

# Personal problem debt in London

## *Consultation response*

### 1. Introduction

- 1.1. The Children's Society is a leading national charity, driven by the belief that every child deserves a good childhood. We provide vital help to the most vulnerable children, young people and families in our society through a range of services. We support nearly 48,000 children and young people every year nationally.
- 1.2. Through our policy and research, we seek to influence public policy and practice as well as changing attitudes and perceptions of young people at all levels to enable all children and young people to have a better chance in life.
- 1.3. We believe in achieving a better childhood for every child but have a particular focus on children who have nowhere else to turn, such as children living in poverty, young refugees, children at risk on the streets, disabled children and children in trouble with the law. We seek to give a voice to children and young people and influence policy and practice so they have a better chance in life.
- 1.4. We welcome this inquiry by the Economy Committee of the London Assembly into personal problem debt. Many of the families we work with struggle with the problems of debt that has a detrimental impact on their health and wellbeing.
- 1.5. Last year The Children's Society supported over 300 young people in projects in London and saw 3,148 young children and families in children's centres in the capital.

### **What is the scale of problem personal debt in London?**

### **Are there specific community groups that are disproportionately affected by personal problem debt?**

### 2. Children living in problem debt

- 2.1. The Children's Society are concerned that in the debate about personal problem debt the impact on household debt on children is often missed. This consultation response seeks to address this, highlighting the impact problem debt has on children in London.
- 2.2. In May 2014, The Children's Society launched a national campaign examining the impact of debt on children. The Debt Trap showed that almost two and a half million children across the country live in families owing a total of £4.8bn in bills and loans.

- 2.3. In London an estimated 16% of families are in problem debt<sup>1</sup>. This means over 165,000 families in London are in arrears on household bills and credit commitments worth £352m.
- 2.4. Families in poverty are at particular risk of falling into problem debt. A 'poverty premium' means that for these families, borrowing money is likely to cost more. Low-income families are also more likely to rely on debt because resources are in shorter supply, there is less financial slack and future earnings potential is lower<sup>2</sup>.
- 2.5. Families with children are often trapped in a situation where they have little alternative but to take out credit to pay for necessities; 10% of families said they had taken out credit to pay for food for their children, 18% for clothing and 6% for heating<sup>3</sup>.
- 2.6. The combined pressures of having dependent children and living on a low income appears to make the dangers of debt particularly acute. Households in poverty containing dependent children are twice as likely to be in some form of arrears as families on higher incomes. Over a quarter (28%) of families with children in income poverty (before housing costs) are currently in arrears on either a household bill or credit commitment, compared to 13% of families not in poverty. A further 41% of this group have struggled to pay household bills or credit commitments over the previous 12 months.
- 2.7. For some families in problem debt, the on-going struggle to keep up with debt repayments and to provide for their children continues for months or years on end. Nine in 10 parents in arrears on at least one household bill or credit commitment have cut back on necessities for their children within the last 12 months, to make a debt repayment. Six in 10 have cut back on food, six in 10 have cut back on heating and eight in 10 have cut back on clothing.
- 2.8. The pressure associated with problems debt can cause emotional problems for parents and children alike. Almost all (95%) parents in arrears said that their financial situation caused them emotional distress – seven in 10 said it left them feeling stressed and anxious, while half said it resulted in loss of motivation, commitment and confidence.
- 2.9. Around half of parents (47%) in arrears, said that their financial situation caused their children emotional distress, with a quarter saying that it resulted in their children feeling stressed or anxious. When we asked the children in families in problem debt for their perspective, 58% reported feeling worried about their family's financial situation. This compares to 31% of those not in arrears.

### **What more could the Mayor do to provide support to indebted Londoners?**

### **3. Local Welfare Provision**

---

<sup>1</sup> The Children's Society: <http://www.childrenssociety.org.uk/news-and-blogs/press-releases/local-statistics-hundreds-thousands-children-hit-family-debt-crisis>

<sup>2</sup> Barnes et al (2008) analysis of data from the Families and Children Study (FACS)

<sup>3</sup> <http://www.childrenssociety.org.uk/what-we-do/resources-and-publications/publications-library/debt-trap-exposing-impact-problem-debt-ch>

- 3.1. Local Welfare Assistance Schemes across London provide support for families fleeing domestic violence to re-build their lives, for families to provide basic furniture for their children after facing unplanned expenses and support with food or energy bills when families face an emergency such a house fire or burglary.
- 3.2. On 18th December 2013, the provisional local government finance settlement for 2015/16 was published<sup>4</sup>. The allocation for local welfare assistance schemes was no longer included and Department for Work and Pensions confirmed the funding would come to an end in April 2015.
- 3.3. Following a judicial review the Department for Communities and Local Government has launched a consultation to examine the future of Local Welfare Provision in 2015/16. This scheme provides a vital safety net for Londoners who would otherwise have nowhere else to turn. £27,177,400 dedicated funding for local authorities in London will come to an end in April 2015 and based on the average national claim for the Social Fund being £124 this funding would have been able to support 219,172 households across London local authorities.
- 3.4. The Children's Society believe that families should have this vital safety net to turn to in an emergency and are calling for dedicated funding for Local Welfare Provision to be maintained from April 20145.

#### **Lucy's story**

One council's local welfare assistance scheme stepped in to provide a struggling family with a bed for their poorly two-year-old daughter.

After Lucy Norman's baby daughter Mia was diagnosed with a heart condition, Lucy and her partner Luke found themselves spending several unplanned and expensive weeks travelling back and forth between their home and hospitals in Norfolk and London.

The challenges facing the family did not end there. On top of the stress the couple faced as Mia underwent surgery, Luke lost his factory job for the absences he had taken to spend time in hospital with his daughter. Both of them, now broke, ended up borrowing hundreds of pounds to keep up with the bills. Lucy, who worked as a cleaner before becoming a mum, said: "My partner lost his job for taking too much time off to go to the hospital and we borrowed lots of money, about £700 from friends and family."

**Lucy explained: "The cost of visiting our baby in different hospitals and looking after her when she had heart surgery meant we had no money left to buy her the bed she needed. The Council scheme helped us when we needed help most. Without it we would have ended up back in debt."**

- 3.5. **Recommendation One: The Economy Committee should respond to the Government consultation calling for dedicated funding for local welfare provision schemes to continue into 2015/16, recognising that without this vital safety net for**

<sup>4</sup> Draft Local Government Finance Report 2015-2016 <https://www.gov.uk/government/publications/draft-local-government-finance-report-2015-to-2016>

**families many vulnerable residents would turn to pay day loans and other forms of high cost credit to provide basic essentials.**

**4. Advice and support for families in debt to their local authority**

- 4.1. The vast majority of families with problem debts (84%) felt that they would have liked to have received more support, or to have received support at an earlier stage (nearly two thirds (64%) responding yes to each individually). These findings show the importance of advice and support for families in problem debt.
- 4.2. Findings from The Children's Society report 'The Debt Trap' found that those families who did seek support for problem debt often received a sub-standard service, particularly from creditors and local councils. Of those who have sought help from their council, a third (32%) found this 'not helpful at all', while 28% of those seeking help from a creditor or creditors said the same. Families interviewed by The Children's Society also indicated that council tax departments were one of the creditors that families felt were most intransigent when they were struggling to meet their payments.
- 4.3. Our evidence suggests creditors are not fully considering how the presence of dependent children can increase a household's vulnerability. Three quarters of parents (77%) thought that creditors should have to consider the presence of children in the household when deciding how to collect debts, with 44% strongly agreeing with this. This feeling was even stronger among parents with problem debt, with 90% believing that creditors should have to consider the presence of children in the household, and nearly two thirds strongly agreeing with this.
- 4.4. The types of heavy-handed behaviours that contributed to families' stress included constant phone calls, threatening letters, visits from bailiffs and court action being threatened.
- 4.5. **Recommendation Two: The London Assembly should review local authorities' debt collection strategies to ensure that they include measures to address the impact of collection on children.**

**5. Support for families living in fuel poverty**

- 5.1. Last winter, two-thirds of families with children, around 5 million families, said they were likely to turn down their heating because they could not afford to pay for it. As a result, millions of children suffered in homes that were simply too cold. Findings from The Children's Society report 'Behind Cold Doors'<sup>5</sup> found that about half a million families said that they were likely to take out a loan last winter in order to cover the costs of heating their home.
- 5.2. The Warm Home Discount provides a vital form of support for families struggling with the costs of heating their homes. The Warm Home Discount provides a payment of £135<sup>6</sup> towards energy bills for low income, vulnerable households. Large energy companies are required to provide and fund this payment.

---

<sup>5</sup> [http://www.childrenssociety.org.uk/sites/default/files/tcs/behind\\_cold\\_doors\\_-\\_final.pdf](http://www.childrenssociety.org.uk/sites/default/files/tcs/behind_cold_doors_-_final.pdf)

<sup>6</sup> £135 was the Warm Home Discount for winter 2013/14.

- 5.3. Customers are eligible for the Warm Home Discount if they are:
1. In the core group of low income pensioners
  2. In the broader group of eligible claimants from vulnerable households. Eligibility for this broader group is (within limits) at the discretion of their energy supplier.
- 5.4. In 2013/14 suppliers are required to spend £141m on the broader group for the Warm Home Discount. Based on a £135 discount per household, this means that around 1m households will benefit<sup>7</sup>. If we estimate that around 80% (800,000) discounts will be made to families with dependent children living in poverty, and that around two children are in each of these households, we can conclude that around 1.6 million children will have benefited from a discount last winter. This would mean that around 1.9 million children living in poverty missed out on this extra support. This is more than half of the children who live in poverty. Last winter in London, the Children's Society estimate that 385,300 children in poverty were missing out on the Warm Home Discount<sup>8</sup>.
- 5.5. Moving families with children that are living in poverty into the core eligibility group for the Warm Home Discount would have three key advantages:
1. The family of every child in poverty would receive a discount on their energy bill to help them with their heating costs.
  2. These families would not have to approach their energy supplier for help; the Warm Home Discount would be applied automatically to their bills.
  3. All energy suppliers would have consistent eligibility criteria, meaning that no child in poverty will miss out simply because their family get energy from a particular company.
- 5.6. The government are currently consulting on plans to extend the Warm Home Discount<sup>9</sup>. The Children's Society are calling for all children in poverty to be awarded the Warm Home Discount to ensure no children are growing up cold, damp homes or their parents forced to turn to high cost credit to heat their homes. Given the complexity of targeting all of the 3.7 million children who live in poverty, we believe that receiving Child Tax Credit and earning below a given threshold, would be effective criteria for getting this key support.
- 5.7. *Recommendation Three: The Economy Committee should respond to the Government consultation calling for the Warm Home Discount to be applied to all families in poverty to support families in London having to get further into problem debt to pay for heating.***

## 6. Local authority use of bailiffs

<sup>7</sup> Note this spending includes 'legacy spending' on schemes of support which were precursors to the Warm Home Discount, and also some money spent on 'industry initiatives' to support vulnerable households, which may include services such as energy debt advice and energy efficiency advice, rather than rebates.

<sup>8</sup> <http://www.childrenssociety.org.uk/news-and-blogs/our-blog/how-many-children-your-area-miss-out-help-heat-their-homes>

<sup>9</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/359369/warm\\_home\\_discount\\_extension\\_to\\_2015-16.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/359369/warm_home_discount_extension_to_2015-16.pdf)

- 6.1. Information published by the Money Advice Trust in August 2013 examined local authority use of bailiffs in the previous 12 months. Local authorities most commonly refer council tax arrears, business rate arrears, and parking fines to bailiffs for collection. Of the top 10 local authorities using bailiffs six are London boroughs.

Local authority	Bailiff referrals in the last 12 months	Bailiff referrals as a percentage of total properties
Birmingham City Council	82,329	17 per cent
City of Westminster	56,222	36 per cent
London Borough of Newham	55,652	50 per cent
London Borough of Croydon	50,209	32 per cent
Liverpool City Council	47,054	20 per cent
London Borough of Lambeth	43,011	30 per cent
Manchester City Council	42,012	17 per cent
Leeds City Council	40,780	11 per cent
London Borough of Redbridge	35,502	33 per cent
London Borough of Southwark	33,130	24 per cent

Source: Money Advice Trust: <http://www.moneyadvicetrust.org/media/news/Pages/Local-Authorities-and-Bailiffs0821-6215.aspx>

- 6.2. Analysis of the Money Advice Service Indebted Lives survey<sup>10</sup> shows indebted parents with dependent children under 16 are more likely to be willing to take on a new credit commitment to pay off their debts, if they have been subject to service provider or creditor recovery action (letters or phone calls, court summons, bailiff action, threatened with eviction, or threatened with termination of electricity, gas, or water supply). Around 39% of indebted parents subject to such action would consider new credit, compared to 29% of those who have not.

**6.3. Recommendation: The Economy Committee should review the use of bailiffs in London and the impact the use of bailiffs has on families with children.**

If you have any questions about this submission please contact

Lucy Capron

Senior Local Public Affairs Officer

020 7841 4494 or [lucy.capron@childrenssociety.org.uk](mailto:lucy.capron@childrenssociety.org.uk)

<sup>10</sup> <https://www.moneyadvice.service.org.uk/en/static/indebted-lives-the-complexities-of-life-in-debt-press-office>