

FACING DEBT: **Economic Resilience** **in Newham**



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explores the relationship between financial planning and skills, credit and debt and the impact of welfare reform on Newham's residents. In a borough where incomes are significantly lower than the London average, the report highlights the struggle that both working and non-working households experience.

London School of Economics (LSE) Housing and Communities conducted in-depth interviews with 62 Newham residents between March and July 2013; and 60 households between October 2013 and January 2014, of whom 38 were from the original sample.

"I've never in my life gone without food. Three years ago was the first time I'd experienced that. Especially in England, you think it's not possible... I spent my early years in Kenya. I never starved there living with my parents. I came to England and never thought it was possible to go without food. But it is. For me, it was the worst experience ever."

Financial management skills and attitudes towards debt

The research demonstrates the resourcefulness of residents living on low incomes. Many interviewees were adept at reducing outgoings, actively finding cheaper ways to manage food, energy and other costs while maximising household income. Almost all respondents have access to bank accounts with a debit card, and more than half had savings accounts although few are able to save regularly.

Attitudes to debt vary, but for many it is a source of shame and embarrassment. Some participants accrued debts for essential living costs using credit cards for food, or securing hire purchase agreements for white goods. Others show a determination to stay out of debt, regardless of the personal cost. Such extreme caution could lead some to put off essential repairs, cut down on heating or even food.

The research reveals a sense of pride related to staying out of debt and awareness of the consequences of seeking credit from high cost lenders such as payday lenders. There was an overriding desire to work and be financially independent. However, those better able to cope were more likely to have received advice, had family they can turn to and have supportive neighbours.



Triggers of debt

Temporary, part-time and casual jobs without formal contracts which cause fluctuating incomes leave some households vulnerable to debt. Unexpected evictions and unexplained loss of rental deposits were also identified as a great strain on incomes and people's ability to meet the cost of living.

"Got a credit card from my bank, I don't know how. I had to pay two months upfront on this property so we had some cash and the rest I paid on the card, and now I'm struggling to pay that back, really."

Whether working or solely dependent on benefits, those on low incomes are often in financial difficulty and at constant risk of falling behind with priority bills. When living within such tight margins, small money worries can spiral into larger problems.

The lack of financial reserves among low income households makes people vulnerable to debt when living costs rise, or they have an unanticipated life event. The impact of sudden financial shocks such as job loss, bereavement, or mistakes in benefit payments affect wellbeing and people's ability to cope.

"Ordinary working people like me, you think, 'Have I got a roof over my head? Have I got food in my belly? Can I afford to switch the heating on?' And yes, I can afford all those three things at the moment, and my bank balance is slowly going up, instead of down. So at the moment I'm fine; but who knows? So, there is no security, really; but security has never really been my priority...I haven't got a pension... it's not worth it. If I live enough to be a pensioner... I'll be in poverty. But being a diabetic, drinking, smoking...I ain't gonna live that long past pension, to be fair!"

Overall competing demands and shrinking resources mean that despite best efforts, those surviving on low incomes are extremely vulnerable to debt. These issues shine a spotlight on broader structural problems, with people who are working just as vulnerable to debt as those who are not.

The impact of welfare reforms on people's lives and resilience

It is clear that welfare reform is greatly increasing people's insecurity, sometimes causing real hardship. The research identifies that by putting pressure on recipients and public services the changes are compounding economic problems.

It is often those in work or looking for work who are experiencing the most anxiety about changes to the welfare system. Respondents spoke of how the changes are generating harsh social conditions, with too little to pay for basic needs and a significant sense of shame.

"I'm even scared of actually signing on at the moment, because I know that they are putting pressure on people in a really big way, and in my mental state I cannot take that pressure. So, I'm probably losing out on some benefits [like Job Seekers Allowance], but I don't want that pressure. It's stressful days. At some point you can feel suicidal"

Local authorities across the country have faced significant cuts to funding and have also had to administer and respond to a range of national policies. While Newham is committed to helping those who are negatively affected, the borough is limited by financial constraints. The council has publicly opposed many of these reforms and made clear its concerns about the impact these changes are having on local people.

"At the time, I had two choices: one was to go onto Employment Support Allowance, and go to the Jobcentre a lot – but I have a phobia about the Jobcentre... jumping through hoops, pretending to apply for jobs that don't exist... I can't do it, I won't do it. It's absolutely soul destroying: it takes away the last bit of confidence you have got, so the only option is to go self-employed with my little part-time job. And that's what I've done'."



Access to credit

Without savings the ability to borrow becomes more of a necessity. Attitudes towards high cost payday loans were largely negative with some describing constant phone calls from companies offering access to “easy money” to entice those without access to funds. Others say they provide quick and non-judgmental access to credit.

“I pay £8.95 a week to BrightHouse for my washing machine. I’m never again gonna do it...it’s a rip off. I think that machine comes to like £1,300, by the time I’ll have paid for it”

“There is no one there to say: ‘Let’s put a stop to this, we will help you. I have got no one to borrow money from. Only Cash Converters. Christmas is coming and I’m gonna have to borrow money.”

Most of the interviewees had borrowed money to manage with a significant number using payment contracts for essential household items. One of the biggest problems for people was paying back debts they had accrued or paying for items bought on credit while meeting current bills. Most were aware of the cumulative interest and high final cost of goods bought on credit, but most felt there was no alternative.

For the full report, please visit www.newham.info

Newham is launching **MoneyWorks** to respond to these challenges. MoneyWorks will provide an affordable and ethical alternative to high cost payday lenders offering a better deal on credit and hire purchase offers. These affordable credit options will sit alongside good quality financial products, life changing advice, and emergency loans for those in crisis. Further details can be found at: **www.newham.gov.uk/moneyworks**

