Beyond the Margins
Debt, Financial Exclusion and Social Housing

Kevin Gulliver, Vittorio Trevitt and Joe Cox

Foreword by Ian Austin MP
Former Housing Minister and Minister for the West Midlands

Introduction by Pat Brandum, Group Chief Executive, WM Housing Group
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**About Compass**
Compass is a home for those who want to build and be a part of a Good Society; one where equality, sustainability and democracy are not mere aspirations, but a living reality. We are founded on the belief that no single issue, organisation or political party can make a Good Society a reality by themselves so we have to work together to make it happen. Compass is a place where people come together to create the visions, alliances and actions to be the change we wish to see in the world.

**About the Aster Group**
Aster is passionate and proud to serve over 75,000 tenants across central southern and south west England by building affordable houses to buy or rent, providing care for the vulnerable or elderly, and by maintaining or repairing homes. With assets exceeding £600m, a turnover of £83m, 1,200 staff and 17,000 homes, the Aster Group has a major commitment to supporting people in the South-West. Aster, which comprises Aster Homes, Aster Communities, Aster Living and Aster properties, is one of the South-West’s major groups of housing organisations and social enterprises.

**About the Trident Social Investment Group**
Trident has 50 years of delivering homes, services and innovation to 6,000 people in 3,500 homes in the Midlands. It has £130m in assets and an annual turnover of £29m, employing almost 750 staff. Trident is also part of the Matrix Housing Partnership. Trident Social Investment Group comprises Trident Housing Association, Trident Charitable Housing Association, Trident Reach the People’s Charity, Trident Star, Dorcas Housing and Community Support Association and Community Impact. Trident was the first housing association to produce a comprehensive set of social accounts and develop a social investment strategy.

**About WM Housing Group**
WM Housing Group is one of the largest and most successful housing groups in the Midlands providing over 27,000 homes with a turnover of £110m per year. The Group operates through its subsidiaries of Whitefriars Housing, West Mercia Homes, Optima Community Association, Nexus and Kemble across the West Midlands in Coventry, Birmingham, Solihull, Herefordshire and Worcestershire. Family Housing Association (Birmingham) is set to join the Group. The Group, which is part of the Spectrum Development Partnership, has a mission to create places where people are proud to live and work.
About the Authors

Kevin Gulliver is Research and Development Director of the Human City Institute, Chair of the Centre for Community Research, and a partner in SWS Communications.

Vittorio Trevitt is a Masters graduate from the University of Brighton. He writes for Compass, the London School of Economics, and the Chifley Research Centre in Australia on politics and social policy issues.

Joe Cox is Research Co-ordinator for Compass. He has particular interests in theories of change, political economy, sustainability and contemporary ideology.

About the ‘End Legal Loan Sharking’ Campaign

The Compass ‘End Legal Loan Sharking’ campaign was launched with a wide range of partners from civil society in summer 2010. The campaign brought together a wide ranging coalition to encourage the Government to act and protect the UK’s most vulnerable borrowers.

The campaign focussed upon promoting two policy responses - capping the cost of credit and increasing access to affordable credit to enable the poorest households to become financially independent and help to provide a route out of personal debt.

Currently, irresponsible lending can cause personal debt to become unmanageable; some loan and credit companies are charging annual interest rates equivalent to over 2,500 per cent. Borrowing at these rates repeatedly tips customers into inescapable cycles of debt and poverty.

Research was undertaken in 2011 between Compass and the Human City Institute, with the support of the Trident Social Investment Group, which formed an important campaign tool through the publication of the ‘On the Margins: Debt, Financial Exclusion and Low Income Households’ report, which had a Parliamentary launch and a launch at the Chartered Institute of Housing conference.

The campaign generated the support of numerous MPs across the House of Commons and due to pressure from the campaign, and campaigning from others such as Stella Creasy MP and Ian Austin MP, the Government has brought in regulation for the high-cost credit sector and has a proposed a cap on interest and related charges. This comes on the heels of fines levied on some high-cost credit lenders and moves to introduce more competition in the sector. The fact remains though, that low income households living in social housing frequently depend on payday lenders and similar to make ends meet. Where they will go for credit is an outstanding issue of great concern.
Acknowledgements

The authors would like to thank Ian Austin MP for writing the Foreword to the report and for his tenacious and unflagging campaigning against high-cost credit and legal loan sharking, especially in the Midlands.

And thanks to Pat Brandum, Group Chief Executive of the WM Housing Group, for providing an Introduction and supporting this research project.

Many thanks to the 306 tenants in Birmingham and Coventry who were interviewed for the project and their candour about their financial circumstances.

The report’s research was kindly supported by the Aster Group, the Trident Social Investment Group and WM Housing Group so the authors’ gratitude goes to these organisations. We particularly appreciate the help of Katie Moore, Leisa Dixon, Paul Smith, Dawn Prentice and John Morris.

As ever, any faults and omissions are the responsibility of the authors.

February 2015
Foreword

Ian Austin MP
Former Housing Minister & Minister for the West Midlands

Access to affordable credit is a vital part of a successful economy. A fair, stable credit system allows people to plan ahead and shape their own futures. Yet in today’s economic climate, as the cost of living soars, wages are frozen, and the effects of austerity and welfare reform are biting deep into people’s pockets and purses, more and more people, especially those on low incomes, are using credit just to make ends meet.

As the Government offloads the rising burden of public debt, the result of the international financial crisis, onto people of modest means, a new inequality is arising between those who can access affordable credit and those who cannot. Coupled with a flat-lining economy over the last few years, inequality between top and bottom of the income scale is widening and the standard of living of the majority is falling or stagnating.

With low-income households often excluded from the mainstream credit market, they are increasingly turning to high-cost credit providers such as payday lenders, pawn-brokers and loan sharks, whose ruinous rates of interest often trap people in cycles of expensive interest payments. While some progress has been made to make the high-cost credit market fairer, more competitive and less exploitative of the vulnerable, the following report shows that there is still far to go.

The growth of payday lenders is an absolute disgrace. I have campaigned in my own constituency of Dudley North to drive payday loan shops off the High Street. Money is tight for families across the West Midlands, and this report demonstrates how these predatory businesses are making money by piling debt upon debt and making poor people poorer. And there is concern across the political spectrum about the pernicious effects of legal loan sharks on our constituents.

The ‘Beyond the Margins’ report contributes to a growing body of evidence pointing to how the UK is now split between those who can make use of credit options that help them invest in their future, and those who are forced into self-defeating cycles of expensive debt. This new dividing line has severe implications not only for the well-being of those who find themselves on the wrong side of it, but for the future health of our economy and society as a whole.

The Government and regulators have finally taken notice of this issue, following a long campaign by Compass, the Human City Institute and other community organisations, and through a series
of Parliamentary debates. Stricter regulation has been brought in, including a 0.8 per cent per
day cap on interest charged, more competition is on the way, and some of the most egregious
offenders have already been fined for their lending practices.

However, much more needs to be not done; we should be supporting the growth of community
lenders like the Castle & Crystal Credit Union in my own constituency, and we should consider a
tighter cap the cost of credit more effectively.

And if the high-cost credit industry retrenches then we need to look to community-based housing
associations to fill the gap left by instituting some of the recommendations from this highly
valuable report.

I welcome the contribution this report makes to the debate around how best to achieve a fairer
credit system that meets the needs of all of the community.
Introduction

Pat Brandum
Group Chief Executive
WM Housing Group

Debt casts a long shadow over many in the UK with personal debt on the increase. As the UK tackles the ongoing fall-out from the 2008 international financial crisis by reshaping the welfare state and bringing down public debt mainly through spending reductions, there are major implications for many low income households. A great number of these live in social housing.

The social housing sector is acutely aware, as this report shows, many of our residents are at great risk of poverty, disadvantage, debt and financial exclusion. In 2010, many tenants in social housing communities were financially ‘on the margins’, four years later and the changes mean that lots of these families are now living ‘beyond the margins’. Squeezed incomes, growing debt problems and a reliance on short-term, high-cost credit and exclusion from mainstream financial services have all contributed to this marked decline.

Housing associations are working hard to aid tenants experiencing debt and financial exclusion. Many, including WM Housing Group, Aster and Trident, who have supported the research for this report, have created, or are supporting, debt and money advice services, credit unions and community-based finance initiatives, furniture projects, digital inclusion schemes and helping tenants into work and training.

Yet these initiatives can only ease the deep-rooted poverty of many tenants, which has worsened in recent years. Only a concerted effort to tackle poverty by helping people to earn a living wage, gain access to cheaper financial services through low-cost, community lenders and have the support to manage their finances can be effective in the long-term.

Those of us working on the front-line in social housing will continue to do our part but we need our national leaders to help with some of these big changes. Although there has been some progress, such as bringing the short-term loan industry under the Financial Conduct Authority’s oversight and a move to cap high-cost lenders’ interest, much more needs to be achieved to make credit access fairer for low income people.

But as the report illustrates, there is still a lot to do by social landlords too if the quality of life and standard of living of our tenants is to be improved appreciably.
SUMMARY

About the Report
As part of the Compass ‘End Legal Loan Sharking’ campaign, Compass has partnered the Birmingham-based think-tank the Human City Institute to research debt and financial exclusion in social housing.

The research has been supported by three social landlords – the Aster Group, based in the south-west, the Trident Social Investment Group and the WM Housing Group, both based in the Midlands. The report ‘Beyond the Margins’ is a follow-up to a previous report HCI-Compass report ‘On the Margins’ published in 2011.

About the Research
The research is built around:

- A review of key literature around debt, financial exclusion, low income, social housing, austerity and welfare reform.
- A sample survey of 306 social tenants on two estates in Birmingham and Coventry. The survey included 46 questions about the household characteristics of tenants; the economic and financial circumstances of social tenants; the nature and extent of debt; wider financial exclusion issues; the financial and support services tenants would like to receive.
- Focus groups with social tenants.
- Case studies of how social landlords tackle debt and financial exclusion.

Report Objectives and Approach
The objectives of the report are to:

- Provide an overview of the current state of debt in the UK and how this fits with economic and social policy.
- Enable an in-depth review of how high-cost lending and wider financial exclusion are affecting lower income groups living in social housing.
- Explore how the interrelated problems of high-cost lending and credit dependency contribute to wider financial exclusion in social housing.
- Put forward workable short-term and long-term policy solutions for policy-makers and social landlords to improve the financial position of their tenants and communities.
- Open up a conversation around the role, limits and functioning of credit markets as well as debates around ‘fairness’ and ‘social justice’.
Key Findings

Key findings are shown below.

A Tale of Two Debts: The UK Government and its financial watchdog the Office of Budgetary Responsibility has an ambivalent approach to debt. Public debt is seen to be bad and must be reduced at all costs, including reducing support to the most vulnerable in society. Private, or personal debt is judged to be beneficial to the economy to fuel consumer spending. Yet private debt is much higher than public debt – both in real terms and starkly so when compared with the past. Private debt is growing again at a fast pace with many warning that the habit of the British to run up debts will have serious consequences for individuals, the economy and society.

An Unfair Credit System: The UK’s credit system is deeply unfair, rewarding those already with assets who can borrow against them and support future investment in skills, education, better employment, higher incomes and yet more assets, while lower income households experience a ‘poverty premium’ facing higher costs food, fuel and finance. Some are calling for a fairer credit system within the framework of an economy re-balanced away from a dominant financial services sector towards one that with a more diverse economic base and better meeting the financial needs of communities.

Debt and the Housing Market: The OBR’s household debt forecasts are highly dependent upon a reasonably buoyant housing market. OBR forecasts imply rising house prices to fuel equity withdrawal and underpin secured borrowing. This seems unlikely until a year or so ago until interventions such as the Help to Buy. The potential of schemes such as Help to Buy to push up house prices has been identified at a time when the UK is on the cusp of another housing bubble. The key problem is that demand can be increased quickly through Help to Buy; supply can only be increased slowly. However, a house price hike does serve to increase the equity for existing home owners to support more borrowing and economic growth. But this leaves those seeking affordable homes out in the cold.

The Growth of High-Cost Credit is a Concern: The growth in the high-cost credit sector, including payday loan companies, exacerbates inequality since the poorest individuals pay the highest price for their debts. High debt repayments affect the quality of life for those households in debt. It exploits the poor and vulnerable. The results are poorer diets, colder homes, rent, council tax and utility arrears, constraints on job seeking behaviour, and poor health, including mental health issues. Alongside it creates credit dependency among the lowest income groups who need credit just to get by. Lastly, high-cost credit is opaque, with such lenders exploiting the lack of knowledge of vulnerable and sometimes desperate borrowers about how much interest will be charged and how much money will be paid back.

Being a Social Tenant is Precarious: Social tenants face a precarious existence. They generally exist on low incomes, rely on welfare benefits and tax credits to survive, are more likely to be employed on sick or disabled, have little in the way of assets to fall back on in times of crisis, are reliant upon family and friends and high-cost lenders for loans for day-to-day living, and are less
likely than other groups to have access to mainstream banking services or Information and Communications Technology (ICT).

**What Tenants Want:** Social tenants’ priorities to improve their financial position include increased welfare benefits which have been eroded over the long-term in relation to wages. Their other priorities include the introduction of a Living Wage and wages increased generally. Alongside, enhanced job security in the age of part-time and zero hours work is a priority. And tenants also want to see a range of actions to reduce the costs of borrowing. Tenants want social landlords to provide a wider range of services to alleviate financial exclusion, reduce their reliance upon high-cost credit and to aid tenancy and community sustainability. They clearly want rents and service charges kept down. Tenants would like to see greater provision of furnished housing, extension of banking services, help with employment, training and short-term loans at reasonable interest.

**The Role of Social Landlords:** Social landlords have for a hundred years or more played an important role in supporting the most vulnerable in society. Their social purpose has been their defining characteristic. They have intervened in communities investing in physical, economic, social and environmental elements to improve the lives and life chances of their tenants. At times in the past, before the ascendance of local authorities, they were on the ‘front-line’ in tackling disadvantage. With the advent of welfare reform, austerity and the retrenchment of local authority services, social landlords are again being cast as the main community anchors for communities under economic stress. They have developed a repertoire of community-based services, including those that prevent or reduce debt, others that improve financial inclusion, and services that support sustainable tenancies, such as provision of furniture and tenancy support.

**National Policy Recommendations**
There are many policy solutions at the national level to tackle debt and financial exclusion in general, and legal loan sharking in particular. These are presented here.

- A more effective wage floor to ensuring decent wages for all would reduce financial exclusion and reliance upon high-cost credit of the lowest earners in the UK. Upgrading the Minimum Wage or extending the Living Wage policy, would increase the propensity of low income households to spend as a result of higher earnings and save the Treasury more than £2bn a year by reducing welfare expenditure and increasing income tax receipts.

- A fairer system of social security would ameliorate the twin problems of low incomes and debt while strengthening the effectiveness of the UK’s welfare system. This would ensure that recipients of both in-work and out-of-work benefits are provided with enough financial support to afford essentials such as food, fuel and housing. It would also increase their spending power, enabling them to participate in the consumer economy without falling into spiralling debt by dependency on high-cost credit. This might be achieved by changing the benefit indexation formula by tying benefit increases to wages or prices (whichever is higher) and offer a guaranteed minimum income: essentially a benefit provided to all citizens as a right.
- Tighter regulation of the high-cost lending industry needs to include a cap on the interest charged by payday lenders and others in the sector. This would bring the UK in line with competitor economies. The Government has agreed to a cap and has brought the high-cost credit industry under the watchful eye of the Financial Conduct Authority (FCA), although the regulatory framework should be strengthened. The Government should also consider implementing legislation on consumer protection similar to those introduced by other countries which would provide greater legal safeguards for payday customers, while ensuring that payday lenders do not coerce low income borrowers to take out unaffordable loans. Steps must also be taken by advertising standards authorities to clamp down on payday advertising to ensure that payday lenders are prevented from enticing struggling consumers in taking out unaffordable loans.

- The creation and expansion of alternatives to high-cost credit, drawing inspiration from credit unions and community initiatives, should be implemented. Community Development Finance Institutions (CDFIs), like credit unions, have demonstrated their commitment to aiding vulnerable people to access financial services, offering more affordable loans to low-income customers, and can only charge a maximum rate of 2 per cent a month (representing an annual percentage rate of 27 per cent).

- A Community Reinvestment Act for the UK, similar to the USA’s Community Reinvestment Act, would encourage commercial banks and building societies to meet the needs of borrowers in all segments of their communities, including low and moderate income neighbourhoods. This is not only good business sense in spreading financial services but fits with financial institutions’ corporate social responsibility requirements. An obligation on UK banks and building societies to provide a basic banking account for anyone can draw inspiration from a number of European countries that have adopted such policies successful.

- Introduction of a one-off Wealth Tax would tackle growing inequality in the UK between the super-rich and middle and lower earners, and enable a fairer approach to dealing with the UK’s public debt and relieve the effects of austerity on the poorest. This demonstrate that we are truly ‘all in this together’ and tax the disproportionate gains made by those who did best in the good times and the boom years and those most able to pay. Alongside, some are advocating a permanent ‘mansion tax’.

Policy Recommendations for Social Landlords
There are many ways for social landlords to tackle debt and financial exclusion and to offer support to their tenants and communities.

- A coordinated expansion of low-cost credit needs to be established by social landlords along the lines of the NHF’s ‘MyHomeFinance’ initiative. More focussed marketing of such schemes to those tenants who most need affordable credit is recommended. The NHF might be aided by government and regulators in requiring all social landlords to sign-up to support a national affordable credit programme.

- Social landlords need to expand money advice services. Many have already developed bespoke money advice and debt counselling services and community finance initiatives to
their tenants, or support existing services now that the local state is retrenching and withdrawing support for such services. This is part of their ‘front-line’ re-emerging role.

- Social landlords, and there two main representative organisations the NHF and the CIH, should develop a greater range of pooled services and a knowledge bank to support comprehensive roll-out of financial inclusion initiatives across the country. To some extent this is happening already with both the NHF and the CIH supporting good practice and engaging with the mainstream banking sector to create partnership initiatives.

- Improving tenancy sustainability by extending furnished tenancies, for example, since this is the primary reason for many tenants going into debt. Such provision also helps create more sustainable tenancies and has beneficial effects on the ‘bottom-line’ of social landlords in terms of lower costs associated with vacancies and rent arrears.

- Extending community asset ownership must be extended so that social tenants can own and manage assets related to their housing without moving into unsustainable home ownership and to reduced tenure-based wealth inequalities. The Localism agenda and the Government’s community asset ownership programme could support greater transfer of assets into tenants’ control. This might be furthered by expanding tenant management and community mutual and gateway approaches.
1.

About the Report

Backdrop
Britain has become a nation of debtors. The much publicised public debt, which is a consequence mainly of the credit crunch and ensuing recession, and which has existed since 1692, is dwarfed by the debt owed by households. Yet the scale of personal debt owed by Britain’s households is a relatively new phenomenon which stood at £370bn twenty years ago - only one quarter of today’s level - and is associated with the long-term growth in home ownership and hyper-inflation in house prices, and the ability of home owners to draw on their burgeoning equity; the relaxation of credit controls; and the proliferation of credit providers, including high-cost lenders in the last decade or so who target low income communities.

Growing debt, especially owed to high-cost lenders is a particular problem for low income households, many of whom live in social housing. People on low incomes, generally unable to draw on housing equity and with few other assets, are facing increasing pressures to use high-cost lenders. This pressure has increased as a result of the credit crunch, the resulting prolonged recession, the Government’s austerity programme and welfare reforms.

Stagnating wages, precarious unemployment, part-time work, zero hours contracts and soaring living costs have been the result, creating a perfect storm where more and more people, especially those with little economic choice or power, are becoming reliant on credit to make ends meet. This has been taking particular toll on vulnerable communities, many of which are accommodated by social landlords such as housing associations.

So, as part of the ‘End Legal Loan Sharking’ campaign, Compass has partnered the Birmingham-based think-tank the Human City Institute to explore debt and financial exclusion in social housing. The research has been supported by three social landlords – the Aster Group, based in the south-west, the Trident Social Investment Group and the WM Housing Group, both based in the Midlands. These three social landlords have a special interest in reducing debt and financial exclusion in the communities where they work.

The following report ‘Beyond the Margins’ is a follow-up to a previous report HCI-Compass report ‘On the Margins’ published in 2011, which as the titles imply, chronicles the worsening financial plight of the majority of social tenants. Some comparisons are drawn between the research findings of the two reports although ‘Beyond the Margins’ is essentially a new report.

Research Methodology
The research for ‘Beyond the Margins’ encompassed a range of research approaches including:
Review of Literature
The research has included a review of key literature around debt, financial exclusion, low income, social housing, austerity and welfare reform. The review also drew upon the ‘End Legal Loan Sharking Campaign’ run by Compass, including discussions with organisations involved in the campaign.

The Tenant Survey and Focus Groups
The interview survey undertaken by the partners sought to explore aspects of financial exclusion within the social housing sector, including debt levels, economic activity and propensity to save, as well as seeking tenants’ views on how national policy and social landlords could help alleviate financial exclusion among their tenants.

A sample of 306 tenants of the Trident Social Investment Group and the WM Housing Group was interviewed in mid-2014. Interviews were undertaken by a credited market research company under the Code of Practice of the Market Research Society, with a questionnaire designed by HCI. HCI undertook the analysis of the survey results.

Face-to-face interviews were built around 46 questions with a mix of multiple choice/’closed’ closed questions and a few open-ended questions to provide interviewees with an opportunity to state their views in their own words. The survey approach enabled both a statistical analysis and recording the comments of tenants in their own words. These analyses were supplemented by six focus groups in the Midlands and south-west.

The survey captured information relating to:

- the household characteristics of the tenant group;
- the economic and financial circumstances of social housing tenants;
- the nature and extent of debt;
- wider financial exclusion issues;
- the financial and support services tenants would like to receive from their social landlords, and their priorities for changes to national policies that would reduce the worst effects of debt and financial exclusion on their lives.

The survey provides a snap-shot of debt and financial exclusion among tenants of two typical social landlords in the Midlands on two social housing estates – one in Coventry and one in Birmingham (see the maps over the page). The profile of tenants is broadly typical of those of working age living in the social housing sector, especially in terms of economic activity and financial circumstances, although income levels are lower than average and the number of young people and BME tenants in the sample is above average.

The 306 interviewed tenants were chosen randomly from around 1,000 in Birmingham and Coventry. The sample size constitutes, therefore, 1 in 3 of all tenants in the sampling frame.
Case Studies
Case studies of how the three social landlords supporting the research set about tackling debt and financial exclusion are included.

Report Objectives and Approach
The objectives of the report are to:

- provide an overview of the current state of debt in the UK and how this fits with economic and social policy;
- enable an in-depth review of how high-cost lending and wider financial exclusion are affecting lower income groups living in social housing;
- explore how the interrelated problems of high-cost lending and credit dependency contribute to wider financial exclusion in social housing;
- put forward workable short-term and long-term policy solutions for policy-makers and social landlords to improve the financial position of their tenants and communities;
- open up a conversation around the role, limits and functioning of credit markets as well as debates around ‘fairness’ and ‘social justice’.
2.

An Anatomy of UK Debt

“No one should be arguing to stabilise debt, much less bring it down, until growth is more solidly entrenched…Nevertheless, given current debt levels, enhanced stimulus should only be taken selectively and with due caution. A higher borrowing trajectory is warranted, given weak demand and low interest rates, where governments can identify high-return infrastructure projects. Borrowing to finance productive infrastructure raises long-run potential growth, ultimately pulling debt ratios lower. We have argued this consistently since the outset of the crisis.” [Kenneth Rogoff and Carmen Reinhart (2013) in the Financial Times ‘Austerity is not the Only Answer to a Debt Problem’]

A Tale of Two Debts

The UK’s public debt crisis is well publicised with the policies of austerity and welfare reform enacted by the Government to reduce the country’s structural deficit (the difference between usual borrowing in an economic downturn and the annual public spending deficit which won’t be made up by future economic growth and taxes). Currently, the UK’s national debt to GDP (gross domestic product) ratio is about 80 per cent (or £1.2tr). Much has been made of the urgency of reducing the public debt. However, an historical overview, depicted in chart (1) over the page, shows that today’s debt to GDP ratio is far from exceptional and much higher levels of debt have been managed under less favourable circumstances than today’s.

Yet the price that’s being paid for debt reduction in terms of the austerity and welfare reform programmes appear to be out of kilter with the benefits to the economy, which has only recently returned to growth after three years of flat-lining from 2010 to 2013. The UK Government has chosen to tackle reducing the deficit predominantly through reductions in public spending which has played a part in depressing economic growth and reducing business and consumer confidence, while actually increasing the need to borrow. As the IMF, the OECD and former Bank of England Governor Mervyn King have indicated, reducing the deficit at the current pace is not economically rational, necessary, without historically precedence or sustainable without threatening social cohesion and future economic capacity.

Public Versus Private Debt

Perhaps a more worrying trend is the return to growth in the level of personal (household) debt, standing today at almost 142 per cent of household income (or £2tr). As chart (2) over the page reveals, household debt reached a highpoint in the first quarter of 2008 (at 170 per cent of household income) but then declined as the financial crisis played out. Today’s 142 per cent is still very high in historical terms but lower than any point since the late 1990s. However, the Office for Budget Responsibility (OBR), the Government’s financial overseer, in its economic outlook report to coincide with the Budget on 19th March 2014, predicts that household debt will rise over the next five years to 166 per cent.
This will be fuelled by a rising cost of living, house price inflation stoked by the Help to Buy, low interest rates, and some real terms wage growth in some professional sectors and in particular regions (typically the south-east).

Collectively, individual households in the UK now owe more than the entire country produced during the whole of 2013. Household debt has increased almost threefold over the last two decades in contrast to a doubling of Gross Domestic Product (GDP) over the period. Personal debt has, therefore, leapt ahead again of economic growth with consumer spending fuelled by this debt overhang.

Analyses of the OBR’s debt projections by the Resolution Foundation suggests that at least one million British families, and possibly as many as two million, could be spending more than half of their disposable incomes on debt repayments by 2018. Their study models how the number of households in ‘debt peril’ may rise over the same period depending on the path of interest rates and the shape of growth in household incomes. In the worst case scenario, the number of households in Britain who spend at least half their disposable income on repaying debts (and are therefore deemed to be in ‘debt peril’) could more than triple – from 600,000 in 2011 to 2 million by 2018. This could happen if interest rates were to rise to 5 per cent – two points higher than the current market expectation but still around typical long-term levels – and if growth in household income was weak and uneven (lagging behind GDP growth and more skewed towards higher than lower income households). Even under a more optimistic scenario, in which interest rates do not rise above 3 per cent by 2018 and in which household incomes grow more strongly than the OBR has projected and is distributed relatively evenly across high to low income households, the number of families in debt peril would almost double to 1.1m.

Using data from a range of sources, including the Bank of England, the Money Charity (formerly Credit Action) provides a snap-shot of current household debt in the UK:

- Outstanding personal debt stood at £1.445 tr at the end of May 2014. This is up from £1.425 tr at the end of May 2013.
- Outstanding secured (mortgage) lending stood at £1.284 tr at the end of May. This is up from £1.269 tr at the end of May 2013.
- Outstanding unsecured (consumer credit) lending stood at £160.6 bn at the end of May 2014. This is up from £156.4 bn at the end of May 2013.
- Average household debt in the UK (excluding mortgages) was £6,080 in May. This is up from a revised £6,064 in April.
- Average household debt in the UK (including mortgages) was £54,701 in May. This is up from a revised £54,631 in April.
- The average amount owed per UK adult (including mortgages) was £28,610 in May. This was around 115 per cent of average earnings.
- Average consumer borrowing (including credit cards, motor and retail finance deals, overdrafts and unsecured loans) per UK adult was £3,180 in May.
- The estimated average outstanding mortgage for the 11.2m households that carry mortgage debt stood at £115,006 in May.
- Based on May 2014 trends, the UK's total interest repayments on personal debt over a 12 month period would have been £58.6 bn. This is equivalent to £160m per day. This means that UK households would have paid an average of £2,218 in annual interest repayments.

All of this raises concerns about the medium to long-term financial implications for households and their ability to service these debts and, particularly for people in low income households, to maintain their standard of living whilst doing so. Furthermore, the different ways in which public and personal debt are treated – one to be discouraged and the other to be promoted – draws attention to the political drivers of austerity and welfare reform rather than their economic underpinnings.

The Housing Market and the Sustainability of Debt Levels

It is clear that the UK’s relationship with personal debt cannot continue at the rate predicted by the OBR to fuel projected economic growth over the next five years while public debt is reduced faster than needed with the inevitable higher unemployment than necessary, the lack of investment in public infrastructure this implies and stalling consumer confidence. The OBR’s household debt forecasts are also highly dependent upon a reasonably buoyant housing market. OBR forecasts imply rising house prices to fuel equity withdrawal and underpin secured borrowing. This seems unlikely given the current state of the housing market.

Over most of the last thirty years, the UK housing market has been characterised by house prices rising faster than inflation (both CPI and RPI) as measured by the four main house prices indices. Despite a marginal fall in house prices immediately after the credit crunch, house prices have remained buoyant thanks to low volumes of sales [as chart (3) reveals. Yet increasing numbers of households are being priced out of the market [see chart (4) showing that unaffordability is nearly back to pre-credit crunch levels]. Home ownership levels are falling, particularly among young people – today’s so-called Generation Rent. The current model of home-ownership has become stretched beyond its limits and it seems likely that the UK, with one of the world’s largest home ownership sectors, has reached saturation point, despite schemes like Help to Buy.

The potential for Help to Buy to push up house prices has been identified by three former chancellors and the Organisation for Economic Cooperation and Development. The second phase of the scheme guarantees very high loan-to-value (LTV) mortgages. The Treasury plans to offer £12bn of financial backing over the next three years, supporting £130bn of high LTV lending. This at a time when UK house prices are again on the increase. The key problem is that demand can be increased quickly through Help to Buy: supply can only be increased slowly. However, a house price hike does serve to increase the equity for existing home owners to support more borrowing and economic growth. But this leaves those seeking affordable homes out in the cold.
Chart (3) - Average House Price & House Sales Volume (January 1995 to July 2014)

[Source: Land Registry (2013)]

Chart (4) - Ratio of House Prices to Earnings (1997 to 2013)

[Source: DCLG (2014) Live Tables]
These are not ingredients to underpin an expansion of the home ownership sector in terms of the proportion of UK households to create borrowing to support personal expenditure except for the lucky ones who will see their equity expand. If personal borrowing is to be expanded then it seems likely that it will be increasingly unsecured borrowing and/or more from less ‘conventional’ sources, including high-cost credit companies, payday lenders and illegal loan sharks, as High Street banks of building societies are unable to respond to demand for credit. It is to this high-cost credit market that the report now turns.
3. Adventures in ‘Wongaland’

It is clear that the ascension of companies such as Wonga since 2010 (Wonga alone has three times the size of the 300-strong credit union market) is directly related to falling incomes and cuts in benefits. It isn’t just the availability of payday loans that is driving growth and profits – it is the ballooning need for hundreds of thousands of people. As with food banks, personal debt has become a totem of the tortuous battle by households to make ends meet in an atmosphere of severe austerity…in the past people had largely used payday loan avenues for, say, emergencies or ‘big spend’ times of years such as Christmas…once austerity had kicked in people were increasingly turning to them for cash to purchase essentials such as food or clothing for their children.” [Mary O’Hara (2014) ’Austerity Bites: A Journey to the Sharp End of Cuts in the UK’]

The rise in the high-cost credit and payday lending industry in the last few decades, at a time when the UK has experienced one of its most difficult economic periods for many years, should be a cause of concern for anyone with a strong commitment to social justice. The precarious economic situation, with job losses and real cuts in wages and benefits for the average Briton, has led many turning to payday companies and loan sharks for financial support, despite the abominably high rates of interest that such lenders charge their customers.

What is High-Cost Credit?

Access to credit is vital for the functioning of advanced capitalist economies. Businesses use credit to invest, buy stock or tide them over before stock is sold. When businesses cannot access affordable and flexible credit they suffer. Credit is equally useful for individuals and has become part and parcel of everyday life – many of us owe money on a credit card, loan or overdraft. Some obvious examples of where credit is beneficial and necessary include student loans and mortgages. Yet there are countless examples of where high cost credit or unaffordable credit has made difficult financial situations worse for families and individuals.

There is no single accepted definition of high-cost credit. Rather, the Office of Fair Trading found that markets for high-cost credit include the following products:

- home credit;
- short-term and small-sum lending including payday loans;
- pawn-broking and car log-book lending;
- rent-to-buy retail credit.

Although Britain has the reputation of being the seventh richest country in the world, large numbers of people remain excluded from mainstream financial services, with an estimated 9m
Britons lacking access to credit from banks. It is people like these who are targeted by payday lenders and loan sharks, drawing people in with promises of easy money and a quick fix to their financial woes, while reaping large profits in the process. According to Consumer Focus, the total value of loans in 2009 stood at £1.2bn, while media reports from 2012 estimated that the value had risen to a range of between £1.7 and £1.9bn. In the first six months of this year, 50,000 people with payday loans sought debt advice from just one charity, StepChange, almost as many as in the whole of last year, demonstrating the extent to which people are willing to reach out to such dubious lenders for a financial lifeline. Payday loan customers often find themselves trapped in debt from having taken out multiple loans.

Evidence has shown that those who access high-cost credit or take out payday loans not only find themselves falling further into financial difficulties, but often do so to pay for household essentials. A survey by ComRes/R3 (2013) found that 48 per cent of respondents believed that taking out these loans had left them worse off than before, while a number of borrowers were utilising these loans to pay for necessities such as fuel, food, and rent. Another report, carried out by Which?, found that 70 per cent of borrowers wished they had not taken out these loans in the first place, while 50 per cent of respondents were unable to pay back their loans.

There is considerable corroborative evidence for the above findings from the survey of 306 tenants for this report, as chart (5) above summarises and as described below:
Eighteen per cent of tenants say that they ‘always’ or ‘often’ have problems making ends meet at the end of the week with 48 per cent saying they ‘sometimes’ have problems making ends meet. Only 34 per cent say that stretching their income is ‘never’ a problem. Around 1 in 5 of tenants had used a high-cost lender, such as payday loan companies, or pawnbrokers, or high-cost credit stores like Brighthouse, in the last six months, and a few had borrowed from illegal money lenders.

Chart (6) below illustrates the range of creditors tenants utilise. Of high-cost credit lenders, payday loan companies have been used by most often (at 15 per cent, followed by money lenders and mail order catalogues (at 6 per cent each). The ‘bank of mum and dad’ and borrowing from friends were also accessed by 14 per cent.

Only 5 per cent had had a positive experience of borrowing. Seventeen described their experience as ‘awful’. Asked if they were harassed by their creditors, 12 per cent say ‘always’ or ‘often’ and 23 per cent say ‘sometimes’. Fifty per cent of tenants say that they ‘always’ or ‘often’ have problems with debt repayments. And twenty-four per cent of tenants say they ‘always’ or ‘often’ have to go without necessities to make debt repayments and 40 per cent say ‘sometimes’. Over one third (34 per cent) of tenants indicate that their debt is ‘unmanageable’.

Generally, tenants’ debts are not high in cash terms on average. Fifty-five per cent of tenants say they don’t currently have any debts – many because they are unable to access credit at all. As
the following chart (7) shows, 1 in 5 of tenants with debts, owe less than £300, and two in five tenants have debts of less £1,000. Twenty-seven per cent have debts between £1,000 and £3,000 and 13 per cent have debts amounting to £3,000 to £9,000. Some 14 per cent have debts in excess of £10,000. Just 10 per cent describe their debt as ‘high’, with 21 per cent saying they have ‘some’ debt. Fifteen per cent say ‘not much’. The average (median) debt is calculated to be around £1,500, which is not massive until tenants incomes are taken into account. So the median debt to income ratio is about 1:5. However, this places tenants in a precarious position if the debts are owed to high-cost lenders. Indeed, repayment of debt is tenants’ third greatest expenditure item after food and fuel.

**Chart (7) - Level of Tenants’ Debts (£)**

[Source: HCI Survey (2014)]

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**High-Cost Credit and Wider Economic Considerations**

As noted by the Office of Fair Trading, there have been cases of payday lenders not providing balanced information about the costs and risks of taking out loans, thereby making it harder, as the OFT concludes ‘to compare payday loans with other credit products and to make an informed decision over whether or not to take out a loan’. Conveniently, in most cases, this information is only provided to the customer once the loan application has been approved by the lender, ‘at the stage at which the borrower must confirm that he or she wants to proceed,’ as noted by the OFT. This raises concerns that customers are not being given sufficient amount time to decide if taking out these loans is a worthwhile decision or not. Concerns have also been raised over the extent to which payday lenders fail to carry out checks on the financial position of their potential clients to see if they can afford taking out a loan, with only 22 per cent of lenders
responding to a questionnaire by the OFT saying they had carried out an affordability assessment each time a loan is rolled over. Payday lenders have also been known to entice customers who are able to pay back their loans on time to take out further loans, offering larger amounts (with even bigger charges) and apparent incentives such as “discounted” fees to encourage them to do so.

There is also a stigma attached to those who take out payday loans in regards to taking out mortgages, making it difficult for people who have turned to payday lenders to climb up the property ladder. Some mortgage lenders, such as GE Home Lending, have publicly declared that they would not accept people who have used payday loans for mortgages with them, even if they were fully repaid on time, an attitude that is apparently common amongst mortgage lenders, with Ray Boulger from the broker John Charcol noting that most mortgage lenders ‘will run a mile if an applicant has had even one payday loan in the last year.’ This is based on the assumption that if one has taken out a payday loan, then that means they have problems with managing finances, thereby raising questions as to their ability to pay back a mortgage on a monthly basis.

The increasing hardship of those experiencing benefit cuts and stagnant or declining real pay levels stands in marked contrast to the boom times enjoyed by the payday lending industry. In 2013, it was revealed that the payday lender Wonga, criticised for its decision to charge an annual rate of interest of 5,883per cent a year, saw its earnings rise by a third to £62.5m last year, lending as much money in 2012 as Britain’s biggest building society advanced in personal loans. The company is now three times bigger than all the 390 credit unions in the UK, which lent just £407m in total last year. These profits are fuelled by the increasing number of desperate people taking out payday loans to help them get by on a daily basis, and reflect the dire financial situation that many now find themselves in. Stella Creasy, a long-time campaigner against payday loan companies, put forward this point succinctly when declaring that:

“What that (the rise in Wonga’s profits) says about families who are struggling financially, what it says about the kind of regulation we currently have in the UK and the things we need to do to make sure people in Britain can borrow affordably – Wonga might be celebrating today [but] I am very, very concerned about what this might mean for people in my community and across the country who are paying the price for their profits.”

As noted by Gillian Guy of the charity Citizens Advice, the payday lending industry profits out of consumers forced to turn to them for financial help, and should instead focus on boosting customer welfare, rather than boosting profits at the expense of hard-pressed householders who struggle to pay back unaffordable loans.

The rise in the number of people turning to payday lenders for financial support has also drawn attention to another long-standing fault in the economic foundations of British society: that of debt-fuelled consumption. Over the past few months, there have been signs of improvement in the British economy, with the service sector in particular hitting its second highest point ever in July. The foundations of this recovery are, however, rather shaky, as the economy has largely relied on consumer manufacturing and spending for keeping its engine running. While consumer
expenditure has risen, this has been the result not of increases in real wages (as inflation has consistently outstripped wage growth since 2009), but of debt-fuelled consumption. In June, consumer credit creation grew by 15 percent, the second consecutive month of rises in excess of 10 per cent. Worryingly, more than half of new loans are being offered primarily by pawnbrokers and payday lenders, who charge the highest rates of interest on short-term loans.

Debt-fuelled spending creates a false sense of prosperity, as this conceals the reality of increasing numbers of households forced to reduce their savings to take out overdrafts and personal loans to maintain their living standards in the face of declining real wages. As personal loans charge average rates of more than 7 per cent, well in excess of the Bank of England’s base rate of 0.5 per cent, there is a likelihood of Britain experiencing what Ann Pettifor has called an unsustainable ‘Alice in Wongaland’ recovery, with household debt climbing ever higher in order to finance consumption while real wages have returned to the level they reached back in 2003. The unequal distribution of wealth and power in the United Kingdom has arguably played a role in this sad state of affairs, with workers as a whole having experienced a steady fall in their share of the economic cake over the past quarter century or so. In 2010, roughly 55 per cent of Britain’s GDP went to wages, compared with just over 64 per cent in 1976.

While the payday lending industry has enjoyed enormous growth, now worth over £2bn (twenty times as much as in 2004), it has become harder for consumers to access credit. It is estimated that 1.75m adults go without a basic bank account while 9m adults cannot access credit from mainstream banks, and many people in this situation are forced to take on expensive short-term loans. A cap on the amount that lenders can charge would be beneficial to consumers, with stagnant or falling real incomes, by making borrowing cheaper. This would also encourage consumers to spend in high street stores rather than give their money to lenders charges obscenely high rates of interest.

**Why High-Cost Credit is a Concern**

There have been concerns raised by a wide section of civil society including citizens groups, charities, housing associations, MPs from all political parties and government departments as to the effect of the growing high cost credit market. Indeed the OFT Review of High Cost Credit was ‘launched because of concerns that consumers of high cost credit, including many on low incomes suffer from a lack of options when seeking credit, that the price they pay for credit is too high and that the recession is limiting suppliers’ willingness to lend money’. The following is by no means an exhaustive list; it is merely to outline some of the main concerns that have been aired over the growing high cost credit market.

**It Increases Inequality:** A major concern is that the poorest individuals pay the highest price for credit. Indeed some argue that the UK’s poorest pay the highest price for credit in Europe. The high costs of credit have to be repaid from future income and out of fixed budgets, thus exacerbating the already vast inequalities of wealth income in the UK. High debt repayments affect the quality of life for those households in debt. The results are poorer diets, colder homes, rent, council tax and utility arrears, constraints on job seeking behaviour, and poor health, including mental health.
It Creates Credit Dependency: There is a concern that people are not truly free to make decisions about whether they should use high cost credit or even which product best suits them. This is for two reasons; firstly wages and benefits are not high enough to meet the costs of living so people are forced to use credit to supplement their income, secondly poorer households often experience financial emergencies. When borrowing money to pay for luxury or non-essential goods, people on low incomes need credit just to get by. They know they are paying well over the odds for credit but have no choice but to pay the high prices charged. In this sense they are ‘credit dependent’.

It Exploits the Poor and Vulnerable: There have also been concerns raised that high cost lenders exploit the vulnerable position of the borrowers. People on low incomes need credit just to get by – alongside, the poor also pay for more credit. This is just one part of the poverty premium, a notional extra cost that people on lower incomes can pay for goods and services, compared with the cost that is paid for the same goods by higher-income families. Poverty and job insecurity increases vulnerability to debt problems. This may sound intuitive but it is low income families that are the most vulnerable to debt and a reliance on debt has increased their vulnerability.

It is Opaque: Although customers of payday loans are often told the amount they would have to repay for each £100 borrowed and this was easy to understand the true cost of the borrowing is difficult to compare with High Street banking products which are often measured using APR. Many borrowers are often misled about the fees they would have to pay back on their payday loans, if they paid on the date agreed when they took out the loan. In the case of retail credit, advertising often promotes ‘interest-free’ line although it does not take into account that the bundled price may already include a premium. For example Brighthouse is a white goods store offering the sale of goods on ‘hire purchase’ terms but customers don’t often realise that once they’ve paid for their purchase, the total cost is many times that if they’d paid cash.

Current Position
High-cost credit campaigners, such as Compass and the Human City Institute, and MPs Stella Creasy and Ian Austin, were given a boost following an announcement that the UK’s financial watchdog is clamping down on payday loans, with new rules to ensure that borrowers are never forced to repay more than double the amount of their original loan. The Financial Conduct Authority (FCA) is set to cap interest charged at 0.8 per cent a day. The total cost of a loan will be limited to 100 per cent of the original borrowing. Default fees will be capped at £15. The FCA said it did not want to drive payday lenders out of business, but the regulator estimates the lenders will lose 70,000 borrowers, 7 per cent of the total market. According to FCA modelling, a majority of the 70,000 people who will no longer have access to payday loans will make do without getting a loan. It is suggested that they will borrow from family or an employer and only 2 per cent would go to a loan shark. However, what is likely, is that low income households living in social housing will face not being able to borrow for emergencies nor to make ends meet unless other community-based credit providers can fill the gap left by the retrenching high-cost lending industry.
4.

Social Tenants Living on the Edge

“People who have very little money have a vested interest in budgeting well and most do so superbly well. It may be cash based, or the traditional jam jars on the shelf, but it works. The difference between people with little money and those with plenty is not primarily about budgeting. It’s about not having enough money. If I get my budget a bit wrong, there aren’t really any consequences. For people on a household income of £100 a week, any failure in budgeting has real and often painful consequences.” (David Orr, Chief Executive of the National Housing Federation in a recent blog summing up the problems low income households face when dealing with budgetary matters.)

Social tenants are living on the edge of a financial precipice. Like many on low incomes, they are subject to financial exclusion, unmanageable debt and propensity to use high-cost credit. While those on higher incomes also have debt problems, debt scars the day-to-day lives of those on lower incomes. Getting to the end of the week and the pay packet or benefit cheque is a constant struggle.

Research by the Resolution Foundation demonstrates the extent of financial exclusion and debt among low income households. Its ‘Behind the Balance Sheet’ report reviewed financial inclusion and financial capability in low earning households (defined as those households living on below median income who remain broadly independent of state support).

For the 14m low earning adults living in 7.2m households in the UK, these figures show that:

- Housing, fuel and power, and food account for around 26 per cent of the disposable income of low earning households, compared to 15 per cent for higher earners.

- Over a quarter of low earners say that they usually run out of money each month and over a half of low earners report problems with bills and credit commitments. A fifth of low earners say their debt burden is ‘heavy’.

- Thirty-five per cent of low earners had no reported savings and a further 21 per cent have less than £1,500 in the bank.

- Fifty-three per cent of low earners join superannuation pension schemes where they are available, and while 83 per cent of higher earners have these schemes offered to them, just 60 per cent of low earners do.

- Low earners are less likely to have the safety net of insurance to fall back on: 39 per cent of low earners, compared to 58 per cent of higher earners, take out life insurance. This pattern is mirrored in use of contents, critical illness and income protection insurance.
Inequality in Wealth and Income

At the same time, inequalities in wealth, income and life chances which have deepened significantly over the last thirty years. Chart (8) illustrates how the long-run share in national income of the top 1 per cent of earners, following sixty years of improvements from the end of World War One to 1979, have returning to levels (i.e. about one fifth) not seen since Edwardian times. As the ONS Wealth and Assets Survey (WAS) shows, the richest 10 per cent now own £4tr of total UK net wealth of £9tr while the bottom half own only around one tenth of national wealth. The bottom 10 per cent actually has minus wealth (that is debts exceed assets).

Over the last thirty years, increases in assets and incomes of the most wealthy have outstripped those on low and middle incomes and even of relatively affluent households in the 8th and 9th deciles. The wealthiest hold their assets chiefly in property, financial assets (e.g. shares and pensions) and in objects such as antiques and art. Wealth among the top 10 per cent is not evenly distributed. Taking 10 per cent slices of this top group (or percentiles of the total wealth of the UK) shows that wealth distribution increases exponentially between the 90th percentile and 100th percentile (by a factor of 10 times on average). In other words, the super-rich are increasing their proportion of national wealth at an even greater rate than the merely wealthy. In 1997, the gearing between the wealth of the wealthiest 1 per cent to the bottom 90 per cent was 18:1 but had ballooned to 60:1 by 2007. There is evidence that this gap is widening as the effects of austerity and welfare reform policies begin to bite. Tenure is also a metaphor for inequality with home owners controlling at least 20 times more assets on average than social tenants.
All in it Together?
There has been a linked debate about who is bearing the brunt of the austerity and welfare reform and whether we are, indeed, ‘all in this together’. As Clark and Heath (2014) assert:

“The effect of hard times is bound to depend on whether the economic pain is shared around, or whether instead it is concentrated on particular individuals...As national income falls away in a recession, somebody is going to have to get poorer; and even if all incomes remain high by historical standards, if the fortunes of some sink faster than others, then that is going to hurt.”

The reality is that all income groups will have seen a real fall in their living standards by 2015 compared with 2010. The independent Institute of Fiscal Studies (IFS) (2014) has computed the fall in real terms income over this five year period, factoring in both changes to tax and welfare benefits. The IFS concludes that the two income deciles most affected will be the bottom decile and the richest that is, the 10th decile. The bottom decile will have seen a 5 per cent fall in their incomes and the top decile around 7 per cent. All incomes groups will have experienced a 2.5 per cent drop. However, those cushioned most of those in the so-called ‘squeezed middle’ with falls between 2 per cent for the 4th decile and 1 per cent for the 9th decile.

This plays into the ‘strivers versus skivers’ narrative created by the Government and echoed in the tabloid press: middle and upper income earners are and will facing less pain in the pocket whereas those at the bottom, who can least afford to lose any income, are penalised.

The Impact of Welfare Reform Affecting Social Tenants
The cumulative impact of all reforms to welfare benefits announced since the Coalition Government took office in May 2010 have been analyses by the Centre for Economic and Social Exclusion (Wilson et al 2013) for the Local Government Associations (LGA). The research estimates that the income of households claiming benefit will be on average lower by £1,615 a year – or £31 a week – in 2015/16 as a result of welfare reforms than in 2010/11, excluding the impact of Universal Credit. This is equivalent to around £1 in every £7 of household income for those households who can least afford reductions. The changes in the welfare system are summarised below:

Universal Credit: UC is replacing the main means-tested benefits for those on low incomes in and out of work (mainly Housing Benefit, Jobseekers Allowance, Income Support, Employment and Support Allowance, Tax Credits) with a single benefit paid to the head of the household. UC began roll-out in late 2013, with existing claimants to be reassessed over the following four years. The chief impact of UC will be to increase entitlements by £190 per claimant household per year, or around £1.6bn by the time it is fully rolled out.

The Bedroom Tax: The introduction of ‘size criteria’ for most Housing Benefit recipients in social housing, reducing awards by 14 per cent where tenants are deemed to have one spare bedroom and 25 per cent where they have two spare bedrooms – saving £465m.

The Benefit Cap: The introduction of a cap on total benefit receipts for most households where no adult is in work, of £500 a week for families and £350 a week for single people – saving £185m.
Total Benefit Bill Cap: The uprating of benefits and tax credits by 1 per cent instead of the Consumer Prices Index over the next three years – saving £2.7bn.

Changes to Tax Credits: Including reductions in the basic, 30-hour and childcare elements; increases in the child element; changes to working hours requirements, thresholds, disregards and withdrawal rates – saving £5.275m.

Increases in Deductions: Taken from Housing Benefit and Council Tax Benefit for other adults living – saving £130m.

ESA Restrictions: The restriction of contributory Employment and Support Allowance to one year for claimants in the ‘Work Related Activity Group’ – saving £1.6bn.

DLA: The replacement of Disability Living Allowance with a new benefit called the Personal Independence Payment (PIP) – saving £1.4bn.

Council Tax Benefit: The abolition of the CTB and its replacement by locally determined Council Tax Support schemes – saving £355m.

The Social Fund: Abolition of the discretionary Social Fund – which provided grants and zero-interest loans to help vulnerable people with essential outlays – reduced by 10 per cent and transferred to local authorities with no ring-fencing – savings at least £100m.

Ipsos MORI and the Cambridge Centre for Housing and Planning Research (2013) commissioned by the NHF to assess the impacts of welfare reforms for housing associations found that:

- Four in ten (40 per cent) working age social tenants affected by welfare reforms do not have access to the internet and of those who do have access, half (51 per cent) say they wouldn’t be confident making a benefit application online (equivalent to 30 per cent of all respondents).
- More than four in five (85 per cent) working age social housing tenants who have been affected by welfare reforms say they have a bank or building society account;
- A majority (95 per cent) currently have their Housing Benefit paid directly to their landlord and nine in ten (92 per cent) say they would prefer benefits to be paid directly to their landlord rather than their own accounts.
- Seven in ten say they budget fortnightly or more frequently, and of these 68 per cent would not be confident of planning their budget on a monthly basis. 15 per cent say they usually budget monthly or less frequently.
- Around one in six (16 per cent) say they know a great deal or a fair amount about the change to Universal Credit whereas around a third (34 per cent) say they have never heard about the change to Universal Credit.
Other research by the NHF (2013) found that:

- Housing associations expect some tenants will be unable to keep up with their rent following welfare reform leading to an increase in the number of evictions for rent arrears.
- Associations believe the social rented sector is likely to be placed under even greater pressure as those unable to meet their needs in the private sector turn to the social rented sector for a solution.
- More than a quarter of associations (27 per cent) believe the introduction of the household benefit cap will result in a rise in family separation.
- Eighty per cent of associations believe they are likely to see an increase in the number of existing tenants requesting a transfer to smaller property following the introduction of the size criteria but just three in ten believe they are likely to see a rising number of tenants moving to the private rented sector.
- Tenants are considering what, if anything, they can cut back on in their household expenditure in order to meet any increased costs.
- Rent remains a priority, but heating, food and non-essential cut backs are all being considered.
- Those aware of the reforms were anxious and uneasy about what is going to happen. For those affected by the size criteria, this is driven, in large part, by financial concerns. Money is already tight and the possibility of having to find more each month to cover a reduction in housing benefits is a source of concern for them.

**Being a Social Tenant is Precarious**

Social tenants face a precarious existence. They are generally in the lower income bracket, rely on welfare benefits and tax credits to survive, are more likely to be employed on sick or disabled, have little in the way of assets (such as savings) to fall back on in times of crisis, are reliant upon family and friends and high-cost lenders for loans (often just to get to the end of the week), and are less likely than other groups to have access to mainstream banking services of Information and Communications Technology (ICT). Some of these issues are discussed below, drawing on the findings of the tenant survey.

**Financial Exclusion:** The National Housing Federation and the Institute of Housing in a range of reports show that social tenants are disproportionately affected by financial exclusion and debt. They constitute around 60 percent of all financially excluded people but constitute only 18 percent of the general population. Nearly one in six social tenants have no bank account: twice as high a proportion as the rest of the population. Eighty-one per cent have no savings account. Ninety-one per cent have no insurance cover. And one third don’t have access to ICT.

**Income and Benefits:** Over two fifths (43 percent) of tenants in the survey have total household incomes (for all household members including benefits and tax credits but not housing benefit and with taxes deducted) below £5,200 (£99 per week) with the median income being around...
£7,900. Some 80 percent have net household incomes below £10,400 (£199 per week). Only 4 percent have incomes above the national median wage of approximately £26,000 (also the benefit cap). These findings are summarised in chart (9) below. Seventy-seven per cent of tenants interviewed are eligible for housing benefit.

**Economic Activity:** Forty-five per cent of tenants interviewed are economically active, with 24 per cent employed full-time, 14 per cent employed part-time and 7 per cent in education or training. Of working tenants, 35 per cent were in short-term and sometimes zero hours contracts.

**Financial Exclusion:** Over one third (34 per cent) of tenants say that their financial circumstances are poor or very poor. Just 4 per cent describe them as very good. Sixty-nine of tenants have no savings. Of those who do, only 11 per cent say they are high or very high. Forty-six per cent of savers have less than £1,000 and 73 per cent have less than £3,000. Just 19 per cent of savers have over £5,000 (7 per cent of total tenants). Tenants provide insights into their plight:

"Nobody is better off. I've cut back on fuel and food. Do less shopping so that you can’t spend any money. Can’t afford to eat much meat. Being careful and monitoring everything including water – don’t just let it go down the drain. Never fill the kettle - only just enough for a cup of tea. Get up later and go to bed earlier. Wear extra woollens and drink hot soups."

"The cuts are too deep and too quick - affects vulnerable people of all ages, particularly older people."

[Chart (9) - Level of Tenants' Total Household Income (£ per Week)]
Standard of Living and Quality of Life: In the last two years, 31 per cent of tenants indicate that their standard of living has worsened. 49 per cent say it has stood still and only 20 per cent have witnessed any improvement. Similar results were found when tenants were asked about their quality of life. The key reasons for this are explained by the following two charts, which show that tenants’ main items of expenditure, food and fuel, have seen much higher levels of inflation over recent years, while wages and benefits stagnated, so eroding tenants’ standard of living.

Tenants’ comments provide some insight to how their standard of living has been hit drastically:

“Just have to buy the cheapest food or go without. Often just live on toast. There are days where you just don’t eat.”

“Living costs have risen by 30-40%. Heating costs have doubled. Petrol has rocketed. Rents and service charges have increased while benefits are going down.”

“We’ve all got less money and it is going to get worse. It is very hard to follow the benefit changes.”

“People want to work but they are penalised. Older people would like a part-time job but it would affect their benefits so they daren’t.”

“Young families - the mums go to work and then don’t qualify for family credits, they can’t afford the nursery places. It makes no sense to give people no incentives.”

“Bus and train fares have gone up so people are afraid to go anywhere because of the cost and older people can’t walk to town and back to buy cheaper food from the market.”

“Nobody has any savings left - you have to use what little bit you have to make ends meet.”

“The gap is widening between the cost of living and salaries. I have not had a pay rise in four years.”

“Food is a luxury. Food prices escalating – can’t even think of buying anything other than basic ranges.”

“Heating costs have increased – practically doubled. Too much time and effort needed to switch companies on a regular basis.”

“Car and house insurance has rocketed. Petrol is increasing all the time. Can’t afford to travel anywhere either by car or public transport.”

“Eat less.”

“People on low income and on benefits are penalised every which way – people are just depressed because they can’t make ends meet, it is too difficult.”

“Use your credit to bridge the gap but then you can’t pay it off so you pay more.”

“Don’t use the heating. Wear an extra layer.”

“The Government is penalising low paid workers and those on benefits because they don’t care and are ignorant of what it is like to be short of money.”
Beyond the Margins: Debt, Financial Exclusion and Social Housing

**Chart (10)** - Consumer Price Index for a Basket of Goods (2007-2013)

*Source: ONS CPI Tables (2014)*

- Energy - electricity & gas: 47.3%
- Travel & transport: 36.5%
- Food & drink: 31.5%
- Water rates & meters: 30.7%
- Housing - rent & services: 21.8%
- Recreational services: 20.2%
- Communication services: 13.3%
- CONSUMER PRICE INDEX: 18.9%

**Chart (11)** - Average Expenditure per £ by Tenants on Household Items

*Source: HCI Survey (2014)*

- Food: 32p
- Debt repayments: 20p
- Fuel: 18p
- Transport: 13p
- On the home: 8p
- Clothing: 6p
- Support a disability: 4p
- Recreation: 4p
- Other: 2p
What Tenants Want

The cumulative impact of debt, financial exclusion, austerity and welfare reform is that the communities social landlords serve are losing millions of pounds in real terms across the country. To discover what tenants themselves would like to see in terms of policy changes to improve their lot, a series of questions were posed in the survey.

Tenants’ Priorities for Social Landlords: As chart (12) below illustrates, tenants want social landlords to provide a wider range of services to alleviate financial exclusion, reduce their reliance upon high-cost credit and to aid tenancy and community sustainability. They clearly want rents and service charges kept down (at 61 and 60 per cent respectively) and many social landlords are trying to do this. Tenants also would like greater provision of furnished housing, extension of banking services, help with employment, training and short-term loans at reasonable interest.

Tenants’ Priorities for Changes in National Policy: Social tenants in the survey clearly see where their priorities lie in actions to relieve their financial exclusion by the wider economy and by the state. At the top of their list is increased welfare benefits which have been eroded over the long-term in relation to wages. Their priorities also include the introduction of a Living Wage and wages increased generally. Alongside, enhanced job security in the age of part-time and zero hours work is a priority. And tenants also want to see a range of actions to reduce the costs of borrowing [see chart (13) overleaf].
Chart (13) - Tenants’ Priorities for Policy Changes to Tackle their Financial Exclusion (score out of 5)

[Source: HCI Survey (2014)]

- Increased benefits: 4.2
- A Living Wage: 3.8
- Increased wages: 3.7
- Better job security: 3.6
- Capping interest on credit/store cards: 2.5
- Having a bank account: 2.4
- Capping high-cost lenders to lower APR: 2.2
- Local savings schemes by HAs: 2.1
- Being able to borrow from the Post Office: 1.9
- Better access to credit union loans: 1.3
5. Housing Associations on the Front-Line

I am left with one over-riding thought. If housing associations don’t step up to the challenge, who will? Indeed who can? They may face serious pressures, but are still the largest local actors in many communities. Local authorities are pre-occupied with implementing their own cuts. Most of the voluntary and community sector is under-resourced by comparison, and lacks human and technical capacity. Housing associations are, for many communities, the only game in town. If they can’t become Beacons of Hope, then hope will, like homes, be in ever shorter supply. [James Tickell, former Deputy Chief Executive of the NHF in Gulliver et al (2011) ‘Beacons of Hope: The Historic Role of Housing Associations Tackling Poverty, Disadvantage and Inequality’]

Housing associations have played a major role in tackling poverty, disadvantage and inequality since the 19th Century operating as ‘front-line’ agencies in the endeavour. Their activities have included focussing resources on ‘social investment’ sub-divided into physical, economic, social and environmental interventions to relieve housing and socio-economic stress, especially in inner city communities.

Housing associations have been active campaigners against poor housing conditions, homelessness, economic and social disadvantage throughout their history but particularly in key ‘ages of austerity’ which exacerbated and/or underlined the need for intervention by community-based organisations following inaction or retrenchment by the national and local state (Gulliver 2011). Today, housing associations are back on the ‘front-line’ in the fight to support their tenants and communities from the debilitating effects of poverty, financial exclusion and debt.

The Responses of Social Landlords

Social housing providers have been involved in tackling financial exclusion for more than 100 years (Gulliver 2000, 2004, 2006). Early housing societies in the 1920s and 1930s set-up savings and loan schemes for example, in the 1960s and 1970s housing associations offered housing and money advice services, and in the 1980s and 1990s were in involved in ‘Housing Plus’ initiatives mainly to tackle unemployment and training (Gulliver et al 2011).

Today, housing associations invest annually £45m in employment and enterprise schemes, £66m in education and skills services, and £44m in poverty and social exclusion services. Hundreds of people are employed in delivering these services. More than half of this investment by social housing providers comes from their own resources and the remainder from publicly-funded programmes (NHF 2008).
Table (1) – Housing Association Community Investment Activities in England (2012/13)

<table>
<thead>
<tr>
<th>Activity Headings</th>
<th>Activities</th>
<th>Community Investment (£)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Physical:</strong></td>
<td>Decent Homes, Repairs &amp; Maintenance</td>
<td>£1bn invested pa employing many thousands of via DLOs, contractors &amp; supply-chains</td>
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<tr>
<td></td>
<td>Neighbourhood Facilities:</td>
<td>1,000 facilities</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Investment in £352m pa (£152pa from own resources)</td>
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<tr>
<td><strong>Economic:</strong></td>
<td>Employment &amp; Enterprise:</td>
<td>574 services delivered, 68,000 people benefitted, 640 staff employed directly</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Investment of £45m pa (£26m from own resources)</td>
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<tr>
<td></td>
<td>Education &amp; Skills:</td>
<td>1,238 services delivered, 246,000 people benefitted, 950 staff employed directly</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Investment of £66m pa (£46m from own resources)</td>
</tr>
<tr>
<td></td>
<td>Poverty &amp; Social Exclusion:</td>
<td>984 services delivered, 368,000 people benefitted, 450 staff employed directly</td>
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<tr>
<td></td>
<td></td>
<td>Investment of £45m pa (£26m from own resources)</td>
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<tr>
<td><strong>Social:</strong></td>
<td>Well-Being</td>
<td>656 services delivered, 406,000 people benefitted, 580 staff employed directly</td>
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<tr>
<td></td>
<td></td>
<td>Investment of £41m pa (£23m from own resources)</td>
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<tr>
<td></td>
<td>Safety &amp; Cohesion:</td>
<td>1,878 services delivered, 1.7m people benefitted, 640 staff employed directly</td>
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<tr>
<td></td>
<td></td>
<td>Investment of £91m pa (£51m from own resources)</td>
</tr>
<tr>
<td><strong>Environmental:</strong></td>
<td>Environmental:</td>
<td>1,472 services delivered, 17m people benefitted, 690 staff employed directly</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Investment of £79m pa (£62m from own resources)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Range of ‘green’ schemes, strategies &amp; policies including affordable warmth, carbon footprint measurement, recycling</td>
</tr>
</tbody>
</table>

Source: Gulliver (2014) from NHF (2013) Neighbourhood Audit
Many social landlords provide a range of financial inclusion services, or support services provided by community partners; including assistance with opening bank accounts, community development finance initiatives, credit unions, financial inclusion awareness and literacy training, fuel poverty advice, household insurance schemes, pay point services, rent deposit schemes, white goods and furniture re-use as well as debt and money advice (sometimes linked to rent arrears recovery teams).

As ‘trusted intermediaries’ social landlords can make the link between their wider community policies, debt and financial inclusion and reach those disadvantaged groups others find hard to reach. As ‘community anchors’ and large social enterprises at the heart of the communities they serve they can also facilitate and drive financial inclusion partnerships and projects.

**Help with Money**

Many social landlords provide a range of financial services:

**The NHF’s ‘MyHomeFinance’**: A lasting innovation in taking financial exclusion comes from the National Housing Federation. ‘MyHomeFinance’ is a social enterprise financial services organisation with all profits ploughed back into the business so that more people can be helped to save and borrow. The service is aimed at those who can’t access high street lending and who have to rely on loans from doorstep lenders and loan sharks who charge extortionate interest rates.

The service helps people, mainly housing association tenants, to access credit at a more affordable rate, open a bank account and help them save for the future. By building up their repayment history with My Home Finance, customers will be more able to access mainstream financial services in the future.

‘MyHomeFinance’ was set up by the National Housing Federation. It is supported by the Government, Royal Bank of Scotland, Wates Giving and many housing associations in the Midlands investing. As of June 2013 MHF has completed over 11,000 loans. The business has also helped half of its customers open a savings account and take the first step to breaking the cycle of debt. Having lent nearly £3.5m ‘MyHomeFinance’, has saved its customers an estimated £2m compared to the equivalent credit accessed elsewhere.

**Money Advice Services**: Income management services, money advice and debt prevention, advice on business start-up, market intervention including mortgage rescue and housing ‘buy-backs’, and provision of affordable credit are all growing elements of the services provided by many housing associations. All three social landlords shown in the following case studies offer such services.

The Trident Money Advice Centre helps 200-300 clients each year with advice on welfare benefits, debt, budgeting and dealing with lenders/creditors. WM Housing Group has a progressive and supporting approach to ameliorating the worst effects of welfare reform on tenants’ incomes – especially around the Bedroom Tax.
SOCIAL LANDLORD CASE STUDY –

The Aster Group

The Aster Group is an ethical social enterprise whose inspiration is making a positive impact on the lives and life chances of tenants and their communities.

The Aster Group has recognised the changing social and economic environment for the communities which it serves and the pressure on their incomes and standard of living.

The Group has invested heavily in a range of services that tackle financial exclusion and debt. And it has targets for directly employing tenants in its business.

SOCIAL ENTERPRISE: As a solution, Aster supports the social enterprise model to create employment and training. It works with communities and partner organisations to develop new and existing services.

In addition to the Group’s housing and care activities it is also:

- Talking to local authorities, local charities and other partners about how it can help them maintain and develop existing projects as social enterprises
- Working with its tenants and communities to establish new community-based enterprises that offer employment and training in ethical settings
- Analysing enterprise opportunities and evaluating how they can be progressed either within the Aster Group or as external partners in its work
- Delivering the Social Enterprise Qualification (SEQ) to tenants and others from the communities where Aster works
- Delivering social enterprise training and mentoring through Aster Options

FURNISHED TENANCIES: Aster has a series of furnished housing schemes that provide more sustainable tenancies since furniture and white goods are one of the key reasons for tenants going into debt.

In addition, Aster has created a furniture franchise called ‘Twice as Nice’ with one in Andover and another in Shepton Mallet, Somerset, working alongside Somerset County Council.

‘Twice as Nice’ is a service that gives old furniture a new lease of life and recycles it for tenants at a much lower costs than can be found in the commercial market.
SOCIAL LANDLORD CASE STUDY –
Trident Social Investment Group

Following the previous debt and financial exclusion survey undertaken in 2010/11, Trident Social Investment Group set in motion a major social audit of its operations and activities with a view to creating a Social Investment Strategy as its guiding document. The survey and the social audit informed the creation of the Social Investment Strategy with key priorities to tackle debt and financial exclusion organised under five headings. These are the five ‘Fs’ which seek to both embed a social investment ethic while tackling the fallout from public service cuts and welfare reform, and the need for Trident to shelter its residents, service-users and communities from the worst effects of austerity. Here are the five ‘Fs’:

- **FOOD** - affordable and sustainable food supply, food co-operatives
- **FUEL** - affordable warmth, tackling fuel poverty, fuel education programmes
- **FURNITURE** - furnished lettings, homes not housing, decent homes
- **FINANCE** - affordable credit, money and debt advice, business development and support
- **FUTURES** - health and wellbeing, employment and training, skills, research and community consultancy

**FURNITURE:** Trident has committed to creating 300 furnished tenancies in partnership with the Furniture Resource Centre – a Liverpool-based social enterprise providing furnished solutions to social landlord needs.

Trident is also working with the FRC to create HomeMaker – a social enterprise that its residents and other low income households can go to for low-cost furniture, paid for in instalments without the ruinous interest charged by some High Street suppliers.

**FINANCE:** Trident has also invested heavily in money advice services for residents for the last four years to address the high levels of financial exclusion among its client group.

Trident’s money advice services helped 630 residents over the last two years. Most of these were from Birmingham. A total of £209,000 in income maximisation was achieved, mostly by improving welfare benefit take-up. A further £521,000 of personal debt was advised upon, around two thirds of which can be included as debt write-down or consolidation, so reducing resident and service-users’ debt overhang and improving the sustainability of tenancies and their living standards. All of this was achieved at an investment rate by Trident of around £120,000 over the two years.
SOCIAL LANDLORD CASE STUDY –

WM Housing Group

MONEY MANAGEMENT: WM Housing provides support services to its tenants and communities to enable them to manage their finances better and to avoid debt if possible. In response, the Group’s income management service has been up-scaled by re-structuring staff teams having direct contact with tenants and through increasing the number of money advice posts.

Alongside, WM Housing Group has moved to an asset-based approach to tackling financial exclusion, placing employment support for tenants and communities at the centre of its strategy.

Positive and robust partnerships built with other agencies, especially community agencies close to tenants, to extend the breadth and depth of its financial inclusion services to maximise impact and social value

WELFARE REFORM AND AUSTERITY: The advent of welfare reform and the effects of austerity have promoted WM Housing Group to undertake a root and branch review of how the Group’s income management and financial inclusion services enable its tenants and communities to face the challenges of household budgets increasingly under stress.

Robust action plans have been put in place to make sure tenants are ready for Universal Credit. Significant programmes have been delivered to support those tenants who are under-occupied and may be subject to the Bedroom, are affected by the Benefit Cap and the new Claimant Commitment, and those who have seen changes to their disability benefits.

TENANT CASE STUDY: The story of how WM Housing Group worked with its tenants on financial exclusion matters is illustrated below.

As part of the visiting programme for all of the Group’s under-occupied tenants, one money advice officer started to work with a tenant who was paying a 25 per cent Bedroom Tax.

Working together they were able to challenge the charge levied for extra bedrooms as the tenant had a carer who needed to be accommodated. Consequently, the charge was reduced from 28 per cent to 14 per cent which, although it squeezed the tenant’s income, was more financially sustainable.

A successful DHP application cleared the £700 rent arrears which had accrued because of the unpaid charge, allowing the tenant to apply for a mutual exchange. She is now in the process of downsizing to a smaller and more affordable home that enables both her and her carer to have a bedroom with no charge incurred.
**Sustaining Tenancies**

Many social landlords have long-recognised that the sustainability of tenancies they manage requires interventions beyond the traditional housing management role.

For example, all three case study landlords are providing furnished tenancies or planning to do so, which is a major priority for tenants and root cause of their going into debt with high-cost lenders such as Brighthouse. Social landlords are creating their own furniture recycling projects or working with social enterprises such as the Liverpool-based Furniture Resource Centre, which provides furniture to housing associations and local authorities housing departments. Each year, over 5,000 individual properties for over 150 different social landlords are provided. Research shows that the provision of furnished tenancies reduced rent arrears, housing churn and housing management costs and improves tenant satisfaction and VFM.

Social landlords are equally involved in tackling the cause of debt at root. Many are providing a range of support services to help tenants sustain their tenancies. Some are setting-up food and furniture banks as well as investing in affordable warmth through more efficient heating and high grade insulation. Most are providing high level support for claiming the requisite welfare benefits, especially in terms of the many changes made since 2010 and in preparation for Universal Credit. These interventions recognise that tenancies can only be sustainable if housing is considered as a home. Tenants most go into debt where there is a need for furniture, to pay a fuel bill or to make ends meet. Make the costs of living cheaper reduced the need for tenants to seek credit, especially high-cost credit.

**On the Front-Line: New Roles?**

The potential retrenchment of the high-cost lending industry following rulings by the FCA, introduction of greater competition, and fines aimed at malpractice, all may mean that tenants on the lowest incomes have nowhere to go for short-term credit in emergencies or simply to buy food. Some housing associations have partnerships with community finance organisations. Even so, the community finance sector is under-developed in the UK. In addition, borrowers first have to become savers. What tenant say they want is housing associations to offer directly short-term loans and other financial support. Housing associations, as the case studies show, are trying to rise to the challenge. Yet there is still a long-way to go to bridge the potential gulf left by withdrawal of payday lenders. But as noted at the beginning of this chapter, if housing associations are not able to offer such services in the communities where they are active, who will?
6.

Tackling Precarity

“The precariat...is a class in the making, approaching a consciousness of common vulnerability. It consists not just of everybody in insecure jobs – though many are temps, part-timers, in call centres or in outsourced arrangements. The precariat consists of those who feel their lives and identities are made up of disjointed bits, in which they cannot construct a desirable narrative or build a career, combining forms of work and labour, play and leisure in a sustainable way. Because of flexible labour markets, the precariat cannot draw on a social memory, a feeling of belonging to a community of pride, status, ethics and solidarity. Everything is fleeting. Although the precariat does not consist simply of victims…its growth has been accelerated by the neoliberalism of globalisation, which put faith in labour market flexibility, the commodification of everything and the restructuring of social protection.” [Guy Standing, writing in the Guardian in 2013]

Conclusions

A number of conclusions are drawn below followed by recommendations for policy-makers and social landlords.

A Tale of Two Debts: The UK Government and its financial watchdog the OBR has an ambivalent approach to debt. Public debt is seen to be bad and must be reduced at all costs, including to the most vulnerable in society. Private, or personal debt is judged to be beneficial to the economy to fuel consumer spending. Yet private debt is much higher than public debt – both in real terms and starkly so when compared with the past. Private debt is growing again at a fast pace with many warning that the habit of the British to run up debts will have serious consequences for individuals, the economy and society.

An Unfair Credit System: The UK’s credit system is deeply unfair, rewarding those already with assets who can borrow against them and support future investment in skills, education, better employment, higher incomes and yet more assets, while lower income households experience a ‘poverty premium’ facing higher costs food, fuel and finance. Some are calling for a fairer credit system within the framework of an economy re-balanced away from a dominant financial services sector towards one that with a more diverse economic base and better meets the employment needs of all communities, challenging the prevailing political economy of the UK over the last thirty years. A long-term approach to tackling debt and financial exclusion, then, must incorporate measures to balance the economy more in the interests of people and communities; between sub-sectors with greater emphasis on non-financial services; and between credit providers to ensure fairer practice from top-to-bottom of the system.

The Growth of High-Cost Credit is a Concern: A wide array of civic organisations, including citizens groups, charities, housing associations, MPs from all political parties and government departments have expressed concern about the effects of the growing high cost credit market; especially payday lenders. A key concern is that it exacerbates Inequality since the poorest
individuals pay the highest price for their debts. High debt repayments affect the quality of life for those households in debt. It exploits the poor and vulnerable. The results are poorer diets, colder homes, rent, council tax and utility arrears, constraints on job seeking behaviour, and poor health, including mental health issues. Alongside it creates credit dependency among the lowest income groups who need credit just to get by. Lastly, high-cost credit is opaque, with such lenders exploiting the lack of knowledge of vulnerable and sometimes desperate borrowers about how much interest will be charged and how much money will be paid back.

**Debt and the Housing Market:** It is clear that the UK’s relationship with personal debt cannot continue at the rate predicted by the OBR to fuel projected economic growth over the next five years while public debt is reduced faster than needed with the lack of investment in public infrastructure this implies and stalling consumer confidence. The OBR’s household debt forecasts are also highly dependent upon a reasonably buoyant housing market. OBR forecasts imply rising house prices to fuel equity withdrawal and underpin secured borrowing. This seems unlikely given the current state of the housing market. The potential of schemes such as Help to Buy to push up house prices has been identified at a time when the UK is on the cusp of another housing bubble. The key problem is that demand can be increased quickly through Help to Buy; supply can only be increased slowly. However, a house price hike does serve to increase the equity for existing home owners to support more borrowing and economic growth. But this leaves those seeking affordable homes out in the cold.

**Being a Social Tenant is Precarious:** Social tenants face a precarious existence. They are generally exist on low incomes, rely on welfare benefits and tax credits to survive, are more likely to be employed on sick or disabled, have little in the way of assets to fall back on in times of crisis, are reliant upon family and friends and high-cost lenders for loans for day-to-day living, and are less likely than other groups to have access to mainstream banking services of Information and Communications Technology (ICT).

**What Tenants Want:** Social tenants’ priorities to improve their financial position include increased welfare benefits which have been eroded over the long-term in relation to wages. Their other priorities include the introduction of a Living Wage and wages increased generally. Alongside, enhanced job security in the age of part-time and zero hours work is a priority. And tenants also want to see a range of actions to reduce the costs of borrowing. Tenants want social landlords to provide a wider range of services to alleviate financial exclusion, reduce their reliance upon high-cost credit and to aid tenancy and community sustainability. They clearly want rents and service charges kept down. Tenants also would like greater provision of furnished housing, extension of banking services, help with employment, training and short-term loans at reasonable interest.

**The Role of Social Landlords:** Social landlords have for a hundred years or more played an important role in supporting the most vulnerable in society. Their social purpose has been their defining characteristic. They have intervened in communities investing in physical, economic, social and environmental elements to improve the lives and life chances of their tenants. At times in the past, before the ascendance of local authorities, they were on the ‘front-line’ in tackling
disadvantage. With the advent of welfare reform, austerity and the retrenchment of local authority services, social landlords are again being cast as the main community anchors for communities under economic stress. They have developed a repertoire of community-based services, including those that prevent or reduce debt, others that improve financial inclusion, and services that support sustainable tenancies, such as provision of furniture and tenancy support.

**National Policy Recommendations**

There are many policy solutions at the national level to tackle debt and financial exclusion in general, and legal loan sharking in particular. These are presented here.

**A More Effective Wage Floor Ensuring Decent Wages for All**

Although the United Kingdom is the seventh richest countries in the world, low pay remains a reality for 1 in 5 Britons. One proposal for tackling this problem, and supported by tenants in the survey, is extending the Living Wage policy, under which businesses are encouraged to pay a higher minimum wage of £7.45 per hour outside London. This policy not only reduces in-work poverty but also increases the propensity of lower-income households to spend as a result of higher earnings. A further economic incentive is that paying employees the Living Wage would save the Treasury more than £2bn a year by reducing welfare expenditure and increasing income tax receipts.

**A Fairer System of Social Security**

Another way to ameliorate the twin problems of low incomes and debt would be to strengthen the effectiveness of the UK’s welfare system. This would ensure that recipients of both in-work and out-of-work benefits are provided with enough financial support to afford essentials such as food, fuel and housing. It would also increase their spending power, enables them to participate in the consumer economy without falling into spiralling debt by dependency on high-cost credit. One way of making the welfare system more adequate for those in need of state support to make ends meet would be to introduce ‘adequacy benchmarks’ by which benefits are raised to a certain level of average earnings, and maintained at that level until such time as sufficient funding is available to raise that standard.

Another way of improving the effectiveness of the social security system would be to change the benefit indexation formula by tying benefit increases to wages instead of prices, as has long been the case, thereby ensuring that if average wages rise in real terms, benefits would increase correspondingly, thereby enabling benefit recipients to have higher purchasing power. A final way would be to offer a guaranteed minimum income: essentially a benefit provided to all citizens as a right, rather than provide different forms of financial security to different categories of the population.

**Tighter Regulatory Control over the High-Cost Lending Industry**

Placement of a cap on the interest charged by payday lenders and others in the sector would ensure that usurious rates of interest approaching 6,000 per cent annually would end. Since the UK’s payday industry has long been amongst the least regulated in the world, this would bring the country in line with competitor economies. Evidence from abroad has demonstrated that
such a cap is not only effective at safeguarding consumers, but also at tackling legal loan sharks. The Government has agreed to a cap in principle and has brought the high-cost credit industry under the watchful eye of the Financial Conduct Authority (FCA), although regulatory framework should be strengthened further.

The Government should also consider implementing legislation on consumer protection similar to those introduced by other countries. Amongst the products usually provided abroad, the lender and borrower must select the type and amount of credit that is most appropriate to the candidate situation and type of credit. If these obligations are not kept, the courts can apply various penalties. These include the rejection of all or parts of the late penalties, the diminution of borrowers’ payment obligations to the borrowed amount only (excluding all interests and fees) with the borrower keeping the advantage of the payment instalments, and damages recovery for the borrower concerned. Similar laws to the ones highlighted could be introduced in the UK with little effort and would provide greater legal safeguards for payday customers, while ensuring that payday lenders do not coerce low income borrowers to take out unaffordable loans.

Steps need to be taken by advertising standards authorities to clamp down on payday advertising to ensure that payday lenders are prevented from enticing struggling consumers in taking out unaffordable loans and thereby accumulate ever-mounting levels of debt.

The Creation of Alternatives to High Cost Credit
The Government should take a central role in social lending, drawing inspiration from credit unions and community initiatives, as means of providing affordable credit facilities for those living on tight budgets and thereby preventing consumers from turning to payday lenders and loan sharks for assistance. Socially orientated co-operative banks are common elsewhere. Community Development Finance Institutions (CDFIs), like credit unions, have demonstrated commitments in aiding vulnerable people access to financial services. Credit unions offer more affordable loans to low-income customers, and can only charge a maximum rate of 2 per cent a month (representing an annual percentage rate of 26.8 per cent). But this sector is under-developed in the UK.

A Community Reinvestment Act for the UK
The Government should look to pass a similar legislation to the USA’s Community Reinvestment Act, encouraging commercial banks and building societies to meet the needs of borrowers in all segments of their communities, including low and moderate income neighbourhoods. This is not only good business sense in spreading financial services but fits with financial institutions’ corporate social responsibility requirements. An obligation on UK banks and building societies to provide a basic banking account for anyone can draw inspiration from a number of European countries that have adopted such policies successful.

Introduction of a Wealth Tax
Since the proportion of national wealth held by the richest, and particularly the super-rich, has increased at a far faster rate than that for middle and lower earners, a fair approach to dealing with the UK’s public debt, and tackling deep-set economic problems, is to apply a one-off wealth
Wealth taxes are currently operated in France and Holland and are being considered in the USA, Ireland and other parts of Europe as a fairer way to tackle a once-in-a-lifetime economic crisis. Moreover, they demonstrate that we are truly ‘all in this together’ and tax the disproportionate gains made by those who did best in the good times and the boom years and those most able to pay. Alongside, some are advocating a permanent ‘mansion tax’.

**Conclusions & Recommendations for Social Landlords**

There are many policy solutions to tackle debt and financial exclusion in general, and legal loan sharkining in particular, that social landlords should consider. These are summarised here.

**Coordinated Expansion of Credit**

The National Housing Federation, supported by member housing associations might oversee an expansion of the ‘MyHomeFinance’ initiative and similar approaches across the country. More focussed marketing of such schemes to those tenants who most need affordable credit is desirable. The NHF might be aided by Government and regulators in requiring all social landlords to sign-up to support a national affordable credit programme.

**Expanding Money Advice Services**

Social landlords should become more involved in developing bespoke money advice and debt counselling services and community finance initiatives to their tenants, or support existing services now that the local state is retrenching and withdrawing support for such services. Again, many social landlords already offer a range of such services, or partner services provided by others. These services include assistance with opening bank accounts, community development finance initiatives, credit unions, financial inclusion awareness and literacy training, fuel poverty advice, household insurance schemes, pay point services, rent deposit schemes, white goods and furniture re-use as well as debt and money advice (sometime linked to rent arrears recovery teams).

**Pooling Knowledge**

Social landlords, and there two main representative organisations the NHF and the CIH, should develop a greater range of pooled services and a knowledge bank to support comprehensive roll-out of financial inclusion initiatives across the country. To some extent this is happening already with both the NHF and the CIH supporting good practice and engaging with the mainstream banking sector to create partnership initiatives.

**Improving Tenancy Sustainability**

The use of furnished tenancies using high quality (as well as recycled) should become more widespread across the social housing sector. Tenants would welcome the provision of furniture and white goods (50 percent state that this is their top priority) since this is the primary reason for going into debt. Such provision also helps create more sustainable tenancies and has beneficial effects on the ‘bottom-line’ of social landlords in terms of lower costs associated with vacancies and rent arrears.
Extending Community Asset Ownership
Social tenants must be enabled to own and manage assets related to their housing without moving into unsustainable home ownership. A range of research has identified the lack of assets controlled by tenants as a key inequality between tenures (and specifically between home owners and social tenants) and proposed ways for tenants and communities to obtain greater control over these assets. The Localism agenda and the Government’s community asset ownership programme could support greater transfer of assets into tenants’ control. This might be furthered by expanding tenant management and community mutual and gateway approaches.
Select Bibliography

**Credit Action** (2014) www.creditaction.org.uk


**My Home Finance** www.myhomefinance.org.uk


About the Human City Institute

MISSION
The Human City Institute is a charitable research institute and ‘think-tank’ dedicated to investigating social exclusion, social justice and inequality, sustainable communities, issues around faith and ethnicity, health, housing and urban policies, quality of life and happiness, so promoting more human cities that meet the future needs and aspirations of their residents.

VALUES

People-Focused
Human cities begin with putting people and their needs first.

Community Well-being
Wellbeing, happiness and quality of life are intrinsic to human communities.

Social Justice, Equality & Diversity
Enhanced social justice and greater equality foster fairer and more human societies.

No Community Left Behind
Community, ethnic and faith-based disadvantage is a core concern.

Sustainability
Sustainable environments are vital for the development of more human cities.

Evidence-Focused
Development of solutions and futures is based on research evidence.

Innovative & Informative
Solutions and their communication need to be innovative and informative.

Partnership
Working with others is fundamental to a human city approach.

Involvement
Involvement of communities and other stakeholders is central the research ethos.

RESEARCH THEMES
HCI has developed a vision for its work built upon a thematic research programme that incorporates six key themes. These six themes not only relate to current and likely future policy concerns, but also have their roots in the historic work of HCI:

● REALISING THE HUMAN CITY ~ Overview of ‘human cities’ including measurement via indices and incorporating longitudinal and case studies of human neighbourhood projects and approaches and their dissemination.
● NO COMMUNITY LEFT BEHIND ~ Including the geography of faith, BME and lifestyle groups and their relative socio-economic exclusion and inequalities between communities, and ways of aiding their progress within ‘human cities’.

● SOCIAL EXCLUSION, INVESTMENT & INNOVATION ~ Covering the role of social investment approaches and development of innovative, social enterprises within communities to alleviate poverty and disadvantage via innovation.

● SOCIAL JUSTICE & INEQUALITY IN HEALTH, WEALTH & LIFE CHANCES ~ Exploring inequality impact on health, wealth and life chances and how to further social justice.

● PUBLIC VALUE, MUTUALISM & THE BIG SOCIETY ~ Involving comparative studies of public value, mutual and co-operative, community and neighbourhood-based approaches to realise the ‘human city’.

● NEW VISIONS FOR HOUSING ~ Involving development of new perspectives on how housing in the UK might be made fairer, greener and more affordable with a flourishing social housing sector.

● COHORT STUDIES ~ Exploring the needs and aspirations of age and lifestyle cohorts such as young and old people, various LGBT communities.

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Financial exclusion and debt are growing concerns for social landlords during a time of austerity and welfare reform for their tenants. In the wake of the international financial crisis, the escalating costs of living, especially in food, fuel and transport, persistent long-term unemployment and deepening household debt are all taking their toll on social housing communities. The ‘Beyond the Margins’ report, produced by the Human City Institute and Compass with the help of social landlord groups Aster, Trident and Whitefriars, seeks to add to the growing evidence base about the extent of financial exclusion and debt problems within such communities. The report partly updates the research undertaken in 2010/11 in the ‘On the Margins’ report and partly digs deeper via a major interview survey with social housing tenants on Midlands’s estates in Birmingham and Coventry. It explores financial exclusion within the social housing sector, including debt levels, economic activity and propensity to save, as well as seeking tenants’ views on how social landlords might help.

‘Beyond the Margins’ depicts the deep financial problems found among social tenants. Low incomes combined with poor pay and above average economic inactivity mean that many tenants have problems ‘making ends meet’. Many have high debt to income ratios. Some have to go without necessities, such as food and heating, on a regular basis to meet their debt repayments. And the higher than CPI rising costs of household essentials have been eating into tenants’ already low incomes. However, as the report shows, tenants welcome the often innovative financial inclusion work of social landlords in helping with their money and debt problems. But the report shows there is still much to be done: many tenants would like to receive a wider range of services to tackle financial exclusion and debt including provision of furniture and ‘white goods’, help with employment and training, short-term loans, and help with money management. Aster, Trident and Whitefriars all have active financial inclusion programmes, and these are shown as case studies in the report.