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Tackling London's Household Debts Problem

CASE Report 154 - Executive summary

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Overview

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 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 Society* 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 around 934,000 adults) are highly over-indebted and in urgent need of debt advice compared to 10.7% for the UK overall (around 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

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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.



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