Cutting the cost of problem debt

The £8.3 billion challenge:

the social cost of problem debt in the UK

Problem debt costs society £8.3 billion. It costs so much because it can exert such a pervasive grip on individuals' lives. Household debt affects mental and physical health, hurts productivity and employment prospects, strains relationships and threatens families.

Dealing with the consequences of problem debt costs employers, local Government, carers, the NHS and the welfare budget dearly.

The costs of problem debt are not inevitable. Free debt advice can and does turn lives around. As individuals and families bounce back, wider social and economic costs are reduced.

In one year StepChange Debt Charity's advice saved £241 million in the social costs of problem debt. If all 2.9 million people in problem debt in the UK got effective debt advice, we calculate that £3.1 billion could be saved in social costs.

Problem debt is the £8.3 billion challenge for policy-makers who want to improve families' living standards and boost the economic recovery.

It is a challenge that will not go away without action – economic insecurity and high costs which drive people into debt remain a key part of many people's lives. In this briefing we explain how problem debt costs us all, and how policy-makers can help organisations like StepChange Debt Charity tackle the challenge.

Methodology

StepChange Debt Charity helps hundreds of thousands of families in problem debt each year. To better understand the benefits of advice to our clients, their creditors and society as a whole, we commissioned social impact specialists Baker Tilly to quantify these benefits.

Baker Tilly analysed data on 109,397 StepChange Debt Charity clients who we helped in the year up to September 2013. They developed models to calculate the savings brought about by our debt advice to creditors and society as a whole, as well as the social and creditor costs resulting from problem debt. The full model is available in Baker Tilly's report.[1]

Baker Tilly used an established social return on investment approach with an action research methodology enabling them to:

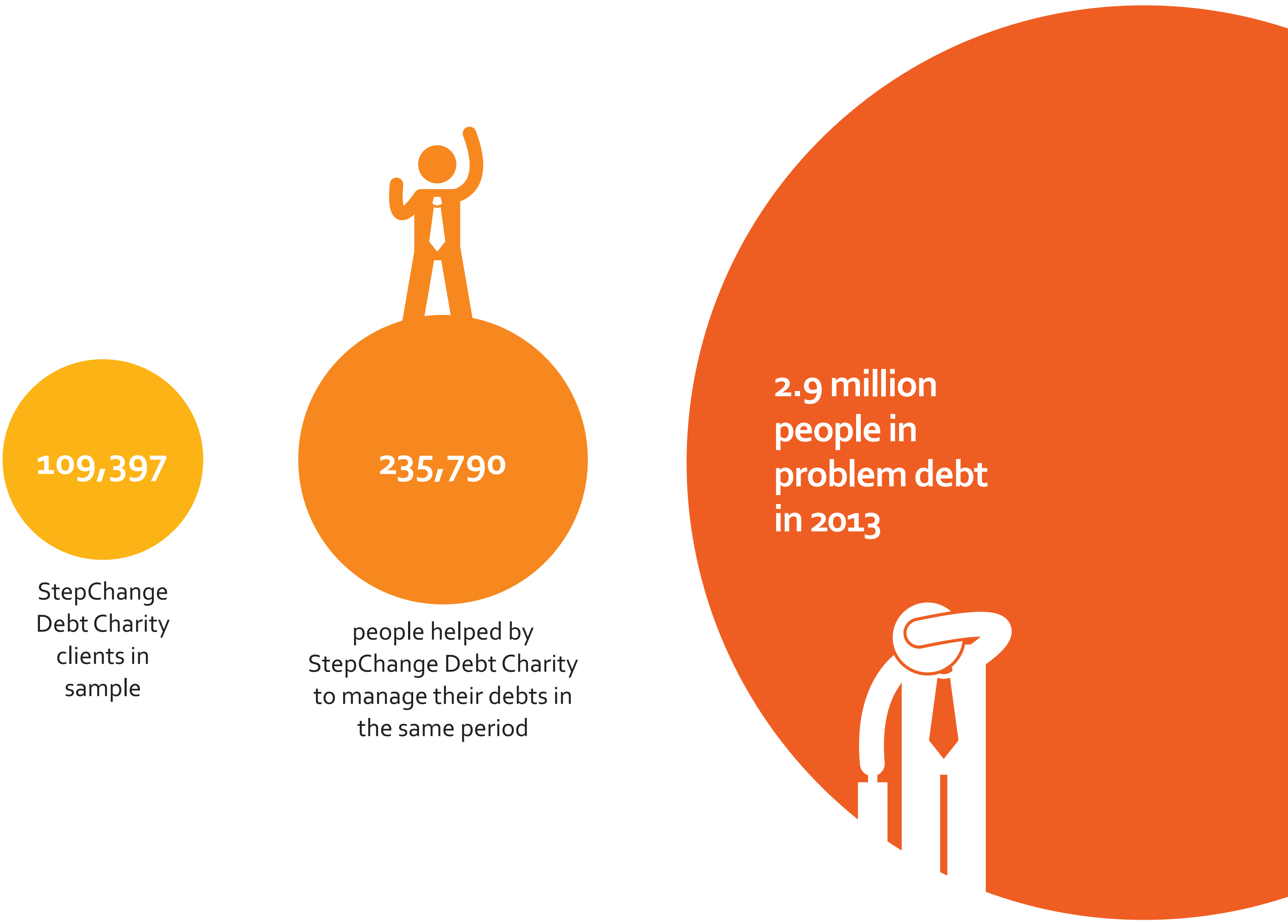
- Analyse a large representative sample of clients
- Understand the outcomes experienced by different households in problem debt by reviewing live case studies
- Identify financial proxies to represent the outcomes identified in the case studies
- Use third party research to validate the financial proxies and assumptions
- Ensure no costs or benefits are double-counted, attributing value to other factors that may have contributed to the outcomes
- Apply a sensitivity analysis to all findings

The calculations, based on 47% of the clients we helped to manage their debts in a 12 month period, are conservative estimations of the costs of problem debt and the value that StepChange Debt Charity brings.

1. Clifford, J., Ward, K., Ross, C., and R. Coram, 2014. Transforming Lives: A review of the social impact of debt advice for UK individuals and families, evaluated using SROI. Available from: www.stepchange.org/8billion

Assuming that the rest of our clients, and the rest of the population in problem debt, would respond in the same way to debt advice as those groups of StepChange clients considered in Baker Tilly's work, we extrapolate their findings to all 235,790 people whose debts we helped manage over the same period as the sample, and to all 2.9 million people currently in problem debt in Great Britain.[2]

This is a conservative estimation of the total number of people currently in problem debt compared to other figures, such as Money Advice Service's estimate that 8.8 million people are indebted, which includes people who are highly vulnerable to falling into debt.[3]



The £8.3 billion social cost of problem debt

We use Baker Tilly's analysis to quantify the social cost of problem debt: the additional welfare benefits, moving and eviction costs, lost productivity and demand for care, support and other state services that people rely on as a result of problems linked to their debt.

We do not include the potential effects of creditors' losses as a result of problem debt, even though these might translate to considerable increased costs of consumer borrowing and wider economic impacts.

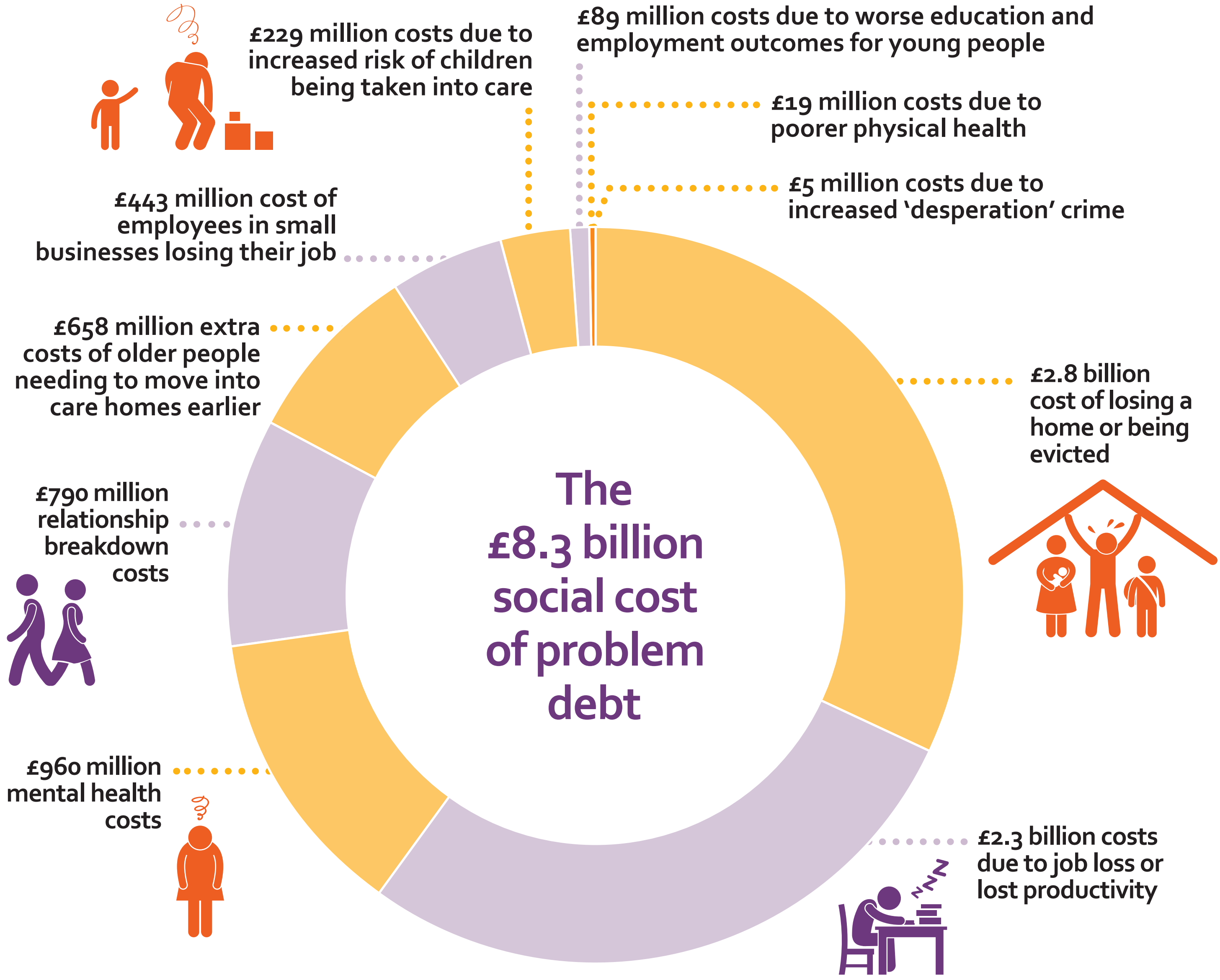
We calculate that the social costs of problem debt from those in Baker Tilly's sample of 47% of our clients amounted to £311 million.

Based on Baker Tilly's calculatons, we find – as a conservative, first estimate - that ***the social cost of problem debt for all 2.9 million people affected amounts to £8.3 billion.***

2. Calculated based on the 6% of GB adults identified in a StepChange commissioned YouGov poll (Total sample size: 4,442 GB adults. Fieldwork undertaken: 17th - 20th December 2013) as showing three or more signs of financial difficulty. These signs of financial difficulty are: using credit to keep up with existing credit payments and essential bills, using credit to last until payday, routinely incurring late payment charges, making minimum payments for longer than 3 months and falling behind on essential bills. The 2.9 million figure is obtained from extrapolating the 6% to the full GB adult population of 48,788,100 given by Office for National Statistics 2012 population estimates.

3. Money Advice Service, 2013. Indebted Lives.

The social costs of problem debt are high and wide-ranging. The biggest costs associated with problem debt are housing and employment costs, where debts can lead to lost jobs and productivity, forced home moves, and therefore significant costs to the country's welfare and support services.



How the costs of debt mount up: Jane's story

Jane was forced to move into rented accommodation with her son after fleeing a violent relationship. Despite working full-time in IT, Jane needed to use credit to keep up with high bills, eventually turning to payday loans.

She became depressed as her debt spiralled quickly, with £3,658 worth of unsecured debt, a county court judgement for £1,355 as well as owing £3,500 to a family member, and the same amount to a friend. But exhausting support from family and friends led her to feel more isolated. Without support from StepChange Debt Charity, her depression could have risked her job, destitution could have prompted her to move back in with her abusive partner or become homeless, leading to other longer term costs for her and her son.

The social costs mount up because some negative effects of problem debt lead to further negative outcomes for individuals and their families, particularly where people are experiencing underlying social, economic or health problems. This leads to further costs to these individuals, employers and the state.

Why does problem debt cost us so much?

Because debt worries affect our health

Because debt problems can lead to even worse negative consequences

Physical health problems

Debt stress can lead to physical health problems and greater pressure on health services.

This can lead to additional health costs of **£19 million**.

Older people's care

Deteriorating health can lead to older people needing extra and earlier care.

This can lead to additional older people's care costs of **£658 million**.

Mental health problems

Debt pressures can exacerbate mental health conditions, such as stress, anxiety and insomnia.

Mental health issues can lead to additional costs of **£960 million**.

Relationship problems

Debt stress can lead to pressure on relationships and breakups.

This can lead to additional relationship breakdown costs of **£790 million**.

Housing problems

People falling behind on their rent or mortgage risk losing their home or being forced to move.

Housing problems can lead to additional costs of **£2.8 billion**.

Employment costs

Stress, anxiety and other factors can undermine employment productivity, prolong unemployment and lead to people losing their job.

This can lead to additional employment costs of **£2.3 billion**.

Children's care

Mental health problems and relationship difficulties can lead to children in already precarious families being taken into care.

This can lead to additional children's care costs of **£229 million**.

The importance of action to prevent problem debt

At £8.3 billion, problem debt is a significant drain on the country's resources: through lost jobs and productivity at work, increased demand for care and support services, and pressure on the welfare safety net.

But there has been relatively little policy action to tackle problem debt. There is no cross-Government debt action plan, no senior Minister uniquely accountable for tackling and preventing debt, and no demonstrable evidence that keeping families out of problem debt is a political priority.

The risk of more people falling into problem debt is not going away. StepChange Debt Charity saw a 37% increase in clients coming to us for debt advice between 2012 and 2013[4], and we expect to see a 20% increase in clients coming to us in 2014.

Fifteen million Britons are already showing at least one sign of financial difficulty (32%), including 6 million using credit to last until payday (12%) and 3 million using credit to keep up with existing credit commitments (6%). Thirteen million people do not have the savings to keep up with essential bills for a month if their income dropped by a quarter (27%).

This means millions of people remain on a financial knife-edge, vulnerable to a small shock to their finances. With job insecurity a growing feature of the modern labour market, and families lacking resilience to shocks, today's £8.3 billion challenge to policy-makers could well grow in the future.[5]

4. StepChange Debt Charity, 2014. Statistics Yearbook 2013.

5. StepChange Debt Charity commissioned online survey from YouGov. Total sample size: 4,442 GB adults. Fieldwork undertaken: 17th - 20th December 2013. Figures obtained by extrapolating the percent from the above sample to the full GB adult population of 48,788,100 given by Office for National Statistics 2012 population estimates.

The contribution of debt advice

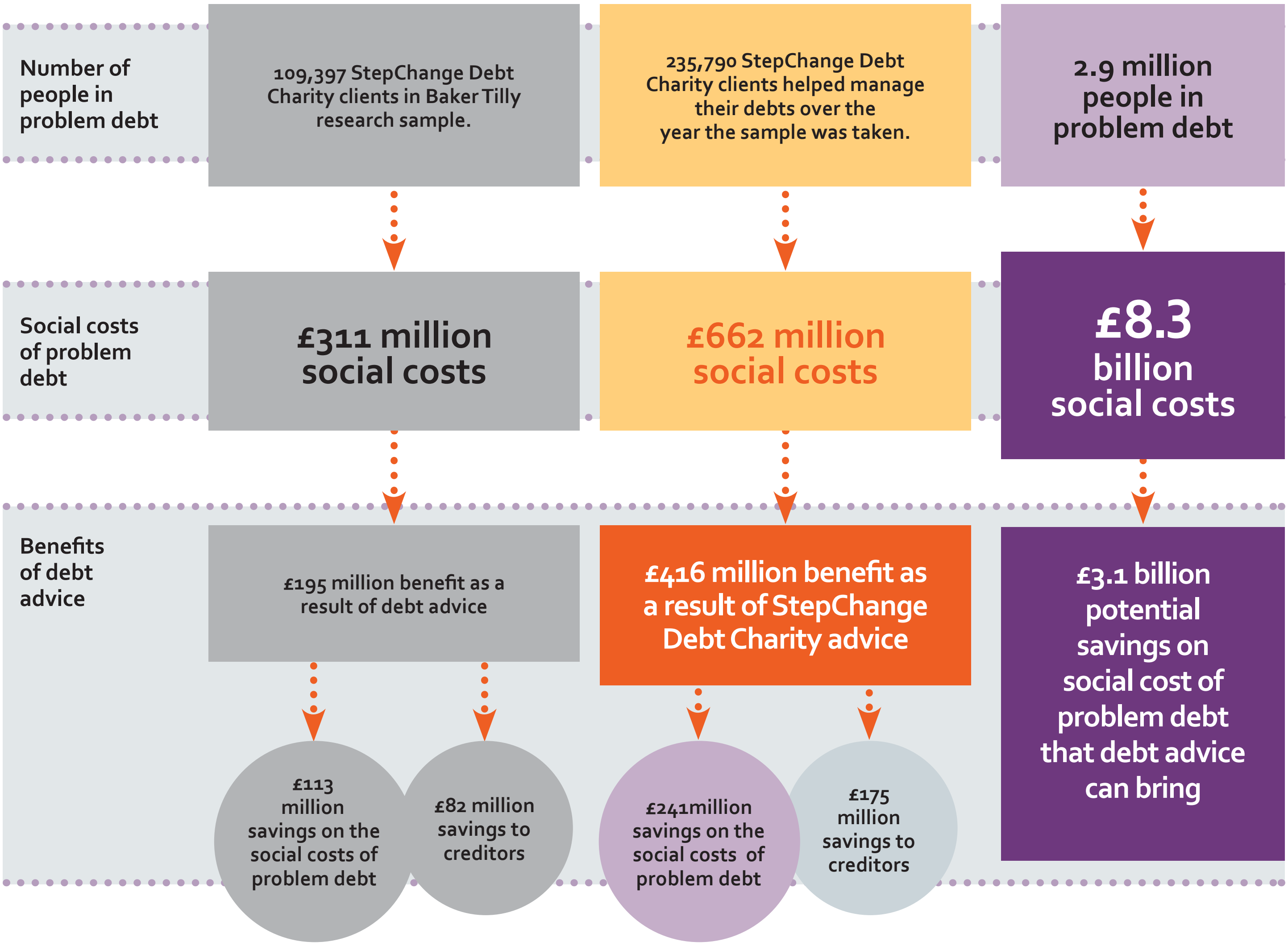
Debt advice is a key way of helping people on the edge, and those already in problem debt.

Baker Tilly's work done with 47% of our clients in one 12 month period identified £113 million savings on the social costs of problem debt and £82 million savings to creditors. Based on these findings, we calculate that for all of the people we helped manage their debt in the same time, **StepChange Debt Charity's Advice saved £241 million in the social costs of problem debt**, and generated £175 million savings to creditors in the shape of higher collection rates and reduced collection costs.

In total, **StepChange Debt Charity generated external benefits to society and creditors of £416 million for the £33.6 million spent by the charity on debt advice in the same period.** This represents a return of £12 for every £1 spent, with the majority of the savings being to the state and society.

If all 2.9 million people in problem debt got advice, we calculate that £3.1 billion could be saved in social costs. The debt advice sector is making good progress in reducing the social costs of problem debt, but there remains a long way to go. We need to bridge the gap with sustainable funding for advice, and encourage all people in problem debt to seek advice.

But debt advice on its own cannot tackle all the social costs of problem debt. Wider policy action is needed to prevent people falling into debt, encourage people to seek support earlier when they do, and help ensure that they do not fall back into problem debt.



What can policy-makers do about it?

We urge the next Government to instigate a Debt Action Plan including the following measures:

- Savings help for people on low and middle incomes to build up precautionary savings.
- A new statutory scheme supporting people through temporary financial difficulty, accessed via debt advice.
- Government commit to the highest standards in debt collection practice where it acts as a creditor, e.g. council tax collections.
- Help the free debt advice sector bridge the advice gap so that everyone who needs help with their debts is able to get debt advice.
- Provide proper funding for the tools to help people manage their debt, so that debt advice can help as many people as possible.

Preventing people from falling into problem debt, and helping people when they are in debt, are vital to breaking the link between financial difficulties and long-term negative outcomes. The opportunity of addressing problem debt means keeping more people in work, paying taxes and contributing to recovery; keeping families in their homes; and relieving the pressure on relationships and family life – and should be a priority for policy-makers.

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