Negative Budgets

A new perspective on poverty and household finances

citizens advice

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Summary

People often think that problem debt is the result of overspending, such as big credit card bills and bad money management. That story doesn't ring true for the people at Citizens Advice who help families manage their debts on a daily basis.

Increasingly, advisers are helping people who simply don't have enough money to meet their key living costs. Since 2016, the proportion of people Citizens Advice helps with debt, who have *negative budgets* has grown from under a third (32%) to nearly 2 in 5 (38%).

A negative budget is where a debt adviser assesses that a client cannot meet their living costs. To do that, they use a tool called the **Standard Financial Statement** (SFS).

The SFS is agreed between debt advice and financial service providers. It enables advisers to build a detailed budget, recording levels and types of income, fixed costs such as rent, and flexible costs such as food. Guidelines are set to inform how much people should spend in each category and it doesn't include any unsecured debt repayments. When someone has £0 or less after their expenditure they are considered to have a 'negative budget'.

Who is in a negative budget?

The data collected by debt advisers using the SFS is unique. It provides a rich insight into the challenges faced by people in debt. Our analysis shows that as well as becoming more common:

- The depth of people's negative budgets has increased. In 2016/17 the average negative budget was £167. In 2018/19 it was £203. This means that on average, those struggling with a negative budget had £203 more going out than they had coming in as income that month.
- Large numbers of people we help are close to falling into a negative budget. Meaning nearly 4 in 5 have less than £100 a month after living costs.
- People we help with negative budgets are more likely to be women, disabled people, and people with a long-term health condition.

Why do people have a negative budget?

The causes of negative budgets are incredibly complex. But at a simple level, there are two reasons - a low income and high household costs.

Looking first at income, many people with negative budgets are in work, with over a quarter (28%) in full time work. However, on average their income is lower than people with a positive budget.

One stark finding is the impact of the benefits freeze. From April to August 2019, 4 in 10 (40%) people we help with debt who claim income-related benefits don't have enough money to cover their costs. This is up from 32% in 2016/17. In comparison, the proportion of households with a negative budget who don't claim these benefits has remained largely unchanged.

On the expenditure side, two findings stand out.

- First, people with negative budgets don't overspend. They spend very similar amounts to people with positive budgets.
- Second, due to low incomes, they spend a very high proportion of their incomes on fixed expenditure. People with negative budgets spend an average of 90% of their income on fixed outgoings compared to 62% for those who have a positive budget.

What should be done?

In reality, people can't have a negative budget for long. They can't spend money they don't have. Instead people with negative budgets fall behind on household bills - into rent or council tax arrears - they struggle to repay debts they already owe, and they are forced to go without essentials.

Policymakers interested in improving living standards have two places to look. They can increase incomes or help reduce key living costs for those who are struggling. Over the coming months we'll be looking at how they should respond. Initially, one change would help. **The government should end, and start to reverse, the impact of the benefits freeze by uprating frozen benefits by the Consumer Prices Index (CPI) plus 2% for 4 years.**

Background

Citizens Advice has been helping people when things go wrong for over 80 years. Last year, we helped 380,000 people with debt problems.[1]

The causes of those problems are incredibly complex. More than 4 in 5 of the people we helped last year said they'd experienced a life event or change in circumstance leading up to the problem that they came to see us about. This most often related to a change in finances (48%) or ill health (46%).[2]

Fundamentally though, we are increasingly helping people whose debt problems are the result of not having enough money to meet their key living costs.

Debt advice

When people come to Citizens Advice for help with their debts, advisers will build a thorough understanding of people's financial situation in order to provide the best advice possible.[3] The majority of people who get debt advice are able to find a way forward - for instance identifying a 'debt solution' to help them get their finances back on track.

That process may involve identifying a debt solution for the person in debt, and helping people increase their income through benefit eligibility or more affordable services or utilities. Debt solutions include formal insolvency solutions such as Bankruptcy and Debt Relief Orders and informal solutions such as debt management plans. The solutions can vary according to where in the UK the person lives.[4]

Providers of debt advice must ensure advice has regard to the best interest of the consumer, is appropriate to individual circumstances, and is based on a sufficiently full assessment of the financial circumstances of the customer.[5]

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[1] Citizens Advice, Impact Report, 2018/19.
[2] Citizens Advice, Impact Report, 2018/19.
[3] Debt advice which covers credit agreements is regulated by the Financial Conduct Authority (FCA). The FCA regulates: 'debt counselling' - which involves advice about liquidation of debts; and 'debt adjusting' - which involves negotiating with a lender over the terms of debt discharge.
[4] Some debt solutions such as Sequestration, Debt Arrangement Schemes (DAS), Protected Trust Deed or Minimal Assets Process (MAP) are only available to Scottish residents. More information on these debt solutions can be found on our Debt Advice Scotland website.
[5] FCA, FCA Consumer Credit Handbook (CONC) rule 8.3.2, accessed: 6th February 2020.

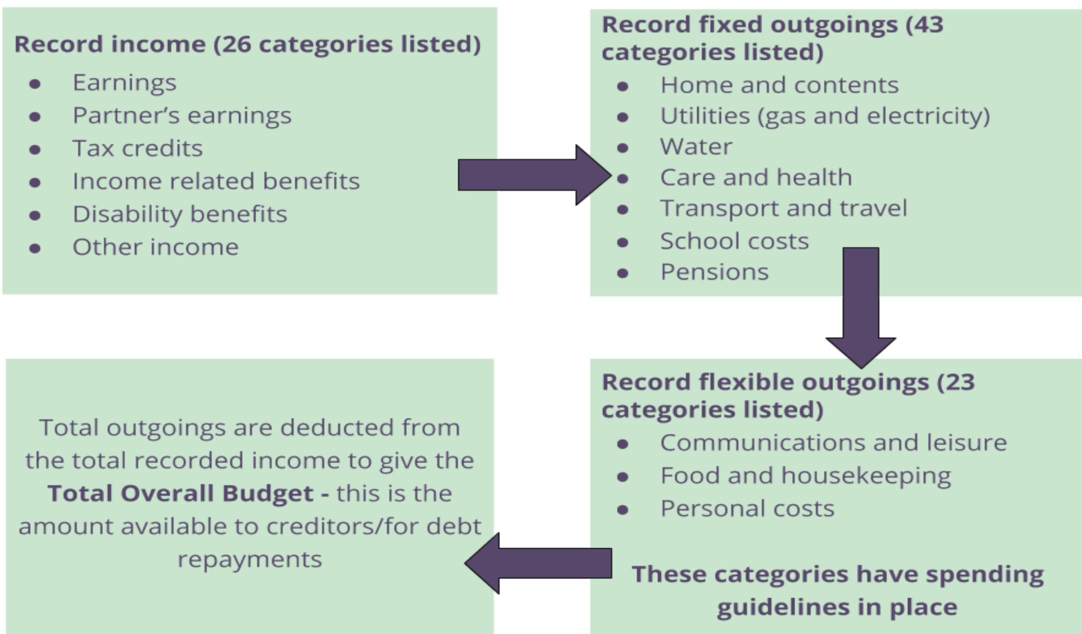
Standard Financial Statement

In order to do that, Citizens Advice debt advisers use the Standard Financial Statement (SFS) which is used across the debt advice sector. The SFS is a tool which helps advisers work through a detailed budget, recording levels and types of income, fixed costs such as rent, council tax, and utility bills, and flexible costs such as food. Flexible costs have guidelines which act as flexible upper limits in 4 categories based on household size. The spending guidelines are updated yearly based on a formula agreed by debt advice providers and creditors.[6]

The aim of the SFS is to build an accurate household budget in order to work out whether people are able to repay their debts and how much money they have available each month to make repayments. The spending guidelines are designed to ensure people have a sustainable household budget and that repayments to creditors are fair.

The SFS looks at current spending and aims to build a realistic budget for people to follow in the future. It is also often the result of budgeting advice and some income maximisation, for instance identifying where people might be entitled to benefits they're not claiming.

Figure 1. How debt advisers use the SFS



[6] Money Advice Trust, Introducing the Standard Financial Statement, accessed: 6th February 2020.

Negative budgets

When an adviser does an SFS with someone in debt and they have £0 or less after living costs - but before any debt repayments are considered - this is called a deficit, or a negative budget.

Having a negative budget means people aren't able to make any debt repayments. Often it means they will have to go without essentials, for example cutting back on spending on food and utilities, and are far more likely to fall into arrears with essential payments such as rent and council tax.

In the long-run, households with a negative budget are insolvent - they can't meet their debt repayments. Typically this would mean an option to access an insolvency solution. In reality however, the situation for many is far worse. Accessing a debt or insolvency solution may resolve current debts, but it will not solve the underlying causes of the negative budget. Or, they may simply be unable to afford a solution - bankruptcy has a fee of £680 for instance.

Figure 2 - example of a simplified completed SFS for a lone parent with a dependent child[7]

TOTAL MONTHLY INCOME	£981.70
FIXED OUTGOINGS	
Home and Contents	£502.50
Utilities and water	£155.00
Care and health costs	£90.00
Transport and travel costs	£207.00
School costs	£50.00
Pensions and insurance	£0.00
Professional costs	£0.00
FLEXIBLE OUTGOINGS	
Communication and leisure	£71.00
Food and housekeeping	£220.00
Personal costs	£65.00
TOTAL OUTGOINGS	£1,360.50
TOTAL OVERALL BUDGET	**-£378.80**

[7] Monthly income and expenditure data - this person who we helped is in a negative budget from fixed outgoings alone - before she has accounted for food in her outgoings. She is single and has a dependent child, she works part-time and rents from a private landlord. For the full SFS please see Annex 2.

The SFS provides a unique perspective on household finances

The data collected by advisers when they help people do a Standard Financial Statement is unique. Last year we helped 380,000 people with their debts and recorded 47,155 usable household budgets. It also includes a detailed breakdown of spending amounts in 66 categories and levels of income from 25 different sources.

The data is significant in providing an insight into the finances of people who are in debt and comparing them over time. It is not intended to be nationally representative.

Negative budgets provide a new perspective on poverty

Negative budgets, calculated through the SFS provide a new approach to thinking about poverty which is similar to both the Joseph Rowntree Foundation's (JRF's) Minimum Income Standard (MIS) and the Social Metrics Commission's[8] new approach to poverty measurement.

The JRF defines poverty as someone's resources falling below their minimum needs such as not being able to heat your home, pay your rent or buy the essentials for your children.[9] They developed the MIS, which in itself, is not a direct measure of poverty, but it is what the public have said to be enough income to afford a minimum acceptable standard of living.

The Social Metrics Commission's poverty measure looks at the resources a household has available compared to its needs. The level of need is based on what similar households spend after some fixed costs (housing and care costs) are removed from a household budget.[10]

The SFS is a combination of those approaches. It uses pre-set levels of spending like the Minimum Income Standard. And looks at household's available resources after spending on fixed costs - like the SMC's poverty measure.

The spending guidelines in the SFS are under licence - the tool isn't designed for public use. However, comparisons show that the levels in the SFS, MIS, and Social Metrics Commission's measures are similar.[11] The data collected through the SFS process is valuable for these wider discussions on poverty.

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[8] An independent Commission formed to develop a new approach to poverty measurement.
[9] JRF, What is poverty, accessed: 6th February 2020.
[10] Social Metrics Commission, Measuring Poverty, August 2019 accessed: 6th February 2020.
[11] Money Advice Service - SFS spending guidelines & Minimum Income Standard comparison - this research sets out the spending guidelines and therefore is not intended for public use.

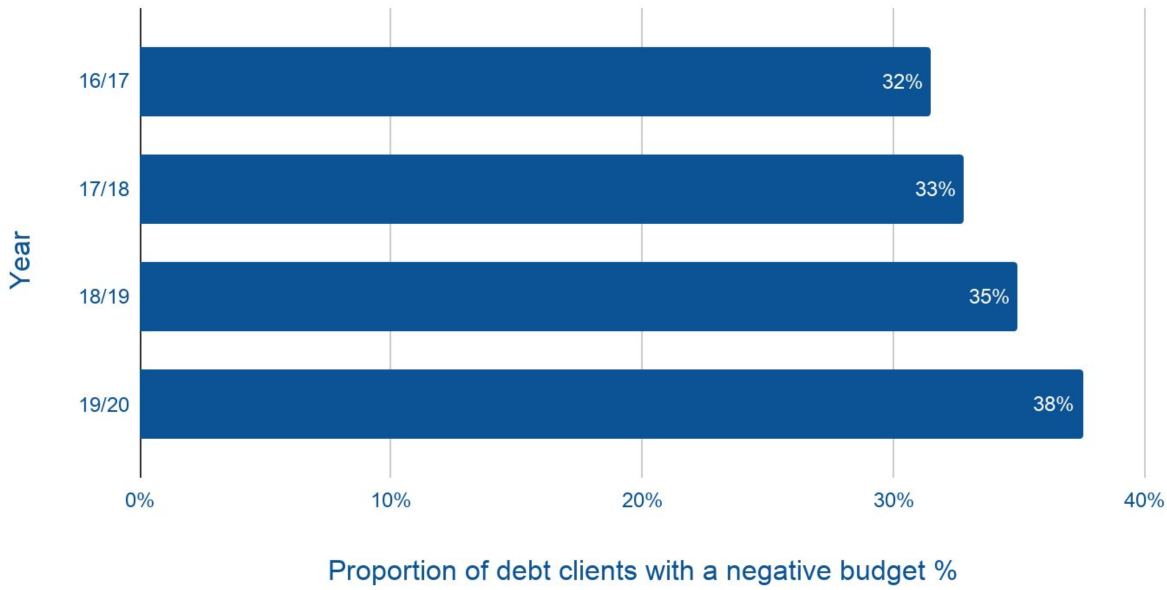
Part 1 - Negative Budgets

How many people have a negative budget?

Negative budgets are a growing problem

Negative budgets are a growing problem. Since 2016, an increasing proportion of the people we help with debt, have no money left at the end of the month once they've covered their living costs.[12] Within the last year, 38% of the people who came to us for help with debt, were assessed as having a negative budget. This is a trend that has been seen by other free debt advice charities.[13]

Figure 3. Proportion of the people Citizens Advice help with debt with a negative budget



Source: Citizens Advice *Money Advice Recording Tool* data[14]

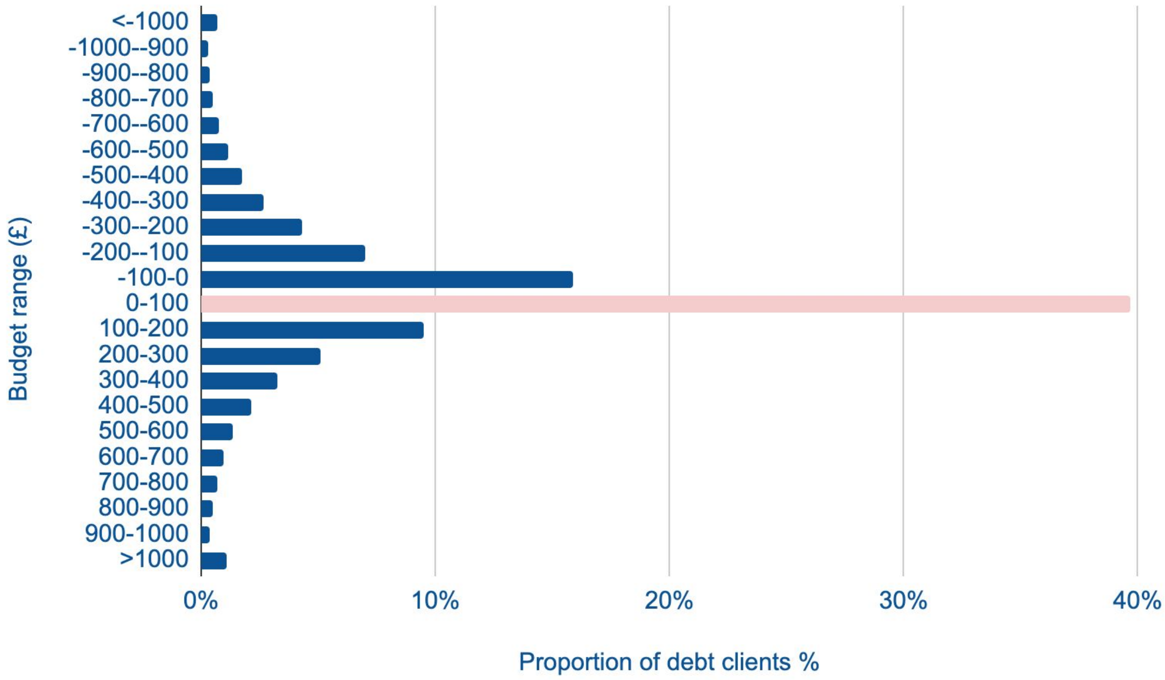
Not only has the proportion of people with a negative budget increased over those years, the depth of people's negative budgets has also increased. In 2018/19 for those we helped, who were in a negative budget, the average amount by which they were in a negative was £203. This means that on average, those struggling with a negative budget had £203 more going out than they had coming in. In 2016/17 the average negative budget was £167.

[12] Citizens Advice, Money Advice Recording Tool, 2016-2020.
[13] Stepchange, Personal Debt in the UK - 2018 Statistics Yearbook, accessed: 6th February 2020.
[14] Citizens Advice, Money Advice Recording Tool, 2016-2020.

Large numbers of people are close to falling into a negative budget

In addition to the people we help who can't cover their household's costs, large numbers of people are very close to that point. Nearly 2 in 5 of all the people we helped last year had less than £100 left over to repay their debts. Meaning nearly 4 in 5 have less than £100 a month after living costs.

Figure 4: Proportion of Citizens Advice debt clients by budget outcome - negative to positive budgets



Source: Citizens Advice *Money Advice Recording Tool* data[15]

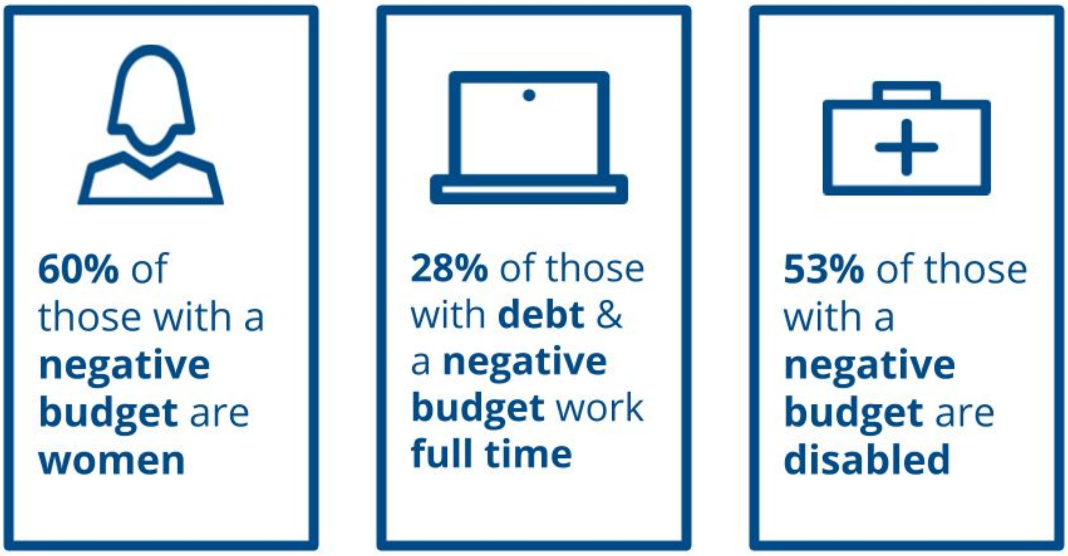
Fixed costs alone push some people into a negative budget

As described above, debt advisers help people to make a budget which takes into account their fixed costs - such as their rent - and flexible costs - such as groceries. For some people with a negative budget, they aren't even able to cover their fixed costs. Last year more than 1 in 10 (11%) of people we helped with debt were in a negative budget after just their fixed costs.

[15] Citizens Advice, Money Advice Recording Tool, 2016-2020.

Who are the people with negative budgets?

Looking at the groups of people Citizens Advice helps with debt can tell us who are more likely to be in a negative budget.[16] As shown in the image below, the people we help with debt, who have a negative budget are more likely to be women and are often disabled or have a long term medical condition.



Employment

If we look at the employment situation of the people we help with debt and negative budgets, it shows that being in work means people are less likely to find themselves in a negative budget. 34% of those working part-time (between 16-29 hours a week) were in a negative budget for instance.

However, large numbers of people who have a negative budget are in work. Last year, over a quarter (28%) of the people we helped with debt problems were in full-time employment (30 hours or more of employment a week), but found themselves in a negative budget.

As with poverty more generally, being in full-time employment doesn't necessarily provide protection against having a negative budget. In-work poverty is higher than at any time in the last 20 years.[17]

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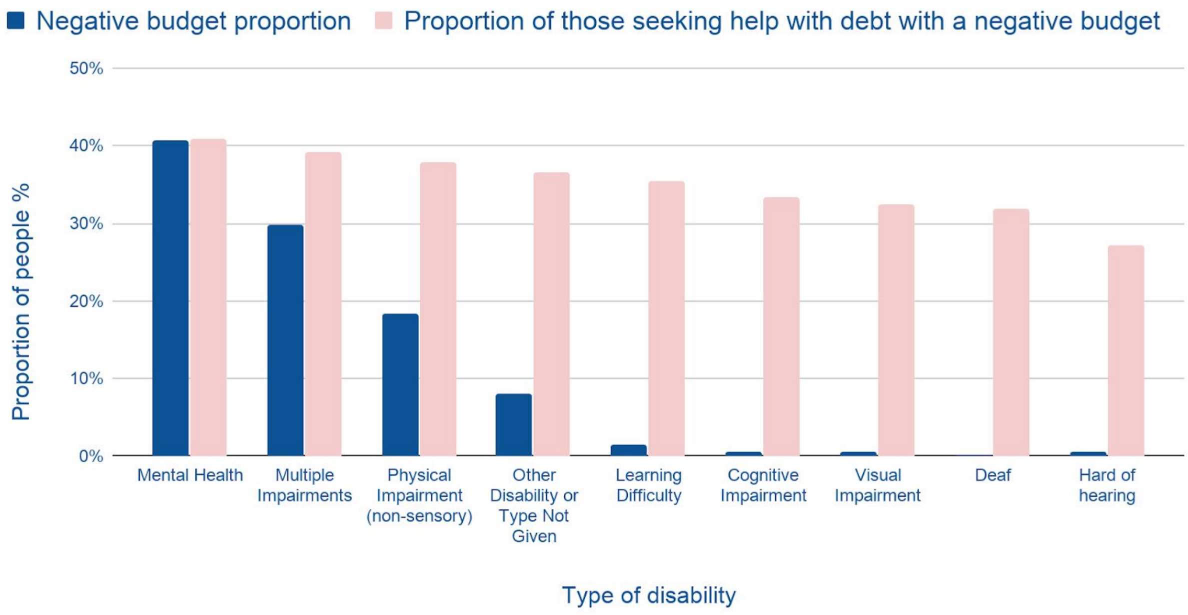
[16] We also looked into the relationship between ethnic background and negative budgets, but the data did not indicate any significant difference between groups within this characteristic. The sample size for some ethnic background groups were not large enough to draw specific statistical conclusions.
[17] JRF, UK Poverty 2018, December 2018, accessed: 6th February 2020.

Health

Looking at the relationship between health and having a negative budget, we see that 53% of those we see with a negative budget, have a long-term medical condition or are disabled compared to 50% of everyone we help with debts. The groups that are most likely to have a negative budget are those with mental health problems or multiple impairments. 4 in 10 (41%) of the people we help with debt have mental health problems and are struggling with a negative budget.

Figure 5: Proportion of people with a negative budget by health status



Source: Citizens Advice *Money Advice Recording Tool* data[18]

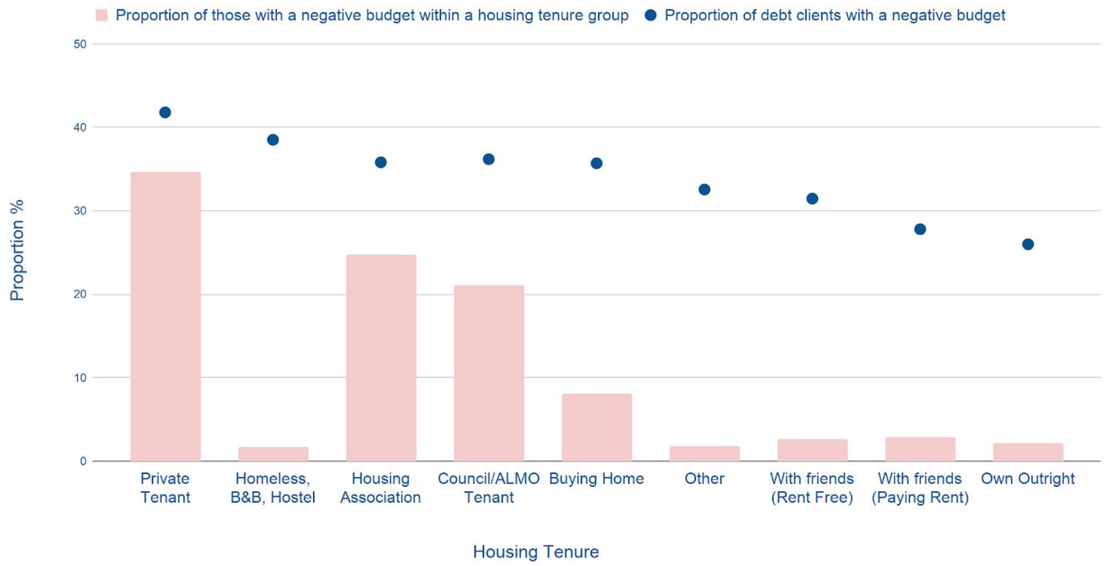
[18] Source: Money Advice Recording Tool, November 2018 - November 2019

Housing Tenure

As shown by the chart below, private renters make up a large chunk of all the people we help with a negative budget (35%). They are also the most likely to experience a negative budget of any housing tenure.

Last year, of those who came to us for help with debt issues, 42% of people privately renting found themselves in a negative budget, compared to 36% of those renting from a council or housing association or occupiers with a mortgage having a negative budget.

Figure 6: Proportion of people with a negative budget by housing tenure



Source: Citizens Advice *Money Advice Recording Tool* data[19]

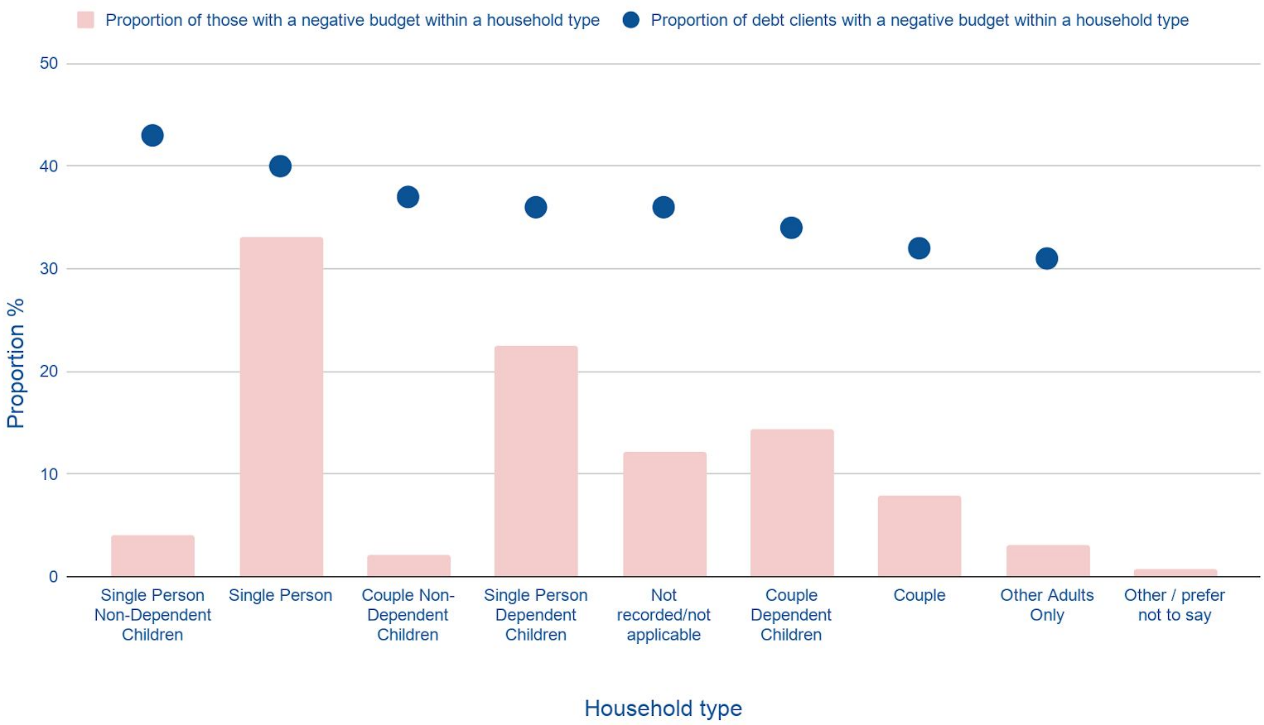
[19] Source: Money Advice Recording Tool, November 2018 - November 2019

Household type

Looking at the household type of the people we help with debt, single households are most common. Single households are also more likely to have negative budgets.

As shown by the chart below, single person households (40%) and single persons with non-dependent children (43%) are the most likely to have a negative budget. That compares to 32% of couples and 37% of couples with non-dependent children. Of those with dependent children, 36% of single person households have a negative budget, compared to 34% of couple households with dependent children.

Figure 7: Proportion of people with negative budgets by household type



Source: Citizens Advice *Money Advice Recording Tool* data.[20]

More broadly, households with dependent children are slightly less likely to have a negative budget - 35% for single persons with dependent children, compared to 38% for couples with dependent children. In contrast, the smaller number of households with non-dependent children are the most likely to have a negative budget. 40% of households (single persons and couples) with non-dependent children had a negative budget last year.

[20] Citizens Advice, Money Advice Recording Tool, November 2018 - November 2019.

Part 2: Causes of negative budgets

The causes of negative budgets, like household finances more generally, are both infinitely complex and brutally simple. A negative budget is simply the result of having higher expenditure than income. For those who have a negative budget *after* debt advice, that is often even after they have made a budget, cut back where possible, and sought to increase their income through benefit eligibility or more affordable services or utilities as part of their debt advice.

For the people we help, their negative budgets are often the result of a collection of events or change in circumstances. Of the people we help with debts, 9 in 10 say they have been through a recent change in circumstances.[21] For instance:

Lucy's story

Lucy has a large negative budget each month. Her income fell after being signed off work for several months due to a back injury. Lucy then lost her job as a carer when her employer couldn't accommodate her need for fewer manual work duties. The only source of income she was left with was child benefit.

When Lucy's income reduced due to her ill health, she notified the DWP of her change in circumstances. They assured her they would have been informed of the change by her employer. As Lucy and her husband were struggling to manage day-to-day living costs as a family with young children, they applied for Universal Credit (UC). However, they were told there had been a Tax Credit overpayment and £70 a week would be deducted from the couple's UC payments.

Lucy asked if DWP could decrease the deduction amount as they were struggling to manage, but she was told the deductions were within guidelines and therefore couldn't be reduced. Lucy had no other option than to approach her local Citizens Advice and ask for food bank vouchers.

During the course of Lucy's health and money worries, her relationship with her husband also broke down. The UC payment was further reduced to reflect the household change, which made Lucy's financial situation worse still.

Lucy couldn't afford basic living costs for her and her children and gradually fell behind on other bills with repayments pushing her further into financial difficulty. She is hoping to apply for a Debt Relief Order if she can secure a charity contribution to help her afford the £90 fee.

[21] Citizens Advice, Walking on Thin Ice, February 2018.

As Lucy's experience highlights, people can easily find themselves in severe financial difficulty and face a negative budget within a very short space of time through unforeseen changes in circumstances.

Whilst having unpredictable finances can contribute to financial insecurity, it may not necessarily be a problem if people are in a position to deal with those changes. The effects can be mitigated where people are able to borrow or build up a buffer of savings to use when finances are stretched.[22] However household savings are at a near-record low.[23] Many UK households have little in the way of savings to fall back on when their budgets are stretched[24] with one in eight (13%) UK adults having no cash savings.[25]

Interactions with the welfare system can cause financial difficulties and negative budgets in multiple ways. As well as deductions, for many it is simply a problem with how much they receive.

Dan's story

Dan is unable to work as he is awaiting an operation due to a back injury. He informed DWP who felt he was fit to work, but Dan's health care team didn't agree with this. Dan's wife Sarah had to give up work to look after her parents - she doesn't receive a carer's allowance for this, but does receive a UC carer's premium.

Dan and his wife have fallen behind on their priority bills including rent, energy and council tax due to their change in circumstances and complicated changes to their income.

Dan doesn't feel that their debts are a huge problem. He is more concerned about managing the day-to-day living costs. Dan has struggled to pay their full monthly rent payments due to their UC payments not being enough to cover all their outgoings.

[22] Citizens Advice, Walking on Thin Ice, February 2018.
[23] ONS, UK quarterly sector accounts, March 2019, accessed: 6th February 2020.
[24] Citizens Advice, Walking on Thin Ice, February 2018.
[25] FCA, The financial lives of consumers across the UK, June 2018, accessed: 6th February 2020.

Income

The impact of a low income can be seen more broadly. Of the people Citizens Advice helps with debt, those with negative budgets have lower incomes on average. As shown by the table below, the average total monthly household income of people with negative budgets is more than £300 less than those with positive budgets.

Figure 8: Average monthly income of Citizens Advice debt clients by budget status

Group	All debt clients	Positive budget	Negative budget	Negative after fixed costs
Average monthly income	£1,330	£1,450	£1,121	£829

Source: Citizens Advice *Money Advice Recording Tool* data[26]

As shown by the table, the average income of people we help with debt is low. Nationally, the average annual household income is £35,300.[27] The low incomes of people who have a negative budget are the product of both lower levels of earnings and lower levels of benefits.

The analysis above compares all households with negative budgets and positive budgets. To some extent the differences in income and expenditure are the result of the type of households in those groups. For instance, a third (33%) of households with a negative budget are single person households, compared to 29% of those with a positive budget. That means we would expect both income and expenditure to be lower for the negative budget group. Due to the relatively similar size of those groups it does not have a major impact on the findings.

Looking more closely at the income of the people we help, 2 things stand out:

i. Households with negative budgets have lower levels of earnings

When looking at the people Citizens Advice helps with debt, it is clear that those with negative budgets are less likely than average to be in a household where

[26] Source: Money Advice Recording Tool, November 2018 - November 2019
[27] ONS, Average household income, UK: Financial year ending 2019 (provisional)

someone is earning, and more likely than average to be in a household where people have low earnings.

Comparing the people we helped with debt:

- Of households with a positive budget, just over half (52%) have no earnings. That compares to nearly 2 in 3 (63%) of households with a negative budget.
- Of households with earnings, those with negative budgets have lower levels of earnings. The average household with a negative budget received £908 in earnings compared to £1,183 for those with a positive budget.

Figure 9: Proportion of households with earnings from work by budget status

Source: Citizens Advice *Money Advice Recording Tool* data[28]

Being less likely to work and having lower levels of earnings are related to having a negative budget. Those situations themselves have complex causes which aren't looked at in this report.

[28] Source: Money Advice Recording Tool, November 2018 - November 2019

ii. People with negative budgets receive lower levels of benefits income

Of the people Citizens Advice helps with debt problems, over 4 in 5 (81%) receive some form of benefits income. Even within the group receiving benefits, those with negative budgets receive lower levels of benefit income compared to those with positive budgets. Households with a negative budget receive an average of £825 a month of benefit income compared to £949 for those with a positive budget.

As with earnings, there are a range of reasons people or households can receive lower levels of benefit income. What we can show more precisely however, is that people that rely on certain types of benefits are more likely to experience a negative budget - something that has been exacerbated by the benefits freeze.[29]

The benefits freeze has exacerbated financial difficulty

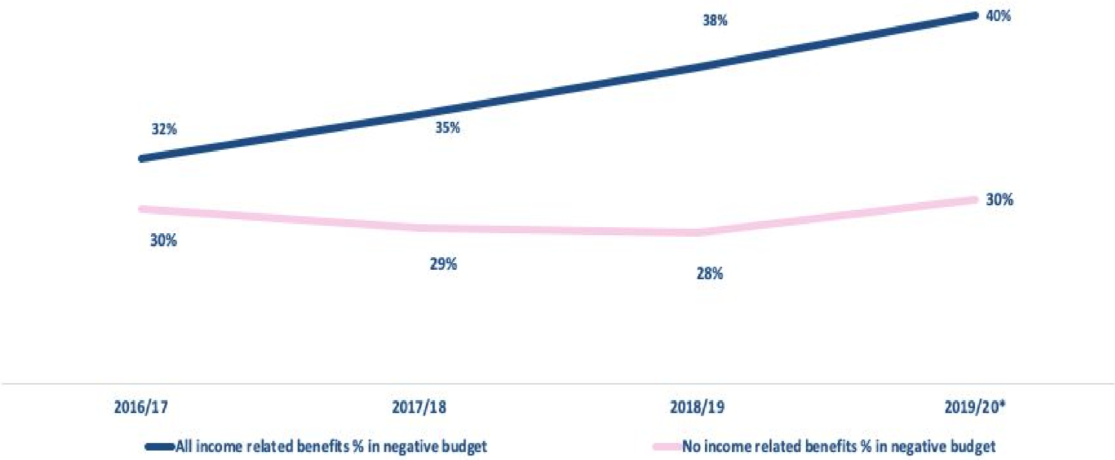
Since 2016 the value of most income-related benefits, such as Universal Credit and the benefits it replaces,[30] have been frozen, meaning a cut in real terms of around £420 a year for families claiming benefits.[31] Reducing the value of benefits makes it harder for people to cover day-to-day costs, meaning they are more likely to fall into debt.

A closer look at the growing proportion of people with a negative budget among people we help with debt, indicates that this growth is being driven by people who receive frozen income-related benefits.

From April to August 2019, 4 in 10 (40%) people we helped with debt, who claim income-related benefits didn't have enough money to cover their costs. This is up from 32% in 2016/17- an increase of 8 percentage points since the benefits freeze came into place. In comparison, the proportion of households with a negative budget who don't claim these benefits has remained largely unchanged.

[29] For further information on the people we help with debt and the impact of the benefits freeze, see Citizens Advice, Making Ends Meet: The impact of the benefits freeze on people in debt, 2020
[30] Gov.uk, Universal Credit, accessed: 6th February 2020.
[31] IFS, Spring Statement, 2019.

Figure 10: Negative budget rates for households claiming income-related benefits



Source: Money Advice Recording Tool, April 2016 to August 2019. Base: 131,844, including 93,997 people claiming income-related benefits

In addition to the benefits freeze, previous research has identified other aspects of the welfare system, particularly with Universal Credit, that may also be contributing to this group struggling to meet their living costs. For instance, the 5 week wait for initial payment, the high rate of deductions for overpayments and advance payments, and fluctuating income for people with earnings.[32]

[32] Citizens Advice, Managing Money on Universal Credit, 2018.

Expenditure

As well as low incomes, negative budgets are related to expenditure. As described above, when people go through debt advice, advisers produce a budget based on existing expenditure in order to produce a realistic budget. We can use that data to look at how expenditure can push households into a negative budget.

Looking at average levels of expenditure highlights that households with negative budgets spend similar levels to those with positive budgets. Both spend significantly less than the UK average.[33]

Figure 11: Average monthly expenditure of Citizens Advice debt clients by budget status

Group	All debt clients	Positive budget	Negative budget	Negative after fixed costs
Average monthly expenditure	£1,302,80	£1,290.24	£1,324.57	£1,211.89

Source: Citizens Advice *Money Advice Recording Tool* data[34]

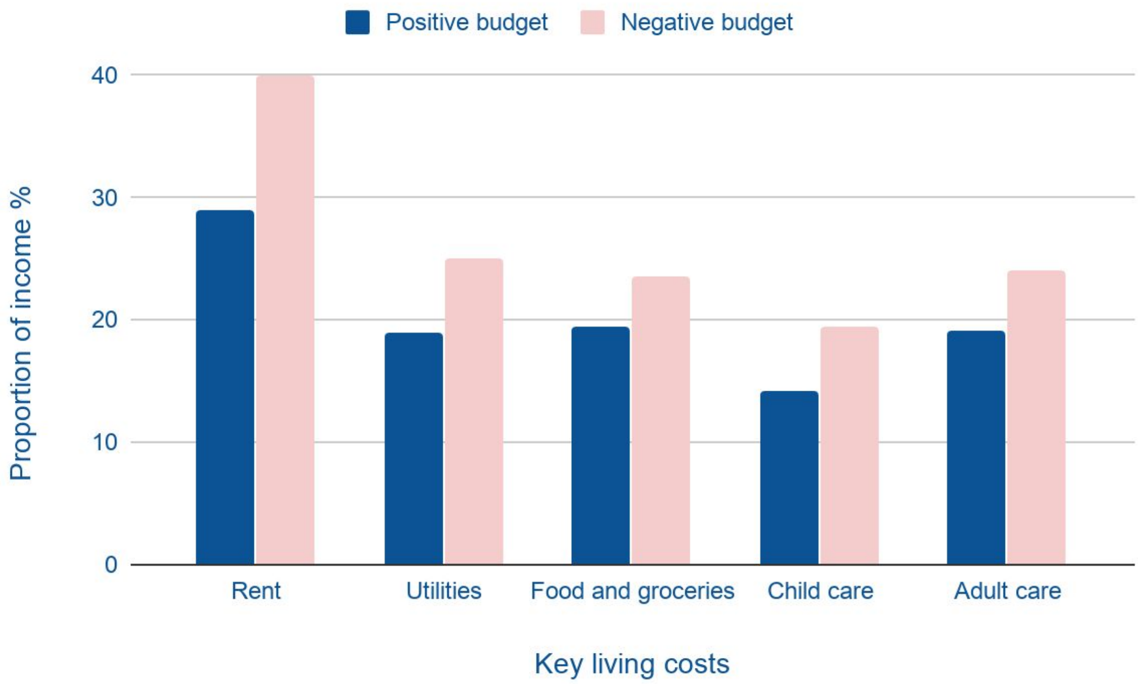
i. Households with negative budgets spend a high proportion of income on key goods and services

Households with negative budgets and positive budgets spend similar amounts on key household goods. But households with negative budgets spend a higher proportion of their income on essentials such as rent, utilities and groceries.

For instance, as shown by the chart below, of renting households who we helped last year, those with a negative budget spent 40% of their income on rent. Compared to less than 30% for those with a positive budget.

[33] ONS, Living Costs and Food Survey, 2019.
[34] Source: Money Advice Recording Tool, November 2018 - November 2019

Figure 12: Proportion of income spent on key living costs by budget status



Source: Citizens Advice *Money Advice Recording Tool* data[35]

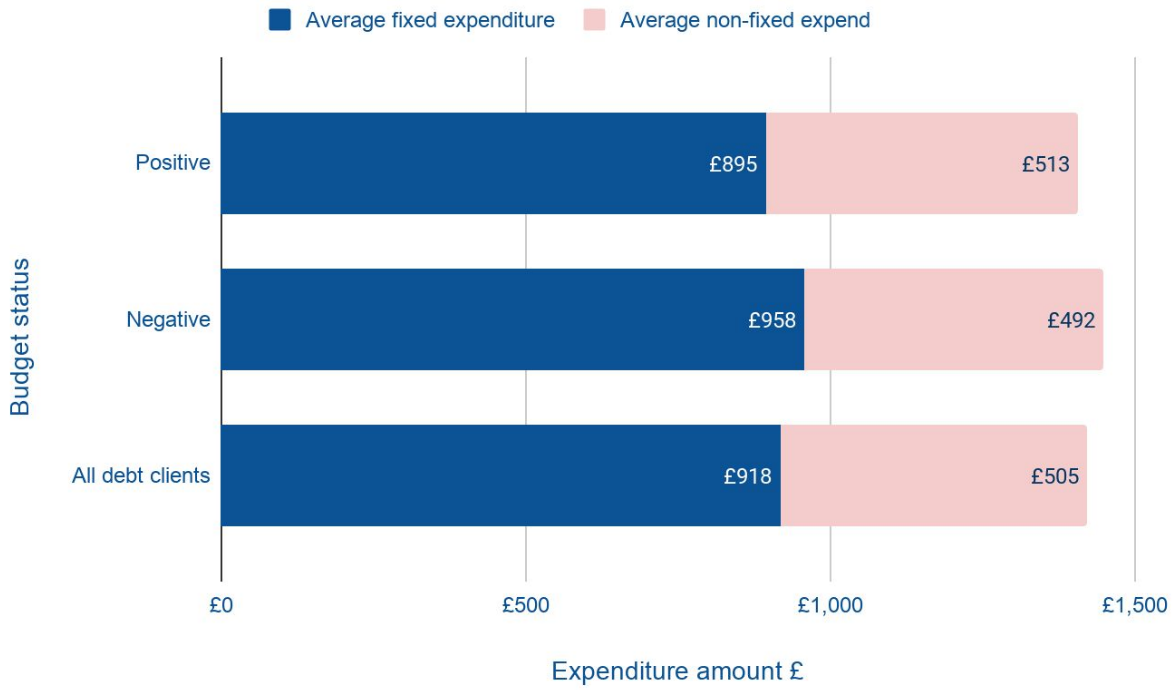
ii. Households with negative budgets spend a high proportion of income on fixed expenditure

Looking at broader categories of expenditure shows that households with negative budgets also spend far more on 'fixed' outgoings.[36] On average, households with negative budgets spend over 90% of their income on fixed outgoings. That compares to 62% who have a positive budget. The average for everyone we help is 73%.

That difference is largely a function of income. As the chart below shows, when looking at the amounts households spend. Those with negative budgets spend a similar amount on both fixed and flexible outgoings. With households with negative budgets spending slightly more on fixed costs and less on flexible outgoings.

[35] Source: Money Advice Recording Tool, November 2018 - November 2019
[36] As described above, 'fixed' expenditure is set out in the SFS and includes housing costs such as rent, mortgage, council tax and utilities.

Figure 13: Average expenditure by expenditure type and budget status



Source: Citizens Advice *Money Advice Recording Tool* data[37]

iii. Households with negative budgets spend similar amounts on key living costs

That trend can be seen when comparing similar households. The chart below shows the amounts spent each month just by single households across key essentials. It shows that households with negative budgets spend more on fixed expenditure and slightly less on groceries - which are classed as flexible expenditure.

[37] Source: Money Advice Recording Tool, November 2018 - November 2019

Figure 14: Average monthly amount spent on key living costs by single households by budget status

Source: Citizens Advice *Money Advice Recording Tool* data[38]

The similar levels of spending by households with negative and positive budgets suggest negative budgets are not the result of overspending but are predominantly the result of low incomes.

[38] Source: Money Advice Recording Tool, November 2018 - November 2019

Part 3: Conclusion and recommendations

Having to manage with a negative budget puts households under considerable strain. Negative budgets can mean people struggle to put food on the table, provide housing for their family, or keep their home heated. For instance:

- They are more likely to have household bill debt arrears and multiple debt problems. Last year 87% of negative budgets clients had multiple debts, compared to 82% of non-negative budget clients having multiple debts.
- They are likely to under-consume essentials. The average person with a negative budget last year was £203 short of being able to afford key household goods and services. In reality, those people will have to cut back on important expenditure - on groceries or energy use for instance - to make ends meet.
- They will struggle to get out of debt. The purpose of creating a budget for people we advise is to help them repay their debts. There is very little someone with a negative budget can do about their debts. They are unable to make debt repayments, they may struggle to afford a debt solution - such as the £680 bankruptcy fee, and a debt solution will often do little to help them.

These are not short term challenges caused by cash flow problems or people being unable to borrow. Many of the people we help have been facing the difficulties of trying to get by on a negative budget for a long period of time.

The causes of negative budgets are complex - our analysis shows both low income and high living costs are important. In particular:

- The benefits freeze has had a dramatic impact on the finances of people in receipt of income-related benefits. 40% of people in receipt of income-related benefits have a negative budget compared to 32% of those not in receipt of those benefits.
- Fixed costs push households into negative budgets. People with negative budgets spend an average of 90% of their income on fixed outgoings compared to 62% for those who have a positive budget.

Policymakers interested in improving household finances should be relentless in identifying opportunities both to increase people's income and reduce essential living costs.

The implications of the growth of negative budgets are wide reaching. Essential service providers, landlords, and lenders facing people falling behind on household bills and being unable to pay for essentials, means they need to rethink their support for people in financial difficulty.

For debt advice providers, the growth of negative budgets poses a challenge to how debt advice is designed and funded. The solutions available to people in debt assume that people can either make some repayments or would benefit from becoming insolvent. Neither is true for many people with a negative budget.

Over the coming months Citizens Advice will conduct further analysis to better understand how to help people with negative budgets. We'll also seek to work with other advice providers to identify how advice can adjust and continue to help people find a way forward. More immediately, one change would help people with negative budgets significantly.

Recommendations

Analysis of detailed household budgets over the last 5 years highlights the worsening financial situation of people who have been affected by the benefits freeze. A first step to improving household budgets would be to make sure people in receipt of benefits receive adequate support to meet their needs.

Ending the benefits freeze and uprating income-related benefits by CPI every year for 4 years would result in a slight decrease in the proportion of this group with a negative budget - 38% would still have a negative budget by 2024.

Comparatively, ending the benefits freeze and uprating income-related benefits by CPI +2% every year for four years, as well as recalculating the Local Housing Allowance to the 30th percentile of local rents, would mean the proportion of households we help with debt receiving income-related benefits with a negative budget would fall to 28% by 2024.

To improve household finances immediately,the government should:

1. **Uprate the value of frozen benefits by the Consumer Prices Index (CPI) plus 2% for 4 years.**
2. **Recalculate the Local Housing Allowance to at least the 30th percentile of local rents to re-establish the link with rental prices.**

Appendix 1 - Methodology

This report uses 3 main sources of Citizens Advice data from adviser debt advice assessments. The data is recorded from a completed SFS onto the Citizens Advice Money Advice Recording Tool:

- 12 months data period - November 2018-November 2019. Base: 346,558 including 47,155 usable household budgets. All data analysis refers to this dataset unless otherwise stated.

- 4 years data period - financial year 2016/2017 - 2019/2020 (up to August 2019.

Year	Base (useable household budgets)
2016/2017	16,526
2017/2018	42,695
2018/2019	53,989
2019/2020	18,634

- 6 months data period - April-November 2019. Base: 25,346, including 19,534 clients claiming income-related benefits

When identifying those in a negative budget for the above data sources - selection criteria was set to exclude those with an income or expenditure outside of £250 - £10,000. This was to ensure erroneous outliers were not sampled.

Appendix 2 - example of a full completed SFS for a lone parent with a dependant child

INCOME	**Client A**
Salary or wages (take home)	£800.00
Working Tax Credit	£52.00
Child Benefit	£89.70
Child Tax Credit	£40.00
Total monthly income	£981.70
FIXED OUTGOINGS	
Home and Contents	
Rent	£390.00
Ground rent & service charges (factor fees if you live in Scotland)	
Mortgage	
Mortgage endowment	
Secured loans	
Council tax/rates (including water charge if you live in Scotland and rates in NI)	£100.00
Appliance & furniture rental (including appliance and furniture HP, conditional sale and so on)	
TV licence	£12.50
Other costs	
Utilities	
Gas	£75.00
Electricity	£50.00
Other costs (including coal, oil, calor gas etc.)	
Other expenditure	
Water	
Water supply	£30.00
Water waste	
Care and health costs	
Childcare costs	£90.00
Adult care costs	
Child maintenance or child support	

Prescriptions and medicines	
Dentistry and opticians	
Other health costs	
Transport and travel costs	
Public transport (work, school, shopping etc)	
Hire Purchase or conditional sale vehicle	
Car insurance	£102.00
Road tax	
MOT and ongoing maintenance	
Breakdown cover	
Fuel, parking and toll road charges	£105.00
Other (e.g. taxis)	
School costs	
School Uniform	£30.00
After-school clubs and school trips	£20.00
Other school costs	
Pensions and insurance	
Pension payments	
Life insurance	
Mortgage payment protection insurance	
Building and contents insurance	
Health insurance (medical or accident or dental)	
Other pension costs	
Professional costs	
Professional courses	
Professional fees	
Union fees	
Other professional costs	
Other essential costs	
Monthly total fixed costs outgoing	£1,004.50
FLEXIBLE OUTGOINGS	
Communication and leisure	
Home phone, internet, TV package (including film subscriptions)	£20.00
Mobile phone	£31.00

Hobbies, leisure or sport (e.g. socialising, eating out, outings, clubs, leisure courses)	
Gifts (e.g. birthdays, festivals, charity donations)	
Pocket money	£20.00
Newspapers and magazines	
Other leisure costs	
Food and housekeeping	
Groceries (e.g. food, pet food, non-alcoholic drinks, cleaning)	£180.00
Nappies and baby items	
School meals and meals at work	£40.00
Laundry and dry cleaning	
Alcohol	
Smoking products	
Vet bills and pet insurance	
House repairs and maintenance	
Other food and housekeeping costs	
Personal costs	
Clothing and footwear	£40.00
Hairdressing	£5.00
Toiletries	£20.00
Other personal costs	
Monthly saving amount	
Monthly total flexible costs outgoing	£356.00
Monthly total outgoings	£1,360.50
Monthly total available for creditors	-£378.80

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Citizens Advice provides free, confidential and independent advice to help people overcome their problems.

We advocate for our clients and consumers on the issues that matter to them.

We value diversity, champion equality and challenge discrimination.

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