

StepChange note to the Welsh Parliament Equality and Social Justice Committee: Follow-up work on debt and the cost of living.

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Introduction

StepChange Debt Charity provides information, advice, support and debt solutions to people in Wales and across the UK.

Our client statistics for 2022 are being prepared, but in 2021 our website received 5.9 million visits; we were contacted by nearly half a million new clients seeking debt advice or guidance with their problem debt; and 171,000 new clients completed full debt advice. 5% of people receiving debt advice from StepChange in 2021 were resident in Wales (around 8,600 clients).

At the start of 2022, as domestic energy and general living costs were about to rise sharply, debt advice demand was already high, although not at pre-pandemic levels.

Our data tracking through 2022 gives an indication of how the rising cost of living has affected debt advice demand and the financial pressures that households are facing. In summary:

- Demand for StepChange's debt advice service has risen steadily through 2022, but we have not yet seen a sharp spike in demand (such as we saw following the 2008-09 recession with a lag).
- Over 2022 the proportion of people saying that the cost-of-living was the main reason for their debt problem has spiked markedly.
- The proportion of clients struggling with energy and some other household bills has grown significantly.
- We are seeing more people with deficit budgets even after debt advice, suggesting they will continue to struggle to make ends meet.
- However, we are also seeing more people in full time employment seeking debt advice, so people on higher incomes are being drawn into problem debt by cost-of-living increases.
- Policy initiatives to help households have been vital and will continue to be needed in 2023.

StepChange client data summary:

- Experiencing an 'increase in the cost of living' has been the most common reason for debt among StepChange clients each month since June 2022. The proportion of clients citing this has increased from 9% in January 2022 to 21% in November 2022. The proportion of clients resident in Wales giving the cost of living as the main reason for their debt problems is about the same as for UK clients.
- The proportion of clients with energy arrears has been increasing across 2022. As of November, around one third (32%) of all new clients were behind on their gas, electricity, or dual fuel bills, up from 29% in January 2022. The proportion of clients resident in Wales reporting domestic energy debt was about the same as for StepChange clients as a whole.
- The proportion of clients with energy debts has grown sharply over the past decade. In 2012, 11.5% of clients had electricity arrears and 11% gas arrears. This compares to 17% and 13% in 2021 and 27% and 24% in November 2022. The 2022 increases in domestic energy and

general living costs has produced a spike in domestic energy debt among Stepchange clients, but this builds on a longer trend of a growing number of people seeking help with payment difficulties on essential household bills.

- The proportion of clients with a deficit budget at the time of advice has increased over the course of the year from 29% in January to 33% in November 2022. This is important, as our research shows people with deficit budgets even after debt advice are more likely to continue falling behind on bills and use credit to pay for essentials or unexpected costs. People with deficit budgets report much lower wellbeing scores than the general population and other debt advice clients.
- Around 4 in 10 clients resident in Wales were in full time employment. This is about the same as for all Stepchange clients, where the proportion in full time employment has increased from 36% in 2020.

Who is seeking debt advice because of the increased cost of living

StepChange clients are disproportionately:

- Women (63% of Wales clients and all clients),
- Single parents (27% of Wales clients and 24% of all clients, compared to 6% of UK households)
- Single adult households (38% of Wales and 42% of all StepChange clients)
- Couples without children (22% Wales clients and 20% all StepChange clients) are **underrepresented** compared to the 35% proportion of the UK population in 2021.
- Renters – 31% of Wales clients are social tenants and 33% in the private rented sector.
- Aged between 25-59. Between January and November 2022, four in five (81%) Wales StepChange clients and all StepChange clients were aged between 25 and 59, compared to 58% of the UK adult population.
- Over half of StepChange clients reported additional vulnerabilities (such as mental or physical health problems or disability).

Some of these groups of StepChange clients were also more likely to say the increased cost of living was the main reason for their debt problem:

- 70% of women debt advised by StepChange and resident in Wales gave cost of living increases as the main reason for their debt problem
- As did 37% of social tenants and 35% private tenants.
- 41% of Wales clients in full time work
- 32% of Wales clients who were single parents.
- 26% of couples with children gave the cost of living as the reason for their debt problem compared to the 22% of all Wales clients who were couples with children.
- Wales clients giving the cost of living as the main reason for their debt problem was less likely to have credit debts than all StepChange clients resident in Wales. For instance 59% has one or more credit card debts compared to all StepChange client's resident in Wales.

- Wales clients giving the cost of living as the main cause of their debt problems were more likely to have electricity and gas bill arrears than all Wales clients, but less likely to have other priority debts like council tax or rent arrears. This suggests that the high energy costs are having a specific effect on household financial vulnerability suggesting the importance of targeted support. However, the high level of other priority debts among Wales clients, such as council tax (39% of all Wales clients), rent (20% of all Wales clients) points to a more general financial vulnerability separate from energy costs.

Feedback from StepChange front line advisers

StepChange advisers gave us a summary of some of the high-level issues and concerns they are hearing from debt advice clients they talk to:

- Stepchange advisers told us fuel and food are the biggest client concerns but council tax is not far behind. They felt more mortgage clients are now starting to struggle, particularly those on variable rates (though we are not yet seeing a significant increase in the number of homeowners with mortgages seeking debt advice from StepChange).
- Advisers said they are seeing an increase concerns from people who have never experienced financial difficulty before, including more full-time employed, and two-income families.
- Advisers said that the package of deficit budget advice we offer clients do not always help clients who have already had this advice elsewhere, but the options to improve incomes or reduce essential expenditure were not enough to address the deficit budget. While access to free high quality debt advice is necessary to support people in financial difficulty, it may not be sufficient to help the most financially vulnerable households to make ends meet without additional policy support from government.
- Clients are saying that seeking support from friends and family is harder than ever before because friends and family are all struggling too.
- Our advisers' feedback that the frequency and severity of client vulnerability is increasing. Several advisers highlighted talking to suicidal clients with one StepChange colleague talking to three clients with suicidal thoughts in one day. Advisers highlight talking to clients experiencing severe levels of stress and anxiety around the level and speed at which debts are appearing or increasing.
- The complexity of the client needs advisers are dealing with and the heightened vulnerability of people seeking debt advice now is illustrated by what advisers described as a vicious circle of mental health and debt advice needs. Advisers highlighted working with clients who had been referred from specialist mental health support organisations to us for help with debts. But some of these clients were too distressed to receive advice at that time, to the extent advisers needed to consider a referral out to a mental health support organisation. Breaking the entrenched link between poor mental health and problem debt will require broader public policy intervention.

General trends in financial vulnerability

StepChange commissioned general population polling in September 2022, which revealed 45% of all British adults – equivalent to 23 million people – were finding it difficult to keep up with household bills and credit commitments in the last few months, up from 30% in October 2021¹. Fresh polling conducted in January 2023 found that this figure remained at 43% for all UK adults. However 50% of respondents from Wales said they were finding it difficult to keep up with household bills and credit commitments. This was higher than the proportion of respondents in England (42%), Scotland (48%) and Northern Ireland (49%).

48% of respondents in Wales said they felt less financially secure than at the same time last year, which compared to England (47%), Scotland (46%), Northern Ireland (49%) and all UK respondents (47%)².

Direction of travel on policy support for financially vulnerable households.

Our current data does not allow us to evaluate the specific impact of policy initiatives by the Welsh Government or UK Government to support households with increased energy and other living costs. However, we can make the following observations:

- **Support for households matters:** Although we are seeing an increase in people seeking debt advice with energy debts and deficit budgets, without support the situation for households would undoubtedly have been worse. While we are seeing an increase in demand for our debt advice service, we are not seeing the sort of spike in demand associated with board shocks to household finances like we saw in the 2008-09 recession.
- **Targeting support for highly financially vulnerable households matters:** The specific debt-impact of the cost-of-living increase is being disproportionately experienced by some groups among debt advice clients. Equally our clients with deficit budgets after advice will continue to struggle to make ends meet and keep up with essential bills and are at risk of acute hardship without ongoing support with essential living costs.
- **A wider number of households are at risk of financial difficulty:** Our client data and UK population polling suggests a wider number of households are at risk of serious financial difficulties. StepChange research from January 2022 found over 4 million households experiencing financial difficulty using consumer credit borrowing to keep up with household bills and credit commitments. People using credit in this way were five times more likely to experience a negative impact of using credit on their health, relationships or ability to work than other credit users. Two-thirds (65%) of those using credit as a safety net had kept up with credit repayments by recently missing housing or utility bills, using more credit or cutting

¹ StepChange Debt Charity (September 2022) <https://www.stepchange.org/media-centre/press-releases/making-ends-meet.aspx>

² Figures are from polling by YouGov Plc commissioned by StepChange Debt Charity. Total sample size was 1,784 adults. Fieldwork was undertaken between 10th - 11th January 2023. The survey was carried out online. The figures have been weighted and are representative of all UK adults (aged 18+).

back to the point of hardship. This compares to one in ten (12%) among others who hold credit products. So there is a real danger that people who are dealing with cost-of-living pressures now by using credit will experience severe debt problems in the future and are experiencing other forms of harm and hardship now.

Following on from this we would ask the Equality and Social Justice Committee to consider:

- The ongoing need for additional support with energy bills for the most financially and otherwise vulnerable households.
- The ongoing need for support from discretionary assistance schemes is both for financially vulnerable households and adequate to ensure basic needs are met and hardship avoided.
- Forbearance and understanding from public sector creditors will be important, particularly in respect of debts like council tax where enforcement can be intrusive, costly and can make debt problems worse.
- Work to scale up alternatives to high-cost commercial credit will be needed to prevent more households turning to the harmful 'credit safety net'.