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Tackling the coronavirus personal debt crisis

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We want to create a society free from problem debt

Summary

StepChange commissioned national polling in September, updating and extending a survey conducted in May, to understand how coronavirus has affected personal finances six months into the pandemic in the UK.[i] This briefing sets out our key findings:

- A personal debt crisis is emerging: the number of people affected by coronavirus in severe problem debt has almost doubled since the beginning of the outbreak to 1.2 million people.
- The number of those affected who have fallen into arrears or borrowed to make ends meet has increased from 4.6 to 5.6 million. We estimate that the amount of arrears and borrowing among this group attributable to the impact of coronavirus is now £10.3 billion.
- Existing protections are not supporting those in difficulty and coping strategies are making matters worse: one in three (33%) of those affected has borrowed to make ends meet, which may delay problems now but increases the likelihood of more severe debt problems later.
- Financial difficulty is crystalising into harm: 17% of those who financial situation has been negatively impacted by coronavirus have experienced one or more forms of hardship since March, including going without meals and rationing basic utilities (this compares to 4% among those not affected).
- Financially vulnerable groups affected by coronavirus have disproportionately experienced difficulty, including young adults no longer in education or able to access family support and families with dependent children—particularly single parents—who have been squeezed by falls in income alongside additional costs linked to care for children during the pandemic.
- Those with financial commitments such as a mortgage who have experienced an income shock due to coronavirus are increasingly struggling: two in five (38%) of those in this group are now worried about paying for essentials later this year.

We estimate there are 2.87 million people affected by coronavirus who are now at high risk of long-term debt problems. The government and regulators have taken unprecedented steps to put in place support since the beginning of the coronavirus outbreak in the UK in March, but those now experiencing financial crisis due to coronavirus do not yet have a safe pathway to see them through the pandemic and into recovery. Further local and national lockdowns through winter mean that more people are likely to experience income shocks through unemployment or a fall in earned income.

As the length of the outbreak extends and the prospects of a quick recovery diminishes, it is vital the government puts in place a strategy to minimise desperation borrowing and provide safe routes out of repayment difficulty. There is no precedent for the present situation: the government, regulators, firms and advice providers must find new ways to meet the challenge.

Doing nothing will have significant social costs and will undermine economic recovery. It will also exacerbate inequalities and jeopardise the government's 'levelling up' agenda. The situation now demands a co-ordinated, preventative approach.

Recommendations:

(1.) The government and regulators should extend and strengthen protections against collections activity, enforcement action and eviction for those experiencing financial difficulty during the pandemic

(2.) The government should put in place a more effective safety net for those experiencing financial difficulty by ensuring households have sufficient income to make ends meet and expanding local emergency support

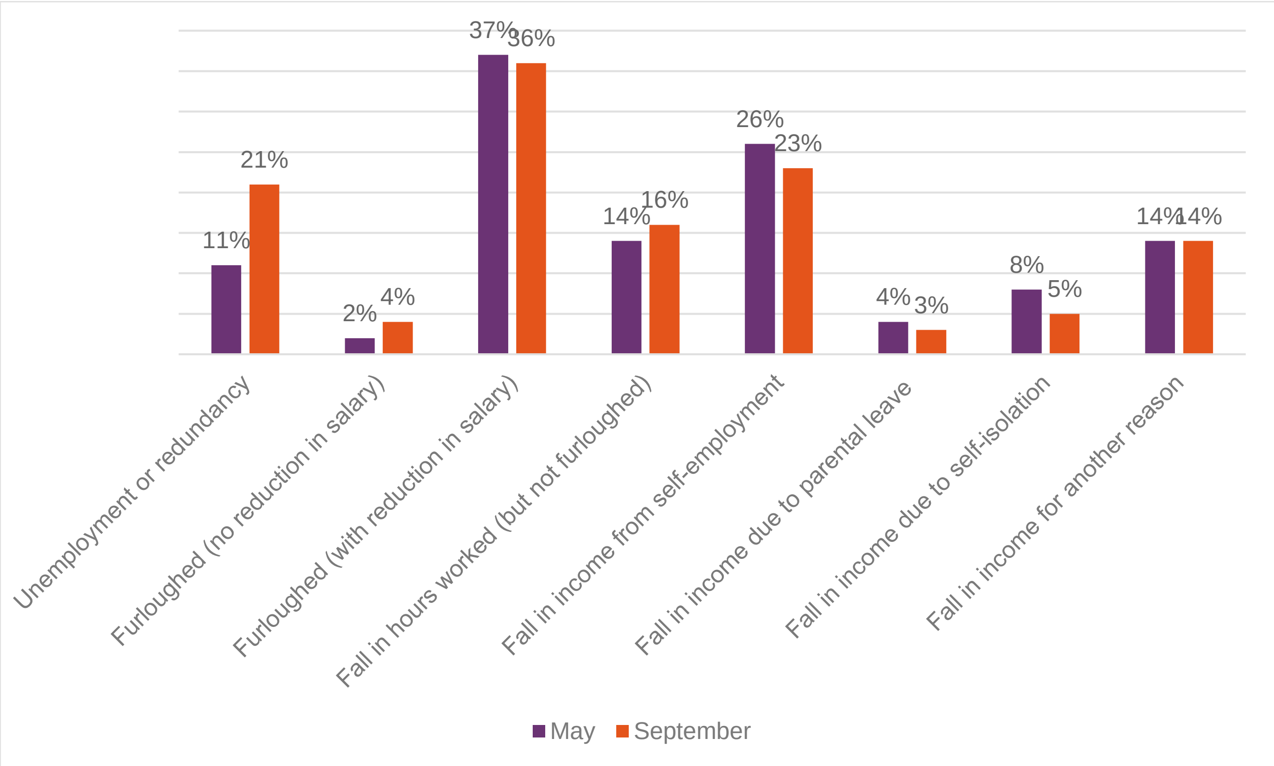
(3.) The government should consider making available recovery funding to support those affected by coronavirus and struggling with financial difficulty to address arrears and debt safely

How have people been affected financially by coronavirus?

In May, we estimated that 28% of adults in Great Britain had experienced at least one negative change of circumstances following the beginning of the coronavirus outbreak, or 14 million people.[ii] This includes furlough with a reduction in salary, unemployment or redundancy, a reduction in the number of hours worked and a fall in income from self-employment or due to parental leave, self-isolation or care responsibilities (but excludes furlough without a reduction in salary). Our updated polling suggests that 29% of adults have now experienced a negative change of circumstances (15 million people).

The percentage of those negatively affected who report they have been made unemployed or redundant has risen from 11% to 21% (6% of the adult population), indicating as national evidence suggests that an increasing number of those who were put on furlough schemes at the beginning of the pandemic have been made unemployed. Other types of impacts are relatively stable, with an increase in those who report they have been furloughed from 14% to 16% of the GB adult population (figure 1).

Figure 1: Impacts of coronavirus on those negatively affected[iii]

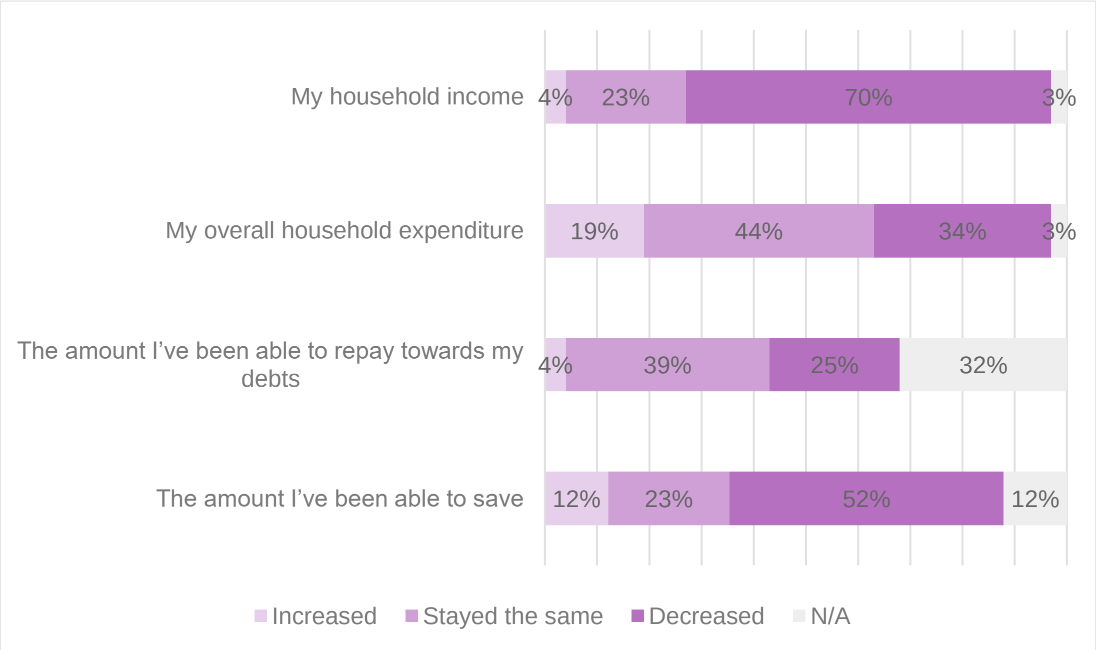


In our September polling, we asked survey respondents about specific changes in their financial circumstances to better understand how the pandemic has affected household finances (figure 2). We found that 70% of those affected negatively by coronavirus have experienced a negative fall in *household* income (suggesting that some people have been insulated by other sources of household income such as partners or family members and social security, or that their income subsequently recovered).

We also asked respondents about their household expenditure and ability to repay any debts and save. Among those affected, 37% of those with any debt reported they had found it harder to meet debt repayments. The percentage of those affected reporting a reduced ability to save (52%) indicates an erosion of financial resilience.

One-fifth (19%) of those affected have experienced an increase in expenditure compared to 34% who have experienced a decrease. This may reflect factors such as the increased costs of care for children, higher costs for groceries and household expenses or other lockdown lifestyle impacts. Notably, there is a group of newly "pinched" households that report both a fall in income and an increase in expenditure, making up 14% of those directly affected by coronavirus. 44% of this group is accounted for by parents with dependent children (compared to 24% of the adult population), indicating an association with the cost of supporting children during the pandemic. This noted, it is likely many of those who have experienced a fall in income have also deliberately reduced expenditure.

Figure 2: Change in financial circumstances among those affected by coronavirus



Using two indicators—experiencing a negative change of circumstances linked to the outbreak and experiencing a fall in income, we see some clear patterns among those at risk of financial difficulty due to the pandemic (see appendix tables):

- Single adults (27%) are less likely to be affected than couples without children (35%), couples with children (34%) and single parents (29%).
- The effect has been felt across the household income spectrum, with 20-26% of those with an income between £10k and £70k affected. Those with higher incomes (£70k plus) are less likely to be impacted but the impact remains significant with 17% of those with an income between £70k and £150k affected.
- Mortgagors (25%), those who rent in the private sector (24%), those who live at home and pay rent (24%), and those who rent from a housing association (23%) are more likely to

affected than those who rent from a local authority (18%), those who own their home outright (15%) and those who live rent free (8%).

At this top line level we did not see notable differences across age (the average age of those in the working age population is 44 compared to 43 among those affected) or gender. What is perhaps most notable about this data is the extent of impacts across all groups. However, as we examine the consequences for those affected, we begin to see stronger differentiated effects among specific groups. The remainder of this briefing first examines coping strategies and consequences for those financially affected by coronavirus then, using this data, discusses which groups are most at risk of hardship and acute financial difficulty to inform policy recommendations.

Coping mechanisms and safety nets

The most common financial coping strategy among those affected negatively by coronavirus is borrowing to make ends meet (33%), followed by using savings (23%), asking family and friends for help (15%), applying for Universal Credit (10%) and selling items (10%).

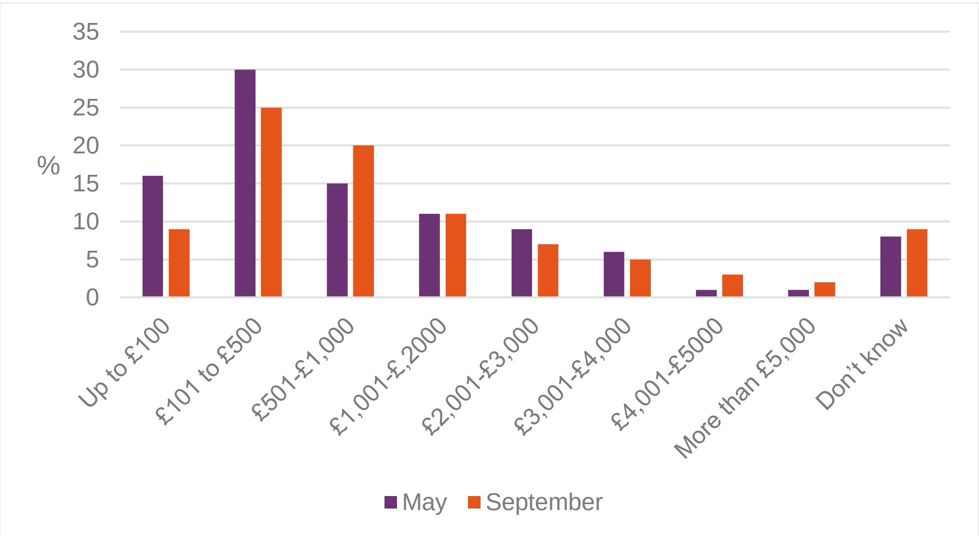
8% of those affected have accessed at least one form of local support including a foodbank, a discretionary housing payment, a grant or loan from a local authority or financial support from a voluntary organisation or church (this compares to 1% of those not affected).

The proportion of those affected (54%) who have taken none of these coping strategies suggests that the impact has been modest for some, and that others have been protected by a degree of household financial resilience. We note later in this report the extent of those affected who are coping financially now but who express concern about their ability to cope later this year.

Arrears

Focusing on arrears and debt, we find that since the beginning of the outbreak 22% (3.2 million) of those affected have fallen into arrears (compared to 19% in May). We estimate the average amount of arrears among those affected is £1,365 (compared to £1,076 in May) and the total among those affected is now £3.8 billion.[iv]

Figure 3: Amount of arrears among those affected by coronavirus, May and September



The most common types of arrears are credit card repayments (8%), council tax (7%), loan repayments (4%) and mortgage repayments (4%), followed by rent, gas, electricity, water, telecoms and car repayments (3% each).

The most notable shift in our data from May is the increase in those who have fallen behind on credit card repayments. One explanation is that this change reflects in part the effect of access to payment holidays. (We asked survey respondents to record if they had fallen behind on bills or payments regardless of whether they had accessed a payment holiday agreed with the firm or provider.) However, we note there has not been the same increase in mortgage arrears, where a similar number of payment holidays have been accessed.

Figure 4: Arrears among those affected by coronavirus

Type of arrears	May	September
Credit card repayment	4%	8%
Council tax	6%	7%
Mortgage payment	3%	4%
Other loan repayment (excluding a mortgage or student loans)	2%	4%
Other regular bill	3%	4%
Rent payment	3%	3%
Gas	3%	3%
Electricity	5%	3%
Water	3%	3%
Telephone, broadband or mobile phone contract	2%	3%
Car purchase payment	1%	3%
Regular insurance payment	1%	1%
No, I have not fallen behind on any of the above	79%	76%
Unsure	2%	2%

Among those who have missed a council tax bill, 63% reported that they had received a request for payment in full, and one-third (35%) that they had been offered a repayment plan and/or reduced payments, with a small minority, 2%, reporting both—perhaps because a request for payment was followed by a support offer. (The figures in this paragraph are for all national respondents.)

Among those who had fallen behind on rent, 21% had been offered a rent reduction or repayment plan, while 13% had been informed their landlord would begin eviction proceedings as soon as possible. The majority said they had received another response from their landlord (16%) or none of these (47%), suggesting that for many arrears remain unaddressed or respondents expected to repay without the need to engage with their landlord. (The figures in this paragraph are also for all respondents and should be treated as indicative due to a low base size.)

We asked separately if respondents had accessed consumer credit or mortgage payment deferrals (payment holidays). Payment holidays were mandated by FCA guidance and allow customers to pause repayments for three months, with a potential three-month extension. We estimate that 1.5

million people have taken at least one credit payment holiday since the beginning of the outbreak, and 2 million people have taken a mortgage payment holiday.

Payment holidays will be available until January 31 2021 and have a maximum duration of six months; following a payment holiday firms must seek to put in place sustainable repayment arrangements for customers.[v] It is too early to say how effectively those coming off payment holidays are being supported. Of those who have taken a credit payment holiday, we find that 12% are in severe problem debt and 22% showing signs of financial difficulty. These figures are 14% and 17% for those who have taken a mortgage payment holiday. 53% of those who have taken a credit payment holiday and 49% of those who have taken a mortgage payment holiday are worried about falling behind on essentials before the end of this year.

Borrowing to make ends meet

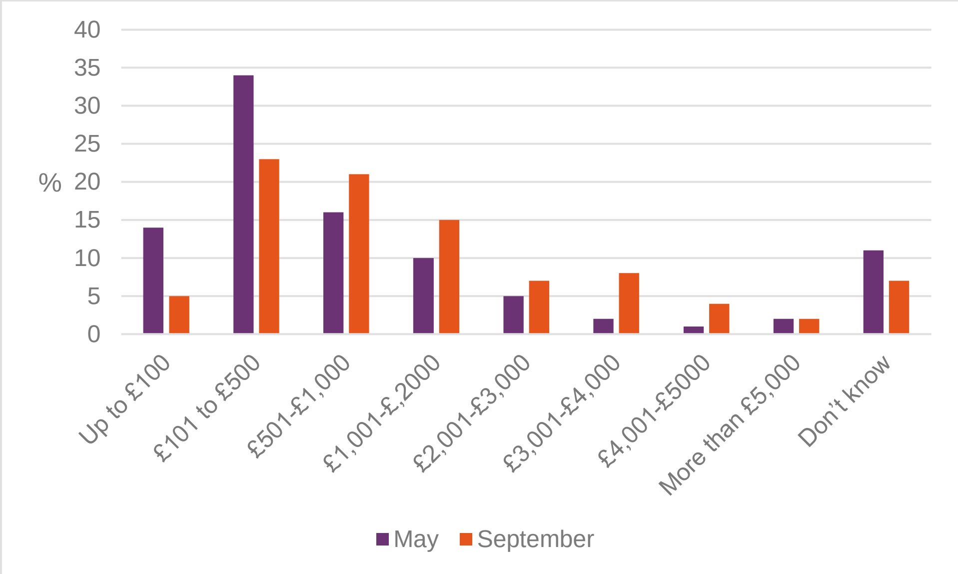
Since the beginning of the outbreak, 33% (4.9 million) of those negatively affected by coronavirus have borrowed to make ends meet. This compares to 26% in May. The estimated average amount of borrowing is £1,577, compared to £997 in May, and the total amount borrowed is now £6.5 billion.[vi]

The most common sources of borrowing among those affected by coronavirus are a credit card (17%), overdraft (11%) and family and friends (11%). This compares to 12% (credit cards), 11% (overdraft) and 8% (family and friends) in May. We estimate that 9% of those affected by coronavirus have used one or more form of high cost credit to make ends meet since the beginning of the outbreak (compared to 4% of those not affected).[vii]

Figure 5: Sources of borrowing among those affected by coronavirus (who have borrowed to make ends meet)

Loan type	May	September
Credit card	26%	30%
Overdraft	24%	20%
Family and friends	17%	20%
Catalogue credit	7%	5%
Universal Credit advance or budgeting loan	7%	4%
Personal loan	4%	4%
Store card	4%	4%
Payday loans	2%	<1%
Rent-to-own	2%	4%
Unlicensed lender ('loan shark')	2%	2%
Other loan	2%	4%

Figure 6: Amounts of borrowing among those affected by coronavirus who have borrowed to make ends meet



Compared to the increase in arrears among those affected by coronavirus, there is a stronger pattern of increased borrowing to make ends meet, both in the number of those who have pursued this coping strategy and the amounts borrowed. In some ways this is unsurprising: experience of debt advice tells us that many people use credit as a safety net in order to meet commitments that are seen as essential such as rent and household expenses. However, using credit as a safety net increases the risk that those affected will experience severe problem debt; for example, StepChange's recent *Life Happens* research found that those who use credit to cope after a life shock were ten times more likely to experience problem debt than those who got by without using credit. [viii] We discuss how safety nets are being used by different groups and the interaction between arrears and credit in the following section.

Who is most vulnerable to financial difficulty due to coronavirus?

In May, we segmented those affected by coronavirus into risk groups based on their financial circumstances before the pandemic. We have revised this segmentation based on our latest data:[ix]

Group	Criteria	Million
"In crisis"	In severe problem debt	1.2
"At risk"	Showing signs of financial difficulty	3.5
"Struggling"	Not in problem debt or financial distress, but worried about making ends meet later this year[x]	2.9
"Coping"	Not in problem debt or financial distress and not worried about making ends meet	7.3

Policy makers must now consider what steps are needed to support those affected by the coronavirus epidemic, alongside the wider population, in forthcoming months and, in the longer term, into a period of recovery. To help inform these decisions we have sought to use our data to better understand risks for those most seriously impacted.

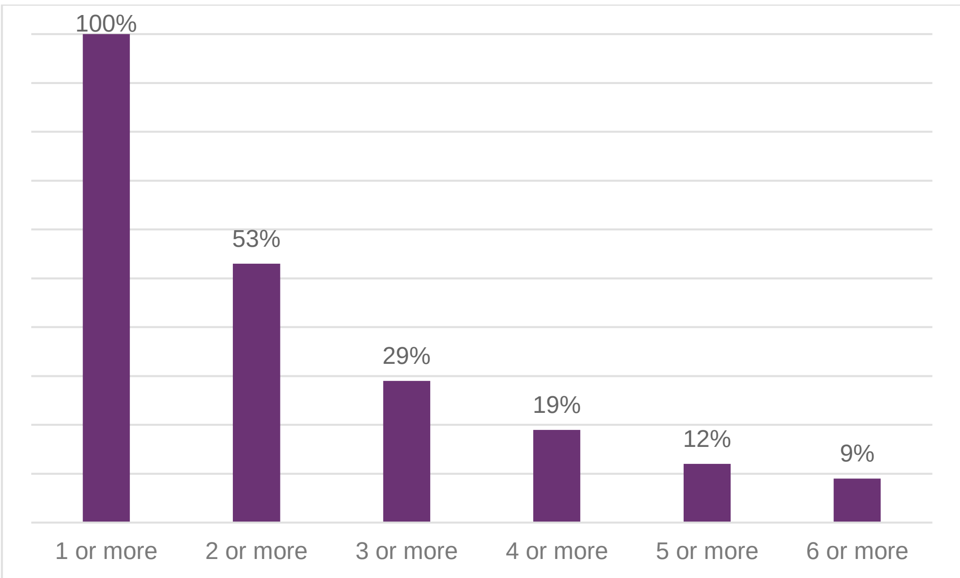
1). *Currently experiencing severe problem debt or showing signs of financial difficulty*

We define 'severe problem debt' as meeting three or more of eight indicators such as falling behind on bills and using credit to make debt repayments, and 'showing signs of financial difficulty' as meeting one or more of these indicators. Nationally, 4% of adults are in severe problem debt and 13% are showing signs of financial difficulty (so a total of 17%). These figures rise to 8% and 23% among those negatively affected by coronavirus.

2.) *Extent of arrears and borrowing*

38% of those affected by coronavirus have fallen into arrears on bills or borrowed to make ends meet. In addition to *whether* those affected have fallen behind on bills or borrowed to make ends meet, several further indicators are useful. First, 20% of those negatively affected by coronavirus have both borrowed to make ends meet and fallen into arrears, suggesting more acute difficulty. We can also consider the number of arrears and debts accumulated (figure 7), which averages 2.7 among those affected, and the total estimated average arrears and debt since March (£1,844 for those affected).

Figure 7: Number of arrears and debts held by people affected by coronavirus (with arrears or debt)



3.) *Experienced hardship since March*

We asked survey respondents whether they had experienced hardship since the beginning of the coronavirus outbreak in the UK using three criteria:[xi]

- having had fewer than two meals a day for two or more days;

- having rationed or gone without basic utilities (such as electricity, heating or water) for five or more days; or
- they or their children had gone without clothing or footwear appropriate for the weather.

We specified that these options should be selected only if the respondent had gone without these necessities because they could not afford them (some people may, for example, have eaten less than two meals a day by choice). Our methodology is likely to underestimate the number of people who have experienced these forms of hardship because we use an online survey.

Since March, 7% of GB adults have experienced at least one form of hardship; of those negatively affected by coronavirus, this rises to 17%. There is a strong association between hardship and debt: of those in severe problem debt, 45% have experienced hardship (and 23% of those showing signs of financial difficulty). Of those who have made a new application for Universal Credit since March (approximately 1.9 million people), 33% have experienced one or more form of hardship.

4.) *Worried about making ends meet later this year*

Finally, we asked survey respondents if they were concerned about paying for essentials such as a healthy diet and appropriate clothing for the weather later this year, as well as essential bills such as rent, a mortgage, utilities or council tax. Nationally, 23% of adults say they are somewhat or very worried about paying for essentials using these criteria. This rises to 38% among those negatively affected by coronavirus and 63% among those affected who have fallen into arrears or borrowed to make ends meet.

Socio-demographic factors and financial difficulty caused by coronavirus

Charts included in an appendix set out in detail how the risk of financial difficulty is associated with socio-economic factors including age, household composition, housing status and household income. From these tables we can draw insight to inform further policy measures to support those affected by coronavirus:

- Younger age groups are more likely to be experiencing financial difficulty and hardship following the outbreak; for example, 25-34 year-olds are most at risk of both falling behind on essential bills and borrowing to make ends meet, and of experiencing one or more forms of hardship since March. The 18-24 age group is more insulated against difficulty, likely due to family support or participation in education.
- Those aged 35-54 are also exposed to difficulty, with risks tailing off slightly as age increases. Those aged 35-44 are most likely to be worried about being able to make ends meet despite being at less risk of hardship than those aged 25-34, perhaps due to the high proportion of parents in this group. Older age groups (55 and above) tend to be more protected, and particularly those 65 or over.
- Among families with dependent children, single parents are at greater risk of severe problem debt (10%) or showing signs of financial difficulty (31%), more likely to have fallen into arrears or borrowed to make ends meet (43%), and more likely to have experienced hardship (18%) and to be worried about making ends meet (49%).

- Couple parents also have a higher likelihood of financial difficulty than average (for example, 30% have fallen behind or borrowed since March); they are less likely to have experienced hardship (10%) but 31% are concerned about paying for essentials later this year.
- Couples without dependent children are the most financially resilient group, which is likely to be associated in part with age, but have been more likely (35%) than other household types to have been affected by coronavirus.
- BAME groups were more likely to be struggling to meet financial commitments before the pandemic (29%) and more likely to be affected by coronavirus (37%). Although our data suggest those with a BAME ethnic background have not been more likely to fall into arrears or borrow to make ends meet, they are more likely than average to have experienced hardship (9%) and to be worried about paying for essentials later this year (35%).
- Financial difficulty is unsurprisingly associated with low household income with, for example, twice as many people with an income between £10k and £20k having fallen behind or borrowed to make ends meet as those with an income between £50k and £60k; and three times as many having experienced hardship. Growing concern extends to middle-income groups, with one in five (19%) of those with an income between £50k and £60k worried about paying for essentials later this year.
- Social tenants are at greater risk of financial difficulty and hardship, and housing association tenants particularly so. Strikingly, 21% (local authority) and 23% (housing association) of social tenants have experienced one of the forms of hardship we measured since March.
- Private sector renters are the most likely group by housing status to have been negatively affected by coronavirus and more likely than homeowners with a mortgage to have fallen behind or borrowed to make ends meet since the crisis began. Mortgagors are, however, more likely than private renters to have debt and arrears linked to coronavirus in excess of £4,000, perhaps reflecting borrowing to maintain mortgage payments or other financial commitments.
- Having a low income does not tend to translate into a higher amount of arrears and debt, likely reflecting more modest financial commitments and cutting back as a coping strategy. However, experience of hardship is associated with higher arrears and borrowing: the average amount of arrears and debt among those affected by coronavirus who have experienced one or more forms of hardship (as described above) since March is £2,579 compared to an average of £1,844.

Taken together, our evidence points to a picture of a high risk of acute difficulty and hardship among those who were financially vulnerable at the outset of the crisis and have experienced a negative change of circumstances due to coronavirus. It is nevertheless clear that the financial resilience of all those affected has been tested, with those on the edge already experiencing difficulty and a wider group facing an erosion of their ability to cope. An effective policy response must protect those who are struggling against further hardship and provide safe routes out of difficulty for all groups.

Recommendations

Coronavirus has swept an extraordinary number of people into a period of financial turbulence and difficulty. The impact of prolonged social distancing measures and an economic downturn have hit those who were financially vulnerable at the outset of the crisis hardest. Almost one in five of those whose finances have been affected by coronavirus has experienced hardship. Arrears and debt among those who are struggling is growing. Many have been able to cope but an increasing number are ‘on the cusp’.

The situation is likely to get worse before it gets better: unemployment is rising and essential bills will increase for many during the winter. More action is needed. The government and regulators should work together to move from a crisis management response to financial difficulty caused by coronavirus to a recovery strategy:

(1.) The government and regulators should extend and strengthen protections against collections activity, enforcement action and eviction for those experiencing financial difficulty during the pandemic

It is now clear lockdown measures and social distancing will continue, perhaps until Spring next year. The government and regulators must update and extend measures to protect those experiencing difficulty against unaffordable demands for payment and collections and enforcement activity that would otherwise increase harm.

Priority debts

Repayment pressures arise from ‘priority debts’ (secured debts, essential utilities and unavoidable payments) and unsecured credit. Taking the first of these, further steps are needed:

- **Council tax:** We estimate that 1.6 million people nationally have fallen behind on their council tax since March (1.1 million of whom have been directly affected by coronavirus). The crisis has further highlighted how blunt council tax enforcement regulations, with demands for payment falling immediately after a missed payment, are counter-productive. These regulations should be amended as soon as possible to require councils to seek put in place affordable repayment plans for those experiencing difficulty before resorting to enforcement action, taking into account vulnerability and financial circumstances.

  Bailiff enforcement in England and Wales resumed in August with ‘Covid-19 secure guidance’. This step sent an unhelpful message that aggressive approaches debt recovery are acceptable at a time many are experiencing difficulty with little near-term prospect of a positive change in their circumstances. Over the last year, 58% of StepChange clients who had a council tax debt referred to bailiffs had an additional vulnerability.[xii] The autumn spike in coronavirus cases calls into question the decision to resume in-person collections activity.

  The government should now suspend bailiff visits for the duration of the national lockdown and use a new binding pre-enforcement protocol to identify and protect financially and otherwise vulnerable people from escalation of council tax arrears to enforcement. With coronavirus putting more households in difficulty and evidence of continuing problems with bailiff behaviour, we urge the Ministry of Justice to act quickly and commit to independent bailiff regulation.

- **Renters:** We estimate that 580,000 people who have fallen behind on rent since March are now worried about being evicted from their home (370,000 of whom are private sector renters), while 113,000 people in rent arrears have already been told their landlord will start eviction proceedings as soon as possible.

  Following the end of the 'evictions ban' the government required landlords to give renters in arrears six months' notice of eviction proceedings through to March 2020. There are some exceptions to this requirement, such as renters with more than six months of arrears, which means that not everyone will be protected against eviction. This protection has also not provided a clear pathway for renters still experiencing difficulty. Our evidence indicates that many of those struggling to pay rent are resorting to borrowing that will compound long-term financial difficulty. Moreover, feedback from StepChange advice clients suggests that, while many landlords are as helpful as they are able to be, the lack of a clear policy to protect renters in arrears leaves those affected exposed to informal eviction in which they leave a home because a landlord tells them they must (or simply asks them to). We say more in our second and third recommendations about how the government can match protections against eviction with options to address rent arrears as part of a wider package of recovery support.

  Looking forward, the government should take account of the impact of coronavirus by amending ground 8 (section 8) of the Housing Act 1988 to provide better protection against eviction because of rent arears for those affected by coronavirus. As the government takes forward the Renters Reform Bill needed to end section 21 'no fault' evictions, it should not seek (as initially proposed) to reduce the level of arrears at which court must order possession once temporary protections expire.

- **Mortgages:** In contrast to the private rented sector, the FCA has extended the ban on repossession to 31 January 2020. However, changes to the Support for Mortgage Interest (SMI) scheme have weakened support for mortgagors struggling to keep up with payments. The government should seek to bring the mortgage interest safety net up to the standard of protection required by the coronavirus crisis by:

  - removing restrictive eligibility criteria that exclude those with recent income from work;
  - reducing the wait time to a maximum of three months so that those in difficulty can access support when they need it; and
  - reverting to a grant so that the scheme provides support in line with social security and does not significantly increase the debt burden of people already struggling with mortgage payments.

- **Utilities:** Energy, water and telecoms regulators have taken a number of steps to prevent disconnections and support customers in financial difficulty during the pandemic, but these measures have not been fully effective. For example, there is evidence of low awareness of, and confusion about, the support available from energy suppliers, and inconsistency in access to payment deferrals, repayment plans and discretionary top-up of prepayment meters.[xiii] StepChange is regularly receiving referrals from energy suppliers who have incorrectly told customers in difficulty, some of whom do not have any debts, they need a request from a debt advice agency to access pre-payment meter top-ups. The government must continue to work with regulators and firms to ensure a comprehensive and consistent approach among utility providers and improve the public visibility and quality of information available about support.

  Winter will see the risk of energy poverty in particular rise.[xiv] We welcome the steps taken by Ofgem to require suppliers to put customers in arrears on a realistic and appropriate repayment plan based on their ability to pay: it is important that these plans are sustainable and recognise that many people are facing a prolonged fall in income alongside multiple arrears and debts.[xv] As we describe in our final recommendation below, relief from wider repayment pressures will help protect those in difficulty against fuel poverty.

Unsecured credit

The FCA responded to the pandemic with a series of measures to allow those affected financially by coronavirus to access payment deferrals from three to six months. Access to payment deferrals has now been extended to January 31 2021. The FCA has also issued additional guidance for firms setting out how customers still in difficulty at the end of a payment deferrals should be supported. StepChange has welcomed the extension of access to payment deferrals and this additional guidance. However, we still have concerns that the return to normal credit reporting and a 'lender lottery' in forbearance offers will discourage customers in temporary financial difficulty from seeking help early before they start to experience serious debt related harm.

The FCA should now:

- Monitor firms' response to its guidance and the experience of consumers closely and set out clarifying guidance and stronger requirements if necessary; and
- in response to the high proportion of those affected by coronavirus who have used credit cards to borrow to make ends meet, require firms to implement a strategy to prevent this debt from developing into expensive persistent credit card debt and offer customers a safe and fair way out. (We note that the FCA has asked firms to review repeat overdraft use strategies in light of the situation.)

(2.) The government should put in place a more effective safety net for those experiencing financial difficulty by expanding local emergency support and ensuring households have sufficient income to make ends meet

The temporary £20 per week uplift applied to Universal Credit and tax credits has helped many. At the same time, the increase has not extended to all groups (excluding legacy and disability benefits), and its impact has been undermined by benefit caps. The increase in the Local Housing Allowance to the 30% percentile of local rents, now made permanent, is also welcome.

It is clear from our data that, despite this support, too many people are struggling to make ends meet. Of those who have made an application for Universal Credit since March, 24% are in severe problem debt and 28% are showing signs of financial difficulty. The government can more effectively prevent hardship through targeted investment in the social safety net. The government should:

- Maintain the £1,000 uplift to Universal Credit/working tax credit from April next year
- Extend the uplift to disability and legacy benefits as soon as possible and consider additional investment for households with additional costs, such as families with children
- Remove or increase caps, including the benefit cap, LHA caps and the two-child limit that undermine the benefit of the Universal Credit/working tax credit and LHA uplift, affect those in severe poverty the most and are difficult to defend at a time many households have limited control over earnings from work
- Suspend non-priority deductions to repay debt from Universal Credit and bring forward plans to extend the repayment of advances to 24 months and lower the cap on deductions to 25% of the standard allowance as soon as possible; these steps should be quickly followed by a more substantial reform of the deductions framework to ensure that deductions are made only where these are affordable for the claimant without causing hardship or making debt problems worse.
- Ensure local authorities have sufficient funding to provide effective crisis support to those at risk of hardship and Discretionary Housing Payments to those at risk of eviction or facing housing insecurity.

(3.) The government should consider making available recovery funding to support those affected by coronavirus and struggling with financial difficulty to address arrears and debt safely

Exceptional public health measures, imposed by law in response to the coronavirus pandemic, have caused or exacerbated financial difficulties for millions of people. As a matter of fairness and necessity the government should act now to help the most financially vulnerable find a route out of coronavirus-related debt problems.

We estimate there are 2.87 million people affected by coronavirus who are now at high risk of long-term debt problems. They have:

- fallen into arrears or borrowed to make ends meet;
- are showing signs of financial difficulty; and
- are worried about paying for essentials later this year.

This group need support to cope during the pandemic and recover while, so far as possible, avoiding the downsides of cutting back to the point of hardship to make debt repayments or the negative impacts of insolvency.

The personal and public cost of these growing financial difficulties supports further policy intervention: problem debt causes serious harm including depressed living standards and hardship, housing insecurity and health problems. In 2014, StepChange estimated the social cost of problem debt to be £8.3 billion through reduced earnings and unemployment, relationship breakdown and health problems, among other negative impacts.

Failing to act will also undermine economic recovery: problem debt is associated with higher unemployment because those affected are more likely to experience anxiety and health problems that mean they are less productive in work, less likely to successfully seek work, and can be reluctant to move into work for fear of increasing debt repayments.

Those at risk of ongoing debt problems face a number of different drivers of difficulty; the government should now take further action in three areas:

Helping households with unmanageable priority arrears

1.1 million people who have experienced a drop in income since the beginning of the pandemic also have at least one new 'priority' arrears (rent, council tax or energy bills) and are in continuing financial difficulty. One third of this group (34%) has fallen behind on rent, two-thirds (67%) on council tax and 16% on energy bills.

Creditor forbearance and protections against inappropriate enforcement are vital but the most financially vulnerable will not be able to clear priority arrears like rent and council tax within a time-frame that will work for all creditors like local authorities, social and private landlords. New targeted support is needed to prevent an escalation in evictions and harmful debt enforcement, and to relieve financial pressures on local authorities and landlords:

- **Council tax:** Our evidence indicates that additional council tax support has not been sufficient to provide relief for those affected by coronavirus and falling behind on payments. The government should now extend the financial support it has provided to councils to match the length of the outbreak, and ensure this funding is supported by clear guidance shaping sufficient and consistent relief for those falling behind on payments. Further support to local authorities should be linked to the changes to enforcement practice we highlight above.

- **Rent arrears:** The 'evictions ban' has deferred rather than addressed the problem of rent arrears for many. The experience of StepChange clients highlights that tenants—particularly those in the private rented sector—often use credit to keep up with rent payments and avoid falling into rent arrears. For many, these coping strategies will lead to housing insecurity at a later stage as repayment difficulties accumulate. Our research also shows how debt problems are linked to a range of negative long-term housing outcomes, such as low housing quality, regardless of the presence of rent arrears.

  We agree with calls from renters organisations , housing charities and landlords on the need for a relief scheme to complement housing support within the social security system to help those in rent arrears to clear this debt affordably through government-backed no-interest, loans, and note implementation by the Scottish and Welsh governments of support along these lines.

Schemes that require repayment to begin immediately (like typical affordable credit loans) will limit access because those seeking support will need to be able to afford to begin repayment to access help. This will not work for many at a time that large numbers of people have been made unemployed and face limited opportunity for some time. Others may be able to afford repayments but at the cost of putting more pressure on their budget now, increasing the risk of hardship and difficulty.

The government should therefore put in place an income-contingent loan structure so that those in rent arrears are not asked to begin repayments until their income recovers to a sustainable level. This would require a degree of write-off for those whose incomes do not recover within a reasonable period to prevent long-term debt undermining those struggling to build financial resilience in future; examples drawing on practice within the credit industry and debt advice sector suggest that a period between 6 and 10 years is appropriate.

Help for those forced into further survival borrowing to make ends meet

Survival borrowing by households negatively affected by the coronavirus crisis has roughly doubled since May. We estimate that 2.57 million people—90% of those in the 'high risk' group we identified—have borrowed to help make ends end since the start of the outbreak, while 30% have used a least one form of high cost credit. Within this group, 1.88 million (65%) have fallen behind and borrowed, while 1.5 million (53%) have experienced at least one form of hardship since March.

Survival borrowing increases the payment pressure on already overstretched budgets and propels a new cohort towards persistent and unmanageable debt. Alternatives are urgently needed:

- The government's announcement in May that a further £65 million would be unlocked from dormant accounts to help affordable credit providers was welcome and absolutely necessary. However, our evidence shows that this will not meet the scale of need created by the pandemic.

  We urge the government to consider direct intervention through a no interest loan scheme with sufficient scale and reach to help financially vulnerable households through this period of economic dislocation. The ability to recover debt through the PAYE and wider tax system means that the government has a potentially powerful lever to offer a better alternative to expensive interest-bearing credit.

  Our figures suggest that extending amounts up to £3,000 would meet the need of the majority of households affected by coronavirus for further adjustment support into Spring next year. As we have noted should be the case of support extended to those in rent arrears, any support should be designed on an income-contingent basis with provisions for write-off to prevent people becoming trapped in long-term debt.

Help with coronavirus legacy debt

Many people struggling following the coronavirus outbreak are already experiencing severe debt problems: around 1.05 million (36%) of our high risk group report they have fallen behind on credit card or loan repayments (this figure includes those in arrears whether or not they have taken a payment holiday).

Of the 2.87 million people we have identified as the high risk group, 12% say that they were ‘rarely’ or ‘never’ able to meet financial commitments before coronavirus, suggesting that for most the pandemic itself that has tipped this group into more severe difficulty.

Help with priority debts and a safer option for survival borrowing will support households to get through financial crisis. However, without further policy action, the coronavirus outbreak will leave many households facing a lasting legacy of problem debt.

As a debt advice charity, we know that not everyone experiencing financial difficulty will be able to repay their debts both affordably and in a reasonable period. In 2019, around 50% of StepChange clients could be recommended a debt repayment solution. Around a third of clients were not able to make significant debt repayments at the time they sought advice; and around four in ten of these clients were recommended bankruptcy or a Debt Relief Order (DRO). However, only a proportion of these recommendations resulted in someone entering one of these solutions: around half of those recommended a DRO went on to apply though our authorised intermediary service, while the number of clients recommended bankruptcy represented over 150% of the actual level of bankruptcies recorded by the Insolvency Service in 2019.

Our research into debt advice outcomes found that, even 15 months after seeking debt advice, those with negative budgets at the time they sought advice were much less likely to see a route to being debt free. This work also shows that the life satisfaction scores of people trapped in long-term debt are terrible.

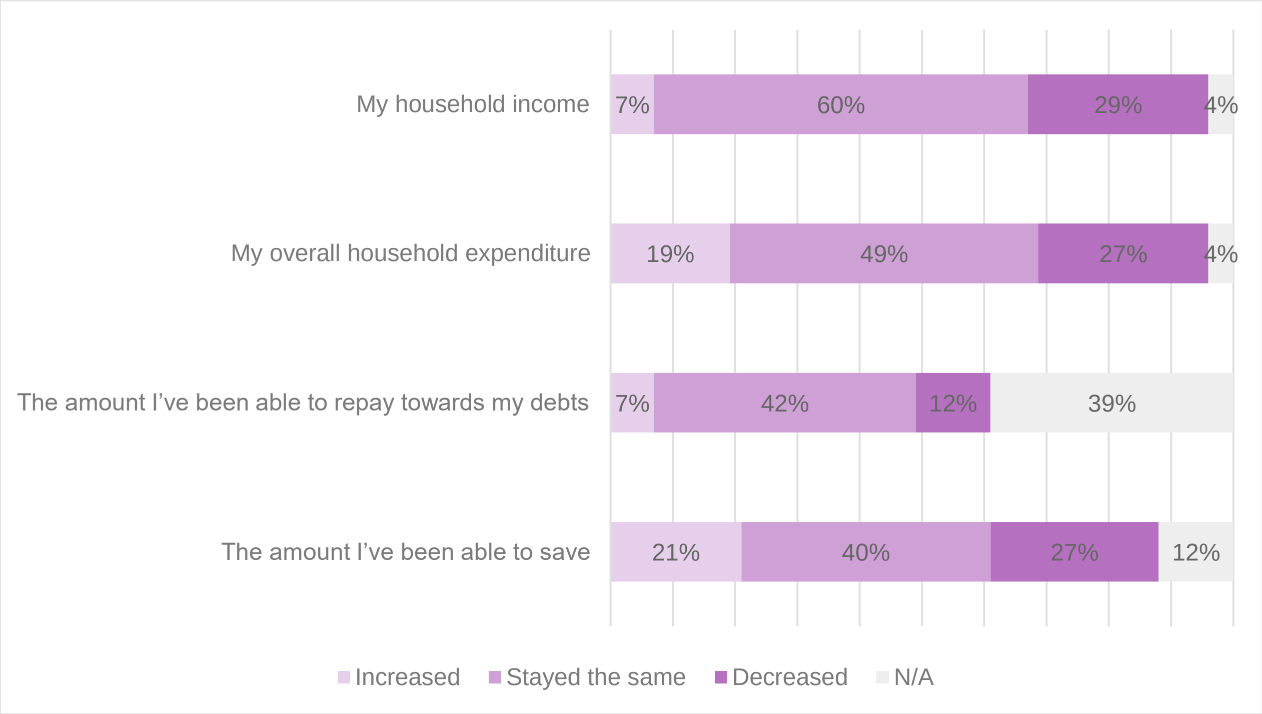
The current legal remedies to help people with unmanageable debt are not helping enough people. The government should look at improving access to appropriate insolvency solutions as a priority, including reducing and waiving fees, and widening eligibility criteria; for example, along similar lines to steps taken to increase access to the Minimal Asset Process in Scotland. The Money Advice Trust has recently made a constructive set of proposals for short-term changes to debt solutions to help people in response to the impact of coronavirus.[xvi]

Even with wider access, insolvency remains a stigmatising and intrusive process. Many of our clients do not choose these options, even when it is objectively the best solution for their situation. From the perspective of people whose financial difficulties have been caused or exacerbated by government restrictions to contain the spread of coronavirus, these insolvency options may look not only unattractive but grossly unfair.

We therefore urge the government to urgently begin consulting with stakeholders with a view to developing alternative routes out of unmanageable debt for people financially affected by coronavirus. This could include an alternative to insolvency that is accessible and provides greater protection of assets while protecting against repayment pressures through a similar structure to the income-contingent, no-interest loan approach we have described above.

Appendix tables

Change in financial circumstances since March 2020 (all GB adults)



Financial difficulty risk factors (household composition)

	Single parent with dependent children	Single parent with adult children	Couple with dependent children	Couple with adult children	Single adult	Couple	Unsure	Total
Sometimes, rarely or never able to meet financial commitments before Covid-19 (%)	34	21	20	8	17	10	52	17
Income negatively affected by coronavirus (%)	29	23	34	24	27	35	18	29
Personal income negatively affected by coronavirus and household income fall (%)	20	15	26	16	19	27	7	20
Severe problem debt (%)[1]	10	2	7	1	4	3	2	4
Showing signs of financial difficulty (%)[2]	31	15	19	8	10	13	9	13
Borrowed to make ends meet (%)	36	23	26	10	19	18	13	19
Fallen into arrears on bills (%)	28	12	16	4	9	9	2	10
Borrowed or fallen behind (%)	43	25	30	12	22	20	15	22
Borrowed and fallen behind (%)	21	11	12	3	6	7	1	7
Experienced hardship since March (%)[3]	18	14	10	3	8	4	5	8
Worried about paying for essentials later this year (%)	49	24	31	11	27	18	13	23

[1] See endnote viii
[2] See endnote viii
[3] See pages 8 to 9 for definition

Financial difficulty risk factors (Household income)

	£0 - £10k	£10k-£20k	£20k-£30k	£30k-£40k	£40k-50k	£50k-£60k	£60k-£70k	£70k-£100k	£100k-£150k	£150k +	Total
Sometimes, rarely or never able to meet financial commitments before Covid-19 (%)	37	23	17	17	14	9	7	7	7	3	17
Income negatively affected by coronavirus (%)	32	27	32	36	33	24	32	26	21	18	29
Personal income negatively affected by coronavirus and household income fall (%)	24	20	22	26	24	18	23	17	17	13	20
Severe problem debt (%)	7	4	5	5	3	3	2	4	3	1	4
Showing signs of financial difficulty (%)	15	17	14	17	12	17	12	6	8	0	13
Borrowed to make ends meet (%)	24	26	23	22	20	14	12	11	14	4	19
Fallen into arrears on bills (%)	18	15	12	10	10	4	5	8	5	2	10
Borrowed or fallen behind (%)	28	30	25	24	23	15	13	14	14	5	22
Borrowed and fallen behind (%)	14	12	10	8	7	3	3	4	5	0	7
Experienced hardship since March (%)	23	15	8	6	5	2	1	5	1	0	8
Worried about paying for essentials later this year (%)	39	33	23	22	19	13	15	12	6	5	23

Red text = low base size, figures should be treated with caution

Financial difficulty risk factors (Housing type)

	Own outright	Mortgage	Rent (private landlord)	Rent (LA)	Rent (housing association)	Live with parents, family or friends but pay some rent	Live rent-free with my parents, family or friends	Total
Sometimes, rarely or never able to meet financial commitments before Covid-19 (%)	6	13	22	29	38	28	35	17
Income negatively affected by coronavirus (%)	21	35	38	27	34	38	27	29
Personal income negatively affected by coronavirus and household income fall (%)	15	25	24	18	23	24	8	20
Severe problem debt (%)	1	5	5	8	10	6	1	4
Showing signs of financial difficulty (%)	6	14	19	20	26	7	14	13
Borrowed to make ends meet (%)	10	19	26	33	38	17	17	19
Fallen into arrears on bills (%)	4	10	16	22	22	9	3	10
Borrowed or fallen behind (%)	11	22	31	36	43	18	19	22
Borrowed and fallen behind (%)	3	7	12	20	17	7	1	7
Experienced hardship since March (%)	3	6	10	21	23	6	5	8
Worried about paying for essentials later this year (%)	8	23	36	37	43	22	20	23

Financial difficulty risk factors (age)

	18-24	25-34	35-44	45-54	55-64	65+	Total
Sometimes, rarely or never able to meet financial commitments before Covid-19 (%)	33	25	23	17	12	6	17
Income negatively affected by coronavirus (%)	31	36	35	37	30	12	29
Personal income negatively affected by coronavirus and household income fall (%)	15	25	26	25	24	9	20
Severe problem debt (%)	3	6	6	7	2	0	4
Showing signs of financial difficulty (%)	12	18	20	15	12	5	13
Borrowed to make ends meet (%)	20	27	26	21	16	10	19
Fallen into arrears on bills (%)	8	18	16	13	8	2	10
Borrowed or fallen behind (%)	22	31	31	25	18	11	22
Borrowed and fallen behind (%)	7	14	11	9	6	1	7
Experienced hardship since March (%)	5	14	11	10	6	2	8
Worried about paying for essentials later this year (%)	29	30	35	27	16	8	23

[i] Large national poll conducted by YouGov Plc. Total sample size was 3,297 adults. Fieldwork was undertaken between 7th and 9th September 2020. The survey was carried out online. The figures have been weighted and are representative of all GB adults (aged 18+).
[ii] StepChange Debt Charity (2020) *Coronavirus and problem debt: a financial recovery strategy for households*
[iii] Source for all charts unless otherwise stated is YouGov poll, 7th and 9th September 2020 (see endnote i).
[iv] This is a mid-bound estimate, with a lower-bound of £1,030/£2.9 billion and an upper bound of £1,613/£4.5 billion.
[v] Financial Conduct Authority (2020) *Draft Guidance – Consumer credit and Coronavirus: Additional Guidance for Firms* / *Mortgages and coronavirus: additional guidance for firms - finalised guidance*
[vi] This is a mid-bound estimate, with a lower-bound of £1,273/£5.3 billion and an upper bound of £1,829/£7.6 billion.
[vii] We define high cost credit to include payday loans, catalogue credit, retail store cards, rent-to-own, home credit, pawnbroker, guarantor loans, loans provided by an illegal loan shark, and logbook loans. (We exclude overdrafts because of the steps taken by the FCA to mandate temporary 0% overdrafts during the period covered by our survey.)
[viii] StepChange Debt Charity (2019) *Life happens: Understanding financial resilience in a world of uncertainty*
[ix] We define 'severe problem debt' as meeting any three indicators of financial difficulty such as falling behind on essential bills and using credit to make credit repayments, and 'showing signs of financial difficulty' as meeting one or more criteria.
[x] We asked respondents whether they are worried about any of the following later this year:

- Being unable to keep up with credit commitments (such as credit card or loan repayments)
- Falling behind on essential bills such as rent, a mortgage, utilities or council tax
- Paying for essentials such as a healthy diet and appropriate clothing for the weather
- Being evicted

[xi] These criteria are drawn from Fitzpatrick, J. et al (2018) *Destitution in the UK*. York: Joseph Rowntree Foundation.
[xii] Figures for August 2019 to July 2020.
[xiii] National Energy Action (2020) *Addressing impacts of Covid-19 on vulnerable energy customers*
[xiv] End Fuel Poverty Coalition
[xv] https://www.ofgem.gov.uk/news-blog/our-blog/protecting-consumers-winter
[xvi] Money Advice Trust (2020) *Debt options in the new normal*