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Tackling poverty and inequality



Managing the Unmanageable: Debt and Economic Resilience in Newham

Executive Summary

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Executive Summary

This research aims to understand the links between work, low pay, benefits, credit, debt, and savings among low-income households in East London.

Our work around debt and financial resilience in Newham goes back a number of years to 2011 when Newham Council first approached LSE Housing and Communities in order to carry out qualitative research into financial resilience in the borough. Our final report (*Facing Debt*) in 2014 produced some key headlines and recommendations around 4 main areas:

- financial management,
- debt,
- welfare reform and
- overall impact of financial pressures on people's lives.

We wanted to follow up with Newham residents in 2017 to talk about their money management and financial pressures to see how the picture had changed. Welfare reform was only just beginning when we first interviewed residents in the borough about debt and was much more established when we conducted the fieldwork for this study, in the summer of 2017.

According to Money Advice Service research in 2017, residents in Newham were the most likely in the country to be overburdened with debt. It was estimated that approximately 60,000 people, almost 1 in 4 people living in the borough, have problem debts (Partington, 2018; Money Advice Service, 2017). Newham has experienced huge changes in recent years with lots of people moving into the borough. The cost of living is on the increase – particularly housing costs – at a time when low pay and benefits have not kept pace in an area where many jobs are low skilled and low paid.

Findings

We conducted 55 interviews with Newham residents in locations across the borough but with the majority happening in locations in Stratford, Canning Town and East Ham. First we set out how interviewees said they were managing:

- **Most of our sample were finding it difficult to balance their budgets.** Around two thirds of our interviewees felt they were finding things difficult or were just about getting by; 18 people felt they were doing ok.
- Work did provide something of a buffer, although incomes were often unpredictable due to insecure work.
- Interviewees discussed how they were doing financially compared with 2 years earlier:
 - 22 people felt their financial situation was worse
 - 22 people felt their financial situation was better
 - 11 felt it was about the same.
- The role of **work** had a major influence on people's situation improving or declining – as did health. Welfare reform and rising costs played a significant part for those who felt they were worse off now than 2 years ago.
- **Debt is an issue in one form or another for almost three quarters of our respondents.**
- **40 people out of 55 held debt of some kind.** This varied widely both in the amount and type of debt held but was most commonly in the form of loans from friends and family, banks, credit unions or higher cost lenders; credit cards came next and then arrears for priority bills.
- **Hidden debt** in the form of overdue bills for heating, light and water, and council tax and rent arrears affected over half of the people we spoke to. This issue is increasingly important as it can lead to devastating impacts such as eviction.
- We asked people where they would go to borrow £50, £200 and £1000 – most people in all cases would prefer to borrow from friends and family but the overwhelming majority said they would not consider borrowing £1000.
- 24 people had received help in the **form of cash or in kind** from friends and family and 26 people had themselves given that support to others – both at home but also abroad.

- For **8 people we interviewed their debt had become so problematic** that they were taken to court. At least 3 had experienced eviction from their homes and many others had moved before things got to that stage.
- **Housing is a key factor for Newham residents.** We heard stories of people being on waiting lists for many years, living in temporary accommodation, moving out of the borough because of costs or losing a home. **Housing is seriously problematic** due to the cost of private renting, the lack of access to affordable housing, and poor quality. Most of our sample (39) were renting.

Conclusions

Our research set out to explore the financial problems facing low income families in East London, including low paid work, benefits, credit, debt, and savings. We want to understand how the different factors interact. Our interviews with 55 residents in Newham provide valuable evidence of the lived experiences of people living on a low income in a deprived London borough at a time of great insecurity and rising living costs. The experiences we have documented support the wider evidence available around debt, the shortage of affordable housing in London, and the insecurity caused by a changing employment environment and radical reform of the welfare safety net.

- **Debt is an issue** in one form or another for almost three quarters of our respondents and a large majority of interviewees were struggling to manage their finances.
- **Work plays an important role** in helping people to manage, with the loss of employment or reduction of hours and therefore loss of income, pushing people into financial difficulty and often debt.
- **Hidden debt** and the increasing unaffordability of essential household bills including rent, utility payments and council tax is an issue affecting many households and can have serious consequences.



- **The triggers for debt** are consistent with the picture a few years ago, although the impacts of welfare reform, rising living costs and stagnating wages seem to be hitting harder.
- **Savings** can play a vital role in preventing people from falling into debt. A third of our interviewees had savings and around the same number talked about trying to save on a regular basis or in a more ad hoc manner when possible.
- **Housing** remains problematic, both in terms of the cost of private renting but also the shortage and limited accessibility of affordable housing in the borough.
- **Informal support** is a crucial survival mechanism for many households on low income, with friends and family providing support both in cash and in kind. About half of our respondents received and / or provided support to their friends and family, both locally and further afield. Friends and family were the first people interviewees called on for help when needing to borrow money.
- There is a **sense of community** in local neighbourhoods but there are concerns about safety and crime, particularly its impact on children and younger people.
- **Welfare support provides a crucial safety net** but many felt that it wasn't always fair and currently wasn't generous enough to prevent people falling into poverty.

There have been a number of new initiatives in the borough to address the problems leading to debt, since our earlier research on debt and financial resilience, for example Moneyworks which is now working in partnership with the London Community Credit Union to help people. They provide a crucial service by offering low cost credit and responsible loans but **there remains a gap for those who need access to credit but have a poor credit history, have too low an income, or are currently in arrears of some kind.**

Ways forward

Our suggestions for how policy and practice can move forward are centred around four main areas:

- Financial inclusion and improving financial capabilities
- Provision of good quality and accessible debt advice
- Credit regulation
- Addressing wider inequalities linked to insecure housing, insecure work and welfare reform

Financial inclusion

Financial inclusion was defined by the Government in 2017 as:

Individuals, regardless of their background or income, have access to useful and affordable financial products and services. (Edmonds, 2017)

Many people in our survey struggled to cope when circumstances changed or things went wrong, with very few savings. Our respondents were experienced in managing limited finances in most cases, often by necessity. However when things became difficult, people were no longer clear how best to deal with these challenges. This is in line with the FCA's own findings from its 2017 Financial Lives Survey in which 24% of UK adults have little or no confidence in managing their money, and 46% of all UK adults report low knowledge about financial matters (FCA, 2017).



- **It is urgent to improve financial capabilities.** There are many statutory, private sector and voluntary agencies who can help with this including central government, schools, local authorities, social landlords, utility companies, retailers, employers and third sector organisations.
- **It is also imperative that there are places where people can go to for immediate help** and advice with managing their household finances before they end up in difficulties. These services, where they already exist, need to be better signposted, more widely accessible and with capacity to help.

- **There is demand for more products and services** that meet the need for low cost credit for people who may have a poor credit history, low income and existing arrears. There is a need to work alongside existing ethical lenders including credit unions and to extend the current offer.

Good quality and accessible debt advice

There are a number of key council run and voluntary based services operating in Newham which offer valuable money and debt advice to residents free of charge. These services are all experiencing increased demand and their role needs to be supported and extended.

- **The value of local and accessible face to face help is crucial** and must be retained alongside other sources of help via the telephone and internet from both local and national providers.

We know that many people experiencing financial difficulties will wait before seeking help as they try to manage their own problems and also may not know where to look for help. Other factors may also play a role in delaying seeking help such as embarrassment, pride and in many cases mental ill health (Christians Against Poverty, 2018).

- **Debt advice needs to be accessible to all, timely, responsive and personal.** Debt is very rarely an isolated issue and there should be provision in place to assist people to deal with debt and financial difficulties alongside other needs, holistic support in the right place at the right time.

Credit regulation

There should be **further regulation of high-cost** credit including credit card charges and bank overdraft charges. The FCA has been responsible for regulating consumer credit since 2014 and has recently announced price caps on rent-to-own household goods provided by companies such as Bright House. There are calls for much wider credit regulation and for price capping to apply across the board for all credit products. These steps would help protect people from becoming stuck in a cycle of debt whereby their ability to make choices and forward plans becomes restricted.

Addressing wider inequalities linked to insecure housing, insecure work and welfare reform

Some of the biggest issues for our Newham respondents related to insecure work and insecure housing – this insecurity erodes resilience and makes people vulnerable to small changes in income. **Services including WorkPlace and Moneyworks have a valuable role to play in helping people access work and manage their finances.**

There is continued anxiety and concern around welfare reform – most recently the full roll out of Universal Credit and the related issues around direct payment and systematic difficulties. There should be continued support for those affected and help offered to help manage this process without acquiring debt. The changes to council tax support since 2013 have also had a significant impact with people struggling to pay resulting in council tax arrears.

Social landlords and others, including statutory bodies, local authorities and third sector agencies can play a key role in this. Social landlords know their tenants, are in a position to help and must do better at helping them manage their money as well as helping those tenants who end up in rent arrears and with wider debts.



Debt is very rarely a single issue and is often linked with other difficulties and in many cases mental health issues. Our work for Christians Against Poverty in 2018 (Power et al, 2018), made clear these links and there is much evidence around that a more holistic approach to dealing with people's debt can be effective. As above, social landlords and others have a key role to play here in identifying when people may need help and ensuring that help is available and accessible.



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