Near the cliff-edge: how to protect households facing debt during COVID-19

Summary

People in the UK are already experiencing the financial impact of Covid-19. An estimated 6 million people have fallen behind on a household bill due to Coronavirus and the policy response to limit its impact. Concerningly, 4 million have fallen behind on rent, council tax or a telecoms bill where they have little protection from aggressive debt collection when temporary protections on enforcement come to an end.

Policy change is needed now to prevent a financial cliff-edge, help people out of debt, and support the economic recovery.

Financial problems are linked closely to vulnerability to the virus and changes at work
Financial problems are widespread and people are falling behind on bills in every sector but they are more common for some people. People with a health condition that means they are in the 'shielded' group are 4 times as likely to have fallen behind on a bill compared to those who aren't at increased risk from the virus, for instance.

Financial problems are also closely related to the way people work.

- 43% of people on zero hours contracts have fallen behind on a bill due to coronavirus compared to 16% of everyone in work.
- The 37% of people who have seen their income fall are nearly 9 times as likely to have fallen behind on a bill compared to those who haven't (25% v 3%)

People face a cliff edge when support comes to an end
The government, regulators, and firms have acted rapidly to protect people from the financial impact of coronavirus by pausing large parts of the economy. Across the housing sector, local authorities and essential services, short-term protections - pauses on enforcement, eviction, or repayment holidays- are in place to help prevent the most severe impact of debt.

Those protections aren't working perfectly, but are working well. However, more needs to be done to provide protection from enforcement in the medium term and to help people repay debts built up due to coronavirus in a sustainable way.

Stop the cliff-edge, help people out of debt, and support the economic recovery

Policy makers need to take action to stop people being penalised for unavoidable debts. There is also a real risk that the mountain of personal debt built up during the lockdown could prove a drag on demand and slow down economic recovery. 4 specific changes would help:

- In the private rented sector, the government should accelerate its policy to scrap section 21 'no-fault' evictions. It should also temporarily revise ground 8 section 8 - another eviction mechanism, which is mandatory for rent arrears - of the Housing Act 1988 for 6-12 months to make it discretionary so renters can't lose their homes due to Coronavirus.
- MHCLG should instruct all councils to pause enforcement of council tax bills missed during the crisis for 6-12 months and offer a 3 month payment holiday to people in financial difficulty. Local authorities may need to access emergency funding to cover any lost council tax revenue as a result.
- Ofcom should issue new guidance to instruct providers not to disconnect anyone or take enforcement action for debts built up due to Coronavirus for 6-12 months.
- New mechanisms for agreeing affordable ways to repay debts need to be put in place, or improved, across sectors.

Medium term protections from enforcement and recovery and a sustainable way to repay debts built up due to Coronavirus will help individuals and the economy. For individuals, it will help prevent the most severe impacts of debt - such as being evicted - and the long-term damage debt can do to people's life chances. For the economy, sustainable repayment plans will give people confidence, spread the cost of the lockdown, and help the recovery.

The financial impact of coronavirus is overwhelmingly concentrated on people who have health risks, on young people, and on people in insecure work. To support those groups out of debt, further measures are likely to be needed to help individuals who aren't able to repay their debts and ensure the cost of missed payments is distributed fairly between consumers, providers, and the taxpayer.

1. The Coronavirus pandemic has had a dramatic impact on household finances

Coronavirus and the policy response has radically changed the way people live. In the UK, over half of adults are self-isolating and nearly 2 in 5 are in the 'at increased risk' or 'severely vulnerable' groups.[1] A third (32%) of working adults in the UK say the lockdown has significantly changed the way they work or they expect it to.[2]

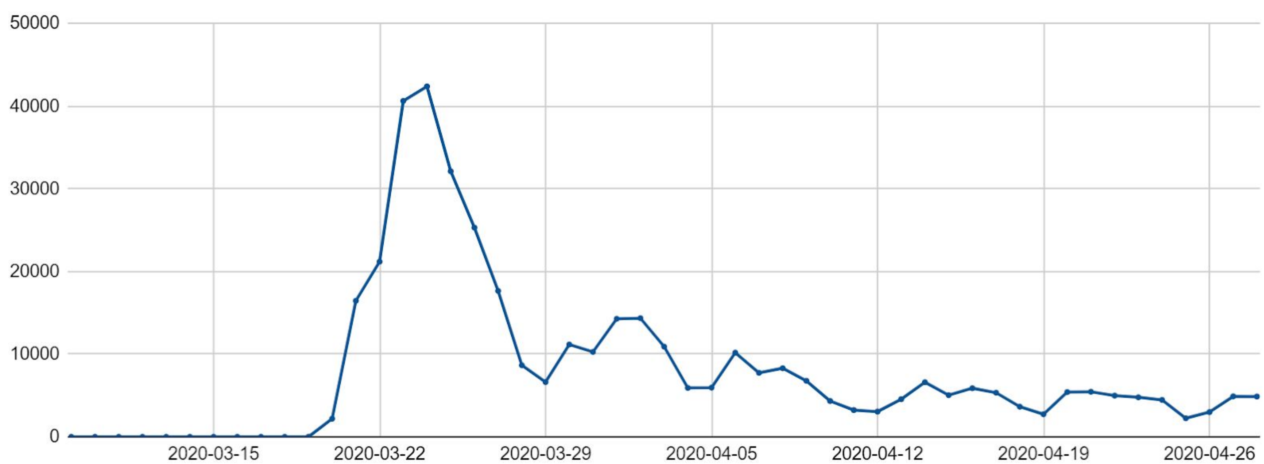
The government has responded by introducing a number of schemes to protect incomes, reduce expenditure, and help people who are struggling to pay their bills. It has introduced:

- The Coronavirus Job Retention Scheme and Self Employed Income Support Scheme to protect people's incomes from work.
- Repayment holidays for people struggling to repay their mortgage, personal loan, and other credit products.
- A pause on housing possession and face to face enforcement of debts by bailiffs. As well as measures in the energy, telecoms, and water sectors to limit recovery and enforcement of debt.

Despite those interventions, many households are struggling to make ends meet. For instance, 30% of adults say their household income has fallen by 20% or more due to Coronavirus. Those reductions could be for any number of reasons - being made redundant, being furloughed by an employer or having hours reduced for instance.

At Citizens Advice we have seen the impact on people's ability to make ends meet directly.

Figure 1: Daily page views of 'if you can't pay your bills because of coronavirus'



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[1] This uses the government definition of 'increased risk' and 'extremely vulnerable'

[2] That doesn't include people working from home. All the data in this report is either Citizens Advice administrative data or based on a survey of 2,016 adults carried out by Opinium between 2-7 April.

In April 2020, our webpage 'If you can't pay your bills because of coronavirus' received 120,000 unique page views. It is currently the 4th most visited advice page on the Citizens Advice website. For the individuals affected, those challenges are often directly related to the mandated pause of large parts of the economy. Sam's case is illustrative.

Sam is a bus driver. His wife works for the NHS, and they have a 4 year old daughter. Sam has about £35,000 worth of debt on credit cards, hire purchase loans for a car and a sofa, and a personal loan. He's up to date with his rent and council tax. He has been working overtime (up to 70 hours per week) to repay his debts, and has been managing to pay back around £700 a month as a result. However, since lockdown began he has been placed on contractual hours so can no longer do this. Sam thinks it is likely his hours will be further reduced, and his company has told him there may be redundancies in the pipeline after lockdown restrictions are removed. Sam is worried about how he will stay on top of these debts.

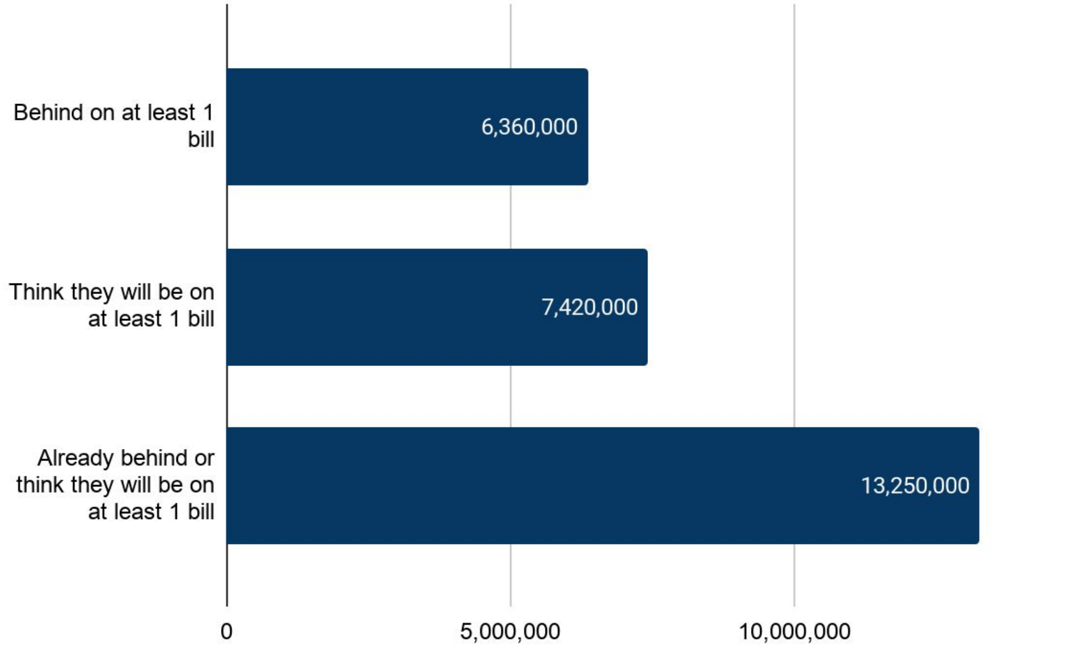
i. Millions of people have fallen behind on bills

This surge of demand for help from people concerned about paying their household bills is reflective of the problems experienced by the wider population. In normal circumstances, a relatively small proportion of households in the UK are behind on bills. Between 2016 and 2018, 1% of households said they were in arrears on a household bill.[3] At Citizens Advice we know that the majority of those people get into difficulty because of changes in their lives - 9 in 10 of the people we help with debts have had a recent change of circumstances such as ill health or relationship breakdown.

Coronavirus has meant that tens of millions of people have gone through a major change to their lives at the same time. The effect on people's financial situations has been dramatic. 12% of people say they are behind on their rent, a household bill, or a credit payment. That is equivalent to more than 6 million people behind on paying essential household bills as a result of coronavirus. A further 13% expect to fall behind on a bill.[4]

[3] ONS, Wealth and Assets Survey Wave 6, 2019 - while that is likely to undercount, it gives a sense of the normal level of reporting of household bill arrears.
[4] The estimated number of people behind on bills is based on an estimated adult population of 53 million

Figure 2: Millions of people are falling behind on bills due to coronavirus



Source: Citizens Advice analysis of an Opinium survey carried out between 2-7 April.

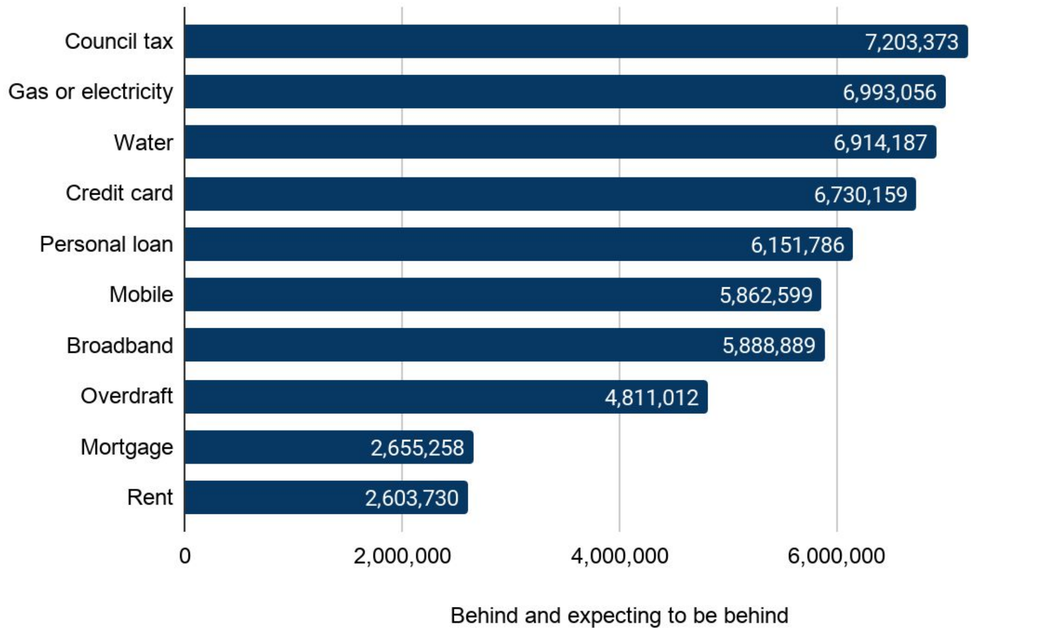
For some people, those problems are more severe. 5%, or around 2.5 million people, say they are behind on 3 or more of their household bills as a result of Coronavirus.

ii. There are problems in every sector

The problems people are facing span every household bill. Looking across all sectors, the most common bills people have fallen behind on, or expect to fall behind on, are council tax, gas or electricity, and water bills. These are the most widely paid bills and it highlights the breadth of the challenge people are facing to stay on top of their finances.

Falling behind with those bills doesn't present households with equal challenges. For instance, in the financial services sector people are normally able to access forbearance when they can't pay their debts. The situation for renters is worse. While there is a temporary pause on possession claims, people who fall behind on their rent have little support to repay their debts.

Figure 3: Total people behind and expecting to fall behind on essential bills by sector



Source: Citizens Advice analysis of an Opinium survey carried out between 2-7 April.

These figures are corroborated by data published elsewhere. 1.6 million payment holidays have been provided to mortgage payers struggling to make payments[5], and local authorities are reporting high levels of lost revenue due to falling council tax receipts.[6]

iii. People who are vulnerable to coronavirus, young people, and people in insecure work are most severely affected

Coronavirus and social distancing measures have had an impact on everyone's finances with many in previously secure jobs facing significant falls in their income and resulting financial challenges. However, the financial impact has been most severe on certain groups.

a. The people with the greatest health risk due to coronavirus

People who have an 'increased risk' from coronavirus or are 'extremely vulnerable' are three times as likely as people not in those groups to have fallen behind on a bill or credit commitment due to coronavirus.[7] Breaking that down, nearly 30% of the 'extremely vulnerable' group, and around 17% of the 'at risk' group' say they have fallen behind on a bill due to coronavirus compared to 7% of people in neither of those groups.

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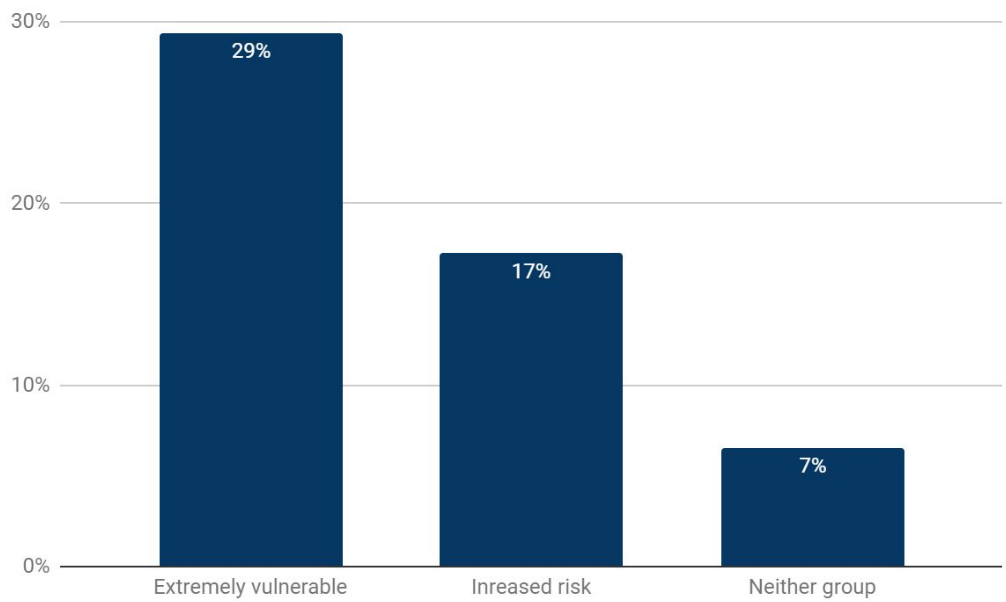
[5] UK Finance, 28 April
[6] Local Government Chronicle, 22 April
[7] This uses the government definition of 'increased risk' and 'extremely vulnerable'

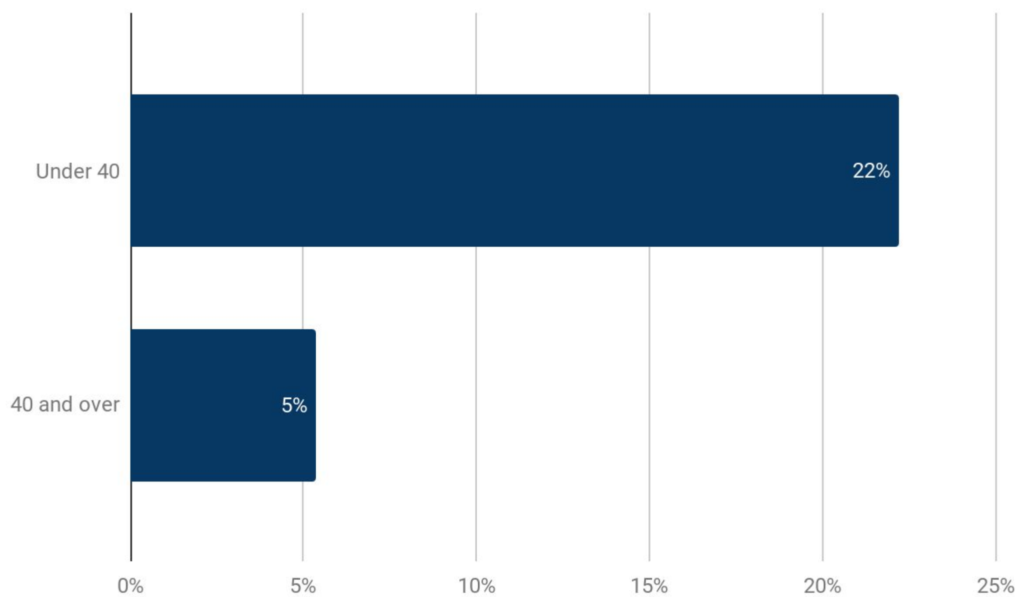
Figure 4: Proportion of people who have fallen behind on a bill dye to coronavirus by health risk status



b. Young people

People under 40 are more than 4 times as likely to have fallen behind on a bill due to Coronavirus compared to those 40 or over.

Figure 5: Proportion of people who have fallen behind on a bill due to Coronavirus by age range

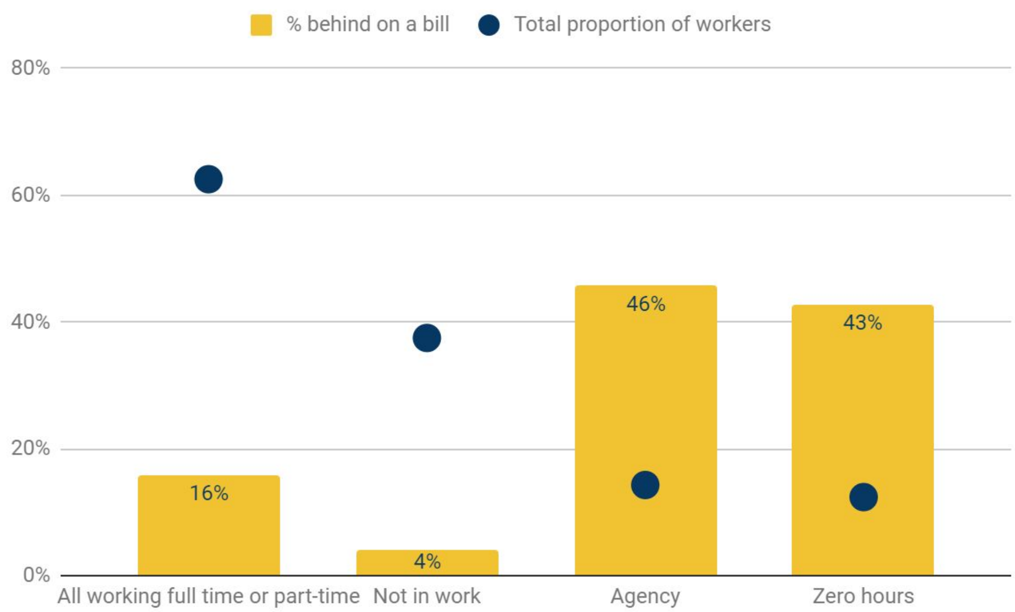


Source: Citizens Advice analysis of an Opinium survey carried out between 2-7 April.

c. People in insecure work

People employed by an agency or on zero hours contracts are around 3 times as likely to have fallen behind on a bill due to coronavirus. While 16% of everyone in work has fallen behind on a bill due to coronavirus, 46% of people employed by an agency and 43% of people on zero hours contracts have.

Figure 6: Proportion of workers behind on a bill due to coronavirus by type of work



Source: Citizens Advice analysis of an Opinium survey carried out between 2-7 April.

d. People who have seen their income fall

Another group who are more likely to have fallen behind on bills due to coronavirus are people whose income has dropped. Around 2 in 5 (37%) of UK adults say their income has dropped as a result of coronavirus. That group is nearly 9 times more likely to have fallen behind on a bill compared to those with no income fall. 25% of people with an income drop have fallen behind on a call compared to just 3% of those who haven't.

For many people, those factors overlap and interact with a wider lack of financial resilience. Younger people, for instance, are more likely to be in insecure jobs. People in insecure jobs are also less likely to have savings and are more likely to have experienced a significant change in the way they work due to coronavirus.

2. People face a cliff-edge when support comes to an end

i. Short term protections are working for most people

In most essential service sectors, government, regulators, and firms have taken rapid action to protect people from the immediate impacts of falling behind on their bills during the crisis. As shown by Table 1 below, people struggling to pay their mortgage, rent, and other bills are currently protected from the worst impacts of debt such as eviction, bailiff enforcement, or having an essential service cut off. In all sectors there has either been a formal pause on enforcement or enforcement is impossible due to court restrictions.

People are still facing problems when they fall behind on bills and Citizens Advice is continuing to monitor those problems and highlight any issues with policy makers. At the same time, the benefit of protections for the many people struggling financially are clear.

For instance, the pause on face-to-face bailiff enforcement has resulted in a huge decrease in the number of people seeking help with bailiff related issues. In the first week of March, the webpage 'Stopping bailiffs at your door' was the most viewed debt and money page on the Citizens Advice website, with 3,900 unique page views. In the week commencing 21st April, it was the 13th most viewed debt and money page, with 700 unique page views.

ii. People are at risk when temporary protections come to an end

The table also highlights that when those short-term protections come to an end, people who have been pushed into financial difficulty due to coronavirus face a potential cliff edge. There are two main limits to protections already in place. First, there is a lack of medium term protection from enforcement of debts built up due to coronavirus which means when temporary protections from enforcement come to an end large numbers of people will be at risk of eviction, enforcement, or disconnection. Second, in the longer term, many sectors lack a framework for helping people out of debt in a sustainable way.

The table below summarises the protections in place for people falling behind on bills in each market. The protections are colour coded based on their strength.

- In the short-term - sectors are **green** where there is a pause on enforcement and **amber** where there are indirect measures which stop enforcement.
- In the medium term - sectors are **green** where people can access mandated payment holidays or there are longer-term protections for debt related to coronavirus. **Amber** where there are new voluntary protections for Coronavirus debts. And **red** where there are no specific protections for debts built up due to coronavirus.
- In the longer-term - sectors are **green** where there are rules setting out how to arrange repayments, **amber** where there is guidance or rules on having codes of practice, and **red** where there are no formal rules about debt repayment.

Table 1: Protection from debt problems in different sectors

	Short-term protection from enforcement and recovery	Medium-term protection from enforcement and recovery	Long-term help to repay arrears
Private renters	Possession proceedings suspended for 90 days from 27 March.	Pre-action protocol in social housing to be extended to the private rented sector.	Landlords can take their own approach to agreeing repayments.
Mortgage payers	Ban on possession action for 3 months from 20 March	3 month payment holiday available to customers in difficulty from 20 March.	Missed mortgage payments can be repaid in a number of ways.
Energy customers	Voluntary commitments mean there is a pause on disconnections for debt and the impact of covid-19 must be considered when moving customers to prepay to collect debt.	Ofgem rules require disconnections for debt to be proportionate and put a cap on warrant costs for prepay meters. Voluntary commitments during covid-19 include consideration of pausing debt repayment and payment freezes.	Ofgem rules require debt repayment plans to be offered based on ability to pay. Non-enforceable guidance sets out the steps companies should take to achieve this.
Water	Stopping new court applications and enforcement visits which is ongoing.	Ofwat expects consumers to be offered payment holidays/ payment matching depending on circumstances and water customers cannot be disconnected for debt.	Ofwat and water companies have codes of practice dealing with repayment
Mobile, broadband and landline	Voluntary commitments from all major telecoms providers to remove data caps, offer new packages, and work with customers in financial difficulty.	Measures to collect payment or disconnect consumers must be 'proportionate and not unduly discriminatory'.	Ofcom's proposed guidance for 'treating vulnerable consumers fairly' encourages providers to 'Discuss and agree a reasonable payment. This guidance is not yet in place, however.
Council tax	Magistrate Courts are not currently hearing liability order cases and the government has paused face-to-face bailiff enforcement as long as people are not permitted to leave their home.	The hardship fund aims to reduce the bills of all those claiming council tax support by £150. Some councils are offering a 3 month pause on payments.	Local authorities have their own approaches to affordability.
Consumer credit	Existing forbearance rules mean that customers who get into debt should be treated fairly.	FCA mandated 3 month payment holidays for credit products and £500 interest free overdrafts.	FCA rules set out approaches to affordable repayments.

iii. Renters, council tax payers, and telecoms consumers face a cliff-edge

Across all sectors, policy makers need to continue to review whether the right measures are in place to protect people from the worst financial impacts of coronavirus. However, in three sectors, the cliff-edge facing people when temporary protections come to an end is particularly stark. Across those three sectors, nearly 4 million who have fallen behind on a bill - and a further 6 million who expect to - people are at risk of disconnection, eviction, or enforcement when temporary protections come to an end because they are behind on one or more of those three bills.

a. Private renters

In the private rented sector, that cliff edge has a clear date. On the 25 June more than 2.6 million renters are behind or expect to fall behind on their rent due to coronavirus will have no protection from eviction and enforcement. That would present a huge challenge to the housing sector and put large numbers of people at risk of homelessness.

b. Council tax payers

For council tax payers, the cliff edge is less severe but more uncertain. Council tax payers who have fallen behind on their bills due to coronavirus are currently protected from enforcement action by a pause on new liability orders in the Magistrates Court and a pause on face-to-face bailiff enforcement, or in some areas by local policy. Enforcement of existing debts is ongoing and enforcement of new debts could resume at any time. When Magistrates resume making liability orders and movement is no longer restricted that enforcement can resume, including for debts built up due to coronavirus.

c. Telecoms consumers

For telecoms consumers, the situation is similar. Currently there is some protection for people who fall behind on bills from a voluntary agreement between the regulator and firms. However, the commitments are high level, and leave scope for telecoms providers to implement them in different ways. This means the type protection customers receive will vary from provider to provider. It is also not clear what happens when the original term of this agreement (not publicly available at this time) comes to an end.

Outside of those sectors, regulators must be vigilant about company practices. In the energy sector, disconnection for debt must be ‘proportional’ and instances have fallen to nearly zero in recent years. Ofgem must ensure that this practice does not increase in response to growing debt built up as a result of coronavirus. Many more customers repay debts through pre-payment meters, which can be fitted under warrant. The warrant cost that can be charged to customers is capped, with additional protections from forced installations for vulnerable groups. These rules are due to lapse in December 2020 and must be extended.

3. Policy makers need to prevent a cliff-edge of financial support

As the government seeks to gradually transition the economy out of the lockdown, it will need to ensure that personal debts built up during the crisis don't lead to long-term problems. The existing mechanisms for collecting and enforcing debts across a range of sectors aren't designed to help people get out of debt in a sustainable way.

Two areas of policy change are needed - ongoing protections from enforcement for debts built up due to coronavirus and sustainable mechanisms for people to repay those debts.

i. Ongoing protection from enforcement for coronavirus-related debts

The most urgent area of policy change is to ensure people don't face a cliff edge when temporary protections from enforcement or recovery come to an end in early summer or before. One way of doing that would be to extend existing, temporary protections such as the pause on possession action. This is particularly important where sectors do not have existing frameworks for supporting people to pay off debt sustainably. In order to help markets transition back to normal, however, medium term protections for debt built up due to coronavirus, or during the lockdown, will be needed. As shown above, three groups of bill payers are in particular need of further protection:

a. Private renters

In the private rented sector, possession action is currently paused for 90 days from 27 March. When that pause comes to an end, over 2.6 million private sector renters who have fallen behind on their rent, or expect to, could face eviction. Even considering the fact that a large proportion of those people won't fall behind, or their arrears won't lead to eviction, the scale of the problem is daunting. In comparison, last year Courts made 87,781 orders for possession[8], and 18,860 households lost their homes due to rent arrears[9].

To avoid that, two changes are needed:

- **The government should fast-track its abolition of section 21 'no fault' evictions.** Abolishing section 21 is a prerequisite for any successful protection for people who have built up arrears as a result of coronavirus. Without that protection, any wider measures to help people stay in their homes can be circumvented.

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[8] This includes both social and private landlords. Data from Ministry of Justice 'Mortgage and Landlord possession statistics' from January 2019-December 2019. Accessed 27 April 2020.

[9] Ministry of Housing, Communities and Local Government, 'Homelessness statistics' taking into account the last full year of available data - Q3 2018-Q3 2019

- Alongside that, the government should ensure renters are protected from enforcement for debt built up due to coronavirus. To do that it should **revise ground 8 section 8 of the Housing Act 1988 from a mandatory ground to a discretionary ground for an initial 6 month period** - with provision to allow this to be extended to 12 months. Working with the Master of the Rolls, this would allow Judges to use discretion to ascertain whether these arrears have built up due to coronavirus or social distancing measures - enabling tenants who can stabilise/improve their circumstances to do so.

b. Council tax payers

A second group of people that will need further protection are council tax payers. As shown in Table 1, there is currently an informal pause on enforcement of new council tax debts due to magistrates courts not hearing liability order cases. However, the timeframe for that protection is indeterminate. When that pause comes to an end, up to 7.2 million people who have fallen behind, or expect to fall behind due to coronavirus could face enforcement action, including receiving a court summons and facing bailiff action.

While some local authorities have provided payment holidays meaning taxpayers won't be in arrears when protection comes to end, many haven't. To ensure debts built up due to Coronavirus aren't enforced aggressively, **MHCLG should instruct all councils to pause enforcement of council tax debt due to coronavirus for 6-12 months, and to offer 3 month payment holidays to people in financial difficulty**. Local authorities should be able to access emergency funding to cover council tax that residents can't afford to pay.

c. Telecoms customers

The third group of consumers that needs further support are telecoms consumers. Telecoms services - mobile phones and broadband - have been essential services for some time. The current crisis has simply emphasised that point. The voluntary actions taken by telecoms firms are a good first step to ensure people are able to keep using their mobile and broadband services as they need to through the crisis.

Going beyond that, DCMS and Ofcom need to ensure that protections don't come to a sudden stop, leaving up to 7.4 million mobile phone and broadband customers facing having an essential service disconnected. **Ofcom should issue new guidance to instruct providers not to disconnect anyone or use court enforcement to recover arrears built up as a result of coronavirus for a minimum of 6 months with an option to extend protection for 12 months.** This has the potential to build relatively high levels of debt for individuals, and it is important that this measure be supported by support to repay debts sustainably (outlined in the next section).

As a general rule, no one should face court based enforcement - including eviction, a council tax liability order, county court judgements, or disconnection due to the financial impact of coronavirus.

ii. Help to repay debts sustainably

People will also need new methods to repay debts they have built up due to coronavirus in a sustainable way. The best approach to that is to have an agreed method for calculating how much people can afford to repay. Where people have multiple debts, and seek debt advice, for instance, advisers use the Standard Financial Statement (SFS) which is agreed between debt advice and financial service providers as a method for calculating affordable repayments.

As shown in Table 1, many sectors don't have mechanisms to help consumers of essential services repay missed payments sustainably. In terms of debts resulting from coronavirus, the measures introduced by the FCA for financial services should enable people to access affordable repayments - though these will need to be closely supervised. Outside of financial services, two changes are needed:

a. Sectors without an approach to affordable repayments should introduce one

Most pressing is the risk in sectors where there is currently no agreed approach to agreeing affordable repayments of debts. This is particularly concerning as the 3 sectors where there is least protection from enforcement once temporary protections come to an end also lack agreed methods for arranging repayment plans. These changes would help:

- For private renters, the pre-action protocol for social housing should be extended to the private rented sector. On top of revising ground 8 section 8 of the Housing Act, that would enable judges to take into account how a landlord has tried to support renters to repay any debts built up due to coronavirus.
- For telecoms consumers, Ofcom should implement its proposed guidance on treating vulnerable customers fairly which includes a requirement to discuss and agree a reasonable payment plan for debts. Ofcom should review this guidance to ensure it will protect people affected by coronavirus. The guidance should further be strengthened by introducing a mandatory 60 days respite from enforcement and requiring providers to proactively set up debt advice appointments with vulnerable consumers who miss repayments.
- For council tax payers, MHCLG should bring forward its ongoing review of the guidance on debt collection and make amendments to the Enforcement and Administration Regulations 1 to ensure local authorities are able to support people in debt. That should include, giving local authorities additional powers to recover missed payments, removing the requirement to collect in year, and requiring local authorities to accept and conduct an affordability assessment. Where people can't afford to pay,

local authorities should be able to access emergency funding to make up the lost revenue.

Wider, cross-sector changes could support the implementation of those policies:

- DWP and HMRC should improve data sharing - including of UC data - with local authorities and essential service providers so they are able to build a picture of people's financial situation.
- Essential service regulators should work together so that when firms assess people's ability to repay debts, those assessments can be passported so people with multiple debts aren't required to have multiple financial assessments.

b. Voluntary approaches to agreeing affordable repayments should be formalised

In the water and energy sectors there are already well established approaches to agreeing affordable repayments. However those should be strengthened by making them mandatory:

- In the energy market, Ofgem uses debt principles to assess compliance with a requirement to ensure customers have an ability to repay. The principles include taking account of all available evidence - which should include a financial statement produced by a debt adviser where available. Ofgem already has work under way to make these principles mandatory which should be prioritised and taken forward as soon as possible.
- In the water market, Ofwat takes a similar approach. It has a set of principles which includes an expectation that providers will set realistic repayment levels. Ofwat should formalise its principles by introducing a requirement on firms to offer people in debt affordable repayment plans.

Companies need consumers to come back to

Millions of families in the UK face a cliff edge when transitional financial protections come to an end. Up to 6 million people say they are behind on a bill due to coronavirus, and 7 million more expect to fall behind.

Currently, people are protected from the impact of those financial difficulties by temporary protections - a pause on enforcement and recovery of debts in most sectors, and repayment holidays for financial service products. When those protections come to an end there is a risk that there will be a huge increase in severe debt problems.

Before people hit that cliff edge, the government and regulators should ensure that there is a medium term - 6 to 12 month - protection from enforcement of debts built up due to coronavirus and agreed mechanisms in each sector to agree affordable repayment plans. Those changes will help limit the impact of financial hardship on individuals as well as reduce the impact of debt overhang on the economic recovery.

While it will be impossible to protect everyone from problem debt, without medium term protections from enforcement and mechanisms to arrange debt repayments, the financial impact of coronavirus will be widespread. There will be an increase in bad debts across sectors which will lead to increasing costs for other bill payers as well as the scarring effects of insolvency on household finances and consumer confidence.

In addition to the measures set out above, the government should consider a more ambitious plan to tackle unaffordable debts. That could either be done through more direct financial support for people in financial difficulty through a Coronavirus Hardhsip Fund, group-based approaches to writing down debts, which share the costs of unaffordable debts between debtors and creditors, or through improved individual debt remedies.