

MONEY
ADVICE TRUST

IMPOSSIBLE CHOICES

An updated snapshot of the challenges
facing households on the cost of living

September 2022

About the research

Through our National Debtline and Business Debtline services, we are acutely aware of the impact that rising costs are having on people's finances up and down the country.

In this briefing, we combine insight from our services with UK-wide research to examine how this is already affecting people and their concerns about the winter ahead.

The Money Advice Trust commissioned Opinium to conduct a nationally representative poll of 2,000 UK adults. The fieldwork took place between 22nd – 24th August 2022 and all figures have been weighted to be nationally representative of UK adults.

Where we extrapolate national figures from this data, these are calculated by the Money Advice Trust using population estimates from the Office of National Statistics, which indicate that there are 52,890,000 adults in the UK.

The rising cost of living has heaped significant pressure on households. Rising costs – not just on energy bills, but across the board – have stretched some people's budgets to the limit.

Of course, this crisis isn't just about rising costs but fundamentally about incomes too.



Among the people we help at National Debtline, average personal expenditure has increased by 7% in the past year, but average income has only risen by 1%.

We've also seen an 8 percentage point increase in the proportion of our clients who have a deficit budget – meaning their income is not enough to cover essential costs (45% of clients, up from 37% in 2021). Even among people who have a positive budget, the money they have left over after paying for essentials has decreased by a fifth (20%) – from £307 a month in 2021 to £244 a month in 2022. These statistics demonstrate the challenge people face, with prices outpacing incomes so significantly.

As we outline here, this has left many people facing impossible choices - skipping meals and not turning on their electricity to try and get by. We're sadly, seeing a rise in the number of people falling into debt on household bills. We also see that the impact of rising costs is not being felt equally. People already more likely to be facing difficulty, such as those on lower incomes, are being hit particularly hard.

The Government's Energy Price Guarantee to cap the unit price of energy for two years is welcome. It will provide some much-needed relief to many people fearful about the winter ahead. However, it doesn't eliminate the full challenge. We cannot escape the reality that energy – and other bills are already, and will continue to be unaffordable for some. As we set out at the end of the report, further targeted support and protections will be needed and this should be a continued focus for Government, regulators and creditors.

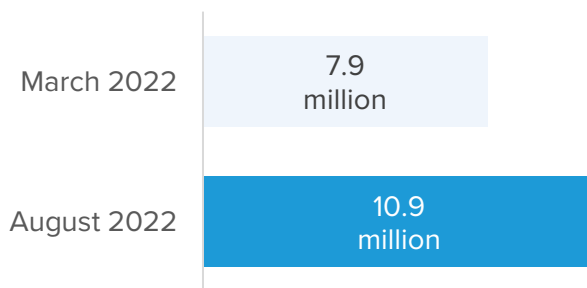
A GROWING HOUSEHOLD DEBT BURDEN

High energy prices coupled with high inflation and rising costs elsewhere have put sustained pressure on household finances throughout 2022. Unfortunately, we're seeing the impact of this in levels of household debt – particularly arrears on household bills, such as energy, rent or mortgage and council tax.



As of August 2022, **a fifth of UK adults (21%) were behind on one or more household bill** – up from 15% in March 2022.

10.9 million people are behind on household bills, an increase of 3 million people since March 2022.



Unsurprisingly, energy was the most common bill for people to be behind on, with **1 in 9 (11%) currently in energy arrears.**

These findings reflect what we're seeing in our debt advice services. The proportion of people contacting us who have 'priority debts' such as energy arrears, council tax debt and rent arrears, has increased by 7 percentage points in the last year, from 74% in 2021 to 81% in 2022.

The average amount people owe on priority debts has also increased by 9% in the past year – £1,996, up from £1,834 in 2021.

Although there is typically a lag between rising debt levels resulting in increased demand for debt advice – as people wait to seek help – we have already started to see an increase in people contacting us for support.



In the first six months of 2022, demand at National Debtline was up by 46% on the same period in 2021, while demand at Business Debtline was up by 24%.

Whilst the majority of people we help (75% at National Debtline and 53% at Business Debtline) are renting their homes, our wider research across the UK has found a significant rise in people struggling with their mortgage.



5% of UK adults said they were currently behind on their mortgage – up from 2% in March. That's equivalent to 2.5 million people in arrears and could be indicative of growing pressure on mortgage holders due to rising interest rates.

"My grocery bill has doubled even though I have actually halved the amount I buy. My energy costs are huge now so I'm in debt for the first time. I can't afford school uniform for my kids. I can't afford to care for my disabled child adequately."

"I'm deeper into my overdraft and have increased my credit card limit just to get groceries. I skip meals, shower less, and don't charge up my mobility scooter."

RISING ENERGY PRICES HAVE ALREADY HIT PEOPLE HARD

The Government's Energy Price Guarantee to cap the unit price of energy for two years will bring much-needed relief for the millions of people worried about future price rises.

However, although energy bills won't now rise to as extreme levels, they remain high overall and are still difficult to afford for many, particularly people on low incomes.

Many people have already seen a significant increase in their monthly energy costs, as a result of the previous price cap rise in April.



Almost half (45%) of UK adults have seen their energy bill rise by £50 a month or more.



10.7 million people (20% of UK adults) have seen their bill rise by £100 a month or more.

For some people, these price rises have simply been unaffordable.



1 in 9 adults in the UK (11%) said their energy supplier had increased their monthly payments to a level they could not afford.

The result of this is that some people have had to ration energy use, even in the middle of summer.



5.9 million people (11%) said they had gone without heating, electricity or water in the past three months as a result of the rising cost of living.

"I have dramatically reduced my use of electricity by only cooking occasionally. It's been warm, so I have not had to have the heating on, so only use the gas to heat the water. Despite this my electric and gas direct debit has more than doubled."

Despite the Energy Price Guarantee, there remains a risk that prices will be unaffordable for some people, particularly those on lower incomes. For prepayment meter customers, who already pay extra for their energy and cannot spread costs over the year, the situation also remains worrying.

"My wages no longer feel mildly comfortable. Every extra penny is going in my prepayment meters."

In this context, it is vital that energy suppliers are treating people who do fall behind fairly,

and properly assessing what – if anything – they can afford to pay towards arrears. Worryingly, our research suggests this is not always happening.



Around **3.5 million people (7%)** said their energy supplier had asked them to repay arrears at a rate they could not afford.

Magda's* experience, National Debtline client

Magda has £648 of energy arrears and her supplier has said she needs to pay a minimum of £40 a month to clear these. Magda cannot afford to pay this on top of her ongoing usage and, despite proposing a more affordable repayment amount, her supplier has said they cannot accept any less. They have passed her debt to a debt collection agency and threatened to install a prepayment meter. Magda works part time and is a carer for her son who is on Disability Living Allowance – she has made the supplier aware of this.

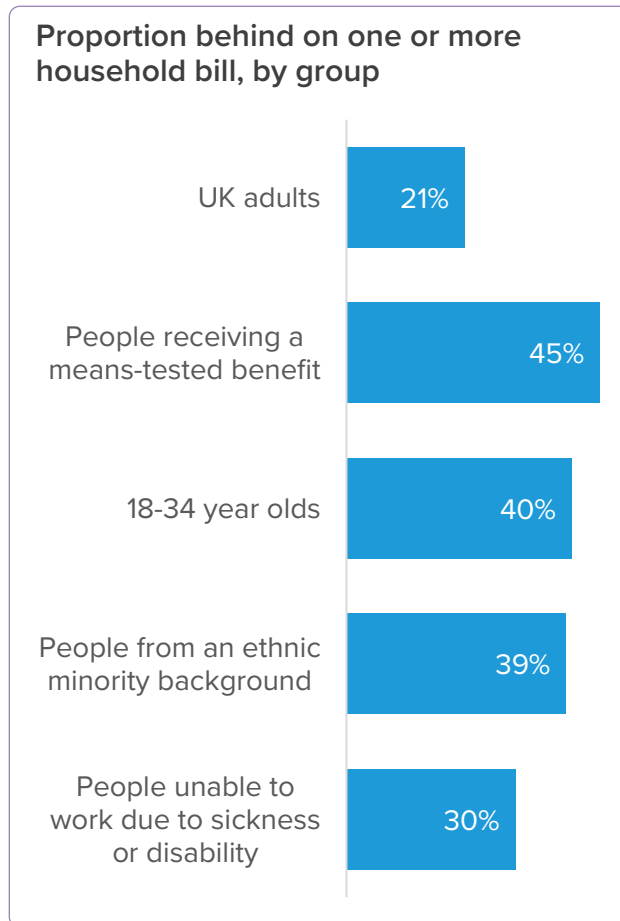
*Name changed to protect identity

AN UNEVEN IMPACT

As with most financial crises, the impact of rising costs is not being felt equally. Certain groups are being more heavily affected and understanding this is vital in ensuring that support is effective and well-targeted.

For people on lower incomes, and people receiving means-tested benefits, spending on essentials makes up a larger proportion of their budget and there is little or nothing to cut back on as prices rise. Coupled with the removal of the £20 a week Universal Credit uplift and the failure to uprate benefits by actual inflation levels, it has become almost impossible for people on benefits to cover the costs of all essential bills.

Half (49%) of people receiving means-tested benefits said their energy bill had risen by £50 or more a month since the start of 2022. However, Universal Credit has only risen by £10 a month (for single people) or £16 (for couples) in the same period. The £650 cost of living payment for people on certain benefits has been welcome – but this one-off, short-term support will almost certainly not be enough with energy prices and inflation predicted to stay at a high level well into 2023 and beyond.



Our research also revealed that people from an ethnic minority background were more heavily impacted by the rising cost of living.

17% of people from an ethnic minority background said their energy supplier had increased their monthly payments to a level they could not afford, compared to just 10% of people from a white background. Similarly, a **quarter (25%) of people from an ethnic minority background were behind on their energy bill, compared to 9% of people from a white background.**

Essentially, we are seeing that groups who are already at a heightened risk of facing financial difficulty or disadvantage are being hit hardest by the rising cost of living. We must not lose sight of the need for additional support for certain groups.

Energy suppliers and creditors also need to be alive to this and design their support strategies with the needs of these customers in mind, given they are more likely to require help in the months ahead. While a quarter (25%) of UK adults expect to seek help from their energy company in the next three months, this rises to 43% for people receiving means-tested benefits and 42% for people currently unable to work due to illness or disability.

HOUSEHOLDS ARE RUNNING OUT OF OPTIONS

As the cost of living challenge has developed, a common theme has been that people are running out of options. Actions that might have helped people previously – such as switching to a cheaper energy tariff – are not available; and people’s budgets are often so stretched there are no more savings to be found.



2 in 5 UK adults said they have already cut down on all non-essential spending – a rise of 7 percentage points since March 2022.

“Rising costs mean that I’ve had to cut back on absolutely everything that isn’t essential; I don’t go out anywhere anymore, don’t socialise, don’t use the car apart from commuting, only eat very cheap foods (beans on toast etc). Any more rises for anything will be disastrous. I cannot cut back on anything else.”

At National Debtline, we’ve seen a rise in people we help who have a deficit budget (45% of callers now have a deficit budget, up from 37% in 2021). This means that, even after

going through their budget with an adviser, they do not have enough money coming in to cover essential costs.

While energy bills will no longer rise by as much as feared this winter, they are still high overall. Indeed, the combination of high energy prices seen so far this year, along with rising food and fuel costs has left many facing impossible choices. People are having to resort to more drastic measures to try and cope, including selling personal items and turning to credit to cover essential needs.

In the last three months, as a result of the rising cost of living...



14 % of UK adults – 7.7 million people – have sold personal or household items.

“Once the bills are paid, the shopping is done, and fuel is topped up there’s nothing left each month. If we have an extra expense, then we have to cut back on food or fuel and sell something in the home to make ends meet. It’s not living anymore, it’s barely surviving.”



1 in 10 (10%) – 5.6 million people – have borrowed from family or friends.



3 in 10 adults (29%) – 15.3 million people – have had to use credit to pay for bills or essentials, such as food, because they did not have any other way to pay for them.

This is an increase of 4 percentage points since March 2022 – or 2.1 million people.

“After paying for bills and childcare I now have nothing left for food or petrol so am having to use my credit card each month.”

“I can only pay bills at times on my credit card and [am] now struggling a bit to clear these. I do not qualify for any benefits, but my income is low. I rarely sleep well, and my mind is constantly on my budget.”



Worryingly, **over 4 million people (8%)** said they had to use **high-cost credit specifically to pay for food** in the past three months, because this was the only way they could pay.

THE HUMAN COST

The impacts of rising prices, and the steps people are having to take to deal with these, cannot be underestimated.



In the past three months, **5.6 million people (11%) have gone without food** because of the rising cost of living.

"[I was] already struggling so it's even worse now. I'm skipping meals and only eating once a day each day, or even not at all some days."

"I am already going without breakfast and lunches most days to avoid spending money on food."



1 in 9 (11%) have gone without heating, electricity or water in the last three months – equivalent to **5.9 million people**.

"I turned my gas boiler for heating and hot water off at the mains in March to try and reduce my bills, and will keep it off for as long as possible this year."

"By the time I pay my monthly bills I do not have much left to top up my gas, electric and buy food. I have cut down usage of these as much as possible."



Nearly 2 in 5 people (38%) also reported having to stop, or reduce, how much they use their car due to the rising cost of fuel. This has a particular impact on disabled people, who may rely on their car to get about, as well as people who need a car to get to work.

"I am disabled, and I have not been using my car as much due to the cost of fuel. This has made me feel more isolated as I can't go out when I want to."

"We don't do anything like days out with the family. I am disabled but find myself stuck in the house much more because of fuel costs."

The numbers of people we are already seeing going without essentials like food and heating is incredibly concerning. As a bare minimum, support must be targeted at, and measured against, its effectiveness in stopping self-rationing and ensuring that everyone can access the basics they need to support their physical and mental wellbeing.

One of the issues that also came across clearly in our research was the sheer level of fear and worry that some people are experiencing, and the burden this is putting them under.



Over 15 million people (29%) now say they worry about money every day.

This figure rises to 37% for people receiving means-tested benefits and 33% for people on a low income (below £20,000 gross household income). Women were also more likely to be worrying about money – 34% say they are doing so every day, compared to 23% of men.



8.1 million people (15%) say they regularly lose sleep worrying about rising costs.

"I find myself constantly anxious and depressed by the weight of money concerns. It saps my motivation. This is not how people should be made to live."

SELF-EMPLOYED AT THE SHARP END

Our Business Debtline service is the only dedicated free, debt advice service for people who are self-employed and running small businesses in the UK.

The self-employed population is of course vast and varied, encompassing a whole range of trades and financial situations. Many self-employed people and small business owners are still reeling from the impact of Covid on their business income and finances, and many are already seeing the effect of surging prices.

Estimates from the Federation of Small Businesses show that between February 2021 and August 2022 the average small business had already experienced an up to 349% increase in electricity and 424% hike in gas bills.¹

The Government's recent announcement of a six-month scheme to provide equivalent price protection to business energy customers, as for domestic consumers, is therefore very welcome.

It will be important to understand more detail about how this will be achieved, as well as the further targeted support for certain sectors at the end of the six months. It is vital that businesses can access this support as soon as possible.

Even so, with many already facing unaffordable energy costs and pressures on other elements of their business finances, challenges are likely to remain. Small business owners and self-employed people are also contending with the cumulative effect of high levels of inflation driving up the cost of materials and goods, at a time when consumers are facing increased costs with less to spend. With these financial pressures being felt both in the business and at home, the impact of the increasing cost of living for self-employed people and small business owners is particularly acute.

At Business Debtline, the majority of people we help are sole traders or people with one or two employees. Many have a low, or fluctuating income – 54% of Business Debtline callers have a household income of less than £20,000.

Self-employed people in these situations are particularly exposed during the cost of living crisis. This exposure is compounded by the fact that many will face rising costs not just in their personal finances, but also their businesses too.

Our UK-wide research found that:



12% of self-employed people were currently behind on one or more household bill.



16% had gone without heating, electricity or water in the past three months, due to the rising cost of living.



3 in 10 (28%) are worrying about money every day.

As with the wider population, concerns for the future are prevalent. **Half (49%) of self-employed people said that, while they could currently afford their household bills, they were worried they would fall behind.** While not all of them will do so, it does reveal the level of worry people are facing, and how precarious their situation feels.

RECOMMENDATIONS

The Government's Energy Price Guarantee to cap the unit price of energy for two years is welcome. It will bring much-needed relief for the millions of people worried about future price rises.

Indeed, our research – conducted before the Government's announcement – found 72% of UK adults thought there needed to be more support to help people cope with the rising cost of living.

However, as our research shows, many households are already feeling significant pressure from both high energy bills and rising costs across the board.

Although bills will not now rise to as extreme levels, they remain high and are still difficult to afford for many, particularly people on low incomes.

The Energy Price Cap Guarantee therefore cannot stand alone and should be part of a package of wider measures designed to help households navigate this difficult period.

There is also action for regulators, energy suppliers and creditors to take to protect people in debt during this time.

1. The Government must ensure the benefits system provides enough support to people so they can afford essentials

This should include ensuring that benefits are uprated significantly, to ensure they keep up with the rising cost of living. The Department for Work and Pensions should also pause deductions from benefits for government debt – using the time to introduce wider reform of the deductions system. Our analysis suggests this would help around 2 million households currently receiving Universal Credit or legacy benefits - saving them, on average £55 a month.²

2. Creditors and regulators must ensure people in arrears are treated fairly and not pushed into hardship by unaffordable debt repayments

With many people still likely to struggle, suppliers and creditors need to ensure they are treating people in debt fairly and are not making people's financial situations worse during this difficult time.

This should include making sure they properly understand what people can afford to pay, and treating them accordingly. This may mean offering additional forbearance, pausing collection activity and setting repayments to zero, or a token amount, for an extended period of time.

3. The Government should work with Ofgem and the energy industry to introduce a social tariff to lower the cost of energy bills for low income households

This would be in addition to existing schemes in the market, such as the Warm Home Discount and would provide a vital safety net for households struggling to afford their bills. It would be targeted at those at risk of fuel poverty, such as those on low incomes or with high energy usage due to illness or disability.

References

1 FSB, Energy help is needed now, small firms urge, as many struggle to get through winter, Press release, 26 August 2022 - The FSB base these estimates on the assumption of a 30,000 kWh annual consumption in London.

2 Based on analysis of latest government figures regarding deductions for benefit overpayments and Advances.

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Money Advice Trust

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

For more information about this report:

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