# What's Next?
# The Future of Debt Advice

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### Introduction

When Covid-19 hit in March 2020, all of our and our member's money and debt advisers were redeployed to providing advice via telephony and digital channels. Our local member centres had to close due to the lockdown restrictions imposed. Intermittingly, some were able to re-open between lockdowns to offer emergency appointments to clients. This along with government and lender financial support packages meant a significant drop in debt advice across the UK and in the Republic of Ireland. However, our Debt Advice services are beginning to see a steady increase in demand, as we have already dealt with 34.5% more clients in 2021/2022 than during the same period for 2020/21[1]. We envisage this trend will continue to rise in 2022 and remain high during 2023 and 2024.

We believe there will be a tsunami of people looking for debt advice and the biggest factor to drive this demand will be the continuing barrage of cost increases that are significantly decreasing the amount of disposable income people have available. This has already led to 2022 being coined the year of the Big Squeeze[2]. These rising costs are compounded by the ending of government support, increased taxes, lack of access to affordable credit, and lenders beginning to actively chase debt following the pandemic, including taking court action.

### Economic uncertainty

Covid-19 simply deferred inevitable financial hardship for many, as it practically stalled the UK economy overnight, with the UK GDP rate falling by 20.4% in April 2020[3]. Many non-essential sectors closed and with them consumer spending was reduced significantly. Although this meant some people were able to save money, and many began to pay down their debts, others for the first time had to claim benefits or seek money and debt advice[4].

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[1] Debt Advice stats comparing Apr to Jan (2020-2021) and April to Jan (2021-2022)
[2] Resolution Foundation, [2022] The Year of the Big Squeeze; https://www.resolutionfoundation.org/press-releases/2022-set-to-be-the-year-of-the-squeeze-as-wages-stall-and-families-face-a-1200-hit-from-next-april-as-energy-bills-and-taxes-rise/
[3] Business Energy and Industrial Strategy, [2020] https://committees.parliament.uk/writtenevidence/10849/html/
[4] MAPS,[2020] Money and Pensions Service evidence and insights, summary briefing

The Northern Ireland (NI) economy was beginning to recover from the 2008 great recession but remained fragile. Government statistics showed that it had begun to decline before the pandemic in 2019, and spiked at -13.6% in Q2 2020[5]. Although it has recovered well after this spike and remains fairly buoyant, we do not know how it will be affected over the long term by Brexit, Covid-19, rising costs, and now the Russian invasion of Ukraine.

The UK government acted quickly to mitigate the economic catastrophe by introducing a number of financial support measures. The aim was to protect the economy, and according to the University of Ulster[6] at the time nearly a third of the NI workforce was being financially supported by the government. They reported that 35,000 jobs were lost mainly from hospitality, retail, services, construction, the arts, and entertainment sectors. This disproportionally affected low-income workers, women, those who were disabled, and those from ethnic minority communities.

Consumer debt has been increasing steadily over the years. Vizolution[7] notes that before the pandemic UK household debt was 31% higher than before the previous recession in 2008 and 9m people often borrow to cover essentials such as food and bills. This leaves many households living on the edge meaning that an income shock, like Covid-19, illness, rising costs, could see them easily tip over into unmanageable debt.

**Business Debt**

Statistics released by the House of Commons in 2015 showed that NI has the highest concentration of small and medium enterprises (SMEs) of all the regions in the UK. Here, 98% of all firms employ fewer than 20 people, while 95% employ fewer than 10. Another government report[8] highlights how SME debt increased by a quarter during the pandemic and for those most affected (i.e. hospitality and arts) it could be as much

[5] Office of National Statistics, [2020] GDP, UK regions and countries: July to September 2020; https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpukregionsandcountries/julytoseptember2020

[6] https://www.ulster.ac.uk/__data/assets/pdf_file/0009/883683/UUEPC-Summer-2021-Economic-Outlook.pdf

[7] Vizolution, [2021], The debt tsunami is coming. Are lenders prepared to ride out the wave?; https://www.vizolution.com/blog/the-debt-tsunami-is-coming-are-lenders-prepared-to-ride-out-the-wave/

[8] The Lords Library, [2022] https://lordslibrary.parliament.uk/uk-corporate-debt-after-covid-19-what-might-the-impact-be/

as a third. It estimates business debt rose by £79bn from the end of 2019 to the start of 2021. SMEs in debt has more than doubled, with 10% facing high levels and 33% are now regularly using an overdraft (an increase of 19%). The report also warns that business failure will be impacted by other economic factors including high unemployment and lower household incomes.

SMEs also face the prospect of repaying Covid-19 support loans. There were 44,573[9] government-backed loans provided to NI businesses, with the maximum allowance reaching £50,000. Bounce Back Loans are now the number one debt dealt with by Advice NI Business Debt Advisers, with an average debt of £36,246. We believe this area of advice will increase over the coming years as SMEs begin to rebuild after Coivd-19, some may even face the prospect of closure.

On top of this, NI businesses are trying to navigate Brexit and the NI Protocol. A government report[10] outlined how many businesses have experienced disruptions in supply chains, increase costs as well as reduced choice. One survey has suggested that NI SMEs have seen a 30% decline in sales to Great Britain (GB), leading many to consider their long-term business viability. Although there are opportunities to diversify into the Irish and European Union markets, it takes time and resources, both of which may not be available to a small business owner.

The Open University Barometer [11] has indicated 69% of NI businesses believe there is a skills shortage within their organisation, the highest across all regions in the UK. Businesses also believe that uncertainty around Covid-19 and Brexit means they cannot or will not fill job vacancies. Others were struggling to recruit as 44% reported not being able to fill posts so have had to leave them vacant. There is no quick fix for this either and some have invested more in their training and graduate programmes. However, a skills shortage leaves businesses vulnerable to competition.

[9] House of Commons, [2022] Coronavirus business support scheme: statistics; https://researchbriefings.files.parliament.uk/documents/CBP-8938/CBP-8938.pdf

[10] HM Government, [2021], Northern Ireland Protocol: the way Forward https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1008451/CCS207_CCS0721914902-005_Northern_Ireland_Protocol_Web_Accessible__1_.pdf

[11] Open University, [2021] Skills Gap Challenge, https://www.open.ac.uk/northern-ireland/news/skills-gap-challenge-businesses-northern-ireland

### Creditor's reaction

The Financial Conduct Authority (FCA)[12] also released a number of guidance measures to support debtors during the pandemic. These support measures meant that lenders could offer people payment deferments for certain products including mortgages, unsecured lending, and high-interest loans. They also advised lenders to individually tailor advice to the client's circumstances, which has ultimately led to lenders taking a more lenient approach to debt collection. The NI Court Service closed down during the pandemic which postponed any legal action being taken, especially creditor petitions for bankruptcy. Now that the courts are operational, creditors can begin legal proceedings again. It remains uncertain how acutely lenders will begin to collect debt in the future. Advice NI are beginning to see an increase in lenders beginning to collect on debts, which will ultimately drive more people to seek debt advice.

EY[13] highlights that many lenders are now preparing for an increased number of debts having to be written off. This will only result in tighter access to credit, which will force many to either seek debt advice or unfortunately turn to illegal lending just to get by. Advice NI has previously highlighted the damage that can be caused by illegal lending, the full report is available on our website here https://www.adviceni.net/policy/publications/illegal-lending-human-story.

### The income squeeze

During the pandemic, there was an unprecedented number of people making Universal Credit (UC) claims in NI. The peak came in May 2020 with 63,982 claims, which was more than double the claimant count in March of the same year. By January 2022, there remained a 35% increase in claims made before the pandemic[14]. In October 2021, the government removed the extra UC £20 uplift given during the pandemic, effectively reducing a claimant's income by £1,040 per year.

[12] FCA [2022]; Coronavirus guidance hub; https://www.fca.org.uk/coronavirus

[13] EY, [2021], By the end of 2021, UK firms will have borrowed over £60bn through the pandemic; https://www.ey.com/en_uk/news/2021/02/by-the-end-of-2021-uk-firms-will-have-borrowed-over-p60bn-through-the-pandemic

[14] NISRA, [2022] Claimant Count; https://www.nisra.gov.uk/statistics/labour-market-and-social-welfare/claimant-count

The rising cost of living is outstripping wages at its fastest pace than at any stage over the past 30 years[15]. The latest forecast by the Bank of England[16] has warned inflation could increase to over 7% this year, yet some estimate wages will only increase by 0.1%[17]. Inflation increases are a knock-on effect of increased fuel prices, which means that generally consumer prices will also increase across a range of other areas, for example, TV and broadband, groceries, travel, and so on. Many households who are just about managing could easily fall into debt.

The government announced an increase in National Insurance tax by 1.25% and according to the Resolution Foundation[18] this will largely impact middle-income households. They report that the average combined impact of the freeze on income tax thresholds and the increase in personal National Insurance contributions will be £600 per household. The Consumer Council Northern Ireland also published[19] the latest consumer insight survey, which highlighted 42% of adults had less than £300 per month left over to spend after paying for essentials. They report that this figure is significantly higher for C2DEs (50%), those not working (57%), those with an income of <£20,000 (74%), renters (61%), and those with a disability (53%). This diminishes spending power as well as the ability to save and build financial resilience, which was also highlighted further in the report that what people worried most about was having to repair or replace expensive household items followed by making sure they paid their mortgage or rent. Nearly a third[20] (32%) of Advice NI's personal debt clients were working and earning, however, one in every ten (30%) of our clients in 2021 had no savings or had to borrow from family or friends leaving them vulnerable to income shocks.

The Resolution Foundation also estimates that households face a £1,200 reduction in income per annum as we face higher prices on food, energy, and increases in taxes.

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[15] BBC news, [2022] Why is the Cost of Living going up?; https://www.bbc.co.uk/news/business-12196322
[16] Bank of England, [2022], Will inflation in the UK keep rising? https://www.bankofengland.co.uk/knowledgebank/will-inflation-in-the-uk-keep-rising#:~:text=Prices%20have%20risen%20sharply%20in,to%20come%20down%20after%20that.
[17] The Resolution Foundation – Ibid.
[18] The Resolution Foundation, [2022] https://www.resolutionfoundation.org/press-releases/2022-set-to-be-the-year-of-the-squeeze-as-wages-stall-and-families-face-a-1200-hit-from-next-april-as-energy-bills-and-taxes-rise/
[19] Consumer Council, [2021] Consumer Insight Survey; https://www.consumercouncil.org.uk/sites/default/files/2021-12/Consumer_Insight_Survey_2021_2.pdf
[20] 1 January 2021 to 31 December 2021 Economic Status and FEIs

A recent Kantar[21] public opinion survey said that 52% of people living in Britain were feeling the pinch sharply, which was nearly double the figure before Covid-19.

**Eating or heating?**

Food poverty is already rising and more people are facing the real prospect of choosing to heat or eat, as prices continue to rise and choice diminishes for low-income households. Jack Monroe, the poverty activist, highlighted[22] how the basic-range products were being removed from supermarkets, which meant people having to buy more expensive brands, with one provider cutting the value range from 400 products to 87. Iceland's Managing Director quoted, that they are losing customers, not to competition but *"to food banks and to hunger".*

Trussell Trust reported[23] that at the beginning of the pandemic, NI saw the largest growth in the number of food parcels distributed - up 141%. On an annual basis, in 2020-2021, they reported that NI has seen an increase of 75% in people presenting for food parcels. They also acknowledged that NI was the only region in which the percentage increase in the number of adults supported was bigger than that for the number of children. During the pandemic, the government organised a roll-out of crisis support, which included providing food parcels. The Food Standard Agency's figures[24] also showed 1.8% of the adult population aged 16-75 in England, Wales, and NI were delivered food from a food charity or food bank in the month to mid-November 2020 because they did not have enough money to buy food. This is equivalent to over 800,000 people. The Food Standards Agency also shows that food insecurity is far higher in some demographic groups, most notably young people, families with children, people identifying as Black or Black British, and those in poor health. Trussell Trust also noted that people with no recourse to public funds may need more frequent

[21] Reuters [2022], https://www.reuters.com/article/britain-economy-inflation/more-than-half-of-britons-are-feeling-the-cost-of-living-pinch-poll-idUKKBN2KT005

[22] The Guardian, [2022], We are pricing the poor out of food, https://www.theguardian.com/society/2022/jan/22/were-pricing-the-poor-out-of-food-in-the-uk-thats-why-im-launching-my-own-price-index

[23] Trussell Trust, [2021], End of Year Data; https://www.trusselltrust.org/wp-content/uploads/sites/2/2021/04/Trusell-Trust-End-of-Year-stats-data-briefing_2020_21.pdf

[24] Office for National Statistics, [2020] Data Sets for UK https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates/datasets/populationestimatesforukenglandandwalesscotlandandnorthernireland

support from a food bank because they are more likely to be entirely reliant on voluntary sector support in a financial crisis, and for longer periods of time.

We are experiencing an unprecedented rise in fuel prices, which will further be compounded by the Russian attack on Ukraine. NI Consumer Council[25] reports a 67.35% increase to household fuel prices over the past six years. In January and February 2022, our debt clients reported their average expenditure on diesel/petrol at just over £96 per month higher than in the same period last year. We have also experienced an increase in referrals from utility companies, with clients struggling to keep up with the cost of electricity on low household budgets.

NI still has a large number of households using home heating oil (68%), who remain vulnerable as this remains an unregulated market. The Resolution Foundation[26] also noted that the increase in energy costs will disproportionally affect low-income households as the income they spend on energy bills is set to rise from 8.5% to 12%. The vast majority of our clients already have a prepayment meter, which means they repay their debt before they can heat their homes. This leads too many self disconnecting. Having a meter also means less contact with providers and limited options to deal with heating and debt. The breadth of this issue remains hidden and we believe will become a serious concern in the future for our clients.

**Housing costs**

Mortgage debt remains one of our top ten debts, with arrears on average of £13,300, and including the outstanding capital, this rises to £60,500[27]. Mortgage and rent payments are a priority in order to prevent homelessness but the sheer monetary levels involved in mortgages can incapacitate the client very quickly. Missing one or two payments can have a detrimental impact on household income and their ability to recover. In March 2022, the Bank of England announced[28] that interest rates will increase from 0.5% to 0.75%, to try and bring the rising inflation under control. Some

[25] Consumer Council, [2022], Home Energy Index https://www.consumercouncil.org.uk/policy-research/publications/home-energy-index-january-2022
[26] Ibid
[27] 1 January 2021 to 31 December 2021 Debts
[28] Bank of England, [2022] https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2022/march-2022

are predicting this will increase to over 2% in 2023[29] causing further reductions to disposable incomes for many.

Rents are also increasing, on average our clients have £2,541 of rent arrears, and the number of people presenting with rent arrears has been steadily increasing each quarter during 2021-2022. Zoopla has reported an annual rent growth in NI of 5.8% (approximately £633/month)[30]. They report that rent on average accounts for 37% of gross income for a single earner, nearly a 12% increase in the past five years. Whilst, the government protected renters from eviction during the pandemic this has resulted in increasing numbers of landlords asking for guarantors, so they are not out of pocket[31]. These souring costs are making it harder for people to find decent affordable housing.

**Increase in mental ill-health**

Advisers tell us how cases have become more difficult because clients have more complex needs. They report that more clients are presenting with other issues, i.e. addiction, relationship breakdown, and gambling. In addition, we are dealing with, on average, 20 cases per month[32] where clients have deficit disposable incomes and we predict this will increase as costs continue to rise and people's incomes are squeezed.

We also anticipate more people presenting with mental ill-health in the future as Covid-19 has exacerbated these issues for many. This correlates with research from the Money and Mental Health Policy Institute[33] on mental health during the pandemic, they found:

- *"24% of respondents had experienced a mental health problem for the first time, whilst 51% said they had ongoing problems for over five years.*

[29] Money to the Masses, [2022], https://moneytothemasses.com/owning-a-home/interest-rate-forecasts/latest-interest-rate-predictions-when-will-rates-rise

[30] Zoopla, [2022], Average rents hit nearly £1,000/m; https://www.zoopla.co.uk/discover/property-news/average-rents-hit-nearly-gbp1-000-per-month/

[31] iNews, [2022], Cost of living crisis and Covid pandemic sees number of landlords wanting renting guarantors soar by 36%; https://inews.co.uk/inews-lifestyle/money/property-and-mortgages/cost-of-living-crisis-covid-pandemic-landlords-renting-guarantors-soar-1464879

[32] 1 January to 31 December FEI report

[33] Money and Mental Health Policy Institute, [2021], The State we are in; https://www.moneyandmentalhealth.org/publications/the-state-were-in/

- *People with mental health were three times more likely to have fallen into problem debt than the wider population (15% compared to 4%).*
- *More than twice as likely to have relied on credit or borrowing to cover every day spending — for example, on food or heating (26% compared to 11%).*
- *More likely to have had zero savings to help them cope with emergencies. 1 in 4 people with mental health problems say they have no savings that they could use in emergencies (compared to 18% of the wider population), and nearly half (46%) say they can't afford to save money regularly.*
- *At high risk of considering suicide when behind on payments. 44% of UK adults with mental health problems who fell behind on bills last year either considered or attempted to take their own life. If reflected nationally, that amounts to 2.5m in people in total. 58% of those with debts over £30k saying they considered or attempted suicide during the pandemic".*

**Conclusion and recommendations**

Uncertainty is detrimental for businesses, household incomes, and consumer spending, which in turn affects the economy; it is a vicious circle. Covid-19 was cloaked in uncertainty and just as we seem to be returning to some sort of normality, we are now being hit with soaring costs of living, Brexit, and the potential threat of another world war. All of which is causing more uncertainty.

We expect the demand for advice to increase because incomes are being persistently squeezed and there seems that there is no end to the constant news of soaring prices. This is only further compounded by expected increase in client vulnerability and case complexity. That is why we are calling on the government to:

- Review the current NI insolvency legislation to ensure it remains fit for purpose.
- Reinstate the Universal Credit £20 uplift.
- Review the wholly inadequate 3.1% uprating of social security benefits and increase by 7.4%, the expected level of inflation for 2022.
- Take action to address increasing energy costs, such as the development of fuel support schemes to tackle the fuel poverty crisis and improved support:

for consumers to access reduced tariffs and commitment to supporting diversification within the sector.

- Address food poverty by enabling a right to food in line with international human rights laws, ensuring it is available, affordable, and adequate to meet dietary needs.

- Improved access to affordable homes, including single occupancy tenancies.

- Tackle the growing shortfall between contractual rents and Social Security support.

- Review of spiralling housing costs & precarious nature of private tenancies.

- Improved resourcing to and increased availability of Mental Health Services.

- Involvement and engagement of the community and voluntary sector in identifying and addressing local health care needs.

- Trial Social Prescribing in NI.

You can read Advice NI's full 2022 Manifesto on our website https://www.adviceni.net/policy/publications/advice-ni-manifesto.

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