

**Report to:** Cabinet

**Date:** 27<sup>th</sup> November 2008

**Subject:** Credit Crunch

**Report of:** Service Director, Customer Transformation

**Contact officer:** Steve Peddie 01942 827130

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**Purpose / summary:**

New research tells us that almost one in four families in the Northwest are suffering stress or depression and are at breaking point because of the so-called 'credit crunch'.

People are often unable to meet their housing costs and are experiencing repossession and homelessness; they are spending less on food and fuel - particularly older people; they are taking on new loans or adding to credit card and store card debt that they then cannot meet.

As part of a number of information-sharing exercises – in this case between statutory and voluntary sector information and advice providers - a group of officers and elected Members met together in order to find out:

- a) What the experience is on the ground
- b) Whether, in working in a co-ordinated way, advice and information services can be more effective and whether there are any gaps in service provision or geographically
- c) Whether the Council can be more effective or add more contribution directly or through influence - conversely whether the Council is doing anything that adds to people's existing hardship and what it can do to avoid that.

**Alternative options considered and reason for selecting the one recommended:**

A **presentation at Cabinet** will provide a fuller picture, not only in terms of a wider range of information, but in terms possibly of recommendations.

**Recommendation / decision:** Cabinet is asked to look at the picture presented of the effects in Wigan of the credit crunch and of the suggested means of impacting positively on the lives of the citizens of the Borough during this time of extreme hardship

**Key Decision:** This report does not involve a key decision. The decision made as a result of this report will be published within **48 hours** and cannot be actioned until **seven working days** have elapsed, i.e. before 8<sup>th</sup> December 2008

**Risks / Implications:**

Financial:	Some financial implications. The report refers to small levels of resource required and to treatment of debt to the Council
Staffing:	None
Policy:	Debt recovery policy
Equal Opportunities - Has a Diversity Impact Assessment been conducted?	A formal DIA has not been conducted but this report is germane to a number of the 7 social identities – in particular, class and age.
Wards affected:	All

**Property Implications – Does the proposal involve a reduction, addition or change to the Council’s asset base or its occupation?**

No

**If yes, have the property implications been agreed with the Corporate Property Officer?**

**Does this proposal have significant implications for the Council and the local population?**

Yes

**Does this proposal involve a new policy or procedure or significant changes to an existing policy or procedure?**

No

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Has the Service Director - Borough Solicitor confirmed that the recommendations within this report are lawful and comply with the Council’s Constitution?	<b>Yes</b>
Has the Service Director - Corporate Services confirmed that any expenditure referred to within this report is consistent with the Council’s budget?	<b>Yes</b>
Are any of the recommendations within this report contrary to the Policy Framework of the Council?	<b>No</b>

\* delete which applicable

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**For Cabinet reports only :**

Categorisation of the report:	<b>X</b>
Discussion leading to a decision	<b>X</b>
Monitoring	
Sharing for corporate understanding	

	<b>X</b>
Discussion	
Decision	
Information	

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**Tracking/Process:**

	Consultation	Ward Members	Partners
Panel	Overview & Scrutiny	Cabinet	Council
		27 <sup>th</sup> November 2008	

There are no background papers to this report.

Proper Officer      Steve Peddie  
Date                      17<sup>th</sup> November 2008

**Credit Crunch**

**This report will be accompanied by a short presentation**

**1. Background**

**1.1.** It hardly needs re-emphasising that Wigan has 29 lower super output areas in the most deprived LSOAs nationally and that 10 of them fall within the 3% most deprived, but it serves to set the scene when looking at Northwest figures. New research by Shelter tells us that almost one in four families in the Northwest are suffering stress or depression and are at breaking point, and we can probably assume that a greater proportion of them live in Wigan.

People are often unable to meet their housing costs and are experiencing repossession and homelessness; they are spending less on food and fuel - particularly older people; they are taking on new loans from dubious lenders or adding to credit card and store card debt that they then cannot meet.

**1.2** As part of a number of information-sharing exercises – in this case between statutory and voluntary sector information and advice providers - a group of officers and elected Members met together in order to find out:

- a. What the experience is on the ground
- b. Whether, in working in a co-ordinated way, advice and information services can be more effective and whether there are any gaps in service provision or geographically
- c. Whether the Council can be more effective or add more contribution directly or through influence - conversely whether the Council is doing anything that adds to people's existing hardship and what it can do to avoid that.

**The following facts and suggestions about action to be taken are a result of that meeting.**

## **2. Detailed Findings**

**2.1** Colleagues report for quarter 1 of this financial year that at 280 in the quarter, mortgage possession claims in Wigan County Court were up 19% in the previous year and that landlord possession claims had gone up by 24%. By quarter 3 (just reported), CAB saw 108 mortgage arrears clients. Legal Services statistics report that CAB sees around 25% of the mortgage list so we can assume the actual figure is over 400. In itself, 108 is up 32% on the previous year.

**2.2** Referrals on Council tax arrears are reported to be up by 90%, referrals for private bailiffs are up 300% and the behaviour of lenders - not just sub-prime lenders - is tending to be one of reacting more quickly to unpaid debt and somewhat more punitively. The total value of outstanding loans was, however, up by 10% in Q1 compared to the previous year Q1, and 50% of new lending is accounted for by remortgaging. The total number of loans in arrears rose to 15% in Q1 of 2008 and it is assumed the percentage is now much higher based on anecdotal evidence. And borrowers are said to be staying in arrears for longer<sup>1</sup>.

**2.3** Average household income in Wigan is well below both the national and regional norm. A significant proportion of Wigan people are on low to average incomes, and research suggests that 38% of them are being forced to spend more than half their income on housing. Those with the lowest household incomes (less than £10,000 p.a.) are said to be most likely to struggle with housing costs - 55% of social housing tenants are on such incomes.<sup>2</sup>

Local evidence suggests that those tenants are struggling most because they are having to make up the shortfall in rents where housing benefits is insufficient to cover the full cost; this gap is plugged using income for food and heating. The shortfall is around £30-£40 per week according to the Housing Allowance Safeguard Team.

**2.4** Local information from all agencies indicates, however, that the new problem, as we head deeper into the credit crunch crisis, is being felt in the form of an increasing number of referrals of people where incomes are at or around £25,000 p.a. These people are somewhat hidden by bald unemployment statistics: they may

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<sup>1</sup> Quarterly Mortgage Lending and Administration Return

<sup>2</sup> Shelter: Breaking Point

be still in work but, commonly, hours have been cut. Also they may have been one of a two-income household but now find they are down to one income. Their debt is usually much higher and more complicated to sort out and they have been 'robbing Peter to pay Paul' - leading to longer periods of debt or payments not made. Stephenson Solicitors report more people going to high lending rate companies and that one of the main problems for this group is that middle income Wigan families are not eligible for legal services.

**2.5** CAB has seen a 35% increase in debt clients. They now see 39 clients per month on the court desk - a 77% increase since September 2008. 60% of these have a mortgage and the experience is that there are very low self-referral rates for debt advice<sup>3</sup>. Whilst a triage system is now in place in order to ensure those with the most pressing need are seen most quickly the capacity of all the advice services is severely stretched and cannot meet current demand. In addition the standard 4 hour one-to-one time for which agencies are paid by LSC is insufficient to meet the complexity of clients' cases. Evening sessions are being offered in both Wigan and Leigh.

- Bankruptcy referrals are up 360%
- Rent arrears is up 45%
- Mortgage or unsecured loan arrears are up 42%
- Credit card / store card referrals are up 79%
- Bank overdraft problems are up by 63%
- Private bailiffs are up by 300%
- Council tax arrears are up 90%

**2.6** A number of agencies report that doorstep lenders are creating misery for people already in poor circumstances and that there is a low level of awareness of the Credit Union. Although it has relatively high lending rates the Credit Union is considerably better than the 1000% rates of some 'loan shark' agencies. Unfortunately the Credit Union has a 3 week waiting list already and creation of new demand will only add to the problem unless more resources can be made available. Also regrettably some of the most unwanted high interest lenders are finding a way onto the local shopping street.

**2.7** Age Concern report that inflation rates for pensioners are running at between 9% and 15%. There is a reported increase in fear in older people that they will not be able to meet their fuel costs so they are cutting back. Age Concern are trying hard to meet demands for advice on income maximisation - e.g. pension credit, DLA, council tax benefit and so on - but similarly warn of an alarming pattern where 'better-off' pensioners - who are only asset and not cash rich - are not making ends meet. There is a call to do some targeted work on pension credit under claiming - particularly one-to-one work with the 60% of clients who are not mobile and cannot get out, and their carers. Needless to say, there is a real concern around fuel poverty and of its effects this winter.

**2.8** 73% of debt clients generally (not only older people) have fuel poverty issues and are more than likely to access their fuel supply through pre-pay metering which is a more expensive form of payment. Fuel poverty is a major winter problem for older people and those with very young children.

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<sup>3</sup> Bristol University research echoes this experience nationally

The super output areas with highest fuel poverty need are as follows:

Leigh Central  
Swinley  
Leigh East  
Leigh Central  
Hindsford  
Hindley  
Abram<sup>4</sup>

**2.9** WIAC reports a real problem in repossessions, with demand for benefits advice again outstripping supply. Also for advice from a variety of other organisations and not just from affected individuals. There is some good news for those eligible for the new mortgage interest payment relief - but those over 60 can be better off than those under 60 because of applicable amounts for means tested benefits. Again it was reported that agencies were experiencing demand from a new client group - a group which had not previously ever found themselves in need of debt and benefit advice.

Because of the precipitous actions of even the main high street mortgage lenders at the moment it was felt there may be a need for the Council to convene a meeting of local mortgage lenders.

**2.10** The Housing Benefits service will give advice to all who enquire. The service finds itself with a much higher level of referrals but again with clients that eventually may not qualify for housing benefit and therefore become 'nil claims'. So caseloads are not up but work is. Often, again the typical case is where two earners in a household are reduced to one, but mortgage commitment is extremely high.

**2.11** In terms of Council contribution the most obvious contributory difficulty appears to be the approach taken with debt recovery. A large proportion of those with debts have debts to the Council included in their list of debt responsibilities. The Council reports that it is taking a responsible approach to rescheduling of those repayments wherever possible - some payment is better than none at all. However, the Council is judged by the Audit Commission on the effectiveness of its debt recovery and some officers are feeling a tension between the imperative to meet performance indicators (and ensure that council tax payers do not shoulder the burden for no-payers) and to meet individuals' credit crunch experiences with compassion.

### **3. Summary for the Advice and Information Services**

**3.1** In summary information and advice agencies appear to be working well together and dealing best with 'traditional' referrals where services are already targeted at them. There does not appear to be inefficient overlap - agencies are using each other and are complementary.

There appears to be a gap in help and support for the middle income resident: someone still in work but going increasingly into debt to meet the shortfall between outgoings and incomings. They are initially not accessing advice services early

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<sup>4</sup> Courtesy CAB

enough and then secondly finding benefits unavailable to them. CAB is dedicating an increasing amount of surgery time to Wigan Council employees themselves.

**3.2** Repossessions are a potential time bomb. The effects are far-reaching; homelessness rates, already high, lead to higher unemployment, family breakdown and stress related mental illness. Statistics show that defendants in mortgage possession hearings at Wigan / Leigh court have a much greater chance of keeping their property if they consult and gain help (including CAB County Court Helpdesk) before the hearing - 64% in such circumstances are suspended.

**3.3** The sub-prime lending market is known to move to litigation more quickly than mainstream lenders in normal circumstances. Current evidence is that high street lenders (prime lenders) are following similar patterns of moving to litigation quickly and have begun to instigate proceedings for less than £1,000 arrears - in one case for as little as £472.

There is a lack of financial literacy and budgeting skills around - particularly where families have not had to do so in the past.

Fuel poverty is a real issue this winter - particularly for our older people and low to middle income families with very young children.

#### **4. Conclusion - Top 10 Actions**

The conclusions drawn from these findings are that there is a shortlist of 10 actions recommended for consideration within the Council:

1. There is a need for a Corporate Debt Strategy, which will create a positive model for creditors 'out there'
2. We need to consider providing an additional emergency funding pot right now to enable advice agencies to draw on it to provide extra capacity, particularly out of core hours
3. We need to liaise with Credit Union around enabling them to reduce waiting list times
4. We need a media campaign of public awareness around available places and numbers to access debt advice and benefit maximisation - concentrating on a targeted campaign at 'middle-income Wigan'
5. We need to be mobile and visible in places where 'middle-income Wigan' can find us - e.g. town / shopping centres, school gates, nurseries, supermarkets
6. We need to embark on a concerted campaign of income maximisation for older people and their carers - on a 'case-finding' basis - possibly by training people from universal services to 'spot' advise / refer
7. We need to map capacity for information and advice according to client group and accessibility around the Borough

8. There are some generic self-help packs available. We need to consider quickly their usefulness and whether we need a specific Wigan pack for use by all Wigan information and advice agencies
9. We need to consider whether a high level meeting is required between local mortgage lenders and Council Leaders
10. We need to consider whether planning rules can be used to prevent the high street presence of sub-prime lenders

### **Recommendation**

Officers have drawn up a short action plan with officer responsibilities for each agreed. Cabinet colleagues are invited to discuss these plans and, of course, to add to the range of ideas that may make a difference.