

EQUALITY AND SOCIAL JUSTICE COMMITTEE – 20 OCTOBER 2021

EVIDENCE PAPER

This evidence paper outlines the impact of the Pandemic on Levels of Indebtedness in Wales and responds to a set of specific questions put forward by the Committee to the Welsh Government.

Current position

The Covid-19 pandemic has put household finances across Wales under enormous strain and many people will be left struggling with debts accrued during this time. We want to work with stakeholders to develop initiatives that help people in Wales not only to maximise their income but also deal with debt problems generated by the pandemic and begin to put their finances back on a more sustainable footing.

Recent reports published by the Bevan Foundation, the Trussell Trust, Joseph Rowntree Foundation and the Resolution Foundation have outlined the impact of Covid-19 on low income households. All have demonstrated that problem debt is a greater issue for those who were already at a heightened risk of being in problem debt pre-pandemic. We know that poverty is distributed unequally and poverty rates are consistently higher among Black, Asian and Minority Ethnic people, disabled and chronically ill people, women, young people, single parents, social and private renters - for example 38% of children who lived in a family where there was someone who is disabled were in relative income poverty compared with 26% of those in families where no-one was disabled; and for the period 2015-16 to 2019-20 there was a 29% likelihood of people whose head of household comes from a Black, Asian or Minority Ethnic group living in relative income poverty compared to a 24% likelihood for those whose head of household comes from a white ethnic group. Furthermore, the reports have also shown that levels of poverty are expected to rise, in some cases significantly and especially for those who are most vulnerable, as a result of the decision by UK Government to end the additional £20pw Universal Credit payment.

Welsh Government have been clear that we do not support the end of the £20pw Universal Credit increase. We have on several occasions called on the UK Government to make the £20pw increase permanent and to extend the payment to claimants of the legacy benefits. The Joseph Rowntree Foundation has demonstrated that for a working family with three children, even with the £20 increase, their income is below the poverty line, without the uplift their income will be £150 per month below the poverty line.

Although key levers for tackling poverty, such as powers over the tax and welfare systems including Universal Credit, sit with the UK Government, there is much we can do here in Wales to mitigate the impact of poverty and improve outcomes wherever we possibly can. Tackling poverty and inequality is a priority for this Senedd term. Our new Programme for Government sets out a range of commitments to improve outcomes for low income households and every Minister has a responsibility to take action to tackle poverty.

Specific questions

How the Welsh Government has responded to debt-related issues during the pandemic, and how it is preparing to address potential upcoming challenges.

The Welsh Government funds advice services to ensure some of the most vulnerable people in our society have access to the help and support that they need to resolve problems with debts and benefits. People rarely have a single social welfare problem and many people only seek advice when in crisis, particularly so for people struggling with problem debt. This is why, through the Single Advice Fund (SAF), the Welsh Government grant funds the provision of integrated social welfare advice services¹ founded upon key objectives of early intervention and prevention. In 2021/22, over £9.6m has been allocated between six regional services and a national remote advice service, ensuring there is a co-ordinated framework of social welfare advice service provision across Wales.

During the last financial year, Single Advice Fund services helped over 127,000 people to deal with 286,666 social welfare problems. 18,000 people received debt advice and were helped to manage debts of over £8 million. People receiving advice on their welfare benefit entitlements were supported to gain additional income of over £43 million.

Welsh Government recognises that in some cases, people who are instructed to self-isolate do not have the support of friends and family and, therefore, may face difficulties during their isolation period. Contact tracers should refer these people to their Local Authority to undertake a more detailed assessment of any support needs.

Welsh Government has issued Local Authorities with a 'Practical support for Self-Isolation' guidance which is designed to support and inform Local Authorities of the practical, social or emotional support available to those who are required to self-isolate and ensure that a consistent approach is delivered across Wales.

In the context of the pandemic, the Self-isolation Support Scheme has helped those legally required to self-isolate, if they will experience a loss of income and helps reduce the risk of incurring debt/further debt.

Maximising income is a key element of Welsh Government's approach to tackling debt to ensure households in Wales are supported to be financially resilient and helped to claim all the financial support they are entitled to. Our Child Poverty – Income Maximisation Plan (IMAP) was launched on 2 November 2020.

One of the actions included was the delivery of the Welsh Government's first national benefits take up campaign in March 2021 which resulted in an additional £651,504 being claimed by those who were entitled. Building upon the success of this campaign, we will deliver another national campaign in October to coincide with the end of furlough and the £20pw Universal Credit uplift. Last winter six Test and Learn pilots targeted tailored messages and support to encourage benefit take-up amongst groups least likely to be claiming all the financial support they are entitled to. The pilots engaged with 1,440 households helping them to claim additional income of £2,468,052.

Working collaboratively with Local Authorities in Wales, we have developed and published a Best Practice Toolkit. This collates 'what works' in helping to simplify and streamline the application process for devolved benefits making them more accessible to people in need of this support. We have worked closely with three local authorities; Cardiff (training

¹ Debt, Discrimination, Education, Employment, Housing and Immigration advice is accessible through SAF services.

provider) Monmouthshire and Blaenau Gwent (participants) to pilot the delivery of increased advice and support on welfare benefits through existing family support models.

To support frontline workers we funded the development of an information pack and the delivery of free training. Between January and September 2021 the Dangos project delivered 215 sessions attended by over 3,000 frontline workers. Feedback has been extremely positive. Feedback six weeks after attending a session showed that 70% of participants had used the learning from the session to identify service users that could be claiming a welfare benefit; 20% confirmed their service user had made a successful benefit claim. The training programme will continue until the end of the calendar year. Building on the success of the awareness raising training, we are currently preparing a tender exercise for an enhanced programme of training for frontline workers to start early in 2022.

We have established a Debt Task and Finish Group. The Group will share best practice and recommend initiatives and policies that will support people across Wales who are struggling to maintain their financial commitments to repay their debts in an affordable way, avoid enforcement action and offer sustainable pathways out of debt.

How the pandemic has affected debt advice services, and how the Welsh Government sees future demand for these influencing its approach to supporting debt advice services.

Early in the pandemic, the expectation was that demand for debt advice would increase quickly and significantly. In fact, demand decreased. This was largely a result of Welsh and UK Government major policy interventions, including the Coronavirus Job Retention Scheme, Self-isolation Payments, Business Grants, legal protections from enforcement action, increased eviction notice periods and restrictions on eviction enforcement. The Financial Conduct Authority also introduced measures to support people facing payment difficulties, which removed or postponed the usual triggers to seek debt advice. Through our work with partners we know, however, that the need for debt advice has only been delayed rather than resolved, so a peak in demand is anticipated later in 2021 or early in 2022.

Even though demand for debt advice was dampened down during the last financial year, over 18,000 people across Wales received debt advice from SAF services. This is a testament to the efforts of the SAF providers who at the start of the pandemic quickly transferred their face-to-face advice services to remote channels such as telephone, email and web chat.

Unlike applications to the Discretionary Assistance Fund (DAF) for Individual Assistance Payments, where applicants are supported by a registered partner organisation, people in a financial crisis seeking an Emergency Assistance Payment (EAP) are less likely to be getting advice they need to address underlying financial issues and other social welfare problems. It is important these people are offered access to advice and the DAF currently refers people to a SAF advice provider through an on-line referral platform. However, we are commencing an enhanced pilot whereby a person contacting the DAF will receive a seamless transfer to a SAF adviser directly over the phone. This approach will blend together the crisis support that a person can access from the DAF along with the advice they need to ensure a more sustainable financial outcome.

If the expected increase in demand for debt advice materialises, investments in digital and other remote channels will help providers to better manage the demand. However, we know that for some people remote services are not suitable as a method of accessing advice, a particular challenge that must be addressed is meeting the needs of the digitally excluded. As restrictions are easing some providers have planned, or have started offering, face to face advice services for the most vulnerable clients who have struggled to access remote services. We know there is more we can do and officials are working with the SAF providers to gain the user perspective to fully understand barriers that prevented people accessing remote services to make sure all delivery channels offer inclusive access to all groups. We will also identify the best practice that emerged through the crisis and build this within future delivery models.

While the Welsh Government does not fund any advisory services on indebtedness via trade unions, we have been active in promoting knowledge and awareness of workers' rights and avenues of support and advice provided by trade unions and others. As part of our commitment to fair work, we collaborated with social partners (employers and trade unions) on a workers rights and responsibilities campaign and we will build on this as we continue to advance fair work.

The pressure on living costs arising from rising fuel and food costs combined with the removal of the £20 uplift in Universal Credit and forthcoming increase in National Insurance contributions will increase demand on advice services, including debt advice, across Wales. The Single Advice Fund means there is a framework of social welfare advice service provision across Wales targeting people most in need. Of course, Welsh Government is not the only funder of services in this area. There are opportunities for all funders of advice services in Wales, including local authorities, to coordinate their commissioning activities through engaging with their Regional Advice Network ensuring all our scarce resources are used as effectively as possible.

How the Welsh Government has considered the varying needs of different groups in developing debt-related policy.

The Social Metrics Commission's report *Poverty and Covid-19*² has shown that the economic impacts of the Covid-19 pandemic are most heavily impacting those who were already in poverty prior to the crisis, including those from Black and Minority Ethnic families, disabled people, those with low qualifications, in low-skilled sectors and in part-time work. For these groups, the likelihood is that, despite the significant support provided through the course of the crisis, their experience of poverty is likely to have deepened.

Through our Third Sector Covid funding last financial year we were able to provide over £442,000 of support to organisations who self-identified as providing advice and advocacy, £1,050,000 to Black, Asian and Minority Ethnic organisations and £2,481,000 to those supporting disabled people.

Single Advice Fund providers proactively target services to groups of people who may have a greater need for advice as a result of specific characteristics. Their Advice and Access Partner service delivery model has proven to be a successful means of incorporating and using the expertise of organisations that specialise in supporting particular groups of people. In the last financial year 83% (the annual performance target is 80%) of Advicelink Cymru clients were from one of the following priority groups: Young

² [Poverty and Covid-19](#)

People (Under 25), Older people (Over 55), Black, Asian, Ethnic Minority, Mental Health Issues/Disability, Physical Health Issue/Disability, Multiple Health Issues, and Women.

In July 2020, we launched the £10m Tenancy Hardship Grant. The grant is available for tenants who: are in eight weeks or more of rent arrears between 1 March 2020 and 30 June 2021; were not able to fully pay their rent during the period when they went into arrears, as a direct result of Covid-19; live in and hold a private rented sector tenancy in Wales; are not getting housing benefit, or housing cost payments through Universal Credit when they built up their rent arrears. The grant is available from local authorities. Tenants in serious rent arrears apply for the grant and, if successful, the grant is paid directly to the landlord, or their agent, thereby clearing any rent arrears, and removing the threat of eviction on mandatory grounds.

We know that private sector tenants are at more risk of falling into debt (and face more serious consequences). This is why through the SAF we are funding a dedicated Private Rented Sector Debt Helpline where tenants can get advice on maximising income, managing debt and receive support to negotiate with their landlords on fair repayment plans to clear rent arrears. In the event that the rent is proven to be unaffordable the advisor (with the tenant's consent) will notify the relevant local authority early, to determine what levers and tools they have available to help them to sustain the current tenancy rather than the tenant having to enter interim accommodation. This could have cost-saving benefits, and prevent further disruption for the individual.

The Welsh Government's approach to supporting households and individuals that fall into debt to public service organisations, and its position on public service debt recovery.

A supportive approach to debt recovery provides a range of benefits for any organisation collecting debts. Creditors that work in partnership with the debt advice sector tend to achieve fairer outcomes, better customer engagement and sustainable repayments. Conversely, poor debt recovery practices can have a detrimental impact, disrupting people's financial circumstances which can lead to disengagement and damage to the creditor's reputation.

The *Council Tax Protocol for Wales: Good Practice in the Collection of Council Tax* was launched in January 2019. It was developed in collaboration with local government and endorsed by the Welsh Government and the WLGA. The protocol sets out a good practice approach for local authorities and debt advice agencies to ensure any action taken is proportionate, fair and consistent. It provides the basis for a more constructive relationship with council tax payers, particularly people who are struggling to pay. All local authorities agreed to implement the protocol.

The council tax enforcement process (set out in the Local Government Finance Act 1992 and the Council Tax (Administration and Enforcement) Regulations 1992) was designed to be used by local authorities to enforce payment from people with the means to pay. It does not exist to punish people for non-payment. The process also includes a number of steps which are designed to prevent the enforcement of payment from people who do not have the means to pay.

The Welsh Revenue Authority has established five key principles to underpin their debt management and enforcement policy. More widely, these principles have been adopted across Welsh Government, as set out in Welsh Tax Policy Report 2018³.

In March 2020 UK and Wales-wide taskforces were set up to monitor the level of water customers either falling behind with payments or needing assistance in the form of a social tariff. The UK Taskforce includes Ofwat, Defra, the Consumer Council for Water (CCW), Water UK (the representative body for water companies in England and Wales) and the Welsh Government.

Water companies in Wales have used a number of tools to help customers through pandemic money difficulties without increasing or generating large amounts of debt. They have set up payment breaks, payment plans, paused debt recovery action and proactively reached out to customers to head off unplanned defaults.

In May 2021 a review of social tariffs by CCW recommended a single social tariff for water to standardise the qualifying criteria and make it easier for people experiencing hardship in paying their water bill to apply for assistance. Work is underway to scope the impact of this recommendation on different groups of water customers. This is in the very early stages, however Welsh Government officials are working with the industry and stakeholders on it as a priority.

The Debt Respite Scheme commenced on 4 May 2021 with the introduction of the Breathing Space scheme. The scheme aims to help people in problem debt to better manage their finances, seek professional debt advice and reach sustainable solutions. It provides protection for people in problem debt by pausing enforcement action and freezing most charges, fees and interest on their debts for up to 60 days. Almost all kinds of debts can be included in a moratorium, including those owed to local government such as council tax debt.

The Statutory Debt Repayment Plan⁴ (SDRP) is the second component within the Debt Respite Scheme and will enable a person in problem debt to enter a statutory agreement to repay their debts to a manageable timetable. A SDRP will normally last up to seven years and for the duration of their plan, people will receive legal protections from creditor action and a freeze on interest, charges and fees being added to their debt. As with the development of Breathing Space, officials will work closely with HM Treasury to ensure the SDRP policy is aligned to the needs of people in Wales who are struggling with problem debt.

The role that the Welsh Government sees for the Discretionary Assistance Fund (DAF) in supporting those most in need during the remainder of the pandemic, and how it is considering future delivery of the DAF.

Welsh Government invested an extra £14.9m into the Discretionary Assistance Fund (DAF) to support the increasing demands on the fund during 2020/21, approximately £28.1m in total. On 2 March, we announced a further £10.5m for 2021/22 in the final budget to continue the unprecedented support we have made available to those who need it most and we forecast a full year spend of £30.7m.

³ See para 222 of Welsh Tax Policy Report 2018: <https://gov.wales/sites/default/files/publications/2018-10/welsh-tax-policy-report-2018.pdf>

⁴ Scheduled for introduction in 2024.

In response to the Covid-19 pandemic, from 1 May 2020 we also applied greater flexibility and discretion with regard to the number and frequency of Emergency Assistance Payments (EAP) applications that clients may make where their financial predicament is exacerbated by the pandemic. This meant that the maximum number of Covid-19 related claims that a person could receive in a twelve month period increased from three to five.

In response to the UK Government's decision to withdraw the £20 per week uplift for Universal Credit claimants, we have introduced an extension of support through DAF where this is a contributing factor behind their financial difficulties. We will also provide fuel support for off-grid clients through the winter.

As previously explained, a pilot is underway where the most vulnerable individuals contacting the DAF are referred for additional advice and support to tackle underlying financial problems and raise their financial resilience, which could help reduce ongoing dependence on the fund. The learning from this pilot will inform the future operating model for the fund and how we might adapt the DAF to offer a more holistic service.

. Any such improvements to the delivery model would be built into the specification for the new contract from 1 April 2023.

We continue to scan the horizon for economic and social factors that will negatively impact on the prosperity of those in greatest need, such as the impact of the UK Government's planned rise in National Insurance contributions from 1 April 2022.