



Jenny Rathbone MS
Chair
Equality and Social Justice Committee

16 November 2022

Dear Jenny,

Thank you for your letter of 28 October regarding Recommendation 7 of the Equality and Social Justice Committee's report on Debt and the Pandemic. I am grateful to the Committee for providing more insight into its expectations in this area of work.

You will be pleased to note that the independent evaluation of the council tax interventions implemented in the previous Senedd term, carried out by Policy in Practice and MEL Research, will be published in due course and will be shared with the Committee on publication.

With regard to reviewing the evidence from outside Wales, social researchers in the Welsh Government worked with our Knowledge and Analytical Services team to conduct an extensive search of the international literature to enable an initial appraisal of the quantity, robustness and relevance of the evidence.

Despite the broad and extensive search, only four publications meeting the search criteria were identified, all of limited relevance. No studies were found relating specifically to debts to local or national government. A summary of the key findings from the four studies, and an indication of their quality and relevance, is provided as an annex to this letter.

You mention that the Committee is specifically interested in the impact that high debt burdens have on individuals and households where debt payments form a significant portion of household income. There are two ongoing pieces of research that are being undertaken at the moment which may provide some useful insight into this. Firstly, in August this year, the Money and Pensions Service launched a UK wide call for evidence on the best way to help people in debt who have a deficit budget. The call for evidence closes on 1 December and the outcomes will be used to inform policy that aims to ensure appropriate debt solutions are available for everyone, including people whose essential expenditure is higher than their income.

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Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.


We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding.

Secondly, the Committee will be aware that UK Government's Insolvency Service has undertaken a consultation to review the effectiveness of the current personal insolvency framework. The consultation ended on 24 October and the Insolvency Service is due to report its findings in the Spring of 2023. The outcome from the consultation will help identify whether the current personal insolvency framework is fit for purpose and, if not, what reforms are needed.

In the absence of existing research being available in relation to "debt bonfires", it would be prudent to wait for the outcome of the above pieces of work before making decisions on further research in this space.

I also wanted to take this opportunity to remind you that I wrote to you separately in May asking for a steer in relation to Recommendation 2. I appreciate that the Committee will need time to gather thoughts but look forward to hearing from you on that recommendation so that officials can consider how we can take this forward.

Yours sincerely,

A handwritten signature in black ink, reading "Jane Hutt". The signature is written in a cursive style with a large initial 'J' and a distinct 'H'.

Jane Hutt AS/MS

Y Gweinidog Cyfiawnder Cymdeithasol
Minister for Social Justice

International literature on debt write-offs: Summary of key insights

Looney, A. (2022). Student Loan Forgiveness Is Regressive Whether Measured by Income, Education, or Wealth: Why Only Targeted Debt Relief Policies Can Reduce Injustices in Student Loans. The Hutchins Center on Fiscal and Monetary Policy/The Brookings Institution

Medium quality – medium/low relevance

This report discusses the effectiveness of forgiving student debts. Some advocates have called for forgiveness of student loans because they contribute to racial and socioeconomic wealth gaps. Measured appropriately (to include human capital as well as financial wealth), student debt is concentrated among high-wealth households and loan forgiveness is regressive whether measured by income, educational attainment, or wealth. Across-the board forgiveness is therefore a costly and ineffective way to reduce economic gaps by race or socioeconomic status. It is argued that only targeted policies can address the inequities caused by federal student lending programmes.

Costello, KW. (2020). Features of good utility-initiated energy assistance. Energy Policy, 139(3)

High quality - low relevance

This paper identifies criteria that public utility regulators can apply to assess the effectiveness of initiatives to make utility services more affordable to low-income households. It discusses the major features of energy-assistance actions that tend to make them successful from a societal perspective. Smart regulation demands that energy-assistance initiatives have favourable benefit-cost ratios. The paper identifies how undesirable, and sometimes unintended, consequences, might result from well-intentioned actions designed to make utility service more affordable to low-income customers.

André, C. (2016) Household debt in OECD countries: Stylised facts and policy issues. OECD Economics Department Working Paper No.1277

High quality - low relevance

This paper offers an overview of developments in household debt over the past decades across a large sample of OECD countries, highlighting both common trends and country specificities. It examines the vulnerabilities associated with high household debt for households, the financial system and the wider economy. Finally, it describes the challenges faced by policy makers and outlines potential responses, including through monetary and housing policies. There is some reference to writing off debts:

'In four countries, the gross household debt-to-GDP ratio fell by more than nine points, but the reduction was driven by very different factors. In the United Kingdom and the United States, nominal GDP growth made a sizeable contribution. Debt write-offs also helped, particularly in the United States, where non-recourse mortgages are prevalent [...] In Latvia and Spain, deleveraging took a big toll on activity and employment, as it occurred mainly through a reduction in net debt issuance, although there were also significant debt write-offs. In Greece, gross household debt jumped up almost 18% of GDP, with lower output volume more than offsetting reduced debt issuance and no relief from write-offs.' (8)

Jones, RS, Kim, M. (2012) Addressing High Household Debt in Korea

High quality - low relevance

Rising household debt has become a major policy concern in South Korea. In addition to the economic impact and risk to the financial sector, it raises social cohesion issues, and many households with low income and credit ratings fall behind on payments. Suggested is a two-track approach: i) offering credit to households with low income and credit ratings and restructuring their debt, while limiting moral hazard and developing market-based lending; and ii) containing the risk caused by high household debt by strengthening prudential measures for financial institutions and improving mortgage lending by reducing the share of floating-rate and "bullet repayment" loans. The emphasis is on lending by banks and other financial institutions, rather than governments, and debt restructuring rather than write-offs, for example:

'The National Happiness Fund (NHF) was launched in March 2013 to promote the credit recovery of delinquent borrowers. Individuals who had borrowed less than 100 million KRW (\$96 thousand) and were overdue by six months or longer as of the end of February 2013 are eligible for debt restructuring [...] Financial institutions and non-bank lenders that signed agreements with the NHF for credit recovery assistance must sell overdue loans to the NHF if their borrowers apply for debt restructuring.'

Jennie Mack

Knowledge and Analytical Services
Welsh Government