



NO ONE LEFT BEHIND

Making debt support work
for people on Universal Credit



THE SALVATION ARMY,
UNITED KINGDOM TERRITORY
WITH THE REPUBLIC OF IRELAND



WE ARE A CHRISTIAN DEBT ADVICE SERVICE AND WE STARTED THIS SERVICE TO SUPPORT PEOPLE IN OUR SOCIETY WHO WERE BURDENED BY DEBT. THE FINANCIAL IMPACT OF THE CORONAVIRUS PANDEMIC IS GOING TO HIT PEOPLE DOWN THE ROAD BECAUSE LOTS OF PEOPLE HAVE BORROWED MONEY AND THEIR CREDITORS WILL WANT THAT MONEY BACK AT SOME POINT.



FINANCIAL INCLUSION DEVELOPMENT MANAGER

The Salvation Army's Debt Advice Service

The Salvation Army is a church and registered charity and operates a wide variety of residential and community-based support services across a range of sectors, including

homelessness, employment, and debt advice, throughout the UK and Ireland. Our network of over 650 Corps (church-based community centres) offers support to local people in need of practical assistance. The Salvation Army's Debt Advice Service provides advice and

support to people whose debts range from a few hundred pounds to tens of thousands of pounds. Our advisers work with people to help them make a realistic plan to repay their debt and find sustainable solutions to their problems so that they can get back on their feet.

INTRODUCTION

FOR THOSE WHO ARE JUST GETTING BY, EVEN A SMALL INCOME CHANGE CAN QUICKLY PUSH PEOPLE INTO A CYCLE OF DEBT THAT IS IMPOSSIBLE TO ESCAPE.

PEOPLE WHO TAKE OUT A LOAN SHOULD ALWAYS BE PROVIDED WITH ADEQUATE SAFEGUARDING PROCESSES TO PROTECT THEM FROM EXCESSIVE ACTION FROM CREDITORS IF THEY GET INTO TROUBLE MAKING THEIR REPAYMENTS.



The Government's Breathing Space Scheme, to be introduced in May 2021, will help to ensure that people receive better protection. A breathing space period will see enforcement action from creditors halted and interest on repayments frozen for people with problem debt for 60 days.

During this period, individuals will receive professional debt advice to find a long-term solution to their financial difficulties and help them avoid falling into destitution.

Yet, government loans, such as Advance Payments for Universal Credit claimants, are not included in the Breathing Space Scheme from the outset. An Advance Payment is an interest-free loan provided by the Department of Work and Pensions (DWP) to help people meet their living costs during the five-week wait for their first Universal Credit payment. All Advance Payments must be repaid, with repayments

automatically deducted from subsequent Universal Credit payments. The maximum amount that can be deducted from a person's monthly payment is 25% of their standard allowance (e.g. the part of Universal Credit that's used to meet daily living costs). Advance Payments can be burdensome to repay for households in financial distress and can drastically reduce the amount of money a claimant receives each month.

While the Government has indicated that it is planning on including Advance Payments in the Breathing Space Scheme at some point, it is yet to say when this will be.^[1]

The Salvation Army is concerned that this delay will leave millions of people at risk of falling into unmanageable debt. The dire financial situation caused by Covid-19 has hit many households hard, causing significant financial distress. The Government has acted swiftly to provide people

with certain kinds of protection during the pandemic. It should do so again.

The Salvation Army is, therefore, calling on the Government to make Advance Payments eligible for inclusion in the new Breathing Space Scheme from May 2021. This will help to ensure that government loans are subject to the same safeguards as loans offered by private lenders.

**ALESSANDRA SCIARRA
AND ANNIE DELL**
AUTHORS AND POLICY
ANALYSTS

[1] Breathing Space: response to policy proposal, HM Treasury, June 2019.

THE BIG PICTURE: COVID-19 AND DEBT

THE SALVATION ARMY HAS COMPILED A SUMMARY OF EXISTING AND UP-TO-DATE RESEARCH EVIDENCING THE WORSENING FINANCIAL SITUATIONS OF MANY INDIVIDUALS AND HOUSEHOLDS AS A RESULT OF COVID-19 AND ITS CONNECTION TO RISING LEVELS OF DEBT. THIS EXTERNAL EVIDENCE IS CORROBORATED BY OUR OWN INTERNAL DATA FROM THE SALVATION ARMY'S DEBT ADVICE SERVICE.

THIS COMBINATION OF EVIDENCE SHOWS THE URGENCY OF ADDRESSING THE ISSUE OF DEBT. LOSS OF INCOME AND A MORE CHALLENGING JOB MARKET RESULTING FROM COVID-19 HAVE LEFT MANY HOUSEHOLDS STRUGGLING TO MEET THEIR BASIC NEEDS AND HAS EXACERBATED EXISTING INEQUALITIES AND ISSUE OF POVERTY.

THE IMPACT OF COVID-19 ON HOUSEHOLDS' FINANCES

The UK is in a deep recession. Negative GDP growth and increasing public borrowing, paired with growing levels of unemployment and an unprecedented number of people relying on the social security system to make ends meet, paints a stark picture in the lead up to Christmas 2020.

The number of people making an application for Universal Credit has grown exponentially during the pandemic. In February 2020, there were 206,445 applications for Universal Credit.

In March 2020, the number of applications was 815,864, a staggering **increase of 295%**. **As of September 2020, over five and a half million people are part of a household with a claim for Universal Credit.**

As the number of claims for Universal Credit have increased, so too have the number of Advance Payments that people have had to claim to help manage the five-week wait for their first payment.

Between March and September 2020, **The Department for Work**

and Pensions (DWP) made over one million Advance Payments, signalling the extent of the financial distress among new Universal Credit claimants.

The Salvation Army recognises and welcomes the Government's fast response to ensure people could access additional support in the form of welfare benefits and assistance in a timely manner during the first phase of the pandemic. However, as we look to the future, it is essential that further support is provided to prevent long-term issues with debt.

AS OF SEPTEMBER 2020, OVER
5 MILLION PEOPLE
ARE ON UNIVERSAL CREDIT

Recent research published by Citizens Advice^[ii] shows that six million UK adults have fallen behind on at least one household bill during the pandemic.

This includes 2.8 million people who were behind on their council tax and 1.2 million people on their rent. Levels of individual household debt also appear high. For example, between April and July 2020, the average person seeking help from Citizens Advice with debt had £900's worth of rent arrears^[iii].

Families with children have also been hard hit, as during lockdown they were required to cover the costs of things that may previously have been covered elsewhere such as through free school meals. Issues of debt are closely associated with poverty. For example, further findings from Citizens Advice^[iv] show that people with debt increased their negative budget to 40% (up from 37% in 2019).

A negative budget is an indication that a person is unable to meet their living costs, often as a result of being on a low income. Having a negative budget is a key indicator of financial distress, which debt experts see as a signal for the need to provide that person or household with advice and support.

Ongoing monitoring of the impact of the pandemic on people's personal and economic wellbeing by the Office for National Statistics^[v] (ONS) reaches a similar conclusion, with financial resilience worsening as a result of the pandemic.

This is particularly the case for parents and those who were renting as about half of both



FINANCIAL RESILIENCE HAS WORSENERD SINCE JULY 2020 AND THE NUMBER OF PEOPLE UNABLE TO SAVE FOR THE YEAR AHEAD



groups said they could not afford an unexpected but necessary expense by the end of July 2020.

The ONS' research also found that "by the end of July, around one in three people reported that they were unable to save for the year ahead". The ONS' data appears to corroborate

some of The Salvation Army's own findings from our Debt Advice Service, which show that by the end of July 2020, 42% of people with an income of between £10,000 and £20,000 were unable to meet unexpected expenses.

[ii] Excess debts - who has fallen behind on their household bills due to coronavirus?, Citizens Advice, September 2020.
[iii] Life on less than zero, Citizens Advice, October 2020.
[iv] Life on less than zero, Citizens Advice, October 2020.
[v] Personal and economic well-being in Great Britain: September 2020, Office for National Statistics, September 2020.

FINANCIAL DISTRESS AND RISING LEVELS OF DEBT

IN ADDITION TO THE WORSENING OF HOUSEHOLDS' OVERALL LEVEL OF FINANCIAL RESILIENCE, THE IMPACT OF COVID-19 HAS ALSO SEEN AN INCREASE IN LEVELS OF DEBT.



IN APRIL 2020, THE INSTITUTE FOR FISCAL STUDIES (IFS) RELEASED A STUDY^[vi], WHICH SHOWED THAT UK HOUSEHOLDS HOLD A TOTAL OF APPROXIMATELY £230BN OF UNSECURED OR CONSUMER DEBT. **THIS EQUATES TO AN AVERAGE OF AROUND £8,000 DEBT PER HOUSEHOLD.** THE IFS ARGUED THAT PROBLEM DEBT IS A PARTICULAR ISSUE FOR HOUSEHOLDS ON LOWER INCOMES AND THAT ALMOST ONE-IN-FOUR LOW INCOME HOUSEHOLDS SPEND MORE THAN 10% OF THEIR INCOME ON DEBT REPAYMENTS.

Furthermore, the IFS' analysis warns that Covid-19 risks creating a new set of households who may become 'stuck' in a difficult financial position with negative consequences for years to come.

Additional proof of the need for urgent action to address rising levels of problem debt comes from StepChange, whose figures show that during the pandemic 4.6 million people have lost income and accumulated £6.1 billion of debt in arrears on household bills^[vii].

Since the beginning of lockdown, StepChange estimates that 2.8 million people have fallen into arrears. In the majority of cases, these arrears related to utilities (1.2 million people), council tax (820,000 people) and rent (590,000 people). Their research also reveals that of

those already on a low income (e.g. below £30K), 44% have fallen behind on repayments or had to borrow money to make ends meet. Finally, the research found that "each affected adult will have accumulated an additional £1,076 of arrears and £997 of debt on average because of the health crisis."

Crucially, the impact of the pandemic on levels of household debt is not limited to those on low incomes. Research from The Health Foundation and the University of Salford^[viii] found that thousands of people from middle-income backgrounds who were refused access to unemployment benefits, reported falling into debt and being unable to meet basic needs such as food. Of those who were unable to claim unemployment benefits, **just under 30% were unable to keep up with bills and/or debt repayments.**

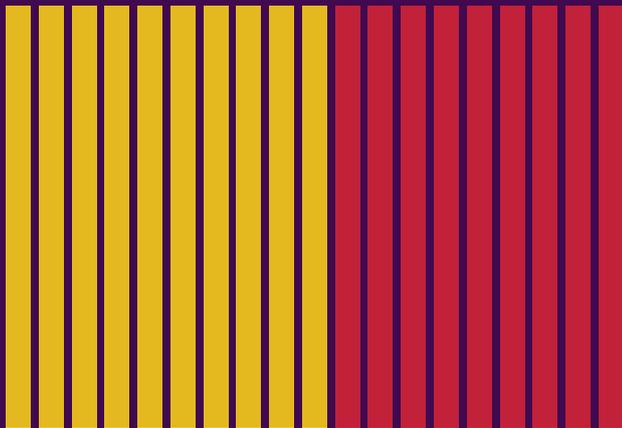
This study looked at people whose claim for unemployment benefits was refused due to any of several reasons including: having savings which exceed the limit set by the DWP, being full time students, or because of their immigration status.

This number should be ringing an alarm bell for policy makers as it signals the need for urgent action from government to prevent thousands of households from falling into poverty.

[vi] Despite short-term relief, households could face debt problems as a result of the coronavirus (COVID-19) pandemic, Institute for Fiscal Studies, April 2020.

[vii] Coronavirus and personal debt: a financial recovery strategy for households, StepChange, June 2020.

[viii] At the edge of the safety net: Unsuccessful benefits claims at the start of the COVID-19 pandemic, Baumberg Geiger, Ben et.al, October 2020.



ON AVERAGE, THOSE ON LOW INCOMES HAVE COME OUT WORST OFF AND HAVE INCREASED THEIR LEVEL OF DEBT BY

191%

THE VIEW FROM THE FRONTLINE: DATA FROM THE SALVATION ARMY'S DEBT ADVICE SERVICE

ANALYSIS OF DATA FROM THE SALVATION ARMY'S DEBT ADVICE SERVICE CORROBORATES THE NATIONAL TRENDS HIGHLIGHTED DURING THE PREVIOUS SECTIONS, SHOWING HOW PARTICULAR GROUPS HAVE BEEN NEGATIVELY AFFECTED BY COVID-19 AND REQUIRE ADDITIONAL PROTECTION FROM GOVERNMENT.

OUR DATA SIGNALS A WORSENING OF PEOPLE'S DEBT, WHICH PAIRED WITH JOB LOSSES OR REDUCTIONS IN INCOME THROUGH LOWER HOURS AND WAGE CUTS IS FURTHER EXACERBATING ISSUES OF POVERTY.

The data from our Debt Advice Service helps The Salvation Army in building a more accurate picture of what is happening on the ground. Our research demonstrates that the impact of Covid-19 on debt has been significant and relentless for many people who need urgent help.

For this analysis, The Salvation Army has used data from our Debt Advice Service between three different periods. This comparison allows The Salvation Army to begin building a picture of how the outbreak of Covid-19 has affected people working with our Debt Advice Service. These periods include:

- pre-Covid-19 (December 2019 to February 2020);
- during the peak of the outbreak of Covid-19 (March to May 2020); and
- during the latter phase of the first wave of Covid-19 (June to August 2020).

Our analysis aims to highlight in which of these periods the debt levels for people working with our Debt Advice Service were highest. As a result, each of the following sections contains data from a mixture of periods.

The Salvation Army has also split its analysis across different broadly defined groups. These groups include:

- people working full time;
- private renters;
- people on low incomes; and
- people who are unable to work.

From December 2019 until the end of August 2020, The Salvation Army **supported 264 clients** with tailored, one-to-one support to help them manage problem debt. For this period, the **total amount of debt held by the people we supported was £1,307,938** (averaging to just under £5,000 per person).



PEOPLE WORKING FULL-TIME

People working full-time were hit especially hard during the early part of the pandemic.

This may be because they have experienced the biggest changes to their professional situation compared to other groups who were already not working or working fewer hours at the time of the pandemic.

In the December - February period the total debt held by the working full-time group was £80,332, averaging to £8,926 per person.

This went up to a total of £120,424, with an average debt of £13,380 per person in the period March - May. **This is an increase of 50% in the average level of debt held by people working full time across the period.**



PRIVATE RENTERS

The Salvation Army observed changes in the amount of debt held by people with different housing status, with **private tenants faring particularly poorly**. The data shows that people who are private tenants were worst off in the period March to May 2020. While in December - February this group's total debt was £112,008 (averaging to £10,183 per person), in March - May their total debt was of £160,035 (averaging to £14,549 per person). This is a **43% increase in the average level of debt held by people living in privately rented accommodation across the period**.

The potential consequences of people in privately rented accommodation falling into debt should be concerning to government as a tidal wave of evictions may be on the horizon once current protections end. Government should urgently address this issue and help people get the support they need so that they can stay in their home and get back on their feet.



PEOPLE ON LOW INCOMES

The pandemic has had a negative impact on the level of debt held by those on low incomes. For example, The Salvation Army's Debt Advice Service supports a number of people who earn up to £15,000 per year. According to The Salvation Army's analysis, this group had some of the highest levels of average debt per person at the peak of the pandemic. Their average debt for the June - August period was £3,552, up from an average of £1,220 in debt for the December - February period. This data shows that **those on low incomes have come out worst off and have increased their level of debt by 191%**. What this also shows is that at the height of the pandemic, those who were already in a low-income band have become even more financially vulnerable.

Addressing problem debt should be an urgent priority for government, and the introduction of the Breathing Space Scheme is an opportunity to ensure that households claiming Universal Credit to help supplement their very low incomes avoid building unsustainable levels of debt, which they will be unable to repay.



PEOPLE UNABLE TO WORK

Finally, another group who was negatively affected by the pandemic is those who are unable to work. In the December - February period, this group's total debt was £122,437 averaging to £5,012 per person. By contrast in March - May their total debt level was £61,476 averaging to £7,685 per person.

This represents a **51% increase in the average level of debt held by people who are unable to work due to ill health during the peak of the pandemic**. Although in the June - August period the average debt in this group decreased to £5,134, it remained above its pre-pandemic level (e.g. the December - February period). This group who were already at a disadvantage before the pandemic, has found itself in an even more precarious position as a result of Covid-19. This leaves people who are unable to work at risk of increasing their existing debts, with no real prospect of repayment over the short term.

CONCLUSION

Our data provides a glimpse into the lives of many people who have suffered financially as a result of Covid-19. Our evidence corroborates findings from charities, research institutions, think tanks and statisticians and highlights the need for urgent action from government. The Breathing Space Scheme is a welcome step. However, it must include Advance Payments as part of its definition of eligible debt from its introduction in May 2021 to ensure individuals can seek the support and advice they need to help manage their debts.

CASE STUDY

'In the Westminster Village, some people don't understand how even a few pounds can push people into an unending cycle of debt. For them, £25 is the cost of a nice lunch. For the people I help, £25 is the breaking point between having to borrow money for the month or not being able to feed their kids.

Some policy makers are endeavouring to help - the breathing space programme is very, very welcome - but by not including all debts, including Advance Payments, they are still missing the mark. Debt is debt, no matter the source.

Here in Watford, we're getting ready to distribute presents and recipe boxes so that local children don't go without this Christmas. 2020 has been an even more challenging year for already struggling parents and carers. Many of the families we help tell us that Advanced Payments are making these difficult times even harder to bear.

I would urgently ask the Government to reconsider its position and include all debts in its breathing space proposals. Why should Advance Payments not be treated like any other debt? Without this, we are going to continue seeing the same problems.'

**Captain Mark Scoulding,
Watford Corps**



POLICY RECOMMENDATIONS

BASED ON THE FINDINGS OF THIS REPORT, IT IS CLEAR THAT MANY PEOPLE'S FINANCIAL POSITIONS ARE WORSENING AT AN ALARMING RATE. THIS, IN TURN, IS LEADING TO PEOPLE FALLING INTO SPIRALLING DEBT, WHICH THEY MAY BE UNABLE TO REPAY.

WHILE THE SALVATION ARMY WELCOMES THE MOVE FROM GOVERNMENT TO ADDRESS THE ISSUE OF DEBT THROUGH THE NEW BREATHING SPACE SCHEME, WE HAVE IDENTIFIED GAPS IN THIS SCHEME WHICH WE BELIEVE HAVE TO BE ADDRESSED BEFORE ITS LAUNCH IN 2021.

The Salvation Army is, therefore, urging the Government to immediately include Universal Credit Advance Payments as debt that is eligible to be included in the new Breathing Space Scheme as soon as it is launched in May 2021. This will ensure that no one who needs help is left out.

Although the Government is already planning on eventually including Advance Payments in the scheme^[ix], it has not indicated when this will happen.

The Salvation Army remains concerned that the process of 'phasing in' advances into the list of eligible debts for the scheme will be delayed and, as a result, thousands of people will be left at risk of falling into unmanageable debt and poverty.

Covid-19 has been an unprecedented crisis, which has affected millions of households across the country, and whilst The Salvation Army welcomes action from government and its injection of cash to support

vulnerable households, this is the time to leave no one behind.

Our policy proposal allows government to protect millions of people at a low-cost as the local and national infrastructure to ensure people can be referred to specialist advance agencies that already exist." To say instead "Our policy proposal allows government to protect millions of people and ensure they can be referred to specialists that already exists.

The Government must utilise excellent services such as Help to Claim and The Salvation Army's Debt Advice Service at this time of need, to ensure no person becomes trapped by debt.

WE HAVE SEEN A 51% INCREASE IN THE LEVEL OF DEBT DURING THE PEAK OF THE PANDEMIC OF PEOPLE WHO ARE UNABLE TO WORK DUE TO ILL HEALTH



DEBT IS DEBT, AND THIS IS THE TIME FOR ACTION TO BUILD A STRONGER SAFETY NET, WHICH CAN PROTECT THOSE MOST IN NEED.



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THE SALVATION ARMY IS A CHRISTIAN CHURCH AND A REGISTERED CHARITY SERVING THE PEOPLE OF THE UNITED KINGDOM FOR MORE THAN 150 YEARS.



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