StepChange Debt Charity

Life on the Edge

Towards more resilient family finances

Our objectives

- Create greater awareness of, and access to, truly free debt advice and debt solutions
- Develop extensive relationships with other organisations to bring greater help and support to people with problem debt
- Provide new and improved products and services to meet the changing needs of people with problem debt
- Invest in our people, processes and systems to effectively deliver timely and high quality help and support
- Build a robust, stable and sustainable charity that can be relied on by all in society
- Champion the cause of people in or at risk of problem debt by influencing policymakers and campaigning for change
- Enhance peoples' financial understanding and capability so they can better manage their money and debts

Contents

Written by Robbie de Santos, Senior Public Policy Advocate at StepChange Debt Charity

1. Foreword

The UK economy is growing, yet StepChange Debt Charity is approached by more than a thousand people every day who are struggling to deal with their finances. We hope that a rising economic tide will lift all boats, at some point, but our research shows that many families lack the financial resilience to cope with income shocks.

There is a particular cause for concern now given the increases in interest rates which will come sooner or later. Meanwhile, already high essential bills will likely continue their inflation-busting rises as policy-makers and industry agree that significant infrastructure improvements are needed. Put simply, too many of our fellow citizens are not financially prepared for the future.

The costs of a lack of financial resilience for individuals, families and communities are high in both economic and human terms. Debt is a brake on people's capacity to work or return to work, a brake on aspiration, and a brake on potential. It leads to mental health problems and family and relationship breakdowns.

As debts build up and people struggle to pay essential living costs, an income shock can see people go from surviving on the edge to slipping into unmanageable debts. Too often people in distress turn to high cost credit, e.g. payday loans, and this can make a bad situation catastrophic.

Problem debt is the dark underside of the financial pressures on low and middle income families and the fallout of a labour market, which, while flexible, lacks adequate safety nets for people in increasingly fluid and insecure work.

'Life on the edge' highlights both how damaging for individuals trying to do the best for their family, but also for the success of measures to support hard-working families and to support the economic recovery.

It is therefore imperative for policy-makers to take action to prevent people from falling into debt. We argue that a mixture of public, private and voluntary sector action can help people build up their resilience and ensure better safety nets are available for when people fall on hard times.

This report is the start, not the end, of the discussion we want to have with you – the public, private industries, policy-makers and thinkers – about how we help families avoid falling into problem debt.

Over the coming year we will develop our thinking as we carry out more analysis on the causes and impact of debt and effectiveness of different solutions, and discuss with you the ways we can all do better to keep families from tipping over the edge.

The challenges facing family finances call for urgent, innovative and collaborative thinking, and we look forward to working with you as we all rise to the challenges and play our part on putting family finances on a steadier, more resilient footing.

Mike O'Connor, Chief Executive
StepChange Debt Charity

2. Executive summary

Millions of families in Britain are living on the edge. Household finances are stretched every month for families up and down the income scale, who feel like they are constantly juggling their finances.

Our new research on British household finances finds that many have good reason to be worried. Due to pressures on income, **15 million people are falling behind on bills and using credit to pay for essential costs, including almost 6 million people using credit to make it through until payday, and almost 3 million using credit to keep up with existing credit commitments.**

As a result, people lack resilience when it comes to coping with shocks and changes in their lives, such as changes in their employment or rising costs from essential bills or interest rate rises. **Some 13 million people do not have enough savings to last a month if their income dropped by a quarter.**

People are sceptical that welfare and other sources of support will be sufficient to help them keep up with high bills when they fall on hard times. **Just one in 10 believe that welfare will be sufficient to cover their essential costs,** while only a few would consider seeking help from creditors and their essential service providers.

Credit can seem like the only realistic option to help people weather the storm, and has become a distress safety net for people who fall on hard times. Most of the 500,000 people StepChange Debt Charity helped in the last year fell into problem debt as a result of changes to their work situation, such as losing their job or working reduced hours.

The role that credit plays in our lives has changed since the financial crisis. In the run up to the credit crunch, loose lending led to big debts based on consumer spending. New regulations have led to tightened lending and debt levels have reduced, but the strain on household finances has left millions with too few savings to deal with financial shocks.

Government has stepped in to support business and mortgage lending, but high cost lenders have filled the gap left by mainstream lenders of unsecured credit. As a consequence, **when people fall on hard times, they take out 'distress' credit which is higher cost, more damaging and more likely to tip them into problem debt.**

To those in distress, credit may seem like a rational short term fix to difficult financial situations, but the long term consequences can be bleak. Taking on more commitments can see people's situations quickly become unmanageable, as interest and charges build up, and the only option can seem to be to take on more credit. Payday loans are the credit of last resort for many of our clients – with more than six in 10 of those with payday loans also having unmanageable overdraft and credit card debts.

As well as getting people into further difficulty, problem debt can also have a profound impact on people's well-being, with knock on consequences for their mental health, their family life and their ability to work:

- 74 percent of clients considered that worrying about debt problems had affected their sleep, 64 percent say it led to mood swings.
- 15 percent of clients say their debt worries have affected their attendance at work and 43 percent say that it has affected their concentration at work. In a small number of cases, this has directly led to them losing their job.

The people most at risk of falling into debt - average earning households, families with children and those in full time work – are the very definition of the 'hard working family' that many Government policies set out to help. They meet the expectations set out for them, but nevertheless find themselves let down by policy and the economy. As well as being a large section of society, they are a weather vane for how other more vulnerable people are struggling.

Although there are welcome signs of economic growth, such as recovering wages and slowing inflation, some key costs are set to continue rising, interest rates will rise eventually, and short term and insecure jobs are expected to remain a feature of the flexible labour market. **The road to recovery will be far from smooth for many.**

Our research shows that there are millions more people than StepChange Debt Charity already helps who are 'living on the edge'. They simply do not have the savings or spare income to be able to cope with a change in their circumstances. Hard-pressed families will continue to need help to stop them from falling off the edge.

People need a new promise that they will be helped to become more resilient and better able to deal with shocks and changes without resorting to risky credit to make ends meet. And if they fall on hard times, and engage with the state, their creditors and essential service providers, they will get the support and understanding they need to get back on a steady footing.

People need that promise now. Many are not feeling the benefits of economic recovery, and may face financial shocks due to changes in personal circumstances or increased costs. The public needs to know that policy-makers are taking action in the short term to address the high living costs that make it hard to build up a buffer and ensuring that there is a safety net to catch them and their family if they hit a bump in the road to recovery.

But the recovery is also an opportunity for policy-makers to set out their vision for the long term changes needed to really put family finances on a steady footing, so that people are able to save for the future, build up resilience, and are free of the worries that make it hard to prosper at work and support their families.

Rising to this challenge calls for a radical debate on how we design a stronger safety net to stop so many families turning to unsustainable credit when they face income shocks.

Crucially, welfare alone is not sufficient. Creditors and essential service providers, such as utility companies, mortgage lenders, landlords and Council Tax departments, have a significant role to play in keeping their customers, who pay high bills, from falling off the edge. **These organisations should be an integral part of an effective, comprehensive safety net that truly supports people and helps them to bounce back, as well as offering affordable products for people on low incomes.**

Rising to the challenge also calls for broadening our thinking about which groups need additional support. People earning low to middle incomes and those in full-time work are disproportionately likely to be showing real signs of financial difficulty, and could benefit from more policy action on their costs.

People need to know that politicians have their back covered, and are trying to help keep their costs down. We set out short and long term recommendations for how policy-makers can rise to the challenge:

- Boost people's financial resilience by making saving a realistic option for those on low and middle incomes.
  - A Living Costs Challenge to tackle unfair charges on essential services that penalise lower income households and contribute to the 'poverty premium'.
  - Ensure that support with high bills is available for a wider range of low and middle income households struggling with living costs.
  - A pledge to ensure that affordable credit is available for low income households to avoid the traps of high cost credit.
  - A policy programme to boost saving among low to middle income households, based on what works: default and incentive based saving choices in everyday transactions.
- Ensuring a comprehensive safety net is in place to catch people when they fall on hard times so they don't need to turn to risky credit to make ends meet.
  - 'Debt-proof' Universal Credit. Government should close the small number of loopholes that could force people with few savings to turn to credit to make ends meet.
  - Formalising the role of creditors and essential service providers in the safety net, such as utility companies, mortgage lenders, landlords and local authorities, to improve and simplify the help they offer people when they fall on hard times, including offering 'breathing space' to struggling bill payers.
- Ensure there is a comprehensive, easy to access framework of free debt advice available for people as a key means to help people who fall on hard times get all the help they need to manage their finances and get back on their feet.
- A national strategy to tackle personal debt, led at Cabinet Minister level, is necessary to bring together all the government departments, utility companies, landlords, lenders and charities who, together, can make a real impact on improving people's financial resilience and ensuring there is a comprehensive safety net in place for people in need.

3. Introduction

The strain on household finances across the income scale has been a notable feature of this economic downturn, as low and middle incomes have remained stagnant and costs have continued to rise. Living standards have become a dominant theme of political debate; as have politicians' efforts to support job creation and get the economy to grow.

The strain on finances comes as new regulations have seen banks rightfully become more cautious in their lending following the credit crunch. But with millions of families unable to make ends meet, the demand for credit has continued as people turn to credit as a safety net. Payday lenders have stepped in to meet that demand. As a consequence, when people take out 'distress' credit like payday loans, it is higher cost, more damaging and more likely to tip people into problem debt.

At StepChange Debt Charity, we helped more than 500,000 people in the last year deal with problem debts. We fear that millions more people than we and other advice agencies help are living on the edge, with their resilience worn down, and are at risk of falling into problem debt.

For some, falling off the edge might be a gradual process that speeds up as their credit commitments mount; for those only able to access the most expensive forms of credit, high interest and charges can very quickly tip people over the edge into unmanageable debt.

Despite economic growth at the macro level we continue to receive record numbers of calls from people worried about problem debts they've built up. Even with a strong recovery, we fear that a backdrop of rising essential costs and a slow recovery in median incomes[1] means that millions will continue to turn to credit to keep up with their essential costs when they are unable to cope.

And while our flexible labour market may have stopped unemployment rising as high as in previous recessions and other countries, that flexibility has come with additional risks. Almost 600,000 people work 'zero hour' contracts[2] and 1.4 million are working part-time because they can't get a full time job.[3] Insecurity at work means a greater need for safety nets when people can't get the hours they need.

The challenge for policy-makers is to ensure that all households benefit from the economic recovery, at a time when millions of people are at the edge of their finances, using credit unsustainably and at risk of tumbling into a spiral of debt if anything changes.

Our report looks at which groups are more likely to be at the edge of their finances, why people are struggling, and what coping strategies people have in place to deal with shocks and changes to their circumstances.

1 *Resolution Foundation, 2013. Weak Wage Growth Poses Questions Over Stability Of Recovery*
2 *ONS, 2014. Labour Force Survey.*
3 *Joseph Rowntree Foundation, 2013. Monitoring Poverty and Social Exclusion 2013*

The report concludes that public and private policy-makers need to offer people a stronger promise to put household finances on a more sustainable footing, by reducing living costs and encouraging saving to build resilience, and making sure there is decent safety net to support them through difficult times.

We see responsibility for helping people lying not just with Government, but with the utility companies, landlords, credit providers, providers of financial products, and employers, who play such a significant role in people's lives and their finances. We make wide-ranging short and long term recommendations for how they can all play their part in keeping people away from the edge.

Our analysis draws upon a major YouGov survey of British household finances, conducted in December 2013 with a weighted sample of 4,442 British adults, as well as polling of StepChange Debt Charity clients, and analysis of our client statistics.

4. Family finances on the edge

Using our major survey of the nation's finances[4], we look at how different groups of people are showing signs of financial difficulty, and are equipped to cope with shocks and changes to their finances.

Who is struggling?

Our survey found that some 25 million people (51 percent) feel like they've been juggling their finances all year.[5] 'Juggling' – rather than struggling at seasonal peaks – was identified by Bristol University's Personal Finance Research Centre as an indicator of general financial vulnerability.[6]

While many find themselves juggling their finances constantly, a significant number are showing signs of real financial difficulty. The key signs of financial difficulty - signs that people are on the edge of tipping into problem debt - are:

- using credit to keep up with essential bills
- using credit to keep up with existing credit commitments
- using credit to last until payday
- making minimum payments on a credit card for longer than three months
- falling behind on essential bills
- regularly facing late payment charges.

A total of 15 million people (31 percent) report one or more of these signs of financial difficulty over the last year, but this includes almost 3.5 million (seven percent) who reported two signs, and almost three million (six percent) who reported three or more signs of financial difficulty.[7]

Our concern is particularly for people who are routinely using credit to pay for everyday essentials and to service other credit commitments. This is a strong indicator that people are on the edge. Unless their income increases soon afterwards, the routine use of credit for everyday living expenses could snowball into a bigger debt burden very quickly.

We find that almost six million people used credit to make it through until payday, and ***almost three million used credit to keep up with existing credit commitments.*** Our analysis shows that almost 1.5 million (three percent) people did both in the last year.[8] Meanwhile, the Public Accounts Committee estimated in 2013 that two million people were current payday loan customers.[9]

We believe people in these situations are showing signs of extreme vulnerability to changes in their circumstance.

4 *StepChange Debt Charity commissioned an online survey from YouGov. Total sample size is 4,442 GB adults. Fieldwork was undertaken between 17th -20th December 2013. The figures have been weighted and are representative of all GB adults (aged 18+). Estimates of the number of adults affected have been calculated by StepChange Debt Charity. These estimates are based on 2012 population estimates from the Office of National Statistics which indicate that there are 48.8 million adults in Great Britain.*

5 *Ibid.*

6 *Collard, S. et al, 2012. Working households' experiences of debt problems.*

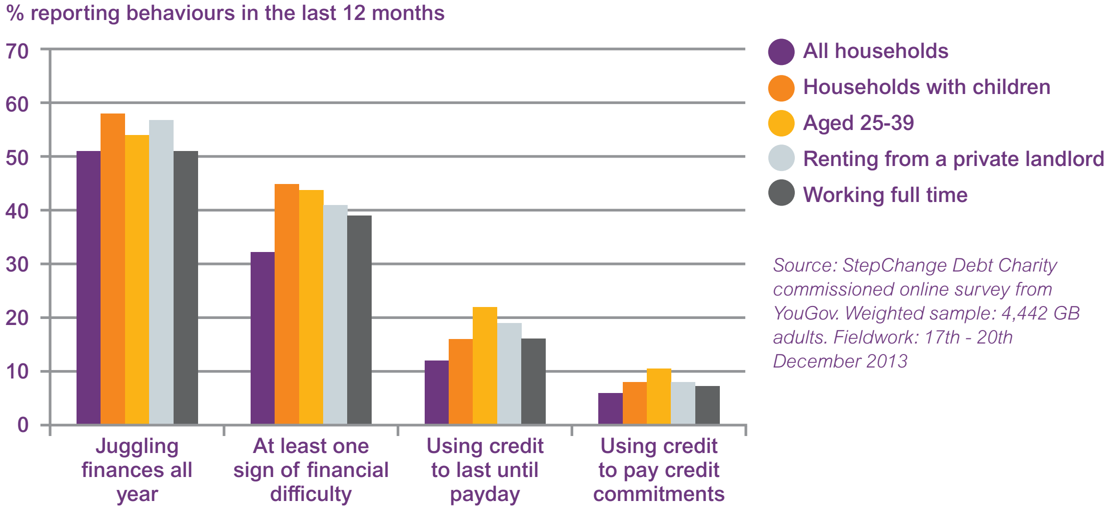
7 *StepChange Debt Charity commissioned online survey from YouGov. Weighted sample: 4,442 GB adults. Fieldwork: 17th - 20th December 2013.*

8 *Ibid.*

9 *Public Accounts Committee, 2013. Regulating Consumer Credit.*

But some people are more likely to be living under financial pressure than others. The chart below looks at some of the demographic groups who report higher than average levels of financial difficulty.

Figure 1: Some groups are more likely to be in financial difficulty

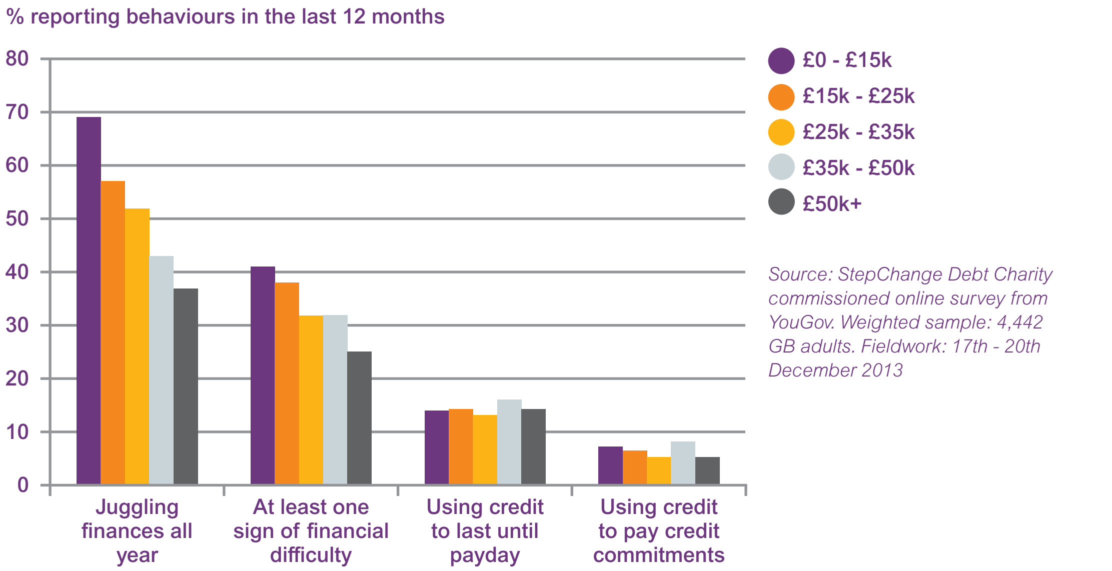


Source: StepChange Debt Charity commissioned online survey from YouGov. Weighted sample: 4,442 GB adults. Fieldwork: 17th - 20th December 2013

Our analysis reveals that 25 – 39 year olds, families with children, people working full time and people renting privately are more likely to be showing signs of financial difficulty.

Looking at how signs of financial difficulty vary by income shows that the likelihood of financial difficulty correlates with income.

Figure 2: Signs of financial difficulty by household income group



Source: StepChange Debt Charity commissioned online survey from YouGov. Weighted sample: 4,442 GB adults. Fieldwork: 17th - 20th December 2013

Those on the lowest incomes are most likely to show general financial vulnerability, but lower middle income households are almost as likely as those on the very lowest incomes to be showing signs of financial difficulty. Those on middle and upper middle incomes show similarly high levels of financial difficulty, suggesting that the risk of falling into problem debt is widespread for all but those on the very highest incomes.

Those struggling are disproportionately in full time work, earning low and middle incomes and have children. Private renters are also significantly more likely to be struggling with their finances.

What is driving people into financial difficulty?

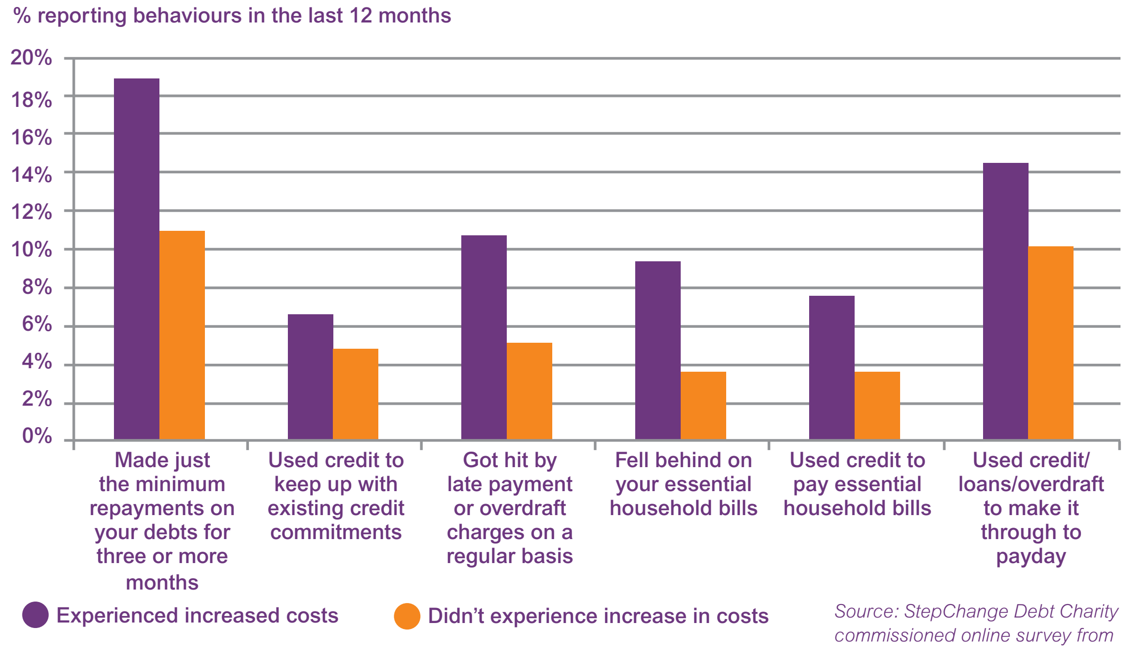
Rising living costs

The groups of people we have identified as being most likely to show signs of financial difficulty are those likely to have experienced some of the greatest pressures on their income.

- Private rents are now higher than mortgage costs[10], and have risen faster than mortgages too. Valuation Office Agency statistics show that rents rose by an average of £300 in 2012, and rose by more than £500 in one in seven parts of England.[11]
- Resolution Foundation's analysis finds that low and middle incomes have remained stagnant in real terms over the last decade.[12]
- The National Audit Office's analysis suggests there was a 44 percent real terms increase in energy bills between 2002 and 2011.[13]
- The IPPR's analysis of OECD figures found that childcare costs in Britain had risen by 77 percent in the last decade.[14]

Our new research allows us to examine the correlation between rising energy, housing and childcare costs and signs of financial difficulty.

Figure 3: Relationship between increased costs and signs of financial difficulty



Source: StepChange Debt Charity commissioned online survey from YouGov. Weighted sample: 4,442 GB adults. Fieldwork: 17th - 20th December 2013

10 Department for Communities and Local Government, 2013. English Housing Survey 2011-12.
11 Shelter, 2013. The Rent Trap.
12 Resolution Foundation, 2014. The State of Living Standards.
13 National Audit Office, 2013. Infrastructure investment: the impact on consumer bills.
14 IPPR, 2014. Childmind the gap: Reforming childcare to support mothers into work.

The results show consistently that people who've experienced increased housing, energy and childcare costs are more likely to be showing signs of financial difficulty. Most pertinently, people seeing increased costs are three times as likely to be falling behind on essential bills, and twice as likely to have used credit to pay essential bills.

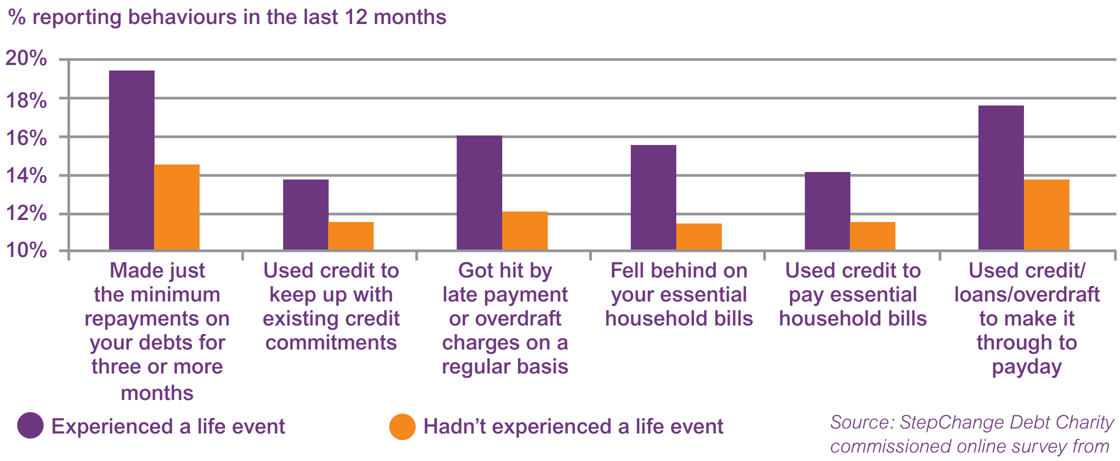
Shocks and changes

Losing their job or seeing a drop in their income are the main reasons our clients give us for their debts becoming unmanageable.[15] Other key reasons include illness and separation/divorce, both of which are associated with financial stress. Life events, on top of underlying financial vulnerability, are the main explanation of why our clients tip from financial difficulty into problem debt.

Our survey found that 35 percent of people experienced at least one significant change in their circumstances in the last year that could have a strong bearing on their finances. This includes:

- Almost 4.5 million were in insecure employment (temping, zero hour or short contracts)
- Almost 4 million saw their hours at work reduced
- Almost 2.5 million self-employed people saw a downturn in their business
- Almost 4 million saw increased caring responsibilities
- Almost 2 million experienced a relationship breakup
- Almost 2 million had a pregnancy or new born child.[16]

Figure 4: Relationships between life events and signs of financial difficulty



Source: StepChange Debt Charity commissioned online survey from YouGov. Weighted sample: 4,442 GB adults. Fieldwork: 17th - 20th December 2013

15 *StepChange Debt Charity, 2014. Statistical Yearbook 2013.*
16 *StepChange Debt Charity commissioned online survey from YouGov. Weighted sample: 4,442 GB adults. Fieldwork: 17th - 20th December 2013.*

People who have experienced significant changes in their circumstances are between two and three times more likely to be exhibiting signs of financial difficulty than those who haven't experienced any changes in their circumstances.[17]

Coping with financial shocks and pressures

Our survey looks at people's ability to cope if they faced a 25 percent drop in their income or increase in their costs. We consider this a plausible reflection of a range of changes that households could face, such as one of two workers losing half their hours at work, a single person on a zero hour contract seeing their hours reduce, or someone starting maternity leave in a double earner household.

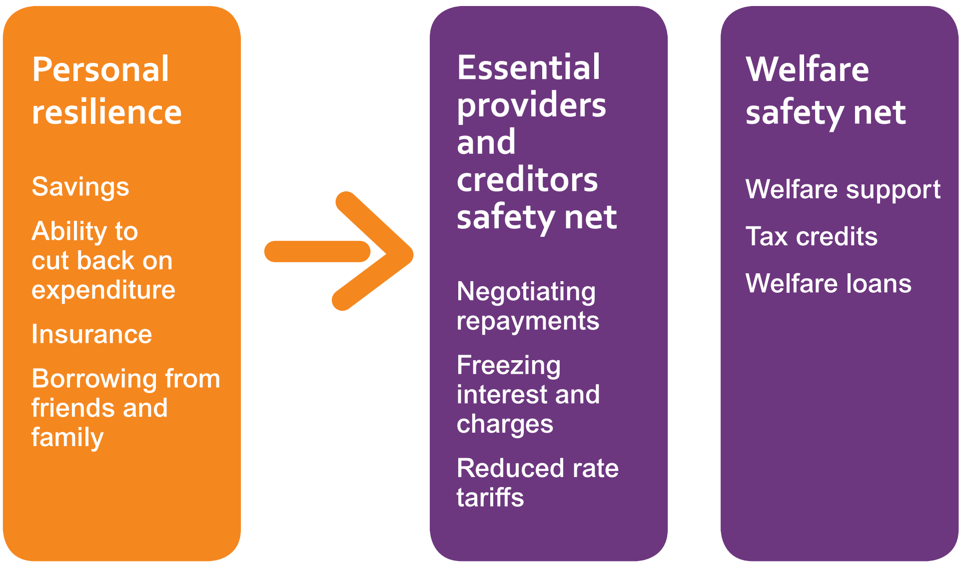
At the heart of the question of how people cope with shocks and changes to their finances is the extent that people can rely on their own personal resilience to cope, and the extent that people are able to cope with the help of the available 'safety nets'.

By 'safety nets', we mean the wide range of resources that people can draw on when they fall on hard times, including but not exclusively, welfare benefits. Safety nets must be sustainable for the household; they should not lead to further difficulty and make it harder to bounce back.

If personal resilience is considered the first pillar of coping with shocks and changes, then the welfare safety net is what most people would consider the second pillar.

But at StepChange Debt Charity we consider there to be a third pillar of coping, to be turned to at the same time as welfare: the safety net that could be, and sometimes is, provided by creditors and essential service providers, such as landlords, utility companies and local authorities, to whom people pay bills every month. We believe the flexibility and help that this pillar can offer could, complementing personal resources and welfare support, help people cope sustainably with shocks and changes.

Figure 5: The three pillars of coping with shocks and changes



17 *This encompasses: loss of a job, loss of hours at work, illness or accident that affected ability to work, relationship breakdown, pregnancy or new born child, insecure work.*

The following section looks at how effective the current parts of the safety net are for people who fall on hard times.

Personal resilience

Cutting back on expenditure

Only one in three people (34 percent) believe they could cut back sufficiently to meet the cost of essential bills if they faced a 25 percent drop in their income. Some key groups were less likely than average to be able to cut back sufficiently:

- 31 percent of families with children
- 32 percent with household incomes between £15 – £25,000
- 29 percent of those in insecure work, such as temping, zero hour contracts or short fixed term contracts
- 25 percent who've experienced illness or an accident that's affected their ability to work.[18]

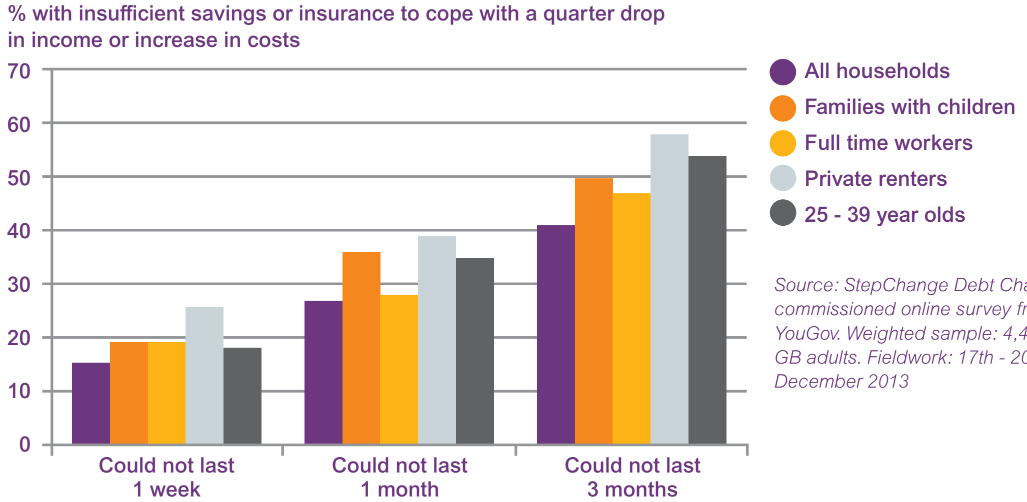
The vast majority of people in Britain do not have the flexibility in their household spending to cope with a drop in their income. Their incomes are already stretched to the maximum. This is particularly true for families, low to middle income households, and those in insecure work.

Coping by using savings and insurance

Some seven million people (15 percent) do not have the savings or insurance to last a week if their income were to drop by a quarter, 13 million people (27 percent) would not have the savings in place to last a month, and twenty million people (41 percent) would not have the savings to cover a three month drop in their income[19] – the rule of thumb used in the financial planning industry.[20]

There are some groups who are particularly unlikely to have sufficient savings and insurance to cope with a financial shock:

Figure 6: Ability to cope with a quarter drop in income with savings/insurance by group

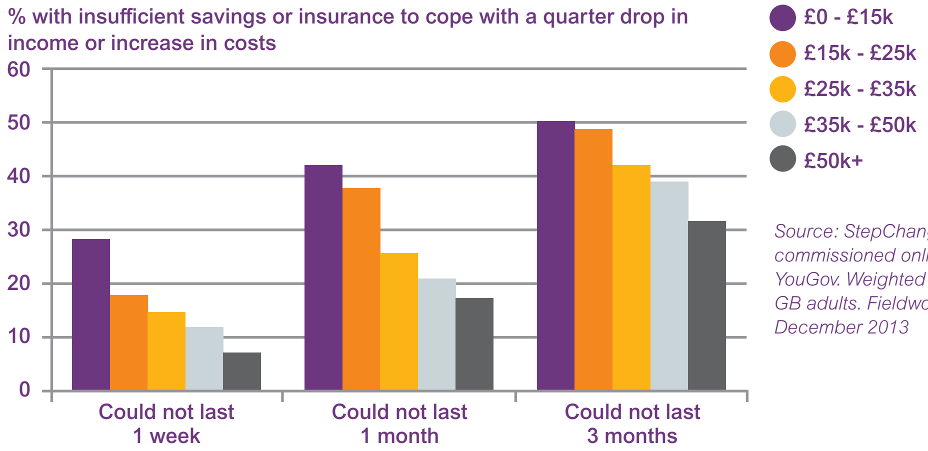


Source: StepChange Debt Charity commissioned online survey from YouGov. Weighted sample: 4,442 GB adults. Fieldwork: 17th - 20th December 2013

18 *StepChange Debt Charity commissioned online survey from YouGov. Weighted sample: 4,442 GB adults. Fieldwork: 17th - 20th December 2013.*
19 *Ibid.*
20 *Association of British Insurers, 2012. Sergeant Review of Simple Financial Products: Interim report.*

There is also a strong correlation between income and having the savings to cope with a financial shock:

Figure 7: Ability to cope with a quarter drop in income with savings/insurance by household income



Source: StepChange Debt Charity commissioned online survey from YouGov. Weighted sample: 4,442 GB adults. Fieldwork: 17th - 20th December 2013

A significant number of households do not have the savings or insurance to cope with a quarter drop in their income, including many on low and middle incomes who could not last a month or even a week. Families with children, private renters and 25 – 39 year olds are also particularly likely to run out of money very quickly if they lost their job or saw their income reduce.

Those who have experienced life events with financial implications are even less likely to be able to cope with further shocks to their income:

- 44 percent of those who've experienced illness or injury do not have enough savings to last a month, and 62 percent could not last a three month period with a drop in income.
- 40 percent in insecure work, such as temping, zero hour contracts or short fixed term contracts, do not have enough savings to cope for a month, and 58 percent do not have enough savings to last three months.[21]

Facing a financial shock can seriously undermine people's resilience, and expose them to further financial difficulty.

Coping by using the welfare safety net

Faith in the welfare state as providing an adequate safety net is low, with only one in 10 people confident they would be eligible for enough benefits to cover their essential costs if their income dropped by a quarter.[22]

Some key groups were even less likely to believe that welfare would cover their essential costs when their income dropped:

- Six percent of those earning £25 – £35,000
- Eight percent of those in full time work
- Nine percent of families with children.

Confidence that welfare will be sufficient in plugging a gap in finances is relatively higher among those in insecure employment (11 percent) and those who've experienced illness or injury that affected ability to work (13 percent), but still low in absolute terms.

21 StepChange Debt Charity commissioned online survey from YouGov. Weighted sample: 4,442 GB adults. Fieldwork: 17th - 20th December 2013.
22 Ibid.

A household with two children earning £26,000 whose income dropped by a quarter after losing hours at work would only see their state support increase by £55 a week through increased tax credits[23], which many would find insufficient to cover essentials, even after cutting back.

Moreover, any changes in support may take some time to process – a claim for Job Seeker's Allowance would be paid after 38 days, including a seven day period for which benefits are not available. Crucially, this pushes receipt of benefits beyond the next payday: more than a quarter of people do not have enough savings to keep up with their essential costs for that length of time.

On the whole, the vast majority of people lack confidence that the welfare safety net would be sufficient to help them meet essential costs if their household income dropped by a quarter. For those on middle incomes whose finances are already stretched to the max, a drop in income would be unlikely to be covered by welfare support.

Coping with the safety net provided by essential service providers and creditors

Some creditors and essential service providers are in a position to offer struggling households flexibility on their payments while they get their finances back on track.

Some, such as mortgage lenders, are compelled to offer help to struggling homeowners and use repossession as a last resort, while other sectors have non-binding codes of conduct that encourage forbearance. Other sectors – such as private landlords – do not even have voluntary guidance for dealing with customers in financial difficulty.

Falling behind on bills or using credit to keep up with commitments are key drivers of problem debt. The support of essential service providers and creditors has the potential to help people who are struggling keep their finances afloat.

Yet, against a backdrop of differing rules and practice across all of the organisations that people pay bills to, just 16 percent of people would consider negotiating with their creditors if they were unable to keep up with essential costs through savings, benefits or cutting back.

Even when people are in difficulty, they may find it hard to get help from their essential service providers and creditors. In one poll of StepChange Debt Charity clients, we found that 62 percent said that half or fewer of their creditors treated them well before they sought advice. In a more specific survey of clients with energy arrears, we found that 58 percent had been offered no help by their energy company, and a further eight percent said their energy companies had actively made it difficult for them to pay back the arrears.

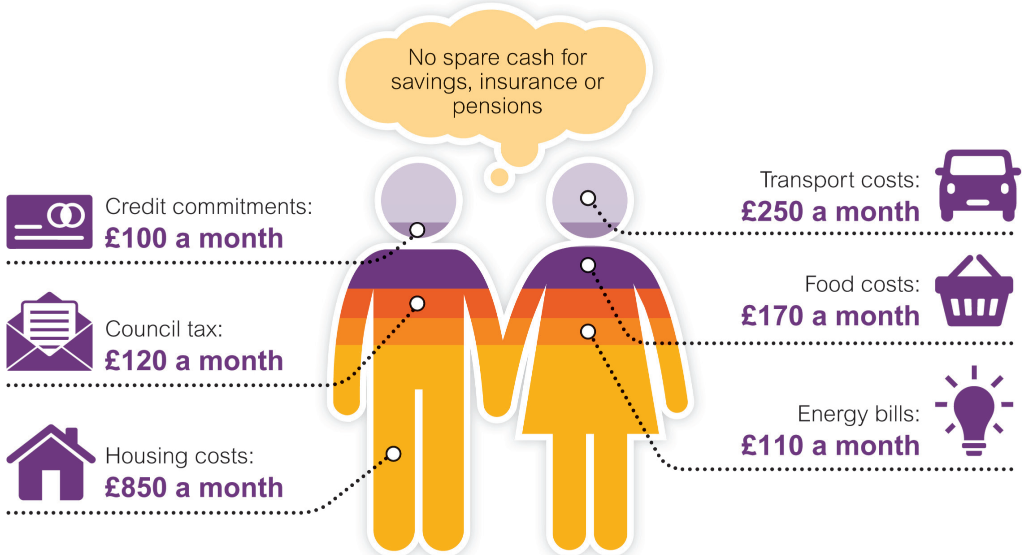
It is clear that people are either unaware of the help that essential service providers and creditors can provide, or do not find that it is easy to get support in practice. As it stands, the safety net that creditors and essential service providers can offer is likely to be underused by most people in financial difficulty.

Faced with few sustainable options for cutting back and keeping up with essentials, a sudden 25 percent drop in income could see millions of families left with no option but to turn to credit to make ends meet.

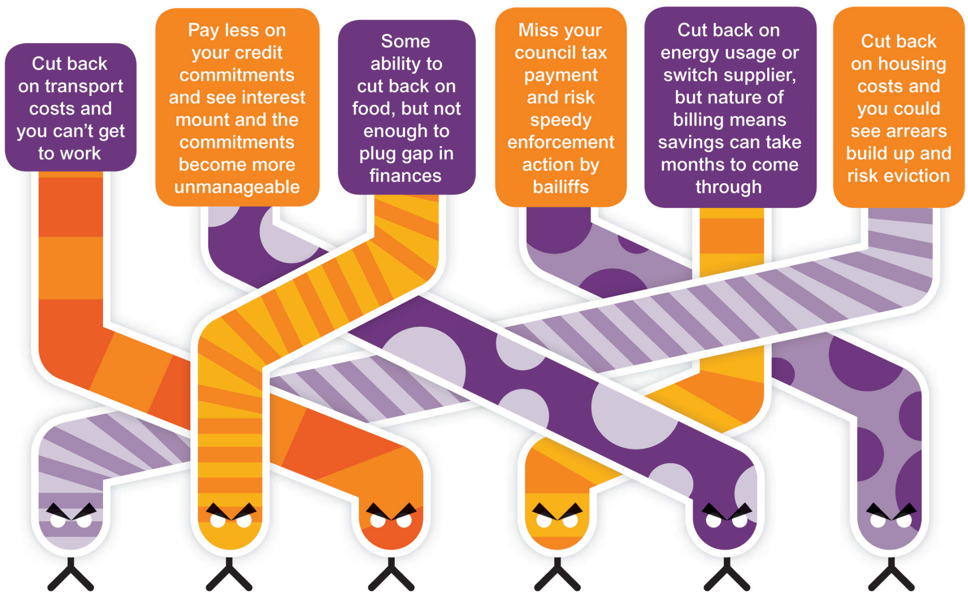
23 Calculations based on Entitled To calculator, using 2013/14 allowances.
24 StepChange Debt Charity commissioned online survey from YouGov. Weighted sample: 4,442 GB adults. Fieldwork: 17th - 20th December 2013.
25 StepChange Debt Charity, 2014. Sample size: 1,104 StepChange Debt Charity clients. Fieldwork: 3 – 14 February 2014.
26 StepChange Debt Charity, 2014. Sample size: 122 StepChange Debt Charity clients with energy bill arrears. Fieldwork: 17 – 28 February 2014.

Summary: *Millions of families' household finances are stretched to the max and already much more likely to be falling behind on bills and using credit to make ends meet. As the case study below shows, an average earning household with average costs already has little scope to save or plan for the future. If they faced a drop in their income, they would have a significant shortfall in meeting their essential commitments.*

An average earning household takes home around £1,600 a month



If their income dropped by a quarter to £1,200 a month, how could they cut back to meet essential costs? What would you do?



Most options for cutting back lead to worse consequences quickly – as debts mount, arrears build and it becomes harder and harder for people to bounce back.

Sources: Transport, food, energy costs based on ONS Family Spending 2013 averages. Council tax costs based on DCLG Band D averages. Rent costs based on Hometrack 3 bed UK average rents for 2013.

5. Using credit as a safety net

With few other options, our survey reveals that 32 percent of Britons – some 16 million people –would use unsecured credit to keep up with essential costs, but this rises to 42 percent of people who wouldn't have enough savings to make ends meet for three months, 39 percent who've experienced a significant change in their circumstances, and 36 percent of families with children.[27]

In the first instance, people would generally consider using their overdraft as a safety net, followed by credit cards. Worryingly, two million people are already using payday loans[28], and 1.5 million more would consider taking out a payday loan if they were unable to meet their essential commitments.[29]

Overdrafts and credit cards are more likely to be used as a safety net for households earning above average incomes, while payday loans are more than four times as likely to be used by those on the lowest incomes.[30]

Using most credit products to pay for essential costs, whether as a result of rising essential costs or in the case of a lost job or reduced hours, is likely to be unsustainable.

The costs of interest can quickly see the amount owed increase, and late or missed payments can bring additional charges that add to the debt. Building up debts means more commitments to maintain, with higher costs to fall behind on, and so more exposure to further income shocks or increased costs.

What we see from our own clients is that people start by using a small amount of credit to pay for essential costs, but need to borrow more and more to keep up with their growing commitments. Payday loans, in this context, can be seen as the credit of last resort, as people make a last-ditch attempt to keep up with their commitments. Some 69 percent of our clients with payday loan debts also have credit card debts and 62 percent have overdrafts.[31]

27 *StepChange Debt Charity commissioned online survey from YouGov. Weighted sample: 4,442 GB adults. Fieldwork: 17th - 20th December 2013. 'Using unsecured credit' extrapolated from all respondents agreeing that they would consider at least one of the following: spending more on their credit card, using their overdraft, taking out a payday loan, borrowing from a loan shark, or borrowing from a credit union.*

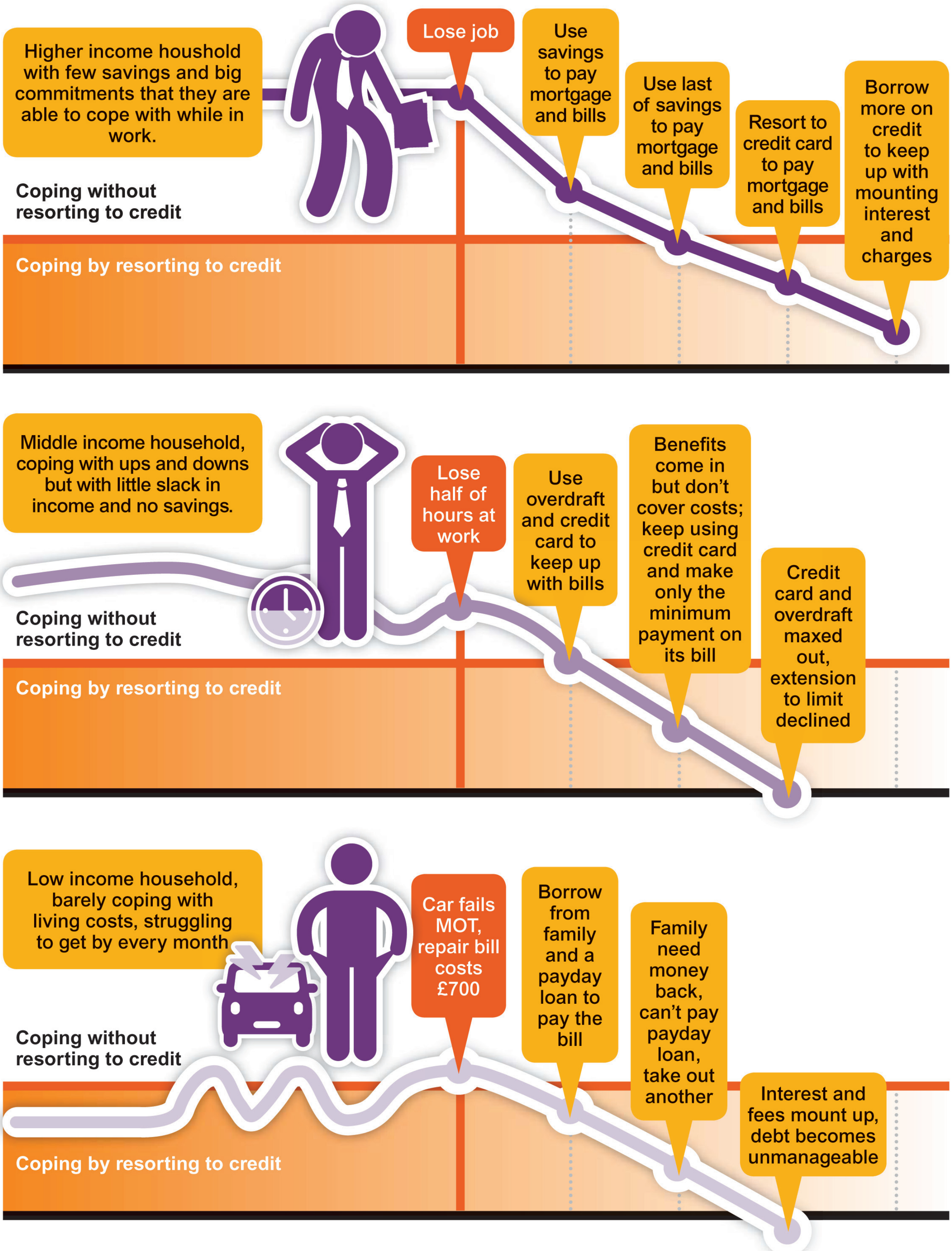
28 *Public Accounts Committee, 2013. Regulating Consumer Credit.*

29 *StepChange Debt Charity commissioned online survey from YouGov. Weighted sample: 4,442 GB adults. Fieldwork: 17th - 20th December 2013.*

30 *Ibid.*

31 *StepChange Debt Charity, 2014. Statistical Yearbook 2013.*

Millions of households from across the income range are at risk of falling into problem debt



"I speak to clients who have, in their own words, "reached the end of the road". With the cost of living rising faster than income, clients tell me they turned to credit to supplement their earnings. Often this is seen as a solution to financial difficulties such as unemployment or unexpected costs. Many have no savings and find credit to be the only option.

By the time clients call us many have exhausted every available avenue for credit and are unable to manage household bills and credit repayments. Faced with these problems, getting out of debt is often viewed as an unobtainable goal.

Many clients ask me why creditors allowed the problems to grow when in an ideal world, helping prevent them from getting into debt in the first place would have a positive impact on long term financial health."

Mark Pearson, StepChange Debt Charity Helpline Advisor

Yet, it is easy to see how people might consider credit a rational response, at least in the short term.

If a person has been in work for a number of years, they might reasonably consider themselves employable and expect to find a new job in a relatively short time. Given this, making drastic changes to their living arrangements to cut back – such as downsizing their home or selling their car – would seem unnecessary and extreme. Yet, the scope to make small changes and cutbacks may be limited for the millions who are already at the edge of their finances already.

Credit offers a speedy, immediate response to a shortage of money. While an application for Jobseeker's Allowance or Employment and Support Allowance will, without any administrative delays, take 38 days to be paid under Universal Credit, credit cards and overdrafts can be used immediately and payday loan firms advertise that funds will be transferred within five minutes.

Impact of problem debt

We conducted a poll of StepChange Debt Charity clients - people dealing with problem debt primarily after facing major changes to their circumstances - to establish how the burden of debt has affected them:

- ***Debt affects mental health:*** 74 percent of clients said that worrying about debt problems had affected their sleep, 64 percent say it led to mood swings.
- ***Debt affects family life:*** 37 percent of our clients consider that their debt problems have had a negative impact on their family relationships, while a further 33 percent haven't told their family about their debt problems. In both circumstances, there is an increased likelihood of debt problems leading to relationships breaking down, jeopardising stability for the family, and causing further financial upheaval, leading to more risk of falling further into debt.
- ***Debt worries affect people's ability to work:*** 15 percent of clients say their debt worries have affected their attendance at work, and 43 percent say that it has affected their concentration at work. In two percent of cases, this directly led to them losing their job.[32]

32 *StepChange Debt Charity, 2014. Sample size: 1,104 StepChange Debt Charity clients. Fieldwork: 3 – 14 February 2014.*

The negative impacts of debts can make life even more difficult for families when they fall on hard times. It can make it hard for people to bounce back – doing well at work is more difficult, and stress and a lack of sleep could hold people back in interviews and applications.

Problem debt therefore undermines other Government policy objectives:

- If it is harder for people to get back into work, then people may need to receive welfare for longer, weakening efforts to reduce the welfare bill.
- It undermines the resilience of family units and weakens efforts to make families stronger.
- If people are paying heavy credit burdens, they have less disposable income to spend in the economy supporting growth.

Policy-makers have strong reasons to help people avoid the perils of problem debt. Breaking the link between rising living costs, life events and debt is vital for putting families on steady footing, supporting people back into work, and getting more money flowing sustainably into the economy.

6. A new promise to stop people from falling into debt

Fifteen million people are showing signs of financial difficulty that could see them fall off the edge and into problem debt. With millions having insufficient savings to last even a month if their income dropped by a quarter, many more people could be forced to use credit as a distress safety net as they struggle to weather the storm ahead.

The factors that drive people to use credit as a safety net show no signs of going away, even with a strong economic recovery. Rising housing and energy costs are expected to continue to outstrip income growth, and insecure work and other life events will continue to test the limits of people's resilience.

Using credit as a safety net can quickly become problem debt. It is likely to lead to stress, anxiety, sleeplessness, relationship difficulties, and affect people's ability to hold down a job or look for a new one. Instead of acting as a safety net that helps people bounce back when they fall on hard times, problem debt keeps people down and spoils their chance of making a strong personal recovery.

These risks will remain a big part of people's lives in the years ahead. The road to economic recovery is an opportunity to mitigate these risks for the millions of families who are struggling while doing their best in straitened times.

Rising to the challenge requires a couple of shifts in policy:

1. **A recognition that welfare alone is not sufficient,** and creditors and essential service providers, such as utility companies, mortgage lenders, landlords and Council Tax departments, have a significant role to play in keeping their customers, who pay high bills, from falling off the edge. **These organisations should be an integral part of an effective, comprehensive net that truly supports people and helps them to bounce back.**
2. **Rising to the challenge also calls for broadening our thinking about which groups need additional support.** People earning low to middle incomes and those in full-time work are disproportionately likely to be showing real signs of financial difficulty, and could benefit from more policy action on their costs.

People need a new promise from policy-makers that the economic recovery will lead to increased living standards and stronger personal resilience to shocks and changes – so that people do not need to resort to risky credit to make ends meet.

People need a promise that, if they fall on hard times, and engage with the state, their creditors and essential bill providers, they will get the support and understanding they need to get back on a steady footing.

To deliver that promise, the Government must take the lead in setting out a plan to keep people from falling off the edge in the immediate future:

- ***Helping people build their personal resilience by reducing costs, boosting incomes, encouraging saving, and ensuring fairly priced credit is available to help people smooth significant essential costs.***
- ***Ensuring that safety nets respond swiftly and comprehensively to people when they fall into financial difficulty, by closing loopholes in Universal Credit and formalising the role of creditors and essential service providers as a complement to the welfare system.***
- ***Making the safety net and efforts to build resilience a reality, by putting free debt advice on steady footing, and taking real political leadership to co-ordinate the efforts of the wide range of stakeholders needed to keep families afloat.***

Here we set out detailed recommendations for national and local policy-makers, essential service providers, creditors and the debt advice sector on how to help people avoid problem debt.

Our recommendations take the form of short term changes to current policy and practice over the coming four years, and the longer term strategic shifts that policy-makers must absolutely prioritise in order to firmly ensure that families have the room in their finances to prosper and cope in the future.

A promise for the immediate future

Building personal resilience

Improving people's personal financial resilience is vital to helping them get their finances on a steady footing, to helping people manage more successfully life's ups and downs, and to open doors like buying a home or supporting their children through university.

A key way of boosting resilience is to help people build savings. Our analysis has shown that a significant number of people would not have the savings to last a week or a month if their income dropped by a quarter, with households earning under £25,000 least likely to have sufficient savings.

Helping improve resilience in the short term must involve quick action to reduce pressures on household finances: by improving incomes, tackling high and rising living costs so that people on low and middle incomes are in a stronger position to save, as well as targeted action to incentivise saving among those on lower incomes.

Cutting living costs

Some groups are particularly badly affected by high living costs, including families with children, 25 – 39 year olds, people earning up to the average income, and private renters. These groups are also at greater risk of falling behind on their bills and using credit to make ends meet.

People on low incomes face a 'poverty premium' of an extra 10p in every pound they spend.[33] Some of the additional pressures that put already struggling households under even more financial pressure include:

- People on low incomes with limited access to credit may pay as much as four times the high street price to buy essential household goods via weekly payment providers.[34]
- People who do not use direct debits for their energy bills typically pay £115 a year more than those who do, including many older people and those without transaction bank accounts.[35]
- Private renters are ten times more likely to move each year than people with a mortgage[36] and when they move have to pay £350 in administration fees alone, along with rent in advance and deposits.[37]

33 *Consumer Futures, 2013. Addressing the poverty premium: Approaches to regulation.*
34 *The Guardian , 4.10.2013. Buy now, regret later? The secret of BrightHouse's success.*
35 *Robert Halfon MP, 2014. The Great Energy Rip Off.*
36 *Ibid.*
37 *Shelter, 2013. Letting Agencies: the price you pay.*

One in four renters who dealt with a letting agency in the last three years said they had to borrow money to pay for fees.

A key part of policy-makers' efforts to reduce living costs in the immediate term should be to tackle the additional costs that some groups have to pay. We believe there are some quick wins to be had, alongside more concerted efforts to deal with underlying structural reasons behind high living costs.

- **The Government should commit to a Living Costs Challenge – like the Red Tape Challenge – working with the public and consumer groups to tackle unfair premiums on essential goods and services that low and middle income households face, so that they have more cash and ability to save for a rainy day. Some early wins could include:**
  - **Ensuring that low cost credit is available for low income households to borrow money for essential costs.**
  - **Ofgem should set a new regulation of non-direct debit charges to a cost price of £22.[39]**
  - **Banning letting agency fees to tenants, so that landlords pay these business costs themselves.[40]**

A private renting family, moving house each year and not paying direct debit on their energy bills could save £443 with government action on just two of these charges – almost as much extra again that low income households would have in their pockets than after the Government's move to raise the personal tax allowance to £10,000.

Beyond removing high charges that can eat away at people's ability to save, policy-makers should ensure the support available is targeted to help people with the real costs they face. We believe government should:

- **Maintain help with high housing costs by uprating local housing allowance by CPI rather than 1 percent so that low and middle income families' finances aren't further pressured by rising rents. Many in low paid work receive local housing allowance to help them afford high rents.**
- **The Government should expand the Warm Homes Discount scheme, now extended until 2015/16, to expand support for high energy bills to a wider range of low and middle income households. Currently suppliers have discretion on which low income groups are helped, and are typically households earning less than £15,000. But our analysis shows that households earning £15 - £25,000 are only marginally less likely to be showing signs of financial difficulty than those on the lowest incomes.**

Boosting take home pay

Median real incomes have fallen by six percent since 2007/8, while the price of goods that lower income households spend a greater proportion of their budget on have risen particularly quickly (energy 60 percent, food 30 percent).[41] Boosting take home pay will give people a better chance of affording the essentials without resorting to credit, meaning people have a better chance of saving for a rainy day.

Some recent policies will provide welcome support for people on low wages, such as raising the income tax threshold, and uprating the minimum wage by three percent to £6.50 per hour.

Yet, it is unlikely that raising the minimum wage and raising the income tax threshold will be sufficient to really put family finances on steady footing. While still not enough on its own, the Living Wage – currently £7.65 per hour – should be our benchmark for a wage that allows people to raise their family without having to use credit to make ends meet.

39 Robert Halfon MP, 2014. The Great Energy Rip Off.
40 Ibid.
41 Institute of Fiscal Studies, 2014. Green Budget 2014.

We believe the following measures would lead to gradual improvements in incomes in the short term:

- **The Low Pay Commission should set a medium term plan in place to raise the Minimum Wage to the level of the Living Wage. We believe the Minimum Wage should go up by the same rate as the Living Wage, plus an accelerator of three percent. We estimate that the Minimum Wage would catch up with the Living Wage within six years.**
- **Consider introducing short term incentives to reward employers who achieve living wage accreditation.**

Better borrowing

While credit's emerging role as a safety net is unsustainable for many families, it is vital that people can access affordable credit for its proper role: spreading the cost of big purchases over the longer term. Good credit can build resilience; bad credit can make people weaker and less able to deal with life's challenges.

People on low incomes need to pay for significant purchases or unexpected costs over the longer term to avoid higher living costs. For example, a broken fridge could see higher food shopping costs and more food waste, a car needing repair could make it hard to take up job opportunities.

With the tightening of credit in the aftermath of the financial crisis and the scaling back of the state provided Social Fund, high cost credit lenders and expensive rent-to-own providers have stepped in to fill the gap in emergency credit for low income consumers. These can see people paying many times the high street price for money and essential items. Yet, due to a lack of stigma, appealing branding and quick access to cash, they have attracted significant volumes of low income customers.

The recent move to end funding for local welfare loans from 2015 will further reduce the availability of affordable credit for essential goods to low income households.

The Government has indicated that expanding capacity in the credit union and community finance sector is the solution for providing affordable credit to low income households , but it is questionable whether the planned reforms to the sector will lead to it truly competing with high cost credit providers on their swift, accessible, appealing offer, and over what timescale.[42]

Ensuring affordable credit is available is necessary to reduce costs, ensure that low incomes go further, and keep people away from the perils of problem debt.

- **StepChange Debt Charity will publish further analysis on failure in the credit market for low income households, and set out the practical policy proposals to ensure the availability of sustainable forms of credit. This will cover:**
  - **The next steps for regulating high cost credit.**
  - **The next steps for ensuring a decent supply of sustainable credit.**
  - **Addressing the demand for high cost credit.**
- **Government should commit to taking the necessary steps to ensure that the credit market for lower income consumers works effectively to prevent the harm of high cost credit and that sustainable, realistic alternatives are available.**

Better saving

Building strong savings buffers is crucial to helping people deal with financial shocks without falling into difficulty. Dealing with high living costs and low incomes can make saving a more realistic prospect for low and middle income families, but further incentives are needed to boost saving among this particularly precarious group.

42 *Department for Work and Pensions, 2012. "Further investment to secure future of credit unions".*

Successive governments have failed to sustain meaningful efforts to support low income households to save and build personal financial resilience. The centrepiece of British savings policy, the ISA, has had little impact on lower income households' saving. Just one in four households with incomes of less than £400 a week have an ISA, compared to half of those with incomes between £700 and £1,000 a week.[43]

Insights from behavioural economics tell us that making saving a default choice is likely to be more effective in encouraging lower income households to save[44], while other research shows that savings bonuses or matched savings, like those offered by the now defunct Savings Gateway, are stronger incentives than favourable interest rates or tax reliefs for this group.[45]

With the additional ISA changes set to cost the exchequer an additional £565m a year by 2018/19 in lost tax on savings[46], but with likely minimal impact for lower income households, it seems that an opportunity has been missed to improve saving among the groups who could most benefit from a stronger financial buffer.

StepChange Debt Charity believes that resources would be better targeted developing a high impact saving programme for lower income households that incorporated making saving a default behaviour and included savings bonuses or matched savings.

An initial target of helping families on low incomes build a 'rainy day' buffer of £500, representing just below the average payday loan debt of StepChange clients, would help people avoid high cost credit when they fall on hard times, and avoid the wider costs to individuals and the state when people fall into problem debt.

- **Government should instigate a high profile savings programme focused on lower income households, using targeted incentives proven to be effective.**
  - **This should focus on identifying opportunities to make small-scale saving the default option in everyday transactions, such as through Universal Credit, alongside auto-enrolment in workplace pensions, and following the lead of Lloyd's Bank's "Save the Change" scheme, where customers opt in to round up their transactions to the nearest pound and automatically transfer the extra money to a savings account.**
  - **Government should investigate opportunities to match savings or provide bonuses when savers reach a certain threshold, to encourage higher contributions to savings on low incomes.**
- **The debt advice sector should look to encourage savings among people with long term repayment plans on their debts, so that as people repay their debts they are building up a savings buffer to avoid future debts.**

A strong and responsive safety net

Efforts to improve personal resilience are vital in helping people cope with smaller shocks and changes in life, but a comprehensive safety net is needed to help people from falling into debt when their own resources are insufficient to deal with the financial challenges they face.

Ensuring an effective safety net must learn from behavioural insights, which tell us that in times of distress, whether through loss of job or financial difficulty, people's ability to make complex decisions is limited, leading to people taking action that may relieve immediate stress, but does not help in the long term.[47]

43 *Department for Work and Pensions, 2013. Family Resources Survey 2012.*
44 *British Academy Policy Centre and Institute for Fiscal Studies, 2012. Raising household saving.*
45 *Bristol University Personal Finance Research Centre, 2009. Saving in lower-income households - A review of the evidence.*
46 *HM Treasury, 2014. Budget 2014: policy costings.*
47 *Institute for Fiscal Studies, 2012. Tax and benefit policy: insights from behavioural economic.*
Mullainathan, S., Shafir, E., 2013. Scarcity: Why have too little means so much.

An effective safety net therefore needs to offer people simple, certain options to overcome the behavioural biases that may see them resorting to using credit unsustainably as a personal safety net.

Universal Credit

Universal Credit has real potential to offer a more flexible and responsive safety net to support the circumstances of people in low pay and insecure jobs. We warmly welcome this: our analysis has shown people in insecure work are significantly more likely to be using credit as a safety net and falling into financial difficulty.

But some loopholes remain in the design of Universal Credit that could see people with few savings or in particular circumstances at risk of turning to destructive credit to make ends meet, or disincentivised from going back into work due to benefit cliff edges.

Meanwhile, debt itself can be a barrier to going back into work or increasing their hours, undermining people's ability to get back on their feet, and the aims of Universal Credit.

It is vital that the Department for Work and Pensions ensures that Universal Credit does not overlook the effects of debt, and avoids loopholes that expose people to further risk of falling into debt.

Government must 'debt-proof' Universal Credit and welfare reform more widely, by:

- **Carrying out regular debt impact assessments as part of progress reporting on welfare reform and Universal Credit to identify elements which are putting people at greater risk of debt.**
- **Where debt risks are identified, ensure that mitigating policies or funds are in place to stop people falling into further difficulty.**
- **The rolling out of Universal Credit and other welfare reforms should be contingent on guarantees of effective administration so that delays do not force people to take credit to make ends meet.**
- **Removing the seven day blackspot for which Jobseeker's Allowance and Employment and Support Allowance are not paid, to ensure that stretched families do not have to consider taking out a payday loan to bridge the gap in finances.**
- **Removing the 'zero earnings' restriction on Support for Mortgage interest payment to offer a tapered level of support to people in part time and short term work, so that households where a full time worker loses their job but a part time worker remains in work are not excluded from support or incentivised to reduce the part-time hours.**

The third pillar of coping: the essential services and creditors

The key task to make the safety net more comprehensive is formalising the role of essential service providers and creditors. The challenge for the wider safety net is to simplify the support that's available across all essential services to a coherent guarantee of help. There is currently significant variation across sectors and organisations.

A better, wider safety net needs to bridge the gap between policy and practice: most creditors and essential service providers have policies to help people in difficulty, yet 62 percent of our clients reported that half or fewer of their creditors treated them well before they sought debt advice.[48]

Even if people were minded to seek support, insights from behavioural economics tell us that lack of a simple, cross-service offer of support makes it hard for the concept of help from essential service providers to catch on.

- Some organisations offer a complex range of support options that would simply be overwhelming for people in financial distress.
- Some organisations offer welcome flexibility on payments, but only to certain groups of customers, and sometimes for too limited a period.

48 *StepChange Debt Charity, 2014. Sample size: 1,104 StepChange Debt Charity clients. Fieldwork: 3 – 14 February 2014.*

We believe the third pillar of coping should take the form of a Safety Net Promise: where customers who fall on hard times are able to get 'breathing space' and wider help from their essential service providers, if they show that they are willing to engage and get advice.

Making this part of the safety net work for struggling customers needs a common offer of help among the relevant industries:

- **Organisations should offer a range of repayment options to suit people in different positions of difficulty, including offering customers 'breathing space' – payment holidays, token payments, and longer term repayment plans.**
- **A freeze on interest, charges and enforcement if people have agreed a repayment plan or 'breathing space', in line with the Debt Arrangement Scheme in Scotland.**
- **Each organisation should offer a single freephone or geographic number for people to talk to their creditors about money worries. This should be prominently advertised on bills, websites and contracts.**
- **If customers have missed a payment, essential services and creditors should make proactive contact to offer advice on repayment options.**

Some sectors are closer to offering this level of support already, but others have shortfalls in both policy and practice.

Current safety net obligations by sector

Sector	What are their obligations to help people?	Debt-helpful?
Energy companies	Standard Licence Condition 27 requires energy companies to help people with their arrears by giving them advice on paying back their arrears and agreeing affordable repayment plans. But there are no specific obligations to offer 'breathing space', token payments, or longer term repayment plans.	
Water companies	Informal guidance is offered to water companies to offer caps on bills to help people in receipt of some means tested benefits. Water companies may offer a variety of charitable services to help struggling customers, but are not obliged to.	
Mortgage lenders	Financial Conduct Authority forbearance rules set out that mortgage lenders cannot add arrears charges if borrowers have agreed a repayment plan for the arrears or have applied for Support for Mortgage Interest. However, if homeowners are unable to afford even the interest only payments, there is little mortgage lenders can do to help people.	
Social landlords	Social landlords are obliged to follow a pre-action protocol, through which they can't evict tenants who have applied for housing benefit, and are likely to be eligible, and can make up any arrears not covered by housing benefit. Evictions can be challenged in court.	
Private landlords	Private landlords have no obligations to allow tenants to repay arrears gradually. Outside of a fixed term contract, tenants can be evicted with two months' notice. During a fixed term contract landlords may apply to court to evict the tenant if they have more than two months' arrears, and a judge can award landlords a court or possession order.	
Council Tax collectors	Councils are obliged to allow residents to pay their Council Tax over twelve months, but any further flexibility is discretionary. Councils are obliged to offer some reductions on Council Tax, but eligibility and level of support differs between each council. In England and Wales there is no right to stop enforcement proceedings on the basis that the demands of the council or bailiffs are unaffordable.	
Unsecured credit providers	The new Financial Conduct Authority credit rules require lenders to treat customers in arrears with 'forbearance and consideration', to refrain from disproportionate action and not to pressure people in financial difficulties into unaffordable debt repayments. But we need to see how this will work in practice and whether some creditors will use the court system to work round the consumer protection rules.	

43 *Department for Work and Pensions, 2013. Family Resources Survey 2012.*

Policy-makers have a significant role to play in equalising standards across essential service providers and creditors. Their priority should be to harmonise standards through negotiation to ensure that people have access to a decent, comprehensive safety net as quickly as possible, but in the longer term – depending on the effectiveness of voluntary efforts – policy-makers should consider putting the wider safety net on a statutory footing.

Some particular actions are needed to improve the wider safety net in the short term, to improve the viability of support.

Private rented sector

The private rented sector stands out as a key area for improvement - housing one in six households in Britain, but one in three StepChange Debt Charity clients, and where tenants can be evicted with just two months' notice. Even if tenants received benefits to cover the rent, just 22 percent of landlords are willing to let to people on benefits.[49]

To improve the safety net for Britain's 10 million private tenants, we believe that:

- **Longer term Assured Shorthold Tenancies should be strongly encouraged so that people have better protection from eviction and more chance to rebuild their finances when they fall on hard times.**
  - **Government should consider a range of incentives for landlords to offer longer tenancies, via the Tenants Charter, including the promise of speedy direct-to-landlord payments of benefits if they can prove they have given tenants a longer Assured Shorthold Tenancy.**
- **The Department for Communities and Local Government should use the Tenants Charter to encourage model written tenancies, which should signpost debt and housing advice services such as StepChange Debt Charity and Shelter.**
- **The Department for Communities and Local Government should commit to investigating reform of court procedures for eviction and the mandatory Ground 8 for rent arrears. It is important that court processes support tenants who fall on hard times and are making a real effort to get support and advice.**
- **Landlords also need support when their tenants fall on hard times. Landlords who own the third of private rented properties funded with buy to let mortgages need their lenders to give them breathing space if their tenants are also struggling.**

Council Tax arrears

Millions of low income households who previously received a reduction or exemption from paying Council Tax are now faced with higher or full Council Tax bills following the end of the Council Tax Benefit. In 2013, following the rise in Council Tax for low income households, we have seen a 77 percent increase of people in debt with Council Tax arrears.[50]

The consequences of not paying Council Tax are severe, and debt advice organisations have seen a significant increase in people falling into arrears with their Council Tax and facing bailiff action. The Money Advice Trust's Freedom of Information request to English and Welsh local authorities found that councils had instructed bailiffs 1.7 million times on consumers in a recent 12 month period.[51]

- **The Department for Communities and Local Government should persuade councils to use bailiff action sparingly, collect data on complaints about bailiffs, and ensure that fees and collection practices are fair.**

49 *National Landlords Association, 2014. Will landlord evict benefit tenants?*
50 *StepChange Debt Charity, 2014. Statistical Yearbook 2013.*
51 *Money Advice Trust, 2013. Local Authorities in England and Wales refer 1.8 million debts to bailiffs in 12 months*

- **The Department of Communities and Local Government should quickly introduce a clear and accessible procedure to ensure Council Tax collection and enforcement activity, including enforcement by bailiffs, will be suspended where people in arrears pay what they can in accordance with a commonly accepted budget standard and seek debt advice.**
- **We will support efforts to monitor councils' use of bailiffs in pursuing people struggling with their finances.**

High charges on late and missed payments

If creditors are to play a part in helping their customers bounce back from hard times, they need to ensure that people are not penalised unfairly when they fall into difficulty.

Credit products already have controls on some costs and charges associated with late or missed payments. The Mortgage Market Review increased protections for borrowers against arrears management charges by mortgage lenders.

The Financial Conduct Authority's new credit rules include protections against excessive default charges and will include a total cost of credit cap on high cost loans that could be used to stop debts growing through default charges and interest.

This basket of measures is welcome, but it does not yet add up to an effective safety net against spiralling debt and mounting hardship, as the experience of too many of our clients shows.

Meanwhile, there is variable practice across energy companies in the fees and charges levied on people who miss a payment.

- **We believe the Financial Conduct Authority should ensure that rules made to introduce a total cost of credit cap have a strong focus on preventing debts escalating through default interest and charges. We urge the FCA to extend a similar robust approach to default interest, fees and charges on consumer credit products that won't be captured by the total cost of credit cap under the current definition of short term high cost credit.**
- **We urge the Government to quickly build on the current Consumer Rights Bill to ensure that late payment fees and charges can never be disproportionately high from the point of view of consumers.**
- **We believe the Government should follow up action on payday loans with a commitment to introduce a 'debt escalation cap' limiting default fees and interest for all consumer goods and services.**

Making resilience and stronger safety nets a reality

Helping people stay on a steady footing and cope sustainably with shocks and changes to their finances is complex. A huge number of government departments, regulators, private companies, social landlords, private individuals and charities are responsible for policies and practice that affect families' ability to cope with high living costs and the life events they experience.

At a high level this requires effective co-ordination by government, and on the ground it needs advice agencies to help people struggling access the full range of support available, to prevent people resorting to credit as a distress safety net.

High level coordination

Strong political leadership and a razor-sharp focus is needed to put an effective, comprehensive plan in place, to deliver and demonstrate the promise to hard-working families that the Government is taking real action to put their finances on steady footing.

- **StepChange Debt Charity believes a national strategy to tackle personal on debt led at Cabinet Minister level is necessary to take charge of the complex work of bringing together all the government departments, utility companies, landlords, lenders and charities who, together, can make a real impact on improving peoples financial resilience and ensuring there is a comprehensive safety net for people in need. The strategy should set relevant targets with appropriate dates.**

The role of debt advice

Free debt advice is vital to helping people manage their money, deal with shocks and changes to their income and access different parts of the safety net. Specialist debt advisers can give people advice on managing their finances, negotiating with creditors and essential service providers, assisting people in getting the full amount of support they may be entitled to, and seeking long term solutions to problem debt.

A strong debt advice sector should be at the centre of helping people access a comprehensive safety net, supporting people to secure help from their creditors, essential bill providers and the state. Advice can be a cost-effective way of getting people help quickly, supporting people to get back on their feet and avoiding long term costs to individuals and the state when problems like debt spiral out of control.

The Money Advice Service has responsibility for co-ordinating the provision of debt advice, making sure that there are appropriate ways of directing support and advice to people struggling with debt. The advice is funded through a Financial Conduct Authority levy on financial services providers, but as the FCA's remit expands to include the burgeoning high cost credit industry, there is an opportunity to increase the funding for debt advice that this sectors gives rise to.

In the longer term, policy-makers must ensure that the wider advice sector is on a sustainable footing, is responsive to people's needs and preferences, and has the legislative tools it needs to challenge poor practice, excessive costs, and help people get the support they need from the state, creditors and their essential service providers.

- **We believe that a 'debt advice' approach to dealing with financial difficulty on a holistic, affordable and sustainable basis needs to be embedded into creditor practices, consumer protection measures, the court system and statutory debt remedies.**
- **Funding for vital free, not-for-profit debt advice should be increased through the Financial Conduct Authority setting a higher levy on payday and other high interest lenders to reflect the additional burden that their products and practice can have on the demand for debt advice.**
- **The effectiveness of debt advice should be maximised by ensuring that a coherent range of debt 'remedies' available to help people of all means out of problem debt.**

A promise to keep families from the edge

StepChange Debt Charity believes that a comprehensive plan led at Cabinet level to put our nation's household finances on steady footing, could build resilience and bolster safety nets by co-ordinating the efforts of Government, essential service providers, creditors and the debt advice sector.

With a strong plan, government could ensure that families come out of the economic recovery more resilient, better off and with less likelihood of falling off the edge into a spiral problem debt.

Building resilience by:

- cutting living costs
- a plan to raise low wages
- smart incentives for low income savers
- affordable credit

Ensuring a strong safety net by:

- 'debt-proofing' Universal Credit
- a Safety Net Promise from essential service providers and creditors, with breathing space and no interest and charges for people making an effort to pay their debts
- debt advice on steady footing to help people access the support they need when they fall on hard times

Making a longer term promise to struggling families

Policy-makers have some way to go in persuading the public, and particularly low to middle income families, that their plans will lead to real improvements for their living standards.[52]

We have argued that there is a need to offer struggling families a better promise in the short term that real action is being taken to address the underlying issues that mean they lack resilience to deal with changes in their circumstances.

The public need a stronger promise for the longer term too.

They need policy-makers to offer a positive vision for the future beyond the recovery, and one in which their family is under less financial pressure, does not need to rely on credit to pay for the basics, and know that when they face shocks and changes to their circumstances they will have the breathing space to pick themselves back up again.

Policy-makers must demonstrate their firm plans to deal with the long-term underlying issues that make it hard for people to make ends meet, and leave too many families living on the edge with little personal resilience.

Part of this is about reducing high living costs. Policy-makers must commit to building more homes to ease pressure on rents and house prices – which are forecasted to rise by up to 26% in the next five years,[53] and reforming the private rented sector to make it more secure for families.

Over the next 16 years UK consumers will be picking up the bill for £310 billion of infrastructure investment. As a result, high energy bills are set to rise 18% and water bills 28% in real terms by 2030, as consumers pay for infrastructure investments through their bills.[54]

We believe that high energy and water bills should be tackled in the longer term by funding investment in energy efficiency, renewable energy and wider infrastructure through general taxation rather than through bills, so that those on the lowest incomes pay relative to their means.

Policy-makers must also address the disproportionate charges and costs that low and middle income customers often face across markets for essential services. We believe policy-makers should carry out a cross-sector review of the real barriers to competition for low income consumers, and make necessary adjustments to encourage more effective markets.

As interest rates eventually begin to rise from their historic lows, policy-makers should also be concerned with how to support homeowners already struggling to pay their mortgage and other debts. A rise to 3% interest rates could see the number of people spending more than half of their take-home pay servicing their debts double to 1.1 million, and almost 200,000 homeowners are already in at least 3 months of arrears.[55]

A plan must focus on raising low wages, which is key to helping people build back their resilience, as well as ensuring that wages keep up with inflation, and people can get enough hours and more stable employment to make ends meet for their family.

Encouraging saving is vital too, and policy-makers should develop longer term savings strategies and products targeted at lower income households based on evidence of what works for these groups.

Setting out a vision for a broader, more effective safety net will also be vital for persuading the public that the Government is doing what it can when people fall on hard times through no fault of their own.

52 *Britain Thinks, 2013. Meet the swing voters.*
53 *Savills, 2013. Five-year house price forecast.*
54 *National Audit Office, 2013. Infrastructure investment: the impact on consumer bills.*
55 *Resolution Foundation, 2013. Closer to the edge? Debt repayments in 2018 under different household income and borrowing cost scenarios.*

We have set out how a broader safety net could work in the short term through mostly voluntary practice. We believe that some of this may need to be put on a stronger footing to ensure that everyone has the support they need from their essential service providers when they face shocks and changes that they struggle to deal with.

Employers must also play their part in helping smooth the peaks and troughs in low paid insecure work if it is to remain a key facet of the jobs market that tips people over the edge. Policy-makers should examine a 'quid pro quo' for employers that benefit from insecure employment practices to mitigate the risk to individuals and the state. One option to explore further may be employers buying into a national income protection insurance scheme for people in insecure work, perhaps associated with pensions auto-enrolment.

Debt advice, and the advice sector more generally, has an integral role in making the market work for people when they fall into difficulties. The sector has a long track record of providing advice tailored to people's needs, whether to help them pay down significant debts in a manageable way, or access support when they face difficulty. The debt advice sector needs to be on steady footing to provide this vital support to the safety net and to be the guardians of consumer protection.

Next steps

We have set out a range of policy proposals that could offer real promise to the millions of – particularly low to middle income – families struggling to make ends meet. We believe these proposals could make a real difference in preventing people from being tipped over the edge into problem debt.

Over the coming months we will develop some of these proposals further, carrying out further analysis on the costs and benefits of the policies, examining the practicalities of some of the changes and working with creditors, essential service providers and government to develop the practices that people need to make it through the recovery without falling into problem debt.

We will focus in particular on:

- The impact of debt on families with children;
- Detailed analysis of low to middle income families' financial resilience;
- How to improve credit markets' offer to low and middle income consumers;
- Improving safety nets for private renters;

StepChange Debt Charity is keen to work with government, policy organisations, essential service providers and creditors to improve the support available for people who risk falling on hard times and into problem debt.

- For more information about policy development, please contact **policy@stepchange.org**
- For more information about working with our debt advice service, please contact partnerships@stepchange.org

For more information about this report:
Call: 0207 3914598
Monday to Friday 9am to 6pm
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Online: www.stepchange.org

Write to StepChange Debt Charity London Office:
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For help and advice with problem debts:
Call: 0800 138 1111 Monday to Friday 8am to 8pm
and Saturday 9am to 4pm

Online: www.stepchange.org