Somewhere safe to turn

Segmenting the need for credit alternatives and affordable credit in the UK

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Executive summary

Everyone has basic budgeting needs to cope with 'lumpy' costs: expenses that change from month to month, unpredictable costs and occasional emergencies. One way or another people must find a way to meet these expenses through income, savings or credit, or go without meeting important needs.

People with low incomes or who are experiencing financial difficulty (or both) are less likely to have sufficient disposable income or savings to cope with lumpy costs, and they are also less likely to be able to afford to repay a loan. As a result, they can face an unpalatable choice between unaffordable borrowing, increasing risks of problem debt, and going without essential needs.

StepChange research shows that these dilemmas become more acute for people who have experienced negative life shocks like unemployment, ill-health and relationship breakdown that create income and expenditure shocks and increase risks of serious debt problems.[1] We also know that many people struggling with living costs who resort to commercial credit to cope are drawn deeper into harmful financial difficulty.[2]

These issues mean that understanding and addressing the need for credit alternatives like discretionary grants and low-cost credit should be an important priority for policy makers. This briefing uses StepChange analysis of recent YouGov polling to segment the need for credit alternatives and affordable credit in the UK.[3]

Key findings

We estimate that four in ten or 21.6 million UK adults would not be able to meet all of an unexpected £1,000 expense without borrowing. This figure echoes wider evidence of the scale of financial vulnerability among UK households.[4]

Of this group:

- 37% (7.7 million people) report they are not able to afford any additional payment after meeting their essential costs and existing credit commitments;
- 28% (6.1 million people) report they can afford to repay less than £50 a month after meeting their essential costs and existing credit commitments; and

[1] StepChange (2019) *Life happens: Understanding financial resilience in a world of uncertainty*
[2] StepChange (2021) *Falling behind to keep up: the credit safety net and problem debt*
[3] All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 2,211 adults. Fieldwork was undertaken between 9th - 10th September 2024. The survey was carried out online. The figures have been weighted and are representative of all UK adults (aged 18+).
[4] For example, Fair4All Finance estimates there are 20.3 million people living in financially vulnerable circumstances (https://fair4allfinance.org.uk/our-resources/customer-segmentation).

- 25% (5.3 million people) report they can afford to repay more than £50 a month after meeting their essential costs and existing credit commitments.

Cost of living pressures is the most significant driver of affordability problems, with 84% of those unable to afford to borrow reporting they find it difficult to keep up with household bills and credit commitments.

Over-indebtedness is also a significant factor, with 64% of those unable to afford to borrow struggling with existing credit repayments.

Those most likely to report that they would need to borrow to meet an unexpected expense but cannot afford to borrow include renters (an estimated 3.7 million people), those receiving means-tested benefits (an estimated 2.9 million people) and parents with children under 18 (an estimated 2 million people).

We also used the survey to seek to better understand credit record impairment using self-reported indicators such as having a poor credit score, a thin (or no) credit record or being in serious problem debt. Nationally, 22% of UK adults report one or more of these signs of credit impairment, increasing to 40% of those who would need to borrow to meet a £1,000 expense and could afford to borrow (an estimated 3.7 million people).

Three key insights can be drawn from our findings:

First, there is a mismatch between the number of UK adults in financially vulnerable circumstances who are unable to repay any form of credit and limited, patchy discretionary support with lumpy costs such as grants, particularly in England.

Second, there is also a significant mismatch between the number of UK adults in financially vulnerable circumstances who can afford to make only low repayments and the limited scale of affordable, low-cost credit using responsible lending models.

Third, over-indebtedness, credit record impairment and financial inclusion are closely connected. After cost-of-living pressures, over-indebtedness is the most significant driver of affordability problems, indicating that unaffordable lending can contribute to the problems of financial exclusion policy makers are trying to solve.

The present regulatory framework and credit reporting arrangements mean those who are over-indebted often have limited options to address their debt without experiencing financial exclusion through the consequences of negative credit reporting. This means an important part of the solution to financial inclusion is preventing such over-indebtedness arising in the first place where possible and providing safe ways out of unaffordable debt that minimise financial exclusion.

Credit alternatives and affordable credit cannot solve the problems that arise for households where income from work and the social safety net falls below the level needed to meet minimum needs. But they can help these households manage budgeting pressures, navigate financially challenging life events and avoid the problem debt that deepens poverty and hardship.

Credit alternatives and affordable credit should also be important priorities to support the Government's growth agenda. Increasing the ability of households to withstand and recover from financial shocks supports more resilient households and a more resilient economy that is better placed to grow sustainably. And while access to affordable credit supports sustainable economic growth by enabling people to make productive social investments, unaffordable lending is a drag on growth through the social costs of problem debt and reduced consumer confidence in financial services.

Policy makers should seek to create a coherent spectrum of affordable credit and alternatives consisting of:

- discretionary grants, aimed primarily at those receiving means-tested benefits, but accessible to anyone with a crisis need;
- no-interest credit delivered through responsible lending models for those not able to access grants, with a small budget surplus, or not able to access affordable credit; and
- low-cost affordable credit for those with a budget surplus.

Recommendations

1. Over the course of this Parliament, policy makers should put in place a coherent system of essential needs grants

Target group: those receiving means-tested benefits and/or in acute financial crisis facing destitution (3-4 million UK adults)

A well-functioning system of discretionary grants should:

- prevent destitution among those in crisis by enabling people to meet essential 'day to day' household expenses like food or heating; and
- support those in crisis or transitions to meet larger one-off expenses, such as establishing a new home, urgent repairs and white goods or furniture.

In Scotland and Wales, the Scottish Welfare Fund and Discretionary Assistance Fund are stable, long-term schemes designed and funded to meet both day to day emergency expenses and provide a smaller number of grants for larger one-off costs.

In England, the Household Support Fund (HSF) has enabled local authorities to set up schemes to meet smaller emergency costs like food and essential bills. However, the scheme has suffered from repeated temporary extensions and does not typically provide support with larger transition payments like white goods.

Funding for local welfare assistance schemes, which historically provided support with larger costs, has fallen an estimated 80% since responsibility was passed to local authorities, and at least 36 local authorities no longer provide schemes.

The Westminster Government should now put the HSF on a permanent, statutory footing and spread best practice such as cash-first payments through national guidance. It should also extend the scheme to meet larger transitional payments like white goods and separate funding for holiday free school meals.

As part of the Child Poverty Strategy the Government should also review and extend grants targeted at families in England and Wales, learning from the Best Start grants in Scotland, focusing on birth and development milestones, to ensure parents with low incomes can meet children's development needs without experiencing financial crisis.

2. The Government should expand access to no-cost credit

Target group: those who cannot afford to repay commercial credit and cannot access grants (4-5 million UK adults)

No cost loans delivered through responsible models have a vital role for those who cannot access grants and/or with small budgets surpluses (the amount of disposable income left over after meeting essential costs).

Universal Credit (UC) budgeting advances are currently the largest source of no-cost credit and, while restricted to those with minimal income from work, are being used by around one million people. UC budgeting advances are repaid through deductions from UC payments that can reduce support below the level needed to meet essential costs and, as such, must be considered with caution. But budgeting advances also provide one of the few sources of low-cost credit for those unable to access grants and at high risk of poor outcomes from commercial credit. The focus should be on ensuring budgeting advances are available to the right groups and work as safely as possible.

The Department for Work and Pensions (DWP) should review the design of the budgeting advance scheme, enhancing flexibilities and safeguards such as payment breaks, reducing repayments to 5% of the standard allowance, and piloting wider access for all those receiving UC.

Separately, the Fair4All no-interest loan scheme (NILS) pilot has shown encouraging results in lending to people who cannot access commercial credit but can afford to repay a no-interest loan. (The scheme differs from budgeting advances in that it is accessible to those not receiving means-tested benefits.) A no-interest loan scheme would have a valuable role in helping fill the gap for those unable to afford commercial loans or access other alternatives. Subject to a successful pilot evaluation in 2026, the Government should commit to capitalise a national no-interest loan scheme.

3. The Government should work with the financial services industry to catalyse an expansion of affordable credit

Target group: those in financially vulnerable circumstances who can afford to repay low-cost credit (6-7 million UK adults)

An expansion of low-cost credit using responsible lending models that are less likely to draw borrowers into difficulty is vital to meet the needs of those who can afford to make small debt repayments but have limited disposable income and are at high risk of over-indebtedness and poor outcomes from using unsuitable commercial credit.

This much-needed expansion of affordable credit will require action to shift incentives for firm, address barriers and catalyse investment. The Fair Banking for All Campaign has proposed a Fair Banking Act learning from positive impacts of the US Community Reinvestment Act, which obligates lenders above a certain size to take steps to meet the credit needs of all borrowers including those in financially vulnerable circumstances.[5]

The Government should use the forthcoming Financial Inclusion Strategy to create a framework coordinated with the financial services industry and the regulator requiring banks and lenders above a certain size take steps to meet the credit needs of all borrowers who can afford to repay, including those who are financially excluded, directly or in partnership with purpose-driven finance providers. The framework should include agreed targets, and arrangements for independent monitoring and performance reporting.

The objective of the framework should be to spur investment in lending, infrastructure and partnerships to significantly expand access to affordable credit delivered through responsible models suited to borrowers in financially vulnerable circumstances. Should a voluntary framework not be successful, the Government should legislate to achieve this objective.

1. Background

Household budgeting involves managing expenditure cashflow imbalances caused by a number of factors, such as fluctuations in living costs (due, for example, to irregular or unpredictable expenses like seasonal changes in bills and new clothes) and larger occasional expenses such as replacing furniture, household appliances, and home or car repairs.

[5] The Finance Innovation Lab: 'The UK needs a Fair Banking Act to tackle financial exclusion'

Many people also experience fluctuations in income, for example where a member of the household is self-employed, runs a business or has hours of work that are not fixed, or where changes in income occur for other reasons, such as moving between jobs or beginning a benefit claim. Forming a partnership or other financial unit (such as parents living with adult children) can increase the financial resilience of members of the household, but can also increase exposure to additional income or expenditure shocks.

Parents are particularly exposed to unpredictable expenditure because there are more people in the household whose financial needs they are responsible for, and children's growth and development drives regular ad hoc expenditure needs.

As a result of these factors everyone has some need to flex their budget. Budgeting options typically include disposable income (the difference between regular income and fixed expenditure such as housing and bills), savings or other forms of cash support such as help from family and friends, and credit (which may include both formal and informal lending).

Households with higher incomes are, in principle, better-placed to manage cashflow needs because they are more likely to have disposable income and the ability to save. This picture may be complicated, however, where households with higher incomes have financial commitments like mortgage and credit payments that reduce disposable income.

Budgeting is usually more difficult and challenging for those with lower incomes because they have less, or no, disposable income and are less likely to hold savings. This also means that credit commitments are more likely to reduce or exceed scarce disposable income.

In practice, budgeting strategies are diverse—varying across individuals and households—and interact with a range of external constraints and influences.[6] Households facing a shortfall between income and minimum needs face difficult budgeting choices, with national survey data indicating common coping strategies include going without essential needs, seeking help from family and friends, and borrowing using commercial credit.

Commercial products like credit cards and overdrafts can compare favourably to non-commercial alternatives if repaid promptly, and public attitudes indicate customers value credit that offers flexibility in borrowing and repayment terms.[7] However, the flexibility to reduce repayments for many leads to persistent debt and harmfully high costs. This is particularly likely for subprime products with higher interest charges

[6] Angsten Clark A, Davies S, Owen R, and Williams K. (2024) 'Beyond individual responsibility – towards a relational understanding of financial resilience through participatory research and design', *Journal of Social Policy*. https://doi.org/10.1017/S0047279423000685

[7] Finance and Leasing Association (2023) *The Future of Credit*

(APRs) where costs can easily become significantly higher than the amount of a comparable fixed-term loan.[8]

Debt repayments shift resources from spending on household needs to interest payments and can cause or deepen poverty by pulling household income below the level needed to meet essential needs. Recent research, for example, found that unsecured debt repayments pushed 10% of families with children below the relevant Minimum Income Standard threshold.[9]

Over-indebtedness and problem debt cause health and relationship problems, and undermine participation in, and progress at, work. The children of parents experiencing debt problems have worse educational outcomes and are more likely to experience bullying.[10]

Credit is both more likely to be important to households that experience difficulty meeting essential costs and more likely to be a source of harm and poor outcomes. This engages important public policy questions about when and how credit can be helpful, in what form, and what alternatives policy makers should support.

What credit alternatives are currently available?

By credit alternatives, we broadly mean options to meet essential cashflow needs, whether to pay for regular essentials or unexpected costs, outside of commercial credit.

National grants

Exceptional needs payments—ad hoc payments to meet urgent budgeting for those experiencing hardship—had been a feature of the social security system until the Social Fund was introduced in 1987 in an effort by the Government of the day to control costs.[11] The Social Fund consisted of a discretionary element, including community care grants for those leaving care arrangements and (non-grant) budgeting and crisis loans, and non-discretionary fixed payments with eligibility set out in regulations including maternity payments, funeral payments, winter fuel payments and cold weather payments. Funding of the discretionary element was cash-limited and entitlement based on decisions made by local Jobcentre advisors.

In 2013, the functions of the Social Fund were devolved to local authorities and national governments in Scotland, Wales and Northern Ireland through local welfare schemes. Approaches across the UK subsequently diverged. In England, local crisis schemes became increasingly patchy as local authorities reduced discretionary services and

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[8] StepChange (2019) *Red card: Subprime credit cards and problem debt*
[9] Stone, J. et al. (2023) *Debt, poverty and living standards in Great Britain*
[10] StepChange and The Children's Society (2014) *The Debt Trap: the impact of debt on families with children*
[11] CPAG (2023) *'You have to take it back to the bricks': Reforming emergency support to reduce demand for food banks*

support in response to falling central funding. In 2023/24, funding spent on local welfare assistance was19% of the amount allocated for discretionary support in 2010/11, and 36 local authorities no longer operate a local welfare assistance scheme.[12]

In contrast, Scotland and Wales developed standing crisis support schemes. The Scottish Government established the Scottish Welfare Fund, which is administered by local authorities within national regulations and statutory guidance. The Fund provides grants both to support people with low incomes with emergency costs and with larger costs to maintain the ability to live independently, encompassing a range of situations from living costs like food and heating to assistance for those leaving abusive relationships to establish a new home. People can receive up to three crisis grants within a 12-month period, unless exceptional circumstances apply. The Scottish Government allocated £35.5 million for Scottish Welfare Fund awards in 2024-25 (roughly £6.40 per capita).[13] In the most recent quarter, the average crisis grant award was £69 and the average community grant £759, with expenditure across the fund split 38%/62%.

In Wales, the Discretionary Assistance Fund (DAF) operates within rules set by the Wales Government, with grants administered by both local authorities and voluntary organisations. The DAF provides Emergency Assistance Payments, which provide help with essential costs, such as food, gas, electricity, clothing or emergency travel (but cannot be used to pay for ongoing bills) and Individual Assistance Payments for white goods and furniture. Grants are limited to three within the last year. In 2023/24 244,700 DAF payments were made with a combined value of £33.5 million (roughly £10 per capita).[14] Funding is split 37%/63% between emergency and individual payments, with the former being comparatively small in value on average compared to the latter (on average £78 and £1,070 in Q2 2024).[15]

Third-sector grants

A number of third sector organisations provide cash grants, such as Turn2us, which supported 2,277 people with £3.3 million of support in 2023/24.[16] Charities like Buttle UK (children and young people) and the Family Fund (families with disabled children) provide grants to support particular groups with specific needs, like education and care, equipment and adaptations. Separately, energy trust funds provide urgent help for people who cannot afford to pay energy bills or repay energy arrears. The British Gas Energy Trust, among the largest of these trusts, provided £11 million in energy debt

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[12] End Furniture Poverty (2024) *A Bleak Future for Crisis Support*
[13] Scottish Welfare Fund Statistics: update to 30 June 2024
[14] Welsh Government statistics: Discretionary assistance fund: January to March 2024
[15] Welsh Government statistics: Discretionary Assistance Fund: April to June 2024
[16] Turn2us (2024) *Annual Impact Report and Accounts 2023-2024*

relief grants and financial assistance payments (in addition to funding a number of advice-giving organisations).[17]

While there is a significant network of grant giving organisations providing valuable support, many focus on particular groups or situations, all appear to be significantly over-subscribed and the scale and reach of support provided individually or collectively is not such that this network can provide a reliable a means of meeting urgent costs for most people.

The Household Support Fund and cost of living payments

A series of ad hoc crisis support schemes were introduced during the pandemic. Beginning in December 2020, the Westminster government introduced the COVID Winter Grant Scheme (from December 2020 to April 2021).[18] This was followed by a COVID Local Support Grant from April 2021 to September 2021, and the Household Support Fund (HSF) from October 2021.[19] The HSF initially provided £500 million of funding over six months to local authorities in England, with equivalent funding allocated to the devolved nations, to provide crisis support to vulnerable households in most need with the cost of essentials.

The HSF was extended three times for six-month periods (from October 2021 to March 2023), extended for one year over 2023/2024, then extended for six months from April to September 2024 and for a further six months again from October 2024 to March 2025. The Government announced in the 2024 Autumn Budget that it would extend the HSF for one year in 2025/26 with a reduced budget (falling around 12% in cash terms to £742 million).[20]

Broadly, the current objective of the HSF is to provide crisis support to vulnerable households in most need with the cost of essentials.[21] In 2023/24, 39% of HSF funding was used to pay for holiday free school meals.[22] Only 21% of the scheme funding was disbursed through cash grants, with 59% distributed through vouchers and the remainder through third-party organisations (like food banks) and items directly provided.

Further discretionary support with housing costs is provided by local authorities in England and Wales through Discretionary Housing Payments (DHPs), with a £100 million allocation in 2024/25.[23] DHPs can be made to help those receiving means-

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[17] British Gas Energy Trust (2024) *Impact Report*
[18] Meers, J. et al (2023) 'Sticking plaster support: the Household Support Fund and localised assistance in the UK welfare state' in *Journal of Poverty and Social Justice*, Volume 32: Issue 1.
[19] Local Government Association (2024) *Household Support Fund Research Report: June to July 2024*
[20] Department for Work and Pensions (2021-25) Household Support Fund: guidance for local councils
[21] Ibid.
[22] Household Support Fund 4 management information for 1 April 2023 to 31 March 2024
[23] DWP (2025) Use of Discretionary Housing Payments: analysis of Mid-Year Returns from local authorities, data from April to September 2024

tested housing support to stay in their home or to access housing, either by meeting a rent shortfall or as a one-off payment towards a rent deposit or advance. A similar devolved scheme is operated in Scotland, also operated by local authorities.

Following the post-pandemic inflation shock and sudden increase in energy prices, the then government introduced a series of cost-of-living payments, of £1,200 spread in instalments over 2022 and £1,550 in 2023/24, with additional payments for pensioners and those receiving certain health and disability benefits.[24]

A NatCen evaluation of the impact of the cost-of-living payments found that the majority of recipients felt the payments helped them afford essential bills but the impact of the payments was generally short-term, with the money usually spent in the month in which it was received.[25] Separately, the Trussell Trust noted that foodbank use declined when the payments were received but rose again in the following weeks.[26] Analysis by the Institute for Fiscal Studies highlighted that flat rate payments to all those receiving means-tested benefits were did not align support with household need, and argued it would have been more effective to increase the rate of means-tested benefits.[27] These evaluations indicate that one-off payments alone are not an effective way of dealing with sustained increases in costs where the primary problem is a long-term income shortfall.

Child development and miscellaneous grants

Finally, there are a number of development and support grants, primarily targeted to support parents with children. In England and Wales, these include:

- the £500 Sure Start Maternity Grant, paid to mothers expecting their first child (or someone adopting or otherwise becoming responsible for the child);
- the Healthy Start scheme, which provides parents receiving means-tested benefits with a low income payments towards healthy food during pregnancy and the early years via an in-store card payment system (£8.50 each week in the first year and £4.25 subsequently until the youngest child turns four);
- the Cold Weather Payment, which provides a £25 payment for each consecutive seven days the temperature drops to zero degrees or below for those receiving means-tested benefits and not in employment; and
- the Funeral Expenses Payment of up to £1,000 towards the cost of a funeral for those receiving certain means-tested benefits.

[24] House of Commons Library (2024) *Cost of Living Payments: Overview and FAQs*
[25] Department for Work and Pensions (2025) *Cost of Living Payments Evaluation*
[26] Barnard, H. 'Cost of living payments offer short-term respite, but we need an Essentials Guarantee', Trussell Trust 7 Feb 2024
[27] Ray-Chaudhuri, S. et al (2023) 'Lump-sum cost of living payments poorly designed to alleviate deprivation', Institute for Fiscal Studies

As part of its child poverty strategy, the Scottish Government has introduced higher and additional payments for parents with young children:

- the Pregnancy and Baby Payment of £754.65 for a first child and £377.35 for subsequent children;
- an Early Learning Payment of £314.45 made when each child is aged between two and three years and six months;
- the School Age Payment of £314.45 made when each child reaches school age (age five); and
- the Best Start Foods scheme, which works similarly to the Healthy Start scheme via a pre-paid card but offers payments 24% higher.

Rather than providing a Cold Weather Payment, Scotland has a Winter Heating Payment scheme that provides an automatic one-ff winter heating payment (£58.75 in 2024/25). Scotland also provides a comparable Funeral Support Payment but the scheme provides average payments around twice the maximum £1,000 grant in England and Wales.[28]

Universal Credit budgeting advances

People receiving UC can access budgeting advance loans to help with 'emergency household costs', costs to help gets a job or stay in work, or funeral costs. DWP states that 'these advances ensure that low-income families that have an emergency financial need and do not have access to adequate savings or affordable loans can access funding to meet the emergency'.[29]

UC recipients can borrow a minimum of £100 and a maximum of £348 for single adults, £464 for couples and £812 for those with children. (The maximum advance provided to a claimant is also reduced pound for pound for any capital held in excess of £1,000.) To be eligible, people must have been receiving UC or a means-tested benefit for six months, not earned more than £2,600 (or £3,600 together for couples) in the past six months and paid off any previous budgeting advances. DWP reports that one million people (18% of those receiving Universal Credit) received a Budgeting Advance in 2022/23.[30]

Separately, those making a new claim for UC can access a Budgeting Advance up to the value of the estimated first payment, which is repaid subsequently through deductions from the monthly UC payment (by default over 24 months). If you need help to pay your bills or cover other costs while you wait for your first Universal Credit payment, you can apply to get an advance. People receiving UC can also access change of circumstances advances up to 50% of the value of the increased payment,

[28] www.socialsecurity.gov.scot/reporting/publications/funeral-support-payment-high-level-statistics-to-31-march-2024
[29] https://questions-statements.parliament.uk/written-questions/detail/2023-02-22/150440
[30] https://questions-statements.parliament.uk/written-questions/detail/2024-03-07/17591

repaid through deductions over six months. Around half of people making a new UC claim also receive an advance payment.[31]

The Department for Work and Pensions operates a UK-wide Flexible Support Fund, which is a locally managed fund that can be used by local Jobcentre Plus employment advisers to meet expenses such as training, travel or clothing for interviews and upfront childcare costs. In 2023/24, the estimated budget for the FSF was £88.8 million.[32]

3. Segmenting the need for credit alternatives and affordable credit

To segment the unmet need for credit alternatives we use a simple 'real time' snapshot using a survey of UK adults focused on three questions:[33]

- whether respondents would need access to credit to cope with an unexpected cost;
- whether respondents can affordably repay credit; and
- whether there are other barriers like over-indebtedness and credit record impairment that may limit access to credit.

To understand how many people would need access to credit to meet an unexpected cost, we asked survey respondents if they would need to borrow to meet some or all of an unexpected £1,000 expense they need to meet immediately.[34]

40% of UK adults state they would need to borrow: 15% could not meet any of a £1,000 expense and 25% could not meet all of the expense.

The annex sets out factors associated with needing to borrow to meet an unexpected expense, which unsurprisingly correlate closely to the likelihood having savings of £1,000 or more, such as income, employment status, responsibility for children and receipt of a means-tested benefit.

[31] https://questions-statements.parliament.uk/written-questions/detail/2023-05-25/186902
[32] https://questions-statements.parliament.uk/written-questions/detail/2023-09-15/199739
[33] All estimates made by StepChange based on analysis of a national survey by YouGov Plc. Total sample size was 2,211 adults. Fieldwork was undertaken between 9th - 10th September 2024. The survey was carried out online. The figures have been weighted and are representative of all UK adults (aged 18+).
[34] *Imagine you had an unexpected essential cost of £1,000. How much of it would you be able to pay immediately, without borrowing or seeking help from someone else?* Options are: *I wouldn't be able to pay any of it*; *Less than £250*; *Between £250 and £499*; *Between £500 and £749*; *Between £750 and £999*; *All of it*; and *Don't know*.

Compared to indicators of financial difficulty, needing to borrow to meet an unexpected expense remains relatively common even among respondents with comparatively high incomes, i.e. 20% of those with a gross personal income of £60k or more.

To understand whether those who need to borrow would be able to affordably repay credit, we asked respondents if they could afford any additional spending without falling behind on existing bills and repayments or going without essentials.

Among those who would need to borrow to meet an unexpected expense, we found that:

- 35% cannot afford to repay any form of credit without falling behind on existing bills and repayments or going without essentials;
- 28% can afford to repay up to £50 each month; and
- 25% can afford to repay over £50 each month.[35]

Why are so many people not able to make an additional payment?

Income is an important factor in affordability challenges: 34% of those unable to afford an additional payment are receiving a means-tested benefit, and 46% have a gross personal income of less than £20,000.

The majority of this group—nine in ten (89%)—report they are struggling to keep up with household bills and credit commitments. Four in ten (38%) are in arrears on one or more household bill. This suggests payment pressures run somewhat wider than those receiving means-tested benefits.

Over-indebtedness, however, is clearly also a significant factor driving affordability problems for many:

- 74% unable to afford any additional payment are showing signs of financial difficulty, and 33% are in serious problem debt; and[36]
- 64% report they have cut back or experienced hardship to meet an existing credit debt in the last three months.[37]

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[35] A further 20% reported that they were unsure how much they could afford to repay. Those with lower incomes were less likely to be uncertain how much they could afford to repay.

[36] Signs of financial difficulty include: Made just the minimum repayments on my debts; Used my overdraft in each of the last three months; Used credit, loans or an overdraft to make it through to payday; Fell behind on essential household bills (e.g. rent, mortgage, energy bills, council tax etc.); Used credit to keep up with existing credit commitments; Got hit by late payment or default charges; Missed a regular monthly payment on at least one of my debts; and Used credit to pay essential household bills (e.g. rent, mortgage, energy bills, council tax etc). Those in serious problem debt meet three or more of these criteria.

[37] We asked 'In the last three months, have you done any of the following to keep up with credit repayments? Please tick all that apply. Please only tick things that you think are a result of credit, debt or borrowing, not anything you have experienced for other reasons.' Responses include: I do not have any credit; None of these; Rationed the amount of heating, electricity or water I have used; Went without a healthy diet (food and meals);

Looking at the role of over-indebtedness in driving affordability problems using other indicators, two-thirds (66%) of those who would need to borrow and would not be able to afford any repayment are struggling with existing credit repayments, while one-third (31%) are in serious problem debt.

Credit record impairment

We also used the survey to seek to understand credit record impairment – factors that might prevent someone from accessing credit regardless of affordability. We include being on a debt or insolvency solution, having a poor credit score or having a thin (or no) credit record; being in serious problem debt; and being in arrears on household bills in our definition. These indicators are self-reported, so may differ from reported credit information.

Nationally, one in five (22%) of UK adults reports one or more credit record impairment. As might be expected the probability of credit record impairment increases with risk factors for financial vulnerability and decreases with factors associated with financial resilience. For example:

- 49% of those with no savings compared to 12% of those with over £1,000 of savings;
- 47% of those who receive means-tested benefits compared to 18% of those who do not; and
- 30% of those with a gross personal income of less than £20k compared to 12% of those earning over £60k.

Four in ten (43%) of those who would need to borrow to pay for an unexpected expense of £1,000 show signs of credit record impairment, including:

- 65% of those who cannot afford to repay anything;
- 39% of those who can afford to repay up to £50; and
- 25% of those who can afford to repay £50 or more.

Comparing reasons for credit record impairment among the population as a whole to those who would need to borrow to meet an unexpected expense, the causes of credit record impairment among the latter group are more likely to be associated with financial difficulty such as being in arrears on bills or being in serious problem debt, and less likely to be a thin credit record.

Asked for financial help from family or friends; Missed utility bill payments (energy, water, telecoms or council tax); Went without appropriate clothing for the weather; Missed rent or mortgage payments; Endured other hardship or financial difficulty.

Chart: Factors causing credit record impairment among UK adults who show signs of credit impairment[38]

Indicator	As % of UK adults with any sign of credit record impairment	As % of UK adults with any sign of credit impairment who would need to borrow to meet a £1,000 expense
Poor credit rating:	45%	56%
Serious problem debt:	38%	50%
In arrears:	36%	48%
No credit record:	17%	7%
Insolvency or debt solution in last six years	12%	14%
CCJ within last six years	9%	14%

5. Policy implications

Our analysis paints a picture of a financially vulnerable population squeezed by cost of living pressures and over-indebtedness. The data presents a challenging picture for UK policy makers: a significant minority of UK adults need to borrow to meet irregular costs but cannot affordably repay credit.

Public policy leaves too many people nowhere to turn: low benefit rates, difficulty making ends meet in work and high living costs mean many are unable to make ends meet and face impossible budgeting dilemmas. Those who fall behind on priority debts risk harsh and inflexible debt collection practices. And those who turn to credit are turning to a market in which many products are poorly designed for those in financially vulnerable circumstances.

The data in this report illustrates that over-indebtedness and financial inclusion are closely connected: many people cannot afford to borrow because of the burden of existing credit repayments. The interests of consumers are best-served where lenders facilitate an affordable level of borrowing, even if this sometimes means restricting access, rather than overly permissive lending that ultimately cuts off access to credit and causes more serious debt problems and wider harms.

Our evidence shows the importance of continuing work by the FCA to implement the Consumer Duty, using its powers to address drivers of lending patterns that draw people into difficulty and cause over-indebtedness and harm, while facilitating models that widen access to sustainable, affordable credit.

[38] Figures do not sum to 100% as respondents may be affected by more than one indicator.

The role of over-indebtedness also points to the importance of reducing collections pressures as a driver of desperation borrowing and financial difficulties journeys. This is particularly important for priority debts including housing, council tax and energy where the incentives to avoid falling behind, such as risks of housing insecurity and enforcement action, push many to borrow where coming to a repayment agreement with the landlord, council or supplier is likely to be a safer, less harmful option.

Saving is a better alternative to using credit for most people: it is a cheaper and, if people can afford to maintain a heathy savings pot, more reliable and predictable source of budgeting liquidity. StepChange-commissioned research has shown that households that are able to maintain a savings pot are much less likely to experience debt problems.[39] But our data shows that saving is extremely hard for many people. As such, support for saving should be seen as complementary to, rather than a substitute for credit alternatives and affordable credit.

There are important opportunities to refresh the Help to Save scheme when the present scheme ends (for new customers) in 2027, and build on the NEST Insight pilot of an opt-out 'autosave' pensions savings scheme through wider rollout. Commitments to support and encourage saving should be central to the Government's forthcoming financial inclusion strategy.

Focusing on credit alternatives and affordable credit, our analysis points to three priorities for policy makers:

First, policy makers concerned with financial inclusion must focus on credit alternatives like grants and no-interest loans, not only affordable credit.

Where income falls below the minimum needed to live on, households will be driven to unaffordable borrowing that further compounds poverty. Adequacy of income must be the central concern for policy makers concerned with reducing poverty and increasing financial resilience. But a well-functioning social safety net must make provision for unpredictable expenses. Low benefit rates make it more likely people will experience emergency costs and financial crisis, and make meeting that need more urgent.

The provision of grants is ad hoc, patchy and inconsistent:

- regular grants for families aligned with children's key development milestones and financial pinch points are limited (now significantly less so in Scotland);
- UK-wide there is limited provision for larger lumpy costs outside of narrowly defined 'crisis' grants;
- in England the HSF has improved access to smaller emergency grants, but the scheme is inconsistently delivered and has suffered from repeated temporary extensions and an unclear scope; and

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[39] StepChange (2015) *Becoming a Nation of Savers*

- there is insufficient funding UK-wide to support schemes at the necessary scale.

Over the last 15 years crisis support has shifted from national to local schemes, funding reduced dramatically until the pandemic, and particularly in England focus shifted to reacting to destitution and away from a coherent crisis support function. In Scotland and Wales, there is greater spending per adult and more structure has been maintained through a dual focus on crisis support and supporting transitions and independent living.

Over the course of this Parliament, policy makers should seek to put in place a coherent spectrum of grants that meet three essential functions:

- a well-functioning system of essential needs payments that enable those unable to meet essential month to month expenses like groceries and bills to meet such costs without borrowing;
- crisis and transition/independent living payments focused on meeting larger expenses such as establishing a new home, urgent repairs and white goods or furniture; and
- supporting parents at risk of poverty to meet children's development needs without experiencing financial crisis.

In England, the HSF is focused on the former function while 'legacy' local welfare schemes that meet the latter objective are increasingly threadbare, providing 20% of the level of support pre-localisation, with many local authorities no longer maintaining any scheme. The HSF itself exists in a context of growing demand due to cost of living pressures and the falling adequacy of benefits for many, and severe financial pressures on local authorities. Local HSF delivery is subject to a 'postcode' lottery and repeated short-term extensions of the scheme have undermined strategic service development.

In contrast, the Scottish Welfare Fund and Discretionary Assistance Fund in Wales have been supported by consistent, higher per capita funding alongside national guidance and more successfully balance the need for both smaller essential needs payments (such as cash payments towards groceries and bills) and larger costs such as furniture and white goods. The Scottish Government has also taken a more proactive approach to responding to the specific needs and financial challenges faced by parents with young children and established a coherent system of early development grants.

The Westminster Government should:

- put the HSF on a permanent, statutory footing;
- extend the remit of the fund to larger crisis payments, with a matching increase in funding, while separating funding for holiday free school meals;
- strengthen national guidance, embedding key minimum standards such as a cash-first approach while maintaining flexibility over local delivery; and

- review and extend grants targeted at families in England and Wales as part of the Child Poverty Strategy, focusing on birth and development milestones alongside key points of financial pressure such as the summer holiday and autumn return to school.

Second, the Government should expand access to no-interest credit

'No cost' loans delivered through responsible models have a vital role for those who cannot access grants or have small budgets surpluses (the amount left over after meeting essential costs).

UC budgeting advances must be considered with caution because they are repaid through subsequent deductions from UC payments that can reduce support below the level needed to meet essential costs. However, as budgeting advances are already used by almost one million people there is an imperative to ensure they work well and as safely as possible.

The maximum deduction of 15% of the UC standard allowance to repay budgeting advances is too high. Access to budgeting advances is restricted by a six-month eligibility period and an earnings limit, which is likely to exclude many of those who would find access to the advances most useful. A minimum borrowing amount of £100 and a proscription against having more than one advance at a time limits the utility of the scheme to manage small costs.

There is a better balance to strike in the design of the UC budgeting advance scheme. The Government should move away from the principle that budgeting advances are for those who cannot access credit and recognise their important role supporting the financial resilience of those who cannot afford interest-bearing credit. At the same time, it should seek to ensure people considering budgeting advances are signposted to and aware of grants that may be available to avoid people borrowing when they can access cash payments.

The Government should maximise the benefit of budgeting advances and minimise risks by:

- removing the overly restrictive six month and maximum earnings eligibility criteria;
- allowing more than one concurrent loan (while maintaining a total cap on the amount that can be advanced); and
- reducing deductions for repayment to 5% of the standard allowance and ensuring payment breaks are easily accessible.

Our data confirms there is significant need for no-interest lending outside UC. The Fair4All no-interest loan scheme pilot has shown encouraging results in lending to people who cannot access commercial credit but can afford to repay a no-interest loan.[40] While an initial capital investment would be required, a NIL scheme should be relatively cost effective as subsequent year to year expenses would be administrative costs and depreciation from written down lending, with the majority of capital preserved for re-lending.

Subject to successful evaluation, the Government should capitalise a national NIL scheme.

Third, the Government should seek to catalyse an expansion of affordable credit

'Affordable credit' has no precise definition but for the purposes of segmenting credit need and access, we consider it should be distinguished by low costs and responsible product design and practice suitable for customers in financially vulnerable circumstances.

Broadly, affordable credit tends to be discussed in relation to community and purpose driven finance including credit unions, community development finance institutions (CDFIs), and commercial lenders with an explicit social purpose. Credit unions lent approximately £1.7 billion in 2021 (Fair4All estimates that half of this lending was to non-prime financially vulnerable customers). Purpose-driven finance institutions including CDFIs currently lend around £250 million per year, including lending to businesses.[41] These sums are significant but fall short of the implied multi-billion pound demand indicated by national data on the population with subprime characteristics such as low affordability and/or credit record impairments.

Supporting the growth of credit unions would facilitate an expansion of affordable credit. The Centre for Social Justice has made a number of recommendations to support the growth of credit unions and expand their reach to subprime borrowers.[42] Credit union 'deductions lending', where small loans are repaid through deductions from Child Benefit payments could also be expanded within the wider growth of credit unions. (This model differs to means-tested benefit deductions in that an affordability assessment is undertaken and works in part because Child Benefit still reaches a wide income spectrum encompassing creditworthy borrowers.)

Credit union lending alone cannot fill the gap in demand for affordable credit. The United States Community Reinvestment Act (CRA) created obligations on banks to seek to meet the credit needs of the communities in which they are located. The Act has not been without controversy in light of the role of subprime mortgage lending in the 2008 financial crisis, but evaluations show that it has had success in prompting

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[40] pwc (2024) No interest loan scheme pilot: Process and impact evaluation
[41] Fair Banking for All (2024); Fair4All Finance (2022) Scaling affordable credit provision: Roundtable readout
[42] The Centre for Social Justice (2022) Swimming with Sharks: Tackling illegal money lending in England

sustained commercial commitments to extending access to low-cost unsecured credit.[43]

A prominent example of action promoted by the CRA framework is the US small dollar loans scheme, through which banks lend small sums to customers who would not otherwise be able to access credit using current account data to assess affordability.[44] To support the scheme, US regulatory bodies issued guidance to provide confidence to banks about how they can lend to customers with impaired or thin credit records. That regulatory 'safe harbour' was linked to requirements that reduce risk to customers (and lending institutions) including robust creditworthiness assessments using current account data, low fees, restrictions on repeat lending, and support for customers in difficulty developed with the needs of financially excluded customers in mind.

The Fair Banking for All campaign has put forward proposals for a UK Fair Banking Act that would require regulators, mainstream finance institutions and purpose-driven finance institutions such as CDFIs and credit unions to work in partnership to extend lending to financially excluded communities. Fair Banking for All estimates that the Act could lead to a thirteen-fold increase in lending by purpose-driven finance institutions, from an estimated £250 million to £3.3 billion per year with a Fair Banking Act in place.[45]

The much-needed expansion of affordable credit will require action to shift incentives for firm, address barriers and catalyse investment. The Government should use the forthcoming Financial Inclusion Strategy to create a framework coordinated with the financial services industry and the regulator requiring banks and lenders above a certain size take steps to meet the credit needs of all borrowers who can afford to repay, including those who are financially excluded, directly or in partnership with purpose-driven finance providers. The framework should include agreed targets, and arrangements for independent monitoring and performance reporting.

The objective of the framework should be to spur investment in lending, infrastructure and partnerships to significantly expand access to affordable credit delivered through responsible models suited to borrowers in financially vulnerable circumstances. Should a voluntary framework not be successful, the Government should legislate to achieve this objective.

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[43] Congressional Research Service (2020) The Effectiveness of the Community Reinvestment Act
[44] Board of Governors of the Federal Reserve System (2020) Interagency Lending Principles for Offering Responsible Small-Dollar Loans May 2020; Pew Issue Brief (2023) *Affordable Credit Poised to Save Consumers Billions*
[45] Fair Banking for All (2024) *Unlocking Access to Credit: The Impact a Fair Banking Act could have for the UK*

Annex: Financial resilience, affordability and creditworthiness indicators among UK adults[46]

Income

	All UK adults	Up to £10k	£10-20k	£20-40k	£40-60k	£60k+
Savings?						
No savings	9%	19%	10%	6%	3%	4%
Less than £1,000	21%	38%	27%	21%	18%	5%
More than £1,000	48%	33%	49%	60%	69%	81%
Don't know	22%	10%	14%	12%	11%	6%
Would need to borrow to meet unexpected expense?						
Would not need to borrow	52%	35%	49%	56%	69%	80%
Would need to borrow	40%	57%	46%	41%	28%	20%
Ability to afford additional payment?						
Nothing	16%	30%	24%	15%	10%	9%
Up to £50	16%	26%	22%	16%	9%	1%
£50+	46%	19%	40%	58%	72%	82%
Don't know	20%	25%	14%	11%	8%	8%
Signs of credit impairment[47]	23%	38%	26%	22%	17%	12%

[46] All figures estimated by StepChange from YouGov Plc. Total sample size was 2,211 adults. Fieldwork was undertaken between 9th - 10th September 2024. The survey was carried out online. The figures have been weighted and are representative of all UK adults (aged 18+).

[47] Credit impairment means having an impaired credit record (being on debt or insolvency solution in last six years, having a CCJ for debt in last six years, or having a thin or no credit record), currently being in serious problem debt, or currently being in arrears on household bills.

Work and means-tested social security payments

	All UK adults	Means-tested benefits	No means-tested benefits	Full-time work	Part-time work	Unemployed	Retired
Savings?							
No savings	9%	6%	27%	6%	11%	24%	7%
Less than £1,000	21%	19%	37%	22%	25%	29%	13%
More than £1,000	48%	51%	27%	55%	45%	22%	50%
Don't know	22%	24%	9%	17%	19%	25%	30%
Would need to borrow to meet unexpected expense?							
Would not need to borrow	52%	57%	68%	55%	51%	24%	66%
Would need to borrow	40%	35%	26%	41%	41%	60%	26%
Ability to afford additional payment?							
Nothing	16%	14%	36%	15%	19%	35%	13%
Up to £50	16%	13%	31%	13%	20%	20%	15%
£50+	46%	51%	17%	60%	39%	16%	50%
Don't know	20%	21%	16%	13%	22%	20%	21%
Signs of credit impairment	23%	19%	49%	22%	26%	43%	11%

Household type

	All UK adults	Single no dependent children	Couple no dependent children	Single parent	Couple parent
Savings?					
No savings	9%	11%	8%	26%[48]	5%
Less than £1,000	21%	23%	16%	25%	30%
More than £1,000	48%	46%	50%	34%	51%
Don't know	22%	20%	26%	14%	14%
Would need to borrow to meet unexpected expense?					
Would not need to borrow	52%	47%	62%	26%	49%
Would need to borrow	40%	43%	31%	72%	46%
Ability to afford additional payment?					
Nothing	16%	20%	13%	34%	19%
Up to £50	16%	16%	15%	25%	18%
£50+	46%	39%	53%	28%	53%
Don't know	20%	25%	20%	12%	10%
Signs of credit impairment	23%	26%	16%	61%	24%

[48] Figures calculated using a base size below 100 (but no less than 50) are marked in red and should be treated with caution.

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