

Out of the Red

Tackling Debt to Turn the Tide
on Living Standards



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Contents

Executive Summary.....	2
The changing picture of debt.....	7
How debt undermines living standards.....	11
1. Unaffordable debt repayments push people into hardship.....	12
2. Debt prevents rising incomes from improving living standards.....	15
3. Debt undermines quality of life.....	21
Conclusions and recommendations.....	24
Appendix 1: Methodology.....	26

Executive Summary

Over the past six years, households have faced a prolonged squeeze on living standards driven by the pandemic, global economic disruption and persistent cost pressures in essential markets. Since the start of the crisis, much of the government's policy focus has been on increasing household incomes and decreasing the prices of essential bills. But far less attention has been paid to the household debt faced by the millions of households struggling to meet essential costs.

The view from our frontline advisers is stark. We're helping more people - with higher debts - than ever before, and most people coming to us have no means to repay their debts. On average more than 48,000 people per month have sought help with debt from Citizens Advice so far this year. Recently, the average debt level that people come to Citizens Advice with for help went above £10,000 for the first time. More of our debt clients than ever (51%) are in a negative budget, where their income is not enough to cover essential costs.

Arrears on household bills including energy, water and council tax have become increasingly prominent amongst the debts people bring to us. This reflects an important change in the nature of household debt in the UK. Increasingly, households are falling into debt not because of short term income shocks or excessive borrowing, but because they cannot afford essential bills.

Once a household falls behind, **debt stops being just a symptom of poor living standards. It becomes an active barrier to improving them. This results in a vicious cycle where the two issues reinforce one another.** This report sets out the three key ways that heavy household debt is undermining the government's agenda to raise living standards:

- Unaffordable debt repayments and disproportionate collection practices push households further into hardship.
- Debt absorbs increases in income, meaning higher wages or additional financial support do not translate into improved living standards.
- Debt undermines people's access to good health, employment and housing, limiting their ability to improve their circumstances over the longer term.

Breaking this vicious cycle is essential if efforts to improve living standards are to reach the 8.7 million UK households currently in debt.¹ Raising incomes and reducing essential costs must remain central, but these measures will have less impact if households cannot escape debts they cannot realistically repay.

The government must make tackling household debt a fundamental part of its living standards agenda. This requires action to prevent unaffordable debt repayments, provide realistic routes out of debt, and integrate strong entry points into debt advice across wider services and communities.

Many of the building blocks are already in place. Implementing the proposed Energy Debt Relief Scheme, building on successful policies like Breathing Space and long-awaited work on reforming personal insolvency all provide opportunities for progress. Existing examples of integrated debt advice referrals could also be expanded. Together, these reforms could form a more coherent approach to tackling problem debt and, alongside broader measures to help with energy bills and housing costs, can help turn the tide on living standards.

¹ This figure is drawn from the % of UK households in debt according to our internal Cost of Living Tracker data which is 30% and then applied to the Office for National Statistics number of households found here: <https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/families/bulletins/familiesandhouseholds/2025>

A package to break the vicious cycle of problem debt and weakened living standards

Stronger protection from unaffordable repayments

The government should work with regulators, creditors and enforcement bodies to ensure repayment demands and collection practices are truly fair and reflect what households can realistically afford.

The government should:

- Improve communication between creditors and debt advisers through consistent authorisation processes, specialist support and secure digital channels.
- Strengthen affordability and vulnerability protections in essential markets, including well regulated enforcement, improved collection practices and consistent use of forbearance.
- Update council tax collection rules, including uprating outdated attachment of earnings thresholds and introducing statutory pre-action steps to prevent arrears from escalating.
- Extend and strengthen Breathing Space, addressing the structural issues that limit its effectiveness and uptake.

Give people a realistic route out of debt

Where debts cannot realistically be repaid without prolonged hardship, households need accessible routes to resolution.

The government should:

- Implement the Energy Debt Relief Scheme and consider targeted debt relief in other essential markets;
- End the IVA exclusion and strengthen protections by bringing advice on IVA's within the FCA's regulatory perimeter;
- Use the Personal Insolvency Review to reform the insolvency system, making routes into debt solutions simpler, more accessible, fairer and more flexible.

Integrate advice to tackle the wider impacts of debt

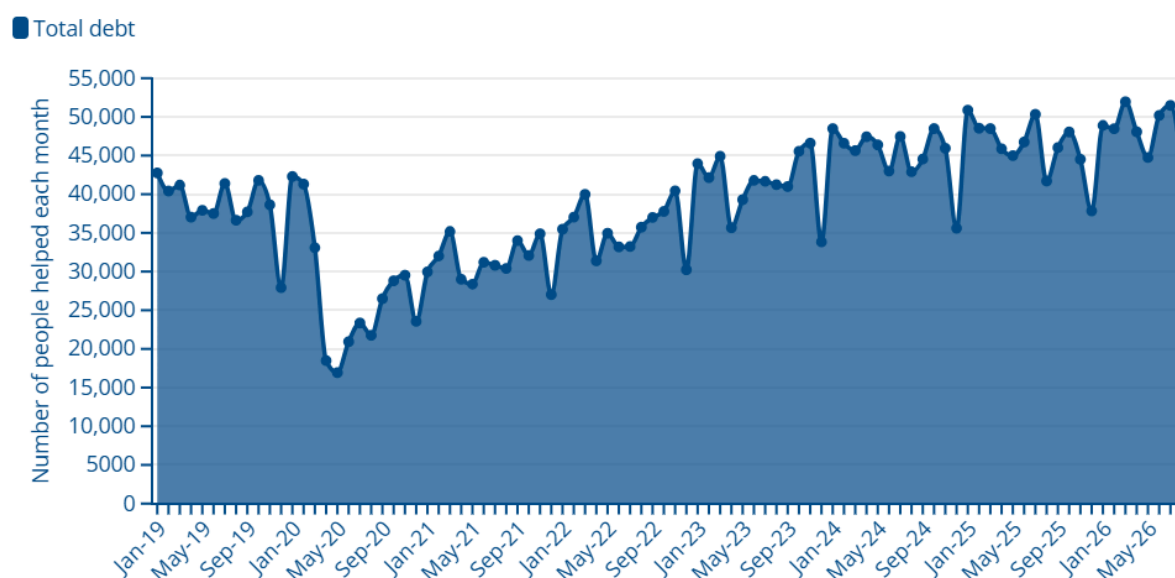
Finally, the government should give serious consideration to approaches that integrate debt advice with health, employment, housing and community services.

Debt advice should be understood not only as a way of resolving financial difficulties, but as part of a wider set of interventions that can help people improve their lives. More integrated services could identify financial problems earlier, connect people with appropriate support and reduce the need for people facing multiple problems to navigate separate systems.

The changing picture of debt

In recent years, we have seen the living standards crisis push more people than ever before into debt. Demand for debt advice has risen sharply, with more than 400,000 people coming to Citizens Advice for help with debt in 2025, a 45% increase from 2021.²

Chart 1: The number of people we are helping with different debt issues every month



Among Citizens Advice debt clients, average debt rose to more than £10,000 in June 2026 for the first time ever.³ Nationally, Citizens Advice research⁴ found that 30% of UK households, equivalent to 8.7 million households, were in debt in April 2026 with over half (55%) of households in debt owing more than £1,000. This figure has almost doubled from January 2022 when 30% of households in debt owed more than £1,000.

² Figure taken from our Deeper Still: The Shape of Debt in 2025 report -

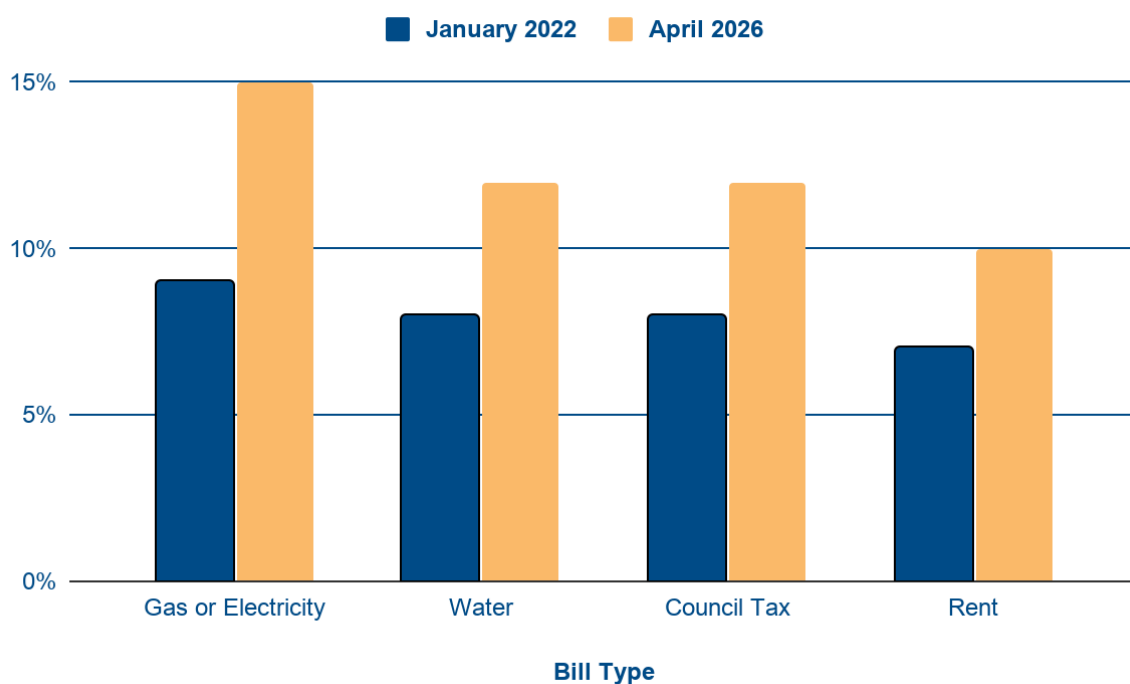
<https://www.citizensadvice.org.uk/policy/publications/deeper-still-the-shape-of-debt-in-2025/>

³ Figure taken from our internal budget planner data

⁴ Figures taken from nationally representative surveys carried out by Walnut on behalf of Citizens Advice to 6,000 people in 2022 and 5,559 people in 2026.

The change is not simply the value of people's debts, but the type of debt they are falling into. Households are building up debt because their income is not enough to cover essential costs, rather than because of a temporary financial shock. As Chart 2 shows, the percentage of households in arrears on essential household bills has risen sharply in the past few years. In total, arrears for council tax, water and energy in England, Scotland and Wales is estimated at around £18.5 billion.⁵

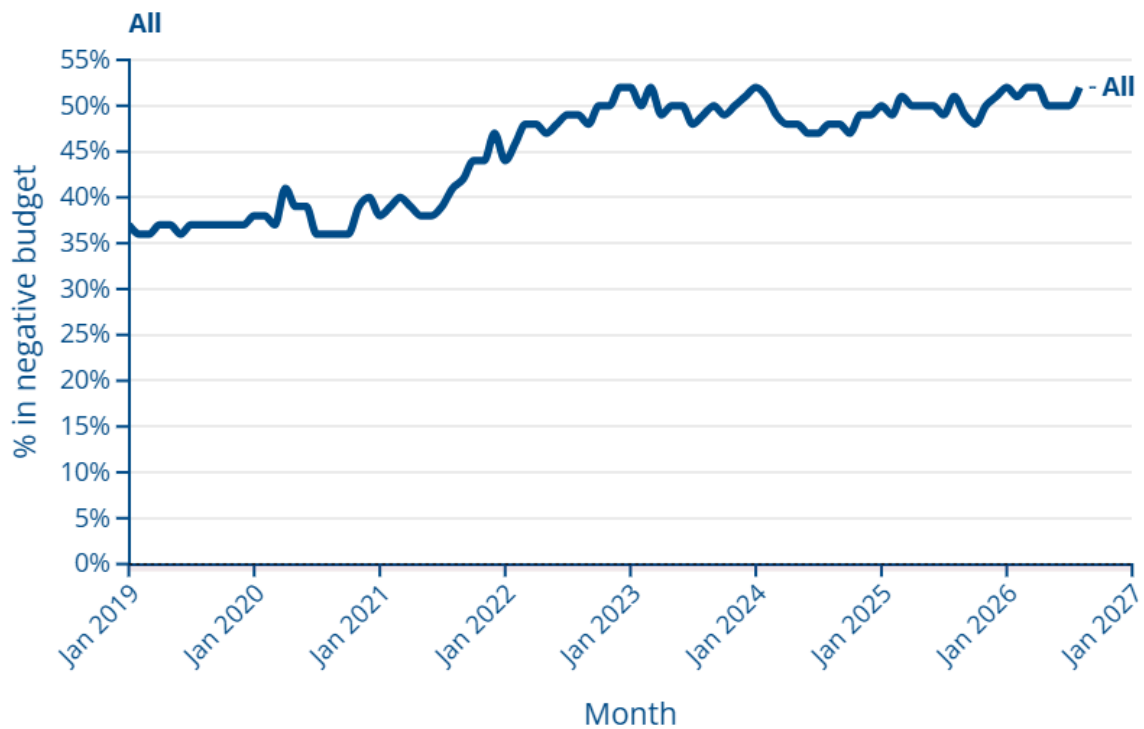
Chart 2: Percentage of households behind on household bills, by bill type



Whilst more households are dragged into debts on their essentials, fewer have the funds to pay off these debts. We see this clearly through our negative budget data which is drawn from the budget assessments our debt clients complete with advisers. In 2026, 51% of Citizens Advice debt clients were in a negative budget, meaning their essential costs exceeded their income, compared with 37% in 2019. On average, these households face a monthly shortfall of £254. Nationally, the proportion of people who say their essential costs exceed their household income has also more than doubled in the last 4 years, from 4% in 2022 to 9% in April 2026.

⁵ Cumulative figure for England, Scotland and Wales based on most recent estimates from public bodies. See appendix for details

Chart 3: Percentage of debt clients in a negative budget



The rising level of people in a negative budget has important consequences for people's ability to recover from debt. Income maximisation and budgeting support remain important, but when debt is driven by spending on essential bills, people have little room to reduce spending in order to service debts. Without any money left over after essentials, people risk falling deeper into a pit of debt. Cases like Sandra's demonstrate how desperate these situations can get.

Sandra's* story

Sandra came to us for help as she was trapped in a growing cycle of debt because her income hasn't kept pace with increasing daily costs.

Over the past six months, she has tried multiple ways to tackle her debt. She checked whether she was eligible for extra benefit support, applied for grants, set up debt repayment plans, switched to social tariffs, and cut her energy use down to the bare minimum. Before, these steps would likely be enough to help someone balance their budget. But today, because of the rising cost of essentials, these steps are not enough. Sandra's basic bills and debt repayments can't be brought down to below her income level.

There are no further options left for Sandra to cut back or increase her income. To keep her energy and household debts from spiraling even further, she's had to use repeated fuel and food bank vouchers to get by. At the moment, without this emergency help, she would have no food at home and no money left to buy groceries.

Debt has also become more complex. Nearly half (47%) of Citizens Advice debt clients now owe money to four or more creditors, compared with 38% in 2019.⁶ These households must manage competing repayment demands and different collection practices. When income falls short, keeping up with one repayment can mean falling behind on another, trapping people in a cycle of shifting arrears.

Debt is a downstream consequence of weakened living standards

The clear picture that we are seeing is that the growth in problem debt is a consequence of the decline in living standards. We define living standards as somebody's quality of life and ability to afford the everyday essentials. Stagnant incomes and the rising cost of essentials have been driving living standards down.

⁶ Figure taken from our internal budget planner data

* All case studies have been anonymised to protect the identity of clients.

As we've seen, more people are falling behind on their household bills. And when people can't keep up with payments, negative budgets put them at-risk of falling deep into problem debt. The growing population of households in debt is therefore driven by those who **can't pay, not those who won't pay**. It lies in people **struggling with these essential bills, rather than reckless spending or unsuitable lending**; and whereas **intermittent** life events driving debt such as poor health or job loss still remain, the problem of unaffordability of essentials is one which can no longer be ignored.

How debt undermines living standards

The picture of debt set out above shows how household debt is increasingly a consequence of poor living standards. But once people fall into debt, it can become a **barrier to improving living standards in itself**, via three mechanisms outlined in this chapter.

Firstly, those that can make repayments are doing so at an unaffordable level and are pushed further into hardship. Even when households have a surplus, it can be too small to provide a realistic route out of debt. And so people may be stuck making repayments for long periods of time. Consider how long it would take for those with a monthly surplus to pay off their debt. For Citizens Advice clients with a monthly surplus, a third (33%) would take over ten years to repay their debt, not including interest or fees. Almost a quarter (23%) would take over 20 years and more than 1 in 10 (12%) would take over 50 years.⁷

Secondly, increased incomes aren't materially felt by those in debt, because additional income is swallowed by debt repayments. This means people don't feel like their living standards have actually shifted. And finally, debt has knock-on impacts; on their mental health and wellbeing, their employment and their housing.

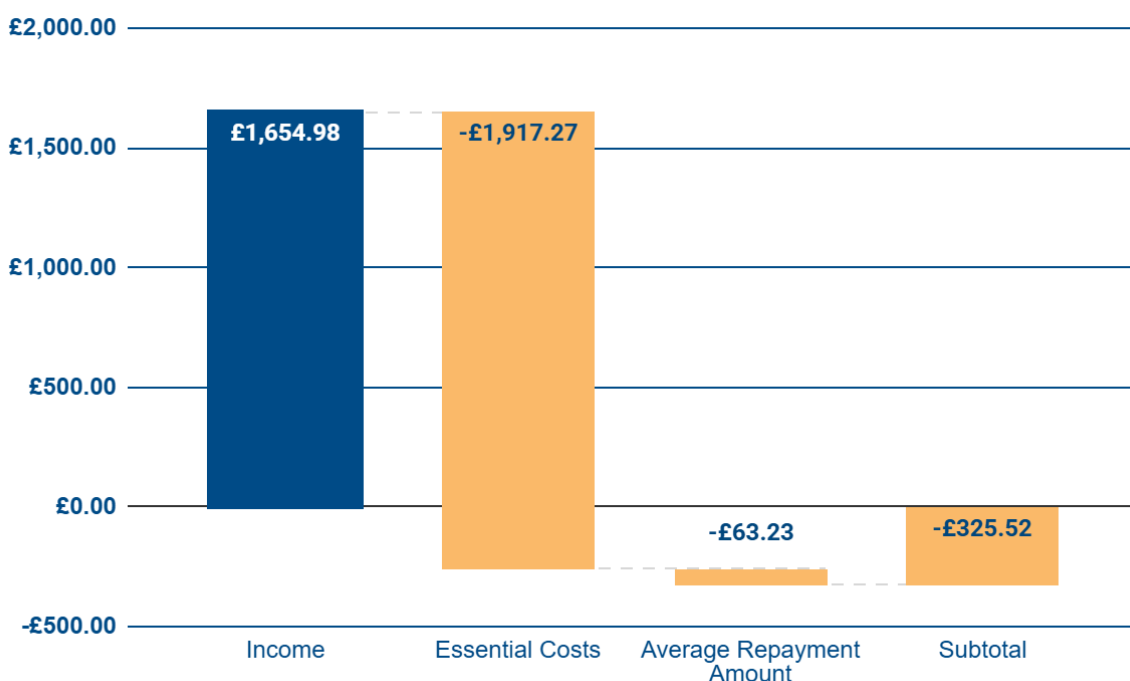
⁷ Calculations made using our internal budget planner data.

The following sections set out how debt undermines living standards, and why tackling problem debt needs to be a central part of efforts to improve living standards and key to some of the solutions the government should consider.

1. Unaffordable debt repayments push people into hardship

Unaffordable debt repayments add pressure to already stretched budgets, forcing people to choose between meeting repayment demands and covering essential costs.

As Chart 4 shows, for Citizens Advice clients in a negative budget making debt repayments, the average monthly deficit after essential costs was -£262. After also factoring in their debt repayments (which are on average £63), the deficit rose by 24% to a total of -£326, pushing them further into detriment.



For clients in a positive budget, debt repayments reduce their monthly surplus by an average of 27%, from £244 to £177. But for many clients we see, debt

repayments can tip them into the red. Over a quarter (26%) of the clients we see who are in a positive budget are forced into a negative budget once you factor in debt repayments.

The problem is particularly acute because, despite established rules around ensuring that repayments are affordable, repayment arrangements offered by creditors often do not reflect what households can realistically afford. This trend is evident across multiple essential bills.

Our previous [research on council tax](#)⁸ found that almost 2 in 5 (38%) of our surveyed advisers said that councils often or very often refuse the client's offer of an affordable repayment plan. And when enforcement action begins for council tax debt, reaching an affordable repayment plan can become even more difficult. Amongst our surveyed advisers, 72% said that often or very often enforcement agents refuse the client's offer of an affordable repayment plan.

Other council tax debt collection methods such as attachment of earnings, where debt repayments are taken directly out of someone's wages before they are paid, can cause severe detriment too. This can result in people not having enough money left over to cover essentials like food, or to fall behind on other bills. Income thresholds for attachment of earnings, despite inflation, have not been increased since 2007 in England compared with 2022 in Wales. The attachment of earnings income thresholds urgently need updating if repayments are going to be affordable.

Whilst when it comes to energy, our research found that two in five (41%) people experiencing energy debt or disconnection from a prepayment meter told us they had not had any contact with their supplier about support with paying their bills.⁹ Among those with repayment plans, 43% said they found their plan difficult to afford, while a further 18% said they found it unaffordable. As we can see, unaffordable repayments are an issue across essential markets.

⁸ A survey of 120 local Citizens Advice debt advisers, undertaken in July and August 2025.

⁹ Unpublished Citizens Advice commissioned survey by BMG Research. The survey ran between 23rd-28th July 2026 and reached 4,556 respondents.

Solutions: Stronger protection from unaffordable repayments

People in debt need better protection from unaffordable repayments. Debt advice is often key in ensuring that people are supported to engage with creditors to sort out their debts in a sustainable and affordable way. Debt advisers are equipped to undertake income and expenditure assessments, which is critical to working out what affordable repayments for a person looks like.

But, even when advisers are successful in figuring out an affordable repayment plan, they can often struggle to get through to creditors. This role is important given nearly 2 in 5 (38%)¹⁰ people in problem debt say they aren't confident in contacting a creditor to negotiate payments. As we outlined in our [Closing the Loop](#) report, advisers' roles are often made harder by slow response times, limited access to key channels such as email, and difficulty demonstrating authority to act (chart 5).

Chart 5: Barriers to effective communication with creditors (based on a survey of 290 debt advisers)



These barriers increase administrative burden and divert advisers' time away from supporting clients, but crucially they slow down the process of getting a repayment plan in place, leaving people to continue making unaffordable

¹⁰ Citizens Advice commissioned Opinium to survey 2,000 adults in England & Wales in problem debt, based on the definition used for people needing debt advice in the Money and Pensions Service (MaPS) Debt Needs Survey 2023.

repayments or falling into deeper arrears that put them at detriment. A standardised approach to Authority to Act would help make sure that advisers can communicate with creditors smoothly, and that creditors can act on information from professional debt advisers quickly and efficiently. Protecting people from unaffordable repayments requires effective debt advice and trusted collaboration between creditors and the debt advice sector.

The government should also work with local authorities, regulators and creditors to ensure debt collection is proportionate and based on what households can realistically afford. This should include strengthening enforcement of affordability rules in essential markets, updating outdated policies such as council tax attachment of earnings thresholds, introducing statutory pre-action steps before council tax enforcement and requiring consistent processes for identifying vulnerability, applying forbearance and exemptions, and signposting people to support across essential markets.

The Government's Breathing Space scheme illustrates the important role that policy can play in protecting people facing unaffordable repayments. It temporarily pauses collection and enforcement, giving people time to access advice and agree on a sustainable way forward. However, as outlined in our report [More Room to Breathe](#), the scheme remains underused and has significant limitations. The 60-day protection period can be too short for people with complex debts, negative budgets or wider challenges. Restrictions on repeat access can leave people who experience further unexpected financial shocks or escalation in enforcement action without protection when they need it most. And the exclusion of Universal Credit advances and third-party deductions from the scheme leaves important gaps in protection for people whose budgets are already under severe strain, leaving them without sufficient income to meet essential costs.

To ensure that Breathing Space lives up to its potential as a valuable tool to help people in debt, the government should extend its protection period and remove restrictions on repeat access. It should also end the exclusion of Universal Credit advances and third-party deductions, closing protection gaps in the scheme.

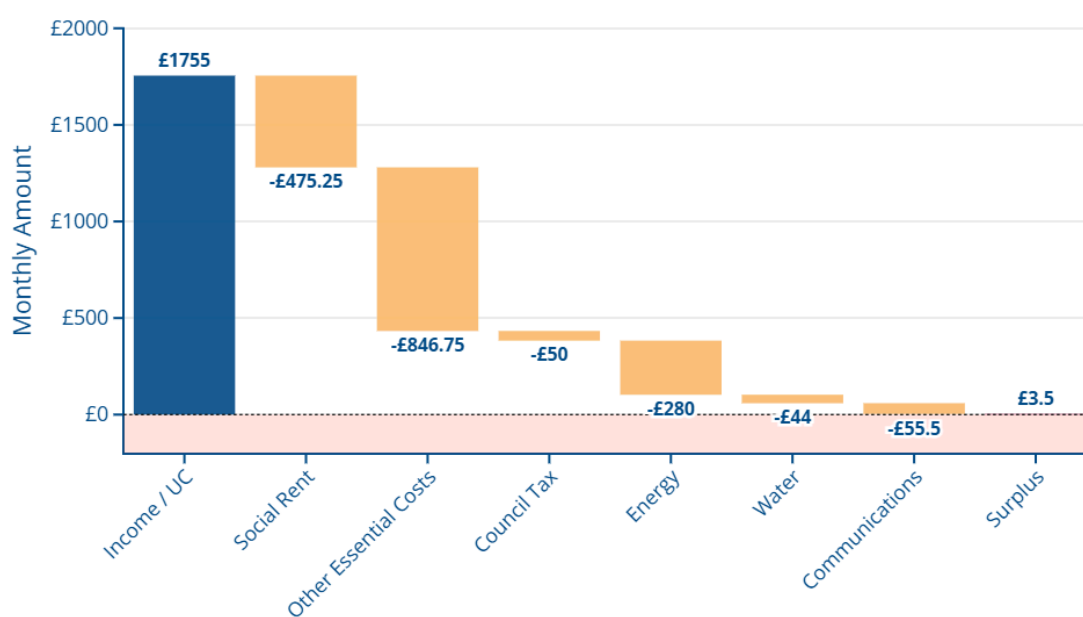
2. Debt prevents rising incomes from improving living standards

Government policies that raise household income or reduce the cost of essentials can make an important difference to people's financial circumstances. But for households carrying significant debts, increases in earnings or financial support may be absorbed by repayments, interest and charges rather than improving day-to-day living standards.

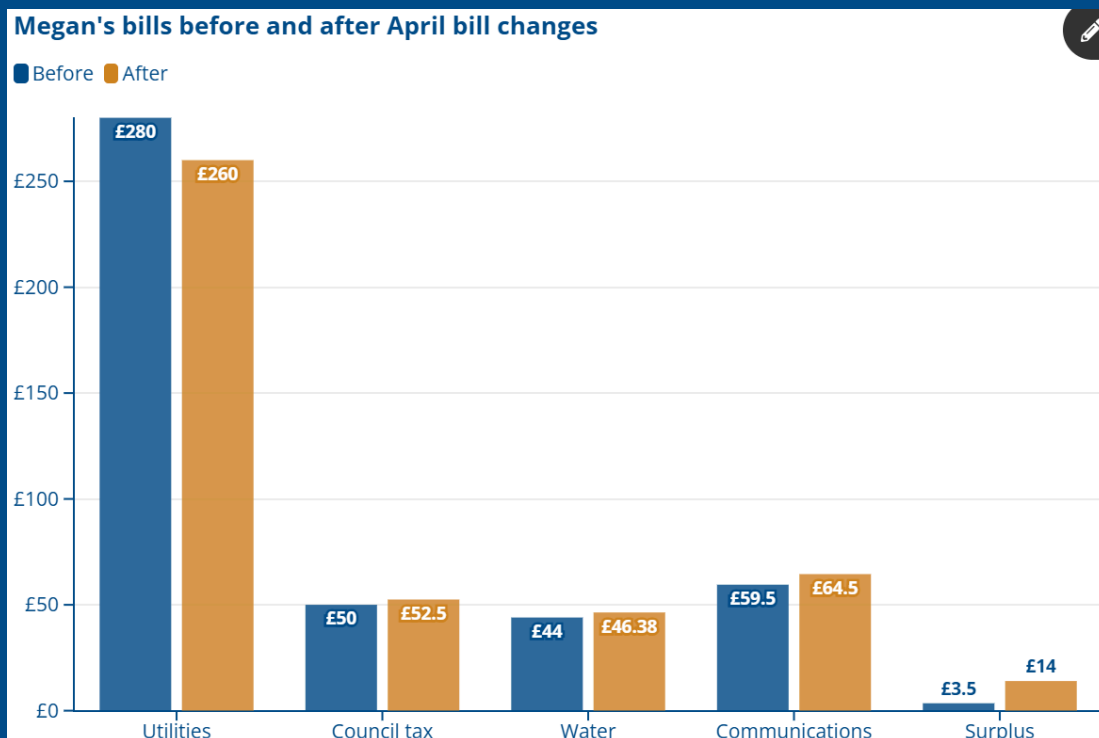
Megan's* story

Megan is a mother of three who lives in social housing with her partner. Megan is looking for work and her partner recently had to stop working due to a long-term health condition, so at the moment their only income is from benefits. After paying for essentials, Megan is hovering just above a negative budget with £3.50 left over each month.

How Megan's* income stacks up against essential outgoings



This leaves no financial buffer for unexpected costs or price rises. As a result, Megan has had to use credit to cover some essentials and she's fallen behind on bills like car insurance. This has left Megan with nearly £10,000 worth of debt. With such a small surplus it is nearly impossible for her to repay her debt. If there was no debt solution available to her and all of Megan's surplus went on debt repayments it would take her around 227 years to clear them. This is without accounting for charges and fees, inflation, or further bill increases.



Megan was also subject to the 2 two child limit. When this was lifted in April this made a real difference to her budget and she now receives an extra £80 a month, increasing her surplus from £3.50 to £94 .

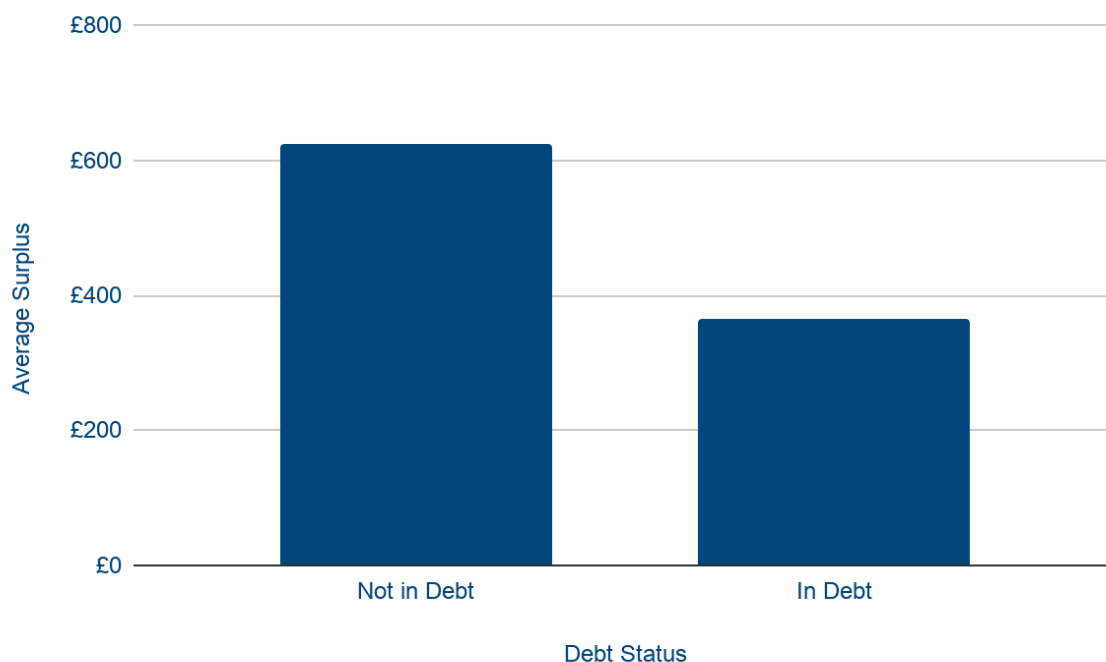
In July, a new energy price cap came into effect, increasing energy bills by an average of 13% and Megan's bills rose from £260 to £295. This has made a dent in her surplus and she only has £59 left after paying for essentials each month. However, with significant debts to repay this surplus would all be going on debt repayments. This means policies which were intended to improve the family's standard of living, to help them build a buffer against future financial shocks and reduce the risk of being pushed into debt by essential living costs, instead have the effect of reducing the length of that repayment from 227 years to just over 13. Not only does this remain a long time to get debt free, it also means 13 years until those policies start making a difference to Megan's family's actual standard of living.

Luckily, when Megan first came to us for help our advisers helped Megan get a Debt Relief Order, a type of insolvency solution which gave her a fresh start. This means these small increases in surplus could be used to build a financial buffer straight away. This underlines the importance of the right insolvency solution being available to people with clear unpayable debts to enable them to start afresh. But Megan is still in a fairly precarious position - it wouldn't take much to knock her budget out of balance and send her back into debt. But this time she can't use a DRO for another 6 years. This puts her at an increased risk of being trapped in a vicious cycle - dependent on credit and falling behind on bills to cover the cost of essentials, and losing any increase in income through policy change on debt repayments.

To understand the extent to which debt may constrain households' finances, we commissioned analysis of household surplus data from our Cost of Living Tracker. The Cost of Living Tracker is a data dashboard tool and [part of our broader work tracking the cost of living](#). Using augmented inverse probability weighting (AIPW), this analysis estimated the difference in monthly surplus after essentials between households in debt and those not in debt, adjusting for differences in household size, income, housing tenure and region.

The analysis found that households in debt had an estimated monthly surplus £258 (41%) lower than households not in debt. This means that, even after accounting for differences in household size, income, housing tenure and region, households in debt had substantially less money left after covering essential costs.

Chart 5: Average monthly household surplus by debt status, controlling for household characteristics, April 2026



The analysis does not establish why households in debt have lower surpluses, but there are several potential explanations:

- **Debt repayments:** repayments can directly reduce disposable income, including where they are added to essential bills such as energy, or deducted automatically through overdraft fees, direct debits or other repayment arrangements.
- **Higher costs associated with being in debt:** poorer credit scores can increase the cost of some essential goods and services, while limited access to affordable credit can leave people reliant on higher-cost options. Having less money available upfront may also expose people in debt to the poverty premium, for example through the higher costs associated with monthly billing over annual lump sums.
- **Income shocks:** a sudden loss of income, such as job loss, may not be matched by an immediate reduction in essential expenditure. Households can be tied into fixed-term commitments, such as car finance, leaving

them unable to reduce costs quickly and increasing the risk of falling into debt.

Debt also limits people's ability to build financial resilience. **Our national survey found that 30% of people in debt had savings of £100 or less, compared with 6% of households not in debt.**¹¹ Without a financial cushion, unexpected costs can lead to further borrowing or missed payments, while existing repayments make it harder to build savings.

Solutions: Giving people a realistic route out of debt

If we are to avoid increases in income being absorbed by historic debt for decades, households need realistic and secure routes out of debts they cannot sustainably or realistically repay. As Megan's story above shows, the insolvency framework should provide this, but the current system does not always offer a realistic way forward.

Citizens Advice has previously raised concerns about the impact of mis-sold Individual Voluntary Arrangements (IVAs) in preventing people from getting out of debt. We found that [failed IVAs cost people in debt at least £48.8 million in fees over a five-year period](#), with each person losing an average of £849. 56% of people in an IVA had £75 or less leftover each month after paying for essentials, while almost 1 in 3 (31%) said their IVA had negatively affected their debt levels.

To prevent people from being placed in unsuitable arrangements and experiencing avoidable financial harm, people should receive independent and impartial advice before entering an IVA. This should be held to a consistent standard by a single regulator, namely the Financial Conduct Authority (FCA). This would replace the current patchwork of standards and regulators. Stronger supervision of IVA firms is also needed to improve standards, tackle bad practice and give people greater protection from arrangements that leave them worse off. This should include bringing IVA firms into direct regulation and, in the meantime, using existing supervisory powers to drive greater compliance.

¹¹ Survey carried out by Walnut between March 9 and 22, 2026, surveying a representative sample of 5,559 people. The figures have been weighted and are representative of all UK adults (18+).

The forthcoming review of the personal insolvency framework is an opportunity to improve how people access and move through the system. As set out in our [Reimagining Insolvency](#) paper with Money Advice Trust, a reformed insolvency framework should provide a single point of entry through a regulated advice provider, with repayment and write-off options based on people's individual circumstances. It should also be flexible enough to respond to changes in people's circumstances and support them to rebuild financial stability and avoid future problem debt. A system designed around these principles would give more people a realistic route out of problem debt, while helping ensure that future increases in income improve living standards rather than simply being absorbed by debts that households have little prospect of fully repaying.

In some essential markets, historic arrears can become sufficiently entrenched that targeted interventions may provide a more effective route to recovery. The proposed [Energy Debt Relief Scheme](#) provides an opportunity to test this approach. Writing off £500 million of historic household energy debt accumulated during the energy crisis could reduce pressure on households in hardship while improving market stability and reducing bad debt costs. Implementation has, however, been repeatedly delayed. The government should deliver the scheme as a priority and evaluate its impact on household finances. This could help inform whether similar targeted interventions are appropriate in other essential markets where problem debt has become entrenched.

3. Debt undermines quality of life

Living standards are about more than whether a household can cover day-to-day costs. Good physical and mental health, secure housing and the ability to participate in work are important to people's quality of life and ability to improve their circumstances. Problem debt is linked to poorer outcomes in each of these areas, meaning its impact is not captured by its effect on budgets alone.

Debt, mental health and wellbeing

Debt can have a serious impact on people's wellbeing. Citizens Advice polling¹² carried out in late 2025 found that **4 in 5 (80%) people experiencing problem debt said worries about their debts had affected their sleep at least once a month. Nearly 6 in 10 (59%) said they had felt stressed in the previous month, while more than a third (35%) said they had felt hopeless about the future.**

At the same time, financial difficulty can be harder to address when mental health is affected. The FCA's [Financial Lives Survey](#) has found that people with mental health conditions or illnesses can face particular difficulties managing their finances, with 28% falling into debt because they had not wanted to deal with their financial situations. This can make it more difficult to engage with creditors, seek advice or take the steps needed to resolve debt problems.

This relationship can be mutually reinforcing: debt can harm wellbeing, while poor mental health can make debt more difficult to manage and resolve.

Debt and employment

Our research¹³ found that more than half of workers (56%) with problem debt told us they had been late for work or taken time off because of worries about their debts at least once a month. Almost two-thirds (65%) said they had struggled to perform at work because they were worried about their debts at least once a month.

Having limited disposable income also makes it harder to meet the costs of finding work or moving into better-paid employment, including transport, training and childcare.

¹² Citizens Advice commissioned Opinium to survey 2,000 adults in England & Wales in problem debt, based on the definition used for people needing debt advice in the Money and Pensions Service (MaPS) Debt Needs Survey 2023. We focused on those who are expected to definitely need debt advice, based on the MaPS definition. Fieldwork took place between 26 September and 15 October 2025.

¹³ Ibid.

Therefore, tackling problem debt can support employment by both reducing financial pressure and helping people regain the stability and flexibility needed to maintain and progress in their work.

Debt and housing

Research from [StepChange](#) found that more than half (52%) of its debt advice clients said being in debt had affected their ability to start renting or buying a property. When people in debt have fewer housing options, they may be more likely to live in poor-quality homes. StepChange also found that 58% of respondents in debt experienced at least one quality issue in their home which would affect the extent to which their home can be classed as meeting the Decent Homes Standard, such as damp and mould and excess cold or poor insulation. These problems can increase financial pressure, particularly through higher energy costs.

Debt can also undermine housing security. Our Cost of Living Tracker data highlighted that, among people in rent arrears, 21% said they had either been evicted or threatened with eviction or the use of a break clause in their tenancy.¹⁴

Again, this relationship can become cyclical: debt can increase housing insecurity, while insecure housing and homelessness can create further financial pressure through higher costs, disrupted benefit claims and greater reliance on credit to cover essentials due to high housing costs.

Solution: The role of integrated advice

The effects of debt extend well beyond household finances. Addressing them therefore requires recognition that people's financial, health, employment and housing problems are often interconnected. This demands a holistic and proactive approach towards advice and support.

The Citizens Advice network of local offices already provides examples of how integrated approaches can work. A [partnership between Hampshire and Isle of](#)

¹⁴ From a Cost of Living Tracker survey carried out by Walnut on behalf of Citizens Advice between March 9 and 22, 2026, surveying a representative sample of 5,559 people. The figures have been weighted and are representative of all UK adults (18+).

[Wight Healthcare NHS Trust and Citizens Advice](#), integrated generalist advice alongside specialist mental healthcare. The project identified significant factors affecting patients' mental health, including money, debt and housing problems, and supported people to address these alongside clinical care. This may also include referring people for further specialist debt advice if needed.

The project also generated substantial financial gains for clients, while a subsequent NHS evaluation estimated wider benefits to the health service through avoided costs of £244,850 over a 9 month period as well as improved engagement with support.

This approach demonstrates the potential value of connecting advice with the wider services people use. Earlier identification of financial difficulty and more integrated support could help prevent debt problems from escalating while addressing the wider consequences of financial hardship.

Conclusions and recommendations

Household debt has become a significant barrier to improving living standards in the UK. Increasingly, people fall into arrears because their income is insufficient to meet essential costs. Once they are in debt, the burden of unaffordable repayments and poor collection practices can deepen hardship and make recovery more difficult.

This limits the impact of wider government efforts to raise living standards. Higher wages, improved financial support and lower costs remain essential, but for households carrying debts they can't realistically repay, improvements in income will be absorbed by repayments rather than go to improving their ability to meet essential needs, build savings or improve their quality of life.

Debt can also undermine health, employment and housing, further limiting people's ability to improve their circumstances. Recent reforms, including changes to council tax collection and Universal Credit deduction rates, are progress, but significant gaps remain. The government should bring existing and forthcoming reforms together into a coherent approach to break the cycle of problem debt.

A package to break the debt cycle

Stronger protection from unaffordable repayments

The government should work with regulators, creditors and enforcement bodies to ensure repayment demands and collection practices are truly fair and reflect what households can realistically afford.

The government should:

- Improve communication between creditors and debt advisers through consistent authorisation processes, specialist support and secure digital channels.
- Strengthen affordability and vulnerability protections in essential markets, including stronger enforcement, improved collection practices and consistent use of forbearance.
- Update council tax collection rules, including uprating outdated attachment of earnings thresholds and introducing statutory pre-action steps to prevent arrears from escalating.
- Extend and strengthen Breathing Space, addressing the structural issues that limit its effectiveness and uptake.

Give people a realistic route out of debt

Where debts cannot realistically be repaid without prolonged hardship, households need accessible routes to resolution.

The government should:

- Implement the Energy Debt Relief Scheme and consider targeted debt relief in other essential markets;

- End the IVA exclusion and strengthen protections by bringing advice on IVA's within the FCA's regulatory perimeter;
- Use the Personal Insolvency Review to reform the insolvency system, making routes into debt solutions simpler, more accessible, fairer and more flexible.

Integrate advice to tackle the wider impacts of debt

Finally, the government should give serious consideration to approaches that integrate holistic advice with health, employment, housing and community services. This requires a proactive approach to supporting a person and identifying their needs including but not limited to referrals to specialist debt advice.

Debt advice should be understood not only as a way of resolving financial difficulties, but as part of a wider set of interventions that can help people improve their lives. More integrated services could identify financial problems earlier, connect people with appropriate support and reduce the need for people facing multiple problems to navigate separate systems.

It's clear tackling problem debt should be a central part of the government's living standards agenda - breaking the cycle of debt will help ensure that gains in income and reductions in living costs translate into improved living standards.

Appendix 1: Methodology

Data used in this report is based on:

- Internal Citizens Advice budget planner data
- The Citizens Advice Cost Of Living Tracker Survey
- Polling of adults in problem debt carried out 26 September - 15 October 2025

- A survey of 120 local Citizens Advice debt advisers, undertaken in July and August 2025.
- Evidence gathered from focus groups with our local advisers, held in July 2025.

Case studies were identified via Citizens Advice consumer service case note data. Case studies have been anonymised to protect the identity of clients.

Internal Citizens Advice budget planner data

Citizens Advice routinely collects and analyses comprehensive income and expenditure data through client budget assessments.

Cost of Living Tracker Survey - 2022 and 2026

Since April 2020, we have conducted a series of surveys on living standards, covering essential costs like utilities, housing, debt, food and other elements. Walnut (part of Accenture Song) carried out the most recent survey on behalf of Citizens Advice between March 9 and 22, 2026, surveying a representative sample of 5,559 people. The figures have been weighted and are representative of all UK adults (18+).

We compared the data with results from a survey conducted by Walnut (part of Accenture Song) in 2022 which asked the same (or similar) questions. Field dates were between January 6 and January 24, 2022. The survey interviewed a nationally representative sample of 6,000 UK adults.

Additional analysis for Chart 5 was completed by Walnut, using results obtained using Augmented Inverse Probability Weighting (AIPW).

Polling of adults in problem debt - 2025

Citizens Advice commissioned Opinium to survey 2,000 adults in England & Wales in problem debt, based on the definition used for people needing debt advice in the Money and Pensions Service (MaPS) Debt Needs Survey 2023. We focused on those who are expected to definitely need debt advice, based on the MaPS definition.

Fieldwork took place between 26 September and 15 October 2025. Results were weighted to be representative of adults in problem debt according to targets from the Money and Pension Service 'Debt Need Survey 2023' on gender, age, region, home tenure, and ethnicity.

Evidence gathered from advisers in 2025

To collect evidence on council tax, we surveyed 120 local Citizens Advice debt advisers, undertaken in July and August 2025. We also held focus groups with local advisers in July 2025.

Total Energy, Water and Council Tax debt calculation

Calculations of total arrears for council tax, water and energy in England, Scotland and Wales are an estimate based on the latest available data from public bodies.

Energy - [Ofgem Debt and Arrears Indicators](#)

Water - [Water Company Performance Report 20224/25](#)

Council Tax (England) - [Collection rates for Council Tax and non-domestic rates in England, 2025 to 2026](#)

Council Tax (Scotland) - [Council Tax Collection Statistics, 2025-26](#)

Council Tax (Wales) - [Council Tax collection rates: April 2025 to March 2026](#)

Citizens Advice helps people find a way forward.

We provide free, confidential and independent advice to help people overcome their problems. We are a voice for our clients and consumers on the issues that matter to them.

We value diversity, champion equality, and challenge discrimination and harassment.

We're here for everyone.

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