

Equality and Social Justice Committee: Follow-up work on debt and the impact of the rising cost of living

Introduction

The current cost of living crisis should not be seen in isolation. For many people living with debt, this current crisis is the culmination of years of disadvantage brought about by 10 years of austerity measures which depleted the provision of support services for vulnerable people; the UK Government's programme of welfare reforms which, the Equality and Human Rights Commission reported¹, had the most detrimental impact on those with protected characteristics; the financial impacts of the pandemic which saw the jobs of those with protected characteristics and young people far more likely to be affected²; the financial impact of our exit from the European Union and now the cost of living crisis.

For low income households, their ability to weather the financial storm is hampered on a number of fronts:

- A key driver of inflation is the increased cost of energy, which lower income households spend more of their household budgets on compared to higher income households³.
- The capacity of low income households to trade down when buying their groceries is limited as, often, they are already buying value products. This has meant that inflation has had a significantly greater impact than for others who can make the change to cheaper brands.
- Low income households also spend a greater proportion of their income on essential goods such as food⁴, meaning their ability to cut back is significantly limited. In addition, food is currently one of the main drivers of inflation, rising prices are hitting the poorest households the hardest.

It is rare that debt is the only problem a person will have. It makes no sense to tackle a person's debt, if they also have a welfare benefit problem, or a housing problem that is left unresolved. This is why debt advice is delivered through the integrated Single Advice Fund, where a person will get advice to resolve their debt problems, together with support and help to resolve other social welfare problems. This ensures any underlying causes of debts are tackled, enabling people to take more control of their finances. In 2023 –24, £11m grant funding will be made available to Single Advice Fund services. This will fund the provision of a framework of generalist and specialist advice services that are accessible to the most vulnerable members of our society.

The importance of our holistic income maximisation services for people struggling with their financial commitments cannot be overstated. However, as the demand for access to these services continues to increase (in part the result of successful Welsh Government publicity campaigns, such as Here to Help/Claim What's Yours) some of the demand will have to be met by people being channelled to online self-help resources. Guiding the people to online resources where they can self-serve their own problems will need careful

¹ [The effect of tax and welfare reforms | Equality and Human Rights Commission \(equalityhumanrights.com\)](https://equalityhumanrights.com/)

² <https://phw.nhs.wales/publications/publications1/covid-19-and-employment-changes-in-wales-what-we-know-about-current-and-future-impacts/>

³ IFS – [The long squeeze: rising inflation and the current government support package](#)

⁴ ONS – [Family Spending in the UK: April 2020 to March 2021](#) Dataset can be access [here](#).

management and we need to be confident that people are accessing quality assured resources.

The Office of National Statistics (ONS) reports⁵ that median disposable income for the poorest fifth of the population decreased by 3.8% to £14,500 in financial year ending (FYE) 2022. This compares with an increase in median disposable income of 1.6% to £66,000 for the richest fifth of people. Median household disposable income in the UK was £32,300 in the FYE 2022, a decrease of 0.6%.

The Joseph Rowntree Foundation has reported⁶ that pensioners and benefits claimants have seen the value of payments fall in real terms in eight out of the last 10 years.

A report⁷ by the Lloyds Bank Foundation has found that the UK Government policy of making deductions from people's Universal Credit payments to claw back overpayments or advances is "driving impoverishment and further debt, particularly hitting the most vulnerable."

UC payments can be cut by up to 25% under the policy, with the most frequent deduction being recovery of advances. These are given to cover expenses during the five weeks claimants must wait before the first Universal Credit payment is made. 44% of those receiving Universal Credit have money automatically deducted.

We continue to call on the UK Government to put a stop to this arbitrary five week wait for Universal Credit payments which is the root cause of severe financial hardship and distress for many people, with a number turning to our Discretionary Assistance Fund for urgent financial assistance because of the difficulties this policy causes for them.

The [House of Commons' Work and Pensions Committee](#)⁸ has called for deductions to recover debts to be paused to give struggling households breathing space during the cost-of-living crisis.

ONS data (for Great Britain) from the Opinions and Lifestyle Survey looks specifically at the experiences of different groups of the population in having difficulty affording or being behind on their energy, rent or mortgage payments⁹. This shows in the period 22 June to 11 September 2022:

- Over half (55%) of disabled adults reported finding it difficult to afford their energy bills, and around a third (36%) found it difficult to afford their rent or mortgage payments compared with 40% and 27% of non-disabled people, respectively.
- Around 4 in 10 (44%) White adults reported finding it difficult to afford their energy bills, compared with around two-thirds (69%) for Black or Black British adults and around 6 in 10 (59%) Asian or Asian British adults.
- Around 6 in 10 (60%) renters reported finding it difficult to afford their energy bills, and around 4 in 10 (39%) found it difficult to afford their rent payments compared with 43% and 23% of those with a mortgage, respectively.

⁵ [Average household income, UK - Office for National Statistics \(ons.gov.uk\)](#)

⁶ [Main out-of-work benefit sees its biggest drop in value in fifty years | JRF](#)

⁷ [Deductions: Driver of Poverty | Lloyds Bank Foundation for England and Wales](#)

⁸ [The cost of living \(parliament.uk\)](#)

⁹ ONS - [Impact of increased cost of living on adults across Great Britain: June to September 2022](#)

- Around half of those with a personal income of less than £20,000 per year said they found it difficult to afford their energy bills; this proportion decreased as personal income increased, with around a quarter (23%) of those earning £50,000 or more reporting this.
- The Resolution Foundation has also highlighted concerns around severe food insecurity (where people more regularly run out of food or have gone for multiple days in the month without eating sufficiently because they cannot afford food) particularly for single parent families, families with three or more children, those receiving means-tested or disability benefits, and certain non-white ethnic groups¹⁰.

Citizens Advice has reported the number of people the organisation has helped with debt issues is on an upward trend, increasing in every month for the last 5 months.¹¹ It highlighted its concerns that, as an increasing number of people struggle with their bills, more people are getting into debt and the levels of their debt are growing. They have found that the average energy debt of disabled people or people with a long-term health condition has increased by over 25% between 2019 and 2022 compared to just under 10% for people without a disability or long-term health condition.

The evidence demonstrates it is the most vulnerable people who are facing the toughest financial struggles and the impact of problem debt upon the well-being of individuals and their families can be negative and long-lasting. Targeting advice and support to those in most need is the key aim of the Single Advice Fund, and its collaborative delivery model is proving effective. For example, in the last year, 83% of people accessing Single Advice Fund services identified themselves as coming from a population group who are being hardest hit by the cost of living crisis, including older people, disabled people, and people from Black, Asian Minority Ethnic Communities. By maintaining the grant funding for the Single Advice Fund in 2023-24, the Welsh Government can be confident that its advice and support services will reach vulnerable people who are in the greatest need.

Stakeholders have noted a worrying trend amongst people seeking debt advice. There has been a significant increase in the number of people who have a deficit budget (household income does not cover essential expenditure). For example, StepChange Debt Charity, reported in October 2022 that one in three new clients had a deficit budget¹². Citizens Advice Cymru's Cost of Living Review 2022¹³ highlights the proportion of people seeking advice with negative budgets has grown from 39% in 2019-20 to nearly 50% in 2022. Those more likely to have a negative budget include 'single people (including single parents), private renters and people with a disability or long-term health condition.' The debt solutions available to people with a deficit budget are those that involve a debt being wrote off possibly through the use of a Debt Relief Order (DRO). Whilst resolving a person's immediate debt problems, a DRO will not address underlying issues, therefore new debts may accrue, and people awarded a DRO may face struggles to access affordable credit. Deficit budgets are impacting households across the UK and sustainable solutions will need collaborative input from UK and Devolved Governments.

Debt has the effect of perpetuating the impact of economic shocks such as those brought about by the pandemic and the cost of living crisis. While others are able to recover financially, those in debt continue to struggle.

¹⁰ Resolution Foundation - [The Living Standards Outlook 2023](#)

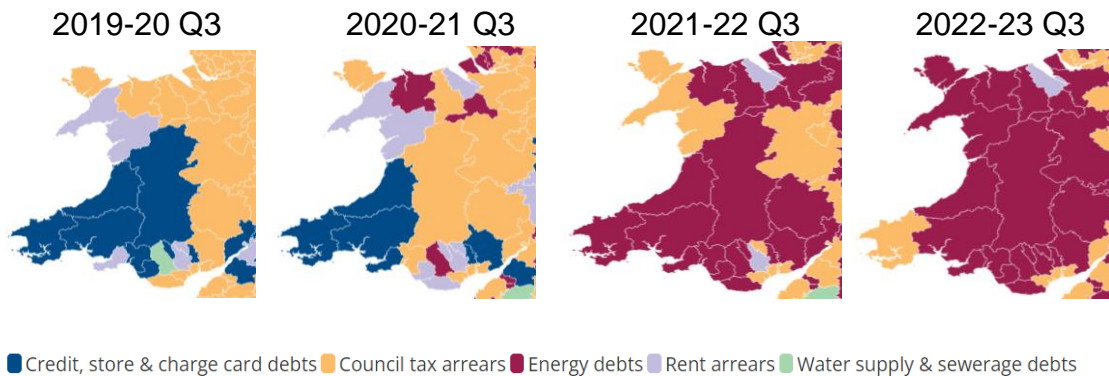
¹¹ [The cost-of-living support won't prevent a bleak Christmas for many | by Jonny Tatam-Hall | Dec, 2022 | We are Citizens Advice](#)

¹² [Making Ends Meet. Our Client Research. StepChange](#)

¹³ [2022 in review: Citizens Advice Cymru cost of living dashboard | Flourish](#)

Citizens Advice has mapped the top debt issues faced by people in each local authority area in Wales by financial quarter. Figure 1 shows that the most common form of debt has changed from being credit, store and charge card debts in 2019-20 Q3 to energy debts in 2022-23 Q3 as energy costs rise.

Figure 1 - The most common types of debt issues Citizens Advice helped people with by local authority area in Wales



Source: [Citizens Advice - Cost of living dashboard](#)

Citizens Advice Cymru report¹⁴ that while the level of demand, particularly on consumer credit debts remains below pre-pandemic levels, during 2022 they have seen sharp rises in the demand for advice on household debt, such as energy bills and rent arrears.

The 2022 Money and Pensions Service annual debt need survey¹⁵ estimates 15% of the adult population in Wales demonstrated characteristics that indicate they have a strong need for debt advice, in 2021 it was 14.5%.

The Bevan Foundation Snapshot of Poverty in Winter 2023¹⁶ results show that 13% of people in Wales had been in arrears on a bill for more than one month in January. This figure shows no significant increase in the number of people reporting that they are in debt from the Autumn 2022 report. The Bevan Foundation caution that, *'whilst the headline figures as to the number of people in debt has remained broadly similar, the amount owed by those in debt has increased'*.

With the uncertain economic climate that lies ahead we predict the demand for access to advice services, especially debt advice and income maximisation services will continue to increase in the next financial year. Whilst the Single Advice Fund - with its wraparound support which ensures underlying causes of debts are tackled - will help to meet some of the increased demand by reducing the need for people to keep returning for advice, it cannot be expected to meet all the demand.

¹⁴ [2022 in review: Citizens Advice Cymru cost of living dashboard](#)

¹⁵ [Need for debt advice and how households are reacting to changes in the cost of living | The Money and Pensions Service \(maps.org.uk\)](#)

¹⁶ <https://www.bevanfoundation.org/wp-content/uploads/2023/02/Snapshot-of-poverty-in-winter-2023.pdf>

Welsh Government Support

This year we have provided support worth £1.6 billion, through programmes which protect disadvantaged households and initiatives which help deliver the social wage in Wales, keeping money in people's pockets. We are targeting support at where it is needed most.

Help with Energy Costs

The latest fuel poverty figures for Wales, published on 13 April 2022, show in October 2021, 196,000 households in Wales were estimated to be living in fuel poverty – equivalent to 14% of households. If we use these figures to model the impact of the April 2022 price cap, it is estimated up to **45% (614,000)** of all households could be in fuel poverty and 8% (115,000) in severe fuel poverty.

We have repeatedly raised concerns the prepayment system is currently failing the most vulnerable people in society. To date this year the Minister for Social Justice has met energy suppliers on 23 January and Ofgem officials on 30 January expressing grave concerns surrounding the large volume of court warrants issued from magistrates' court and seeking assurance Ofgem have the sufficient powers to protect households. We wrote to the Secretary of State for Business, Energy and Industrial Strategy on 27 January highlighting a clear safety and social justice risk that vulnerable households, including those with medical conditions are being forced onto prepayment meters against their will or knowledge. A further letter was sent 2 February urging the UK Government, who hold the levers, to take urgent action.

We will continue to urge the UK Government to end the abhorrent practice of forced installation of prepayment meters and strengthen the rules and obligations of suppliers to ensure they support, rather than punish their customers.

We have provided £90 million to run second Welsh Government Fuel Support Scheme in 2022-23. This scheme launched on 26 September and we extended eligibility to support more households. The new criteria for 2022-23 means that around 400,000 households are eligible. To date, local authorities have supported over 307,000 households with a £200 payment towards their fuel costs. The 2021-22 scheme saw £166,000 households benefit.

£4m funding has also supported the introduction of a Fuel Voucher and Heat Fund scheme to help households on prepayment meters and those not connected to the mains gas network who are struggling to prepay for their fuel and are at risk of self-disconnection. Up to the end of December the Fuel Bank Foundation had issued 5500 vouchers to support those who are not able to afford to top up their pre-payment meters – supporting over 14377 people.

Financial help is also available through our Discretionary Assistance Fund for off-grid households, which are unable to afford their next delivery of oil or LPG due to extreme financial hardship until the end of March 2023. This will help those households with up to £250 for a one-off oil payment or up to three payments of £70.

We have also allocated £1 million to local authorities to support their development of warm hubs.

Tackling Food Poverty

The Trussell Trust has reported that food banks in its network in Wales distributed 77,000 emergency food parcels between 1 April to 30 September 2022, including 28,000 parcels for children. This represents a 38% increase in the total number of parcels distributed across to compared to the same period in 2021/22 and a 96% increase since 2017/18. In 2022/23, its food banks across Wales had to purchase three times more food than they did in the equivalent period in 2021/22 (228% increase). Purchased food made up 9% of all food coming in for Welsh food banks in 2022/23 compared to 4% in 2021/22.

The Welsh Government has provided £15.9 million to tackling food poverty since 2019. In 2022-23, £4.9m has been allocated to tackling food poverty. This includes £2.5m to support and bolster foodbanks, community food partnerships and community hubs, supporting them to tackle food poverty, address food insecurity and provide a wider range of services to help individuals and households maximise their income. A further £2.4m has been allocated to support the development of food partnerships in each local authority are in Wales which will help tackle the root causes of food poverty.

We also continue to support parents of children eligible for free school meals to make sure they don't go hungry during the school holidays. This brings our total investment in the scheme to over £100 million.

Help with Living Costs

We provided a £150 cost-of-living payment for all households in properties in council tax bands A to D and to all households, which receive support from the Council Tax Reduction Scheme in all council tax bands. The payment supported 96% of eligible households across Wales to meet rising costs. £146.6m was paid out to 977,483 eligible households before the main scheme closed on 30 October.

A further £25m was allocated to local authorities in the form of a discretionary fund. Local authorities have until the end of March 2023 to deliver this additional funding which they are targeting to help households that are struggling.

In addition, there are a range of Welsh Government policies which help to keep money in people's pockets – we call this the social wage. These include:

- Childcare Offer – 30 hours of early education and childcare a week, for up to 48 weeks of the year.
- Free school meals (being extended to primary schools from September 2022) and free school breakfasts
- Free prescriptions
- Help with Health Costs
- Council Tax Reduction Scheme
- The PDG Access scheme

Income maximisation

We have launched a third benefits take up campaign [Here to Help](#). Our two previous campaigns saw over 8,000 people respond to campaign's call to action to contact Advicelink Cymru and were helped to claim over £2.7m of additional income.

We continue to support a programme of training for frontline workers which is delivering increased advice and support on welfare benefits for service users.

This year over £11m has been made available for Welsh Government's Single Advice Fund services. These services are a lifeline for people struggling with the cost of living, helping them to maximising their income and deal with their debts. Since January 2020, SAF services have helped 144,000 people deal with over 660,000 social welfare problems. Those helped were supported to claim additional income of £83 million and had debts totalling £23 million written off.

Many affordable lenders including Credit Unions of Wales have embedded benefits calculators into their online lending pages. It is important that we take every opportunity to help people claim what they are entitled to and will shortly embed a calculator into the Welsh Government website, so that everyone looking for financial support through the Discretionary Assistance Fund and the Here to Help campaign are nudged towards self checking and taking steps to improve their financial situations.

We are taking steps to raise awareness of credit union services particularly among vulnerable and at risk groups. Analytics reveal the success of the campaign with significant increases in new and returning users resulting in 4,414 enquiries through the Credit Union of Wales website to the Credit Unions loan application pages.

We have provided £1.2m in 2022-23 for credit unions to expand their lending to people with a poor credit history who otherwise would be refused a loan with a credit union due to their risk of defaulting, and who would be very likely to use high cost credit providers or worse, loan sharks. This scheme is making an impact, with more than 1000 people now borrowing from a credit union for the first time and is working hand in hand with the credit union awareness raising campaigns we have funded.

£1m has also been allocated to run a No Interest Loan Scheme pilot in 2022-23 which is being led by Fair for All Finance. The partnership between Purple Shoots, Robert Owen Community Bank and the online lender Plend are now delivering the No Interest Loans in Wales. This pilot is now in the test and learn phase, with further work planned to scale up the lending in the next few months. Referrals are being made into the scheme through an existing lending channel offered by Plend, meaning that people who fail affordability checks with this responsible lender may be suitable for a No Interest Loan if they can afford to repay a loan with the interest removed. This pilot will test over the next couple of years whether a no interest loan product is a sustainable product, and it will complement the work that credit unions are carrying out to support people access affordable credit.

We are keen to explore how the not for profit advice sector, credit unions and other relevant partners can work together to support the best interests of their clients when experiencing debt.

Research¹⁷ highlights that financially vulnerable people are at risk of being driven to borrow from illegal money lenders in the current financial climate. We are working with Stop Loan Sharks Wales to identify the scale of illegal lending in Wales as people navigate the cost of living crisis.

¹⁷ [Illegal Loan Sharks Cash-In On Cost-Of-Living Pressures - Stop Loan Sharks Wales : Stop Loan Sharks Wales](#)

We are supporting Stop Loan Sharks Wales to raise awareness of illegal lending in our communities and raising awareness of alternative options instead, including affordable and responsible lenders such as credit unions.

Analysis of Impact

Analysis of Welsh Government support shows it is targeted at those who need help the most. Around 75% of households are expected to be supported in some way, but nearly twice as much will go to households in the bottom half of the income distribution compared to those in the top half and three times as much to those in the bottom fifth compared to those in the top fifth¹⁸.

Research into the ongoing impact of our exit from the EU and the Cost-of-Living crisis on people with protected and associated characteristics has been identified as a key priority for the Equality Evidence Units. Some initial scoping work has been undertaken and further discussions with stakeholders have been planned for early 2023.

The cost-of-living support packages are having an impact. For example, in November 2022, local Citizens Advice Services in Wales reported a 15% decrease in people seeking advice on energy debt and a 12% decrease in people seeking food bank vouchers. (There were similar decreases when the first cost of living payment for people getting benefits such as Universal Credit were paid in June 2022). The impact was unfortunately short-lived as Citizens Advice Services reported their busiest period ever in December 2022 in regard to supporting people in Wales to access crisis support.

The Cabinet Sub-Committee on the Cost-of-Living is bringing together people with lived experiences, experts, service providers and organisations supporting people struggling with rising costs to help give strategic direction and inform our response to the crisis. This is supporting a joined-up approach across portfolios to ensure that help is reaching the people that need it most.

Welsh Government Budget 2023/24

The Draft Budget has been made in hard times for hard times. It reflects the constraints of our funding settlement but not the lack of our ambition. Difficult decisions have had to be made and the unfortunate reality was that we could not meet all the pressures identified to support cost of living interventions within the funding available.

Despite this we undertook action to maximise the impact of our available resources, balancing the short-term needs associated with the ongoing cost-of-living crisis while continuing to make longer-term change and deliver on our Programme for Government ambitions, including tackling poverty.

The Draft Budget for 2023-24 includes an additional £18.8m to continue the support for the Discretionary Assistance Fund in 2023-24. This ensures we are able to continue to provide this vital assistance, ensuring more people receive emergency financial support when they need it. It also includes additional funding to pay the Real Living Wage to social care workers plus additional support for our care leavers Basic Income pilot.

¹⁸ [Response to the cost of living crisis: distributional analysis \[HTML\] | GOV.WALES](#)