Consultation Response

Measuring Child Poverty: A consultation on better measures of child poverty

Response from StepChange Debt Charity

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Introduction

StepChange Debt Charity is the new name for the Consumer Credit Counselling Service (CCCS). StepChange is a leading provider of independent debt advice. In 2012 over 400,000 people contacted our telephone helpline and online debt remedy tool for help with problem debts.

We believe that the Department for Work and Pension's Child Poverty Unit should be aware of the impact household over-indebtedness can have on children. Our evidence suggests:

1. Debt repayments can drive households into effective income poverty

2. Prioritising unsecured debt repayments can leave households with children vulnerable to accruing arrears on priority expenditure, which could result in them losing their home or necessities such as heating

3. Poor debt collection practices can lead to great distress for children in over-indebted households. For example, we have seen cases of a 'payday' lender telephoning a client and informing him it would have his children taken away by social services unless he settled his debt

Q8: How important is unmanageable debt as a dimension in a future multidimensional measure of child poverty?

Research shows individuals, particularly single individuals, with dependent children are at greater risk of over-indebtedness than the overall population[1]. A high level of debt is detrimental to living standards, reduces access to material resource and can result in significant amounts of stress and social exclusion.

Two-fifths of StepChange Debt Charity's clients have dependent children (44 percent), higher than the UK average (42.5 percent). More than 16 percent of clients are single parents, well in excess of the national average (11 percent). Data about the people who sought advice from us in 2012 shows the average unsecured debt for clients with dependent children is £19,989, compared to £16,970 for households with no dependent children.

The government needs to be aware that debt repayments can often account for a high proportion of household income. A key reason why debt plays a role in poverty and deprivation is the financial pressure high levels of contractual debt repayments can put on family finances.

The table below gives estimates of the proportion of StepChange Debt Charity clients in households containing children who are in income poverty. We make estimates for clients in the following four groups

- Households where neither the client nor their partner (if any) was working
- Households where either the client, their partner or both had some income from work (full time work, part time work or self-employment)

[1] *Credit, Debt and Financial Difficulty in Britain 2011; Department of Business, Innovation and Skills; 2012*

- Households where either the client, their partner or both was in full time employment
- Lone parent households.

We have used two income measures to estimate the proportion of these households with income that falls below the 60 percent median threshold set out in Households Below Average Income 2010/11. The first is a measure of net household income adjusted for family status that approximates used in the HBAI. We do not have data on the age of children and so have used the lower age band in each equivalence calculation. Therefore this is a very conservative estimate. We have also included a maximum of two adults. It is net of tax, NI and council tax payments, but not pension payments. The second subtracts the contractual credit repayments households were liable for before seeking advice. For most of the households we saw in 2012, credit repayments significantly reduced income available for everything else.

Households with children		
	Income poverty	Income poverty with credit repayments
Workless Households	73%	91%
Households with some income from employment or self-employment	32%	71%
Households with someone in full time work	23%	67%
Lone parents	35%	68%
All clients	**41%**	**75%**

Our first observation is the experience of income poverty is high among people experiencing debt problems, even before credit repayments are taken into account. This is perhaps not surprising among 'work poor' households where no one is working or there is only part time work – we estimate that some 45 percent of our clients said the main cause of their debt problems was a drop in income from unemployment, reduced hours or business failure. However, we also estimated that nearly a quarter of households with at least one person in full time work are also in income poverty. This suggests that debt may be linked to persistent insufficient income even amongst working households as well as households experiencing income shock. Either way income poverty or severe debt problems appear to be a linked experience for many of our clients.

The second observation is that the burden of credit (and other debt) repayments significantly increases poverty. The effect of taken credit repayments from income is least pronounced among workless households who tend to have smaller debts and a higher incidence of income poverty without accounting for debt repayments. The difference is most pronounced in working households where taking account of debt repayments more than doubles the incidence of income poverty.

The difference is also highlighted by comparing the number of children living in households experiencing income poverty among our 2012 client group. On the measure of income poverty, this was 62,000 children in 81,000 households. Including debt repayments the number of children in poverty increases to 112,000 living in 143,000 households.

Unsecured debt pressures can also lead to households missing payments on priority expenditure and therefore accrue arrears. Previous research by Citizens Advice indicates consumers with high levels of unsecured debts prioritise repayment on those over meeting housing costs. This can result in the loss of services, such as gas and electricity, which are important to a child's wellbeing or result in loss of the home. Among our clients, the household group with the highest overall level of arrears are couples with dependent children who, on average, have arrears debts of £1,384. Single parents have the highest levels of rent, Council Tax and water arrears.

	Couple with children	Single with children
Electricity arrears	£543	£473
Gas arrears	£484	£486
Rent arrears	£810	£959
Mortgage arrears	£4,229	£2,864

Over-indebtedness in households can put intense pressure on dependent children, generating huge levels of stress and upset. In a survey of 950 clients, 30 percent said that being in unmanageable debt had resulted in their relationship with their family getting worse. Over 85 percent of clients completing our online *Wellbeing* tool said they were suffering from some form of depression.

One reason for the stress affecting households is often unreasonable debt collection practices used by creditors. The charity's Social Policy network hears collects numerous cases each year, showing the effects of such practices. We have included cases in this consultation response. Other evidence seen includes:

Social Policy case study

One of our advisors recently spoke to a client with four hire-purchase debts. She had recently been visited at home by a representative of her creditor. The client offered to pay in instalments but her creditor was unwilling to accept this. She was stood with her young son at the time and the representative told him, "would you like to see your mummy arrested and taken away? You could always visit her."

Social Policy case study

In May 2012 a StepChange Debt Charity client contacted our aftercare team after a large high-street lender disputed the budget we had put together for her. The lender recommended our client include no money for new clothing for their children in the budget, no money for school activities for the children and no money for emergencies.

Social Policy case study

A client recently complained to the charity about the behaviour of a home credit provider from whom she had borrowed. A representative of the creditor had threatened to force entry into her house to remove items. He 'shouted and screamed' at her through the letterbox, leaving her fearful for her two young children.

In conclusion, we believe that our data suggests that there is a strong relationship between debt and poverty, and that taking account of debt repayment burdens increases this significantly. However it is far from clear that unmanageable debt and poverty are the same thing. More work is also needed on how experience of debt can cause material deprivation.

Therefore we believe that it is important for the Government to address child poverty. But it is equally important that the Government develop a clear and coherent strategy to address household debt problems.

The DWP is correct to investigate the role of over-indebtedness on child poverty. Our evidence shows there is a strong relationship between debt, poverty and deprivation. We have further evidence we are happy to share with the Child Poverty Unit.

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