NATIONAL DEBTLINE

MONEY ADVICE TRUST

BUSINESS DEBTLINE | NATIONAL DEBTLINE | WISER ADVISER

ADVICE YOU CAN TRUST

A decade in debt

How the UK's debt landscape has changed from 2008 to 2018, as seen at National Debtline

September 2018

About the Money Advice Trust

The Money Advice Trust is a national charity helping people across the UK to tackle their debts and manage their money with confidence. The Trust runs National Debtline, offering completely free, independent and confidential advice on personal debt over the phone and online, and Business Debtline, the UK's only dedicated debt advice service for the self-employed and small business owners. Beyond our frontline activity, we work closely with government, creditors and partners to improve the UK's money and debt environment.

This report draws on our experience running National Debtline, which in 2017 helped 140,500 people on the phone and a further 43,500 through our webchat service, with more than 1.3 million visits to the National Debtline website during the year. Six weeks after receiving advice from National Debtline, 78% of callers made contact with their creditors themselves and 81% are more likely to repay their debts.

Find out more at www.moneyadvicetrust.org
and www.nationaldebtline.org

Contents

	Foreword	1
1.	Executive summary	2
2.	Introduction – a decade of change	3
3.	Who we help at National Debtline	11
4.	Consumer credit debts	19
5.	Housing debts	23
6.	Council tax arrears	29
7.	Energy arrears	32
8.	Water arrears	35
9.	Telecoms arrears	38
10.	Benefit and tax credit overpayments	41
11.	Summary of recommendations	44
	Methodology	48

Foreword

The 10 years since the financial crisis have been a decade of change and uncertainty for the UK economy, with far-reaching consequences for household finances.

Ten years ago a typical caller to National Debtline was struggling to pay credit cards, personal loans or perhaps a mortgage. Today, callers are struggling with smaller but trickier debts – often arrears on everyday household bills.

We first published a report on the UK's shifting debt landscape, Changing Household Budgets, in 2014. In the four years since these trends have continued, and in some cases accelerated.

Debt problems in the UK are not only changing, but growing. The number of people contacting advice agencies such as National Debtline is increasing significantly – with 2018 expected to see the highest number of calls to National Debtline since 2013.

Given these trends, it has never been more important to understand the complexities of the debt problems people are facing – and develop responses in policy and practice to address them. We hope that this report will help government, regulators, creditors and the advice sector to do both.

It is the nature of reports on problem debt that what follows may, at times, make for discouraging reading. However, there is also cause for optimism.

As we move towards the end of 2018, encouraging steps have already been made in stepping up the fight against problem debt in the UK. The creation of the new Single Financial Guidance Body, Peter Wyman's independent review of debt advice funding and plans for a new statutory Breathing Space scheme, in particular, provide a strong platform to deliver significant progress.

In this report we set out recommendations for government, regulators, creditors and the advice sector to consider – to help tackle the realities of problem debt today. Chief among them is the need for a new formal cross-government strategy to reduce problem debt, which we hope Ministers will consider.

Together, we now have the opportunity to change the story of the next decade – and make sure that in 10 years' time, we can reflect on real progress in the fight against problem debt in the UK.

Joanna Elson

Joanna Elson OBE

Chief Executive, Money Advice Trust

1. Executive summary

The decade since the financial crisis has been a period of change and uncertainty for the UK economy – and the impact of our changing economy on household finances has been profound. A prolonged squeeze on real wages, a changing jobs market and rising spending and borrowing have been joined by significant changes in government policy and in the regulatory environment for consumers.

These trends have brought about fundamental changes in the UK's debt landscape – and in the nature of debt problems that the people contacting National Debtline and other advice agencies are facing.

Compared to 10 years ago, National Debtline is now being contacted by more people at both extremes of the age spectrum, more people in rented accommodation and more people on lower incomes. The complexity of the debt problems we are seeing has also increased, with more people in vulnerable circumstances seeking advice.

Perhaps the most significant trend we have seen over the decade, however, is a significant increase in people calling whose budgets are fundamentally broken – with simply not enough income coming in to cover their essential spending.

Our advisers are now helping people with smaller, but trickier, amounts of debt – and we continue to see proportionally fewer people contacting us with consumer credit debts, with more now struggling with arrears on council tax, utilities and other everyday household bills.

For every one of these debt types – consumer credit, rent and mortgage arrears, council tax debts, energy, water and telecoms arrears, and benefit overpayments – the last 10 years have brought significant changes. In this report, we present a summary of these trends – together with evidence on the changing experiences of the people we help at National Debtline with each type of debt in that time.

We make a series of recommendations for government, regulators, creditors and the advice sector on how we can help reduce debt problems, and how we can better support people to tackle their debts when problems arise.

A decade in debt

Advisers at National Debtline are seeing...

NATIONAL DEBTLINE

SMALLER, TRICKIER DEBTS

MORE HOUSEHOLD ARREARS

RISING DEMAND

2. Introduction – a decade of change

Following a period of relative prosperity, in 2007, the UK witnessed its first run on a bank in 150 years. By 2008, the fall-out from the banking crash was felt across the country.

The years that followed have been challenging as central bankers and policy-makers explored new measures to deal with the new economic reality, and as households and firms adjusted their behaviours. A squeeze on living standards, a changing jobs market, a new direction for government policy, a shake-up of the regulatory framework and more recently, the uncertainty created by the UK's decision to leave the European Union, have shaped the decade and set the scene for the UK's debt advice landscape today.

A squeeze on real wages

A defining feature of the past 10 years has been a sustained squeeze on real wages. For much of the decade, prices rose faster than pay, particularly for essentials such as food, utilities and housing.

This started almost immediately after the 2008 crash, when wage growth fell sharply and remained subdued until 2015. A spike in wages and record low inflation then brought some ease to household budgets.

But come 2017, average total pay was still only £489 per week, £33 lower than the pre-downturn peak of £522 in February 2008,[1] and wage growth again trailed inflation. For public sector workers, pay restraint policies introduced in 2010 have added to this squeeze.

There are some signs that we have now turned a corner,[2] but pay growth remains low and some predict that the average pay packet in Britain in five years' time will still be more than £20 lower than it was before the start of the financial crisis.[3]

Overall, with a large part of the average salary spent on household items, this means that people's incomes are not going as far as they once did.

Bank of England trends and predictions in pay and inflation

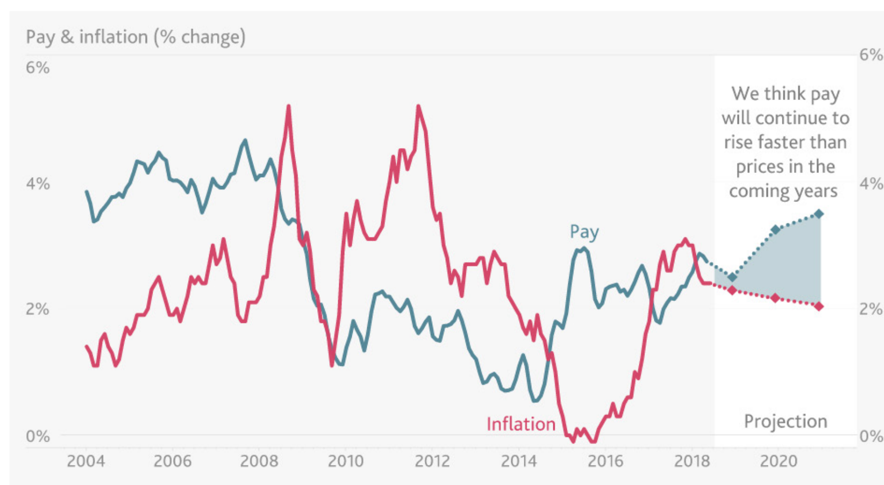


Figure 2.1

Source: Bank of England Inflation Report, August 2018

1. Office for National Statistics, UK Labour Market, May 2018
2. Bank of England, Inflation Report, August 2018
3. Resolution Foundation, The Living Standards Outlook 2018, February 2018

A changing jobs market

Alongside these trends in wages, sits a more heartening story of the changing jobs market. Although unemployment increased in the immediate aftermath of the financial crash, employment figures since then have been overwhelmingly positive, with the employment rate now at a record high and the unemployment rate at its lowest since 1975.[4]

Beneath these positive employment figures, however, lie other marked trends – the growth in people in part-time work, on short-term or zero hour contracts, and in self-employment. 6% of all employment contracts are now zero hour, representing 2.8% of people in employment.[5]

These are more likely to be younger people – 36% are aged 18-24 compared to 11% of all people in employment.[6]

The rapid growth of self-employment has also been a pronounced feature of the UK labour market, with the number of self-employed increasing from 3.3 million, or 12% of the labour force, in 2001 to 4.8 million, or 15%, in 2017.[7] While there are many hugely successful entrepreneurs and professionals in this category, people who are self-employed typically have lower earnings than employees – £240 a week for people who are self-employed compared to £400 a week for employees.[8] This group has also experienced an even larger earnings decline than employees since the financial crisis.

A further example of greater labour market flexibility that has received widespread attention in recent years has been the emergence of the so-called 'gig economy' – symbolised by tech giants Uber and Deliveroo – and leading to significant debate over what legally constitutes employment in this new economic paradigm. An estimated[9] 2.8 million people have worked in the gig economy in the last 12 months – with gig economy workers also more likely to be younger and living in urban centres, particularly London.

Of course, while some people welcome the flexibility these employment routes offer, for others these represent insecure incomes and a lack of immediate and longer-term financial stability.

Figure 2.2

Source: Office for National Statistics Labour Market Statistics, August 2018

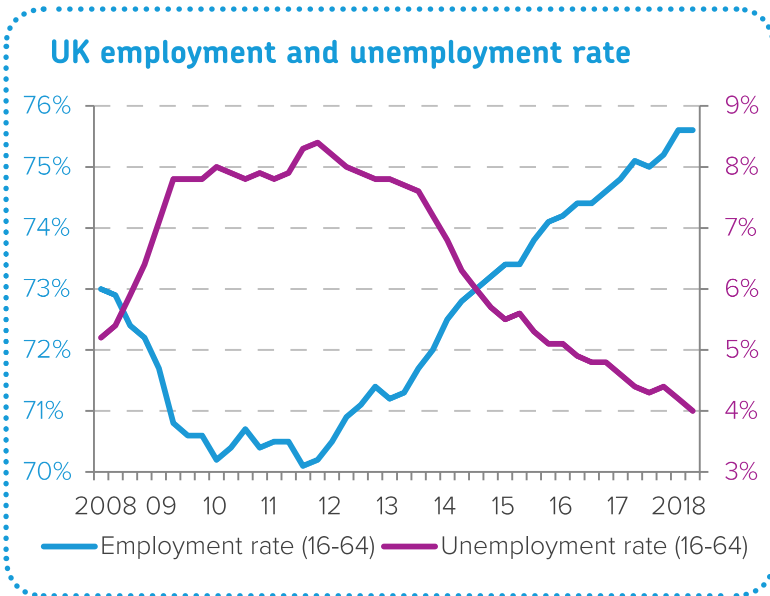
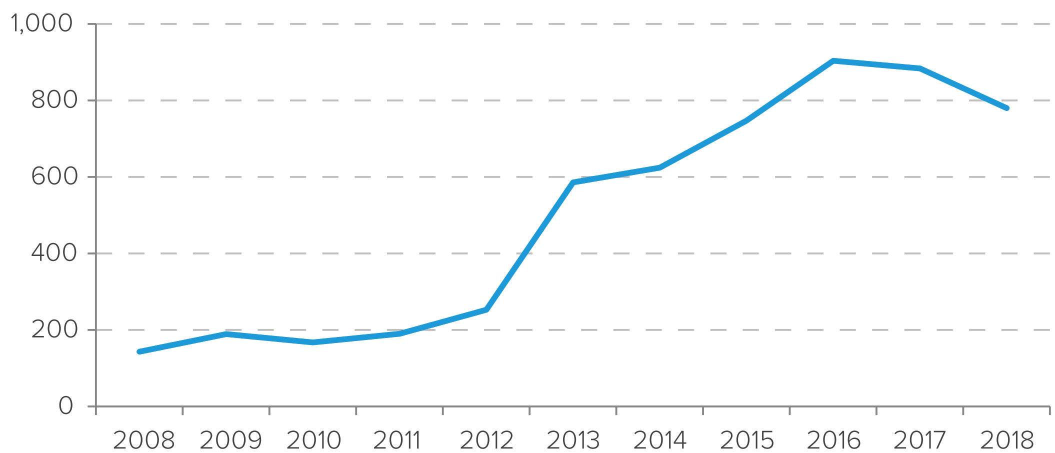


Figure 2.3

Source: Office for National Statistics, Labour Force Survey



4. Office for National Statistics, Labour Market Statistics, August 2018
5. Office for National Statistics, Labour Force Survey, November 2017
6. Office for National Statistics, Contracts that do not guarantee a minimum number of hours, April 2018
7. Office for National Statistics, Trends in self-employment in the UK, February 2018
8. *Ibid.*
9. Department for Business, Energy and Industrial Strategy, The chacteristics of individuals in the gig economy, February 2018

Households spending and borrowing more, and saving less

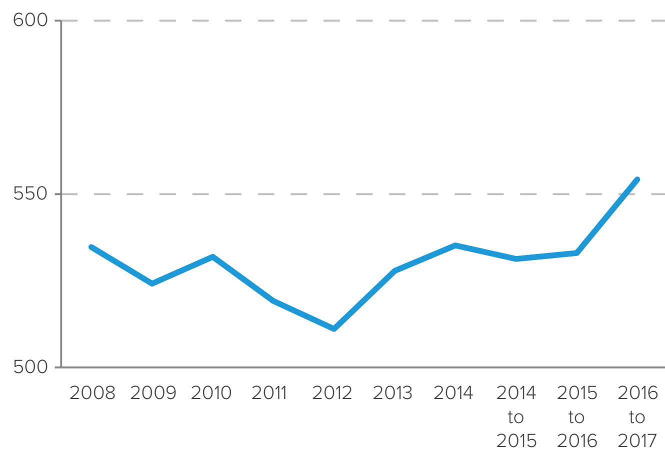
Household spending fell in the wake of the financial crash, but has been on the rise since 2013. In 2017 average weekly household expenditure reached £554, its highest since 2006.[10] Higher employment rates may have contributed to this, and rising inflation may have encouraged people to bring forward some purchases.

At the same time, falling interest rates, with the base rate hitting a record low of 0.25% in August 2016 – down from 4.5% in 2008 – has also discouraged saving and incentivised spending.

It is no surprise then that in 2017 the UK household savings ratio fell to 7%, the lowest level seen since 2006. With limited pay growth, very little to fall back on or set aside for unexpected costs and the need to cover living costs, it is perhaps similarly unsurprising that households became net borrowers in 2017 for the first time since data began to be collected in 1987.[11] Collective expenditure of UK households now exceeds income and many individual households are facing 'deficit budgets'.

Figure 2.4

Source: Office for National Statistics



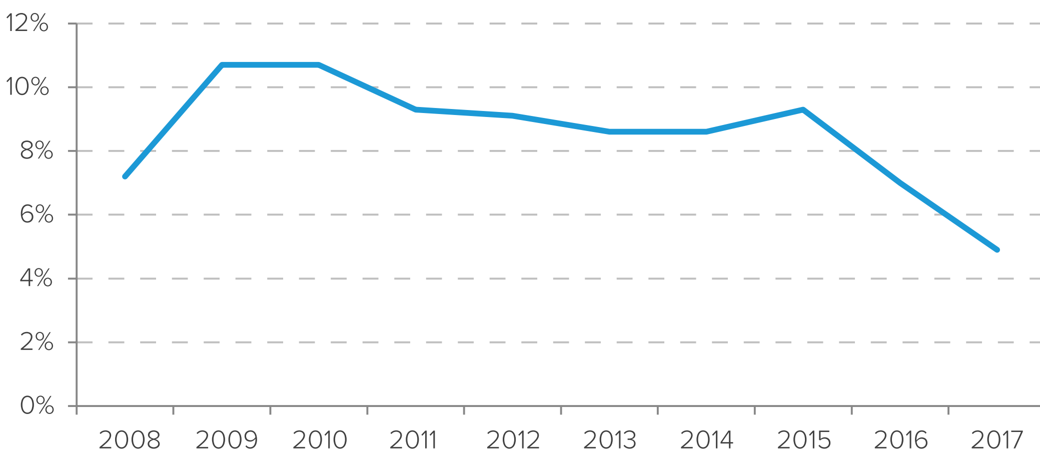


Figure 2.5

Source: Office for National Statistics

10. Office for National Statistics, Family spending in the UK for year ending 2017, January 2018

11. *Ibid.*

For many households, increased spending and use of credit in this low-interest climate will not present an issue. The availability of low-cost credit, along with incentives to buy goods and services in a competitive market presents an attractive and reasonable proposition. However, for some this 'credit bubble' presents risk, particularly in the event of an unexpected change in circumstances, and can leave people trapped in a debt spiral, using higher cost credit to cover the cost.

In 2000 households owed £675 billion in debt representing 93% of their disposable income. In 2017 this had risen to £1,732 billion, and 133% of their disposable income.[12] Forecasts project that the UK household debt-to-income ratio will gradually increase in the coming years, peaking at 146%, close to the 2008 peak of 148%, in early 2023.[13] Overall estimates put the number of over-indebted people in the UK at just under 8 million.[14]

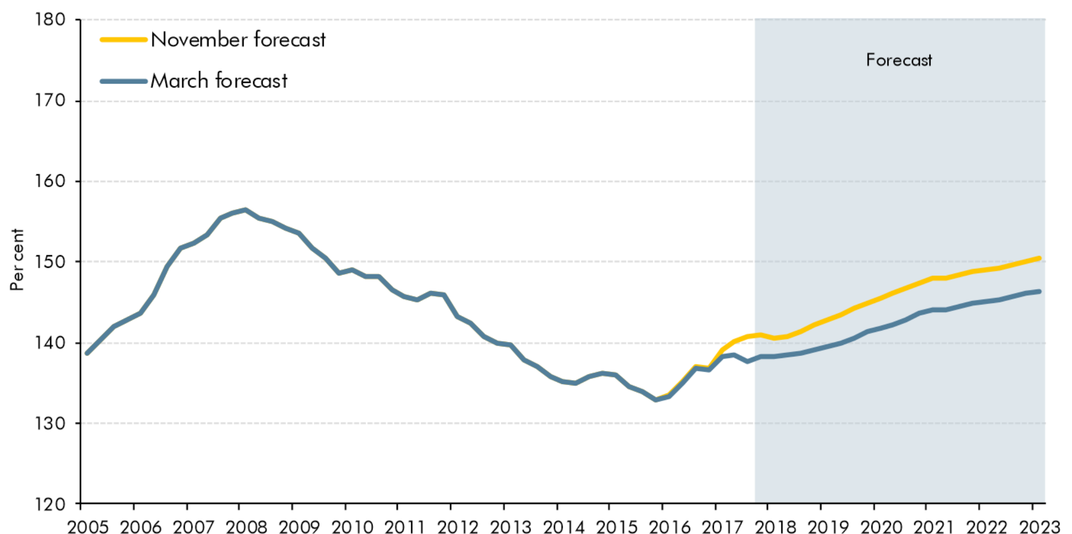
Low income households can be particularly vulnerable to over-indebtedness. While on the whole progressive policies such as a higher minimum wage have benefited this group over the past decade,[15] they are typically subject to a higher than average rate of cost of living inflation when the price of essentials such as food and utilities is growing strongly. At the same time they are less likely to save and combined with the effect of the benefit squeeze have seen an overall decline in spending power.[16] In addition to this, research suggests that households on low incomes incur a 'poverty premium' or additional costs when purchasing the same essential goods and services as households on higher incomes in a wide range of areas, including energy, insurance and groceries.[17]

Forecasts project that the UK household debt-to-income ratio **will gradually increase in the coming years, peaking at 146%**, close to the 2008 peak of 148%, in early 2023.

Figure 2.6

Source: Office for Budget Responsibility, Economic and Fiscal Outlook, March 2018

Household gross debt-to-income ratio



12. Office for National Statistics, UK National Accounts series 2017
13. Office for Budget Responsibility, Economic and Fiscal Outlook, March 2018
14. Financial Conduct Authority, Financial Lives Survey 2017, October 2017
15. The National Living Wage – effectively a higher minimum wage for people aged 25 and over – came into effect towards the end of this period, in April 2016
16. Joseph Rowntree Foundation, Rising cost of living, January 2018
17. Social Market Foundation, Measuring the Poverty Premium, March 2018

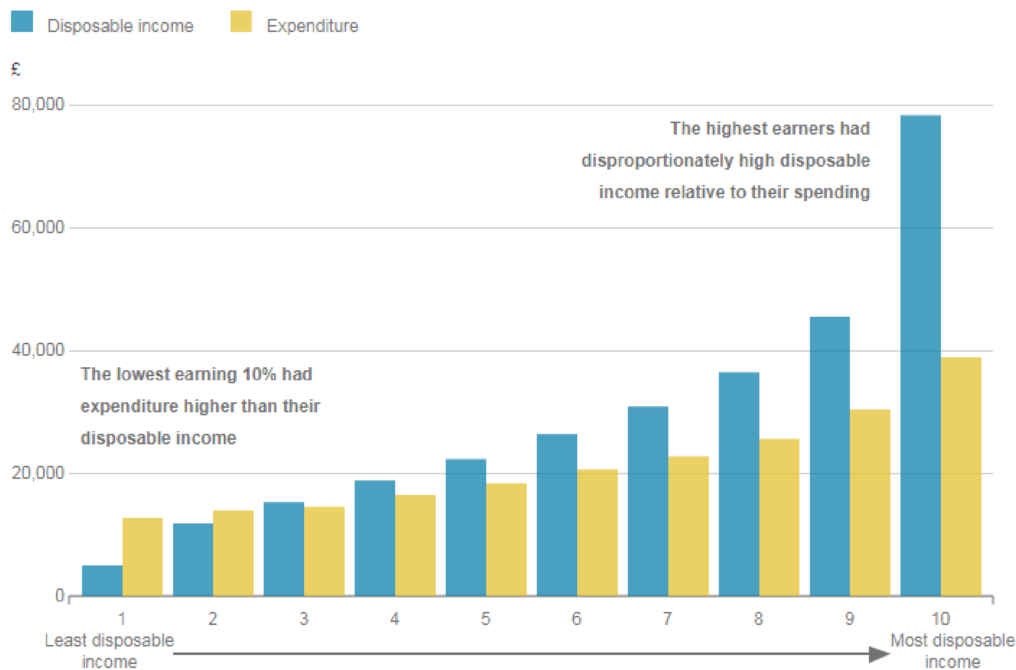


Figure 2.7

Source: Office for National Statistics, Making Ends Meet, July 2018

Evidence suggests that being in arrears on debts or other payment obligations (e.g. utility bills) is highly concentrated amongst the lowest income households – 16% of those in the lowest income decile are in arrears compared with just 1% of those in the highest decile. These households are also more likely to use a greater proportion of their income on servicing debts and to face an 'immediate servicing pressure'.[18] The proportion of individuals in a household that is under pressure is 25% in the lowest income decile and just 6% in the highest decile.[19] These households are also less likely to hold assets, with only 64% in the lowest income decile who face immediate servicing pressure having financial assets worth less than half their debts, compared with 29% in the highest income decile.[20] So although it can be argued that the overall debt burden is more affordable for households as interest rates remain low,[21] it is important not to lose sight of the fact that this can be a greater challenge for low income households.

A changing policy environment

The changing economic landscape in the aftermath of the financial crisis contributed to a changing political landscape, too. Successive governments since 2010 have pursued a policy of aggressive deficit reduction, with significant cuts across most of the public sector.

This has included a policy of public sector pay restraint – with pay frozen for public sector workers earning more than £21,000 a year for two years in 2010, and rises capped at 1% from 2013 until these restrictions began to be lifted towards the end of 2017.

Significant cuts to benefit entitlements were introduced in 2011, with this policy accelerating after the 2015 General Election with a total of £12 billion in weflare cuts announced. A freeze in working age benefits came into effect in 2015, along with a lowering of the household 'benefit cap' first introduced in 2013.

18. Defined as spending more than a quarter of current income servicing debts or being in arrears

19. Institute for Fiscal Studies, Problem debt and low income households, January 2018

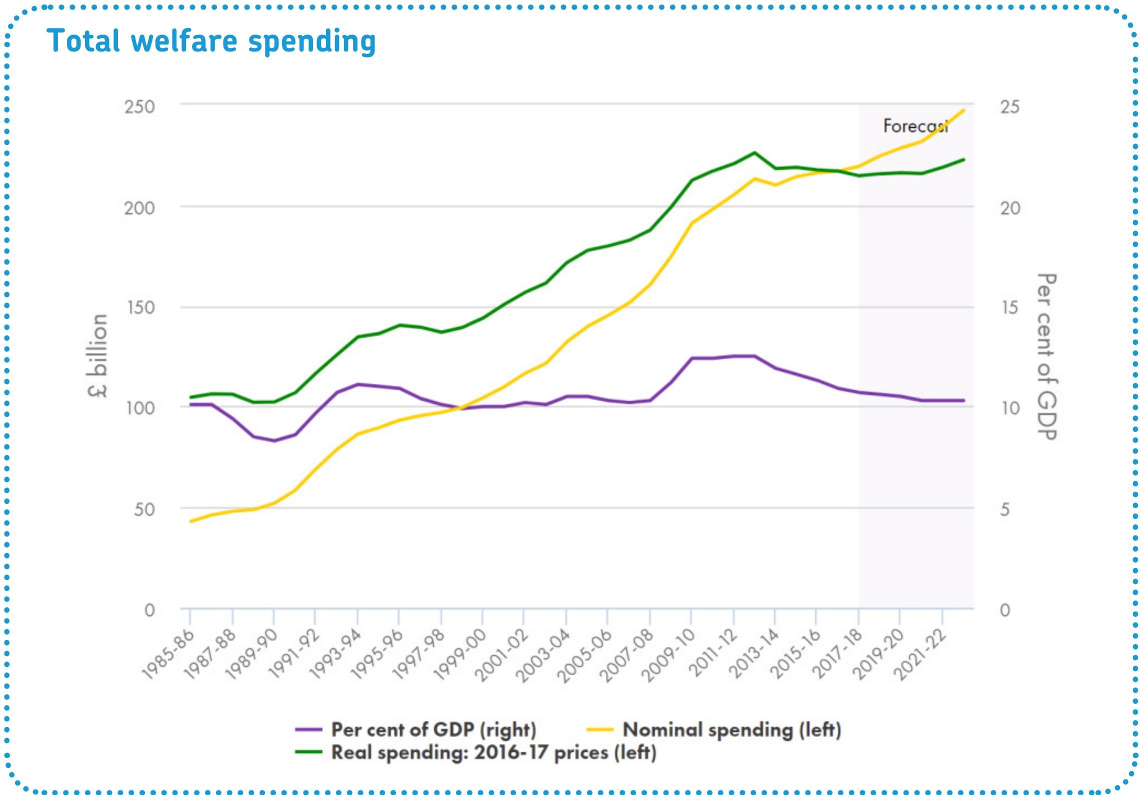
20. *Ibid.*

21. House of Commons Library briefing, Household debt: statistics and impact on economy, May 2018

Figure 2.8

Source:
Office for Budget Responsibility, May 2018

Total welfare spending



These changes have been accompanied by a wider programme of reform of the welfare system designed to move claimants into employment. This has included the introduction of Universal Credit to replace six separate means-tested benefits and tax credits and changes to housing and disability benefits. The 2015 welfare cuts included significant reductions in the level of support available and these changes, together with aspects of policy design such as an extended waiting period before first payments, have attracted particular criticism.

Deficit reduction has also had a substantial impact on local government policy. Central government funding for local authorities decreased by 38% between 2010 and 2017,[22] with significant reductions in non-statutory services as a result. The localisation of Council Tax Support, with reduced levels of funding, in 2013 and the abolition of the Social Fund has reduced the ability of local authorities to provide support to residents in finanical difficulty.

These measures to reduce public spending have been implemented at the same time as income tax cuts through large increases in the personal allowance, which rose from £6,475 to £11,850 between 2010 and 2018.

The effect of this has been an overall reduction in income tax for more than 30 million people, with four million on the lowest incomes taken out of the income tax system altogether.[23]

A markedly different approach in policy towards pensioners has been adopted since 2010, with the state pension 'triple lock'[24] committing the government to increase the state pension by the highest of earnings, prices or 2.5%. Similarly, in contrast with working-age benefits, pension-age benefits such as the winter fuel allowance and free TV licences have been protected.

Government policy has increasingly shifted the burden to act on various aspects of household finances to employers, with the introduction of pensions auto-enrolment, and the introduction of a higher national minimum wage for workers aged 25 and over in 2016. This policy, announced as the National Living Wage, has led to the proportion of employees in low pay falling to its lowest since 1982.[25]

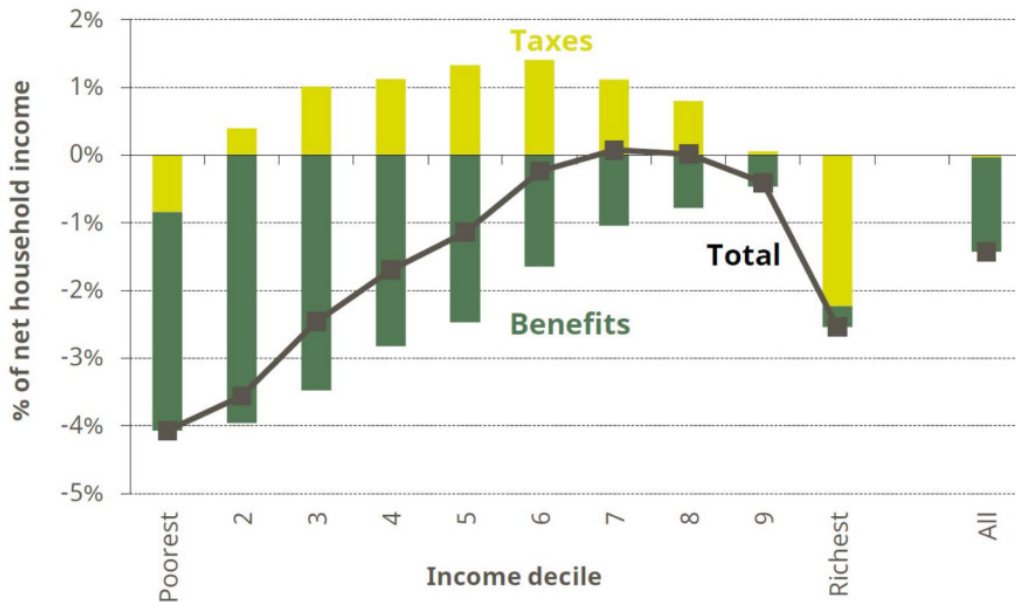
The overall impact of government tax and benefit changes on household incomes since 2010 has been most significant on the lower income deciles, with working-age people with children the most significantly affected across all income levels.[26]

22. Institute for Fiscal Studies, A time of revolution? British local government finance in the 2010s, October 2016
23. HM Treasury, Autumn Budget 2017, November 2017
24. House of Commons Library Briefing, State Pension Triple Lock, June 2017
25. Resolution Foundation, Low Pay Britain 2018, May 2018
26. Institute for Fiscal Studies, The impact of tax and benefit reforms on household incomes, April 2017

The impact of tax and benefit reforms on household incomes

Figure 2.9

Source:
Institute for Fiscal Studies, The impact of tax and benefit reforms on household incomes, 2017



Recent years have seen policy issues around finanical inclusion, in its broadest sense, climb higher up the agenda – thanks in large part to the work of the Financial Inclusion Commission[27] and House of Lords Financial Exclusion Committee.[28] In 2017 the government appointed a Minister for Finanical Inclusion, and announced a new Finanical Inclusion Policy Forum to improve cross-government co-ordination in this area.

Despite the introduction of various individual policies since 2010, such as support for the credit union movement and the Help to Save scheme to encourage people on low incomes to save, this represents the first move back towards a joined-up approach since the previous Financial Inclusion Taskforce was disbanded in 2011.

Furthermore, following manifesto commitments from both main parties at the 2017 General Election, the government has announced it will introduce a new statutory Breathing Space scheme,[29] whereby people in serious problem debt would receive protections from interest, charges and enforcement action from creditors while they seek debt advice.

27. Financial Inclusion Commission, Financial Inclusion: Improving the financial health of the nation, March 2015,
28. House of Lords Financial Exclusion Committee, Tackling Financial Exclusion: A country that works for everyone?, March 2017
29. HM Treasury, Breathing Space: Call for evidence, November 2017

A changing regulatory environment for consumers

In the wake of the financial crash, it quickly became apparent that a range of financial and consumer markets needed tighter regulation. Financial services regulation was split in two, with the creation of the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA), and responsibility for consumer credit passed from the Office of Fair Trading (OFT) to the FCA. While the OFT was a relatively hands off regulator in this area, the FCA states at an early point "*our message to any company that harms their customers – the clock is ticking.*"[30]

Since then, the FCA has taken on regulation of more than 50,000 consumer credit firms and we have seen proactive regulation across consumer credit markets. While the focus remains on enhancing competition through information and switching remedies, behavioural science and consumer vulnerability increasingly inform regulatory approaches. Similar changes have been underway across utilities with regulatory bodies across energy, water and telecoms growing their focus on consumers in vulnerable circumstances.

At the same time, as part of its review of financial services regulation, in 2011 the government established the Money Advice Service with cross-party support, to provide free and impartial advice on money and financial decisions to members of the public, paid for by a statutory levy on the financial services industry. Debt advice services funded by the body included face-to-face, telephone and online advice.

The last decade has seen **significant and far-reaching shifts** in the real economy, government policy and regulatory environment.

The debt advice sector itself was also brought under a new regulatory regime at the FCA, with all agencies advising on consumer credit-related debt now subject to 'authorisation'.

This change has brought significant change across the sector, increasing the professionalisation of debt advice. More recently, the government has looked again at how publicly funded information and advice about money issues is provided, and has legislated for a new 'Single Financial Guidance Body' bringing together a number of existing bodies[31] to cover financial capability and money guidance, debt advice and pensions advice in one offering.

Conclusion

The last decade has seen significant and far-reaching shifts in the real economy, government policy and regulatory environment. These trends combined have brought about fundamental changes in the UK's debt landscape – and in the nature of the debt problems that people contacting debt advice agencies are facing. In the next chapter we explore the last decade as we have experienced it at National Debtline.

30. Financial Conduct Authority, Detailed proposals for the FCA regime for consumer credit, October 2013
31. Money Advice Service, The Pensions Advisory Service and PensionWise

3. Who we help at National Debtline

The profound economic changes we have seen over the last decade, along with significant demographic shifts, have had a major impact on the UK's debt environment and household finances – and on the kind of debt problems confronting people who contact National Debtline. In this chapter we set out how the people and debt issues we are helping with are changing.

In short, 10 years ago, it is likely that our typical caller would have been struggling with significant credit-related debts. Today, our callers tend to face smaller but trickier debts – usually arrears on household bills. In addition, we are seeing more people whose household budgets simply do not balance, as their essential spending exceeds their income.

Demand rising, falling and then rising again

Over the last decade the story of National Debtline has been one of demand rising, falling and then rising again in recent years. In the immediate aftermath of the financial crisis demand rose significantly to a peak of 305,000 calls in 2010.

While demand then fell in the first part of the current decade as the economy recovered, since 2015 we have seen increasing demand every year.

Based on the year to date, 2018 is projected to see the highest number of calls to National Debtline since 2013, with more than 189,000 calls expected by the end of the year.[32]

Today, our callers tend to face **smaller but trickier** debts – usually arrears on household bills.

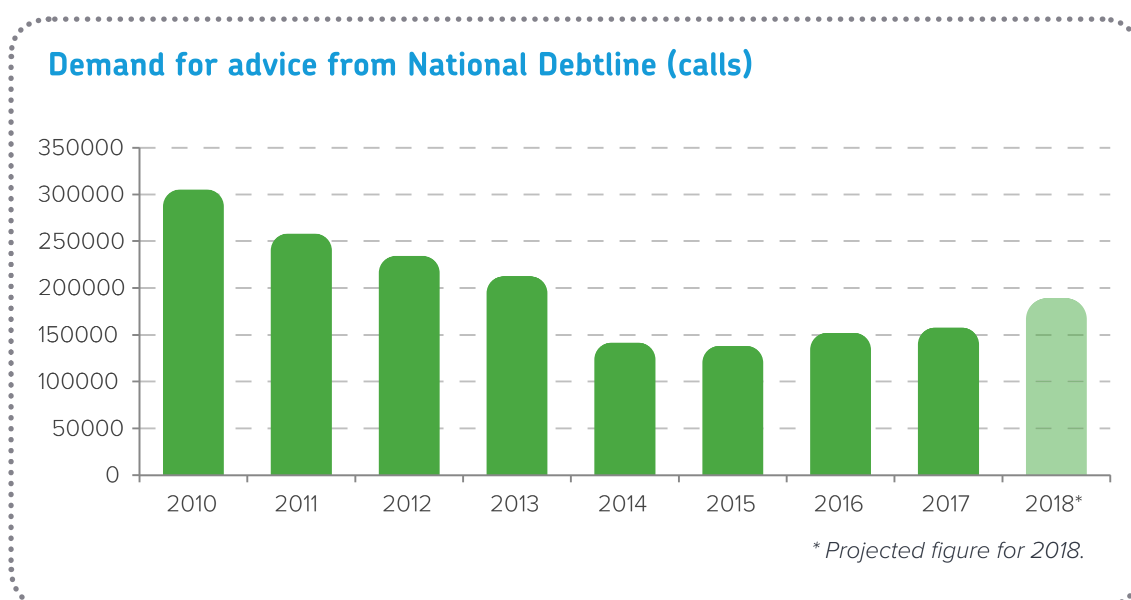


Figure 3.1

Source: National Debtline data

32. Calls in to National Debtline is a measure of demand, rather than capacity and therefore excludes the effect of service changes - and excludes calls related to the referral partnership between Citizens Advice and National Debtline that has been in place since 2014. Comparable data exists from 2010 onwards. Figures do not exclude repeat callers.

More younger and older people seeking help

The UK's younger generations face notably different financial challenges to their parents. The significant generation-on-generation progress on both household income and home ownership rates over the 20th century has failed to materialise for younger generations so far in the 21st.[33]

It is therefore unsurprising that at National Debtline we have seen a greater proportion of people aged 18-24 calling for help, nearly doubling from 8% in 2008, to 15% of callers in 2018.

Despite this rise, we know that the proportion of young people seeking advice is too low,[34] with 20% of 18-24 year olds estimated to be indebted, rising to over 24% for 25-34 year olds.[35]

At the same time a smaller proportion of 36-50 year olds contact us now compared to 10 years ago – 32% of callers in 2018 down from 42% in 2008 – and we are seeing a rise in the proportion of over 50 year olds calling the service, suggesting that financial concerns continue to affect all generations.

Renters on the rise

Equally, young families today, who are largely headed by those over 30, are only half as likely to own their home as their parents were at the same age.[36] Yet, due to the growth in the rental market, and in particular private renting, people are also spending greater proportions of their income on housing. Mortgaged owners spent around 12% of their income on their housing costs in 2016, whilst private renters were paying three times as much, at 36% of their income.[37]

Reflecting this trend, fewer of the people we support at National Debtline are now in mortgaged accommodation, whilst there has been a significant rise in the proportion of people who rent their homes, from 44% in 2010 to 68% in 2018.

More callers out of work

Our advisers have seen a steady decline in the number of people reporting they were in full-time employment over the last decade. At the same time, we saw increases in the number of unemployed people with almost a quarter of callers out of work in 2018. The number of people working part-time also rose steadily during this time as did people who are sick and/or disabled.[38]

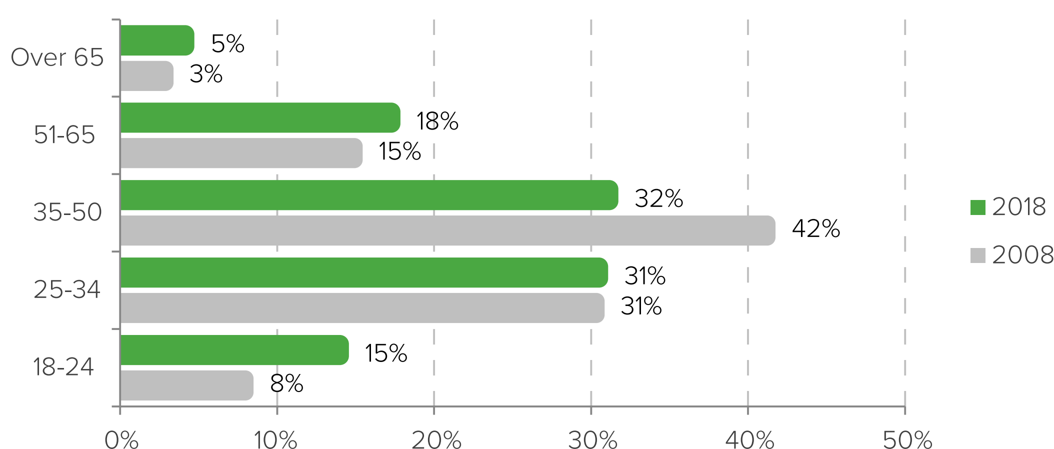
Low incomes

The UK median disposable household income was £27,300 in 2017.[39] Unsurprisingly, the median for our callers is somewhat lower at £15,486. The overwhelming majority of people calling National Debtline (69%) report a household income of less than £20,000, with 42% recording a household income of under £14,000.[40] For these households there is often little room to build up a financial buffer, and so income shocks can have a significant impact or households may over-borrow in order to make ends meet.

33. Resolution Foundation, Cross countries: international comparisons of intergenerational trends, February 2018
34. Money Advice Trust, Borrowed Years: A spotlight briefing on young people, credit and debt, August 2016
35. Money Advice Service, A picture of over indebtedness, March 2016

Figure 3.2

Source: National Debtline data

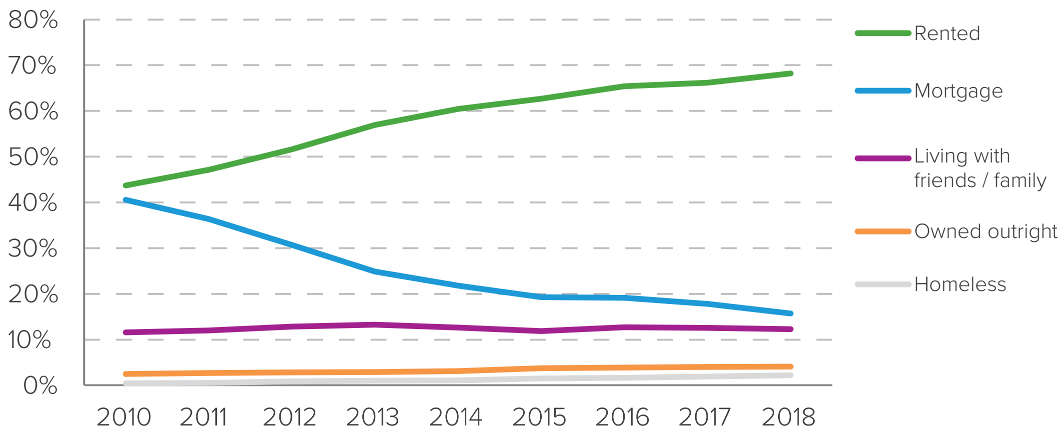


36. Resolution Foundation, Home Affront: housing across the generations, September 2017
37. *Ibid.*
38. Note that due to a change in our reporting systems in 2015 multiple employment statuses can now be recorded, meaning the data is not directly comparable for the pre and post 2015 period. However an analysis of the data gives us an indication of the changing trends.
39. Office for National Statistics, Household disposable income and inequality in the UK: financial year ending 2017, January 2018.
40. Detailed analysis based on a sample of National Debtline callers in 2017.

National Debtline callers by housing status 2008 to 2018

Figure 3.3

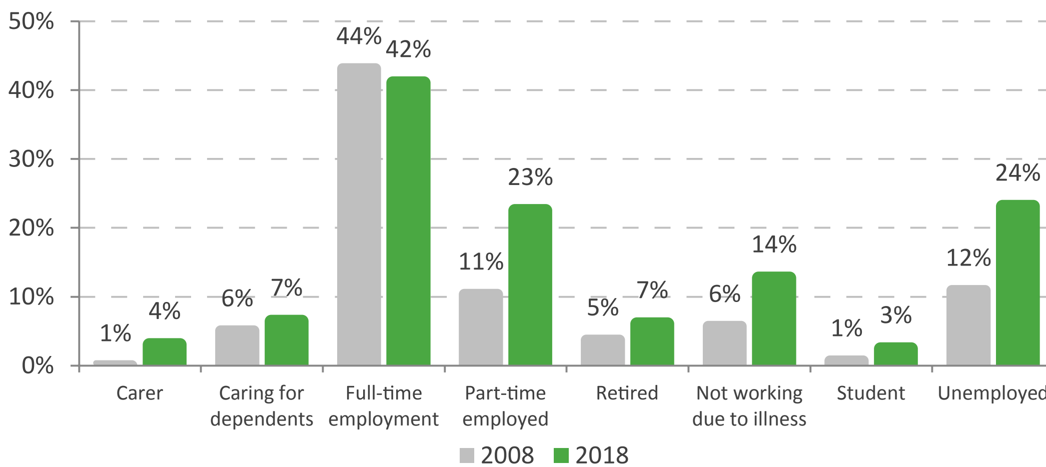
Source: National Debtline data



National Debtline callers by employment status 2008 to 2018

Figure 3.4

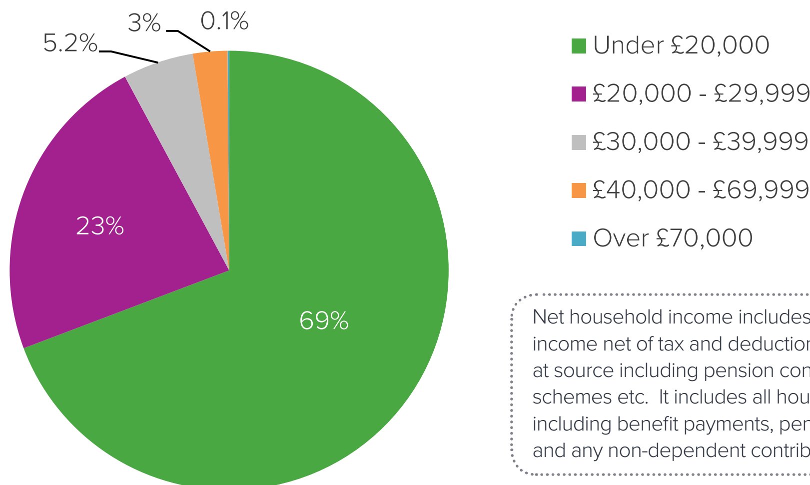
Source: National Debtline data



National Debtline callers in each net household income bracket in 2017

Figure 3.5

Source: National Debtline data



Net household income includes all household income net of tax and deductions from earnings at source including pension contributions, car schemes etc. It includes all household income including benefit payments, pension payments and any non-dependent contributions.

Vulnerable circumstances as drivers of debt

The reasons for people finding themselves unable to pay all of their bills are complex, and multiple issues can often exist in tandem causing a 'perfect storm' for households trying to manage their finances. Ill health or disability is the most common reason for seeking advice given by callers to National Debtline (20% of callers).

Although we have seen record lows in the level of unemployment, 19% of National Debtline callers continue to report unemployment as the cause of their debt issues. In some cases this will be due to ongoing unemployment issues whilst for others this will be the legacy of the loss of higher paid or more regular work.

The link between debt and mental health problems is well documented and it is therefore unsurprising that a significant number of people using our service identify themselves as having a mental health problem. For many, the existence of one fuels the other, exacerbating their situation further.

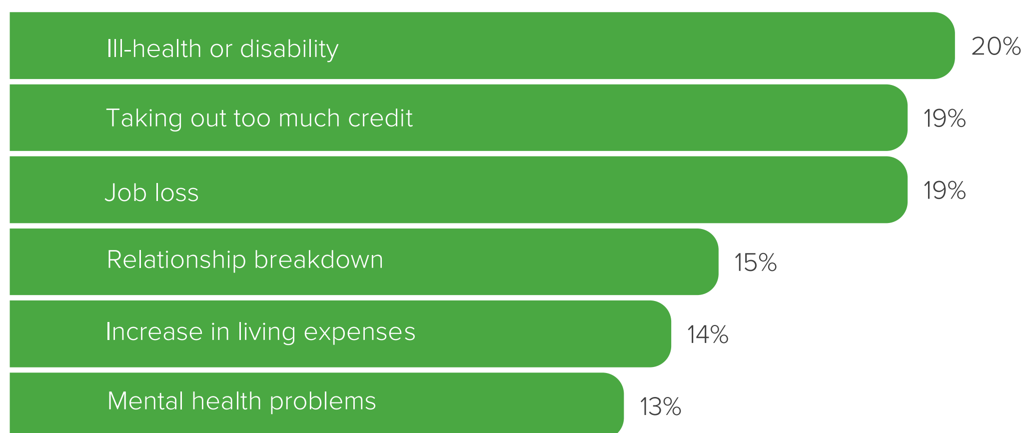
People may experience a range of other factors which cause them to be in a vulnerable situation, either as a direct result of their debts making them financially vulnerable, or as the result of other life events that have an impact on them. A great deal of cross-sector collaborative work has been done in recent years to explore how to better support vulnerable people. The recognition that a holistic approach to helping people to resolve increasingly complex circumstances is a welcome one.

Ill health or disability is the most common reason for seeking advice given by callers to National Debtline.

Figure 3.6

Source: National Debtline survey data

Reason for debt cited by National Debtline callers 2017 to 2018



Growing numbers with broken budgets

The prolonged squeeze on the finances of some households has also led to greater numbers of people reporting that their spending is higher than their income – essentially, that their budgets are broken. UK households have collectively seen their outgoings surpass their income for the first time in nearly 30 years, with on average each UK household spending or investing £900 more than they received in income in 2017.[41]

At National Debtline, we have seen a steep rise in the number of callers with broken budgets.

In 2018, 48% of people calling the service for support had a deficit budget, a significant rise compared to 27% in 2009. The debt advice sector as a whole has reported an increase in the number of people in this situation seeking advice.

For callers who had a budget deficit, their median shortfall in meeting essential spending was £38 per week. For callers with a budget surplus after essential spending, their median surplus was £34 per week.

The picture for these low-income households is complex and the consequences can be far-reaching, impacting on physical and mental health and well-being.

National Debtline callers with deficit budgets 2009 to 2018

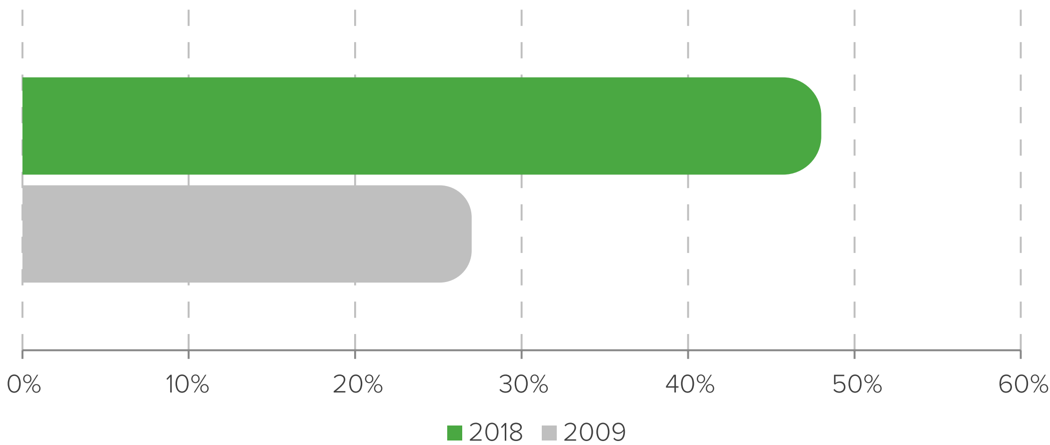


Figure 3.7

Source:
National Debtline data

National Debtline callers with surplus, balanced (zero surplus) and deficit budgets by income bracket

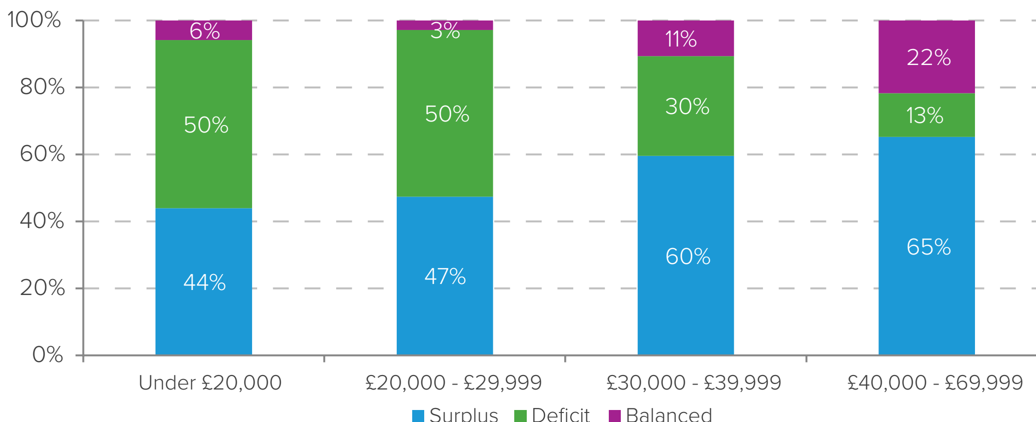


Figure 3.8

Source:
National Debtline data

41. Office for National Statistics, Making Ends Meet: Are households living beyond their means?, July 2017

Smaller, but trickier, debts

Indicative of the financial squeeze many households are facing, the number of National Debtline callers unable to repay relatively low levels of debt totalling £5,000 or less increased from 22% in 2008 to 50% in 2018. In the same period people struggling to repay debts of £25,000-£50,000 fell considerably (21% down to 7%).

A wider range of debts

At the same time that debt levels have been falling, there has been a general rise in people calling National Debtline reporting having higher numbers of debts. In 2014 a quarter of callers (25%) had between six and ten debts, rising to 28% by 2018. Those with 11-15 debts grew from 6% to 9%.

Growth in debts on household essentials

Over the past 10 years we have seen significant changes, not just in the amount and number of debts people calling National Debtline have, but in the types of debt they are struggling to repay.

In particular, there has been a marked shift from people predominantly struggling to pay credit debts such as loans, credit cards and overdrafts, towards people being increasingly unable to cover the cost of their essential day-to-day living costs.

Most noticeably, we have seen a stark growth in people unable to pay their council tax bills, rising from 15% of callers to National Debtline in 2008 to 30% in 2018, owing on average £710 in 2018.

Figure 3.9

Source:
National Debtline data

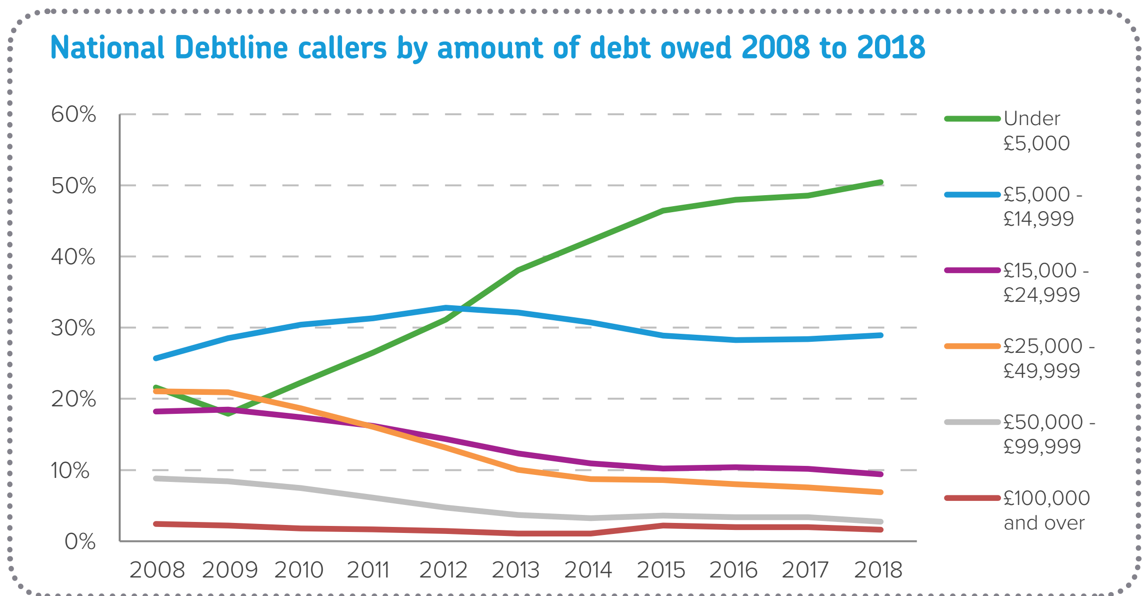
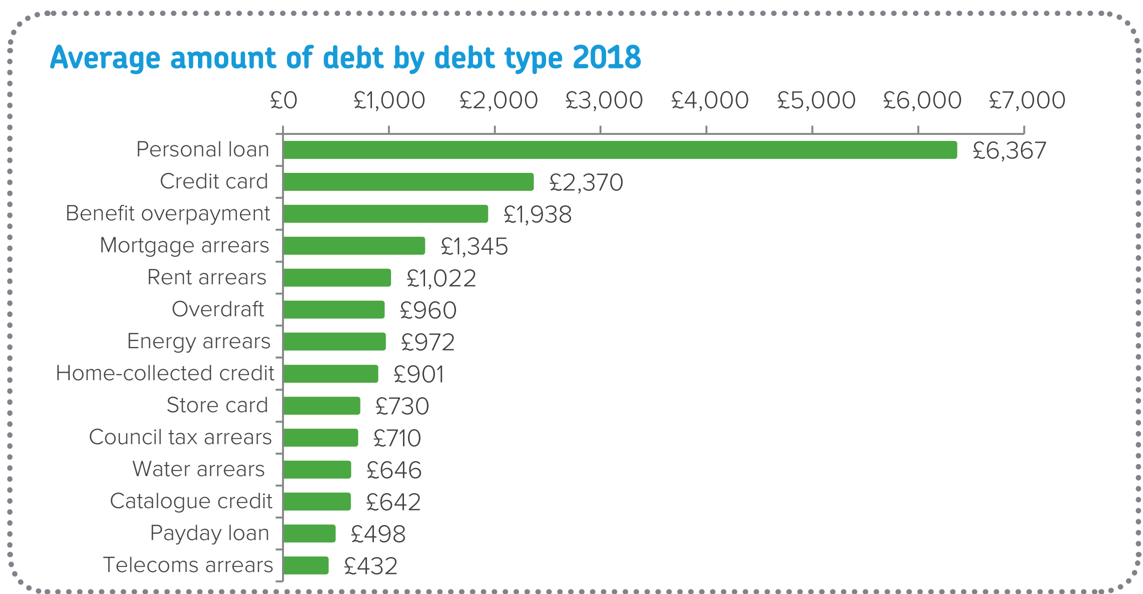


Figure 3.10

Source:
National Debtline data



Similarly we have seen rapid growth in the number of people unable to meet their rent costs, rising from 6% in 2009 to 17% in 2018, with an average of £1,022 owed in 2017. At the same time the proportion struggling with mortgage debt decreased – trends which reflect the changing profile of home ownership in the UK.

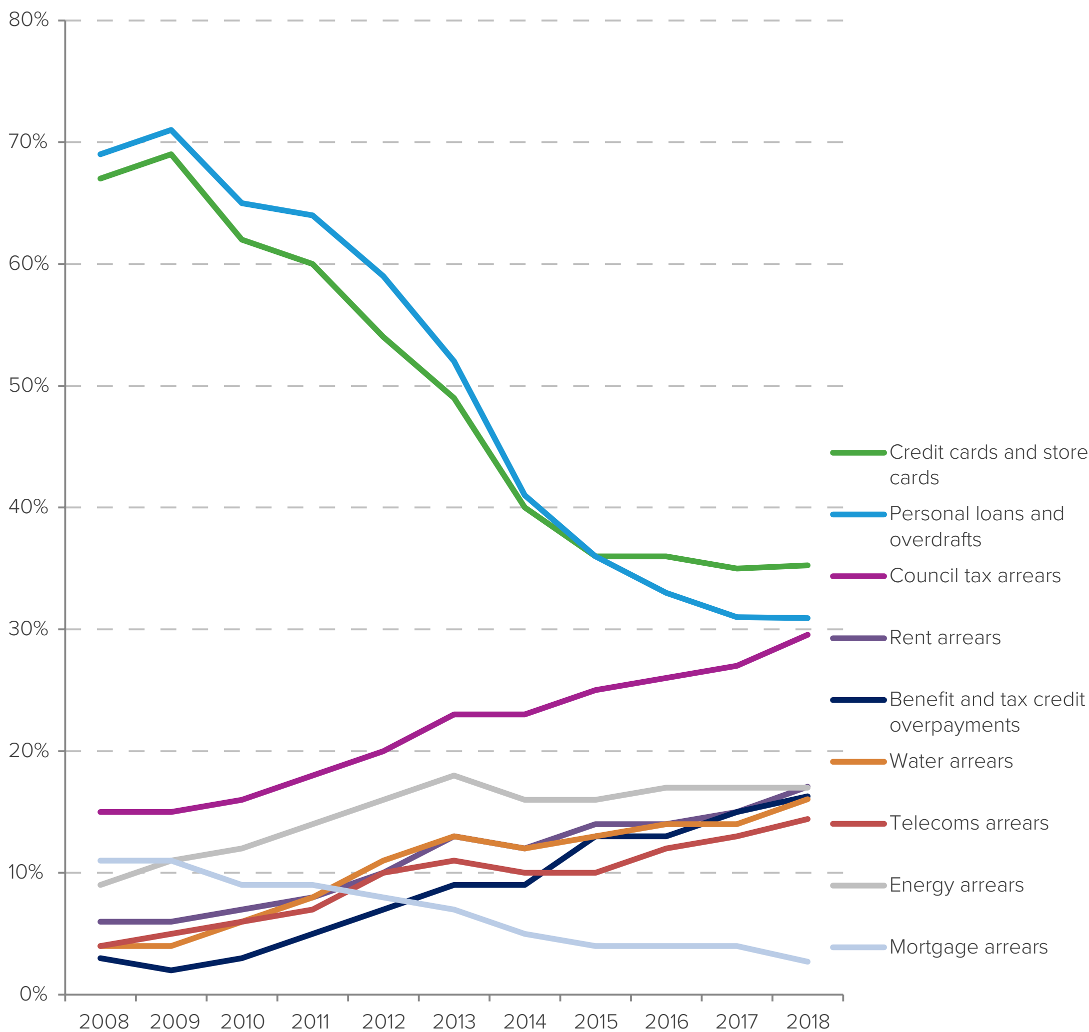
People struggling with energy debt also grew, rising from 9% in 2008 to 17% in 2018 as energy costs increasingly make up a bigger proportion of the monthly outgoings of the average household. The average energy debt owed by National Debtline callers with this type of debt was £972 in 2018.

These household debts typically take up a greater proportion of people's overall expenditure and it may, therefore, be expected that they would present an issue for many struggling households. However, as many find it harder to pay lower levels of debt, we have seen an increase in people unable to pay even the relatively smaller bills that households face. As a result of this changing picture, water debt is now reported by 16% of callers to National Debtline, compared to just 4% in 2008 and telecoms debt has grown from 4% to 14% during the same period.

In many cases the amount of debt owed when people contact us for help has built up over time – we know that in 2017, 29% of our callers struggled with their debts for more than two years before contacting us – meaning that it is often accumulated. As a result, people owed an average of £646 for water in 2018 and £432 on telecoms debt.

Figure 3.11

Changing nature of National Debtline callers' debt issues 2008 to 2018



Source: National Debtline data

Recommendations

The UK's changing debt landscape – with rising demand, more arrears on household bills and an increasing complexity of problems that advice services are presented with – necessitates a paradigm shift in the way we think about problem debt, and a concerted response from government, regulators, creditors and the advice sector.

As we move towards the end of 2018, encouraging steps have already been made. The creation of the new Single Financial Guidance Body (SFGB), Peter Wyman's independent review of debt advice funding and plans for a new statutory Breathing Space scheme, in particular, provide a strong platform to deliver significant improvements for people in financial difficulty. However, fundamental challenges remain.

We recommend that:

- **The government** should work with the **SFGB and FCA** to significantly increase funding for frontline debt advice services, to close the growing gap between supply and demand. This should be placed at the heart of a new **formal cross-government strategy** to reduce problem debt, with HM Treasury bringing together the work of the SFGB, regulators, DWP and all relevant government departments and agencies into a single coherent approach.

- **HM Treasury** should ensure that its **Breathing Space** scheme provides people in debt with protection from all types of creditor (including utilities, local authorities and central government departments and agencies) to reflect the realities of problem debt today.

- **Creditors** should consider the growth in **variable incomes** when developing their policies and processes, including when setting affordable payment arrangements, designing forbearance measures and collecting debts from customers.

- **Creditors** should place improving outcomes for customers in **vulnerable circumstances** high on their agenda, including developing robust vulnerability policies and training to equip staff to identify and support customers with the full range of vulnerable circumstances they may face.

- **The advice sector** should redouble its efforts to **improve advice quality** through all channels – face-to-face, telephone, webchat and online – and in particular, prioritise improving outcomes for people in vulnerable circumstances. In many respects, the advice and creditor sectors face similar challenges and should learn from each other.

- **The SFGB** should use its co-ordinating role to bring together the advice sector, creditors and the fintech industry to develop an '**Open Banking roadmap**' identifying a priority list of potential applications of this new technology to the debt advice process. The Body should support the advice sector to implement these innovations.

4. Consumer credit debts

A decade in consumer credit

Consumer credit, which supports many people to smooth over periods when income is temporarily low or they face unexpected costs, has remained under the spotlight for much of the past decade. The easy availability of credit in the run up to 2008 put many consumers in a perilous position.

Since then, fundamental changes to lending practices and regulation, the emergence of the market for high-cost short-term lending and, most recently, renewed concerns about rapid growth in consumer credit fuelling household consumption has kept credit in the headlines.

Credit cards and loans

Consumer credit growth has been on an upward trend[42] since 2012 and has recently been growing at close to 10% per year, driven by increases in the amounts borrowed on credit cards, car finance and unsecured personal loans. This has led to warnings from the Bank of England that consumer credit represents a 'pocket of risk' to the economy,[43] and the introduction of new requirements on lenders to hold more capital.

Since 2016 credit card lending in particular has been a key driver for overall consumer credit growth, with borrowing on credit cards increasing to its second highest level since before the financial crisis in early 2018.[44] The FCA has taken an active interest in the credit card market, raising concerns about the rapid rate of growth in early 2017 and conducting a long-running market study, which has resulted in new rules for people in persistent credit card debt coming into effect from September 2018.

Overall, car finance has been a significant driver behind increasing levels of consumer credit borrowing, driven by personal contract purchase (PCP) dealership sales. The number of point-of-sale car finance agreements for new and used cars grew from 1.2 million in 2008 to 2.3 million in 2017, with PCP agreements accounting for two thirds of the value of new and used car finance lending in 2017.[45] While the FCA has found that most of this lending has been to lower-credit-risk borrowers, the regulator continues to investigate this market to assess the potential for consumer harm.

New forms of high-cost credit

At the same time innovation in financial products, a crackdown on lending immediately after the crash and subsequent easier credit conditions have led to significant growth in smaller credit markets focussed on higher cost, short-term lending including payday loans, home-collected credit, and rent-to-own lending. These markets continue to be scrutinised by regulators.

42. Bank of England Money and Credit statistics, June 2018

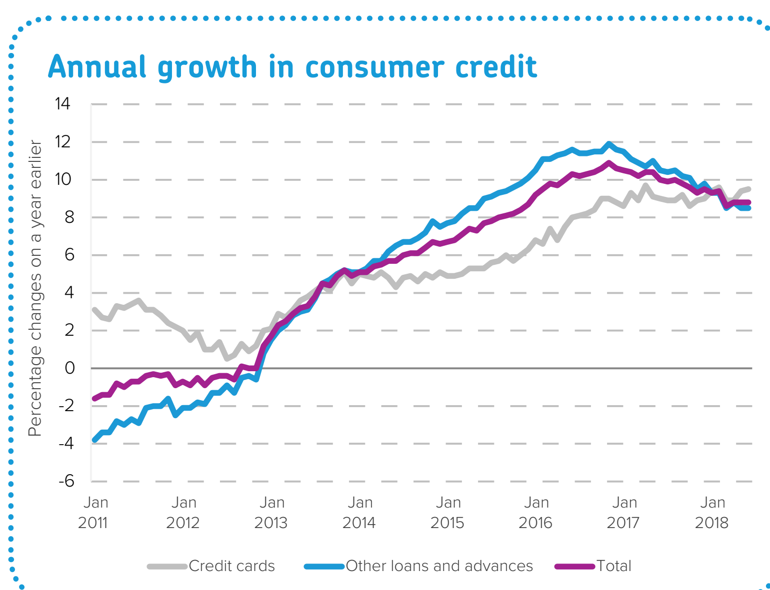
43. Bank of England Financial Policy Committee statement, September 2017

44. Bank of England, Money and Credit Statistics, March 2018

45. Financial Conduct Authority, Our work on motor finance – update, March 2018

Figure 4.1

Source: Bank of England, June 2018



For example, the FCA estimates that the cap it introduced on payday lending in 2015 is saving 760,000 borrowers £150 million a year in fees, with the average cost of a high interest short-term loan falling from £100 to £60. Firms have also been ordered to repay over £300 million following unaffordable lending.[46]

More recently, the focus has shifted to rent-to-own lending, home-collected credit, catalogue credit and store cards, with the FCA due to announce measures in each of these markets shortly. Overdrafts, and particularly unauthorised overdrafts, have also been subjected to heavy scrutiny, with the Competition and Markets Authority (CMA) introducing bank-set monthly maximum charges in 2016 and the FCA considering the case for further action in this area.

How manageable is this borrowing?

Concerns that another credit bubble, driven by low interest rates, is fuelling household consumption have placed a question mark over the long-term sustainability of this credit growth. Interest rates hit a record low of 0.25% in August 2016, with the first interest rate rise in 10 years, back to just 0.5%, arriving in November 2017 and a further rise to 0.75% in August 2018. With more rises possible – a key question is whether households will still be able to service their debts in a less benign interest rate environment.

However, the evidence suggests that much of the current lending is going to higher income households and borrowers least likely to suffer financial distress, who are reasonably well positioned to meet these commitments.[47] That said, the households that are most likely to struggle to repay over the longer term tend to be low income households, who are already carrying a significant stock of debt.[48]

It is these low income households that debt charities are largely concerned about, with some indications that people who are on low incomes and in financial difficulty are already relying on credit to fund everyday living costs. These trends have contributed to a renewed debate over the need for alternative sources of affordable credit.

What we have seen at National Debtline

Whilst credit use has seen considerable growth, at National Debtline we have seen a shift from people predominantly struggling with repaying borrowing on consumer credit, towards people struggling with a broader range of everyday household bills. However, whilst the proportion of people calling our service about consumer credit debts has fallen, they continue to represent the highest average amounts owed, and these debt levels are significantly higher than household bills such as rent and council tax.

We have seen a significant drop in the number of people with a loan, credit card, or overdraft – falling from 71% at the peak of the financial crisis in 2009 to 31% in 2018. In 2017 callers owed on average £6,367 on personal loans and £960 on overdrafts. Similarly, borrowing on cards including credit and store cards peaked at 69% in 2009 before falling back to 35% in 2018, with callers owing £2,370 on average in 2018.

By 2009 payday lending was beginning to emerge as a problem debt as people began to struggle to repay the high cost of this borrowing. In 2010, 3% of callers reported owing money on a payday loan, peaking in 2013 when 13% of callers had at least one payday loan they were struggling to repay. We have since seen a large decrease in calls relating to payday loans as a result of the FCA's regulatory interventions, however 8% of callers are still struggling with this debt in 2018 owing on average £498.

There are also strong links between consumer credit borrowing and day-to-day spending, including a wide range of arrears owed on household bills. Many of our callers are putting day-to-day living costs on credit.

A recent survey of callers to National Debtline found that 37% are putting food or groceries on credit and 19% are paying energy bills with credit. Furthermore 13% are using credit to pay council tax and 12% are using credit to pay their rent or mortgage.[49]

46. Financial Conduct Authority, Feedback statement on high-cost credit market, July 2017
47. Finanical Conduct Authority, FCA Insight: Who's driving consumer credit growth?, January 2018 and Resolution Foundation, An Unhealthy Interest? Debt distress and the consequences of raising rates, February 2018
48. Institute for Fiscal Studies, Problem debt and low income households, January 2018
49. Survey of National Debtline callers six weeks after advice

Figure 4.2

Source:
National Debtline data

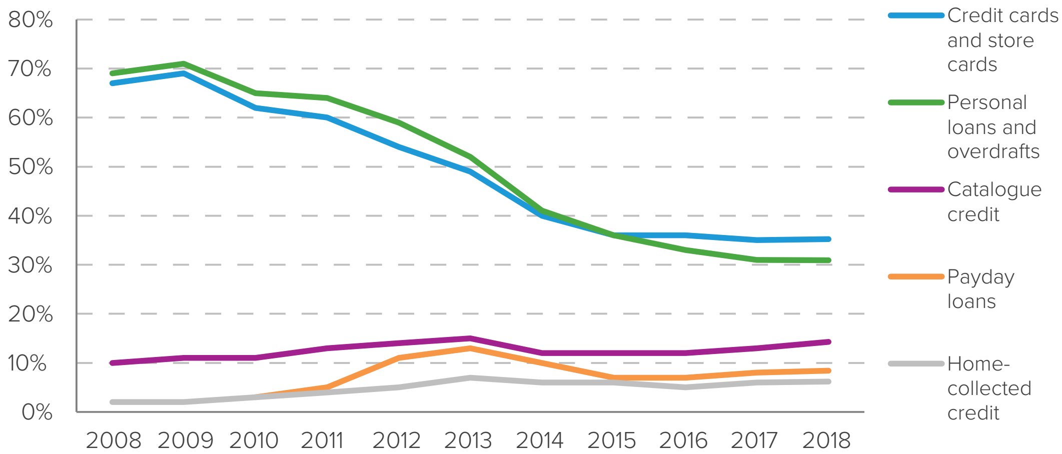


Figure 4.3

Source:
National Debtline data

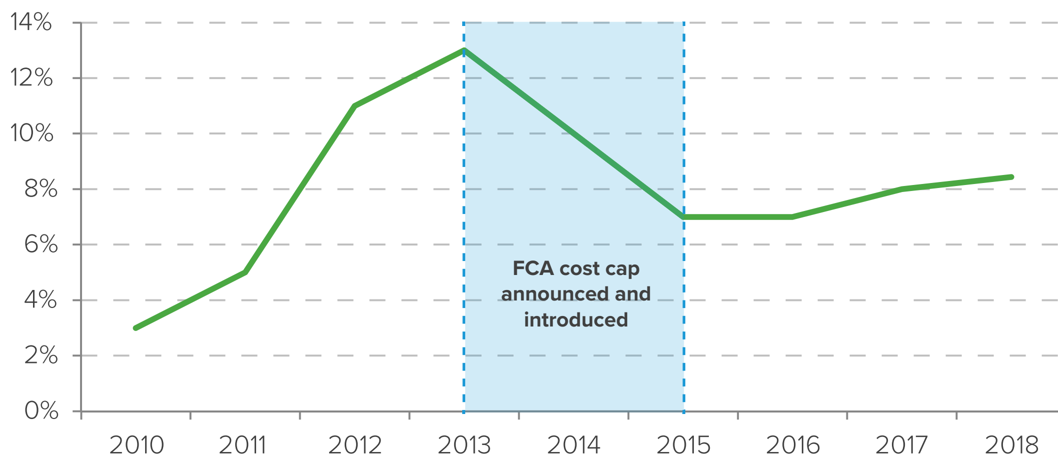
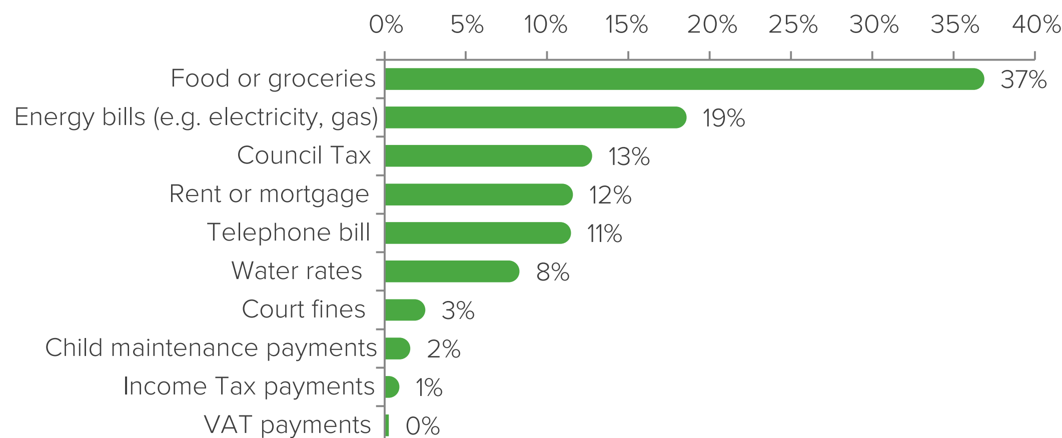


Figure 4.4

Source:
National Debtline survey data



Recommendations

Since the FCA assumed responsibility for the regulation of consumer credit, some progress has been made in reducing consumer detriment. This has been exemplified, in our view, by two particularly successful interventions – the FCA's work on the vulnerability agenda, and its interventions in the payday lending market. Regulation needs to evolve constantly to respond to shifts in the market and the emergence of new business models with potential for consumer detriment.

Alongside the FCA's approach to consumer credit regulation, there is a need for targeted government intervention to develop solutions to problems that lie beyond the realm of regulation, such as the lack of affordable credit.

We recommend that:

- **The FCA** should go further in its proposed remedies to tackle **persistent credit card debt**, significantly reducing the 36 month time frame in its current plans and introducing a simple and universally applicable method for people to opt out of credit card limit increases.

- **The FCA** should set an early 'end date' after which it will assess whether monthly maximum charges for **unauthorised overdrafts** set at the individual bank level, as prompted by the Competition and Markets Authority, have been effective in delivering significant reductions in the charges being paid by people in financial difficulty. The FCA should then make a quick decision on whether to introduce an industry-wide cap.

- **The FCA** should intervene to simplify arranged and unarranged **overdraft prices**, including banning all fixed fees and aligning interest rates between the two, and extend its planned interventions to tackle persistent overdraft debt to all personal current accounts and not just those provided by larger firms.

- **The FCA** should extend the principle of **capping the cost of credit** at 100% of the amount borrowed to the rent-to-own and home-collected credit sectors, and reconsider its decision to exclude guarantor lending from immediate action within its high-cost credit review.

- **The government** should revive the recently-shelved **Goods Mortgages Bill**, which would have delivered much-needed reforms to archaic legislation behind logbook loans. In the absence of the revival of this Bill, the **FCA** should urgently extend its work on high-cost credit to consider protections for logbook loan borrowers.

- **The government**, through its Financial Inclusion Policy Forum, should develop a social policy solution to the lack of **affordable credit**, as a third major pillar of a new cross-government strategy to tackle problem debt, alongside the Single Financial Guidance Body and the Breathing Space scheme. This should be developed in partnership with **UK Finance** and should take lessons from international models of best practice.

- **The FCA** should ensure that its new **vulnerability guidance** due to be published in 2019 encourages firms to consider the full range of vulnerable circumstances that customers face, and delivers a new burst of momentum from industry in this crucial area. Beyond this, there should be a comprehensive debate on the FCA's **duty of care** discussion paper, which should include its potential impact on all customer groups.

5. Housing debts

A decade in housing

Housing remains the biggest single cost in most people's household budget, whether they live in mortgaged or rented accommodation. However the nature of housing tenure has been changing over the past decade, with a fall in home ownership and a dramatic increase in the number of people renting in the private rented sector.

Of the 23.1 million households in England, 14.4 million or 63% are owner-occupiers. The proportion of households in owner-occupation increased steadily from the 1980s to 2003 when it reached its peak of 71%. Since then, owner occupation has gradually declined to its current level.[50]

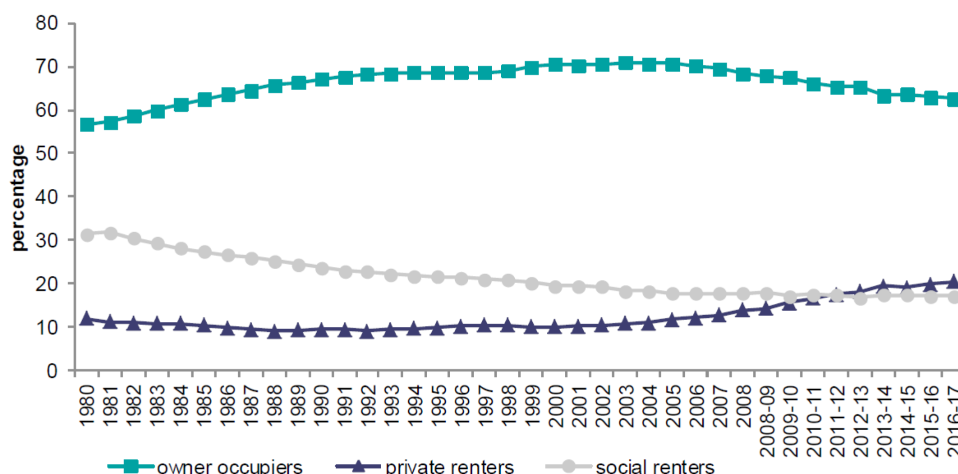
Rent payments

Of those in rented accommodation nationally, the private rented sector accounted for 4.7 million or 20% of households in 2016/17, with the social rented sector accounting for 3.9 million or 17% of households.

Renting privately is becoming the only option for an increasing number of families, in particular. Between 2006/07 and 2016/17, the proportion of households in the private rented sector with children increased from 30% to 38%, equating to about 966,000 more households in the private rented sector with children. At the same time, over this 10 year period, there are now one million fewer households with children who are buying their homes with a mortgage.[51]

Figure 5.1

Trends in tenure 1980 to 2016/17



Source: Department for Communities and Local Government, English housing survey 2016/17, January 2018

50. Department for Communities and Local Government, English housing survey: 2016/17, January 2018

51. *Ibid.*

The last decade has also seen a shift within the social rented sector, with more households renting from housing associations and fewer from local authorities. In 2008/09, 2.0 million households rented from housing associations with 1.9 million renting from local authorities – by 2016/17 that gap had grown to 2.4 million from housing associations and 1.6 million from local authorities.[52]

Private rental prices have grown steadily over the past decade, with an overall 16% increase across England, Wales and Scotland between 2011 and 2018 – however growth has been slowing since the end of 2015 (particularly in Scotland).[53] In the social sector, rent rises in England were capped to an amount slightly above inflation for most of the decade, with a change in approach in 2015 when the government announced social housing rents would be reduced by 1% per year for four years.[54]

Meanwhile, rent arrears in the private rented sector in England have actually fallen slightly from 10.9% in 2011/12 to a consistent level of around 9% in recent years, while arrears in the social rented sector increased overall between 2011/12 and 2016/17.[55]

However, these official rent arrears figures, from the English Housing Survey, can mask greater incidences of financial difficulty, with many low income households borrowing money to cover their rent payments. Shelter found that one in three low-earning renters has had to borrow money to cover their rent and over half a million borrowed from credit cards, overdrafts or friends and family in the previous year alone.[56]

Figure 5.2

Source: Office for National Statistics, Index of Private Housing Rental Prices, Great Britain, July 2018

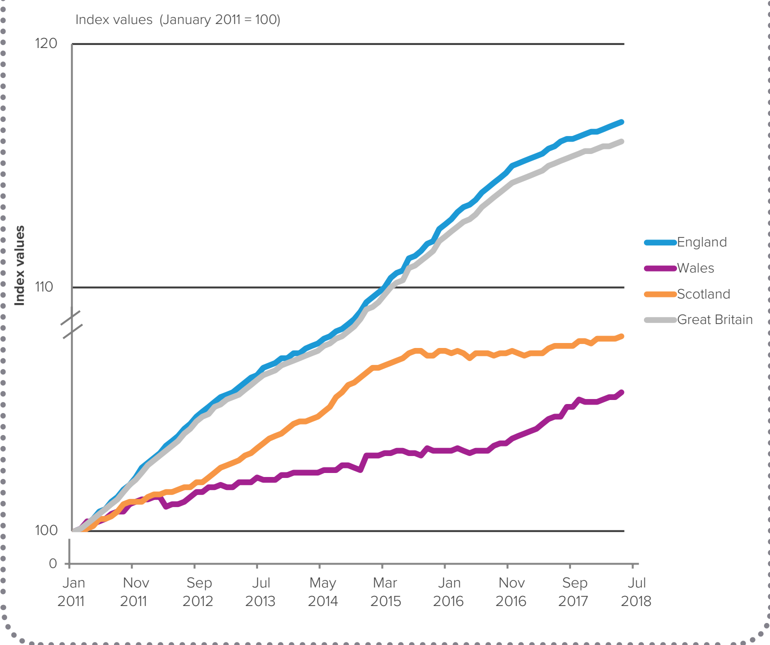
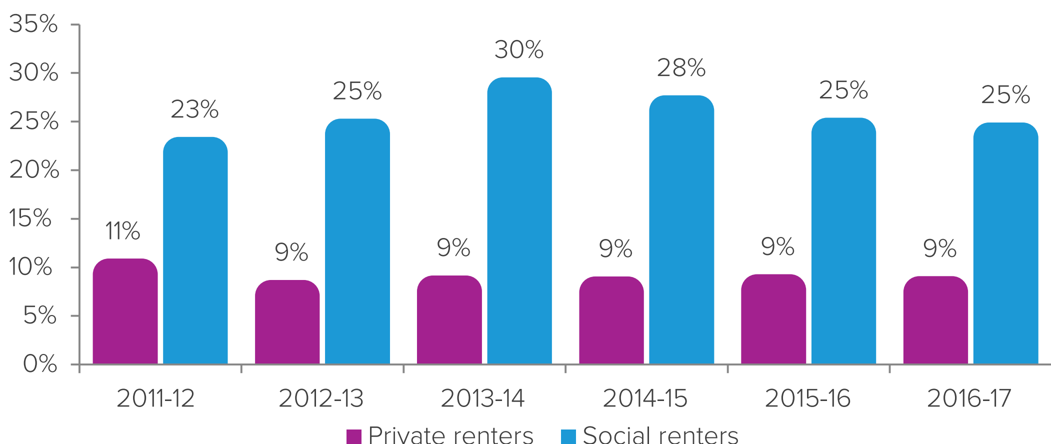


Figure 5.3

Source: Department for Communities and Local Government, English Housing Survey: 2016/17



52. Department for Communities and Local Government, English housing survey: 2016/17, January 2018
53. Office for National Statistics, Index of Private Housing Rental Prices, Great Britain, July 2018
54. House of Commons Library Briefing, Rent setting: social housing (England), November 2017
55. Department for Communities and Local Government, English housing survey: 2016/17, January 2018
56. Shelter and YouGov survey, May 2017

In addition, many low-earning private renters are only just managing to keep a roof over their heads, with 70% saying they either struggle with or fall behind on rent. This has left 800,000 private renters unable to save as little as £10 a month.[57]

There is some evidence that various welfare changes since 2012 have led to an increase in rent arrears,[58] including as a result of the under-occupancy penalty (more commonly known as the 'bedroom tax'), the benefit cap and the roll-out of Universal Credit which sees the housing element of the new combined benefit paid to tenants, rather than directly to landlords.

Mortgage repayments

The aftermath of the financial crisis saw a sharp increase in mortgage arrears,[59] leading the government to introduce the Mortgage Rescue Scheme and Support for Mortgage Interest (SMI) to help mortgage-payers in financial difficulty to avoid repossession.

The years since the financial crisis, however, have seen both mortgage arrears and repossessions decline steadily, thanks in large part to record low interest rates – with both now at record lows.[60]

Mortgage arrears (2.5% or more of balance outstanding) 2008 to 2018

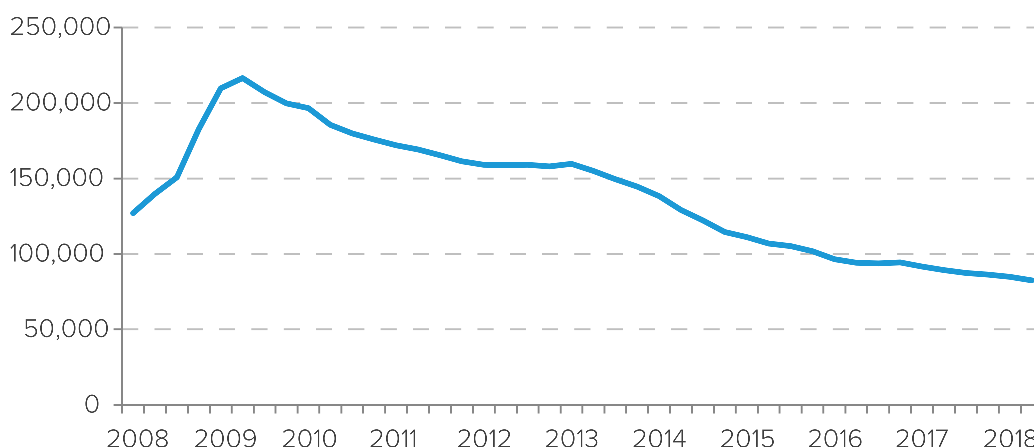


Figure 5.4

Source: UK Finance

Owner-occupied mortgage repossessions 2008 to 2018

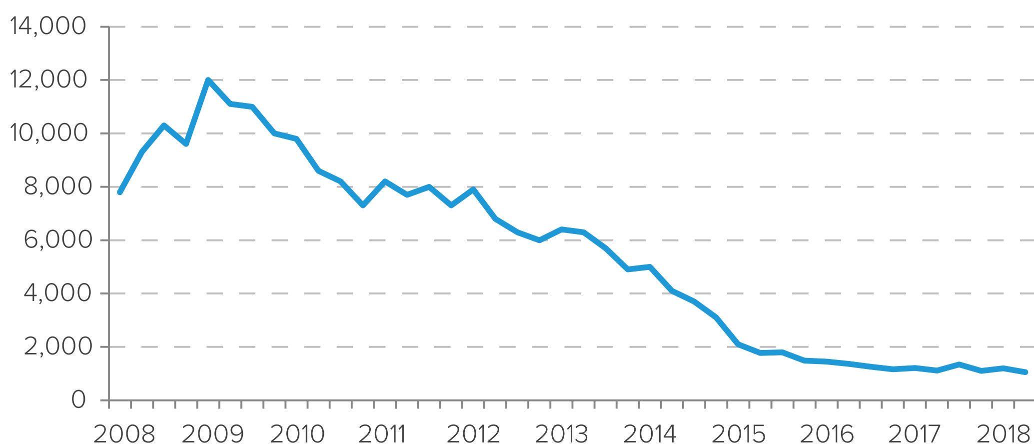


Figure 5.5

Source: UK Finance

57. Shelter and YouGov survey, May 2017

59. House of Commons Library Briefing, Mortgage arrears and Repossessions (England), November 2017

58. National Housing Federation, Welfare reform impact assessment: Final report, January 2015 and Association of Retained Council Housing and National Federation of ALMOs, Carrying the debt, July 2018

60. Ministry of Justice, Mortgage and Landlord Possessions Statistics January to March 2018, May 2018 and UK Finance, Mortgage Arrears and Possession Update, August 2018

Over the last decade, house prices have been rising relative to income levels in the UK, resulting in people borrowing more to buy their home. Coupled with the increase in consumer credit debt, the Bank of England Financial Policy Committee has raised concerns[61] that high levels of household debt risks the resilience of both borrowers and lenders, as highly indebted households are more vulnerable to unexpected falls in their incomes or increases in their mortgage repayments.

Interest rates remain low, however, and more than half of existing mortgages and 80% of new mortgages are on fixed-rate deals,[62] meaning that the impact of interest rate rises will not be felt immediately by most mortgage-payers.

While research confirms that most households are able to manage modest rises,[63] however, a significant minority of households, particularly 'mortgage prisoners' who are on a variable rate but unable to access a cheaper deal due to stricter affordability criteria,[64] could be badly impacted by rate rises.

There are separate concerns over households with interest-only mortgages approaching maturity. While the number of interest-only mortgages has decreased significantly, as lenders have encouraged borrowers to switch to repayment mortgages, around 200,000 of these mortgages are due to mature by 2020[65] – with many held by older people at risk of repossession.

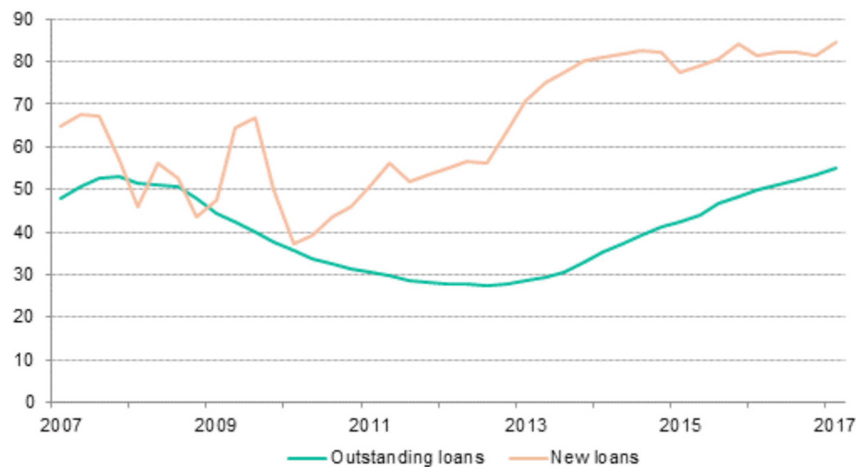
Furthermore, for some mortgage-payers on low incomes, there may be adverse consequences from the recent change to Support for Mortgage Interest (SMI) from a benefit to a loan, with less than a quarter of those eligible for a loan so far having taken this up.[66]

The Bank of England Financial Policy Committee has raised concerns that high levels of household debt **risks the resilience of both borrowers and lenders**.

Figure 5.6

Source: Council of Mortgage Lenders, July 2017

Proportion of new and existing loans on fixed rates



61. Bank of England, Financial Stability Report, November 2017
62. Council of Mortgage Lenders, Are mortgage payers prepared for interest rate rises?, July 2017
63. Resolution Foundation, Unhealthy interest? Debt distress and the consequences of raising rates, February 2018
64. Financial Conduct Authority, Mortgage market study interim report, May 2018
65. UK Finance, Interest Only Mortgages Update, May 2018
66. House of Commons Library Briefing, Support for Mortgage Interest (SMI) scheme, April 2018

What we have seen at National Debtline

These trends have impacted on what our advisers have seen at National Debtline with the proportion of people in rented property rising from 44% in 2010 to 68% in 2018. Conversely, callers to National Debtline who lived in a mortgaged property fell from 41% to 16% during the same period. As people renting privately tend to spend a larger amount of their income on housing, those who own their home outright or rent in local authority or housing association accommodation spend the least. This has also impacted on the types of debts we are dealing with.

With the increase in the number of people in rented property and the squeeze on incomes we have seen in the recent past, it is not surprising that at National Debtline the proportion of calls we are taking from people with rent arrears almost trebled from 6% in 2008 to 17% in 2018. At the same time, we have seen a converse trend in people with mortgage arrears, reflecting the changing housing market.

The average amount that callers owed on rent arrears in 2018 was £1,022, while the average mortgage arrears was £1,345.

National Debtline callers by housing status 2010 to 2018

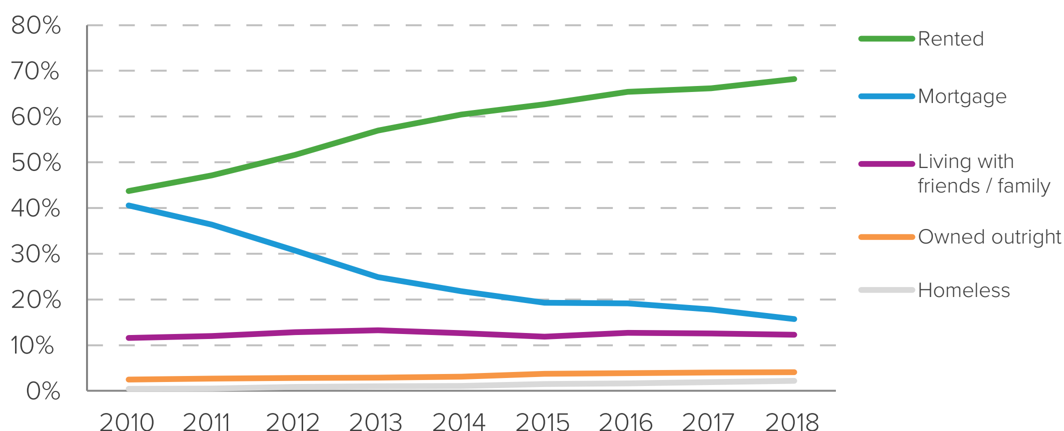


Figure 5.7

Source: National Debtline data

National Debtline callers with rent and mortgage arrears 2008 to 2018

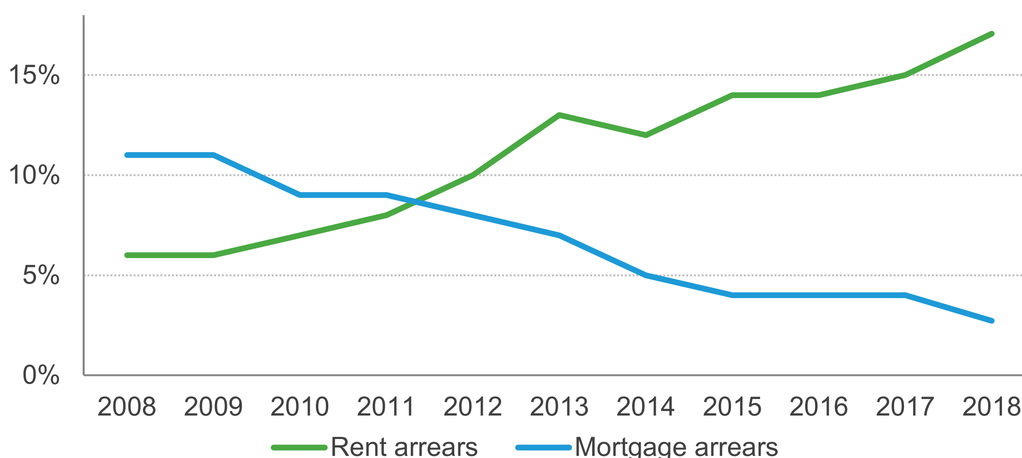


Figure 5.8

Source: National Debtline data

Recommendations

For both renters and mortgage-payers, there is more that can be done to support people with housing-related debts. Rising rent arrears, the impact of welfare reform on rent payments, changes to Support for Mortgage Interest and the potential timebomb of hundreds of thousands of interest-only mortgages coming to maturity, represent a multitude of problems that each require different solutions.

We recommend that:

- **Landlords** in both the social and private rented sector should adopt a proactive approach to identifying and **supporting tenants** who are falling into arrears, ensuring that tenants are signposted to debt advice and other resources to prevent early repossession action.

- **DWP** should ensure that all tenants have the right to request **direct payments** of the housing element of Universal Credit directly to their landlord, rather than waiting until rent arrears have accrued. DWP should also reconsider the high deduction rate for direct deductions for debts such as rent arrears within Universal Credit.

- **The government** should conduct a detailed, comprehensive, **cumulative impact study** of how changes since the Welfare Reform Act 2012 have affected people in financial difficulty, as recommended by the House of Lords Financial Exclusion Committee. This should include consideration of the extent to which changes have contributed to debt and arrears as a priority.

- **DWP** should formally review how the change from **Support for Mortgage Interest** payments from a benefit to a loan have impacted the people affected, and take action to improve the safety net for claimants, who are often older people in vulnerable circumstances.

- **The FCA** should work with mortgage lenders to ensure that there are adequate protections in place for older people with **interest-only mortgages** which are due to mature, and are at risk of repossession.

6. Council tax arrears

A decade in council tax

Council tax debt is now one of the most significant debt types that debt charities such as National Debtline are helping people to deal with.

The past decade has seen significant changes to local government finance as a result of a shift in government policy after 2010. Between 2011/12 and 2017/18, central government funding for local authorities fell by an estimated 49% in real terms – leaving councils increasingly reliant on council tax and business rates to fund local services, at a time of considerable pressures from increased demand.[67]

Council tax bills

In recent years these financial pressures have seen sharp increases in council tax bills – after a prolonged period when bills were kept low as a result of freezes introduced by the UK, Welsh and Scottish governments, and a requirement to hold a referendum on increases above a certain level in England.

In 2018/19, average council tax for a band D property in England stood at £1,671, up from £1,373 in 2008/09[68] – with nearly a third of this increase taking place in the last three years.

Council tax levels in Wales have followed a similar trend,[69] while in Scotland freezes in bills lasted longer, with 2017 reforms increasing bills for higher-banded properties.[70]

Localised support schemes

Another key change in government policy has been the replacement of the nationally-administered Council Tax Benefit with Local Council Tax Support (LCTS) schemes in England in April 2013. This change, accompanied by a 10% reduction in funding provided to local authorities for this purpose, has led to many councils setting a minimum payment – meaning those on the lowest incomes paying council tax for the first time.[71] An analysis by the New Policy Institute has found[72] that 2 million low-income families were charged an average £191 more in council tax in 2017/18 than they would have if the previous national Council Tax Benefit scheme was still in place.

The localisation of Council Tax Support has also led to a postcode lottery in England, with wide variations in levels of support and eligibility for schemes. The Welsh and Scottish governments have retained 100% support for local schemes, funded by the devolved administrations.

Council tax levels in England (average band D property)

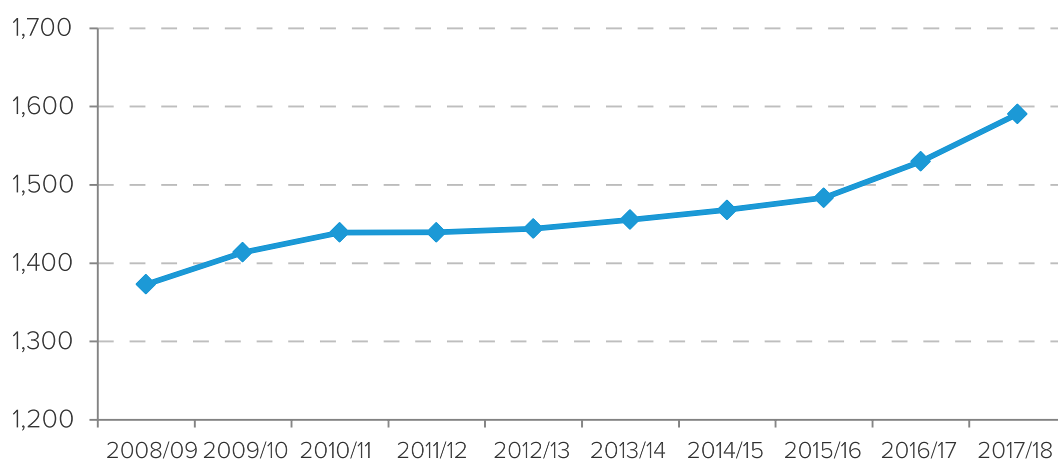


Figure 6.1

Source: Ministry of Housing, Communities and Local Government data (not adjusted for inflation)

67. National Audit Office, Financial sustainability of local authorities 2018, March 2018
68. Ministry of Housing, Communities and Local Government, Council tax levels set by local authorities in England 2018-19, March 2018
69. Welsh Government, Council tax levels in Wales 2018-19, March 2018
70. Scottish Government, Council tax reforms, April 2018
71. New Policy Institute, Are cuts to Council Tax Support in England a false economy for councils?, August 2017
72. New Policy Institute, Key changes to Council Tax Support in 2017/18, 2017

Higher arrears, greater scrutiny

The level of debt owed to local authorities has increased, with total amount of council tax arrears owed to local authorities in England standing at £3 billion in March 2018[73] – up from just under £2 billion in March 2009.[74] A further £1.27 billion was owed to local authorities in Scotland[75] and £87 million was owed to local authorities in Wales as at March 2018.[76]

This increase in arrears has been accompanied by increasing scrutiny of local government debt collection practices – and the use of bailiffs, now known legally as enforcement agents, to collect council tax debts in particular. The Money Advice Trust's Stop The Knock research[77] in 2017, based on Freedom of Information requests to local authorities, found that 1.38 million council tax debts were passed to bailiffs in 2016/17 – an increase of 10% on 2014/15.

An increase in demand for advice on bailiff action, together with evidence that reforms to enforcement law introduced in the form of new Taking Control of Goods regulations in April 2014 have not been effective, led to a coalition of 10 debt advice and other charities launching the Taking Control[78] campaign for bailiff reform in March 2017. The campaign, in which the Money Advice Trust is a partner, is calling for independent regulation, a single complaints mechanism and a review of fee structures to incentivise good practice.

What we have seen at National Debtline

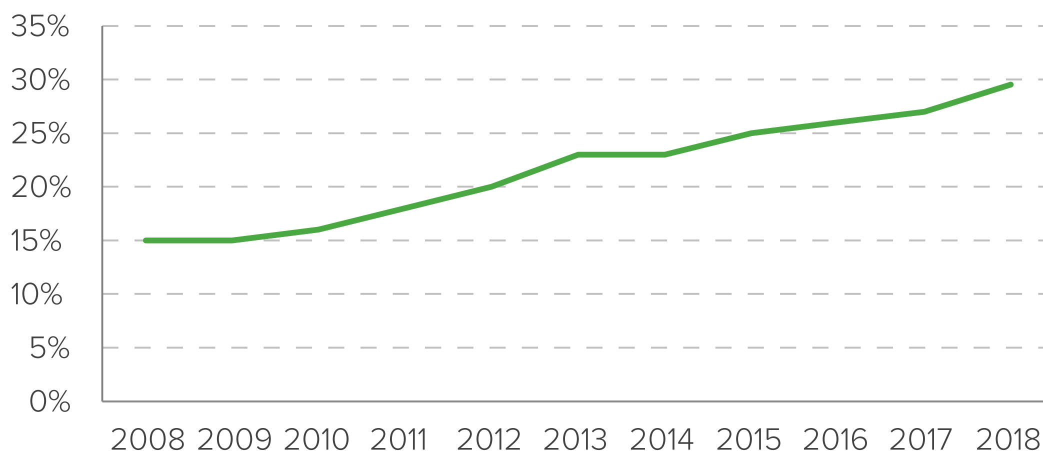
With rising council tax bills and reduced support for people on low incomes, it is perhaps not surprising that the number of people contacting debt advice charities such as National Debtline for help with council tax arrears has grown significantly. Payments towards council tax continue to compete with other essential household bills and credit commitments.

Council tax arrears are in fact amongst the fastest-growing debt types affecting callers to National Debtline, with 30% of callers being behind on their council tax bills in 2018 – up from just 15% in a decade ago.

In 2018, National Debtline callers with council tax arrears owed an average of £710 on their council tax.

Figure 6.2

Source:
National Debtline data



73. Ministry of Housing for Communities and Local Government, Collection rates and receipts of council tax and non-domestic rates in England 2017-18, June 2018
74. Department for Communities and Local Government, Collection rates and receipts of council tax and non-domestic rates in England 2011-12, June 2012
75. Scottish Government, Council Tax Collection Statistics 2017-18, June 2018
76. Welsh Government, Council Tax Collection Rates 2017-18, June 2018
77. Money Advice Trust, Stop The Knock 2017: Mapping local government debt collection practices, November 2017
78. AdviceUK, Christians Against Poverty, Citizens Advice, Money Advice Trust, StepChange Debt Charity, The Children's Society, Z2K, Taking Control: The need for undamental bailiff reform, March 2017

Recommendations

The significant growth in council tax arrears, and the impact of debt collection practices employed to recover these arrears, is adding significantly to the problem of financial difficulty in the UK. Scrutiny in this area – both on the actions of local government, and the actions of the bailiff industry (which it in large part sustains) – is only set to increase as arrears continue to grow. This is one area in which the government could make an immediate impact in tackling a key driver of financial difficulty for those on the lowest incomes.

We recommend that:

- **The government** should introduce, and fund, a requirement for councils to provide 100% support as part of their **Local Council Tax Support** schemes, to ensure that those identified as most in need of support using locally-set criteria are not required to pay.

- **The Ministry of Housing, Communities and Local Government** should place its existing Good Practice Guidance for Council Tax collection on a **statutory footing**, and introduce statutory reporting of local authorities' debt collection methods and outcomes to incentivise good practice.

- **Local authorities** should implement the **'six steps' to improve debt collection practices** outlined in the Money Advice Trust's Stop The Knock report, covering reducing bailiff use, signposting, affordability, vulnerability and other areas of best practice. (See below).

- **The Ministry of Justice** should introduce **comprehensive bailiff reform**, including independent regulation of bailiffs and bailiff firms, a single independent complaints mechanism and a revised bailiff fee structure, in line with the recommendations of the advice sector's joint Taking Control report.

STOP THE KNOCK
#STOPTHEKNOCK

Six steps for local authorities

In 2017 the Money Advice Trust's Stop The Knock report recommended six practical steps local authorities can take to improve their debt collection practices.

1. Make a clear public commitment to reduce the use of bailiffs over time
2. Review signposting to free debt advice, including phone/online channels
3. Adopt the Standard Financial Statement to objectively assess affordability
4. Put in place a formal policy covering residents in vulnerable circumstances
5. Exempt Council Tax Support recipients from bailiff action (England only)
6. Sign the Citizens Advice/Local Government Association Council Tax Protocol and examine the Money Advice Service toolkit for working with debt advice agencies

Find out more at www.stoptheknock.org

7. Energy arrears

A decade in energy bills

Energy bills are among the most significant expenses for many households, and the last decade has seen an increasing focus on this complex market. Recent years have seen the number of energy customers who are behind on their bills fall, but also increasing levels of energy debt for the hundreds of thousands of customers who are in arrears.

Energy prices

In 2017, the average weekly household spend on electricity was £11.10 and on gas £10.10.[79] While there have been some periods in which prices have fallen over the past few years, particularly for people on the cheapest available tariffs, the long-term trend has been an upward trajectory. Overall bills in 2017 were 39% higher in real terms than bills in 2001.[80] A series of price rise announcements by larger suppliers in late 2017 and 2018 seems to herald a return to rising bills.

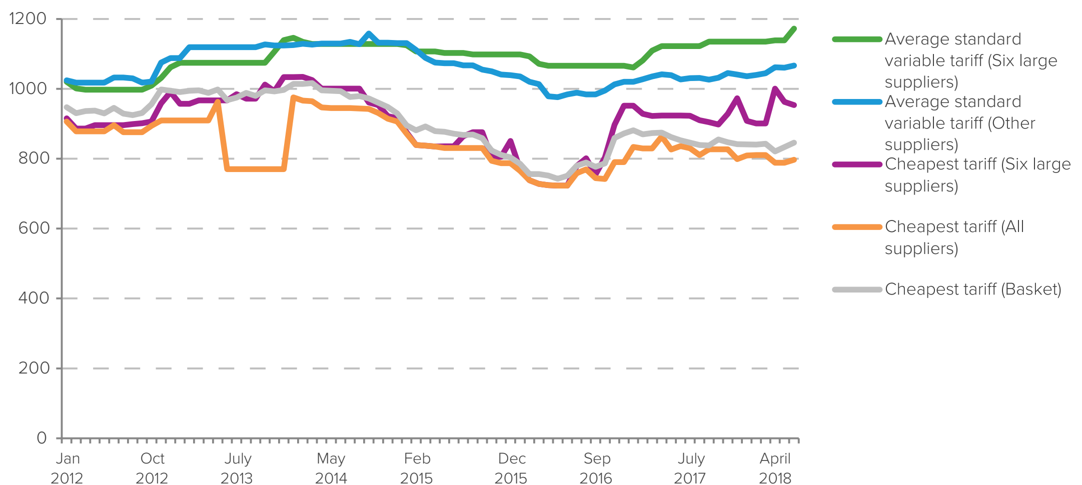
Average prices only tell part of the story, since there are wide variations in what consumers pay for equivalent amounts of energy.

The average available tariff in April 2018 was £1,138 a year, while the cheapest available tariff was £788, a difference of £350.[81] The retail energy market itself has become significantly more competitive in recent years, with nearly 70 active suppliers, and many smaller entrants attempting to challenge the dominance of the 'Big Six'. However, consumers who do not switch or actively seek out a cheaper deal have not felt the full benefits – and this group makes up a large proportion of consumers. As of September 2017, 57% of customers not covered by the prepayment safeguard tariff were on their supplier's Standard Variable Tariff – the 'default' rate and typically the most expensive.[82]

There is now a consensus that government and the regulator should step in to protect consumers who struggle to engage with the market or have less access to competitive tariffs. Ofgem introduced a safeguard tariff (price cap) for prepayment meter users in April 2017 and one for consumers who receive the Warm Home Discount in February 2018. Both are intended as temporary measures pending the full roll-out of smart meters by 2020, while a broader and perhaps more long-term safeguard tariff for vulnerable customers is expected by the end of 2018.

Figure 7.1

Source: Ofgem, Understanding trends in energy prices, May 2018 - figures based on typical domestic dual fuel customer paying by direct debit.



79. Office for National Statistics, Family spending in the UK: financial year ending 2017, January 2018
80. Ofgem, Vulnerable consumers in the retail energy market 2017 , October 2017
81. Ofgem, Infographic: Bills prices and profits, July 2018
82. Ofgem, Supplier standard variable tariff league table, December 2017

Customers in arrears

Data from energy suppliers shows that in 2016 over 513,874 electricity customers and 393,400 gas customers were in arrears. While these figures have been falling since 2013, the average amount that customers owe has increased, from £594 to £622 for gas and from £586 to £628 for electricity between 2015 and 2016.[83] This is in part due to the number of customers with low levels of debt falling rapidly, and sluggish reductions in the number of customers with high levels of debt.

Fuel poverty and self-disconnection

In England 2.5 million households (11%) are classed as being in fuel poverty, while fuel poverty measured against a different definition in Scotland and Wales stands at 748,000 households (31%) and 291,000 households (23%) respectively.[84] The proportion of households in fuel poverty in England has remained fairly stable over the past decade, fluctuating between 10% and 12%, with a decline between 2009 and 2013 and a more recent increase since 2014.[85]

Low incomes are one of the key drivers of fuel poverty, in part because energy costs are relatively fixed and cannot easily be reduced to match income. In 2016, the most recent year for which data is available, energy costs accounted for 8.4% of household income for those in the lowest income decile, compared to 2.6% for those in the highest income decile and 4% for all households.[86]

Other risk factors include higher energy use by necessity, including as a result of illness or disability, or poor energy efficiency.

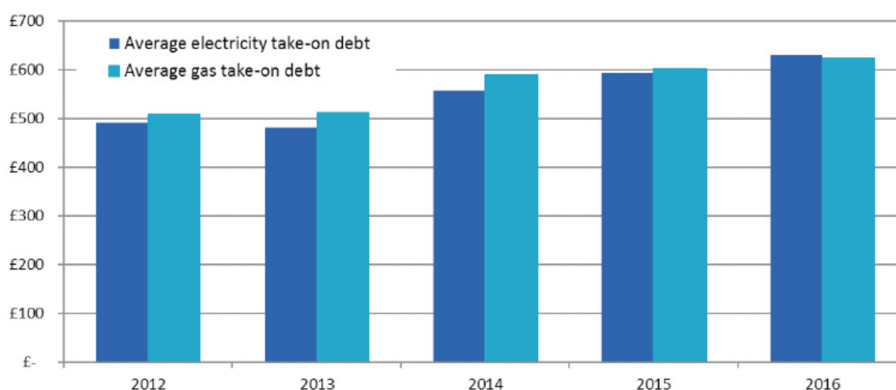
Self-disconnection is a real risk for many of the 15% of households who use prepayment meters. In recent research from Citizens Advice, 50% of households who use prepayment meters said that keeping their meter topped up and connected is a major concern.[87] The same research concluded that around 140,000 households could not afford to top-up their prepayment meter in the previous 12 months.

Financial assistance

Financial assistance is available to some households to help alleviate problems paying for energy. The Warm Home Discount provides an annual rebate of £140 to a core group of customers in receipt of Pension Credit and a broader group of other low-income customers, chiefly based on receipt of other means-tested benefits. This supports an estimated 2 million households each year.[88]

Figure 7.2

Average 'take-on debt' for electricity and gas 2012 to 2016



Source: Ofgem, Vulnerable consumers in the retail energy market 2017, October 2017.

83. Ofgem, Vulnerable consumers in the retail energy market 2017, October 2017. Debt amounts denoted in real terms and refer to the level of debt owed at the point when customers start repaying a debt ('take-on-debt).
84. Ofgem, Vulnerable consumers in the retail energy market, 2017. In Scotland and Wales, individuals are treated as being in fuel poverty if they would need to spend more than 10 per cent of their household income on fuel in order to heat it to an adequate standard. In England households are fuel poor if they have higher than typical energy costs and would have disposable income below the poverty line were they to meet those costs.
85. Department for Business, Energy and Industrial Strategy, Annual Fuel Poverty Statistics 2018, June 2018
86. Ofgem data portal, Energy spend as a percentage of total household expenditure, June 2018
87. Citizens Advice, Switched on: Improving support for prepayment customers who've self disconnected, April 2018
88. Citizens Advice, To get a fair deal on energy, people need accurate price comparisons, December 2017

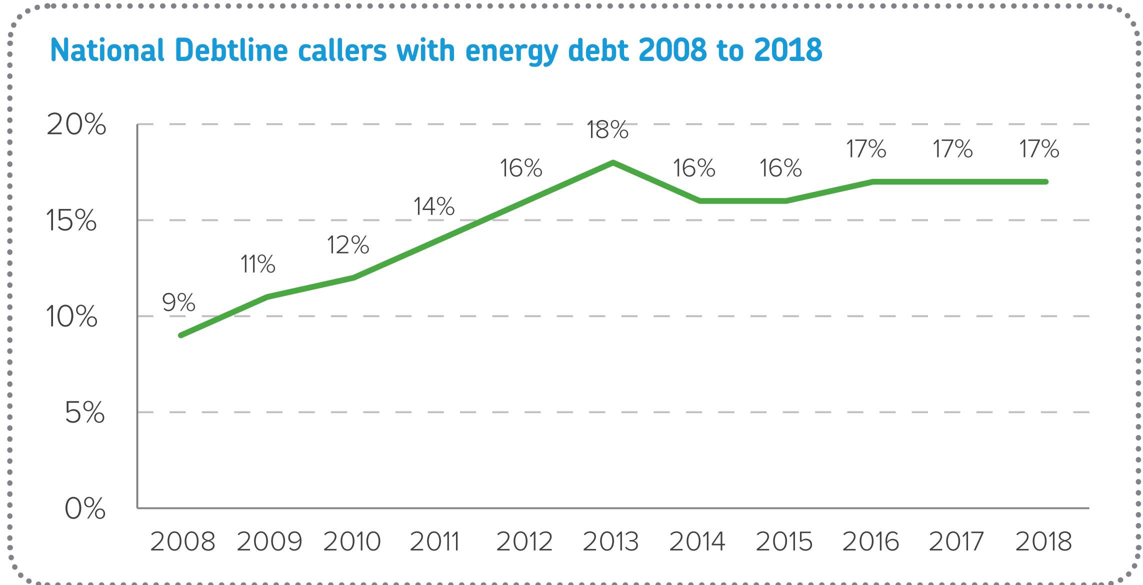
What we have seen at National Debtline

After a sustained rise in the wake of the financial crisis, the proportion of National Debtline callers with energy arrears reached a peak of 18% in 2013. While this figure has fallen slightly since, energy arrears still account for 17% of callers.

The average amount owed on energy debts was £972 in 2018.

Figure 7.3

Source: National Debtline data



Recommendations

With energy arrears now representing a sizeable component of the household debt landscape, action to prevent people from falling behind on energy bills, and tackling arrears early when they do arise, is a key part of answering the challenge of significantly reducing problem debt in the UK.

We recommend that:

- **Energy suppliers** should take all possible steps to **minimise levels of customer debt**, in particular by intervening to offer help and assistance to customers at an early stage. Suppliers should adopt a multi-channel approach and work with the debt advice sector to better understand and overcome barriers to customer engagement.

- **Ofgem** should work with energy suppliers to ensure that payment and debt recovery processes take better account of customers with **variable and irregular incomes**.

- **Government**, the **energy industry** and **SFGB** should explore ways to disseminate **energy saving advice** more widely and effectively, including by encouraging links between energy saving, money advice and financial capability services.

8. Water arrears

A decade in water bills

Although water bills are low in comparison with energy and other household costs, they represent a considerable expense for many households in England and Wales.[89]

Water bills

The average combined water and sewerage bill for households in England and Wales for 2017/18 was £395, with water bills having stayed broadly flat over the past decade in real terms.

While there is no formal definition of water poverty or water affordability, Ofwat have described the scale of the problem using two measures[90] – the proportion of customers spending more than 3%-5% of their household income (after housing costs) on water, and the percentage of customers that do not think that their water bill is affordable, using the Consumer Council for Water's (CC Water) customer research data.

Both of these measures have remained relatively stable since 2008/09 with the Consumer Council for Water indicating a peak in unaffordability of 20% in 2013/14 before stabilising at 12% between 2014/15 and 2016/17, equating to three million households who find their water bills unaffordable.[91] Water companies reported £2.2 billion in total outstanding debt in 2014, up from £1.7 billion in 2010,[92] and Ofwat have since tasked companies with reducing 'bad debts'.[93]

Average household water bills (adjusted for inflation, 2017 prices)

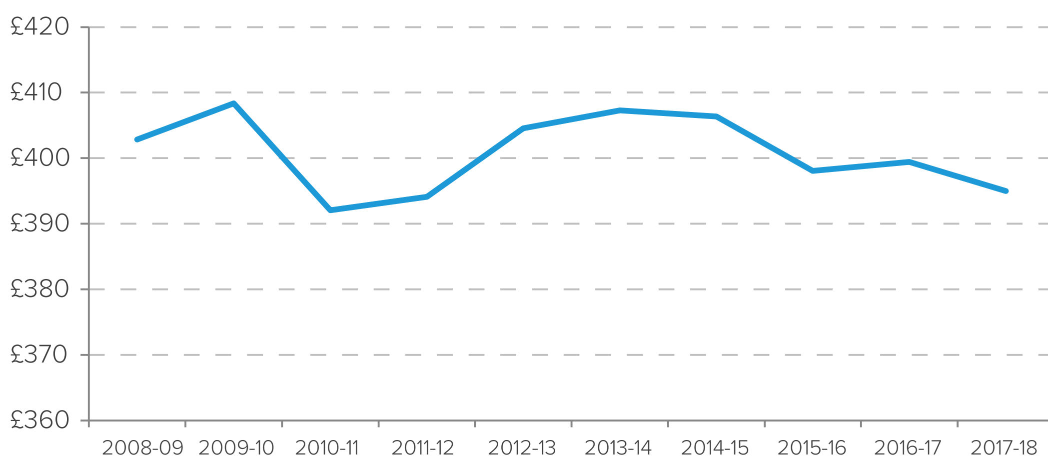


Figure 8.1

Source: Ofwat, Water UK average household combined water and sewerage bill data adjusted for CPI inflation (2017 prices)

89. Scotland has a very different system in which water charges are combined with council tax. It is therefore not considered here.

90. Ofwat, Affordability and Debt, 2014/15

91. Consumer Council for Water, Staying Afloat: Addressing consumer vulnerability in the water sector, 2016-17

92. Ofwat, Affordability and Debt, 2014/15

93. Ofwat, PN 13/17: Water companies must do more to address customer bad debt

Figure 8.2

Source:
Consumer Council for Water, Staying Afloat: Addressing consumer vulnerability in the water sector, 2016-17

Proportion of water customers that satisfy each measure of water poverty

	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
>3% income[2]	24%	24%	23%	24%	24%	24%	Data not available[3]		
>5% income[1]	11%	11%	10%	11%	11%	11%			
Unaffordable[4]	-	-	16%	12%	12%	20%	12%	12%	12%

[2] Source: Ofwat analysis of the Department for Work and Pensions Family Resources Survey
[3] Ofwat's last review was in 2013-14 and further data is not available.
[4] Source: CCWater annual tracking surveys

While water companies do not have the power to disconnect or install prepayment meters, they do have recourse to other debt recovery and enforcement options, including the use of High Court Enforcement Officers. This may well be an appropriate course of action in cases of deliberate non-payment, but not where customers are genuinely unable to pay or are in a vulnerable situation. The additional costs and stress to customers, along with loss of trust in the company, makes this high risk and counterproductive.

In recent years, Ofwat, has set out its expectation that companies find better ways to identify and support customers who are, or are at risk of, struggling to pay their bills, with all water companies required to set this out in late 2018. It has given a target for companies to deliver a 5% average drop in prices in real terms between 2015-20.[94]

Financial assistance

An important positive development over the last few years has been the growth of discounted 'social tariffs', which all water companies now offer, often alongside other help such as debt write-off schemes and water-saving advice. At the end of 2016/17, there were 260,540 customers on company social tariffs[95] – with discounts for some customers reducing an annual bill by as much as 80% or 90%. This represents significant progress – however at 1%, the number of customers on social tariffs compares unfavourably with the 12% who find their bills unaffordable.

A key issue with social tariffs is their significant degree of variation. Eligibility criteria, discount levels and application processes are all decided individually by each company. While there has been encouraging signs of water companies seeking to align their eligibility criteria at a regional level, the current picture results in a classic 'postcode lottery' with very significant differences in which customers can benefit and the amount of help available across supply areas.

Low take-up has also been an issue, with water companies struggling to identify eligible customers, not helped by the limited customer data typically available to them. Positive work with housing and charity sector partners to boost awareness at a local level has helped, but the variation in schemes makes it challenging for national advice agencies to fully participate in this. Funding is a challenge, as social tariffs are currently funded primarily through water bills and therefore by customers.

94. Ofwat, Annual report and accounts, 2017/18 , June 2018
95. Consumer Council for Water, Staying Afloat: Addressing consumer vulnerability in the water sector, 2016-17, September 2017

What we have seen at National Debtline

As with many other household bills we have seen an increase in the number of people calling our service about water debt, with the percentage doubling from 4% to 8% between 2008 and 2011. Numbers began to stabilise between 2012 and 2015, however they then began to rise again, increasing to 16% by 2018.

This suggests that despite some measures of water poverty showing a stabilising picture since 2013, many households are continuing to struggle with the cost of their water bills. Typically callers in 2018 owed an average of £646 on their water bills.

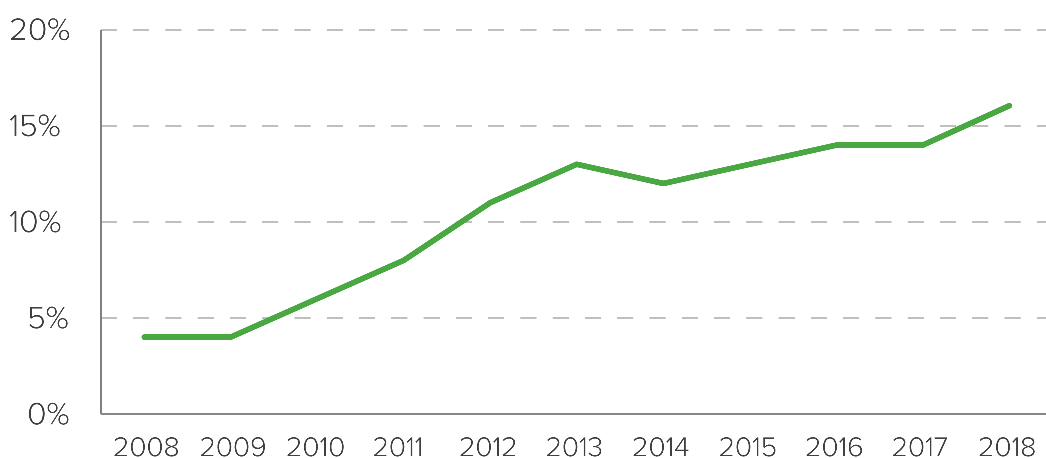


Figure 8.3

Source: National Debtline data

Recommendations

While water bills only account for a small proportion of individual consumers' debts, the fact that they are a growing issue and that water companies regularly refer to enforcement action is a concern. The regulator's new strategy, and requirement to deliver a drop in prices, should drive a renewed focus on supporting customers – particularly those in vulnerable circumstances.

We recommend that:

- **Water companies** should align their **social tariff** eligibility criteria and application processes to overcome the current complexity. Tariffs should be designed to be simple, clear and accessible, avoiding unnecessary barriers for consumers and advice providers.
- **Ofwat** should review and publish **aggregate level measures** from their Delivering Water 2020 Strategy, Addressing Affordability and Vulnerability, covering the number of people finding water bills affordable, in debt, on repayment plans, applying for affordability assistance and awareness of affordability assistance.
- **Water companies** should review their **debt collection and enforcement process** and ensure they use court enforcement only as a last resort, and not at all in cases where customers are in a vulnerable situation.

9. Telecoms arrears

A decade in telecoms

Advances in technology continue to shape the lives of people in the UK, with 96% of adults owning a mobile phone in 2017, and 92 million mobile subscriptions by the end of that year.[96]

The last decade has seen a significant rise in the number of people owning a smartphone, from just 17% in 2008 to 78% by 2018, with 72% of people using their mobile to access the internet. As a result, households now spend more time accessing the internet through smart devices than any other way – 41% compared to 25% for laptops and PCs.[97]

It is evident that the smartphone is becoming an essential device for many, with an average spend of £87 a month on telecoms costs.[98]

Despite advances in technology, however, close to one in eight households (12%) still report not having access to the internet, with 14% of those citing this being too expensive as the main reason.[99]

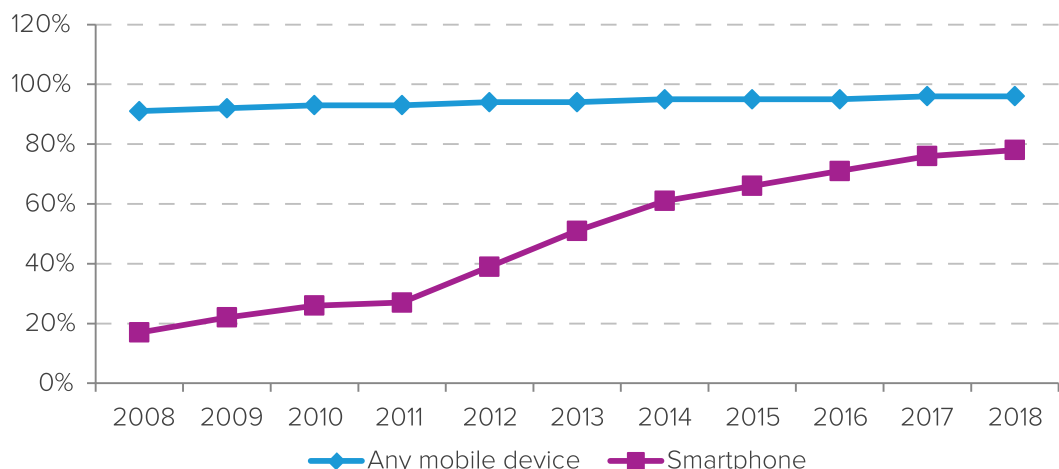
Given the increasing emphasis on 'digital-first' services, especially via smartphones and app technology, there is a risk that some people may find themselves unable to gain easy access to essential services because they cannot afford to use the internet.

Prices and arrears

In the communications market, unlike many other markets, prices and spending have fallen over recent years. Between 2006 and 2016, average household spend on telecoms and TV services fell 8% to £117 per month, despite usage going up.[100] One factor in this is the growth of 'bundled' services – different types of communication service sold as a package at a discounted rate. This has helped to drive down prices but also created a more complex market which is increasingly difficult for some consumers to navigate.

Figure 9.1

Source: Ofcom Communications market report 2017, August 2018



96. Ofcom Communications market report 2017 (interactive), August 2018
97. *Ibid.*
98. *Ibid.*
99. *Ibid.*
100. Ofcom, Pricing trends for communications services in the UK, May 2018.

Not all consumers have benefited from bundling. One example is customers who pay for a landline without broadband, who are less likely to engage and more likely to be vulnerable than typical consumers. Ofcom has intervened to mandate price reductions after concerns about this section of the market.[101] Staying with a provider after an initial deal has ended can also prove costly. Citizens Advice points to a £113 'loyalty penalty' for broadband customers who remain with their provider after their initial deal has finished.[102] Many mobile tariffs include the price of a handset, so consumers risk overpaying if they remain on the same mobile package after a fixed deal has ended.

Ofcom's survey data also shows that while 2% of adults with responsibility for communications claimed to have some form of communications debt in 2016, overall 9% say they faced difficulty paying for services in 2016. 16-34 year olds, who are most likely to use a smartphone, are more likely to report difficulty in paying, as are those with long-term disability/illness.

In terms of telecoms specifically, 2% of people with responsibility for landlines reported difficulty paying, up from 1% the previous year, and 3% reported difficulty paying for a mobile phone, up from 2%.[103] While these numbers may seem low, Ofcom's research also points to consumers facing the same level of difficulty in the telecoms market, as in other utilities.[104]

What we have seen at National Debtline

With the growth in the number of people reliant on mobile and smartphones, it is unsurprising that National Debtline has seen significant growth in the number of people calling about either mobile or landline debt in the last decade, rising from just 4% of callers in 2008 to 14% by 2018.

In 2018 12% of callers had a mobile phone debt – up from 9% in 2016, while 5% of callers owed money on a landline – up from 2% in 2016.

The average amount owed in telecoms arrears in 2018 was £432.

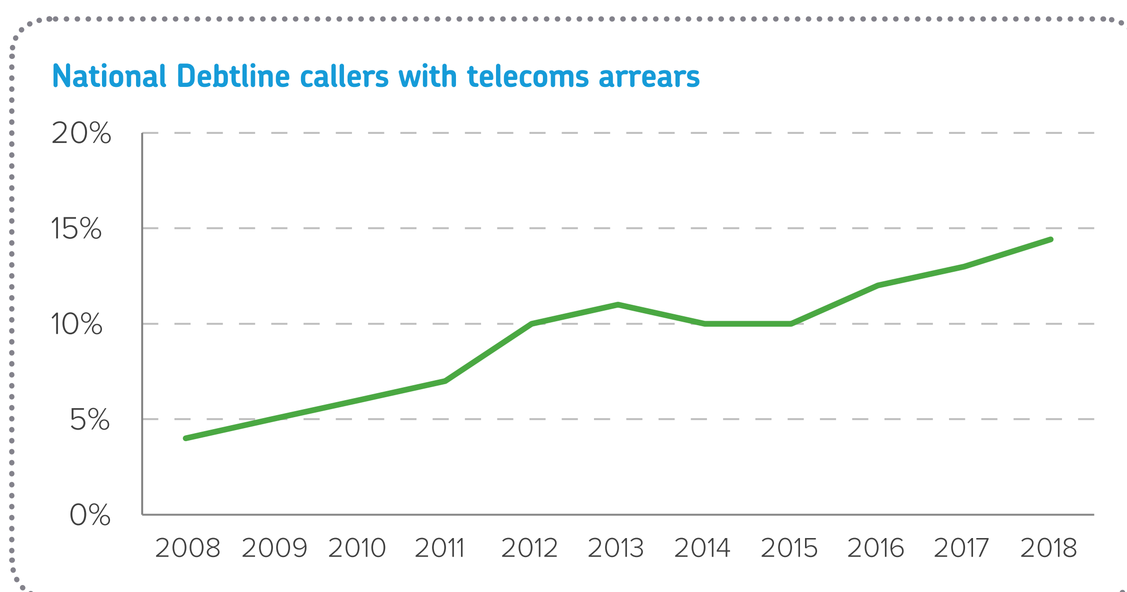


Figure 9.2

Source: National Debtline data

101. Ofcom, Bills cut for BT landline-only customers from Sunday, March 2018

102. Citizens Advice, Exploring the loyalty penalty in the broadband market, April 2017

103. *Ibid.*

104. Ofcom, Affordability of comunications services tracker, December 2016

The Money Advice Trust's previous research looking at the experiences of 18-24 year olds[105] found evidence that mobile phone costs are causing financial challenges for a small minority. Around one in twelve 18-24 year olds (8.5%) reported a 'regular struggle' to pay their mobile phone bill or top up their mobile phone credit – equivalent to an estimated 485,000 young people. Of those who had a mobile phone contract, 8% had missed one or more monthly payments within 12 months and 7% had borrowed money from a family member or friend in order to cover mobile phone costs.

Debt trends seen at National Debtline run in contrast to price trends, suggesting there are other factors at work beyond general affordability pressures.

One likely factor is higher than typical spending on communications by some households, for example those paying for a number of different services or contracts, or particularly expensive contracts. Fluctuating income is perhaps another factor. Keeping up with a fixed monthly contract can be a particular challenge for customers whose incomes vary markedly.

A number of advice agencies have expressed concerns about debt recovery practices in the mobile phone sector, with welcome action from Ofcom recently introduced[106] to ensure providers have policies in place and that these are published to customers.

Recommendations

Supporting customers to manage short-term difficulties and avoid unnecessary arrears and loss of service will be an important consideration for service providers as the number of people struggling to meet their payments continues to grow. There is a need for communications providers to learn from other, more established 'creditor' markets to ensure that customers in financial difficulty are supported appropriately.

We recommend that:

- **Communications providers** should ensure that **customer-facing staff** are able to spot signs of financial difficulty and respond sympathetically and positively – signposting customers to free, independent debt advice and offering affordable repayment plans.
- **Communications providers** should explore **alternative options** to withdrawing services and cancelling contracts when a customer falls into the early stages of arrears. These alternatives include temporary forbearance, affordable repayment plans or a cheaper alternative package, to resolve payment difficulties and avoid loss of services.
- **Ofcom** should require communications providers to **publish data** on the number of accounts in arrears, levels of debt owed and customer disconnections, with a view to identifying trends and issues requiring further attention.
- **Ofcom** and mobile phone providers should work with the advice sector to **review debt collection practices** and establish good practice protocols, using the Citizens Advice mobile phone charter as a starting point.[107]

105. Money Advice Trust, Borrowed Years, August 2016

106. Citizens Advice, Falling behind: an assessment of debt collection practices in the mobile phone market, January 2016 and Ofcom, Statement: Review of general conditions of entitlement, July 2018

107. Citizens Advice, Dialling down debt: our charter to improve mobile phone debt collection practices, October 2016

Around one in twelve 18-24 year olds reported **a 'regular struggle' to pay their mobile phone bill** or top up their mobile phone credit.

10. Benefit and tax credit overpayments

A decade in overpayments

The last decade has seen significant changes in the welfare system, with the Welfare Reform Act 2012 and the roll-out of Universal Credit. At the same time, in 2010 the government placed a concerted effort on tackling levels of fraud and progressively reducing error and debt in the benefits and tax credit system, by launching a Fraud, Error and Debt Taskforce.[108] With both of these programmes making their mark, debt advice charities are increasingly dealing with people who have benefit and tax credit overpayments to repay.

An overpayment of benefits or tax credits can occur when claimants receive an award they are not entitled to, or for a higher amount than they should have received. This could be due to genuine error, either by the claimant or the government,[109] or intentional on the part of the claimant, in which case the claim is deemed to be fraudulent. Overpayments can arise in connection with the Department for Work and Pensions (DWP), local authorities during the collection of Housing Benefit, and HM Revenue & Customs (HMRC) in respect of tax credits.

Increasing benefit overpayments

Overpayments in the benefit system have remained broadly at just above 2% of expenditure on welfare over the past decade – but have increased significantly in monetary terms, from £2.9 billion in 2008/09 to a record £3.6 billion in 2016/17. DWP has estimated[110] record highs in 2016/17 for overpayments of Housing Benefit (6.4%), Employment and Support Allowance (4.0%) and Universal Credit (5.5%) and a near-record high in Jobseeker's Allowance overpayments (6.1%), with overpayments on Pension Credit falling (now 4.8%).

DWP figures show a significant increase in fraud over the last decade, with overpayments due to error in decline across all benefit types. While levels of fraud are on the rise and claimant error and official error are at their lowest level ever, more proactive strategies to recoup historic debts have resulted in £1 billion recovered jointly by DWP and local authorities in 2015/16, an increase of £70 million since 2014/15.[111] During the first two quarters of 2017/18, for Housing Benefit alone £445 million in overpayments were identified, £328 million overpayments were recovered and a further £43 million were written off.[112]

Since 2012, DWP has strengthened the sanctions it can impose on fraudulent claims. With the exception of Universal Credit[113] – DWP figures show that more than half of overpayments (55%) related to fraud in 2016/17.[114] The department also introduced a fine for claimant error, which along with official error, is estimated to be falling. More than 150,000 fines for error were imposed between 2012 and 2016.[115]

108. HM Government, Tackling Fraud, Error and Debt in the benefits and tax credit system, March 2015

109. National Audit Office, Understanding fraud and error in benefits and tax credits; a primer, July 2015

110. Department for Work and Pensions, Fraud and Error in the Benefit System: Final 2016/17 Estimates, November 2017

111. Hansard, Fraud, Error and Debt Measures: Written Statement (Damian Green), February 2017

112. DWP, Housing Benefit Debt Recovery Statistics, 7th March 2018

113. Department for Work and Pensions, Fraud and Error in the Benefit System: Final 2016/17 Estimates, November 2017

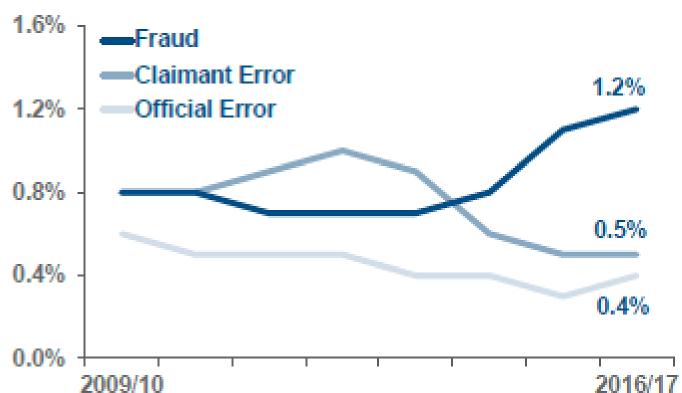
114. *Ibid.*

115. Department for Work and Pensions, Fraud and Error in the Benefit System: Final 2016/17 Estimates, November 2017

Figure 10.1

Source: Department for Work and Pensions, Fraud and Error in the Benefit System, Final 2016/17 Estimates

Fraud and error in the benefits system 2009/10 to 2016/17



The transition to Universal Credit

Constituting by far the biggest change to the welfare system ever attempted, the challenges of combining six different benefits into the new Universal Credit have been well documented. While Universal Credit aims to simplify the system, as the new benefit is rolled out the number of complex claims is increasing.

DWP estimates[116] that 'official error' stood at 2% of expenditure on Universal Credit in 2016/17 (equivalent to £30 million) – significantly higher than for legacy benefits. Nearly half of these errors relate to the housing element, affecting 43% of all claims – with notified changes not being acted upon or being put in place late, resulting in incorrect payments.

Tax credit overpayments

Overpayments of Working Tax Credit (WTC) or Child Tax Credit (CTC) can occur for similar reasons to benefit overpayments, and are often caused by changes in circumstances and payments being made on the basis of out-of-date information. HMRC has also significantly ramped up its penalty regime for tax credit-related offences – with 15,182 penalties imposed in 2013/14, a five-fold increase from 2,769 in 2011/12.[117]

Recovery of overpayments

Recovery of overpayments, especially if in the form of a deduction to benefits, can come as an unexpected surprise to people, and add to underlying issues with finances, as the sums can be quite significant. For example, as at July 2017 the average Housing Benefit overpayment outstanding per claimant stood at £452, and £821 in London.[118]

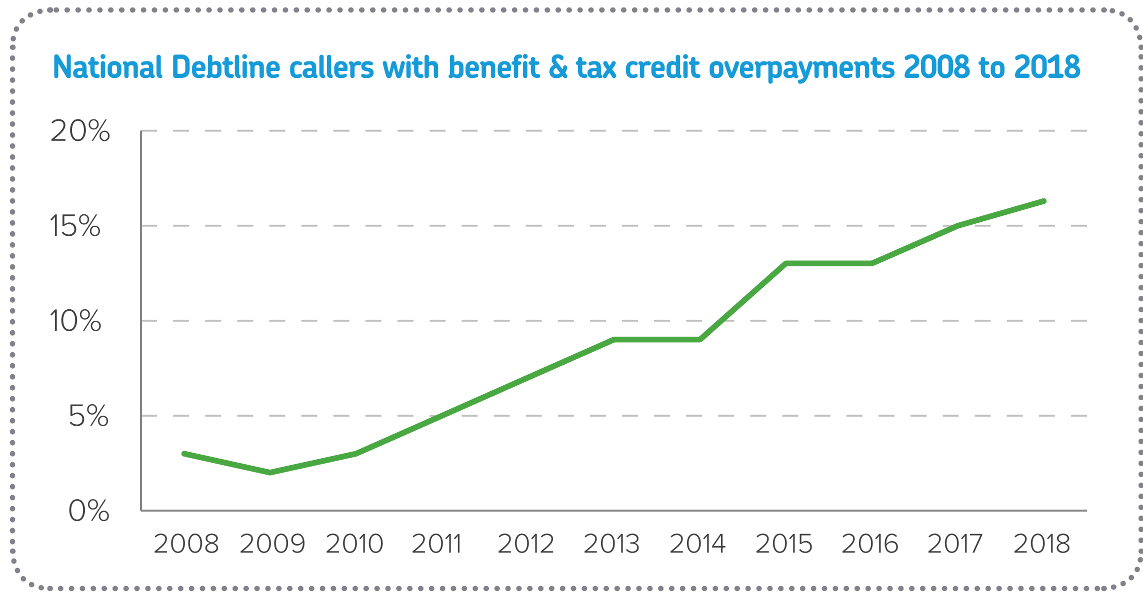
What we have seen at National Debtline

The number of callers to National Debtline relating to benefit and tax credit overpayments has risen from just 3% of callers in 2010 to 16% in 2018. In 2018, callers with overpayments owed an average of £1,938 – more than any other priority debt type. Callers with benefit overpayments owed an average of £2,035, while callers with tax credit overpayments owed an average of £1,367.

Recovery of overpayments can come as an unexpected surprise to people, and **add to underlying issues with finances**.

Figure 10.2

Source:
National Debtline data



116. *Ibid.*

117. HM Government, Tackling Fraud, Error and Debt in the benefits and tax credit system, March 2015

118. DWP, Housing Benefit Debt Recovery Statistics, March 2018

Recommendations

With benefit and tax credit overpayments an increasingly significant component of the UK's debt landscape – and likely to continue to grow with the roll-out of Universal Credit – there is a need to tackle both the causes of overpayments and to improve debt collection practices for those claimants who have been overpaid.

Overpayments are one aspect of a wider need to ensure better co-ordination of debt recovery across government departments and agencies – a need that the government has recognised through the establishment of the cross-government Fairness Group.

We recommend that:

- **DWP and HMRC** should make it much easier for people to make **arrangements to pay** amounts they can afford, particularly where they are in vulnerable circumstances and facing hardship.
- **DWP and HMRC** should work together to ensure that **recovery procedures** work well together, across departments. If there is a time to pay agreement for a tax credit overpayment with HMRC then this arrangement should be honoured by the DWP.
- **DWP** should review how the **Direct Earnings Attachment** process works and make sure that there is a robust system in place for agreeing alternative more affordable arrangements, and for taking circumstances into account.
- **DWP** should reconsider the **high rates of deductions** that are currently allowed under Universal Credit for benefit and tax credit overpayments, rent arrears and magistrates' court fines, which risk increasing financial difficulty for people in debt. These should be lowered to match the 5% rate of deduction applicable to other debts such as utility arrears.
- **Government creditors** more broadly should continue to work more closely with the advice sector through the Fairness Group, and develop common best practice on debt collection to drive up standards across departments and agencies. This should include development of a **single customer view** to ensure a joined up approach across government.

11. Summary of recommendations

The recommendations presented throughout this report are grouped here into our recommendations for government, regulators, creditors and the advice sector.

For government

- **The government** should work with the **SFGB and FCA** to significantly increase funding for frontline debt advice services, to close the growing gap between supply and demand. This should be placed at the heart of a new **formal cross-government strategy** to reduce problem debt, with HM Treasury bringing together the work of the SFGB, regulators, DWP and all relevant government departments and agencies into a single coherent approach.

- **HM Treasury** should ensure that its **Breathing Space** scheme provides people in debt with protection from all types of creditor (including utilities, local authorities and central government departments and agencies) to reflect the realities of problem debt today.

- **The government** should revive the recently-shelved **Goods Mortgages Bill**, which would have delivered much-needed reforms to archaic legislation behind logbook loans. In the absence of the revival of this Bill, the **FCA** should urgently extend its work on high-cost credit to consider protections for logbook loan borrowers.

- **The government**, through its Financial Inclusion Policy Forum, should develop a social policy solution to the lack of **affordable credit**, as a third major pillar of a new cross-government strategy to tackle problem debt, alongside the Single Financial Guidance Body and the Breathing Space scheme. This should be developed in partnership with **UK Finance** and should take lessons from international models of best practice.

- **DWP** should ensure that all tenants have the right to request **direct payments** of the housing element of Universal Credit directly to their landlord, rather than waiting until rent arrears have accrued. DWP should also reconsider the high deduction rate for direct deductions for debts such as rent arrears within Universal Credit.

- **The government** should conduct a detailed, comprehensive, **cumulative impact study** of how changes since the Welfare Reform Act 2012 have affected people in financial difficulty, as recommended by the House of Lords Financial Exclusion Committee. This should include consideration of the extent to which changes have contributed to debt and arrears as a priority.

- **DWP** should formally review how the change **from Support for Mortgage Interest** payments from a benefit to a loan have impacted the people affected, and take action to improve the safety net for claimants, who are often older people in vulnerable circumstances.

- **The government** should introduce, and fund, a requirement for councils to provide 100% support as part of their **Local Council Tax Support** schemes, to ensure that those identified as most in need of support using locally-set criteria are not required to pay.

- **The Ministry of Housing, Communities and Local Government** should place its existing Good Practice Guidance for Council Tax collection on a **statutory footing**, and introduce statutory reporting of local authorities' debt collection methods and outcomes to incentivise good practice.

- **The Ministry of Justice** should introduce **comprehensive bailiff reform**, including independent regulation of bailiffs and bailiff firms, a single independent complaints mechanism and a revised bailiff fee structure, in line with the recommendations of the advice sector's joint Taking Control report.

- **Government**, the **energy industry** and **SFGB** should explore ways to disseminate **energy saving advice** more widely and effectively, including by encouraging links between energy saving, money advice and financial capability services.

- **DWP and HMRC** should make it much easier for people to **make arrangements** to pay amounts they can afford, particularly where they are in vulnerable circumstances and facing hardship.

- **DWP and HMRC** should work together to ensure that **recovery procedures** work well together, across departments. If there is a time to pay agreement for a tax credit overpayment with HMRC then this arrangement should be honoured by the DWP.

- **DWP** should review how the **Direct Earnings Attachment** process works and make sure that there is a robust system in place for agreeing alternative more affordable arrangements, and for taking circumstances into account.

- **DWP** should reconsider the **high rates of deductions** that are currently allowed under Universal Credit for benefit and tax credit overpayments, rent arrears and magistrates' court fines, which risk increasing financial difficulty for people in debt. These rates should be lowered to match the 5% rate applicable to other debts such as utility arrears.

- **Government creditors** more broadly should continue to work more closely with the advice sector through the Fairness Group, and develop common best practice on debt collection to drive up standards across departments and agencies. This should include development of a **single customer view** to ensure a joined up approach across government.

For regulators

- **The FCA** should go further in its proposed remedies to tackle **persistent credit card debt**, significantly reducing the 36 month time frame in its current plans and introducing a simple and universally applicable method for people to opt out of credit card limit increases.

- **The FCA** should set an early 'end date' after which it will assess whether monthly maximum charges for **unauthorised overdrafts** set at the individual bank level, as prompted by the Competition and Markets Authority, have been effective in delivering significant reductions in the charges being paid by people in financial difficulty. The FCA should then make a quick decision on whether to introduce an industry-wide cap.

- The **FCA** should intervene to simplify arranged and unauthorised **overdraft prices**, including banning all fixed fees and aligning interest rates between the two, and extend its planned interventions to tackle persistent overdraft debt to all personal current accounts and not just larger firms.

- **The FCA** should extend the principle of **capping the cost of credit** at 100% of the amount borrowed to the rent-to-own and home-collected credit sectors, and reconsider its decision to exclude guarantor lending from immediate action within its high-cost credit review.

- **The FCA** should work with mortgage lenders to ensure that there are adequate protections in place for older people with **interest-only mortgages** which are due to mature, and are at risk of repossession.

- **The FCA** should ensure that its new **vulnerability guidance** due to be published in 2019 encourages firms to consider the full range of vulnerable circumstances that customers face, and delivers a new burst of momentum from industry in this crucial area. Beyond this, there should be a comprehensive debate on the FCA's **duty of care** discussion paper, which should include its potential impact on all customer groups.

- **Ofgem** should work with energy suppliers to ensure that payment and debt recovery processes take better account of customers with **variable and irregular incomes**.

- **Ofwat** should review and publish **aggregate level measures** from their Delivering Water 2020 Strategy, Addressing Affordability and Vulnerability, covering the number of people finding water bills affordable, in debt, on repayment plans, applying for affordability assistance and awareness of affordability assistance.

- **Ofcom** should require communications providers to **publish data** on the number of accounts in arrears, levels of debt owed and customer disconnections, with a view to identifying trends and issues requiring further attention.

- **Ofcom** and mobile phone providers should work with the advice sector to **review debt collection practices** and establish good practice protocols, using the Citizens Advice mobile phone charter as a starting point.

For creditors

- **Creditors** should consider the growth in **variable incomes** when developing their policies and processes, including when setting affordable payment arrangements, designing forbearance measures and collecting debts from customers.

- **Creditors** should place improving outcomes for customers in **vulnerable circumstances** high on their agenda, including developing robust vulnerability policies and training to equip staff to identify and support customers with the full range of vulnerable circumstances they may face.

- **Landlords** in both the social and private rented sector should adopt a proactive approach to identifying and **supporting tenants** who are falling into arrears, ensuring that tenants are signposted to debt advice and other resources to prevent early repossession action.

- **Local authorities** should implement the **'six steps' to improve debt collection practices** outlined in the Money Advice Trust's Stop The Knock report, covering reducing bailiff use, signposting, affordability, vulnerability and other areas of best practice.

- **Energy suppliers** should take all possible steps to **minimise levels of customer debt**, in particular by intervening to offer help and assistance to customers at an early stage. Suppliers should adopt a multi-channel approach and work with the debt advice sector to better understand and overcome barriers to customer engagement.

- **Water companies** should align their **social tariff** eligibility criteria and application processes to overcome the current complexity. Tariffs should be designed to be simple, clear and accessible, avoiding unnecessary barriers for consumers and advice providers.

- **Water companies** should review their **debt collection and enforcement process** and ensure they use court enforcement only as a last resort, and not at all in cases where customers are in a vulnerable situation.

- **Communications providers** should ensure that **customer-facing staff** are able to spot signs of financial difficulty and respond sympathetically and positively – signposting customers to free, independent debt advice and offering affordable repayment plans.

- **Communications providers** should explore **alternative options** to withdrawing services and cancelling contracts when a customer falls into the early stages of arrears. These alternatives include temporary forbearance, affordable repayment plans or a cheaper alternative package, to resolve payment difficulties and avoid loss of services.

For the advice sector

- **The advice sector** should redouble its efforts to **improve advice quality** through all channels – face-to-face, telephone, webchat and online – and in particular, prioritise improving outcomes for people in vulnerable circumstances. In many respects, the advice and creditor sectors face similar challenges and should learn from each other.
- **The SFGB** should use its co-ordinating role to bring together the advice sector, creditors and the fintech industry to develop an '**Open Banking roadmap**' identifying a priority list of potential applications of this new technology to the debt advice process. The Body should support the advice sector to implement these innovations.

Methodology

The National Debtline data presented in this report was sourced from the National Debtline Customer Relationship Management (CRM) system and from surveys of National Debtline callers.

CRM records contain demographic and debt information for most of the people we help. The majority of data presented in this report is drawn from the full sample of all people who have used our services as held on this database. Data on average client incomes and average amounts owed on each type of debt is extracted from a more detailed analysis of a sample of 1,000 people helped by National Debtline.

National Debtline survey data presented in this report is drawn from surveys of National Debtline callers conducted throughout 2017 at different points on the debt advice journey to understand short, medium and long-term impacts of our advice. Callers were surveyed at the point of contact (6,233 responses), 6 weeks after contact (1,552 responses) and 9-15 months after contact (1,066 responses).

Money Advice Trust

The Money Advice Trust is a charity formed in 1991 to help people across the UK tackle their debts and manage their money with confidence.

MONEY
ADVICE TRUST

BUSINESS DEBTLINE
NATIONAL DEBTLINE
WISER ADVISER

ADVICE YOU CAN TRUST

www.moneyadvicetrust.org

The Money Advice Trust is a registered charity number 1099506.
A company limited by guarantee. Registered in England and Wales, number 4741583.
Registered office: Money Advice Trust, 21 Garlick Hill, London EC4V 2AU.

© Money Advice Trust 2018.