London IN THE RED

A capital in debt

This briefing aims to raise awareness of the nature and cost of problem debt in London. We look at problem debt across the entire capital and within boroughs, suggesting how the issue can be addressed.

It was prepared by StepChange Debt Charity. StepChange is the largest specialist debt advice charity working across the UK. In 2017 620,000 people contacted our free telephone advice line or online Debt Remedy tool for support. Over 100,000 lived in London.

The cost of problem debt to London's economy

Problem debt is not simply a financial problem, but has wider social costs affecting people's physical and mental health, relationships, employment and productivity.

Over **1/2 million** Londoners are in problem debt.

We estimate that this creates external and social costs of at least **£1.5billion** per year in London alone.

London has higher levels of problem debt:

In 2017 the highest proportion (17%) of StepChange clients lived in London.

London clients had higher average incomes (£1,440 vs £1,350), but spent a higher proportion of this income on essentials, such as rent or fuel (57% vs 50%). Most of this difference in the cost of essentials was associated with higher housing costs in the capital.

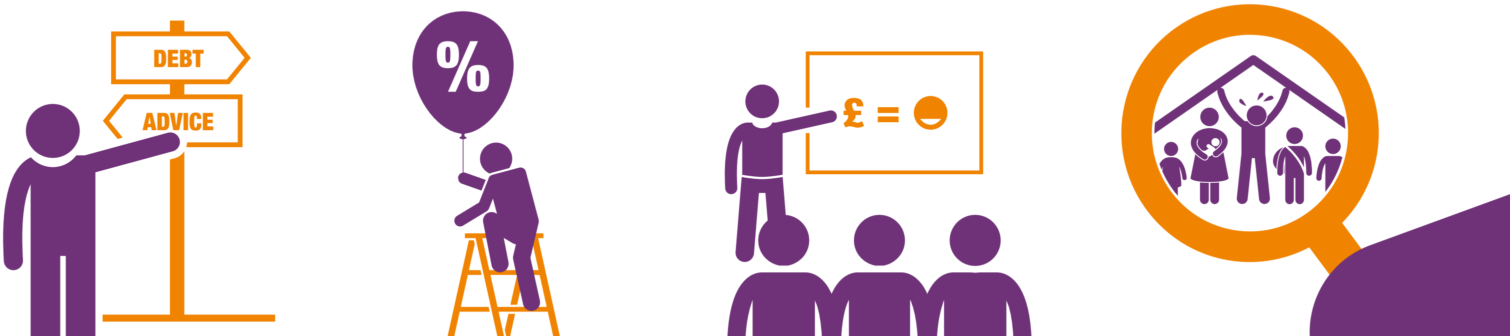
A higher proportion of London clients with housing costs were behind on their rent or mortgage payments compared with the UK in general (36% vs 29%) and average amounts owed in rent or mortgage payments were higher than nationally (£1,400 vs £950 for rent; £4,450 vs £3,380 for mortgage arrears).

Average credit card (£7,210 vs £6,760), overdraft (£1,600 vs £1,440) and payday loan debts (£1,090 vs £940) were all higher for our London clients than for all UK clients.

17% of StepChange clients come from London

Recommendations

Our results show that problem debt is a priority issue for London with high economic and social costs.
There needs to be better co-ordination at a London-wide level to ensure:



Earlier signposting, and improved access, to free regulated debt advice.

More investment to ensure Londoners have access to affordable credit so they are not further penalised by the high interest of payday loans and persistent credit card and overdraft debt.

London local authorities promote and share best practice council tax collection procedures. Evidence shows that good debt collection practices result in increased collections over time and reduced operating costs.[1]

London local authorities, housing associations and private sector landlords identify tenants in financial difficulty and provide support, to reduce their risk of falling into rent arrears and losing their home.

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 borough deprivation levels. Our data also shows that our clients from London are having more trouble keeping up with paying for the essentials, particularly housing bills, than our UK clients on average. Our London clients' unsecured debts are higher than those of our UK clients as a whole, suggesting that those living in the capital may be more likely to use additional credit to cover the higher amounts they spend on priorities, particularly housing.

These tighter budgets are also associated with a higher level of council tax arrears amongst Londoners. However, although the referral of council tax arrears to bailiffs for collection has increased in London over the last two years, our data does not show any relationship between the number of cases referred to bailiffs and any signs of improved collection rates across boroughs.

This analysis of our client data is consistent with other research which paints a picture of a capital in which high housing costs mean that Londoners' finances are tighter than the rest of the country. This is associated with more Londoners being dissatisfied with their financial circumstances, fewer having savings, including pension savings, or owning their own home.

Characteristics of our London clients in problem debt

A lower proportion of our London clients are over 60 than the national average (9% vs 10%).

They are more likely to be self-employed (8% vs 7%), unemployed (32% vs 29%) or a student (2% vs 1%).

Our London clients are more likely to live in social housing (37% vs 29%) and less likely to have a mortgage (15% vs 18%) or own their home outright (2% vs 3%) compared with the UK average.

London clients renting in more deprived London boroughs are more likely to have rent arrears than those in less deprived boroughs.

Those in more deprived boroughs are more likely to have fallen into debt following a job loss than those who live in more affluent boroughs.

Our London clients living in the more affluent London boroughs have higher levels of unsecured debt and are more likely to have fallen into debt as a result of relationship breakdown than those in more deprived boroughs.

Londoners have higher average incomes but less money left after paying for essentials...

1 'Working collaboratively with debt advice agencies: A strategic toolkit for creditors' Money Advice Service (2017).

2 'Stop the Knock' (2017), Money Advice Trust.

3 'The financial lives of consumers across the UK '(2018), The Financial Conduct Authority.

4 'London Stalling: Half a Century of Living Standards in London', The Resolution Foundation and Trust for London (2018).

Council tax and bailiff use in London

Nationally, StepChange has seen a large increase in the proportion of clients who have council tax arrears and their average council tax arrears.

A similar trend is reflected even more dramatically amongst our London clients **30% owing an average £870 in 2013 to 35% owing £1190 in 2017.**

Our clients' average council tax arrears were higher in London than the UK average £1190 vs £1080), although average council tax bills are lower in London than the UK (Band D 2016-17 London average was £1,330 vs £1,590 nationally).

In the 20 London boroughs for which data was available[2] referral of **council tax arrears to bailiffs increased by 12% between 2014-15 and 2016-17.** This was similar to the average national rise of 14%.

There was no relationship between the proportion of StepChange clients with council tax arrears, or their average arrears, and the number of council tax arrears cases referred to bailiffs for collection in each London borough for which data was available.

Londoners' finances: what others say

Fewer Londoners are highly satisfied with their financial circumstances (16% vs. 21%) and more are dissatisfied (48% vs. 42%).

Adults in London are less likely to have a current account (94% vs. 96%), and also less likely to have a cash ISA (33% vs. 37%) or premium bonds (17% vs. 21%).

Among those already retired a higher than average proportion relies on the State Pension for their main source of income (53% vs. 44%)[3].

Before taking housing costs into account, the typical London household income was £28,600 in 2014-17, well above the UK figure of £25,700. However, once housing costs are accounted for incomes fall to £21,400 in London compared to £22,300 for the UK.

London is the only region in the UK where the typical family has no net property wealth[4].

For more information visit the StepChange Debt Charity website
www.stepchange.org/londoninthered

Email: **policy@stepchange.org**