London in the Red

A briefing on problem debt in London

Executive Summary

This briefing on debt in London has been prepared by StepChange Debt Charity. StepChange is the largest specialist debt advice charity working across the UK. 550,000 people contacted our free telephone advice line or online Debt Remedy tool for help and support to deal with problem debt in 2015. Almost 100,000 of them came from London.

Debt: a London priority

Our analysis aims to raise awareness of problem debt in London. It uses StepChange Debt Charity's full year data from 2015[i] to provide details of the capital's debt issues and how they play out across London's boroughs. We want to build on the 2015 report by the London Assembly's Economy Committee[ii], which recommended that the Mayor of London, as well as London boroughs, should address problem debt in the capital as a priority. We aim to provide a more recent picture to see if that report's findings and recommendations still hold true. And to re-engage the new Mayor and Minister for London in promoting and supporting work across the capital that prevents, or reduces, the harm caused by problem debt.

The costs to London’s economy

At StepChange Debt Charity we hear about the debt problems and financial difficulties our clients face every day. We estimate that approximately half a million Londoners are currently over-indebted and struggling to pay both credit commitments and essential bills, such as those to keep and heat their home. Our work has also shown that problem debt creates external economic and social costs and we estimate this price in London alone to be at least £1.4 billion each year[iii]. This is because of the effect debt worries have on people's mental health, productivity, ability to hold onto a job or look for new work, as well as the link between problem debt and other harmful events, such as losing a home or relationship breakdown[iv]. Debt can negatively affect the whole family: nine in ten parents from indebted households told us that they had cut back on essentials for their children so they could keep up with debt repayments, while children in families with problem debt were twice as likely to say they had been bullied[v].

London has higher levels of problem debt

StepChange Debt Charity defines someone being in problem debt as having three or more of the following six indicators: using credit to keep up with essential bills; using credit to keep up with existing credit commitments; using credit to last until payday; making minimum payments on a credit card for longer than three months; falling behind on essential bills; and regularly facing late payment charges. Our most recent figures signal that problem debt continues to affect proportionately more people in London than in the UK as a whole: around one in six of StepChange Debt Charity clients are from London. They show that the numbers affected by problem debt has increased in London over the last few years and remains higher in the capital than in other UK regions. And, that problem debt can affect any Londoner, no matter where they live or how much they earn.

Problem debt looks very different across London's boroughs

The nature and distribution of debt problems varies across the capital, with some clear patterns of difference between London boroughs, linked to measures of deprivation[vi]. In the most deprived London boroughs a higher proportion of our clients tend to have fallen into debt as a result of a drop in income than in more affluent boroughs. While in these more affluent boroughs, a divorce or separation has pushed a much higher proportion of clients into debt than is seen amongst clients from more deprived areas.

Our clients who live in the more deprived London boroughs tend to be struggling to pay essential bills, particularly their rent. These clients are more likely to be single without children, unemployed or studying, and to rent their home from the council. In contrast, in boroughs with low levels of deprivation our clients' financial difficulties are more likely to be linked with higher levels of unsecured debt, mostly through credit card and overdraft use. These clients tend to be in full-time employment, to work for themselves or to care for someone else and to have a mortgage, own their own home outright or rent from a private landlord.

An argument for London-wide action

Our findings make a clear case for the Mayor of London, London Assembly Members and the new Minister for London to re-prioritise and co-ordinate actions that stop people living in the capital from getting into financial difficulties, and provide more support to those who do fall into problem debt. A London-wide strategy on problem debt could work more effectively to reduce the stigma many feel on falling into debt and so encourage and promote the benefits of seeking support to deal with debts as early as possible. Londoners can fall into debt for many reasons including job loss, a drop in income, illness, disability or a relationship breakdown. Taking an overview of changing problem debt patterns and debt advice services across the capital is a cost-effective way to ensure that all Londoners can access the high quality, free debt advice that best meets their needs.

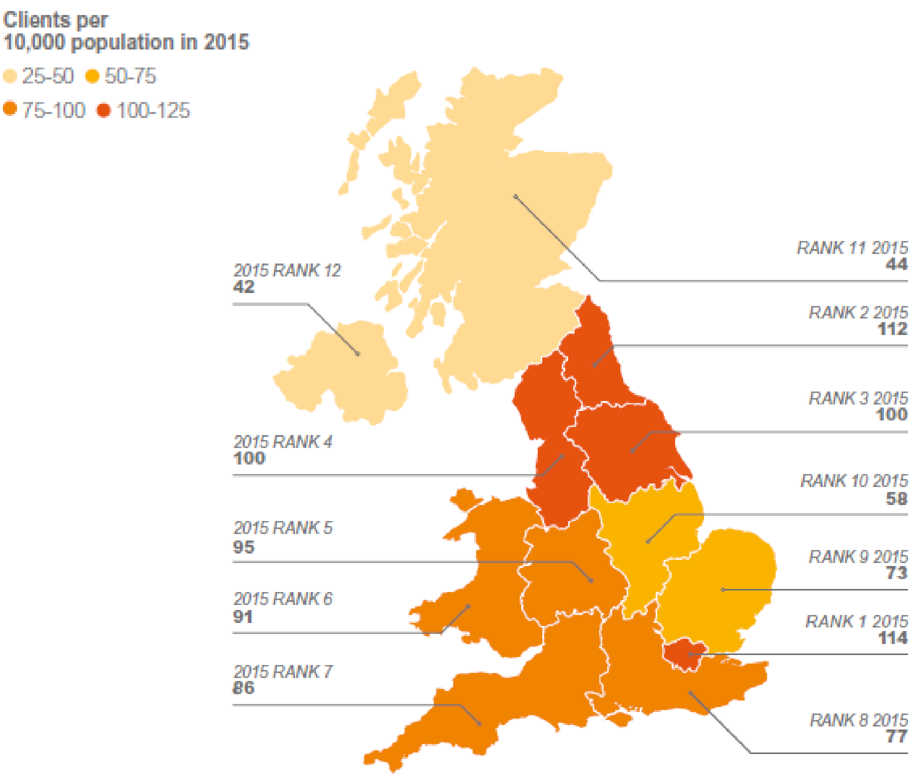
Analysis of our 2015 data

Demand for StepChange Debt Charity advice

Looking at all StepChange Debt Charity clients advised by telephone by region[i], there were 114 StepChange Debt Charity clients per 10,000 of the London population compared with a UK average of 85 per 10,000 of the UK population in 2015 (Figure 1). London was the UK region with the highest proportion of StepChange Debt Charity clients in 2015 and the proportion of clients who live in London had increased from 16.0% in 2009 to 17.7% in 2015. In comparison Londoners make up only 13.3% of the overall UK population over 18 years of age[vii].

The higher proportion of London clients could be a result of higher awareness of StepChange Debt Charity's services rather than higher levels of problem debt in the capital. However, previous research has shown that StepChange Debt Charity client numbers per region correlated well with government statistics used to measure over-indebtedness per region[viii].

Figure 1: Number of all StepChange Debt Charity telephone clients per 10,000 population per UK region in 2015

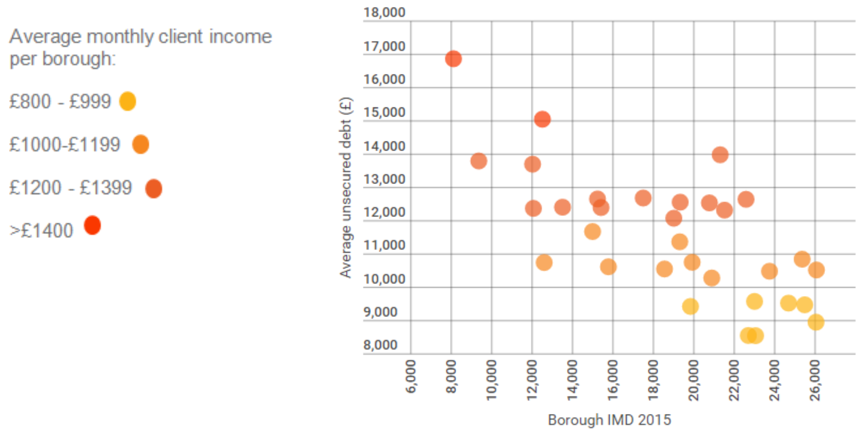


Unsecured debt

Unsecured debt is a blanket term that covers all credit not guaranteed by an asset, such as a house or car which can be taken by the lender if payments are not continued. It includes credit card and overdraft debts and pay day loans. As secured debt can often be covered by the sale of the asset, average unsecured debt levels are a better indicator of a client's debt burden.

Our London client data on average unsecured debt levels shows that, although this has fallen from £22,972 in 2009 to £12,402 in 2015, our London clients have 3.5% higher average unsecured debt levels than the UK average of £11,980. This indicates that our London clients have a greater debt burden than the average UK client.

Figure 2: Average unsecured debt per London borough against borough index of multiple deprivation (IMD) score



Spearman correlation r=-0.658 p<0.0005.

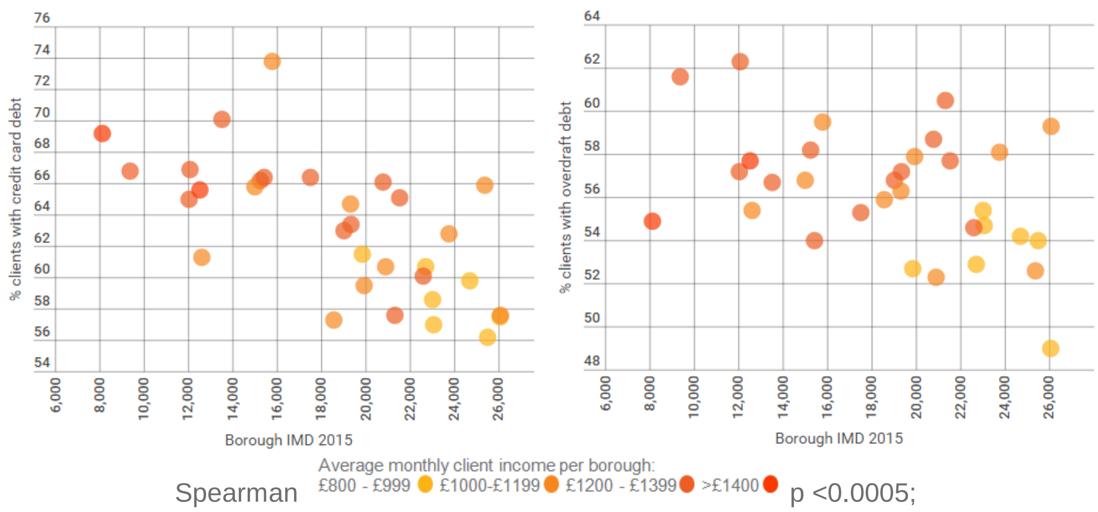
Looking at figures for individual London boroughs, our clients who live in less deprived areas tended to have higher average unsecured debts than those who live in poorer boroughs[1]. On a borough by borough basis the average unsecured debt ranged from £8,549 in Haringey to £16,869 in Richmond upon Thames (Figure 2). This suggests that clients from more affluent

[1] as measured by the 2015 borough index of multiple deprivation (IMD) scores. These are based on: income deprivation; employment deprivation; education, skills and training deprivation; health deprivation and disability; crime; barriers to housing and services; and living environment deprivation. The strong relationship between our clients' average monthly income per borough and the IMD 2015 scores for each borough (r=0.78; p<0.0001) also allows us to conclude that StepChange Debt Charity clients are representative of the average income levels in each borough of London.

boroughs are able to borrow more than those who live in more deprived boroughs, but they can struggle to keep up with repayments following a change in circumstances, just as can those living in the poorer areas of London.

London average credit card and overdraft debt and the percentage of clients with credit card and overdraft debts were similar in 2015 to the UK average. However, across London average credit card and overdraft debt and the proportion of clients with credit card and overdraft debts tended to be higher in the more affluent London boroughs (Figure 3). In contrast, the percentage of London clients with unsecured debts through catalogues, personal loans, home credit and payday loans in 2015 had all fallen and were lower than the UK average.

Figure 3 Percentage of clients with credit card and overdraft debts per London borough against borough index of multiple deprivation (IMD)



Spearman p <0.0005;
Spearman correlation for overdraft debt: r= -0.363 p=0.041

"As you reach the limit on one card they send you an application form for another. And again and again. I had £10,000 worth of debt on one card, and they were very happy to advance me another £10,000 because I just kept making those minimum payments."

StepChange Debt Charity client from London

This is significant as nationally, StepChange Debt Charity research found that people who use credit to try and cope with an income shock or change in circumstance are over 20 times more likely to fall into severe problem debt as those who don't use credit to cope[ix]. Repaying credit and interest puts even more pressure on household budgets just at the time when people are struggling to make ends meet[x]. In repeated surveys around 50% of StepChange Debt Charity clients tell us they waited a year or more between first worrying about their debt problems and getting advice. We estimate that in just six months a typical StepChange Debt Charity client would see an extra £2,300 added to their debts if creditors applied default interest and charges on all their accounts[xi]. This makes it easy to see how even those on higher incomes living in the more affluent London boroughs can fall into problem debt, if they use credit to cope with what may have begun as short-term financial difficulties.

"Card companies give out credit very easily and don't seem at all concerned whether people could pay back the sometimes quite high credit balances they offer."

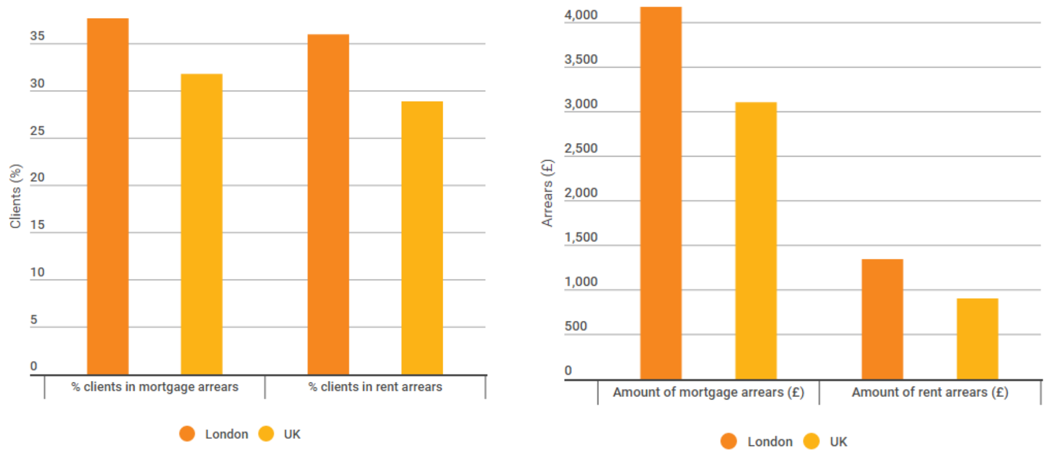
StepChange Debt Charity client from London

Housing-related debt

The proportion of London clients who rented private or social housing accommodation and were in rent arrears was higher than the average for StepChange clients across the UK (36.0% compared with 29.8%) and the average rent arrears balance was almost half as much again as the UK average in 2015 (£1,347 compared with £904).The proportion of London clients who had a mortgage and were in mortgage arrears was higher than the average for StepChange clients across the UK (37.7% compared with 31.8%) and the average mortgage arrears balance was over £1,000 more than the UK average (£4,177 compared with £3,108) (Figure 4).

This is likely to reflect London's higher rents (median monthly rents were over twice the price of the English average in 2015) and house prices (almost twice the adjusted figure for the average in England in 2015) and the greater proportion of their income that Londoners therefore have to spend on housing costs[xii]. This is also reflected in the finding that 27% of Londoners live in poverty after housing costs are taken into account, compared with 20% of people in the rest of England[xiii].

Figure 4 Average percentage of clients who had a mortgage who were in mortgage arrears, who rent and have rent arrears and the average amount of mortgage and rent arrears in London and the UK in 2015



There tended to be a higher percentage of clients who were renting and who had rent arrears in the more deprived London boroughs than in the richer boroughs (Figure 5). This suggested that it was those who lived in the poorer boroughs who were struggling most with their rented housing costs. There was no association between average percentage of clients with mortgage arrears and borough levels of deprivation.

Figure 5 Percentage of clients who were renting who had rent arrears per London borough against borough index of multiple deprivation (IMD) score

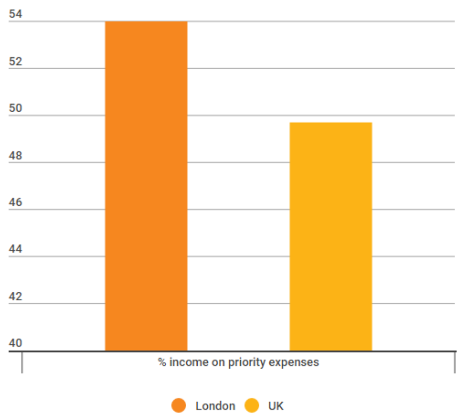
Spearman correlation: r=+0.418; p=0.017

"I had to make some adjustments to my living and cut back on general living costs including food, going out etc, I haven't been on holiday last year and I have had to work every possible moment I could to keep afloat."
StepChange Debt Charity client from London

Priority debts

Priority[2] debts have much more serious consequences if they are not paid than non-priority debts. Such consequences could include eviction, a county court judgement or having money taken from wages or benefit payments. When our clients produce budgets, as part of the debt advice process, it is bills for any of these priority areas that are termed "priority expenses" and these payments are protected within their budgets. Our data show London clients spend a higher proportion of their income on priority expenses: 54.0% compared with the UK average of 49.7% (Figure 6).

Figure 6 Average percentage of income spent on priority expenses in London and the UK in 2015

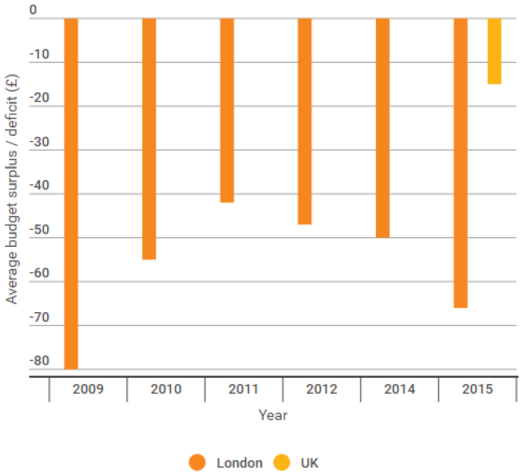


When all priority expenses are added up our London clients spending was £66 more than their income each month. This was a much bigger budget gap than the average UK client's monthly deficit of £15 and has been increasing for London clients since 2011 (Figure 7). This large gap wasn't because our London clients had less money coming in: average monthly incomes in the capital and the UK as a whole are almost the same (London average £1,216 compared with UK average £1,218). Instead it shows that the greater budget deficit in London is a result of the higher cost of priority expenses in the capital than in the UK generally. The percentage of income spent

[2] In England priority debts include rent, council tax, child maintenance, county court judgements, magistrates court fines, tax, VAT and national insurance, TV license, energy, telephone, water, hire purchase and logbook loans.

on rent is a particular contributor to priority debt for those clients living in more deprived London boroughs.

Figure 7 Average budget deficit for London clients between 2009 and 2015 compared with the 2015 UK average. Budget deficit was calculated by subtracting priority expenditure from average income per month.



Council tax and essential household bill arrears

Both council tax and essential household bill arrears were higher in London than the UK average, despite average council tax bills in London being slightly lower than the UK average[xiv]**.** And both average essential bill and council tax arrears have been increasing over time in the capital (Figure 8).

The rising proportion of clients with essential bill arrears and the rising levels of these arrears seen throughout the UK[xv] were even more pronounced amongst our London clients. This tallies with our data showing London clients spend a higher proportion of their income on priority expenses.

"I felt very stressed and extremely worried. I'd always been prudent financially and I knew I could always catch up, but when all these things came at once, I was scared."

StepChange Debt Charity client from London

This "new normal" has meant that people are finding it increasingly difficult to keep up with paying for essential items and this was a particular issue for our London clients who had higher levels of council tax, as well as essential bill arrears than the UK average. Across

Figure 8 Average percentage of clients with council tax arrears, essential bill arrears and the average amount of council tax and essential bill arrears for London clients between 2009 and 2015 compared with the 2015 UK average

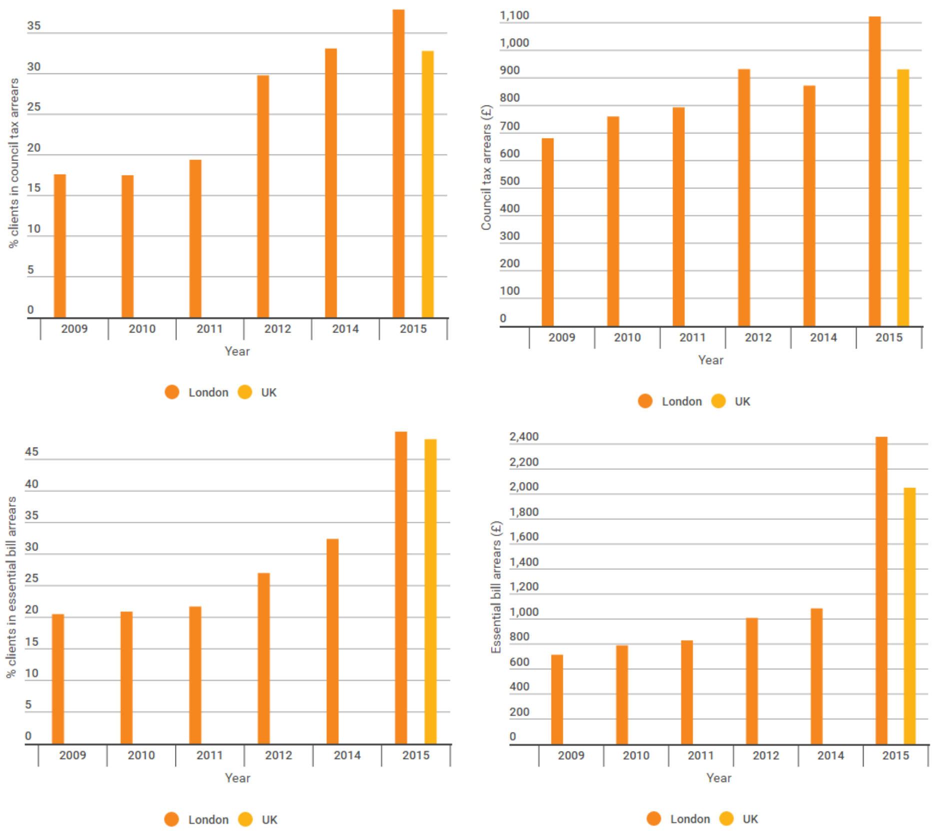
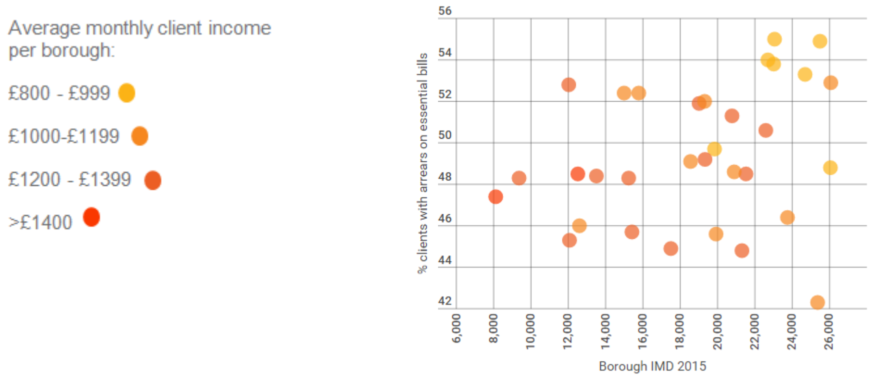


Figure 9 Percentage of clients who had essential bill arrears per London borough againstborough index of multiple deprivation (IMD) score



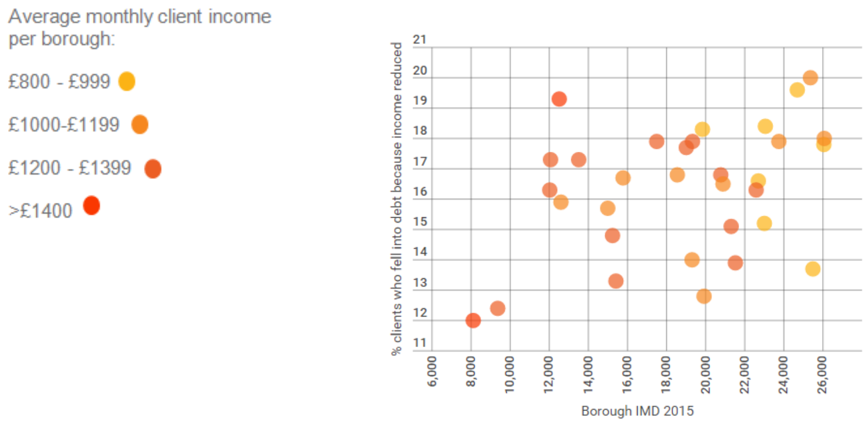
Spearman correlation: r = +0.339; p = 0.049

London arrears on essential bills tended to make up a greater proportion of the problem debt of those living in more deprived areas, where average incomes were lower.

Reasons clients fall into debt

The reasons for falling into debt differed between our clients from the poorer and more affluent boroughs in London. Clients who lived in more deprived London boroughs were more likely to have fallen into debt as a result of drop in their income, whether that was from wages or benefits, than those who lived in the less deprived London boroughs (Figure 10).

Figure 10 Percentage of clients who fell into debt because their income dropped per London borough against borough index of multiple deprivation (IMD) score

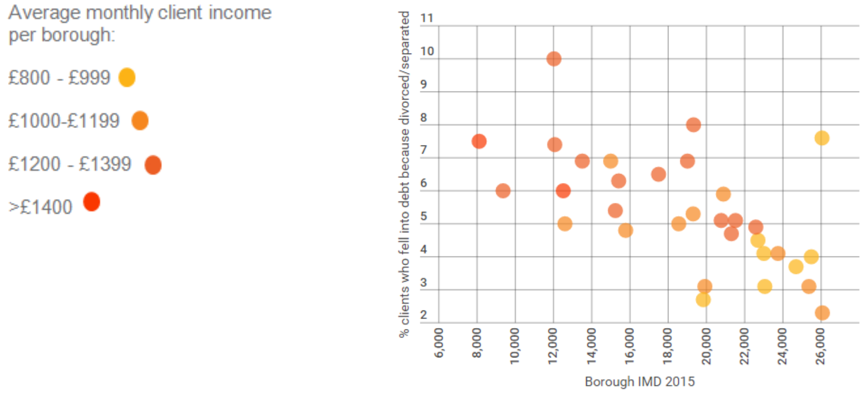


Spearman correlation: r = +0.339; p = 0.049

Although a lower proportion of the reason London clients fell into debt overall, those who lived in richer London boroughs were more likely to have fallen into debt as a result of a divorce or separation, than those from the more deprived London boroughs (Figure 11).

This demonstrates that a fall in income, whether from earnings or benefits, is a major reason for falling into debt amongst our clients. However, the higher proportion from more deprived boroughs citing this as the main reason for their debt problems, again highlights the increasing financial pressures low income households are currently facing. Such households are more likely to rely on welfare benefits, even if working, and are less likely to have the safety net of savings to tide them over a sudden drop in income[xvi]. However, the still significant percentage of our clients from affluent boroughs who had fallen into problem debt as a result of a drop in income, suggests the struggle to cope with sudden income shocks or changes of circumstance was seen across all income levels in London.

Figure 11 Percentage of clients who fell into debt as a result of a divorce or separation per London borough against borough index of multiple deprivation (IMD) score



Spearman correlation: r = -0.642; p <0.0005

The tendency for clients from more affluent London boroughs to be more likely to have fallen into debt as a result of separation or divorce could reflect the change of circumstances this produces and the extra costs associated with living alone. This is a particular problem for women (divorce or separation was the major cause of debt for 7.1% of London female clients compared with only 3.5% of male clients from the capital), in accordance with recent Insolvency Service figures showing that relationship breakdown is much more likely to be a cause of bankruptcy for women than men[xvii].

Our analysis of unsecured debt levels has already shown that clients from more affluent London boroughs were more likely to use credit cards or overdrafts to cope with temporary financial difficulties. It is easy to see how this could happen to cope with the extra expenditure associated with a relationship breakdown, and with the associated high fees and charges, how this could lead to problem debt.

"That I have heard is quite a common story in separations. Couples take out a number of cards over a period of years while they are together and as cards don't offer "joint" accounts, the only way to let your partner share the card is to make them a secondary card holder. While this is fine while you're together, as soon as you separate it can become very dangerous, as it proved to be in my case, as only one of you is legally liable for the debt."

StepChange Debt Charity client from London

Characteristics of our London clients

Our clients in London were more likely to be between 26-59, single and live in rented accommodation than UK clients in general. They were more likely to be unemployed than our average UK client. This reflects the fact that Londoners are more likely to be single, aged 26 – 49, unemployed and live in rented accommodation than the UK population as a whole[xviii], and suggests that our London clients are representative of the population of the capital as a whole.

There were also distinct patterns in the characteristics of StepChange Debt Charity clients depending on levels of deprivation in the borough where they live. Comparing across boroughs by levels of deprivation shows that our clients in poorer London boroughs were significantly different from those who lived in the more affluent boroughs, in that they were:

- more likely to be single;
- more likely to be unemployed or studying and;
- more likely to rent council housing (Figure 12).

As mentioned above they were also more likely to have fallen into debt as a result of a fall in their income. Their debt problems were also different from our clients from less deprived London boroughs in that they had lower levels of unsecured debt, but were more likely to be in arrears with essential bills, particularly rent.

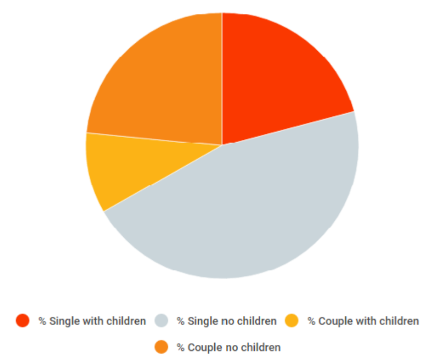
Our clients from London's more affluent boroughs were:

- more likely to be part of a couple;
- more likely to be employed full-time, working for themselves or caring for someone else; and
- more likely to be paying a mortgage, own their home outright or renting from a private landlord.

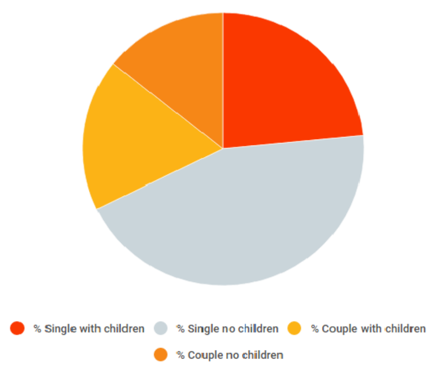
As previously noted, although their reason for falling into debt was still more commonly a drop in income or a change in employment, a much high proportion cited a divorce or separation as the crucial factor that pushed them into problem debt. These clients also had much higher levels of unsecured debt, which was associated with using credit cards or overdrafts and, although many still had essential bill arrears, this was a significantly smaller proportion than within our clients from the most deprived London boroughs.

Figure 12 Comparison of characteristics of clients in the most deprived London borough (Tower Hamlets) and the least deprived London borough (Richmond upon Thames) by household type, employment status and housing tenure

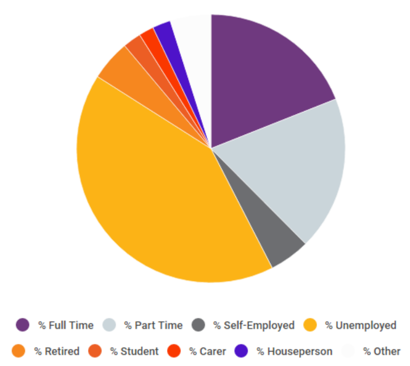
Tower Hamlets by household type



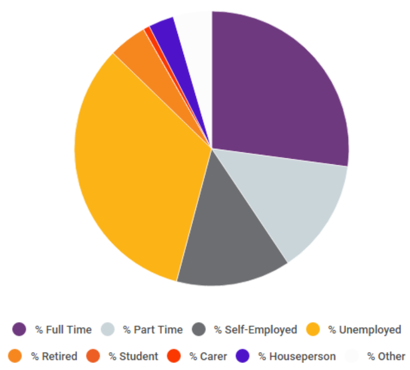
Richmond upon Thames by household type



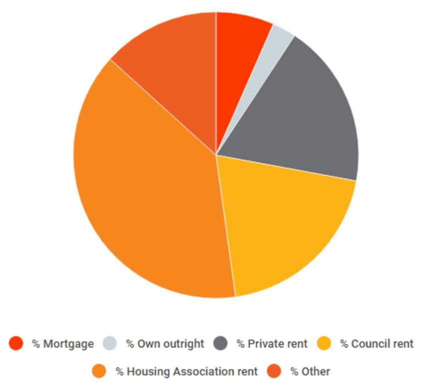
Tower Hamlets by employment status



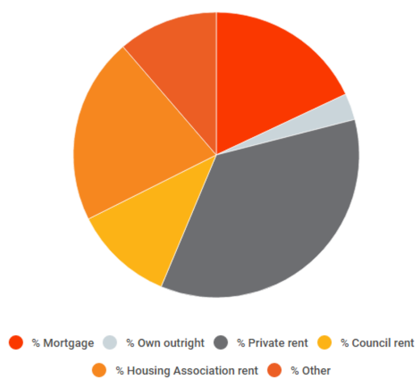
Richmond upon Thames by employment status



Tower Hamlets by housing tenure



Richmond upon Thames by housing tenure



Despite our clients from London's richer boroughs having a higher proportion of traditional markers of financial resilience, such as higher incomes, owning or buying their home, being in a relationship and/or having a full-time job, this suggests that in London these are still not a guarantee against falling into problem debt.

Overview of our findings

Our analysis shows that Londoners are more at risk of problem debt than the UK average, regardless of where they live in the capital and relative deprivation levels. Our London clients' unsecured debts are higher than those of our UK clients as a whole. Our data also shows that our clients from London are having more trouble keeping up with paying for the essentials, such as housing and council tax bills, than our UK clients on average, and that the proportion with essential bill arrears, and the level of these arrears, has increased over the last few years.

Our results also show that problem debt can affect any Londoner regardless of where they live or how much they earn. In fact, it was those who lived in the most affluent London boroughs who were more likely to build up higher levels of unsecured debt, and so be just as likely to need to use our debt advice services, as those from the more deprived areas of the capital.

Analysis

The initial analysis is of 15,404 StepChange Debt Charity clients who received first time telephone helpline advice in 2015 and had a known London borough post code. Those clients who did not have a post code recorded were excluded from the sample. Boroughs were specified using the list of borough post codes provided by the London Datastore[xix].

An equivalent sample of clients for each of the years 2009, 2010, 2011, 2012 and 2013 was used where data was available from previous StepChange Debt Charity analysis.

Associations between the various StepChange Debt Charity data and the borough index of multiple deprivation score for 2015 were assessed using the Spearman rank correlation test. Associations were counted as significant if $p<0.05$.

Recommendations

Our findings show that problem debt remains a more significant issue for London than other UK regions, and supports many of the recommendations from the previous London Assembly's Economy Committee report, which remain to be implemented. Reviewing these, our data suggest prioritising the following areas for future work.

Despite the lower levels of council tax in the capital, our London clients still had higher council tax arrears than the UK average. StepChange Debt Charity research[xx] has found that enforcement of council tax arrears collection procedures continue to cause hardship and add to financial difficulties, and this is a particular issue in London[xxi]. Central government, through work with the Minister for London, should therefore ensure all London boroughs are adopting fair and transparent debt recovery procedures. London boroughs should implement genuinely fair approaches to debt recovery and learn from each other about what works. Central government needs to reconsider policy on enforcement agents and bailiff conduct, while local authorities need to share best practice in London on forbearance and supporting people through financial difficulties. This would ensure that those with financial problems are able to make affordable repayments that do not make existing debt problems worse, and firm up standards and procedures to protect vulnerable people.

Secondly, the Mayor of London should use his convening powers to bring together London local authorities and debt advice service providers to monitor whether London's debt advice services are sufficiently resourced. He should also ensure local authorities are working effectively with debt advice services to meet the needs of Londoners and to share best practice. The Mayor should then take further action if this monitoring identifies a shortfall in resources or service provision.

We also recommend that the Mayor should commission a 'Money Advice Week' or, better still, work with debt advice charities delivering 'Debt Awareness Week', to promote debt advice and affordable credit options. As the London Assembly report recommended, the week could be used to tackle stigma around financial difficulties and use Transport for London advertising sites to encourage uptake of debt advice services and promote affordable credit options.

The Mayor of London should also act to promote savings options and access to affordable credit, such as credit unions, to a wide range of Londoners. StepChange Debt Charity research has shown that if every household in London had at least £1,000 saved it would reduce the number in problem debt by almost 67,000[xxii]. The Mayor could use examples from other cities in the UK and elsewhere to develop innovative approaches to improve the financial resilience and affordable credit access of lower income households. For example, Sheffield Money is a council-funded broking service working with community lending partners to provide loans, other financial services and debt advice to local residents[xxiii].

In addition to agreeing with, and expanding on, previous London Assembly recommendations, we also recommend an additional area to address. Our research shows the number of Londoners falling into debt as a result of a change in circumstances, and the problems extra charges and fees on these debts cause in pushing them further into problem debt. We call on the Mayor of London and the Minister for London to use their influence with central government to introduce a statutory 'breathing space' scheme giving better protection for those in debt. This would offer a guarantee that creditors would freeze interest and charges and halt collections and enforcement action for a period of six months to one year for those who seek debt advice and remain engaged with their debt problem. This would encourage people to seek debt advice, begin the process of recovery from financial difficulties, and help better support the many Londoners who are in problem debt.

References

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[vi] As measured by the average borough index of multiple deprivation score for 2015
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