

Lockdown debts

Estimating the size of lockdown arrears



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1. Introduction

Coronavirus has pushed huge numbers of people into debt. Without further intervention, hundreds of thousands of people face years of financial difficulty dealing with lockdown debts.

Recently, we estimated that 6 million UK adults have fallen behind on at least one household bill during the pandemic, including:

- 3.4 million on their mobile phone or broadband bills
- 3 million on their water bills
- 2.8 million on their energy bills
- 2.8 million on their council tax
- 1.2 million on their rent¹

3.9 million people have also fallen behind on either their credit card or overdraft repayments. This includes 3 million people who have fallen behind on their household bills at the same time.

We estimate that, in total, those households owe £1.6 billion in household bill arrears.

If left unaddressed, these levels of lockdown arrears will have negative impacts beyond the individuals affected. Many creditors - including landlords, local authorities, and essential service providers - are likely to face high levels of bad debt. This poses a risk to these providers and will, at a minimum, result in higher debt costs that will eventually be borne by consumers and bill payers.

To avoid this, the government must step in with financial help for people with coronavirus debts, particularly those struggling with rent and council tax arrears.

¹ Citizens Advice, [Excess debts - who has fallen behind on their household bills due to coronavirus?](#), August 2020. The rent figures include social and housing association renters.

2. Lockdown arrears are significant and will have a real impact on economic recovery

In total, 1 in 9 (11%) UK adults have fallen behind on their bills during the pandemic.² This equates to 6 million people. For many of these people, Coronavirus debt will take them years to repay.

As well as the number of people affected, the size of this debt matters. If people aren't able to repay arrears built up due to coronavirus, they and their service providers may face a long period of time where they are financially insecure.

To estimate the total size of the debt, we compared the number of adults in Coronavirus arrears with official statistics about the size of household bills in different markets.

Overall, we estimate that there could be up to £1.6 billion of lockdown arrears.

The amount owed varies by sector. By far the largest source of arrears is rent, where we estimate that consumers are nearly £909 million behind. There are also significant arrears in the energy and water sectors, with £209 million and £76 million respectively.

² Citizens Advice, Excess debts - who has fallen behind on their household bills due to coronavirus?, August 2020.

Table 1. Value of lockdown arrears³

Household bill type	Number of households behind on household bills	Estimated total value of arrears for household bills
Rent (including social rent)	628,000	£909,000,000 ⁴
Council Tax	1,459,000	£284,000,000 ⁵
Energy	1,489,000	£209,000,000
Broadband + telephone	1,818,000	£109,000,000
Water	1,573,000	£76,000,000
Mobile Phone	1,382,000	£26,000,000
Credit card	1,466,000	£11,000,000
Total debt		£1,624,000,000

The figures in the table are estimated on the basis that every household that's fallen behind has missed half of their bill payments for three months. Where there is data available from other sources, we have tried to corroborate the figures we have estimated. For instance, the Special Interest Group of Municipal Authorities has estimated that £350 million of council tax went uncollected during the first quarter of 2020.⁶

This has consequences beyond the individuals accruing that debt.

In our recent report, *Excess Debts*, we explored the impacts of coronavirus arrears on individuals. However, such a sharp increase in the amount of household bill arrears will also have broader economic impacts.

³ Households can be behind on more than one bill so the household totals can't be added together.

⁴ For comparison, an article on the NRLA website has estimated a £328-437 million loss just for private landlords:

<https://www.nrla.org.uk/news/almost-a-quarter-of-landlords-surveyed-lose-rent-due-to-covid19>

⁵ For comparison, Public Finance has estimated that £350,000,000 of council tax has gone unpaid during lockdown:

<https://www.publicfinance.co.uk/news/2020/08/covid-19-impact-receipts-revealed>

⁶ <https://www.publicfinance.co.uk/news/2020/08/covid-19-impact-receipts-revealed>

Without government support, essential service providers will be left with significant levels of 'bad debt'. Many creditors - including landlords, local authorities, and essential service providers - are likely to face high levels of bad debt. This poses a risk to these providers and will, at a minimum, result in higher debt costs that will eventually be borne by consumers and bill payers.

It will also have a knock-on impact on economic recovery. In 2018, the National Audit Office estimated that problem debt results in knock-on costs to the public purse of over £248 million every year, and over £900 million to the economy as a whole.⁷

Moreover, high levels of debt will reduce consumer spending and could dampen the economic recovery - every pound spent on debt repayments is a pound not spent consuming goods and services.⁸

3. Government support is needed

To avoid the negative macroeconomic consequences of unavoidable household debt built up during the lockdown, the government must act. As coronavirus continues to have a financial impact on UK households, there is an urgent need for protection and financial support for people who fall into debt.

In many areas government and regulators have put in place measures that will continue to support people facing financial hardship. The FCA have published guidance for firms on how to treat mortgage holders and consumer credit customers who continue to face difficulties after initial payment holidays have come to an end.⁹

However, in other areas people face very few protections and further help is needed for those who continue to face financial hardship as a result of coronavirus.

⁷ National Audit Office, Tackling Problem Debt, September 2018

⁸ Resolution Foundation, Hangover Cure: dealing with household debt overhang as interest rates rise, July 2014.

⁹

<https://www.fca.org.uk/publications/finalised-guidance/mortgages-and-coronavirus-updated-guidance-firms>

Rent and council tax arrears pose a particular risk to those falling behind, and require government action to avoid significant hardship.

Rent arrears. With the National Residential Landlord Association, we have estimated that over 300,000 households have already fallen behind with their private sector rent. Renters are more likely to have lost income than people in other tenures and will continue to need support through the crisis. To avoid leaving many renters with unmanageable debt and at risk of eviction, the government should introduce a national programme of loans and grants to help people who have fallen behind on their rent due to the pandemic. This could be administered through local authorities, targeting those households that most need support.

Council tax debt. The government should provide further hardship funding to local councils so they can support people who have fallen behind on council tax bills. This would stop struggling households falling into unmanageable debt that would take years to repay, whilst also helping councils make up for lost council tax revenue.

Appendix

Between June 29 and July 8 2020, we carried out a survey with 6,015 participants, to find out how coronavirus was impacting people's finances. We asked all respondents if they had been unable to pay any of their bills during the pandemic.

We calculated the number of people per household by dividing the number of households that the Office for National Statistics estimates there are (27,800,000) with their adult population estimate (52,673,000). This gave us a result of one 0.53 households for every one person.

We gathered information online, using our own data on council tax, as well as ONS data on average water and telecoms bills, alongside Homelet data on rent, Ofcom data on mobile phone bills, and Ofgem data on energy bills, to find out the average monthly bill for each of the services we are researching.

As there is no public data on the specific average amount that people are behind their bills on, we have made a conservative estimate to value the amount of lockdown arrears for each sector by making an assumption that people have missed half their bill for three months. This is because we have to account for the fact that some of those in debt may have been able to pay some of their bill, but not all. To calculate our lockdown arrears value estimates, we have multiplied the number of households that our survey told us were behind on their bills, with 50% of the average monthly bill for each particular sector.

1. Rent arrears

136 of the 6,015 respondents to our survey said they were behind on their rent. Dividing the former figure with the latter gives us a proportion of sample of 0.0225923802. This is 2.26% of our survey sample.

We calculate our population estimate by dividing the proportion of sample with the Office for National Statistics adult population estimate of 52,673,000 people. To determine the number of the population behind on their bills, we multiply this number with our household estimate. By dividing the ONS estimate of the number of households by their adult population estimate, we get 0.53 households for every one person. 0.53 multiplied by 1,190,008.44, our population estimate, is 628,068.1695 households behind on their rent.

The average monthly rent is estimated to be £965. This is based on data published by Homelet's Rental Index.¹⁰ For our conservative arrears estimate, we have assumed people have been behind on half their rent for three months. This gives us our arrears value of £909,128,675.42.

Bill	Rent
% of sample	2.26%
Population behind on bill estimate	1,190,008.44
No. of households behind on bills	628,068.1695
50% of average monthly bill	£482.50
Value of arrears if 50% of bill missed for 3 months	£909,128,675.42

2. Energy arrears

322 of the 6,015 respondents to our survey said they were behind on their energy bill. Dividing the former figure with the latter gives us a proportion of sample of 0.05355105568. This is 5.36% of our survey sample.

We calculate our population estimate by dividing the proportion of the sample with the Office for National Statistics adult population estimate of 52,673,000 people. To determine the number of the population behind on their bills, we multiply this number with our household estimate. By dividing the ONS estimate of the number of households by their adult population estimate, we get 0.53 households for every one person. 0.53 multiplied by 2,820,694.76, our population estimate, is 1,488,719.348 households behind on their energy bill.

The average monthly energy bill is estimated to be £93.75. This is based on data published by Ofgem.¹¹ For our conservative arrears estimate, we have assumed people have been behind on half their energy bill for three months. This gives us our arrears value of £209,351,158.29.

Bill	Energy
% of sample	5.36%
Population behind on bill estimate	2,820,694.76
No. of households behind on bills	1,488,719.348

¹⁰ <https://homelet.co.uk/homelet-rental-index>

¹¹ <https://www.ofgem.gov.uk/publications-and-updates/infographic-bills-prices-and-profits>

50% of average monthly bill	£46.88
Value of arrears if 50% of bill missed for 3 months	£209,351,158.29 ¹²

3. Water arrears

340 of the 6,015 respondents to our survey said they were behind on their water bill. Dividing the former figure with the latter gives us a proportion of sample of 0.05657516835. This is 5.66% of our survey sample.

We calculate our population estimate by dividing the proportion of sample with the Office for National Statistics adult population estimate of 52,673,000 people. To determine the number of the population behind on their bills, we multiply this number with our household estimate. By dividing the ONS estimate of the number of households by their adult population estimate, we get 0.53 households for every one person. 0.53 multiplied by 2,979,983.84, our population estimate, is 1,572,789.68 households behind on their water bill. The average monthly water bill is estimated to be £32.40. This is based on data published by the ONS Family spending in the UK report.¹³ For our conservative arrears estimate, we have assumed people have been behind on half their water bill for three months. This gives us our arrears value of £76,437,578.45.

Bill	Water
% of sample	5.66%
Population behind on bill estimate	2,979,983.84
No. of households behind on bills	1,572,789.68
50% of average monthly bill	£16.20
Value of arrears if 50% of bill missed for 3 months	£76,437,578.45 ¹⁴

4. Mobile phone arrears

299 of the 6,015 respondents to our survey said they were behind on their mobile phone bill. Dividing the former figure with the latter gives us a proportion of sample of 0.05657516835. This is 4.97% of our survey sample.

¹² As a comparison, in 2016, we estimated there was just over £1 billion of energy bill debt in the UK.

¹³ <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/expenditure/bulletins/familyspendingintheuk/april2018tomarch2019>

¹⁴ As a comparison, [Ofwat published data](#) showing there was a total of £2.2 billion of water debt in 2014-15.

We calculate our population estimate by dividing the proportion of sample with the Office for National Statistics adult population estimate of 52,673,000 people. To determine the number of the population behind on their bills, we multiply this number with our household estimate. By dividing the ONS estimate of the number of households by their adult population estimate, we get 0.53 households for every one person. 0.53 multiplied by 2,617,503.01, our population estimate, is 1,381,477.866 households behind on their mobile phone bill.

The average monthly mobile phone bill is estimated to be £12.75. This is based on data published by Ofcom's 'Pricing trends for communications services in the UK' report.¹⁵ For our conservative arrears estimate, we have assumed people have been behind on half their mobile phone bill for three months. This gives us our arrears value of £26,420,764.18.

Bill	Mobile Phone
% of sample	4.97%
Population behind on bill estimate	2,617,503.01
No. of households behind on bills	1,381,477.866
50% of average monthly bill	£6.38
Value of arrears if 50% of bill missed for 3 months	£26,420,764.18

5. Broadband + Telephone arrears

393 of the 6,015 respondents to our survey said they were behind on their broadband+telephone bill. Dividing the former figure with the latter gives us a proportion of sample of 0.05657516835. This is 5.66% of our survey sample. We calculate our population estimate by dividing the proportion of sample with the Office for National Statistics adult population estimate of 52,673,000 people. To determine the number of the population behind on their bills, we multiply this number with our household estimate. By dividing the ONS estimate of the number of households by their adult population estimate, we get 0.53 households for every one person. 0.53 multiplied by 2,979,983.84, our population estimate, is 1,572,789.68 households behind on their broadband+telephone bill.

¹⁵https://www.ofcom.org.uk/_data/assets/pdf_file/0022/189112/pricing-trends-communication-s-ervices-report.pdf

The average monthly broadband+telephone package bill is estimated to be £20. This is based on data published by the ONS Family spending in the UK report.¹⁶ For our conservative arrears estimate, we have assumed people have been behind on half their broadband+telephone bill for three months. This gives us our arrears value of £109,053,674.

Bill	Broadband + Telephone
% of sample	6.54%
Population behind on bill estimate	3,443,755.49
No. of households behind on bills	1,817,561.227
50% of average monthly bill	£20
Value of arrears if 50% of bill missed for 3 months	£109,053,674

6. Council tax arrears

316 of the 6015 respondents to our survey said they were behind on their council tax bill. Dividing the former figure with the latter gives us a proportion of sample of 0.05247204545. This is 5.25% of our survey sample.

We calculate our population estimate by dividing the proportion of sample with the Office for National Statistics adult population estimate of 52,673,000 people. To determine the number of the population behind on their bills, we multiply this number with our household estimate. By dividing the ONS estimate of the number of households by their adult population estimate, we get 0.53 households for every one person. 0.53 multiplied by 2,763,860.05, our population estimate, is 1,458,722.864 households behind on their council tax bill.

The average monthly council tax bill is estimated to be £130. This is based on our data which we published in our '1.3 million households behind on council tax' report. For our conservative arrears estimate, we have assumed people have been behind on half their council tax bill for three months. This gives us our estimated arrears value of £284,450,958.¹⁷

Bill	Council tax
% of sample	5.25%

¹⁶<https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/expenditure/bulletins/familyspendingintheuk/april2018tomarch2019>

¹⁷ In an article published on the Public Finance website on August 20, the Special Interest Group of Municipal Authorities have estimated that £350,000,000 of council tax has gone uncollected during the period of the coronavirus crisis.

Population behind on bill estimate	2,763,860.05
No. of households behind on bills	1,458,722.864
50% of average monthly bill	£65
Value of arrears if 50% of bill missed for 3 months	£284,450,958 ¹⁸

7. Credit card arrears

317 of the 6,015 respondents to our survey said they were behind on their credit card repayments. Dividing the former figure with the latter gives us a proportion of sample of 0.05274576617. This is 5.27% of our survey sample.

We calculate our population estimate by dividing the proportion of sample with the Office for National Statistics adult population estimate of 52,673,000 people. To determine the number of the population behind on their bills, we multiply this number with our household estimate. By dividing the ONS estimate of the number of households by their adult population estimate, we get 0.53 households for every one person. 0.53 multiplied by 2,778,277.74, our population estimate, is 1,466,332.299 households behind on their credit card repayments. This number, multiplied with our household estimate, means there are 773,907.66 households behind on their credit card repayments.

The minimum monthly credit card repayment is estimated to be £5. This is based on data published by the ONS Family spending in the UK report. For our conservative arrears estimate, we have assumed people have been behind on half their credit card repayment for three months. This gives us our arrears value of £10,997,492.25.

Bill	Credit card
% of sample	5.27%
Population behind on bill estimate	2,778,277.74
No. of households behind on bills	1,466,332.299
50% of average monthly bill	£2.50
Value of arrears if 50% of bill missed for 3 months	£10,997,492.25

¹⁸ As a comparison, the MHCLG predicted £719 million in total council tax losses between March and June.

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