mitigate against the high deduction rates** on the income of those who have taken out an advance

Key stats

- **Two in five (37%)** private renters receiving housing benefit **have had to borrow money to pay their rent in the last year**
- In **one in five areas of England (21%)**, a family renting a two-bedroom home at the 30th percentile **needs at least an extra £100pcm**, on top of the full LHA amount they can receive, just to cover their rent
- According to Citizens Advice, **54% of their clients who receive UC have had to borrow money** from family and friends during the first five-weeks of making a UC claim and **48% have fallen behind with bills** in this period.[i]

Local Housing Allowance (LHA)

The problem

LHA is the way housing benefit is calculated for people who are privately renting. This is also the case for those receiving the housing element for their private rents under UC. LHA rates have been subject to a range of cuts and changes since 2011. LHA was initially set to cover the bottom half of the local market (50th percentile), but this was cut in 2011 to cover the bottom third (30th percentile). Between April 2012 and April 2016, the LHA rates were cut in real terms and the link between them and private rents was broken; they were subject to a one-year freeze, then raised by CPI (which doesn't include rents), then raised by just 1% for two years. In April 2016, the four-year benefit freeze was implemented freezing LHA rates until April 2020.

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These cuts have meant that private rents have outpaced LHA rates for a number of years, leaving the LHA rate too low for too many. This has meant those receiving the housing element for their private rented home on UC can face huge shortfalls between their rent and the amount they can receive to cover their rent. These shortfalls have to be made up through other limited means (e.g. standard allowance of UC).

The impact of the LHA freeze

The freeze on LHA rates is the most damaging aspect of the UC system as it leaves claimants with shortfalls between their housing element and their rent. This quickly puts people at risk of accruing rent arrear debt, repossession and homelessness.

Our analysis of the LHA rate for 2019-20 shows that for a modest 2-bedroom home, **there is now a shortfall between LHA rates and rents at the 30th percentile in 97% of broad market rental areas (BRMAs) in England.** Our analysis also shows that in one in five areas of England (21%), a family with one or two children renting a two-bedroom home at the 30th percentile **need at least an extra £100pcm, on top of the full amount they can receive in LHA**, to cover their rent. These amounts are too large to budget around.

This isn't just an issue in London. Around the country, the LHA rate is covering so little of the local market[ii] it is incredibly difficult to find suitable homes without a large shortfall. Please see the table below that represents a selection of some of the **highest shortfalls in monetary terms excluding London**[iii]:

Broad Market Rental Area in England	Difference between monthly rent at 30th percentile and LHA rate for two-bedroom home	Broad Market Rental Area in England	Difference between monthly rent at 30th percentile and LHA rate for two-bedroom home
Brighton and Hove	£112.71	Milton Keynes	£108.24
Bristol	£126.58	Northampton	£92.73
Cambridge	£156.74	Southern Greater Manchester	£76.25
Central Greater Manchester	£113.02	South West Essex	£131.62
Chilterns	£108.67	York	£88.04

These shortfalls can result in claimants having to make up their rent out of other subsistence benefits, cutting back on essentials or taking on further debt to prevent falling into arrears and facing the threat of repossession and homelessness. Shelter's survey of private renters[iv] details some of the impossible trade-offs that renters in receipt of housing benefit are having to make. **One in three (31%) renters have cut back on food** for either themselves or their partner and **two in five (37%) have been forced to borrow money** to pay their rent in the last year.

By making the housing element of UC for those in private rentals so far below the actual cost of renting, people are being pushed towards rent arrears and debt. At Shelter, we see more and more people forced into homelessness after going into debt while claiming LHA. Homelessness acceptances by local authorities in England, due to the ending of an Assured Shorthold Tenancy, **has increased by 66% (more than doubled**

in London) since 2011/12 – when the changes to LHA were introduced.[v] All available evidence points to LHA reforms as a major driver of the loss of private tenancies as an increasing cause of homelessness.[vi]

The solution

The LHA freeze must come to an end and the **rates should be restored** to at least the 30th percentile (i.e. cheapest third) of local rents. There needs to be a **robust mechanism going forwards** that keeps LHA rates to cover at least the 30th percentile of local rents in the future, regardless of fluctuations in private rents.

Five-Week Wait

The problem

Before an applicant receives their first UC payment, they are subject to a five-week wait. It is during this period that a real-time assessment of income takes place. However, this five-week wait causes extreme hardship; people can be left with no money to survive, pay rent or bills. If a person or family already has a shortfall between their rent and their LHA rate, a five-week break from income can, tragically, be the final push towards homelessness. Where claimants are renting privately, the courts have no discretion but to grant possession if there are eight weeks rent arrears.

This five-week wait for payment assumes that claimants have the money or means to support themselves through a five-week period without any income. However, the Financial Conduct Authority's report from late 2017 shows that many UK adults have very little by way of cash savings. **One in eight (13%) UK adults have no cash savings and a further one in three (32%) only have savings of between £1 and £1,999.**[vii]

Advance Payments are offered to claimants as a loan to help them survive through the five-week wait. Most claimants cannot survive five weeks without money – in 2018, the National Audit Office (NAO) reported that the DWP's most recent data showed that **60% of new claimants receive an advance payment.**[viii] This is a clear indication that the majority of claimants are unable to cover the five-week period without taking on additional debt they know they will have to pay back.

These advances are clawed back at high deduction rates; claimants have up to 40% of their payment deducted over a period of up to 12 months. From October 2019, this will be reduced to 30% and from October 2021 this will be over a period of 16 months. **But this is still not enough.** Having almost a third of your income removed would be hard for the majority – regardless of circumstance or income level. This also does not take into account whether a claimant is tackling other debts such as to family and friends, to low cost credit or pay-day loan debts. This means whatever is officially deducted through UC is not always the entirety.

The impact of the five-week wait

2018 research by the Smith Institute in Southwark Council showed that **their tenants were more likely to be in rent arrears under UC** than housing benefit, and the arrears were more likely to be higher.[ix] In 2018, Inside Housing[x] obtained figures **demonstrating that UC claimants could be up to twice as likely to become homeless** than those on the previous benefit system. In their sample, under legacy benefits one in approximately 79 households became homeless, under UC it was closer to one in 34. Both studies attribute these findings to the five-week wait as one of the main potential causes of increasing rent arrears under UC.

A recent report on UC by think tank Bright Blue[xi], based on an extensive set of interviews with claimants, found that the initial waiting period was the 'design feature that…interviewees had the most concern about'.[xii] Few of their interviewees had sufficient savings to cover their expenses and 'interviewees described falling into rent arrears as a result of the' five-week wait.[xiii] Citizens Advice have also produced in depth analysis of their clients on UC who have approached them for help.[xiv] As a result of the five-week wait, **48% of their clients have fallen behind on bills, 54% have to borrow money** from family and friends and **46% have gone without essentials**. This report found the debt that build up during this period can have knock-on problems that make it harder to manage financially in the medium to long term.[xv]

Advance payments result in very high deduction rates going forward, as described before. Bright Blue found that these advance payment deductions, along with other debts, 'can have a snowball effect…leaving some people with virtually nothing to live on'.[xvi] Citizens Advice found that **7 out of 10 of their clients who took out an advance payment also got into arrears on bills,** compared to half of those who didn't take an advance.[xvii] This shows that advance payments have an adverse impact on the rate at which debt is being taken on by those on UC.

Moreover, if a claimant's LHA does not cover their full private rent, the amount they have to live on, following UC deductions and the shortfall in their rent, can end up being so dangerously low it can cause destitution.

The solution

If UC is to be fit for purpose, **the five-week wait must be abolished**. Advance payments and the high deduction rates that follow are pushing people towards debt and homelessness. At the very least, advance payments should remain easily available but **changed from a loan to a grant.** This would seek to **mitigate against the high deduction rates** for those who have taken out an advance.

In its current form, UC is pushing people towards debt, repossession and homelessness. Changing the way UC is assessed and raising LHA rates would provide many families across the country with the financial stability they need.

If you have any questions, please contact Ami_McCarthy@shelter.org.uk or 0344 515 1279

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[i] Hobson, F., Spoor, E., Kearton, L., *Managing Money on Universal Credit*, Citizens Advice, 2019
[ii] For example, the full LHA rate entitlement for a two-bedroom property in Rugby and East, the BRMA, only covers 2% of the local market. For Swindon, the LHA only covers 3% of the local market for a two-bedroom property, or for Northants Central it only covers 4%.
[iii] This is not a ranked list but a selection
[iv] Base: 660 private renting GB adults aged 18+ who were currently in receipt of housing benefit Interviewed online 19th July – 23rd August 2017 by YouGov on behalf of Shelter.
[v] Ministry for Housing Communities and Local Government (2019) *Acceptances and decisions live tables: January to March 2018 (revised)*, London: MHCLG.
[vi] Fitzpatrick, S., Pawson, H., Bramley, G., Wilcox, S., Watts, B., Wood, J., *The homelessness monitor: England 2018,* Crisis, Heriot-Watt University and University of New South Wales, 2018 - page xii, second bullet
[vii] Ripley, E., Watmough, M., *The Financial Lives of Consumers Across the UK*, Financial Conduct Authority, 2018
[viii] National Audit Office, *Rolling Out Universal Credit*, June 2018
[ix] Hunter, P., *Safe as Houses 2,* The Smith Institute, 2018
[x] Barker, N., *Figures suggest Universal Credit is driving homelessness and evictions,* Inside Housing (Paywall), 14 Dec 2018
[xi] Shawcross, R., Lampier, S. and Sarygulov, A, *Helping Hand: Improving Universal Credit*, Bright Blue, 2019
[xii] As above
[xiii] As above
[xiv]Hobson, F., Spoor, E., Kearton, L., *Managing Money on Universal Credit*, Citizens Advice, 2019
[xv]As above
[xvi] Shawcross, R., Lampier, S. and Sarygulov, A, *Helping Hand: Improving Universal Credit*, Bright Blue, 2019
[xvii]Hobson, F., Spoor, E., Kearton, L., *Managing Money on Universal Credit*, Citizens Advice, 2019

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