MONEY ADVICE TRUST

UNDER PRESSURE

Tracking the impact of the high cost of living on UK households

June 2023

SUMMARY

The cost of living challenge for households is far from over.

As we explore here, this difficult economic period has had a significant and concerning impact on household finances across the UK.

In some cases, this has drawn people who were previously managing into financial difficulty. In other cases, it has made things for people who were already struggling much harder.

In particular, our research reveals:

3.7 million more people are behind on household bills, compared to March 2022.

This winter has been particularly challenging for people, with **an additional 3.3 million people saying they went without heating, electricity or water** in the past three months, compared to the same time last year.

Almost **one in five (17%) mortgage holders** – equivalent to 2.2 million people – have seen their monthly payments go up as a result of rising interest rates and are **now struggling to afford these**.

What's more, that impact has not been felt equally – with some groups much more likely to have been affected and to now be struggling financially.

While the fast pace of rising prices may stabilise in the coming months, for households who have fallen behind, this is just the start of the challenge they face. Without action, we risk leaving people trapped in debt. It's vital we offer people help to get out of debt safely and affordably, without pushing them into further hardship. And we need to do more, too, to tackle the longer-standing issue of people simply not having enough money coming in to meet their essential needs.

About the research

Through our National Debtline and Business Debtline services, we are on the frontline of supporting people facing financial difficulty.

In this briefing, we combine UK-wide research with insight from our services to examine the impact this period of high inflation, rising interest rates and out-paced incomes has had on people's finances.

The Money Advice Trust commissioned Opinium to conduct a series of nationally representative surveys of 2,000 UK adults. The most recent of these took place between 25th – 28th April 2023 and all figures have been weighted to be nationally representative of UK adults. Previous research took place in March 2022 and August 2022, allowing us to track the impact on household finances across a number of measures.

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 53,188,204 adults in the UK.

HOUSEHOLDS FEELING THE STRAIN

When we look at the situation of UK households now, compared to March 2022, we can clearly see the impact this sustained period of financial pressure has had on households, resulting in a higher debt burden.

Sadly, many of the underlying issues we're seeing now are not new. In recent years, we – and other debt advice charities – have seen a growth in people whose incomes do not cover their essential expenditure.

Two in five (41%) callers to National Debtline and over half (56%) of Business Debtline callers have a 'negative budget'.

> *"My outgoings are higher than they have ever been before. I have reduced the amount of food that I buy. I am trying to use less energy. I have already done nearly everything I can to reduce expenses but the prices and the bills keep on increasing."*

CERTAIN GROUPS ARE MUCH MORE HEAVILY IMPACTED

Our research reveals clearly that certain groups are more likely to have been impacted by the high cost of living. Many of these groups were already at a heightened risk of facing financial difficulty or disadvantage going into this period. Our concern is that, as well as drawing new people into financial difficulty, this period has made the situation even more challenging for people already struggling.

People receiving means-tested benefits, such as Universal Credit, were much more likely to be struggling financially. In the past three months, a fifth (21%) had gone without food; one in eight (12%) had started using foodbanks and a similar proportion (14%) used foodbanks more than they had done previously. This raises significant questions about the adequacy of the social security system in ensuring people can afford essentials.

> *"I am increasingly anxious about how I will afford to keep up with paying bills. Universal credit barely covers the essentials."*

Worryingly, **people who were unable to work due to long-term illness or disability** (many of whom will also be claiming means-tested benefits) were more likely to report financial difficulty.

One in two (50%) said money worries were negatively impacting on their health, and the proportion who said they had gone without heating, electricity or water in the last three months was 1.7 times higher than the population as a whole (31% compared to 18% of UK adults).

> *"I have to use several powered disability aids which I cannot do without, so I have had to cut down on using my central heating, to a maximum of 2 hours per day, even in the coldest periods. My energy bill has increased from £82 per month to £202. Not using my heating has had a detrimental effect on my health."*

We also found that **younger people aged 18-34** and those **living in the private rented sector** (of which there will be significant overlap between the two groups) were more heavily impacted by the rising cost of living.

40% of private renters said their rent had increased since the start of 2023 and, given how stretched many people's budgets already were going into this year, we have significant concerns that some renters will simply not be able to afford their rent alongside other price increases.

> *"The annual increase in rent has had the most impact. A 7% increase in rent and 100% for service charge means approximately £1,400 more a year to pay in rent/service charge."*

Finally, our research found that people from certain ethnic backgrounds were more likely to report challenges affording household bills. The proportion of **people from a black African or Caribbean background** who said they had started to use foodbanks in the past three months due to the rising cost of living was almost double that of the general population (10% compared to 6%). 40% of **people from an Asian background** had to use credit to pay for essentials in the past three months – almost one and a half times higher than the general population (28%).

CERTAIN GROUPS ARE MUCH MORE HEAVILY IMPACTED

	Behind on one or more household bill	Used credit for essentials in past three months as had no other way to pay for them	Expect to need advice about debts in next three months
UK adults	22%	28%	18%
People from a black African or Carribean background	50%	53%	28%
Receiving means-tested benefits	47%	50%	35%
18-34 year olds	40%	46%	36%
People from an Asian background	41%	40%	35%
People living in private rented accommodation	35%	39%	29%
Not currently working due to long-term sickness or disability	29%	23%	22%

EXPERIENCES OF DEBT COLLECTION

It's clear from both our research and what we're hearing on the frontline, that this period of high cost of living has led to rising debt levels and left many people continuing to face difficulty affording household bills.

Since 2018, the average amount owed on council tax, energy, rent and other 'priority' debts has **increased by 54%** amongst callers to National Debtline – to a total of £4,080.

With pressure on budgets more acute than ever, and a significant minority simply not having enough coming in to make ends meet, it's vital that all sectors take a compassionate approach to collecting debt, which recognises the challenging circumstances that many people are facing. Affordability should be central to organisations' debt collection approach, including proactively offering forbearance, and accepting affordable payment proposals.

Unfortunately, our evidence shows this is not always the case.

For a number of years, we have been highlighting issues with the way in which debts owed to government – including council tax and benefit overpayments – are collected. In recent months, we've also seen a significant spotlight on debt collection methods used in the energy sector.

Over a quarter (26%) of people who were behind on their council tax bill said their **council had asked them to repay arrears at a rate they couldn't afford.**

In the same period, 2.2 million people said they had money deducted from their benefits to repay debts - of which **35% said this led to them going without essentials, and over a quarter (27%) said it caused them to fall behind on other bills.**

3.2 million people (6%) said their energy supplier had asked them to repay arrears at a rate they couldn't afford.

3.8 million people said their energy supplier had **deducted money from their meter to repay arrears, at a rate that was unaffordable for them**.

"All my bills have gone up, causing financial strain. I often fall behind on payments, which makes me stressed and depressed."

"The cost of electricity has been the worst thing. I cannot pay the amount my energy company want each month so I am paying less, which means we will be in debt. The heating has not been on all winter, being cold is not conducive to work and as I work from home, it has been difficult. Soul destroying. We don't go out anymore."

"I am using a high-interest credit card to pay for groceries and I've struggled to pay my council tax since it increased."

SPOTLIGHT ON ENERGY DEBT

Our research found that around **5.5 million people (10% of UK adults) were currently behind on their energy bill** – an increase of 2.1 million since March 2022, when 7% of UK adults reported being behind on their energy bill.

It is worth noting that the proportion of people currently unable to work due to long-term illness or disability who were behind on their energy bill was 7 percentage points higher than the general population (17%). However, for other household bills – with the exception of rent – they were less likely to be behind than the general population. While we cannot say for certain from this data alone, it could suggest that people are getting better access to support on other bills, such as council tax, water and telecoms, than they are on energy bills.

Around 4.7 million people (9% of UK adults) said their energy supplier had provided them with support either to help them afford their bills or to deal with energy debts.

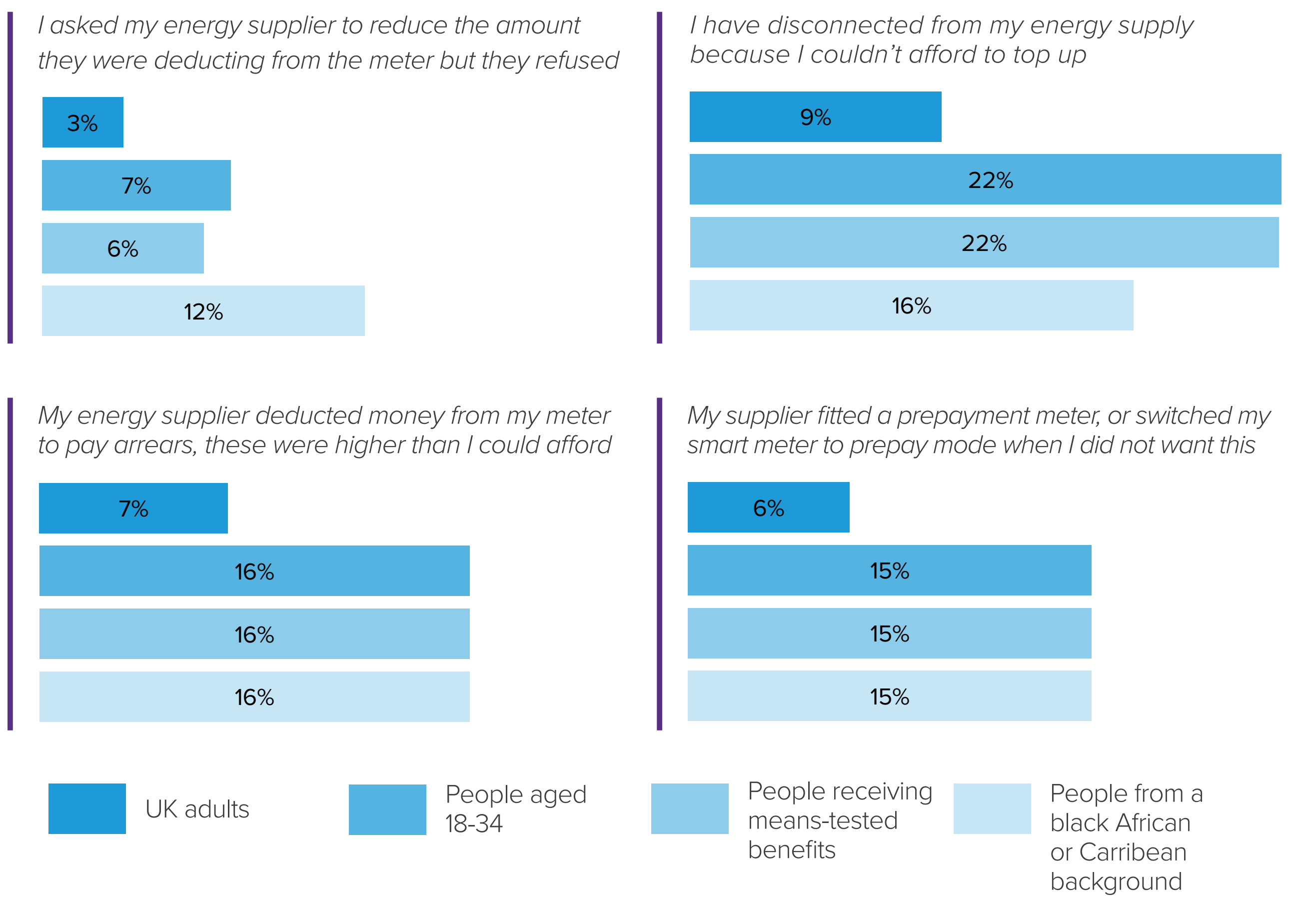
However, a similar proportion reported a more negative experience.

7% - equivalent to 3.9 million people – said they contacted their energy supplier to tell them they were struggling to afford their energy bills, but their supplier did not offer them any support.

A further 6% - 3.2 million people – said they had tried to contact their energy supplier to ask for help but could not get through.

Our findings echo others in emphasising the **ongoing challenges for people on prepayment meters**, with people on means-tested benefits much more likely to be experiencing these issues.

Experience with prepayment meters



RECOMMENDATIONS

1. The Department for Energy Security and Net Zero should create and fund a dedicated ‘Help to Repay’ scheme to offer payment matching and write-off to people struggling to repay energy arrears.

High energy prices have led to soaring energy arrears.

While some people will be able to repay this through affordable repayment plans, for people who have little to no spare income, repayment will be difficult or take a very long time. This has a significant negative impact on individual households, and also leaves a high bad debt burden in the market which will drive up all consumers’ bills.

To tackle this, **the Department for Energy Security and Net Zero should create and fund a dedicated ‘Help to Repay’ scheme** which would offer help to eligible people struggling to afford to repay arrears. Depending on the level of need, people would either receive full debt relief or repayment matching to enable them to get out of debt sooner. This would work, for example, by matching each pound repaid with an equivalent amount of debt relief or providing debt relief on the remaining arrears after a certain period of ongoing payments.

Almost three quarters of UK adults (73%) think people who have fallen into energy debt due to high prices should be given help to reduce what they owe.

2. The Government should take immediate steps to improve the way it collects debts owed to central and local government.

Government debt collection continues to lag far behind best practice in other sectors. In the current context, amending the way in which central and local government collects debt is a key lever the Government has to support households in financial difficulty.

To reduce hardship faced by people on benefits, **the Department for Work and Pensions should reduce the rate at which deductions are taken for government debt**, such as benefit overpayments (as well as reducing the maximum deductions cap). They should also offer greater forbearance – including temporary pauses on deductions – where these are unaffordable for people.

In addition, **the Department for Levelling Up, Housing and Communities should urgently begin a review of the current council tax collection rules** in England and Wales, to reform the 1992 Council Tax (Administration and Enforcement) Regulations, with the aim of preventing the fast escalation of council tax debt, and ensuring local authorities have more flexibility to collect debts in an affordable way.

Three in four UK adults (74%) think people should be given time to repay debts owed to government in an affordable way.

RECOMMENDATIONS

3. **The Department for Business and Trade and the Insolvency Service should introduce immediate measures to improve access to Debt Relief Orders.**

Debt Relief Orders (DROs) are a vital insolvency option, providing people in England and Wales who are eligible with a route to write-off debt and regain a stable financial footing. However, many people face barriers to accessing these – not least the £90 fee. Given DROs are designed for people with little to no disposable income, it can be very challenging for people to find this money.

Ahead of the full report from the Insolvency Service's review of the Insolvency Framework expected later this year, **the Department for Business and Trade should work with the Insolvency Service to look at immediate measures that can be taken to improve access to DROs** as a route for people to deal with debts built up during this difficult period of high cost of living.

This should include increasing the maximum debt limit, to ensure anyone who has little available income and minimum assets can access a DRO, as well as reviewing the rule that only allows a DRO once every six years. Given the rise in value of second-hand cars, the 'asset level' for the maximum value vehicle someone can have should be increased beyond £2,000.

The Department for Business and Trade and the Insolvency Service should also explore options for temporarily waiving the fee for DROs and, for some cases, bankruptcy, while longer-term reform of fees is put in place – to ensure fees are never a barrier to someone accessing the insolvency option they need.

Six in ten (62%) UK adults agree that people who need debt relief through insolvency options should not have to pay to access this.

4. **The Government should ensure the benefits system provides enough support to people so they can afford essentials.**

A major driver of debt problems is people simply not having enough money coming in to afford the basics. **The Government should adopt the Essentials Guarantee** – as proposed by the Joseph Rowntree Foundation and the Trussell Trust – to ensure that Universal Credit, and other benefits, always provide enough to live on to ensure people don't have to go without essentials.

Over seven in 10 adults in the UK (73%) think there needs to be more support to help people struggling financially.

MONEY ADVICE TRUST

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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JPMorgan Chase & Co.

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