Debt and financial literacy in Leicester

Research Report, January 2023

Dr Eghosa Igudia (Eghosa.igudia@dmu.ac.uk),
Dr Nurdilek Dalziel (NDalziel@dmu.ac.uk)
Professor Edward Cartwright
(Edward.Cartwright@dmu.ac.uk)

Institute for Applied Economics and Social Value

Introduction

Why do individuals or households with debt typically delay before accessing debt advice or help? What are the main triggers of 'unaffordable debt'? And what factors lead to individuals seeking debt advice and support? We undertook a research project in 2021 and 2022 with the aim of understanding the challenges faced by individuals and households who are in debt in Leicester. We summarize below some of our key findings.

Background

Leicester is one of the most deprived areas in the UK with high levels of in-work poverty, income deprivation and skills deprivation. It is a low-wage, low-skilled economy, characterized by a large textile and clothing manufacturing sector as well as a relatively large retail and wholesale sector.

Median pay, at £27,661, is below the average in England and Wales, of £33,101. And the bottom 10% of the income distribution earn £16,398 or less, compared to an average in England and Wales of £19,434.[1] The Leicester population also has relatively low functional and workplace skills. For instance, 26.7% of the population has no formal qualifications compared to only 18.2% in England and Wales.[2]

The challenges facing the Leicester economy have clearly been exasperated by the COVID-19 pandemic and associated lockdowns as well as the current cost of living crisis. There is, therefore, a pressing need to explore how to alleviate poverty in Leicester. This is reflected in Leicester City Council's Anti-Poverty Framework.[3]

Research Methods

We collected data from both experts in the field as well as individuals experiencing debt.

In late 2021 and early 2022 we carried out interviews and focus groups with 8 'experts' who have experience (or work) in debt and financial advice services. The

---

[1] See Nomis data from Annual Survey of Hours and Earnings 2022, Annual pay (gross) for full-time workers.
[2] From 2021 Census based on residents aged 16 years and over.
[3] See https://www.leicester.gov.uk/anti-poverty/.

interviews explored a range of topics, including the debt problem, education and awareness, and solutions in Leicester.

In the spring and summer of 2022 we carried out semi-structured interviews with 39 individuals in debt in Leicester, and the surrounding areas. The interviews explored their experiences with debt, triggers, whether they sought advice, and the effectiveness of money advice services. To obtain a diverse sample we recruited people from several locations including a homeless charity, foodbank, community group, financial advice centre and Leicester city centre. The participants were primarily white English, Welsh or Scots (71.8%), single/unmarried (59%), male (66.7%), 30-50 years old (56.1%) and receiving Universal Credit (71.8%), with many without a job but not seeking employment (38.5%).

Debt Issues

Participants in the survey listed their most unaffordable debts as:

Fig 1: respondents most unaffordable debt

- Energy bills (20.5%)
- Rent (20.5%)
- Water (12.8%)
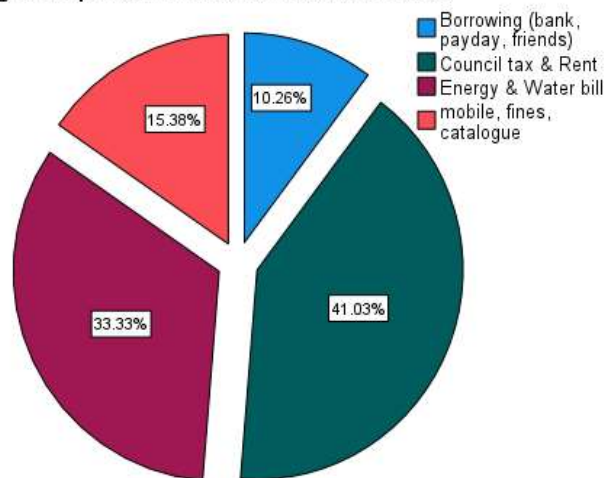- Council Tax (10.5%)
- Council tax and rent (10.5%).

Note that our data collection pre-dates the rise in energy prices seen in 2022 and so it is very telling that energy bills were still the most common debt mentioned.

Participants identified three main events that occur before they started to default in managing their debts, presented below in the order of magnitude:

- Lived above means/no money or income (26.1%)
- Gave-up work/job loss/benefit income loss (21.7%)
- Illness/depression/mental health issues/no money due to ill-health. (17.4%)

Consistent with these responses, the experts we interviewed unanimously highlighted the role of mental health in contributing to unaffordable debt. One of the experts said:

> "mental health is both an antecedent and consequence of debt" (Expert Interviews)

When debtors are faced with mental health issues, it was considered difficult to address the debt problem in a sustainable fashion without first dealing with the mental health issue. Even when debt is cleared, people are likely to go back to debt if their mental health issues are not resolved:

> "My mental health is bad. If I don't open it [arrears letter], I don't see it; I don't deal with it." […truly,] Research shows that by the time somebody accesses advice, they have got some form of mental health issue from low grade stress and anxiety to severe depression because of it." (Expert Interviews).

When asked to list specific triggers of debt/unsustainable debt participants identified a range of factors. These include:

- Rising energy bills (74.4%)
- Debt spiral (64.1%)
- Rising rent/mortgage (59%)
- Day to day borrowing (59%)
- Change in circumstances (specifically, ill-health) (56.4%)

Interestingly, these results show a cost of living crisis even before the recent period of high inflation.

We found that payday loans were not so important for participants in our study. Whilst 23.1% have taken a payday loan, it was not listed as main trigger of debt/unsustainable debt. Further, no access to a timely loan (12.8%), borrowing from informal sources (10.3%), compulsory (5.1%) or voluntary (5.1%) reduction in hours worked, were also seen as less important.

Based on the interviews with experts we summarised debt triggers into macroeconomic and sociological factors, as shown below in Table 1.

Table 1: Role of macroeconomic and sociological factors in debt accumulation

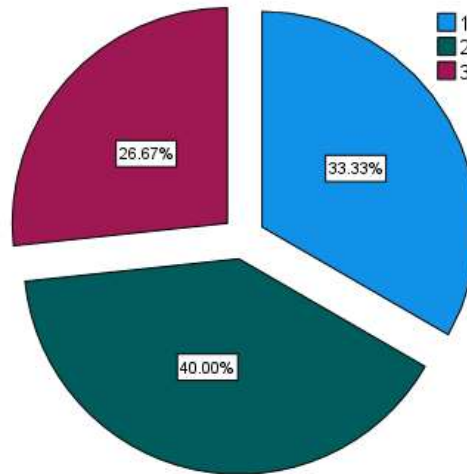| Macroeconomic factors	Sociological factors
- increased cost of living, - less strict regulation on borrowing, - moving towards cashless society, - unstable job markets, - post-Covid-19 economic environment, *"After Covid, many people have started to hit very badly because of rising costs. People's income does not cover basic expenditure items. Housing is a huge issue… The price of private properties is massive too."* (Expert Interviews).	- aspiration/ambition to live a certain lifestyle (triggered by social media), - buy-now-pay-later attitude with little or no thoughts of the future, - generational lack of debt management skills (i.e. financial illiteracy), - peer pressure to have the best, to keep up with friends, - young people having high risk tolerance, - Online gambling (hidden problem); - family influence (how being brought up; parents' approach to debt), - factors beyond own control such as relationship breakdown, physical/mental health issues, *"We became a very consumer-driven society and credit became much easier to obtain… There's a lot of emphasis on acquiring and borrowing; there's very, very little emphasis on having savings."* (Expert Interviews)

Source: Authors' interview with debt experts, 2022.

Council Tax

When asked what payments they have skipped respondents replied:
- Council tax (51.3%);
- Energy bills (23.1%),
- Mobile phones (15.4%);
- TV/Broadband (10.3%);
- Rent (15.4%)
- Loans from friends/relatives (23.6%).

You can see that over half of participants have skipped council tax payment at least once. Figure 2 shows the proportion of the 51.3% that have skipped Council Tax payments once, twice or thrice. This is by far the most common payment missed.

Fig 2: No of Times Participants Skip Council Tax Payment

As you can see in Figure 3, when asked about Council Tax, the majority of participants are of the view that it is clear what council tax is used for, however, they are not motivated to pay council tax, think council tax is unfair, and/or, most strongly, believe council tax should be simplified.

Fig 3: Views about, & attitude towards, council tax
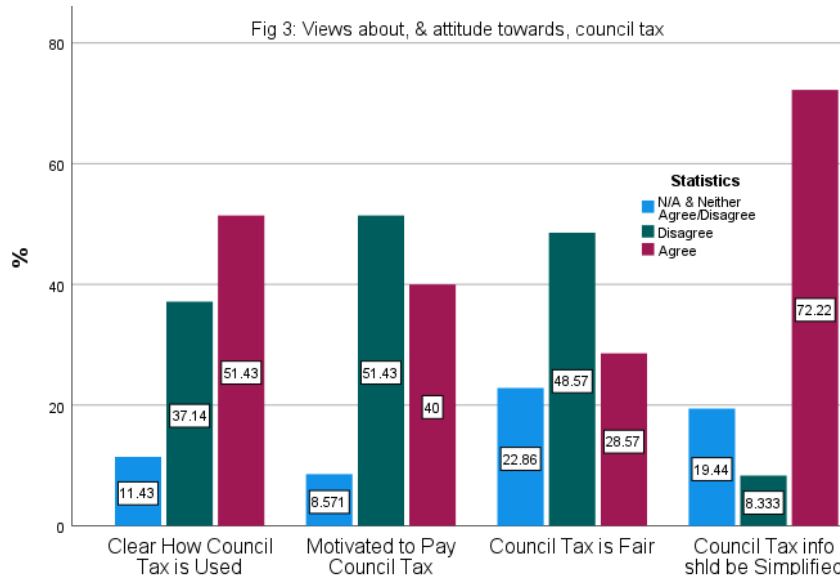
From responses to other council tax-related questions, respondents:

- Know that individuals are mandated by law to pay council tax (82.1%),

6

- Yet, say they know people who do not believe in paying council tax (53.8%),
- A minority say a default in council tax payment means you do not know how much you owe (13.9%), with nearly half disagreeing (47.2%) and many who neither (dis)/agree (38.9%).
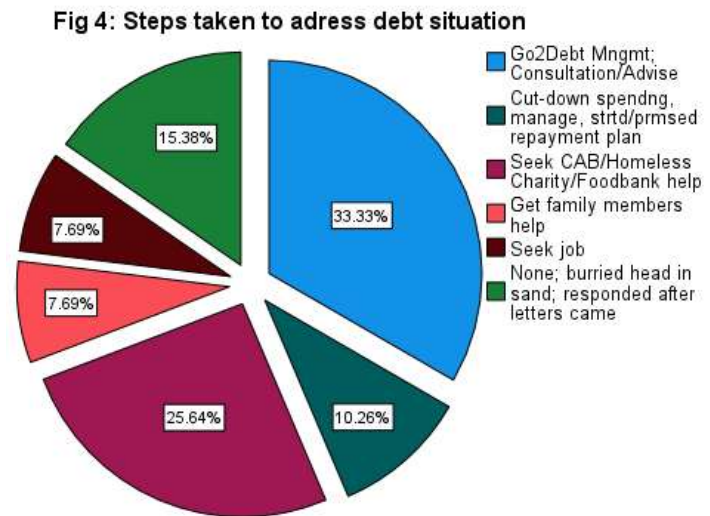
Debt Advice

A range of advice services exist for those struggling with debt. Unfortunately, not all participants sort debt advice. When asked for steps taken to address their debt situation, the highest proportion of respondents sought advice from debt management agencies (33.3%), followed by those who sought help from CAB/Homeless charity and/or foodbank (25.64%), as shown in Fig 4. It should be noted, however, that we recruited participants from debt management agencies, foodbanks etc. and so these numbers almost certainly over-estimate the proportion of people seeking advice. Indeed, *none* of the participants we recruited in Leicester city centre had sought any debt advice. This helps put our results in perspective.

That said, we explore further the sample collected from CAB/Foodbank and Homeless Charities because it gives us useful information to better understand why people in debt do not seek help, despite being in locations where help is offered. Specifically, a third of household/individuals with debt problems are in this category of not seeking debt advice. First, we focus on 'awareness' and 'impact' of debt advice.

Fig 4: Steps taken to adress debt situation

Legend:
- Go2Debt Mngmt; Consultation/Advise
- Cut-down spendng, manage, strtd/prmsed repayment plan
- Seek CAB/Homeless Charity/Foodbank help
- Get family members help
- Seek job
- None; burried head in sand; responded after letters came

Values: 33.33%, 10.26%, 25.64%, 7.69%, 7.69%, 15.38%

On awareness, that is, how those seeking advice find/searched for a debt advisor, respondents were:

- Referred by CAB/Council/Universal credit (30.8%) or friends (12.8%),
- Searched out advisors themselves via wall posters/online search (12.8%).

This clearly shows that majority of participants did not know that debt advice exist, a point further highlighted in our stylised facts below.

On impact of debt advice, respondents:
- Acted on the advice given (56.4%),
- Found the advice helpful (51.3%, with don't know and not applicable 35.9% and no/not sure 7.7%),
- Had great experience with debt advisers (56.4%, but not applicable 30.8% and disagreeing 10.3%),
- Have had their debt paid off and now able to manage their budget (35.9%), or had set-up a debt re-payment plan (33.3%).
- Unfortunately, have not achieved success (25.6%), primarily due to addiction to smoking/drinking and/or gambling.

Our findings show that most individuals who have sought debt advice found it useful. So, we should look elsewhere if we are to correctly explain the why majority of household/individuals in debt do not seek help. In probing this question we found that participants

- Prioritise spending that will help in repaying debt (66.7%) – so they skip some payments (mostly council tax, rent and borrowing from friends),
- Did not know they had unmanageable debt until the bailiff came (33.3%),
- Did not seek help immediately (53.8%). Only sought help when debt became unsustainable (48%) and letters started coming in (16%),
- Had not sought any help, despite being in debt (33.3% foodbank/CAB/homeless charity users, and 100% for other respondents),
- Hate to talk about their debt (35.9%);
- Did not know where to go for help (38.5%);
- Think early help could have been helpful (76.9%).

These findings were echoed by the expert interviews:

> "debtors don't seek immediate help. As a rule of thumb, it's usually the level of stress and anxiety that that person is feeling - that tips them over the edge of seeking advice." (Expert Interviews)

The debt managers/advisers we interviewed further summarised the reasons people delay seeking help as:

- Shame talking about debt: "It's quite personal; To discuss debt is a difficult subject, even with family and close friends"
- Fees/charges by some debt management companies put debtors-off
- Not being open enough asking for help is a common issue among young people
- "they bury their head in the sand … don't answer post, emails etc."
- Psychology of debt: unable to self-manage debt"
- Lack of digital literacy/skills stop some from accessing relevant debt information/help

Recommendations

In Figure 5 we depict a key finding of our research with, what we call, the debt cycle. This cycle reflects how easy it can be for an initial debt problem to escalate into a larger problem. The most effective way to break that cycle is for individuals struggling with debt to seek early advice. However, the various factors that can trigger debt and barriers to seeking early debt advice show that there is no simple, one-size-fits-all solution. Therefore, a number of well coordinated efforts must be implemented. Based on our findings, we recommend the following

- The quantity and quality of debt awareness and financial literacy training implemented across schools and communities needs to be improved. Effective training will require a coordinated approach that recognises the constraints faced by schools in terms of resource, time and skills. Partnership between voluntary services, schools, colleges, universities, community leaders and the City Council could help facilitate this.

- Given that mental health is a main trigger for unaffordable debt, the City Council, NHS and voluntary organisations should work together to provide more mental health support.
- Appropriate support needs to be in place for those who are illiterate and/or digitally illiterate. This was seen as a key barrier for individuals seeking support.
- An easier process for seeking early help needs to be introduced; such as a one-stop shop for help like POPED website being designed by DMU researchers. There are examples of good practice such as the Christmas-Homelessness-Provision.[4]
- There is need for an information simplification, dissemination, and awareness campaign relating to council tax, what it is used for and why it is important to pay.
- Prompt and personal responses to queries about council tax bills are needed. Those struggling with debt want to talk to someone and build a relationship of trust, yet the City Council was seen as anonymous.
- While there are excellent debt advice services in Leicester the demand is exceeding the supply. Universities can help in scaling-up, and increasing the scope of debt services in the city.

Fig 5: the debt cycle

- initial problem with payment
- re-financing from any source
- more debt over longer term
- some missed payments
- another crisis, cycle continues
- all options exhausted, then seek debt advice

Source: authors, 2022

---

[4] https://www.leicesterhomelessnesscharter.co.uk/news/food-provision