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StepChange Debt Charity Scotland

www.stepchange.org

Trends in Debt Advice and Social Security

StepChange Debt Charity Briefing, Social Justice and Social Security Committee

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StepChange

StepChange Debt Charity advises between 30,000 – 40,000 Scots annually via our online and telephone advice processes. The charity provides free advice and debt solutions to support our clients in becoming debt free. StepChange is dedicated to creating a society free from problem debt. Our policy and research functions analyse the impact of problem debt on our clients and develops ideas on how to prevent and alleviate the pressures that drive households into problem debt.

Initial Impacts

The pandemic has had a profound financial impact on households across Scotland. As support measures such as furlough and £20 uplift to Universal Credit are withdrawn, the financially vulnerable face further disruption, uncertainty and significant risk of financial harm, particularly as increasing food and energy prices erode budgets still further over winter. As part of the advice process we assist clients in building a budget. So far in 2021, the proportion of clients with negative budgets (client in deficit after essential spending) has remained steady, decreasing slightly as the economy has tentatively reopened and support measures such as the £20 uplift have remained in place.

Table 1.1 Negative Budgets

	2020		2021 (Jan – Aug)	
	All clients	Vulnerable clients	All clients	Vulnerable clients
Clients in Negative budget	28%	32%	26%	30%

As part of the advice process StepChange asks clients what they believe to the main reasons for their difficulties. Although nearly one in ten (9%) of clients in 2020 cited Covid-19 (either suffering directly from the virus or its impact) as a main reason for requiring debt advice, many similar issues which affected clients before the pandemic continued to impact new clients throughout 2020. Experiencing unemployment or redundancy was the most common reason for debt among new clients in 2020, with nearly one in five (17%) citing this as a factor contributing to their problem debt. Many clients also cited other life events, such as experiencing an illness or health issue (11%); separation or divorce (7%) and reduced income or reduced benefits (16%). Other experiences such as feeling a lack of control over finances (18%) were also among the most common reasons for debt in 2020 and has remained consistent in 2021. In recent months as the economy has reopened the impact from reduced incomes and unemployment has pressed less severely than in 2020.

Uncertainty, and Covid-19 itself, remain consistent drivers of debt in 2021. This pattern of change in 2021 is due to the cushioning impact of increased economic activity and the positive impact of support measures.

Table 1.2 Client Identified Reasons for Debt

	2020		2021 (Jan – Aug)	
	All clients	Vulnerable Clients	All clients	Vulnerable Clients
Covid-19	9%	7%	9%	7%
Unemployment/Redundancy	17%	16%	13%	14%
Reduced Income/Reduced Benefits	16%	16%	12%	11%
Lack of control over finances	18%	17%	19%	18%
Separation/Divorce	7%	7%	6%	6%
Illness/Disability	11%	20%	8%	14%

Mental Health and Vulnerability

Table 1.3 Proportion of vulnerable clients with Mental Health conditions

Vulnerability group	Proportion of vulnerable clients 2020	Proportion of vulnerable clients 2021 (Jan – Aug)
Depression	13%	10%
Other mental health condition	17%	26%
Stress or anxiety	12%	10%
Suicidal tendencies	4%	6%

Problem debt has a devastating impact on client mental health. Mental health conditions are the leading vulnerable situation for clients. Increases in the proportion of clients in vulnerable situations in 2021 are largely down to this mental health impact. Support to address the mental health crisis must be seen as a component part of supporting those in problem debt.

The risk posed to client health and wellbeing is significant because of the pressures they are under. This places an adviser under significant stress as they try to provide the best support possible to clients in difficulty. While the impact on clients is paramount and must be alleviated, the impact of the problem debt/mental health crisis on adviser wellbeing should not be underestimated. Specialist training and support is required so that advice organisations can provide the best possible support to clients and colleagues.

Support Measures – Emergency Legislation

It is important to recognise the success of support measures such as furlough and lender forbearance (including forbearance shown by Government agencies). These measures cushioned the impact of financial shock for many households, and prevented others from going over the brink. However, despite the support many households are still at a cliff edge, their financial resilience eroded by the struggles over the past year. Other households who did not benefit from support measures still found themselves in difficulty. Many clients, already with the charity, who had been supported on to firmer ground, suddenly found themselves back in difficulty. Approximately 1/3 of approved Debt Payment Programmes had to be varied due to changes in client circumstances and a number of clients required to be re-advised, demonstrating the extent of the impact to those already financially vulnerable. Flexibilities built into statutory solutions, both pre pandemic and as part of emergency Coronavirus legislation enabled clients and advisors to navigate the difficult waters. The extension of the debtor moratorium from six months to six weeks, provided protection to clients from debt enforcement action, including freezing interest and charges. This period is critical to supporting those in problem debt and the introduction of a new term must work for clients in difficulty as well as for creditors and the Scottish Government (Accountant in Bankruptcy).

Support measures kept the wolves from the door for many, but not all were able to benefit from these protections, particularly the most vulnerable. Last year 48% of our clients were in a vulnerable situation in addition to their financial difficulty. So far in 2021, the proportion of our clients in vulnerable situations has increased to 53%, while support measures have still been in place. As these are withdrawn this proportion will increase.

For Universal Credit clients specifically, 29% of all clients in 2021 are on Universal Credit, but a higher proportion (34%) of vulnerable clients are in receipt of Universal Credit. The loss of the uplift will impact more vulnerable clients (see Table 1.4). The proportion of clients in both groups claiming UC has increased during 2021, particularly troubling given the pressures ahead for these households and despite other support measures in place. Still more clients in vulnerable situations who may not be eligible for Universal Credit are seeing pressures on their finances increase. The withdrawal of the uplift therefore places many more households at risk at this at crucial point.

Table 1.4 Proportion of Clients in receipt of Universal Credit

	2020		2021 (Jan – Aug)	
	All clients	Vulnerable clients	All clients	Vulnerable clients
Universal Credit	27%	33%	29%	34%

Additionally, to these pressures, we still see clients who are do not have access to their current entitlement as illustrated in the case studies below.

UC Client Case Studies Welfare Benefits -

1. Client is a single mother with children. Client is on Universal credit, Council Tax reduction Child benefits and Housing benefits. Client was worried about her income. Client was advised to claim, Scottish Child Payment, Early Learning payment, Spring payment, Best start food, Clothing grant and School free meal. Client was also advised to contact the Lone parent families Scotland charity for further help. Client stated that it was useful to know that the charity can help with other issues as a single parent. Client was also advised to contact foodbanks. Client stated that all the benefits were awarded. Client received £40 of Scottish child payment, 250 of early learning payment, 100 of spring payment, 17 of best start food, £120 of clothing grant and school free meal. Client's income was maximised more than £527monthly. Client was grateful and stated that we have made a change in her life.

2. A single mother who was on low income and was in receipt of Child benefit, Universal credit and Housing benefits. Client was worried about her income. Client wanted to know if there were other benefits available to maximise her income. The benefits check was done. Client was advised to claim Scottish Child Payment (SCHP), Early learning payment, (ELP), school age payment and free school meals. Client was also advised to claim Council Tax Reduction. Client stated that all the applications were successful. Client received £250 of ELP, £40 of SCHP. Once the child starts the school, client will be entitled to free meal and £250 of school age payment. The Council Tax Reduction application was successful. The income has been increased up to £540.

More information on these options, particularly newer payments needs to reach clients as this could help prevent clients falling deeper into difficulty.

Forbearance and Priority Arrears

Forbearance measures by lenders, such as mortgage holidays were a significant intervention and allowed many homeowners to marshal their resources to sustain financial shocks in the past year. However, renters did not have the protections of any such facility. Over 71% of StepChange clients in 2021 are renters. The ban on evictions allowed those who had fallen behind to stay in their homes, but those tenants remain in a worsening spiral of debt. Initiatives such as the Tenant Support Hardship Loan Fund can be part of a prevention strategy to avoid households having to turn to high cost credit to bridge the gap A no interest loan scheme provides an alternative to high-cost credit but needs to be available at the early point of difficulty. There has been low public awareness of the loan fund and it may not be an option for those already in greatest difficulty. The announcement of the Tenant Support Hardship Grant pairs well with the loan fund, giving those in greater need assistance where even a no-interest loan may not be appropriate. This must be in place beyond the short term as the impact of financial shocks can ripple for a significant length of time. Funding beyond the initial £10m should be made available to extend the grant fund beyond the immediate future to provide a safety net over a longer period. Further information following the announcement of the grant fund has not been made available at time of writing. Planning to introduce this must be accelerated to ensure the grant is in place to support households facing challenges over winter. Polling conducted for StepChange by YouGov[1] in early 2021 showed a substantial impact on renters, who make up the vast majority of StepChange debt advice clients. Additionally such schemes need to look at the wider difficulties those in problem debt face with essential bills. over 58% of clients in 2020 were behind on at least one utility bill. Vulnerable clients were in a far more precarious position with nearly three quarters (71%) in arrears with one utility bill. Utility costs and Council Tax bills have been a mounting pressure alongside rent arears and present acute challenges to households. Clients may often exhaust the credit available to them to meet these commitments, recognising the importance of these bills to their security and safety.

Table 1.5 Average arrears on essential household bills

	2020		2021 (Jan – Aug)	
Arrears type	Average client arrears	Average vulnerable client arrears	Average client arrears	Average vulnerable client arrears
Mortgage	£3,667	£3,726	£3,514	£4,023
Rent	£1,230	£1,243	£1,300	£1,294
Council Tax	£1,975	£1,974	£1,690	£1,615
Electricity	£1,239	£1,259	£1,198	£1,213
Gas	£823	£850	£775	£734
Dual Fuel	£1,100	£1,091	£1,098	£1,114

As Table 1.5 Illustrates, average arrears on essentials in 2021 are already equal to or outstripping 2020 figures. (Utility costs are lower in summer so especially likely to increase). More comprehensive

[1] Total sample size was 1,045 adults. Fieldwork was undertaken between 23rd - 26th February 2021. The survey was carried out online. The figures have been weighted and are representative of all Scotland adults (aged 18+).

assistance will give households the room to manoeuvre as they get themselves back on their feet. Therefore, the grant scheme should consider supporting with additional priority bills that face applicants. Providing more holistic support with these will give those in difficulty a real prospect of recovery.

Council Tax debt has long been a concern for advice organisations due in part to penalties for non-payment which leave client finances deeper in the red and far harder to balance. Council Tax has been a source for difficulty for over two fifths (40%) of our clients consistently for the past five years. To address these harms, the Scottish Government must work with Local Authorities to create binding set of fair recovery practices and processes to allow for non-penalising recovery of debt and arrears to ensure that individual hardships are not exacerbated by enforcement action. A unified structure of debt recovery that allowed for mechanisms for repayment and involved advice would give public sector creditors helpful guidance on the right approach to take and could avoid or minimise the need for expensive recovery activity that had a detrimental effect on clients. The Scottish Government should also investigate further relief mechanism for Council Tax debt, supporting local authorities to lift the burden of Council Tax on those who are unable to pay it. Aligning reductions to water sewerage charges with Council Tax Reduction, s that those fully exempt from Council Tax are also exempt from these charges would also help alleviate the pressure on the most vulnerable households.

Arrears on essential bills, especially Council Tax, pre-date the pandemic and have been increasing every year for too long. More than two in five (43%) of our clients were behind on their Council Tax in 2021 and polling* (YouGov, Feb 2021) indicated 5% of Scots, 220,000, have fallen behind on Council Tax. As well as acting on the drivers of these debts and intervening on tenant hardship, the Scottish Government must address prevention and act to improve how arrears on essentials are collected to avoid further entrenching the severe crises that too many households face in Scotland.

Impact on households

The financial impact of the past year will cast a long shadow of financial vulnerability. Households have depleted their reserves and may be at an end of their financial resilience. These impacts will leave households vulnerable to future events and many others now face this detriment in the immediate future. The coming winter presents further potential difficulties, with the withdrawal of the £20 uplift, rising energy and food costs, and a mounting crisis of rent arrears all presenting further challenges to households in and out of work alike.

StepChange has advised an increasing proportion of younger clients in 2020, more likely to be renting, or in precarious work most impacted by the pandemic. In 2020, 43% of all clients were aged 25-39 up from 35% in 2019. This increase is likely linked to the greater impact from the pandemic on this age group compared to others. The proportion of clients under 25 also increased from 11% to 13%. Over 56% of new clients are aged under 40. The proportion of clients over 40 decreased by 9% during 2020. As demonstrated by Table 1.6 these trends have continued in 2021, with the proportion of those aged 25-39 seeking advice increasing.

Table 1.6 Proportion of clients per age band

	Under 25	25-39	40-59	60 plus
All clients 2020	13%	43%	35%	9%
Vulnerable clients 2020	11%	38%	39%	11%
All clients 2021 (Jan – Aug)	11%	44%	36%	9%
Vulnerable clients 2021 (Jan – Aug)	11%	40%	38%	11%

As with recent years, the charity continued to advise a disproportionate number of lone parents in 2020. Two in five (18%) clients were single parents. Steps must be taken to get as much support as possible as soon as possible to struggling or vulnerable households. This should involve doubling of the Child Payment as soon as possible. The financial pressure on households with children - particularly on lone parents - has been significant and the proportion of our clients with children in 2021 has increased to 39%.

Table – 1.7 Household Composition

	2020		2021 (Jan – Aug)	
	All clients	Vulnerable clients	All clients	Vulnerable clients
Couple with children	20%	16%	20%	16%
Single with children	18%	18%	19%	19%
Couple without children	16%	16%	16%	16%
Single without children	47%	50%	45%	49%

Households with children

Thus far in 2021, vulnerable clients with children are predominantly (75%) female, 5% higher than the female proportion for all clients with children. 55% of vulnerable clients with children are aged 25-39, predominantly in their mid-30s to late 40s. Women make up 82% of lone parents contacting the charity in 2021.

39% of all clients with children in 2021 have a negative budget, an increase from 37% in 2021. This is significantly greater than the proportion of all clients with negative budgets (see Table 1.1) and illustrates the enhanced challenges that families with children have faced with problem debt.

Priority families

The pressure on households is well illustrated by the impact on the Scottish Government 'priority family' groups. Table 1.7 shows Jan-March 2021, and all groups show significant average levels of arrears on bills and a significant proportion of these groups behind with key bills. While the percentage of all clients in arrears is certainly high (over 60% for all three months), these specific priority groups are struggling with essentials to an even greater degree.

Table 1.8 Priority Family types with Children, average arrears and percentage clients in arrears.

Household Type		Jan	Feb	Mar
3 plus children households	Average Arrears Balance	£5,448	£7,754	£7,708
	% clients in Arrears	67%	77%	65%
Mothers under 25	Average Arrears Balance	£3,747	£4,710	£2,390
	% clients in Arrears	82%	71%	88%
Lone parents	Average Arrears Balance	£3,943	£6,046	£4,725
	% clients in Arrears	70%	77%	76%
All clients	*% clients in Arrears*	*63%*	*65%*	*63%*

Debt solutions and Advice

It is welcome that the Scottish Government has made its emergency revisions to the fee structure in bankruptcies permanent, but the Scottish Government must look carefully at the debtor moratorium and establish the correct time period for this. The current emergency provision is 6 months, up from 6 weeks. There must be steps taken to permanently lengthen the period to a term that works for households in problem debt. The Scottish Government must also retain its commitment to maintain access to statutory solutions and ensure that these solutions remain fit for purpose and correspond to wider Scottish Government programmes to support priority family groups and reduce child poverty. Further steps to bring forward emergency payments, scheduled welfare payments and other key measures must be brought forward where possible to support households through the coming months. Advice services will face rising demand in the immediate and the long term and will require support to meet this need, as forbearance measures end, and wider economic pressures continue to be felt.

All governments across the UK have made sustained efforts to get help to where it is needed – recognising that those who have been impacted by Covid should not have to struggle alone. This work is not over and people in problem debt require long-term commitments on preventing people falling into difficulty in the first place and ensuring that adequate and provisioned support is there when they do.