Citizens Advice Scotland

An Analysis of Living Standards in Complex Debt Cases

Jemiel Benson

November 2022

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Who we are

Citizens Advice Scotland (CAS), our 59-member Citizen Advice Bureaux (CAB) and the Extra Help Unit, form Scotland's largest independent advice network. Scotland's Citizens Advice Network is an essential community service that empowers people through our local bureaux and national services by providing free, confidential and independent advice. We use people's real-life experiences to influence policy and drive positive change. We are on the side of people in Scotland who need help and we change lives for the better.

During 2021-22 , the entire Citizens Advice network provided advice and assistance to over 174,000 individuals. The network put almost £132 million back into people's pockets during this time, with every £1 invested in core advice funding returning £12 in gains for people. Our extensive footprint is important in helping us understand how issues impact locallyand nationally across the country and the different impacts that policies can have in different areas.

Methodology

The report is compiled from a snapshot of clients with complex or multiple debt issues; 2,987 of these clients had relevant data recorded. Complex debt refers to cases where there are multiple creditors or a single liability where the issue requires intricate legal or administrative work, for example responding to court action. It does not include single debt and advice only case work. Data was collected between April 2021 and March 2022 with the previous annual period used as a comparator

Main findings

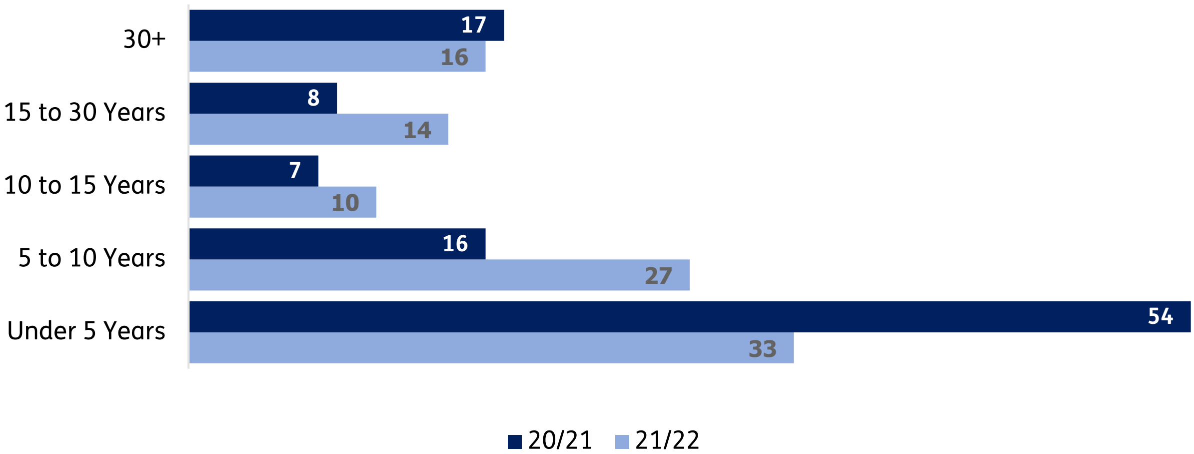
That the cost of living - through rising costs and static or reduced incomes – has increased the number of people with a negative disposable income whereas those with a disposable income are being significantly squeezed and while the overall debt levels have not changed, people are taking longer to pay off their debts.

> The number of clients with negative disposable income (NDI) grew again from 42% in 2019/20 to 48% in 2021/22, resulting in 1 in 2 clients have nothing spare to pay debt. In fact, many clients do not have enough to even cover essential bills.

> Of the 52% of clients who have disposable income, this was substantially reduced by a third from the 2020/21 median of £228 per month to £148 in 2021/22. This severely affected our complex debt clients' ability to pay debt.

> Moreover, the numbers of people capable of paying off their debts in under 5 years reduced by 40% with a substantial 65% increase in the numbers taking between 5-to-30-years to clear off their debts.[1]

Chart 1: Indicative Repayment Time in years as a percentage of clients



There has been no significant growth in the level of debts owed by clients. It remained much the same as that reported for the previous year. This is striking as it is not the amount of debt owed which is causing clients to take longer in repaying their debts. In fact, it suggests that the increase in debt repayment period is due to client's income and expenditure reducing their available disposable income for such repayments.

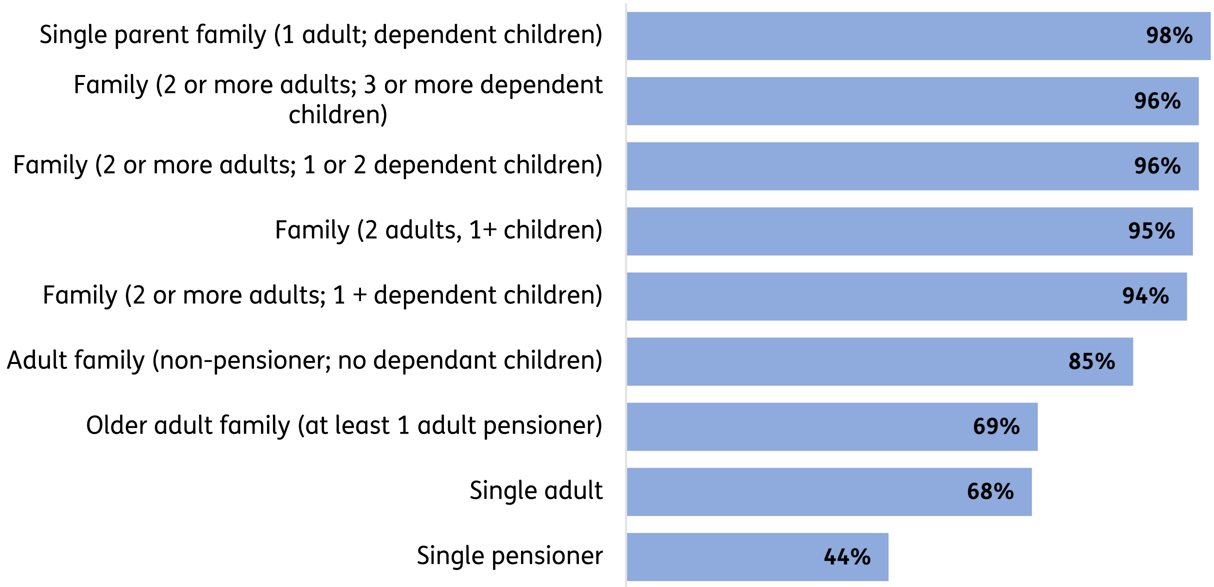
Additionally, clients with monthly expenditure above £1,250 rose to 56% in 21/22 from 50% in 20/21.

To understand the impact on complex debt clients' income and expenditure, we compared our client base on household type with the Joseph Roundtree Foundations Minimum Income standard (MIS). This is an annual report based on what society expects a reasonable minimum income to be.[2] Their calculator can work out the standard with basic demographic information including types of households.[3] The results were shocking as can be seen from Chart2.

[1] The repayment times are indicative on the data at the snapshot and do not account for any applicable costs, interest or other charges accruing.
[2] Minimum Income Standards | JRF
[3] We matched the household types on the calculator to Standard CAS household categories.

Family households are the worst affected with between 94% and 98% in the case of single parent families having incomes below the standard. This points to the fact that client indebtedness is due to low incomes relative to that which society deems necessary for a reasonable standard of living.   What this highlight's is the startling revelation that the cost-of-living crisis did not begin in May 2022 but has been ongoing long before then.

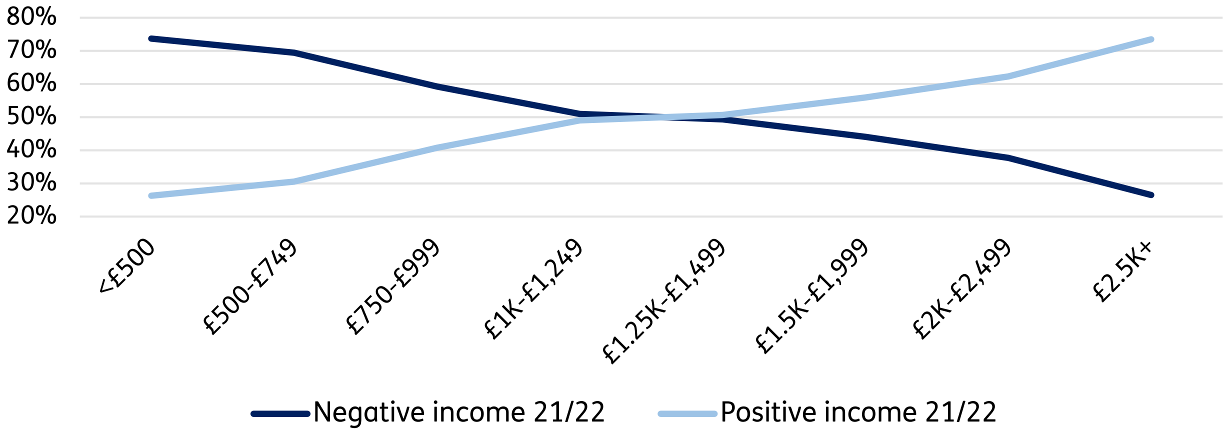
Chart 2: % of Client Households Below the JRF Minimum Income Standard by Household Composition



Main findings

When looking at the structure of client disposable income it became apparent that benefits were a key determining factor with higher benefit levels associated with positive and lower benefit levels associated with negative disposable income.

Chart 3: Negative/Positive income by income bracket



When examining the mix of benefit income sources it showed a relationship with universal credit and negative disposable incomes (NDI). Whilst, overall clients who do not receive universal credit have less NDI across both years. The numbers of clients with universal credit experiencing NDI in 2021/22 has grown by 33% whereas, those without universal credit decreased by 14% in 2021/22.

For people with salaries and universal credit the numbers increased by 28% and for people with salaries and other benefits it decreased by 18%.

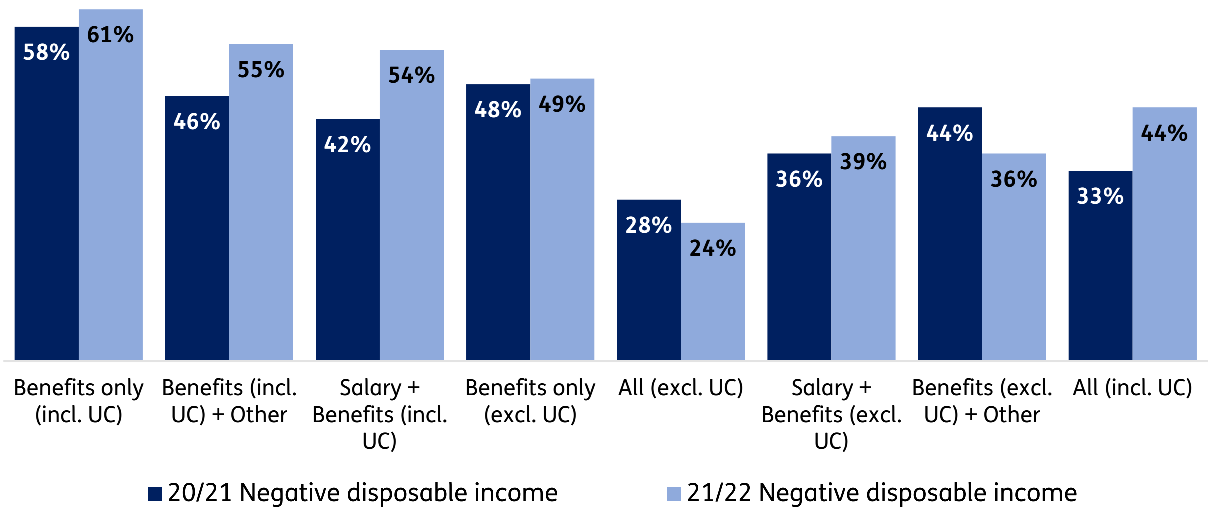
On the face of it, these figures indicate an association with negative disposable income and universal credit and the growth between 2021/21 and 2021/22 may relate to the withdrawal of the £20 uplift.

This equally echoes with our adviser views expressed in our 2019/20 informal survey of bureau debt advice which associated a decline in low-income clients to the £20 uplift as well as Covid restrictions.

The differences between total incomes with and without UC as evidenced in both our 2020/21 and 2021/22 figures indicate causal factors inherent in the benefit itself. This was highlighted in the client experiences contained in the recent CAS report Perfect Storm.

The issues faced by these clients included the 5-week waiting period, high deduction rates and below inflation increases in benefit levels (the September 2022 level at 9.84% is 3 times the April 2022 benefit increase of 3.2%).

Chart 4: Benefits relative to client disposable income



Conclusion

The data in this report and impact on clients is before the energy related cost of living crisis really took off in spring 2022 so it is very likely the situation is going to worsen for the living standards of those in complex debt, an increase in the overall debt levels and a rise in the numbers of those in complex debt.

In addition, it demonstrates that the cost of living crisis has been going for some time, even before the spike in energy and other daily living costs.

For more information please contact:
Jemiel Benison, Senior Policy Officer - Jemiel.Benison@cas.org.uk

www.cas.org.uk

@CitAdviceScot

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ISSN 2398-6190 (Print)
ISSN 2398-6204 (Electronic)