

# Subject: Investigation into Personal Debt

Report to: Economy Committee

Report of: Executive Director of Secretariat

Date: 4 November 2014

This report will be considered in public

## 1. Summary

- 1.1 This report sets out the background for the Committee's discussion into the nature and scale of personal debt in London.

## 2 Recommendation

- 2.1 **That the Committee notes the report as background to discussing with experts the key issues affecting personal debt in London.**

## 3 Background

- 3.1 In September 2014, the Committee agreed to investigate personal debt in London as part of its work programme for 2014/15.
- 3.2 This meeting provides an opportunity for the Committee to hear from a range of invited guests to understand the drivers and impact of personal problem debt, whilst also assessing the effectiveness of debt support services across the capital. The Committee will seek to establish the scale of the problem in London and identify steps that can be taken by the Mayor to better support those in personal problem debt.
- 3.3 Key issues to be covered in the discussion will include:
- The nature, scale and drivers of consumer and cost of living debt in London, with a view to identifying any demographic groups disproportionately affected by problem debt;
  - The effectiveness of debt support provision across the statutory, private and voluntary sectors, and to make recommendations to key stakeholders about future service provision; and
  - Progress against the London Debt Strategy Group's 2011 report, *Treading Water*.
- 3.4 There is a mixed picture of problem personal debt in London. Research in 2010 found that Londoners considered themselves the most over-indebted at the household level. Almost one in five households (18 per cent) said that debt in the household was a heavy burden, and almost 14 per cent had some arrears.<sup>1</sup> These figures were higher than all other English regions.<sup>2</sup> The findings are backed up by the charity StepChange, which states that London is the most indebted region in the

<sup>1</sup> National Institute for Economic and Social Research, [Over-indebtedness in Great Britain: an analysis using the wealth and assets survey and household annual debtors survey](#), October 2010, p. 26

<sup>2</sup> Ibid, p. 30

UK.<sup>3</sup> However, official data suggest the capital as a whole may have lower levels of problem household debt compared to other English regions. The Money Advice Service's (MAS) recent reported that over-indebtedness is spread disproportionately across the UK, with the top five over-indebted local authorities located predominantly in the north.<sup>4</sup> Whereas, the south east featured the lowest percentage of over-indebted people in the UK. Business debt is also lower in London: official statistics on insolvency and bankruptcy report London as having the lowest insolvency rates in England.<sup>5</sup>

- 3.5 The landscape of problem debt is diverse. Credit cards continue to be the most prevalent form of credit attributed to problem debt. Pay day loans are being increasingly used; uptake rates have been solidly rising since 2009. Log book loans are also becoming more prevalent due to the promise of quickly accessible cash without conventional credit checks and availability of a large loan sum. The number of log book loans taken out rose by 35 per cent between 2011 and 2013.<sup>6</sup> Several charities have also reported that guarantor loans are becoming an increasing issue in relation to problem debt.
- 3.6 Research on the impacts and drivers of debts suggests that relationships between the causes and impacts of debt may not be clear-cut, and that some of these factors may be two-way. Recent research identified four financial drivers for debt as the main drivers of debt for households: fluctuating jobs and incomes (i.e. resulting from temporary and part-time employment); a costly and insecure private-rented sector; rising costs of utilities; and benefit cuts and falls in real wages.<sup>7</sup> There are also a series of factors specifically related to the consumer credit sector, such as a culture of easy credit and high debt; the debt spiral effect (where debt problems grow, leading to financial and non-financial problems); high cost credit; and creditor behaviour.<sup>8</sup>
- 3.7 Engagement with those dealing with problem debt is considered to be one of the biggest challenges, particularly in terms of delivering the right service at the right time; targeting those in debt early and improving the delivery of multi-channel advice. A recent survey found that 8.8 million people in the UK are classed as 'over-indebted'.<sup>9</sup> Yet only 17 per cent of this segment sought debt advice.<sup>10</sup> Reasons given for not accessing advice included thinking that living in debt was the norm and 24 per cent of those considered over-indebted did not recognise they were in debt.
- 3.8 Tackling debt has been one of the Mayor's priorities.<sup>11</sup> In 2009, the Mayor set-up the London Debt Strategy group (LSDG) to address the issues arising from the 2008 economic recession. In 2009, the group reported that the average debt of those seeking free debt advice was over £18,000.<sup>12</sup> It also found that the number of people with two or more debt issues had risen by 16 per cent since 2006, and that there was rising demand for free face-to-face debt advice since the financial crisis. In its second report the LSDG set out its achievements including: establishing a health sub-group, which contributed to the Mayor's Health Inequalities Strategy; mapping the provision of debt advice with actual debt levels (insolvency data); and helped to secure funding for the Capitalise partnership, which has been running from 2006, to continue for a further year.
- 3.9 The Mayor also undertakes other activities in this area including publishing an equality framework and an Economic Development Strategy; working in partnership with Toynbee Hall

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<sup>3</sup> [www.stepchange.org/Infographics/LondonCapitalofpersonaldebt.aspx](http://www.stepchange.org/Infographics/LondonCapitalofpersonaldebt.aspx), accessed 20.08.14

<sup>4</sup> Money Advice Service, *Indebted lives: the complexities of life in debt, November 2013*

<sup>5</sup> Neighbourhood Statistics, Personal Insolvency Statistics, 2013. These figures (across both categories) represent a decrease in insolvency rates since 2011, which, in turn, fell from 2010 figures.

<sup>6</sup> [Citizens Advice Warning over log book loans](#)

<sup>7</sup> LSE (Centre for Analysis of Social Exclusion) *Facing Debt: Economic Resilience in Newham, 2014*

<sup>8</sup> House of Lords Library Note, *The Impact of Personal Indebtedness in United Kingdom Households, Especially on Children*, 15 August 2014,

<sup>9</sup> The Money Advice Service *Indebted lives: the complexities of life in debt*

<sup>10</sup> Ibid

<sup>11</sup> [www.london.gov.uk/priorities/equalities/debt](http://www.london.gov.uk/priorities/equalities/debt)

<sup>12</sup> London Debt Strategy Group *Up To Our Neck In it*,

and Capitalise Debt Advice Partnership on debt related research activities; and promoting free debt advice services and sources of affordable finance through a range of activities including a debt summit hosted in 2010, an annual *Know Your Rights* media campaign, and a presence on the GLA website.

## 4 Issues for Consideration

4.1 A panel of guests have been invited to discuss personal debt issues with the Committee:

- **Caroline Siarkiewicz, Head of UK debt advice programme, The Money Advice Service.** The Money Advice Service is an independent service set up by Government to help people manage their money. It provides debt help through a nationwide network of centres.
- **Ally Paget, Researcher, Demos.** Demos is a cross-party think tank. In 2014, Ally Paget authored Demos' report on personal debt: *'The borrowers' looking beyond the financial impact of debt.*
- **John Gathergood, Assocaire Professor, Faculty of Social Sciences, University of Nottingham.** Mr Gathergood advised the Financial Conduct Authority on the introduction of a cap to the cost of payday loans, specifically how to model the impact of the cap on consumers and firms in the sector.
- **Robbie de Santos, Senior Public Policy Advocate, StepChange.** StepChange is a national charity providing free, independent and impartial advice to people in debt.
- **A representative from the Citizens Advice Bureau.**

## 5 Legal Implications

5.1 The Committee has the power to do what is recommended in this report.

## 6 Financial Implications

6.1 There are no direct GLA financial implications arising from this report.

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**List of appendices to this report:** None.

<b>Local Government (Access to Information) Act 1985</b>
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List of Background Papers: None
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