MONEY
ADVICE TRUST

Broken Budgets

An analysis of people contacting National Debtline and Business Debtline

July 2024

Summary

Falling inflation is welcome news. However, many households and small business owners, especially those on lower incomes, are still under significant financial strain.

Research we conducted in June 2024, after inflation fell to its 2% target, found that **13% of UK adults – equivalent to 6.8 million people - say they are struggling to meet day-to-day costs**.[1]

Indeed, when we asked about the impact of falling inflation on people's finances, the majority of people said it had either made no difference (59% of UK adults), or that **their finances were still getting worse (21% of UK adults).**

While the hope will be that the pressure on households starts to lift in the months ahead, we cannot lose sight of the significant impact the covid pandemic, and then the high cost of living, has had on households and small businesses up and down the country.

In this report we examine the situation for people at the sharp end of financial difficulty. We explore the circumstances of people contacting National Debtline and Business Debtline and the debt issues they face. We consider what their situations can tell us about the action needed to help people in debt now, and prevent people falling into difficulty in future.

A clear theme that emerges is the extent to which people's budgets have been stretched to breaking point.

More than two in five people contacting National Debtline (43%) have a negative budget – meaning their income is not enough to cover essential costs. **At Business Debtline, the figure is one in two (51%),** with many small business owners facing a growing burden of business debt, alongside strain in their personal finances.

Within this report, we look in more detail at the budgets and circumstances of people we help who have a negative budget. By sharing our insight, we hope to contribute to the discussion on who is most at risk of falling into a negative budget, what causes them and what can be done.

Finally, we set out what the new Government could do to help people out of debt now, and to prevent people falling into debt in the future.

About the research

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

The insight presented here is based on analysis of in-depth demographic, budgetary and debt data for a sample of 904 National Debtline and 380 Business Debtline clients, who contacted our services between December 2023 – January 2024.

Trend data is based on equivalent data and analysis from the years 2019 – 2024.

Figures may not always add up to 100% due to rounding, or where people may have multiple statuses (for example, employment or housing status).

Stretched incomes

NATIONAL DEBTLINE

Almost half (48%) of the people we help at National Debtline have a household income of under £20,000 a year.

A further 31% have an income between £20,000 - £30,000, meaning four in five of our clients (79%) are living on an annual household income of £30,000 or less.

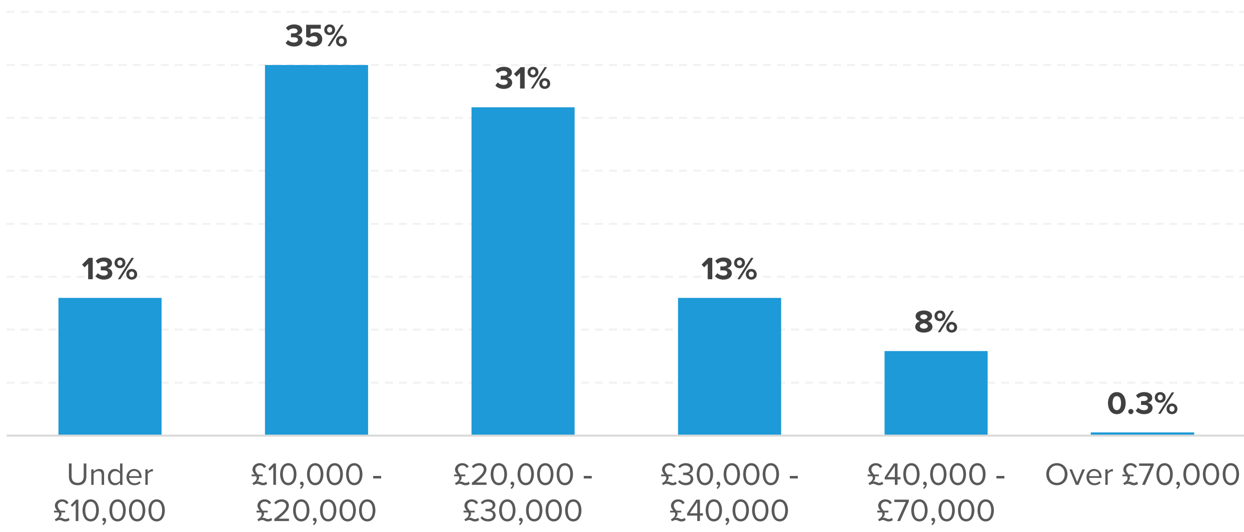
In the past year, we have continued to see the impact of the high cost of living, with the average expenditure of National Debtline clients rising by a higher rate than their incomes.

We have also seen an increase in the proportion of people we help who have a negative budget – where their income does not cover their essential expenditure. More than two in five (43%) have a negative budget – a rise of two percentage points compared to 2023.

Even among people who have a surplus, the amount they have left over each month has decreased by 13% - meaning they have less money to put towards repaying debts.

We explore more about the circumstances of our clients in negative budgets on pages 9 - 15 of this report.

Annual household income, National Debtline clients



43%

Proportion of National Debtline clients with a negative budget – a rise of 2 percentage points from 2023.

13%

Average expenditure for National Debtline clients rose by 13% between 2023 – 2024, but average income only rose

-£61

Decrease in the average amount people with a surplus budget have left over each month.

Understanding debt trends

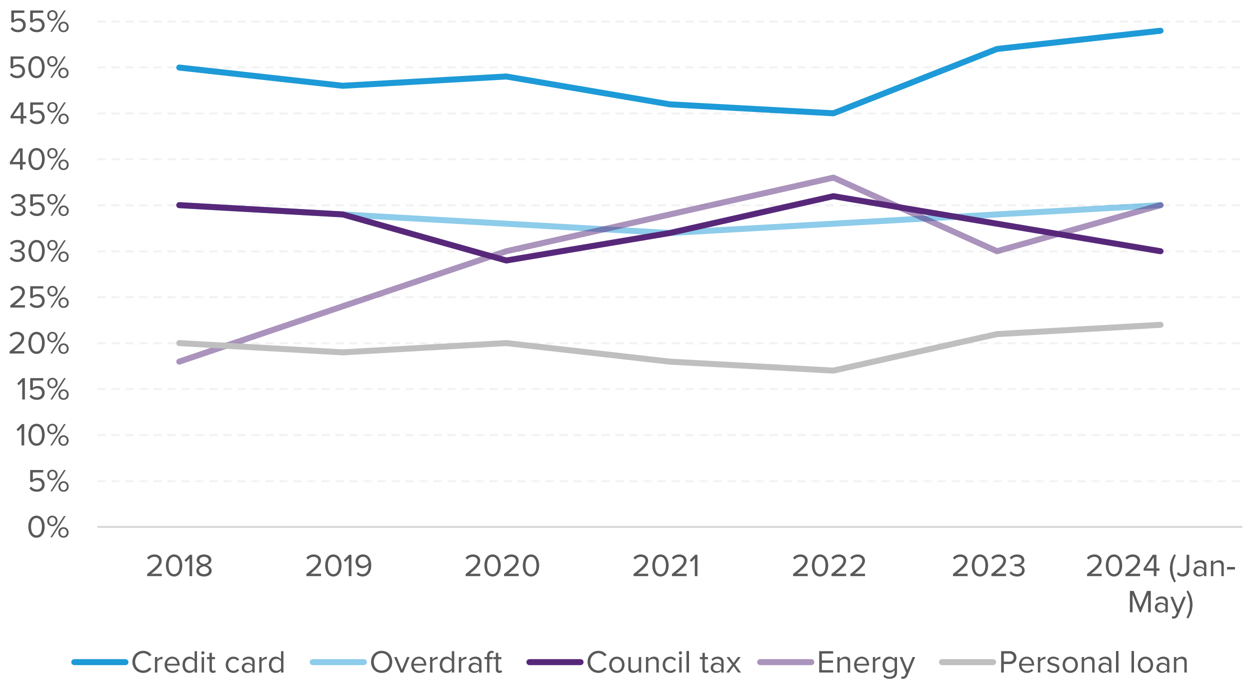
The people we help at National Debtline owe an average of just over £13,000. We saw a drop in the total amount owed, and the total amount of non-priority debt owed during the Covid-19 pandemic. However, as we have come out of the pandemic, many households have felt the effects of the high cost of living. In this context, the average amount of debt owed has been rising again and is now 5% higher than it was in 2019. The average amount owed on non-priority debt, such as consumer credit debt, is almost back at its 2019 level (£11,105, compared to £11,216 in 2019).

During the Covid-19 pandemic, we also saw a slight drop in the proportion of callers with consumer credit debts. However, these debts have now largely returned to pre-pandemic levels (see graph opposite).

As we explore further on the next page, over the longer-term we have seen an increase in difficulties paying household bills ('priority debts'), with the amount that people owe on these types of debts increasing significantly.

Although having fallen back slightly from their 2022 peak, we have seen a significant overall increase in the proportion of people we help who have energy arrears since 2018.

Proportion of National Debtline clients with each debt type 2018 - 2024



Snapshot on priority debts

Nearly **7 in 10 (67%)** people we help at National Debtline have some sort of priority debt – such as being behind on their rent or mortgage, or other essential household bills like energy or council tax.

On average people have **2.5 priority debts** – having risen from 2.3 in 2021.

On average, people's priority debt is equivalent to 22% of their annual income. Across people's total debt (priority and non-priority) the amount they owe is equivalent to 76% of their annual income.

The average amount people owe on priority debts has risen by 37% since 2019 – to £3,898.

£1,904

Average amount of **rent arrears** among National Debtline clients with this debt – a rise of £324 (21%) in the last year.

+£419

The increase in the average amount of **energy arrears** owed by National Debtline clients in the past year, now standing at £1,541 – a rise of 37%.

The proportion of people we help with energy arrears has grown from 18% in 2018 to 35% in the first five months of 2024.

£1,762

Average amount of **council tax** debt owed – an increase of 49% (or £581) since 2019.

Stretched incomes among self-employed people

BUSINESS DEBTLINE

As with National Debtline, many of our Business Debtline clients live on lower incomes. In total, two thirds (66%) have an income below £30,000 and two in five (42%) have an income below £20,000.

However, over the past year, we have seen a 20% increase in the average annual household income of people we support at Business Debtline- rising from £21,735 to £26,091.

We have also seen a slight shift; with a greater proportion of the people we help coming from higher income bands. In 2023, just a quarter (25%) had an income above £30,000, but by 2024 this has risen to 34%. This could reflect both the wider wage and income growth we have seen recently, as well as a sense that, as costs rise, even people on middle to higher incomes may be facing debt challenges.

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Annual household income, Business Debtline clients (2023 and 2024)

51%

Proportion of Business Debtline clients with a negative budget – meaning their income is not enough to cover their

£579

The average amount Business Debtline clients in a negative budget are short by each month.by 10%.

Rising business debt burden

BUSINESS DEBTLINE

Our data reveals a growing debt burden for small business owners and self-employed people in financial difficulty.

Since 2020, we have seen a significant increase in the average amount of business debt owed by people we support.

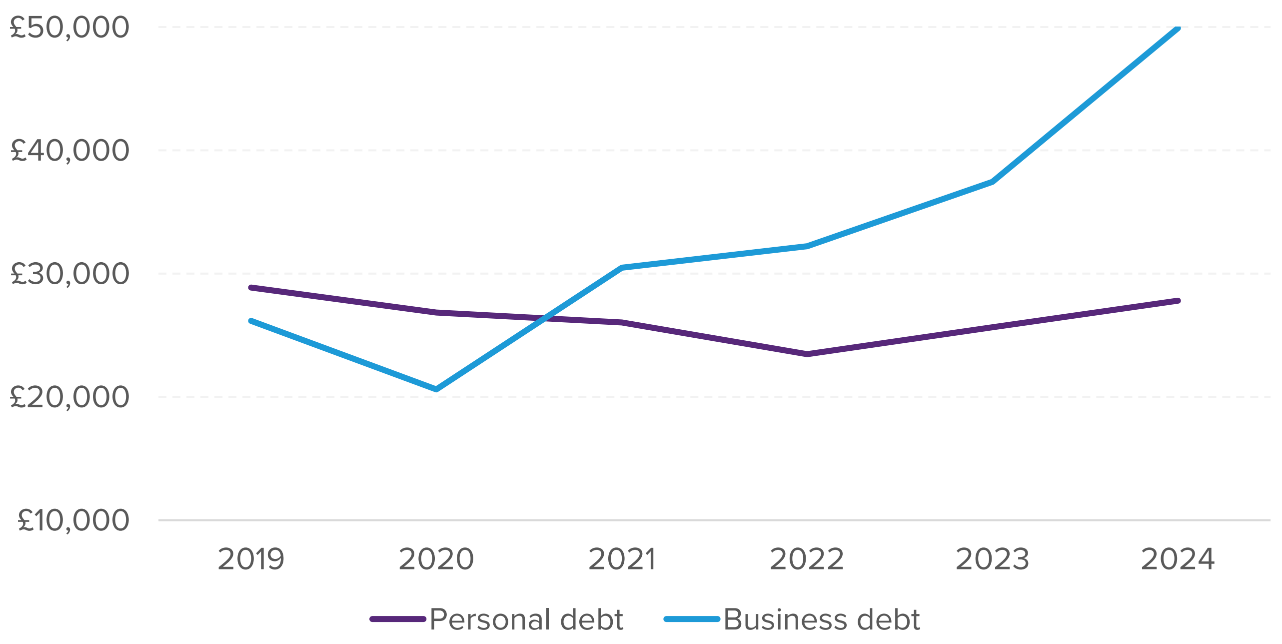
ICON The average amount of business debt has more than doubled since 2020, rising from £20,592 to £49,900.

We know many small business owners and self-employed people had to take out additional credit to support their business during the Covid-19 pandemic, including Bounce Back Loans. In 2023, 43% of people we supported at Business Debtline had an outstanding Bounce Back Loan.

In the first five months of 2024, this has dropped to 34%. However, the amounts owed can be significant. The average amount people owe on their Bounce Back Loan is £25,434. This is likely to be – at least partially – driving the significant rise we have seen in the amount of business debt owed.

Meanwhile, average personal debt has remained relatively stable – dropping slightly during the pandemic, before rising slightly again in the last two years.

Average amount of debt among Business Debtline clients



Rise in personal and business priority debts

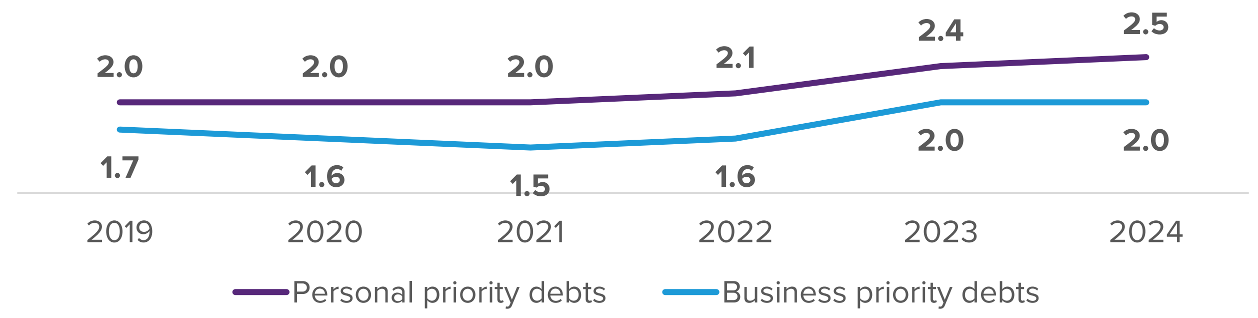
The overall stability in the amount of personal debt owed obscures a key part of the changing nature of debt problems for small business owners and self-employed people.

As well as seeing a rise in the amounts owed on business debt, we are also seeing a rise in Business Debtline clients struggling with priority debts.

Importantly, this trend is being seen across both personal finances – where priority debts can include things such as rent/ mortgage, energy bills and council tax – and business finances – where priority debts may include bills such as business rent, business rates, National Insurance or VAT arrears.

With priority debts having more serious consequences, and often being harder to resolve, this is a sign of debt problems becoming more complex and serious.

Average number of priority debts, Business Debtline clients



Three in five (61%) Business Debtline clients have **personal priority debts** – up from 56% in 2019.

Two in five (39%) have **business priority debts** – up from 32% in 2019.

The proportion of clients with **tax debt** has risen by 5 percentage points since 2020 (from 21% to 26%).

The average amount of **tax debt** owed has risen by 84% since 2020 (from £6,921 to £12,724).

The average amount of **energy debt** is up 90% since 2020 (from £913 to £1,738).

While the proportion of people we help with **council tax arrears** has remained relatively stable (at around one in five), the average amount owed has **more than doubled** since 2020 (from £881 to £1,810).

Such significant increases in amounts owed – even where the proportion of people in arrears is stable – indicates that those who are falling behind are facing an increasing burden of debt.

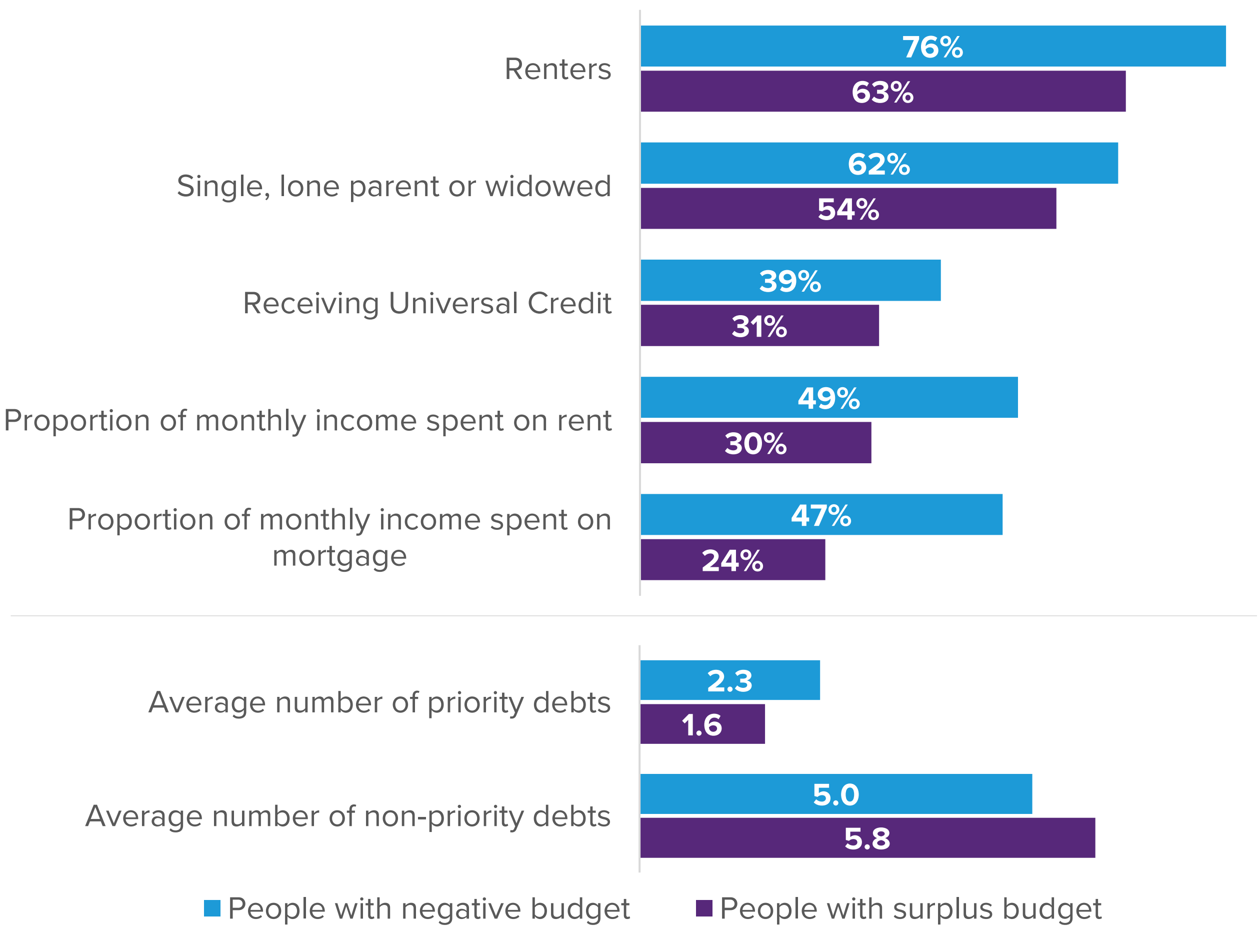
Living on empty: understanding negative budgets

As set out earlier in this report, 43% of people we help at National Debtline, and 51% of people we help at Business Debtline have a negative budget. This means their income does not cover their essential costs, even after receiving budgeting advice. On average, our National Debtline clients with a negative budget are short by £339 a month, and at Business Debtline the monthly shortfall is £579.

That so many people find themselves in this situation is hugely concerning. Living on a negative budget has a significant impact not just on people's financial situation but on their physical and mental health too. People have to forgo essentials, such as food or turning on the heating and deal with the emotional burden of living on a persistently inadequate income.

To understand more about the drivers of negative budgets, and who is most likely to experience them, we conducted a deep dive into the situations our clients with negative budgets face, compared to those with a surplus income.

Snapshot on negative budgets National Debtline clients



Housing

People with a negative budget are more likely to be renting, with more than three quarters (76%) living in rented accommodation, compared to 63% of people with a surplus budget.

Interestingly, people with a surplus budget were more than twice as likely to be living with family or friends (13%, compared to 6% of people with a negative budget).

We see a similar trend at Business Debtline, where 52% of people with a negative budget live in rented accommodation, compared to 38% of people with a surplus budget.

Wider evidence[2] suggests that high housing costs can be one driver of negative budgets, and our findings indicate this, too. As private sector rents have risen, this has put increasing pressure on people's budgets and **almost half (47%) of National Debtline clients who are renting privately have a negative budget**. At Business Debtline, this rises to 59% of private renters who are in a negative budget.

Significantly, we found that renters with a negative budget were more likely to hold a sole tenancy. At National Debtline, renters with a negative budget are 11 percentage points more likely to have a sole tenancy, compared to renters with a surplus (76% to 65%). At Business Debtline, the gap is slightly smaller but still noticeable – at 5 percentage points (49% to 44%).

This arguably points to the burden people can face trying to meet housing costs on a single income and illustrates a wider issue around how challenging it is for some single-adult households to cope financially.

Relationship status

This is further evidenced by our data showing that people with a negative budget are **more likely to be single, a lone parent or widowed**, compared to those with a surplus budget, by 8 percentage points.

At National Debtline, three in five people with a negative budget (62%) were either single, a lone parent or widowed, compared to around half (54%) of people with a surplus budget.

Less than a quarter (23%) of people with a negative budget were married or living with a partner, compared to a third (34%) of people with a surplus budget.

A similar trend is seen at Business Debtline, although the gap is not as significant – with 36% of people with a negative budget being either single, a lone parent or widowed compared to 34% of people with a surplus. 47% of people with a negative budget were married or living with a partner, compared to 52% of people with a surplus budget.

Hannah's* story

Hannah* contacted National Debtline after speaking to her energy supplier about arrears she had built up on her energy bill. She was struggling financially after the birth of her child and the ending of her relationship.

Hannah works full-time in the NHS and has four children: two teenagers, an eight-year old and a one-year old. Her salary is £3,000 a month and she receives £500 in child maintainence, meaning she has a total monthly income of £3,500. However, her essential spending comes to £3,944 – meaning she has a monthly deficit of -£444.

Childcare costs take up a significant proportion of her income (19%), only slightly less than her mortgage (21%). Her budget reflects the challenge of meeting essential costs for a family, on a single income.

Hannah has a secured loan against her property of £13,000, as well as energy arrears of just under £3,500. She owes just under £30,000 on a number of consumer credit debts including credit cards, overdrafts and store cards.

Income: £3,500	Mortgage	£815
	Food and housekeeping	£605
	Utilities	£245
	Secured loans	£525
	Childcare and school meals	£752
	Pensions and insurances	£145
	Transport	£160
	Personal costs and healthcare	£115
	Other essential costs	£110
	Council Tax	£198
	TV Licence	£14
	Comms and leisure	£260
Costs: £3,944		

**Name changed to protect identity. Budget figures have been rounded and anonymised.*

Support from the welfare system

76% of people with a negative budget were receiving support from the welfare system, compared to 62% of people with a surplus budget.

When we delve into the types of benefits people receive, we observe some important trends. At National Debtline, people with a negative budget are almost 8 percentage points more likely to be receiving Universal Credit, than people with a surplus budget.

In contrast, people with a surplus budget are more likely than people with a negative budget to be receiving Child Benefit or disability benefits. We observe the same trend among people we help at Business Debtline.

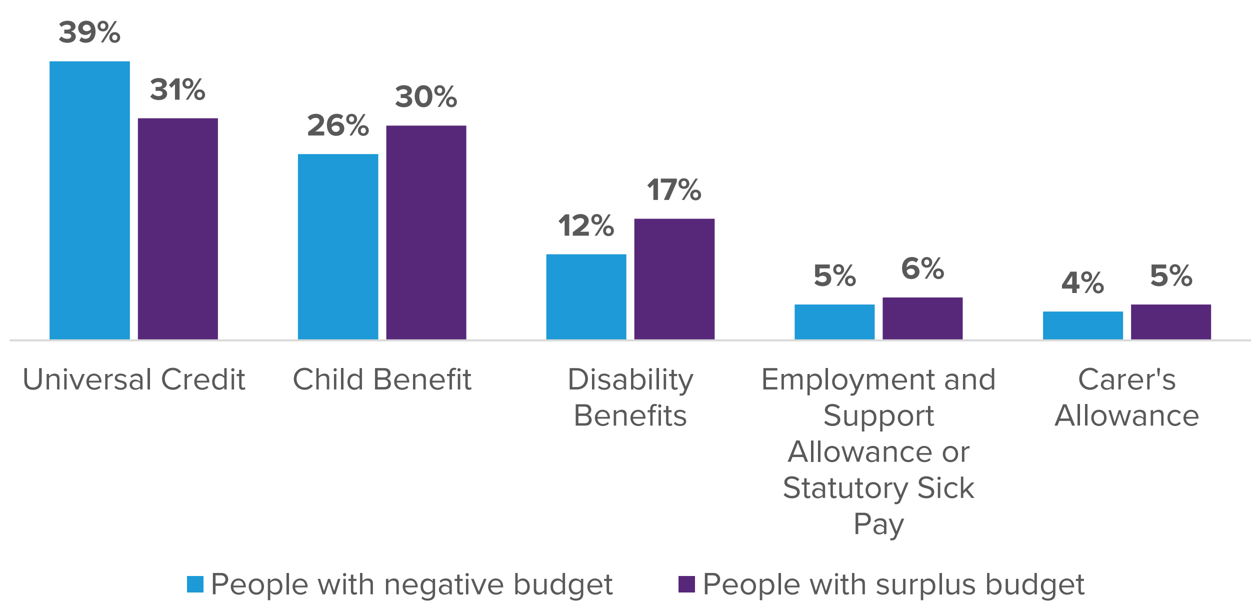
Many people of course receive more than one type of benefit. And while we cannot show this from this data alone, it could suggest that when people receive benefits intended to help them with the extra costs they face, for example from having a disability or from looking after a child, these can have a more positive effect in protecting people from falling into a negative budget.

The same cannot be said for Universal Credit. When we look at the people we help who receive Universal Credit, we find that they are more likely to have a negative budget than a surplus budget.

53% of National Debtline clients receiving Universal Credit have a negative budget.

This provides additional evidence for the widespread concerns that the Universal Credit system is not effective enough in ensuring people can afford to cover the costs of essentials, and that the support from the welfare system is failing to keep up with the true cost of living.

Proportion of National Debtline clients receiving welfare benefits, by budget status



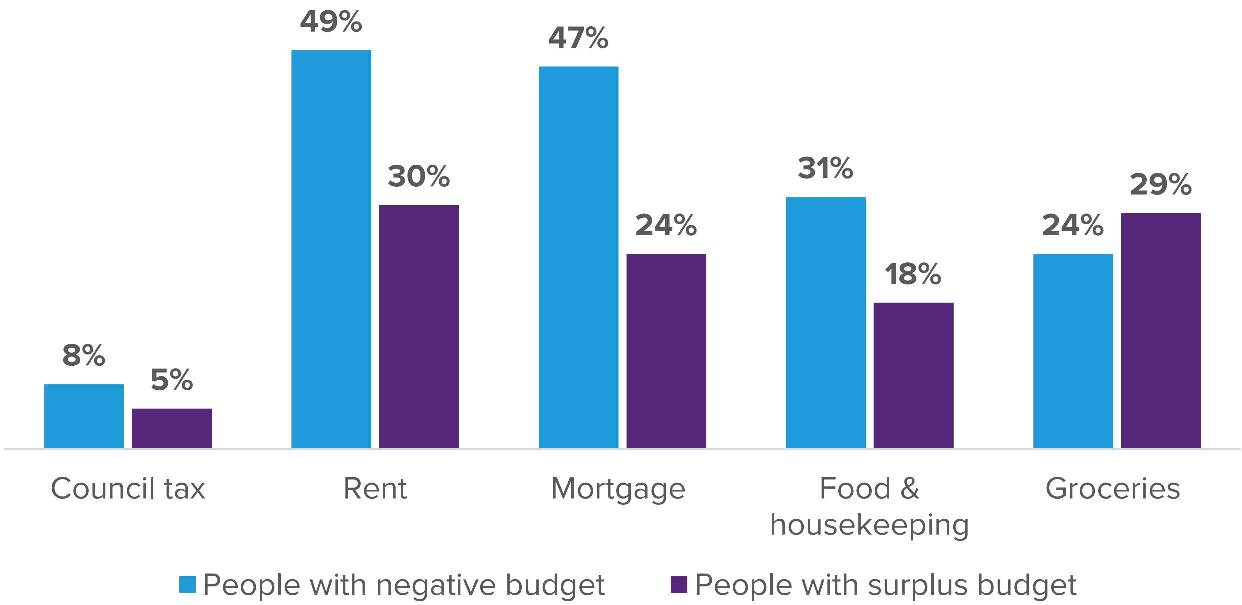
Costs and spending

People we help with a negative budget spend a much higher proportion of their income on essential costs, than people with a surplus budget.

This is not surprising. By definition, people with a negative budget do not have enough income coming in to cover their essential costs, so these will inevitably make up a greater proportion of their spending.

However, it is worth highlighting as it reiterates yet again that solving negative budgets, and reducing the number of people who find themselves in this situation long-term, requires us to look at policy solutions that both increase incomes and reduce costs. The breakdown here gives an indicator of where some of the largest burdens of costs are, not least housing costs. For people with a negative budget, these costs are equivalent to almost half of their monthly income, leaving them with a smaller amount remaining to cover all their other essential costs.

Proportion of monthly income spent on essential costs among National Debtline clients, by budget status



David's* story

David* is a small business owner. He ran his own food and drink business, until the Covid-19 pandemic hit. This had a significant impact on his business. As a result, in 2023 he unfortunately had to stop trading. David's mental health has also been impacted and he has been diagnosed with depression and anxiety.

He now receives Universal Credit, of £1,130 a month. This is his only income. However, his essential spending comes to £1,184, meaning he has a deficit of -£54.

Rent costs eat up a significant part of David's income, taking up 57% of the money he has coming in. For comparison, the ONS define rent as being affordable for someone if it is equivalent to 30% or less of their monthly income.[3]

David had personal debts of just under £20,000 – including credit card and overdraft debt. During the pandemic, he took out a Bounce Back Loan to support the business. With the business having failed, he was no longer able to repay this.

Income: £1,130

Rent	**£675**
Food and housekeeping	**£305**
Utilities	**£54**
Council tax	**£56**
Comms and leisure	**£46**
Personal costs and healthcare	**£48**

Costs: £1,184

David contacted Business Debtline for help finding a way to repay his debts. Having gone through his budget with an adviser, it was clear he did not have disposable income to put towards a Debt Management Plan. Our adviser talked to David about the option of a Debt Relief Order, and also helped him to understand how, and feel confident to, contact his creditors to discuss his situation.

**Name changed to protect identity. Budget figures have been rounded and anonymised.*

Debt situation

The people we help at National Debtline, who have a negative budget, are more likely to have priority debts, such as arrears on household bills, and less likely to have non-priority debt such as credit cards, overdrafts and loans.

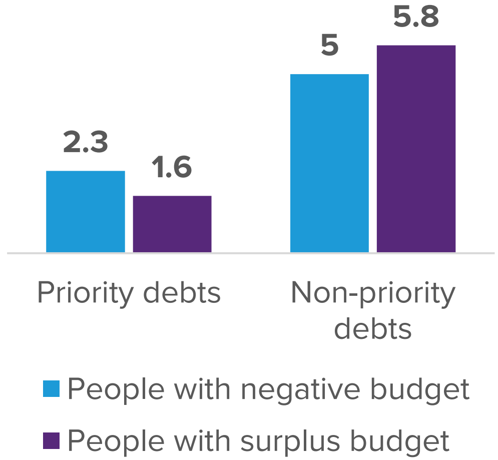
On average, people with a negative budget owe 38% more on priority debts but 36% less on non-priority debts.

This is not particularly surprising. The financial circumstances of people with negative budgets means they are unlikely to be able to access credit and if they can, this would often be for lower amounts. And, because their income doesn't cover their essential expenditure, they are much more likely to be falling behind on household bills and to be seeing these debts grow each month.

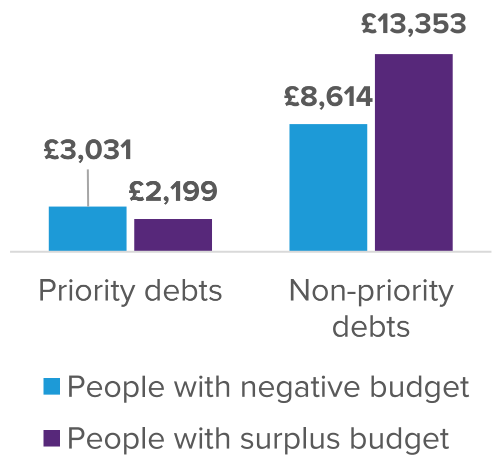
For people with long-term negative budgets, there are often no easy solutions. Debt advice can play a hugely valuable role – for example, looking at how to maximise someone's income is crucial. Reassuring them (especially given the mental health impact of living on a negative budget), helping them access further sources of support, and empowering them to contact their creditors to discuss their situation are all incredibly important, too.

However, negative budgets cannot be 'solved' through debt advice alone – since the causes and drivers of what leaves people living on empty are fundamentally linked to wider public policy issues. It is to there that we must look for solutions if we are to properly help struggling households and reduce the number of people falling into difficulty in future.

Average number of debts National Debtline clients, by budget status



Average amount of debt owed National Debtline clients, by budget status



Helping people afford the essentials

Improving the situation for households at the sharp end of financial difficulty and reducing people's risk of falling into debt should be a crucial priority for the new Government.

Top of this list should be action to ensure that everyone can afford the essentials and that incomes cover the true cost of living for people. The Labour Party's manifesto commitment to review Universal Credit so that it tackles poverty is welcome, although there is limited detail so far.

One option we think the new Government should look at is introducing an **Essentials Guarantee**, proposed by the Joseph Rowntree Foundation and the Trussell Trust, to ensure that Universal Credit provides adequate support for people to afford the essentials.

Research by Citizens Advice found that implementing this would lift 483,000 households - more than 1.1 million people – out of a negative budget.[4]

With housing costs playing a key role in driving negative budgets, we also need to see a specific focus on this area. Local Housing Allowance determines the amount of support with housing costs that private renters receive from either Universal Credit or Housing Benefit. The previous Government's decision to re-link this to the 30th percentile of rents in April 2024 was welcome. However, as it stands, this is a temporary uprating and the LHA rate is set to be frozen again from April 2025, meaning support will once again fail to keep up with rising rents.

Instead, we think the Government should commit to **uprating Local Housing Allowance annually in line with the 30th percentile of rents**, while also examining what wider changes are needed to ensure support through the welfare system accurately reflects the cost of private renting.

More broadly, actions to bring down the costs of housing and improve security for renters is desperately needed, although the detail of this is beyond the scope of this report.

After housing costs, one of the biggest monthly bills households face is often their council tax and it is one of the most common debts we help people with. However, as central government has reduced funding for local Council Tax Support schemes, and councils' budgets have become increasingly stretched, the help available to households through Council Tax Support has become less generous. This has left an increasing number of lower-income households facing council tax bills they simply cannot afford to pay.[5]

As part of the new Government's first Budget in Autumn 2024, we are calling for **increased, ring-fenced funding for local Council Tax Support** in England so that all local authorities can offer 100% support schemes, with a corresponding increase in funding to the Welsh Government for their council tax reduction scheme.

While we recognise the costs associated with these policies, they would have significant benefits by bringing down problem debt, and reducing the wider costs to society that are caused by this.

Supporting people in debt now

Alongside actions to help people afford their essentials, and reduce their risk of falling into debt in the future, we need to support people in financial difficulty now.

Energy debt has risen to record levels as a result of the period of high prices. As of March 2024, more than £3.3 billion was owed, a rise of more than £1 billion in the last year alone.

We are calling on the new Government to work with energy suppliers to introduce a temporary, dedicated Help to Repay scheme.

This would offer repayment matching and limited debt write-off for people struggling to repay energy debt. Our modelling suggests such a scheme could help over 654,000 lower-income households to get out of energy debt and would also have significant benefits for suppliers and wider consumers too, through reduced debt in the market. The scheme could be made part of the new Labour Government's wider Warm Homes Plan, helping people deal with their immediate challenge of repaying their energy debt, while implementing longer-term energy efficiency measures to bring bills down.

More widely, we need to ensure that when debt collection escalates to enforcement – something that commonly happens with council tax debts – people are treated fairly.

Despite some improvements, we unfortunately still see significant poor practice within the enforcement sector, which is currently not subject to independent regulation.

The recent establishment of the Enforcement Conduct Board (ECB)[6] is a welcome step in changing this – bringing independent oversight to the enforcement industry.

However, it is vital that **the Government give the Enforcement Conduct Board statutory powers to enable it to deliver on its mandate to raise standards in the enforcement industry and ensure everyone experiencing enforcement action is treated fairly.**

This could be done at no cost to government (as the ECB is funded by a levy on industry) and would ensure that, when debts are passed to bailiffs, people in debt and creditors can have confidence this process will be done fairly and to high ethical standards and that affordable payments will be arranged.

Finally, in early 2024, the Labour Party committed to introducing a national financial inclusion strategy, if elected.[7] This presents a key opportunity to help people at the sharp end of financial difficulty – including through some of the steps outlined here. We look forward to working with the new Government to make this a reality.

References

1. UK wide survey of 2,000 UK adults. The polling was commissioned by the Money Advice Trust and conducted by Opinium. Fieldwork was undertaken between 18th and 21st June 2024. Where national figures are extrapolated 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 53,646,829 adults aged 18 and over in the UK.

2. Citizens Advice (2024) The National Red Index: How to turn the tide on falling living standards

3. Office for National Statistics (2023) Private rental affordability, England, Wales and Northern Ireland

4. Citizens Advice (2024) The National Red Index: How to turn the tide on falling living standards

5. For more information see Money Advice Trust (2021) Council Tax after Covid

6. See www.enforcementconductboard.org/ for more information.

7. Labour Party (January 2024) Financing Growth: Labour's plan for financial services