Managing household bills on a low and falling income

An analysis of household bills, debts and the impact of welfare reform

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Summary

This research explores how households manage bill payments, the overlap between bill arrears and benefit entitlement and what this means for the impact of welfare reforms. It shows that there are strong links between low income, benefit recipiency, and arrears with household bills. Further welfare reforms will increase the budgetary pressures that low income families face. It is in the interest of creditors to be aware of these changes and to help customers manage their altered financial situation.

Debt with household bills

- Essential bills (rent, mortgage interest, water, energy, phones/internet and council tax) account for a quarter of spending for the average family – for the poorest fifth it is more than half of their weekly spending.
- In total 2.9 million working-age families were behind with a bill payment in the past 12 months, including 1.2 million who fell behind with multiple bills.
- 1.4 million working-age families were behind with an energy and/or phone bill, about 6%. But arrears were more common among certain family types including families where no adult is working, single parents and those renting from a social landlord.
- Over half of working-age families behind with their energy and/or phone payments are in the bottom fifth of the income distribution.
- Among those who struggle to keep up with their bill payments, the vast majority (90%) say that it's because they lack the money to do so. 2.2 million working-age families were unable to keep their home warm enough because they could not afford to.

Benefit recipiency and bill arrears

- Only 6% of people not receiving a means-tested benefit were in arrears with their bills, compared to a third of those on an out-of-work benefit and a quarter of those receiving tax credits.
- Though private renters face higher housing costs, receive housing benefit income directly and often have to top-up this benefit to pay rent, only 7% had fallen behind on their rent. However, 34% had fallen behind on essential household bills other than rent.
- 70% of working-age families that had fallen behind with an essential bill in the past 12 months were in receipt of a key benefit. A third were in receipt of an out-of-work benefit – the baseline benefit income.
- Over two thirds of households who had been behind in their payments of essential bills overall were in receipt of a means-tested benefit.

Welfare reforms and bill arrears

- Welfare reforms in Britain between 2010 and 2016 have reduced annual benefit entitlement by £14.5bn, rising by a further £12.9bn by 2021 due to forthcoming reforms.
- Among people presenting at Citizens Advice with a welfare reform issue and then completing a debt advice assessment, the average client had five different debts to manage with the average debt owed to an energy supplier at £750.
- In the year that the under-occupation penalty was introduced and council tax benefit was changed, the number of working-age families behind with an energy/phone bill was the same as now at 1.4 million; but the number of families behind with an energy/phone and also rent or council tax has increased from 410,000 to 510,000.
- Welfare reforms have had a greater impact on the working-age population in old industrial areas, deprived seaside towns and many London boroughs.
- Some welfare reforms result in a sudden and absolute cut in a household's income, such as the overall benefit cap and the under-occupation penalty. Others have a smaller or more gradual impact such as below inflation uprating.
- There are important differences between welfare reforms that determines who is affected and how.
- The overall benefit cap, which largely affects lone parents, and the transition to personal independence payments, which affects people with a disability, are arguably more likely than other reforms to result in debt problems. These reforms deliver a sharp and instant fall in benefit income to groups that are already more likely to be behind with bills.

Introduction

Most families have to manage a series of basic household bills – rent and mortgage costs, council tax, telecoms and energy. Families on a constrained income must carefully balance and prioritise these outgoings; with those on the lowest incomes the most likely to fall behind.

Many families on a lower income have seen their income from benefits fall in recent years through welfare reforms. If a family's income falls due to a benefit change they may have to cut their spending or consumption to meet their bill payments. Those unable to do so may fall into arrears or even further behind.

This research for Citizens Advice explores how households manage bill payments, the overlap between bill arrears and benefit entitlement and what this means for the impact of welfare reforms. There is a particular focus on energy and phone bills as there is a lack of evidence on the implications of welfare reforms on debt with these items. We hope that an analysis of households in debt with these bills will allow telecoms and energy suppliers to develop debt collection strategies sensitive to the wider financial pressures these households face.

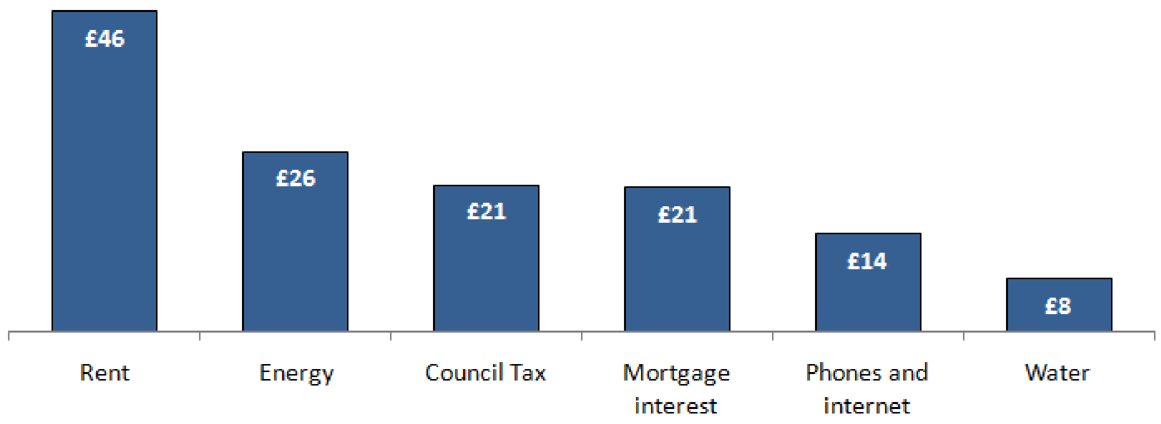
The report draws on analysis of official national surveys (principally the Family Resources Survey), and Citizens Advice client data to explore the following:

- how families manage household bills and the types of families behind with bills
- the overlap between debt with household bills and benefit receipt
- the impact existing welfare reforms have had on bill arrears
- the impacts forthcoming welfare reforms will have on families and their bill payments

Families and household bills

Most families have to manage a range of bills for essential goods or services: water, energy, communications, council tax and housing costs. For the average family, spending on these items amounts to £135 per week. Rent is the largest of these at £46 followed by energy at £26, and water the smallest at £8. On average these costs amount to a quarter of total expenditure. This section looks at the how households manage these ongoing costs, in particular which bill payments are most likely to be missed and which families are most likely to miss them.

Figure 1: Average weekly expenditure of UK households on particular items



Source: Family Spending 2015, ONS

How many families fall into arrears with household bills?

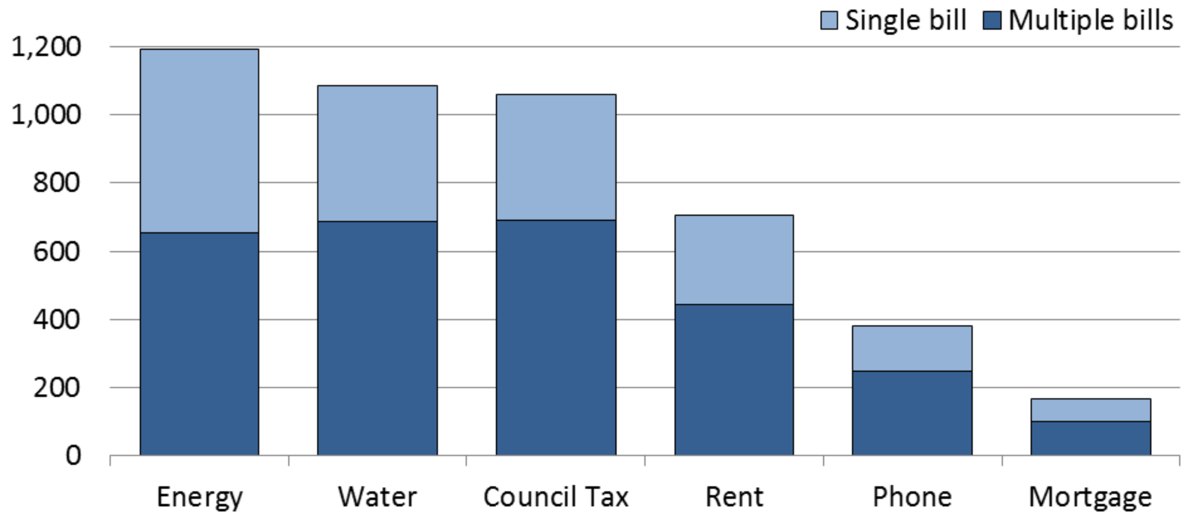
Over a 12 month period, almost a tenth (9%) of families falls behind with a bill payment for one of these essential items. Figure 2 looks at which bills families most commonly fall behind on. It shows the number of working-age families that were behind with a particular bill payment in the past 12 months and the number that had also been behind on another bill.

The most common bill families fell behind with was energy. 1.2 million working-age families were in arrears with energy payments in the past 12 months (1 in 20 families). The next most common bill to be in arrears with was water and council tax for 1.1 million families each. The number that had been behind with a phone or mortgage payment was much lower at 380,000 and 150,000 families respectively.

It also shows that for all bill types, most families had been behind with multiple bills rather than just one. But this split varies: just over half of families behind with an energy bill were also behind with another bill, whilst for all other bills around two thirds of those that had been behind with their payments had been behind on multiple bills.

In total 2.9 million working-age families were behind with a bill payment in the past 12 months, including 1.2 million who fell behind with multiple bills.

Figure 2: Thousands of working-age families behind with bill in past 12 months

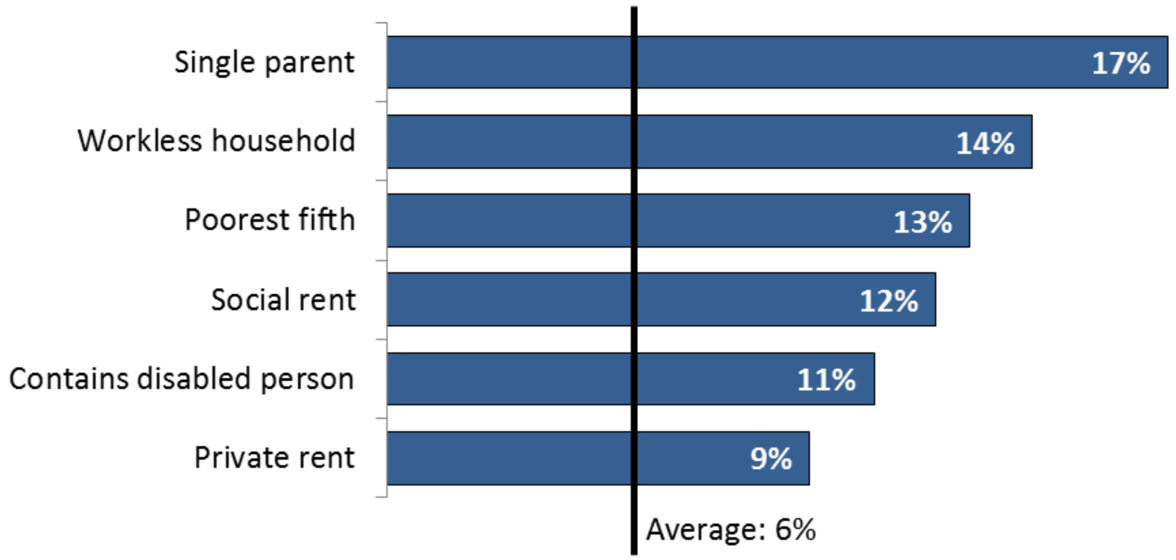


Source: NPI analysis of Family Resources Survey, the data is an average for 2012/13 and 2013/14

Who is behind with their phone and energy bills?

Next, we look at the 1.4 million working-age families behind with an energy and/or phone bill. On average 6% of working-age families fall behind with a phone and/or energy bill over a 12 month period. But this rate is much higher among families with certain characteristics highlighted in figure 3.

Figure 3: Proportion working-age families with certain characteristics behind with an energy and/or phone bill



Source: NPI analysis of Family Resources Survey, the data is an average for 2012/13 and 2013/14

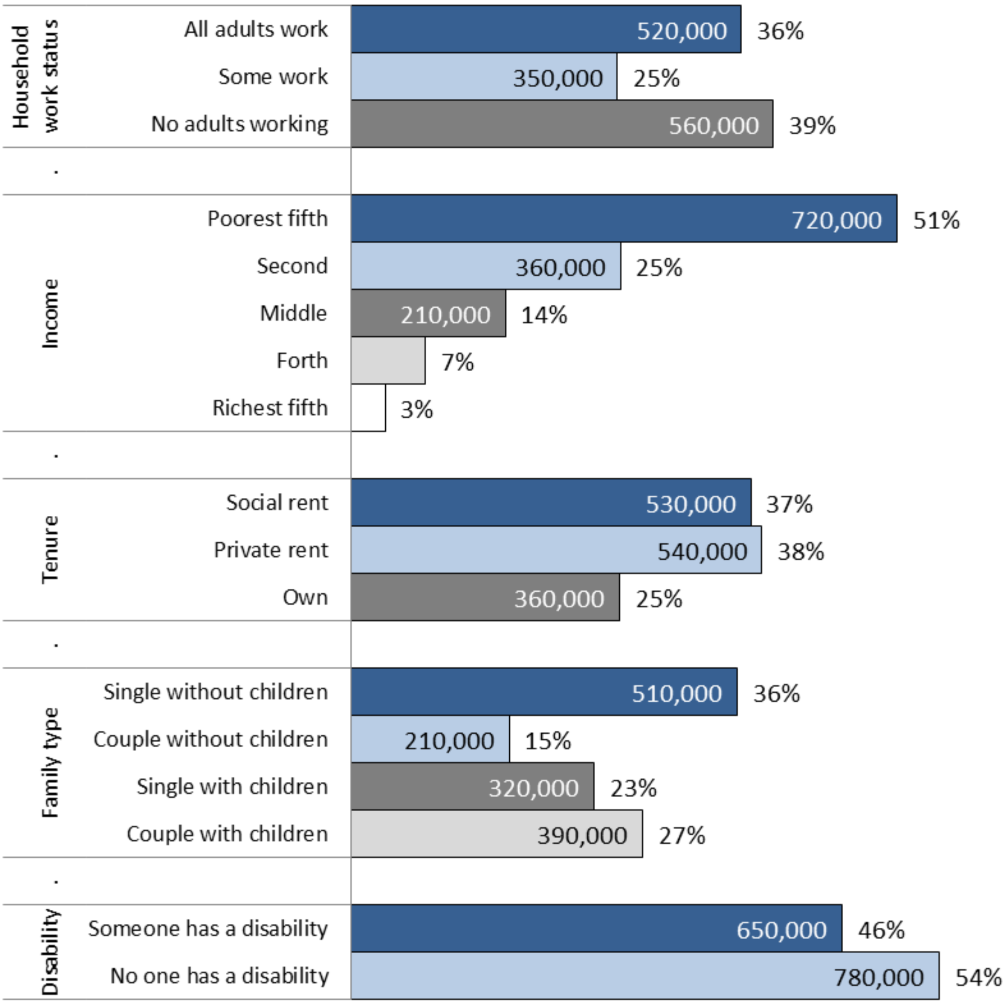
Single parent families had the highest rate of bill arrears with almost a fifth behind with an energy and/or phone bill payment in the past 12 months. Families who rent their homes also have above average rates of arrears at 12% for those in social rented housing and 9% of those who rent privately. Low income families, those with a disabled member and those where no adult is working also had above average rates of arrears. There was however little variation in the rate of arrears between English regions, Wales, Scotland and Northern Ireland.

So far we have looked at the types of families that have the highest “risk” of falling behind with bills. It is also it is also useful to look at the composition of all those families behind with their bills as this is the client group creditors see them they are pursuing for bill repayments.

Figure 4 looks at the number of families behind with their phone and/or energy bills across a range of characteristics. It shows the diversity of households that fall behind with bills. In particular:

- A large minority are workless households where no one is in work, but the majority behind with these bills are working and 520,000 are in households where all adults are in work.
- Most of those behind with their bills rent their home with an even split between private renter and social rents, but nonetheless 360,000 are owner-occupiers.
- Over a third of those behind with their bills are single adult families, half are families with children.
- A large minority of families behind with bills (46%, or 650,000 families) contain a disabled person.

Figure 4: Composition of families behind with phone and/or electricity bills



Source: NPI analysis of Family Resources Survey, the data is an average for 2012/13 and 2013/14

The most obvious pattern in figure 4 is income – those behind with bills are predominantly at the bottom of the income distribution. Over half are in the poorest fifth whilst the richest 60% of families account for only a quarter of those in arrears.

This is not a surprising finding. Among those who struggle to keep up with their bill payments the vast majority (90%) say that it's because they lack the money to do so. But it is nonetheless important to highlight that, when creditors are pursuing bill repayments, the vast majority of those customers will be managing on little income.

Expenditure on basic items and low income

Along with being more likely to fall behind with energy and/or phone bills, families in the poorest fifth also tend to spend less on these items. The table below shows that the average low income family spends £20 a week on energy, 23% less than the overall average (£26). For phone/internet costs, low income families spend £8 a week or about half the average. This lower expenditure and among poorer households is indicative of their constrained income. Overall, low income households spend 20% less than the average on basic bill items but 60% less than the average overall. So low income families tend to spend less and their capacity cut expenditure on basic costs is much more constrained.

Figure 5: weekly expenditure of low income families on different items

	Average	Poorest fifth	% difference
Energy	£26	£20	-23%
Phone/internet	£14	£8	-45%
Basic bill items*	£141	£114	-19%
All items	£531	£218	-59%
Bills as share of all spending	27%	52%	NA

*spending on housing costs, council tax, water, energy, phone and internet. Income is measured before tax. Source: Family Spending 2015, ONS

These lower energy costs may reflect that households are not heating their home adequately: 2.2 million working-age families are unable to keep their home warm enough because they could not afford to[1]. 400,000 of these families had been behind with an energy bill in the past 12 months, so despite under-consuming fuel they had fallen behind on bills. The remaining 1.8 million families had not been in arrears with energy bills – they have under-consumed energy to make forthcoming bill payments more affordable or may have pre-payment metres but lacked the funds to use them.

Despite lower energy and phone expenditure among poorer families, this represents a much larger share of their total expenditure. Energy accounts for 9% of total expenditure among low income families whilst phones/internet accounts for 4% of total expenditure. Together these items represent a small but significant share of low income households' outgoings. In total spending on basic bill items[2] accounts for more than half of spending among the poorest households.

[1] Family Resources Survey, average for 2012/13 and 2013/14
[2] Rent, mortgage interest, council tax, service charges, water, energy, phone and internet.

The overlap between benefits and bill arrears

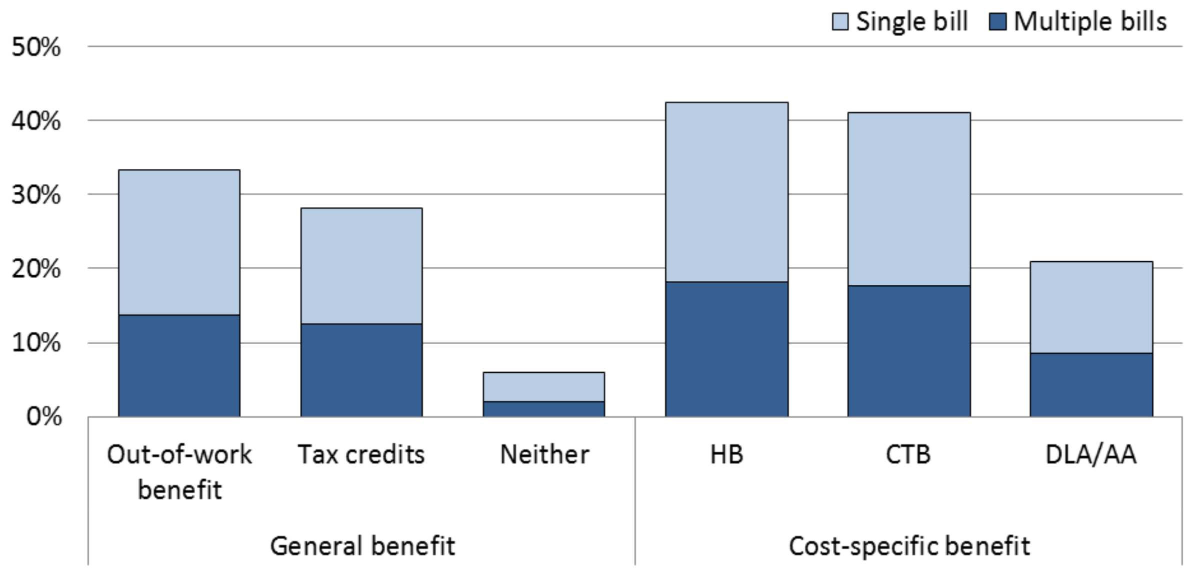
Next we turn to look at the overlap between bill arrears and benefit receipt. First we look at the proportion of families behind with household bills by type of benefit and then the share of all families behind with bills that that receive benefits.

How many people in receipt of benefits are behind with household bills?

Figure 6 shows the proportion of families claiming a range of benefits that are behind with a bill payment. On the left it looks at receipt of general income benefits which are means-tested cash benefits provided to families to help with general living costs. Out-of-work benefits refer to income support, pension credit, jobseeker's allowance and employment support allowance which are provided to workless families/individuals (and those with very low earnings). Tax credits top-up the income of low to middle income working and workless families. To remove the overlap, families receiving both an out-of-work benefit and tax credits are included only in the out-of-work benefit category.

Families can also receive benefits to help with particular costs. Housing benefit and council tax benefit are means-tested and specifically linked to the rent and council tax costs of the claimant. Meanwhile disability living allowance (which is being replaced with personal independence payments) and attendance allowance are intended to cover the additional costs individuals face as result of having a disability. This is based on the nature of the claimant's disability rather than income.

Figure 6: Proportion of working-age families behind with essential bills in last 12 months by benefit receipt



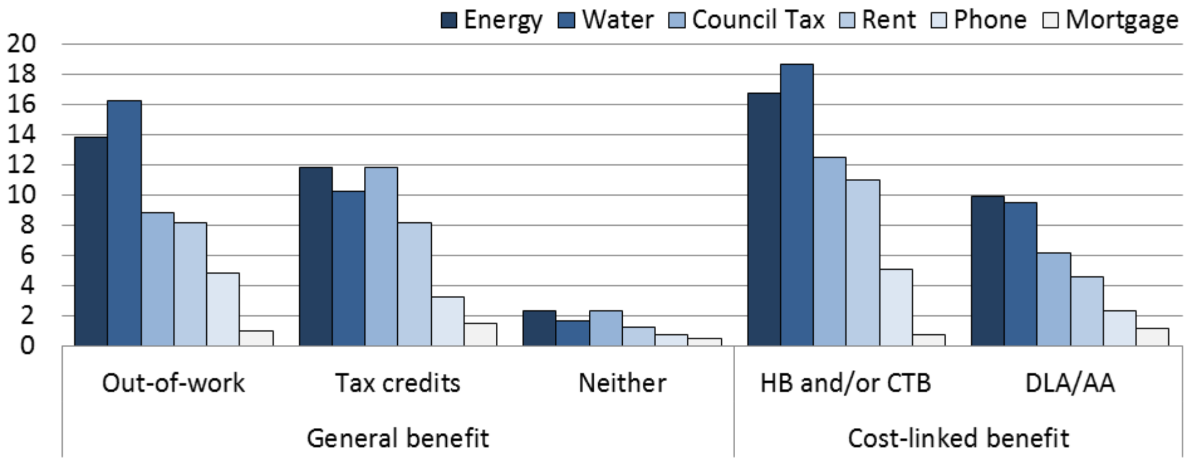
Source: NPI analysis of Family Resources Survey, the data is an average for 2012/13 and 2013/14

Figure 6 shows that a third of households receiving an out-of-work benefit had been in arrears with a bill in the past 12 months and over a quarter of those who received tax credits (but not an out-of-work benefit) had been behind with bills. This compares to just 6 percent of people who received neither of these.

Arrears were most common among those receiving housing benefit (at 42%) and those receiving council tax benefit (at 41%). These benefits have a large overlap with general income benefits – around two thirds of those receiving a council tax and/or housing benefit also receive an out-of-work benefit and most of the remainder receive tax credits. Around a fifth of families in receipt of a disability benefit were in arrears with household bills.

Figure 7 looks at how bill arrears vary for each of these benefit types. Prior to April 2013 a household on an out-of-work benefit would automatically be exempt from paying council tax through council tax benefit. Since April 2013 this value of this council tax exemption has been left to the discretion of local authorities in England. The 12% of families in receipt of an out-of-work benefit reporting that they had been in arrears with council tax in 2013/14 is likely to be linked to this benefit change (which we explore in more detail in the next section).

Figure 7: Proportion of working-age families behind with particular bills in last 12 months by benefit receipt



Source: NPI analysis of Family Resources Survey, the data is an average for 2012/13 and 2013/14

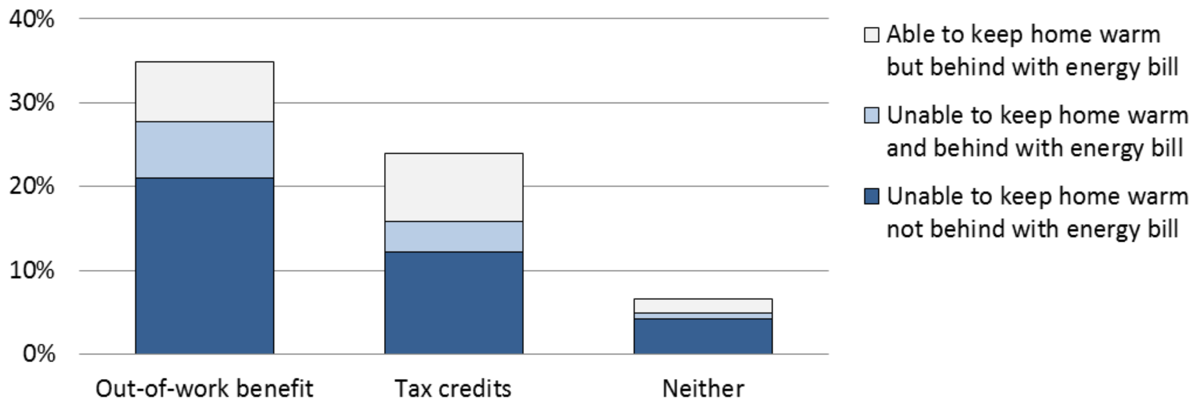
Around 8% of families receiving an out-of-work benefit or tax credit had been behind with rent, rising to 12% among housing benefit recipients who receive state support specifically for rent payments. But within this group rent arrears vary by tenure. Overall, 15% of social renters receiving housing benefit were behind with rent - almost double the proportion of private renters at 8%. The higher instances of rent arrears among social renters is perhaps surprising as their housing benefit is commonly paid directly to the landlord whilst private renters tend to receive housing benefit as part of their income which they then transfer to the landlord. It is also surprising as private rents are higher and are the largest basic cost families have to meet.

One explanation for why private renters receiving housing benefit are less likely to fall behind with their rent than social renters could be that private renters have less tenure security. Private renters face a higher risk of their tenancy ending if they missed a rent payment so rent is perhaps seen as a high priority bill. Overall 34% of private renters receiving housing benefit had not been behind with their rent but had been behind with another bill, higher than the rate among social renters at 28%.

Figure 7 also shows that water was the bill those claiming an out-of-work benefit were most commonly behind with, whilst among other groups energy arrears were more common. The lower rate of energy arrears among those claiming an out-of-work benefit could be linked to prepayment metres. 3.7million households have pre-payment metres in England and Wales so cannot fall in arrears with their energy bills but will also be unable to heat their home if they lack the funds to do so.

Figure 8 shows the proportion of households by benefit receipt that were unable to keep their home adequately warm because they could not afford to. It shows that 21% of families receiving an out-of-work benefit were not behind with their energy bills but unable to keep their home warm due to cost (860,000 families). Among those receiving tax credits it was 12% (580,000 families).

Figure 8: Proportion of families unable to afford to keep home warm and/or behind with gas and electricity bills by benefit receipt



Source: NPI analysis of Family Resources Survey, the data is an average for 2012/13 and 2013/14

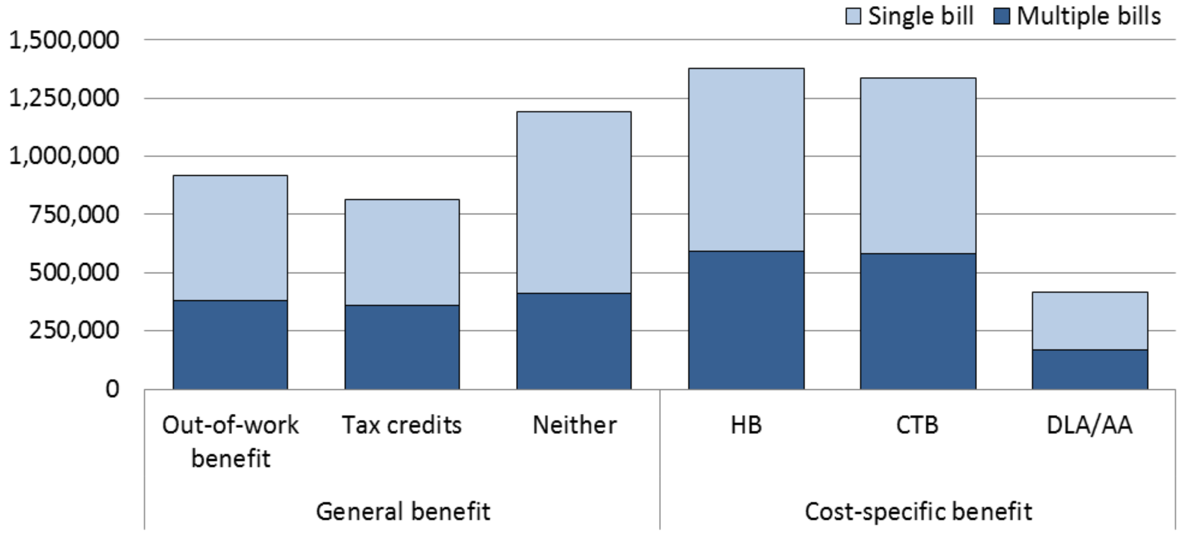
What share of families in bill arrears receives a state benefit?

So far we have looked at the likelihood or risk of different families falling behind with bill payments. Now we turn to look at the total group of households that are behind with bills – the 'stock' of families that creditors look at when they are managing their consumers in arrears.

Figure 9 shows the 2.9 million working-age families behind with bills by benefit receipt. It shows that 920,000 receive an out-of-work benefit (31%) and a further 810,000 receive tax credits (28%). In total around 60% of working-age families in arrears with their bills receive an out-of-work benefit or tax credit.

In terms of cost-specific benefits, just under 1.4 million families in arrears with bills received a housing benefit, as with council tax benefit, accounting for just under half of all working-age families in arrears. Around 400,000 working-age families receive a disability benefit and are in arrears with household bills (14% of all those in arrears), the vast majority of who also received a means-tested benefit.

Figure 9: Number of working-age families behind with bill payments in last 12 months by benefit receipt

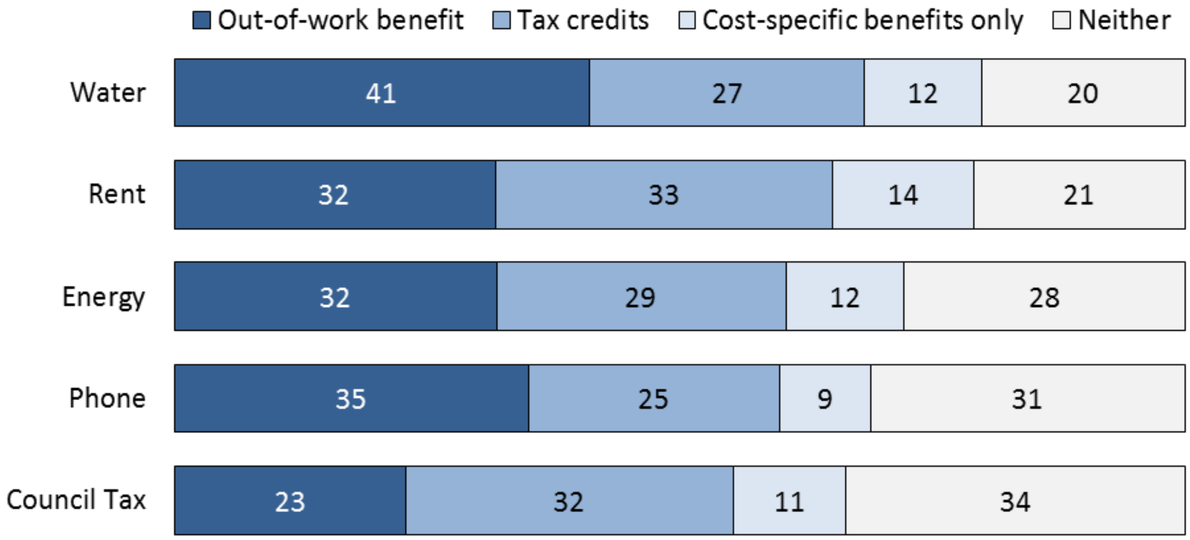


Source: NPI analysis of Family Resources Survey, the data is an average for 2012/13 and 2013/14

Many of those claiming a cost-specific benefit will also claim a general benefit. Taking these overlaps into account, 2.1 million working-age families receive at least one of these benefits and were in arrears with a household bill in the past 12 months, accounting for 70% of all those in arrears with bills.

Figure 10 looks at how the share of those in arrears and claiming a benefit varies for different bill types. It shows that for all bill types at least half of those behind with bill payments were in receipt of a benefit, it reaches around 80% for families behind with rent and water payments.

Figure 10: Income benefit receipt among working-age families behind with particular bill payments in last 12 months



Source: NPI analysis of Family Resources Survey, the data is an average for 2012/13 and 2013/14

The impact of welfare reforms on bill arrears

As most working-age families behind with bills claim a benefit they will have also been impacted by welfare reform. Families experiencing a fall in their benefit income are likely to find it harder to manage their bill payments. This section considers the evidence of how welfare reforms have had on debt with household bills.

Recent welfare reforms

First we look at the welfare reforms that have been implemented to date. Research by Beatty & Fothergill has shown that reductions in benefit entitlement between 2010 and 2016 are estimated to amount to £14.5bn per year across Britain.[3] This is equivalent to an annual loss of £360 per working-age adult.

The table below summarises the main changes made to means-tested benefits since 2010, the number of households affected and the average amount of benefit income lost as a result. It shows that the overall benefit cap resulted in a large fall in income for the 28,000 workless families affected (mostly families with high rents or 3 or more children). Meanwhile 7.9 million families were affected by the 1 percent uprating. But the cost to those affected is much less amounting to an average loss of £340 per year. In addition this welfare reform affects families gradually – rather than cutting a family's benefit income at a particular point in time, it holds down the value of certain benefits so they are worth less as prices rise.

Figure 11: average loss and number of households affected by welfare reform

	Loss per year by 2016	Households affected
Overall Benefit Cap	£3,570	28,000
Employment and Support Allowance	£2,100	310,000*
Housing Benefit to private tenants	£1,190	1,400,000
Tax Credits	£980	4,300,000
Housing Benefit, the under-occupation penalty	£780	460,000
1 per cent uprating	£340	7,900,000
Council Tax Support	£170	2,240,000

*Number refers to individuals affected rather than households

Source: Beatty & Fothergill (2016)

[3] Beatty. C. & Fothergill. S. (2016) 'The Uneven Impact of Welfare Reform: The financial losses to people and places'. Centre for Regional Economic and Social Research, Sheffield Hallam University

Along with differences in the number and way that households have been affected, the impact of welfare reforms varies by area. In more deprived areas where benefit receipt is higher, a higher proportion of people have been affected. Large numbers of people in old industrial areas, deprived seaside towns and many London boroughs have been affected. The area with the greatest impact was Blackpool where annual losses amount to £720 per working-age adult (double the average of £360).[4]

The under-occupation penalty and council tax benefit localisation

Next we look at how the proportion of households behind with bills has changed following the introduction of welfare reforms. The analysis looks specifically at the two welfare changes that affected households at the same point in time (rather than a phased rollout) and resulted in an absolute cut in benefit income. These are:

- the replacement of council tax benefit with localised council tax support meaning low income families were required to pay council tax they were previously exempt from
- the under-occupation penalty which cut the housing benefit entitlement of working-age social tenants deemed to have a spare room

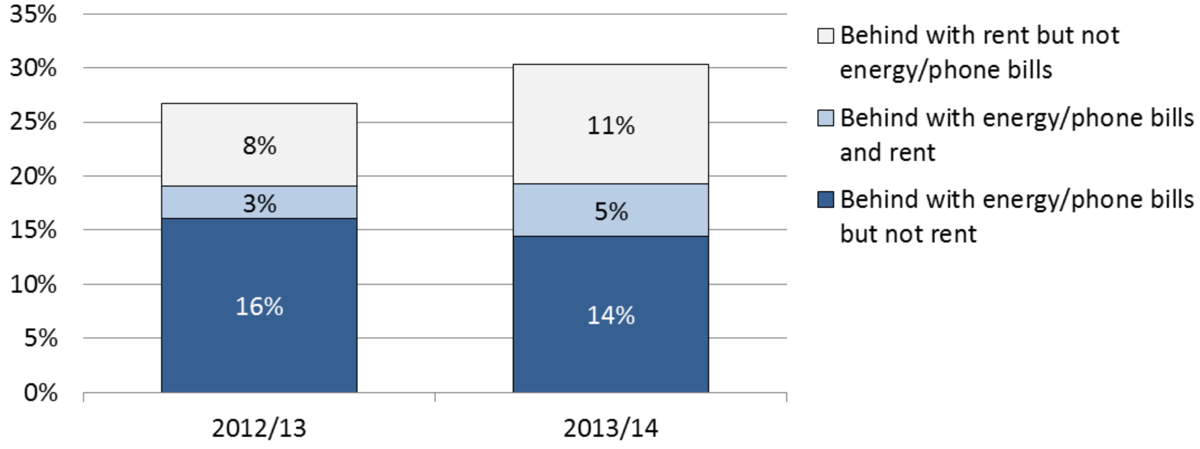
As these changes were both introduced in April 2013 we can explore their impact by comparing bill arrears among claimants before and after the reforms.

Research has already shown that the council tax benefit change led to an increase in council tax arrears and that the under-occupation penalty led to an increase in rent arrears among those affected[5]. Here we consider how these changes have affected other bills – are families affected by welfare reforms having to manage multiple debts, are the ones meeting their council tax and rent payments falling behind with other items?

Figure 12 looks at arrears with rent, phone and energy payments among working-age families receiving housing benefit in the social rented sector in the year before and after the under-occupation penalty was introduced. It shows that the proportion of families behind with rent increased from 11% to 16%. But the proportion of families behind with a phone or energy bill did not change – in both years it was 19%. However, the composition of those behind with a phone/energy bills has changed – a larger share of them are also behind with rent payments.

[4] Ibid
[5] Belfield. C., Cribb. J., Hood. A. & Joyce. R (2015) ‘Living standards, poverty and inequality in the UK’ Institute for Fiscal Studies

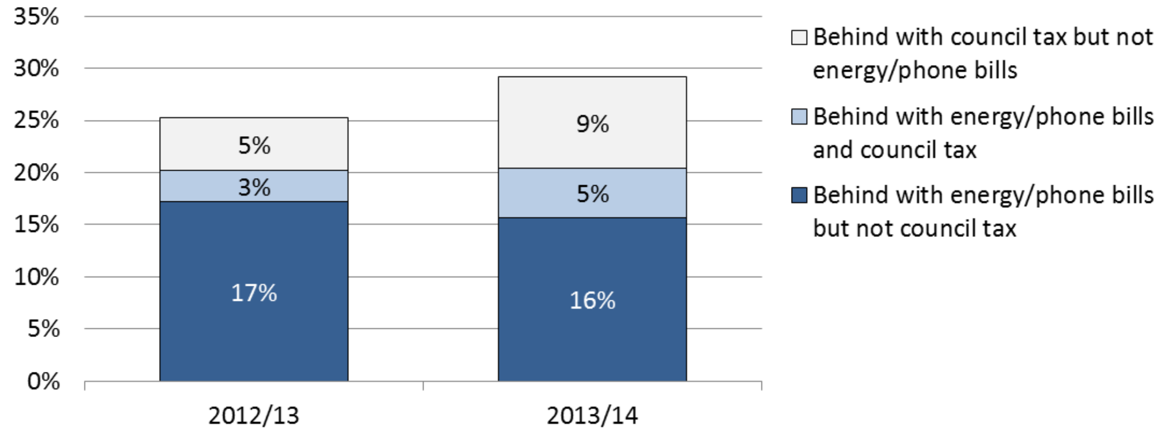
Figure 12: Proportion of working-age social rent families receiving housing benefit that were in arrears will bills in past 12 months



Source: NPI analysis of Family Resources Survey

Figure 13 looks at the impact of changes to council tax benefit by focusing on arrears among working-age council tax support/benefit claimants in England. It shows that the proportion of households in arrears with council tax increased from 8% to 13% after the entitlement changes were introduced. Meanwhile the proportion behind with an energy/phone bill remained at 20%.

Figure 13: Proportion of working-age families receiving council tax benefit in England that were in arrears will bills in past 12 months



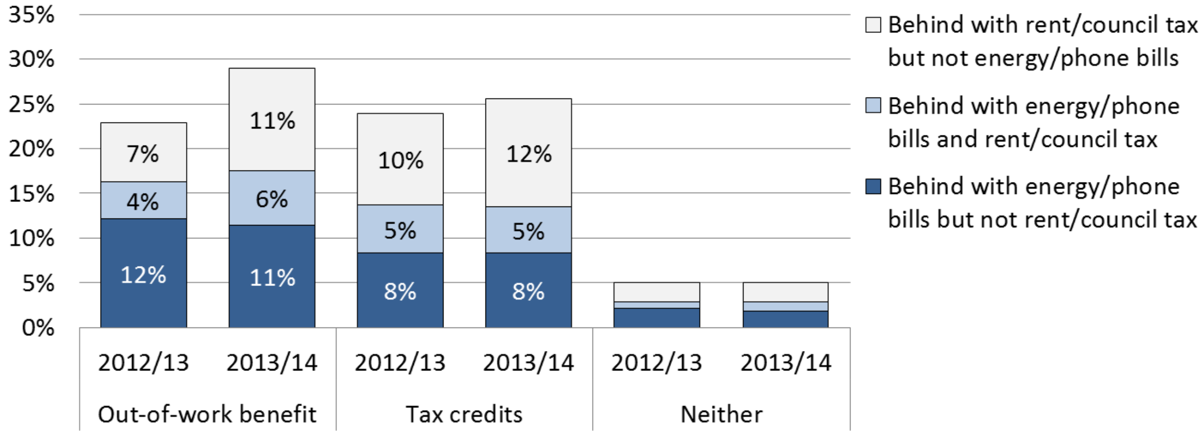
Source: NPI analysis of Family Resources Survey

In both figure 12 and 13, the proportion of families behind with an energy/phone bill was much higher than the proportion behind with rent or council tax even after the introduction of the under-occupation penalty and council tax support.

Figure 14 looks at arrears among all working-age families in the UK by their entitlement to a general income benefits (which help with general living costs rather than the specific items of rent and council tax). It shows that among out-of-work benefit recipients the proportion of families behind with a phone/energy bill appears to have slightly increased between 2012/13 and 2013/14 from 16% to 18%. But the rise was much clearer in terms of the proportion behind with a rent or council tax payment rising 11% to 18%.

Among those in receipt of tax credits (but not an out-of-work benefit), 14% were behind with a phone/energy bill, unchanged in the two years, but there was a slight rise in arrears with a rent or council tax. In both years around 5% of families not receiving tax credits or an out-of-work benefit fell behind with any of these bills.

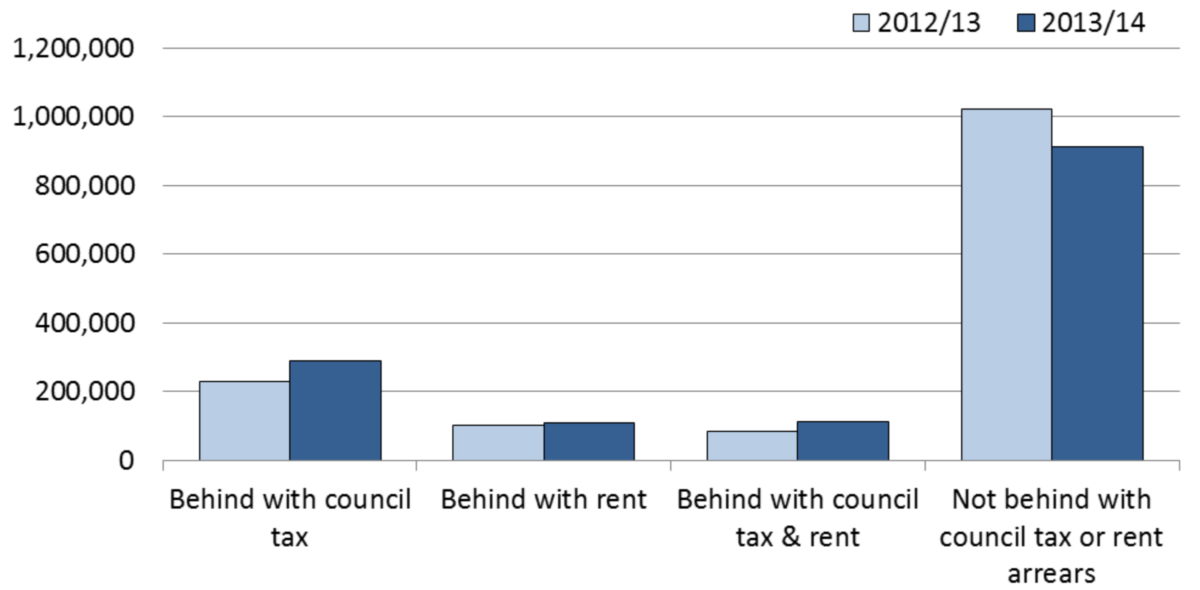
Figure 14: Proportion of working-age families that were in arrears will bills in past 12 months by benefit receipt



Source: NPI analysis of Family Resources Survey

Overall between 2012/13 and 2013/14 the number of working-age families behind with a phone or energy bill remained largely unchanged at 1.4 million. But at the same time arrears with rent and council tax increased and overall the number of families behind with multiple bills also increased. The number of families behind with a phone/energy bill that were also behind with council tax or rent rose from 410,000 to 510,000, so in 2013/14 over a third (36%) of families behind with a phone/energy bill payment in had also been behind with rent or council tax payments. Figure 13 suggest that this rise in the number of people behind with multiple bills has primarily been among families receiving an out-of-work benefit.

Figure 15: Working-age families behind with phone/energy payment in past 12 months

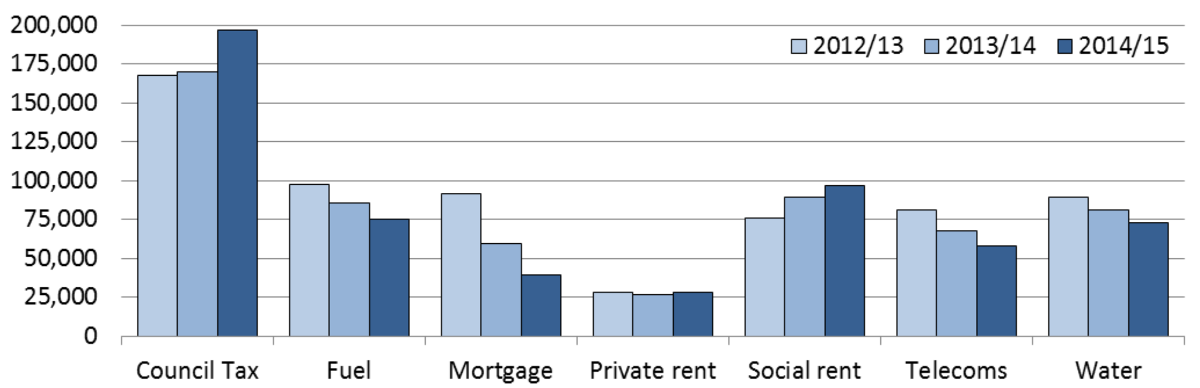


Source: NPI analysis of Family Resources Survey

Debts among those seeking advice on welfare reform

Using data from Citizens Advice we can also look at types of debts among those affected by welfare reforms who have sought their help. Overall in the past three years there has been a change in the type of debt advice clients are approaching Citizens Advice for, with a sharp rise in advice with council tax and rent paid to social landlords. This is in keeping with the findings from the IFS and evidence above that the localisation of council tax support and the under-occupation penalty have led to arrears with council tax and rent.

Figure 16: Working-age families behind with phone/energy payment in past 12 months

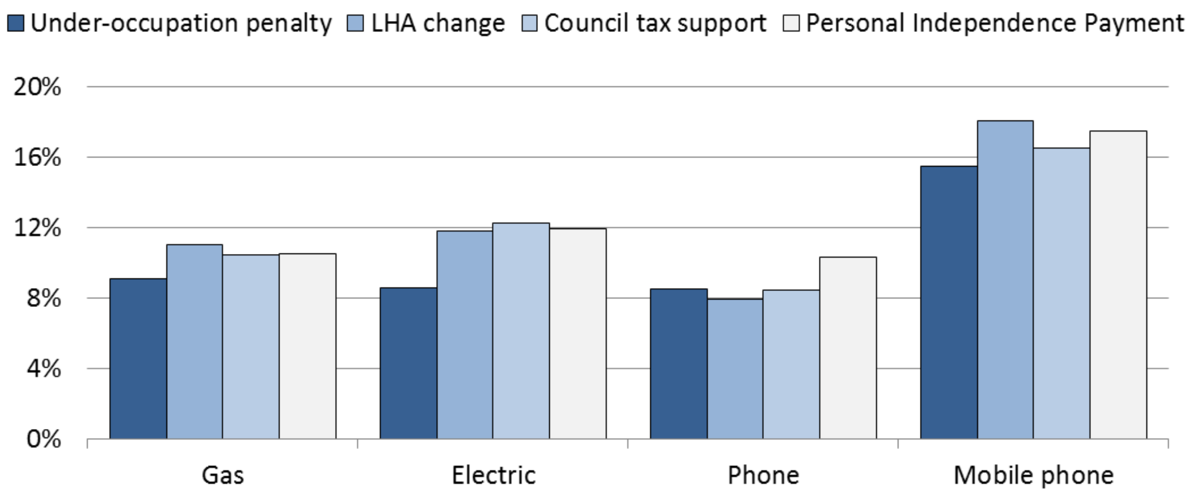


Source: NPI analysis of Citizen Advice Client database

One of the services offered by Citizens Advice is debt assessments. Using their data we are able to look at the types and levels of debt among those seeking advice for on a welfare reform and then participating in a debt assessment. Figure 17 looks at the proportion of these clients that were behind with particular bills.

It shows that the most common debt was for a mobile phone with 15% to 18% of clients being in debt on their mobile phone payments.[6] There is little difference in proportion of people in debt by the type of welfare reforms that they have been affected by. The biggest difference is in the type of bills clients are behind with. Mobile phone debts are the most common, followed by gas/electricity debts and then home phone/internet debts. It appears that those affected by the under-occupation penalty are slightly less likely to be in debt with their energy or phone bills but this gap is quite small.

Figure 17: Debts rates with particular bills among CA clients affected by welfare reforms and participating in a debt assessment

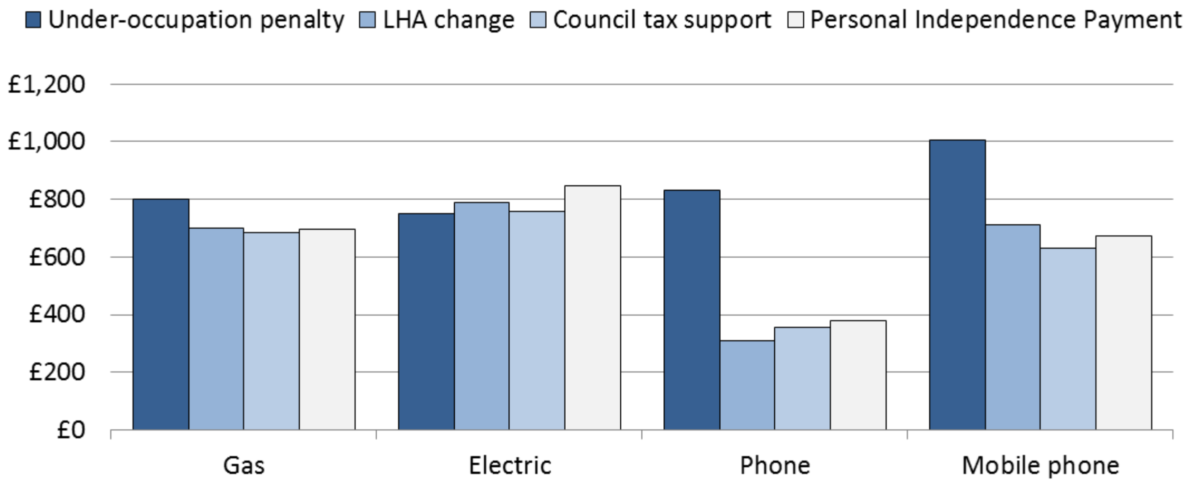


Source: NPI analysis of Citizen Advice Client database

The average client was in debt with five different things, this includes debts with essential household bills but also other items (such as credit cards, pay day loans etc). Figure 18 looks at the average size of debt with energy and phone payments among those affected by welfare reforms. It shows that although a lower proportion of clients affected by the under-occupation penalty were in debt with these bills, among those that were average size of that debt was greater. But across all bill types and welfare reforms the average debt was sizable for example the average debt across gas and electricity payments was £750.

[6] This contradicts the finding earlier that phone debts were relatively uncommon. This inconsistency could be because of how that particular question in the Family Resources Survey is asked – by referring to “telephone bills” in general but intending to mean both mobiles and fixed line bills. The proportion of clients behind with gas, electricity and phone bills are more aligned to the findings from the Family Resources Survey

Figure 18: Average debts size by bill type among CA clients affected by welfare reforms and participating in a debt assessment



Source: NPI analysis of Citizen Advice Client database

These debt levels are not substantially different to the average among other clients participating in a debt assessment at their local Citizens Advice, so these debts cannot be attributed to the impact of welfare reforms. But it does highlights that many of those affected by welfare reforms have to manage substantial debts on an already low income that has fallen further.

Implications for future welfare reforms

This section outlines the nature and scale of forthcoming welfare reforms. It then discusses what the evidence present above tells us about how these might impact arrears with household bills and the implications for creditors.

Forthcoming welfare reforms

Along with the £14.5bn reduction in annual benefit entitlement between 2010 and 2015, further reductions of £12.9bn are planned to come into effect by 2021. These additional changes will increase the average annual loss in benefit entitlement from £360 per working-age adult to £690. As with earlier reforms, the impacts will vary substantially by locality and family types.

The table below shows the estimated impact of upcoming welfare reforms by 2020/21, focusing on the changes to the main means-tested benefits and disability benefits. For each reform it shows the number of households affected, the average annual loss, the types of families affected and how their entitlement will be reduced.

Figure 19: Upcoming welfare reforms

Welfare reform	Groups affected	Number affected (000s)	Average loss (£pa)	Transitional protection*
Benefit freeze	All working-age families claiming applicable benefits	7,900	£500	Yes
Universal Credit tapers & thresholds	Lower income working families	3,000	£1,050	Yes
Tax Credits (under UC)	Most families receiving tax credits, larger families in particular	2,000	£1,050	Yes
Personal Independence Payments	People with 'less severe' disabilities currently receiving DLA	650	£2,600	No
Employment Support Allowance	People who become unable to work due to sickness or disability	500	£1,300	Yes
Overall Benefit Cap	Workless families in rented homes, mostly single parents with children	210	£2,350	No
Caps in housing benefit to social tenants	Social tenants, particularly in low demand areas and single adults without children aged under 35	300	£750	No
Housing benefit for 18-21 year olds	18-21 year olds without children in rented accommodation	15	£2,600	Yes

Source: Beatty & Fothergill (2016)

Potential impacts of reforms on arrears

The table above highlights the diversity of changes that will be made to the benefit system in the coming years. The numbers give a good indication of which reforms will have the greatest impact on family finances. The number of people affected indicates the scale of the change and the average loss indicates how substantial that impact will be on those affected. The changes to Universal Credit could have a substantial impact on creditors as both a large number of families are affected and they will be entitled to much less.

However, behind the headline figures there are important differences in the nature of these welfare reforms. This detail, as much as the numbers, has implications for how those affected manage and their risk of falling to arrears.

The groups affected by each reform

Whilst some welfare reforms affect a wide range of family types others will only affect a certain group, such as renters. Changes that affect families with children (such as the overall benefit cap) or people with a disability (such as the introduction of personal independence payments), could potentially have a greater impact on bill arrears as those families are less likely to be able to manage a fall in benefit income through increased employment.

The existence of transitional protection

Many of the forthcoming changes will offer some kind of “transitional” concession meaning that individual families will not be financially worse off but when their circumstances change they will be entitled to less than under the previous system. For example, changes to employment support allowance only apply to new claimants, changes to tax credits only apply when claimants circumstances change, and the freeze in the value of benefits only affect families as prices rise. This transitional protection may make it easier for families to manage as most will not experience a sudden drop in their income.

Three reforms in the table above offer no transitional protection (the overall benefit cap, personal independence payments and housing benefit for social renters). If an individual claiming disability living allowance is unable to claim the replacement they stand to be around £2,500 per year worse off by 2021. Welfare reforms like this require those affected to make sudden adjustments to manage their finances and those unable to do so may fall into arrears.

The type of benefit cut

In practice those affected by the under-occupation penalty and council tax support saw an increase in their rent and council tax bills rather than a fall in their benefit payments. The evidence suggests that many of those affected fell into arrears with these specific payments but not others. However, most forthcoming welfare reforms will reduce benefit income (rather than increase the cost of a specific bill). Such changes may be more likely to cause affected families to fall into arrears with other bills if they are paid for with the help of benefit income.

Universal credit

The biggest planned change to the benefit system is the rollout of Universal Credit (UC). In-work support under UC was reduced considerably in the 2015 summer budget and is now on average less generous than the current tax credit system. There are 1.3 million families currently eligible for support that will not be under UC, plus 1.2 million who remain eligible but will receive less in support. This compares to 1.7 million who will be better off.[7] However, there is transitional protection so claimants will only be affected as there circumstances change. In the meantime the value of their benefit will be eroded by inflation.

The previous section highlighted that there had been an increase in arrears with council tax and rent when bills for these items increased (through cuts to council tax support and housing benefit). Under UC housing benefit to social tenants, which is currently paid directly to the landlord, will instead be paid to the tenant as part of a unified single benefit payment. Future changes in housing benefit for social tenants lead to a cut in their general benefit income from which they pay rent and other bills. This increases the risk that housing benefit cuts will lead to arrears with other bills the rather than rent specifically.

Another risk from UC is a change to payment frequencies. Currently out-of-work claimants receive benefit payments every two weeks but under UC this will change to every four weeks. These changes mean millions of families will have to budget their benefit income over a longer period of time. On top of this social renters will have to manage new costs. This wide range of changes to the benefit system will require families to change the way they manage their income and could have a substantial impact on arrears.

Implications for creditors

Low income families face a number of budgetary pressures which creditors should be sensitive to:

[7] Finch, D. (2016) 'Universal Challenge: Making a Success of Universal Credit.' Resolution Foundation

- Most of their customers in arrears will also be in arrears with another bill payment
- Over half of the expenditure by low income households goes towards keeping up with basic bill items
- Many families under-consume fuel to reduce their costs

Alongside this, there is a strong link between the provision of the benefit system and arrears with essential items. 70% of the 2.9m working-age families who have been behind with their bills in the past 12 months are in receipt of a key benefit. Between a quarter and a third of working-age families in receipt of one of these benefits has been in arrears. In short, the overlap between benefit recipiency and being behind with an essential bill is considerable.

Most of these families live on a low income. Welfare reforms have reduced these incomes compared with what they would have been and forthcoming benefit changes will reduce them further still. The number of families in arrears and the depth of those arrears may increase as a consequence. Meanwhile, debt problems are becoming more complex.

A range of families will be affected these welfare reforms. Many will be working and many will already be behind with bills. Families with children and disabled people are likely to be affected by multiple changes and will be less able to mitigate the loss through employment. It is in the interest of creditors to be aware of these changes and to help customers manage their changing financial situation.

It is also in the interest of creditors that the poorest members of society are able to afford the essential services they provide, whether in work with a low income, or out of work. Since it has a direct impact on business, welfare reform is therefore business's business too.

Appendix

The table below looks summarises some of the key statistics contained in this report. For a range of key family types it shows the welfare reforms they are most likely to be affected by, the number claiming particular benefit types and the number that had been behind with a phone or energy payment in the last 12 months.

Family type	Key welfare reforms	Total in group (000s)	Number receiving certain benefits (000s):				Behind with phone/energy bill	
			Workless benefit	Tax credits*	HB/CTB	DLA/AA	(000s)	% of group
Families where someone disabled	Personal Independence Payments Employment Support Allowance	6,200	1,500	900	2,100	1,800	700	11%
In social rented housing	Social tenant housing benefit caps	4,500	1,500	900	2,100	800	500	12%
In private rented housing	Freeze on benefits values (includes HB) Overall benefit cap (workless families)	6,000	700	800	1,300	300	500	9%
Working families, with children	Tax credits under Universal Credit Universal Credit tapers and thresholds	6,800	200	2,400	1,300	300	400	7%
Workless families, with children	Tax credits under Universal Credit Freeze on benefits values Overall benefit cap	1,100	800	200	900	200	200	23%
Workless families, without children	Freeze on benefits values Employment Support Allowance	3,000	1,200	0	600	800	300	11%
All working-age families	**Any/all**	**25,900**	**2,700**	**2,900**	**900**	**2,000**	**1,200**	**6%**

*excluding those also claiming out-of-work benefit

Source: NPI analysis of Family Resources Survey (2012/13 to 2013/14)