

Optimising welfare reform outcomes for social tenants

Understanding the financial management
issues for different tenant groups

Executive summary

- Universal Credit is intended to support a move away from worklessness. The effort to increase financial capability and bring the budgeting patterns of those on benefits closer to those in work is seen as an important step in increasing independence and readiness to work. The evidence from this study suggests, however, that **welfare reform will present significant challenges for some tenants and, in some cases, risks to tenants' financial well-being.** These in turn present **risks also both for social landlords and for the successful implementation of welfare reform** and the journey into work.
- **Optimising the outcomes of Universal Credit** for social tenants, achieving enhanced readiness for work and facilitating a transition to work that delivers real financial benefit for those moving into employment will in part **depend on mitigating these potential risks to tenants' ability to budget effectively and to their financial resilience and security.**
- **Risks hinge primarily on the requirement for tenants to move away from patterns of financial management that have evolved to manage the difficulties of living on a very low income.** Social tenants are for the most part, out of necessity, effective budgeters skilled in managing the very specific challenges of living on a very low income. For many (51% of benefit-dependent social tenants but also 41% of social tenants in work), budgeting strategies now rest on managing in cash over very short periods.
- **The prevalence of weekly cash budgeting is not simply a reflection of the current timing of benefit income flows,** as is evidenced by the high proportion of monthly-paid social tenants in work who manage in cash. Fundamentally, weekly cash budgeting reflects the effort to ensure that, on the one hand, spending is closely controlled, by being limited to cash in hand, and, on the other, that the risk of running out of funds is minimised, by limiting the timescale over which budgets are managed. **Those budgeting in this way are above all seeking to avoid a cash flow crisis, which typically can be accommodated only by doing without essentials such as food or fuel, or by borrowing.** Doing without essentials may be a viable strategy for a day or so per week but is much more challenging when the timescale becomes four days at the end of a monthly budgeting period, particularly for those with families. The alternative strategy of borrowing inevitably adds to the costs of living and carries in any case its own risks.
- **Minimising risk is also the reason why 86% of social tenants believe "strongly" that it is better for housing benefit to be paid direct to the landlord** so that they are secure in their home. At present, nine in ten tenants opt for rent to be paid direct to their landlord, with 92% saying they would choose this option again, if given the choice.
- **The planned new regime, to be phased in nationally from October 2013 to 2017, runs directly counter to the established strategies for managing on very low incomes,** in that it will require claimants not only to budget monthly but also to receive the rental element of Universal Credit direct and to take personal responsibility for payment of their rent. Given that some 71% of social tenants are on housing benefit, **social tenants will be required to handle much larger sums over much longer periods than they have been used to.**
- **Tenants feel strongly that the new welfare regime will pose risks to their security and ability to manage,** with resistance to both monthly payments and direct payment of housing benefits to tenants rooted in fears of being unable to

prioritise rent within budgets and thus keep up with payments. More than half (54%) of social tenants in receipt of benefits, rising to **68% of those now managing weekly, felt that the shift to monthly payment of benefit would make it more difficult to manage their budgets.**

- **Some 35% of social tenants on housing benefit, rising to 50% of those who have missed rental payments, are not confident that they can keep up rental payments if they receive their rent direct.** This would seem borne out by the evidence on payment difficulties with rent currently. Affordability pressures on rent, **missed rent payments and serious social arrears currently arise primarily among those making a contribution to rental payments or among those in work responsible for paying rent themselves.**
- **Segmentation analysis makes quite clear that some tenants will be better placed to cope within the new regime than others.** The evidence suggests that the majority of tenants would seem able to make the transition to the new regime and greater independence without undue risk to their financial well-being. **There is a significant minority of social tenants who would seem likely to struggle and fail without substantial support.**
- **There are others for whom the new regime would seem to pose unacceptable risks to their financial well-being and security** and who would seem to require excepting from some aspects of the regime unless the underlying risk and vulnerability factors are first addressed.
- The key indicators to where risk lies are to be found in current patterns of financial stress and rent arrears. Segmentation analysis demonstrates that **risk of failure within the new regime is concentrated in a key segment of vulnerable social tenants we have called the “Troubled reform resistant strugglers”,** primarily family households and overwhelming weekly, cash-based managers:
 - Eight in ten (79%) say they will find it more difficult to manage money monthly, with 65% saying it will be “a lot” more difficult.
 - Almost all, 94%, fear that they will be unable to prioritise their rent within their budgets with half (49%) not confident that they will be able to keep up rental payments.
 - This segment represents 33% of the value of all housing benefit payments to those of working age.
- **The “Troubled reform-resistant struggler segment represents 29% of working age social tenants,** and would appear both vulnerable and already highly stressed:
 - In the last twelve months, 45% of these tenants have struggled to afford food and 39% fuel, while 49% have struggled to afford shoes and clothing.
 - Seven in ten exhibit at least one of a range of vulnerability factors. One in five (20%) have numeracy issues, 17% literacy issues, one in four (25%) mental health issues, 28% a major health condition.
 - A half (50%) are experiencing problematic credit use and a third (34%) have consulted debt advice.
- **Indeed heavy credit use is key indicator of financial distress and rent arrears.** Rent arrears are concentrated in a segment of troubled heavy credit users – roughly one in five of the total social tenant population. It is critical to appreciate, however, that **rent arrears are highly correlated with problematic mainstream credit use, primarily revolving credit and overdrafts.** Segments which borrow primarily or exclusively from high cost lenders – primarily home credit, payday lending being used by only 2% of social tenants – appear to have relatively low rent arrears. The

segment in which social arrears are concentrated are rather those who have encountered payment difficulties with revolving credit and overdrafts and who have then turned to high cost credit in the wake of these difficulties.

- It is important to appreciate that a significant proportion of social tenants are already under significant financial pressure and experience a high degree of financial distress, with **financial distress and problematic debt heavily correlated with entrenched rent arrears**. More than one in five social tenants (21%), rising to **more than a quarter (27%) of social tenants living in family households, have at some point consulted debt advice**. Of social tenants consulting debt advice, six in ten (60%) are making minimum payments on credit card debt they cannot pay down while 56% have overdrafts they cannot pay off.
- The new welfare regime does not only require changes to budgeting practice but is also predicated on the **expectation that applications and accounts will be managed online and that payments will be made into, and outgoings managed through, bank accounts**. It is important to appreciate that a significant minority of social tenants are not well placed to operate effectively within this environment. **A quarter of social tenants of working age have some degree of digital exclusion**, lacking either access to broadband or the ICT skills to use computers.
- Some 14% of social tenants do not have a bank account with the banking functionality to make direct debits, having only a Post Office Card Account (POCA), while 5% have no account of any kind. The structure of bank account pricing, which rests in part on penalty charges for missed direct debits and over-limit fees on overdrafts, means that banking can be disproportionately high cost for social tenants, itself a factor in preference for weekly cash management. **Almost half (48%) of social tenants have been subject to penalty charges**, averaging six per year for those who incur fees, **with one in ten account holders unable or unwilling to use their account as a result**. Taking those who have no banking functionality and those who are not able to use their bank account together, **some 24% of social tenants do not have meaningful access to a bank account**.
- Efforts to develop new financial products that support the ring-fencing of funds for bills and rent, together with the drive to scale the availability of affordable credit, will go some way to ameliorating the difficulties faced by social tenants in the transition to the new regime. **The evidence suggest it will be important to be realistic about the time-frames for introduction of new financial products, the limits of what can be achieved and the potential for unintended effects**. Few credit unions are yet in a position to offer affordable credit on any scale, and experience has demonstrated that while **some social tenants benefit from a move into banking, achieving cost savings and enhanced financial inclusion, others experience higher costs and a significant minority fall out of banking**, in some cases incurring significant debt in the process. In both of the latter cases, the driver of increased costs and failure is the penalty charges levied on bank accounts to which those on low incomes are disproportionately vulnerable.
- Taken together, the evidence suggests that **a significant proportion of social tenants, around a quarter of the total, will require a degree of support if they are to make the transition to Universal Credit without undue risk to their financial well-being**.
- **A substantial sub-set of these would seem likely to need some degree of exclusion from aspects of the regime or to be phased into it**. It would seem particularly counter-productive to give those already struggling with debt responsibility for paying their rent; while requiring those already exposed to

significant penalty charges on banking accounts to manage funds monthly would seem likely to risk further compromising the viability of their budgets.

- **Risks for tenants are mirrored in risks to the wider social housing community** if disruption in rental flows to social landlords and increased tenancy attrition compromises landlords' ability to invest in their communities or to support tenants into work.

Recommendations

- **The definition of vulnerability in relation to the transition to the new welfare regime needs to be widely drawn and to take in the full range of factors that pose a risk to successful execution of reform and tenants' financial well-being.** Risk factors should include not only narrow indicators of vulnerability such as mental health issues or learning disability, but also a wider range of contextual issues such as lack of financial capability, problematic credit and debt and existing problems with meeting rental and other commitments.
- In defining the vulnerable population and evaluating their need for support in making the transition to the new regime, it will be critical to success to accept that **a realistic definition of vulnerability will involve a significant minority of social tenants.**
- **Support strategies should address the fundamental drivers of financial vulnerability and risk to successful transition to the new regime.** Support for building budgeting skills and financial resilience will need to address not only issues such as numeracy, literacy, financial inclusion and financial capability but also, more widely, issues around problematic credit use and debt that not only compromise financial stability but also undermine households' ability to move into work.
- **Groups identified as vulnerable will need** not only support to make the transition to the new regime but also **to be phased into the new regime if they are not to be set up to fail.** Some individuals, for example, should be allowed to continue with weekly payments while the wider risks to effective management of their finances are addressed through a programme of support.
- **Where tenants are already struggling to meet commitments**, including rents, or where they have a long history of problematic credit use and debt, **it would seem counter-productive to direct larger sums to such individuals – in the form of rent payments – than they have historically been used to**, particularly where sums intended for rental payments or other bills cannot be effectively ring-fenced from other flows through accounts. The evidence is that payments intended to cover rents will otherwise be diverted to other priorities or eroded by penalty charges, potentially increasing credit use to make good shortfalls.
- Similarly, where tenants begin to struggle with rental payments or present with difficulties in meeting other commitments, evidenced by missed rental payments or excessive exposure to failed direct debits, **it will be important to respond rapidly to the evidence of distress to prevent the build-up of both a debt spiral and rental arrears.** In such cases, there should be provision for either a temporary or more permanent switch to payment of rent direct to landlords until the tenant's finances are stabilised.
- It needs to be recognised **that for some individuals at high risk of failure within the new regime, exceptions from both monthly payment and direct payment of the rental element of Universal Credit will be appropriate.** In some cases temporary exceptions will be needed while support is provided to build financial resilience and capability; in others, exceptions will be needed on an extended basis.

The proportion of social housing tenants realistically requiring such exceptions is likely to be rather higher than the 10% the Government originally envisaged.

- Overall, if risks to the successful implementation of welfare reform are to be mitigated and outcomes for social tenants optimised, **a holistic and integrated approach is required to providing support and framing exceptions and one that is evidence-driven and rooted in the realities of the financial dynamics of living on a very low income.**

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About the National Housing Federation

The National Housing Federation is the voice of affordable housing in England. We believe that everyone should have the home they need at a price they can afford. That's why we represent the work of housing associations and campaign for better housing. Our members provide two and a half million homes for more than five million people. And each year they invest in a diverse range of neighbourhood projects that help create strong, vibrant communities.

Policis

Policis is a social and economics research consultancy focused on evidence-based policy and service development and working for a wide range of central government departments, local authorities, charities and community and voluntary organisations.

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1.0 The policy background, research aims and methods

1.1 The policy background

Radical reform of the welfare system seeks to “make work pay” by tackling disincentives to moving into work and simplifying the benefit system

The policy background is the Coalition Government's introduction of radical reforms to the welfare and benefits system, encapsulated in the Welfare Reform Act of 2012. These reforms are shaped by an over-arching drive to “make work pay” and reduce the number of workless households, while also simplifying the welfare system and cutting welfare expenditure. The goal is to reduce poverty and increase social mobility through mitigating barriers to work, with welfare reform intended to make it easier and more financially rewarding to move between benefit dependence and work. Against the background of the era of austerity, policy is also firmly focused on achieving cost savings through shrinking welfare expenditure, reducing the numbers claiming benefits and centralising the administration.

Reform is intended to encourage benefit recipients to take greater personal responsibility for their finances to increase readiness for work

Reform seeks to encourage benefit recipients to increase their personal responsibility for their finances by taking greater control over incoming funds and achieving more independence in its management. The intention is that this will increase benefit recipients' readiness for work and mitigate financial difficulties in making the transition into employment.

A single benefit – Universal Credit – will replace the previous range of means tested working age benefits available to those in and out of work

A single working age benefit, Universal Credit, is to replace the former range of working age benefits and tax credits paid to workers on a low income, with applications made and managed online through personal accounts. A single payment will be made monthly, paid directly to bank accounts and intended to mimic the monthly payment of wages to those in work. Universal Credit can be claimed by both those out of work and those in low-paid work, with phased payments and tapered benefit withdrawal designed to reward employment and remove perceived barriers to moving into work.¹ Introduction of the new regime is to be phased in over a period from April 2013 until October 2017.

Housing benefit will be paid direct to tenants instead of to landlords

Universal Credit will include a housing element designed to cover housing costs within prescribed limits. This will replace housing benefit, which many social tenants currently choose to have paid directly to their landlord. The rental element of Universal Credit will be paid direct to tenants, who will become personally responsible for making their rent payments. There will be some exceptions in the case of vulnerable

¹ DWP estimate that the introduction of Universal Credit will result in a reduction of 300,000 in the numbers of workless households and that financial incentives to work will be improved for some 700,00 people. Source: DWP, “Universal Credit Welfare that Works”, 2012.

tenants and tenants in arrears but the default expectation is that tenants will make their own arrangements to ensure that rent is paid.

New limits on benefits payable will reduce entitlement significantly for some

From April 2013 there will be new limits on the amount of housing benefit payable to working age social housing tenants. Around 660,000 tenants in Britain will lose an average of £14 per week² as housing benefit will be cut to reflect 'spare' bedroom (s). There will also be an overall cap on the amount of benefit any household will receive. This will affect around 26,000 households living in social housing. The median reduction in benefit for households affected by the cap is £62 per week (mean is 93)³. Other benefit reforms for people of working age may also reduce the amount of money coming into the household. Council Tax Benefit is being abolished and from April 2013 local authorities will administer local schemes but with reduced overall budget. Reforms to non means tested benefits aim to reduce the numbers people claiming. Changes to disability living allowance and reductions in the support for childcare costs may also affect household incomes.

The Department for Work and Pensions (DWP) estimates, however, that for those in the bottom decile of household income the average impact of Universal Credit will be to increase net incomes by circa 1.5%, while those in the second lowest decile are estimated to see on average an increase of around 1% a week, the equivalent of £2.40 and £3.60 respectively.⁴ The extent to which people are impacted will depend on their particular circumstances, however, with some seeing significant falls in their income, as described above. The Government has also committed to making transitional arrangements intended to mitigate the impact of reductions in benefit entitlement through a mechanism for tapered withdrawal of benefits for claimants impacted negatively by changes in entitlement, albeit that transitional protection will rest only on the position immediately prior to the introduction of Universal Credit. The promise that no one will lose from the transition to Universal Credit does not therefore take in the impact of other cuts in entitlement within the wider changes to the system, such as the bedroom restrictions and overall benefit cap.

The government has sought to make savings in the overall bill largely from claimants of working age. Claimants above pension credit age have been protected from most cuts. However, the age at which people can claim pension credit is rising gradually from 60 to 66.

Sanctions will add to pressure on budgets for those affected

The Universal Credit introduces a new 'claimant commitment' and there will be a range of sanctions for people who do not meet the requirements of the system, for example for claimants to prepare for work. While sanctions for benefit claimants are not new, the length of time and level of sanctions will increase. It is not possible to predict how many people will be sanctioned under the new regime as this will depend on claimant behaviour. But whatever the number, a key difference from the present system is that social housing tenants are currently very likely to have any housing benefit paid direct to their landlord. Under Universal Credit they are likely to be

² DWP Impact Assessment Housing Benefit: size criteria for people renting in the social rented sector June 2012.

³ DWP impact Assessment Benefit Cap July 2012. The mean figure is high because of a small number of households losing a large amount.

⁴ DWP, "Universal Credit Welfare that Works", 2012.

managing a monthly budget including money for housing costs. For people who receive a reduced level of benefit due to a sanction there will be particular pressures around budgeting for day to day living as well as rent.

Welfare reform sits alongside a decentralisation agenda

The reform of the welfare regime sits alongside a drive to shift power from central government to local councils and communities, to enable local authorities, communities and local service providers, including providers of social housing, to determine and respond to local needs.

Social housing policy reflects wider policy aims and is designed to align resource with greatest need while diversifying tenures

In addition to reducing housing benefit expenditure, radical reforms of social housing policy have sought to inject greater flexibility into the management of social housing to enable social housing providers and local authorities to better align social housing resource with local need. The government has also sought to encourage greater use of the private rental sector.

Far-reaching changes, contained in the Localism Act 2011, cover community rights, neighbourhood planning and social housing, and further both the decentralisation agenda and the effort to inject greater flexibility into the management of social and local assets, particularly housing. This aims to devolve power on housing policy to local councils and communities, to enable local decision-making and support the evolution of local solutions to meet local housing need.

Radical reforms inject greater flexibility into social housing tenures and the management of social housing

Against a background of long waiting lists for social housing, the intention in framing reform has been to strike a balance between the needs of existing and prospective tenants, while also bringing the social housing sector closer to the private rental sector in terms of tenure rights. Social tenancies have traditionally been of lifetime tenure. Under the Localism Act, social landlords have, however, now been given the flexibility to let new tenancies on terms as short as two years. The Act also introduced an affordable rent scheme, which provides for social tenancies at a higher rent than social rent, with landlords able to set rents at up to 80% of market level. Councils have also been given new powers over the qualification of prospective tenants on housing waiting lists, intended to enable local authorities and social housing providers to align social housing resource with greatest need.

Reform will throw up a series of challenges for social tenants who will need to manage larger sums over longer periods, in some cases on reduced budgets

The switch to monthly payment of benefits and payment of housing benefit direct to tenants will mean that benefit recipients will need to manage much larger sums over a much longer period than they have historically. Equally, some tenants will face new financial pressures as a result of the caps and reductions in entitlement. For some tenants, accommodating these new realities will involve moving to smaller or cheaper properties, taking in lodgers, increasing working hours or finding employment, where these are options. Other tenants will need to make up shortfalls in their rent within the constraints of their, in some cases reduced, benefit income.

The new regime is intended to open up opportunities to make the transition to work. It will also undoubtedly throw up new challenges for social tenants in managing their money. Moreover some, including some of the more vulnerable individuals, will find these challenges difficult to manage.

The Government recognises that some claimants will face greater difficulties within the new regime and will require support

The Government recognises the scale of the challenge for some tenants and that some tenants will require a greater or lesser degree of support to build their financial capability if they are to make the transition to Universal Credit successfully. The Government also recognises that direct payment of housing benefit to claimants may not be appropriate for all tenants, at least in the transitional phase, and, in some cases, longer term.

The Government is also committed to increasing banking, financial and digital inclusion. One strand of this support rests on investment in credit unions⁵ and efforts to scale and modernise the movement and further develop banking, savings and credit services. A further strand rests on the development of financial products, notably “jam jar” accounts, intended as an adjunct to basic bank accounts, which will allow benefit recipients to ring-fence pots of money allocated to different categories of expenditure, such as rent or utilities.⁶

The definition of vulnerability and the scale of support and exceptions is a matter of continuing debate

What is not yet clear is the scale on which support is to be provided or exceptions made. Equally, definitions of vulnerability and need, and the basis of entitlement to support, or exceptions from all or some aspects of the new regime, continue to be the focus of debate.

1.2 The project aims

Against this background, this study is focused on how welfare reform will impact social tenants’ management of their finances and how best to support social tenants in making the transition to Universal Credit.

Over-arching project aims

The intention is:

- To promote evidence-based understanding of how tenants’ financial management and capability will shape the benefits, risks and opportunities for social tenants as welfare reform progresses.

⁵ Credit unions, which the Government is seeking to support with some £38m of development funding to modernise and expand the movement, are among the most enthusiastic adopters of these accounts, albeit that there are still, as yet, relatively few credit unions able to offer banking services and significant economies of scale.

⁶ Commercial appetite for the introduction of such accounts has, been limited until now, The Government has announced (September 2012) a subsidy of up to £145m to fund the development of new financial products and expects interest from a wide range of financial providers, including high street banks, mobile phone operators and pre-pay card providers.

- To inform policy discussion around:
 - how best to support social tenants in making the transition to greater personal responsibility for financial management;
 - how most meaningfully to define vulnerable groups for whom there is some risk to financial security in new regime;
 - how most effectively to support those groups likely to require higher levels of support or initial exclusion from some aspects of the new regime.
- Overall, to support the optimisation of the design and delivery of the new welfare regime.

Detailed research objectives

- To understand the dynamics of social tenants' finances and financial management, and how this relates to their capacity to benefit from welfare reform.
- To understand how changes to payment regime will impact on tenants' ability to manage their finances.
- To understand the likely critical success factors for social tenants in achieving a successful transition to Universal Credit.
- To understand the nature of any risks arising in the transition to the new regime – and how these might be mitigated.
- To identify those groups likely to require greater or lesser support in making the transition to the new regime.
- To provide some sense of scale for groups likely to require support or exclusion from some aspects of the new regime.

1.3 Research methods

The study rests on secondary analysis of both qualitative and quantitative data:

- Quantitative research with 1,000 nationally representative social tenants, aged 18-plus, originally collected for Big Issue Invest, 2011.
- Quantitative research with 890 social tenants aged 18–65, originally collected for HM Treasury and the Friends Provident Foundation, November 2010.
- Qualitative research with social tenants⁷ – eight focus groups undertaken with social tenants in a range of ages and household circumstances, 2011:
 - more or less financially capable;
 - more or less successful in managing their money and balancing their outgoings and commitments;
 - struggling to a greater or lesser extent with arrears on household bills and other commitments, including rent;
 - with and without problematic credit use.

⁷ Note: throughout, in the presentation of qualitative data, where verbatims are provided to support points, these are drawn from different tenants where multiple verbatims are provided.

2.0 Social tenants' patterns of money management and their attitudes to proposed changes in the payments of benefits

This chapter covers social tenants' attitudes to welfare reform and the prospect of monthly payment of benefits and taking personal responsibility for paying their rent. It sets attitudes to welfare reform and some claimants' concerns in the context of patterns of how they manage money currently, in order to understand how change fits with current budgeting practice. We explore tenants' attitudes to the perceived risks and challenges of monthly payment and responsibility for handling and paying rent, in order to provide context for thinking about how risks might most effectively be mitigated within a programme of support.

2.1 Money management

Social tenants are among the most disadvantaged in society

The majority of social tenants are benefit dependent (59%), with just 27% of social tenant households having at least one full-time worker and a little over one in ten (12%) having someone working part-time or occasionally.

Some 95% of social tenants are in the lowest 50% of household incomes, with more than six in ten (63%) in the lowest household income quintile. Some seven in ten (71%) are in receipt of housing benefit. Almost half (46%) are family households,⁸ with one in five social tenants a single parent.

A third (33%) have some form of mobility impairment, with 30% experiencing a major health condition, such as diabetes or heart disease. Almost three in ten (29%) are in receipt of Disability Living Allowance and 15% are in receipt of Incapacity Benefit.

As context for discussion of issues around money management and negotiating the financial mainstream, it is worth noting that 29% admit to having difficulties with filling out forms, 15% admit to numeracy issues and 12% to literacy issues.

Budgets are tight with little in the way of margins – very few have a savings safety net

Social tenants' budgets are, unsurprisingly, extremely tight, with little in the way of margins. Funds available in any one budgeting period are often insufficient to accommodate peaks of expenditure or to meet unanticipated expenses, far less to fund major purchases. Budgets are also often managed with no savings safety nets. Almost eight in ten (78%) have no savings. The savings of the minority who have accumulated some are very low value, averaging £125, too low to preclude the need to borrow to fund cash emergencies, expensive times of year such as Christmas or the return to school, or the acquisition of high ticket items such as furniture, white goods or consumer electronics.

⁸ Throughout, 'family households' are households with children under 16 living at home, including both couples with children and single parent households.

Patterns of money management have evolved to minimise the risks of living on a very low income

It is important to recognise that many social tenants are highly effective money managers, budgeting with strict discipline often over the very long term. Social tenants are often justly proud of their ability to manage their finances and competing priorities under very difficult circumstances.

The way that money is managed has evolved to work within the constraints of living on a very low income. Budgeting strategies are all about control and discipline, minimising risk and reducing potential for over-spending. Cash for essentials such as fuel or children's needs is allocated on receipt of benefit income, with food shopping undertaken immediately on receipt to minimise the risk of both running out of cash and over-spending.

"As soon as your money goes in, you know what you're going to need for your electric and gas and see you through for the two weeks' food and water and that's basically it. And if you've got anything left over, lucky you."

"I have a £60 food budget a week that I have to stick to, come what may. And that includes all my toiletries, that includes soap powder, everything. I have to stick to that £60 a week. I have £10 floating for the rest of the week."

Shopping decisions tend to be carefully considered and budgets precisely planned, with individuals going to considerable lengths to achieve cost savings wherever possible.

"If I go in the Co-op and their soap powder is £4, I go along to the Indian shop and it's on offer for £2.55 so obviously if it's the one that I use I will go and buy that."

"You go to the 99p shop, you get the same cereal (as supermarkets) and it's like crisps and all named brands as well. So we go to Poundland."

Juggling finances around competing priorities is a way of life

Those on very low incomes are constantly faced with competing pressures on their budgets. Against this background juggling finances is a way of life, with a modus operandi of constantly "robbing Peter to pay Paul" very difficult to avoid, even for the most careful of money managers.

"I find it's a bit of a juggling act. You get your money one week and I'm always behind on something. You have to prioritise. Do I pay this one? Do I pay that one? Do I stall these people? It's like a juggling act."

"You think I'll pay this this week and then next week I'll pay that. And I work it like that."

Spending and commitments are prioritised to meet immediate needs and cover key commitments

For most social tenants there is a clear hierarchy of priorities – the key priority is putting food on the table, meeting the immediate needs of children and then rent followed by utilities.

"Top is my kids first, making sure they can eat, making sure they're OK school-wise. Then will come the rent. Then will come the utilities and that's it."

"Of all your bills that you'll let subside, you'll never let your rent go. That's your first."

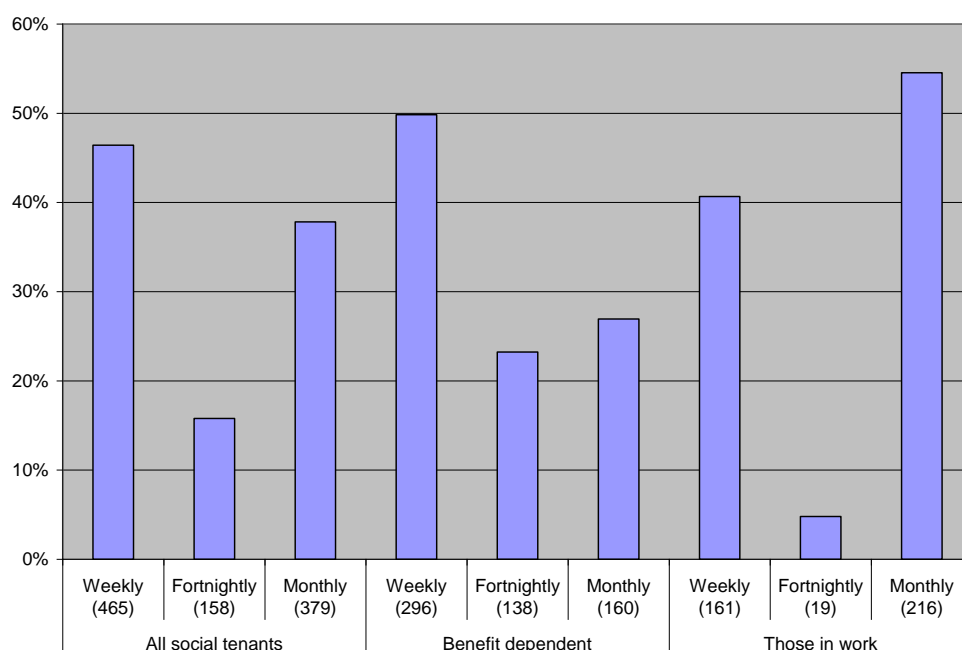
“That’s your priority, isn’t it, because you need a roof over your head. That’s your security.”

Budgets are managed over very short time periods to reduce the risk of running out of cash

Managing funds over very short periods and managing in cash – as distinct from managing through and making payments from bank accounts via direct debits and card payments – have been fundamental to achieving control over their budgets for those on low incomes. Budgets tend to be managed weekly and to a large extent in cash. Some 47% of social tenants manage entirely in cash, with 34% managing primarily in cash. Almost half (46%) manage budgets on a weekly “jam jar” basis. There are, however, differences between those on benefits and in work in this pattern, with those in work more likely to be managing monthly and through their bank account. It is striking, however, that a significant proportion of low-paid workers also choose to manage weekly and in cash, even where paid monthly. Among those who are benefit dependent, 50% of social tenants manage on a weekly basis, 23% fortnightly and 27% monthly. Among those in work, 41% manage weekly, 5% fortnightly and 54% monthly.

Social tenants, including many of those in work, manage in cash in the interests of spending discipline and control

Chart 1. Whether funds are managed weekly, fortnightly or monthly, by employment status



Base: 1,002 social tenants

Weekly budgeting and cash management is only partly a reflection of the way that benefits have been paid historically. More fundamentally, weekly budgeting is about it being easier to manage very tight budgets over very short periods of time without running out of funds.

“You know by the end of the week we are maybe having macaroni cheese without a lot of cheese. And once the children are in bed I switch off the heating and I’m lighting candles, you know, but we get by. We don’t actually go short.”

“By the time my money comes round again, I’ve usually got nothing in my purse and most weeks I’m borrowing from my mum.”

Managing in cash also minimises the risk of over-spending

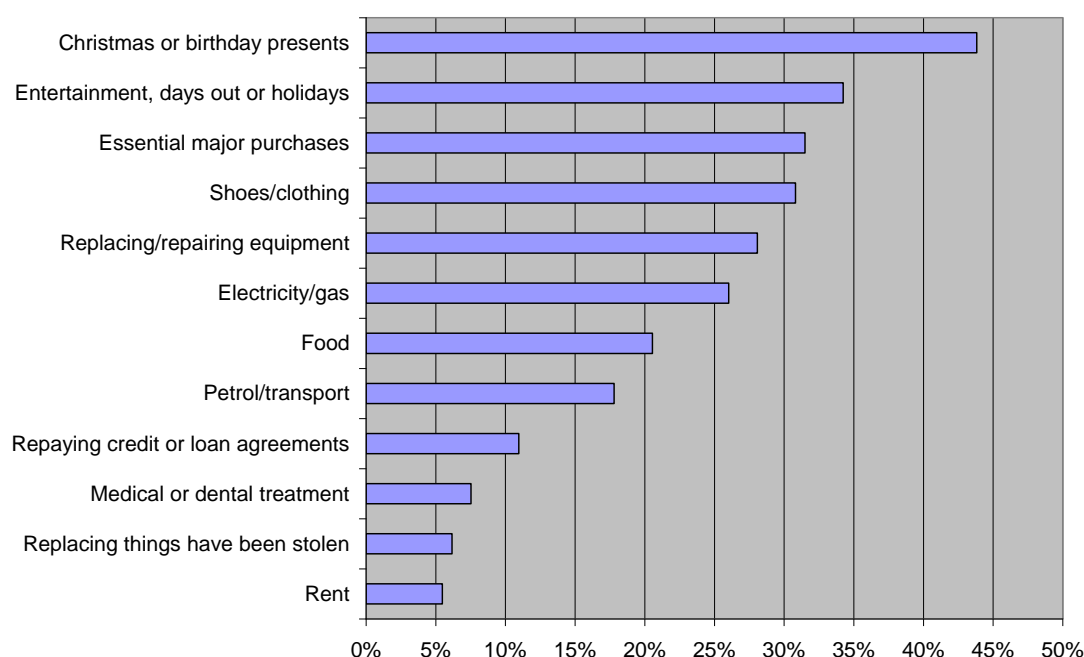
Some 78% of social tenants who manage in cash say that they do so because with cash “you know exactly where you are”. Some 37% say that it is easier to juggle their finances with cash, 36% that with cash “once you’ve paid for essentials, you know what is left is yours to spend” and 32% that “with cash you can only spend what you have”.

Almost two-thirds struggle to afford essentials, with a quarter facing difficulty affording food and fuel

Despite this picture of careful money management, almost two-thirds of social tenants (67%) faced difficulties in affording a range of essentials in the last twelve months. A quarter faced difficulties affording fuel and 24% struggled to afford food. It is notable that, historically, rent has been the category of expenditure least likely to be the focus of affordability pressure. There are no significant differences between those managing weekly or monthly in their exposure to affordability stress, albeit that those managing monthly tend to have higher incomes and are more likely to be in work.

Rent has not been a major focus of affordability pressure historically, reflecting the payment of housing benefit direct to landlords

Chart 2. Affordability pressures experienced in previous twelve months
% have had difficulty affording



Base: 1,002 social tenants

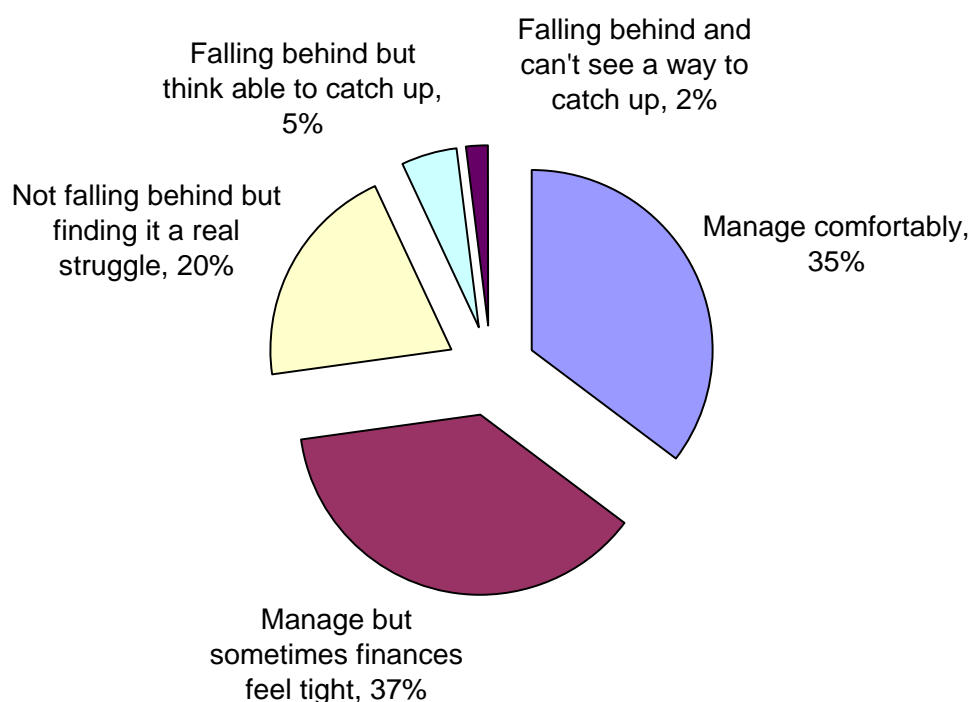
Many struggle to balance their budgets, with a significant minority behind on household bills

Social tenants can struggle not only to put food on the table and afford day-to-day essentials such as food, shoes and clothing, but also to keep up with commitments

such as household bills or credit commitments. Only 35% are able to meet their commitments “comfortably”, with 20% finding it a real struggle to meet their outgoings and commitments. Some 17% of social tenants are in arrears on at least one household bill or non-credit commitment, even though a significant minority choose to use weekly cash-based payment channels for utilities to avoid quarterly bills.

Only a little over a third of social tenants are able to balance income and outgoings and commitments comfortably

Chart 3. Ability to manage outgoings and meet commitments



Base: 1,002 social tenants

Seven in ten social tenants are on housing benefit, with rents overwhelmingly paid direct to landlords

Four in ten social tenants are in work, with six in ten entirely dependent on benefits. Social tenants who are in work are largely low-paid workers, with the result that, overall, 71% of social tenants receive housing benefit, falling to 66% for those of working age. Of those receiving housing benefits, 92% have their housing benefit paid to their landlord.

Among those on housing benefit, 38% contribute something personally to their rent, of whom 43% are in employment. Contributions to rent are highest among family households, 44% of whom contribute to their rent, particularly single parents, almost half (48%) of whom contribute to their rent.

Among those who do contribute to their rent, the average value of their contribution is £33 p.w., 37% of total rent. Among social tenants entirely dependent on benefits, 27% contribute personally to their rent, with the average contribution being £25 p.w., 29% of total rent and 16% of total household income. For those in work and in receipt of housing benefit, 73% contribute to the rent, at an average of £46 p.w., being 47% of total rent and 17% of total income.

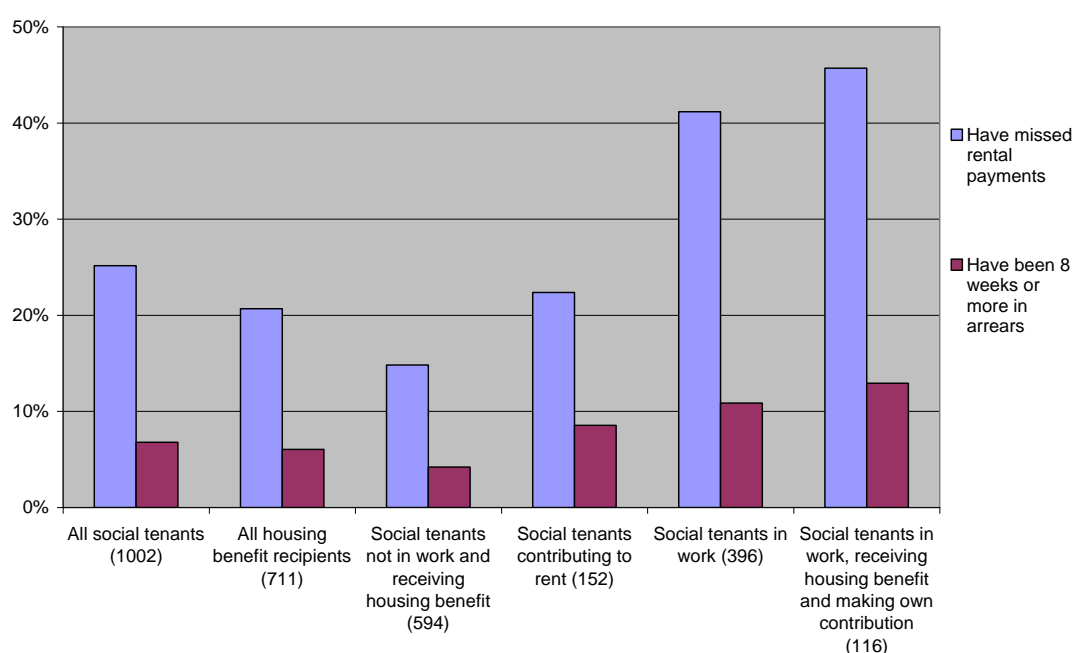
Affordability pressures on rent, missed and late rent payments and rent arrears arise primarily among those paying rent themselves

A quarter of social tenants have at some point missed rental payments, with a quarter of these, some 7% overall, having been eight weeks or more in arrears at some point.

Unsurprisingly, given the high proportion of rent payments that have historically been paid direct to the landlord, affordability pressures on rent, missed rent payments and serious arrears arise primarily among those making a contribution to rental payments or among those in work responsible for paying rent themselves. Among benefit dependent social tenants, 15% have missed rent payments (half of which have arisen because of delays in housing benefits payments), rising to 22% among those making personal contributions to their rent. Among those in work, and in receipt of housing benefit, 46% have missed rent payments. Of these 26% have been more than eight weeks in arrears.

Rent arrears peak amongst those in work responsible for paying the highest proportion of their rent

Chart 4. Rent arrears by employment status and by whether contribute to rent



2.2 Attitudes to the forthcoming changes in the way that benefits will be paid to tenants

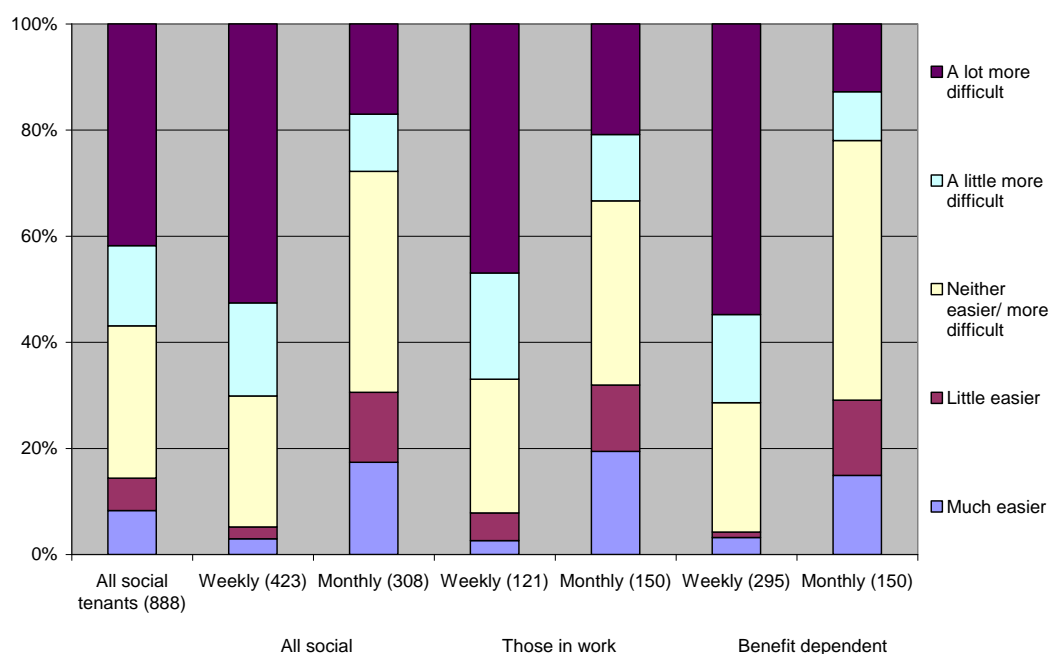
Tenants who now manage on a weekly or fortnightly basis are concerned that a shift to monthly payment will make budgets more difficult to manage

Overall more than half (54%) of social tenants in receipt of benefits felt that the shift to monthly payment of benefit would make it more difficult to manage their budgets, with 40% of all social tenants in receipt of housing benefit feeling that monthly payment of benefits will make their finances “a lot more difficult” to manage. Among the half of social tenants on benefits who now manage their finances weekly, more than two-thirds (68%) felt that it would be more difficult to manage their finances with income paid monthly, with 50% feeling that it would be “a lot” more difficult to manage. Only

4% felt it would be easier to manage and 23% that it would make little difference. Among the 27% of social tenants on benefits who now manage monthly, however, some 26% felt that receiving benefits monthly would make managing their finances easier, while 44% felt that it would make no difference and 20% that it would make managing finances more difficult to manage.

Among those dependent on benefits and managing weekly a little over two-thirds feel it will be more difficult to manage their finances if paid monthly

Chart 5. Perceptions of whether benefits paid monthly will be easier or more difficult to manage, by employment status and by whether currently manage budgets weekly or monthly

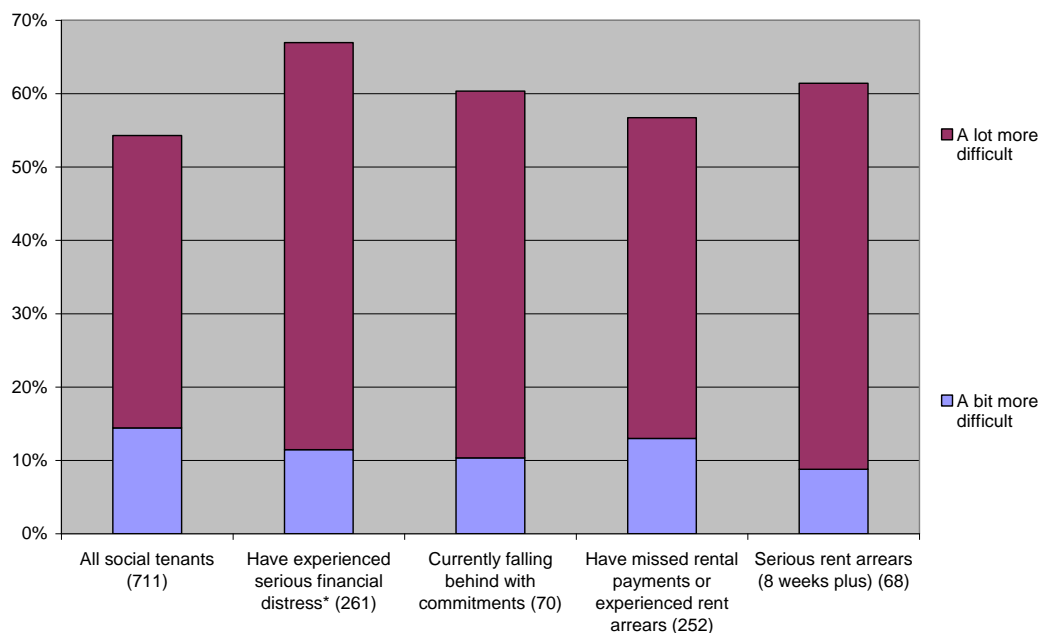


Base: social tenants

Those who were already struggling to keep up with commitments, those who had already experienced missed payments and rental arrears and those who had already experienced financial distress were most likely to feel that monthly payment of benefits would make it more difficult to manage their finances. Two-thirds (67%) of those who had experienced serious financial distress, 62% of those who had been more than eight weeks in arrears on rents, 60% of those currently behind on household bills and commitments and 57% of those who had missed rental payments felt that being paid monthly would make their finances more difficult to manage.

Those who have struggled with rental payments or experienced financial difficulty are more likely to worry about managing on a monthly basis

Chart 6. % feeling that their budgets are likely to be more difficult to manage if they were to receive monthly payment of benefits, by rent arrears and experience of financial distress



* Serious financial distress = any of county court judgment for debt, visits by bailiffs or seizure of goods, formal arrangement with creditors to repay debt or bankruptcy

Social tenants were overwhelmingly of the view that paying tenants' rent direct was a bad idea

Overwhelmingly (93%), social tenants believe that it is better for housing benefit to be paid direct to the landlord. In the survey undertaken to inform the study respondents were told that "the Government is considering paying housing benefit to tenants in future" and were asked for their opinion on whether this was a good or bad idea, with options ranging from very bad to very good and a neutral position offered of being neither good nor bad. Eight in ten social tenants (80%) said that it was a bad or very bad idea for housing benefit to be paid directly to tenants, with almost three-quarters (73%) of all social tenants saying that being paid housing benefit direct would be a "very bad idea".

For tenants, the payment of rents to landlords is seen as guaranteeing the security of their home. Some 92% of tenants say that, given the choice again today, they would choose for their housing benefit to be paid direct to their landlord while 86% agreed strongly that they would prefer to have their housing benefit paid direct to the landlord so that they felt secure in their home.

Strongly felt opposition to housing benefit (HB) being paid direct to tenants – with concerns rooted in fears over housing security

Chart 7. % of those on housing benefit who think paying HB direct to tenants a bad idea

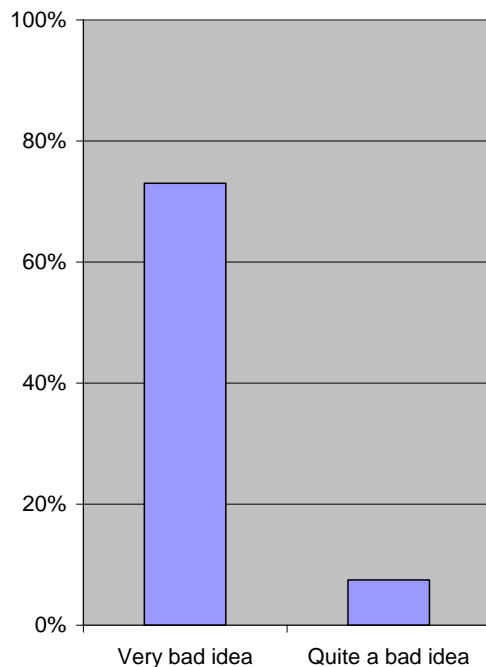
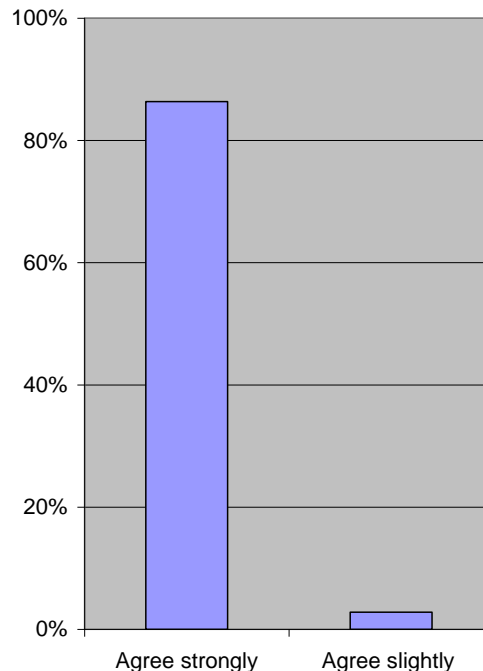


Chart 8. % who agree they would prefer to know HB paid to landlord and that therefore secure in their home



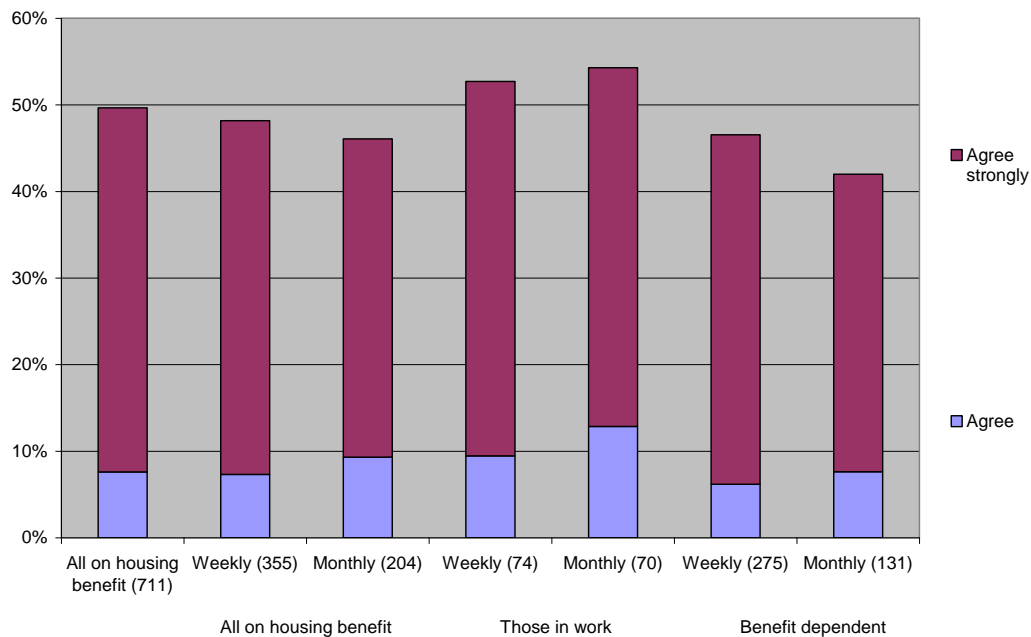
Base: 711 social tenants on housing benefit

Resistance to direct payments to claimants is grounded in concerns around being able to prioritise rent payments within budgets and to keep up with rent

Against the background of very tight budgets and the patterns of money management that have evolved to cope with very constrained incomes, resistance among tenants is grounded in fears around claimants' ability to ring-fence rental payments. A significant proportion of social tenants are concerned about their ability to prioritise and keep on top of rent. Half (50%) say that they would find it difficult to prioritise paying their rent every month if they received their housing benefit direct, with 42% feeling strongly that this would be the case. There is little difference in view between those dependent on benefits and those in work, though those managing weekly are a little more likely than those managing monthly to think that they would find it hard to prioritise rent within their budgets.

Those in work and on housing benefit and required to pay most towards their rent are most likely to feel that it will be difficult to prioritise rent

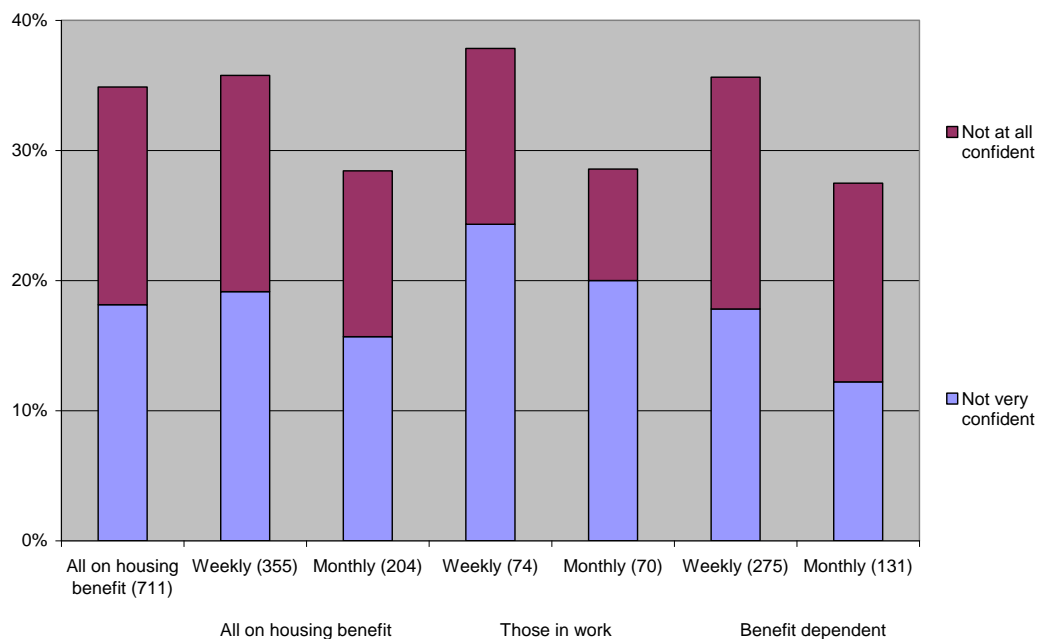
Chart 9. Those who feel budget is so tight it would be difficult to prioritise rent, by budgeting period, by employment status and by whether currently manage budgets weekly or monthly



More than a third (35%) of social tenants on housing benefit say that they are not confident that they would be able to keep up their rental payments if they received rent direct. Those who are already managing monthly and on housing benefit, primarily those in work, are the most likely to lack confidence that they would be able to keep up with rental payments. This reflects the reality that it is these groups who are currently most likely to be struggling to afford rental payments and to be in arrears with their rent, both because they are more likely to be taking a higher degree of personal responsibility for their rent and because being in work creates greater access to credit, with problematic credit use itself correlated with rent arrears.

Those who manage their finances weekly are the most concerned about their ability to keep up with rental payments

Chart 10. Lack confidence that will be able to keep up rental payments, by employment status and how manage funds



Those who currently manage their finances weekly, including some of the most vulnerable and disadvantaged tenants, those who have fallen behind on their rent or who have experienced financial difficulty, particularly those in work, are the least confident in being able to keep up with their rent⁹ if it were to be paid directly to tenants.

Little receptiveness to the idea that personal responsibility for paying rent would enhance independence

Social tenants were also resistant to the idea that receiving their housing benefit direct would be helpful in managing their budget, with three-quarters (75%) disagreeing with this statement. Similarly, there was little acceptance of the idea that personal responsibility for paying their rent would give them greater independence and change their relationships with landlords for the better. The view was that direct payment of housing benefit to tenants might worsen relationships with social landlords. Almost two-thirds of social tenants (64%) disagreed that relationships between tenants and landlords would be changed for the better if housing benefit were paid direct to tenants.

⁹ There was similar resistance among tenants of private sector landlords (private rented sector/PRS) when local housing allowance was introduced, including the removal of payments direct to landlords. The majority of tenants in fact coped effectively with the change, despite their prior concerns. However, a significant minority struggled and fell behind on their rent, primarily various vulnerable groups – inexperienced claimants, those lacking financial capability, those with problem debt and with a background of financial distress (source: Centre for Research in Social Policy). It would appear to be very much the same groups within the sample of social tenants in this research that were most concerned about their ability to prioritise and keep on top of social rent payments, with these groups being a higher proportion of social tenants than private sector tenants.

Monthly payment of benefits will run counter to the budgeting strategies that have evolved to minimise the risks of living on a very low income

Clearly, social tenants are already living on very tight budgets and experiencing considerable affordability pressures, with a significant minority falling behind on household bills.

Strategies that have evolved to cope with living on a very low income rest on budgeting over short periods, managing in cash and “juggling” finances to accommodate lumpy expenditure and competing pressures on tight fixed budgets. Monthly payment of benefits would therefore appear a poor fit with existing coping strategies.

The transition to Universal Credit and monthly payments will impact primarily the half of social tenants whose coping strategies for living on a low income rest on minimising risk by budgeting weekly. These include some of the most disadvantaged tenants, with single parents disproportionately represented.

The concentration of arrears among those in work and making contributions suggests arrears will rise as tenants take personal responsibility for their rent

Where tenants have already taken personal responsibility for paying their rent, either in full or in part, rent arrears are clearly significantly higher. This is particularly the case for those in work, who are required to make the largest contribution to their rent or who take full responsibility for paying their rent.

Tenants clearly feel strongly that the new welfare regime will pose risks to their security of their tenancy and ability to manage rental payments, with resistance to both monthly payments and direct payment of housing benefits to tenants rooted in fears of being unable to prioritise rent within budgets and thus keep up with payments. These concerns are strongest among those already struggling, especially those who have previously experienced rent arrears and who are under the greatest financial pressure.

3.0 Social tenants and their finances – the benefits and challenges of financial inclusion and financial capability initiatives

This chapter covers the financial inclusion of social tenants, access to banking and credit and the dynamics of credit use, the extent to which social tenants are exposed to financial distress and the experience of various financial inclusion and financial capability initiatives. This is intended as context for the wider discussion of how financial inclusion approaches and new financial products and channels can best support tenants to make a successful transition to Universal Credit and ultimately to greater independence and into work.

3.1 Access to banking

Almost a quarter of tenants either do not have an account with banking functionality or are unable to use their bank account

Banking inclusion has increased significantly in recent years with more than one million of the previously unbanked moved into banking,¹⁰ including some of the poorest and most vulnerable consumers.

Some 86% of social tenants are banked. Of these, 44% have a full current account while 56% have a basic bank account. One in five (20%) social tenants have a Post Office Card Account (POCA), with some of these also having a bank account. Some 14% of social tenants only have a POCA and thus no account with core banking functionality such as card payment or direct debit facilities. Some 5% have no banking facilities at all, having neither a POCA nor a bank account. Just 2% of social tenants have a credit union current account.

Having a bank account does not necessarily mean that the account is viable – one in ten banked social tenants have a compromised account

Simply having a bank account does not necessarily mean that it is viable in any meaningful sense. Some 10% of banked social tenants have stopped using their account voluntarily in order to avoid penalty charges. A further 5% have been asked by the bank to stop using their account while 6% have at some time had an account closed by the bank. Taken together, a little short of a quarter of social tenants (24%) either do not have an account with banking functionality or have an account but are not in a position to use it. Indeed, it is important to appreciate that the benefits, costs and risks of banking versus cash-based management can be finely balanced for those on very low incomes. Managing finances through a bank account can be problematic for those on very low incomes and difficult to sustain. Six in ten of those who are currently unbanked have previously been banked.

Direct debits for bill payment have become increasingly important in meeting commitments but use of cash-based bill payment channels is widespread

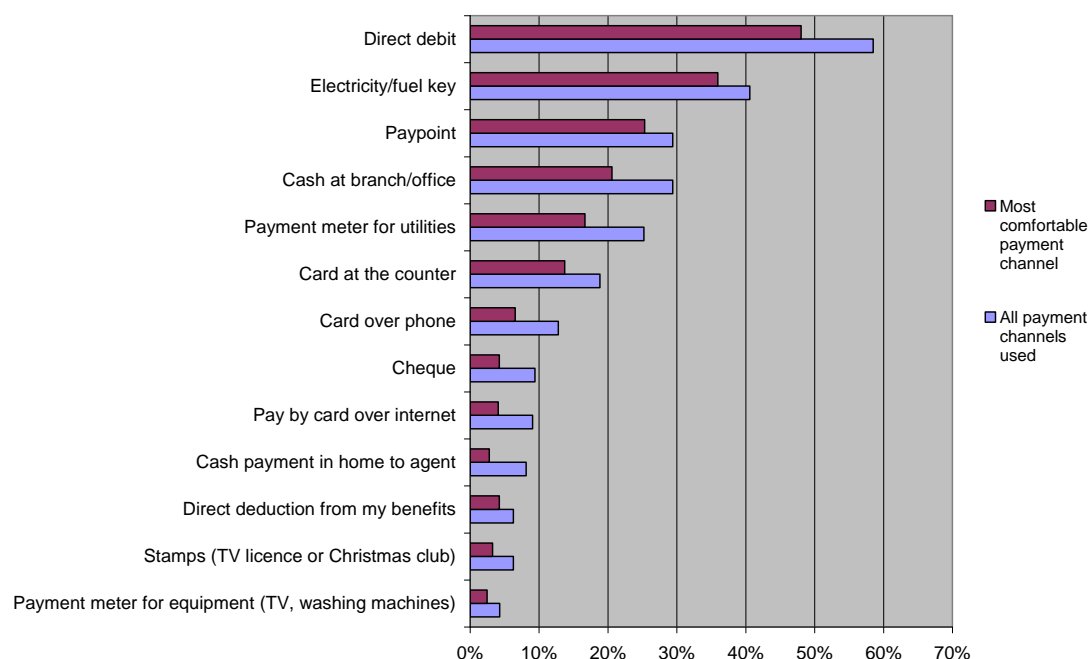
Direct debits have become the most popular channel for payment of bills, used by 69% of social tenants, and are increasingly the channel with which social tenants are most

¹⁰ Financial Inclusion Task Force, *Fourth Annual Report on Banking*, HM Treasury, 2009.

comfortable (58%). For social tenants using bank accounts to pay at least one bill (74% of banked social tenants), the number of direct debits are nonetheless kept to a minimum and focused on payment of priorities – with utility bills (65%) the most important, followed by entertainment services such as Sky TV (43%) and council tax (37%).

Direct debits are now both the most used and most popular channel for bill payments but fuel keys and Paypoint are also widely used

Chart 11. Payment channels for bills – all channels used and channels preferred



Base: Social tenants. All payment channels used (860). Most comfortable payment channel (612).

Cash-based bill payment channels remain an important feature of money management and are often an active choice despite their high cost

Nonetheless, despite increased bank penetration and the growing use of direct debits, cash-based channels for payment of bills continues to be important to social tenants. A third (33%) of social tenants use fuel keys, 19% payment meters for utilities and 24% Paypoint, with 62% opting for pay-as-you-go (PAYG) contracts on mobile phones. It is important to recognise that for many tenants, use of these cash-based channels is an active choice – and can be seen as the lower risk and less stressful option. As fuel costs have risen, some individuals have chosen to go back to meters, partly in order to build up balances over the summer months.

“It’s easier than a bill coming at the end of the month. It’s better pay-as-you-go. I’ve got an electric key, a gas card. I’ve got a card for the TV licence...you’re not laying awake at night worrying about a bill.”

“You pay one bill and get another and you don’t know where you are. With pay-as-you-go you feel like you’re kind of like on top of things. You don’t have the worry.”

Social tenants understand that cash-based payment channels are more expensive but nonetheless see them as more manageable, and thus as a better fit with their needs.

"I've had meters fitted which we never had before. The prices have gone up too much. That way you can manage it...it costs more, like, using your pre-pay but its more healthy for your sanity."

"It's more expensive but you can budget what you are using. If you don't have it you don't use it. What I'm trying to do now is put money on it now and try and build it up for the winter...then you can dodge that one week when you haven't got the money for the electric."

"It's a lot easier but it makes it a lot more expensive, but it's easier to manage."

Fear of penalty charges on bank accounts also has a role to play in preference for cash management and reluctance to use bank-based payment channels

For many of those on very tight budgets bank-based payment channels can be difficult to manage. This is because uneven payment patterns and the lack of safety margins on budgets frequently result in insufficient funds being available to meet automated electronic-paid commitments, with missed direct debits then generating penalty charges and/or over-limit fees and thus additional costs.

Fear of the penalty charges associated with missed direct debits plays a role both in the decision to manage finances primarily in cash, and the choice of cash-based bill payment channels over direct debits.

"The worst of people that you could deal with would be the banks...You can't cover the amount and they'll be charging you. I just don't trust banks at all. You know you might have a bill to pay on the 28th and your money goes into the bank on the 28th but the bank might pay them on the 24th and you've got nothing to cover it and they charge you."

"I don't do banks at all. Because I just do not trust them at all. They just make money out of you by writing you letters. £21 for a letter."

A significant proportion of tenants are exposed to penalty charges that are disproportionate to the flows through the accounts of those on low incomes

Charges associated with both authorised and unauthorised overdrafts and penalty charges on direct debits and missed and late card payments have reduced significantly in recent years, as a result of pressure from regulators and efforts by the banks to restructure the pricing on overdrafts and reduce charges to consumers.¹¹ However, even the reduced charges now being levied (an average of £14 per charging event in 2011 compared to £25 per charging event in 2008) are significant relative to social tenants' incomes and are disproportionate to the cash flow through the accounts of those on low incomes.

A significant sub-set of social tenants have been exposed to penalty charges for having insufficient funds to meet direct debits (48%), with 27% having incurred over-limit fees on their overdraft. Of those who have incurred penalty charges on missed direct debits or over-limit fees, 60% have done so in the last year, with the average number of charges being circa six per year for those who incur charges.

Qualitative research suggests that in some cases charges associated with banking, arising either through uneven payment patterns, difficulties in ensuring that there was sufficient cash in an account to cover direct debits or the use of an inappropriate

¹¹ Source: BIS and HM Treasury, "Consumer Credit and Insolvency Review: formal response to consultation", November 2011.

account, had itself created financial difficulties or debt that had taken a long while to pay down.

“You’re supposed to pay £12 a month and I never used it (bank related credit facility) but you get charged £12 and then because that £12 is not in you get another charge which goes on top at the end of the month and you’re getting I think it’s another £30 on top of that and it just goes up and up. £500 it was in the end.”

“Got in an overdraft. Got all kinds of charges on top of that so £300 overdraft goes up to £800–£900 over the months I was struggling and it took me five years to pay it off so I would never do it again.”

Increased banking inclusion will not necessarily result in either cost savings or greater financial resilience

Given the fee structure associated with banking, and the propensity for those on very low incomes to be exposed to penalty charges, the move into banking and banking inclusion will not necessarily result either in cost savings or greater financial resilience. Research¹² undertaken for HM Treasury and the Financial Inclusion Task Force with the unbanked and those who had moved into banking suggested that almost two-thirds of those who do not have a bank account have previously been banked, having fallen out of banking – primarily as a result of penalty charges levied on their account. Of those who had fallen out of banking, a third had been left with debt that was difficult to pay down, primarily owed to banks in the form of overdrafts. Of those who were unbanked, views on regaining/gaining access to banking were polarised, with a fairly even split between those who wanted to regain access to banking and those who were resistant to the idea of doing so.

The same study also found that for those who had been moved into banking over the previous five years – the “newly banked” – outcomes had been mixed. A quarter had benefited from the move into banking, gaining cost savings on cheaper credit and on utilities and bill payments through the use of direct debits, and gaining also from wider financial inclusion. For a little over a third the impact of the move into banking had been broadly neutral in that individuals had not fully engaged with banking, choosing rather to take their funds out of their account as soon as they arrived, and managing in cash. As a consequence they had not realised the benefits of banking in terms of either cost savings or financial inclusion but they had also not been exposed to penalty charges. A little over a quarter had experienced a net loss from the move into banking, with penalty charges outweighing any savings gain from cheaper credit or utilities. Almost one in five (19%) of those who had moved into banking in the previous five years had fallen out of banking.

3.2 Access to credit and the dynamics of credit use

Use of credit plays a key role in social tenants’ ability to manage their commitments

Issues around credit are one of the critical issues to consider in thinking through how new patterns of income flows and of money management may play out in terms of ability to meet commitments and rent arrears within the new regime. Credit both

¹² Policis for HM Treasury and the Financial Inclusion Task Force, “Realising Banking Inclusion: the achievements and challenges”, Policis 2010.

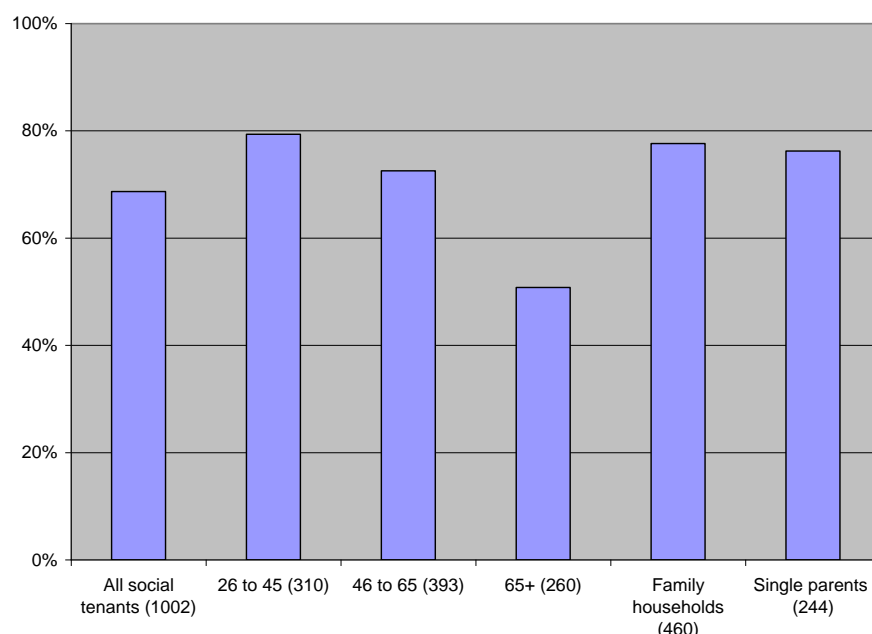
facilitates the meeting of commitments, in some cases, and, in others, undermines the ability to do so.

Use of credit is part of the reality of living on a low income, with 69% of social tenants having used some form of credit within the last three years, including the Social Fund and borrowing from friends and family, rising to 78% of family households.

Use of credit is part of the reality of living on a low income

Chart 12. Credit use among social tenants

% using any form of credit in the last three years



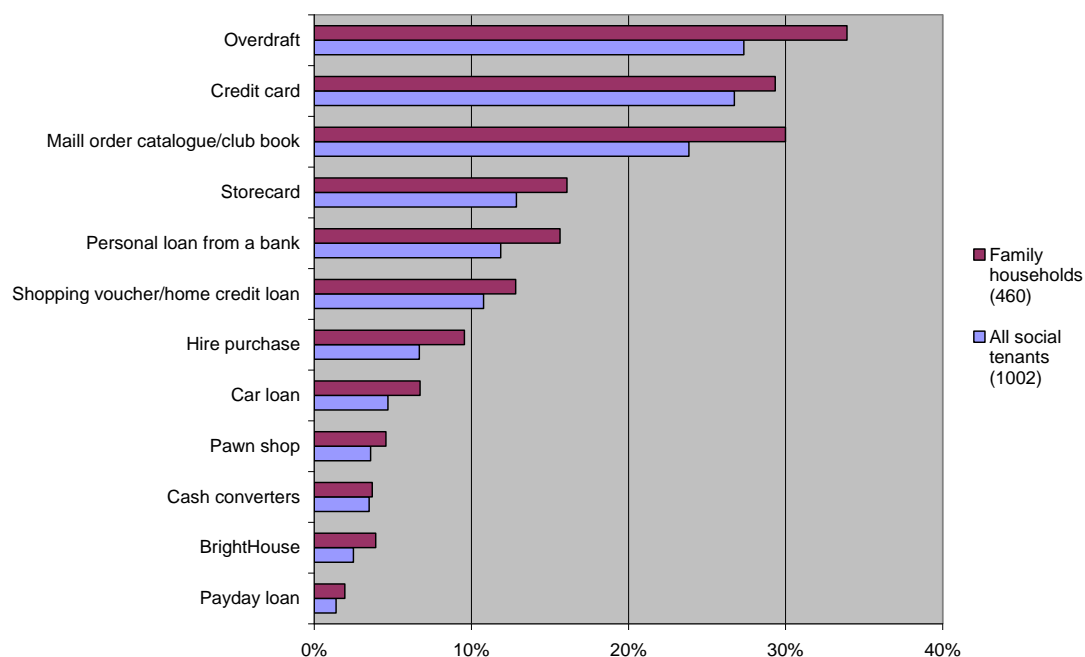
Mainstream credit is by far the most important source of credit for social tenants but can be difficult to manage

The most important sources of credit for social tenants are now mainstream credit products, with a little short of half (49%) of social tenants being users of mainstream financial credit. Some 27% of social tenants, rising to 34% among family households, now use overdrafts while 27% use a credit card, rising to 29% among family households. It is worth noting that of those social tenants using credit cards, some three in ten habitually make minimum payments on their cards. The average time that minimum payments have been made is eighteen months, with more than a third having done so for more than two years and 17% for longer than three years.

The other key source of credit for social tenants is mail order catalogues, used by almost a quarter (24%) of social tenants, rising to 30% among family households. No other sources of credit are anywhere near as important, with 13% using store cards, 12% personal loans from a bank and 11% home credit. No other forms of credit are used by more than 10% of the social tenant population. Just 2% of social tenants use a credit union.

Open-ended credit contracts in the form of overdrafts and revolving credit on credit cards are the key sources of credit for social tenants

Chart 13. Credit product use by type, all and family households



A little over one in five social tenants use high cost credit, with home credit the most important product and very few use payday loans

Some 22% of social tenants are users of some form of high cost credit (such as home credit, payday lending, Rent to Own (on the Brighthouse model), Sale and Buyback (on the Cash Converters model) or pawn. In this latter context, it is worth noting that payday loans are used by relatively few social tenants (2%), reflecting payday lenders' focus on those who are banked and in work. Among social tenants using home credit, the most important source of high cost credit for social tenants by some margin, a quarter (25%) have no other credit options.

The Social Fund has also historically been an important source of credit for social tenants

Social Fund loans have been used by 11% of social tenants, rising to 17% in the 26 – 45 age range and among single parent households. Social Fund lending has been particularly important to high cost credit users, 26% of whom have had Social Fund loans within the past three years.

The Social Fund has been most important for family households and has had a relatively high degree of crossover with high cost credit use

Chart 14. Use of Social Fund by age and family type

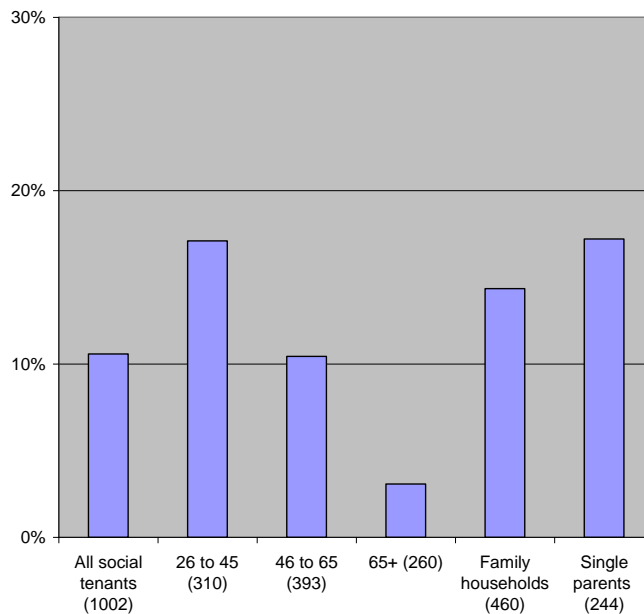
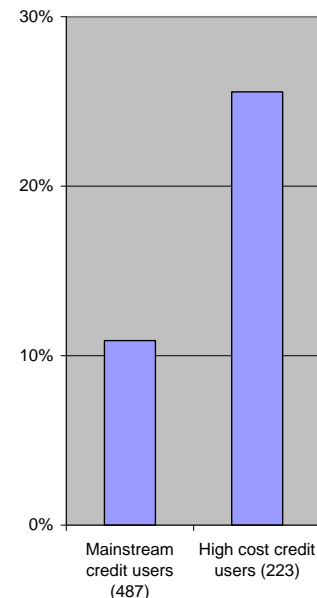


Chart 15. Use of Social Fund by mainstream and high cost credit users



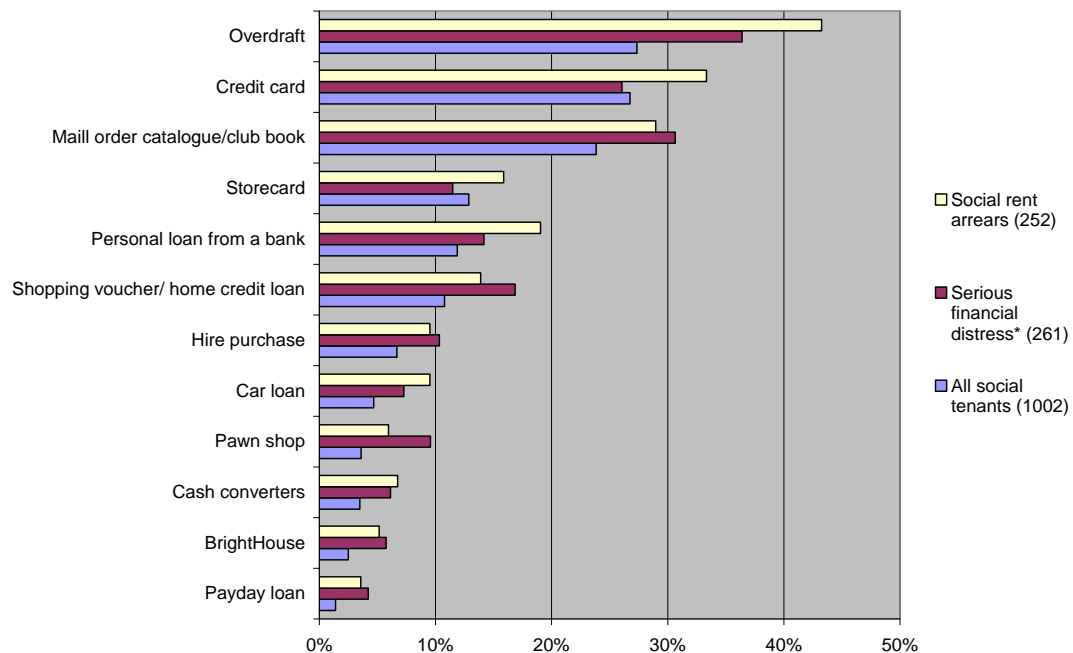
Financial distress and rent arrears are most strongly correlated with problematic mainstream credit use

In thinking through how patterns of credit use and issues around financial inclusion and affordable credit may play out in terms of outcomes for those making the transition to Universal Credit and the management of larger sums than they have historically been used to, it is important to understand that financial distress and rental arrears are strongly correlated with problematic mainstream rather than high cost credit use. Those most likely to experience financial distress and serious rent arrears are those using a mix of high cost and mainstream credit products, typically taking on high cost credit after having already run into difficulties or additional costs (in the form of penalty charges or debt that is difficult to pay down) with mainstream credit.

Of those experiencing serious financial distress (in the form of County Court Judgments, visits by bailiffs and debt collectors, seizure of assets, eviction, making formal arrangements with creditors or bankruptcy), 36% are overdraft users, rising to 43% for those with rent arrears. A significant proportion of those falling behind on rents and experiencing financial distress appear to be struggling with the management of mainstream credit, incurring additional costs in the form of penalty charges or over-limit fees on overdrafts in the process. A third of those experiencing rent arrears (33%) are credit cards users. Some 54% of those who have experienced serious financial distress, rising to 60% of those who have experienced serious rent arrears (more than 8 weeks in arrears), say that they have paid penalty charges for missed direct debits, 31% and 33% respectively that they have paid over-limit fees on overdrafts and 21% and 31% respectively that they have paid penalty charges on credit cards and mainstream personal loans.

Those experiencing financial distress or rent arrears are heavy credit users – often turning to high cost credit in the wake of problems in the mainstream

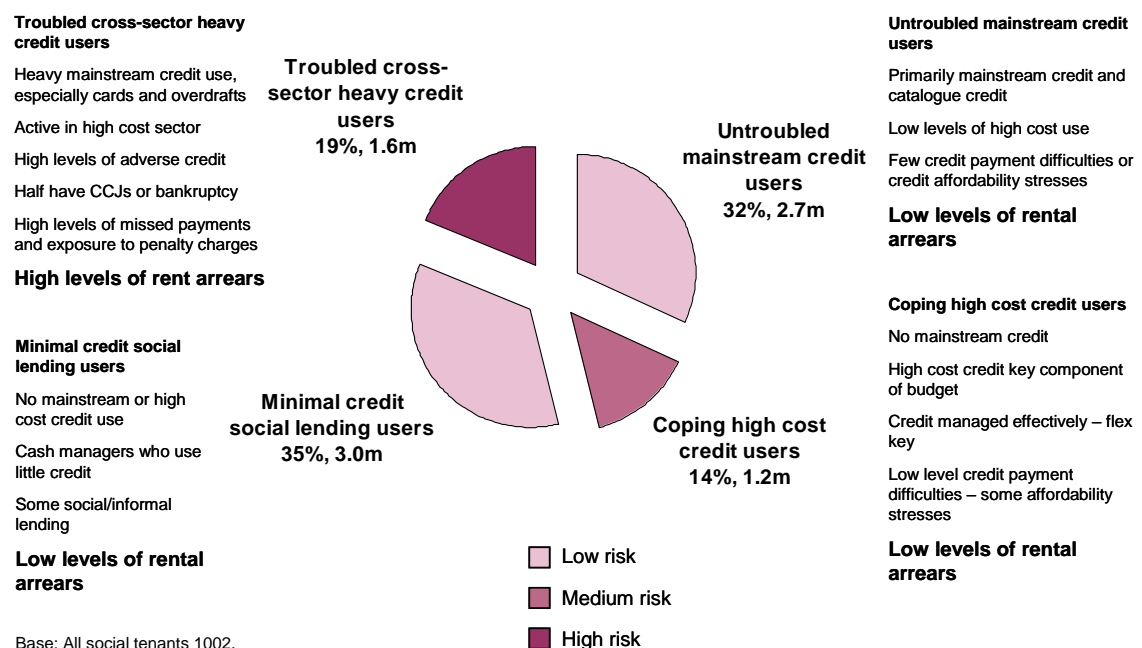
Chart 16. Credit product use by type, all social tenants, those experiencing financial distress and rental arrears



* Any of County Court Judgment, visits from bailiffs, debt collectors, seizure of assets, eviction, arrangement with creditors, bankruptcy

These various dynamics are captured in the following credit segmentation of social tenants, illustrated in Chart 17.

Chart 17. Credit segmentation of social tenants



There appear to be four broad segments of credit user types among social tenants:

- “Untroubled mainstream credit users”, who use primarily mainstream credit and encounter few difficulties in doing so (32% of social tenants and 2.7m individuals).
- “Coping high cost credit users”, who use primarily home credit and other high cost products, and who appear to manage their credit and other commitments effectively (14% of social tenants, and 1.2m individuals).
- “Minimal credit social lending users”, who use little or no commercial credit relying rather on informal borrowing and the Social Fund (35% of social tenants and 3.0m individuals).
- “Troubled cross-sector heavy credit users”, with problematic mainstream credit use, and borrowing also in the high cost sector (19% of social tenants and 1.6m individuals).

The segmentation illustrates that rental arrears are relatively low among those who can handle mainstream credit and among those with minimal credit use

This illustrates clearly that there is a large segment of social tenants who manage mainstream credit effectively, have low levels of both high cost credit use and of rental arrears (the “untroubled mainstream credit users”).

There is another large segment, who have low levels of borrowing and, where they do borrow, use little commercial credit, relying rather on informal borrowing and the Social Fund (the “minimal credit social lending users”).

A smaller segment of those coping effectively with high cost credit also experience few problems with rent arrears

A small segment of credit users are focused on high cost credit, primarily home credit, which they manage effectively, relying on the flexibility inherent in the home credit model to flex their budget and miss payments when finances are tight. Both these latter segments (the “coping high cost credit users” and the “minimal credit social lending users”) have low levels of rental arrears.

Rent arrears are concentrated in a segment of troubled heavy credit users with a problematic history of mainstream credit use

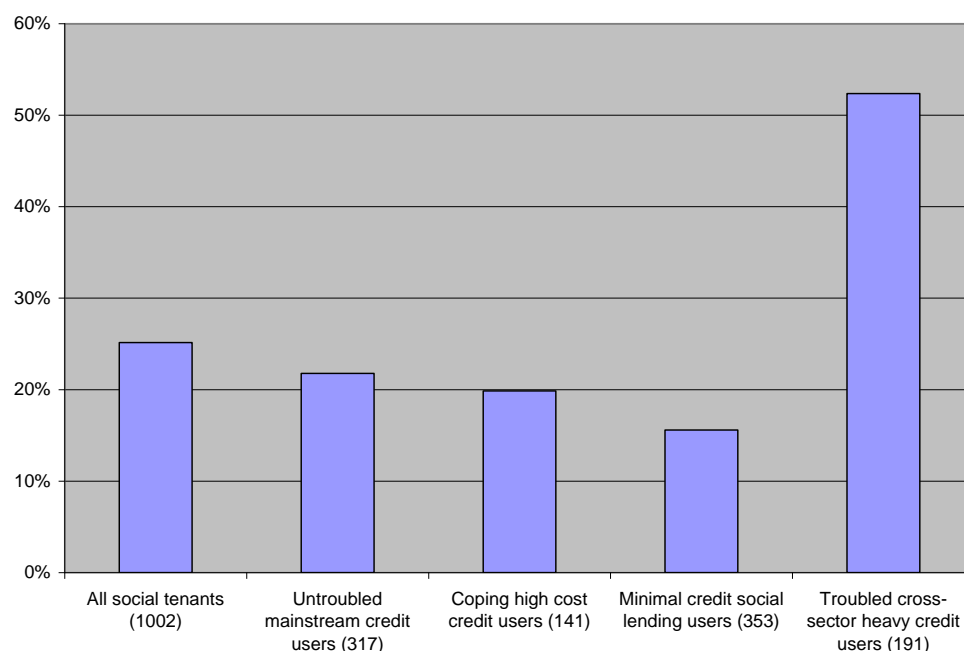
It is striking, however, that rent arrears are concentrated in a segment of 1.6m “troubled cross-sector heavy credit users”, roughly one in five of the social tenant population. These credit users are struggling primarily with mainstream credit.

Overall, a quarter of social tenants have at some time fallen into arrears on their rent. This falls to 16% among the segment of “minimal credit social lending users” and to 22% among the “untroubled mainstream credit users”. The “coping high cost credit users”, at 19%, are slightly less likely than social tenants overall to have run into rent arrears, in part because of a high level of housing benefit receipt among this segment and of direct payment of benefit to social landlords.

Among the “troubled cross-sector heavy credit users”, however, more than half (52%) have been in arrears with their rent, with 30% of these having been eight weeks or more behind. This is also the segment most likely to be personally responsible for paying all of their rent (42%) and, for those in receipt of housing benefit, among the most likely to be contributing personally to their rent (55%).

The ability of the “troubled cross-sector heavy credit user” segment to service rent is compromised by credit commitments and exposure to penalty charges

Chart 18. Rent arrears by credit segment



3.3 Exposure to financial distress

More than one in five social tenants have at some point consulted debt advice

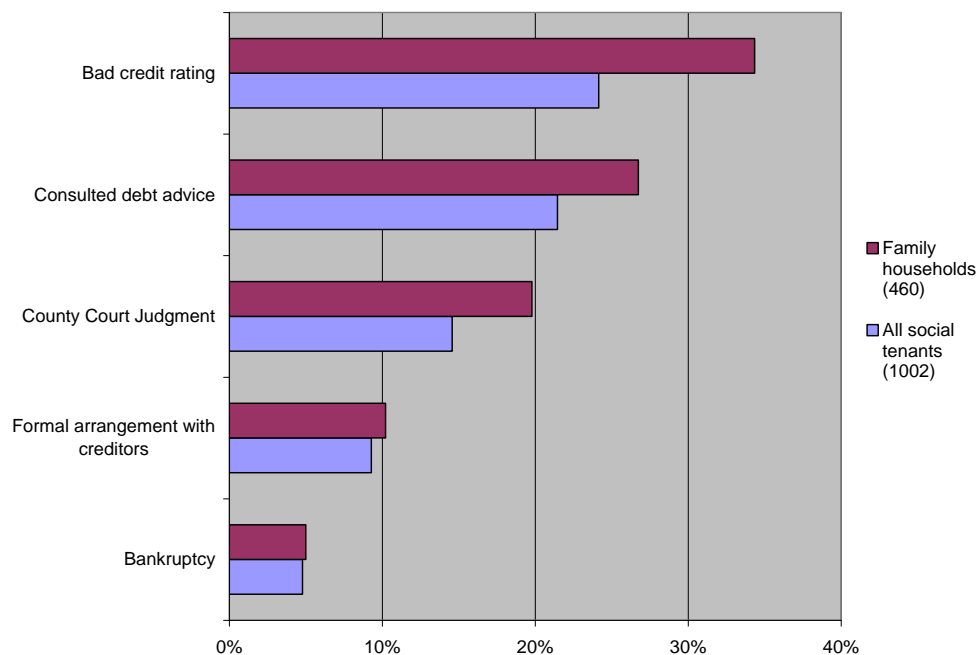
Against the background of the financial dynamics of social tenants' finances, described in this chapter and that preceding, it is perhaps unsurprising that a relatively high proportion of social tenants have experienced serious financial distress. A quarter of social tenants admit to having an adverse credit record and 15% to having a County Court Judgment for debt. More than one in five (22%) have at some point sought debt advice while almost one in ten (9%) have made a formal arrangement with creditors (i.e. have entered into a formal Debt Management Plan, Debt Relief Order or Individual Voluntary Arrangement) while 5% have been bankrupt.

Family households are those most likely to be struggling with unmanageable debt, with one in four having experienced serious financial distress

Family households are more likely to experience financial distress and to have run into trouble with both banking and credit. A little more than a third (34%) of social tenants living in families admit to a bad credit rating and 20% to a County Court Judgment, with more than a quarter (27%) having consulted debt advice. Family households are more likely than other households to have had serious debt problems, primarily because these households are more likely to be credit users.

More than a quarter of social tenants living in family households have consulted debt advice

Chart 19. Experience of problem debt and financial distress



Serious financial distress is highest among social tenants in work, reflecting their greater access to credit

Moving to monthly budgeting does not seem of itself to reduce the likelihood of encountering serious financial distress, with monthly budgeters among both the benefit dependent and those in work a little more likely to have debt problems sufficiently serious to have consulted debt advice. Serious financial distress and debt problems are considerably higher among social tenants in work, than among those dependent on benefits, with 22% of those in work and managing weekly and 29% of those managing monthly having consulted debt advice compared to 17% of those dependent on benefits and managing weekly and 11% of those managing monthly. This reflects the greater likelihood that those in work and managing mainly through their bank account will be credit users, particularly users of overdrafts and revolving credit, both of which, as discussed earlier, are highly correlated with both rental arrears and financial difficulty more broadly among social tenants.

Issues around financial inclusion and affordable credit are complex and require evidence-driven and nuanced approaches to both cost and risk

Taken together it is clear from the evidence presented in both this chapter and chapter 2 that the issues around financial inclusion and financial capability are complex and will require sophisticated and nuanced approaches that acknowledge the realities of outcomes and the choices faced by those on very low incomes.

The dynamics around outcomes, costs and risks in the use of financial products, including credit products, are not necessarily as often conceived by a simplistic interpretation of the issues around financial inclusion and “affordable credit”.

Addressing barriers to meaningful banking inclusion needs to address the pricing structure of accounts serving those on low incomes

It is the balance of cost and risk, rather than any lack of financial capability, that in large part explains some of the choices made by those living on very low incomes. Choice of high cost payment channels and of high cost credit products can, in some circumstances, be both cheaper and lower risk than bank based channels and mainstream credit, once penalty charges are taken into account.

The same dynamic also explains why extending banking inclusion and the introduction of new financial products in isolation may not necessarily improve outcomes for social tenants. Unless the potential for a “revolving door” in and then out of banking and the barriers to effective bank-based management of accounts can be addressed, some tenants moving into banking or using new bank-based payment channels will risk higher costs, reduced ability to keep up with commitments and thus worse outcomes.

The association of problematic credit use with rental arrears highlights the risk in making rental payments direct to those already struggling with debt

The association of rent arrears with problematic mainstream credit use rather than high cost credit and the prevalence of problematic debt among social tenants makes clear the importance of an evidence-driven and informed consideration of how patterns of credit use and problem debt will play into tenants’ ability to manage their finances over an extended period. It also highlights the risks that may be posed for those struggling with debt and rent arrears where they take on direct responsibility for rental payments.

4.0 Towards defining “exceptions” and understanding the need for support in the transition to the Universal Credit regime

This chapter seeks to understand the differences between segments of social tenants and the extent to which specific groups may require more or less support in making the transition to the Universal Credit regime. It seeks also to identify those groups that will be at high risk of damage to their financial well-being and who may need to be phased in to, or excluded from, some aspects of the new regime.

4.1 DWP strategy on personal budgeting and on “exceptions” and budgeting support

DWP wishes to see as many tenants as possible manage their benefits on a monthly basis and taking on personal responsibility for paying their rent

DWP wishes to see as many claimants as possible take responsibility for managing their money, including their housing benefit, on a monthly basis, as part of the wider effort to increase readiness for work and to ease the process of making the transition into work. It is hoped that the new regime will work to reinforce budgeting capability and that the large numbers of claimants making the transition to the new regime will itself be a stimulus to greater take-up and use of banking and to financial and digital inclusion more widely.

A variety of stakeholders, although broadly supportive of the objectives of reform, have raised concerns about the workability of some aspects

While many consumer organisations support the broad principle of making work pay and the goal of encouraging those living in workless households into employment, a number of organisations have expressed concerns about tenants’ ability to cope within the new regime. Concerns centre on tenants’ ability to cope with managing larger sums over an extended period, and how far the payment of all benefit income to a single person in each household will impact the position of partners who will not receive any benefits in their own right. There are also concerns around the application of sanctions for non-engagement with the work agenda, which are thought likely to be particularly problematic for part-time workers. Given the intention that benefits will be paid into bank accounts and that applications will be made and accounts managed online, concerns have also been raised around the position of those who are entirely unbanked (5% of social tenants), those who only have a Post Office Card Account with no banking functionality (14%) and the digitally excluded (26% of working age benefit claimants).

There will be provision for both support and exceptions to the new regime but the intention is that these will be minimised as far as possible

DWP has been clear that there will be a provision for “excepting” the most vulnerable tenants at risk of not being able to manage effectively within the new regime, especially in the transitional phase. These claimants will be offered a range of solutions, including more frequent payment, split payments between different household members and the payment of the housing element of the benefit direct to landlords. The intention is, however, that volumes of exceptions will be minimised and regularly reviewed with the goal of moving those classified initially as “exceptions” into a supported regime and ultimately into independent management. Others at lesser

risk but who require help to make the transition to the new regime will be offered budgeting support. This will aim to prepare claimants for the new regime by increasing their capability through a tailored programme of support reflecting individual claimant need, with, again, the end goal being independent management. The third strand of personal budgeting is the introduction of new financial products. It is anticipated that in time a new range of financial products will assist claimants in managing their money effectively, albeit that as yet the appetite for launching the new “jam jar” style budget accounts appears relatively limited. DWP has announced a fund of up to £145m to support the commercial establishment of these new accounts and issued a call to a range of private sector providers to explore the feasibility of developing these accounts.

A risk-based approach to support and exceptions is envisaged

The new system of support and exceptions and the definition of vulnerability are to rest on a risk-based approach, with claimants expected to be individually assessed against a two-tier spectrum of more or less serious risk factors. High risk factors might include, for example, drug or alcohol mis-use, mental health issues or behavioural disorders, learning disability, homelessness, being a victim of domestic violence, illiteracy or innumeracy or having high levels of unmanaged debt. Lower risk factors might include being unbanked, having a history of rent arrears, being an ex-offender, having a large unpaid Social Fund debt or not having English as a first language. As yet there has been no official definition of vulnerability and the scale of potential “exceptions” and those needing support has yet to be agreed.

4.2 A segmentation of social tenants

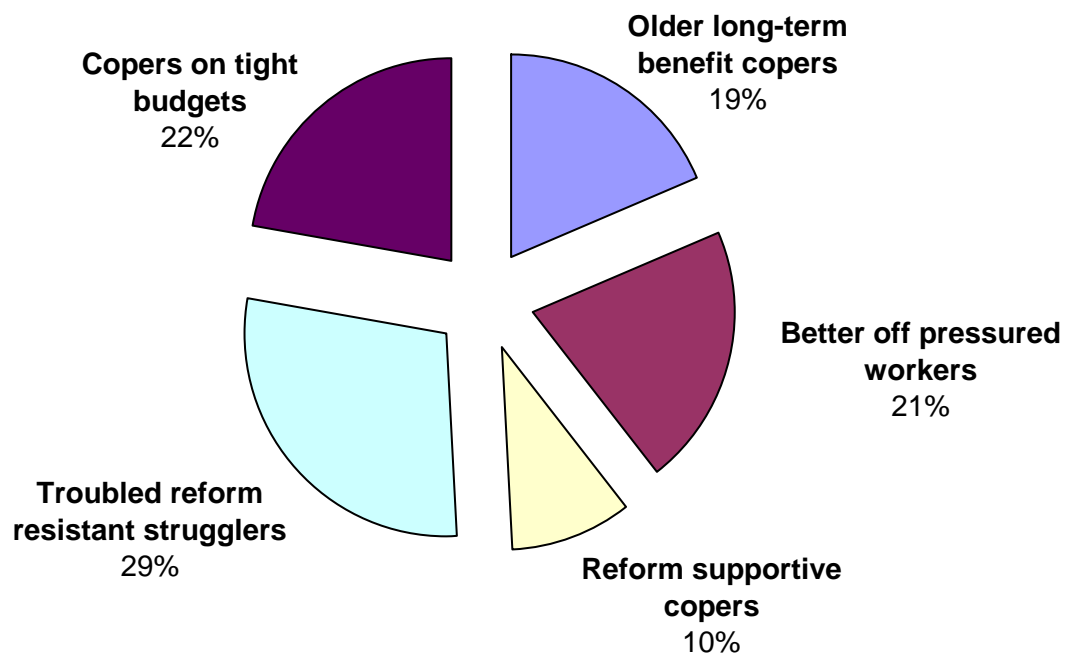
A risk and need based segmentation designed to understand the capacity of different tenant groups to make a successful transition to the new regime

In order to understand the differences between groups of social tenants who might be more or less well equipped to handle the transition to greater personal responsibility and managing larger sums over longer periods, the research team developed a segmentation of social tenants on housing benefit, using cluster analysis, which sought to discriminate between those:

- managing their money more or less effectively;
- more or less vulnerable to financial distress;
- more or less likely to be able to handle the transition to monthly payment and to manage funds over longer periods;
- more or less likely to be able to prioritise rent within their budgets;
- more or less likely to be able to keep up rental payments;
- at greater or lesser risk of failing to cope and thrive within the new regime;
- with differing support needs.

The resulting segmentation is presented in Chart 20.

Chart 20. Risk and needs based segmentation of working age social tenants' capacity to manage the transition to the Universal Credit regime

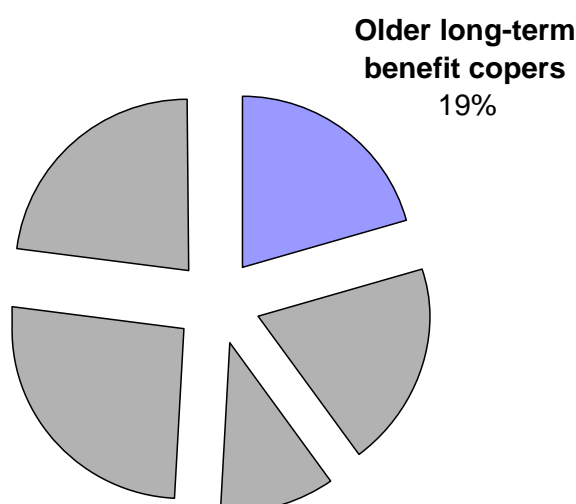


Five segments emerged from the analysis, each quite distinctive from the other but internally homogenous:

- older long-term benefit copers;
- better off pressured workers;
- reform supportive copers;
- troubled reform resistant strugglers;
- copers on tight budgets.

4.2.1 Older long-term benefit copers

Segment 1
Older long-term benefit copers
19%
 Older - 62% 45+
 77% not in work
 69% DLA/IB, 22% carers' allowance
 76% HB cover all rent, 95% don't know total rent
 35% managing "comfortably"
 Lowest (11%) arrears household bills
 Lowest (14%) missed rent payments, 66% because of HB delays
 49% think will be difficult to prioritise rent
 55% confident could keep up rent payments



Unused to thinking about rent and may initially find it challenging to incorporate rent into their household budgeting but likely to manage the transition to Universal Credit effectively

A little over one in five social tenants, this is an older segment, with more than six in ten aged over 45, who have been on benefits for the long term. Some 85% are not in work, with seven in ten (69%) claiming Disability Living Allowance or Incapacity Benefit and more than one in five (22%) claiming Carers Allowance. This is thus the segment least likely to make the transition to employment.

They are a low risk and capable and cautious group who have been managing on a low income for a long time. Although this is one of the segments with the lowest incomes, 35% feel that they can manage their outgoings and commitments "comfortably". Relatively few have arrears on household bills (11%) in comparison to other social tenants. Rent arrears are also low, at 14%, and where these have arisen, this has been because of delays in housing benefit payment in two thirds of cases. Relatively few use credit, however this segment are among the most likely users of the Social Fund.

Three quarters (76%) have all their rent covered by housing benefit, with 95% unaware of what their total rent is. Although half (49%) feel that once they receive the rental element of Universal Credit direct, it will be difficult to prioritise their rent, a little over half (55%) are confident that they could keep up their rental payments.

Some 73% have a bank account and almost three in ten (29%) a Post Office Card Account.

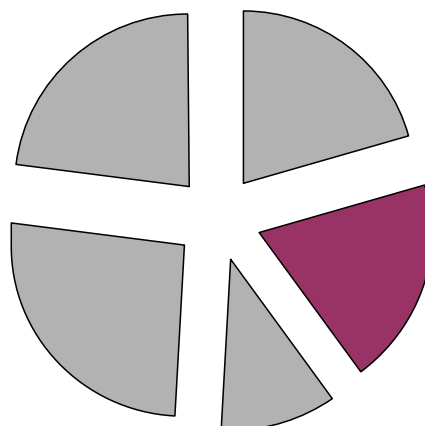
4.2.2 Better off pressured workers

Segment 2

Better off pressured workers

21%

Even split under and over 45
73% families, 49% single parents
80% in work, 44% part time, 61%
tax credits
100% contributing to rent
29% struggling to afford fuel and
food
25% struggling to afford rent
25% arrears household bills
45% missed rental payments
52% think will be difficult
prioritise rent
68% confident can keep up rent
payments



**Better off pressured
workers**
21%

Receipt of housing benefit direct may make it more difficult for some to prioritise rent in context of competing demands on cash-flow

This is a younger, family-oriented segment, with 73% family households and 49% single parents. This is the segment most likely to move in and out of work and likely to benefit the most from incentives to work and tapered withdrawal of benefits. Some 80% are in work, with 44% working part time. Six in ten (61%) are in receipt of tax credits.

This group are however under considerable pressure, with three in ten (29%) having struggled to afford fuel and food in the last twelve months.

All are contributing to their rent, with this segment making the highest personal contributions to their rent of any segments. A quarter (25%), have, however, had difficulty affording rent in the last twelve months. Some 45% have been behind on their rent payments, with almost a quarter (24%) of these having been eight weeks or more behind. One in four (25%) are behind on household bills. More than half (52%) think it will be difficult to prioritise the rent when they receive rental payments direct but seven in ten (68%) are confident that they will be able to keep up with rental payments.

This segment has the highest level of banking penetration, with 91% having a bank account and 21% a POCA. Some 40% have an overdraft facility. The segment consists of active credit users, with 29% having a credit card and 31% actively using an overdraft.

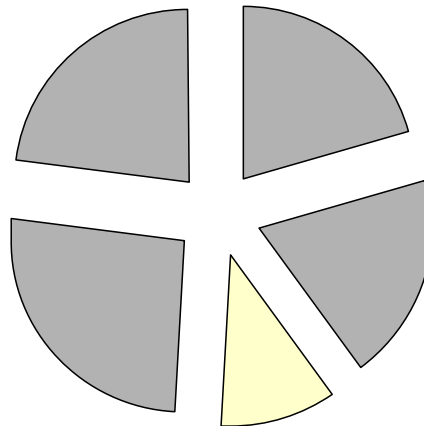
4.2.3 Reform supportive copers

Segment 3

Reform supportive copers

10%

89% benefit dependent
Bias to single person, non-family households
40% manage commitments comfortably
Lower levels of affordability stress
Lower arrears on bills (21%), missed rental payments (23%)
27% receive HB direct
64% welcome HB to tenant, 70% think helpful to budgeting
79% Confident can keep up rent payments



**Reform supportive
copers**
10%

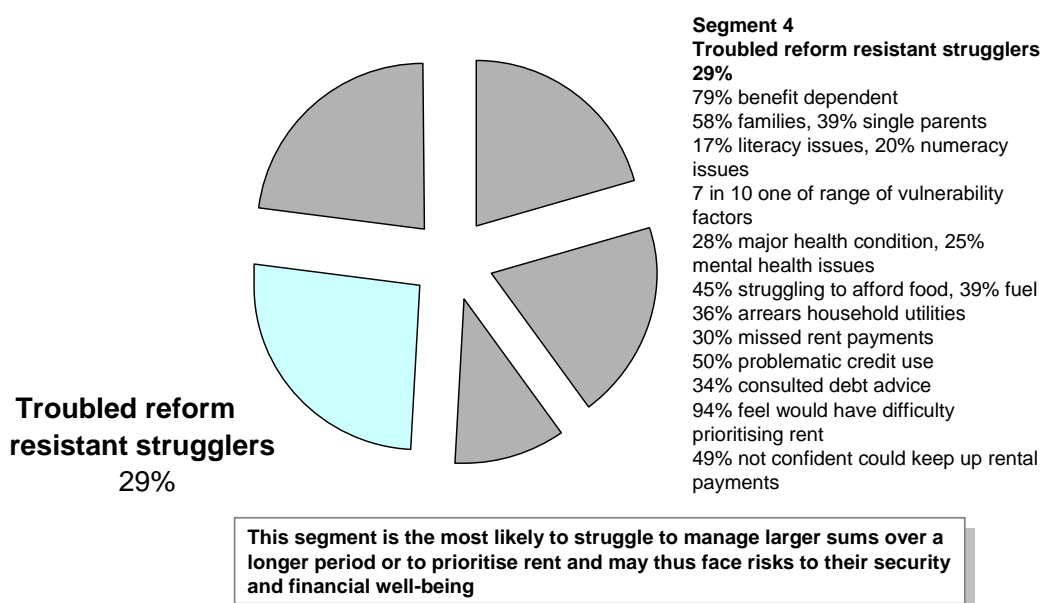
Receipt of housing benefit direct likely to be managed effectively by a group with relatively few commitments, affordability pressures or arrears

This is a small segment of largely benefit-dependent individuals, with 89% not in employment, and a bias to single person households.

As with the other segment with a bias to older individuals, they appear to be effective money managers, experiencing low levels of affordability pressure with relatively few commitments and low levels of arrears on both rent and household bills. Some 35% say that they manage outgoings and commitments comfortably.

Their distinguishing characteristic is their support for the concept of both monthly payment of benefit and direct payment of housing benefits to tenants. This segment is where payments of housing benefits to tenants is already concentrated, with 30% already receiving their housing benefit direct. Almost two thirds (64%) feel that receiving their housing benefit direct will be helpful in managing their budget. Almost eight in ten (79%) are confident that they will be able to keep up rental payments.

4.2.4 Troubled reform resistant strugglers



This is a large segment of primarily workless households (79%), with almost six in ten (58%) family households, and 39% single parents.

This segment is under significant pressure financially and is also vulnerable for a range of reasons, with seven in ten exhibiting at least one of a range of vulnerability factors¹³ that would broadly map across the risk factors envisaged by DWP as indicative of a need for support or allocation to the exceptions category. Some 38% have a major health condition while one in four (25%) have mental health issues. One in five (21%) have someone in the household with a learning disability, with 3% admitting to drug or alcohol abuse issues. Some 17% have literacy issues and 20% numeracy issues while 29% say that they have difficulties with filling in forms.

Some 45% have struggled to afford food and 39% to afford fuel in the last twelve months. More than a third (36%) are in arrears on household bills and three in ten (30%) have missed rental payments.

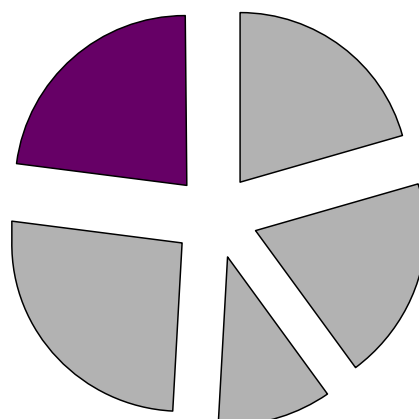
Some 81% are banked with 21% having a Post Office Card Account. This is a segment with high levels of credit use, with a half (50%) experiencing problematic credit use. Some 35% have an adverse credit rating, and 19% a County Court Judgement for debt. Some 38% have missed direct debits and incurred penalty charges and 17% have incurred over limit fees on overdrafts. A third (34%) have consulted debt advice.

The segment is resistant to the idea of both monthly payment of benefits and direct payment of housing benefit to tenants. Eight in ten (79%) say that it would be more difficult to manage their money if they are paid monthly, with 65% saying that it would be “a lot” more difficult. Some 91% disagree, 80% strongly, with the idea that having housing benefit paid direct to themselves would be helpful in managing their budget while 88% believe paying housing benefit direct to tenants is a “very bad” idea. Almost all, 94%, feel that they would have difficulty in prioritising rent within their budgets while half (49%) are not confident that they could keep up rental payments.

¹³ Learning disability, mental health issues, alcohol or drug issues, innumeracy, illiteracy, major health condition, serious problem debt.

4.2.5 Copers on tight budgets

Copers on tight budgets
22%



Segment 5
Copers on tight budgets
22%
83% benefit dependent
48% families, 31% single parents
Budgets tight but lower levels of affordability stress
Just 3% experiencing affordability pressures on rent
Arrears on bills a little higher than all tenants (22%)
Low incidence of missed rental payments (16%)
Low levels of credit use
83% feel no difficulty in prioritising rent
69% feel confident that could keep up rental payments

This segment would seem likely to adapt effectively to managing larger sums over longer periods and to personal responsibility for paying rent albeit that some may need support to prioritise rent payments

This is another large segment of largely workless households (83%), with a little under a half being families (48%), and 31% single parents.

Although this segment lives on similarly tight budgets to the troubled segment just described, they are under much less affordability stress. Nonetheless, a quarter (26%) have had difficulty in affording food in the last twelve months while a third (33%) have faced difficulty in affording fuel. However one in five (19%) say that they manage their outgoings and commitments comfortably while 46% say that they can manage but that finances sometimes feel a little tight. Arrears on household bills are low relative to all tenants, at 22%, with 16% having missed rent payments.

Some 85% of the segment are banked, with 22% having a Post Office Card Account. The segment is also distinguished by having relatively low levels of credit use.

The segment differs fundamentally from the troubled segment previously described in their expectations of how the shift to monthly payment of benefits and direct receipt of housing benefit will impact their finances. While 43% expect monthly payment of benefits to make their finances “a lot” more difficult and 13% to make it “a little” more difficult to manage, 83% felt that they would have no difficulty in prioritising their rent within their household budget while almost half (49%) were confident that they would be able to keep up rental payments.

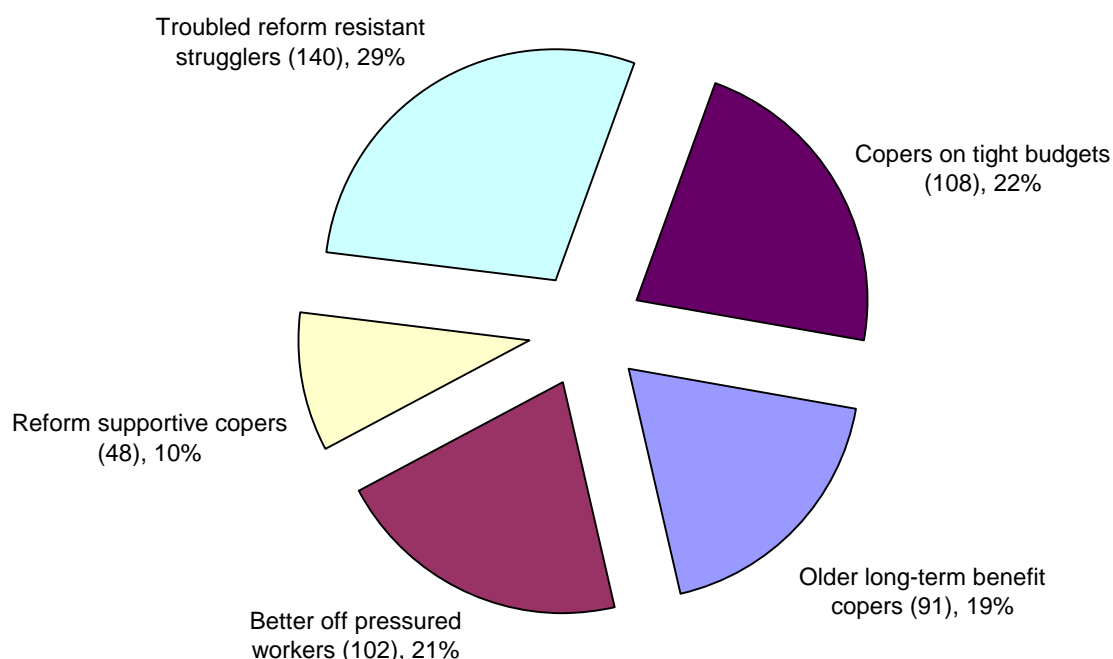
4.3 The impact on rental payments

The segment which is least able to cope with the challenges of the new regime accounts for a third of housing benefit payments to those of working age

The potential impact of the different segments on overall rental receipts for social landlords will in part depend on the share of rental income represented by each. It would appear that in fact the segment least likely to cope well with the transition to the new regime, the “troubled reform resistant strugglers” control a large share of rental receipts from housing benefit payments to those of working age, with this segment responsible for 33% of housing benefit payments. The segment with the highest

incidence of rental arrears, on the other hand, the “better off pressured workers”, who pay a higher proportion of their rents themselves, represent only 11% of housing benefit receipts. The “copers on tight budgets” and the “older long-term benefit copers” represent 24% and 21% of housing benefit payments to those of working age while the small “reform supportive copers” represent 11% of housing benefit payments.

Chart 21. Share of the value of housing benefit payments represented by the various segments

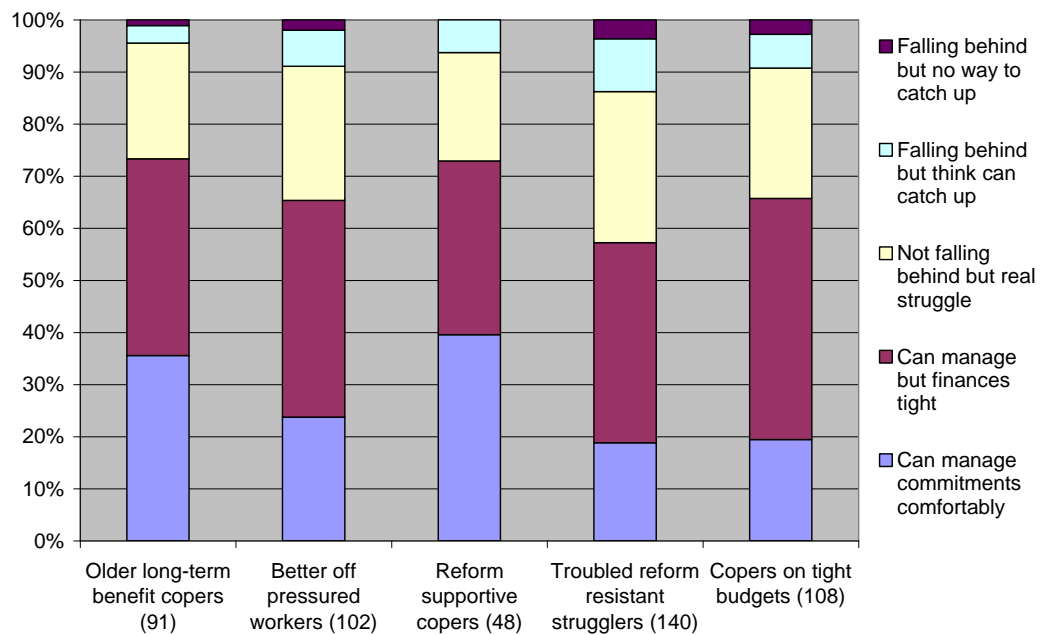


The segments least able to cope with personal responsibility for rental payment are already under significant financial pressure

It is clear moreover that the segments most likely to struggle within the new regime are already under considerable pressure. Among the “troubled reform resistant strugglers”, 40% say that they can manage outgoings and commitments but finances are very tight and 26% that although they can manage their commitments, it is a real struggle to get by. In the last twelve months, 35% have struggled to afford both fuel and food, while 39% have struggled to afford shoes and clothing and 31% transport. More than a third have had trouble affording essential major purchases such as a washing machine and 15% to afford credit and loan repayments.

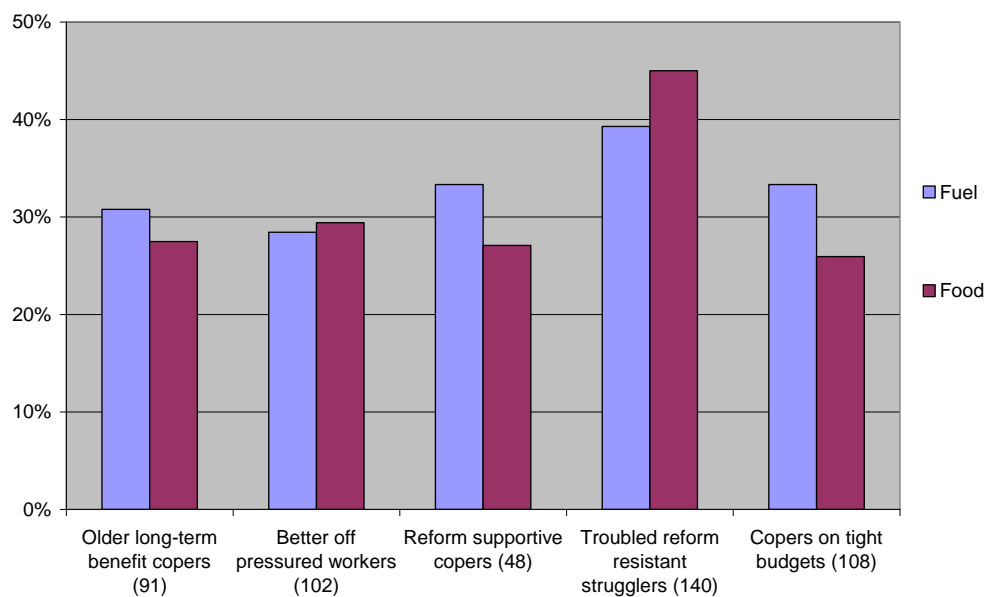
The segments most likely to struggle within the new regime are already under considerable financial pressure

Chart 22. Ability to keep on top of outgoings and commitments by segment



Base: 489 tenants of working age on housing benefit

Chart 23. Affordability pressures experienced last twelve months % fuel and food

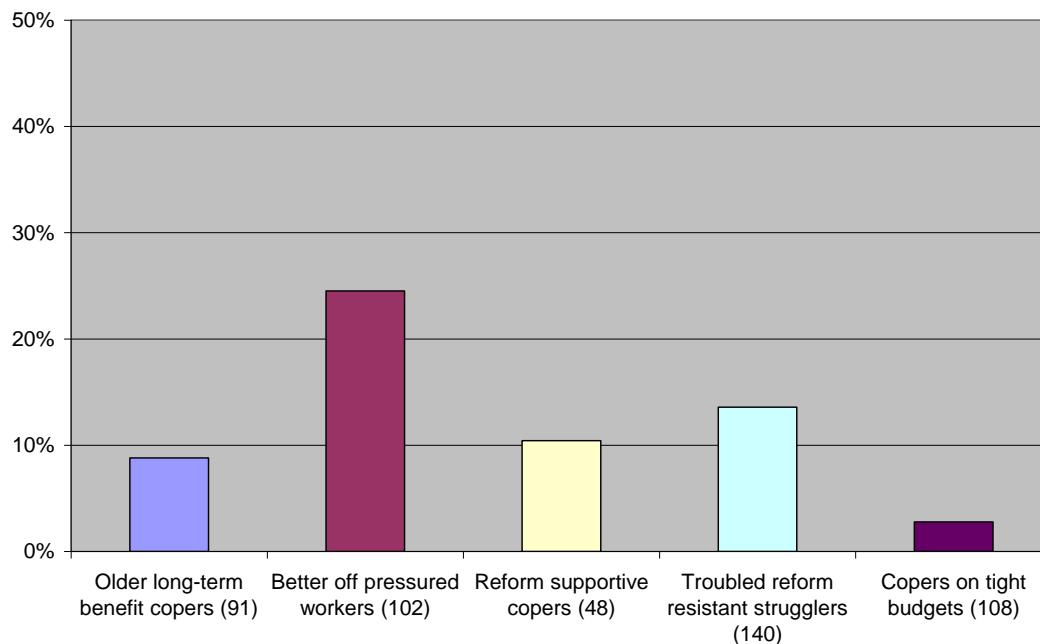


Base: 489 tenants of working age on housing benefit

Among the “better off pressured workers”, 19% have struggled to afford their rent. Among those now making personal contributions to rent, half of those in the “trouble reform resistant strugglers” segment have struggled to afford their rent in the last twelve months.

Half of those now contributing to rent in the most pressured segment are already struggling to afford rental payments

Chart 24. % experiencing affordability pressures on rent in last twelve months by segment



Base: 489 tenants of working age on housing benefit

A significant minority of social tenants would seem likely to require support or be candidates for exceptions if they are not to fail within the new regime

Overall, therefore, it would seem that a significant minority of tenants will require support in making the transition to the Universal Credit regime envisaged by DWP for vulnerable tenants. A smaller, but still relatively numerous, group would seem likely to benefit from being “excepted” from certain aspects of the new regime.

The segmentation described in this chapter provides indicators of which tenant types are most likely to struggle and the kind of support they are likely to need. The issues and challenges faced by the most troubled segments most at risk of failing in the transition to the new regime are clearly multi-dimensional and will require wide-ranging support.

The segmentation also indicates that the number of tenants likely to require support and exceptions is expected to be relatively substantial, being in the region of a quarter of all tenants.

5.0 Conclusions and recommendations

5.1 Conclusions

There would appear to be a number of risks to the successful implementation of Universal Credit

The evidence suggests that there are a number of risks to the successful implementation of reform and the achievement of its objectives of stimulating greater participation in employment and thus reducing poverty and increasing social mobility. These risks hinge primarily on claimants' ability to cope with the greater personal responsibility for handling larger sums of money than they have been used to historically and the requirement to do so over a much-extended period of time.

The regime will require social tenants to move away from current coping strategies intended to minimise the risks of living on a low income

The regime will require many social tenants, to move away from an approach to managing their money that has evolved over time to minimise the risks of living on a very low income. This rests primarily on managing over very short periods of time and managing in cash, to mitigate the risk of running out of funds and to enforce the discipline of spending only what funds are available.

A significant minority of social tenants would seem to be at risk of failing within the new regime, incurring both hardship and risks to their financial security

Some tenants now managing weekly will be able to manage the transition to monthly payments without undue difficulty or hardship. The evidence suggests, however, that a significant minority of social tenants, at least a quarter of the total, and potentially more, will struggle to manage over an extended period – “juggling” the finances, “doing without” and cutting back on food being viable strategies for a day or so a week but not possible for four or five days at the end of the month. There is a real risk both of undue hardship and of tenants “dipping into” funds that should be allocated to other purposes, such as rent, and thus undermining their housing security.

There is also a risk of driving an increase in borrowing as tenants seek to bridge cash flow crises and make good rental shortfalls

There is also the risk of driving an increase in borrowing, as tenants seek to bridge the cash flow crises and rent shortfalls that are likely to arise towards the end of an extended budgeting period. This in turn is likely to drive an increase in problematic debt and financial distress. The evidence suggests in any case that problematic debt and heavy use of credit are strongly correlated with rental arrears.

A significant minority of tenants may find it difficult to prioritise rental payments

Some tenants similarly will be able to manage direct payment of the rental element of Universal Credit and to take personal responsibility for payment of their rent. It is clear, however, that, as with budgeting over an extended period, a significant minority of tenants will find themselves unable to prioritise their rent within their, in some cases significantly reduced, budgets and will run the risk of falling behind with their rent and

on other commitments. The background of an increased requirement for personal contributions to rents will amplify any difficulties that arise, with it being clear that those currently having the greatest personal responsibility for paying their rent are also those where rent arrears are concentrated.

Those least able to manage monthly payments and personal responsibility for rent are the most disadvantaged and are those already struggling financially

In the case of both monthly payments and direct receipt of housing benefit, those least likely to manage over an extended period and least able to take personal responsibility for managing rental payments will be the most vulnerable and disadvantaged tenants.

Risks are not only to tenants' financial welfare but also to their ability to move into work and to the success of the Universal Credit regime

There is the potential for these negative outcomes to have an impact on vulnerable tenants' financial security and wider financial well-being. They will also have a negative effect on the success of Universal Credit and the ability of social tenants to move into work.

There is a need to arrive at a definition of vulnerability that takes in the full range of factors likely to compromise successful transition to the new regime

There is a need therefore to arrive at a definition of vulnerability that takes in the full range of factors which will act to compromise tenants' ability to cope within the new regime. If vulnerability is to be meaningfully captured, indicators of vulnerability will need to include factors such as problematic credit use or a lack of financial capability, illiteracy and innumeracy as well as more obvious markers of vulnerability such as mental health issues, drug or alcohol abuse, homelessness and so on.

Effective mitigation of the risks to the success of welfare reform will require a realistic recognition of the scale of support and exceptions required

It will be important also to recognise that, if the risks to successful transition to Universal Credit and the new regime are to be effectively mitigated, a realistic definition of vulnerability will need to be drawn fairly widely and as a result will take in relatively large numbers of individuals. A significant minority of social tenants are likely to require a degree of support in the transition to Universal Credit. Equally, at least at the outset, exclusions will need to take in a significant minority of tenants who will otherwise be set up to fail in the new regime.

Different tenant groups will require differing degrees of support to address the various and complex barriers to effective transition to the new regime

It will be important to recognise that different groups of tenants will require different degrees and types of support. The segmentation developed for this project provides both an indication of the likely needs of different segments, the degree of support likely to be required as well as the scale of need for support through transition to the new regime and for exclusion from certain aspects of it. In some cases tenants will require support in building basic numeracy and literacy skills, as well as enhancing their financial capability and budgeting skills. In other cases, individuals will require support to move into banking, get online or to set up payments. There will also be a

need for initiatives to support saving and managing credit effectively, recognising that the balance of costs and risks for those on very low incomes may mean that mainstream credit may not be either a cheaper or low risk choice. Advice solutions and support will need to be framed specifically for the needs of those on very low incomes and may need to be both intensive and tailored to the needs of individuals. Digital delivery will not be appropriate in a significant number of cases.

It would seem counter-productive to add additional risks for those already struggling with rental payments or problem debt

There will also be instances where if finances are to be effectively stabilised, problematic credit and debt will need to be addressed. In some cases, for example where individuals are already struggling with bills and commitments and/or are falling behind on their rent, it will be counter-productive for individuals to be paid rent direct until their underlying financial issues are addressed. Similarly, some of the more vulnerable tenant groups who will struggle to manage over an extended period will need to be excepted from the monthly payment regime.

Provision will need to be made for alternative channels for those likely to struggle online or with banking

The regime is intended to be managed primarily online and for payments to be made into bank accounts. It will be important, however, to recognise that there is a significant minority of social tenants who are not only unbanked but also either digitally excluded or lacking the ICT or numeracy/literacy skills that would be required to negotiate the system effectively. Provision will need to be made not only for alternative channels where individuals are unlikely to manage online but also for enhancing digital and banking inclusion.

Consideration will need to be given to how most effectively to handle tenants with a history of falling out of banking or of high exposure to penalty charges

In considering whether individuals have a bank account into which payments can be made, it will be important to take into account whether individuals have an account that is viable in a meaningful sense. Consideration will need to be given to how most effectively to manage those who have a history of falling out of banking or who have a track record of excessive exposure to penalty charges and thus disproportionate costs.

It will be important to be realistic about the limits of what can be achieved with new financial products, especially within the timeframe for transition

Efforts on enhancing financial inclusion and financial capability and the development of new banking and affordable credit products will undoubtedly be important in supporting tenants in managing larger sums over longer periods. It is important, however, to be realistic about the limits of what can be achieved in the relatively short timeframe for the transition to the new regime and to acknowledge that the issues around financial inclusion are complex and require nuanced approaches. The history of the outcomes of a variety of financial inclusion initiatives demonstrate the need to recognise that neither banking inclusion nor affordable credit will of themselves necessarily deliver either reduced risk or lower costs for vulnerable claimants. The evidence suggests rather that banking inclusion and bank-based channels do not necessarily result in cost savings and can be difficult to manage for those on very low incomes.

“Jam jar” and budgeting accounts would seem likely to be helpful in supporting social tenants to allocate their funds to various commitments and in achieving some separation between funds required for bills and rent and those available for spending. However the reality is that, due to a lack of commercial appetite, these accounts are not going to be widely available, at least in the short term, and thus will have a limited role in supporting the transition to Universal Credit. Similarly, while it is to be hoped that, longer term, a scaled up credit union movement will be able to offer a wide range of modern financial products to social tenants, including low cost credit and accessible savings, for the present, penetration of credit unions among social tenants remains very low and few credit unions have the capacity to offer either the new banking accounts or affordable credit on any scale.

Risks arise also for social landlords whose ability to invest in communities or to support tenants into work may be compromised by disruption to revenue flow

Risks arise, however, not only for claimants and social tenants and their finances and well-being but also for social landlords. The evidence is that a significant minority of tenants, controlling some 30% of housing benefit receipts, would appear likely to struggle to cope within the new regime. Moreover, it would seem likely that since rental arrears are already concentrated among those who make personal contributions to their rent, direct payment to tenants will work to increase the level of late and missed rent payments and more serious rental arrears. Taken together this would seem likely to have a disruptive impact on landlords’ cash flows and a negative impact on receivables and bad debt, increasing both tenant attrition and landlords’ costs. Costs are in any case likely to be increased by the need to invest in building tenants’ financial resilience and readiness for the new regime.

There is a clear risk to social landlords’ ability to invest in new homes and social housing communities and in supporting tenants into work

Against this background there is a risk that landlords’ ability to invest in developing new homes and creating vibrant social housing communities, in supporting tenants into work and in delivering the Government’s Affordable Rent agenda could be compromised.

There would seem an urgent need to identify vulnerable tenants and establish the scale of the need for support and exceptions

For both Government and social landlords there would seem an urgent need to work with all stakeholders to identify vulnerable groups in advance of the implementation of the new regime and to map their needs and the degree of support that vulnerable tenants will require. It will also be important for all stakeholders to work collaboratively to identify those tenant types for which there need to be exceptions to aspects of the Universal Credit regime and to establish how many people require exceptions. In considering tenants’ need for support and the evidence of the impact of welfare reform changes arising from the Demonstration Projects it will be important to consider how stress arises over the course of the year, particularly at peak times of stress such as Christmas and return to school.

A wide range of initiatives to strengthen the financial resilience as well as the independence, inclusion and financial capability of tenants is required

Above all, if risks to the effective execution of welfare reform are to be mitigated and the potential for an increase in employment among social tenants realised, all parties,

Government, social landlords and other stakeholders need to come together to develop strategies that will build tenants' financial resilience and their ability to thrive and benefit from the new regime.

Government, working with social landlords and other stakeholders, will need also to invest in building the financial capability and resilience of different groups of tenants, prioritising those at greatest risk in the transition to the new regime. A mix of financial inclusion initiatives will be increasingly important, ranging from financial education, to provision of debt advice for those struggling with problematic credit and debt to initiatives focused on supporting people into banking and helping people manage accounts and budgeting in a way that minimises the risks both to tenants' financial well-being and their ability to pay their rent.

5.2 Recommendations

- There would seem an urgent need for clarification and reassurance around the scale and extent of support that will be available to social tenants as they make the transition to the new regime.
- **A definition of vulnerability needs to be widely drawn and to take in the full range of factors that pose a risk to successful execution of welfare reform and tenants' financial well-being.** Risk factors should include not only narrow indicators of vulnerability such as mental health issues or learning disability but also a wider range of contextual issues such as lack of financial capability, problematic credit and debt and existing problems with meeting rental and other commitments.
- In defining the vulnerable population and evaluating their need for support in making the transition to the new regime, **it will be critical to success to accept that a realistic definition of vulnerability will involve a significant minority of social tenants.**
- **Support strategies should address the fundamental drivers of financial vulnerability** and risk to successful transition to the new regime. Support for building budgeting skills and financial resilience will need to address not only issues such as numeracy, literacy, financial inclusion and financial capability but also, more widely, issues around problematic credit use and debt that not only compromise financial stability but also undermine households' ability to move into work.
- **Support strategies for both budgeting capability and banking inclusion** and for the effort to support tenants into work **will need to be mindful of the risks associated with the move into banking and greater access to credit** and the potential for tenants to struggle with payment and banking channels that can give rise to disproportionate charges and a syndrome of escalating difficulty in meeting commitments.
- **Groups identified as vulnerable will need not only support to make the transition to the new regime but also to be phased into the new regime** if they are not to be set up to fail. Some individuals, for example, should be allowed to continue with weekly payments while the wider risks to effective management of their finances are addressed through a programme of support.
- **Where tenants are already struggling to meet commitments**, including rents, or where they have a long history of problematic credit use and debt, **it would seem counter-productive to direct larger sums to such individuals** in the form of rent payments than they have historically been used to, particularly where sums intended for rental payments or other bills cannot be effectively ring-fenced from

other flows through accounts. The evidence is that payments intended to cover rents will otherwise be diverted to other priorities or eroded by penalty charges.

- Similarly, **where tenants begin to struggle with rental payments** or present with difficulties in meeting other commitments, evidenced by missed rental payments or excessive exposure to failed direct debits, **it will be important to respond rapidly to the evidence of distress to prevent the build up of both a debt spiral and rental arrears.** In such cases, there should be provision for either a temporary or more permanent switch to payment of rent direct to landlords until the tenants' finances are stabilised.
- It needs to be recognised that **for some individuals at high risk of failure within the new regime, it will be appropriate to except claimants from both monthly payment and direct payment of the rental element of Universal Credit**, in some cases while support seeks to build financial resilience and capability, in others on an extended basis. The proportion of social housing tenants realistically requiring such exceptions is likely to be rather higher than the 10% the Government originally envisaged.
- Overall, if risks to the successful implementation of welfare reform are to be mitigated and outcomes for social tenants optimised, **a holistic and integrated approach is required to providing support and framing exceptions, one that is evidence-driven and rooted in the realities of the financial dynamics of living on a very low income.**