

# CAS briefing for the Customer Forum for Water in Scotland



## *Factors placing household incomes under pressure*

Citizens Advice Scotland and its member bureaux form Scotland's largest independent advice network. CAB advice services are delivered using service points throughout Scotland, from the islands to city centres.

Citizens advice bureaux in Scotland helped clients with over 500,000 new issues in 2011/12 – more than 1,400 new issues for every day of the year. Nearly 200,000 clients brought new issues to a bureau over the year.

In 2011/12, Scottish bureaux achieved a financial gain of almost £140million for clients based on funding of £16.9million.

A range of factors, relating to the economic downturn and public sector spending cuts, is putting pressure on household incomes. This includes:

- Persistently high unemployment
- Rising underemployment
- Debt and problems with high cost credit
- Changes to the benefits system
- Rising food prices and need for food parcels
- Rising fuel prices and food poverty

## ***Unemployment***

The country may again be out of recession, but unemployment remains significantly higher than before the Credit Crunch and the economic downturn. The JSA claimant count in Scotland in January 2013 was 142,000 – 91% higher than the figure five years previously. Over 38,300 claimants had been in receipt of JSA for more than 12 months – a 320% increase on five years previously.<sup>1</sup>

The number of people who are unemployed has decreased in the last two years – but so has the number of people in employment in Scotland. This is because the number of people described as economically inactive – not in work or looking for work – has increased by 75,000. The figures suggest that 44,000 less young people are in employment than three years ago.<sup>2</sup>

Unemployment figures may have improved slightly since the height of the recession, but have a long way to get back to pre-recession levels.

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<sup>1</sup> Office of National Statistics

<sup>2</sup> Office of National Statistics

### ***Underemployment***

Between October 2007 and October 2012, full-time employment in the UK has fallen by 421,000 while part time employment has risen by 709,000. For some part-time work is a choice. However, the number of people in Scotland in part-time work who want full-time work has risen from 70,000 in 2008 to 120,000 in 2012.<sup>3</sup> This means that many people not included in the unemployment statistics may not have sufficient income to meet the needs of their household.

Sudden and imposed underemployment can be a serious problem for bureaux clients across the country. Many clients have approached bureaux because the suitability of their job has changed due to reductions in working hours:

- **A Central Scotland CAB** reports of a client whose trade is masonry. The client has worked full time (39 hours/week) with the same company for 4 years. The client has been told that with immediate effect his hours are to be reduced to 24 per week because there is not enough work. The client has not been told how long the reduced working hours will last and he is worried about how he will make ends meet. The client earns £23,000 per year (which will reduce to £14,150). The client is one of 5 workers in this situation and believes it would be better to retain some workers and make some redundant but thinks the boss has reduced all of their hours to push them into seeking other employment and avoid making redundancy payments. The client wished to know about his rights.
- **An Island CAB** reports of a client whose employer has reduced his hours from full time to three days per week. The client has been employed full time by his employer for 26 years. The reduction in hours was imposed with no notice or agreement (no change to contract or verbal agreement). The client's wife works part-time and the couple are worried about how they will pay their mortgage on their reduced income. The client wanted to know if his employer was entitled to do this.

In times where job security is not guaranteed, pursuit of employment rights can become secondary to holding on to a job. Clients do not want to challenge poor employment practices for fear of losing a job all together. However, the consequences of imposing reductions in hours can leave clients in difficult living situations:

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<sup>3</sup> The Joseph Rowntree Foundation report can be found here: <http://www.jrf.org.uk/publications/monitoring-poverty-scotland-2013>

- **A West of Scotland CAB** reports of a client who is working as a security guard and has had his hours cut. The client's wife works for 3 hours per day and they are struggling to cope financially since the reduction in hours. The couple are using credit cards to pay for housekeeping and their mortgage. They wondered if there was any help available for food.

The support to working families available through tax credits was cut in April 2012, which is further impacting on those who are not in full time employment. Around 11,770 families in Scotland, with over 23,500 children, faced losing their Working Tax Credit payments (worth an average of £2,600 per year) if they could not increase their working hours to at least 24 hours per week. Case evidence from bureaux and other sources suggest that claimants have struggled to increase their working hours in the middle of a double dip recession. The outcome of this change is therefore likely to be that thousands of low income families in Scotland have lost millions of pounds of support.

- An East of Scotland CAB reports of a client who is worried about the changes to Working Tax Credit as she has a letter confirming that their payments will cease at the end of March. Her husband works 17 hours per week which is unlikely to increase. As a result, their income will be greatly reduced and she wanted to know whether there was a benefit she could claim to compensate
- A West of Scotland CAB reports of a family who have received a letter stating that their Working Tax Credit of £73 per week was being stopped. The client's husband works 16 hours per week and has no possibility of increasing his working hours in his current employment. The client states that the family was already struggling financially and was having difficulty paying for gas and electricity. The sudden cut, which the client did not understand, will have a very serious effect on the family's ability to live without running up debts.

### ***Changes to the benefits system***

When the present welfare reforms have come into full effect they will take more than £1.6bn a year out of the Scottish economy. This is equivalent to around £480 a year for every adult of working age.<sup>4</sup>

There is evidence to suggest that benefit cuts and welfare changes are creating an increased demand for advice, which is putting pressure on bureaux to meet demand:

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<sup>4</sup> Report by Sheffield Hallam University for Scottish Parliament Welfare Reform Committee April 2013 see <http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/62069.aspx> excludes impact of switch from RPI to CPI for benefits up-rating.

- **The demand for benefits advice is increasing:** In the last five years, the number of new issues brought to bureaux by clients has increased by around 9%. However, the number of benefit issues has increased by 39% (an additional 50,000 new issues advised on each year). CAB give advice on 730 new benefit issues on an average working day.
- **ESA is a key driver of demand:** Following the introduction of Employment and Support Allowance (ESA), the number of sickness/disability benefit issues brought to bureaux has significantly increased. Bureaux advised on 62,109 sickness/disability benefit issues in 2011/12 – an increase of 55% since 2007/08.
- **Representation at appeals is increasing:** Bureaux represented clients at 5,504 tribunals/court cases in 2011/12, an increase of 62% since 2009/10. This increase is being fuelled by a significant increase in benefit appeals (particularly ESA appeals).
- **CAB help thousands of people to apply for benefits:** Bureaux helped clients to complete 25,893 forms and applications in 2011/12, an increase of over 200% in the last five years. Almost 19,500 of these forms related to benefits.
- **Advice needs are getting more complex:** The complexity of the issues brought by clients is increasing. Clients had an average of 2.69 new issues per visit in 2011/12 compared to 1.79 in 2007/08.
- **More clients are in a crisis situation:** The number of clients needing to be referred for charitable support doubled between 2010/11 and 2011/12.
- **Increasing demand:** Assisting clients with forms and tribunals can be complex and time consuming, which is putting additional pressure on bureaux resources and their ability to assist clients.

### ***Debt and high cost credit***

As income from employment decreases, there is a real danger that citizens will turn to high-interest lenders as a solution to their financial problems. In 2011/12, bureaux took on 15,348 debt cases with a total debt of over £200m. The average debt of a client was just under £13,000.

Citizens advice bureaux have seen a significant change in consumer credit and debt, with a swing away from credit card debts to unsecured personal loan debts, particularly payday loans.

In September 2012, Santander published research which suggested that over 1 million people in the UK are using payday loans to cover the cost of household

bills in a typical month.<sup>5</sup> Research published by R3 in May 2012 predicted that nearly 4 million people would use payday loans in the next six months alone.<sup>6</sup>

Research by R3 found that nearly half the British population (45%) struggle to make it to payday.<sup>7</sup> As economic growth remains stagnant and public sector cuts take hold, this proportion is likely to increase. Another factor is that mainstream consumer credit has become more difficult to access following the 2008 financial crisis. Over the last three years, the number of adults holding and using an overdraft or credit card has fallen by around 1 million.<sup>8</sup> However, while supply of credit has diminished, it has not decreased the demand for it. This has created a gap in the market which has been filled by payday lenders and other high cost credit.

Many bureaux clients face significant difficulties with this type of credit, which does not deal with the fundamental problems of the client's financial situation and can result in further debt. Clients complain of irresponsible lending, unsympathetic attitudes to financial difficulties, and illegal debt collection practices.

- An East of Scotland CAB reports of a client who is married and living with her husband and their 17-year-old son in private rented accommodation. Recently, both her son and her husband lost their jobs. The client is earning around £700 per month (£8,400 per year) depending on her hours which range between 20 and 30 per week. To make up for the lost earnings the client felt she had to take out two payday loans – the first for £500 with a repayment of £625 and the second for £400 with a repayment of £500. The client is now unable to make repayments and is struggling to make the interest payments which now come to £225. The client wanted advice on how to deal with the companies and reduce the amount owed.
- An East of Scotland CAB reports of a client who began using payday loans after she began to struggle with debt. The client and her husband both suffer from depression and her husband was on unpaid leave from work for six months last year. As a result, they are in financial difficulty although her husband does not know the extent of their debt. They are both in full-time work and are homeowners, but have around £30,000 in unsecured debt, including eight payday loans. The client said that she had recently 'resorted' to using payday loans and has had problems with money being taken directly from her account.

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<sup>5</sup> Santander research quoted in [www.thisismoney.co.uk](http://www.thisismoney.co.uk), 12<sup>th</sup> September 2012

<sup>6</sup> R3, *Personal Debt Snapshot: 'Zombie debtors emerge'*, November 2011

<sup>7</sup> Ibid.

<sup>8</sup> GFK, *On the Horizon: Emerging trends that impact retail financial services*, September 2012

### **Food prices**

A range of factors are pushing families and individuals into food poverty and increasing the need for food parcels. The cost of food is one factor, with Oxfam reporting that food prices have risen by 30.5% in the last five years – almost double the rate of inflation and 2.5 times the rate of increase in the National Minimum Wage.<sup>9</sup>

The price of food and pressures on household income are having an adverse effect on the ability of households to afford sufficient and nutritious food. Around 4.7 million are estimated to be in 'food poverty' in the UK (spend 10% of their income on food), with the poorest 10% of households spending almost a quarter of their income on food. This is a worsening trend – food expenditure has increased by 20% in the last five years, but consumption has dropped by 7%.

This is impacting on the type of food that low income households can afford, with many 'trading down' to cheaper and less healthy products. Amongst the poorest households, consumption of every major nutrient has fallen since 2007 and purchases of fruit/vegetables has fallen by 15%.

Many households in food poverty are now falling into food crisis. Citizens advice bureaux have seen a marked increase in the number of clients who require referrals to charities or churches for emergency food aid. The Trussel Trust estimated that their foodbanks will provide food to 280,000 individuals across the UK in 2012/13, with a third being children. Less than 5% of individuals are homeless and many are working.

While the long-term causes of food poverty are complex, it is often failings in the benefits system that is driving people into food crisis. An analysis of 90 clients at a CAB requiring a food parcel shows that around two-thirds were related to the benefits system, mainly involving benefit delays and JSA sanctions.

- A South of Scotland CAB reports of a client who is experiencing hardship due to a delay in a benefit decision. The client was receiving Income Support as a single parent before making a joint application for JSA with her partner. When they made the application, the client's claims for Child Tax Credit, Housing Benefit, and Council Tax Benefit all stopped. Currently the client's only income is Child Benefit. It is now two weeks since they applied but they have heard nothing. When she asked about the delay she reports that they could give no reason and told her they would have to wait for the decision. The client has no money for food, so the adviser

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<sup>9</sup> Oxfam, *The Perfect Storm: Economic stagnation, the rising cost of living, public spending cuts, and the impact on UK poverty*, <http://policy-practice.oxfam.org.uk/publications/download?ld=460571&dl=http://oxfamilibrary.openrepository.com/oxfam/bitstream/10546/228591/2/bp-the-perfect-storm-uk-poverty-140612-en.pdf> [accessed 10/08/12]

signposted the client to a local food bank. The client and her partner have a six month old baby.

- A West of Scotland CAB reports of a client who is reliant on food parcels that he is receiving from local churches. The client is currently homeless and recently received a sanction of two weeks to his JSA claim after missing a signing on date for the second time this year. The client cannot claim a hardship payment or Crisis Loan, so the bureau referred the client for a food parcel. The client approached the bureau two weeks later as he still has no money, cannot afford to travel to the Jobcentre, and is now reliant on food parcels to survive.

### ***Fuel prices and fuel poverty***

By 2011/12, the average annual household energy bill was double what it had been just eight years earlier. At £1250 per year, and set to top the £1500 mark within the next three years, the cost of heating and electricity is an increasing worry for consumers across Scotland.

In addition, the Scottish Government estimates that around a third of all Scottish households are in fuel poverty, spending more than 10% of their disposable income on heating their home to an adequate temperature.

Against that back drop, it comes as no surprise that demand for advice and support on energy issues remains high amongst Scottish consumers. The Scottish CAB Service helped nearly 7,400 people with 9,500 different energy issues in 2011/12.

Clients seeking help with fuel issues are more likely to;

- Be over 60
- Be female
- Be White Scottish
- Be single, widowed or divorced
- Have fewer caring responsibilities than the average client
- Be retired, unemployed or unable to work due to illness or disability
- Live in council rented housing
- Get their only income from a pension or other benefits

The biggest issues being raised by bureaux in 2011/12 were around difficulty paying, problems with switching and incorrect billing.

Difficulty paying for energy cuts across all three categories but has slightly different implications and manifestations in each one. Under fuel debt, for example, the cases highlighted by bureaux regarding difficulty paying are most commonly with regards to prepayment meters recouping an unaffordable amount for arrears every time the consumer tops up.

Within the regulated fuel category, issues with delays in receiving benefits can make paying for energy very difficult, as can sudden unexpected increases in bills. And in the non-regulated category, the biggest issue is around the cost of heating oil and the fact that suppliers will often only deliver a large order, often costing the consumer several hundred pounds at once. Problems with switching were particularly prominent in the regulated fuel sector, with consumers attracted to new companies with promises of lower bills, only to be hit with much higher bills several months into a new contract.

Incorrect billing also caused a great deal of confusion and stress amongst regulated fuel customers, most commonly because of inconsistencies between actual and estimated usage but in some cases, this confusion appears to be due to faulty meters.

It is clear from the experiences of CAB clients in 2011/12 that the high cost of energy is causing detriment to consumers across Scotland. Problems with energy often exacerbate existing issues such as difficulties with benefits, low incomes and ill health. Energy issues can therefore push citizens into debt, worsen existing health conditions and add to the stresses and strains of everyday life at a particularly difficult economic time.

Our evidence shows that there are certain problems affecting particular groups of society disproportionately, and suggests that targeted intervention to help these groups could therefore have a disproportionately positive effect.

- A North of Scotland CAB reports of a client who is on ESA and is spending nearly 40% of her weekly income on her electricity bill and is in fuel poverty. She lives in local authority housing with storage heating with her 18 year old son who is on JSA. The property has a pre-payment meter fitted therefore client cannot go into arrears but she frequently runs out of money and has to sit in the cold and dark until she can borrow money from friends or family members. She doesn't heat all the rooms and quite often goes to bed early or stays in bed late especially in winter.
- An East of Scotland CAB reports of a client who came in asking for help with filling in his DLA form and Community Care Grant. The client has type 2 diabetes, high blood pressure, cholesterol and asthma. He lives in a council house which is full of damp and has been since November 2012. He has contacted the council numerous times and is waiting for them to fix the problem. Upon filling out an application for a community care grant, the CAB became aware that the client did not turn on his heating as it was too expensive. The CAB adviser contacted Scottish Gas who informed them that the warm home discount has now closed and the client can apply in May 2013. He is not eligible for any other discounts. It also emerged that the client has two extra bedrooms so will have to pay 25% towards his rent as he is deemed to be under-occupying. The CAB

advised him to go along to the local housing office at Dundee House and complete a discretionary housing payment as he may be eligible.

### **Council Tax/Water charges**

Citizens advice bureaux dealt with 14,135 new issues related to council tax in 2011/12, including almost 12,000 council tax arrears issues.

Water charges make up a small proportion of advice enquiries at citizens advice bureau, typically totalling around 400 new issues each year. Around half relate to arrears, with the remainder relating to costs/billing, complaints/redress, liability for repairs and water metering in descending order of incidence.

Looking at a snapshot of 148 clients with water/sewerage issues in the last two years, we can see that 80% of clients with these issues are over the age of 45 and 35% are over the age of 65. The majority (58%) live in owner occupier housing, do not have caring responsibilities (71%), and are most likely to be retired (38%).

The following four case studies illustrate the kind of water or sewerage that clients bring to their CAB when they have a problem. Most of these cases (as with most CAB cases) show that the client has several problems in addition to the water and sewerage issue. For example, issues with benefits, particularly council tax benefit are common.

#### **Case study #1**

A North of Scotland CAB reports of a client who visited the bureau in order to set up third party deductions for council tax arrears. The client was also looking for help with making a claim for repayment of payment protection insurance and for support finding funds for new mattresses for his children.

The adviser contacted the local council who agreed to make an application for third party deduction but warned it could take up to a year as they have a backlog. The adviser suggested contacting the Sheriff Officers to make the minimum offer of £3.55 p/w in order to prevent further action whilst the third party deductions were being processed.

The client was advised by the bureau to ensure he set up a method of payment to pay his ongoing water and sewerage charge to prevent further arrears accruing which could jeopardise any repayment plan.

#### **Case study #2**

A West of Scotland CAB reports of a client who recently moved from Incapacity Benefit to Income Based Employment and Support Allowance in September

2011. She received a Council Tax Benefit overpayment letter soon after, saying she owed £935.04. The CAB contacted the local Council Tax Benefit Department who said they have a "legal requirement" to send an overpayment letter even though the new bill would show full Council Tax Benefit and no overpayment. The adviser helped set up a payment plan arranged for water/ sewage component of Council Tax.

### **Case study #3**

A West of Scotland CAB reports of a client who is 26 weeks pregnant and lives alone. Until recently she was a full time student but left due to pregnancy related condition which causes sickness. The client has been admitted to hospital a few times as the condition is quite severe and her GP has advised client she is likely to be admitted for the final trimester. She has lost 2 stone due to the condition.

The client was in receipt of Employment and Support Allowance (ESA) due to the illness but was found fit for work and told to claim Job Seekers Allowance. If she doesn't claim JSA, she'll lose her benefit. The client was under the impression that when she went on to ESA her rent and council tax would be covered by housing benefit and council tax benefit. However she's now in rent arrears and council tax arrears. She wasn't aware that council tax benefit didn't cover water and sewerage charges.

### **Case study #4**

A North of Scotland CAB reports of a client who is on Job Seekers Allowance (JSA) and shares a private rented property with three others, two of whom are in full time employment and the third is on JSA. The tenancy lease is in all 4 names.

The client has a weekly deduction of £3.40 from his JSA for Council Tax (Water and Sewage). The client is in receipt of full housing benefit and council tax benefit.

He has recently found out that the other tenants have not been paying Council Tax and that only the two tenants on JSA are being pursued for Council Tax. He has discussed this with his flatmates but they do not seem willing to address the situation. He has been to the CT office who have confirmed the amount due and informed him that there would be a liability in the region of £1000 arising for the next period. Client wanted to know why he is the only member being pursued for the outstanding amount.