

Housing Rights

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Consultation Response

House of Lords Select Committee on Financial Exclusion: Call for Evidence

September 2016

when everyone has a 

1. INTRODUCTION

- 1.1 Housing Rights is the leading provider of specialist housing advice in Northern Ireland, with over 50 years' experience of advising, supporting and representing clients on housing issues. We believe that prevention is the best cure, and work to prevent homelessness by sustaining our clients' tenancies wherever this is possible.
- 1.2 In the course of our work, we regularly advise and represent clients who are financially excluded. In our experience, financial exclusion is a significant concern in Northern Ireland, and the patterns of this exclusion are often distinct from the rest of the United Kingdom. Housing Rights is therefore grateful for the opportunity to offer some comments on several topics highlighted in the Select Committee's call for evidence.

2. SUMMARY

- 2.1 Housing Rights regularly offers advice, support and representation to clients whose housing situation has been impacted detrimentally as a consequence of their financial exclusion. In the course of our work, we support people living in all housing tenures, with some common themes being the inability to access affordable credit, accumulation of debt(s) and the difficulty of meeting basic living expenses. Clients' financial exclusion can often interact with other forms of exclusion, particularly digital and rural exclusion.
- 2.2 Housing Rights views access to independent advice and support as valuable in terms of helping individuals suffering from financial exclusion to maximise their income, and make informed spending and budgeting decisions. Our experience of providing training to social landlords and tenants underlines the importance of equipping landlords and empowering tenants with skills and knowledge to combat financial exclusion. This training can also be useful in enabling social landlords, or lenders, to work constructively with financially excluded tenants and clients.
- 2.3 Housing Rights views access to affordable credit, in combination with access to effective knowledge, skills and support, as an effective route out of financial exclusion for affected households. 2013 research commissioned in partnership with the Consumer Council (NI) suggests that the credit union movement in Northern Ireland has the potential to play a major strategic role in the provision of financial services for financially excluded households.
- 2.4 Recent and pending reforms to the welfare system may come to have negative effects on the financial exclusion of many of Housing Rights' clients. Reforms including the roll-out of Universal Credit; the Benefit Cap; and the ongoing freeze on Housing Benefit in the private rented sector, risk causing rent arrears and otherwise increasing the financial exclusion of our client base.

3. Causes & experience of financial exclusion

3.1 Housing Rights regularly advises, supports and represents clients who can be described as “financially excluded”, who are unable to access financial products such as banking, savings, investments, assets, insurance and affordable credit. These clients come from all housing tenures.

3.2 Clients in the social and private rented sectors are particularly vulnerable to financial exclusion: these clients are generally on relatively low incomes and/or in receipt of benefits, and do not own their home as an asset. The NI Housing Executive’s Financial Inclusion Strategy 2016-19 states that social tenants make up 60% of financially excluded people in Northern Ireland, with almost half of social tenants having an annual income of less than £10,400 and 20% having no bank or building society account.¹ With regards to the private rented sector, Housing Rights notes recent Joseph Rowntree Foundation research indicating increasing numbers of private renters in poverty in Northern Ireland.² Mainstream lenders generally consider these clients, with relatively low incomes and few assets, as posing a higher risk of default, which in turn pushes these clients toward costlier credit options such as payday or doorstep lenders.³

3.3 The recession and associated housing market crash of the late-2000s has also contributed to a significantly increased number of homeowners who are financially excluded. The property crash has been of a much greater magnitude and length in Northern Ireland, than in the rest of the United Kingdom: whilst average UK house prices have exceeded pre-crash levels of £190,000 to reach £214,000 at most recent statistics, Northern Ireland average prices have almost halved – from £225,000 to £123,000 – in the same period.⁴ According to a 2014 report by the Housing Repossessions Taskforce, 41% of Northern Irish mortgage borrowers were in negative equity – the highest of any UK region.⁵

3.4 This has resulted in a growing number of Housing Rights clients who are owner-occupiers, and who are financially excluded due to (for example) no longer being able to maintain existing mortgage commitments; having poor or no credit histories; or having low incomes. Many of these clients have been targeted by intermediary brokers or sub-prime lenders, resulting in mortgages or secured loans at high interest rates.

¹ See NI Housing Executive (2016) ‘Financial Inclusion Strategy, 2016-2019’, p5

² See Joseph Rowntree Foundation (2016) ‘Monitoring Poverty & Social Exclusion in Northern Ireland’, p2

³ See Housing Rights Service (2009) ‘Financial Inclusion and Housing Debt in NI’, p4

⁴ See Figs 2 & 3, <http://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/housepriceindex/june2016#uk-all-dwellings>

⁵ Housing Repossessions Taskforce (2014) ‘Initial Evidence Paper: Negative Equity, Arrears and Possessions in Northern Ireland’, p8

3.5 Housing Rights notes the interaction between financial exclusion and digital exclusion, and the potential for financial exclusion to be more pronounced in rural areas. Research by the Joseph Rowntree Foundation and the Financial Conduct Authority has highlighted the issues which rural communities can face in terms of access to mainstream financial services, driven by a combination of low levels of internet access⁶ and closures of Post Offices and local bank branches.⁷ This interaction of financial and rural exclusion is of particular concern in relation to pending reforms to the welfare system (see section 6 below), given the “digital-by-default” emphasis of Universal Credit.

3.6 Overall, in Housing Rights’ experience, financial exclusion is an increasing concern for our clients across all tenures. More and more of our clients are reporting difficulties in meeting basic living requirements and accessing affordable credit.

⁶ For example, the Northern Ireland Neighbourhood Information Service’s 2014 dataset on Internet Access reports up to 31% of the population in parts of NI have no home internet access (ninis2.nisra.gov.uk/public/PivotGrid.aspx?ds=6975&lh=63&yn=2005,2007-2014&sk=10&sn=People%20and%20Places&yearfilter=); this compares to just 15% across Great Britain (<https://www.ons.gov.uk/peoplepopulationandcommunity/householdcharacteristics/homeinternetandsocialmediausage/bulletins/internetaccesshouseholdsandindividuals/2014-08-07#main-points>).

⁷ See Mitton L (2008) ‘Financial Inclusion in the UK: Review of policy and practice’ [Joseph Rowntree Foundation](#), and Rowe B et. al. (2015) ‘Mind the gap: Consumer research exploring experiences of financial exclusion across the UK’ [Financial Conduct Authority](#)

4. Financial education

4.1 Housing Rights offers financial capability training and education to social landlords and to advisers working with the financially excluded. We have found such education to be valuable in terms of helping individuals suffering from financial exclusion to maximise their income, and make informed spending and budgeting decisions. Such training is also valuable for social landlords and lenders, in enabling them to work with their tenants and clients to develop constructive solutions to housing debt issues, and improve their approaches to excluded clients.

4.2 Since 2014, Housing Rights has delivered training entitled 'Made of Money', a 2-day interactive course which goes beyond traditional "money advice and information" to look at assisting households to improve personal money management, re-evaluate or change shopping habits, avoid high-interest loans, reduce energy use and set financial goals. Attendees have included staff from the NI Housing Executive, officials from Belfast City Council, and several housing associations. Earlier this year, Housing Rights was appointed by the Northern Ireland Housing Executive to deliver financial capability training to 600 staff in the next two years. This training covers subjects such as priority and non-priority debts; budgeting and preparing financial statements; and the link between financial inclusion and tenancy sustainment.

4.3 Housing Rights has also delivered this training directly to tenants, in partnership with Clanmil Housing Association. The course was targeted directly at tenants in rent arrears, and proved effective:

"Interesting results from the first cohort from last year. 3 of them have cleared arrears (over 3/4K) so quote a good result. And quite a few of the others have stuck to agreements." [Eddie Smith, Clanmil Housing Association]⁸

4.4 Finally, Housing Rights also offers extensive online assistance through our public advice website, housingadviceNI. This website has dedicated sections on help with debt⁹ and "do-it-yourself" money and budgeting tools¹⁰, including several budgeting tools syndicated from the Money Advice Service.

⁸ See <http://www.housingrights.org.uk/news/promo/supporting-those-work-make-people-more-financially-capable>

⁹ See <http://housingadviceni.org/help-debt>

¹⁰ See <http://housingadviceni.org/do-it-yourself>

5. Financial exclusion and access to affordable credit

5.1 Housing Rights feels that access to affordable credit, in combination with effective financial training for individuals, landlords and lenders, can make a significant contribution to the reduction of financial exclusion.

5.2 In 2013, in partnership with the Consumer Council NI, Housing Rights commissioned research into financial inclusion and the expansion of credit union financial services in Northern Ireland.¹¹ This research found that the credit union movement has the potential to play a major strategic role in the provision of financial services for financially excluded households in Northern Ireland.

5.3 Credit unions serve around 34% of the Northern Irish population, compared to just 2% of the population of Great Britain.¹² Participants in the research regarded credit unions as 'community-based institutions that were approachable, friendly and designed for working people'¹³, and were eager for credit unions to offer services such as current accounts, bill payment facilities and budgeting accounts to assist with money management. The report concludes that with their strong base in the community and their commitment to social justice, Northern Irish credit unions were in a strong position to further expand their product and service range to financially excluded communities.

5.4 The NI Housing Executive's recently published Financial Inclusion Strategy¹⁴ has committed to explore the potential for the development of a strategic partnership with credit unions, along with other relevant partners, to encourage tenants to save and facilitate access to affordable credit.

5.5 Finally on this topic, Housing Rights notes the report of the NI Executive's Welfare Mitigations Working Group¹⁵, which recommends the implementation of Welfare Reform in Northern Ireland is accompanied by a financial adjustment project, including direct funding for credit unions to provide accessible credit to households negatively affected by Welfare Reform.

¹¹ Jones PA (2013) 'Towards Financial Inclusion: The expansion of credit union financial services for low-income households in Northern Ireland' [Housing Rights Service/ Consumer Council NI](#)

¹² Ibid., Executive Summary

¹³ Ibid.

¹⁴ See http://www.nihe.gov.uk/financial_inclusion_strategy_2016-19.pdf

¹⁵ See <https://www.executiveoffice-ni.gov.uk/sites/default/files/publications/ofmdfm/welfare-reform-mitigations-working-group-report.pdf>, pp34-36

6. Welfare reforms and their impact on financial exclusion

6.1 Recent and pending reforms to the welfare system may come to have negative effects on the financial exclusion of many of Housing Rights' clients.

6.2 Recent research by the Chartered Institute of Housing¹⁶ has found that uprating reductions and freezes on Housing Benefit in the private rented sector, has resulted in significant and growing gaps between the amount of Housing Benefit payable to households in the sector and their actual rent liability.

6.3 Since 2008, Housing Benefit has been calculated for private tenants using the Local Housing Allowance system. The United Kingdom was split into 200 "Broad Rental Market Areas" – Northern Ireland has 8 - and within each of these areas, Housing Benefit would be paid up to a maximum of the 50th percentile of the market, meaning Housing Benefit would pay for, at most, the cheaper half of the private rented sector in any given area.

6.4 Since 2011, several changes have combined to substantially reduce the amount of Housing Benefit actually payable to private tenants:

- 2011: The reduction of the LHA rate from the 50th percentile to the 30th percentile, meaning Housing Benefit will only cover the cheapest 30% of the private rented sector in any given area.
- 2012: The extension of the "Shared Room Rate" of LHA – which entitles claimants to only enough Housing Benefit to pay for a single room in a shared house – from claimants under 25 up to claimants under 35.
- 2013/14: The uprating of the LHA rates was changed. Instead of an annual evaluation of all rents in any Broad Rental Market Area, LHA rates were capped at inflation, as measured by the Consumer Prices Index.
- 2014/15: The uprating of the LHA rates was capped at 1%.
- April 2016: LHA rates frozen completely for 4 years.

6.5 These changes have combined to result in substantial real-terms cuts to the Housing Benefit available to private tenants, in Northern Ireland and across the United Kingdom. Research by the Chartered Institute of Housing has analysed the impact of these measures: in Northern Ireland, 80% of LHA rates no longer pay for the bottom 30% of the local market as they purport to. Shortfalls are currently as high as £9.46 per week¹⁷; these shortfalls are likely to rise substantially across the current 4-year freeze of Housing Benefit.

¹⁶ Chartered Institute of Housing (2016) 'Mind the gap: the growing shortfall between private rents and help with housing costs'

¹⁷ Chartered Institute of Housing (2016) 'Mind the gap: the growing shortfall between private rents and help with housing costs', p10

6.6 In practical terms, this has resulted in households having to resort to other benefits or earnings in order to pay their rent, resulting in increased financial exclusion. In 2015/16, we dealt with 2,480 issues on affordability, rent arrears and shortfalls in the private rented sector: we expect this number to grow over the next few years, due in part to these real-term reductions in Housing Benefit.

6.7 Another significant concern, in terms of financial exclusion, is the pending introduction of Universal Credit to Northern Ireland. Although Universal Credit purports to improve the budgeting and financial capability skills of recipients by (for instance) paying monthly in arrears, similar to salary payments¹⁸, evidence from its implementation thus far suggests that it is having a significant negative effect on households' financial exclusion.

6.8 Recent research by the National Federation of ALMOs and the Association of Retained Council Housing¹⁹ has found that 79% of social tenants in receipt of Universal Credit were in arrears; this compares to just 31% of social tenants overall. In addition to this, the report details that around half of those households in rent arrears, and receiving Universal Credit, had no pre-existing arrears. Participants in this research have attributed this to the initial 6-week delay in payment of Universal Credit, which forces many recipient households – who are generally on low incomes, with little savings – into rent arrears by default.

6.9 Finally, it is highly likely that the Benefit Cap will have a significant and negative impact on the financial exclusion of households in Northern Ireland. The current cap – set at £26,000 per year for families or couples, and £18,200 for single adults – affects approximately 400 households in Northern Ireland, who lose an average of £53.90 per week. When this cap is lowered – to £20,000 and £13,400 per year respectively – around 2,440 households will be affected, losing an average of £63.20 per week. Some of these households will, in fact, lose more than £200 per week.²⁰

6.10 In respect of Universal Credit and the Benefit Cap, Housing Rights wishes to acknowledge several mitigations enacted by the NI Executive that will (at least initially) lessen some of the negative impacts of these measures: these mitigations include twice-monthly payments of Universal Credit, provision for emergency payments in the case of Universal Credit system failures, and initial supplementary payments for households affected by the Cap.²¹ These local mitigations should not, however, distract from the significant negative potential

¹⁸ See gov.uk/government/publications/help-with-budgeting-your-universal-credit/universal-credit-help-with-managing-your-money

¹⁹ See NFA/ARCH (2016) 'Universal Credit – One Year On: 2016 NFA & ARCH Welfare Reform Survey Findings'

²⁰ See Department for Social Development (2016) 'Northern Ireland: Benefit Cap Information Booklet'

²¹ See Northern Ireland Executive (2016) 'Welfare Reform Mitigations Working Group Report'

which these reforms hold, in the absence of mitigations, in terms of financial exclusion.

For further information on this policy response, contact our Policy & Public Affairs Officer,
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