Scotland in the Red

2016

A statistical research report compiled by
StepChange Debt Charity Scotland

Contents:

In this report, we analyse data relating to our telephone clients only. We don't include data relating to clients who use the online Debt Remedy tool because these clients do not have to provide their postcode, which means that data cannot be assigned to a particular area of Scotland.

Introduction and key findings

Debt is a growing problem in Scotland. Over the past decade, a combination of stagnant wage growth and a rising cost of living has placed significant pressure on household budgets. In 2016, StepChange Debt Charity helped over 600,000 people across the UK with debt problems, the largest number in the charity's history.

In Scotland, that figure was nearly 17,000, with 8,287 clients calling the charity for help and 8,568 accessing our online help tool, Debt Remedy. The average debt of Scottish clients also increased, in a reversal of recent trends. In 2015, average debts were £12,256, but in 2016 that rose to £12,677. This trend was mirrored across the whole of the United Kingdom.

There is no single factor behind the rising demand for our service, but the information given to us by clients shows some clear, worrying trends:

People have less disposable income

Between 2012 and 2016, the average wages of Scottish clients increased by 8% - with a sharp jump in 2016. Previously, the increase between 2012 and 2015 was just 2.7%. Despite this, essential costs have risen faster than income and the average client budget surplus, that is to say the amount of money left in a client's budget after essentials have been covered, in Scotland has fallen from £20 in 2012 to just £7 in 2016. With the cost of living set to rise more rapidly than wage growth by 2020, the risk of people falling into debt is increasing.

Growing arrears on essential bills

The proportion of clients with arrears in key household bills - rent, electricity, gas and Council Tax – has risen from one in five to one in four, while the average arrears on household bills has increased by £398 between 2012 and 2016. The average amount owed on rent arrears has increased 23% between 2012 and 2016 while and the amount owed on electricity and gas arrears has risen by 34% and 31% respectively. Though the proportion of clients with mortgage arrears has decreased, the average amount of mortgage arrears has increased by 49% in the same period.

In particular, Council Tax arrears are a huge problem

Of all the key household arrears, the greatest problem is with Council Tax (including water and sewerage) - arrears, which have risen from 27% of Council Tax paying clients in arrears in 2012 to 40% in 2016. This has happened despite a 10-year freeze on Council Tax bills in Scotland. The average Council Tax arrears owed by clients has also increased from £1,338 in 2012 to £1,731 in 2016, an increase of 29%.

More people are in rented accommodation, fewer are homeowners

The proportion of the charity's clients living in rented accommodation has increased from 44% of all clients in 2012 to 56% in 2016. Private rented sector clients now represent almost one-quarter of clients, compared with less than one-fifth in 2012. Meanwhile, the proportion of clients with a mortgage has shrunk from 42% to 29% over the same period.

Client numbers

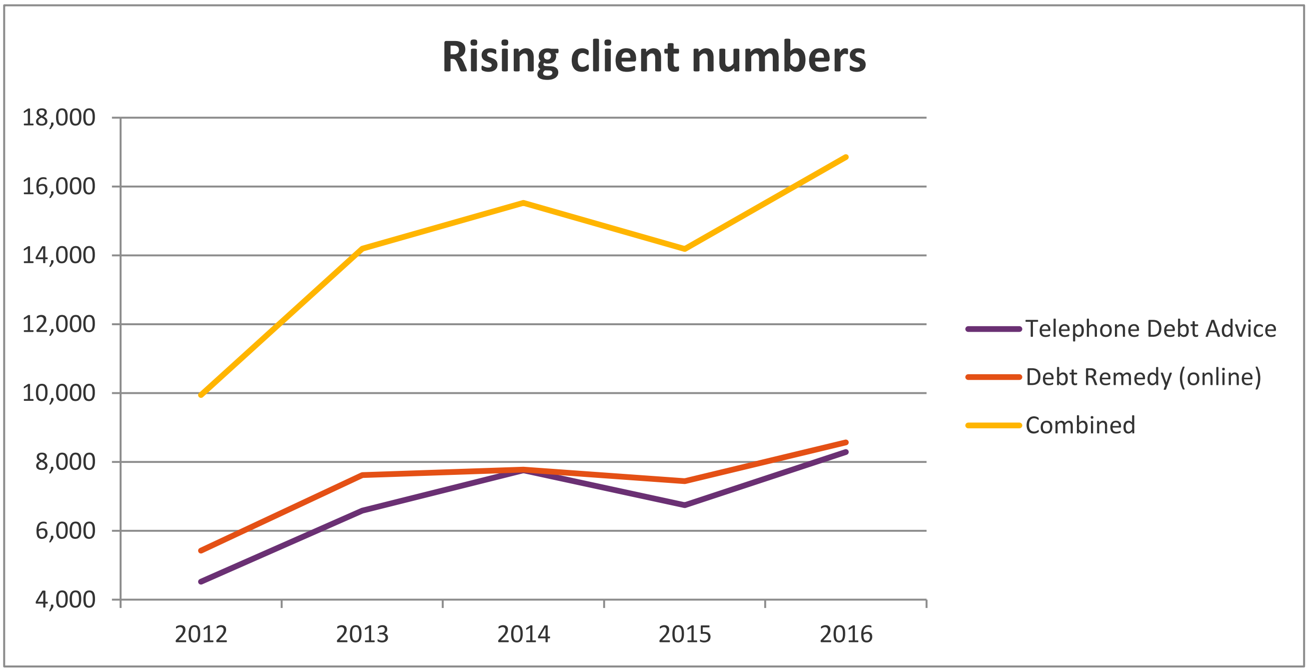
Record numbers contact StepChange Debt Charity for help

1.1 Client numbers	2012	2013	2014	2015	2016
Telephone debt advice	4,523	6,580	7,754	6,744	8,287
Debt Remedy (online)	5,422	7,612	7,771	7,438	8,568
Total	9,945	14,192	15,525	14,182	16,855

There was record demand for advice from StepChange Debt Charity in 2016. Across the United Kingdom, 599,026 clients contacted us for help – one person every 53 seconds.

In Scotland, the charity also recorded its largest number of clients in a year in 2016, with an average of 32 new clients calling the charity for help per day. In 2012, the charity employed six full-time, accredited Scottish advisors. Five years later, the charity now employs 33 full-time accredited Scottish money advisors, as the demand for the service in Scotland continues to grow.

The charity provides debt advice through two methods – telephone debt advice sessions and online debt advice sessions using our Debt Remedy tool. The statistics contained herein are based on data collected through telephone debt advice sessions only.



2. Income and Debt

2.1 Income and expenditure	2012	2013	2014	2015	2016	2012-2016 change
Average debt	£14,138	£13,533	£12,341	£12,256	£12,677	-£1,461
Average monthly income	£1,166	£1,193	£1,199	£1,198	£1,264	+£98
Budget surplus	£20	£24	£21	£4	£7	-£13
% of income spent on priorities	52%	47%	45%	48%	53%	+1

The average debts of clients telephoning the charity have decreased year-on-year since at least 2010, but the average debts of 2016 clients increased compared to 2015.

The average incomes of clients contacting the charity have been relatively stagnant, particularly between 2013 and 2015. We recorded a sharp rise in the average incomes of our clients in 2016 which puts the total rise over a 5-year period up to 8%. However, the change between 2012 and 2015 the increase was just 3%.

Regardless of the recorded rise in client incomes, there is evidence that their budgets are no more resilient as a result. Those who contact StepChange are taken through a budgeting process which helps us to identify how much money they have left after we have taken into account their income and essential expenditure. Their remaining budget surplus (or deficit) is how much money they have left to pay their debts. This surplus has been quickly evaporating in recent years. The average client in 2016 had only £7 left at the end of any given month, a two-thirds reduction on the 2012 figure.

The final figure in Table 2.1 shows that clients are now committing more than half their income on essentials like rent, mortgage, utilities and Council Tax bills.

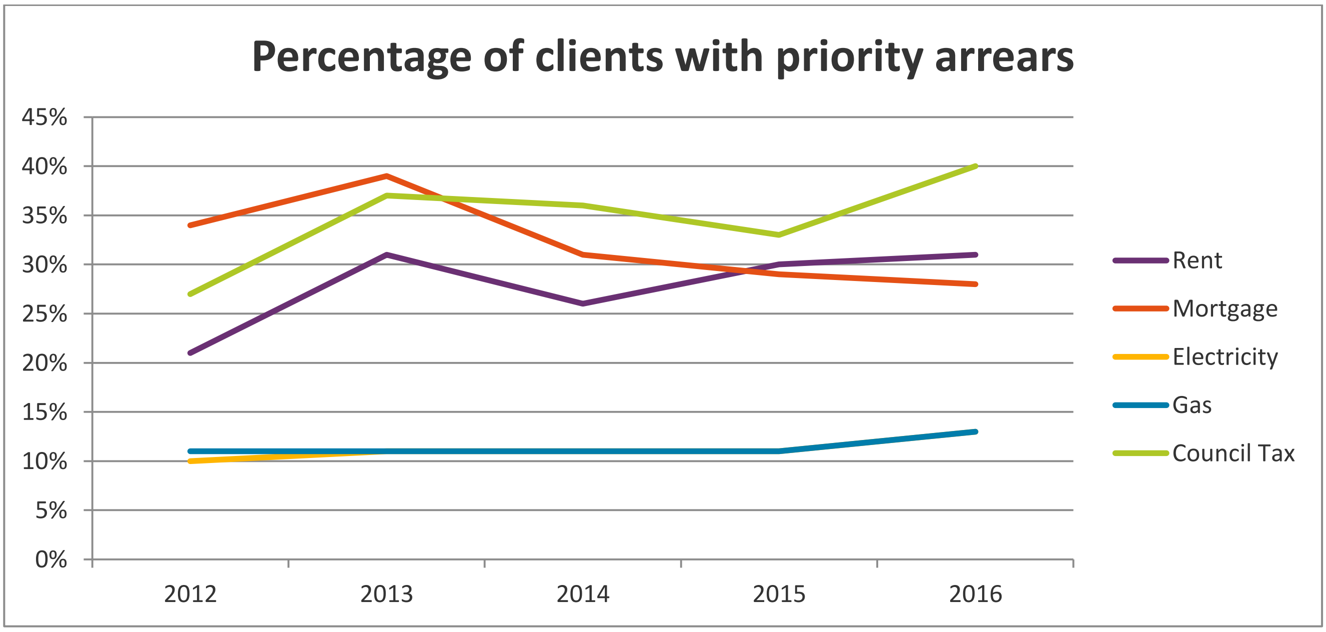
3. Household arrears

Percentage of clients

3.1 Arrears type	2012	2013	2014	2015	2016	2012-2016 % change
Rent	21%	31%	26%	30%	31%	+10
Mortgage	34%	39%	31%	29%	28%	-6
Electricity	10%	11%	11%	11%	13%	+3
Gas	11%	11%	11%	11%	13%	+2
Council Tax	27%	37%	36%	33%	40%	+13

The proportion of clients in arrears with essential household bills has increased between 2012 and 2016. The fastest growing problem area is Council Tax arrears (including water and sewage costs), which has risen from 27% in 2012 to 40% in 2016. Previously, mortgage arrears were the most common arrears type, at almost 40% in 2013. However, that has decreased considerably to 28% of mortgage clients in 2016.

Utilities arrears – electricity and gas – are lower than other key household priority debts and have increased at a slower rate.



Average value of household arrears

3.2 Priority type	2012	2013	2014	2015	2016	2012-2016 £ and (%) change
Rent	£575	£594	£692	£800	£706	+£131 *(+23%)*
Mortgage	£2,335	£2,611	£2,331	£2,323	£3,486	+£1,151 *(+49%)*
Electricity	£537	£543	£671	£710	£717	+£180 *(+34%)*
Gas	£436	£539	£537	£535	£569	+£133 *(31%)*
Council Tax	£1,338	£1,368	£1,592	£1,596	£1,731	+£393 *(+29%)*

The average amount of arrears owed by clients in five key priority household bills has increased between 2012 and 2016. A significant rise in the average amount owed on mortgage arrears between 2015 and 2016 accounts for mortgage arrears having had the largest rise of all household arrears.

Electricity and gas arrears in 2016 are one-third higher than the 2012 average. Though the proportion of clients in arrears with these bills has only marginally increased in the same period, clients who contact the charity with arrears in their utilities increasingly owe more year-on-year.

4. Consumer Credit debts

The trends in our consumer credit debt data shows that unlike household arrears, the prevalence and level of consumer credit has been declining over recent years.

Table 4.1 shows that the most common types of consumer credit debt among our clients in 2016 are credit cards and overdrafts. The proportion of clients with debts owed on credit cards has decreased slightly from 68% in 2012 to 64% in 2016. Meanwhile, there has been a significant reduction in clients with overdraft debts, from 71% in 2012, the most common debt type of that year, to 54% in 2016 – 17 percentage points less. This is a different picture from the UK as a whole, where the prevalence of these two major debt types has remained steady.

The only debt type to have increased over the five year period is catalogue debts, which is up to 39% in 2016 from 32% in 2012.

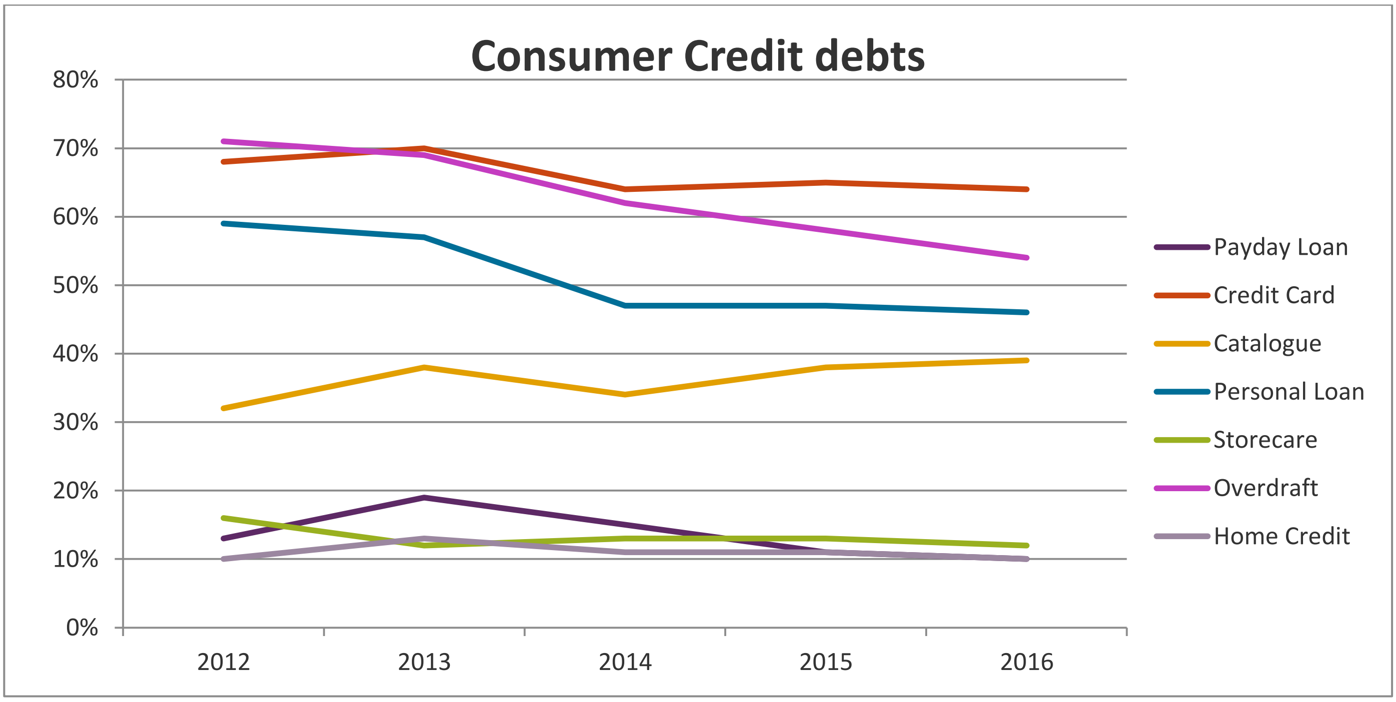
Percentage of clients

4.1 Debt type	2012	2013	2014	2015	2016	2012-2016 % change
Payday Loan	13%	19%	15%	11%	10%	-3
Credit Card	68%	70%	64%	65%	64%	-4
Catalogue	32%	38%	34%	38%	39%	+7
Personal Loan	59%	57%	47%	47%	46%	-13
Storecard	16%	12%	13%	13%	12%	-4
Overdraft	71%	69%	62%	58%	54%	-17
Home Credit	10%	13%	11%	11%	10%	-

Average value of Consumer Credit arrears

4.2 Debt type	2012	2013	2014	2015	2016	2012-2016 change
Payday Loan	£1,399	£1,454	£1,377	£1,146	£1,215	-£184
Credit Card	£8,163	£7,542	£7,332	£7,330	£7,519	-£644
Catalogue	£1,631	£1,720	£1,981	£1,863	£1,848	+£217
Personal Loan	£8,704	£8,075	£8,004	£7,955	£7,481	-£1,223
Storecard	£1,094	£958	£1,139	£1,091	£1,054	-£40
Overdraft	£1,750	£1,686	£1,649	£1,482	£1,585	-£165
Home Credit	£1,650	£1,578	£1,593	£1,558	£1,514	-£136

Table 4.2 shows that the average arrears on all consumer credit debt types except for catalogue fell. The biggest falls were in personal loans – down £1,223 to £7,481 in 2016 compared to 2012, and credit cards which have declined by £644 to £7,519 in 2016. Average catalogue debts have increased over the same period by £217 to £1,848 in 2016.



5. Demographics of debt

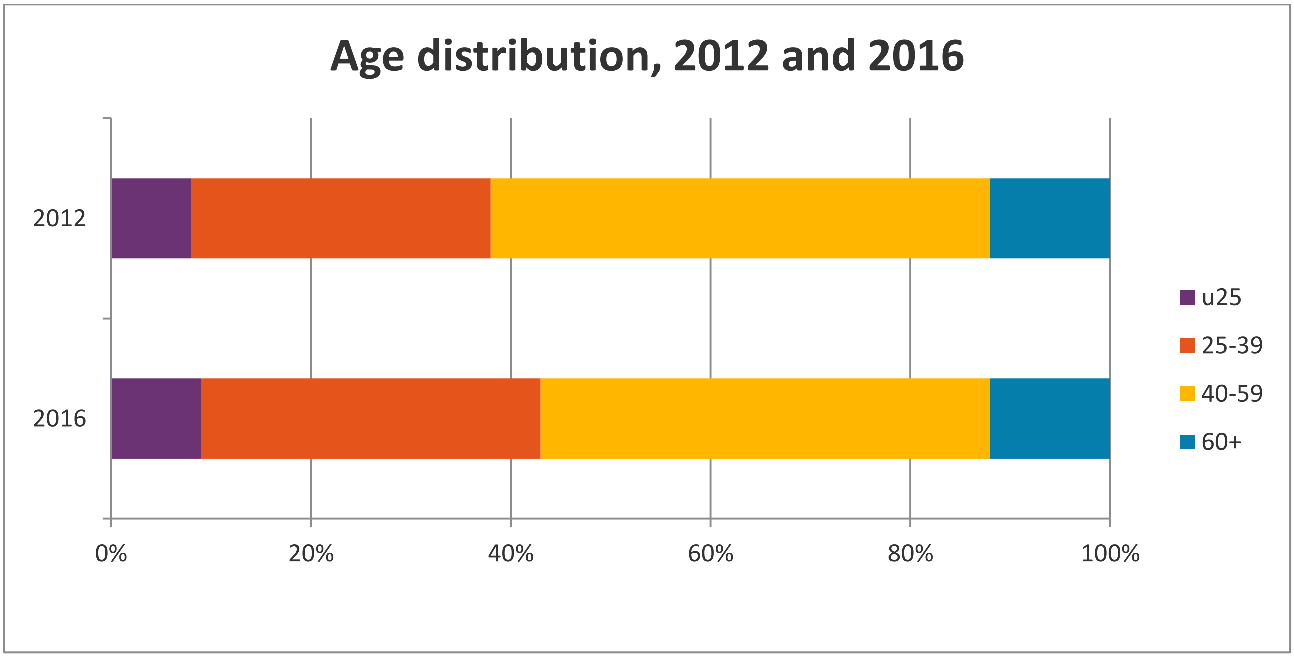
Clients by age

5.1 Age group	2012	2013	2014	2015	2016	2012-2016 % change
Under 25	8%	10%	9%	10%	9%	+1
25-39	30%	30%	30%	33%	34%	+4
40-59	50%	49%	48%	45%	45%	-5
60 and over	12%	11%	13%	12%	12%	-

The most common age banding of clients is the 40 to 59 age group. In 2016, clients in that age bracket made up 45% of all phone calls to StepChange Debt Charity in Scotland. Clients in the 25 to 39 age bracket made up 34% of clients, while there is little shift at either end of the scale, with under 25 and 60 plus age groups relatively at around one in every 10 clients.

As indicated in Table 5.1, our client base is younger in 2016 than in 2012. In 2012, there were 20 percentage points between the 25-39 and 40-59 age brackets, but in 2016 that gap has shrunk to just 11 points. Clients aged 39 or less now make up 43% of the total client base (up from 38% in 2012).

The average age of a client in 2012 was 44 and in 2016 that has decreased to 42.

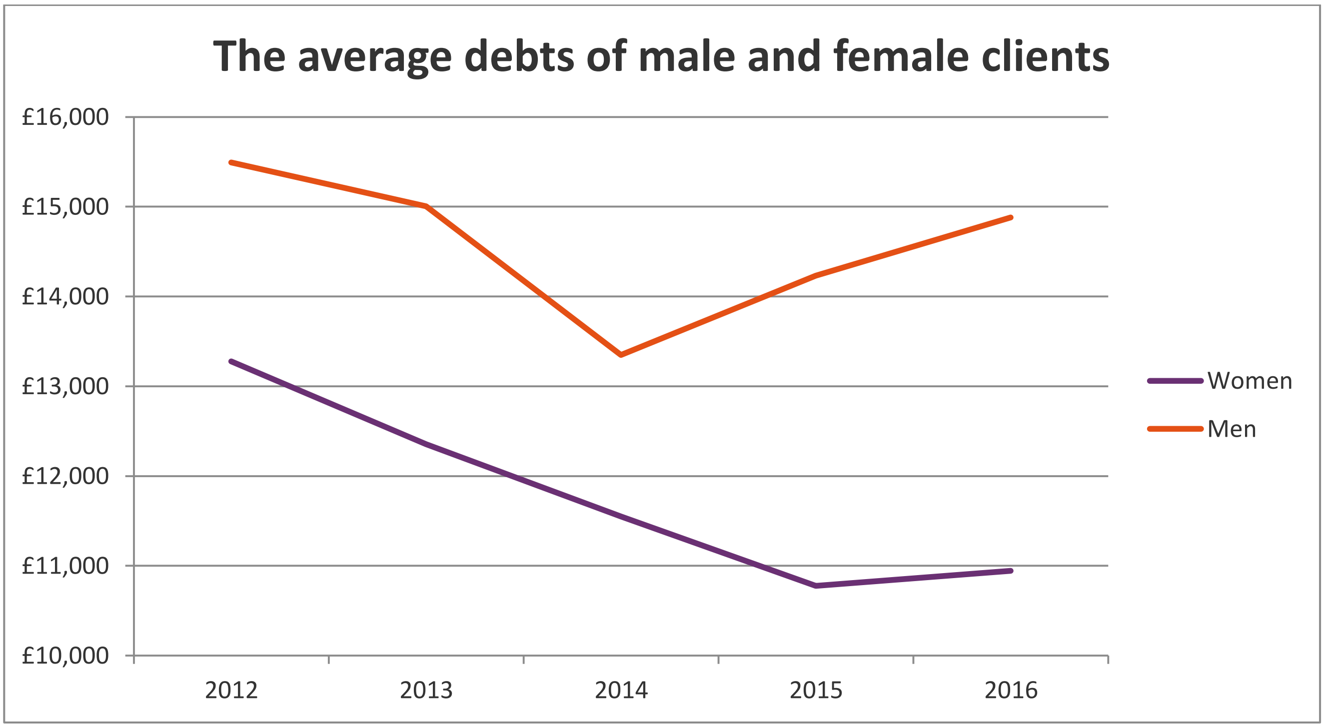


Clients by gender

5.2 Gender	2012	2013	2014	2015	2016	2012-2016 change
Female (%)	54%	56%	56%	57%	56%	+2%
Male (%)	46%	44%	44%	43%	44%	-2%
Female (average debt)	£13,276	£12,353	£11,549	£10,778	£10,945	-£2,331 (-17%)
Male (average debt)	£15,494	£15,055	£13,349	£14,233	£14,881	-£613 (-4%)

Women are consistently slightly more likely to contact the charity than men. Between 2012 and 2016, the gap widened marginally as shown in Table 5.2.

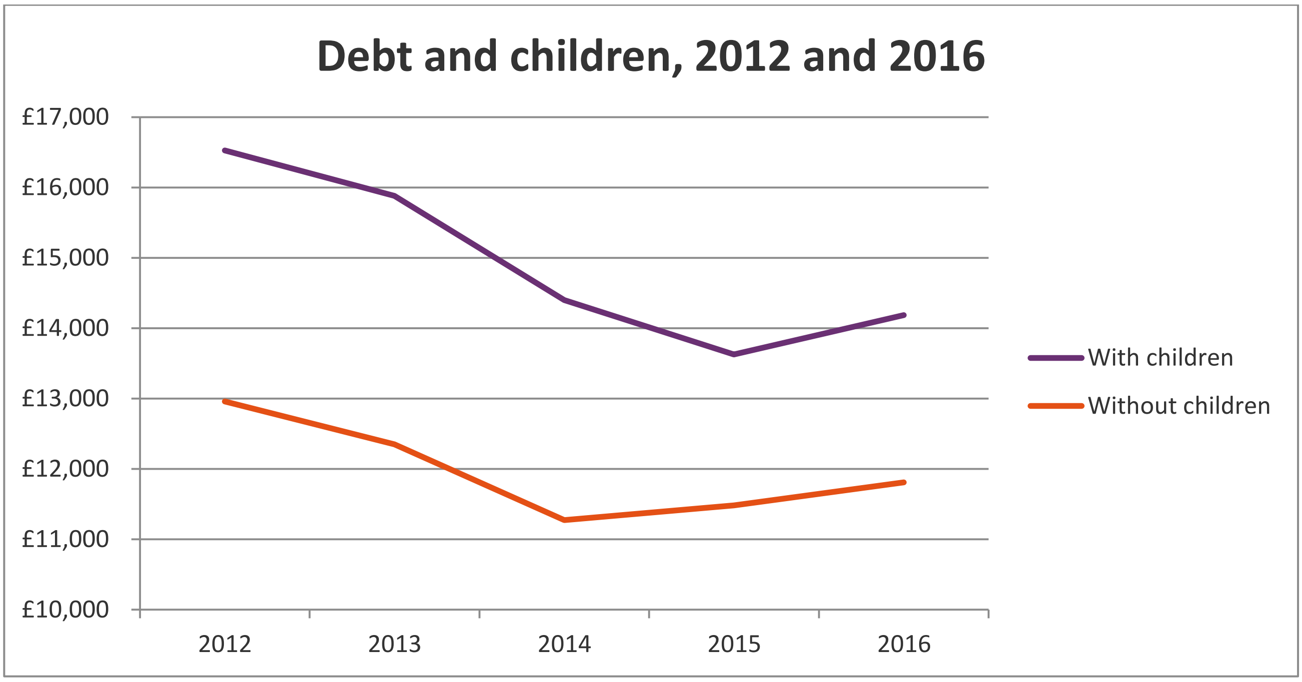
There is also a notable difference in the debt levels between genders. Women not only had less average debt than men, the average debt held by new female clients has decreased four times faster than that of men. Nonetheless it is the small increase in the debts of female clients that has caused the overall average debt of our clients to increase in 2016 for the first time in many years.



Debt and children

5.3 Family make-up	2012	2013	2014	2015	2016	2012-2016 change
% with children	33%	34%	34%	36%	36%	+3%
% without children	67%	66%	66%	64%	64%	-3%
Average debt, with children	£16,525	£15,882	£14,399	£13,628	£14,186	-£2,339
Average debt, without children	£12,959	£12,350	£11,273	£11,481	£11,808	-£1,151

The majority of clients contacting the charity do not have dependent children. Clients with dependent children have notably higher debts than clients without children.



What caused the client to fall into debt?

5.4 Debt reason	2012	2013	2014	2015	2016	2012-2016 % change
Employment change / unemployment /	25%	24%	21%	22%	20%	-5
Reduced income / benefits	23%	21%	18%	17%	16%	-7
Lack of budgeting	11%	14%	14%	16%	17%	+6
Separation	9%	9%	9%	9%	8%	-1
Illness/disability	12%	12%	14%	15%	14%	+2

StepChange Debt Charity clients in Scotland ended up in problem mostly due to circumstances outwith their control. In 2016, 83% of all clients had found themselves in debt due to an income shock, with the most common cause a change in their employment status. This included being made redundant, having hours cut, changing jobs or having a business fail.

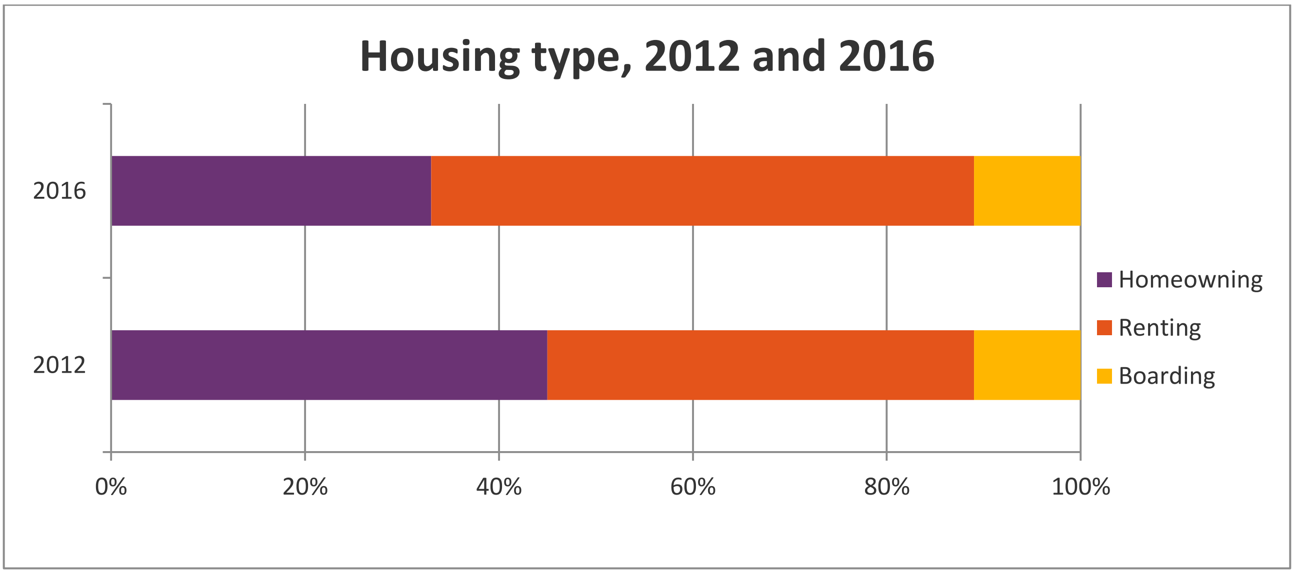
The debt reasons outlined in Table 5.4 account for 75% of all clients. The remaining 25% fall into debt for reasons including pregnancy/childbirth, retirement and caring for relatives.

Clients housing type by percentage

5.5 Housing type	2012	2013	2014	2015	2016	2012-2016 % change
Mortgage	42%	39%	35%	31%	29%	-13
Own outright	3%	4%	3%	4%	4%	+1
Rent – Housing Association	10%	9%	11%	12%	12%	+2
Rent – Local Authority	16%	17%	19%	19%	21%	+5
Rent – Private Landlord	18%	19%	20%	23%	23%	+5
Board	11%	12%	12%	12%	11%	-

In 2012, clients who had a mortgage or owned their home outright represented 45% of all clients – just ahead of rental clients who made up 44% of the charity's client base.

There has been a significant shift between 2012 and 2016 which has seen a big rise in the numbers of clients in rented accommodation. These clients – renting from a Housing Association, Local Authority or private landlord now account for 56% of Scottish clients. Homeowning clients now make up just 33% of all clients.

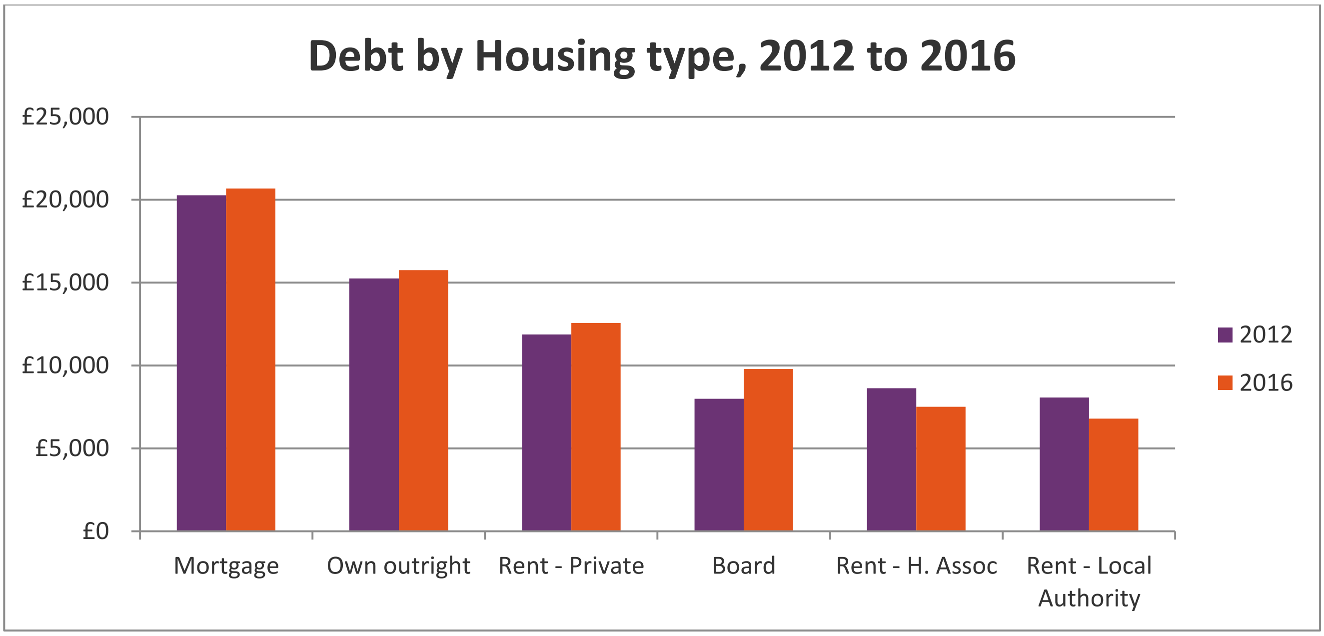


Average debt per housing type

5.6 Housing type	2012	2013	2014	2015	2016	2012-2016 change
Mortgage	£20,263	£20,137	£19,252	£19,006	£20,662	+£399
Own outright	£15,252	£15,776	£13,779	£15,045	£15,755	+£503
Rent – Housing Association	£8,626	£7,657	£7,769	£6,949	£7,506	-£1,120
Rent – Local Authority	£8,063	£7,959	£6,486	£7,231	£6,792	-£1,271
Rent – Private Landlord	£11,847	£10,456	£11,177	£11,693	£12,556	+£709
Board	£7,994	£8,823	£7,274	£8,375	£9,774	+£1,780

Homeowners had the highest average unsecured debt by a considerable margin, with the largest debts held by clients with mortgages.

In the rental sector, private rental clients had the highest average debts compared to Local Authority and Housing Association clients. The average debt owed by clients in the private rented sector has also increased while Housing Association and Local Authority have decreased.



6. Debt in Scotland

Why Scotland leads the way in the UK

Scottish-based clients of StepChange Debt Charity and other debt advice organisations have access to a debt repayment solution that offers better conditions and safeguards than solutions in any other part of the United Kingdom.

The Debt Arrangement Scheme (DAS) is a uniquely Scottish, interest-free debt consolidation payment programme which stops creditors adding additional interest and charges as long as the client makes their regular repayment every month, through a system known as Breathing Space. It also removed creditor harassment and protects the client against house repossession. The DAS is supported and backed by the Scottish Government and 44% of all Scottish clients who contacted the Charity in 2016 were recommended a DAS.

The process of a client entering DAS is done by way of a proposal to creditors based on the length of time the client will take to pay their debt based on what income they have left after their household costs are paid. The usual repayment period is between 5 and 12 years, although some clients may have longer terms if they are expecting a change in their circumstances. Clients who do not have sufficient income to pay their debts within a reasonable period usually have to seek an alternative solution, none of which offer the same protections offered by DAS.

Making DAS more flexible and fair

While the DAS is very good scheme which remains popular and effective, there exists within the DAS system an inflexibility which can stop our clients from entering a DAS. The majority of clients who seek advice from StepChange (83%) fell into debt due to an income shock – an unexpected hit to their income. For many, these bumps in the road are not permanent, such as the loss of a job, and after a period of uncertainty, the client will return to a level financial footing. The inflexibility in the DAS does not take the ‘income shock’ effect into consideration.

The income shock means that the client has considerably lower income (temporarily) and therefore cannot make the requirements of repaying their debt at a reasonable level while on their lower income. The contribution that they are able to make is calculated against their debts and for clients who have insupportably long repayment periods or clients unable to make any payments at all would not be eligible for a DAS. The system does not suitably consider that the client’s income could increase in the future when they take on a new job. As such, the client has to enter an unprotected repayment scheme, even if in 6 months they are expecting to return to full time work.

A real-life example of the harm caused by this inflexibility was highlighted by a client who spoke to one of our debt advisors, Alan, at the end of 2016. Her story is a perfect example of why the system must be more flexible to consider income shocks:

Mrs A from East Lothian contacted the charity after she had been signed off from work due to pneumonia. As she was receiving much-reduced sick pay, she was unable to afford all her essential day-to-day living costs, such as her mortgage, Council Tax, utilities, food and basic clothing needs.

Prior to being signed off, she was able to manage her debt repayments and reduce her debt at a reasonable rate. Her debts were £7,500 when she first contacted the charity. She was estimated by her doctor to be able to return to work after seven months absence. She was two months into her pneumonia diagnosis before she contacted the charity.

As her sick pay did not meet the income-level requirements to enter a DAS, she entered into a Token Payment Plan, which is a temporary solution for clients who cannot afford to make a significant repayment in the meantime.

Her catalogue debt had an interest rate of 39.9%, her credit card a rate of 22.9% and she was incurring a daily £10 unarranged bank overdraft fee. An analysis of her debts indicated that due to the lack of protection from interest and charges, she gained an additional £2,005 in costs.

Had Mrs A had protections in place, upon returning to work and resuming her higher income, she would have been able to pay off her debts in 5.2 years. As she had no protections over this period and her debt increase, when she returned to a position where she could enter a DAS, her payment period had increased to 6.7 years.

StepChange Debt Charity Scotland is proposing that clients who are in similar financial positions to Mrs A should be able to enter a **Zero-Contribution Debt Arrangement Scheme (0-DAS)**.

The 0-DAS would be available to people in Scotland who are actively seeking debt advice and would be provided by an accredited debt advisor. Clients who are initially assessed to have no prospect of a positive change in their financial circumstances would not be eligible. The 0-DAS should cover a period of 12 months, with a 6-month checkpoint call to assess if the client has had a positive financial change.

The benefits of a flexible system are very clear:

- There is no cost for the client to enter DAS, but entering a non-protected payment programme without Breathing Space protections could cost the client thousands in interest and charges.
- The client is given time to recover from a financial shock, and can do so safe in the knowledge that their debt is not increasing in the meantime.
- Creditors will be more likely to receive the owed monies as the client will be allowed time and space to return to a positive financial position.
- Creditors will have less overhead costs pursuing debts or passing to debt collectors.
- It’s fair – clients like Mrs A getting into difficulties with debt through no fault of their own, and are taking the responsible decision to seek debt advice. That decision should be rewarded by allowing clients the time and space to get their finances in order and start repaying their debts.

The introduction of a 0-DAS would ensure that Scotland continues to pioneer debt repayment programmes that are responsible and give people with debt a fair chance to repay.

Scotland in the Red is an annual publication produced by StepChange Debt Charity Scotland. StepChange Debt Charity Statistics can be represented by Local Authority, Westminster Constituency, Scottish Parliament Constituency and Scottish Parliament regional areas.

For a 5-year historical trend of Local Authority, or constituency-specific data (Westminster or Holyrood), please contact James Stewart on parliamentary@stepchange.org

Statistics presented in this document are based on telephone debt advice calls to StepChange Debt Charity in 2016.

For any other enquiries about this report:

Call: 0141 270 1441
Email: parliamentary@stepchange.org

Write to StepChange Debt Charity Scotland
33 Bothwell Street, Glasgow G2 6NL

For free help and advice with problem debts:
Call: 0800 138 1111 Monday to Friday 8am to 8pm and Saturday 8am to 4pm
Online: www.stepchange.org
Twitter: @StepChange