Supporting people in problem debt

Priorities for the new Government

StepChange Debt Charity

Introduction

It's been a difficult few years for household finances. Rising living costs, the pandemic and a housing emergency have resulted in over a quarter of UK adults struggling to cope financially – over 4 million of whom are in serious problem debt.[1] We're calling for the new Government to place financial security at the heart of its legislative agenda over the next parliamentary session.

Problem debt is painful and harmful. It can be damaging for health, relationships and work, with huge social costs that affect us all. And people in the most vulnerable situations, like single parents, people affected by health problems and those facing life shocks like unemployment, are most exposed.

At a time where living costs continue to climb, people's ability to create a rainy-day savings pot has dwindled let alone their ability to repay any debts. Our recent research found that over half of all UK adults (53%) would be unable to cover an unexpected cost of £1,000 within one month without turning to borrowing.[2]

We welcomed the Government's clear commitment to regulate Buy Now, Pay Later, and we've been pleased to see regulatory action in recent years tackle harmful high-cost credit and other policy interventions to improve the lives of those struggling in debt, including the successful Breathing Space scheme. However, more needs to be done to ensure that the cost-of-living crisis does not cast a long-term shadow for years to come.

We need to act now to support the millions in financial difficulty struggling to make ends meet.

StepChange has identified six priorities for the new Government to take forward in its agenda to help the most financially vulnerable in the UK:

1. **Modernise council tax debt collection**
2. **Introduce a statutory regulator for bailiffs**
3. **Establish a Tenancy Support Duty**
4. **Address drivers of debt in the new child poverty strategy**
5. **Develop a new financial inclusion strategy**
6. **Support the debt advice sector to help more people**

[1] Data from StepChange analysis of YouGov Plc. Total sample size was 2,168 adults. Fieldwork was undertaken between 8th - 9th May 2024. The survey was carried out online. The figures have been weighted and are representative of all UK adults (aged 18+).
[2] ibid

1. Modernise council tax debt collection

Over the last 20 years, regulated sectors like private debt collection have modernised, improving standards and supporting better outcomes for people struggling with financial difficulty. In contrast, local government debt collection is among the biggest drivers of harmful practice.

Council tax has become increasingly unaffordable due to increasing rates and falling funding for local council tax support schemes, with one in three StepChange clients who pay council tax in arrears.[3] Yet council tax debt collection too often makes the situation worse, with rapid escalation, unhelpful threats of imprisonment, additional charges and unaffordable demands for repayment.

Councils need revenue to fund essential public services, but aggressive collection practices are counter-productive, causing harm and increasing public costs to the NHS and other services. In contrast, evidence shows that good debt collection practice benefits individuals and boosts collection rates among those who can afford to repay.

We want to see:

- The introduction of statutory standards and a pre-action protocol so that councils must take reasonable steps to engage and support people struggling with council tax before escalating collection to court and potential bailiff enforcement
- The removal of the outdated sanction of imprisonment for non-payment in England, like the rest of the UK

The Government should modernise council tax debt collection standards to support better outcomes for people struggling with financial difficulty.

[3] StepChange (2024) Statistics Yearbook 2023

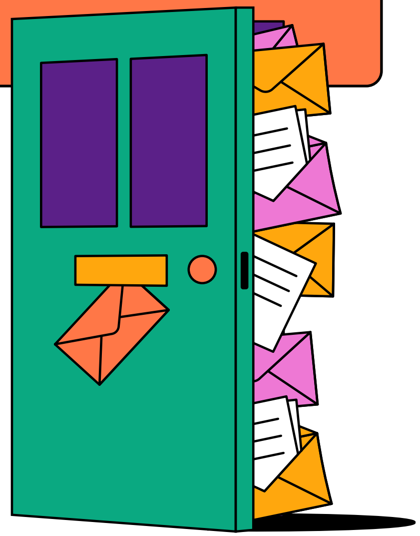
2. Introduce a statutory regulator for bailiffs

Council tax is also the biggest driver of harmful bailiff enforcement. Although bailiff enforcement should be a last resort, doorstep visits are common, with millions of people affected every year.

Too often bailiff conduct falls short, with behaviours exhibited including threats and harassment. Some vulnerable people feel pressured to pay more than what they can afford. Three in four people impacted say bailiff conduct negatively affected their mental health, making it more difficult for them to resolve debt problems.[4]

The establishment of the Enforcement Conduct Board (ECB) as a new oversight body for the bailiff sector is a step in the right direction. Giving the ECB full legal powers and the independence it needs to set standards and tackle unacceptable behaviour shown by some enforcement agents is now necessary to deliver on the promise of this new approach.

We urge the Government to commit to a statutory regulator for the bailiff industry to improve standards and protect vulnerable people from harm.



[4] StepChange (2024) Statistics Yearbook 2023

3. Establish a Tenancy Support Duty

The new Government's commitment to the abolition of Section 21 'no fault' evictions through a Renters' Rights Bill is welcome, and will deliver more stability and security for renters.

However, removing Section 21 will mean landlords resort more often to using 'Ground 8' of the Housing Act to evict tenants struggling with rent arrears, increasing 'hair trigger' evictions for those experiencing financial difficulty.

To address this problem, StepChange is calling for reform of Ground 8 and a new 'Tenancy Support Duty'.

At the moment, private landlords can obtain an automatic possession order using Ground 8 when tenants fall behind on rent by two months or more. This creates the threat of hair trigger evictions and housing insecurity for tenants affected by difficult life events. It also causes debt problems as tenants resort to desperation borrowing: one in three (31%) private renters have used credit to keep up with rent payments in the last year.[5]

A new Tenancy Support Duty would require landlords to signpost tenants in arrears to free advice, provide time to access support and benefits, and make reasonable attempts to agree an affordable repayment plan, reflecting practice in the social rent and mortgage sectors. Importantly, the Duty should be accompanied by a new support offer for private landlords, including information and advice where needed.

To ensure a Tenancy Support Duty is effective, Ground 8 should be made a discretionary ground for eviction, which means that where a landlord has not made reasonable efforts to meet the steps set out in the Duty, a court would have the power to suspend eviction proceedings.

These two measures will reduce housing insecurity for private renters and ensure that reform of Section 21 does not lead to an increase in unfair evictions for short periods of rent arrears where tenancies are sustainable.

The Government should introduce a Tenancy Support Duty to support struggling renters to sustain tenancies and prevent housing insecurity and problem debt.

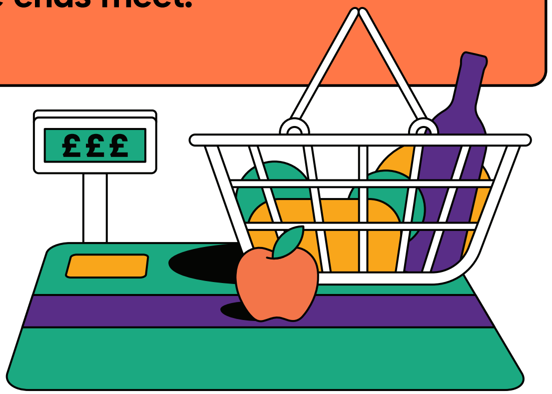
[5] StepChange analysis of YouGov polling, May 2024

4. Address drivers of debt in the new child poverty strategy

Poverty is the most significant driver of debt problems among families with children: 27% of people with children in receipt of means-tested benefits are struggling with serious problem debt.[6]

The two-child limit and benefits cap have broken the crucial link between the needs of a household and the value of support, while the roll-out of Universal Credit has seen unaffordable and unnecessary debt deductions push struggling families further into the red.

The Government should address drivers of debt in the new child poverty strategy to help families struggling to make ends meet.



Achieving a significant, sustained reduction in child poverty demands a comprehensive strategy with ambitious targets and a holistic approach to addressing the drivers of poverty.

The strategy should recognise the close link between poverty and debt problems, reading across to a new national financial inclusion strategy to help families build savings and access alternatives to unaffordable credit.

While the Government cannot immediately reverse years of real-terms benefit cuts, it should commit to uprate benefits in line with inflation through Parliament, make ambitious targeted increases to help those most at risk of hardship and commit to a new independent statutory body to advise on social security adequacy.

In the short-term, the Government should prioritise urgent steps to address the most significant drivers of poverty and the needs of those in the most severe difficulty by:

- Ending the two-child limit and benefits cap
- Stopping unaffordable debt deductions from Universal Credit; and
- Extending the Household Support Fund and establishing a permanent local crisis support scheme

[6] StepChange analysis of YouGov polling, May 2024

5. A new financial inclusion strategy

The ability of UK households to cope with financial shocks has been deeply undermined by a series of economic crises. Many people have little to no savings to cope with unpredictable costs: four in ten (41%) UK adults say they would not be able to meet all of an unexpected £1,000 expense without borrowing, forcing them to rely on desperation borrowing.[7]

Financial services are not working for all, with limited access to affordable credit forcing people to use risky, high-cost products or leaving them excluded altogether. A poverty premium for services like insurance means those with the least access to resources to cope with unexpected shocks are most exposed to risk.

The Government should convene key stakeholders to develop a national financial inclusion strategy to reduce financial exclusion and remove barriers to accessible and affordable financial products including credit, savings, insurance and banking services.

The strategy should seek to kick-start rainy day savings by extending the uptake and reach of the Help to Save scheme and supporting employers to roll out payroll saving's schemes to significantly increase the number of people saving for a rainy day.

To reduce debt problems, the strategy should include steps to grow the availability and sustainability of a spectrum of safe and affordable credit options, including a national no-interest loan scheme targeted at those unable to afford commercial credit repayments.

The Government should develop a national financial inclusion strategy including measures to boost rainy day savings and significantly expand access to affordable credit.

[7] StepChange analysis of YouGov polling, May 2024

6. Support the debt advice sector to help more people

Debt advice is essential to prevent the harm of problem debt and help people who have experienced debt problems to build financial resilience. But some 1.5 million more people need advice than the sector has capacity to help.[8]

Debt solutions are a vital route out of debt, providing a fresh start and a safe protected space to repay debts. But the current statutory solutions landscape is fragmented and does not work for everyone, leaving many without access to a suitable debt solution.

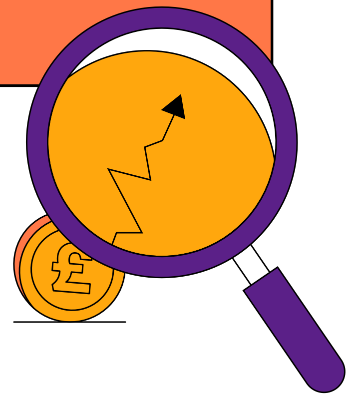
Too many people seeking help with their debts online face a wild west of scammers, ads impersonating charities and debt solution providers operating to different consumer protection and redress standards.

The Government should commit to a 10-year strategy to ensure safe access to debt advice and debt solutions for everyone that needs help. To support the strategy, funding for debt advice should be increased by ensuring all sectors that benefit from advice, including utilities and the public sector, contribute funding.

Alongside a new debt strategy, the Government should support the reform and modernisation of the personal insolvency framework to create an accessible, joined-up and non-stigmatising debt solutions landscape. The strategy should create a safe pathway to debt solutions by bringing IVA providers within an effective regulatory framework and ramping up action to stop harmful and misleading online and social media debt advice and solution ads.

As part of this process, the Government should extend the Breathing Space scheme and re-start work on a practical statutory debt repayment plan scheme.

The Government should commit to a long-term debt advice strategy and deliver reform of the personal insolvency framework.



[8] StepChange analysis of YouGov polling, May 2024

Sophie Morris

Adam Butler

We want to create a society free from problem debt.

For more expert debt research and insights,
visit the StepChange Debt Charity website.

Get in touch:

Sophie.Morris@stepchange.org

Adam.Butler2@stepchange.org

www.stepchange.org

@stepchange

stepchange.medium.com

StepChange Debt Charity