StepChange Debt Charity Briefing

Beating problem debt: How the next government can reduce the harm problem debt is causing now and boost households' financial resilience

Over 3 million people are struggling with severe problem debt.

Nearly 10 million more are showing signs of financial distress. Many will see their financial difficulties worsen without better help and support.

In the first six months of 2019, StepChange was contacted by over 330,000 people across the UK for help with their debt problems – that is someone contacting us for debt advice every 48 seconds.

A strong economy and a just society rely on the confidence and financial resilience of UK households. But confidence can't spread to households having to borrow just to pay bills, worrying about spiralling debts or the bailiff's knock on the door.

We believe that the UK can and must be better than this.

We are calling on the next government to commit to reducing the harm problem debt is causing now, as well as working to prevent future debt problems by increasing the financial resilience of households most vulnerable to problem debt.

This should include:

- Introducing an **independent regulator for bailiffs (enforcement agents)**
- Committing to continue the **implementation of a breathing space scheme and statutory debt repayment plans** to help people recover from problem debt
- Creating **binding good practice standards for public sector debt collection** and enforcement
- Committing to **pilot a no-interest loan scheme** in the UK to support those who might otherwise have to turn to high-cost credit or go without essentials
- **Strengthening the hand of the Financial Conduct Authority** with a clear mandate and responsibility to deliver a safe and fair credit market for consumers
- Setting out a **strategy to reduce the number of people using credit for essential household bills**, emergency expenses and essential household goods
- Strengthening the safety net, by **improving the benefits system** and making it more responsive to crisis needs – including ending the five-week wait for Universal Credit

Reducing the harm problem debt is causing now

The pressure of living under problem debt shatters people's health: When we ask our clients how debt affected them, over half said they had been treated by their GP or a hospital for debt related physical or mental health problems.[i]

Problem debt harms children and families: 57% of indebted parents said debt put their current or most recent relationship under strain. 7% said their relationship broke up because of debt. Children in families with problem debt were twice as likely to say they had been bullied at school as children who were not.[ii]

Problem debt damages jobs and productivity: 43% of StepChange Debt Charity clients polled said that debt anxiety left them unable to concentrate at work. 15% say that their debt worries led to changes in attendance such as arriving late or taking more time off and 2% said that it led to them losing their job.[iii]

Debt makes it harder for people to find work or move to better paid work: 61% feel less confident about getting a promotion at work. 48% of those who had fallen out of work were worried about unaffordable debt repayments if they took a new job[iv]

The problems debt create puts a cost on us all: We have estimated that the harm experienced by 3 million people in severe problem debt creates external social costs of over £8 billion.

1. Introduce independent regulation for the bailiff sector

Enforcement by bailiffs (enforcement agents) is highly intrusive and heaps large extra costs onto those struggling with debt. Use of bailiffs is common, particularly among public sector creditors: research from the Money Advice Trust found local authorities alone had referred 2.6 million debts to bailiffs in 2018/19.[v]

Unlike debt collectors who are tightly controlled by the Financial Conduct Authority, the bailiff industry operates free from effective oversight by an independent regulator, even though bailiff enforcement has a greater potential to cause harm to families in debt.

Changes to regulations introduced in 2014 have had only limited success. More than 1 in 3 (39%) people contacted by bailiffs in the last two years – **around 850,000 people in England & Wales** – have seen a bailiff breaking regulations or national standards.[vi]

People visited by bailiffs are **disproportionately likely to be vulnerable**: 40% of people helped by Citizens Advice with bailiff issues have a disability or long-term health condition.

The severity and extent of this failure to protect vulnerable households has led eleven charities and debt advice providers to launch the Tacking Control campaign for independent oversight of the bailiff sector. There is clear cross-party support for the introduction of statutory, independent regulation of bailiffs, as recommended by the Justice Select Committee in April 2019.[vii] The campaign has also led to the Ministry of Justice conducting a review of bailiff regulation,[viii] although this has yet to report on

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final proposals for change. We are concerned that this good progress to date could be lost unless the next government prioritises bailiff reform.

We are calling on the next government to commit to designate a statutory independent regulator of bailiffs and bailiff firms to tackle both individual and systemic bad practice; and to establish a transparent and accessible complaints mechanism for people treated unfairly by enforcement agents that is free and clear to use, ensuring effective remedies for bad behaviour and proper redress. This mirrors the oversight arrangements for debt collection long established in the financial services sector.

2. Follow through on implementing a breathing space scheme and statutory debt repayment plans to help people recover from problem debt

In 2018 legislation[ix] to introduce a debt 'breathing space' scheme and new statutory debt repayment plans passed through Parliament with widespread cross-party support.

'Breathing space' gives people protection from interest, fees, charges and enforcement action from creditors while they seek debt advice. Statutory plans would extend this protection to people while they are repaying their debts in full. Importantly, this protection would cover the majority of someone's debts – including those owed to central and local government.

In June 2019, the government set out the proposed details of the two schemes. However, while regulations have been drafted to bring a breathing space scheme into law, these still need to go through Parliament. Action is also needed to bring in statutory plans – including potential primary legislation.

We must ensure the good progress to date is not lost. There is widespread consensus about the benefits breathing space and statutory debt repayment plans would bring.

We are asking the next government to continue the commitment to implement these schemes; by introducing regulations for a breathing space scheme and legislation for statutory debt repayment plans as soon as possible in the new Parliament.

3. Create binding good practice standards for public sector debt collection and enforcement, and end imprisonment for council tax debt

Debt Advice agencies continue to highlight problems with the debt management practices of government departments and local government.

The National Audit Office has highlighted the need for improvement in public sector debt collection.[x] The House of Commons Treasury Committee found that local authority debts are often pursued over-zealously with routine recourse to bailiffs, and that central government can take an uncompromising approach to debt collection.[xi] The Committee concluded that the public sector should be leading by example in their treatment of the most financially vulnerable; but the current approach risks driving them into further difficulty.

We agree with the Treasury Select Committee that 'by bringing central government and local authority debt collection practices consistently into line with industry best practice, the Government has the power to make a significant difference to the burden of problem debt in a short space of time'.[xii]

Therefore, we urge the next government to bring forward legislation binding public authority debt collection and enforcement practices to fairness standards on affordability, harm reduction and supporting financially vulnerable households to recover from financial difficulties.

The recent report from the Social Market Foundation[xiii] highlighted that England is now the only UK nation that imprisons people for non-payment of council tax. We call on the next government to bring England into line with the rest of the UK by ending imprisonment in respect of council tax arrears.

Preventing the 10 million people experiencing financial distress now from falling into serious problem debt in the future

Millions of people are living precariously, at risk of falling into problem debt. Life events, such as being given reduced hours at work, being made redundant, falling ill or splitting up with a partner can quickly tip people into serious financial difficulty.

We estimate that almost 23 million people in Great Britain experienced a life event like this in their household in the last two years.

Over half of these, 12 million people, were worse off financially and 5.7 million experienced signs of financial distress such as falling behind on essential bills, getting late payment charges, and using credit to keep up with bills or make it through to payday.

Despite the fact that these life events are common, most people don't have the financial resilience to cope with them. With holes in the safety net, many people are having to use coping strategies that simply aren't effective at keeping them out of problem debt. People who had to apply for benefits, borrow money or cut back on expenditure were all more likely to fall further into serious debt problems. People who used credit cards or an overdraft to cope were ten times more likely to be in problem debt than those who got by without them.

This highlights the limited options that many people have to cope with a period of financial distress, and it helps explain why 1.4 million people are using high cost credit for essential household bills.[xiv]

We are calling on the next government to take action to improve the options for people trying to cope with financial distress by:

- **Reducing the harm caused by distressed credit use**
- **Making the benefits safety net more responsive to crisis needs**
- **Increasing help with essential expenditure for the most financially vulnerable**

1. Reducing the harm caused by distressed credit use

While most people will benefit from using consumer credit at some point in their lives, credit products can be a cause of serious harm where they compound financial difficulty and trap people in a spiral of rising debt and hardship. We know that the Financial Conduct Authority has made some good progress in addressing some longstanding problems in consumer credit markets; but a good deal of detriment remains through irresponsible lending, excessive charges and exploitative product design.

We are calling on the next government to strengthen the hand of the Financial Conduct Authority with a clear mandate and responsibility to deliver a safe and fair credit market for consumers. This mandate should include:

- **Introducing a legal duty of care for financial services firms** to ensure they do not profit from consumer vulnerabilities, behavioural biases and constrained choices.
- A stronger and clearer requirement on firms to deliver **early identification and support for people showing signs of financial distress** to prevent this developing into more harmful problem debt.
- **Extending the principle that no one should pay interest and charges that are over 100% of the amount borrowed to all forms of consumer credit.** Parliament acted decisively in 2014 to cap the cost of payday loans and the Financial Conduct Authority recently introduced a 100% cost cap for rent-to own-agreements on the grounds that the prices firms charge for servicing a vulnerable consumer base can cause harm simply because they are too high'. We agree – this principle should now be extended to all forms of consumer credit.

Addressing harmful practice in credit markets is only half the story. Households managing on a tight budget will continue to need help with large, or unexpected costs – such as replacing a fridge, repairing a car or buying new school uniforms. We still see too many people having to use high-cost credit to cover these essential costs, putting more pressure on household budgets and increasing vulnerability to problem debt.

People need affordable alternatives to harmful, high-cost credit. A no-interest loan scheme, based on the successful Good Shepherd model from Australia, would support people who are currently excluded from being able to access reasonably priced credit, for example from mainstream lenders, credit unions or community development finance institutions (CDFIs). In 2019, the government commissioned London Economics to deliver a feasibility study on a UK no-interest loan scheme, setting out how this could work. We now need the scheme to proceed urgently to a pilot, with a commitment to roll-out nationwide if proved successful.

We are calling on the next government to set out a strategy to reduce the number of people using credit for essential household bills, emergency expenses and essential household goods.

This should include a commitment to pilot a no-interest loan scheme in the UK to support those who might otherwise have to turn to high-cost credit or go without essentials.

2. Making the benefits safety net more responsive to crisis needs

The next government should strengthen the social safety net to help people manage life events without experiencing poverty and destitution

The social security system is failing to provide an adequate safety net and support people to manage life events and transitions without experiencing poverty and destitution. These issues stem from inadequate levels of support, particularly as housing and childcare costs have increased in recent years. Key design features of Universal Credit are also contributing to financial problems and debt.

To strengthen the social safety net, the government should:

- **End the 'benefits freeze'** and **bring support in line with living costs** and **re-align Local Housing Allowance rates** with at least the bottom 30% of market rents.
- **End the two-child limit -** families with more than two children are overrepresented among StepChange clients.
- **End the five-week wait for Universal Credit** for all new claims and for those moving to Universal Credit from legacy payments.
- **Ensure that deductions from social security payments to repay debt are affordable** by applying industry standard affordability assessments.
- **Extend access to, and the flexibility of, Universal Credit budgeting advances** by widening eligibility criteria, allowing more than one loan at a time and extending the repayment period up to 24 months.
- **Re-invest in comprehensive crisis support in England** to prevent hardship and destitution, providing ring-fenced funding allocations to local authorities supported by statutory guidance to help councils implement best-practice and ensure a consistent level of support.

3. Increasing help with essential expenditure for the most financially vulnerable

StepChange is seeing more people without the means to meet everyday expenses. 30% of our clients have a negative budget (meaning they do not have enough money coming in to cover essential expenditure) even after receiving budgeting advice from us.[xv] Two in five clients are behind on one or more households bills like council tax, energy or rent.[xvi] These problems are far more pronounced among our clients with poor mental health and physical health conditions.

We are calling on the next government to address the basic living costs crisis that pushes the most financially vulnerable households into problem debt. This includes:

i) A commitment to introduce energy social tariffs, to help people who cannot afford their gas and electricity bills.

Despite the introduction of the energy price cap, we have seen an increase in the proportion of StepChange clients who are behind on their energy bills. In the first half of 2019, 18% of new StepChange clients with responsibility for paying an electricity bill were in arrears when they came to us for help (compared to 13% in 2016). Meanwhile, 13% of new clients with responsibility for paying a gas bill had fallen behind (compared to 12% in 2016).[xvii]

Research by Ofgem has also found that hundreds of thousands of people have temporarily disconnected from their energy supply or have rationed their energy use, often due to affordability concerns.[xviii] Furthermore, the Department for Business, Energy and Industrial Strategy found that many fuel-poor households were significantly under-using energy compared to what a household of their size should. This can leave people living in cold homes and have an ongoing effect on their physical and mental health.

ii) Reintroducing full council tax support for the most financially vulnerable households.

In the first half of 2019, almost a third (31%) of StepChange clients with a liability for council tax had council tax arrears.[xix] Half of those with council tax arrears has a negative budget – their expenditure was higher than their income even after budgeting advice. The current system of council tax support can leave the most financially vulnerable households with a council tax liability they cannot possibly pay.

4. A long-term strategy to improve the financial resilience of households and reduce vulnerability to debt

Since July 2017, just after the last general election, to June 2019 around 1.25 million people have contacted StepChange for debt advice - 2.5% of the UK adult population.

Debt doesn't affect all of society equally – some groups are heavily over-represented among those seeking help from us. Our *Life Happens* report found that working age people, parents, lower and middle income households and renters were all at higher risk of problem debt following a life event. StepChange clients are disproportionately single parents, adults under 40, renters (and increasingly in the private rented sector) and people with disabilities or mental health problems.

The scale of ongoing demand for debt advice and the circumstances of people contacting us signals that problem debt is being driven by a set of underlying vulnerabilities to household financial resilience. We will not be successful at preventing millions more households from experiencing harm and hardship from problem debt unless policy makers get firmly focused on the underlying causes.

We are calling on the next government to develop a strategy over the life of the next parliament to develop effective policy responses to address the underlying causes of problem debt.

This won't be easy, but there is a way in by focusing on the groups of people most heavily over-represented among our clients.

We therefore urge the next government to set out a cross government action plan to improve the financial resilience of single parents, adults under 40, renters (particularly those in the private rented sector) and people with physical and mental health problems.

For more information on any of the issues set out in this briefing, please contact grace.brownfield@stepchange.org, 0207 391 4581.

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[i] StepChange Debt Charity (2015) Statistics yearbook personal debt 2014
[ii] The Children's Society and StepChange Debt Charity (2014) The Debt Trap: Exposing the impact of problem debt on children
[iii] StepChange Debt Charity (2015): Safe Harbours: Why we need a new extended breathing space guarantee to help people in temporary financial difficulties recover from debt
[iv] StepChange Debt Charity (2015): Held back by debt: How Britain's lack of financial resilience is tipping people into a debt trap
[v] Money Advice Trust, Stop the Knock, September 2019
[vi] For more information, see the Taking Control consultation response to Ministry of Justice Call for Evidence on bailiff reform.
[vii] House of Commons Justice Committee, *Bailiffs: Enforcement of debt,* April 2019.
[viii] Review of enforcement agent (bailiff) reforms: Call for Evidence, Available: https://www.gov.uk/government/consultations/review-of-enforcement-agent-bailiff-reforms-call-for-evidence
[ix] The Financial Guidance and Claims Act 2018
[x] National Audit Office (2018) *Tackling problem debt*
[xi] House of Commons Treasury Committee, *Household finances: income, saving and debt,* July 2018.
[xii] Ibid
[xiii] Social Market Foundation (2019) Unfair, ineffective and unjustifiable: the case for ending imprisonment for Council Tax arrears in England.
[xiv] StepChange Debt Charity (2018) *Behind on the Basics: A closer look at households in arrears on their essential bills*
[xv] StepChange Debt Charity (2019) *Personal Debt in the UK: 2019 Statistics Mid-Year Update*
[xvi] Ibid
[xvii] Ibid
[xviii] For more information, see: https://www.ofgem.gov.uk/system/files/docs/2019/08/proposals_to_improve_consumer_outcomes_self-disconnection_and_self-rationing_1.pdf
[xix] Ibid