End the rent debt crisis: No home at risk
A recovery plan for private renters

- Suspend evictions for rent arrears
- Ensure the benefits system covers housing costs
- Introduce a Covid Rent Debt Fund
Summary

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Renters are facing rising levels of debt as a result of coronavirus, despite Government packages to protect incomes.

An estimated 1 in 3 private renters have lost income, and more than 500,000 households are in or at risk of rent arrears.¹

The coronavirus rent debt crisis is likely to get worse before it gets better, as support schemes are wound down and the economy recovers from the pandemic.

Generation Rent is calling on the Government to end the rent debt crisis and ensure no renter is at risk of homelessness as a result of the economic impact of coronavirus.

Our calls are as follows:

• **Suspend evictions for rent arrears**, to ensure that renters who have lost income due to the pandemic do not also lose their home.

• **Ensure the benefits system covers housing costs**, through restoring Local Housing Allowance to the median rent, removing benefit caps, expanding eligibility, and scrapping No Recourse to Public Funds.

• **End rent debt** through making £288 million of support available through a new Covid Rent Debt Fund to cover lost income.

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Introduction

In July 2020, as coronavirus restrictions were gradually being lifted, Generation Rent published proposals to address the significant levels of rent debt that were stacking up throughout the country.\(^2\)

Since then, much has changed – lockdown has returned, courts are considering evictions, more people have lost work or been put back on furlough, though the vaccines provide light at the end of the tunnel.

We have reviewed the impact of coronavirus on private renters in the past seven months and considered how the government must now act to put people back on their feet – and keep them in their homes.

Policy context

In March 2020, the Government introduced a range of measures to protect renters’ incomes, and to protect those in debt from eviction:

- A three-month moratorium on all evictions in the private rented sector (PRS), which was extended to 20 September 2020. All possession proceedings were suspended, meaning evictions could not take place. Lodgers were not covered by this scheme. This intervention prevented thousands of renters from losing their home in the middle of the public health crisis. While courts have reopened, there are still restrictions on what types of cases bailiffs can act in, meaning that most tenants are protected from physical repossession until 21 February.

  The Government also extended the notice period landlords must give to tenants, first to three months, then, from 29 August, to 6 months.

  The 6 month notice period will be in effect until at least 31 March 2021. However, the restrictions have not prevented arrears from accruing nor prevented notices from being served.

- The Government restored Local Housing Allowance (LHA) to cover the lower 30 percent of rents in a local area. LHA was previously not linked to actual rents, having been frozen since 2016. The standard Universal Credit (UC) allowance was also increased by £20. This move greatly improved the availability of affordable properties, particularly in cities with high rents. But many renters still face significant shortfalls, particularly those affected by the benefit cap, or those moving onto UC for the first time. Students and those with no recourse to public funds are unable to access support with housing costs.

- The Government introduced the Coronavirus Job Retention Scheme (furlough), which guaranteed employees 80 percent of their income, up to £2500 per month. However, the Treasury Select Committee identified that at least 1 million workers are ineligible for support, including new starters, the newly self-employed and freelancers.

\(^2\) [https://www.generationrent.org/the_government_has_protected_jobs_time_to_protect_homes](https://www.generationrent.org/the_government_has_protected_jobs_time_to_protect_homes)
Impact of the pandemic on private renters

Private renters’ incomes have been hard hit by coronavirus. Several surveys indicate that one in three private renter households lost income as a result of the pandemic and lockdown restrictions – through redundancy, reduced hours or furlough. Resolution Foundation polling suggests that some had returned to work by September, with private renters on reduced incomes down from 32% to 20%, though a larger proportion, 8%, had lost their job.\(^3\) With much of the economy locked-down again, the proportion of private renters on reduced income is likely to be at higher levels.

Two thirds of renters had no savings going into this crisis, leaving them vulnerable to economic shocks. At the outset of the pandemic, renters paid on average a third of their income on rent, compared with 17 percent for homeowners, and as a result are in a weaker position to manage an economic shock. Renters have been disproportionately affected by the pandemic compared with homeowners; research by the Resolution Foundation conducted in July 2020 found twice as many private renters had reported job losses since coronavirus restrictions came into place as homeowners.\(^4\) Court proceedings to evict tenants were paused between 27 March and 20 September 2020, but landlords could still serve notice in this time, and debt continued to accrue.

Many private renters who have lost income – whether they are on furlough or not – have been able to claim Universal Credit, which includes a housing element based on LHA. Between February and August 2020, there was a 36% increase in private renter households claiming either Universal Credit or the legacy Housing Benefit. The proportion of the private renter population relying on LHA stood at 42% in August – this rises to 51% among families with children.

Despite the restoration of LHA to the 30th percentile of local rents, many renters face significant shortfalls between the benefit they receive and the rent they owe. Those moving onto the system for the first time experience at least a five week wait for their first payment. And given that more than 30% of the private renter population relies on LHA, many live in homes which cost more than their benefit provides. In November, Generation Rent estimated that 538,000 private renter households in England had a gap between their Local Housing Allowance and the rent they owed. On average, LHA on a 2-bed home is £155 lower than the median monthly rent.\(^5\)

For renters with a shortfall, a Discretionary Housing Payment (DHP) is an option, but comparatively few appear to have had one. In the six months to 30 September 2020, local authorities had used just 40% of their allocation. This may be explained by councils deciding to tighten criteria for awards until the evictions and homelessness case load is clearer, and that in many councils the process of applying for a DHP is onerous for private renters.

An estimated 1.2 million private renter households have been left out of Universal Credit and DHP. Those not eligible for support include renters who are self-employed, students, those with no recourse to public funds, or with savings of more than £16,000.\(^7\)

Where furlough and increased welfare support did not cover the rent, the government encouraged landlords to “show compassion” to tenants in financial distress. Polling suggests that just half of landlords whose tenants had asked for help had agreed to any: 6% of private renters had enjoyed at least some rent relief, while 5% had been refused any flexibility at all.\(^8\)

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5. [https://www.generationrent.org/broken_benefits_system_leaves_renters_footing_the_bill_for_coronavirus](https://www.generationrent.org/broken_benefits_system_leaves_renters_footing_the_bill_for_coronavirus)
7. [https://www.generationrent.org/coronavirus_rent_arrears_analysis](https://www.generationrent.org/coronavirus_rent_arrears_analysis)
8. [Figure 4](https://www.resolutionfoundation.org/publications/coping-with-housing-costs-six-months-on/)
Some commentators predicted that the pandemic would cause rents to fall, therefore alleviating the stress for private renters. In recessions, rents usually fall in line with what renters are able to pay, but according to the ONS Index of Private Housing Rental Prices (IPHRP) rents have continued to rise nationally. Only a handful of cities – London, Birmingham, Reading and Edinburgh – have seen rents on new tenancies fall, according to Zoopla. And even in those places, renters who have lost income and claiming Universal Credit may struggle to pass affordability checks to secure a new, cheaper tenancy.

Respondents to Generation Rent’s August supporter survey were 50% more likely to be looking for a new home if they were finding it difficult to pay rent, but also 50% more likely to be finding the search difficult because costs were too high, or landlords were rejecting them. Many private renters who have lost income are therefore stuck paying unaffordable rents set before the pandemic.

A Ministry of Housing, Communities and Local Government survey, carried out in June and July 2020, found that 7% of private renters - 279,000 households - were currently in rent arrears, up from 3% in 2019-20. A further 9% of private renters said they were very or fairly likely to fall behind with rent payments in the next three months - representing approximately 290,000 households, making up 569,000 private renter households were behind on rent or at risk of arrears last summer.

Some groups were more likely than others to be in rent arrears. Across both private and social rented sectors, 10% of households were currently in rent arrears in July 2020, but this rose to 23% of Universal Credit recipients, 17% of people on furlough, 14% of BAME households and 16% of couples with children under 16. By November 2020, Citizens Advice estimated that the number of households in arrears stood at around half a million, with the value of their arrears at £360m.

https://www.gov.uk/government/statistics/household-resilience-study-wave-1
Rent debt causes immediate and long-term harm

Arrears are pushing renters into significant financial hardship. Due to the risk of eviction, rent arrears are classed as a ‘priority debt’ meaning those seeking professional help with debt are advised to prioritise paying down these debts ahead of other debts, such as consumer debts. As a result, renters are faced with the choice of either taking out loans to pay the rent, cutting back on other essentials, or risking homelessness. Evidence suggests those who can are dipping into savings. Research by the Resolution Foundation found that 22% of private rented households reported cutting back on other spending, 16% reported using savings, 9% reported borrowing to pay rent. The same survey found that 12% were behind on rent, suggesting that renters have been making sacrifices to prioritise rent. StepChange estimates that 4.2 million people in the UK have borrowed to make ends meet, most often using a credit card (1.7 million), an overdraft (1.6 million) or a high-cost credit product (980,000). Opinium polling for the Guardian conducted in April 2020 found that one fifth of struggling renters had skipped an essential bill such as food and heating.

Even if eviction has been avoided, for example if the tenant has already left the property, rent debt can continue to cause long-term financial harm. Landlords are entitled to deduct arrears from deposits at the end of a tenancy, which makes moving home in the short term very difficult. For arrears outside of this, landlords can obtain a County Court Judgement (CCJ) as an initial step to claim back any rent arrears, which can last for up to six years and impede on a renter’s ability to apply for credit or a mortgage in future. County Court bailiffs can seize possessions to recover the debts. As landlords have also been hit financially by coronavirus, they may be more likely to use aggressive tactics, or the threat of them, to recover debts owed. Any strategy to reduce the burden of coronavirus rent debt must protect tenants from both the immediate risk of losing their home and the longer-term impact on their finances.

The comparatively weak financial position of renters relative to other tenures will make it difficult for many to repay debts, even when earnings are restored. ONS figures recorded rents at an all-time high in the year ending March 2020. At the outset of the pandemic, the median average rent for England was £700, and £1450 in London. Citizen’s Advice estimated that it would take the people they advise 7 years to pay off arrears owed due to the pandemic.

Repayments on top of ongoing commitments to pay rent will constitute an unaffordable proportion of earnings and have a knock-on effect on the cost of living. With the UK’s GDP having fallen by 9 percent in 2020 and the economy once again in lockdown, it appears unlikely that earnings will recover and increase in line with rent repayments. The measures proposed in this paper are designed to support private renters, both in and out of work, who would otherwise find themselves in problem debt. 

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16. https://wecarecitizensadvice.org.uk/3-signs-were-heading-into-a-rent-arrears-crisis-ea6f019abdd4
Defining problem rent debt

In devising solutions to rent debt, it is important to consider what level of arrears or suggested repayments are likely to cause financial harm to renters, and are therefore an example of problem rent debt. While there is a fairly clear case to make that arrears of over two months are a cause for concern, it is perhaps harder to establish whether a repayment plan is likely to result in unaffordable payments and insurmountable debt.

Defining problem debt is difficult; most debt charities suggest it is debt that is detrimental to the person attempting to pay it. However, there are accepted and widely used measures of housing affordability - anything over 33 percent of income is usually defined as unaffordable. So, for the purposes of establishing a problematic amount of rent debt, a renter is in ‘problem rent debt’ if:

a. They are already in arrears of more than two months
b. They are in arrears of less than two months, or have come to an agreement with the landlord to defer rent, but normal rent payments and any additional payments are more than 33 percent of their income

Many renters already spend more than 33 percent of their income on rent, with estimates ranging from around 33-40 percent nationally, to over 50 percent in London. For these renters any additional payments on top of their existing obligations would be classed as unaffordable and would therefore be addressed in the measures we have outlined below.
What tests should any new measures deliver on?

To reduce the burden of rent debt on private renters; either rent must be legally written off and no longer contractually due, or it must be paid. As rent is a contractual obligation, the Government has limited ability to alter the tenant’s liability to pay it, and depriving landlords of their ability to collect rent could be interpreted as an interference with property rights as set out in Article 1 Protocol 1 of the European Court of Human Rights (A1/P1 ECHR). However, simply paying all rent arrears that accrue due to the pandemic would cost billions and would risk artificially inflating rents further at a time when they could still fall. We have therefore proposed an approach that strengthens the safety net and therefore reduces the risk of arrears, removes the legal consequences of failing to pay rent for the tenant, therefore clears arrears, and allows landlords to claim for up to 80 percent of the total rent due since March, with the remaining 20 per cent written off.

Our tests

- Any intervention should ensure that renters who have lost income due to the crisis should not be burdened with debt that they are unable to pay or find difficult to pay, defined above as ‘problem rent debt.’

- Being in rent arrears and accessing support should have no impact on financial record of tenant, or their ability to rent again.

- Any intervention to reduce the burden of arrears should be legally sound, and interference with landlords’ income and property rights should be proportionate in relation to the clear public benefit of reducing the harmful impact of problem debt on renters.
Our solution

Our proposals would remove the threat of eviction, ensure the benefits system covers housing costs as we recover from this crisis, and clear arrears by enabling landlords to claim for lost income, in line with the furlough scheme.

The policies below should be introduced as a package. We recognise that many renters at risk of arrears will have used credit to pay their landlord, and will therefore be in credit card, overdraft, or similar consumer debt. We therefore recommend that the approaches considered below are implemented alongside a wider plan to tackle problem debt.

1. Prevent evictions for rent arrears

The stay on possession proceedings introduced in March 2020, and the restrictions on bailiff enforcement action have ensured that most at-risk renters have not lost homes thus far. However, with private renters who have been unable to pay rent since the start of the pandemic now at risk of being evicted again, the Government must take additional steps to protect those who are in debt.

The Government should amend the definition of ‘rent legally due’ under Ground 8 of Schedule 2 of the Housing Act 1988, and Schedule 15 case 1 of the Rent Act 1977 (from April 2020) to ensure that rent arrears cannot be used as grounds for eviction. Rent would still fall due under the tenancy agreement, but eviction for arrears accrued due to coronavirus would not be a legal option. CCJs should not be issued for arrears built up due to coronavirus. The government should also suspend all evictions using Section 21.

2. Ensure the benefits system covers rent costs

The most effective and sustainable method for preventing further arrears from accruing is to ensure that Universal Credit covers housing costs for those who need it. Generation Rent joins a wide range of debt, housing and anti-poverty charities, and the National Residential Landlords Association, in calling on the Government to ensure that the safety net covers housing costs for those who have lost income due to coronavirus, through:

- Restoring LHA to median local rents
- Removing the benefit cap, which prevents many renters from accessing higher LHA rates
- Ending the five week wait for a first Universal Credit payment
- Suspending No Recourse to Public Funds
- Widening eligibility, to include students and those with savings above £16,000

Ensuring that the benefit system covers housing costs will prevent further arrears from building up and will prevent homelessness on a mass scale.

Increasing LHA to the 30th percentile has resulted in a significant increase in the number of affordable homes. Analysis by Crisis found that restoring LHA to the 30th percentile increased the availability of affordable homes tenfold in some areas of the country. However, this

https://www.crisis.org.uk/media/242274/cr0432_home_for_all_campaign_policy_briefing.pdf
would have been an appropriate measure in good economic times. When millions more are in financial distress, and rising numbers are relying on LHA to keep a roof over their head, rates need to be sufficient to cover a larger slice of the rental market. Raising LHA to the median will ensure that as many private renters as possible will not need to worry about arrears while the economy gets back on its feet.

The benefit cap prevents many families from accessing higher benefit rates. The Resolution Foundation has found that a couple living with two children in a three-bedroom home will run up against the benefit cap in 107 out of 152 local areas in England and Wales. If LHA were increased, lifting the benefit cap is essential to ensure that those who needed it could access these funds. The increased costs of these benefits will be offset through reducing local authority spending on homelessness duties.

3. Introduce a new Covid Rent Debt Fund

Suspending evictions will keep renters in their homes and ensuring the benefits system covers housing costs will reduce debt for the majority of renters.

However, a final layer of protection is necessary for those not eligible for government support, unable to claim, suffering a significant shortfall, or in arrears for any other reason. It is also necessary to address rent debt already accrued. These renters will be among the most financially vulnerable in society, given their lack of support so far, and should not continue to shoulder the burden of the UK’s economic recovery from coronavirus.

Under this proposal, renters in arrears built up due to the crisis would have them cleared, as would those who have entered into a repayment plan that is unaffordable and that puts them in problem rent debt. Landlords and tenants would be advised not to enter into repayment plans that are unaffordable, instead opting to apply to our proposed new Covid Rent Debt Fund.

If a tenant is in arrears due to coronavirus and LHA does not cover some or any of the debt, landlords could apply for funds to cover up to 80 percent of their monthly income from rent as set out in the contract agreement. Landlords would be able to claim for a maximum of £2,500 per month through the scheme. This would put landlords on an equal footing with those who have been furloughed by their employer and will incur less cost to the Government than simply compensating landlords for all rent not paid. If landlords had multiple tenants in arrears, they could make multiple claims, provided the total amount did not exceed £2,500.

The money would be administered through a local authority fund. The Government has shown that it is able to act quickly to set up hardship funds when necessary and made £500 million available to local councils early in the pandemic for those in need of council tax relief. Due to the indeterminate length of lockdown and the scale of unemployment following the end of restrictions and job support schemes, it is difficult to estimate the amount of money needed to cover all debts for those in arrears. To fully compensate all arrears accrued as the UK recovers from coronavirus could be extremely costly. Because current rents were set before the economy started shrinking, covering them in full may also prevent a necessary downward correction in rent levels in the market as a whole from taking place.

We therefore suggest allocating a one-off fund which would cover arrears built up over a period of 12 months from April 2020 to March 2021. Based on recent estimates of 500,000 renters in arrears, owing an average of £730, a fund of at least £288m is needed. If implemented alongside our suggested reforms to Universal Credit (increasing LHA and expanding eligibility), fewer debts would accrue in future, and therefore the need for the Coronavirus Rent Debt Fund would reduce significantly.

Landlords would be able to apply via their local authority and would have to provide evidence that they had lost income. The local authority would then decide whether to make a payment, the length of this payment, and whether this should be backdated to when the arrears began. This scheme would put the onus on the landlord to claim for lost income, rather than on the tenant. The local authority would notify tenants that the claim had been made to ensure that rent would not be collected.

The local authority could decide to prioritise landlords who had:

- No income aside from rental income
- A mortgage
- Tenants in significant arrears (more than two months)

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This prioritisation would ensure that Government funds were targeted, and money was focused on the cohort of landlords who would otherwise suffer hardship, e.g., losing their sole source of income, or defaulting on mortgage payments. The proportion of landlords who would experience financial hardship if unable to recover arrears would be relatively small. Two thirds of landlords do not have outstanding mortgage commitments, and 65 percent of landlords have more than one rental property, with 17 percent of landlords owning five or more properties. Only 4 percent of landlords became a landlord to let property as a full-time business. For most landlords, income from rent makes up two fifths (42%) of their total gross income.20

The changes to Ground 8 of Schedule 2 suggested above would ensure that landlords could not pursue eviction for the remaining 20 percent of income lost. If Section 8, Ground 8 were removed as a mandatory ground for eviction, courts could be instructed not to grant possession orders, instead instructing landlords to claim through the Government’s scheme.

Any remaining debt should not count towards a tenant’s credit score and should not be considered arrears if and when the tenant is seeking a new tenancy. Depriving landlords of the right to collect the remaining 20 percent of income would be an interference with contract law and potentially at odds with A1/P1 ECHR. However, this is a relatively minor breach and is a response proportionate to the clear public benefit in ensuring renters are not subject to financial harm.
End the rent debt crisis: No home at risk

Example scenarios:

Note: these are hypothetical situations but based on actual LHA rates and median rents.

Scenario 1: A renter is claiming LHA towards their rent, but facing a shortfall between LHA and their housing costs

Sally rents a two bedroom flat in Manchester. She lost her job in April 2020, applied for Universal Credit, and received her first payment in May 2020. Her rent is £800, but since May she has only paid the £650.45 per month she receives in LHA. Since April, she has built up £1,345 in arrears. In this case, Sally is still paying 81 percent of her monthly rent, so her landlord would not be eligible for financial support.

Scenario 2: A renter lost income, and deferred a portion of rent payments, but has now found employment

Ian rents a three bedroom house in Cornwall with his family, at £1000pm. Ian lost his job, and agreed with his landlord to a rent reduction of £500, on the condition that this would be paid back. In July 2020, Ian found a new job, but on reduced hours, meaning his household income has not yet recovered to what it was before coronavirus hit. He has kept up with ongoing payments but has still not paid back the £1500 that he owes due to the rent reduction. Ian’s landlord would be able to claim back £300 per month for the 3 months Ian was paying reduced rent, to top their monthly income up to a maximum of £800.

Scenario 3: A renter has lost income and is not eligible for any support

Flora is self-employed and rents a room in a shared house in London, costing £750 a month. Her work dried up due to coronavirus in April. Due to her status as a recent freelancer, she has not been eligible for any support scheme. She is also not eligible for Universal Credit. In April, May and June she relied on savings and help from friends. From July onwards she has not made any rent payments. She is in over £5,000 of rent arrears and her landlord has served her an eviction notice. Her landlord is eligible for £600 a month to cover the loss of income under the scheme, which would total £4,200.
Conclusion

This package of measures would prevent renters from losing their homes, would clear debts that have already built up due to coronavirus, and would sustainably prevent those on lower incomes from accruing any further debt as the UK recovers from this crisis.

Allowing landlords to claim for lost income rather than simply paying off all arrears would cost the Government significantly less and would ensure support is targeted at those who need it. It would also ensure fairness in that landlords’ incomes would be protected at the same level as employees who have received support through the furlough scheme.

Renters would be able to remain in their homes, whilst paying what they could afford, and would not feel pressured into accepting repayment plans that would harm them financially.

Rent arrears result in long term hardship amongst those who are often among the most vulnerable in society.

As we recover from coronavirus it is essential that we build a fairer housing system that supports renters’ wellbeing instead of harming it and prioritises people’s financial security over profit and provides a safe and secure affordable home for all.
Generation Rent gives a national voice to the 13 million private renters across the UK.

Our mission is to ensure every home in the private rented sector is safe, secure and affordable.