

Residential Landlords Association and the National Landlords Association – WRITTEN EVIDENCE (EUC0050)

The economics of Universal Credit

1.0 About Us

- 1.1 The Residential Landlords Association (RLA) and National Landlords Association (NLA) are the leading bodies representing private sector landlords.
- 1.2 The two organisations will shortly be merging to form the National Residential Landlords Association (NRLA) representing the voice of 80,000 landlords, by far the largest organisation in the sector. The membership will own and manage around 10% of private rented housing in England and Wales equating to half a million properties.
- 1.3 Both organisations provide training and support landlords to ensure they fully understand their responsibilities and are equipped to provide good quality housing for their tenants. We also campaign for policies that seek to improve the private rented sector for the benefit of tenants and good landlords alike.

2.0 Executive Summary

- 2.1 The objectives of Universal Credit (UC) are laudable. For too long the system of benefit payments has been too complex. Landlords and tenants both welcome efforts to make the system easier to understand and manage.
- 2.2 Such simplicity however should not come at the expense of undermining basic confidence among landlords and tenants that rent can and will be paid on time. As the evidence outlined in this submission shows, Universal Credit is causing tenants to enter rent arrears. This is as a result of spending controls alongside a system which is geared to respond to rent arrears when they happen, rather than preventing them in the first place.
- 2.3 We therefore call for a number of reforms, including:
 - Allowing tenants to choose, where they want, to have the housing element paid directly to their landlord.
 - Ending the five week waiting period to receive the first payment of Universal Credit and replacing it with a period that is as short as possible.
 - Increasing the Local Housing Allowance rates in line with market rents.
 - Ensure debts follow Universal Credit claimants and that there is an expectation that rent arrears are paid off with a mechanism for this.
 - Improve the flow of information for landlords on a tenant's claim for Universal Credit.
 - Preventing a build-up of rent arrears by suspending the payment of the housing element of UC when an Alternative Payment Arrangement is applied for.

3.0 How well has Universal Credit met its original objectives?

- 3.1 In its White Paper on establishing UC the Government argued that one of its aims was *"to simplify provision for rent support in UC as much as possible, while protecting potentially vulnerable people from unintended consequences, such as getting into arrears or being made homeless."*¹
- 3.2 Despite the ambition of protecting claimants from rent arrears, research by the RLA for Q1 2019² found that that 54% of landlords with tenants claiming UC had experienced them going into rent arrears over the preceding 12 months. In the most recent case of rent arrears these landlords reported they were owed on average £2,187. Research by the NLA for Q4 2019 found the level to be 79%, with the average owed by UC claimants £3,149, compared to £1,973 for all tenants in arrears.
- 3.3 Whilst the Government has argued that many such tenants already had rent arrears before they moved to UC, 82% of the landlords in the RLA's survey reported that the rent arrears began only after either a new claim for or migration onto UC.
- 3.4 This is backed up by research³ by Citizens Advice which found that based on its data from 2018, 44% of those it helped who were in debt and were claiming UC were in rent arrears. This compared to 31% for those in a similar position but in receipt of legacy benefits.

4.0 Were the original objectives and assumptions the right ones? How should they change?

- 4.1 Whilst we continue to agree with the need for greater simplicity in the system for tenants and landlords, the design of the system has clearly not achieved its objective of preventing rent arrears in private rented accommodation.
- 4.2 This is largely as a result of the operation of UC only being set up to respond to, rather than prevent, rent arrears occurring in the first place. For example:
- The five week wait for the first payment of UC is an anomaly that must be ended. Whilst Ministers repeatedly argue that advances are available for those that cannot wait five weeks, these serve only to exacerbate rent arrears since it becomes another debt that the tenant has to pay off.
 - A managed payment of the housing element of UC can only be made directly to a private landlord automatically when a tenant has reached at least two months' worth of rent arrears. Allowing rent arrears to build so much inevitably makes it almost impossible for many tenants to then catch up.
- 4.3 Whilst UC has been, in large part, developed to encourage claimants to take responsibility for managing money directly as they would with a wage, this has not

¹ Department for Work and Pensions, *Universal Credit: Welfare that Works*, November 2010, page 19, available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/48897/universal-credit-full-document.pdf.

² RLA, *State of the PRS (Q1 2019) - A survey of private landlords and the impact of welfare reforms*, July 2019, page 5, available at: <https://research.rla.org.uk/wp-content/uploads/2019-Q1-State-of-the-PRS-Report-FINAL.pdf>.

³ Citizens Advice, *Managing Money on Universal Credit - How design and delivery of Universal credit affects how people manage their money*, February 2019, page 15, available at: [https://www.citizensadvice.org.uk/Global/CitizensAdvice/welfare%20publications/Managing%20Money%20on%20Universal%20Credit%20\(FINAL\).pdf](https://www.citizensadvice.org.uk/Global/CitizensAdvice/welfare%20publications/Managing%20Money%20on%20Universal%20Credit%20(FINAL).pdf).

been matched by a responsibility to ensure rent payments are made. At present, where a UC claimant leaves a private rented property, if they have rent arrears there is no formal route through the system for the landlord to recoup the arrears aside from obtaining a money order from the courts, which further adds to the challenges faced by benefit recipients accessing the PRS.

4.4 During the passage of what is now the Welfare Reform and Work Act 2016, Earl Cathcart proposed an amendment in order to rectify this. However, in response, the Minister at the time, Lord Freud, concluded that landlords simply had to accept this as "*bad debt*"⁴. This does nothing to encourage or promote responsible financial management by claimants as is being sought by the Government or provide confidence to landlords

4.5 In respect of rent payments we would propose that the objectives of UC must be to:

- Prevent rent arrears in the first place
- Sustain rented housing tenancies
- Ensure tenants in receipt of UC cannot leave properties without having to ensure rent arrears are paid off

5.0 What have been the positive and negative economic effects of UC?

5.1 Undoubtedly the biggest problem caused for tenants in receipt of UC is the growing unease felt by them and by landlords at the heightened risk that UC now brings of rent arrears.

5.2 For claimants, Neil Couling, the senior civil servant responsible for UC, has admitted that there is now "*a lot of anecdotal evidence of people being scared to come to UC.*"⁵

5.3 With UC clearly increasing the chances of a tenant building rent arrears, this has raised concerns among landlords about how secure a rental income stream would be if they accepted a tenant receiving the Credit. Inevitably therefore, the RLA's research has found that they are becoming increasingly cautious about renting to claimants. 57% of landlords have told the RLA that they are unwilling to let to those who claim UC⁶. The Government's most recent English Private Landlord Survey shows that 47% of private landlords were unwilling to rent to UC claimants⁷. According to similar research conducted by the NLA, the proportion of landlords willing to let to households in receipt of housing support has declined by 50 per cent since the beginning of 2013⁸.

5.4 The concerns about rent arrears are exacerbated by the system for responding where such arrears do build. At present, with the exception of tenants who meet a very set criteria to be defined as vulnerable and those who have already had payments direct to the landlord under the old housing benefit system, a payment directly to the landlord (known as an Alternative Payment Arrangement - APA) can only be made where a claimant is⁹:

⁴ HL Deb, 21st December 2015, c2437

⁵ BBC News, *Universal credit rollout delayed again - to 2024*, 3rd February 2020, available at: <https://www.bbc.co.uk/news/uk-51318730>.

⁶ RLA, *State of the PRS (Q1 2019) - A survey of private landlords and the impact of welfare reforms*, July 2019, page 6, available at: <https://research.rla.org.uk/wp-content/uploads/2019-Q1-State-of-the-PRS-Report-FINAL.pdf>.

⁷ MHCLG, *English Private Landlord Survey 2018 - Main Report*, January 2019, page 7, available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/775002/EP_LS_main_report.pdf.

⁸ NLA, *Quarterly Landlord Survey Panel Q1 2013 - Q4 2019*.

⁹ DWP, *Alternative Payment Arrangements*, December 2019, available at:

- In arrears for an amount equal to, or more than, 2 months of their rent; or
- Where they have continually underpaid their rent over more than 2 months, and they have accrued arrears of an amount equal to, or more than, one month's rent.

5.5 Among those landlords who have applied for an APA, the average length of time for payment to be made directly to the landlord was reported to the RLA as being eight and half weeks¹⁰. NLA research from Q4 2018 showed that of the 18% of landlords who had tenants in receipt of UC, 46% had ever applied for an APA. Of those who had applied, 61% had experienced delays in getting payment via the APA. Together with the potential for 8 weeks of rent arrears having been built by the claimant in the first place, making a potential total of over 4 months, it is not difficult to understand why landlords are so concerned about the financial impact of UC.

5.6 Such concern serves to make it more difficult for claimants to access private rented housing and is placing extra pressure on already long social housing waiting lists, as well as making many people reliant on expensive, short term accommodation paid for by local authorities.

6.0 What effect has reducing spending had on the ability of UC to successfully deliver its objectives?

6.1 Aside from the operational detail of UC, seeking spending reductions has clearly hampered the successful delivery of its objectives, most notably the freeze on housing support.

6.2 In April 2016 the Government took the decision to freeze the Local Housing Allowance (LHA): a measure which affected also the calculation of the housing element of UC. The result has been that those relying solely on UC have not been able to afford rents. According to data from the Office for National Statistics, between April 2016 and December 2019, average private sector rents across the UK increased by 5.1%¹¹.

6.3 Whilst the Government has announced that the LHA will increase in line with inflation from April this year, this will still leave it trailing far behind actual rents. Research by The Bureau of Investigative Journalism¹² found that when the new LHA rate was applied to a list of more than 62,000 two-bed rental adverts across Great Britain collected last September, the increase made just 900 more properties affordable.

6.4 The Local Government Association has suggested that more than 100,000 people would be protected from financial hardship and homelessness if LHA rates were lifted to cover the cost of renting¹³.

<https://www.gov.uk/government/publications/universal-credit-alternative-payment-arrangements/alternative-payment-arrangements#annex-a-factors-to-consider-for-alternative-payment-arrangements>.

¹⁰ RLA, *State of the PRS (Q1 2019) - A survey of private landlords and the impact of welfare reforms*, July 2019, page 5, available at: <https://research.rla.org.uk/wp-content/uploads/2019-Q1-State-of-the-PRS-Report-FINAL.pdf>.

¹¹ ONS, *Experimental Index of Private Housing Rental Prices - Index levels*, January 2020, table 1, available at: <https://www.ons.gov.uk/file?uri=%2feconomy%2finflationandpriceindices%2fdatasets%2findexofprivatehousingrentalpricesreferencetables%2fcurrent/iphreferencetabledecember2019.xls>.

¹² The Bureau of Investigative Journalism, *Locked Out: Why the housing benefit rise won't make much difference*, 24th January 2020, available at: <https://www.thebureauinvestigates.com/stories/2020-01-24/locked-out-why-the-housing-benefit-rise-wont-make-much-difference>.

¹³ Local Government Association, *Lifting local housing allowance rate would avoid 100,000 falling into temporary accommodation*, 5th February 2020, available at: <https://www.local.gov.uk/lga-lifting-local-housing-allowance-rate-would-avoid-100000-falling-temporary-accommodation>.

7.0 If UC does not adequately reflect the lived experiences of low-paid workers, how should it be reformed?

7.1 At the heart of reforms to UC is the need to establish confidence in the system for both tenants and landlords that rent can be paid on time and in full. We therefore propose the following reforms:

- **Giving tenants a choice.** Whilst we recognise the Government's argument that UC should mirror the world of work, we believe strongly that tenants are best placed to decide for themselves how payments should be made. That is why we believe that tenants should have the ability to choose, where they want, to have the housing element paid directly to their landlord. This should be available to the tenant from the outset of a claim.
- **The five week waiting period to receive the first payment of UC should be ended.** We need to ensure that rent arrears are prevented in the first place. Such a waiting period inevitably leads many tenants to start off in arrears when they begin to receive payments. Whilst advances are available it cannot be right that some claimants are being required to take on loans which then have to be paid back later. The five week wait should be replaced with a period that is as short as possible.
- **Increase Local Housing Allowance rates.** In order to improve access to rented housing for the most vulnerable and to ensure the housing allowance properly reflects local rents, the Local Housing Allowance should revert to being based on the 30th percentile level and increased in line with market rents.
- **Ensure debts follow UC claimants.** At present, where a UC claimant builds rent arrears and then leaves a private rented property there is no formal route for the landlord to reclaim rent arrears. Not only do we believe that such behaviour should not be facilitated, it is another example of the system failing to provide confidence to landlords to rent to benefit claimants. Whilst it has been argued that in no other way would the Government act as a debt recovery body, we would note the following:
 - For anyone in work and not in receipt of benefits who builds rent arrears, mechanisms are in place for landlords to regain them through deductions from earnings orders. If UC is supposed to mirror a 'wage' and prepare claimants to enter employment they should be treated in the same way.
 - In many ways, county court bailiffs do act as State debt recovery agents following an order from the court. Similarly, centralised attachment of earnings payments are a clear route, via the courts, through which debts can be recovered. We fail to understand why similar schemes could not be in place for UC claimants.
- **Improve information for landlords on a tenant's claim for UC.** As with the social rented sector, procedures should be developed to enable private landlords to obtain improved and more timely information on the status of a UC claim by a tenant. This should include confirmation of whether claims have been successful. This would greatly improve the ability of landlords to work with tenants to devise suitable rent payment schedules.
- **Preventing a build-up of rent arrears** by suspending the payment of the housing element of UC when an APA is applied for. This is currently the case with

LHA.

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