

GAPS IN THE HOUSING SAFETY NET

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EXECUTIVE SUMMARY

Low pay, high house prices and a small rental sector combine to produce a housing market in the UK that has many inherent risks. Mindful of these trends, Shelter commissioned the University of St Andrews to assess gaps in the housing safety net. This comprised four main objectives. First, to identify the main risk factors leading people to fall through the net. Second, to identify gaps in the housing safety net. Third, to estimate the number falling through or at risk of falling through. Fourth, to profile the characteristics of those at risk.

The results reported in this report are drawn from:

1. Systematic literature review of 'academic', 'industry', 'policy' and 'grey' literatures.
2. Analysis of housing support, housing affordability and economic hardship using the Family Resources Survey.

Definition of the housing safety net

- In this report, the housing safety net is defined as: social housing; housing benefits (Housing Benefit (HB), Local Housing Allowance (LHA), Support for Mortgage Interest (SMI) and Discretionary Housing Payments (DHPs)); private insurance; and homelessness prevention and alleviation policies.
- The statistical analysis of numbers of households falling into and through the housing safety net is limited to the data collected by the Family Resources Survey. The statistical analysis therefore uses the following definition of the housing safety net: social renters; private tenants in receipt of LHA; and homeowners in receipt of SMI.
- The analysis defines households as 'falling through the housing safety net' if they simultaneously experience: high housing cost relative to income; low income; and 'financial stress'¹. Some households that fall through the housing safety net receive some support. In other words, the definition of falling through the net includes those who fall straight through and those who have their fall broken by the net. The figures are based on the most recent 2011-12 figures from the Family Resources Survey.
- The research also identifies the events that lead to households needing support but falling through the housing safety net and the groups particularly poorly served by the housing safety net.

Headline findings

- The UK housing system is a risky combination of low pay, high housing costs, small rental sectors and a limited housing safety net.

¹ In the Family Resources Survey, a household is considered to be in 'financial stress' if it is behind with payments for one or more of the following items: (1) electricity bill, (2) gas bill, (3) other fuel bills, (4) council tax or water charges, (5) insurance policies, (6) telephone bill, (7) television/video rental, (8) other hire purchase payments.

- At the moment many households have to move if they experience a drop in income as the support offered by the housing safety net is insufficient to meet their housing costs. Meeting housing costs in the short-run would help enable people search for a new job rather than find a new place to live.
- Households who work are a growing proportion of housing safety net users. The UK needs to increase housing supply in all three main housing tenures in order to make housing more affordable and reduce the UK's reliance on the safety net to meet housing needs.

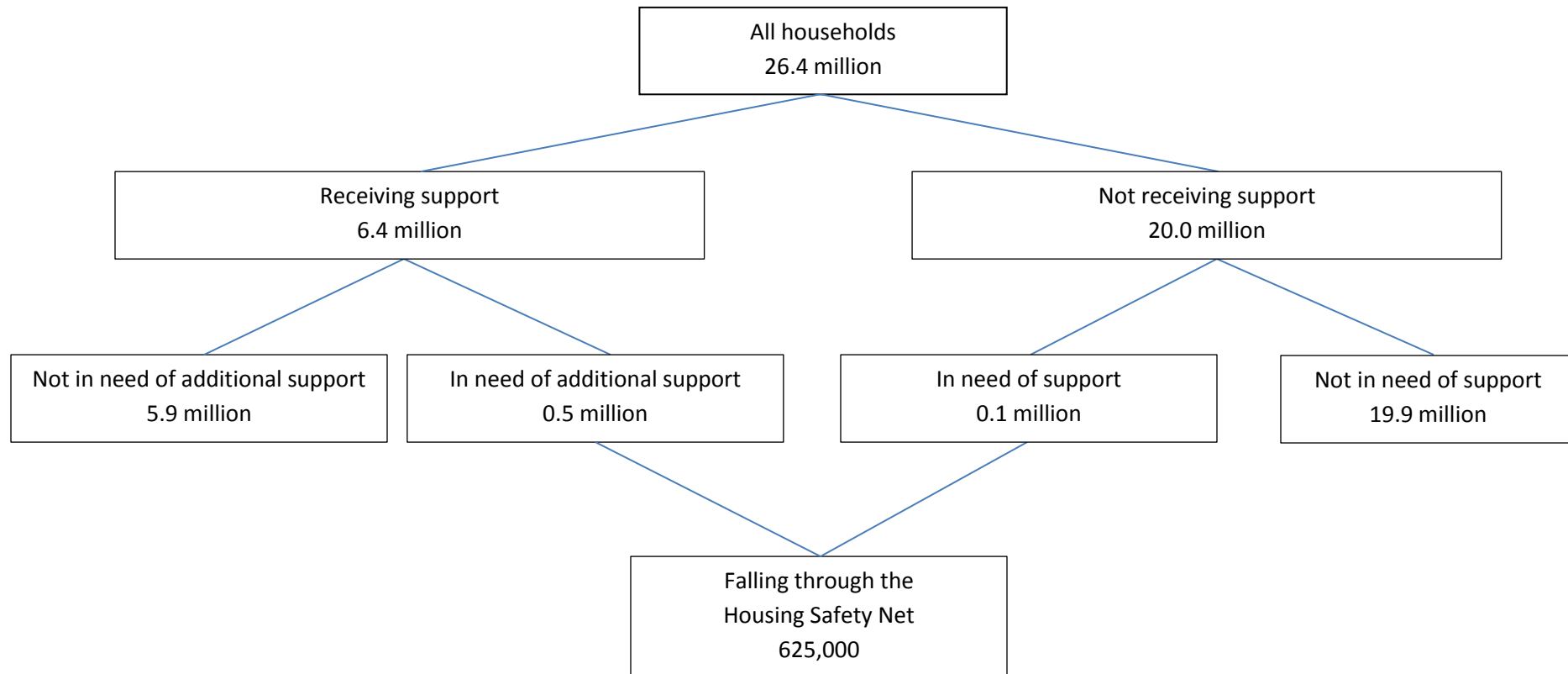
Households receiving support from the housing safety net

- In 2011-12, 6.4 million of the 26.4 million households in the UK received support from the housing safety net. This represents a quarter of all households.
- The 6.4 million households receiving housing support comprises: 5.2 million in the social rented sector; 1.0 million renting from a private landlord and in receipt of LHA; and 200,000 homeowners with SMI.
- Those receiving support from the housing safety net are more likely to be working now than ten years ago – a reflection of rising housing costs and entrenched low pay.

Households who are falling through the housing safety net (see figure 1)

- 625,000 households currently fall through the housing safety net
- Of those falling through the net, 300,000 are social renters, 275,000 are private renters and 50,000 are owner occupiers. Of those falling through the net, 125,000 receive no support and 500,000 receive some support but still fall through. Of the 125,000 receiving no support, around 75,000 are private renters and 50,000 are owner occupiers. Of the 500,000 receiving some support but remaining in need, around 300,000 are social renters and 200,000 are private renters in receipt of LHA. Only a very small number (less than 10,000) are owner occupiers in receipt of SMI.
- Tenure comparisons should be interpreted with caution as falling through the housing safety net often involves a change in housing tenure. For example, many falling out of owner occupation may subsequently become private or social renters, and those falling out of private renting may subsequently become social renters.

Figure 1: Households who are falling through the housing safety net



Households who are at risk of falling through the housing safety net

- 3.4 million households are at risk of falling through the housing safety net (based on having both low income and having high housing cost relative to their income).
- High housing costs relative to income and financial stress are higher among those with children and single-person households. This is largely unchanged from a decade ago.
- Those experiencing high housing cost relative to income, low income and financial stress are more likely to be lone parents and younger compared to ten years ago. This reflects those who have been most exposed to benefit reforms.
- Those experiencing high housing cost relative to income, low income and financial stress are more likely to be self-employed compared to ten years ago – reflecting a combination of a long-term trend towards self-employment and restricted opportunities for paid employment since the financial crisis.

The events that are most likely to lead to households falling through the housing safety net are:

- Household becoming workless
- Household experiencing a drop in income but at least one person remains employed
- Separation/family breakdown
- Onset of sickness/disability
- Bereavement

Groups that are poorly served by the housing safety net are:

- single people under 35 in the private rented sector;
- working couples in owner occupation who experience a drop in income but at least one person remains employed;
- Couples in the social rented sector without children that do not work are at risk to fall through the housing safety net due to cuts in HB because of 'under-occupancy' and income reductions under the new Universal Credit (UC) regime.
- The private insurance net provides little cover for those with a rise in expenditures after a family or partnership breakdown, those with a drop but not a loss of income and the self-employed.
- EEA migrants from 1 April 2014.

1. INTRODUCTION

Slow economic recovery, low pay and high house prices mean there is continued pressure on the housing safety net. Meanwhile, welfare reform has progressively lowered and opened a number of gaps in the housing safety net. Homeownership and social renting are difficult to access due to deposits and waiting lists, respectively. Private renting provides an alternative for some, but availability, affordability, quality and security are common problems.

Benefits to help meet housing costs for those on low or no income have been progressively cut back by welfare reforms over the last 20 years, with social tenants, private renters and homeowners all affected. Levels of new house building for both owner occupation and renting have been low for decades and house prices have soared.

Low pay, high house prices and a small rental sector combine to produce a housing market with many inherent risks. It is also difficult to access. As well as more people at risk of falling into and through the housing 'safety net', increasing numbers cannot get on the housing 'tightrope' in the first place. The UK housing system as a whole isn't working.

Mindful of these trends, Shelter commissioned the University of St Andrews to assess gaps in the housing safety net. This comprised four main objectives. First, to identify the main risk factors leading people to fall through the net. Second, to identify gaps in the housing safety net. Third, to estimate the number falling through or at risk of falling through. Fourth, to profile the characteristics of those at risk.

The results reported in this report are drawn from:

1. Systematic literature review of 'academic', 'industry', 'policy' and 'grey' literatures.
2. Analysis of housing support, housing affordability and economic hardship using the Family Resources Survey.

The next section of the report (section two) provides a brief description of the 'housing safety net'. The following section three provides an assessment of the risk factors causing people to fall through the net. Section four identifies the gaps in the housing safety net, in other words who and in what circumstances would not receive much if any support. Section five provides evidence on how many and who are being caught by the housing safety net. Section six provides evidence on how many and who are falling through the net. Section seven synthesises the results and draws conclusions and recommendations for further research and changes in policy direction.

This report has been written by researchers at the University of St Andrews. The interpretations and conclusions do not necessarily reflect the views of Shelter.

2. WHAT IS THE HOUSING SAFETY NET?

The term 'housing safety net' is used in this report to capture the range of support available to help those experiencing lower income to access adequate housing and meet housing costs. The housing safety net in Britain broadly has four components: social housing, housing-related benefits, private insurance and homelessness prevention and alleviation. The key features of each are described below.

Social housing. Provided either directly by local municipal authorities or by registered not-for-profit 'social' landlords, social housing has a 'bricks and mortar' subsidy meaning rents are usually significantly below market levels. Eligibility for social housing is usually based on being homeless or inadequately housed or having particular housing needs, for example arising from disability. Waiting lists often run to years. The social rented sector has shrunk over the last three decades due to a combination of lower rates of investment and building than in the past and the sale of properties to sitting tenants, mainly through the Right to Buy scheme introduced in 1980.

Housing benefits. Housing benefits are personal subsidies for housing costs, which effectively reduce housing costs for a given individual or household. In contrast, 'bricks and mortar' subsidies, such as in social housing, reduce housing costs across the board. Those unable to meet their housing costs may qualify for housing-related state benefits to cover some or all of their housing costs. Eligibility is based mainly on having a low household income and savings below £16,000. Additional eligibility restrictions apply to homeowners, chiefly ceilings on how many hours can be worked by the household and what other state benefits can be received alongside. Discretionary Housing Payments (DHPs) can be made, funded by the UK government and administered by local authorities, to households unable to meet their housing costs due to exceptional circumstances.

There are limits on how much housing cost is eligible to be covered by housing benefits. For renters, housing benefits only cover the number of rooms deemed necessary for a given household. For homeowners, only usually part of mortgage interest payment is covered and no capital repayment.

There are significant differences between housing tenures in the eligibility of housing costs for state support. For social renters of working age, eligible rent is limited to the number of bedrooms required by the household – the so-called 'bedroom tax' for those with a 'spare' room. For private renters, eligible rent is limited to the number of bedrooms required and limited to the 30th percentile (bottom 30 per cent) of prevailing local market rents for that size of property (although in a small number of cases benefit caps may apply below this level). For singles without children under 35 years of age in the private rented sector, eligible rent is limited to shared accommodation. For homeowners, there is no restriction on property size, but support for mortgage interest is subject to a 13-week waiting period and is capped both in terms of the interest rate (currently capped at 3.63%) and the payment level (the basic cap is currently £1,940 per year but this depends on household situation).

For social renters, support is through Housing Benefit (HB). For private renters, support is through the Local Housing Allowance (LHA). Support for homeowners is through Support for Mortgage Interest (SMI).

Private insurance. Many homeowners take out private mortgage payment protection insurance (MPPI). MPPI insures monthly mortgage payments against a drop in income arising from redundancy or sickness, although exclusions vary between policies. Mortgage providers require mortgagors to hold life assurance, which protects widows, widowers and lenders after the death of an employed mortgagor.

Homelessness prevention and alleviation. Those becoming homeless are given priority in the allocation of social housing, particularly those with children, but often may still need to wait some time before being allocated a property. There are differences around the United Kingdom. For example, in Scotland young single homeless people are given preference on waiting lists which is no longer the case in England. Local authorities have a statutory responsibility to provide emergency or temporary accommodation to certain homeless groups, the cost of which will usually be covered by Housing Benefit if the homeless person or household does not have earnings above a certain threshold. This accommodation can be in hostels, 'Bed & Breakfasts' or with a private landlord. These mechanisms for allocating and paying for accommodation are designed to prevent homelessness and rooflessness.

There is a raft of policies aimed at preventing homelessness among at-risk groups, for example those with special needs, problems with drugs or alcohol, victims of domestic violence, ex-offenders and those leaving care or other institutional settings. There is a range of public and third sector funding and provision of these services, with some degree of oversight by the local authority. Many social services, particularly accommodation-based services, are funded through the national Supporting People (SP) programme. This programme was established in 2003. SP funds were ring-fenced for local authorities for use in providing housing-related support. These requirements have been relaxed in recent years meaning that there was no longer ring-fencing from 2009 and in 2011, as part of the DCLG's 'localism initiatives', spending of this allowance (now subsumed into the Area Based Grant) is now at the discretion of the local authorities and based on their assessment of particular local need. Supporting People is now no longer a ring-fenced portion of central government funding and spending on housing support services can therefore vary significantly between local authority areas.

3. WHAT ARE THE RISKS?

Compared to many other developed countries, the context of housing risk in the UK is one of a predominance of homeownership, high house prices, low pay, low savings, high indebtedness, low take-up of income and mortgage protection insurance and strong restrictions on the housing costs eligible to be covered by state benefits.

The expansion of homeownership and the contraction of social and private renting in the latter half of the 20th century attracted increasing numbers of households on low and moderate incomes into owner occupation, with attendant risks. Access to homeownership has become more limited once again in the 21st century due to rapid house price inflation and increasingly prudential lending by mortgage providers since the financial crisis. This is bolstered by new regulations governing mortgage lending which came into effect on 26 April 2014 (Financial Conduct Authority (FCA), 2014).

Restrictions on access to homeownership and social renting have led increasing numbers of low and moderate income households to rent from a private landlord.). It has the least security of tenure, with landlords under no obligation to renew tenancies.

Housing vulnerabilities are changing. High housing costs are playing an increasingly important role in producing inadequate and insecure housing situations. For most households housing costs form the largest part of their living expenses. For example, in 2011/12 private renters in the bottom fifth of the UK income distribution spend on average 56 per cent of their income on housing (MacInnes et al., 2013). In 2013, ca. 20 per cent of households in Great Britain relied on Housing Benefit to cover some or all of their housing costs (ibid. 116). There are marked geographic differences in the level and cycle of house price changes between the southeast of England plus other prosperous towns and cities and much of the rest of the UK. This means that there are marked geographic differences in risks. For example, in the North East more than 25 per cent of households claimed Housing Benefit (HB) in 2013. Many local authority areas in Greater London have at least one third of households claiming HB (ibid.).

On the income side of the equation, rising labour market insecurity and changes in welfare system together increase financial risks for households and decrease their options to cope with shocks. Real earnings in the private sector have declined by 8.5 per cent between 2009 and 2012 (ONS, 2013a). Low pay and insecure or variable incomes rather than worklessness have become increasing features of poverty in the UK over the last 10-20 years. A sharp rise in self-employment since 2010 is producing increasing numbers of people with low, insecure or variable incomes (ONS, 2013b); and unable to secure a mortgage because of tightening demands from lenders for certification/documentary evidence of income (Reuschke and MacLennan, 2014).

The welfare safety net has decreased at times when labour market risks have increased. Changes in the benefit system affect people in work as those out of work. Changes since 2012 include: an increase in the number of working hours required for Working Tax Credit, restriction on eligibility for Employment Support Allowance, size criteria for HB claimants in social housing with a penalty on under-occupancy ('bedroom tax'), the replacement of Council Tax Benefit by Council Tax Support (in England), the household benefit cap of £500 a week for families and £350 for single people without children, the

uprating of benefits by 1 per cent, replacing Disability Living Allowance by the Personal Independence Payment and the start of the roll-out of Universal Credit (UC). These come after reductions in eligibility and payment levels on the grounds of sickness and disability in 2008 with the replacement of Incapacity Benefit with the Employment and Support Allowance, and progressive restrictions on amounts of Housing Benefit (later the Local Housing Allowance) payable to private tenants.

Risk factors concerning the housing safety net not only stem from changes in employment and housing costs but also from changes in household composition. Family and partnership breakdown bear a high risk of debt and (periods of) homelessness (Fitzpatrick, 2012; Anderson and Christian, 2003; Crane and Warnes, 2000).

The consequences of mortgage default are growing in the current economic and political environment. Arrears and possessions are often a pathway into poverty (Ford and Wallace, 2012). However, rent arrears and mortgage possessions are relatively minor homelessness triggers (Fitzpatrick, 2012a). Causes of statutory homelessness among families (most of them lone women parent households) relate most often to the inability to secure alternative housing, particularly in tight housing markets, when they are confronted with a crisis such as relationship breakdown or eviction which causes them to lose their accommodation (Fitzpatrick, 2012b).

Main sources for both debt arrears (all loans/overdrafts) and homelessness described in the literature are: poverty, low incomes and long-term economic inactivity of households (e.g. Bridges and Disney (2004) for arrears on debt). Thus it is often not unemployment or redundancy but more often reduced earnings (e.g. lower waged job, loss of overtime pay) that causes financial shortfalls and thus mortgage/rent arrears (Beatty et al., 2012; Ford and Wilcox, 1998). Similarly, it is rather evictions than the loss of employment that is the key direct cause of homelessness (Fitzpatrick, 2012a). In the current environment, under-employment and low incomes have become greater problems of housing insecurities.

Housing-related risk factors are multiple and are embedded in personal circumstances and structural processes. Thus it is often not one isolated 'event' that causes arrears or homelessness but interactions between multiple factors (see Fitzpatrick et al. (2013) for homelessness and Willen (2012) and Ford and Wallace (2012) for mortgage possessions). Credit impairment, Loan-to-value (LTV) \geq 80%, self-employment and buy-to-let on their own are not suitable to predict mortgage performance but in combination were able to explain up to 27% of mortgage possessions in the UK in 2012 (FSA, 2012, 42).

The negative impact of the economic crisis on households' employment and housing situation can be illustrated by numbers of claimants of Housing Benefit (HB). Whereas the rise in claimants was five per cent between 2003 and 2007, it increased to 20 per cent between 2007 and 2010 (Stephens and Whitehead, 2013).

Shrinking social rented sector and growth in at risk groups in the PRS

The social rented housing stock fell by 400,000 between 2001 and 2011 (MacInnes et al., 2013, p. 100). Since the sharp reduction in new construction in both market and social sectors the Private Rental Sector (PRS) has become more and more significant for low-income and vulnerable groups, members of which would often have been in social housing prior to the 1990s. Since 2011, the private rented sector has been larger than the social rented sector (Sissons and Houston, 2014) and low income households are disproportionately likely to rent privately (Kemp, 2011). At the same time, the PRS accommodates households for whom homeownership has become unattainable.

The changing demography of our society (separation/ divorce, migration, and aging) has further increased the demand for private renting. The PRS can no longer be seen mainly as a temporary home for young mobile households or households who are 'on hold' to gain access to social housing or homeownership. High mobile households with high incomes coexist with low-income, relatively immobile households in this varied sector. The sector, features some of the worst housing conditions (Houston et al., 2002; Kemp, 2011). Changes are also taking place on the supply side. There has been a growing number of buy-to-let small landlords attracted by rising house prices and strong demand for rental properties before the financial crisis (Leyshon and French 2009). Since the housing market crisis many 'accidental landlords' unable to sell properties have entered the sector (Crook et al 2012).

A group whose increase in the PRS has attracted much attention in research and practice are families (Shelter, 2012). Concerns are that the PRS is least suitable for families, amongst others, because of insecurity of tenure. In fact, most tenancies in the PRS are Assured Shorthold Tenancies (Short Assured Tenancies in Scotland) that provide an initial assured period of six months. Arguably, this regime bears high risks for those who seek longer-term accommodation and low-income households. Short-term tenancy can directly result in (temporary) homelessness and can indirectly worsen households' financial situation due to moving costs and possible fees for finding a new place to live. Low income households and lone parent households in particular also rely more often on localised networks and community support. Losing this support may result in financial distress and decrease children's longer-term life chances. The introduction of fixed-term (usually five-year) tenancies by some social landlords in England is therefore particularly risky for those who seek or depend on housing security, i.e. families in particular (Robinson and Walshaw, 2014).

Overcrowding is rising once again in the private rented sector, especially in big cities and London in particular – although is actually falling among homeowners (DCLG, 2008; ONS, 2014). In London one in ten households lives in overcrowded housing (ONS, 2014, 8). Rural areas are little affected by overcrowding (ibid. 11). Groups particularly at risk of living in overcrowded conditions are couples with dependent children (ibid. 14) and ethnic minorities (DCLG, 2008).

Rent arrears and eviction

Private rents have risen sharply in many parts of the country. Rents are also rising in the housing association sector after a long period of structural change. Across England in 2006/07 private tenants on

low incomes reported that they find it difficult to afford their rent more often than social renters on low incomes (Kemp, 2011, 1029).

Rent arrears have been rising in recent years, (Beatty et al, 2012). Direct Payment of housing benefits to claimants in the private sector via the LHA and more recently to claimants in the social rented sector in pilot areas via Universal Credit has also contributed to increasing rent arrears (ibid.).

Beatty et al. (2012) conducted a large-scale study commissioned by the DWP on the extent to which the LHA meets rent costs since 2010 changes to the LHA.² Just over two-thirds of claimants in their sample had to pay rent in excess of their LHA.³ More than two-fifths of claimants – and significantly more in London than elsewhere – reported that it is difficult to afford the rent they are currently charged. Claimants who had a shortfall between their actual rent and their LHA were more likely to be in arrears than those who did not have a shortfall (13 versus 7 per cent, respectively). By far the most common landlord response was to suggest paying back the money gradually over time (48 per cent). Another 18 per cent of claimants were threatened with eviction (including refusal of renewal of tenancy).

The risk of eviction due to rent arrears is higher in the PRS than in the social housing sector (Slatter, 2012). Social housing tenants in a study by Robinson and Walshaw (2014) particularly valued the security of tenure and reported that private landlords were more likely to evict tenants in the case of arrears and late payments

Mortgage arrears and repossession

Mortgage arrears and repossessions in this crisis did not reach 1990s levels and have subsequently fallen. However, concerns remain about homeowners' exposure to risk. Homeowners in lower income groups are at greater risk after a housing boom, i.e. in a period of slump (Meen, 2008). They are at greater risk of high-level mortgage indebtedness and rising mortgage rates (resulting from possible rising interest rates). Mortgage arrears have substantially increased between 2008 and 2012 and are well above the level in economically stable periods (FSA, 2012, 37). This has not translated into increased possessions chiefly because of the forbearance behaviour of lenders helped by low mortgage interest rates (see below). The Council of Mortgage Lenders (CML) reported that at the peak of the current arrears cycle, at the end of the first half of 2009, 216,400 households were in mortgage arrears.⁴ This was equivalent to 1.88 per cent of all mortgages. As at the end of 2013, this percentage share came down to 1.29 per cent (CML, 2014a).

There are differences in the experience of different arrears bands. The decline is concentrated in the lowest arrears category. In the highest arrears category, the proportion of mortgages in arrears has remained static between 2009 and 2012 and has only recently slightly declined from 28,900 at the end of 2012 to 28,700 mortgages at the end of 2013 (0.26 per cent of all mortgages) (CML, 2010, 2014a). At

² 1,910 face-to-face interviews with claimants across the 19 case study areas.

³ This includes renters with incomes above the applicable income and those who live with non-dependent persons, so should not be interpreted as referring only to a 'shortfall'.

⁴ Note that High Street banks are overrepresented in CML data whereas Building Societies are underrepresented.

the peak in 2009, 0.24 per cent of all mortgages fell into the highest arrears category (10 per cent or more) (CML, 2010). Only cross-sectional data are available so that no flows into and out of mortgage arrears can be investigated. One may expect that some households in the higher arrears categories will have decreased their debt and returned to lower arrear categories, other households will have gone through repossession, and for some households mortgage arrears will have worsened. Correspondingly, a large percentage share of mortgage holders find it difficult to make mortgage payments at least from time to time. Figures vary between 42% - 69% in surveys conducted in 2010 and 2011 (FSA, 2012, 18).

Interest rates have remained low and are therefore not (yet) a risk factor for mortgage debt and arrears. Statements from the Bank of England and mortgage lenders throughout 2013 suggest that interest and mortgage rates are likely to remain low for some time (BoE, 2013). However, according to recent statements, a rise in the base lending rate at the end of 2014 is anticipated. Only a small proportion of borrowers who took out a mortgage since 2005 have higher interest rates now than when they took out their mortgage (fewer than five per cent, FSA, 2012). Due to the uncertainty about the future development of interest rates, fixed mortgages have seen an increase in interest rates since the end of 2011 (FSA, 2012). Standard variable mortgages have had relative stable interest rates. However, variable mortgages are directly affected by interest rates shocks (Miles, 2003). If there were future increases in interest rates, the vast majority of mortgagor household in the UK would face the risk of a substantial increase in housing costs.

Households in low income and low house price regions in the UK are more likely to have variable rate mortgages. Households in regions with higher incomes and above-average house prices are more likely to opt for fixed mortgage payments (Koblyakova et al., 2013). The short-run negative effects of an increase of mortgage rates will therefore be greater in North England, Scotland and Wales than in the rest of the UK as here the share of variable rate mortgages is disproportionately high. However, in the longer run, higher house-price regions where housing represents a higher proportion of income would be more vulnerable to rising interest rates as rate rises eventually fed through to fixed-rate mortgages.

The availability and take-up of medium- to long-term fixed-rate mortgages is lower in the UK than many other countries including the US, Germany, Switzerland, Denmark, Canada and France (Lea, 2010). Reasons for these national differences found in the literature include 'cultural' differences (Lea, 2010), greater mobility of homeowners in the UK (due to there being many relatively young homeowners in the UK), high house prices meaning people trade risk of an increase in mortgage rate against being able to borrow more, and the risk of monthly payment rises associated with a variable rate being offset by strong growth in the value of the property once purchased (Wilcox and Williams, 2013). The availability and institutional framework may be other relevant reasons. A greater role of longer fixed-term rate mortgages would increase certainty for borrowers against changes in the macro-economy, but the higher cost of fixed-rate mortgages coupled with high housing prices in much of the UK perhaps limits the extent to which fixed-rate mortgages would be taken up.

It is argued that the 'forbearance' of lenders in dealing with repayment difficulties has been a decisive factor in keeping levels of repossessions down (for example, temporary or permanent transfer to interest-only payments, payment 'holidays', extending the term of payment) (Wilson, 2014; CML, 2010).

The government (re-)enforced forbearance mainly through the Mortgage Pre-Action Protocol which came into force in November 2008.⁵ Lenders were forced to wait at least three months before initiating repossession proceedings. Moreover, low interest rates have helped mortgage lenders to be lenient in cases of arrears and allowing many households unable to make full mortgage repayments to move onto more manageable payment plans.

The number of mortgage possession claims published by the Ministry of Justice (2014) peaked in 2008 (142,741) and fell since then by almost two-thirds (53,659 in 2013). The drop in repossession was down from 48,900 in 2009 to 28,900 at the end of 2013 among CML members (CML, 2014a). Repossessions are highest in London due to housing cost and in the Northwest due to low income and job loss.

This fall in repossessions in absolute terms notwithstanding, the repossession rate as a percentage of mortgage loans in serious arrears (six months and more) was much higher in 2008 than at the beginning of the 1990s (FCA, 2013, 34). Thus lenders' forbearance seems to have helped those in 'moderate' arrears but not those with severe payment impairments. Ford et al. (2010) interviewed households who had lost their property through voluntary or compulsory possession and found that if forbearance was offered by the lender it was perceived as beyond their financial means, too short term, or too limited to be a realistic option.

The FSA estimated that in 2012 forbearance applied to 5-8 per cent of mortgages (FSA, 2012, 39). However, forbearance and interest-only mortgage payments in particular are time-limited. This may just delay the problem into the future for those who rely on credit and/or those on low income. It can even worsen households' financial situation in the medium and longer run, for example when the term has been extended beyond the retirement age (FSA, 2011). In the long run, improvements in economic conditions will be required to protect low-income homeowners from repossession.

The recommendations in the FCA's Mortgage Market Review (published on 26th April 2014) has introduced tighter regulations to lending. Lenders are still permitted to grant interest-only mortgages, but only if a realistic strategy for repaying the capital is in place. It can therefore be expected that the long-term decline in the number of interest-only mortgages will continue, and that interest-only mortgages are likely to become an increasingly niche option (CML, 2014b).

It is more often a reduction in income (usually resulting from reduced working hours) than redundancy and unemployment that causes difficulties with mortgage payments (FSA, 2012, 49). Reduction of income/working hours, a relationship break-down or divorce and ill-health can cause mortgage payment problems amongst those with little savings. The private insurance market is designed as a buffer for financial risk. However, existing insurance schemes for loss of income as well as mortgage payment protection insurances only cover unemployment, illness and accidents and therefore do not cover the highest risks of financial distress: family breakdown and reduction of income (including, for example, loss of overtime pay). Some commentators are calling for compulsory insurance schemes for homeowners with a mortgage. However, this would not provide cover for the most frequent reasons for mortgage payment difficulties.

⁵ See http://www.justice.gov.uk/courts/procedure-rules/civil/protocol/prot_mha

Amongst those with the highest risk of mortgage arrears and possessions are the self-employed. The self-employed were found to be overrepresented in the lower income deciles (Ford and Wilcox, 1998). Ford et al. (2010) also state that in their study of households who lost their homes through repossession a key reason for missed mortgage payments was failed self-employment.

Access to mortgages

Loan-to-Value ratios of 80 per cent and more are increasing again after a sharp increase of deposits required for mortgages from 2007 to 2009 (FSA, 2012, 25). However, due to the high cost of housing, even deposits of 10 per cent are unaffordable to many.

In 2011, the average Loan-to-Income ratio (LTI) was 5 compared to 3.7 ten years ago (FSA, 2012). This means that households have to borrow relatively more of their income than in the past to get on the housing ladder and are more exposed to a rise in interest rates or a drop in income.

The FCA's Mortgage Market Review has also introduced tighter regulations designed to ensure that mortgage providers do not lend more than borrowers can afford to repay. In particular, the new regulations take account of outgoings as well as income, so will reduce the amount that households with children can borrow. The new regulations also require lenders to consider the impact of an increase in interest rate on a borrower's ability to meet monthly repayments, which will decrease the amount many people can borrow.

Housing market and negative equity

Negative housing equity is less widespread in this economic crisis than in the 1990s crisis. This is due to great house price rises before the recession so that the majority of mortgagors continued to hold significant buffers of housing equity (Hellebrandt et al., 2009) and that in the early 1990s many borrowers had just bought their own homes when the housing bubble started to burst. However, the location of households in negative housing equity is less 'favourable' now than it was in the past. Negative housing equity is currently highest in Northern Ireland, the North East and North West of England. These are regions that are economically most distressed. In contrast, negative equity was highest in 1995 in the South East and South West (FCA, 2013).

Increased informal sharing and living with parents

The literature suggests a shift in vulnerabilities from older people/households to younger people. Whereas the homelessness literature still focuses more on older people recent homeownership and mortgage academic literature and reports stress the vulnerabilities of young people (Clapham et al., 2012).

Younger people have been squeezed from a number of angles over recent times, particularly since the financial crisis. First, younger people have seen the steepest rise in unemployment since the economic crisis (Bell and Blanchflower, 2011). Second, they face the greatest challenge in two generations in securing a mortgage and the lowest availability of accommodation for social rent in three generations. Third, younger people have lower benefit entitlement than people over 25 or 35 (depending on the benefit). Finally, younger people stand to benefit least from mortgage lenders' offers to homeowners in

difficulty of interest-only payments because younger homeowners are more likely to be nearer the beginning of their mortgage and so the interest component of monthly payments is large.

The economic crisis has increased the number of young adults aged 20 to 34 who live with their parents. In 2013, over 3.3 million young adults or 26 per cent of this age group lived in the parental home (ONS, 2013c). This corresponds to an increase of 20 per cent between 1997 and 2011 (ONS, 2013c). Accordingly, in the last ten years the household type in the UK with the fastest proportionate growth is multi-family households increasing from 206,000 to 286,000 households between 2003 and 2013 representing growth of 39%.

Young people have increasingly faced problems in entering the housing market. A study by Clapham et al. (2012) found that entering social housing tends to occur mostly after a lengthy spell on waiting lists and having formerly lived in a social rented parental family home. Living with parents until their 30s is a way into owner occupation for some young people as this allows them to save for a deposit on a mortgage. Accordingly, the average age of entering homeownership has increased (CML, 2011; Meen, 2011). This trend is accompanied by a rising share of first time buyers who receive financial support from parents or other relatives (CML, 2011).

Due to difficulties in entering both social housing and homeownership it is expected that the PRS will house an estimated 1.5 million young people (18-30) in 2020. Parental living and private renting are also likely to increase in significance due to large student debt resulting from high tuition fees (Andrew, 2010). The difficulties faced by young people entering housing may reduce the birth rate in the UK in the long run.

4. WHERE ARE THE GAPS?

Changes in the welfare system have widened holes in the safety net. In general, fewer securities are provided to owner-occupiers with a mortgage than to renters. Over a number of years, welfare reform has limited the amount of benefits, including housing benefits that younger people without children are eligible for. It is younger people who have borne the brunt of the recession and face the greatest challenge entering owner occupation. Significant risks for the future may be created if younger people are not invested in rather than penalised.

SMI eligibility and changes to payment levels

SMI is the most significant safety net for homeowners. It is a means-tested social security benefit that covers (part of) mortgage interest payments on the mortgage and loans taken out for certain home repairs and improvements (not capital payments or loans taken out for other reasons). It is subject to a loan cap (affecting most claimants) and only available after a certain 'waiting period' on benefits. The eligibility for SMI is restricted to those who claim one of the following benefits: Income Support (IS), income-based Jobseeker's Allowance (JSA), income-related Employment and Support Allowance (ESA) and Pension Credit. IS only covers those with no or low income, who are working less than 16 hours a week. Under Universal Credit, SMI is not paid if the claimant or their partner does any paid work (Kennedy, 2013). For low income households with one member in full-time work, Working Tax Credit⁶ provides limited direct financial support although it is not designed specifically for covering housing costs. Payments vary according to the household situation, the basic amount being up to £1,940 a year.

➤ **Low income households with members in full-time employment fall through the safety net provided through SMI.**

"A majority of household respondents were not eligible for help from the state safety-net, Support for Mortgage Interest, (SMI) as many households who had lost income still had one person in employment, or were self-employed and had difficulty meeting the criteria for support. Where relationship breakdown was the key driver of arrears there was no eligibility for SMI as typically borrowers did not experience a loss of income (but increased costs)." (Ford et al. 2010)

The SMI safety net is also patchy for those who are on income-based JSA for more than two years. Since 2009 SMI is only paid for a maximum of two years to JSA claimants (there is no time limit for IS and ESA claimants and those on Pension Credit). This leaves little scope for lenders other than repossession if a mortgagor remains unemployed after this period (Ford et al., 2011). This appears to be an issue that affects few claimants however. In 2011/12, only 13% of the 220,000 SMI claimants were in receipt of JSA, and only a small minority of JSA recipients remain on JSA for more than two years (Kennedy, 2013).

⁶ Working Tax Credits are not intended to provide support for housing costs although by raising the overall income households may be better able to meet their housing costs.

In October 2010, the DWP introduced a change to the standard interest rate (SIR) at which Support for Mortgage Interest (SMI) is paid. Formerly a SIR of 6.08 per cent was paid. This is now 3.63 per cent. The SIR is applied to all SMI customers (new and current, all ages, regardless of other claimed benefits) and regardless of the actual mortgage payment of clients. A report by Citizens Advice Bureau (CAB) in 2012 found that the current SMI system fails to meet the needs of a large proportion of their clients. There was a shortfall in around fifty per cent of cases (Pardoe, 2012). Building Societies saw an increase in mortgage arrears in SMI claimants from 25% of claimants to 46% in the 5 months since the lower rate was introduced in October 2010. Groups that have a mortgage interest rate higher than new fixed standard rate are, according to CAB, often people with long-term health problems or disabilities, families with dependent children and people aged 65 and over.

Additional short-term support introduced in the 2008 downturn was provided by the government to mitigate negative effects of the economic crisis on homeowners. These include the Mortgage Rescue Scheme (including help for shared equity, shared ownership and sale and rent-back of property), the Homeowner Mortgage Support Scheme (which aimed at providing extended forbearance by lenders to borrowers), the Preventing Repossessions Fund introduced in England in 2009 (offers mortgagor households small interest-free loans of less than £5,000⁷) and an improved access to SMI (where waiting times were decreased and the value of the mortgage covered by SMI increased). Apart from the improved access to SMI (changes are temporary, but are still in place), these instruments are now closed after low take-up and repossessions on a large scale not materialising (Wilcox and Williams, 2013).

The private insurance system and wider reasons for loss of income

The take-up of private insurance of mortgage payments against loss of income in Britain has been low (Stephens, 2012). Low take-up is the result of multiple factors including relatively widespread scepticism in the UK about how readily insurers would pay out (Ford et al., 2004). Indeed, a significant number of people would fall through the safety-net of MPPIs as these policies cover the loss of income caused only by certain types of illness and sickness and some instances of unemployment/redundancy. Available insurance policies do not cover reduced income arising from general restructuring (Ford and Wilcox, 1998). Only 39 per cent of MPPI policies cover all kinds of accidents and sickness as well as unemployment (Howard, 2010). Another factor explaining low take-up of private insurance in the UK is widely publicised miss-selling of Mortgage Payment Protection Insurance Policies (MPPIs) particularly in the 1990s (Scanlon and Whitehead, 2004, 34).

Problems of unsecure and variable income of the self-employed as well as self-employment or business failure are not adequately addresses by the current safety net. The self-employed can protect themselves against (some types of) illness or accidents through income protection insurances. However, there are significant holes in unemployment protection. Most are not eligible for JSA after termination of self-employment or if their business closes. Furthermore, the self-employed have often taken out loans on their homes for other reasons than house improvements (for example, to fund their business)

⁷ See <https://www.gov.uk/government/news/20-million-for-safety-net-against-repossession>

(Reuschke and MacLennan, 2014). If their household would qualify for SMI, these loans would not be covered by the scheme.

- **Those with a rise in expenditures (rather than loss of income) after a family or partnership breakdown and the self-employed are falling through the private insurance net. The inclusion of wider reasons for loss of income or disposable income other than illness or sickness (and unemployment for some) would reduce the number of possessions** (Ford et al., 2010).

Changes to HB and LHA eligibility and payment levels and introduction of Universal Credit

Cuts to Local Housing Allowance (LHA) levels for private tenants and restrictions in eligibility for Housing Benefit (HB) for social tenants (chiefly due to the removal of the spare room subsidy) are contributing to rising rent arrears and problems with access to adequate housing more generally. This is particularly true of young single people for whom the LHA only provides the cost of shared accommodation and access to owner occupation is increasingly restricted. The age at which the Shared Accommodation Rate (SAR) applies in the LHA system rose from 25 to 35 on 1st April 2012. In the social rented sector, it is estimated that couples under 60 without children are most likely to be affected by the new HB size criteria or 'bedroom tax' (DWP, 2012b, p. 11).

HB will be subsumed within Universal Credit (UC) for people of working age (phased in from October 2013) and will thus become part of a single means-tested income subsidy. 'Winners' and 'losers' of UC have been identified by the DWP and independent research. Taken together, the reduced LHA for young singles/couples without children and payment changes in UC mean that UC couples without children are significant losers (DWP, 2012; Hirsch and Hartfree, 2013).⁸ This corresponds with the latest poverty and social exclusion report that shows that the poverty rate of working-age adults without children has worsened compared with five and ten years ago while the poverty rate of pensioners has decreased and not changed among working-age adults with children (MacInnes et al., 2013).⁹

- **Couples without children that do not work are at risk to fall through the housing safety net due to cuts in HB because of 'under-occupancy' and income reductions under the new UC regime.**

In April 2011, the maximum eligible rent for private tenants was reduced from median (50th percentile) local market rent to the 30th percentile. The combination of the Shared Accommodation Rate and the restriction of payment to the 30th percentile mean that in many localities the problem of there simply

⁸ Note that the income losses between the current benefit system and UC decrease quickly for couples without children with rising hours in work.

⁹ Poverty is measured by net household income, adjusted for size and after housing costs have been deducted. People are counted as being in poverty if their household income is below 60 per cent of the median income for all UK households (MacInnes et al., 2013, p. 6).

not being accommodation available at any given time that can be covered by benefits (see Harvey and Houston, 2005) will have increased.

Before these reforms, in 2010, it was estimated that half of all private tenants in receipt of HB had to top up the amount they received in LHA to cover the cost of their rent (SSAC, 2010). According to a survey of private landlords conducted by Beatty et al. (2012) changes in LHA rate caps by property size¹⁰ and payment levels have had a significant impact on private tenants. A third of all interviewed LHA landlords reported that some of their tenants were in arrears because of the 2010 changes to LHA. This proportion was even higher in London (41 per cent) stressing the higher vulnerability of private renters in areas with high housing costs. A quarter of all LHA landlords stated that they had taken action to evict tenants or not renew or to terminate tenancies because of the changes to LHA. More than one-third of landlords letting to LHA claimants said they planned to cease letting to HB/LHA claimants or reduce lettings in certain areas (see also CCHPR, 2010).

Another vulnerable group are ethnic minorities. This group is particularly affected by overcrowding – a housing situation that may have long-term effects on children's life chances. Furthermore, immigrants from the European Economic Area who are entitled to JSA are not entitled to claim HB since 1st April 2014 (SSAC, 2014).¹¹

➤ **Some EEA migrants fall through the HB safety net. This group is already at risk to live in overcrowded housing conditions. This will further worsen their housing and living conditions.**

Direct payment to tenants

The housing component of Universal Credit will be paid directly to tenants (this was introduced in 2008 for private renters).¹² Housing Associations regard this aspect of the Welfare Reform package as the one likely to have the biggest impact on their business operations (Ipsos MORI, 2013). Housing Associations expect an increase in rent arrears of 51% on average. Evidence from research commissioned by the DWP in 'Direct Payment Demonstration Projects' suggests that direct payment will have a dramatic negative effect on a very large number of renters: some tenants who have never been in rent arrears before are now in arrears through direct payment. 31 per cent of research respondents saw themselves coping poorly on direct payments and 38 per cent said they would find it difficult to manage their finances (Hickman and Reeves, 2013). Similarly, in a pilot study conducted by L&Q Housing Association in 2004, the rate of arrears increased from 3% to 7% (Wilson, 2014).

¹⁰ The caps are as follows: £258.06 per week for 1 bedroom property, £299.34 for 2 bedrooms, £350.95 for 3 bedrooms and £412.89 for all properties with 4 and more bedrooms (Wilson, 2013, p. 6).

¹¹ This does not affect UK nationals, EEA jobseekers with retained worker status and those who were entitled to JSA as at 31st March 2014.

¹² The roll-out of UC is expected to be complete by 2017.

Rent arrears are also likely to be caused by the new size criteria in social housing (the so-called 'bedroom tax' or removal of the 'spare room subsidy'). The DWP (2012b) cites research that reports that 35 per cent of social rented sector HB claimants thought they will fall into arrears if their HB is reduced because of 'under-occupancy'.

- **An estimated 660,000 households (31 per cent of all social rental HB claimants) in Britain are at risk of falling into rent arrears through the transferal onto Direct Payment (Hickman and Reeves, 2013). Rent arrears will also be caused by changes in HB payments resulting from new size criteria. This will affect around 231,000 HB claimants in social housing.**

5. WHO IS RECEIVING SUPPORT FROM THE HOUSING SAFETY NET?

Introduction

The aim of this section is to provide an overview of the numbers and characteristics of those who are receiving support from the housing safety net in comparison with those not receiving housing state support, and to identify the key trends in who is receiving support from the housing safety net over the last decade. We use information at three time points (2003-04, 2008-09 and 2011-12) from the Family Resources Survey (FRS) and the Household Below Average Income (HBAI) data sub-set to examine the main characteristics of recipients of Housing Benefits (HBs) and Support for Mortgage Interest (SMI) on dimensions such as tenure, family composition, economic status, income and their geographical distribution.

Following section two of this report, we have defined the housing safety net as: social renters; private tenants in receipt of LHA; and homeowners in receipt of SMI. Using the Family Resources Survey and the 2011 Census of Population, we calculated the number of households¹³ receiving support from the housing safety net.

How many households are receiving support from the housing safety net?

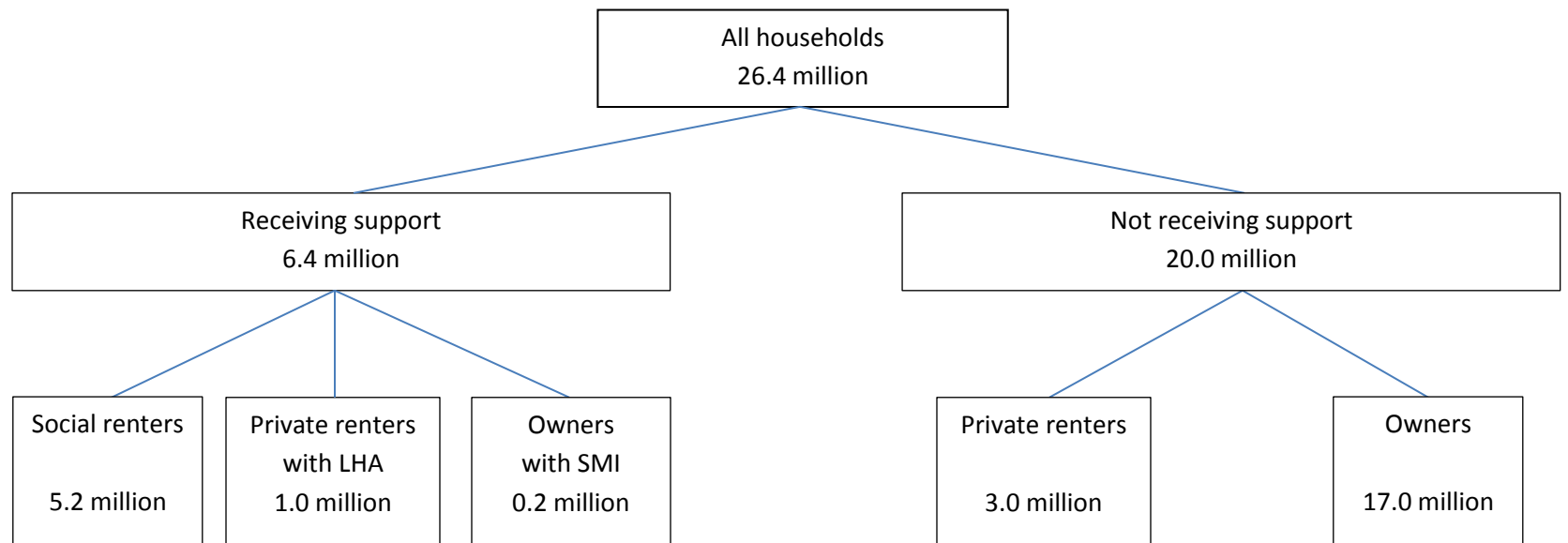
In 2011-12, 6.4 million of the 26.4 million households in the UK received support from the housing safety net (figure 1). This represents a quarter of all households. The 6.4 million households receiving housing support comprises: 5.2 million in the social rented sector; 1.0 million renting from a private landlord and in receipt of LHA; and 0.2 million homeowners with SMI.

Checks against other sources suggests that social renters and SMI claimants are accurately represented in the Family Resources Survey, but that private renters on LHA are under-represented. This is due to the high turnover of properties and tenants in the private rented sector making them more difficult to capture in household-based surveys such as the FRS. DWP figures record 220,000 SMI recipients in 2011 and 1.4 million LHA claimants.

¹³ FRS is run with sample weights on to give accurate proportionate breakdowns across categories. These figures have been multiplied by a grossing factor of 1,081 (1,081 = No. of households in 2011 Census / No. of households in the 2011-12 FRS sample) in order to estimate the total number of households in the UK in 2011 in each category.

Figure 1 Housing Safety Net by housing tenure

Source: 2011-12 Family Resources Survey breakdown, grossed to total households in 2011 Census of Population

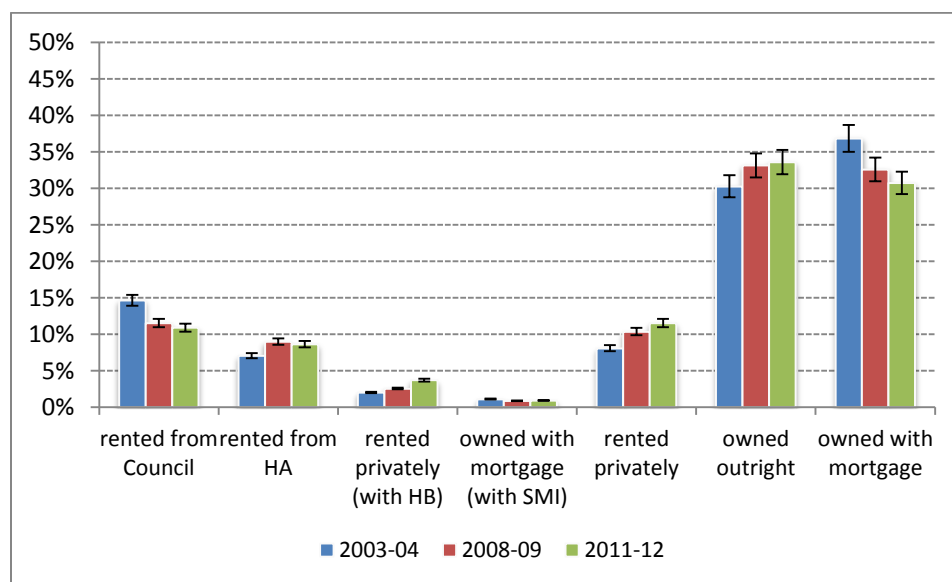


Profiles of those receiving support from the housing safety net

Tenure

A more detailed breakdown by claimants by tenure is: 11% rented from Council; 9% rented from a Housing Association; 4% rented privately with HB; and 1% owned with SMI (Figure 2). This proportion has remained stable since 2003-04, the result of a combined 4 percentage point decrease among those who rented from the Council, and 2 percentage point increases among each of those who rented from Housing Associations and privately with HB. Presumably this static level is the result of parallel trends cancelling out. On the one hand, demands on the safety net are likely to have increased arising from the financial crisis. On the other hand, reductions in the scope of the net have reduced the numbers receiving support.

FIGURE 2: Percentage of households with and without housing state support (Housing Benefit and Support for Mortgage Interest) across tenure types. United Kingdom, 2003-04, 2008-09 and 2011-12



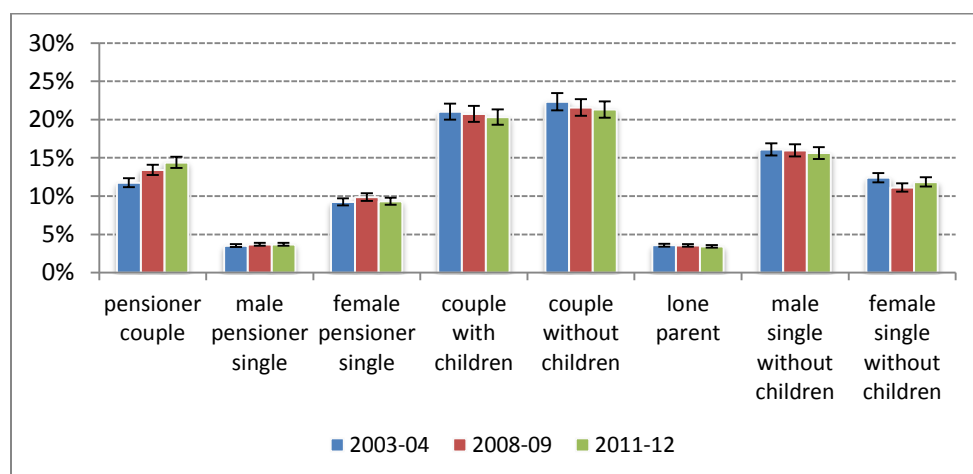
Family Composition

The largest family compositions among those receiving housing state support are lone parents (20%) and single men without children (19%) (Figure 3). The share of these two groups has remained relatively stable since 2003-04. Among the recipients of HB, the only group that experienced significant growth is the single females without children (15%), with a 3 percentage point increase since 2003-04.

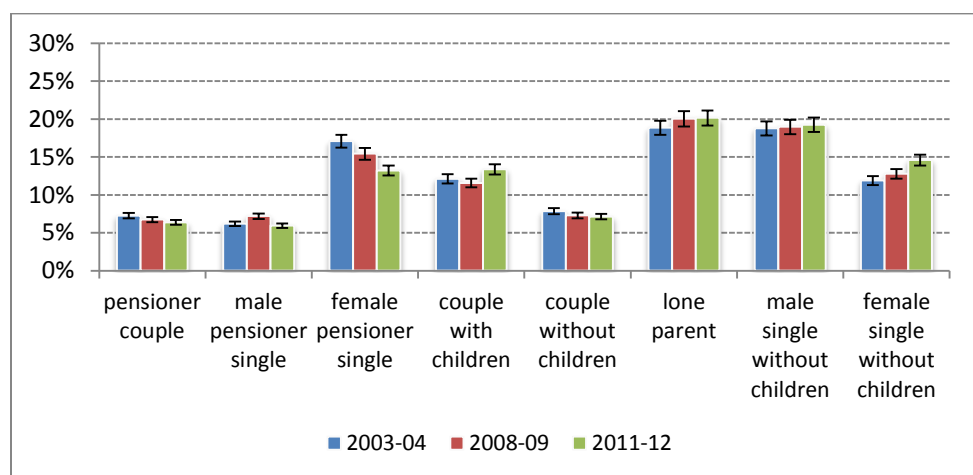
The population of households claiming SMI suggests that it is less dominated by family groups since the recession period in 2008-09. Single female pensioners (18%) and lone parents (18%) remain the largest groups. There is a divergent trend over time between pension age groups and younger groups. This requires further interpretation – it perhaps shows that the changes in legislation (2010) with regard to SMI have had a larger effect on older people.

FIGURE 3: Percentage of households with and without housing state support (Housing Benefit and Support for Mortgage Interest) by family composition. United Kingdom, 2003-04, 2008-09 and 2011-12

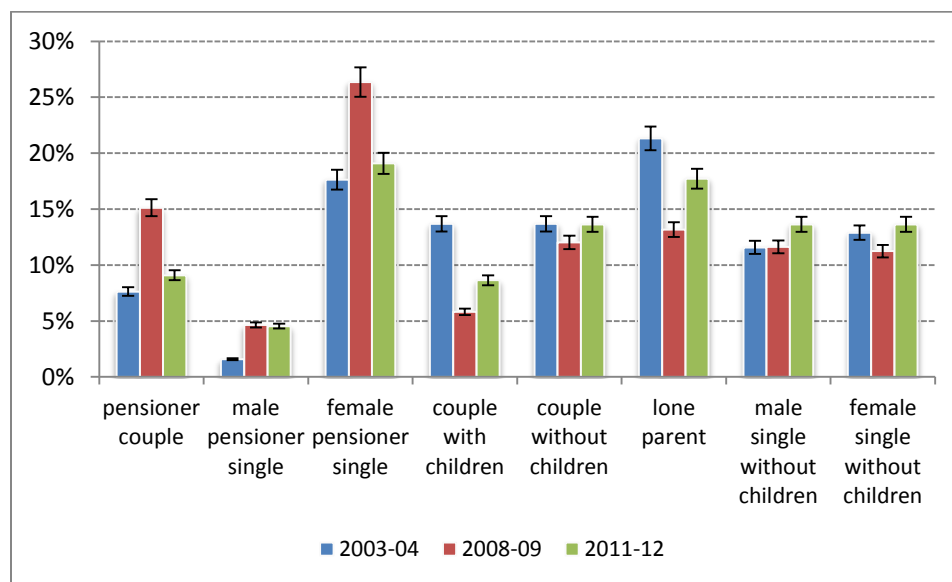
a) Without housing state support



b) With housing state support (Housing Benefit)



c) With housing state support (Support for Mortgage Interest)

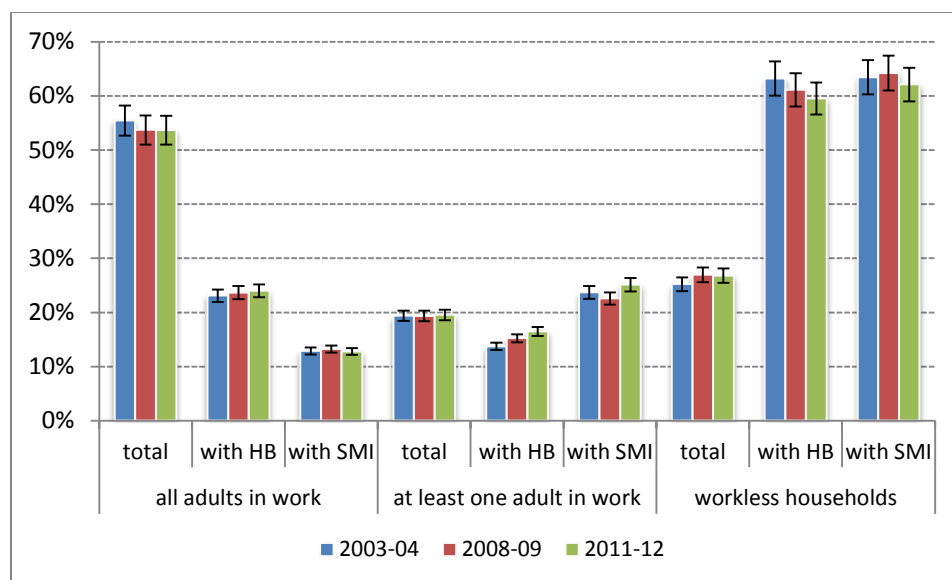


Source: Family Resources Survey, own calculation.

Working status

There is an overrepresentation of workless households among those that receive housing state support. Over half (60%) of households in receipt of HB and 62% of households in receipt of SMI (62%) have no one in work (Figure 4). HB and SMI are means tested so can be paid if a household member is in employment. Under Universal Credit, only households with no-one working will be eligible for SMI. The proportion of households with no-one working have decreased among those who receive HBs and SMI by 4 and 1 percentage points respectively since 2003-04. Correspondingly, an increase of these two groups is found within households with all adults in work or at least one adult in work. Consequently, it can be said that those receiving HB/LHA or SMI now have a more 'working' profile than 10 years ago.

FIGURE 4: Percentage of households with and without housing state support (Housing Benefit and Support for Mortgage Interest) by economic status. United Kingdom, 2003-04, 2008-09 and 2011-12

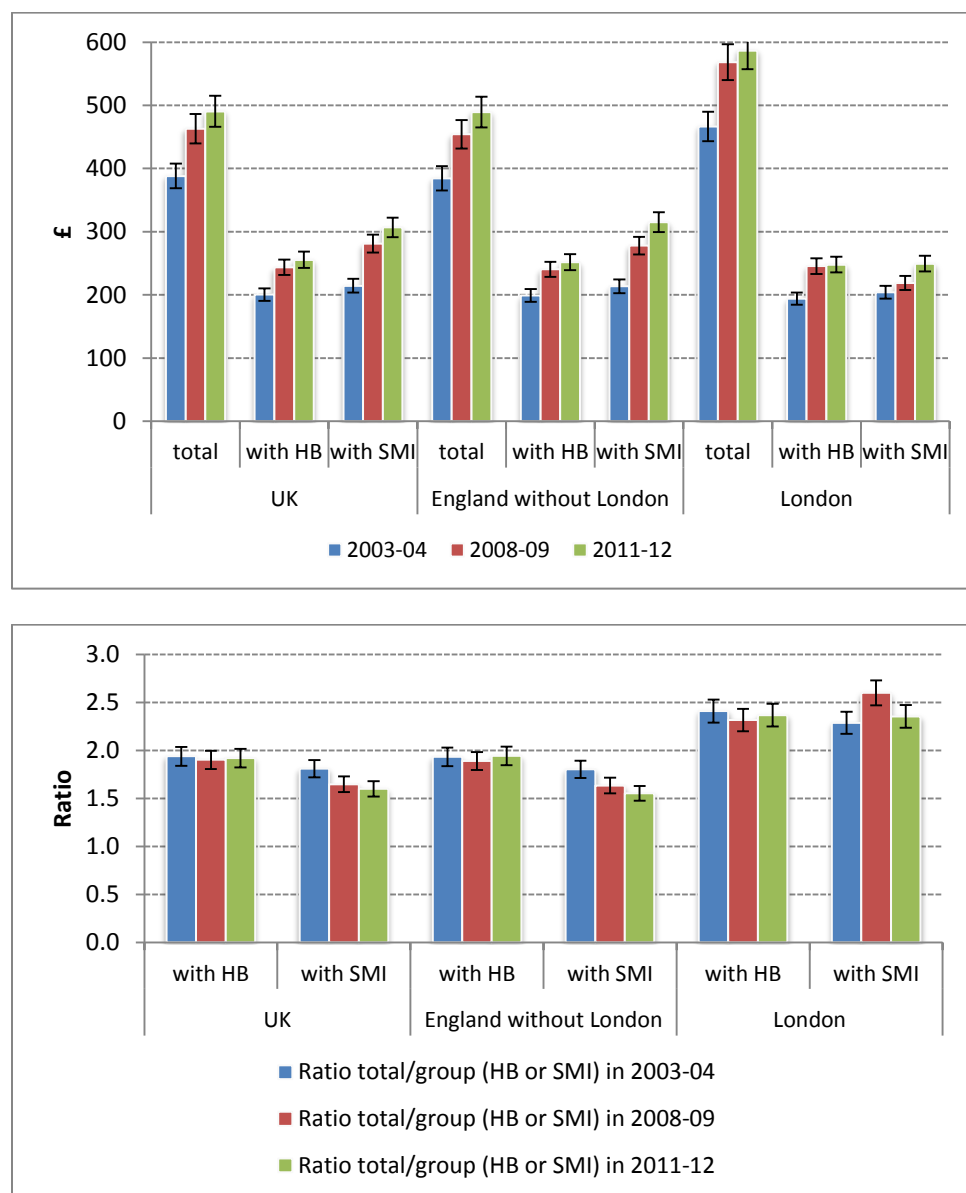


Source: Family Resources Survey, own calculation.

Household income

There are clear income disparities between those receiving and not receiving housing state support (Figure 5). Mean weekly incomes have grown for all groups in the UK since 2003-04. In 2011/12, the net disposable income for the total population is on average 1.8 times higher than that of recipients of HB and SMI in 2011-12. Income disparities are greater in London, where the net disposable income for the total population is on average 2.4 times higher than for those recipients of HB and SMI in 2011-12.

FIGURE 5: Mean weekly income after housing costs (AHC) in households with and without housing state support (Housing Benefit and Support for Mortgage Interest) and as a ratio of those with: without housing state support. United Kingdom, 2003-04, 2008-09 and 2011-12



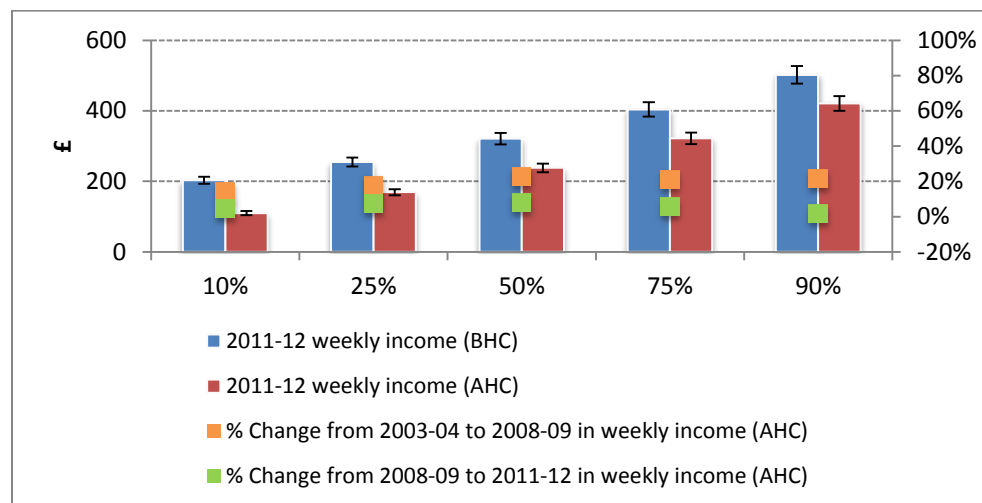
Source: Household Below Average Income, own calculation.

Income disparity between households

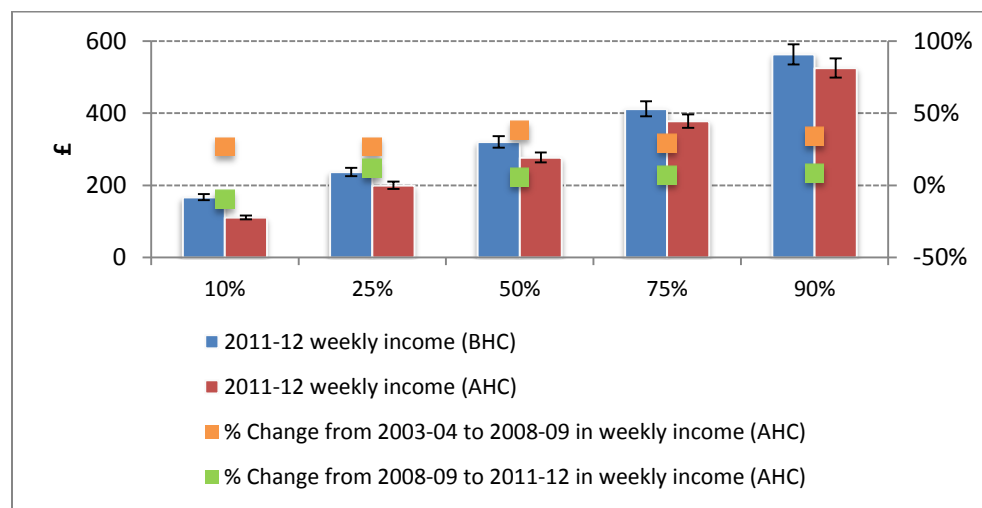
Weekly incomes for recipients of HB between the bottom 10% and the top 10% differ by approximately £299 (BHC) and £311 (AHC) in 2011-12 (Figure 6). For recipients of SMI, the difference between the bottom 10% and the top 10% is even larger, and differs by approximately £396 (BHC) and £414 (AHC). In other words, there are significant income disparities within households receiving housing state support, and these differences clearly become more pronounced after taking into consideration housing costs. This is likely to be because regional variation in housing costs is greater than regional variation in the level of HB and SMI payable.

FIGURE 6: Mean weekly income in households with housing state support (Housing Benefit and Support for Mortgage Interest) by percentiles. United Kingdom, for years 2003-04, 2008-09 and 2011-12

a) With Housing Benefit



b) With Support Mortgage Interest



Source: Household Below Average Income, own calculation.

6. WHO IS FALLING THROUGH THE HOUSING SAFETY NET?

Introduction

We define falling through the housing safety net as households simultaneously experiencing: high housing cost relative to income; low income; and 'financial stress'. Together, these criteria reveal households who are not coping financially, are on a low income, and have high housing costs relative to their income – in other words, are arguably in need of support from the housing safety net. Specifically, we have identified households in the 2011-12 Family Resources Survey that meet all three of the following criteria:

1. Housing costs in excess of 30% of income¹⁴;
2. Income below 60% of the national median household income; and
3. Reporting 'financial stress'.

In the Family Resources Survey, a household is considered to be in 'financial stress' if it is behind with payments for one or more of the following items: (1) electricity bill, (2) gas bill, (3) other fuel bills, (4) council tax or water charges, (5) insurance policies, (6) telephone bill, (7) television/video rental, (8) other hire purchase payments.

We include in our definition all households that meet all three of the above criteria, including those receiving some support from the net. In other words, our definition includes households who have their fall broken by the net and those who fall straight through.

There are, of course, other risk categories that we have identified based on our literature review reported in sections three and four. However, in this section of our report we are constrained to the data available in the Family Resources Survey on which we have based our analysis.

¹⁴ Total household income, including from benefits, before tax deductions, equivalised to enable comparison between households of different sizes (other things being equal, larger households have lower housing-related costs per household member).

How many households are falling through the housing safety net?

Approximately 625,000 households currently fall through the housing safety net on the basis of simultaneously being in all three of the above categories (figure 7a and Table 2). This represents 2.4 per cent of all households – almost one-in-40 (Table 3).

Of the 625,000 households falling through the housing safety net, just less than half (300,000) are social renters, somewhat less than half (275,000) are private renters and around one-in-12 (50,000) are owner occupiers (figure 7b and table 2). Of the 625,000 falling through the housing safety net, 125,000 receive no support from the net and 500,000 receive some support but still fall through.

Of the 125,000 receiving no support, around 60 per cent (75,000) are private renters and 40 per cent (50,000) are owner occupiers. Of the 500,000 receiving some support but remaining in need, around 60 per cent (300,000) are social renters and 40 per cent (200,000) are private renters in receipt of LHA. Only a very small proportion – around one per cent (less than 10,000) – are owner occupiers in receipt of SMI.

More than one-in-five private renters in receipt of LHA still fall through the net. Nevertheless, it is slightly misleading to directly compare numbers in different housing tenures falling through the net, as many falling out of owner occupation may subsequently become private or social renters and those falling out of private renting may subsequently become social renters.

Figure 7a Households falling through the Housing Safety Net (based on housing costs >30% of income AND income <60% median AND reporting financial stress)

Source: 2011-12 Family Resources Survey breakdown, grossed to total households in 2011 Census of Population

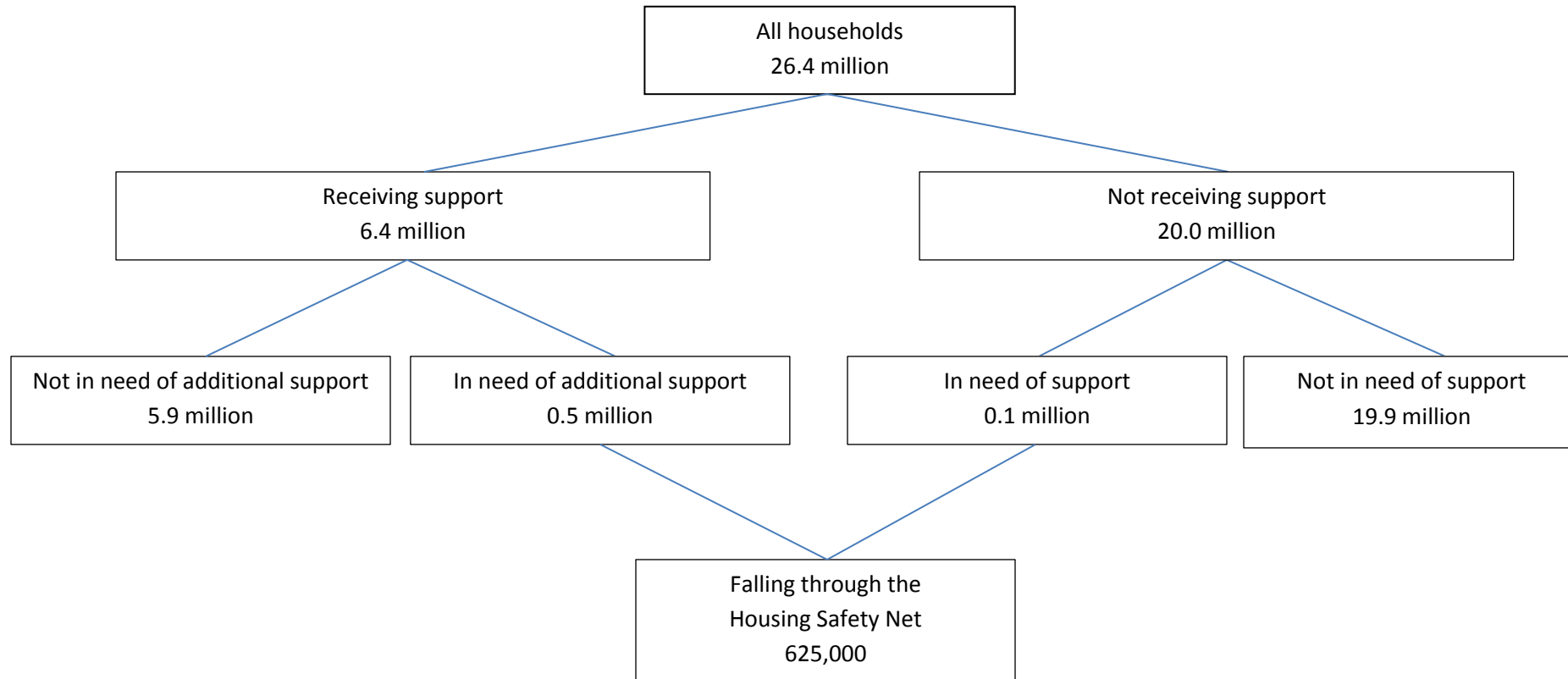
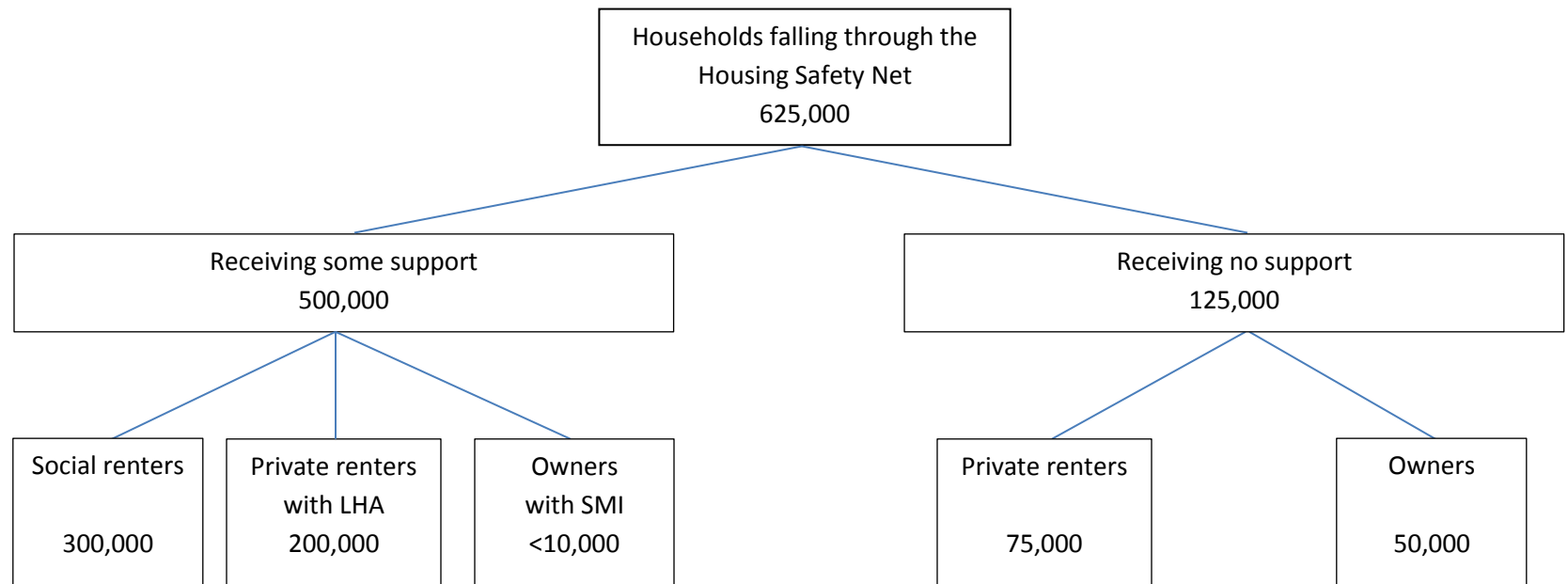


Figure 7b Households falling through the Housing Safety Net (based on housing costs >30% of income AND income <60% median AND reporting financial stress) by housing tenure and support category

Source: 2011-12 Family Resources Survey breakdown, grossed to total households in 2011 Census of Population



How many households are at risk of falling through the housing safety net?

We have defined those at *risk* of falling through the housing safety net as households that meet the following two criteria:

1. Housing costs in excess of 30% of income; and
2. Income below 60% of the national median household income.

Approximately 3.4 million households have either fallen through the housing safety net or are currently at risk of falling through the net on the basis of being in both the above risk categories (Figure 8a). This represents 12.9 per cent of all households – more than one-in-eight (Table 3).

Of the 3.4 households at risk of falling through the housing safety net, more than one-third (1.3 million) are private renters, one-third (1.1 million) are social renters and somewhat less than one-third (1.0 million) are owner occupiers (Figure 8b and Table 2). Of the 3.4 million households at risk of falling through the housing safety net, half (1.7 million) currently receive some support from the net while the other half (1.7 million) receive no support.

Of the 1.7 million receiving no support, just less than half (0.8 million) are private renters and just over half (0.9 million) are owner occupiers (figure 8b and table 2). Of the 1.7 million receiving some support, just under one-third (1.1 million) are social renters, somewhat less than one-third (0.5 million) are private renters in receipt of LHA and around 1-in-20 (0.1 million) are owner occupiers in receipt of SMI.

Nearly 1-in-3 private renters are at risk of falling through the housing safety net, compared to just over 1-in-5 social renters and approximately 1-in-20 owner occupiers (Table 3). More than half of private renters in receipt of LHA are either at risk of falling through the net or are falling through the net.

Figure 8a Households at risk of falling through the Housing Safety Net (based on housing costs >30% of income AND income <60% median)

Source: 2011-12 Family Resources Survey breakdown, grossed to total households in 2011 Census of Population

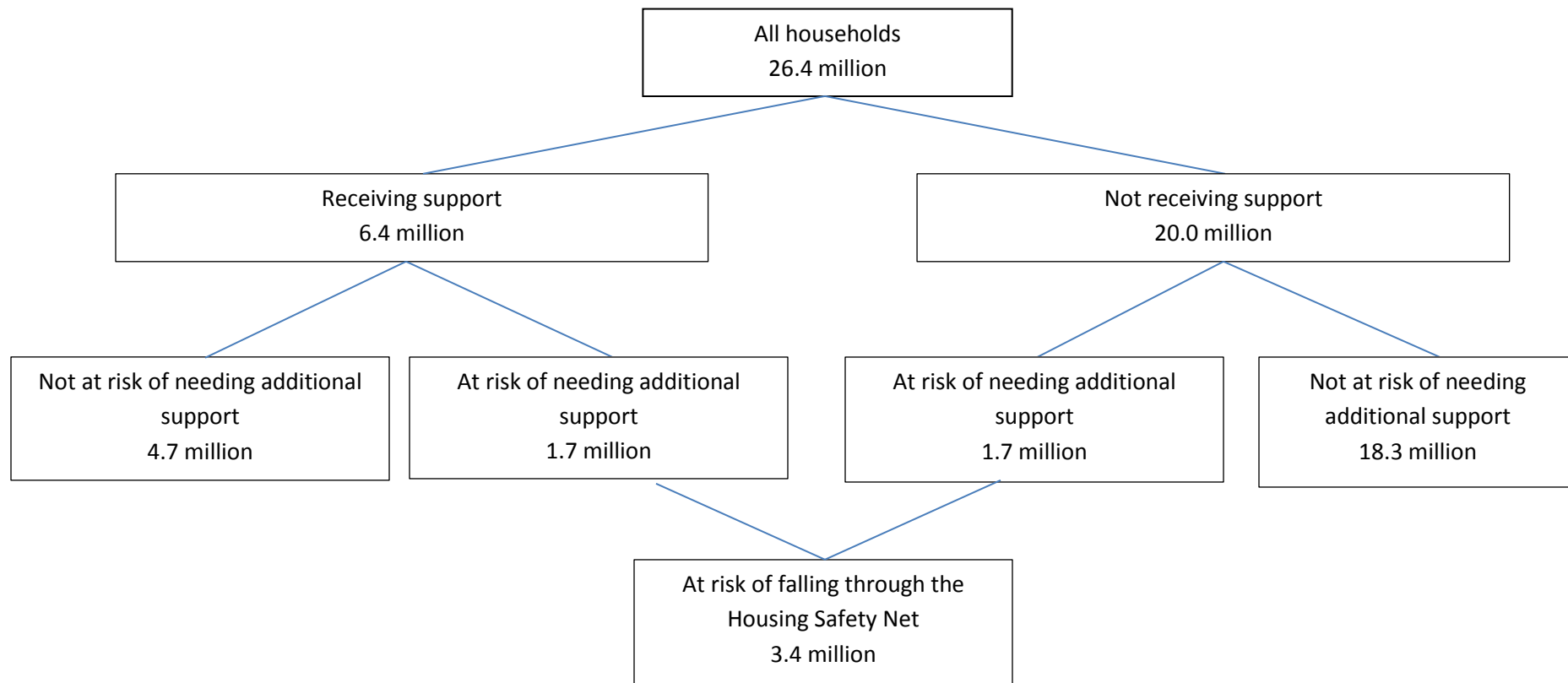
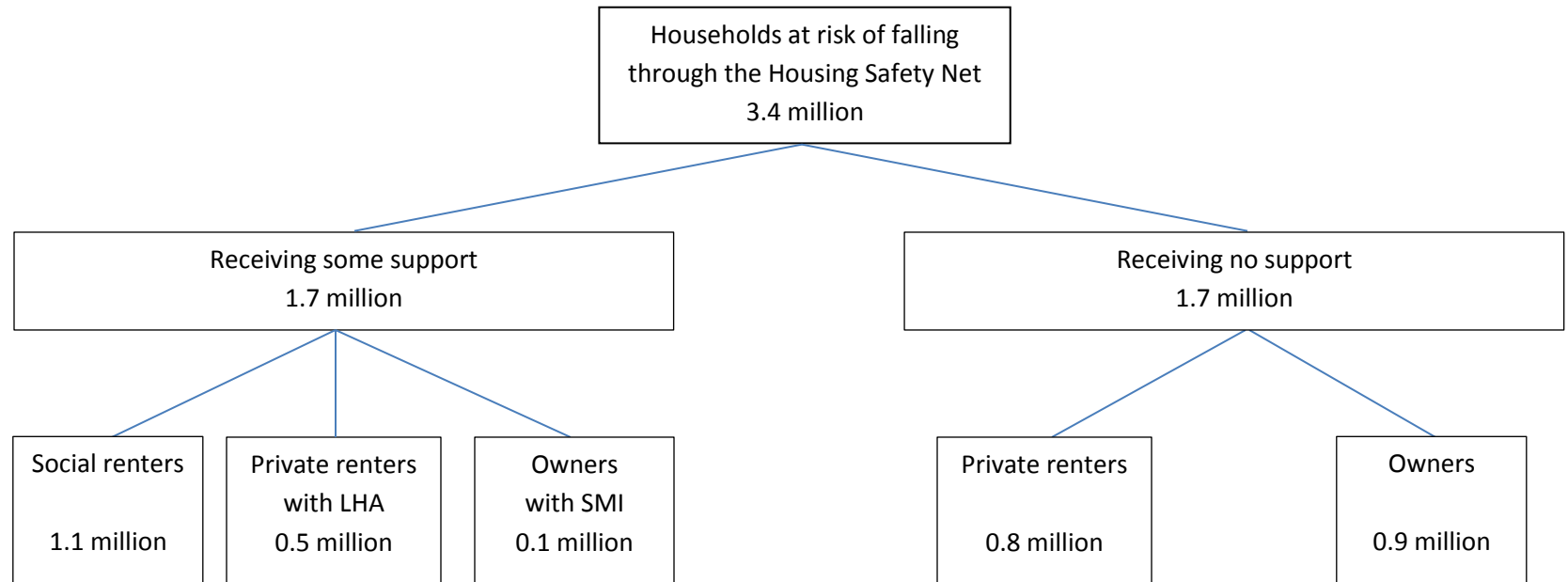


Figure 8b Households at risk of falling through the Housing Safety Net (based on housing costs >30% of income *AND* income <60% median) **by housing tenure and support category**

Source: 2011-12 Family Resources Survey breakdown, grossed to total households in 2011 Census of Population



Households in main risk categories

In addition to identifying the number of households who meet our definition of falling through the housing safety net, we have also calculated the number of households¹⁵ in each of the three key risk groups (separately) that together comprise our definition of falling through the net. Households in each risk category are broken down by those who receive and those who do not receive support from the housing safety net, as well as by housing tenure (Table 1).

High housing cost. Of the 26.4 million households in the UK, around 3.6 million, or almost one-in-seven, have housing costs in excess of 30% of their income. Of these, just over half – 2.0 million – receive no support from the housing safety net. The 3.6 million households with high housing costs relative to income is composed of 1.4 million private renters (38% of the total), 1.2 million homeowners (33% of the total) and 1.0 million social renters (28% of the total). One-in-three private renters have housing costs in excess of 30% of income, one-in-five social renters and seven per cent of homeowners (Table 1).

Low income. In total, 4.5 million households, representing almost 1-in-6 of all households, are on low incomes. Almost two-thirds of low-income households receive no support from the housing safety net. Households on low incomes are disproportionately found among renters, particularly social tenants – one-in-four of whom are on low income, compared to under one-in-five private tenants and less than one-in-seven homeowners. However, homeowners represent the greatest number of low-income households, at 2.5 million compared to 1.3 million social tenants (Table 1).

Financial stress. In total, 3.2 million households, representing almost 1-in-8 of all households, report that they are experiencing financial stress. Of these, almost half (1.5 million) receive no support from the housing safety net. Of the 3.2 million households reporting financial stress, 1.3 million are social tenants, almost one million private tenants and another million are homeowners. One-in-four renters – in both the social and private sectors – report financial stress, compared to just over 1-in-10 homeowners with a mortgage and around 1-in-100 homeowners without a mortgage (Table 1).

¹⁵ FRS figures multiplied by a grossing factor of 1,081 (Number of households in 2011 Census / Number of households in the 2011-12 FRS sample).

Profiles of those falling and at risk of falling through the housing safety net

Sample sizes in the FRS are not sufficient to support detailed breakdowns of the profiles of those falling through the housing safety net, based on the relatively tight definitions used above. For example, the 2011-12 Family Resources Survey includes only 590 households who meet our definition of falling through the housing safety net. Therefore, we have assessed the possible profile of those falling through and at risk of falling through the housing safety net by looking at those in unaffordable housing and those in unaffordable housing and experiencing financial stress.

This section provides information on who is experiencing unaffordable housing costs (people who are 'housing cost burdened') and financial stress within tenure types, family composition and age, economic status, income and geography. This information is seen as relevant as, increasingly, households are not able to afford the home they are in due to increasing unaffordability or experience financial stress. In order to capture this, two indicators have been computed from the Family Resources Survey (FRS) and the Household Below Average Income (HBAI) survey: (1) a measure of housing-cost burden which captures households that spend equal or greater than 31% of their income on housing costs¹⁶ at three time points (2003-04, 2008-09 and 2011-12); and (2) a measure of housing related financial stress which aims to seize whether or not households are falling behind with different regular monthly payments¹⁷ for the latest year available (2011-12).

¹⁶ The 30 percent rule is deemed a rule of thumb for the amount of income that a family can spend and still have enough left over for other nondiscretionary spending. There are other qualifying ratios as well; most of which hover around 30 percent of income. The equivalised income before and after housing costs is used for the computation.

¹⁷ As before, a score of 1 or more on the following items is considered an indicator of financial stress: (1) behind on electricity bill, (2) gas bill, (3) other fuel bills, (4) council tax, (5) insurance policies, (6) telephone bill, (7) television/video rental, (8) other hire purchase payments, and (9) water rates in Northern Ireland only.

Family composition

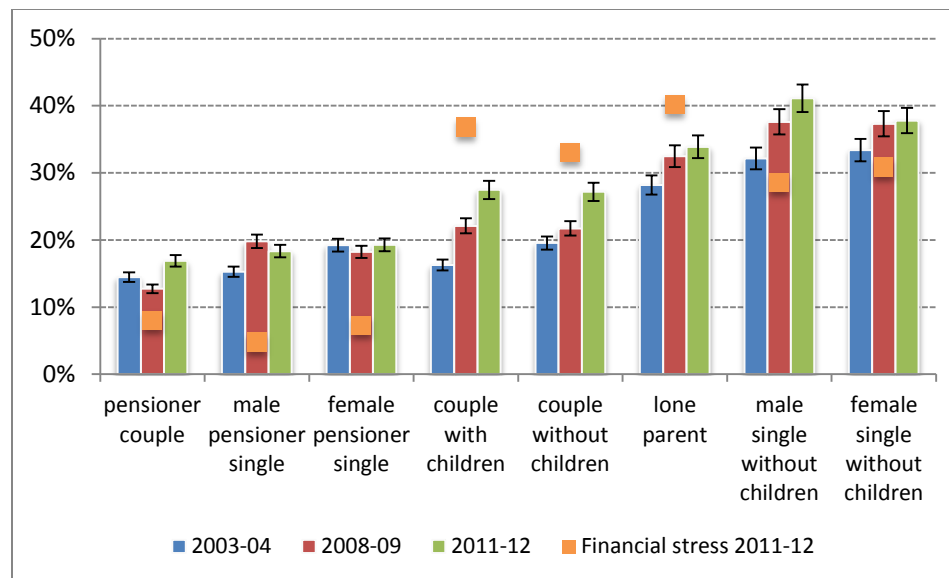
Figure 9 shows the percentage of households who experience unaffordable housing costs and financial stress within different family types. In terms of housing-cost burden, the results illustrate that this is highest among family compositions that are generally associated with the youngest age groups as well as with fragile families. For instance, in 2011-12, a significant proportion of single men without children (41%) and their female counterparts (38%) in receipt of housing support experienced unaffordable housing costs. This is a situation that affects nearly a third of lone parents (34%) receiving housing support. The picture for those without housing state support is similar. Ten percent of couples with children and eight percent of couples without children not receiving support experience unaffordable housing costs.

The analysis over time demonstrates that the proportion of those in unaffordable housing has increased across all groups since 2003-04. The largest increases for those without housing state support are seen among couples with children (+11 percentage points), male single without children (+9 percentage points), couples without children (+8 percentage points) and lone parents (+6 percentage points). The largest increases for those with housing state support are found among lone parents (+6 percentage points), female single without children (+5 percentage points) and male single without children (+3 percentage points).

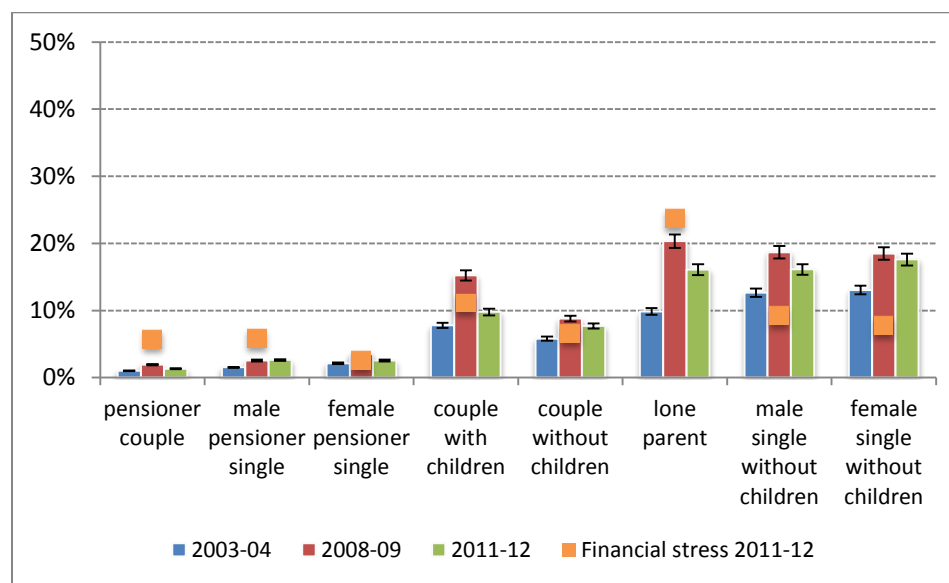
Analysis of households experiencing financial stress and unaffordable housing costs reveals how the largest proportions of households on benefits with this condition are found among lone parents (40%), couples with children (37%) and couples without children (33%). Similarly, the largest proportion of households without housing state benefits that experience financial stress are found among lone parents (24%), couples with children (11%) and single men without children (9%).

FIGURE 9: Percentage of households with or without state support who experience unaffordable housing costs within each family type. United Kingdom, 2003-04, 2008-09 and 2011-12

Housing-cost burden (equal or greater than 31%) with housing state support



Housing-cost burden (equal or greater than 31%) without housing state support



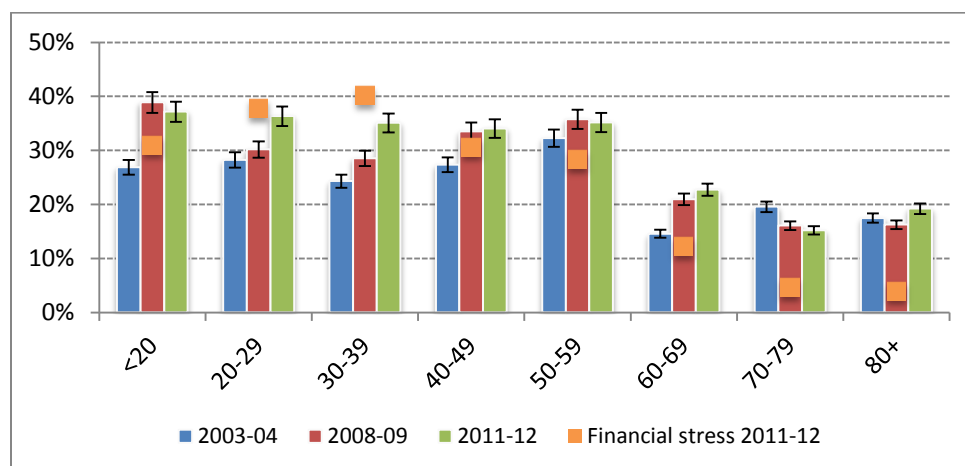
Source: Household Below Average Income, own calculation.

Age

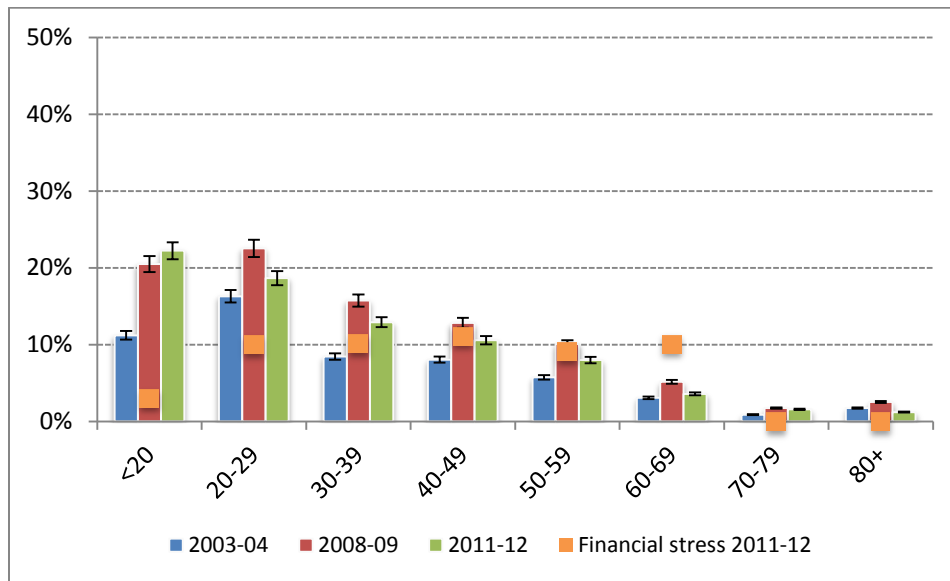
Figure 10 displays the percentage of households with or without state support who experience unaffordable housing and those who experience unaffordable housing and financial stress within 10-year age groups. Again, the results display significant differences between those with and without housing state support. Among households that receive support, a substantial proportion of people under retirement age pay unaffordable housing costs. Over a third (37%) of those aged less than 20 years and 35% of those aged 50-59. Substantial proportions of households in older age groups also pay unaffordable housing costs (19% of people aged 80 and over pay unaffordable housing costs). Generally, the proportion of households not receiving support in unaffordable housing is higher among younger groups. This is particularly the case for households headed by someone aged less than 20 years old (22%) and aged between 20 and 29 (19%). The share of older groups without housing support who pay unaffordable housing costs is much smaller. This is due to the greater proportion of outright ownership among these groups. The analysis over time suggests that the proportion of those aged less than 39 years old who receive housing support and pay unaffordable housing costs has increased by an average of 10 percentage points since 2003-04 for There has been a similar increase for the youngest groups without housing state support. The highest proportions of households experiencing unaffordable housing costs and financial stress is found among young adults between the ages of 20 and 40.

FIGURE 10: Percentage of households with and without housing state support (Housing Benefit and Support for Mortgage Interest) who experience unaffordable housing costs in each age group. United Kingdom, 2003-04, 2008-09 and 2011-12

Housing-cost burden (equal or greater than 31%) with housing state support



Housing-cost burden (equal or greater than 31%) without housing state support



Source: Household Below Average Income, own calculation.

Economic status

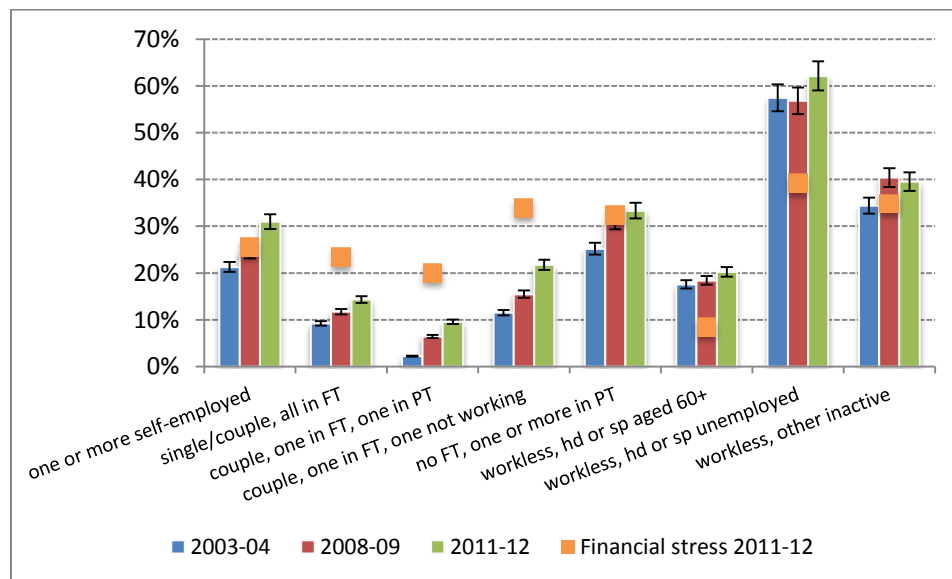
Figure 11 provides a picture of the housing-cost burden and financial stress within households in different economic statuses. The results highlight how workless households with and without housing state support have the highest proportion of people who experience a housing-cost burden. For instance, nearly two-thirds (62%) of households with state support whose head or spouse are unemployed have unaffordable housing costs in 2011-12. A significant proportion of housing-cost burdened benefit households is also found among households whose members are inactive (40%), in part-time work (33%), or self-employed (31%). A similar pattern is observed for households without housing state support. Although, the percentage of people within the latter group who have unaffordable housing costs is smaller, it is still important. This is demonstrated by the proportion of households whose head or spouse are unemployed (34%), whose members are inactive (30%), or the self-employed (16%).

The analysis over time shows that the proportion of households who experience a housing-cost burden has grown across all economic groups since 2003-04. The largest upward trend among those who receive support can be seen for the self-employed and couples with one in full-time work and one not working. For households without housing state support, the analysis over time indicates similar percentage increases (between 2% and 4%) for all economic groups since 2003-04. The one exception is households who are not in work whose head or spouse has reached pensionable age.

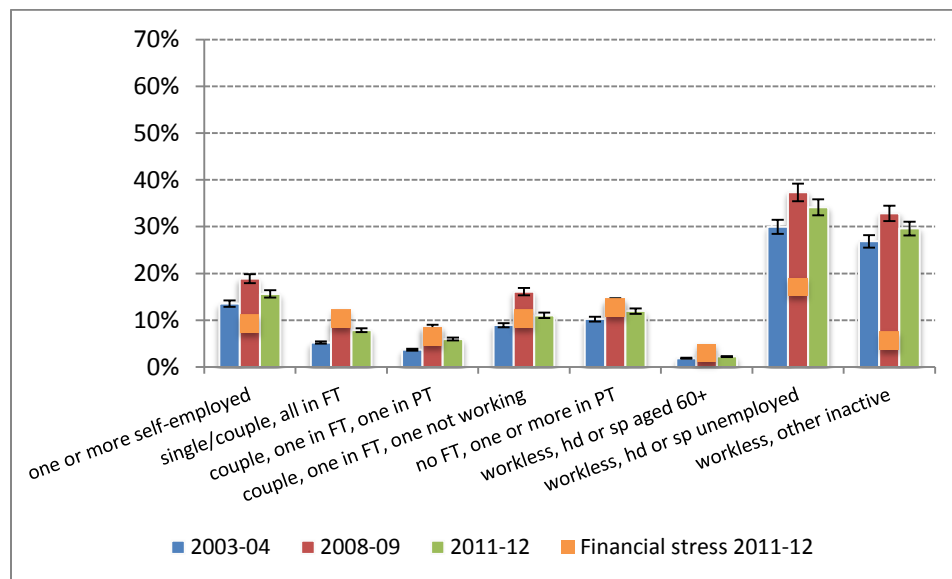
The analysis of financial stress in 2011-12 for those who have a housing-cost burden indicates that households with housing state support whose head or spouse is unemployed (39%) or inactive (35%) have the highest proportion of people in unaffordable housing in financial stress. A third of couples receiving support with one member in full time work and one not working (34%), and couples receiving support with one or more in part time (32%). The proportion of households without housing support who experience financial stress and unaffordable housing costs is smaller: households with head or spouse unemployed (17%), one or more in part time (13%) and couple with one in full time and one not working (10%).

FIGURE 11: Percentage of households with and without housing state support (Housing Benefit and Support for Mortgage Interest) who experience unaffordable housing costs and financial stress within economic statuses. United Kingdom, 2003-04, 2008-09 and 2011-12

Housing-cost burden (equal or greater than 31%) with housing state support



Housing-cost burden (equal or greater than 31%) without housing state support



NB: FT (full-time), PT (part-time), hd (head), sp (spouse). Source: Household Below Average Income, own calculation.

Income

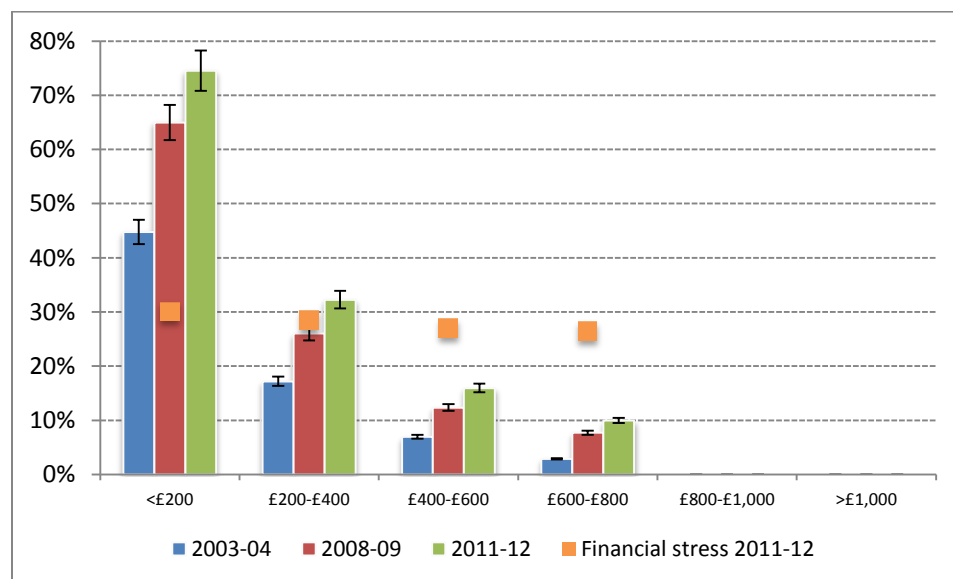
Figure 12 shows the proportion households within weekly income bands experiencing housing-cost burden and financial stress. As expected, benefit households and households with the lowest incomes (<£200 per week) have the largest proportion of people with unaffordable housing costs. The great majority of people (75%) who receive housing state support within the bottom income group (<£200 per week) are housing-cost burdened, while nearly a third (32%) of the second-to-bottom group (£200-£400 per week) also experience unaffordable housing costs. The picture for those without HBs is similar, albeit the proportion of people within the lowest income groups who have a housing-cost burden is much smaller, but not negligible. For instance, 28% and 13% of the two bottom income groups are considered to be burdened by housing costs.

The ability of all income groups to afford housing costs has diminished since 2003/04. While this is the case for households, the results clearly illustrate that the fastest growing trend is observed among those who receive housing support, thus reflecting the inability of the housing safety net to provide the support that is required.

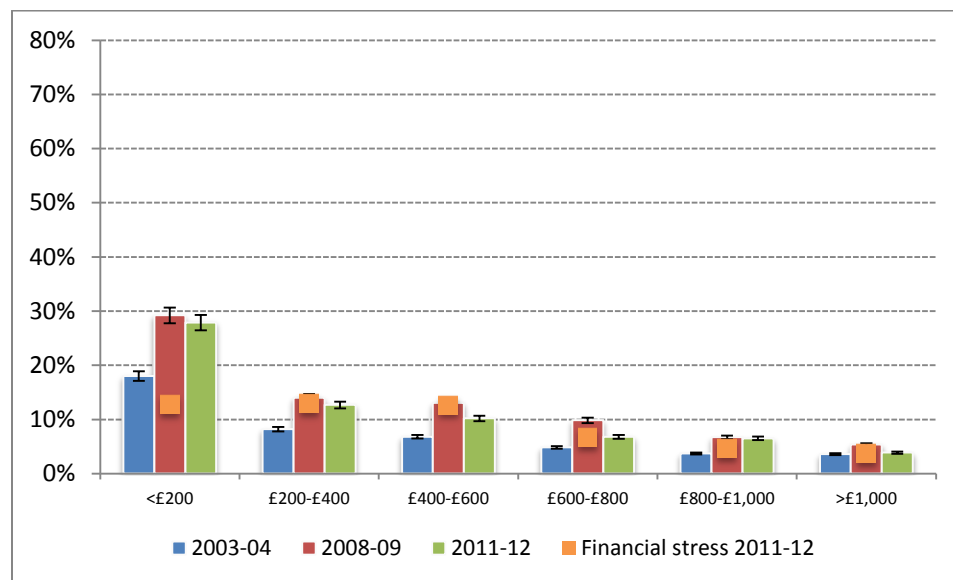
The analysis of financial stress and weekly income bands reveals a negative relationship between these two variables for those who experience unaffordable housing costs with and without housing state support. For instance, nearly one third of benefit households with a housing-cost burden that receive support but their weekly income is less than £200 experience financial stress (30%), a situation that affects a quarter of benefit households when these have weekly incomes that range between £600 and £800 (26%). The negative gradient between financial stress and income for households without housing state support is also visible, although the proportion of households with financial stress is much lower for both the bottom income group (13%) and top end income group (4%).

FIGURE 12: Percentage of benefit households and households with and without housing state support (Housing Benefit and Support for Mortgage Interest) who experience unaffordable housing costs and financial stress within weekly income bands. United Kingdom, 2003-04, 2008-09 and 2011-12

Housing-cost burden (equal or greater than 31%) with housing state support



Housing-cost burden (equal or greater than 31%) without housing state support



NB: Weekly income bands refer to gross amounts before housing costs. Source: Household Below Average Income, own calculation.

Geography

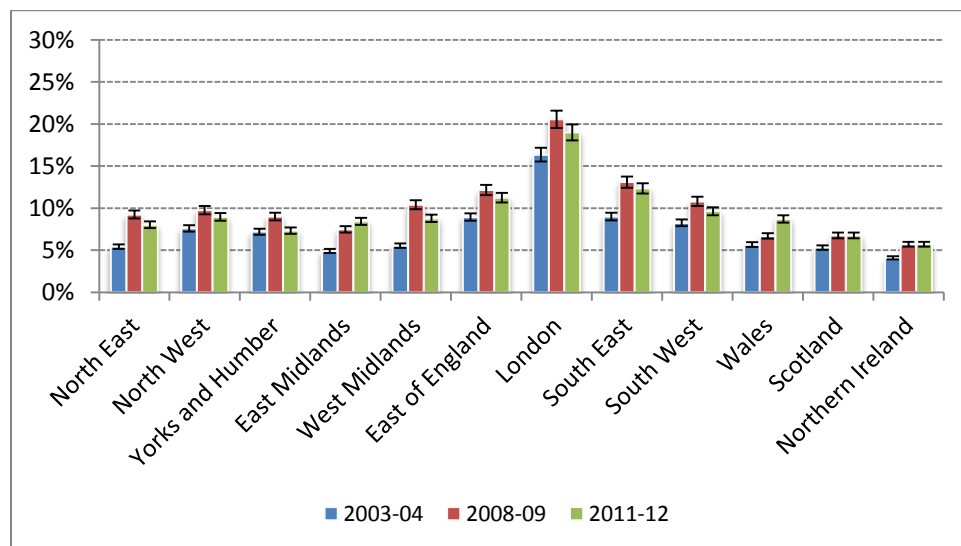
This section sets out two separate indicators of housing-cost burden: (1) moderate housing-cost burden (when households spend between 31% and 49.9% of their income on housing costs); and (2) severe housing-cost burden (when benefit households and households spend 50% or more of their income on housing costs). Figure 13 shows each measure within each region in the UK.

Unsurprisingly, London stands out as the region with the largest proportion of households with a moderate housing-cost burden (19%), and severe burden (13%). There are only three other regions in the UK where the proportion of people who have a moderate housing-cost burden exceeds 10% (South East, East of England and South West). The combination of moderate and severe housing-cost burden in 2011-12 highlights that nearly a third (32%) of households in London experience unaffordable housing costs, while the proportion of people who are housing-cost burdened in the rest of the UK ranges from 9% in Northern Ireland (the only “region” with a proportion below 10%) and 18%, in the South East.

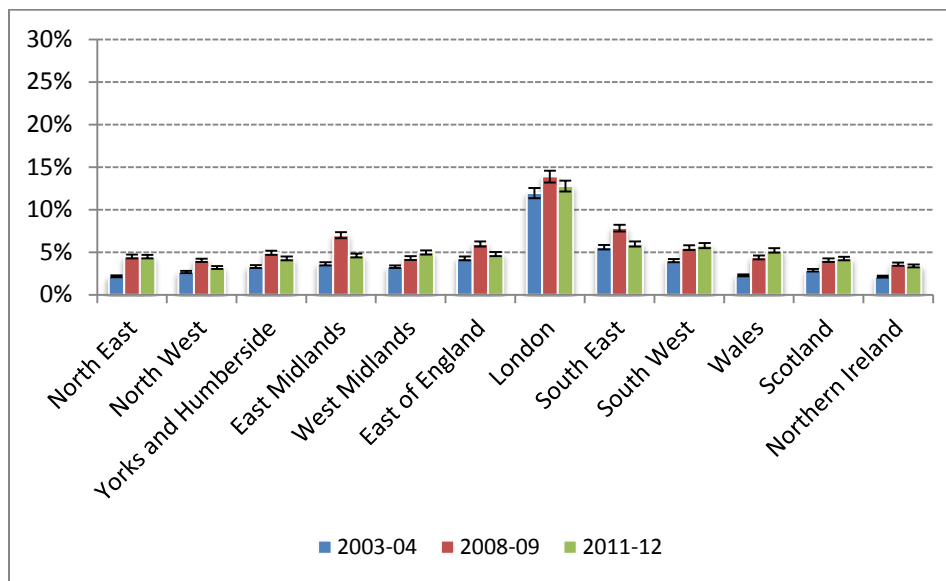
The analysis over time indicates a slight rise in the housing-cost burden for all regions since 2003-04, albeit a negative rate of change is also noticeable for the majority of regions since 2008-09 as a result of the recessionary period.

FIGURE 13: Percentage of households who experience moderate and severe housing-cost burden within each region. United Kingdom, 2003-04, 2008-09 and 2011-12

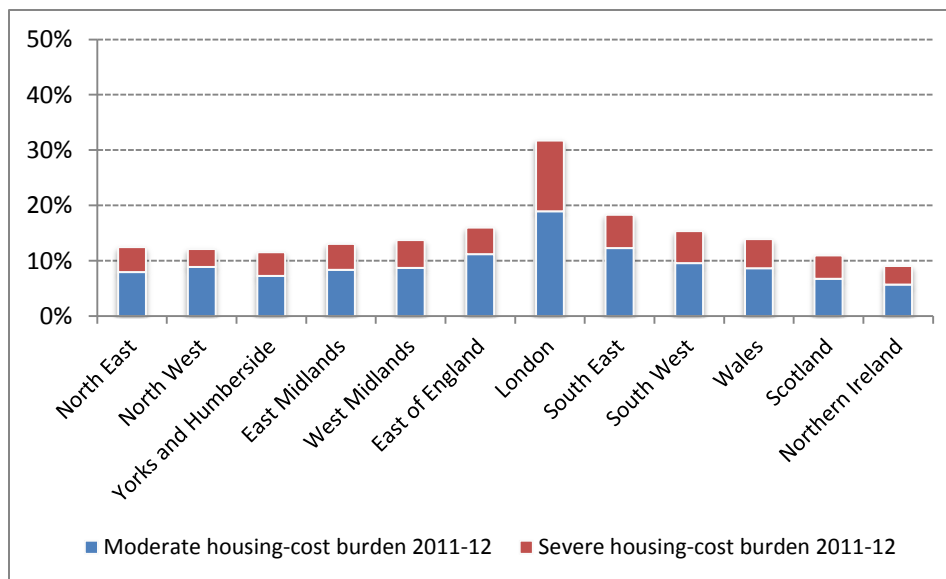
Moderate housing-cost burden (between 31% and 49.9%)



Severe housing-cost burden (equal or greater than 50%)



Housing-cost burden (moderate and severe)



Source: Household Below Average Income, own calculation.

7. CONCLUSIONS

A risky housing system

Access to adequate housing in Britain is more difficult now for many people than for half a century. Compared to many of our international competitors, housing is expensive and of relatively low quality. This research found that the contraction of the welfare state, including housing benefits, means that over 600,000 low-income households in Britain are in difficulty meeting their housing costs (and this may underestimate private renters on LHA as they are under-represented in the Family Resources Survey).

Slow economic recovery, low pay, low savings and high house prices mean there is continued pressure on the housing safety net. Meanwhile, welfare reform has progressively lowered and opened a number of gaps in the housing safety net. Housing is difficult to access. Ladders to homeownership and social renting have rungs missing in terms of deposits and waiting lists, respectively. Private renting provides an alternative for some, but availability, affordability, quality and security are common problems. Low pay, high house prices, and a small rental sector combine to produce a risky combination, stoked by low savings and low take-up of private insurance.

Benefits to help meet housing costs for those on low or no income have been progressively cut back by welfare reforms over the last 20 years, with social tenants, private renters and homeowners all affected. Levels of new house building for both owner occupation and renting have been low for decades and house prices have soared.

The main risks to household income are set out in table 4 below, together with the mitigating factors and housing safety net provision available for each risk.

Risk factors and the Housing Safety Net

Risk factor	Mitigating Factors	Housing Safety Net
Household becoming workless	Skills/employability Buoyant local labour market Savings	HB for social renters Local Housing Allowance for private renters Lender forbearance, SMI (after 13 weeks) and private MPPI for owners
Household experiencing a drop in income but at least one person remains employed	Skills/employability Buoyant local labour market Private income protection insurance or MPPI (but seldom covers a reduction in earnings and rarely covers unemployment) Savings	HB and LHA, subject to means-test on remaining household income. Lender forbearance for owners (under Universal Credit, homeowners are not eligible for SMI if any household member is in employment, irrespective of how few hours are worked).
Separation/family breakdown	Being in employment Savings Housing equity	Social housing (homelessness provision) HB/LHA
Onset of Sickness/Disability in working age	Private income protection insurance or MPPI Partner in employment Qualifying for Employment and Support Allowance Savings Housing equity	HB and LHA, subject to means-test on remaining household income. Lender forbearance for owners (under Universal Credit, homeowners are not eligible for SMI if any household member is in employment, irrespective of how few hours are worked).
Bereavement in working age	Private life assurance Being in employment Savings Housing equity	HB and LHA, subject to means-test on remaining household income. Private life assurance – mandatory for most mortgagors.

As well as more people at risk of falling through the housing safety net, increasing numbers cannot get on the tightrope in the first place. The UK housing system as a whole isn't working. Its failure is damaging both the economy and society.

Holes in the housing safety net

Social renting has progressively shrunk and the wheels have now come off homeownership. A de-regulated private rented sector, which is little more than a cottage industry in Britain, is picking up the pieces, with variable quality of tenancy and property management. At the same time, large holes have been allowed to emerge in the housing safety net, and the net has been lowered well below typical housing costs.

Groups who may find themselves ineligible for support, or with only limited entitlement to support, in meeting housing costs include:

- single people under 35 in the private rented sector;
- working couples in owner occupation who experience a drop in income but at least one person remains employed;
- Couples in the social rented sector without children that do not work are at risk to fall through the housing safety net due to cuts in HB because of 'under-occupancy' and income reductions under the new UC regime.
- The private insurance net provides little cover for those with a rise in expenditures after a family or partnership breakdown, those with a drop but not a loss of income and the self-employed.
- EEA migrants from 1 April 2014.

The lowering of the housing safety net

The social rented sector has continued to shrink. Although the social rented sector provides subsidised housing to many who would otherwise struggle to be adequately housed, access to social housing is not related to income or the affordability of current housing costs. Allocation policies based on housing need mean social housing plays a key role in preventing homelessness and in adequately housing people with particular housing needs arising from sickness or disability. However, social housing can do nothing in the short or even medium term for someone currently unable to pay their rent or mortgage.

The housing safety net available to private tenants (the LHA) often results in a shortfall between LHA level and rent payable due to LHA payment being limited to the bottom 30 per cent of market rents and property size restrictions for single people below the age of 35. Homeowners face a 13-week waiting period before SMI is paid, and the interest rate on which SMI is payable is often below that of the mortgage (currently capped at 3.63%) and the total amount payable over the course of year is capped (currently at £1,940).

Where next?

Housing policy in the UK has seen a progressive shift from 'bricks and mortar' (or supply-side) subsidies to personal (or demand-side) subsidies. Whereas personal subsidies represented only one-fifth of the

housing safety net in 1975/76, recent estimates suggest that this is now more than 90 per cent (Stephens and Whitehead, 2013). In most other European countries, housing subsidies are a more balanced mix of demand-side and supply-side subsidies mainly as a means to keep rents affordable.

Personal subsidies (not least tax relief for mortgage payments, although this has now been removed) together with liberal mortgage lending and low levels of housebuilding have produced high housing costs in the UK. In relation to renting, it is argued that the introduction of Local Housing Allowance (LHA)¹⁸ has encouraged private landlords at the bottom end of the private rental market to increase rents to match LHA payment levels (Stephens and Whitehead, 2013).

The current level of new house building is remarkably low (despite Help to Buy)¹⁹ which has also contributed to high house prices and limited access to affordable housing. Weak housing supply also increases the volatility of house prices to changes in incomes and interest rates which leads to a greater risk exposure for households on low income and/or high LTV ratio (Meen, 2008). Much greater responsiveness of housing supply to house prices is therefore necessary for sustainable homeownership.

Welfare reform has been designed with 'incentivisation' and promoting personal responsibility in mind. Long-run incentive structures are important in a well-functioning income and welfare protection system. However, in the short run, the most effective thing the welfare system can do when a household experiences a drop in income is meet current subsistence needs including housing costs and support and incentivise a return to work.

The incentivisation aspects of welfare reforms, and of housing benefits in particular, have been designed with two important assumptions in mind. First, that suitable jobs are available. Second, that vacant properties that meet housing benefit criteria can be found at a given moment. In many parts of the UK, neither of these assumptions is accurate.

For instance, a couple comprising a working partner and a student renting a modest two-bedroom flat might be surprised to find when the working partner loses their job that the Local Housing Allowance payable falls considerably short of their rent payable to their landlord. Rather than searching for a new job and studying for looming exams, the couple are forced to embark on a fruitless search for a one-bedroom flat in the bottom 30 per cent of the market (the LHA criteria) – few of which exist and none is currently available for let. In order to pay their rent, they decide to sell their car that is required to access most jobs in the area where they live. For many, welfare reform hinders rather than helps a return to work, due to making adjustments to a substantial drop in income which may include finding a new place to live.

A more effective system might be to insure housing costs against loss of income for six months or so until they get back on their feet. If they still require support after six months, then inevitably their

¹⁸ LHA was introduced in 2008.

¹⁹ See, for example, table 209: permanent dwellings completed, by tenure and country
<https://www.gov.uk/government/statistical-data-sets/live-tables-on-house-building>

lifestyle will need to change. Such a welfare system operates without producing so-called welfare 'dependency' in many other European countries.

Britain must – and can – do a better job in both the provision of housing and in protecting those unable to meet their housing costs. Where next could be informed by international comparative research on: rental sectors, subsidy schemes, insurance schemes, and housing safety nets.

ANNEX 1 – METHODS AND DATA

Family Resources Survey (FRS)

The FRS is a major continuous study, sponsored by the DWP²⁰ to provide facts and figures about the living conditions of people in the UK and the resources available to them. The FRS was launched in 1992 and until 2002-03 the survey covered Great Britain but since then the geographical coverage has been all of the UK. The sample size allows confidence in the analysis of smaller groups, including, for instance, breakdowns for recipients of housing benefits (HBs) and regional breakdowns. The overall achieved sample size for the UK is around 24,000 households. FRS data is used for a wide variety of welfare research as the FRS contains detailed information on household's income and circumstances such as household characteristics, mortgages, insurance, earnings, pensions, benefits, childcare and carers or health.

Households Below Average Income (HBAI)

The FRS is also the main source of data used in the HBAI publication, also from the DWP²¹. The HBAI is a key source for data and information about household income which uses the net disposable weekly household income, thus allowing the assessment for material living standards. Comparisons of the living standards of different types of households are possible because the HBAI includes an adjustment known as equivalisation which takes into account variations in the size and composition of households. In doing so, the HBAI assumes that all individuals in the household benefit equally from the combined income of the household. The HBAI presents information of disposable income on two bases: Before Housing Costs (BHC) and After Housing Costs (AHC).

The HBAI information on income BHC captures income from all household members including dependants and includes the following main components:

- usual net earnings from employment;
- profit or loss from self-employment (losses are treated as a negative income);
- all Social Security benefits and tax credits;
- income from occupational and private pensions;
- investment income;

²⁰ A full description and further detail about the content of the FRS is available at <https://www.gov.uk/government/collections/family-resources-survey--2>

²¹ A full description and further detail about the content of the HBAI is available at <https://www.gov.uk/government/publications/households-below-average-income-hbai-199495-to-201112>

- maintenance payments, if a person receives them directly;
- income from educational grants and scholarships (including, for students, top-up loans and parental contributions);
- the cash value of certain forms of income in kind (free school meals, Healthy Start vouchers and free school milk and free TV licence for those aged 75 and over).

The HBAI information on income AHC is computed by deducting a measure of housing costs from the above income measure and includes the following components:

- rent (gross of housing benefit);
- water rates, community water charges and council water charges;
- mortgage interest payments;
- structural insurance premiums (for owner occupiers);
- ground rent and service charges.

Table 1 Single Risk groups – by housing tenure and support categories (households, 000s)

Housing tenure and support categories	All households		Housing Costs > 30% Income		Income < 60% Median (After Housing Cost)		Reporting financial stress	
<i>In the Housing Safety Net:</i>								
rented from Council	2,880	11%	490	14%	770	17%	730	23%
rented from HA	2,280	9%	520	14%	530	12%	560	18%
rented privately (with LHA)	980	4%	520	15%	240	5%	360	11%
owned with mortgage (with SMI)	230	1%	40	1%	70	2%	40	2%
<i>Total</i>	6,380	24%	1,590	44%	1,620	36%	1,720	53%
<i>Not in the Housing Safety Net:</i>								
rented privately	3,040	12%	830	23%	490	11%	600	19%
owned outright	8,870	34%	10	0%	1,630	36%	100	3%
owned with mortgage	8,120	31%	1,150	32%	750	17%	800	25%
<i>Total</i>	20,050	76%	2,000	56%	2,880	64%	1,500	47%
Total	26,440	100%	3,590	100%	4,500	100%	3,230	100%

Source: Family Resources Survey, own calculations

Table 2 Percentage of each multiple-risk group in each housing tenure and support category

Housing tenure and support categories	All households	Housing Costs >30% Income AND Income < 60% Median (After Housing Cost)	Housing Costs >30% Income AND Income < 60% Median (After Housing Cost) AND Reporting financial stress
<i>Receiving some support:</i>			
rented from Council	11%	17%	23%
rented from HA	9%	17%	23%
rented privately (with LHA)	4%	16%	33%
owned with mortgage (with SMI)	1%	1%	1%
<i>All households receiving some support</i>	<i>24%</i>	<i>51%</i>	<i>80%</i>
<i>Receiving no support:</i>			
rented privately	12%	23%	12%
owned outright	34%	5%	1%
owned with mortgage	31%	22%	7%
<i>All households receiving no support</i>	<i>76%</i>	<i>49%</i>	<i>20%</i>
All households	100%	100%	100%

Source: Family Resources Survey, own calculations

Table 3 Percentage of each housing tenure/support category falling through the housing safety net

Housing tenure and support categories		Housing Costs >30% Income AND Income < 60% Median (After Housing Cost)		Housing Costs >30% Income AND Income < 60% Median (After Housing Cost) AND Reporting financial stress
<i>Receiving some support:</i>				
rented from Council		20%		5%
rented from HA		25%		6%
rented privately (with LHA)		55%		21%
owned with mortgage (with SMI)		14%		3%
<i>All households receiving some support</i>		<i>27%</i>		<i>8%</i>
<i>Receiving no support:</i>				
rented privately		26%		3%
owned outright		2%		0%
owned with mortgage		9%		1%
<i>All households receiving no support</i>		<i>8%</i>		<i>1%</i>
All households		13%		2%

Source: Family Resources Survey, own calculations

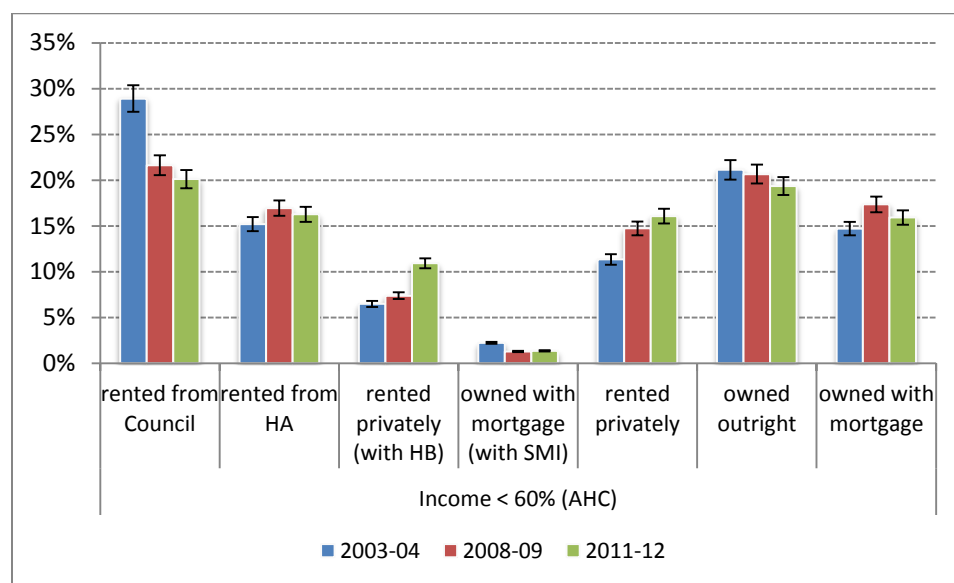
ANNEX 2 - ANALYSIS BY INCOME THRESHOLDS

This appendix reports analysis by three incomes thresholds. It is not included in the main body of the report in the interests of space. It initially provides an analysis of the between group variation across different tenure types of those who fall through the housing safety net using the 'standard' poverty line (below 60% of median income) with separate analysis for London. Figure 13 displays the percentage of benefit households and households with and without housing state support (Housing Benefit and Support Mortgage Interest) across tenure types using the abovementioned poverty threshold. The results for the UK as a whole indicate that, in 2011-12, the largest tenure groups with incomes below 60% of contemporary median income after housing costs were those who rented from Councils (20%) and owned outright (19%), thus meaning that a fifth of benefit households and households who live in these two tenures fall below the 60% of median income. Although the overall share of these two tenure groups decreased since 2003-04 by 9 and 2 percentage points respectively, they still remain the largest ones in the UK. Meanwhile, those who rented privately without support (16%) and with support (11%) increased their share since 2003-04 by 5 and 4 percentage points respectively, which puts them on a level similar to owners with mortgage (16%). The significance of owners with SMI remains marginal (1%) and even decreased over the same study period by 1 percentage point. While the same picture is largely replicated in England without London, the London area is particularly different, with a clear overrepresentation, above all, of private renters without support (22%), and with support (14%) who fall below the 60% of median income.

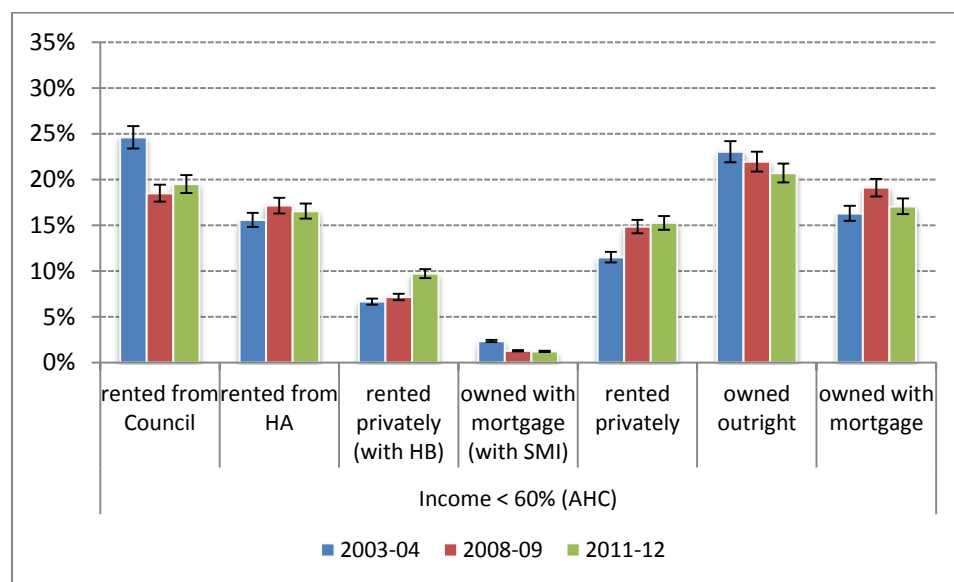
Although this type of analysis is useful to examine the overall distribution of poverty across tenure types, it is noteworthy to mention that it is largely affected by the size of each tenure group. Since the most common forms of tenure in the UK are home-ownership (including home owned outright and mortgaged) and renting (including social rented housing and private rented housing), it is expected that some tenure types such as home-ownership with mortgage and SMI appear as a residual category. In order to solve this issue, the next section provides information of the proportion of benefit households within each tenure type who experience poverty at 50%, 60% and 70% thresholds and, therefore, may be considered to be falling through the housing safety net.

FIGURE 13: Percentage of benefit households and households with and without housing state support (Housing Benefit and Support for Mortgage Interest) by tenure and with incomes below 60% of contemporary median net disposable income after housing costs (AHC), for years 2003-04, 2008-09 and 2011-12

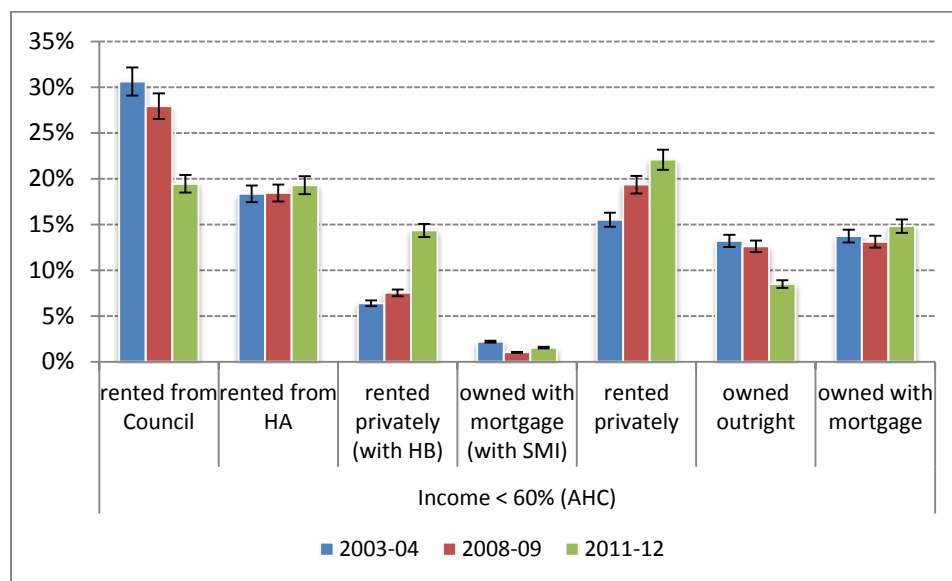
United Kingdom



England without London



London



Source: Household Below Average Income, own calculation.

This appendix now provides an analysis of the within group variation for different tenure types of those who fall through the housing safety net using three poverty lines: most extreme poverty (below 50% of median income), moderate poverty (below 60% of median income) and least extreme poverty (below 70% of median income). While the first poverty line (50% threshold) captures households below the most austere poverty line, the second and third thresholds (60% and 70%) include low and middle-income households who fall below these relative lines and, therefore, can be considered people to be at-risk-of poverty. This approach of using relative measures of income poverty is widely used because it provides a straightforward interpretation of the percentage of the population that earns less in comparison to average earnings.

Within this context, Figure 14 shows the share of benefit households and households within each tenure type with incomes below 50%, 60% and 70% of the contemporary median net disposable after housing costs. The results indicate that benefit households (with HB and SMI) have a greater proportion of people below the poverty thresholds than households without housing state support. For instance, in the UK, nearly one third (29%) of households who received HB lived with incomes below the 50% threshold, whereas recipients of SMI accounted for twenty percent in 2011-12. This pattern is also found for incomes below the 60% and 70% thresholds, although the share of these groups is much

larger: 43% and 32% for HB and SMI within the 60% threshold and 43% and 45% within the 70% threshold respectively. It is worth noting that while a gradual decrease is observed since 2003-04 for both groups in the extreme (50%) and standard poverty threshold (60%), particularly for those receiving SMI, the levels of least extreme poverty (70%) for these two groups has increased for HB group since 2003-04 (by 5 percentage points) and for SMI recipients since 2008-09 (by 1 percentage point).

Although there are several signs that the UK economy is bouncing back and many people are returning to work after the economic recession and its aftermath, it is increasingly apparent that people are often taking jobs with lower wages and less job security, compared with the jobs they held before the economic downturn. As a consequence, the proportion of low and middle income groups which require housing state support is growing.

A further breakdown of the analysis using the most common tenure types with and without housing state support in the UK reveals significant differences within each tenure in terms of poverty levels. For instance, within the group of private renters, particularly those who receive HBs, there is a large percentage (43%) who experience poverty within the 50% threshold in 2011-12. Meanwhile, the share of benefit households and households who experience such poverty level within other tenures is much smaller, although it still affects more than a quarter of renters from Councils (27%) or Housing Associations (26%), and more than a fifth of those who rent privately without HBs (23%) or own with a mortgage but require SMI (20%). At the other end, the results indicate that the proportion of outright owners or owners with a mortgage (without SMI) who experience extreme poverty is relatively small (8%). While this view of extreme poverty is very useful, gaining insight into the distributions of moderate and least extreme poverty levels within each tenure type is equally important in a context of growing economic insecurity for working and middle-class families. For instance, in 2011-12, more than two thirds of benefit households who lived as private renters with HBs (62%) endured poverty within the 60% threshold, and nearly three quarters of them (74%) experienced poverty within the 70% threshold. This basically means that despite receiving housing state support the majority of private renters are falling through the existing housing safety net. At the same time, the results also indicate that nearly two fifths of renters from both Councils and Housing Associations (39%), a third of owners with mortgage and SMI (32%), and nearly a third of private renters without HBs (29%) suffer poverty within the 60% threshold. As expected, these proportions are even larger within the least extreme (70%) poverty threshold, with more than half of renters from Housing Associations (55%), Councils (53%),

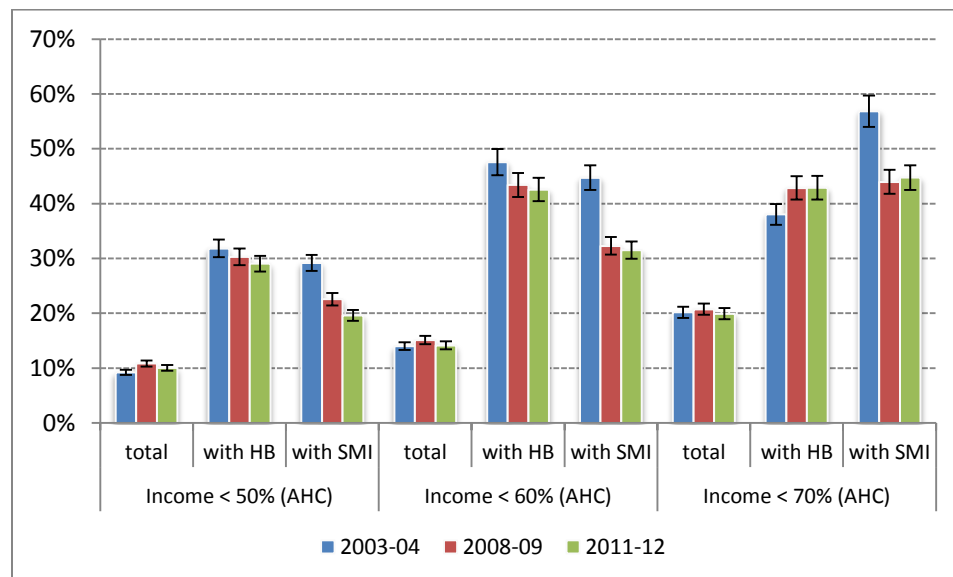
owners with mortgage and SMI (45%) and private renters without housing state support (36%) who undergo such poverty levels.

The analysis over time for the three poverty levels indicates a general downward trend in poverty levels within each tenure type, with the exception of owners with a mortgage who have seen a slight increase (between 1 and 2 percentage points) since 2003-04. Although the steady downward trend in poverty levels for each tenure type is a positive sign, caution is necessary because a reduction in relative poverty can also be the result of growing socioeconomic homogeneity between those at the bottom and middle of the income distribution, a situation that is very likely if the economic conditions continue to adversely impact too many lower-middle class families alike.

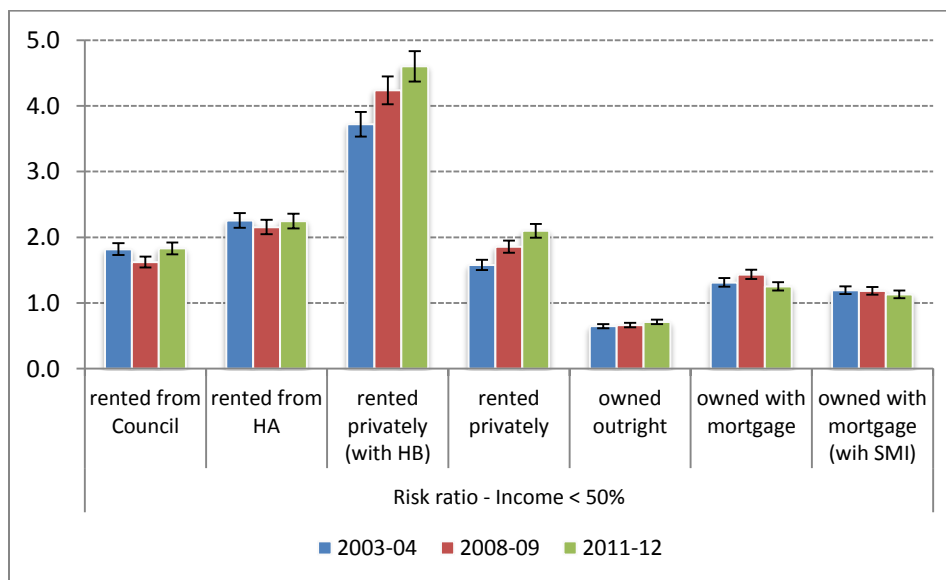
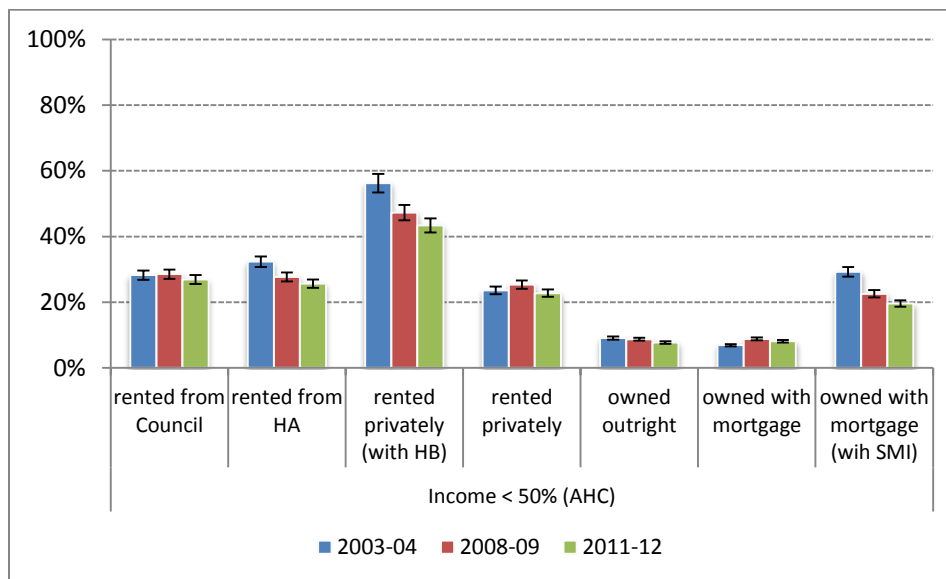
In order to assess the impact of housing costs on the three poverty levels, risk ratios which capture the difference before and after housing costs (BHC-AHC) within each tenure group are provided. The interpretation of these risk ratios is also straightforward. While a ratio of one means that there is no change as a result of housing costs (i.e. poverty levels remain unchanged), a ratio which is greater than one or less than one means that housing costs either increase (ratio greater than one) or decrease (ratio less than one) the proportion of people within poverty. The results clearly indicate how housing costs greatly contribute to the proportion of benefit households and households who experience poverty. For instance, the proportion of benefit households with incomes below 50% who rent privately and receive HBs increases 4.6 times after taking into account housing costs, whereas the proportion of private renters without housing state support and with incomes below 50% also increases 2.1 times after including housing costs are imputed. The results also illustrate that the proportion of benefit households with incomes below 50% who rent socially also grow between 2.2 (Housing Associations) and 1.8 times after considering housing costs. Although these tenure groups have the largest risk ratios for each income threshold, the analysis also shows that the differences are much smaller for incomes below 60% and 70%, thus indicating that housing costs are felt most significantly among those with the smallest net disposable incomes (i.e. below 50%).

FIGURE 14: Percentage of benefit households and households with and without housing state support (Housing Benefit and Support for Mortgage Interest) within each tenure type by income thresholds before and after housing costs (BHC-AHC). United Kingdom, 2003-04, 2008-09 and 2011-12

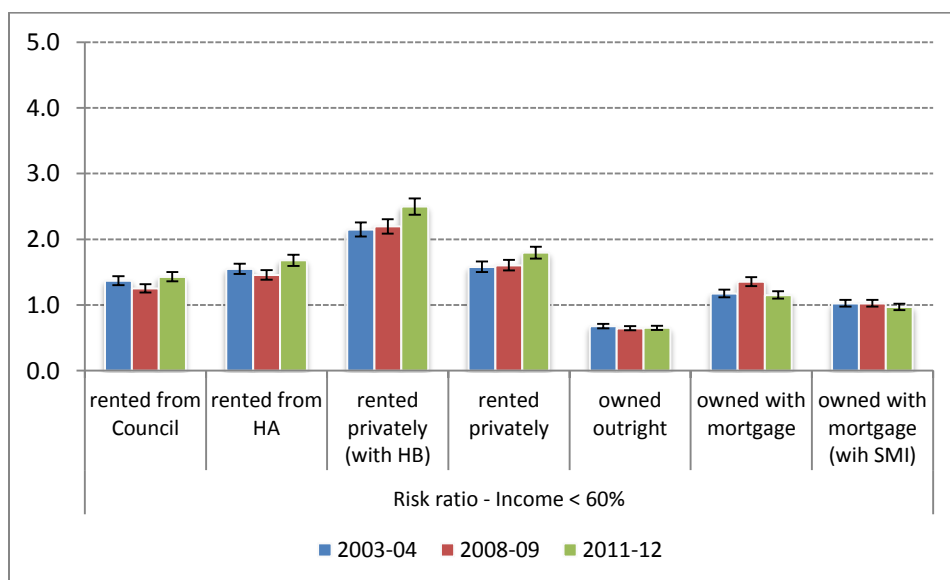
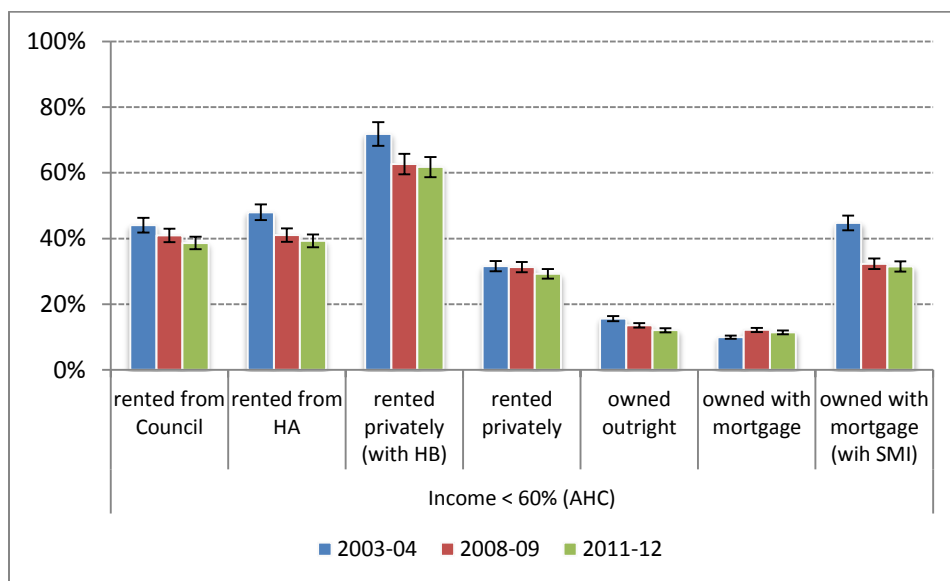
United Kingdom – all income thresholds



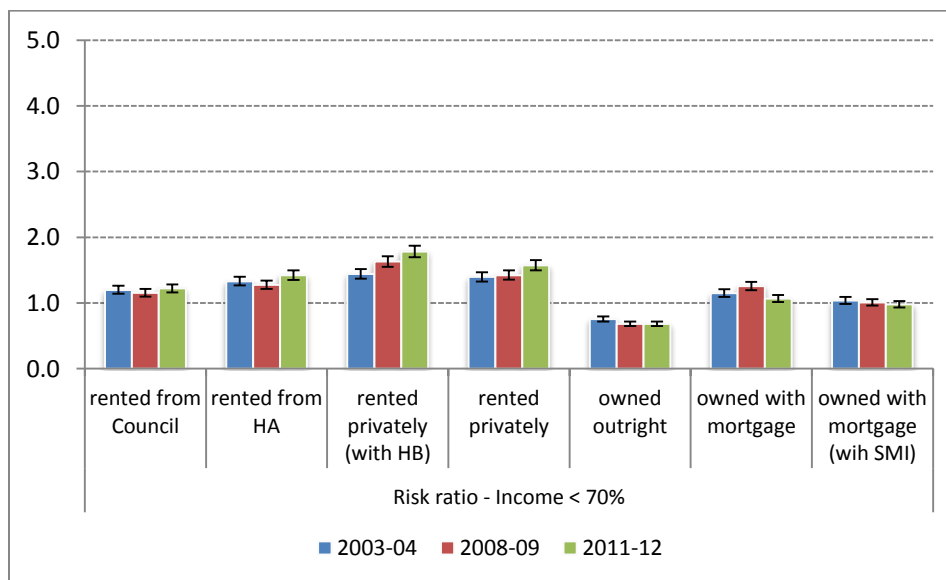
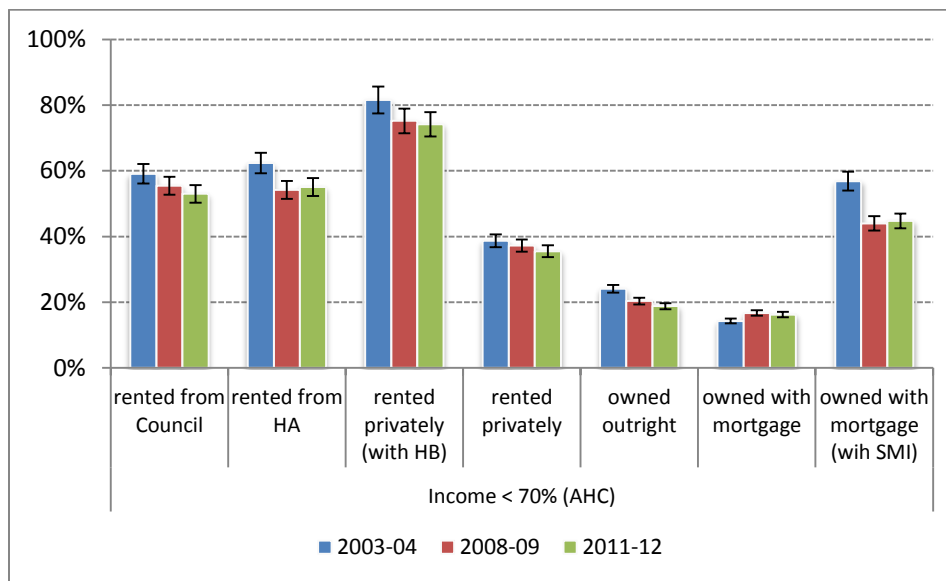
United Kingdom – Income < 50%



United Kingdom – Income < 60%



United Kingdom – Income < 70%



Source: Household Below Average Income, own calculation.

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