Tackling London's Household Debts Problem

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Abstract

Using data from wave 13 of the UK Household Longitudinal Survey (*Understanding Society*) and StepChange clients’ database this report provides evidence on the prevalence and the nature of household over-indebtedness in London (compared to the UK overall); and on how the risk and severity of over-indebtedness as well as the reach of debt advice services differ for different socio-economic groups in London compared to the UK.

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Executive summary

This report provides evidence on the extent of over-indebtedness and debt advice needs and the reach of debt advice in London. The first part of the report uses data from wave 13 of *Understanding Society* (the largest longitudinal household survey in the UK) to compare the degree of household over-indebtedness and problem debt in London and the UK. The second part describes the methodology of a new a composite over-indebtedness measure which was developed here to categorise the population according to the severity of their over-indebtedness and debt advice needs. Based on this measure estimates of the degree of over-indebtedness of different demographic socio-economic groups in London and in the UK overall are presented. The final part of the report discusses how this measure can be used by debt advice agencies to infer the effectiveness of their services in reaching those most in need. It then provides a worked example, by comparing and contrasting the distribution of characteristics of people who are identified as being at high risk of over-indebtedness based on the composite measure developed based on Understanding Scoiety with the distribution of characteristics of people that sought and completed debt advice from StepChange - the largest UK debt advice charity.

Key findings

Analysis of the latest wave of *Understanding Society* (which cover the period 2021/23) reveal the following findings:

- **Londoners are more likely to report that they find it either quite or very difficult to manage financially compared to the people in the UK overall.** When asked to assess how they manage financially currently (i.e. at the time of the survey), around 11% of Londoners report that they are finding it either quite or very difficult to manage financially compared to 7% of people in the UK overall.
- **Debts on household bills, as well as arrears on mortgage, rents and council payments, are the main driver of Londoners' financial distress:** Compared to others in the UK, Londoners are substantially more likely to have experienced problems with their rents, mortgage and council tax payments.
- **The higher proportion of Londoners that report they have experienced arrears with their household bills, housing costs and council tax payments at least partly reflects the fact that London households spend a larger proportion of their income on their housing and energy bills.** In 2021/22 more than quarter of Londoners (26%) spent more than 30% of their incomes to cover these essential costs (compared to 16% in the UK overall), and over 10% spend more than 50% of their total household incomes (compared to 5% in the UK overall).
- **Differences in financial debt holdings between London and the UK overall are mixed but still important. On the one hand, the results show that a slightly lower proportion of Londoners hold financial debt than in the UK overall and that the median level of financial debt is also lower in London than in the UK overall. On the other hand, however, average (mean) levels of financial debt are higher among Londoners than in the UK overall.** In particular, on average household financial debt among those Londoners that hold financial debt (excluding student loans) is 11,738 compared to 9,943 for the UK overall (by comparison the median financial debt holding among Londoners is £4,200 compared £5,210 in the UK overall). The difference

in the mean and median wealth holdings reflects the fact that financial debt is more unequal in London than in the UK overall.

- **1 in 20 Londoners (5%) have financial debts that are greater than half of their annual household income.** This is slightly higher than the respective estimate for the UK overall (4%).

Using a set of objective and subjective indicators, a measure of over-indebtedness is constructed to categorise the population by the severity and impacts of their debt problems. The following findings can be highlighted from analysis based on this measure:

- **Around 13.4% of the adult population in London (or 934,000) are highly over-indebted and in urgent need of debt advice compared to 10.7% for the UK overall (5.7 million).** A further 20% also have high levels of over-indebtedness but do not show signs of subjective distress and/or food poverty.
- **Higher levels of severe over-indebtedness in London than in the UK overall is not driven exclusively by arrears on household bills, housing payments and council tax:** Londoners classified as highly over-indebted are more likely to be in arrears with households' bills, housing costs and council tax payments but also more likely have high levels of unsecured debt.
- **In both London and the UK the risk and severity of over-indebtedness (and thus the intensity of needs for debt advice) differs substantially between different socio-economic groups:** Younger people, lone parents, single people with no children, couples with children, people with lower household incomes, long-term-illness and disability, ethnic minority groups, social and private tenants, benefit recipients and those with high outgoings relative to income have a substantially higher risk of being highly over-indebted and in urgent need of debt advice.
- **For most groups the risk and severity of over-indebtedness is higher in London than in the UK overall.** This is particularly the case for benefit recipients (whose risk is almost 10 percentage points higher in London than in the UK overall), older people, private tenants, ethnic minority groups, lone parents, the unemployed, part-time employees, the self-employed as well as people living in households with lower incomes and high outgoings relative to income.

Comparisons of the distribution of the highly over-indebted population as identified by the composite measure constructed based on *Understanding Society*, with the distribution of the population who seek debt advice can be used by different debt advice agencies to determine the reach of their services to harder to reach groups. Here I compare the population identified as highly over-indebted based on *Understanding Society* with StepChange's client database. From this comparison the following findings can be highlighted:

- **StepChange demonstrates a very good reach among many vulnerable groups but there are some groups that are harder to reach:** Groups for whom a good reach is achieved include lone parents, single people without children, people in receipt of benefits, private and social tenants, people in work as well as younger people. Nevertheless, are under-represented in the StepChange's client database, who appear to be harder to reach. These include people from ethnic minority groups (especially in London), people not in receipt of any benefit as well as couples (including couples with children).
- **Differences in reach may reflect a number of factors** including differences in the severity and types of debt problems faced by different groups, differences in the extent to which groups

are in contact with government and non-government organisations which can refer them to appropriate support, differences in digital and financial literacy and/or in preferences for different modes of support (e.g, online, telephone or face-to-face support).

- **The gap in the reach for ethnic minority groups and older people is larger in London than in the UK overall**.

Implications for policy and practice

Notwithstanding the above issues, variations in StepChange's debt advice reach indicates that not all who need debt advice are currently receiving it. There is more that can be done by central and local government services (especially in the context of council tax debt recovery practices), regulators, organisations across financial services, as well as energy suppliers to better target and reach those under-represented groups and provide appropriate debt management practices. This could include options such as:

1) a review of the effectiveness concerning meeting the potential barriers, constraints, needs and preferences of particular groups including for example people in ethnic minority groups and people with health problems;
2) working with debt advice staff to better understand how barriers, constraints, needs and preferences differ for groups identified as harder to reach;
3) extending the obligations of energy suppliers to provide appropriate debt management solutions to clients in energy bills arrears;
4) undertaking a review of the referral processes to ensure widened referral networks within the scope of different organisations.

The finding that for some groups who are under-represented in the group of people who seek debt advice, the gap in reach is larger in London than in the UK overall, may reflect either that reaching these groups is more difficult in London than in other parts of the UK, or that debt advice needs are too high to be met by available supply. Alternatively, it may be the case that debt advice in London is provided by a wider set of providers including community-based organisations. More research is required to untangle these effects.

Finally, the finding that over-indebtedness risk for most groups and in particular for some groups is higher in London than in the UK overall, underline the role of London-specific factors in driving over-indebtedness (such as high living costs particularly for housing, transport and childcare) and that their role is particularly acute for some groups. This finding underlines the need to deliver both national and place-specific policies and solutions to prevent people from falling into problem debt in the first place and to support over-indebted households to escape from debt problems.

1 Background

Household over-indebtedness and problem debt affects many dimensions of individual well-being (including material living standards, physical and mental health), but also has important social and macro-economic implications. Slow earnings growth both in the UK overall and in London in particular, coupled with high and steeply rising inflation rates from the mid-2022 until recently have resulted in a surge of people who face debt problems. Data from StepChange Debt Charity[1] indicates that between 2021 and 2022 the number of people who contacted the charity for support with their debts increased by 20% (from 483,247 to 580,913 people). The number who completed full debt advice for the first time increased by 6% over the same period (from 157,905 to167,351) and by a further 10% between 2022 and 2023 (reaching 183,403). The reason most commonly cited among the StepChange clients for their debt problems was the cost-of-living increase – cited by 25% of StepChange clients in 2023 (up by 7 percentage points from 2022).[2] Reflecting London's stubbornly high poverty rates, stark inequalities and high living costs, it is not surprising that more Londoners are seeking debt advice from StepChange than what is predicted by their population share. Regional analysis of the Financial Lives Survey by the Financial Conduct Authority showed 25% of the adult population in London had low levels of financial resilience and 7% were in financial difficulty[3]; more widely, lack of financial resilience was associated with neighbourhood deprivation. Although there are some signs that the costs-of-living crisis may be easing, a large number of low-income households still need to deal with the negative consequences of the crisis on their finances. Research published recently by the Resolution Foundation[4] shows that during the costs-of-living-crisis an increasing number of households fell into debt on their energy bills, rents and council tax payments. Over the same period outstanding consumer debt has fallen. This contrast (i.e. the mounting arrears on household bills, housing costs and council tax payments on the one hand and the decrease in unsecured consumer debt on the other) can be partly explained to the contraction in the non-prime lending market. According to a recent whitepaper from ClearScope the non-prime lending market has contracted by more than 34% since 2019[5]. Similarly, a recent Financial Conduct Authority reports shows that

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1 StepChange Debt Charity is the UK's largest debt advice charity. Founded in 1993, StepChange supports people experiencing debt problems through telephone and online services, and campaigns for change to reduce the harm and stigma associated with debt. Over the last three decades, StepChange has helped 7.5 million people with debt problems. (https://www.stepchange.org/).

2 StepChange (2023) Statistics Yearbook Personal debt in the UK January – December 2023 (stepchange.org)

3 FCA (2022) Financial Lives 2022 survey: insights on vulnerability and financial resilience relevant to the rising cost of living | FCA

4 Odamtten, F. and S. Pittaway (2024) In-too-deep.pdf (resolutionfoundation.org)

5 CrearScope (2024) Building a non-prime lending market that delivers for UK consumer 1709022056496 (licdn.com)

the high-cost market has reduced significantly since 2019, (by almost £3bn) leaving many low-income households excluded from formal high cost (but regulated) credit.[6] The combined effect of these forces is on the one hand an increasing number of people falling in arrears and on the other an increase in the number of people holding unsecured debt from unregulated lenders (including the Buy Now Pay Later products) and illegal lenders with major implications on their financial well-being. Both of these forces mean that the effect of the living costs crisis on household finances may extend well beyond the end of the crisis.

Problem debt undermines economic growth and productivity limiting households' financial resilience and constraining consumption and investment choices. Restoring or increasing households' financial resilience and addressing problem debt are key for stimulating growth at national, regional and local level and improve the ability of places to withstand economic crises, including the cost-of-living crisis (both concurrently as the crisis unfolds and in the medium and long-term). Thus, addressing problem debt and restoring households' financial resilience in London grows in importance. Recent pilot evidence from the Money and Pensions Service[7] and StepChange[8] suggests that among those who sought debt advice, people who follow the debt advice provided, often have better outcomes than those than do not.

Organisations providing debt advice have identified that there is not a clear understanding of the characteristics of the population who could benefit from debt advice but who do not currently seek it. This report aims to start addressing this gap by providing evidence on the extent of over-indebtedness and problem debt in London and more widely. The resulting data can be used to assess the effectiveness of debt advice services in reaching those most in need. The end aim will in turn contribute to addressing the key regional economic priorities of reducing problem debt.

The report is structured as follows: Section 2 uses data from the UK Longitudinal Household Survey (Understanding Society)[9] to compare the degree of over-indebtedness and problem debt and other indicators of financial well-being among Londoners with that of the overall UK

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6 Financial Conduct Authority (2024), FCA Strategy for Consumer Credit https://www.fca.org.uk/publication/correspondence/portfolio-letter-fca-strategy-for-consumer lending.pdf

7 Money and Pension Service (2022) Debt advice: Evaluating the long-term outcomes https://maps.org.uk/content/dam/maps-corporate/en/our-work/debt-advice/maps-debt-advice-main-report-evaluating-long-term-outcomes-2022.pdf

8 StepChange (2019), Measuring Client Outcomes stepchange-debt-charity-measuring-client-outcomes-pilot-project.pdf

9 University of Essex, Institute for Social and Economic Research. (2023). Understanding Society: Waves 1-13, 2009-2022 and Harmonised BHPS: Waves 1-18, 1991-2009. [data collection]. 18th Edition. UK Data Service. SN: 6614, DOI: http://doi.org/10.5255/UKDA-SN-6614-19

population. Section 3 first describes the methodology I adopted to develop a new composite measure of over-indebtedness and problem debt which categorises the population according to the degree of over-indebtedness and their debt advice needs. Then section 3.1 investigates which groups are identified as highly over-indebted and in urgent need of debt advice based on this composite measure. Section 3.2 discusses how this measure can be used by debt advice agencies to infer the effectiveness of their services in reaching those most in need of debt advice and then compares and contrasts the distribution of characteristics of people who are identified as being at high risk of over-indebtedness and high debt advice needs with the distribution of characteristics of people who seek debt advice based on the StepChange 2023 client database (which includes records for from 180,265 new clients people to whom StepChange provided full debt advice – 19,998 in London). Section 5 concludes with some final remarks and a discussion of the implications of the findings for policy and practice.

2 Over-indebtedness and financial strain in Understanding Society

The report starts with the analysis of data from *Understanding Society*, a detailed representative, longitudinal household survey of more than 40,000 households in the UK conducted each year by the University of Essex, since 2009. *Understanding Society* provides considerable information on the household and individual wealth holding, including the level, distribution, and type of assets and debts every four years starting in 2012/13. This report uses data from wave 13 i.e. the latest available Understanding Society wave. The fieldwork for wave 13 was conducted in years between 2021 and 2023 (but with the majority of interviews taking place in 2021 and 2022). As part of this module respondents are asked whether they hold different types of debt as well as the overall value of debt that they owe. Respondents are also asked separate questions about the outstanding balance in credit cards as well as the maximum borrowing limit on these credit cards. Based on reports from this module one can derive estimates of total household financial debt as well as other indicators of indebtedness including: 1) the total unsecured debt to income ratio; 2) arrears on credit cards; 3) credit utilization ratio or debt-to-credit ratio. In addition to these measures, *Understanding Society* collects information on households' subjective evaluations of their financial situation, as well as whether households have been in arrears with household bills, rents/mortgage payments and council tax bills over the last 12 months prior their interview. Furthermore, it includes some information on household outgoings on various basic items of household spending (rent, mortgage, household utility bills as well as food spending). The rest of section 2 examines each of these indicators separately, providing evidence on how arrears, financial debt and household outgoings relative to income differ between London and the UK.

Then in section 3, I combine some of these indicators to construct a single composite measure to assign a classification of the severity of over-indebtedness and of needs for debt advice.

2.1 Arrears on household bills, mortgage/rent or council tax payments

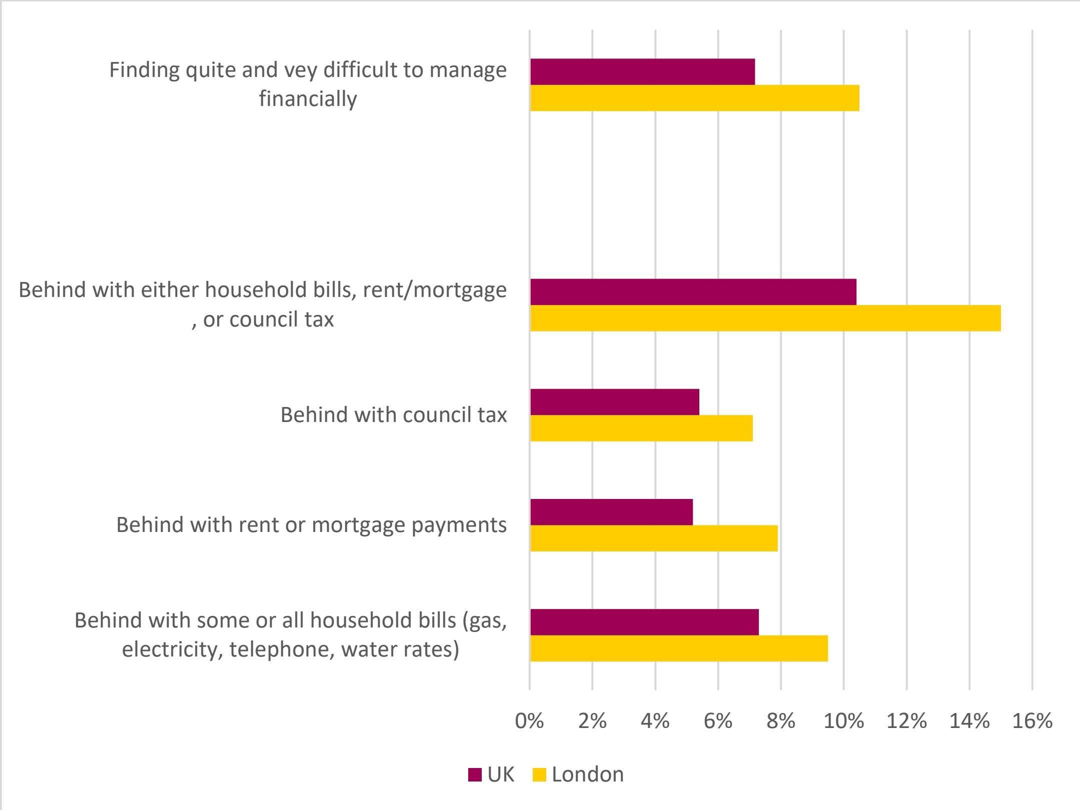
Understanding Society contains questions that can be used to derive subjective indicators of households' financial strain. One of such questions asked people how they are currently managing financially. One in 10 Londoners report that they find it quite or very difficult to manage financially currently compared to 1 in 7 of people in the UK overall (Figure 1).

In addition to this question about households' subjective financial situation, Understanding Society includes a series of questions which allow to ascertain the extent to which households over the last 12 months prior the survey experienced arrears with household bills, rent/mortgage or council tax payments. In line with recent research[10,11], analysis of Understanding Society highlights the centrality of arrears on housing costs and on household bills in the current cost of living crisis shows that a large proportion of households in the UK are struggling to keep up with household bills as well as with their housing and council tax payments. As shown in Figure 1, one in 7 Londoners (15%) live in a household that has fallen behind with either their rent, mortgage, council tax or household bills payments over the last 12 months prior their interview (2021-23), compared to one in 10 in the UK overall. Arrears on household bills is the most common type of arrears in both London and the UK (with 10% of the Londoners reporting arrears on their household bills payments compared to 7% for the UK overall), followed by arrears on rent/mortgage payment (around 8% of Londoners report this type of arrears compared to 5% of people in the UK overall) and very closely by council tax payment (affecting 7% of people in London compared to 5% in the UK overall). Although not shown in the graph, further analysis shows that there is a large overlap in the types of arrears that people have (i.e. people who had one type of arrears also had another), and that this overlap is stronger in London than in the UK overall.

Figure 1: Percent of the population who have debts on household bills, or on rent/mortgage and council tax payments and percent reporting that are struggling financially, London vs UK

10 Office for National Statistics (2023) How are financial pressures affecting people in Great Britain? - Office for National Statistics (ons.gov.uk)

11 Resolution Foundation (2024) In-too-deep.pdf (resolutionfoundation.org)



Notes: Analysis of Understanding Society, wave 13. The sample includes all adult population with non-missing data. The council tax and rent and mortgage arrears use as a base the total population (i.e. not only those who pay for these costs). Estimates are weighted using Understanding Society weights.

2.2 Outgoings on rent/mortgage and on household bills relative to income

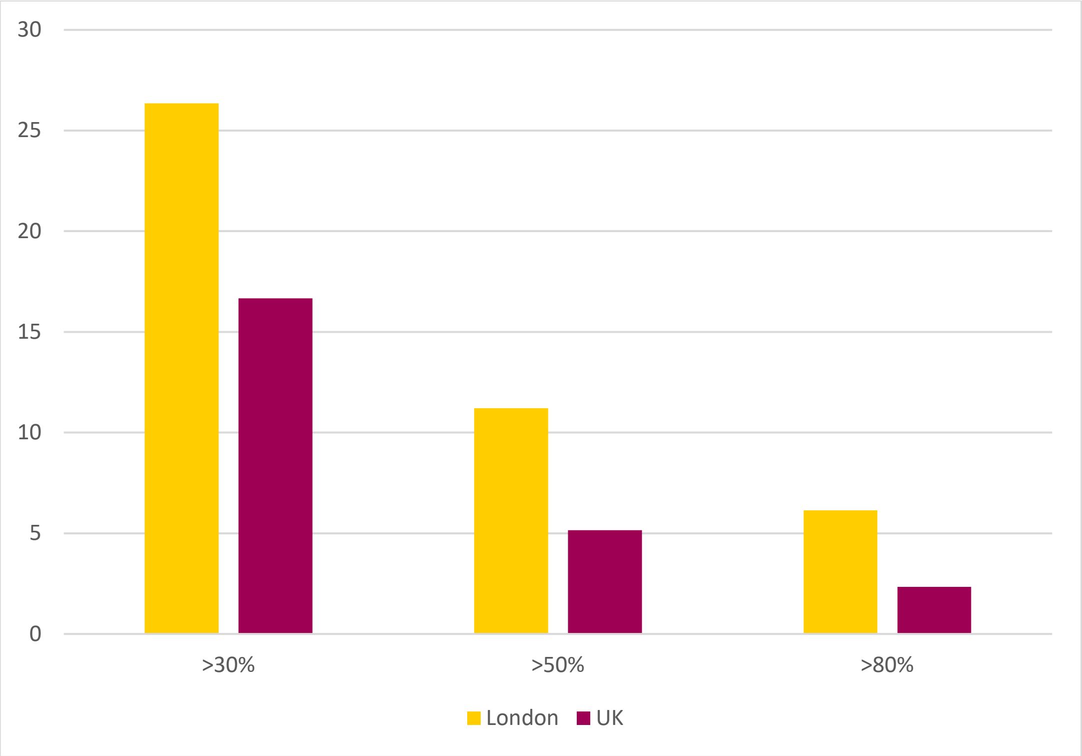
High outgoings on basic necessities (e.g food, housing and regular bills) relative to income is another important indicator of households' financial pressures. High outgoings or even negative budgets (i.e. the situation where households' outgoings is higher than their income) are a growing problem. Debt advice organisations (including StepChange and Citizen's Advice Bureau) note that negative budgets are a common problem affecting an increasingly large number of debt advice cases[12,13].

Although Understanding Society does not include data to enable estimates of total households' outgoing to be derived it can be used to derive estimates of households' most major spending items such as spending on rent and mortgage payments and on household utilities. These figures can be analysed in conjunction with income to illustrate the extent of the burden that these

12 Citizens Advice Bureau (2024) Negative budgets data - Citizens Advice
13 StepChange (2024) In Work, Still In Debt. Our Client Report StepChange

financial commitments pose on household finances. According to this measure in 2021/23 more than quarter (26%) of Londoners spent more than 30% of their incomes on housing costs and household bills compared to 17% in the UK overall. Even more strikingly, over a tenth of Londoners spent more than 50% of their total household income to cover these costs (compared to 5% of the UK overall), a finding which underlines the great financial pressures of these costs on London households.

Figure 2: Percentage of individuals living in households with monthly outgoings on housing, bills and council tax over 30%, 50% and 80% of household income, London vs UK



Notes: Analysis of Understanding Society, wave 13. The sample includes all adult population with non-missing data. Estimates are weighted using Understanding Society cross-sectional weights.

2.3 Unsecured financial debt

The picture in terms of financial debt holding is not as clearcut. On the one hand, analysis of how the ownership of different debt types differs between London and the UK overall shows that Londoners are less likely to hold any type of unsecured debt (except student loans) than others in the UK (39% compared to 43% in the UK overall). Looking at each type of debt separately, one can see that Londoners are 2 percentage points less likely to hold catalogue or mail order purchase agreements (4% compared to 6%), 4 percentage points less likely to hold personal loans from banks or building society (11% compared to 15%) as well as hire purchase and credit agreements (14% compared to 18% in the UK overall). Londoners are also slightly less likely to hold DWP/SSA social fund loans (1.3% compared to 1.6% in the UK overall) but the difference is very small. A slightly higher percentage of Londoners hold credit cards but the difference with the UK is very small. The only category which is held by a higher proportion of Londoners than others in the UK is student loans which 4 percentage points higher in London than in the UK (19% compared to 14%).

Figures 3b and 3c show various statistics to compare the financial debt holdings among Londoners and individuals in the UK overall. Note that the financial debt measure used here, does not include the debt holdings of individuals who hold student loans (as these student loans cannot separated from other debt products in *Understanding Society*). This decision was taken because both the nature and the repayment conditions of student loans are very different from other types of debt and in order not over-estimate the extent of problem debt in London. As can be seen from Figure 3b, despite the lower proportion of Londoners **holding** financial debt than in the UK overall, average financial holdings are higher among Londoners than among individuals in the UK (i.e. £4,307 in London compared to £3,914 in the UK). Differences are even larger when looking only at the levels of indebtedness within the population that hold financial debt: on average the level of financial debt among those with financial debt in London is £11,738 (compared to 9,943 for the UK overall). However, the median levels of financial debt are lower in London than in the UK (£4,200 compared to £5,210).[14] The difference in the picture when looking at the mean and the median differences suggests that financial debt is more unequally distributed across the indebted population in London than in the UK overall.

Households' capacity to keep up with their debt repayments obligations (i.e. debt servicing capacity) depends not only on the size of the debt per se but also its level relative to household

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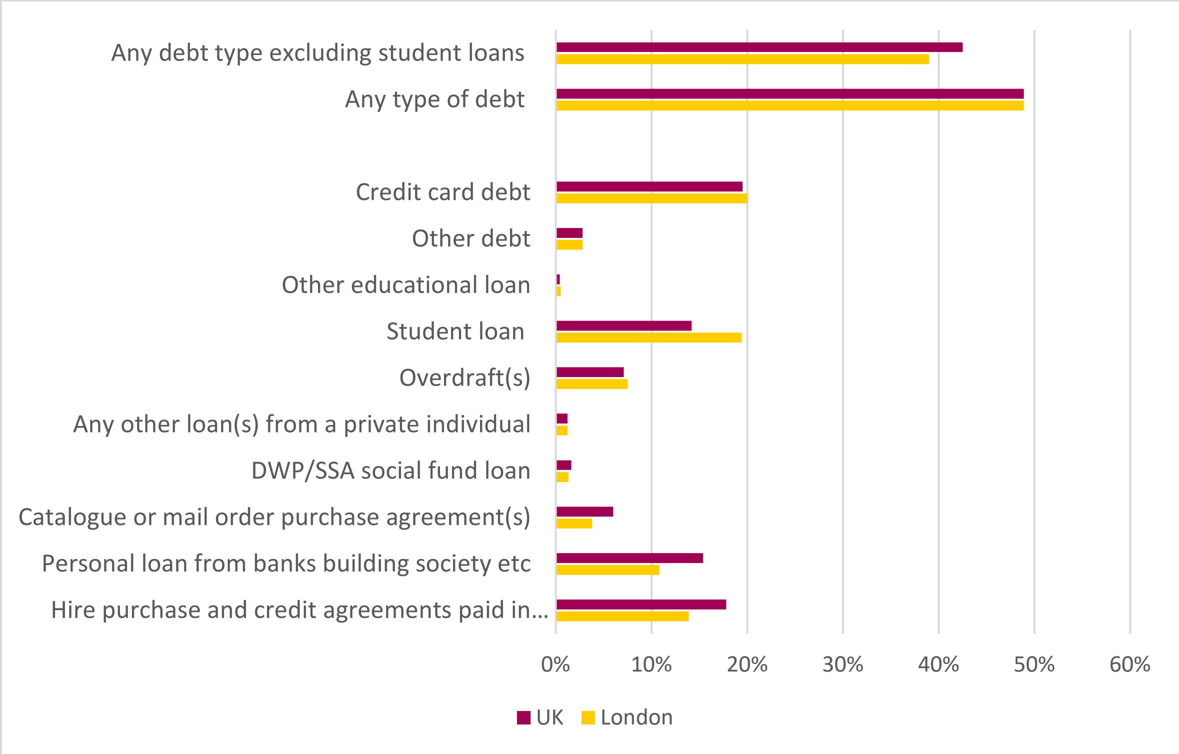
14 These levels compare well with estimates based on the Wealth and Assets Survey (WAS): according to the latest WAS wave median household financial debt (for households with financial debt excluding student loans) was £5,400 in the period April 2018 and March 2020 (showing an increase from £4,300 in April 2014 to March 2016, to £4,800 in the period April 2016 to March 2018. Statistics for the latest WAS are not yet available.

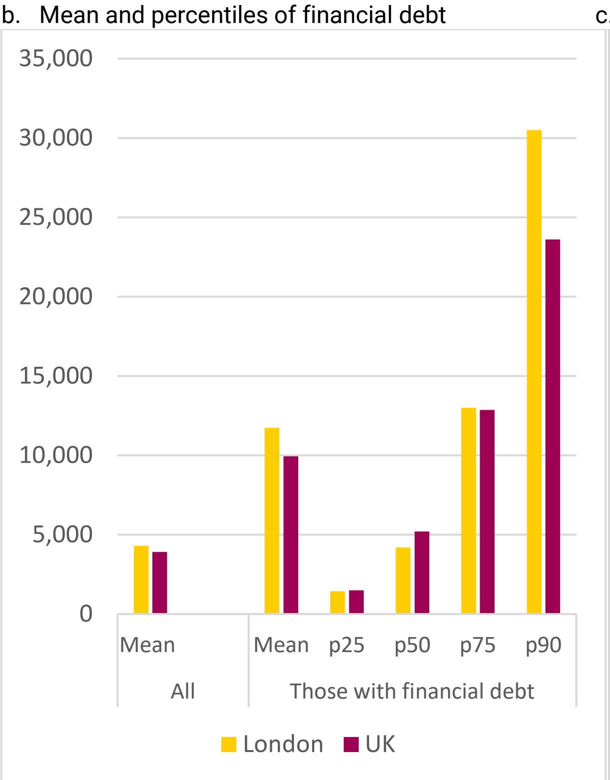
income. It is thus crucial to examine the levels of debt relative to income. Figure 3c presents estimates of the proportion of the adult population in London and the UK whose total amount of financial debt is over 30, 50 and 80 percent of their total household annual income. As with the absolute amounts, the analysis of financial debt relative to household (annual) income (i.e. the debt-to-income ratio) suggests that financial debt relative to income is also more skewed in London than in the UK overall. So, while for a lower proportion of Londoners their financial debt-to-income ratio exceeds the 30% threshold (9% compared to 10%), the reverse is the case for higher thresholds (albeit generally differences are small). In particular as shown in Figure 3b, 5% of Londoners have financial debts that exceed 50% of annual household incomes and for 3% exceed 80% of their annual household income (the respective estimates for the UK overall are 4% and 2%).

Figure 3: Financial debt: Ownership of different debt types and the size of debt

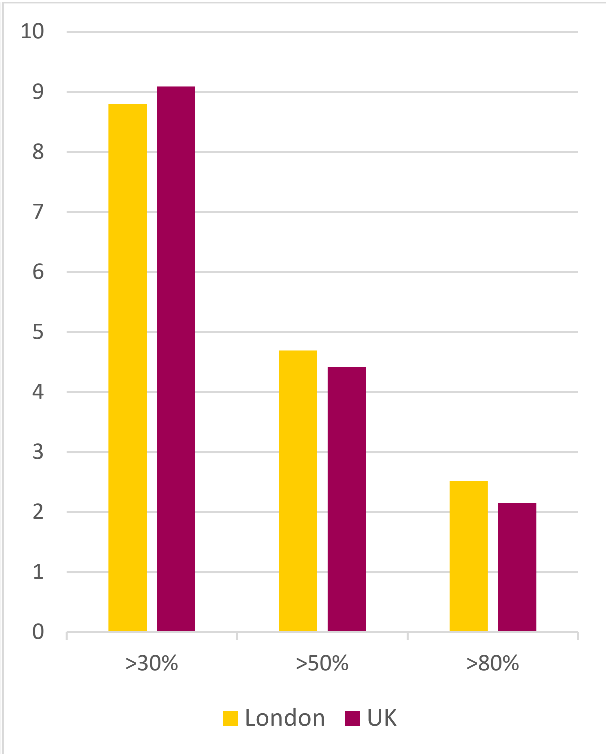
a. Percent of the population holding each type of debt



b. Mean and percentiles of financial debt



c. % with financial debt over 30%, 50% & 80% of annual hh income



Notes: The financial debt holdings exclude the debt held by people who report holding student loans.

3 Comparing the profile of people with over-indebtedness and debt

advice needs in Understanding Society with the profile of StepChange clients

Using a selection of the indicators above, I developed a composite measure to classify the population in London and the UK by the severity of over-indebtedness. The measure takes into account the size of the debt liabilities, the incidence of arrears and the extent to which these are combined with low standards of living indicators as well as subjective indicators of financial difficulties. The resulting measure can be used to categorise the *Understanding Society* sample according to the severity of over-indebtedness and by the level of urgency debt advice needs in terms of both the size of financial debt, its potential impact and the extent to which it is combined with low living standards.

To some extent this measure, builds on the "debt advice needs" measure which was developed by Money and Pensions Service (MaPS) using the Debt Needs Survey. Similar to the MaPS' debt advice needs measure, the measure developed here combines indicators of arrears on priority bills (i.e. arrears on rent/mortgage payments, council tax and utility bills)[15] with two indicators that intend to capture the negative impact of over-indebtedness (see Table 1). The two negative impacts indicators that are included in the current measure are (1) an indicator that captures the inability of eating health and nutritious food due to lack of money (food poverty) and (2) an indicator of whether the household finding it difficult or very difficult to manage financially (see Table 1). The latter is not included in the MaPS. Instead, the MaPS measure includes a battery of other indicators (see appendix). Also unlike the MaPS measure, the current measure utilises direct measures of over-indebtedness. This is captured by a variable which indicates whether households have high unsecured debt-to-income ratio (unsecured debt ratio which is generally considered as an important predictor of problem debt and households' future financial distress (FCA, 2017; FCA, 2016) and high credit card arrears.[16] The threshold used to define high unsecured debt is set at 25% of total household annual income and the threshold for high credit card arrears at 5% of household income.

These indicators were selected on several grounds. First, as discussed above, they include the

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15 Note that the arrears indicators in *Understanding Society* do not distinguish between current and past arrears as the ones used by MaPS for the construction of its debt advice needs measure.

16 For the construction of this measure MaPS relied on a battery of indicators on debt arrears (which can be considered as a good substitute for debt-to-income ratio.

main indicators of over-indebtedness indicators found in the literature. Second, these indicators are combined with indicators of low living standards and subjective indicators of financial distress. Including both types of indicators is useful for capturing the overlap between different levels of indebtedness and low living standards and financial difficulties in other domains. Third, the selected indicators are chosen based on statistical grounds regarding the degree of correlation between the potential indicators (with selected indicators exhibiting a higher pairwise correlations than other potential measures). Finally, the indicators reflect the ways in which different types of indebtedness (credit card arrears and other unsecured debt, and arrears with priority bills) may interact to influence households living standards.

Table 1: Indicators selected for the construction of the indebtedness/debt advice needs measure

Indicators	Description
Arrears and over-indebtedness indicators	
Arrears in either household bills, council tax or rent/mortgage payments	In the last 12 months have been behind with at least one of the following payments: household bills, rent/mortgage or council tax payments
High credit card arrears	Outstanding balance still owed on credit cards after most recent payment more than 5% of household net income.
High debt to income ratio (HDTI)	Unsecured debt-to-income ratio>25%
Indicators of financial distress	
Subjective financial difficulties	Finding it quite or very difficult to manage financially these days[1]
Living standards indicators	
Food poverty	Inability to eat healthy and nutritious food[2]

Note: 1. The exact wording of the question is as follows: How well would you say you yourself are managing financially these days? Would you say you are … 1) living comfortably 2) Doing alright 3) just about getting by 4) finding it quite difficult and finding it very difficult. 2. The question wording for this indicator is: "During the last 12 months was there a time when you or others in your household... Were unable to eat healthy and nutritious food because of a lack of money or other resources?"

Based on how these indicators overlap with each other, I categorise the population into five distinct groups according to their levels of over-indebtedness and the degree to which they show signs of financial distress and low living standards (Table 2 present in detail the how each group is constructed).

Group 1 - Not over-indebted or in need of debt advice: Group 1 consists of four groups. Although neither of these groups face over-indebtedness problem they characterised by quite different standards of living: **Group 1a** includes people who are neither over-indebted nor show any signs of financial distress; G**roup 1b** those who are not over-indebted but face financial difficulties; **Group 1c** people who are not over-indebted but face food poverty and; **Group 1d** people who while are not over-indebted face financial difficulties and food poverty. Given our focus here is on over-indebtedness rather than low living standards these four groups are grouped together (as they do not experience over-indebtedness or problem debt).

Group 2 – over-indebted but not in urgent need of debt advice: Group 2 includes people who either have high financial debt or who are in arrears with their household bills, housing costs or council tax payments but do not show any signs of financial distress or experience food poverty. This group is classified as being over-indebted (or show some signs of over-indebtedness or problem debt) but their level of indebtedness had not reached the level of severity (at least not yet) as to be accompanied with financial difficulties or food poverty and thus are classified as not being in priority need of debt advice. The majority of this group consists of people with high level of unsecured (financial) debt (86% in the UK overall and 78% in London).

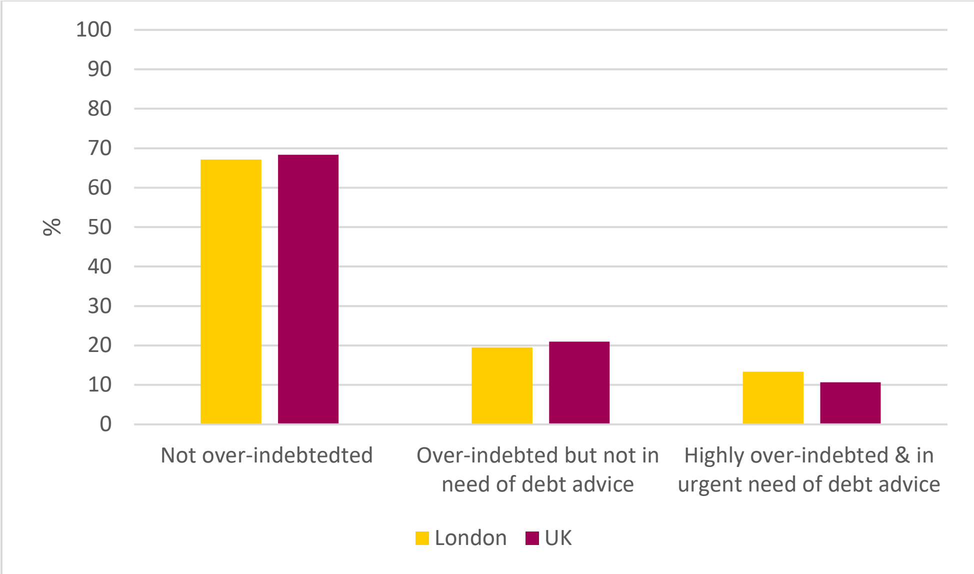
Group 3 – highly over-indebted and in urgent need of debt advice: This group includes people who are indebted in terms of both objective indicators of over-indebtedness or in at least one objective over-indebtedness indicators (credit card arrears, high DTI or arrears on household bills, rents, mortgage or council tax payments) and report severe or quite severe financial difficulties or that are unable to eat healthy and nutritious food. The analysis in section 3.2 which analyses the extent of the debt advice reach uses this group as the basis of analysis.

The last two columns of Table 2 (and Figure 6) show the percentage of the adult population in the UK and London that falls in each of these three broad groups and in each of their subgroups. What is clear is in Figure 6 and Table 2 is that although overall levels of over-indebtedness in London is comparable to the UK overall, the severity of over-indebtedness is higher in London. In particular, Londoners are almost 3 percentage points (25%) more likely to be "highly over-indebted and in urgent need of debt advice" than other adults in the UK (13.4% compared to 10.7%) but 1.5 percentage points less likely to be "over-indebted but not in urgent need of debt advice" than other adults in the UK. Looking closely at the subgroups that make up the highly over-indebted group, it is clear that although arrears problems is more prevalent in London, it is not only driver of London's over-indebtedness problem: Londoners are also more likely to face high levels of unsecured debt and arrears problems simultaneously (see the statistics for groups 3a and 3j).

Table 2: Groups identified/defined based on the combined over-indebtedness and debt advice needs indicator

		Credit card arrears to household net income >10% OR DTI>25%	Arrears on household bills etc	Food poverty	Subjective financial difficulties	% UK	% London
Group 1 Not over-indebted	Group 1a					62.4	59.4
	Group 1b				√	3.6	4.5
	Group 1c			√		1.6	2.2
	Group 1d			√	√	0.7	1.2
	Groups 1a-1b					**68.3**	**67.2**
Group 2 Over-indebted but no signs of financial distress and not currently in urgent need of debt advice	Group 2a	√				18.0	15.3
	Group 2b		√			3.0	4.2
	Groups 2a-2b					**21.0**	**19.5**
Group 3 Highly over-indebted with strong signs of financial distress and low living standards and in urgent need of debt advice	Group 3a	√	√			1.2	1.6
	Group 3b:	√		√		0.7	0.2
	Group 3c:	√			√	2.4	2.6
	Group 3d:		√	√		1.1	1.8
	Group 3e:		√		√	1.0	1.1
	Group 3f:	√	√	√		0.5	0.1
	Group 3g:	√	√		√	0.9	0.9
	Group 3h:	√		√	√	0.4	0.4
	Group 3i:		√	√	√	1.6	2.8
	Group 3j:	√	√	√	√	1.0	1.9
	Groups 3a-3j					**10.7**	**13.4**

Figure 6: Percentage of adults classified as "highly over-indebted & in urgent need of debt advice", "over-indebted but not in urgent need of debt advice" and "not over-indebted"



Notes: Detailed group definitions in Table 1.

3.1 Over-indebtedness risk and the extent of debt advice needs among different socio-economic groups

Figure 7 shows that the risk and severity of over-indebtedness and thus the intensity of needs for debt advice differs substantially across different socio-economic groups defined here in terms of age, gender, family type, tenure type, ethnic group, benefit recipiency, employment status, disability, income quintile, and the size of outgoings relative to income are all important predictors of the risk and the intensity of over-indebtedness. Below we consider each of these in turn.

Age: Around a quarter of Londoners younger than 60 fall in the "over-indebted but not in urgent need of debt advice" group and 16% in the "the highly over-indebted & urgent debt advice need" group. The risk of over-indebtedness is lower among the oldest age group. Despite facing a lower risk of over-indebtedness, the fact that 1 in 10 Londoners over the age of 60 fall in the "highly over-indebted and in urgent need of debt advice" group (compared to 1 in 20 in the UK overall), is especially worrying[17] given that older people cannot adjust their labour supply to address problem debt in the same way as younger people can but also because indebtedness may have more

[17] The living costs crisis played a major role in the rise of older people debts. (see AgeUK (2023) Millions of older people borrowing money, using credit and not able to pay bills due to the cost of living crisis (ageuk.org.uk))

severe consequences for their mental and physical health[18].

Gender: Although men and women are equally likely to be over-indebted, women face a higher risk of being “highly over-indebted & in urgent need of debt advice” than men. This is especially evident in London: where more than 13% of women compared to 10% of men are highly over-indebted and in urgent need of debt advice. There are number of factors that may contribute to the higher over-indebtedness risk of women including the gender gaps in pay and employment (which themselves are related to the caring responsibilities weighting more heavily on women), the higher reliance of women on benefits income as well as economic abuse3.[19] Also, differences in the demographic composition of women compared to men and in particular the higher proportion of lone-parent families among women.

Tenure: Private and social tenants are at higher risk of being either over-indebted or highly over-indebted and thus in urgent need of debt advice than any other tenure group. For both groups the risk of over-indebtedness is higher in London than in the UK overall. However, as probably expected, the severity of over-indebtedness among private tenants is higher in London than in the UK. This is due to the combined effect of private rents being more unaffordable in London than in the rest of the UK and Local Housing Allowance on which housing support entitlements are based are falling short to cover private rents (a problem exacerbated during the costs of living crisis), As discussed elsewhere rent unaffordability is affecting household across the income distribution.[20]

Family type: Families with children as well as single people with no children face a higher risk of being over-indented and in need of debt advice than couples with no children. Lone parents and especially lone parents in London face the most severe debt problems (with more than 35% classified as highly over-indebted and in urgent need of debt advice compared to 31% of lone parents in the UK overall). Single people with no children is the family type with the next highest severe over-indebtedness risk in London (almost 15% classified as highly over-indebted).

Ethnicity and race: Ethnic minority groups are also substantially more at risk of being highly over-indebted and in urgent need of debt advice compared to the White British majority. In London, the ethnic minority groups facing the highest over-indebtedness risk are the Black African (27% of

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18 Aapo Hiilamo (2020) “Debt matters? Mental wellbeing of older adults with household debt in England,” SSM - Population Health, 12, https://doi.org/10.1016/j.ssmph.2020.100658.

19 For more discussion on the gendered patterns of debt and debt advice seeking (including the role of intersectionalities).see StepChange (2023) [Bearing the Burden - Client Insights Report 2023 (stepchange.org)]

20 Hirsch, D and E. Karagiannaki (2024) “[Caught in the Middle: Insecurity and financial strain in the middle of the income distribution]” (financialfairness.org.uk)

whom are classified as highly over-indebted), the Black Caribbean (24%), the Bangladeshi (25%), the Pakistani (21%) and the Indian ethnic group (15%). The risk of severe over-indebtedness is lower among the other Asians and other Whites ethnic group, but still substantially higher than that of the White majority (8%). The risk among the people in the other Asian and the White other ethnic minority groups is even lower but still face a higher risk than the White British majority. There is an interesting contrast between London and the rest of the UK in the degree of over-indebtedness that different groups face: on the one hand people in the Bangladeshi, other Asian and Black African ethnic groups who live in London are less likely to be highly over-indebted than people from these ethnic groups who live in other parts of the UK, while on the other hand, people in the Indian and to a lesser extent the Black Caribbean ethnic group face a higher over-indebtedness risk in London than in other parts of the UK.

Benefit receipt: There is a strong relationship between benefit receipt and over-indebtedness, especially in London. On average benefit recipients in London, face a 30% risk of being highly over-indebted (or three times the risk faced by non-benefit recipients) compared to 24% among benefit recipients in the UK overall. People in receipt of Universal Credit face the greatest risk. Again, their risk is much higher in London where almost half (48%) of Universal Credit recipients were identified as being highly over-indebted and in urgent need of debt advice (compared to 39% in the UK overall). These findings underline the inadequacy of the benefit system is especially in London, a problem that has been even more evident during the cost-of-living crisis.

Employment status: Employment status is also a strong predictor of over-indebtedness. Over a third of the unemployed Londoners and over a quarter of those who do not work due to disability or illness are highly over-indebted and in urgent need of debt advice. People with caring responsibilities as well as students and other inactive people also have above average risk of being highly over-indebted (17%). Although employment is associated with a lower likelihood of over-indebtedness, it does not eliminate the risk of over-indebtedness: one in ten of Londoners who are working full-time and one in six of part-time employees and the self-employed are at risk of being highly over-indebted.

Long standing illness or disability (either physical or mental): A positive association also exists between being highly over-indebted and having long-standing illness or disability in both London and the UK overall (16% of Londoners who report not working due to illness or disability are highly over-indebted compared 13% in the UK overall).

Income quintile: As expected a positive association also exists between income and over-indebtedness. In London the proportion of people who are identified as highly over-indebted and in urgent need of debt advice increases from 4% in the richest income quintile group to over 25% in the bottom income quintile group A similar albeit slightly weaker correlation exists in the UK overall.

High outgoings on essential costs relative to income: Finally, as one would expect there is a strong positive correlation between having high outgoings relative to income and being highly over-indebted. This correlation is again stronger in London than in the UK overall.

Figure 7: Socio-economic differences in the probability of being over-indebted (Group 2) and highly over-indebted and in urgent need of debt advice (Group 3), UK vs London

Note: Analysis of Understanding Society (wave 13).

3.2 What can be inferred about the reach of debt advice by comparing *Understanding Society* and StepChange database?

This section examines the extent to which different groups who are struggling with problem debt have different probabilities of seeking advice. To answer this question, Figure 8 compares the distribution of the highly over-indebted population with the distribution of characteristics of people in the 2023 StepChange clients' database who include records of 180,265 people 180,265 people who completed full debt advice with StepChange during 2023, including 19,998 in London. This comparison serves to demonstrate the extend of reach of debt advice to particular groups. It should be noted here that the profile of StepChange clients could be different to the profile of clients of other debt advice agencies, and depends on a number of factors (including for example the specialisation of different debt advise providers; external referral processes; funding etc). Thus, any conclusions about who is more or less likely to receive debt advice - compared to the population identified in *Understanding Society* as highly over-indebted and in urgent need of debt advice - must be tentative (such as exercise would require combining sector wide data). The results however can be seen as being indicative of which groups may be harder to reach groups and can be a useful tool for debt advise providers for monitoring the targeting of their services.

Comparisons of the two distributions suggests that StepChange demonstrates a good reach to many vulnerable groups such as lone parents, single people without children, people in receipt of benefits as well as private and social tenants. A good reach is also among people in work (working either full-time or part-time) and among younger people (i.e. those aged 26-45). Nevertheless, there are some groups for whom reach could be improved. These include men, people from ethnic minority backgrounds (especially in London), older people, homeowners who own their homes with mortgage, and people who live with members of their families (many of whom may be people from ethnic minority groups) and to a lesser extent the unemployed as well as couples with children. StepChange is currently piloting a small scale self-employed advice service but the majority of clients who are self-employed will be referred by StepChange to Business Debtline, which is a service run by the Money Advice Trust. This explains the under-representation of self-employed clients in the StepChange database. While for most groups the reach is broadly similar in London and the UK, for ethnic minority groups the gap in reach is larger in London than in the UK overall. Research commissioned by MaPS identified various barriers to seeking debt advice and identified various solutions.[21] Also StepChange's Getting the message report stressed the importance of better and clearer explanations of debt advice in collections

21 MaPS (2023) Motivations and barriers to seeking debt advice | Money and Pensions Service (maps.org.uk)

communications and referral organisations[22]. The research presented here indicates that barriers and preferences for seeking debt advice may differ between groups (notably ethnic groups and by age) and thus strategies to increase reach to these groups may need to adjust accordingly.

Seeking to explain what may drive differences between the Understanding Society and StepChange I examined whether the degree of over-indebtedness is different among the group of people who are identified as severely over-indented and in urgent need of debt advice is lower than that of people who seek debt advice from StepChange (given that one important determinant of seeking debt advice is the severity of debt problems that people face either in terms of the amount owed or the number of different debts that people hold). Analysis of the StepChange database indicates that clients who seek debt advice have more acute debt problems (or a cumulation of different types of debt problems) compared to the people identified as being highly over-indebted and in urgent need of debt advice based on *Understanding Society*. Among *Understanding Society* highly over-indebted group, 42% have arrears problems only, 24% have high unsecured debt and 34% have both arrears and high unsecured debt. The respective percentages among the StepChange's clients are 12%, 31% and 57% respectively. There is therefore a lower likelihood of seeking debt advice among people who have either arrears only and conversely a higher likelihood of seeking debt advice among those who have unsecured debt and especially those who have both types of debt problems. Further analysis shows that although for some socio-economic groups there is a positive association between having a better representation in the group that seek debt advice and having more severe and multiple debt problems, for others the relationship is not clearcut. This is especially the case for ethnic minority groups: ethnic minority groups not only have the highest likelihood of being highly over-indebted but are also more likely to have both arrears and high unsecured debt. Yet as shown earlier they are less likely to seek debt advice than the White British groups. Another determinant which may influence the probability of seeking debt advice is being in contact with government and non-government agencies is another determinant of seeking debt advice given that these organisations may signpost/refer people who face debt problems (or who are at high risk of their debt escalating) to the debt advice support. The good representation of benefit recipients, and social tenants in the StepChange client database maybe indicative of the importance of this explanation.

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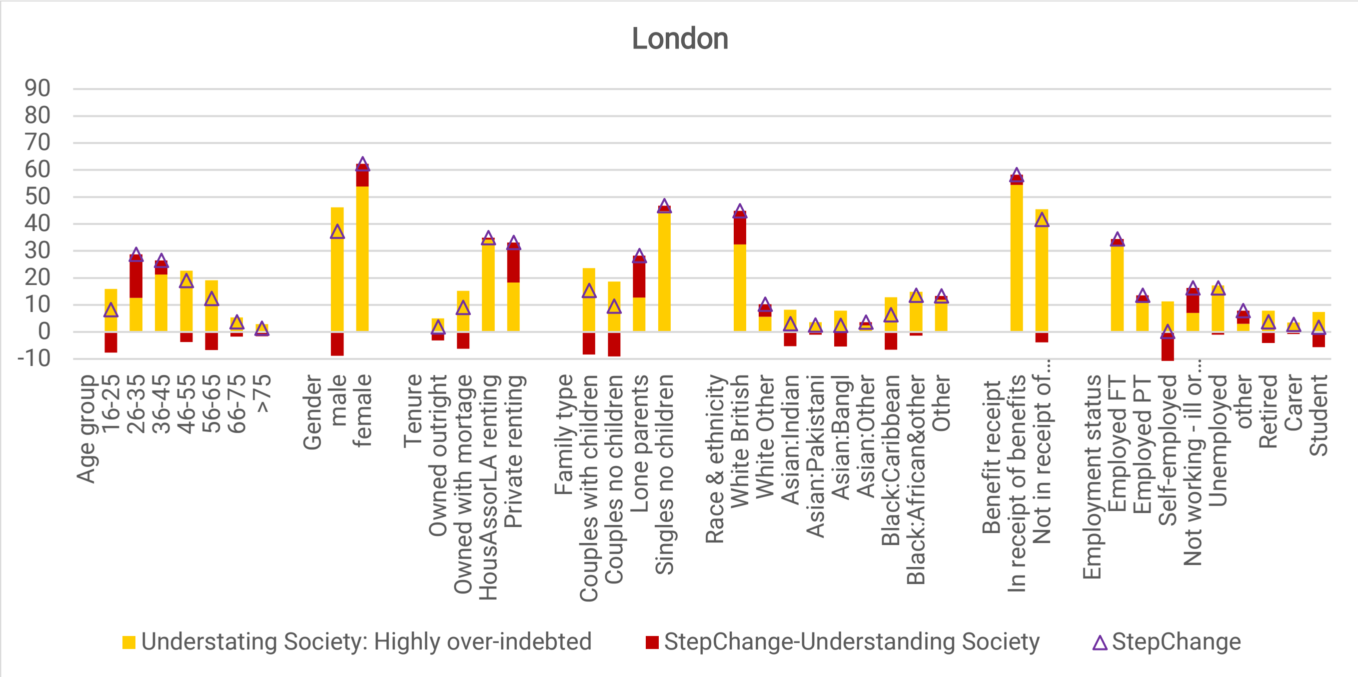
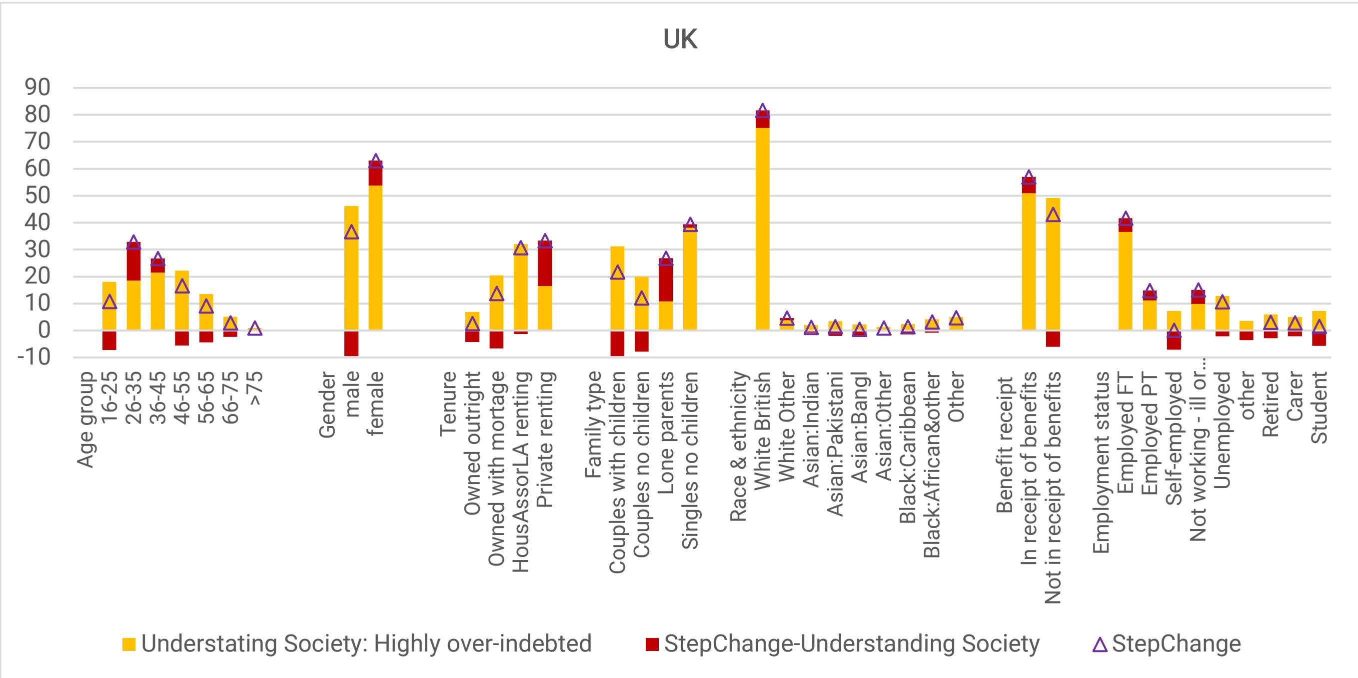
22 StepChange (2022) [Getting-the-Message-Report_StepChange.pdf]

Figure 8: Comparing the distribution of characteristics of StepChange clients' with that of people identified as "highly over-indented/ in urgent need of debt advice" in Understanding Society, London and UK





Note: Analysis of Understanding Society (wave 13) and StepChange's clients database. The yellow bar shows the distribution of characteristics of those identified as "highly over-indebted and in urgent need of debt advice" based on Understanding Society. The purple triangle shows the distribution of characteristics of StepChange clients database. The red bar shows the difference between the two estimates.

4 Concluding remarks

This report provides evidence on the extent of household over-indebtedness and debt advice needs in London relative to the UK overall. The findings indicate that a higher proportion of adults in London compared to the UK overall are struggling with high levels of over-indebtedness. Based on measure of over-indebtedness derived using *Understanding Society*, 13.4% of Londoners (934,000) are highly over-indebted and in urgent need of debt advice compared to 10.7% (5.7 million) for the UK overall. A further 20% of adults have high levels of indebtedness but do not show signs of subjective financial distress and/or food poverty and thus are not categorised as being highly over-indebted according to the measure employed here. Arrears with energy bills, housing costs and council tax payments are more prevalent in London than in the UK overall. However, Londoners are also more likely to face both high levels of unsecured debt and arrears problems. The risk of severe over-indebtedness varies between different socio-economic groups: the groups that face the highest risk are younger people, lone parents, single people with no children, couples with children, people with lower household incomes, long-term-illness and disability, ethnic minority groups, social and private tenants, benefit recipients and those with high outgoings relative to income. For most groups the risk and severity of over-indebtedness is higher in London than in the UK overall. This is particularly the case for benefit recipients (whose risk is almost 10 percentage points higher in London than in the UK overall), older people, private tenants, ethnic minority groups, lone parents, the unemployed, part-time employees, the self-employed as well as people living in households with lower incomes and high outgoings relative to income.

Comparisons of the distribution of characteristics of the highly over-indebted population identified based on *Understanding Society* with the distribution of characteristics of the population that seek debt advice based on StepChange's 2023 client database shows that debt advice agency demonstrates a good reach to many vulnerable groups (such lone parents, single people without children, people in receipt of benefits private and social tenants, the unemployed, people in the White British ethnic group, and younger people), but there are also some groups for whom reach could be improved. These include older people, people from most ethnic minority groups (especially in London), couples with and without children, and homeowners who own their homes with mortgage.

5 Implications for policy and practice

Variations in StepChange's debt advice reach indicates that not all who need debt advice are currently receiving it. There is more that can be done by central and local government services (especially in the context of council tax debt recovery practices), regulators, organisations across financial services, as well as energy suppliers to better target and reach those under-represented groups and provide appropriate debt management practices. This could include options such as:

- a review of the effectiveness concerning meeting the potential barriers, constraints, needs and preferences of particular groups including for example people in ethnic minority groups and people with health problems;
- working with debt advice staff to better understand how barriers, constraints, needs and preferences differ for groups identified as harder to reach;
- extending the obligations of energy suppliers to provide appropriate debt management solutions to clients in arrears with their energy bills;
- undertaking a review of the referral processes to ensure widened referral networks within the scope of different organisations.

The finding that for some groups who are under-represented in the group of people who seek debt advice, the gap in reach is larger in London than in the UK overall, may reflect either that reaching these groups is more difficult in London than in other parts of the UK, or that debt advice needs are too high to be met by available supply. Alternatively, it may be the case that debt advice in London is provided by a wider set of providers including community-based organisations. More research is required to untangle these effects.

Finally, the finding that over-indebtedness risk for most groups and in particular for some groups is higher in London than in the UK overall, underline the role of London-specific factors in driving over-indebtedness (such as high living costs particularly for housing, transport and childcare) and that their role is particularly acute for some groups. This finding underlines the need to deliver both national and place-specific policies and solutions to prevent people from falling into problem debt in the first place and to support over-indebted households to escape from debt problems.

Appendix: Various indicators of over-indebtedness and problem debt

Several measures have been used to operationalise over-indebtedness and problem debt in the literature, including both subjective and objective indicators as well as economic indicators. Subjective indicators are derived based on respondents’ assessment of their financial situation and whether the households are unable to make ends meet. Objective indicators are based on reports on being in arrears on regular payments (e.g. household bills, housing costs, council tax etc) or being subject to formal debt settlement, or debt collection arrangements etc. Economic indicators are based on the size of debt holding: 1) Outstanding unsecured debt-to-income ratio (DTI); 2) Debt payments-to-income ratio (also known as the debt servicing ratio); 3) Unsecured debt repayment-to-income ratio; 4) Debt-to-credit ratio or credit utilization ratio. In addition to the above indicators, composite indicators have been developed to categorize problem debt. The first is the ONS problem debt measure and the second is the Money and Pension Service debt advice measure. A short description of each these measures is given below.

The ONS problem debt measure

The ONS problem debt measure is constructed based on the Wealth and Assets Survey. This measure defines a household as being in “problem debt” if it has liquidity problems only, solvency problems only or both liquidity and solvency problems. Liquidity and solvency problems are defined based on a combination of both objective and subjective measures. In particular, a household is defined as having ***liquidity problems*** if its debt repayments represent at least 25% of monthly disposable (net) income **and** at least one adult in the household reports falling behind with bills or credit commitments; ***or*** if a household is currently in two or more consecutive months arrears on bills or credit commitments and at least one adult in the household reports falling behind with bills or credit commitments. Households are defined as having ***solvency problems*** if *household debt* represents at least 20% of annual disposable (net) income **and** at least one adult considers their debt a heavy burden. According to this definition, the proportion of households in problem debt was 5% in April 2018 to March 2020 in the UK overall (with the respective estimate of London being similar to the national levels i.e. 5%).

The MaPS measure

A composite measure was developed by the Money and Pension Service (MaPS) to measure the need for debt advice. The MaPS measure is based on the Debt Needs Survey. It was created based on the following indicators: 1) Being behind with bills and credit commitments in the last 6 months 2) Being behind on any bills or credit commitments now: priority (bills which have serious consequences for non-payment) and non-priority arrears (other bills, such as water, credit or store cards, or unsecured personal loans) 3) having experienced negative impacts (Disconnection or prepayment meter imposed by utility company or not being able to pay for food or expenses) in the last six months 4) having experienced adverse events (such as legal action or contact from bailiffs, evictions or repossession) in the last six months 4) used high-cost credit in the last six months.

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