Excess debts - who has fallen behind on their household bills due to coronavirus?

citizens advice

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Contents

1. Summary

Without further government help, huge numbers of people will be pushed into long-term debt as a result of coronavirus. Millions of people who have helped the country respond to the pandemic now face years of financial difficulty dealing with lockdown debts.

Overall, we estimate that 6 million UK adults have fallen behind on at least one household bill during the pandemic, including:

- 3.4 million on their mobile phone or broadband bills
- 3 million on their water bills
- 2.8 million on their energy bills
- 2.8 million on their council tax
- 1.2 million on their rent

3.9 million people have also fallen behind on either their credit card or overdraft repayments. This includes 3 million people who have fallen behind on their household bills at the same time.

Certain groups are far more likely to have fallen behind

People who are more likely to have been directly affected by coronavirus, to have played a key role in the response, or to have already been in a precarious financial situation beforehand are far more likely to have fallen behind on their bills:

- 1 in 5 (21%) key workers have fallen behind on their bills, compared to fewer than 1 in 10 (7%) people who are not key workers
- 1 in 4 (24%) people with caring responsibilities have fallen behind on their bills, compared to 6% of people without caring responsibilities
- 1 in 3 (31%) Black people are behind on their bills, compared to 1 in 8 (12%) white people.

People who have fallen behind on bills as a result of coronavirus have also faced wider difficulties

- 1 in 5 (18%) of people who have fallen behind on their bills have been unable to afford essentials, including 1 in 10 (9%) who have been unable to afford food.
- 1 in 5 (22%) have had to sell their possessions to make ends meet.
- 1 in 3 (30%) have had to run down their savings as a result of coronavirus.
- Half (56%) of parents who have fallen behind have had to cut back significantly on regular spending to ensure their children don’t go without.

Coronavirus has pushed many people into debt that will take them years to get out of. We estimate that it would take an average person that we help with debt problems at least 30 months to pay back just their priority debts, assuming that they spent their entire disposable income on repayments each month. **72% of the people we helped with debt advice between March and June 2020 had less than £100 left after paying their essential living costs.** This includes 40% of people who were on a negative budget - meaning they can't meet their essential living costs.[1]

Coronavirus debts have implications for the economy as a whole

Households that don't have enough disposable income to repay debts built up due to coronavirus will be forced to continue cutting back on essentials, to turn to other forms of debt, or face impractical or unfair insolvency measures. Without targeted support, high levels of debt will reduce consumer spending and could dampen the economic recovery - **every pound spent on debt repayments is a pound not spent consuming goods and services.**[2] Moreover, many creditors - including landlords, local authorities, and essential service providers - are likely to face high levels of bad debt resulting in higher costs for consumers and bill payers.

Government must step in with financial help for coronavirus debts

Without help, many households will be trapped in unfair, unaffordable debt for years to come. Sharing the financial burden of coronavirus fairly is a key part of 'building back better'[3]. The exact mechanism for such relief will vary across sectors, but should be approached with the following principles in mind:

- Financial support should be offered across sectors.
- Financial support should be offered as a one-off intervention to help deal with debts built up due to coronavirus.
- Help should be targeted at those who have borne the brunt of the financial impact of coronavirus.
- The costs of relief should be shared between the government, creditors, and individuals.

Help could include mechanisms, such as funding for local authorities to support people behind on council tax due to coronavirus, loans and grants for landlords and tenants to make up rent arrears and help people stay in their homes, and new guidance for banks to reschedule and provide relief for unaffordable lockdown debts.

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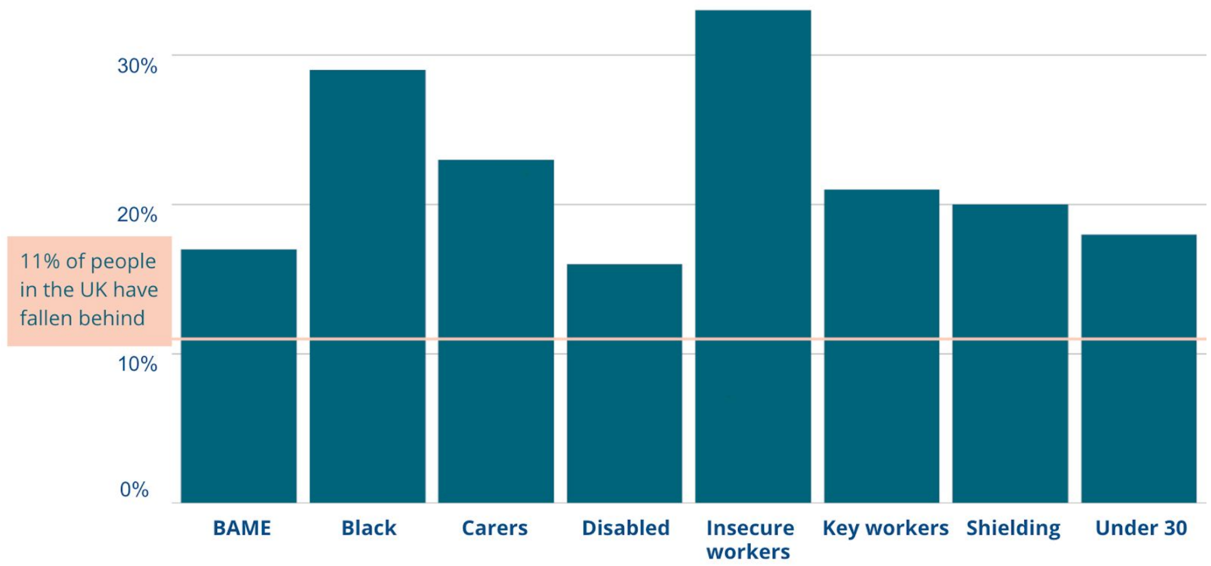
[1] More information on negative budgets can be found in Citizens Advice, Negative Budgets: A new perspective on poverty and household finances, February 2020
[2] Resolution Foundation, Hangover Cure: dealing with household debt overhang as interest rates rise, July 2014.
[3] UK Government, PM: A New Deal for Britain, 30 June 2020

2. Certain groups are far more likely to have fallen behind due to coronavirus

In total, 1 in 9 (11%) UK adults have fallen behind on their bills. However, this headline figure masks significant variation, with certain groups far more likely to have fallen behind compared to the UK average.

Figure 1: Some groups are more likely to be behind compared to the UK average



People in insecure work are far more likely to have fallen behind on their bills

Our analysis finds that working status is strongly correlated with being behind on household bills: **1 in 3 (34%) people who are in insecure work have fallen behind.**[4] While 9.6 million people have been placed on the government's coronavirus Job Retention Scheme (JRS)[5], we find that - for many people - this has not adequately protected their income and enabled them to keep up with household bill payments.

As a result of changes in working status or a reduction in income, these people are now far more likely to have fallen behind on their bills. For instance:

- 1 in 3 (30%) people whose hours have reduced have fallen behind
- 1 in 4 (27%) people who have lost any income have fallen behind, rising to nearly half (46%) of those who have seen their income fall by 80% or more.

[4] We have defined those in insecure work as anyone who is either employed with an agency (N=987) and/or is on zero hours contract (N=741). There is considerable overlap between these two groups (total N=1199)

[5] UK Government, HMRC Coronavirus statistics, last updated 11 August 2020

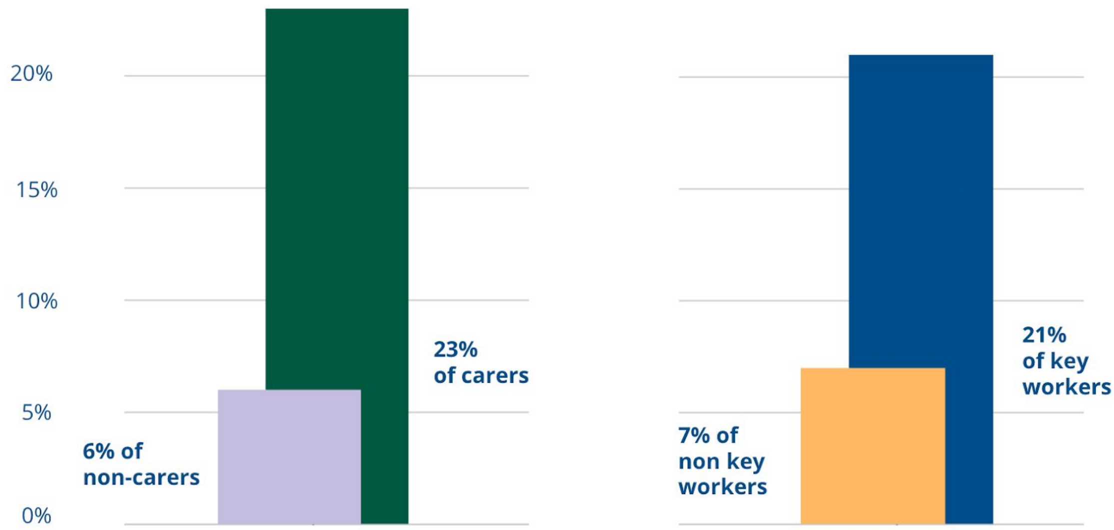
Additionally, 1 in 4 (26%) of those who have been made redundant have fallen behind. These figures draw attention to the fact that many people haven't been able to weather a drop in income - often with government support.

People who played a key role in responding to coronavirus have been more acutely affected

The impact of coronavirus has not been felt equally. Some people have played a greater role in responding to the crisis, for instance through caring for others or by working in a sector that was judged as critical to the coronavirus response. Our analysis shows that, not only have they been at the forefront of the response, they have also disproportionately shouldered the financial burden.

- 1 in 5 (21%) key workers have fallen behind on their bills, compared to 7% of people who are not key workers.
- 1 in 4 (23%) people with caring responsibilities have fallen behind on their bills, compared to 6% of people without caring responsibilities. This rises to nearly 1 in 3 (28%) of those who care for someone older.

Figure 2: Key workers and people with caring responsibilities are far more likely to have fallen behind on their bills



People who have been directly affected by government advice are more likely to have fallen behind

People who are ‘clinically extremely vulnerable’ from coronavirus were advised to take extra precautions during the lockdown period.[6] This ‘shielding’ group are far more likely to have fallen behind on bills, with **1 in 5 (22%) people in the shielded group falling behind**, compared to 6% of people who are not shielding or at ‘increased risk’.

Case study

Alesha is a young, BAME single parent to 2 children. Alesha was shielding, but was not eligible for furlough due to starting their job only shortly before shielding began. Alesha was sent home with only 2 weeks pay and was already claiming Universal Credit alongside their wages. Due to their lost work income, Alesha’s existing council tax, water, and payday loan debts have worsened. Alesha owed a total of £3,000 when they visited Citizens Advice for support with their debts.

BAME people and younger people are more likely to have fallen behind

There is considerable evidence that coronavirus has had a disproportionate impact on people from BAME backgrounds.[7] Our analysis also shows that BAME people - in particular Black people - are more likely to have been impacted financially. **1 in 3 Black people (31%) have fallen behind on their bills as a result of coronavirus**, compared to 1 in 8 (12%) white people.

Case Study

Jephté is a BAME client who has agreed repayment plans for council tax debt and a housing benefit overpayment. As a result of coronavirus, Jephté is struggling to budget and maintain their ongoing debt repayments. The mother of their children has been unable to work during lockdown, which has meant Jephté’s outgoings have increased in order to support them. Jephté is finding it extremely difficult to manage

[6] The government defines those who are ‘extremely vulnerable to the coronavirus, and therefore in a ‘shielded group”, as:

- Solid organ transplant recipients
- People with specific cancers or who are undergoing treatment for cancer which compromises their immune system
- Those with severe respiratory conditions
- Those with rare diseases and inborn errors of metabolism that significantly increase the risk of infections
- People on immunosuppression therapies which significantly increase risk of infection
- Women who are pregnant with significant heart disease

[7] Public Health England, Beyond the data: Understanding the impact of COVID-19 on BAME groups, June 2020

financially. Jephté also works in a care home with confirmed coronavirus cases, which is causing them considerable stress and anxiety.

Coronavirus has also revealed stark intergenerational inequality, with younger people far more likely to have fallen behind. **1 in 5 (20%) people aged 18-34 are behind on their bills, compared to fewer than 1 in 10 (8%) people aged 35 or older.** Young people are less likely to have built up savings to weather a short-term shock to their income, and are also more likely to have higher housing costs and to be in insecure work.

Six million people have fallen behind on their household bills due to coronavirus

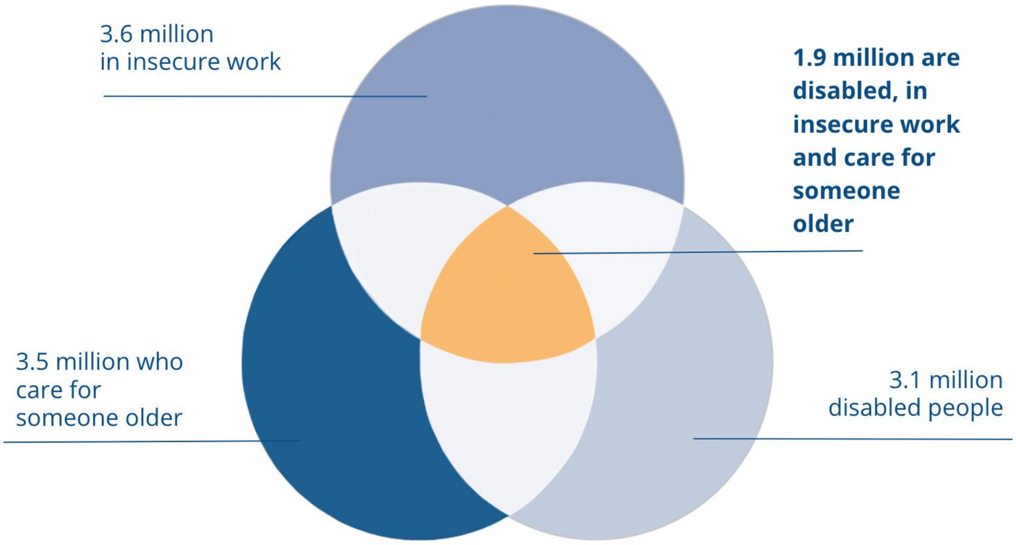
Looking just at the group of people who have fallen behind on a bill due to coronavirus shows how unequal the financial impact of coronavirus has been. Of the 6 million people behind on a bill due to coronavirus:

- 59% (3.6 million people) are in insecure work
- 43% (2.6 million people) have been furloughed
- 58% (3.5 million people) have caring responsibilities, including 45% (2.7 million people) who care for someone older
- 52% (3.1 million people) are disabled
- 48% (2.9 million people) are under 35.

Those characteristics have significant overlap:

- 36% (2 million people) are insecure workers who have been furloughed
- 45% (2.7 million people) are in insecure work while also having caring responsibilities, including 38% (2.3 million people) who care for someone older
- 48% (2.9 million people) have caring responsibilities and have been placed on furlough, including 39% (2.3 million people) who care for someone older
- 23% (1.4 million people) are disabled and aged 18-34
- 36% (2.2 million people) are in insecure work and are disabled

Figure 3: 32% of the people who have fallen behind on their bills are disabled, in insecure work, and have caring responsibilities for someone older



3. People who have fallen behind have low financial resilience

Many people who have fallen behind were already in a precarious financial situation before coronavirus. Experiencing a short, sharp drop in their income has forced many to cut down on essential spending, deplete limited savings, and take on more debt. Some groups have also been more acutely affected in the short-term.

Run down savings

1 in 3 (30%) people who have fallen behind on their bills had to run down their savings as a result of coronavirus, compared to 1 in 8 (12%) of those who are up to date. People who are behind on their bills have extremely low financial resilience to weather future income shocks; 1 in 3 (34%) have less than £400 saved. £400 is equivalent to just 2 weeks of the average rent in England and Wales.

Borrowed money

27% of people behind on their bills have borrowed from friends and family to make ends meet, and 20% have gone to a commercial lender. Some groups are more likely to have borrowed money. 1 in 3 (33%) people who have fallen behind and have caring responsibilities for someone older have gone to a commercial lender.

Fallen behind with existing credit repayments

People with low financial resilience often turn to forms of credit, including credit cards and overdrafts, when they are facing a shock to their income. 37% of people who are behind on their household bills have fallen behind with credit card repayments, compared to just 1% of people who are up-to-date on their household bills. 35% have fallen behind on overdraft repayments, compared to 1% of those who are up-to-date.

Gone without essentials, including food

Perhaps most concerningly, 18% of people behind on their bills have gone without essentials, including 9% who have been unable to afford food. Parents have been impacted particularly badly, with 80% of parents who have fallen behind reducing regular spending to ensure their children don't go without. This includes 56% of parents who have cut back significantly.

Case study

Harriet has mental health conditions and multiple physical health conditions requiring them to shield. Harriet was laid off from their zero hours job before shielding letters were sent. Harriet received a debt relief order last year, but due to Harriet's recently lost income, has been accumulating rent arrears and energy debt. Harriet received a Universal Credit advance after losing their job, but this did not cover their debts, and their Universal Credit payments were lowered when their child moved in with Harriet briefly to support them due to their coronavirus vulnerability. As a result of Harriet losing wages, the reduced Universal Credit, and struggling to meet their household bills, Harriet has claimed multiple food bank vouchers as they are struggling to meet their basic costs.

4. People will struggle to get out of debt

In response to coronavirus, government and regulators have taken steps to improve debt collection practices to ensure that repayments are affordable and consumers are protected from premature enforcement measures. These measures have helped to limit the impact of financial difficulties. As they are withdrawn, more help is needed to prevent a long-lasting legacy of coronavirus debt.

Many people will struggle to make repayments

Evidence from our advice sessions shows an increase in the number of people seeking debt advice who have a negative budget. A negative budget is where a debt adviser assesses that a client can't meet their living costs.[8] **When someone has £0 or less after their expenditure they are considered to have a negative budget. From March to June 2020, 40% of Citizens Advice debt clients had a negative budget.** The average depth of their negative budgets was £133.

While this group will not be representative of everyone in debt, data from our advice sessions shows that a significant number of people will be unable to afford to make any repayments without reducing their fixed expenditure - for example, rent and bills.

It isn't only people with negative budgets that will struggle to make repayments. 32% of all the people we helped with debt between March and June 2020 only had between £0 and £100 left after paying their living costs. The average level of disposable income among clients who had a positive budget was just £82 a month. This means their budgets are extremely tight, and a single unexpected expenditure, or drop in income, would likely have a severe knock-on impact on their ability to repay creditors.

This means that they will spend many years paying back small amounts, making it difficult for them to recover from the financial shock of coronavirus.

Additionally, their creditors will have to service their debts for a long period of time. **We estimate that it would take an average client 30 months to pay back their priority debts, assuming that they spend 100% of their disposable income on repayments, and don't pay back any of their non-priority debts.** This would leave them with poor financial resilience to weather another shock to their income. 1 in 5 (20%) people behind on bills said they wouldn't be able to self-isolate due to their financial situation.

Without government support, essential service providers will be left with significant levels of 'bad debt'. This will have a knock-on impact on economic recovery. In 2018, the National Audit Office estimated that problem debt results in knock-on costs to the

[8] More information on negative budgets can be found in Citizens Advice, Negative Budgets: A new perspective on poverty and household finances, February 2020

public purse of over £248 million every year, and over £900 million to the economy as a whole.[9] This is a cost we can ill afford in the wake of the pandemic.

In addition, literature suggests that high levels of problem debt dampens economic recovery in the wake of a recession.[10] Boosting consumer spending is a key part of the government's recovery strategy - but a large number of households will have little to no money left over to spend in businesses as lockdown eases. And firms saddled with large levels of 'bad debt' may struggle to stay afloat if consumer spending does not recover.

Existing sector-based debt support will not provide adequate protection

For most types of debt, there is some form of rules governing how it should be recovered by providers. The table below summarises those rules. In most instances, the rules set out that providers should seek to provide affordable repayment options and reschedule debts to enable people to pay them over a longer period of time.

However, there are limited rules to help people who are unable to make repayments. While in some situations, providers are encouraged to consider partial debt relief, that is never guaranteed and people face the risk of enforcement and recovery through court action.

Table 1: Existing rules governing debt collection across sectors

Sector	Number of people behind	Existing debt support
Telecoms	3.4 million	Ofcom's 'Treating Vulnerable Consumers Fairly' guidance sets out how telecoms providers can adopt best practice in complying with the General Conditions on Vulnerability.
Water	3 million	Ofwat and water companies have codes of practice dealing with repayment.
Energy	2.8 million	Ofgem rules require debt repayment plans to be offered based on ability to pay. Non-enforceable guidance sets out the steps companies should take to achieve this.
Council Tax	2.8 million	Local authorities have their own approaches to affordability.

[9] National Audit Office, Tackling Problem Debt, September 2018
[10] Resolution Foundation, Hangover Cure: dealing with household debt overhang as interest rates rise, July 2014.

Rent	1.2 million	Landlords can take their own approach to agreeing repayments.

Insolvency isn't a good solution for coronavirus debts

In normal circumstances, the most common way for people to get back on track when they can't repay their debts is to enter a debt solution. This could be either rescheduling repayments, for example by using a debt management plan (DMP). Or, declaring that they are insolvent - for example, by taking out a Debt Relief Order; entering bankruptcy; or agreeing an individual voluntary arrangement (IVA).

These solutions are accessed by individuals, usually after receiving debt advice and undergoing a formal assessment of their financial position. They can offer a fresh start and are a helpful remedy for many of our clients. But they can be expensive (bankruptcy, IVA), last a long time (DMP, IVA), and have serious long term consequences, such as the loss of assets (bankruptcy), and damage to credit scores (all solutions).

There are many improvements that could be made to debt solutions and insolvency mechanisms to make them more suitable for the current context, such as changing eligibility criteria, reducing fees and making long-term consequences less severe. But even with these improvements, they would be an inappropriate response for many people in the current context. Wide-scale insolvency would:

- Unfairly penalise those whose debts have developed, or worsened, following government advice
- Be slow and difficult to deliver
- Be costly to the Insolvency Service and to the Treasury
- Be resource heavy for the advice sector
- Dampen the economic recovery from coronavirus.

This makes insolvency mechanisms poorly suited to responding to coronavirus. **Individually assessed debt relief should be seen as a backstop for people who fall through gaps in protections, but it can't be the main source of support.** Without significant extra resources, the debt advice sector will struggle to cope with the volume of assessments needed, as would the court system. And even with extra resources, it would be impossible to deliver the quick help necessary to prevent the economic and public health consequences of a debt hangover.

5. This problem now needs new solutions

Huge numbers of people who helped the country respond to coronavirus face years of repaying debts built up during the lockdown. There is now a need for one-off financial support specifically designed to help those people.

Many of those currently struggling with household bills directly contributed to the national response to coronavirus, often at great personal cost. Others have had to take on debts as a result of a national lockdown that nobody could have planned for. Those debts will act as a drag on economic growth, damage living standards, and impose additional costs on creditors and consumers.

The pandemic is a national crisis, requiring a community response. The financial fallout is no different - it should be shared fairly across the population, not borne by the most vulnerable. Without further government support, household debts built up due to coronavirus will create long-term financial problems.

Existing insolvency measures are inappropriate for dealing with this crisis. They were not designed to deal with a sudden, acute crisis that impacts so many people at once, and are ill-equipped to provide the support that people need at this time. People pushed into debt during the lockdown shouldn't be facing the choice between an insolvency option and going without essentials.

Government and regulators need to take action to tackle debts incurred during lockdown. This is essential to 'building back better' and ensuring everyone is on a sure footing for the next stage of the recovery. Policymakers should keep the following principles in mind:

- **Financial support should be offered as a one-off intervention**. It should be targeted to help with debts built up due to coronavirus, for example by restricting relief to debts accrued during the nationwide lockdown. This will ensure the risk of 'moral hazard' is minimal, and that help goes to those who need it most.
- **Financial support should be offered across sectors.** From rent and council tax arrears to unaffordable loans and credit card bills, people in the UK have taken on a range of debts due to coronavirus. All sectors should look at how further relief could be provided to those people.
- **Help should be targeted at those who need it most.** Some groups have borne the brunt of the financial impact of coronavirus. Others will be least able to afford to bounce back from the costs of lockdown without help. Policymakers should prioritise these groups when designing solutions and consider how they can be best targeted.
- **The level of help and repayments should be administered depending on people's circumstances**. This will ensure the costs of relief are shared fairly between government, creditors, and individuals.

Different mechanisms will be needed for different debts

To put these principles into practice and prevent the financial impact of coronavirus causing long-term debt problems, sectors - where people have built up debts - will need to be ambitious. Measures to help people manage lockdown debt could include:

- **For rent arrears,** the government could top-up funding for existing mechanisms, such as Discretionary Housing Payments (DHPs) and Local Welfare Assistance (LWA). This additional grant funding would help to maintain tenancies where tenants have built up coronavirus-related arrears. Grants could be targeted at households in receipt of benefits, with loans available for people who aren't. Any loan should only be recovered affordably and converted to a grant where repayments aren't possible. Payments could be made directly to landlords and be made with provisions to ensure people are able to stay in their homes where that is in the tenant's interest.

- **For council tax debt,** councils could be provided with additional hardship funding by central government to expand Council Tax Support schemes, and to make up for revenue lost due to people struggling to pay their council tax bills due to coronavirus. Local authorities would be well placed to assess where that debt was unrecoverable and where they might be able to recover some of the unpaid bill.

  As well as those key household bill debts, large numbers of people have fallen behind on credit repayments and taken on additional borrowing to deal with lost income.

- **For consumer credit debts**, the Financial Conduct Authority (FCA) could build on its guidance requiring firms to offer payment holidays - amongst other protections - by requiring firms to offer debt relief or reschedule unaffordable lockdown debts. The government and the FCA could work with firms to ensure they are in a position to offer those services, for instance by enabling firms to automate their assessments of customer's ability to pay and need for debt relief.

Other essential service sectors - energy, water, and telecoms - should consider similar approaches. While the government considers how to 'build back better' and help the economy bounce back from coronavirus, it can't leave the most vulnerable people in society to pick up the nation's bill responding to the pandemic. Providing debt relief to people who have fallen behind on their household debt due to coronavirus can play a key role in providing a support package and ensuring the financial costs of coronavirus are shared as fairly as possible.

Appendix - Methodology

This report uses 2 main sources of evidence:

- A large, nationally representative survey; and
- Citizens Advice debt advice data.

To estimate the scale and distribution of excess debt, we used a nationally representative online survey. Between 29 June and 9 July 2020, Opinium conducted a survey of 6,015 UK 18+ adults, with an additional boost of 653 ethnic minority respondents. The overall sample was weighted to be nationally representative of the UK, while the boost was weighted to be nationally representative of UK ethnic minorities.

For discussion of debt clients, we used Citizens Advice data from adviser debt advice assessments. Advisers use a tool called the Standard Financial Statement (SFS), which is agreed between debt advice and financial service providers. The data is recorded from a completed SFS onto the Citizens Advice Advice Money Advice Recording Tool, where we can then access it.

For this report, we analysed all SFS' completed between 1 March to 30 June 2020. In this period, 7,691 clients who came to us for debt advice completed an SFS as part of their advice.

When identifying those in a negative budget, selection criteria was set to exclude those with an income or expenditure outside of £250 - £10,000. This was to ensure erroneous outliers were not sampled.