StepChange Debt Charity Scotland

Scotland in the Red

Personal debt in Scotland January - December 2020

Summary

The Covid-19 pandemic has had a substantial impact on personal finances across Scotland and the UK. Research by StepChange and others shows that many households are facing growing levels of personal debt or find themselves at risk of financial difficulty[1].

However, this has not yet translated into demand for full debt advice, mainly as a result of UK Government support measures including the furlough scheme, and forbearance measures such as payment holidays. Instead, the charity saw more clients move from requiring long term support and solutions to emergency support.

StepChange Scotland helped over 31,500 people, including new and returning clients as Covid-19 impacted households across Scotland.

25% of all bankruptcy applications awarded by the Accountant in Bankruptcy were advised and supported by the charity. This latest report from StepChange highlights the demographic and debt situations of new clients who first completed a full debt advice session between January and December 2020. During this time, **11,254 new Scottish clients completed a full debt advice session**. Many of our clients face additional challenges that can often complicate, exacerbate, or in some cases trigger income shocks that result in problem debt or leave the individual with greater vulnerability to debt.

Nearly half (48%) of new debt advice clients were in a vulnerable situation in addition to their financial difficulty at the time of advice. This proportion has marginally increased from 47% in 2019. A 'vulnerable situation' includes physical health conditions, mental health conditions, learning disabilities, sight or hearing difficulties and other situations which can make dealing with problem debt particularly difficult. Where available we have included data for vulnerable clients adjacent to all client statistics to illustrate differences between this group and all clients.

Methodology Note

In 2019, the charity commenced the roll out of a new online and telephone debt advice data capture system, Pulse. The statistics in this document, unless otherwise stated, are based on **6,443 Scottish clients** who sought full debt advice in 2020 through Pulse. Comparisons are therefore between this 2020 sample of clients and historic data is based on our legacy telephone system. Previous editions of Scotland in the Red have been restricted to telephone advice clients only. Historically online clients have been younger, had more debt and higher earnings than telephone clients. Pulse also allows us to report on several additional categories which appear in this edition of Scotland in the Red for the first time.

Scotland – Key Statistics

Nearly three in five (56%) of clients were under 40, a jump of 10% on 2019. 25-39 year olds are now the largest client group.

Nearly half (48%) of clients had an additional vulnerability.

One in five (18%) of clients were single parents, compared to 2% of the wider Scottish population[1].

Three in five (59%) of clients were renting, nearly a quarter (24%) were renting privately. Average rent arrears have rocketed by £370, an eye watering 43% increase since 2019.

Three in five (58%) clients were female. 62% of additional vulnerable clients were female.

Council Tax arrears remain prevalent, with more than two in five (43%) clients behind on this bill.

1. In 2019, there were an estimated 144,000 lone-parent families with dependent children in Scotland, which is 25% of all families with dependent children. This is 2% of the Scottish population. 'Child Poverty in Scotland', NHS Health Scotland http://healthscotland.scot/media/3133/child-poverty-in-scotland_priority-groups_lone-parent-families_briefing.pdf

Reasons for debt

Although one in ten (9%) of clients cited Covid-19 (either suffering directly from the virus or its direct 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.

A fifth of vulnerable clients sited illness and disability as the main reason for debt. Reduce income and reduced benefits is also cited as a significant reason for debt for vulnerable clients, a matter of concern given vulnerable clients are more likely to be in receipt of Universal Credit. These clients may lose out further if the £20 uplift to Universal Credit is withdrawn as planned in September 2021.

Most common reasons for debt among new StepChange clients – 2020

Reason for debt	All clients	Vulnerable clients
Covid-19	9%	7%
Unemployment/Redundancy	17%	16%
Reduced Income/Reduced Benefits	16%	16%
Lack of control over finances	18%	17%
Separation/Divorce	7%	7%
Illness/ Disability	11%	20%
Other	22%	17%

Our clients

Nearly **one third** (32%) of vulnerable clients had a **negative budget**, with an average monthly deficit of £314.

Over 28% of the charity's new clients in 2020 had a negative budget after proceeding through the charity's advice and budgeting process.

Clients with negative budgets

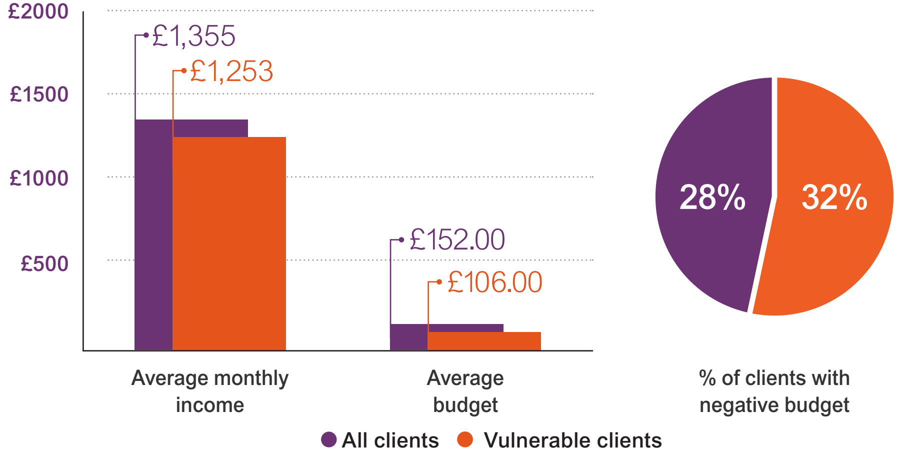
Income, expenditure and surplus

Following yearly fluctuations in the average (mean) monthly net income amount over recent years, there was a marginal increase in 2020.

The reason for this increase is partly compositional, reflecting the inclusion of online clients as well as telephone clients. Clients accessing advice online have historically recorded higher incomes and expenditure levels.

The change in client budget surplus/deficit may be down to emergency measures to support incomes, and also down to our systems change which has also altered the reporting mechanism for Scotland in the Red (See methodology note).

Average (mean) client monthly net income and expenditure 2020



Social security

2020 saw an increasing in the proportion of Scottish clients in receipt of welfare benefits.

Over half (54%) of clients were in receipt of benefits – including child benefit. Over a quarter (27%) of clients were in receipt of Universal Credit. This proportion increased over the course of the year, reflecting the trend in the overall rise of Universal Credit claims across the UK.

Unsurprisingly, vulnerable clients were more likely to be in receipt of DLA/PIP (20%), Universal Credit (33%) and ESA (14%).

Clients in receipt of benefits

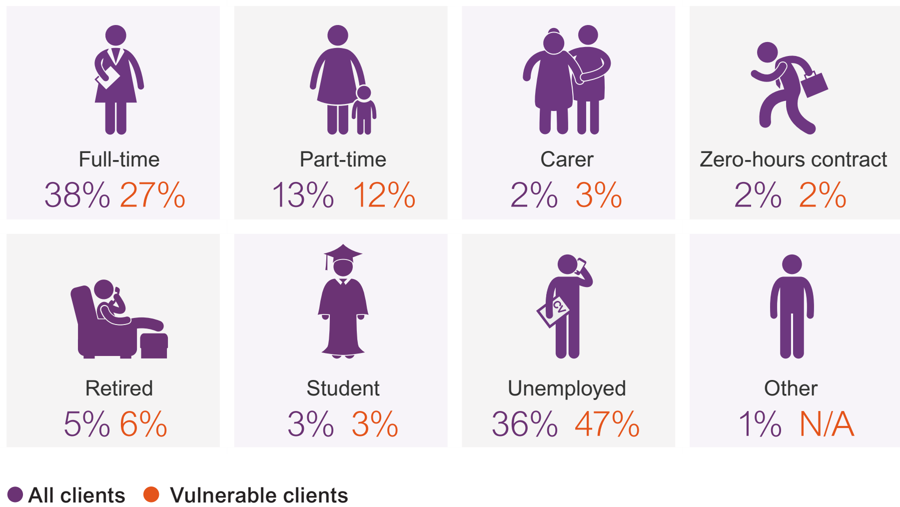
Name	All clients	Vulnerable clients
All Scotland (excl child benefit)	54%	64%
Child benefit	25%	24%
Income support	2%	2%
Child tax credit	7%	6%
JSA (contribution based)	1%	1%
DLA/PIP (adult)	11%	20%
DLA/PIP (child)	2%	2%
Universal Credit	27%	33%
ESA	8%	14%
Working tax credit	2%	2%

Employment status of new clients

Despite advising a growing proportion of clients citing unemployment as a reason for debt, and an increase in clients receiving Universal Credit, last year most new clients were in a form of employment at the time of advice (51%).

Research recently conducted by the charity highlights the adverse effects that the pandemic has had on those in employment, with many experiencing income shocks such as reductions in income or working hours. Nearly half of vulnerable clients (47%) were unemployed, with 39% in a form of employment at the time of advice.

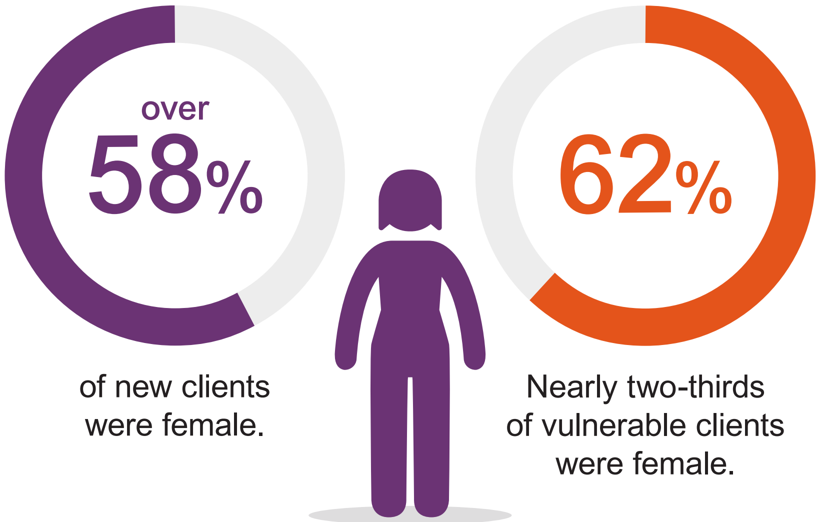
New clients 2020 (%)



Debts and arrears

Gender

Although the pandemic is more likely to cause women greater risk of financial difficulties, the charity has advised a greater proportion of women than other genders for many years prior to the pandemic. 2020 was no exception; in fact this gap widened, perhaps illustrating the greater economic impact of the pandemic on women.



of new clients were female.

Nearly two-thirds of vulnerable clients were female.

Age

Age groups: new clients (%) - 2020

Age group	All clients	Vulnerable clients
Under 25	13%	11%
25-39	43%	38%
40-59	35%	39%
60 plus	9%	11%

In 2020, StepChange advised a greater proportion of new clients from younger age groups compared to previous years. 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.

Housing and family composition

Housing

Like before the pandemic, the charity has proportionally advised more renters (59%) than homeowners (21%).

Nearly two-thirds (65%) of all vulnerable clients are in rented accommodation.

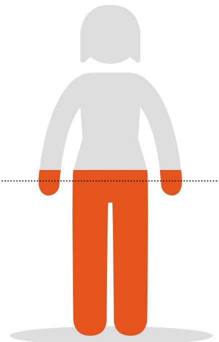
Clients housing tenure

	Clients - 2020 (%)	
Housing Group	All	Vulnerable
Mortgage	19%	15%
Own Outright	3%	3%
Rent – Housing Association	14%	16%
Rent- Local Authority	21%	25%
Rent – Private	24%	24%
Board/living with family	16%	14%

Family composition

As with recent years, the charity continued to advise a disproportionate number of lone parents. Two in five (18%) clients were single parents, compared to 2% of the wider Scottish population.

Half of all 'Vulnerable clients' were 'Single without children'.



50% compared to 47% of 'all clients'.

Family Composition 2020	All clients	Vulnerable clients
Couple with children	20%	16%
Couple without children	16%	16%
Single with children	18%	18%
Single without children	47%	50%

Debts and arrears

Average unsecured debt

Average unsecured debt has **increased sharply** during 2020; from £11,712 in 2019 **to £14,566** per new client in 2020, **an increase of 24%**. This may reflect the changed composition of the sample due to the new Pulse system.

2020: New clients with each debt type (%)

During 2020, vulnerable clients generally owed less across all debt types, other than catalogue debts where the average debt was £2,056 compared to £1,987 for all clients. These lower amounts for clients in vulnerable situations may reflect greater difficulty accessing credit for these clients.

Between 2019 and 2020 the proportion of new clients with overdraft debts fell by five percentage points (from 48% in 2019 to 43% in 2020). This follows a longer-term trend over recent years; however, this may have been accelerated partly due to temporary FCA rule changes and guidance for firms to better support consumers with overdraft debts during the pandemic.

There has also been a 2% rise in the proportion of clients with personal loan debts. In 2020, over half (53%) of clients held at least one personal loan debt at the time of advice, up from 51% in 2019.

Credit cards continue to be the most common debt type among new debt advice clients, with 70% holding at least one credit card at the time of advice. This is an increase of 5% when compared to 2019 Scotland in the Red sample. In 2020, the average debt owed on credit cards per new client was £7,962 an increase 24%, or £1,333 since 2019.

	Proportion of clients with debt type			Average debt balances		
	All clients	Vulnerable clients	Difference	All clients	Vulnerable clients	Difference
Personal Loan	53%	51%	↓ 2%	£8,574	£7,342	↓ £1,232
Credit card	70%	66%	↓ 4%	£7,962	£7,168	↓ £794
Overdraft	43%	42%	↓ 1%	£1,541	£1,451	↓ £90
Catalogue	36%	35%	↓ 1%	£1,987	£2,056	↑ £69
Payday loan	12%	12%	0%	£1,538	£1,505	↓ £33
Store Card	14%	14%	0%	£1,277	£1,238	↓ £39

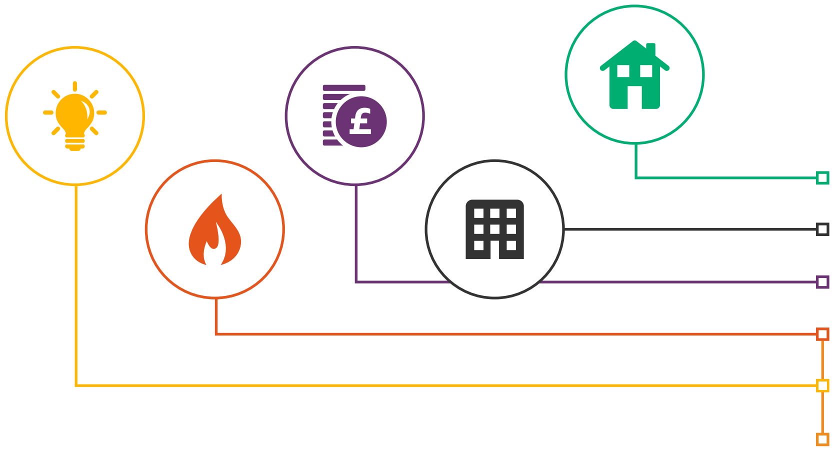
Arrears on household bills

Unlike falls in other monetary amounts, the average arrears on household bills remain a key challenge for clients, with client in arrears by £2,302. There have been marginal decreases in average arrears for Mortgages and Council Tax, but arrears on all other household bills have increased since 2019. Average arrears in rent have rocketed by £370 to £1,230, an increase of 43%, although the proportion of clients with rent arrears has dropped from 27% to 22%.

Utility arrears have also increased markedly, there has been a 36% rise in arrears on electricity bills to £1,239. Gas arrears have increased by 29% to an average of £823. The proportion of clients behind on these bills is detailed in the table below. Over 50% of clients are behind on at least one utility bill. This worsening picture on utilities highlights the greater difficulties people have faced during the pandemic, and the greater pressure on household budgets, a long-term trend.

Clients with a mortgage now make up a lower proportion of clients with a fall of 7%, likely due to a positive impacts of forbearance measures like mortgage holidays. Council Tax – which in Scotland includes water and sewerage charges - remains an acute issue for our clients with 43% of clients, and half **(51%) of vulnerable clients**, behind on their Council Tax, the most common individual household bill for clients to be struggling with. This is particularly concerning as collection practices can worsen debt problems for clients and lead to severe penalties.

Vulnerable clients owe similar amounts in Council Tax as all clients, which suggests that mitigations to help the vulnerable with Council Tax are insufficient. Clients eligible for Council Tax Reduction are still liable for water and sewerage charges. Clients can also apply for a maximum reduction of 35% for water and sewerage charges. Uptake and awareness remain a challenge and it is possible that many clients in receipt of a 100% reduction in their Council Tax are accruing arrears on Water and Sewerage.



	Proportion of clients with debt type 2020			Average debt balances 2020		
	All clients	Vulnerable clients	Difference	All clients	Vulnerable clients	Difference
Mortgage	20%	21%	↑ 1%	£3,667	£3,726	↑ £59
Rent	22%	27%	↑ 5%	£1,230	£1,243	↑ £13
Council Tax	43%	51%	↑ 8%	£1,975	£1,974	↓ £1
Electricity	25%	32%	↑ 7%	£1,239	£1,259	↑ £20
Gas	21%	28%	↑ 7%	£823	£850	↑ £27
Dual Fuel	33%	39%	↑ 6%	£1,100	£1,091	↓ £9

Conclusion

These statistics show the ongoing impact of financial difficulty on households, especially households in vulnerable situations. This is not a trend that began with the pandemic, but it has been accelerated and exacerbated by the impacts of Covid-19.

Whilst forbearance has allowed some households to prepare for, or weather the financial storms, the income shocks sustained by thousands of households in recent months will leave many financially vulnerable for years to come, even if they are able initially to avoid immediate detriment. Supporting households in difficulty and preventing them from failing into difficulty in the first place, must be a primary focus for the new Scottish Government through the new parliamentary term.

The following six points are areas that will go some way to addressing the difficulties for clients identified in this report.

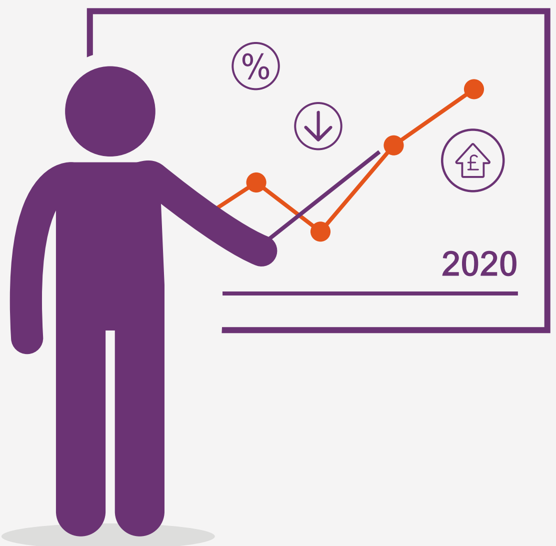
Our February polling* from YouGov shows that:

21% of Scots (over 920,000 people) have been **using credit** to make ends meet

4% or 176,000 have fallen **behind on Electricity** payments, up from 2% in autumn 2020

3% or 132,000 said they were **behind on Gas,** up from 2% in autumn 2020

7% said they had **borrowed to meet their rent or mortgage** payments over the last 6 months



5% or 220,000 have fallen **behind on Council Tax**

*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+).

Conclusion

1.

Keep the impetus for supporting people out of debt, post-Covid

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.

2.

Make some of the temporary support permanent

It is welcome that the Scottish Government has made its emergency revisions to the fee structure in bankruptcies permanent, but the new Scottish Government must look carefully at the debtor moratorium and establish the correct period of time 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.

3.

Build on the Tackling Problem Debt Advice Routemap

As the Debt Advice Routemap acknowledges there are significant and complicated factors behind the rise in problem debt in Scotland.

These are complex challenges that lie across multiple areas of government policy. The Scottish Government should therefore create a cross-government Problem Debt Strategy that looks beyond statutory solutions and debt advice funding; seek to engage across its departments and agencies, so that it addresses the drivers of problem debt and not just the post-crisis debt solutions.

This should involve reaching out to the wider advice and anti-poverty sectors and, in partnership, create a strategy to reduce the number of people using credit for essential households bills, emergency expenses and essential household goods; that addresses urban and rural poverty in relation to debt and that examines the wider drivers of Problem Debt in Scotland.

This would complement the work carried out on the Debt Advice Routemap and engage Scottish society in reducing the wider drivers of problem debt, which left so many critically vulnerable to the shocks of the pandemic.

Conclusion

4.

Deal with the Council Tax collection problem and recognise essential bills as a component of problem debt

A key challenge for many of our clients in recent years has not just been their commercial debts but their arrears on essentials. 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. Arrears on essential bills, especially Council Tax, have been increasing every year for too long.

More than two in five (43%) of our clients are behind on their Council Tax and our most recent 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, the new Scottish Government must address how they are collected to avoid entrenching the severe crises that too many households face in Scotland.

*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+).

5.

Focus on better alternatives to high cost short term credit.

Part of the Scottish Government's strategy should continue to involve alternatives to high cost short term credit. Many face significant challenges after 2020, and the sector must remain a viable alternative to high cost credit.

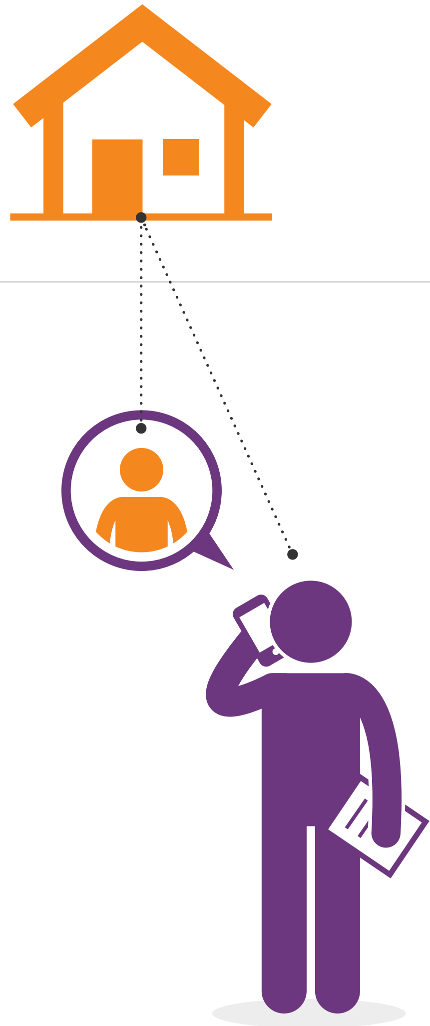
High cost credit or even borrowing from unregulated lenders can cause significant hardship and poverty within communities and families.

Although payday lending has slipped from the headlines in recent years, high cost short term credit remains an intractable problem for many households, 12% of our clients on average over £1,500 on payday loans. By ensuring the viability of alternatives, consumers can avoid damaging credit which will exacerbate their vulnerability to problem debt life shocks.

Conclusion

6.

Help tenants in debt to get back on their feet and keep their homes



While forbearance measures have helped many keep their heads above water, support for renters has been less consistent, and with essential bills mounting up, the new Scottish Government should see helping struggling consumers with these as a priority.

No interest loans could be a way to address some of these mounting arrears on essentials giving consumers an alternative to crippling high-interest costs.

The recently introduced Tenant Support Hardship Loan Fund is to be welcomed, but the £10 million initial funding will not go far enough. Client average rent arrears have rocketed by £370, an eye watering 43% increase since 2019.

The Scottish Government should also explore whether the fund could be widened to include Council Tax and utility arrears, which have been a significant debt problem for years. There is a pressing need that solutions be found to support those in this difficulty, over 58% of clients in 2020 were behind on at least one utility bill.

Vulnerable clients are at a far more precarious position with nearly three quarters **(71%) in arrears with one utility bill**.

More comprehensive assistance will give households the room to manoeuvre as they get themselves back on their feet.

Many thousands of households are looking at a prolonged period of difficulty, with complex financial challenges ahead. These vulnerabilities must be recognised by decision makers and made as straight forward as possible for households to navigate

Editor: Lawrie Morgan-Klein

If you require further information about this report, please contact us at policy@stepchange.org

If you think you might need debt advice, support with budgeting, or managing persistent debt, StepChange can help with expert advice.

Visit www.stepchange.org or call 0800 138 1111 Mon-Fri 8am-8pm, Sat 8am-4pm and take the first step towards taking back control of your finances.

Get in touch:

0800 138 1111 (Freephone)

www.stepchange.org

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StepChange Debt Charity Scotland