Life on less than zero

The coronavirus pandemic has posed serious financial challenges for people across the country.

Our previous research estimates that 6 million UK adults have fallen behind on at least one household bill during the pandemic.[1]

We are seeing this first-hand at Citizens Advice. Falling incomes and higher living costs mean an increasing proportion of the people we help simply cannot afford to make ends meet. Many others are on the cusp of being unable to cover their costs.

Government interventions have gone some way to support people during this crisis. But with more job losses expected,[2] further measures are needed to safeguard living standards and support the UK's economic recovery.

Citizens Advice data shows the impact of coronavirus on people's finances

Looking at people we help with debt:

40% have a negative budget. This has increased from 37% in 2019

75% of people in receipt of Universal Credit and Working Tax Credit would have a negative budget if the £20 uplift was removed

£20 is the average amount people have left over each month after covering their living costs - not including debt repayments

Many people with a negative budget face a vicious cycle of not being able to repay their debts or meet basic costs, such as rent or bills. This can lead to further debt problems, the risk of eviction or homelessness or having your energy supply cut off.

To help low-income households in the months ahead, the Government should:

1. Ensure our benefits systems provides adequate support
2. Improve support to pay energy bills
3. Provide financial support for people in debt

Negative budgets

A negative budget is where a debt adviser assesses that a client cannot meet their living costs. To do that, they use a tool called the Standard Financial Statement.[3]

Our data

Citizens Advice helps hundreds of thousands of people each year with debt problems. This research is based on comparing the profiles of 20,852 people we've helped across England and Wales in 2019 and 2020.

Negative budgets are a problem for people in work

58%

of self-employed people we help with debt have a negative budget, up from 40% in 2019

30%

of employed people we help have a negative budget

Some groups have seen their incomes hit harder by coronavirus

The people we help with debt have an average monthly income of £1,274, compared to a national average of £2,567.[4] That's **half as much as the average family's budget**.[5]

People with a negative budget have an even lower income - an average of £1,010 a month.

Fig. 1 Average disposable household incomes

Some groups have seen a particular impact on their incomes during the pandemic. Mirroring the national picture,[6] self-employed people we help with debt have experienced the most severe income shock. Their average monthly income fell by **£195**, making it harder for these households to cover their daily living costs.

With the ongoing jobs crisis, people are likely to find it harder to increase their income from work.

Sam's* story

Sam lives with her partner, Jack, and their two school-aged children. Sam works for the NHS, and Jack is self-employed.

Since the coronavirus pandemic began, Jack hasn't been able to work. They're waiting to start receiving Universal Credit, but in the meantime are left trying to get by on Sam's income alone.

This means Sam has had to take on extra night and weekend shifts to increase their income.

But they're still struggling to make ends meet without Jack's income and have started falling behind on bills like rent.

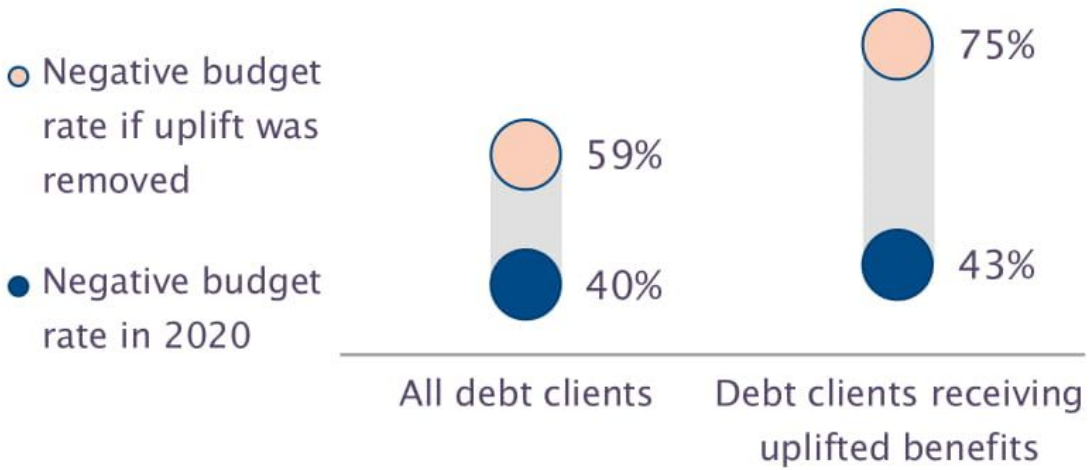
While their housing association landlord has been understanding and let them prioritise other bills, Sam knows that the rent arrears won't go away and will still need paying back. She doesn't know what they'll do long-term without Jack's income - even once they start receiving Universal Credit.

*All names are pseudonyms to protect the privacy of people we help.

Benefit increases have provided vital support

Our benefits system has been a vital lifeline for those affected by the pandemic. In April, the Government increased the value of the Universal Credit standard allowance and Working Tax Credits by £20 per week. The temporary uplifts to Universal Credit and Working Tax Credits have lifted many families out of a negative budget. **Maintaining this support will be crucial in helping to sustain households during this crisis, and beyond.**

Fig. 2 Impact of removing the uplift



75%

Of people receiving uplifted benefits would not have enough to cover their daily costs if the uplift was removed.

At the same time, **families who haven't benefited from the uplift risk being left behind.** The value of 'legacy benefits,' such as Jobseeker's Allowance and Employment and Support Allowance, have not been increased. Many people receiving these benefits were facing financial difficulties prior to the pandemic.[7] **But it doesn't have to be this way.**

13% of people we help with debt on legacy benefits[8] would be pulled out of a negative budget if the uplift was extended.

To ensure our benefits system supports low-income households, the Government should:

- Make the uplift to Universal Credit and Working Tax Credit permanent
- Extend the uplift to legacy benefits
- Extend the suspension of the minimum income floor within Universal Credit

Sanisha's story

Sanisha lives with her son and partner. She currently receives Universal Credit.

After paying her rent, priority debts, and other bills, she is left with £18 per month to spend on essentials like food and toiletries.

If the £20 a week uplift was taken away, it would leave her unable to cover her costs, and at risk of accumulating even more unmanageable debts.

Essential costs are rising and putting people under pressure

Whilst overall expenditure remains at similar levels to 2019, rising costs - likely driven in part by higher usage during lockdown - for some essentials (like utilities and housing) have made it harder for people we help with debt to make ends meet. For people we help with debt, on average compared to 2019:

Annual energy costs have risen by **£160**

Annual housing costs have risen by **£460**

Annual telecoms costs have risen by **£112**

Certain groups we help with debt are more likely to face higher essential costs. For instance, disabled people who have a negative budget are spending an average of **£54** more every year on their energy bills than non-disabled people.

These costs have a big impact on people's ability to get by. It can mean the difference between someone falling further into a negative budget and incurring additional debts, or keeping their head above water.

To help reduce energy bills for low-income households, the Government should build on existing work and:

- Build on the £0.5 billion committed from the Green Home Grant to ring-fence funding for net zero programmes for low income households, for example to improve energy efficiency or install low carbon heating
- Commit to extending the Warm Home Discount Scheme beyond 2021, ensuring that people who need this support most get it automatically

Jemima's story

Jemima and her family were already struggling to cover their costs before the pandemic.

This got even harder after her partner was put on furlough and lost 20% of his income.

With everyone having to stay at home, the family's energy bills increased to more than what they can afford.

This has left Jemima unable to afford other essentials like food and nappies without help. She's worried that she'll struggle to pay next month's energy bill as well.

The average person who we helped with debt between April - July 2020 had:

£900

of rent arrears. For people with a negative budget this increases to £910

£761

of council tax arrears. For people with a negative budget, this increases to £782

People will struggle to pay off their debts

The people we help are already struggling to pay off debts. On average they have just £20 a month after basic living costs that they can use for debt repayments.

Looking at certain types of debt, people we help with council tax debt would take more than 6 years to repay their arrears using all of their available income after covering their living costs. Similarly, it would take 7 years for people we help with rent arrears to pay these off.

And people who have a negative budget are in an impossible position. With no money to pay debts down, these can easily spiral out of control as arrears and additional costs build up.

For example, one missed council tax payment of £167 can escalate to over £2,065 in just over 2 months from bailiff fees and liability orders.[9] When **96%** of people we help with council tax debt have at least one other debt that they're also paying off, managing these spiralling bills becomes impossible.

These payment difficulties also leave local authorities short of vital funding and has been exacerbated by the impact of coronavirus. Local authorities will have a deficit of around £500 million next year due to unpaid council tax bills.[10]

To help low-income households repay their debts, the Government should:

- Provide renters behind due to covid-19 with emergency government grants and loans to help pay off arrears
- Provide local authorities with funding to make up for lost council tax revenue and amend regulations to help councils collect debt flexibly

Dari's story

Dari and his wife have been struggling to find work and are receiving Universal Credit.

They have a negative budget of £256 a month and as a result they could not afford to pay their priority bills like council tax.

Their original council tax bill was for £222. Dari was unable to pay this. Within 3 months the bill had risen to a total of £668 from missed payments alone, but he still had no money to make the payments.

The council sent a letter to Dari saying he needed to pay £445 within the next 7 days. If he failed to pay they would cancel his option for paying in instalments and he would become liable for the full amount. The council also said they would take steps to take Dari to court if he didn't pay.

He borrowed £445 from a friend to make this payment, but still has outstanding council tax debts that he is unable to pay off.

We need solutions now to avoid a national household debt crisis

Low incomes and high living costs mean a growing proportion of people we help with debt are unable to make ends meet. Often these are people in work, showing that employment on its own won't always be enough for individuals to avoid or get out of a negative budget.

Households in this situation may be forced to cut back on essentials or turn to other forms of debt, as well as risk facing insolvency measures.

This is a problem for people across the country.[11] Bold measures are needed if we are to avoid a national debt crisis in the months ahead. By acting now, people will be in a stronger position to cover their costs and pay off existing debts. This is money that instead can be spent on goods and services, ultimately supporting the UK's longer-term economic recovery.

4 ways to prevent people falling into debt, and protect people who already have

Make the £20 benefit uplift permanent and ensure support for legacy benefit claimants and self-employed people so that no one is left behind

Provide renters access to emergency loans and grants to help pay off arrears

Build on the existing support in place for low-income households with energy bills to prevent people falling into debt with their energy providers in the first place

Ensure support for local authorities to help people in financial difficulty, and use flexible council tax collection practices to stop people being trapped in council tax debt

References

[1] Citizens Advice (2020) Excess debts - who has fallen behind on their bills during coronavirus?

[2] Office For Budget Responsibility (2020) Coronavirus reference scenario

[3] Further information on the Standard Financial Statement

[4] Office for National Statistics (2020) Average household income, UK: financial year ending 2020 (provisional)

[5] Average monthly income figures for our debt clients are not equivalised, whereas the national average income figure is. This will likely artificially inflate our debt clients' income relative to the national average. We are unable to equivalise our debt clients' income and account for different household sizes because the Standard Financial Statement doesn't record information in the precise way required to use OECD-modified equivalisation methodology. A rough calculation suggests that if equivalised, the average income for our debt clients would be around £200 lower than the figure presented.

[6] Understanding Society (2020) COVID-19 Survey, Briefing Note (Wave 1: April 2020) The Economic Effects, Working Paper No 10/2020, ISER, University of Essex

[7] Citizens Advice (2020) Making ends meet

[8] The legacy benefits included in our analysis are: Income-based and Contribution-based Jobseekers Allowance, Income-related and Contribution-based Employment and Support Allowance, Income Support, and Working Tax Credit. Statutory Sick Pay is also included as it is aggregated with ESA in the Standard Financial Statement.

[9] Citizens Advice (2020) Wrong side of the tax

[10] IFS (2020) COVID-19 and English council funding: what is the Medium-term outlook?

[11] Citizens Advice (2020) Excess debts - who has fallen behind on their bills during coronavirus?