

StepChange submission to the Equality and Social Justice Committee inquiry into the level of indebtedness during the pandemic and personal, household and consumer debt

About

StepChange Debt Charity is the UK's leading specialist debt advice charity, offering free and impartial advice to those in problem debt across the UK through telephone and online debt advice channels. The statistics in the appendix of this submission are based on a sample of 5,670 clients resident in Wales that StepChange provided full debt advice to in 2020.

Responses to committee questions

The effectiveness of the Welsh Government's overall approach to tackling debt-related issues during the pandemic, and to consider how its policy might need to develop over the coming months to address upcoming challenges.

- StepChange has commissioned public polling to understand the impact of the Covid-19 pandemic on financial difficulty and problem debt. Our most recent polling was conducted in January this year.¹ The table below sets out high level impacts on adults in Wales at that time.² We understand the Bevan Foundation will shortly publish more recent analysis of the impact of the pandemic on debt in Wales.

	%
Long-term income fall since March 2020	29%
Signs of financial difficulty	21%
Problem debt	7%

¹ StepChange (2021) [*Stormy weather: The impact of the Covid-19 pandemic on financial difficulty in January 2021*](#)

² All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 3,458 adults, including 181 adults in Wales. Fieldwork was undertaken between 25 and 27 January 2021. The survey was carried out online. The figures have been weighted and are representative of all GB adults (aged 18+).

Income fall means a respondent experienced a fall in income since March 2020 that affected their ability to pay for day to day expenses and their income had not recovered in January 2021.

'Showing signs of financial difficulty' is defined as meeting one or more of nine indicators including falling behind on essential bills and regularly using an overdraft; 'problem debt' is defined as meeting three or more of these criteria.

Arrears on household bills includes council tax, rent, mortgage, energy, water and telecoms.

Hardship is includes having fewer than two meals a day for two or more days, rationing or going without basic utilities for five or more days and going without clothing or footwear appropriate for the weather (in each case we specify that respondents go without these things because they cannot afford them).

'Run down savings' means a respondent stated they have used more than half of their savings to pay for essentials since March 2020.

Arrears on household bills	10%
Experienced hardship	18%
Borrowed to make ends meet	25%
Run down savings	6%
'Certainly' or 'probably' unable to pay for essentials in next 12 months	10%

These figures are broadly comparable to the rest of the UK. Notably, our figures suggest that a higher proportion of Welsh adults have experienced hardship (18%) compared to England (11%) and Scotland (14%).

- We note later in this submission the impact of the pandemic on StepChange's service. The impact of the pandemic on the total number of people experiencing problem debt in Wales is difficult to gauge at this stage. However, we can make some high-level observations:
 - Demand for debt advice has fallen during the pandemic. This is likely to reflect UK-wide interventions such as the Coronavirus Job Retention Scheme as well as a series of measures by regulators to protect those struggling during the pandemic. This includes, for example, payment holidays introduced by the Financial Conduct Authority, the 'evictions ban' and other agreements between utility regulators and providers. These measures seem to have been somewhat successful in preventing financial crisis driven by consumer credit debt and arrears on household bills. (This is not to say that these interventions have prevented hardship, which evidence suggests has risen during the pandemic.)
 - It is evident from our own and wider research that, notwithstanding demand for full debt advice, the pandemic has had a big negative effect on some households (as reflected in the above statistics). Our polling suggests that those who were more debt vulnerable at the outset of the pandemic are among those more likely to be affected negatively – we provide more detail about these groups below. Many who were not struggling with debt at the outset of the pandemic have also experienced difficulty (such as mortgagors in affected sectors). Debt and arrears among those affected may yet crystallise into acute problems in coming months.
 - Some who were in difficulty at the outset of the pandemic have benefitted from reduced expenses and/or savings and may now be less likely to be struggling with debt. At an aggregate level, it is therefore important to understand not only the total number of households experiencing financial difficulty but the change in composition and experiences within this group.
- Aspects of the devolved safety net in Wales are likely to have mitigated the negative impact of the pandemic on Welsh households to some degree, including the more generous (compared to England) Welsh Council Tax Reduction Scheme, the Council Tax Protocol for Wales and



the Discretionary Assistance Fund. We also note the Welsh Government created the Tenancy Saver Loan Scheme during the pandemic (we comment further on this support below).

- Financial difficulty caused by the pandemic is likely to have a scarring effect on the financial resilience of some Welsh households and increase vulnerability to problem debt. Over the coming months, the Welsh government, working with local authorities, can help these households by:
 - Supporting those with arrears on priority bills, particularly council tax and rent to address these debts safely and affordably. This includes re-emphasising the importance of the Council Tax Protocol for Wales and responsible council tax collection, ensuring eligible households benefit from the Welsh Council Tax Reduction Scheme and supporting councils to address irrecoverable arrears.
 - Ensuring Discretionary Housing Payments and the Tenancy Hardship Grant reach households struggling with Covid-19-related arrears (including revising eligibility criteria if necessary). The Welsh government should also consider further steps to prevent arrears-related evictions caused by the pandemic before the Renting Homes (Wales) Act 2016 comes fully into force.
 - Continuing to support and promote alternatives to borrowing to make ends meet and high-cost credit for those in financial difficulty. This includes building on lessons from the Discretionary Assistance Fund during the pandemic, working with local authorities to direct households in financial crisis away from high-cost borrowing (for example, through debt advice and responsible lenders), and engaging with the no-interest loan scheme pilot to shape a scheme that is well-designed to meet needs in Wales.

In the longer term, the pandemic should prompt a renewed focus on financial inclusion and supporting households to build financial resilience.

The impact of individual debt on public services during the pandemic and beyond, and to explore whether changes could be made to the approaches that public bodies are taking to debt recovery.

- We note that research produced by the Welsh government indicates that there has been an increase in the proportion of households with low incomes in council tax arrears during the pandemic.³ We welcome the proactive measures the Welsh Government has taken to spread best practice in council tax debt collection through the Council Tax Protocol for Wales. However, this protocol operates within the context of a mandatory process that requires a demand for full payment shortly after a bill is missed and escalation to court. It is vital that council tax regulations are amended to prevent counter-productive escalation of council tax

³ Charlesworth, Z. et al (2021) [Understanding the impact of Covid-19 on the Council Tax Reduction Scheme in Wales: Final Report](#). Cardiff: Welsh Government, GSR report number 53/2021.

arrears and provide greater flexibility to councils to tailor collections activity and respond to evidence of financial and other vulnerability among those in arrears.

- More generally, StepChange believes that there needs to be a statutory overarching framework that binds government debt management processes to accepted principles of good debt management practices. This could be based on the Fairness Principles contained in the Digital Economy Act 2017, which would establish clear standards around affordability and vulnerability and ensure consistency of treatment for those who owe money to government organisations.

The impact of the pandemic on take-up of debt advice services, and to understand the implications of future demand for Welsh Government policy.

- In 2020, around 500,000 people began a debt advice session with StepChange compared to 650,000 in 2019. After falling significantly in the early months of the pandemic, when regulators put in place payment holidays and agreed exceptional temporary measures with firms and utility providers, demand for debt advice has somewhat recovered but remains lower than at the outset of the pandemic. This is true of demand for StepChange's service in Wales as well as the wider UK.
- Future debt advice demand is difficult to predict. In addition to the varying impact of the pandemic on financially vulnerable groups, some measures put in place by regulators during the pandemic remain in place. This includes the FCA's 'tailored support guidance', which requires firms to take exceptional steps to support customers in financial difficulty, alongside agreements between utility regulators and providers. Many local authorities, housing association and landlords also appear to have adapted their approach to debt collection during the pandemic. These steps, alongside the pandemic income protection schemes, appear to have mitigated acute payment pressures for many. The extent to which these steps have fully addressed financial difficulty is likely to become clearer in coming months.

How different groups have experienced debt issues throughout the pandemic, and whether Welsh Government policy interventions have met the needs of particular groups.

- We have provided data in a short appendix about the make-up of StepChange clients in Wales in 2020. In keeping with the wider UK population, our experience is that certain groups with low financial resilience (for example, having lower savings or assets) and who are exposed to more risk factors are more vulnerable to problem debt. Notably, a high proportion of our clients are single parents, are younger than average and are renters. 54% of clients had an additional vulnerability such as a health problem (including mental health).
- At a national level, the experience of different groups during the pandemic reflects a combination of pre-existing debt-vulnerability and pandemic-specific impacts. In our April

'dashboard' assessment of the impact of the pandemic, we highlighted six groups as particularly vulnerable to financial difficulty and hardship arising from the pandemic:

- **Parents with a child under 5** – While parents are not significantly more likely than average to have been impacted financially, those with young children who were affected are more likely to have experienced negative impacts such as arrears on household bills and hardship, and to have resorted to credit to make ends meet.
 - **Single working age adults** – Single adults are more likely to have experienced an income fall, particularly those in younger age groups, and are significantly more likely than average to have experienced negative impacts.
 - **Those with a minority ethnicity** – Those with a minority ethnic background are significantly more likely than average to have experienced a prolonged fall in income, hardship and negative financial impacts. FCA analysis (among other sources) highlights how this experience reflects pre-existing labour market differences and notes the range of experiences among different subgroups.
 - **Single parents** – Single parents have the highest levels of problem debt, hardship, arrears and borrowing to make ends meet among standard household definitions. Single parents are less likely to have run down savings; this likely reflects lower pre-existing levels of savings.
 - **Young renters** – Renters under 35 have a higher than average likelihood of being affected by the pandemic and experiencing negative impacts—notably more so than young people with a mortgage or who live rent-free or pay board.
 - **Self-employed and insecure workers** – Those who are self-employed or run a small business are most likely to have experienced a fall in income due to the pandemic, followed by those whose hours or earnings fluctuate, many in roles typically described as 'gig economy' work. Workers in these groups are also more exposed to negative impacts.
- We are particularly concerned about those negatively impacted by the pandemic in the private rented sector who are vulnerable to housing insecurity and eviction. We comment below on the support available to this group in Wales.

The effectiveness of mechanisms such as the Discretionary Assistance Fund and affordable credit in providing assistance to those most in need during the pandemic, and what changes could improve future delivery.

- StepChange has called for a national package of financial support for struggling renters affected by the pandemic. Having established the Tenancy Saver Loan scheme, we note that the Welsh Government has converted the scheme into Tenancy Hardship Grant in recognition of the need to widen access to those who cannot afford to repay a no-interest loan. Awareness of the scheme is vital, particularly as the scheme may be accessed by those not receiving social security (and is targeted at those not receiving housing support through Universal Credit or legacy benefits).

- We welcome the Welsh Government’s decision to allow up to five (rather than three) Emergency Assistance Payments through the Discretionary Assistance Fund up to the end of September 2021. We do not have evidence of the specific impact of this step, but our experience of debt advice shows that over-indebtedness is often driven by repeat borrowing needs. Providing a viable alternative to desperation borrowing is likely to help prevent or mitigate debt problems.

This noted, our polling suggests that while approximately 13% of those in Wales who experienced a fall in income during the pandemic accessed local support (including support from a foodbank, other voluntary organisation or local authority), 56% borrowed to make ends meet. We estimate that 26% of this group used one or more form of high-cost credit. This suggests that while local support, including grants is somewhat effective, there is substantial unmet demand for alternatives to borrowing.

- StepChange has made the case for further investment in a range of options to meet the needs of those at risk of, or experiencing, acute financial difficulty to prevent and end harmful debt spirals. This includes wider access to grants for those who cannot afford to repay loans as well as new national no interest loan schemes. We note that the Westminster government recently announced a no-interest loan scheme pilot, including a pilot based in Wales, and articulated the ambition to test and scale this scheme up nationally.⁴
- Demand for emergency payments is, in part, a signal that standard social security payments are inadequate. Those relying on support are unable to meet fluctuations in essential costs or build a buffer against unpredictable expenses. Alongside the need to maintain and increase the value of social security payments in Westminster, this also speaks of the need to closely integrate social security and wider public policy measures that support financial resilience. We welcome the debate about developing a simplified ‘Welsh social security’ offer encompassing devolved support and would encourage stakeholders to consider how financial resilience can be promoted through devolved policy.

Appendix

	Gender
Female	59%
Male	41%
Other gender identity	0.12%

⁴ <https://fair4allfinance.org.uk/news/plans-announced-for-new-uk-wide-no-interest-loan-scheme-pilot>

	Household
Couple with children	21%
Couple without children	14%
Single with children	22%
Single without children	42%

	Housing tenure
Renting - private landlord	34%
Living with family	15%
Mortgaged	14%
Renting - Council or Housing Association	14%
Renting - Housing Association	13%
Owns property outright	4%
Board payment (not with family)	2%
Other	2%
Shared ownership (mortgage and rent)	1%

	Employment status
Full-time employed	35%
Part-time employed	15%
Unemployed: looking for work	15%
Not working due to illness or disability	14%
Unemployed: not looking for work	10%
Retired	4%
Carer	3%
Student	2%
Zero hours contract	2%

	Priority arrears ⁵
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⁵ % clients in Wales with responsibility for that bill and in arrears.

Council tax	35%
Gas	26%
Electricity	27%
Water	33%
Rent arrears	25%
Mortgage	17%

