



Debt and Mental Health

What does the current evidence tell us?

The Hadley Trust

Debt and mental health

1. Introduction

The mismanagement of debt by the investment banks, which led to the financial crash of 2008, ended a period of readily available credit and increasing rates of borrowing in the UK. Following the crisis, the rate of borrowing dropped and accessing credit became considerably more difficult.¹ That trend has now reversed. In 2017, UK households became net borrowers for the first time in 30 years. On average, each household spent £900 more in 2017 than they received in income. Households that spent more than they earned have either had to use savings or take out loans to cover the shortfall, and statistics indicate they did more of the latter; households deposited £37 billion in banks in 2017 (the lowest since 2011) but took out £80 billion in loans (the most in a decade).²

Households with the lowest incomes struggled the most in 2017. The poorest 10% of the population spent two and half times more than they earned, compared to the richest 10%, who spent half of what they earned.³ The CEO of debt charity StepChange, Phil Andrew, pointed out that many low-income households are relying on credit to survive; without it, they simply cannot make ends meet.⁴ While strategically acquiring debt can be useful for large purchases, such as a house, it becomes dangerous for people's wellbeing when paying it off becomes a hardship. This is called problem debt and will be the focus of this paper.⁵

The link between problem debt and poor mental health has been proven through numerous studies. Problem debt can also lead to other difficulties, such as relationship breakdown, that trigger mental health problems and decrease people's emotional and financial resilience. Through our open-door advice services, Community Links has witnessed first-hand the increasing toll that problem debt is taking on the mental health and wellbeing of our communities.

In this paper, we will first look at the prevalence of problem debt in the UK, including recent trends and a review of who is most likely to experience it. We will then look at debt in Newham, which has one of the highest rates of problem debt in the UK. Next we will discuss the link between mental health and debt. We will then look at the drivers of problem debt, and end with recommendations.

2. Overview of problem debt in the UK

In 2017, 15.9% of the UK population struggled to manage their debt.⁶ For households on low incomes, this number rises to over 20%.⁷ The three main factors that lead people into problem debt are loss of income/over-spending (whether that is because of loss of benefits, reduced hours, redundancy or over-consumption), illness, and relationship breakdown.⁸ As will be discussed later in this paper, loss of income and over-spending have increasingly become a problem in the UK due to benefit reduction, casual contracts that do not ensure a minimum number of hours, low pay and the rising cost of living reducing purchasing power. As a result, average total debt per household is at a record high of £57,578, nearly double the average in 2002 (£29,000).⁹ Savings, meanwhile, are at a record low.¹⁰ As people take on more debt without the financial safety net of savings, problem debt will continue to become more common.

In this section, we will first review the latest patterns in problem debt. Then we will discuss the groups who are most at risk of experiencing problem debt, with a particular focus on people on low incomes and the unique problems they face. We will then briefly discuss the impact of Universal Credit thus far on people's debt problems. Then we will briefly discuss the government's efforts and plans to regulate the high cost credit industry, which often exacerbates people's debt problems. Finally, we will look at the prevalence of problem debt in the London borough of Newham.

i. **Trends in problem debt**

Between 2012 and 2017, StepChange saw a 50% increase in clients seeking advice about debt, indicating that problem debt is on the rise.¹¹ Two emerging trends are particularly alarming. First, unsecured consumer debt is on the rise.¹²

¹ Joseph Rowntree Foundation (JRF), *Credit and debt in low income families* (JRF: Loughborough, 2010), p.4.

² Office of National Statistics (ONS), *Making Ends Meet: Are Households Living Beyond Their Means?*, (ONS: London, 2018).

³ *Ibid.*

⁴ Philip Inman, *"Household Debt in UK 'worse than at any time on record'"*, *The Guardian*, 26 July 2018.

⁵ Problem debt is defined in different ways. The Money Advice Service (MAS) defines people in problem debt as feeling a "heavy burden" when meeting monthly bills and/or missing more than three bill payments in a six-month period; we will use that definition in this paper unless otherwise specified. In this paper, we will use the terms "problem debt" and "over-indebtedness" interchangeably.

⁶ MAS and CACI, *Over-indebtedness 2017*, (MAS and CACI: London, 2017). Problem debt here refers to MAS definition.

⁷ <https://www.jrf.org.uk/press/problem-debts-households-poverty-face-difficult-2018>, this is IFS definition so need to figure that out

⁸ StepChange, *An Action Plan on Problem Debt*, (StepChange: London, 2015), p.2.

⁹ Centre for Social Justice (CSJ), *Maxed Out: Serious personal debt in Britain*, (CSJ: London, 2013), page 15-16.

¹⁰ *Ibid.*

¹¹ StepChange, *Statistical Yearbook 2012*, (StepChange: London, 2013), p.1; StepChange, *Statistical Yearbook 2017*, (StepChange: London, 2018), p.1.

¹² Unsecured consumer debt: Debt that is outstanding on credit cards, overdrafts, personal loans, store cards, home credit, payday loans; generally incurred through consumer purchases, and that is not secured against assets such as property.

Consumer credit, which includes credit cards, personal loans (usually from informal lenders) and overdrafts, often has very high interest rates.¹³ For instance, depending on one's credit history, credit card interest rates can be up to 40%.¹⁴ Because this type of credit is easy to obtain (since it is not secured against any assets) and charges such high interest rates, individuals can easily see their debt spiral out of control. One of the most common high-cost consumer credit tools is payday loans. These loans were regulated in 2015 by the Financial Conduct Authority (FCA) and are now less exploitative, but other high-cost credit tools such as rent-to-own goods and door-step loans have taken their place.¹⁵ These will be discussed later in the paper.

The second, related trend in debt is that people are increasingly relying on credit to pay household bills that cover their basic needs (such as energy bills, council tax, mortgage or rent). In 2017, both Citizens Advice Bureau (CAB) and StepChange reported that over 40% of their debt clients were having trouble paying their household bills, surpassing the number of clients with consumer debt problems.¹⁶ Furthermore, StepChange estimates that over three million people in the UK fell behind on their household bills in 2017. Unsurprisingly, then, the number of people using credit to pay household bills rose from 8.8 million in 2016 to 9.3 million just a year later.¹⁷ In fact, in 2017, 30% of StepChange clients had a deficit budget. This means that their income was too low to meet their normal household expenditure.¹⁸ As suggested earlier, credit can be useful when used to smooth over temporary cash flow issues or make large purchases. When people become reliant on it for daily household expenditure, however, this suggests that income is not meeting expenditure and indicates the accrual of problem debt.

ii. Debt demographics

Certain groups of people are more likely to have problem debt. These groups include: young people, lone parents, social and private renters, and people with low incomes.¹⁹ According to the FCA's 2017 survey, people aged 25 to 34 were the most likely to be in debt, with 23% over-indebted.²⁰ Client data from StepChange corroborates this: 67% of their clients in 2017 were under 40 years old.²¹ One potential reason for this, to be explored in Section 3, is the prevalence of young people in insecure work.

Lone parents are also likely to struggle with problem debt. Gingerbread, a charity for single parent families, found that single parents were struggling to pay their bills or save: 50% of single parents they interviewed regularly ran out of money before the end of the week, and 75% were unable to save.²² Unsurprisingly, then, lone parents were overrepresented at CAB, where 20% of advice clients were lone parents, though lone parents only make up 5.4% of the adult population.²³

Renting one's home is another risk factor for problem debt. Ten percent of private renters have debts worth over six months of their income, making them twice as likely to have problem debt as those with mortgages, and five times more likely than people who own their properties outright.²⁴ Renters are massively overrepresented in the population of StepChange clients. In 2017, 80% of clients rented their homes, but only made up 35% of the UK population (for private renters, these numbers are 39% and 20% respectively). This number was only 63% in 2012, suggesting that renters are increasingly struggling with problem debt.²⁵

Finally, households on low incomes are also more likely to experience problem debt (and might include some or all of the demographics discussed above). People in the lowest income quartile are three and a half times more likely to have debt worth more than six months of their income than those in the highest earning group.²⁶ StepChange found that in

¹³ CSJ, *Maxed Out: Serious personal debt in Britain*, p. 40.

¹⁴ *Ibid.*, p.46.

¹⁵ Financial Conduct Authority (FCA), [FCA publishes outcome of high-cost credit review](#), (FCA: London, 2018).

¹⁶ Citizens Advice Bureau (CAB), [A debt effect? How is unmanageable debt related to other problems in people's lives?](#), (CAB: London, 2016), p.20; StepChange, [Behind on the basics: A closer look at households in arrears in their essential bills](#), (StepChange: London, 2018), p.2.

¹⁷ *Ibid.*

¹⁸ *Ibid.*, p.6.

¹⁹ London School of Economics (LSE) Centre for Analysis of Social Exclusion (CASE), [Facing Debt: Economic Resilience in Newham](#), (LSE CASE: London, 2014), p.6.

²⁰ FCA, [Understanding the financial lives of UK adults: Findings from the FCA's Financial Lives Survey 2017](#), (FCA: London, 2017), p.18.

²¹ StepChange, [Behind on the basics: A closer look at households in arrears in their essential bills](#), p.7.

²² CASE, [Facing Debt: Economic Resilience in Newham](#), p.6.

²³ CSJ, *Maxed Out: Serious personal debt in Britain*, p.55;

Office of National Statistics (ONS), [Dataset: Families and Households](#), (ONS: London, 2017)

²⁴ CAB, [A debt effect? How is unmanageable debt related to other problems in people's lives?](#), p.3; StepChange, [Behind on the basics: A closer look at households in arrears in their essential bills](#), p.2.

²⁵ StepChange, [Behind on the basics: A closer look at households in arrears in their essential bills](#), p.10.

²⁶ CAB, [A debt effect? How is unmanageable debt related to other problems in people's lives?](#), p.3.

2017, clients with an annual household income of less than £20,000 were the most likely to be in arrears on any household bill and existed in a “perilous situation”.²⁷ Furthermore, households on low incomes had higher levels of unemployment and underemployment and were twice as likely as other households to experience an income shock such as an illness or a job loss, both of which can be triggers for debt problems.²⁸ They are also less likely to have savings that could help them overcome these shocks.²⁹

iii. Low income and debt: The poverty premium

To further compound these issues, people on low incomes are most likely to fall victim to what is known as the poverty premium. The poverty premium is the additional money that people on low incomes pay to receive the same goods and services, and exists in part because some financial providers do not take into account (or, actively exploit) the life circumstances and lack of credit options afforded to low-income households.³⁰ The “surcharge” is estimated at £1,280 annually, which is about 10% of a low-income household’s annual income.³¹ Examples of the poverty premium include:

- Insurance policies: car insurance policies cost, on average, 98% more for low-income households and contents insurance 48% more.
- Forms of high-cost credit, such as payday loans, are used by low-income households that cannot access mainstream credit from banks. In 2013, half of payday loan users took out these loans because they could not access credit any other way.³²
- Unauthorised overdrafts, which can act in the same way as traditional bank loans but with much higher repayment fees.³³
- Rent-to-own stores such as BrightHouse, which allow people to buy white goods and other household furniture on credit and pay for them in installments; however, the total cost of the item ends up being much higher than the same item bought outright.³⁴

Due to rising prices and stagnating wages, people are increasingly finding it difficult to make ends meet; this is especially true for people on low incomes. Evidence from StepChange suggests that people on low incomes are turning to high cost credit as a last resort: 35% of their clients taking out high interest loans were using the money to pay household bills like fuel or water, and 29% used it to pay housing costs.³⁵

iv. Regulating high-cost credit

Following successful regulation of the payday loan industry, the Financial Conduct Authority (FCA) released a review of high-cost credit in May 2018. While the consultation is not yet complete, the FCA have proposed the following measures:

- Requiring banks to make information about overdrafts more readily available, including mobile alerts to warn people when they are close to entering their overdraft;
- Introducing a price cap in the rent-to own industry;
- Increased transparency for clients using home-collected credit (also known as door-step loans);
- Requiring catalogue credit and store card firms to help clients “avoid persistent debt”.³⁶

While debt advice charities have welcomed these suggestions, they believe the FCA has not gone far enough. In particular, the Jubilee Debt Campaign and End the Debt Trap coalition would like to see the FCA extend the price cap on payday loans to all forms of consumer credit.³⁷

v. Newham: Debt hot spot

Newham has been called the debt hot spot of the UK. In 2017, Newham had the highest proportion of people with problem debt in the country at 22.7%, or nearly 60,000 residents.³⁸ This high rate of problem debt exists against a backdrop of high unemployment, low pay and poverty:

²⁷ StepChange, *Behind on the basics: A closer look at households in arrears in their essential bills*, p.5.

²⁸ FCA, *Understanding the financial lives of UK adults: findings from the FCA’s Financial Lives Survey 2017*, p.14.

²⁹ StepChange, *Behind on the basics: A closer look at households in arrears in their essential bills*, p.8.

³⁰ CSJ, *Mixed Out: Serious personal debt in Britain*, pp.18-19.

³¹ *Ibid.*, p.29.

³² CSJ, *Mixed Out: Serious personal debt in Britain*, pp.18-19.

³³ CASE, *Facing Debt: Economic Resilience in Newham*, p.30.

³⁴ *Ibid.*, p.27.

³⁵ StepChange, *Behind on the basics: A closer look at households in arrears in their essential bills*, p.11.

³⁶ FCA, *FCA Publishes High-Cost Credit Review*.

³⁷ Jubilee Debt Campaign, [UK’s financial watchdog fails to protect debt-trap victims](#), (Jubilee Debt Campaign: London, 2018).

³⁸ MAS and CACI, *Over-indebtedness 2017*.

- 5.8% of Newham residents are unemployed;³⁹
- 46% of residents receive at least one unemployment, sickness or means-tested benefit payment;⁴⁰
- 35.7% of Newham residents in work are paid below the living wage;⁴¹
- 37% of residents live in poverty, rising to 46% after housing costs.⁴²

27% of Newham residents hold some form of debt, and 19% find their financial situation difficult to manage (against 13% in London and 9% in the UK). This is spread unevenly across demographics. While 19% of White people hold debt, that number rises to 29% of residents from Black backgrounds and 32% for people of Asian backgrounds. Similarly, the percentage of people in Newham feeling they are living comfortably or doing all right varies by ethnicity. 59% of White people feel they are living comfortably or doing all right, compared to 51% for Asians and only 30% of the Black population.⁴³

When possible, saving is the best way to build up financial resilience and protect against falling into problem debt, but Newham residents are struggling to achieve this. While 46% of residents save money every month, only 25% of people living in the lowest income quartile save money each month.⁴⁴ In a 2014 qualitative study of 38 Newham households, all of the residents wanted to save money but very few were able to put any money aside.⁴⁵

This data highlights the increasing prevalence and severity of debt in the UK and in Newham. Having established the evidence that problem debt is a growing problem at the local and national level, we will now assess the existing evidence which draws an association between problem debt and poor mental health.

3. Impact of debt on mental health and wellbeing

A number of studies and surveys have generated evidence of a strong association between poor mental health and problem debt. A 2008 study in *Psychological Medicine* used a nationally representative survey to demonstrate that people with common mental disorders were three times as likely to have debt as those without; the study also determined that it was debt, rather than low income alone, that corresponded to common mental disorders.⁴⁶ Another study, published in the *European Journal of Public Health* in 2012, looked at a random sampling of 7,461 people in England and demonstrated the same findings. In addition, the study found that the likelihood of a common mental disorder increased with the number of debts an individual had.⁴⁷

There is not, however, definitive evidence to show that problem debt *causes* mental health. A 2011 systematic review of studies on debt and mental health (which identified 39,333 possible studies and ultimately reviewed 50) found that methodological limitations meant that the studies had not definitively proven that debt causes mental health issues. However, the authors of the study noted that there was “plausible quantitative data” to indicate that this relationship might exist.⁴⁸ Smaller surveys done with debt clients similarly suggest that problem debt can lead to poor mental health. A 2013 survey of clients of Christians Against Poverty found that 33% of their debt advice clients had either attempted or contemplated suicide before coming to them for help.⁴⁹ Furthermore, nearly 75% of CAB debt clients say they feel anxious or stressed because of their debts.⁵⁰ Taken together, these studies suggest that problem debt likely has an impact on people’s mental well-being.

Problem debt has also been shown to worsen existing mental health problems. In 2011, Mind surveyed 878 people with mental health problems and found that nearly 90% felt that their financial difficulties had worsened their conditions.⁵¹ A study by the Money and Mental Health Policy Institute found that problem debt can prevent people from recovering fully from mental health problems. According to this study, people with depression who also have problem debt are four times more likely to continue to be depressed 18 months later than those without problem debt.⁵²

³⁹Trust for London and New Policy Institute (NPI), [London’s Poverty Profile](#), (Trust for London and NPI: London, 2018).

⁴⁰ London Borough of Newham (LBN) and Ipsos Mori, [Newham Household Panel Survey 2015](#), (LBN and Ipsos Mori: London, 2016), p.69.

⁴¹ Trust for London and NPI, *London’s Poverty Profile 2017*.

⁴² Ibid.; LBN and Ipsos Mori, *Newham Household Panel Survey 2015*.

⁴³ Ibid.

⁴⁴ Ibid.

⁴⁵ CASE, *Facing Debt: Economic Resilience in Newham*, p.23.

⁴⁶ R. Jenkins R, D. Bhugra, P. Bebbington, T. Brugha, M. Farrell, J. Coid, T. Fryers, S. Weich, N. Singleton, and H. Meltzer, “[Debt, income and mental disorder in the general population](#)”, *Psychological Medicine*, 38 (2008), 1485-1494.

⁴⁷ Howard Meltzer, Paul Bebbington, Traolach Brugha, Michael Farrell, and Rachel Jenkins, “[The relationship between personal debt and specific common mental disorders](#)”, *European Journal of Public Health*, 23 (2013), 108-113.

⁴⁸ Chris Fitch, Sarah Hamilton, Paul Bassett, and Ryan Davey, “[The relationship between personal debt and mental health: A systematic review](#)”, *Mental Health Review*, 16 (2011), 153-166.

⁴⁹ CSJ, *Maxed Out: Serious personal debt in Britain*, p.20.

⁵⁰ CAB, *A debt effect? How is unmanageable debt related to other problems in people’s lives?*, p.4.

⁵¹ Mind, [Still in the red](#), (Mind: London, 2011), p.8.

⁵² Royal College of Psychiatrists (RCP) and Money Advice Trust (MAT), [Lending, debt collection and mental health: 12 steps for treating potentially vulnerable customers fairly](#), (RCP and MAT: London, 2015).

Debt and mental health problems can also exacerbate each other. A 2013 report by the Centre for Social Justice found that stress caused by problem debt was driving people out of work. 40% of respondents said they had taken time off work because of debt-related stress, and 10% said they had to quit their job as a result of debt problems.⁵³ Not being able to work, and therefore losing income, can worsen existing debt problems, potentially leading people into a debt spiral. Debt can also put a strain on relationships, sometimes leading relationships to break down. Relate, a charity providing relationship support, found that over 50% of couples say that money worries are one of the top three strains on their relationship.⁵⁴ Another Relate study found that individuals most negatively affected by the 2008 recession were eight times more likely to end their relationship than those who had not been affected.⁵⁵ Relationship breakdown can be a trigger for problem debt, because individuals are no longer able to split costs such as housing or utilities with someone else. Relationship breakdown was the leading cause of problem debt for 16% of clients of Christians Against Poverty and 10% of StepChange clients.⁵⁶

Given this evidence, we can therefore say that there is a wide-range of data and literature which establishes a relationship between debt and mental health problems, although at present the causal link is less clear. To strengthen this case, we would suggest that further studies are conducted to determine the nature of this relationship. For the time being, however, we have summarised below some of the driving factors for -problem debt in our local community.

4. What are the drivers?

i. **Making ends meet is getting harder**

Low-paid work and insecure work, combined with a sharp increase in the cost of living, are increasingly common and force people to rely on credit for basic necessities. The following statistics demonstrate these recent trends:

- 18% of UK employees are paid below two thirds of the UK median hourly wage (£8.29).⁵⁷
- From October 2016 to September 2017, 1.6 million were on temporary contracts and 880,000 were on zero-hours contracts, with 36% saying they were working fewer than their usual hours.⁵⁸
- The UK cost of living increased by 25% between 2008 and 2013.⁵⁹

The rising cost of living has pervaded multiple areas of people's lives. One of the main issues is that the rising cost of housing has left people unable to save money for deposits to buy homes, forcing them into the more expensive private rental sector. Renting a home is less secure and, on average, costs £900 per year more than owning (this is another element of the poverty premium mentioned in Section 2).⁶⁰ Rental prices are also high, however, and can push people into poverty. While only 18% of private tenants were in poverty before housing costs, that number increased to 38% after housing costs were paid.⁶¹ As rents rise, people are increasingly unable to pay: National Debtline reported that the number of clients with rent arrears doubled from 2007 to 2012. Utility prices are also rising, with water bills increasing by 35% from 2003 to 2013. During that same time period, water debt increased by 80%.⁶² Annually, over 100,000 people using pre-payment energy metres "voluntarily" disconnect from their energy suppliers because of lack of money. This means that people are going without heat, sometimes for an extended period of time, and can result in health problems.⁶³ People in the bottom quintile of earners particularly struggle with the rising cost of living, because they have less flexibility to reduce expenditure on unnecessary goods.⁶⁴

Low pay and insecure work are exacerbating the impact of the rising cost of living. The Joseph Rowntree Foundation has reported that while unemployment fell sharply in the last 20 years, in-work poverty has increased.⁶⁵ This suggests that people are not paid enough to cover their basic needs. Insecure work through zero-hours contracts is also increasing, rising from 2.3% of the working population in 2014 to 2.8% (905,000 workers) at the end of 2016.⁶⁶ Zero-hours contracts do not guarantee work for the employee, making it difficult for people to ensure they have enough money to pay their bills on time. Against this backdrop of low and/or insecure pay, people are being pushed to take out loans

⁵³ CSJ, *Maxed Out: Serious personal debt in Britain*, p.28; Ibid. p.21.

⁵⁴ Relate, Relationships Scotland, and Marriage Care, [The way we are now: The state of the UK's relationships](#), (Relate: London, 2015), p.6.

⁵⁵ Relate, [Relationships, Recession and Recovery: The role of relationships in generating social recovery](#), (Relate: London, 2014), p.21.

⁵⁶ CSJ, *Maxed Out: Serious personal debt in Britain*, p.97.

⁵⁷ Joseph Rowntree Foundation (JRF), [Destitution in the UK 2018](#), (JRF: York, 2018), p.8.

⁵⁸ JRF, [Preventing destitution: Policy and practice in the UK](#), (JRF: York, 2018), p.9. A zero hours contract is a contract of service under which the worker is not guaranteed work and is paid only for work carried out (as defined in Doug Pyper, [Briefing Paper 8045: Employment Status](#), (House of Commons Library: London, 2018).

⁵⁹ CSJ, *Maxed Out: Serious personal debt in Britain*, p.28.

⁶⁰ Ibid., p.51.

⁶¹ CASE, [Facing Debt: Economic Resilience in Newham](#), p.5.

⁶² CSJ, *Maxed Out: Serious personal debt in Britain*, p.51.

⁶³ Ibid., pp.49-50.

⁶⁴ JRF, [UK Poverty 2017: A comprehensive analysis of poverty trends and figures](#), (JRF: York, 2017), p.30.

⁶⁵ Ibid.

⁶⁶ Doug Pyper, [Briefing Paper 8045: Employment Status](#), (House of Commons Library: London, 2018), p.28.

they cannot afford to cover basic costs. Christians Against Poverty found that 20% of their clients were in problem debt primarily because of low income. Similarly, StepChange reported that 23% of their clients cited reduced or irregular income as the main reason they were in problem debt.⁶⁷

ii. What safety net?

The welfare safety net should support people to afford basic necessities. However, significant reforms to the welfare system have been made in recent years which have rolled back many of the protections and allowances previously available. The most impactful changes have been: the benefit freeze (a four-year freeze from April 2016 on benefits including JobSeeker’s Allowance, Employment and Support Allowance, some types of Housing Benefit, and Child Benefit); the under-occupancy penalty (more commonly known as the bedroom tax, a reduction in housing benefit for social housing tenants if they have more bedrooms than is deemed necessary); the benefit cap (introduced in 2013, the benefit cap places a cap on the total benefits someone can receive if they are on Housing Benefits or Universal Credit); an increase in sanctions; and the introduction of Universal Credit.⁶⁸ The combined impact of these reforms has been, for many, a significant reduction in income, leaving households unable to pay their bills.

Universal Credit is has yet to be fully rolled out, but early evidence suggests that this reform is impacting heavily on families. In July 2018, End Hunger UK published a report about the impact of Universal Credit on people’s use of foodbanks, which is a helpful indication of people’s financial position. One contributor noted that “every single [food bank] client who has been put on UC has stated that they are now in more debt than they were before.” The Trussell Trust, a UK network of 400 food banks, found that demand increased by 52% in areas where Universal Credit had recently been rolled out (compared to only a 13% increase where full rollout had not yet happened or had happened more than three months prior to data collection).⁶⁹

There are several elements of Universal Credit that might be contributing to this increase. First, everyone enrolling on Universal Credit is supposed to receive the “Universal Support” package, which includes budgeting advice and assistance (it does not, however, include access to debt advice). According to anecdotal evidence from the End Hunger UK report, this service is not being offered widely, so people are not receiving the support to which they are entitled. Second, there is a five week waiting period for initial UC payments. If people do not have any savings or income to rely on, they are left without any money during this period. They can access a loan from the Department for Work and Pensions to cover this period, but anecdotal evidence suggests this becomes problematic when their Universal Credit payments start. One contributor to the End Hunger UK report noted that “people are encouraged to get an advanced payment on their UC but this causes more problems as deductions are then taken as soon as payments begin to be made”.⁷⁰ Third, delays in payment (beyond the five week waiting period) are common. In June 2017, for instance, 25% of new claimants did not receive full payment on time, and 15% did not receive any payment on time.⁷¹

iii. Financial capability

In 2015, the Money Advice Service (MAS) conducted a nationally representative survey with 5,603 participants to ascertain the UK population’s financial capability level. They found that the UK population has room for improvement in its financial capability, knowledge and skills. Forty percent of survey respondents reported that they are not managing their money day to day “as well as they might” and that only 25% of working age people have enough savings to last them at least three months.⁷² Financial capability is not a panacea for debt problems, especially when people do not have enough income to make ends meet (much less put some in savings). However, helping people improve their financial capability, including their knowledge and skills around managing money and accessing appropriate financial products, is an important form of Early Action which can help in preventing people from falling into a debt spiral.

5. Recommendations

As this paper has highlighted, there is a wide range of factors which are impacting on the ability of households across the UK to save money and avoid debt. There is significant and wide-ranging evidence to suggest that helping people move out of debt may have a positive impact on their health and wellbeing. We have therefore proposed the following recommendations to tackle problem debt and its impacts, nationally and in our local community.

- 1. Improving access to free debt advice and financial capability:** The government must fund more financial capability and debt advice. Nearly 9 million people are dealing with over-indebtedness, and a study by the MAS

⁶⁷ CSJ, *Mixed Out: Serious personal debt in Britain*, pp. 63-64.

⁶⁸ [Benefit Changes: Who will be affected?](#), BBC, 8 July 2015; Department for Work and Pensions (DWP), [Housing Benefit reform: Removal of the spare room subsidy: Fact Sheet](#), (DWP: London, 2013); DWP, [Benefit cap – final stage starts](#), (DWP: London, 2013); JRF, *UK Poverty 2017: A comprehensive analysis of poverty trends and figures*, p.30.

⁶⁹ End Hunger UK, [Fix Universal Credit: Ensuring no one needs to go to bed hungry in the UK](#), (End Hunger UK: London, 2018), p.5.

⁷⁰ Ibid.

⁷¹ JRF, *Preventing destitution: Policy and practice in the UK*, p.25.

⁷² Money Advice Service (MAS), [Financial capability in the UK 2015](#), (MAS: London, 2015).

found that only 17% were seeking debt advice.⁷³ Studies have found that debt advice goes a long way to reducing mental health issues related to problem debt, and that the social return on investment for every £1 spent on debt advice was £9.⁷⁴ Access to free advice, alongside awareness raising about its availability, will therefore reduce individual suffering and result in government savings.

Our own research on financial capability indicates that people are more likely to engage if it is part of a larger programme; we therefore welcome the recommendations of the UK Financial Capability Strategy, which aims to embed financial capability training into a variety of programmes designed for vulnerable groups (MyBnk, which supports young people leaving care, is a particularly good example of how to do this). We also welcome the plans in the Strategy to identify best practice for spotting early signs of financial difficulty.⁷⁵

2. **Cost cap on all forms of consumer credit:** In line with the End the Debt Trap Coalition and the Jubilee Debt Campaign, we urge the government and FCA to introduce a cost cap on all forms of consumer credit. This would protect low-income households, who currently spend 14% of their monthly income on loan payments (compared to 5-8% for middle and high-income households).⁷⁶
3. **Supporting credit unions and initiatives like Newham MoneyWorks:** The government should encourage, if not require, the financial services and others to create more financially inclusive services including credit unions and Newham Council's MoneyWorks. These could be delivered in partnership with the Third Sector. Access to credit has become more difficult since the financial crash in 2008, but as demonstrated in this paper, people on low incomes need credit to make ends meet.

MoneyWorks

MoneyWorks opened in 2016 and is run by Newham Council and the London Community Credit Union. It provides several different types of loans, with interest rates ranging from 19.6% to 26.8%. While this is still high compared to rates offered by most banks, it provides an alternative to other high-cost credit products for those who do not have access to traditional lenders. They also provide interest-free emergency loans for clients in receipt of certain benefits who do not have savings. Everyone who signs up to MoneyWorks for a loan is offered budgeting and money management support, and those who need debt advice are signposted to specialists.

4. **Breathing space implemented as promised, including government bills:** We are encouraged to see that the government is currently consulting on a breathing space for people who are over-indebted. Crucially, this breathing space should also apply to debt owed to local authorities and central government departments. Alongside StepChange, we support Kelly Tolhurst MP's Private Members Bill, which would freeze interest and charges for up to a year to allow people to get advice and make a repayment plan.⁷⁷
5. **Review of Universal Credit rules and provisions:** In line with recommendations from End Hunger UK, we strongly encourage the government to review certain elements of Universal Credit. In particular, we would like to see the five week waiting period reduced to two weeks. The current waiting period forces people to take out loans from the government or elsewhere, and many struggle to make payments on these loans. The government must institute guidance that decreases the unacceptable rate of delayed payments. The government must also insist on the implementation of the government-funded Universal Support package and either add debt advice to that package or signpost people to free debt advice when they enroll on UC. Finally, Community Links welcomes the introduction of Transitional Protection to protect vulnerable people taking part in managed migration, but recommends that the government to extend this protection as widely as possible (including to claimants transitioning to UC through natural migration) so that it helps more people avoid accruing problem debt.

⁷³MAS, *Indebted lives: The complexities of life in debt*, (MAS: London, 2013) .

⁷⁴ CSJ, *Mixed Out: Serious personal debt in Britain*, p.119.

⁷⁵ MAS, *Financial Capability Strategy for the UK*, (MAS: London, 2015) .

⁷⁶ Jubilee Debt Campaign, *UK financial watchdog fails to protect debt-trap victims*, (Jubilee Debt Campaign: London, 2018).

⁷⁷ StepChange, *Our key policy campaigns and the insights underpinning them*, 2018.

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If you have a question about this research or would like to find out more about Community Links, please visit www.community-links.org or contact us at Daniel.Willis@community-links.org.



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