HOUSE OF LORDS

Library Note

The Impact of Personal Indebtedness in United Kingdom Households, Especially on Children

This Library Note was prepared for a debate in the House of Lords on the impact of personal indebtedness in UK households, especially on children, which was scheduled to take place on 17 July 2014, but was postponed to a future date. The Note gives an overview of current levels of personal indebtedness in the UK and examines reports relating to its impact on households. The Note then considers the specific impact household indebtedness has on children, before examining some of the suggested causes of problem debt in UK households. The Note also provides an overview of government policy on the issue and the action it has taken to date.

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1. Introduction

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2. Levels of Personal Indebtedness

2.1 Personal Debt in the UK

The level of personal debt held by households has an effect on the economy as a whole. The Bank of England stated in a recent quarterly bulletin that the financial position of households:

> […] has implications for both monetary and financial stability. The ease and cost of access to new borrowing affects households' ability to bring forward spending, and high debt levels can make household consumption more sensitive to shocks such as unexpected changes to their income. Also, households' ability to service their debts, and the extent to which they find debts a burden can have important implications for the stability of the financial system.
>
> The stock of household debt rose substantially in the decade before the financial crisis, but has since flattened off. The debt to income ratio rose from around 100 percent in the 1990s to a peak of around 160 percent in 2008. This can be largely accounted for by the rise in house prices over this period.
>
> Since 2008, the debt to income ratio has fallen back to around 140 percent, which reflects a broadly flat stock of debt combined with modest growth in nominal incomes. In part, the stabilisation of debt is likely to be related to a tightening in credit conditions since the onset of the financial crisis. That has prevented households from taking on as much debt as they otherwise would have done, for example because fewer households have entered the housing market.[1]

Recent statistics from the Bank of England have shown that, at the end of May 2014:

- Individuals in the UK owed £1.445 trillion;
- Outstanding secured (mortgage) debt stood at £1.284 trillion;
- Outstanding unsecured (consumer credit) debt stood at £160.6 billion.[2]

Total net lending to individuals (excluding student loans) in the UK in May 2014 was £2.7 billion. Of this, monthly net secured lending (mortgages) grew by £2.0 billion and monthly net unsecured lending (consumer credit) grew by £0.7 billion. Net lending to individuals has

[1] Bank of England, 'Quarterly Bulletin 2013 Q4: Volume 53 No 4', accessed 8 July 2014, p 352.
[2] Bank of England, 'Bankstats (Monetary and Financial Statistics)—May 2014: Table A5.2—Total Lending to Individuals Excluding Student Loans', May 2014.

been relatively low since mid-2008, but grew through most of 2013 and has continued to grow so far in 2014.[3]

The Money Charity—formerly Credit Action—has claimed that the total owed by individuals in the UK equated to an average debt (including mortgages) of £54,701 per household in May (up from £54,631 in April) and an average debt (excluding mortgages) of £6,080 per household in May (up from £6,064 in April).[4] These figures closely match those calculated by the Financial Conduct Authority (FCA). In April, the FCA used Bank of England data to calculate an average debt (including mortgages) of £56,000 per household, and a total average consumer debt of £6,000 per household.[5]

As noted recently by the House of Commons Library, figures from the Wealth and Assets Survey conducted by the Office for National Statistics have shown that in 2010–12, half of the households in Great Britain had some kind of financial debt, for example formal borrowing (excluding mortgages), overdrafts or arrears on household bills.[6] Around half of these households—a quarter overall—had debts worth more than their financial assets. The figures also showed that households with more financial debt than assets were evenly spread across the income distribution spectrum, with only households at the upper end "significantly less likely to be in this position".[7] Overall, 38 percent of individuals aged 25–34 had more debt than assets—the highest proportion among age groups. The proportion of individuals aged 65 or over with more debt than assets was the lowest among age groups, at 6 percent.

The financial situation of many households will depend on interest rate levels over the next few years. The Resolution Foundation—a think tank focussed on improving the living standards of people on low to middle incomes[8]—has warned that the number of families with "perilous levels of debt repayments could more than double to 1.2 million if interest rates rise faster than expected in the next four years and household income growth is weak and uneven".[9]

In 2012, following an audit of debt service provision for the Money Advice Service—an independent service, set up by the Government, which offers free and impartial advice to people to assist them in managing their money—London Economics estimated that approximately 1.2 million people would seek assistance from debt advisors in 2013.[10] However, the Children's Society, a Church of England-affiliated charity, and StepChange Debt Charity—formerly the Consumer Credit Counselling Service—which describes itself as the "UK's leading debt advice organisation",[11] were concerned that the number of people seeking advice is likely

[3] Bank of England, 'Bankstats (Monetary and Financial Statistics)—May 2014: Table A5.2—Total Lending to Individuals Excluding Student Loans', May 2014; and House of Commons Library, *Economic Indicators: July 2014*, 1 July 2014, RP14/36, p 22.
[4] The Money Charity, *Debt Statistics—July 2014 Summary*, July 2014.
[5] Financial Conduct Authority, *Consumer Credit and Consumers in Vulnerable Circumstances*, April 2014, p 11.
[6] Second Reading: The House of Commons Library Blog, 'In the Red: Households with More Debt than Money', 8 July 2014.
[7] ibid.
[8] Resolution Foundation, 'About Resolution Foundation', accessed 11 July 2014.
[9] Resolution Foundation, 'Closer to the Edge? Prospects for Household Debt Repayments as Interest Rates Rise', July 2013.
[10] The Children's Society and StepChange Debt Charity, *The Debt Trap: Exposing the Impact of Problem Debt on Children*, May 2014, p 9.
[11] StepChange Debt Charity, 'About Us: A Quick Guide to StepChange Debt Charity', accessed 9 July 2014.

to be much lower than those in need of help.[12] The Money Advice Service has estimated that only 17 percent of those in problem debt are currently accessing advice.[13]

According to figures from the Insolvency Service, there were 24,931 individual insolvencies in England and Wales, 2,998 in Scotland and 840 in Northern Ireland in the period January to March 2014.[14] The figure for England and Wales was down 0.3 percent compared to the same quarter last year. This meant that 1 in 444 people in England and Wales became insolvent in the 12 months ending March 2014, down from 1 in 443 people in the 12 months ending December 2013.[15]

Problem debt

Debt is not necessarily problematic. The FCA, in its report *Consumer Credit and Consumers in Vulnerable Circumstances*, stated:

> Consumer credit is an important part of UK financial services and the UK economy, helping people smooth their income and providing them with greater flexibility over their spending. However, we know that many millions of people across the UK get into problems paying back debt, overstretching themselves and suffering both financial and non-financial detriment.[16]

The Centre for Social Justice (CSJ), which was set up in 2004 by Ian Duncan Smith, Conservative MP for Chingford and Woodford Green and now Secretary of State for Work and Pensions, has also noted that not all debt is bad, if it is affordable, and that "everyone across the income spectrum can struggle financially".[17] Rather, in its view, it is 'problem debt' which can have a serious impact on low-income and vulnerable people.[18] This view can be found elsewhere, for example, Martin Lewis of moneysavingexpert.com stated in the foreword to a report by Mind, the mental health charity:

> Debt isn't bad—bad debt is bad. A rational decision to borrow and do it cheaply is fine; mortgages, car loans and other investment-based borrowing is a part of our modern financial world.[19]

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[12] The Children's Society and StepChange Debt Charity, *The Debt Trap: Exposing the Impact of Problem Debt on Children*, May 2014, p 9.
[13] ibid.
[14] The Insolvency Service, *Statistics Release: Insolvencies in the First Quarter 2014*, 29 April 2014; and *Insolvency Statistics—England and Wales: January–March 2014* [Infographic], 29 April 2014. Of the 24,931 figure for England and Wales, 5,671 were bankruptcies (down 15 percent compared to the same quarter in 2013), 6,549 were debt relief orders (down 9.3 percent compared to the same quarter in 2013) and 12,711 were individual voluntary arrangements (up 14.3 percent compared to the same quarter in 2013).
[15] The Insolvency Service, *Statistics Release: Insolvencies in the First Quarter 2014*, 29 April 2014.
[16] Financial Conduct Authority, *Consumer Credit and Consumers in Vulnerable Circumstances*, April 2014, p 3.
[17] Centre for Social Justice (CSJ), *Maxed Out: Serious Personal Debt in Britain*, November 2013, p 15. The CSJ currently counts among members of its Advisory Council: David Blunkett, Labour MP for Sheffield, Brightside and Hillsborough; William Hague, Conservative MP for Richmond (Yorks) and now Leader of the House of Commons; Frank Field, Labour MP for Birkenhead; and Paul Marshall, an advisor to Nick Clegg, Deputy Prime Minister and Leader of the Liberal Democrats. Source: CSJ, 'Advisory Council', accessed 10 July 2014.
[18] CSJ, *Maxed Out: Serious Personal Debt in Britain*, November 2013, p 15.
[19] Mind, *In the Red: Debt and Mental Health*, 2008, p 1.

A follow-up report by Mind, *Still in the Red: Update on Debt and Mental Health* (2011), reiterated this argument:

> Debt that can be repaid or managed is not inherently problematic. Access to credit and financial services is increasingly a component of modern life and can enhance individuals' lives.[20]

However, in June 2013, a report from the Department for Business, Innovation and Skills (BIS) stated that "there is no universal agreement on the definition of the indicators that should be used to measure financial difficulty".[21] Furthermore, in an October 2010 report for BIS prepared by the Institute for Economic and Social Research at the University of Essex, the authors noted that "there is no universal agreement on a single indicator of over-indebtedness, but recent studies have converged on a set of complementary measures reflecting different aspects of debt", including, "being in credit arrears, experiencing debt as a subjective burden, number of credit commitments outstanding, ratio of unsecured debt repayments to gross household income exceeding 25 percent, and ratio of all debt repayments to gross household income exceeding 50 percent".[22] In its report, *Maxed Out: Serious Personal Debt in Britain*, the CSJ defined 'problem debt' as:

> Debt that is of concern not due to its absolute value in monetary terms, but because of its size relative to the holder's disposable income, their inability to repay it, and because of the impact it can have on their health, relationships and life.[23]

A November 2013 study by the Money Advice Service found that 8.8 million people were 'over-indebted', meaning that they held an unmanageable sum of debt.[24]

The June 2013 BIS report, using data from the 2012 DebtTrack survey, carried out between February and November 2012, found that 22 percent of respondents were either falling behind with credit commitments or were "constantly" struggling to keep up with bills and payments (6 percent and 16 percent respectively).[25] In addition, 12 percent of the survey respondents reported that keeping up with bills and credit commitments was a "heavy burden".[26] The Money Advice Service found that 50 percent of over-indebted individuals reported that they felt as if they were "drowning" in debt.[27]

It should also be noted that attitudes to debt vary among individuals. Research by the FCA found that perceptions of what people consider to be debt varied, with some respondents considering "bank loans, mortgages and payday loans as 'undisputed borrowing', while others "did not consider catalogues, 'buy now pay later' credit or overdrafts as debt". [28]

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[20] Mind, *Still in the Red: Update on Debt and Mental Health*, 2011, p 1.
[21] Department for Business, Innovation and Skills, *Credit, Debt and Financial Difficulty in Britain, 2012*, June 2013, p 36.
[22] Institute for Social and Economic Research, University of Essex, *Over-Indebtedness in Great Britain: An Analysis Using the Wealth and Assets Survey and Household Annual Debtors Survey*, October 2010, p 4.
[23] CSJ, *Maxed Out: Serious Personal Debt in Britain*, November 2013, p 15.
[24] The Money Advice Service, *Personalising the Debt Sector: A Segmentation of the Over-indebted Population*, November 2013.
[25] Department for Business, Innovation and Skills, *Credit, Debt and Financial Difficulty in Britain, 2012*, June 2013, p 43.
[26] ibid, p 8.
[27] The Money Advice Service, *Personalising the Debt Sector: A Segmentation of the Over-indebted Population*, November 2013.
[28] Financial Conduct Authority, *Consumer Credit and Consumers in Vulnerable Circumstances*, April 2014, p 5.

2.2 Types of Personal Debt

At a general level, personal debt usually falls into either one of two types: secured or unsecured.[29] More recent analyses of personal debt have sought to break this typology down further. For example, the CSJ has suggested three types of personal debt: mortgage debt; consumer debt (such as credit card debt, overdrafts, personal loans, payday loans, etc); and cost of living debt (utility bills, rent arrears, council tax, etc).[30] The report noted that while the growth in mortgages over the past two decades had contributed the largest total amount to personal debt in the UK, this was "not as concerning" as the rise in consumer debt over the same period. The report stated that unlike mortgage debts, which are tied to the value of a house, unsecured consumer borrowing was at higher interest rates and was therefore more likely to "spiral out of control, driving people into problem debt".[31] The FCA report, *Consumer Credit and Consumers in Vulnerable Circumstances*, agreed. It stated that "detriment occurs when people, through the use of consumer credit, get into unmanageable or problem debt".[32]

Mortgage Debt

Recent statistics from the Bank of England showed that outstanding secured (mortgage) debt in the UK stood at £1.284 trillion at the end of May 2014.[33] The Money Charity estimated that this amounted to an average debt of £115,006 for each of the 11.2m UK households which held mortgage debt.[34]

According to the CSJ *Maxed Out* report, the average debt of £112,640 per mortgage holding household in November 2013 was almost three times as much as in 1999.[35] The report also noted that around 719,000 households owed more on their mortgage than their house was worth, putting 1 in 15 mortgage holding households at risk should they fall behind on repayments. It further commented that this situation was worse for mortgage holding households in poorer parts of the country—where house prices were lower than in London and the South East of England—affecting around 15 percent of households; "three times the rate of more prosperous regions".[36] A strong correlation was identified between areas with high repossession rates, low-household incomes and high levels of unemployment, which indicated that "poor communities are bearing the brunt of problem debt caused by mortgages".[37] The report also noted that, according to the Wealth and Assets survey by the Office for National Statistics, one in four low-income households reported that their mortgage was a 'heavy burden'. In addition, the Resolution Foundation recently found that a "sixth of UK mortgage debt sits with households who have less than £200 left at the end of each month",[38] and statistics from the Department for Communities and Local Government showed that on

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[29] The Money Advice Service, 'Secured and Unsecured Borrowing Explained', accessed 17 July 2014.
[30] CSJ, *Maxed Out: Serious Personal Debt in Britain*, November 2013, p 40.
[31] ibid.
[32] Financial Conduct Authority, *Consumer Credit and Consumers in Vulnerable Circumstances*, April 2014, p 5.
[33] Bank of England, 'Bankstats (Monetary and Financial Statistics)—May 2014: Table A5.2—Total Lending to Individuals Excluding Student Loans', May 2014.
[34] The Money Charity, *Debt Statistics—July 2014 Edition*, July 2014.
[35] Centre for Social Justice, *Maxed Out: Serious Personal Debt in Britain*, November 2013, p 41.
[36] ibid.
[37] ibid, p 42.
[38] Resolution Foundation, *The State of Living Standards: The Resolution Foundation's Annual Audit of Living Standards in Britain*, February 2014, p 55.

average in 2013 around 90 households each month were accepted as homeless in England and Wales because of mortgage default or arrears.[39]

Consumer Debt

Consumer debt can include debt outstanding on credit cards, overdrafts, personal loans, store cards, home credit or payday loans incurred through consumer purchases.[40] The growth in consumer borrowing over the past 20 years has been argued to be a significant driver of problem debt.[41] Bank of England figures have shown that unsecured consumer debts have increased from a total of £53 billion at the end of 1993 to £160.6 billion at the end of May 2014.[42]

The CSJ has contended that the limiting of access to affordable credit for low-income households by mainstream lenders in recent years has meant that individuals and households have turned to other sources of short-term credit, often at high cost.[43] In relation to consumer debt, the report stated:

- In 2011, almost half of households in the lowest income decile were spending more than a quarter of their income on debt repayments;
- Outstanding debt on credit cards has almost trebled since 1998, reaching £55.6 billion in 2012;
- Payday lenders, pawnbrokers and home-collected credit providers lent out £4.8 billion in high-cost credit in 2012, rising sharply from an estimated £2.9 billion in 2009.[44]

In a report published in November 2013, the Smith Institute, a think tank which "promotes progressive policies for a fairer society",[45] predicted that consumer debt was likely to increase over the next decade, due in part to an "overhang of unmanageable debt from [the] pre-recession [period]", "further bouts of austerity", the "impact of welfare reform" and "sluggish wage growth".[46]

Cost of Living Debt

Cost of living debt can be defined as the debt brought on by necessary expenditures and household bills such as rent, food, gas, electricity, transport, water, phone line or internet access.[47] The incidence of this type of debt has risen as expenditure on necessary goods and services has increased. The Joseph Rowntree Foundation (JRF) has published work on the minimum standard of income required for the goods and services members of the public think

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[39] Department of Communities and Local Government, 'Statistical Data Set: Live Tables on Homelessness—Table 774: Homeless Households Accepted by Local Authorities, by Reason for Loss of Last Settled Home', accessed 11 July 2014.
[40] CSJ, *Maxed Out: Serious Personal Debt in Britain*, November 2013, p 32.
[41] ibid, p 43.
[42] Bank of England, 'LPMBI2O—Monthly Amounts Outstanding of Total (Excluding the Student Loans Company) Sterling Net Unsecured Lending to Individuals (in Sterling Millions) Seasonally Adjusted', 30 June 2014.
[43] CSJ, *Maxed Out: Serious Personal Debt in Britain*, November 2013, p 43. For more information on financial exclusion, see House of Commons Library, *Financial Inclusion (Exclusion)*, 16 May 2011, SN03197.
[44] CSJ, *Maxed Out: Serious Personal Debt in Britain*, November 2013, pp 16–7.
[45] The Smith Institute, 'What Is The Smith Institute', accessed 16 July 2014.
[46] The Smith Institute, *Tomorrow's Borrowers: Personal Debt by 2025 and the Policy Response*, November 2013, p 64.
[47] CSJ, *Maxed Out: Serious Personal Debt in Britain*, November 2013, p 71.

different types of households need to live to an adequate level.[48] A recent report by the JRF found that "despite social and economic change, the list of goods and services is very similar to that of the original study in 2008, but people's ability to afford them has declined. Overall the cost of a basket of essential items has risen by 28 percent over six years, while average wages have increased 9 percent and the minimum wage 14 percent".[49]

Demos, in its report *The Borrowers*, stated that it was "extremely common for people to report that they were going into debt to afford the basic costs of everyday living (such as food, heating and clothing)—around a quarter (23 percent) of people said this was a reason why they had used debt in the past".[50]

The CSJ has argued that increasing numbers of low-income households are being driven into debt by the rising cost of living. Basing this argument on ONS figures, it said that while real wages had risen since 1986, the growth rate had been significantly lower for those on the lowest incomes—in short, "being poor is becoming ever more expensive".[51] Its report stated:

- In 2012, an estimated 1.85 million households were three months in arrears on at least one household bill or payment;
- National Debtline [a debt advice service run by the charity Money Advice Trust] gave advice on 120,000 cost-of-living debts in 2012, up 130 percent since 2007.[52]

However, the June 2013 BIS report found that the proportion of households more than three months in arrears on bills and payments had remained stable over the last two years at 7 percent.[53]

3. Impact of Personal Indebtedness

3.1 Impact on UK Households

The Government's child poverty strategy stated that "unmanageable personal debt can drive a cycle of poverty and distress that is very difficult for families to escape".[54] It added that such debt:

> […] reduces household income available to spend, creates further pressures on parents and relationships, and in the most extreme cases has a significant impact on the quality of life and life chances for children.[55]

The CSJ identified a number of impacts arising from problem debt, all of which had an effect on households, including those with dependent children. The report stated:

> Problem debt is rarely an isolated financial problem without additional consequence. The stress of managing tight finances, dealing with creditors, as well as the stigma

[48] Joseph Rowntree Foundation, 'A Minimum Income Standard for the UK in 2014', 30 June 2014.
[49] ibid.
[50] Demos, *The Borrowers*, March 2014, p 23. This was based on a survey of 2,035 members of the public.
[51] CSJ, *Maxed Out: Serious Personal Debt in Britain*, November 2013, p 47.
[52] ibid, p 17.
[53] Department for Business, Innovation and Skills, *Credit, Debt and Financial Difficulty in Britain, 2012*, June 2013, p 43.
[54] Department for Work and Pensions and Department for Education, *A New Approach to Child Poverty: Tackling the Causes of Disadvantage and Transforming Families' Lives*, April 2011, Cm 8061, para 2.49.
[55] ibid.

associated with problem debt can lead to mental health difficulties, family breakdown, addiction, worklessness and crime.

Whether pre-existing or a direct effect of problem debt, these issues can escalate into different crises. For instance, problem debt can lead to or exacerbate mental health difficulties, which in turn can have knock-on effects including, for example, addiction or family breakdown. The interrelated nature of these factors, whether cause or effect, highlights how problem debt can take over multiple aspects of a person's life, making it increasingly hard to recover.[56]

It is clear there is a multiplicity of possible effects of personal indebtedness on UK households. However, with many of these impacts being interconnected, it is often difficult to single out standalone effects. Equally, the overall impact on a household will very much depend on that household's individual circumstances, both in terms of the total problem debt held and other factors. It is important, therefore, to note that the impacts set out below should not be seen in isolation, and could be both causes and consequences of problem debt.

Health

There is general consensus that there is a link between problem debt and an increased risk of suffering from mental health problems, including anxiety, stress or depression.[57] The Royal College of Psychiatrists has stated that debt can cause—and be caused by—mental health problems.[58] The mental health charity Mind has also argued that debt can be both a catalyst and consequence of mental health problems.[59] Mind has produced two reports relating to debt and mental health: *In the Red: Debt and Mental Health* and *Still in the Red: Update on Debt and Mental Health*, both of which considered the lives of people with experience of mental health and debt problems.[60] In the latter report, the charity noted the findings of government surveys which reported that:

- One in six adults is living with a mental health problem (ONS, 2001);
- One in four adults with a mental health problem is living with debt or arrears;
- Three times as many adults with mental health problems report debt or arrears, compared to those without mental health problems (ONS, 2002).[61]

Based on these figures, Mind has suggested that 1.75 million British adults with mental health problems may be living with debt or arrears.[62] More recently, the Royal College of Psychiatrists has also estimated that one in four people with a mental health problem are in debt.[63] In *Maxed*

[56] CSJ, *Maxed Out: Serious Personal Debt in Britain*, November 2013, p 87.
[57] ibid, p 20 and pp 87–95. See also Royal College of Psychiatrists, *Primary Care Guidance on Debt and Mental Health*, April 2014; and Office for National Statistics, *The Social and Economic Circumstances of Adults with Mental Disorders*, 2002.
[58] Royal College of Psychiatrists, 'Debt and Mental Health', accessed 11 July 2014.
[59] Mind, *Still in the Red: Update on Debt and Mental Health*, 2011, p 1.
[60] Mind *In the Red: Debt and Mental Health*, 2008; and Mind, *Still in the Red: Update on Debt and Mental Health*, 2011.
[61] Mind, *Still in the Red: Update on Debt and Mental Health*, 2011, p 1.
[62] ibid.
[63] Royal College of Psychiatrists, 'Debt and Mental Health', accessed 11 July 2014.

Out, the CSJ found the following in respect of the impact of problem debt on mental health:

- People with no history of mental health problems are 33 percent more likely to develop a mental health issue if they find themselves struggling with unmanageable debt;
- Seven out of ten debt advice clients were prescribed medication by their GP to help them cope with their debt related to mental health difficulties;
- One in three debt-advice clients had either attempted or contemplated suicide as a result of their debt;
- Adults with a mental disorder are three to four times more likely to have a debt problem than the general population;
- Mental health conditions were the primary driver of debt for one in twelve debt advice clients.[64]

Problem debt can also cause loneliness. A report from the Ministry of Justice Legal Services Research Centre found that problem debt was often a "very isolating experience" for those facing it.[65] People reported losing touch with friends due to not being able to socialise, which in turn "exacerbated feelings of stress".[66] The report also found that debt could have a negative effect on an individual's physical health, with existing conditions such as Irritable Bowel Syndrome being exacerbated by stress.[67] Furthermore, the Money Advice Service has found that 74 percent of those with unmanageable debts reported being unhappy, and 70 percent often felt anxious about their debts.[68]

Worklessness

It has been suggested that debt can impact on an individual's ability to engage in, or find, work. In its report, the CSJ stated that the stress caused by problem debt could have an adverse impact on an individual's "ability to be productive at work and can prevent those who are unemployed from finding work".[69] This, in turn, could exacerbate debt problems and lead to a "debt trap", where people are unable to finance their cost of living and repay their debts.

Further to this, the report found:

- One in ten reported giving up their job as a result of their debt problems;
- One in five found it difficult to find employment as a result of their debt;
- In 2012, unemployment or redundancy was the primary cause of debt for almost one in four debt advice clients;
- A one percent increase in the unemployment rate results in an estimated 240,000 debt advice enquiries per year.[70]

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[64] CSJ, *Maxed Out: Serious Personal Debt in Britain*, November 2013, pp 20–1.
[65] Legal Services Research Centre, *Assessing the Impact of Advice for People with Debt Problems*, December 2007, p 4.
[66] ibid.
[67] ibid, p 3.
[68] Money Advice Service, *Indebted Lives: the Complexities of Life in Debt*, November 2013, p 5.
[69] CSJ, *Maxed Out: Serious Personal Debt in Britain*, November 2013, p 21.
[70] ibid.

Addiction

A further possible effect of personal debt concerns drug or alcohol addiction. Addiction to drugs or alcohol can take over a person's life, "driving them and often their family into problem debt as they attempt to fund their addiction".[71] Furthermore, problem debt was identified by the CSJ as a barrier to those who were in treatment for their addiction and who may relapse due to the stress of worrying about debt.[72] Addiction charities, such as AddAction, offer debt advice to addicts undergoing treatment.[73] Debt can also be a problem for individuals addicted to gambling. According to the most recent British Gambling Prevalence Survey (2010), there are an estimated 450,000 "problem gamblers" in the UK, many of whom suffer from problem debt as a consequence of their addiction.[74] The CSJ's *Maxed Out* report further found that:

- Addiction treatment centres told the CSJ that problem debt was an issue for almost all of those entering treatment and was a huge barrier to recovery, often creating a vicious cycle of drug use and debt;
- An estimated 80 percent of substance user's family members experience money related issues;
- Families frequently suffer from increased financial stress due to threats and harassment from drug dealers and illegal moneylenders.[75]

Prisoners, Debt and Crime

It has also been suggested that crime can be a consequence of problem debt. The CSJ has stated that problem debt can be a motivating factor for criminal activity by both men and women, "especially amongst ex-offenders who are more vulnerable to debt".[76] The report continued:

> The prevalence of debt amongst the prison population is significantly higher than the national average, a situation that worsens as a result of being incarcerated. It is estimated that around half of people in prison have debt problems. For those prisoners with debts, 40 percent felt that their time in prison worsened their debt problems, with an even higher level of former prisoners (64 percent) reporting the issue. Being in prison also can have a negative impact on the financial situation for the families of prisoners. For the families of prisoners in debt, two-thirds said their debt had worsened as a result of their relative's imprisonment […]
>
> Upon release from prison the debt accumulated both before and during the prison sentence can keep people trapped in debt. Following imprisonment two-thirds of prisoners lose their job and one-fifth face increased financial difficulties. The inability to find work upon release makes it harder to service debts and can mean their debt problems rapidly worsen. Former prisoners are often financially excluded as a result of being in prison and are unable to open a bank account or access credit upon release.

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[71] ibid, p 22.
[72] ibid.
[73] AddAction, 'What We Offer', accessed 11 July 2014.
[74] National Centre for Social Research, *British Gambling Prevalence Survey 2010*, 2011; and *Guardian*, 'Escape from Gambling Hell', 20 April 2012.
[75] CSJ, *Maxed Out: Serious Personal Debt in Britain*, November 2013, p 22.
[76] ibid, p 104.

> This serves as both a barrier to work and drives people towards high cost credit and illegal moneylenders that will in turn keep them trapped in debt.[77]

The Clinks charity refers to the "plethora of evidence that demonstrates the complex relationship between experiencing financial problems and women's offending".[78] The charity observed:

> At times, this relationship is direct, such as when women commit minor theft or benefit fraud in order to support their families. Additionally, however, having debt issues can lead to a woman experiencing stress, poor mental health and substance misuse problems, which can in turn make her more likely to offend.[79]

Family Breakdown

While the effects of problem debt listed above would potentially impact on children, it has been argued that family breakdown is the most significant.

The Ministry of Justice Legal Services Research Service report, *Assessing the Impact of Advice for People with Debt Problems*, found that respondents in its study reported that debt "frequently impacted on relationships between the respondent and their family and friends".[80] Respondents also "described their debt problem as having a very negative impact on their relationships with their children".[81] In addition, the Money Advice Service found that 56 percent of those with unmanageable debts reported a negative impact on their family life.[82]

In a report predating *Maxed Out*, the CSJ highlighted the "damaging impact" relationship breakdown can have on the well-being and mental development of children. In *Fractured Families: Why Stability Matters*, the CSJ asserted:

> Family breakdown is also very closely associated with poor outcomes for children. Children who experience family breakdown are more likely to experience behavioural problems; perform less well in school; need more medical treatment; leave school and home earlier; become sexually active, pregnant or a parent at an early age; and report more depressive symptoms and higher levels of smoking, drinking and other drug use during adolescence and adulthood.[83]

Identifying family breakdown as an impact of problem debt in households, the CSJ's *Maxed Out* report noted that stress and the pressures associated with problem debt could impact on an individual's relationships with partners and family. This could lead to family breakdown, and in turn, exacerbate existing problem debt "due to disagreements over finances, debts incurred during separation and additional costs accrued when living alone".[84] They also acknowledged that family breakdown was a "complex issue, with many, often interrelated, causes", and noted that there was rarely a single identifiable factor responsible for family breakdown. The report stated, however, that problem debt could contribute to the failure of family relationships. It

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[77] ibid.
[78] Clinks, *Clinks Briefing About the Nature of the Relationship Between Debt and Women's Offending*, April 2014.
[79] ibid.
[80] Legal Services Research Centre, *Assessing the Impact of Advice for People with Debt Problems*, December 2007, p 3.
[81] ibid.
[82] Money Advice Service, *Indebted Lives: the Complexities of Life in Debt*, November 2013, p 5.
[83] CSJ, *Fractured Families: Why Stability Matters*, June 2013, p 14.
[84] CSJ, *Maxed Out: Serious Personal Debt in Britain*, November 2013, p 96.

further stated that the uncertainty and lack of control associated with problem debt could have a "debilitating effect on an individual with knock-on effects for their family" and that debt had also been shown to be a "risk factor that increases the possibility of maternal depression, itself a trigger of family breakdown".[85]

The report also commented that problem debt caused by relationship breakdown was often more of a concern for women:

> Over the past three years the percentage of women citing family breakdown as the primary cause of their debt was almost double that for men. One possible explanation for this is greater proportion of men who are the sole earners for their families. Similarly, given the still unequal distribution of caring responsibilities, women are more likely to have been out of the job market for some time while raising children, meaning it can be harder to find employment following divorce or separation.[86]

In addition, the report found:

- In 2012, three out of four debt advice clients in a relationship said their debt had negatively affected it, causing it to end entirely for one quarter of people;
- Families find debt and money incredibly hard to talk about, with one in ten hiding debts from their partner;
- Separation or divorce was the primary cause of debt for around one in ten debt advice clients.[87]

3.2 Impact on Children

The specific impact of debt on children was recently considered in a joint report, published in May 2014, by the Children's Society, a Church of England-affiliated charity, and StepChange Debt Charity—formerly the Consumer Credit Counselling Service—which describes itself as the "UK's leading debt advice organisation".[88] The report found that "far from being immune to the impact of family debt, every aspect of children's lives—from access to basic necessities, though to family relationships and school experiences—can be affected by the presence and consequences of unmanageable household debt".[89] The report stated that children:

> […] suffer from the existence of problem debt in direct ways, such as problems with their own mental health and well-being, the effect of material deprivation caused by the existence of problem debt and income fragility, and the disruption of their lives in terms of housing, family stability and school experiences.[90]

Families with problem debt often cannot afford to pay for the material goods or social activities which children in families without problem debt may have or experience. Barnardo's, in *A Vicious Cycle: The Heavy Burden of Credit on Low Income Families*, asserted that "material

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[85] ibid.
[86] ibid, p 97.
[87] ibid, p 21.
[88] StepChange Debt Charity, 'About Us: A Quick Guide to StepChange Debt Charity', accessed 9 July 2014.
[89] The Children's Society and StepChange Debt Charity, *The Debt Trap: Exposing the Impact of Problem Debt on Children*, May 2014, p 10.
[90] ibid.

deprivation in childhood impacts negatively on children's well-being, excluding them from the experiences that their peers take for granted".[91]

Despite this, the Children's Society and StepChange Debt Charity recorded that "very little research has explored the impact" on children living in families with problem debt.[92] The report contended that "research on this issue has too often failed to look beyond how this debt affects the debtor alone; to the wide impact it has on a household, and in particular, on children. We note a distinct absence of children's voices and experiences in work on debt".[93]

The report stated that research had shown the presence of children in a household was "overwhelmingly associated with a greater likelihood of financial difficulties […] regardless of whether children are being brought up by one or two adults".[94] The report also contended that households with dependent children "face extra pressure as they are more likely to face unexpected bills and are less able to cope with sudden financial shocks", such as redundancy, reduced hours or illness.[95]

The report noted that around 2.4 million dependent children were living in 1.4 million family households with problem debt, and that these families were behind on an average of £3,437, or an estimated total of £4.8 billion, of payments on household bills and loan repayments to service providers, creditors and both local and national government.[96] Furthermore, an estimated 800,000 households with dependent children (11 percent) had missed payments on household bills and 1 million (13 percent) had missed payments on a credit commitment. The report also stated that a further 2.9 million families with 5 million dependent children had struggled to pay their bills and credit commitments over the 12 month period preceding the report's publication, and were therefore at risk of falling into problem debt.[97]

The Children's Society and StepChange Debt Charity report combined a survey of 2,000 families with children and in depth interviews with 14 families in problem debt. In doing so, it identified the following impacts on children resulting from living in households with problem debt:

- **Bullying:** Children in families with problem debt are more than twice as likely to be unhappy at school and be bullied because they don't have the same things as their friends;
- **Worry:** More than half of children (58 percent) in families with problem debt say they worry about their family's financial situation;
- **Family:** Half of children in families with problem debt (47 percent) say it causes arguments in the family;
- **Going without:** Nine out of ten families in problem debt say they have had to cut back on essentials like food, clothing or heating for their children in order to keep up repayments.

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[91] Barnardo's, *A Vicious Cycle: The Heavy Burden of Credit on Low Income Families*, December 2011, p 29.
[92] The Children's Society and StepChange Debt Charity, *The Debt Trap: Exposing the Impact of Problem Debt on Children*, May 2014, p 5.
[93] ibid, p 10.
[94] ibid, p 9.
[95] The Children's Society, 'Press Release: Report Reveals Debt's True Damage to Children, Families', 8 May 2014.
[96] The Children's Society and StepChange Debt Charity, *The Debt Trap: Exposing the Impact of Problem Debt on Children*, May 2014, pp 5 and 11.
[97] ibid, p 11.

- **Early exposure to debt:** More than half of children aged 10 to 17 said they saw advertising for loans 'often' or 'all of the time'. But only one in five children said that their school had taught them about money management and debt.[98]

In addition, the report suggested that problem debt could lead to children facing difficulty in school, with findings showing that around a quarter of children in problem debt were unhappy with their life at school—"making them nearly twice as likely as other children to be unhappy in this area of their life".[99] Furthermore, the report noted that problem debt could:

> […] also have a profound impact on children's ability to engage in social activities. Almost three-quarters (73 percent) of children whose parents are currently in arrears note that their parents found it hard to pay for their social activities. This compares to 37 percent of those whose parents are not in arrears.[100]

4. Causes and Drivers of Problem Debt

A variety of causes and drivers have been suggested for the existence of problem debt. These include the impacts listed above, such as mental health, worklessness, addiction, crime and family breakdown. However, the CSJ, Children's Society and StepChange Debt Charity and others have suggested additional possible causes and drivers of problem debt. Some of these are outlined below.

4.1 Culture of Easy Credit and High Levels of Debt

A June 2010 report from the Joseph Rowntree Foundation, entitled *Credit and Debt in Low-income Families*, stated that "in many ways, people living on low incomes are among the casualties of an earlier era of 'easy credit'".[101] The report argued that there was not a "widespread profligate use of credit to acquire high material standards of living among people on low incomes". Rather, "more typically, [the report] show[s] people using credit to 'smooth' income and expenditure flows, and moving into problematic debt due to persistent levels of income below that needed to meet their day-to-day needs".[102]

It has also been argued that high levels of debt make people more vulnerable to unexpected income shocks. The Financial Conduct Authority has asserted that high levels of debt are one of the main reasons people get into unmanageable, or problem, debt.[103]

4.2 Debt Spiral

The FCA has stated that there is:

> […] significant evidence that [people in unmanageable debt] can easily be tipped into a 'debt spiral', magnifying problems and leading to financial and non-financial detriment. While this spiral is not limited to those on low incomes […] people on low incomes are

[98] The Children's Society, 'Press Release: Report Reveals Debt's True Damage to Children, Families', 8 May 2014.
[99] The Children's Society and StepChange Debt Charity, *The Debt Trap: Exposing the Impact of Problem Debt on Children*, May 2014, p 6.
[100] ibid.
[101] The Joseph Rowntree Foundation, *Credit and Debt in Low-income Families*, June 2010, p 4.
[102] ibid.
[103] Financial Conduct Authority, *Consumer Credit and Consumers in Vulnerable Circumstances*, April 2014, p 29.

less able to cope with income shocks or mounting debts and so are more likely to enter into this spiral. Those people who are in 'debt traps', servicing but unable to pay off existing debts, are highly likely to be triggered into this sequence of events.[104]

In addition, a possible driver of debt relates to individual attitudes or reactions to problem debt, including a hesitation to access debt advice. The CSJ has stated that the psychology of how people respond to their debt could be a cause of problem debt spiralling out of control. Being "over-optimistic" or "underestimating the size of their debt", could mean that the situation of households with problem debt worsens.[105] The CSJ report identified the following "common phases which people tend to go through when accumulating debt and attempting to tackle" problem debt:

- **Delays and denial:** people often fail to realise their debt is becoming a problem;
- **Rationalisation and underestimation:** once people start to realise their debt is a problem they often do not accept the full scale of it and create reasons as to why nothing needs to be done about it;
- **Attempted solutions:** as debt grows and becomes harder to ignore, people often attempt to deal with it alone by cutting back on food and other living costs which is normally not sufficient and can lead to the problem worsening;
- **Acceptance:** eventually it becomes impossible to ignore problem debt, often because of a drastic consequence such as threats from an illegal moneylender, eviction or repossession.[106]

The first phase identified by the CSJ appeared in the findings of a survey conducted in February 2014 by Action for Children, a children's charity. This survey reported that "shame and embarrassment stops one in five parents from asking for advice about money problems".[107] In addition, the Action for Children survey of 2,000 UK parents found that almost one in six parents did not know where to get help and one in nine did not want to think about their money problems.

4.3 Low, Reduced or Irregular Income

A further possible cause of problem debt relates to income levels. The FCA has stated that a change in circumstances is one of the main reasons people get into unmanageable debt.[108] Reduced hours, salary decreases, unemployment or other income shocks, such as redundancy or loss of earnings through illness, are factors which the CSJ suggested could "quickly drive a family into problem debt".[109] In relation to low, reduced or irregular income as a cause of problem debt, the CSJ report, *Maxed Out*, found:

- Almost a quarter (23 percent) of debt advice clients cite low or irregular income as the primary contributory cause of their debt;
- Around 3 million low-income households have no savings, meaning they must often borrow at expensive rates to cover unexpected expenses;

[104] ibid, p 30.
[105] CSJ, *Maxed Out: Serious Personal Debt in Britain*, November 2013, p 17.
[106] ibid, pp 17–8.
[107] Action for Children, 'One in Five Parents too Ashamed to Seek Help with Money Problems', 27 February 2014.
[108] Financial Conduct Authority, *Consumer Credit and Consumers in Vulnerable Circumstances*, April 2014, p 29.
[109] CSJ, *Maxed Out: Serious Personal Debt in Britain*, November 2013, p 100.

- In 2013, one third of unemployed parents had to borrow to purchase their child's school uniform;
- An estimated 3.9 million British families would be unable to pay their rent or mortgage for more than a month if they lost their job.[110]

The CSJ also identified a lack of banking and borrowing services for low-income households as having an effect on levels of personal debt:

- There are currently 1.4 million people in the UK without a transactional bank account, more than a third of whom are in the lowest income decile;
- In 2011, an estimated 6.6 million people incurred more than £100 in overdraft and penalty fees, negating the financial benefits of banking;
- Half of all payday loan users (600,000) took out the loan because they had no other access to credit;
- An average car insurance policy costs 98 percent more for low-income households while home contents insurances costs 48 percent more.

Zero-hours contracts have received attention recently and are perceived by some to exacerbate the problem of irregular income for many workers. However, as noted by the House of Commons Library:

> Opinion on zero-hours contracts has been mixed. Employee organisations tend to argue that the contracts result in financial insecurity for workers who lack key employment rights; employer organisations stress their utility when seeking to meet fluctuating demand and argue that they play a vital role in keeping people in employment.[111]

Health problems can play a role in families taking on problem debt. The Children's Society and StepChange Debt Charity report found that ten percent of adults with dependent children had experienced an injury or illness within the family over the twelve months to May 2014.[112] In some cases, these families received sickness benefits, but "experienced problems with the system designed to deliver these".

4.4 Relationship Problems and Family Breakdown

Relationship problems have also been highlighted as a possible cause of problem debt. In addition to the points outlined in relation to family breakdown above, the Children's Society and StepChange Debt Charity said its survey found that debt problems were more common among single parents.[113] The report stated that "almost a quarter (24 percent) of single parent households are currently in arrears on household bills or credit commitments, compared to 16 percent of two parent households. This is equivalent to 450,000 single parent households across the UK". However, the report also noted that these problems were often not mutually exclusive, and in some cases, "families experienced all of these [problems at work, in relationships and with health] concurrently".[114]

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[110] ibid, p 18.
[111] House of Commons Library, *Zero-hours Contracts*, 6 May 2014, SN06553, p 1.
[112] The Children's Society and StepChange Debt Charity, *The Debt Trap: Exposing the Impact of Problem Debt on Children*, May 2014, p 14.
[113] ibid, p15.
[114] ibid.

4.5 Cost of Living

The "cost of living"—that is, the monetary cost of maintaining a particular standard of living, usually measured by calculating the average cost of a number of specific goods and services required by a particular group[115]—has also been identified as a possible cause of problem debt, in particular the rising cost of living relative to incomes. The JRF report, *A Minimum Income Standard for the UK in 2014*, stated that a "basket of minimum household requirements is similar in 2014 to 2008 [when the Foundation's original minimum income standard research was published], but that its cost has risen significantly more than headline inflation, as have the earnings required to afford it".[116] The JRF report concluded:

> Changes in the content of budgets between 2008 and 2014 have had less effect on the ability of households to afford a minimum standard of living than the changes in prices, earnings, taxes and benefits during this period. What has been most important in this regard is the fact that the cost of a constant basket representing a minimum living standard has risen faster than general inflation, whereas earnings have risen more slowly. The negative impact of this has been slightly offset by increasing tax allowances, particularly for working-age people without children. However, the squeeze on household budgets has been greatly exacerbated for low-earning families with children by cuts in in-work support. Furthermore, households reliant on out-of-work benefits have seen these fall, putting them further behind what they need as a minimum. Currently, inflation has eased and earnings are picking up; but fiscal cuts continue and therefore the ability of low-income households to make ends meet, especially those out of work and those with children, will not necessarily improve during an economic recovery.[117]

The CSJ report also said that the rising cost of living had affected low-income households disproportionately, "pushing many into problem debt".[118] It found:

- The average cost of living has risen by 25 percent in just the past five years with the greatest increases in essentials such as rent, gas and electricity;
- Real wages have fallen to 2003 levels while all real wage increases since 1986 have been significantly lower for the poorest households;
- The 17 percent [rise] in food bills since 2008 has disproportionately affected the poorest households. The proportion of a low-income household's total expenditure that is spent on food is 50 percent higher than for higher income households;
- In 2012, four out 10 households repaying an energy debt had no adult in work and nearly three-quarters contained at least one vulnerable individual.[119]

4.6 High-cost Credit

One high profile factor that some have suggested could lead to problem debt is the increasing use of high-cost credit, particularly by individuals on low incomes, or who use high-cost credit

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[115] Encyclopedia Britannica, 'Cost of Living', accessed 10 July 2014

[116] Joseph Rowntree Foundation, *A Minimum Income Standard for the UK in 2014*, July 2014, p 1.

[117] ibid, pp 5–6.

[118] CSJ, *Maxed Out: Serious Personal Debt in Britain*, November 2013, p 19.

[119] ibid. For more information on the use of food banks and food poverty, please see House of Commons Library, *Food Banks and Food Poverty*, 9 April 2014, SN06657.

in place of more affordable options because of a poor credit rating. Citizens Advice Bureaux saw a ten-fold increase in the number of debt clients with payday loans over the past four years.[120] As the CSJ has said, "growing pressures on household budgets and restrictions on mainstream lending have led to increasing numbers of low-income households to turn to high-cost lenders including pawnbrokers, payday lenders, home credit and illegal moneylenders".[121] This, according to the CSJ, could drive individuals with problem debt into further debt. Its report stated in respect of high cost credit:

- An estimated seven million people use high-cost credit in order to cover income shortfalls and meet unexpected expenditures;
- More than 60 percent of households using high-cost credit are in financial difficulties (insolvency action or arrears) compared with 15 percent of mainstream credit users;
- One in eight payday loan users takes out five of more loans in a year, while the average user seeking debt advice has three unpaid payday loans;
- In just the first six months of 2013, StepChange advised more than 30,000 people regarding their payday loan debt, almost the same as for the whole of 2012 and about double the number helped in 2011;
- In Britain's most deprived estates, one in twelve families borrow from illegal moneylenders, compared with just one in 200 people amongst the general population;
- The number of people estimated to be illegal moneylenders has almost doubled since 2008 from 165,000 to 310,000.[122]

However, Wonga, "Britain's biggest payday lender",[123] has stated that the company has a commitment to responsible lending and urges potential customers to "think carefully before committing to any form of credit […] Only you can decide whether to apply [for a loan] or not, however, so please only do so if you're confident you'll have the funds to comfortably make repayment on your chosen date".[124] In addition, the Consumer Finance Association (CFA), the trade association representing the interests of major short-term lending businesses, has stated that its members are regulated by the Financial Conduct Authority; "require customers to have a bank account, regular and disposable income"; and have a "limit on the number of times a loan can be extended, which prevents a debt getting out of control".[125] In addition, the CFA has argued that introducing interest rate caps "create a market for illegal lenders".

On 1 July 2014, new rules came into effect that prohibited payday lenders from being able to 'roll over' loans—a practice where loans are extended and fees charged if a customer fails to repay[126]—more than twice. Restrictions were also imposed on the number of times a claim for funds could be made from the bank accounts or credit cards of payday loan customers through continuous payment authorities.[127] StepChange Debt Charity welcomed the new rules, but said

[120] Citizens Advice Bureau, *Payday Loans Campaign September 2012–April 2014*, 2014, p 2.
[121] CSJ, *Maxed Out: Serious Personal Debt in Britain*, November 2013, p 19.
[122] ibid, pp 19–20. For more information on high cost consumer credit, please see House of Commons Library, *High Cost Consumer Credit*, 10 March 2014, SN05849; and House of Commons Library, *Payday Loans: Regulatory Reform*, 14 April 2014, SN06676.
[123] *Guardian*, 'Complaints Against Payday Lenders Double in Past Year', 8 July 2014.
[124] Wonga.com, 'Our Commitment to Responsible Lending', accessed 10 July 2014.
[125] Consumer Finance Association, 'Payday Myths Exploded', accessed 11 July 2014.
[126] *Financial Times*, 'New Payday Loan Rules Come into Force', 1 July 2014.
[127] ibid.

that the FCA should go further by limiting rollovers to a maximum of one rather than two.[128] Russell Hamblin-Boone, Chief Executive of the CFA, stated that the short-term lender industry had "already changed significantly for the better", but warned that "over-regulation is a real risk, as it will reduce choice for consumers and leave them vulnerable to illegal lenders".[129]

It has been reported that the FCA is planning to introduce a cap on the interest rates and fees that payday loan companies can charge in January 2015.[130]

High-cost Credit Advertising

Advertising by payday loan companies has received attention over the past year. In particular, the increase in television advertising by payday loan companies has received attention in the media. It is also the subject of a House of Lords private member's bill currently awaiting second reading.[131]

It has been estimated that advertisements by payday loan companies were seen 7.5 billion times in 2012.[132] In addition, in *Maxed Out*, the CSJ recorded that:

> The five largest payday lenders are estimated to have spent £36.3 million on advertising [in the 12 month period to September 2013], up 26 percent from the year before. Advertising emphasises the ease of borrowing, that loans can be used to fund a social life, that this form of borrowing is 'risk free' and that it is a solution to the money problems of people who are already in debt.[133]

Martin Lewis, of moneysavingexpert.com, when giving evidence to the House of Commons Business, Innovation and Skills Select Committee, expressed concern about the impact television advertising by payday lending was having on children and their view of debt. In its report, *Payday Loans*, the Committee observed that Martin Lewis was "forthright" in his concerns about how payday loans were advertised.[134] When giving evidence to the Committee, he stated:

> We are in danger of grooming a new generation towards this type of borrowing. If you think we have got problems now, you wait until 10 years' time.[135]

In its report, the Committee also repeated Mr Lewis' comments on the impact of daytime advertising, especially on children's channels:

> 14 percent of parents of under-10s, when they have said, "No, you cannot have your toy," or whatever they have asked for, have had a payday loan company quoted to borrow the money from. 30 percent of under-10s, in a poll of their parents that we

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[128] *Guardian*, New Rules for Payday Lenders Come into Effect, 1 July 2014.
[129] ibid.
[130] *BBC News*, 'FCA Proposes Payday Loans Cap of 0.8 Percent Per Day', 15 July 2014. For more information on the regulatory regime for consumer credit, see House of Commons Library, *Consumer Credit Regulation*, 7 March 2014, SN06842. For more information on high cost credit, see House of Commons Library, *High Cost Consumer Credit*, 15 July 2014, SN05849.
[131] 'High-cost Credit Agreements (Advertising Restrictions) Bill [HL] 2014–15'.
[132] *Financial Times*, 'Payday Loan Adverts Seen 7.5bn Times in 2012', 10 December 2013.
[133] CSJ, *Maxed Out: Serious Personal Debt in Britain*, November 2013, p 77.
[134] House of Commons Business, Innovation and Skills Committee, *Payday Loans*, 20 December 2013, HC 789 of session 2013–14, p 21, paragraph 59.
[135] ibid.

> have done on the website, are joking about these slogans, and laughing and repeating slogans of payday lenders.[136]

The Committee noted that, although he did not advocate a wholesale ban on advertising by payday lenders, Mr Lewis believed there should be a ban on advertising on children's television channels, and particular attention should be paid to the "style and nature" of adverts:

> There are cartoon puppets that make it seem fun, and deliberately fly in the face of the messages we know we want to get out there. They say, "It is easy" they deliberately try and say, "The other messages you are hearing are wrong." It is inappropriate propaganda. We need, when these adverts come on, all the health warnings that we are saying today to be part of those adverts".[137]

Also giving evidence to the Committee, a spokesman for the Consumer Finance Association stated that "although the payday loan charter did not specifically address advertising and marketing, these matters were addressed in a broader code of practice used by it[s] members".[138]

In its response to the Committee's report, the Government stated:

> The increase reported by Ofcom in the number of payday lending ads seen by children is concerning, but it is also important to note that they comprise a relatively small 0.6 percent of TV ads seen by children aged 4–15. The Broadcast Committee of Advertising Practice (BCAP), the body that writes the Broadcast Advertising Code, is considering the extent to which payday loan advertising features on children's TV and whether there are any implications for the ASA's regulation of this sector.[139]

BCAP has published the terms of reference of this review.[140]

Also commenting on television advertising by payday lenders which was seen by children, the Children's Society and StepChange Debt Charity called for children to "learn about borrowing, credit and debt from their school and family, not from lenders advertising on television or other media".[141]

4.7 Creditor Behaviour

The Children's Society and StepChange Debt Charity report noted that the behaviour of creditors was a factor in exacerbating problem debt when households got into difficulty with repayments. Up to 42 percent of respondents to its survey said they thought they were treated 'badly' or 'very badly' by creditors and local councils. The report further noted that "payday

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[136] ibid, para 60.
[137] ibid.
[138] ibid, pp 20–1, para 57.
[139] House of Commons Business, Innovation and Skills Committee, '*Payday Loans: Responses to the Committee's 7th Report of Session*', 24 March 2014, HC 1136 of session 2013–14.
[140] Committees of Advertising Practice, 'BCAP Payday Loans Review', 25 June 2014.
[141] The Children's Society and StepChange Debt Charity, *The Debt Trap: Exposing the Impact of Problem Debt on Children*, May 2014, p 7.

lenders [were] most likely to be treating vulnerable parents negatively".[142] In addition, the report found:

- 32 percent of those who sought help from their local council found it 'not helpful at all', while 28 percent of those who sought help from a creditor or creditors said the same. The most helpful sources of advice were friends and family, followed by free advice providers;
- Three quarters of parents (77 percent) thought that creditors should have to consider the presence of children in the household when deciding how to collect debts, with this feeling stronger among parents with problem debt (90 percent).[143]

5. Government Policy and Action

The Prime Minister, David Cameron, gave a speech on the economy on 7 March 2013.[144] In that speech, he commented on levels of household debt in the context of the economy:

> Our economy has been beset by three fundamental problems: the biggest budget deficit in post-war history; a build-up of private debt, accompanied by a global banking crash; and third, an erosion of our competitiveness in an era when global competition and the global race for our economic future has rapidly accelerated […]
>
> We had over-indebted households borrowing from over-indebted banks. Banks lent more than they could afford to, spurred on by an irresponsible banking culture that rewarded short-termism and unmanageable risk-taking. And households borrowed more than they could afford to, spurred on by an assertion that we had, somehow, ended boom and bust. So when the crash came, we in Britain did not just have over-indebted banks, over-indebted households and a big budget deficit, we had the most over-indebted banks, the most over-indebted households as well as the biggest budget deficit of virtually any country anywhere in the world.[145]

Later in the speech, the Prime Minster set out what actions the Government planned to take to reduce levels of household debt, including "dealing with the deficit" to maintain low interest rates and helping families "cope with the cost of living", by legislating to ensure families are put on the lowest variable tariff for their electricity and gas bills, cutting the cost of motor insurance and cutting taxes.[146]

The Child Poverty Act 2010 contained a requirement for the UK Government to publish a regular UK child poverty strategy. The Government launched its second child poverty strategy, covering the period 2014–17, on 26 June 2014. In line with the targets set out in the Child Poverty Act 2010, the Government stated that it was committed to the goal of ending child poverty in the UK by 2020.[147] In a press release announcing the launch of the new strategy, the Government stated that the document "sets out what is being done to tackle the root causes of child poverty", including supporting families into work, improving living standards and raising

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[142] ibid, pp 29–30.
[143] ibid, p 30.
[144] Prime Minister's Office, 'Speech: Economy Speech Delivered by David Cameron', 7 March 2013.
[145] ibid.
[146] ibid.
[147] For more information on the Child Poverty Act 2010, please see House of Commons Library, *Child Poverty Act 2010: A Short Guide*, 4 July 2014, SN05585.

educational attainment.[148] In respect of these aims, of which 'supporting families into work' and 'reducing costs to support living standards' are relevant to children living in households with problem debt, the Government listed the actions it was taking in relation to the issue:

> Supporting families into work by:
>
> - Helping businesses to create jobs;
> - Helping people to take up work through Jobcentre Plus and schemes such as the Work Programme and the Troubled Families Programme;
> - Making work pay and having clearer work incentives through introducing Universal Credit, with more help for childcare;
> - Tackling low pay by raising the minimum wage and the personal tax allowance, continuing to lift low-income families out of the tax system;
> - Helping people move on to better jobs and improving the qualifications of parents through adult apprenticeships, investing in English and maths and helping parents through the National Careers Service.
>
> Reducing costs to support people's living standards by:
>
> - Reducing energy, extending the Warm Home Discount and helping people to make their homes more energy efficient;
> - Capping the bills of low-income families with 3 or more children on a water meter and promoting social tariffs;
> - Reducing food costs for low-income families through introducing free school meals for all infant school pupils alongside Healthy Start Vouchers for young children, breakfast clubs in deprived areas, and free fruit and vegetables at school for primary school children;
> - Reducing transport costs for low-income families;
> - Increasing access to affordable credit for low income families through expanding credit unions.[149]

Furthermore, the Government's strategy included a section specifically related to problem debt and listed actions the Government would take on the issue:

> **Tackling problem debt**
>
> Low-income families are more likely to be in debt. 24 percent of children living in poor households that are in arrears with at least one bill, compared to 14 percent of all children.
>
> We will take action to **help low-income families to manage their money and prevent serious debt problems** from 2014–17 by:
>
> - Helping people manage their debts and improve their financial capability through the Money Advice Service (MAS), which was established by the Government and is funded by the financial services industry. The MAS co-ordinates and funds debt

[148] Department for Work and Pensions and Department for Education, '[Press Release: Child Poverty Strategy Launched](#)', 26 June 2014.
[149] ibid.

advice and offers free and impartial information and advice on money matters to help parents better manage their money and plan ahead.

- Providing additional budgeting help for those families who need it most during the move to Universal Credit via the Local Support Services Framework. Support includes money advice to help families pay their bills on time and alternative payment arrangements such as paying their rent directly to their landlord, more frequent payments (for example fortnightly rather than monthly) or splitting payments between partners.

We will help the parents of tomorrow avoid problem debt by strengthening the skills needed for personal finance in the mathematics national curriculum and by including, for the first time, financial literacy as part of the citizenship curriculum.

We will continue to work to improve the living standards of low-income families by:

- Raising incomes by getting parents into work, working enough hours and earning enough: supporting those families who can't work through our welfare safety net;
- Reducing costs for low-income families for essentials like fuel, water, food, transport and housing; and,
- Improving access to affordable credit and tackling problem debt.[150]

However, speaking in a debate on the new child poverty strategy in the House of Commons, Rushanara Ali, Shadow Minister for Education, set out some of the broad objections to 2014–17 strategy:

> What is coming into sharper focus is that more than two thirds of children in poverty are growing up in families in which someone works. Not only is early intervention, such as support for child care and Sure Start centres, critical to children's development; it enables parents, especially mothers, to secure work and contribute to the family income so that their children do not live in poverty. Labour's proposals to link the minimum wage to average earnings and to address insecure work are badly needed to tackle low pay and the child poverty that occurs as a consequence [...]
>
> The Social Mobility and Child Poverty Commission [which monitors the progress of government and others in improving social mobility and reducing child poverty in the UK] gives us no reason to hope that the Government can turn the situation around. It says that, despite the Government's decent intentions, their recent work on child poverty reads like a "list of policies", rather than the coherent strategy that our children and young people need; lacks any "clear measures to assess progress" over the coming years; and fails to "engage with independent projections" of rising poverty. Experts are united in the belief that the strategy simply lacks any credibility. The commission goes on to say that the strategy is a "missed opportunity" to create momentum towards securing a high-mobility, low-poverty society.[151]

[150] HM Government, *Child Poverty Strategy 2014–17*, June 2014. Bold in original.
[151] HC *Hansard*, 3 July 2014, cols 1163–4.