RPR0005

Written evidence submitted by StepChange Debt Charity

Summary

- An increasing proportion of financially and otherwise vulnerable households are PRS tenants without due consideration of how well PRS sector regulation and landlords are placed to meet these tenants' needs
- A similar proportion of PRS households have characteristics of vulnerability to those in the social rented sector, such as having a low income, disability or health condition, but enjoy fewer rights and protections.
- PRS households are experiencing harm linked to housing insecurity and poor quality arising from their vulnerable situation and limited tenant rights and protections. Among StepChange clients there is evidence that PRS tenants are more likely than social tenants to use unsecured credit to keep up with rent in a way that is unsustainable.
- The Government's proposals to end section 21 evictions are welcome. However, the Government's proposals to reduce the number of months of rent arrears that trigger a mandatory 'ground 8' eviction from two months to one month will exacerbate housing insecurity and the precarious situation of vulnerable PRS tenants.
- The Government should consider more broadly how its proposals for rent reform will ensure PRS tenants who experience life shocks and financial difficulty have appropriate protections and support.

Introduction

StepChange Debt Charity is the largest specialist debt advice charity working across the UK to support people struggling with problem debt. In 2021 we were contacted by almost 500,000 people seeking information and advice about debt.

We welcome this Public Accounts Committee inquiry into regulation of private renting. In 2021 over a third (35%) of people who received debt advice from StepChange were private rent sector tenants. This compares to 32% who were social tenants and 14% who were homeowners with a mortgage or shared ownership. In contrast, the Nation Audit Office (NAO) report *Regulation of private renting* finds that 19% of properties in England are privately rented, 17% socially rented and 64% owner-occupied[1]. So in recent years, problem debt, and the financial vulnerabilities that drive it, have overwhelmingly been a problem for renters and increasingly private sector renters in particular.

In this submission we will present evidence on the nature and circumstances of StepChange clients housed in the private rented sector (PRS). This will show a financially and otherwise vulnerable

[1] National Audit Office (2021), *Regulation of private renting*. https://www.nao.org.uk/wp-content/uploads/2021/09/Regulation-of-private-renting.pdf

group of PRS tenants struggling to afford rent and keep up with other essential bills. In many ways these PRS tenants look like StepChange clients who are social tenants; however, the PRS tenants have less housing security, less protection from eviction for rent arrears, a higher rent affordability burden and, as the NAO report shows, fewer guarantees on the quality and suitability of housing.

Our evidence reflects the NAO report findings, that as the proportion of people living in the PRS has increased significantly, the sector 'is increasingly populated by low-income groups, benefit recipients and families, whose access to other housing options may be limited'. However we do not believe that PRS regulation, or the Government's broader housing strategy has kept pace with these changes.

Financially and otherwise vulnerable PRS tenants are in a poor position to exercise their rights, and those rights are currently insufficient to support their needs and vulnerable circumstances. That is not to say that the issues and challenges raised by our clients' experiences are solely or mainly about regulating landlords, though this is important. The growth of the PRS has seen an increasing number of people housed in a sector that is poorly equipped to meet their needs. Addressing the harm and hardship that StepChange clients report will require a refreshed and updated housing strategy that reflects this reality.

The characteristics of StepChange clients living in the PRS

For this submission we have analysed data on the characteristics of around 159,000 people who received debt advice from StepChange in 2021. Of these clients, nearly 54,000 (35%) were living in the PRS.

Households with children

Nearly 69,000 of these households (43%) contained children, with the great majority (51,000 households) living in the rented sector and 36% (25,000 households) living in the PRS. So in 2021, 130,000 children lived in highly financially vulnerable households seeking debt advice from StepChange. 46,000 of these children (35%) lived in the PRS, with a not dissimilar 40% living in the social rented sector.

Some 24% of PRS StepChange clients in 2021 were single parent households.

Almost 22,000 children lived in households with rent arrears: 5,200 of these in households living in the PRS. The low legal protections for PRS tenants with rent arrears suggest these households with children may be particularly vulnerable.

Additional vulnerability

The Financial Conduct Authority (FCA) *Guidance for firms on the fair treatment of vulnerable customers* highlights four key drivers of vulnerability: health, life events, resilience and capability[2]. All StepChange clients are vulnerable as a result of their financial difficulties, but some 53% of Stepchange clients have an additional vulnerability, such as mental or physical health problems or a disability. This is also true of StepChange clients living in the PRS, 50% of whom have an additional

[2] Financial Conduct authority (2021) FG21/1: *Guidance for firms on the fair treatment of vulnerable customers*. https://www.fca.org.uk/publication/finalised-guidance/fg21-1.pdf

vulnerability. **Among PRS households with rent arrears** the proportion with an additional disability increases to 62%.

Work and income

45% of Stepchange client households living in the PRS have someone in full time work, a higher proportion than for all StepChange clients (38%). Including part time work, self-employment and people working on zero-hours contracts, 61% of StepChange client PRS households include someone in work. While the proportion of households with someone in full time or any work is higher than for social tenant households (21% for full time, 38% for any work), this has not been enough to keep these PRS households out of financial difficulty.

The mean average income of Stepchange PRS clients was £1,552 per month, or £18,699 per year. This is somewhat higher than the average yearly income of all Stepchange clients (£16,904) and higher than the income of housing association tenants (£16,117). These income figures have not been equivalised so cannot be directly compared to average UK household disposable income figures reported by the Office for National Statistics. However the ONS report that in 2020 the mean UK equivalised UK household was £36,900 and the median was £29,900[3]. The suggests these StepChange clients are part of a group of lower income PRS households who are struggling to make ends meet.

The incomes of StepChange PRS clients with rent arrears are lower still, at £16,605 per year and this is comparable to StepChange clients living in the social rented sector.

Universal Credit support

35% of StepChange clients living in the PRS are in receipt of Universal Credit (UC), which includes 9% of PRS households with someone in full time work and 16% of households with someone in any work. This is slightly more than the figure for all StepChange clients but somewhat less than the 47% of social tenants in receipt of UC. However, for clients with rent arrears a higher proportion were in receipt of Universal Credit and the gap between PRS and social tenants is narrower; 52% of PRS tenants with rent arrears were in receipt of UC compared to 58% for social tenants.

A Stepchange client survey published in our 2018 report *Locked Out* found that, while many tenants said housing support (through Housing Benefit or the housing element of UC) was very important in helping them to keep their home, 72% of renters said housing support did not cover the full cost of their rent and this rose to 90% for PRS respondents[4]. This may explain why UC receipt is higher amount clients with rent arrears.

Rent to income ratio

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[3] Office for National Statistics (2021): *Average household income, UK: financial year 2020*. https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/householddisposableincomeandinequality/financialyear2020

[4] StepChange Debt Charity (2018). *Locked Out: How problem debt affects people's housing situations*. https://www.stepchange.org/Portals/0/documents/Reports/locked-out-nov-2018.pdf

While StepChange clients who are PRS tenants have a higher average income than social tenants, they also have higher average rents (including rents after housing support). For instance we estimate PRS average rents are £225 per month higher that the average rent for StepChange clients living in housing association accommodation.

As a result rent costs take up 41% of StepChange PRS client income on average (compared to 27% of housing association tenant clients). This rises to 54% of income taken by rent costs for PRS clients with rent arrears.

Deficit budgets

A deficit (or negative) budget is an important concept in debt advice that refers to the situation where a person or household has insufficient income to cover basic expenditure even after budgeting counselling. Our ongoing research into debt advice outcomes highlights how people with negative budgets are much more likely to continue to fall behind or further behind on essential bills. So having a negative budget can be a marker of severe and ongoing financial vulnerability.

33% of Schange PRS clients in 2021 had a negative budget, which was broadly the same as social tenant clients (35%). So a considerable proportion of tenants struggling with debt are also struggling to keep up with ongoing essential expenditure. For PRS clients with existing rent arrears the proportion with a negative budget increases to over half (51% of clients compared to 44% of social tenant clients with rent arrears).

Debts

The NAO report states that an estimated 24% of private renting households say they have difficulty paying their bills. Among the most financially vulnerable seeking debt advice this proportion is even higher, with 47% of StepChange PRS clients in arrears with one or more of electricity, gas, water, council tax or rent. Among PRS clients with a negative budget, this increases to 61%

The table below shows the proportion of StepChange clients renting in the PRS and those renting from social housing providers who have arrears on bills or county court judgments (CCJs).

Nearly a quarter of StepChange PRS clients had one or more CCJ’s. CCJ’s are likely to be considered by prospective private landlords in their letting decisions, making it harder for these households to move or access alternative suitable accommodation should their current landlord take action to evict them.

A significant proportion of StepChange clients in both the PRS and social housing sector have arrears on essential bills, however there is a difference with rent arrears, where less than half the proportion of StepChange PRS clients have rent arrears.

Proportion of StepChange clients with essential arrears and CCJs				
	Electricity, gas and water	**Council Tax**	**County Court Judgment**	**Rent**
PRS tenants	32%	27%	24%	12%

Social tenants	45%	33%	30%	30%

We believe that this is likely to reflect the very limited protection that PRS tenants have against action for rent arrears by landlords, either through a Section 21 'no fault eviction' or through the 'Ground 8' provisions where two months' rent arrears can be mandatory grounds for eviction. As a result, StepChange PRS clients with rent arrears tend to be highly financially vulnerable (as evidenced by the negative budget figures above).

In contrast, StepChange PRS clients who do not have rent arrears have a level of unsecured debts (£10,167) that is over 70% higher than PRS clients with rent arrears. Given the broader difficulty of keeping up with other bills experienced by both groups, it seems likely that some StepChange PRS clients have been using unsecured credit to try and keep up with rent payments.

A recent StepChange report *Falling behind to keep up* explored the situation of an estimated 4.4 million people who are struggling to keep up with bills and existing credit commitments and using further credit to meet essential costs. We found that renters were most likely to be using credit in this way. However, this is a coping strategy that carries a high risk of creating further debt problems and harm over time.

Two-thirds (65%) of those using credit as a safety net have kept up with credit repayments by recently missing housing or utility bills, using more credit or cutting back to the point of hardship. Three quarters (71%) of those using credit as a safety net report negative impact on their health, relationships or ability to work, five times the proportion of others who hold credit products[5].

How problem debt affects people's housing and well being

In 2018 we surveyed StepChange clients to better understand how their experience of problem debt affected their housing situation. The results published in our *Locked out* report highlight the difficulties faced by financially vulnerable households in all tenure types, but PRS tenants appeared to experience the poorest outcomes against many of the questions we asked[6].

- Sixteen percent of clients who responded to the survey said they had been evicted in the past as a result of rent arrears, but the proportion was highest among people currently living in the PRS, where nearly a quarter had experienced eviction.
- Almost half of StepChange clients surveyed said their choice of housing had been affected by being in problem debt. This was highest for renters, with around 50% of clients saying this for all tenancy types. However, almost half of PRS clients said that a poor credit score had affected their ability to rent a property, compared to a third of clients renting from a social housing

[5] StepChange (2022). *Falling behind to keep up: The credit safety net and problem debt*. https://www.stepchange.org/Portals/0/assets/credit-safety-nets/Falling-behind-to-keep-up-the-credit-safety-net-and-problem-debt-StepChange.pdf

[6] In March 2018, we sent by email a 20 question survey to 10,000 randomly selected StepChange clients; 816 answered surveys were returned. We plan to repeat this survey in 2022.

provider. Some clients said that this meant they had not been able to rent properties, had to live in a substandard property or had to move away to another area.

- 21% of respondents renting in the PRS said the lack of access to housing had negatively affected their health or their family's health. One in five said difficulties accessing housing had negatively affected their relationship with their partner, family or friends. Almost one fifth said this access problems had reduced their ability to work of find work. In all three cases, the negative scores were considerably higher for PRS clients than other tenure types.
- Nearly half of PRS respondents said problems with housing affordability had affected their health and/or their family's health. This compared to 35% of all StepChange clients surveyed. 23% of PRS clients said that difficulties affording housing limited the jobs they could apply for.
- Worries about housing insecurity also affected clients' health, relationships and ability to find work. Again this problem was highest for PRS clients with 35% saying worries about housing insecurity had affective their health.
- This insecurity also made PRS tenants less likely to report problems with their housing to their landlord for fear of eviction; with 60% of those renting privately saying this.
- Survey respondents were asked to rate the quality of their housing, with most saying they were happy with the quality of their home. However this varied by tenure type with PRS and housing association tenants giving scores that were below the average for all clients. Almost a third of PRS respondents said that the poor quality of their housing had affected their or their family's health. Almost two thirds of all clients said that problem debt had meant a reduction in the quality of their housing.
- Respondents who commented further on problems with housing quality were mainly renters (both PRS and social housing tenants); citing problems with repair and maintenance, insulation, water leaks, damp and condensation. Almost one in three (29%) clients said problems with their home had meant they had to spend more on energy bills, rising to almost four in ten (38%) of our clients renting in the private rented sector.

Conclusions

The NAO's report highlighted evidence that an increasing number of PRS tenants are financially or otherwise vulnerable. The evidence we have set out above digs deeper into this, showing how StepChange clients living in the PRS tend to have low incomes, and rent costs can take a large proportion of that income. Many are struggling to keep up with basic bills, have multiple debt problems, and may have had to use credit to keep up with rent or other bills. This coping strategy, if used over time, is associated with both severe debt problems and increasing hardship.

A significant proportion of our PRS clients have additional vulnerabilities such as mental and physical health problems and disability. The survey responses from StepChange clients highlight how debt problems and problems with rent affordability have a negative impact on health, relationships and work.

Housing insecurity and a limited choice of alternative housing options are likely to have contributed to the 60% of PRS client survey respondents who said they had not reported problems to their landlord for fear of eviction.

We do not believe that the most financially and otherwise vulnerable PRS tenants are empowered to enforce their rights when things go wrong. The NAO report finds that PRS tenants must either negotiate with landlords directly or take action through the courts to enforce their rights.

Our experience of problems faced by low income and vulnerable consumers in credit markets suggest that such an approach to regulation is unlikely to be effective. It was only when responsibility for consumer credit regulation moved to the FSMA[7] regime and the FCA that we began to see an improvement in longstanding widespread consumer problems. A strong independent regulator with a consumer protection mandate, powers to set standards and sanction standard breaches, and an accessible and effective route for consumer redress helped make a difference. The Department for Levelling Up, Housing and Communities (DLUHC) should look to replicate what has worked in other regulated markets as part of its rent reform agenda.

We do not believe that the problems experienced by our clients living in the PRS will be resolved by better regulation of landlords alone. Firstly the lack of protection for PRS tenants against eviction by their landlord, either through Section 21 or Ground 8 creates an inherent power imbalance that makes it difficult for tenants to enforcement their rights. However, given that these rights are extremely thin for financially vulnerable tenants, it is not surprising that housing insecurity and difficulty affording the rent create wider health and wellbeing problems for our PRS clients that are experienced more commonly than equally vulnerable tenants of social housing providers.

The Government's proposals for rent reform include abolishing Section 21, and this is welcome given the problems flowing from housing insecurity experienced by our clients. However the Government has also proposed an amended Ground 8 that would reduce the amount of rent outstanding at the time of a hearing that creates a mandatory ground for eviction to one month's arrears instead of two[8]. We are concerned that this leaves a PRS tenant who experiences a loss of income, through unemployment, reduced hours or ill health, with almost no time to recover, moving the insecurity of Section 21 even more firmly into Ground 8.

The Public Accounts Committee has asked whether the regulatory regime, including oversight by DLUHC, incentivises and supports landlords to treat tenants fairly and comply with regulations. Our research on covid related rent arrears problems found that some landlords treated tenants facing financial difficulties fairly. 10% of polling respondents said they had been able to agree a rent reduction with their landlord and 21% had agreed a repayment plan for arrears[9]. However this was far from a majority of tenants in arrears and, in the absence of the exceptional conditions of the pandemic, it is hard to see how the current legislative and policy framework for the PRS incentivises fair treatment or good outcomes for PRS tenants, and vulnerable PRS tenants in particular.

The Government's consultation talks about balancing the rights and responsibilities of landlords and tenants, which is not at all the same thing as ensuring good outcomes for tenants. In contrast we have seen an increased focus on good outcomes for consumers develop in other regulated sectors. Going further we would argue that an approach based on balancing rights and responsibilities is always at risk of failing vulnerable tenants. For some years housing and broader social policy, whether by default or design, has led to an increasing number of financially and otherwise vulnerable

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[7] Financial Services and Markets Act 2000

[8] Ministry of Housing, Communities and Local government (2019). *A new deal for renting: Resetting the balance of rights and responsibilities between landlords and tenants*.

[9] StepChange Debt Charity (2020). *Covid debt rescue: Emergency help for renters to keep their homes*. https://www.stepchange.org/Portals/0/assets/pdf/covid-debt-rescue-report-stepchange.pdf

people being housed in the PRS, without considering how well PRS landlords are placed to meet these tenants' needs. Ensuring good and affordable housing for these consumers requires a different approach.

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