

CAS Briefing

Debate - 'An End to In-Work Poverty'

Scottish Parliament

18 March 2015



generations of good advice

Citizens Advice Scotland (CAS), our 61 member bureaux and the Citizen Advice Consumer Service helpline form Scotland's largest independent advice network. Advice provided by the Scottish CAB Service is free, independent, confidential, impartial and available to everyone. Our website, Adviceguide, also provides the public with up to date information on a range of topics. We are champions for both citizens and consumers and in 2013/14 we helped over 330,000 people deal with over a million issues. We want a fairer Scotland where people as citizens and consumers are empowered and their rights respected

Summary

The most recent figures from the Scottish Government show that in-work poverty is rising. The majority of working age adults in poverty (52%) are now from working householdsⁱ and it is not the case that work by itself is a route out of poverty. Citizens advice bureaux in Scotland are reporting a growing number of cases where clients are in work, but are struggling to pay for essentials. Citizens Advice Scotland's ongoing 'Working at the Edge' series of publications examines the growing problems caused by in-work poverty through the stories of the thousands of clients advised by citizens advice bureaux in Scotland, and makes recommendations for change.

This briefing focusses on a number of causes of in-work poverty in Scotland, as reported by Scotland's CAB network:

- Zero Hours Contracts
- Low Pay
- Childcare costs and availability
- Lack of support from the benefits system
- Unfair employment practices

Zero Hours Contracts

Recent ONS (Office for National Statistics) estimates indicate that the number of zero hours contracts in the UK has increased to 1.8 million.ⁱⁱ Citizens advice bureaux in Scotland have highlighted a number of different problems stemming from the way zero hours contracts have been used by employers, and their growing prevalence has given rise to a number of serious causes for concern.

Whilst zero hours contracts may be suited to particular types of work, such as casual or seasonal labour, the **misuse** of zero hours contracts is becoming a major problem, which should be addressed to prevent exploitation and hardship. Misuse can include situations where zero hours contracts are issued by employers inappropriately, such as where a full-time or part-time contract may be better suited and have led to a number of serious problems for CAB clients including destitution caused by a lack of work; serious debt and budgeting difficulties caused by a fluctuating income as well as difficulties accessing the benefits system. On top of this, we have reports of poor treatment and problems enforcing rights at work.

Lack of work causing destitution

One of the key features of zero hours contracts is that no work is guaranteed in any week. For a growing number of workers, far from offering flexibility and choice in their working patterns, their zero hours contract has left them with very little, or no income whatsoever for a period of time. Citizens advice bureaux in Scotland advised clients who found themselves in crisis and destitute as a result of a sustained period without work – in some cases being unable to afford to eat and requiring a referral to a food bank.

- A North of Scotland CAB reports of a client who is employed in a laundry on a zero hours contract. She has been laid off work for the past three weeks due to a machinery breakdown. She is currently facing hardship due to loss of income and was consequently referred for a food parcel.
- An East of Scotland CAB reports of a client who works on a zero hours contract. He has only had three days' work in the last month and as a result will have earned only about £150. The client has been to the Jobcentre for help and been advised that the only way they can help is if he signs on for Jobseeker's Allowance (JSA). The client was referred to a food bank.

Serious debt and budgeting difficulties due to fluctuating income

Workers on zero hours contracts can often find their working pattern - and therefore their income - unpredictable. Citizens advice bureaux have advised clients on zero hours contracts whose working hours drop or fluctuate leaving it extremely difficult to budget and quickly accruing substantial debt. In some cases, clients with a zero hours contract have taken out high-interest loans (such as payday loans) to cope with fluctuations in their income in the short term caused by irregular working hours. However, when large repayments are due in a week where little work is available, workers can find themselves in a situation where they have no way of paying back the loan.

- An East of Scotland CAB reports of a client whose employment varies dramatically because of a zero hours contract. She can work between 7 and 13 hours per week and her income can vary from £60 to £100. The client struggles with her budget or to address her debt issues as she is not sure how many hours she will be working on a week to week basis and has no guarantee of any work.
- An East of Scotland CAB reports of a client who is unable to pay various payday loan companies. Her total debts amount to £4,850. Whilst she lives with her mother and pays no rent, she works as a waitress on a zero hours contract, sometimes earning more than £200 per week, but next week will only earn £70. She is due to pay three separate payday lenders a total of £173 next week and has no way of paying.

Further Citizens Advice Scotland publications on zero hours contracts

- [Working at the Edge: Zero Hours Contracts](#)
- [Consultation response – Zero hours employment contracts](#)
- [Evidence on Small Business, Enterprise and Employment Bill](#)
- [Banning exclusivity clauses in zero hours contracts – CAS consultation response](#)

Low Pay

Key to reversing the worrying rise of in-work poverty is action to tackle low pay. According to research by the Resolution Foundation, around 1.2 million workers in the UK are paid the National Minimum Wage, or within 5 pence of it. A further 1.4 million workers earn no more than 50 pence more than the Minimum Wage.ⁱⁱⁱ With a significant number of employers using the level of the National Minimum Wage as their 'base' for setting pay scales, the level set by the Low Pay Commission has a crucial role in determining the pay of many workers who are currently experiencing in-work poverty.

In-work benefits and tax credits, changes to the tax system and actions to encourage employers to pay a higher 'base' rate of pay than the Minimum Wage – such as the Living Wage campaign – all have a part to play. However, with increases in benefits and tax credits for working age people being restricted to a lower-than-inflation 1% from 2013 – 2015^{iv}, wages must bear a greater share of the burden if the rise of in-work poverty is to be halted.

Citizens advice bureaux in Scotland have advised clients working full time earning the National Minimum Wage who are struggling to pay essential living costs and accumulating debt.

- A South of Scotland CAB reports of a client who has worked full-time in shops, earning the National Minimum Wage for over ten years. He has accrued rent arrears, and is struggling to keep up his repayments because of his low income. His Housing Association has now started eviction proceedings against him.
- A West of Scotland CAB reports of a client who works 30 hours per week. The client also used to work a second job in the evenings, but has had to give this up. She has now accrued rent and energy arrears totalling around £5,800 and is struggling to keep up her agreed rent payments.

For five consecutive years from 2009 to 2013, the National Minimum Wage rose at a lower rate than inflation as measured by the Consumer Prices Index (CPI). Despite an above-inflationary rise to its current level of £6.50 per hour, another forthcoming rise to £6.70 from October 2015, and falling inflation, the minimum wage has still not returned to the same value in real terms as it was in 2008.

Additionally, the Scottish Living Wage, which is calculated based on what workers need to earn to achieve an acceptable income standard, increased at a faster pace than the Minimum Wage during this time, and is currently 21% higher - £7.85 compared with £6.50 per hour. This equates to a difference of £2,457 per year for someone working 35 hours per week.

Rises in the National Minimum Wage will not always see workers with more money in their pockets. Earned wages will be subject to changes in the tax and benefits systems, which can often be complex. Citizens advice bureaux in Scotland have advised clients who may be earning the Minimum Wage, but are struggling to pay for essentials because of a limited entitlement to benefits and tax credits.

- A West of Scotland CAB reports of a client who works 17.5 hours per week at the National Minimum Wage. He is struggling to pay essential expenditure on his income, with only £6.92 per week remaining after he has paid rent, food, housekeeping, energy costs, telephone and TV licence costs. He is in rent, Council

Tax and energy arrears. He is unable to claim Working Tax Credit, or full Housing Benefit and Council Tax Reduction. Two months later, the client returned to the CAB as his situation had not improved. He has been unable to pay his bills or basic expenditure, his health has deteriorated due to stress and he has no money for food.

Further Citizens Advice Scotland publications on low pay

- [Response to Low Pay Commission consultation on the National Minimum Wage](#)
- [Working at the Edge: Enforcement of the National Minimum Wage](#)

Childcare costs and availability

Evidence from citizens advice bureau clients has however shown that for working parents the costs of childcare can be a route to in-work poverty. Despite the welcome extension of the amount of free early education available for some children to 600 hours per year^v, a number of issues remain, which must be tackled to ensure that Scotland's children get the best start in life and their families can avoid poverty through work.

Working parents have sought advice from a CAB because they cannot afford the cost of nursery places or childminder's fees on their income; or because they have been unable to increase hours or take up offers of work because there are no childcare facilities available in their local area. This appears to be a particular problem in rural areas, and in the school holidays.

Affordability of childcare

Key to ensuring parents can return to work after having children is that the income they would earn would comfortably exceed the costs of making sure their children are cared for during their working hours. According to research by the Family and Childcare Trust, in Scotland the average cost of sending a child to nursery part time (25 hours per week) for two to five year-olds is £5,196 per year, rising to £5,721 for children under the age of two.^{vi}

- A North of Scotland CAB reports of a client who had just started a new job and was looking for support to pay childcare costs. She had been advised that a £200 registration fee is required to register her child at nursery which she did not have. She also required support to pay the first week's fees of £92. As she had not applied prior to commencing work, the client was not able to access support from Jobseeker's Allowance (JSA) and would need to wait for a Child Tax Credit application to be processed.
- A West of Scotland CAB reports of a client who is a lone parent with a two year old. She has to leave for work every day at 5.30am so needs to rely on her father to take her daughter to a child minder early in the morning. The childminder costs £140 per week which the client is struggling to pay and has built up rent arrears and other debt. She feels the current arrangements are unsustainable and has looked for full-time work with a later start time, but without success. She wants to know if she would be better off giving up work and claiming Income Support.

Availability of childcare

Childcare costs can vary considerably depending on where in Scotland a family lives, with part-time nursery care in the most expensive local authority being **£3,341** per year more than in the neighbouring local authority.^{vii} Part of the reason for this local difference may be

due to the low levels of childcare supply reported by the majority of local authorities. Availability of affordable local childcare – or indeed any childcare at all – has caused problems for citizens advice bureau clients who, in some instances, have been forced to give up work, or prevented them from taking up jobs due to no childcare being available locally.

- An East of Scotland CAB reports of a client who currently works 19 hours per week and whose partner works full-time. They have a one year old child, but the client's childcare will no longer be available from next month. The client is concerned that she will need to give up work and that the family will struggle to live on her partner's income and benefits. The client was frustrated and felt that she and her partner have been penalised for working.
- A West of Scotland CAB reports of a client who is a single parent with a two year old child. She is keen to return to work and has been offered a job. Whilst her childcare costs would partially be met by tax credits, she would be unable to take on the job as there are no childcare facilities in the local area, she is unable to drive and there is a lack of regular public transport.

Further Citizens Advice Scotland publications on childcare

- [Working at the Edge: Childcare](#)

Lack of support from the benefits system

Changes to the social security system have led to difficulties for workers on low incomes claiming support from in-work benefits.

Gaps in the in-work benefits system

To be eligible for Jobseeker's Allowance (JSA) an individual must work less than 16 hours, and to be eligible for Working Tax Credit a claimant must work more than 30 hours a week (more than 24 hours a week for couples with children). If a person works between 16 and 24 hours, and those hours fluctuate, it is likely that their income will be very low – potentially lower than those in receipt of out of work benefits.

- An East of Scotland CAB reports of a client who was working as a relief cleaner on a zero hours contract. For the last four months he has only 11 or 12 regular hours of work a week. His partner was prevented from claiming Employment and Support Allowance (ESA) by the Department of Work and Pensions (DWP) as they were told it is possible the client could be working more than 24 hours per week if he was on a zero hours contract. The DWP has also told the client that it is not worth applying for Jobseeker's Allowance (JSA), as he might be working over 16 hours in some weeks. The client is therefore very anxious about their income.
- A West of Scotland CAB reports of a client, currently on Income Support who has a two year old child, and has found a potential job offering her 20 hours per week to increase her income. After running a benefits check it became apparent that the client would benefit from working 16 hours per week – she would pay an effective rate of tax on her earnings of 20%, meaning she would be paid £80 per week. However, as her employer needs her to work 20 hours per week, the client would pay an effective tax rate of 87% on the four additional hours worked.

Changes to Tax Credits

In April 2012, the eligibility rules for Working Tax Credit and Child Tax Credit changed, negatively impacting on tens of thousands of Scottish families.^{viii} By April 2014, the number of in work families in Scotland receiving in work tax credit support had reduced by 97,300 compared to two years previously (a reduction of 27% in the number of families).^{ix} As a result of these changes, and others to come, the contribution of state support to family incomes has declined and will decline further. Citizens advice bureaux have advised clients who have lost their entitlement to tax credits and subsequently fallen into financial difficulties.

- An East of Scotland CAB reports of a client who wanted to know how to access a food bank as she and her partner simply could not make ends meet, The client has fallen into financial difficulties following the change in the rules for Working Tax Credit. The bureau referred the client to a local church for a food parcel. The client is going to try to increase her employment hours in order to receive tax credits again.
- A West of Scotland CAB reports of a client who is struggling financially after being unable to get an increase in work from his current part-time employment. The client is struggling with food and fuel bills and cannot afford to provide support to his two children who live with their mother. The bureau advised that the client would be entitled to Working Tax Credit if he could get employment of 30 hours per week. The client will try to increase his hours again, but will need a food parcel if he cannot.

Universal Credit

The introduction of Universal Credit, which is designed as an integrated in-and-out-of-work benefit, proposes to address some issues with the current system. However, this will not be available for some time – the current rollout in Scotland (until April 2016) is focussed on single jobseekers, and is not available to new in-work claimants, or those with families or childcare costs (with the exception of a pilot in Inverness).

There are also some issues where in-work claimants may miss out on support as a result of the transition to Universal Credit. Research by our colleagues at Citizens Advice (England and Wales) shows that the proposal that those earning less than the personal tax threshold (£10,000 per year) would only be eligible for 70% support for childcare costs, compared with the 85% support for those above it will result in a number of groups missing out on support including lone parents who want to return to work after maternity leave; households with high childcare costs with variable hours of work and lone parents with more than two children of school age. It also makes claimants vulnerable to sudden and dramatic income loss if the Personal Tax Allowance rises.^x

Currently workers who leave zero hours contracts, or who decline the offer of a zero hours job, on the basis of not being given enough working hours should not face benefit sanctions. However, the Department of Work and Pensions (DWP) has indicated that Universal Credit claimants may be sanctioned for these reasons, which is cause for concern^{xi}.

Unfair employment practices

The Citizens Advice Service is a major source of external advice for people who experience employment problems. In 2013/14, citizens advice bureaux in Scotland advised clients on 46,540 new employment issues. Some of these issues are examples of extremely unfair employment practices which place clients in a difficult, complex and miserable situation. Citizens Advice Scotland's recent 'Fair Enough? Protecting Scotland's Workers from Unfair

Treatment' report examines the unfair employment cases brought to bureaux and makes recommendations for how the system can be improved.

As well as being in the interests of people who experience unfair treatment at work, it is in the interests of government and society as a whole that fair employment is promoted. As part of a major study of poverty and social exclusion in Scotland and the UK, researchers found that people who worked in low quality, stressful and insecure jobs had poorer general health and a lower satisfaction with daily activities than those that were unemployed.^{xii} Unfair employment has an effect on public services, and many other areas of people's lives outside the workplace, and is unfair on employers who make efforts to treat their staff fairly and comply with the law.

- A West of Scotland CAB reports of a client who believed she was employed by someone as a groom, which included accommodation and livery. The client was told she would be paid for the work and it was arranged for the employer to be reimbursed through a 'DWP job incentive scheme'. However, this did not happen as the employer had no employer's liability insurance. The client advises she was given no wages at all for the six months she has worked there. The client has calculated that she is due about £6,000. She feels she was further exploited during this period of employment as she was sometimes locked in the stables and was made to work seven days a week for long periods of time.
- A West of Scotland CAB reports of a client who has worked at a garage for three years. She is the only female that works there, and is currently off sick with work-related stress due to the bullying she faces at work. The client is being bullied, harassed and humiliated at work by the mechanic and apprentices who constantly make comment on her weight and clothes and generally put her down. She has complained on numerous occasions to her employer, but nothing has changed. Her employer has told her that if it can't be sorted out between them then one of them will have to go and he needs a trained mechanic more than her. It also emerged that her employer paid half her wages in cash, and did not pay her income tax or National Insurance, which has affected her entitlement to Statutory Sick Pay.

Further Citizens Advice publications on unfair employment practices

- [Fair Enough? Protecting Scotland's Workers from Unfair Treatment](#)

ⁱ Scottish Poverty Statistics Summary Briefing, December 2014 – Scottish Government Communities Analytical Services <http://www.gov.scot/Topics/Statistics/Browse/Social-Welfare/IncomePoverty/povertybrief>

ⁱⁱ Analysis of Employee Contracts that do not Guarantee a Minimum Number of Hours – Office for National Statistics, February 2015 http://www.ons.gov.uk/ons/dcp171776_396885.pdf

ⁱⁱⁱ Minimum Wage Act II – Resolution Foundation, February 2014. <http://www.resolutionfoundation.org/publications/minimum-wage-act-ii/>

^{iv} 2014 Benefit Uprating – Commons Library Standard Note – House of Commons Library, December 2013 <http://www.parliament.uk/business/publications/research/briefing-papers/SN06774/2014-benefit-uprating>

^v The Children and Young People (Scotland) Act 2014 extended the amount of free early education available for three and four year olds as well as looked-after two year olds, those in kinship care and those from workless households, from 475 to 600 hours per year.

^{vi} Childcare Costs Survey 2015 – Family and Childcare Trust

^{vii} The 2014 Scottish Childcare Report - Family and Childcare Trust

^{viii} Up to that date, families were eligible for Child Tax Credits if their income was below £41,300. This changed to £32,000 for families with two children and £26,000 for lone parents. Families were also able to claim Working Tax Credit if they were responsible for at least one child and worked at least 16 hours per week, but this was increased to 24 hours per week (with one parent having to work at least 16 hours).

^{ix} There were 258,500 in-work families in receipt of tax credits in Scotland in April 2014, compared with 355,800 in April 2012. Personal tax credits: provisional statistics: 2014 to 2009, HM Revenue & Customs - <https://www.gov.uk/government/statistics/personal-tax-credits-provisional-statistics-2013-to-2009>

^x Support for childcare costs in Universal Credit – Citizens Advice (England and Wales), November 2013 http://www.citizensadvice.org.uk/index/policy/policy_publications/er_benefitsandtaxcredits/support_for_childcare_costs_in_universal_credit.htm

^{xi} Letter from Minister for Employment to Sheila Gilmore MP, March 2014 <http://www.sheilagilmore.co.uk/wp-content/uploads/2014/03/GILM0200202140092020020092.pdf>

^{xii} Employment, poverty and social exclusion – Poverty and Social Exclusion in the UK project, June 2014 http://poverty.ac.uk/sites/default/files/attachments/Bailey%2C%20Employment%2C%20poverty%20and%20social%20exclusion_0.pdf