StepChange Debt Charity written evidence to the Work and Pensions Select Committee inquiry into the welfare safety net

Introduction and summary

- StepChange Debt Charity is the largest provider of free debt advice in the UK, providing help online and over the telephone. Last year, around 620,000 people contacted us for help with their debts.

- A significant proportion of StepChange clients do not have enough money to meet basic living costs. There is no one cause of debt problems among StepChange clients: common risk factors include income shocks, most often linked to employment and earnings; having insufficient income to meet living costs; and the use of credit products that can compound financial difficulties.

- Debts to local government have increased following localisation of council tax support. Public sector debt collection practices are frequently worse than those in the consumer credit sector and contribute to financial hardship. The introduction of a statutory breathing space scheme is a welcome step; however, national and local government must do more to bring their wider approach to debt collection in line with best practice.

- Reducing experiences of hardship rests foremost on ensuring that income is adequate to meet reasonable needs and that the design of the social security system does not itself contribute to hardship. At present, achieving both aims would require a fundamental change in government policy, including a review of the adequacy and design of Universal Credit.

- In the short-term, the government can increase the effectiveness of the safety net by introducing more flexible advances within Universal Credit and legacy benefits, introducing statutory guidance supported by sufficient funding for local welfare schemes and creating alternative options for people who cannot afford to repay loans.

Problem debt and hardship

1. In 2017, 30% of StepChange clients who completed the debt advice process had a 'negative budget', with an average monthly deficit of £379. This means that these clients had less – and often substantially so – than was needed to meet their minimum needs.[1] Similarly, 40% of StepChange

[1] Debt relief from creditors rests on a budgeting process in which a person seeking debt relief submits a budget that reflects their essential expenses. The Money Advice Service (now the Single Financial Guidance Advisory

clients are in arrears on at least one essential bill (including utilities, council tax, TV license and rent). While a negative budget does not always indicate going without essential basic needs, it is a strong indication that problem debt is associated with increased risks of hardship. One indication of this is that when we recently surveyed clients about their experience of housing, over two-thirds had experienced insecurity of accommodation, including eviction or threats of eviction, being placed in temporary accommodation, being forced to move and homelessness.[2]

2. The profile of StepChange clients can shed light on which groups are most exposed to financial hardship (table 1). Around half of StepChange clients are families with children. In the first half of 2018, 27% of StepChange clients were single parents; this compares with 6% of UK households. Families with more than two children are also over-represented among StepChange clients: approximately 25% of couples with children receiving advice had two or more children compared to 15% among the general population. Clients also tend to be younger – 65% of clients are aged under 39 compared to 36% of the general population – and are more likely to be women: 60% of clients are women and 40% men.

Table 1: Client Family Composition

	2015	2016	2017
Couple With Children	25.9%	26.5%	26.8%
Couple Without Children	15.6%	15.3%	14.6%
Single With Children	19.6%	20.3%	21.5%
Single Without Children	38.8%	37.9%	37.1%

3. The largest driver of debt reported by StepChange clients is a fall in income caused by unemployment and redundancy or another cause, including illness and injury (in total, 48% of clients). Client incomes tend to be low: the median net weekly household income among clients is £313, or an annual income of £16,320 (this is not an equivalised figure so is not comparable with similar ONS or government figures). These figures are likely to reflect pre-existing circumstances that are linked to persistent low income for some clients as well as a fall in income experienced by many people before they seek debt advice.

4. People currently most at risk of problem debt are overwhelmingly likely to rent and increasingly likely to do so (table 2). In a recent survey, 72% of StepChange clients receiving Housing Benefit reported that it does not cover their rent; this figure rises to 90% among those renting privately.[3] Clients also reported taking out more credit or not paying essential bills as a result of problems linked to support with housing costs including delays in payments, overpayments, the 'bedroom tax' or spare room subsidy, and changes in circumstances or fluctuating incomes.

Body) coordinates a set of 'trigger figures' based on the lowest 25% of expenses in each budget category in the Family Resources Survey. If the budget submitted is below these trigger figures, the creditor is expected to exercise debt forbearance until the borrower can afford to repay, or the debt is reduced or written off.

[2] StepChange (2018) *Locked Out: Examining the impact of problem debt on people's housing situations*.

[3] Ibid.

Table 2: Client Housing Situation

	2013	2014	2015	2016	2017
Owners	33.3%	28.6%	24.6%	22.2%	19.6%
Renters	66.7%	71.4%	75.4%	77.8%	80.4%

5. In 2017, one fifth of clients had at least one vulnerable characteristic: the largest cause of vulnerability was mental health problems (47% of clients), followed by other health problems and disability. Over half (57%) of vulnerable clients were behind on a household bill, compared to two fifths (40%) of all clients. This issue reflects in part the extent to which financial difficulties often compound and perpetuate health problems and vice versa. When considering the welfare safety net, it is important to bear in mind the extent to which inadequate support leads to and perpetuates factors that increase risks of long-term poverty and hardship.

Government debts and the welfare safety net

6. National and local government policies toward debt collection affect hardship among people with problem debt. Clients with debt problems report that public sector creditors and the bailiffs who often act for them were most likely to treat them unfairly: 42% of people felt they were treated unfairly by a local authority, 36% by the Department for Work and Pensions, and 50% of people who were contacted by bailiffs.[4] Local authorities are the largest users of bailiffs and referrals to bailiffs by local authorities has been increasing in recent years.[5] Forty nine per cent of those who received a demand for payment in full and were threatened with bailiff action fell behind on essential bills, such as electricity, gas and rent, in order to pay their arrears.[6] Those on the receiving end of aggressive action were also three times as likely to take out a payday loan.

7. As noted by the Work and Pensions Committee in its 2016 inquiry in to the local welfare safety net, the localisation of council tax support has led to a significant increase in people seeking support with government debts: StepChange has seen an increase in clients with council tax debt from 10% in 2010 to 31% in 2018. The number of people affected by government debt-collection practices is therefore increasing.

8. To address these issues the Digital Economy Act 2017 code of practice on debt should be extended to ensure that:

- standards and oversight of government debt collection are raised to at least match those applying to consumer credit lenders;

[4] StepChange (2016) *Creditor and Debt Collection Conduct: What's Making Debt Problems Worse?*
[5] Money Advice Trust (2015) *Stop the Knock*.
[6] StepChange Debt Charity client survey, 2014. Sample: 923 clients. Fieldwork conducted in June and July 2014.

- public sector creditors do not pass anyone for enforcement who has been assessed as being in vulnerable circumstances; and
- good practice guidance for the collection of Council Tax arrears is legally binding upon local authorities.[7]

9. The government confirmed in the Autumn Budget that it will introduce a breathing space and statutory debt repayment plan. The scheme will give people in problem debt the right to legal protections from creditor action while they receive debt advice and enter an appropriate debt solution. The Treasury is currently consulting on this commitment, which is a crucial step that will help ensure public creditors manage debt in a manner that is less likely to cause hardship.

10. This noted, the breathing space scheme will not address the related problem of inflexibility of deductions from welfare payments to repay government and other debts. At least one million deductions take place in typical month.[8] For some people, having deductions taken from their benefits to pay their creditors can be a positive method of repaying debt and managing bill payments. However, as the Work and Pensions Committee identified in its recent report on Universal Support, for many people these deductions can be unaffordable and can lead to hardship. This approach is in contrast to mainstream commercial credit, where Financial Conduct Authority rules and creditor agreements provide for forbearance and flexibility for people who experience financial difficulties.

11. As we highlighted in our submission to the Committee's inquiry on Universal Support, 27% of StepChange clients surveyed in December 2016 reported they had money deducted from benefits to go towards arrears.[9] Deductions were most likely to be in place for council tax, followed by water or rent arrears and fines. Of those who have had money deducted directly from benefits, 71% said that it had caused them and their family hardship (this includes finding it difficult to pay for food, clothes, heating and social activities).

12. The Budget included two announcements on deductions from benefits:

- From October 2019, the cap on the total amount that can be deducted from someone's monthly Universal Credit payment will reduce from 40% to 30% of the standard allowance.
- From October 2021, people will be able to repay Universal Credit Advances over 16 months, instead of 12.

13. Whilst these changes are welcome, we do not believe they will address the root of the issue when it comes to deductions – namely that the amounts deducted are taken at a fixed rate from everyone, regardless of their financial circumstances. Thirty per cent of the standard allowance is still a significant amount (around £95 for a single person and £149 for a couple), which will be unaffordable for many. Indeed, our analysis indicates that just a 5% deduction would increase the proportion of clients with a negative budget to 47%. A 30% deduction tips 65% into a negative budget.[10]

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[7] Department of Communities & Local Government (2013) *Council Tax: guidance to local councils on good practice in the collection of Council Tax arrears*
[8] StepChange (2017) *Briefing on Third Party Deductions*.
[9] StepChange (2017) *Briefing on Third Party Deductions*.
[10] This is based on the 188,150 people helped by StepChange Debt Charity in 2017 who had some income from benefits.

14. StepChange therefore continues to call for the Department for Work and Pensions to bring its approach to deductions into line with best practice by basing affordability assessments on an income and expenditure budget statement, as used in the authorised debt advice process, and use these as a basis to ensure that deductions are affordable. The Department can coordinate these assessments with the authorised debt advice process to minimise administrative burdens. We also endorse the Committee's previous recommendation that the Department should gather and publish data on deductions for debt from Universal Credit awards.

The welfare safety net

15. Through our experience of supporting people with problem debt, we know that hardship may arise for a number of reasons including persistent low income; lifecycle income risks such as unemployment or a fall in income and increase in expenditure following the birth of a child; short-term income shocks driven by factors such as illness or relationship changes; and an unmanageable debt burden linked to high cost credit use. These risks are inter-connected: the less resilient the welfare system is in supporting incomes against common risks, the greater the number of people who will be a risk of hardship. In a system in which reducing poverty has been deprioritised, hardship is increasingly likely because the system has little preventative capacity. An effective welfare safety net must be sufficiently flexible to mitigate a number of poverty risk factors, support people with low incomes at predictable financial pressure points and provide help to meet one-off expenses that are necessary to avoid hardship.

16. The Committee's 2016 report, *The local welfare safety net*, identified questions about the coverage and adequacy of support to help people manage short-term financial crisis following localisation of elements of the welfare safety net in England. Since that report, a range of further evidence has emerged: we note particularly that between 20 and 30 local authorities do not operate a local welfare support schemes and a similar number of schemes are reported to be under threat due to low budgets.[11] Of the remaining local authorities, many have introduced demand management (for example, by limiting awareness of support) to cope with declining resources.[12] As a result of all of these factors, the number of grants offered through crisis support has declined by as much as 88% from the comparative national schemes.[13]

17. The withdrawal of support to help people manage short term financial crisis has led to understandable calls to reinvest in the national safety net through the Social Fund. There were inevitable policy dilemmas in operating a national system of support with emergency expenses: it is difficult to establish a system of entitlements that meets most reasonable needs that is not administratively complex. Alternatively, the more heavily a system depends on the discretion of advisors, the less likely it is to treat each individual fairly.

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[11] Church Action on Poverty and End Hunger UK (2018) *Compassion in Crisis: how do people in poverty stay afloat in times of emergency*.
[12] Centre for Responsible Credit (2015) *Where now for local welfare schemes?*
[13] Greater Manchester Poverty Action (2018) *Local welfare assistance schemes – the urgent need for a new approach*; Joseph Rowntree Foundation (2018) *Destitution in the UK 2018*; The Children's Society (2018) *Not Making Ends Meet*.

18. The Social Fund was put in place to help resolve these dilemmas: the premise of the Fund, set out in *Reform of Social Security: Programme for Action* (1985), was that routine social security payments would be made adequate to meet normal budgeting needs; Social Fund loans would then provide loans to meet the need for exceptional expenditure. Regardless of its merits, this model is only sustainable so long as standard payments are sufficient for households to meet normal budgeting needs in order to avoid hardship. In light of reductions in the level of support available to working age adults, it is hard to argue that this is presently the case. The present combination of falling standard payments <u>and</u> reduced discretionary payments is an inevitable driver of financial difficulties and hardship.

19. The Social Fund model had limitations because it reduced the flexibility within the national system of entitlements to meet exceptional expenses. In doing so, it overlooked the extent to which fluctuating expenditure is a normal condition of household budgeting. There are a large number of items, from shoes to furniture, that reach the end of their life unpredictably but create significant budgeting pressure for households with a low fixed income. This is particularly the case in households with children or other financial dependents where the number of potential exceptional expenses is high (the minimum income standard for a couple with two children, for example, includes 648 budget items, 452 of which have a lifespan greater than one month). The concept of a normal week to week or month to month budget should be treated cautiously: while every household has control over what it spends, people do not always have control over what they need to spend to avoid hardship.

20. Households with middle to high incomes are generally able to use disposable income, savings and access to low cost mainstream credit to manage fluctuations in expenditure. People with low incomes, however, often lack access to these options: they may have little, if any, disposable income and without disposable income it is difficult to build a meaningful savings buffer. If they have access to credit, it is likely to be high cost credit. While a policy focus on financial capability can help people budget and plan, policy makers must recognise the fundamental difficulty of meeting ordinary budgeting requirements without access to the options available to the majority of people.

21. The Social Fund system also overlooked the question of supporting people who need financial support but cannot afford to repay even a no-cost loan. This problem is not straightforward. Bad lending has detrimental consequences for the individuals who borrow in unaffordable repayments and the negative effects of financial distress. It also, through loan write-offs, increases the cost of maintaining a publicly-supported loan scheme within the welfare system. However, if the government restricts access to low-cost loans through the welfare system, many people will either go without and experience hardship or turn to high cost credit: StepChange estimates that around 1.4 million people use high cost credit to pay for essentials in 2017, up from 1.1 million in 2016.[14] This group is highly exposed to risks of escalating debt problems, negative side-effects on health and wellbeing and

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[14] StepChange commissioned YouGov plc to conduct general population research: Total sample size was 5,052 adults. Fieldwork was undertaken between 13th - 18th December 2017; StepChange commissioned YouGov plc to conduct general population research as above. Total sample size was 3,204 adults. Fieldwork was undertaken between 15th-19th December 2016. Figures have been weighted and are representative of all GB adults (aged 18+).

further hardship. (It is also worth noting that 32% of StepChange clients who receive a social security payment have ‘family and friends’ debts, suggesting that unmet living costs are often spread through a family or community network, with potential negative consequences for wellbeing and relationships, as well as the financial health of social networks.)

22. Taken together, these factors mean that providing adequate protection against hardship means finding ways to replicate the sources of financial resilience – including sufficient income, savings and affordable credit – that prevent most people experiencing hardship. There are no easy answers to meeting this aim. Reducing experiences of hardship rests foremost on ensuring that income from wages and standard welfare payments are adequate to meet reasonable needs and that the design of the welfare system does not itself contribute to hardship. At present, achieving both aims would require a fundamental change in government policy, including a review of the adequacy and design of Universal Credit. In this response, we have focused on what can be done in the short-term to provide a more effective safety net against hardship. We recommend that the government:

Review the present system of budgeting loans and advances within welfare payments and Universal Credit.

22. Budgeting loans and advances within tax credits and Universal Credit provide crucial access to no-cost credit. However, this entitlement is conditional on meeting eligibility criteria that are unduly restrictive: in Universal Credit this includes having claimed certain benefits for six months, a low maximum earnings threshold (£2,600 or £3,600 jointly for couples over the last six months) and a maximum savings threshold of £1,000. (Similar criteria apply to advances for legacy benefits.) The combined effect of these restrictions of likely to contribute to hardship by excluding people from short-term budgeting support.

23. To ensure that budgeting advances within the legacy welfare system and Universal Credit are available to people based on ability to repay and need, eligibility criteria should be made significantly more flexible. We would suggest particularly reducing or removing the requirement to have been in receipt of qualifying benefits and increasing or removing the maximum earnings threshold, since each has no clear link with each household’s need for support at the time of seeking an advance.

Introduce national guidance for local welfare provision, alongside sufficient ring-fenced funding, learning from ongoing experience in Scotland.

24. The role of local welfare support is to help people in situations of financial crisis. This should not be confused with the inevitable need for support to manage unexpected costs that will arise from time to time for households with low incomes. The national welfare system should be sufficient in scope to support people to avoid financial crisis, otherwise an unsustainable burden is placed on local funding and services. Local crisis support can operate most effectively when it is not seeking to plug gaps in the national system of welfare entitlements but deal with situations of genuine crisis linked to exceptional situations.

25. We note that the Scottish government has introduced a model that balances national guidance setting out a clear scope for support with local flexibility in delivery. Learning from this experience, the government should clarify the scope of local welfare support, focusing on providing reliable support in

situations of financial crisis, and provide statutory guidance and ring-fenced funding to local authorities to meet these responsibilities.

Develop options for people who cannot pay back a budgeting advance to meet essential expenses.

26. There is presently a gap in the safety net for people who cannot repay a loan and do not meet narrow qualifying criteria for crisis support. Limited recoverable hardship payments are available to people who have received a sanction and localised discretionary housing payments offer support to people who need help to pay their rent to stay in their home, suggesting some acknowledgement that the welfare safety net should prevent hardship. There is, however, no wider provision to meet this aim.

27. A coherent system of hardship payments could be achieved by extending access to budgeting advances to people who do not meet affordability criteria. This would require a system of forbearance in which, for example, households would make token payments until they can afford to repay the advance, and the loan is written off after a fixed period such as two years. Basic criteria are already in place to establish whether a household is at risk of hardship linked to ‘essential basic needs’ including food, utilities, hygiene and housing costs. While the design of a scheme along these lines would need to be considered carefully, without a means of supporting people who have no recourse to another form of support to meet exceptional but essential expenses, hardship is inevitable.

Ensure that work to develop a no-interest loan scheme is integrated with welfare policy.

28. In the Autumn Budget, the government committed to commission a feasibility study to inform a pilot for a no-interest loan scheme (NILS). NILS has significant potential to act as a bridge between the welfare system and affordable credit: it is likely to be more flexible than budgeting advances (or any hardship payment), which are limited to a narrow range of essential expenses, and as a result has the potential to make a wider impact on demand for high cost credit and reduce the number of households that need to fall back on emergency support. However, any government supported scheme is likely to interact directly or indirectly with the welfare system, for example through use of real-time data to support affordability assessments and repayments or, if not, an overlap in eligibility and use of support. The government must therefore ensure that work to develop a NILS scheme is joined up with and complements welfare policy.

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