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An t-Ionad Fiosrachaidh

Social Justice and Social Security Committee

14th Meeting, 2022 (Session 6), Thursday 28 April 2022

Inquiry into low income and debt problems

Purpose of this briefing

The purpose of this briefing is to provide a summary of the responses to the Committee's call for views on its low income and debt problems inquiry. The call for views was active between 15 February and 31 March 2022.

Summary

Digital exclusion

Digital exclusion was described as having three aspects, summarised as a lack of kit, connectivity or confidence. Low income was a pervasive factor in digital exclusion, but there were other vulnerabilities, including being disabled, older or living rurally.

Additionally, people on low incomes may rely on mobile phones for online access, which made it more difficult to carry out online tasks.

Online skills were generally important for things like keeping track of finances, accessing information and claiming social security benefits. The pandemic had increased the focus on delivering services digitally.

Money advice services had generally moved to remote delivery (by telephone as well as online) during the pandemic, which was likely to have excluded some clients. There were calls for a rapid return to face-to-face services. However, some respondents noted that most clients could access digital services, and there were benefits and efficiencies if services could be accessed in this way.

Connecting Scotland worked with community groups to give online access and skills training to priority groups. It was mentioned by a number of respondents as an example of good practice. However, the approach needed to be expanded if digital exclusion was to be effectively addressed.

Multichannel engagement was noted as important, especially for public service providers. Respondents also highlighted initiatives to provide affordable internet connections.

Accessing money advice

The main barriers identified were stigma and a lack of awareness of services. Respondents discussed the role of trusted local services in dealing with this.

Some advocated a model where people could be referred on from various community services to specialist advice. Link workers in GP surgeries were highlighted as an example of good practice. However, there were also concerns about varying degrees of expertise in providing money advice, and funding for specialist services to meet demand.

The general view was that free money advice services could not meet current demand, and that this situation was only likely to get worse. It was noted that funding for the sector had significantly reduced in recent years, while demand and complexity had grown.

National funding was criticised as often being project-based, which could lead to services being unsustainable. The short-term nature of funding had an impact on staff retention, and stressful working conditions were causing burn-out.

Debt and mental health

There was general acknowledgement that mental health issues could be both a cause and a symptom of debt problems. Many respondents described in detail how various vulnerabilities aggravated each other.

Delivering money advice to people with mental health issues could have resource implications. Clients may struggle to maintain engagement with the service, may be less able to remember the details of their debts and may need shorter appointment times.

Some services were able to provide more specialist support, but others lacked the resources for this. It was noted that, given the wide range of mental health issues and the impacts these could have on people, it was difficult to provide appropriate responses for everyone.

Link workers in GP surgeries were again highlighted as examples of good practice. Support in Mind also runs a specialist money advice service for people with mental health problems.

The mental health “Breathing Space” initiative in England and Wales was also noted. This provides a legally recognised pause in creditor contact while someone was undergoing mental health crisis treatment for the duration of the treatment and an additional 30 days.

Reform of statutory debt solutions and debt enforcement

The three statutory debt solutions in Scotland are bankruptcy, the Protected Trust Deed and the Debt Arrangement Scheme. Generally, respondents were of the view that the current framework worked, but there were a wide range of suggestions for improvement.

It was noted that the only option usually available to people with low income and debt problems was bankruptcy. This was because they lacked any surplus income to pay debts or fees.

There was some concern that even bankruptcy didn’t work for those with “deficit” incomes. Without enough income to pay for their essential living costs, they would soon need to build up debt again, meaning that they couldn’t really benefit from the deft relief bankruptcy was intended to deliver.

In these circumstances, bankruptcy was described as a “sticking plaster”. It was also noted that people could only apply for bankruptcy once every five years.

Inappropriate marketing of Protected Trust Deeds was highlighted, which meant that people could end up in this debt solution when it wasn’t the best option for them.

Most respondents didn’t discuss the Debt Arrangement Scheme as it is usually inaccessible to people on low incomes. However, there were suggestions for ways of making it more relevant, including allowing for more debt relief and permanent removal of interest and charges.

Recent bankruptcy reforms were welcomed as increasing access, particularly reductions and exemptions to fees.

There were various other suggestions for reform, including:

- improving administrative processes
- allowing more flexibility around contribution levels in bankruptcy, to support a minimum income standard and to allow for better budgeting
- reform to a type of debt enforcement called bank arrestment, including increasing the minimum amount of money protected in a bank account to £1,000.

Issues with debts commonly experienced by people on low incomes

Most respondents highlighted council tax, rent arrears and fuel debts as the main debts for low income debtors. Social security debts were also mentioned and, more occasionally, credit cards, personal loans, overdrafts and high-interest borrowing (such as payday loans).

There was a general view that public sector debt enforcement moved quicker and had harsher consequences than consumer debts.

Respondents welcomed pre-action requirements for private landlords (complimenting those that already existed for social landlords) brought in by emergency legislation. However, some commented that the requirements were vague and that landlords needed to do more to engage with tenants at an earlier stage.

It was also noted that the cost of eviction to the public sector meant that this was not a cost-effective option.

Council tax enforcement, however, was considered to lack the framework for rent arrears, with harsh results. A lack of awareness of benefit entitlement and confusion over liability could cause people to build up arrears without being aware.

When a bill was sent for enforcement action, it attracted a 10% surcharge. There was a lack of flexibility in negotiating repayments. And enforcement action, such as bank arrestment, could quickly follow.

Respondents also commented on the risk of self-disconnection from energy supplies for pre-payment meter users. Debt recovery via pre-payment meters made bills higher.

The social security system was argued to contribute to people's debt situation. A much higher proportion of new-style benefits, including Universal Credit, could be subject to direct deductions for debts. The fact that people had to wait five weeks for a Universal Credit payment meant many were already in debt by the time it came. The Trussell Trust had described this as setting people up to fail.

Suggested changes included: action to increase incomes, better public sector debt management and consideration of some public sector debt write-off.

Analysis

Q1. How does digital exclusion affect people's experience of debt and seeking money advice?

Respondents described the main elements of digital exclusion as:

- lacking the equipment to go online
- lacking an internet connection
- lacking the skills and confidence to do things online effectively.

The Family Fund described this as “lack of kit, lack of connectivity and lack of confidence”. Christians Against Poverty also highlighted the cost of electricity to charge devices.

A range of factors were identified as making people more vulnerable to digital exclusion. Low income was a key factor, but also a contributing factor in many cases to other types of vulnerability. Inclusion Scotland highlighted statistics from the Scottish Household Survey (2019) showing the impact of low income:

> "Home internet access for households with a net annual income of £10,000 or less was 65 per cent in 2019, compared with almost all households (99 per cent) with a net annual income of over £40,000"

Other respondents emphasised that people with low income and debt problems had to prioritise their spending, so may be forced to give up their internet connection as their debt problem worsened.

Other vulnerability factors highlighted by respondents included:

- being disabled – and disabled people may additionally face barriers accessing information in the format they need online
- being older
- living rurally – with poor internet connections and a lack of access to alternatives such as libraries being highlighted
- having caring responsibilities – Save the Children noted that parents on low income may struggle to find the “time and space to do complex tasks online”
- being from an ethnic minority background
- being homeless
- being a veteran – with PoppyScotland noting that people do not have to pay bills while serving in the armed forces, so may leave without the financial or digital skills needed.

Christians Against Poverty also highlighted statistics which suggested people in Scotland were less digitally capable than elsewhere in the UK:

> “Lloyds Bank, UK Consumer Digital Index (2020), found that people in Scotland had a lower level of digital literacy compared to the rest of the UK. For example, it was found that only 77% of those aged 15+ in Scotland could do all of the foundational tasks, compared to 84% in the UK as a whole.”

It was noted that many people with low income accessed online services via their mobile phones. Mobile phones made it more difficult to display information in an accessible format, or to fill in online forms. In addition, people may not have the storage capacity to download e.g. information in pdf format, and it was expensive to top up where people exceeded their data capacity.

There were many disadvantages to being digitally excluded. It was recognised that the pandemic had accelerated moves to providing services online, meaning that those without the ability to access digital services were severely affected. Local authorities and other service providers had not returned to the same level of non-digital access as before.

The Scottish Council for Voluntary Organisations (SCVO) put it like this:

> "Without internet access in the home, and the skills to make the most of it, individuals have limited access to public services, channels for civic and democratic participation, knowledge and information tools, opportunities for social engagement, the labour market and learning. The lack of internet access also contributes to the poverty premium, as the cheapest goods and services are often only available online."

Other disadvantages highlighted by respondents included:

- not being able to keep up with finances because things like bank statements, credit balances and information about benefits claims were mainly available online
- being reliant on word-of-mouth referrals to support agencies, which may not be accurate or appropriate
- accruing further interest and charges on debts because people were unable to contact creditors
- receiving benefits sanctions because people were unable to provide up-to-date information in relation to their benefits claim
- missing out on grant income because people were unable to fill in online application forms – Citizens Advice Scotland (CAS) noted that Citizens Advice Bureaux had supported many clients to claim the low income pandemic payment (for people with reduced council tax bills, administered by local authorities) because these were only available online
- not being able to access a wide range of other support services, such as for education, employability and mental health.

Individual respondents also described the impact of digital exclusion. One respondent noted that not being able to afford an internet connection meant that they could not find information or get support with their debt problems. This left them feeling isolated and unable to cope, with an ongoing impact on their family.

However, respondents also identified advantages to services provided online. CEMVO noted that translations and easy read versions of information were more readily available, which supported access for ethnic minorities. Age Scotland noted that information and advice could be sought anonymously. The Poverty Alliance noted that travel costs had been identified as a significant barrier to accessing face-to-face advice and support by people with lived experience of low income.

One individual respondent noted that they struggled to take things in over the phone. They preferred online forms as it gave them time to go through things properly.

Accessing money advice

As with other services, money advice services moved to remote delivery during the pandemic. This is expected to have created barriers to access for people who are digitally excluded. Several respondents noted that the extent of this was difficult to quantify (primarily because the voices of people who are not accessing a service at all are difficult to capture).

Many respondents called for a rapid return to the availability of face-to-face services. However, other comments highlight that this is a complex issue. Free money advice services are currently overburdened, with waiting times estimated at between two and six weeks. Some argued that remote ways of delivery were necessary to address this.

Alan McIntosh (money adviser) highlighted that most clients are not digitally excluded and can therefore benefit from digital services. He noted that, during the pandemic, money advice was primarily delivered over the telephone, with digital enhancements.

He saw webchat as a useful tool for engaging people. They could ask questions and get basic information before deciding whether to take it further. However, he noted that providing full advice via webchat rarely happened and required skilled advisers.

He also highlighted the usefulness of digital signatures. These allowed advisers to start working on behalf of clients immediately and so speeded up the process. His experience was that most people could use digital signatures if the process was explained to them over the phone first.

Both StepChange and Advice Direct Scotland provide free money advice remotely (and did so before the pandemic). Advice Direct saw the pandemic as accelerating the need for people to be digitally capable. It worked with foodbanks and other community groups to support traditionally digitally-excluded groups to access online services so they would not be disadvantaged.

StepChange noted that they could refer clients to face to face services where they couldn't access remote advice. In return, their services took some of the burden from traditional services by allowing those who could access phone and online support to do so.

Respondents highlighted a range of challenges to the money advice process created by online working:

- many creditors now had online as their main channel of communication and alternatives, such as phone lines, may be poorly resourced. Some respondents noted particular delays in getting information from local authorities and the Department for Work and Pensions (DWP) if contact wasn't online, to the significant detriment of clients

- the money advice process usually required a large amount of documentation (such as bank and creditor statements) which was often only available online. An application for bankruptcy required up-to-date bank statements, which had been a particular challenge for digitally excluded clients during the pandemic.

- some local authorities required clients to set up a mygovscot account before accessing money advice, which created an additional barrier.

GEMAP noted several specific disadvantages for money advice clients who are unable to access online support. This meant that they could not start dealing with their debt immediately (e.g. reprioritising payments, getting interest charges stopped) which carried a financial penalty. In addition, they were unable to access information or make contact anonymously, meaning it may take them longer to pluck up the courage to talk to someone.

Advice Direct noted that creditors often prioritise online contact. If customers do not respond, they can see this as a reason to pursue enforcement. One Parent Families Scotland (OPFS) noted that many creditors switched to texting customers during the pandemic. Receiving repeated texts about issues they couldn’t deal with increased stress and anxiety for their client group.

Alan McIntosh noted that, while creditors focussed on online processes for customers, many did not have options for online communication with advisers. Formal communications may still have to be undertaken by post.

GEMAP highlighted that volunteer advisers, especially older ones, may themselves be digitally excluded. This may mean that people were reluctant to return to their volunteering roles as the pandemic winds down. Older people may benefit from the social interaction of volunteering in a physical location.

Online advertising for debt advice

Several respondents highlighted the known problems with paid-for services advertising online. If someone searched for debt advice, the top results would direct them to paid-for services pushing Protected Trust Deeds as a solution to debt problems. This issue is discussed in the Session 5 Economy, Energy and Fair Work Committee’s report on Protected Trust Deeds (2020).

Protected Trust Deeds are rarely the best option for people with low income, and there can be significant disadvantages where someone exits the arrangement before it is due to finish. People who lacked online skills would struggle to differentiate between reliable and unreliable sources of advice.

Q2. Are there examples of good practice which reduce barriers created by digital exclusion?

Respondents emphasised the need for a multi-channel approach from creditors, public bodies and money advice services. Face to face services were still needed, and there were calls for organisations to be required to provide a telephone contact number.

Previous reviews into the money advice sector had called for “channel shift” to remote advice services to improve efficiency. However, a number of respondents emphasised “channel choice”, allowing clients to access services in the way that worked for them.

It was also noted that support for digital access and for debt problems had to be advertised via non-digital means if it was to reach digitally excluded groups.

Several respondents called for creditors and banks to provide free hard copies of balance and bank statements if it was to support the money advice process.

Many respondents highlighted the work of Connecting Scotland – funded by the Scottish Government and delivered by SCVO. This project provides devices, internet connections and skills training to excluded groups. It works with existing community groups to best target those who needed support. It had helped over 60,000 digitally excluded households so far.

SCVO emphasised the importance of working with existing community services, which people accessed and trusted. It also saw digital skills as a key issue, with support for people to do things online being “embedded” in local agencies. However, some other respondents noted that the approach of linking in with existing services meant that the most excluded people – who were not engaged with services – may miss out.

Various respondents highlighted other projects they had been involved in to support online access, including AbilityNet and the Good Things Foundation.

There were also suggestions around ways to give people affordable internet access. The Poverty Alliance called for free internet access for all low income groups. Other ideas included wifi hotspots in community locations (and it was noted that some housing associations provide internet access without additional charges).

Advice Direct noted that some broadband providers have a social tariff for people on Universal Credit, which reduces the cost of internet access. It called for all broadband providers to offer this.

Christians Against Poverty had undertaken research which had come up with eight principles of digitally inclusive design. It particularly emphasised the fact that access to essential public services information online should be free. It called for the Scottish Government to work with communication services providers to deliver this.

Q3. What are the barriers to accessing money advice for people with low incomes and debt problems?

Respondents highlighted a range of barriers to accessing money advice, with stigma and lack of awareness of services featuring heavily.

Stigma

Stigma and shame were mentioned by many respondents as significant barriers. This meant that people may delay getting help, and that the stress of their debt situation increased. Advice Direct highlighted that it also made people vulnerable to taking out further, unsustainable, credit to try to deal with the situation.

Stigma was a barrier for lots of different groups. However, several organisations highlighted the particular impact on their client group. Poppy Scotland noted that the culture of self-reliance in the armed forces fed into this as an issue for veterans. Ethnic minorities and older people were also particularly affected and may worry about the confidentiality of services.

The Centre for Excellence for Childrens' Care and Protection (CELCIS) spoke about the situation for care-experienced young people, who may lack financial skills or trusted adults to speak to. However, they made a wider point about the impact of stigma. They noted that a common behavioural response to shame was to withdraw – and that avoidance was often used as a coping mechanism.

Lack of awareness of services

Lack of awareness of where to go for advice and support was also highlighted as a significant barrier. Various pieces of research had highlighted that people just didn't know who to turn to if they had a debt problem. The Poverty Alliance had carried out research into accessing debt and benefits support in Edinburgh and noted that "almost all" interviewees did not know where to go.

Language and culture

Language and culture were also thought to be barriers for some groups. AgeScotland noted that older people from ethnic minority backgrounds may not be able to read in either their first language or English, which created problems for processing information. CEMVO highlighted that language support was available to many advice agencies – however advisers may not be familiar with the processes for using this.

Positive Action in Housing commented that not a lot of advice services were culturally sensitive.

Local services

Respondents also highlighted the role trusted, local services played in delivering advice. Part of the problem was that these services were not as available as they were in the past – either because of funding constraints, or because of pandemic restrictions. Some respondents gave examples of being able to make referrals to local money advice services in the past, knowing a client would be seen quickly, possibly via a home visit. This helped break down some of the barriers highlighted above.

Others discussed a model of support which involved referral pathways from a range of local agencies. This way, someone in debt could access help via any support groups they were connected to, who could then refer on to specialist money advice agencies. However, referral pathways were often not well developed (and had suffered during the pandemic).

Some respondents criticised the Scottish Government for its promotion of national money advice services in its information resources, at the expense of local services.

Several respondents, including CELCIS and The Poverty Alliance, highlighted the importance of trusted relationships in the advice process. Where people had a relationship of trust with an individual or agency, they would be more likely to ask for help. They could then be directed to specialist sources of advice.

However, this approach was not without its complexities. The Advice Shop noted that many organisations offered money advice, but to significantly different levels of expertise. This could be confusing to clients. It called for better mapping of services.

It also noted that, despite being recommended by a review of the sector, there was no standard qualification for offering money advice. This risked consumer detriment.

Alan McIntosh noted a tendency towards money guidance approaches, which provided fairly basic information. He accepted that this had its place but could not deal with the complex debt problems that people may be experiencing. He argued for the importance of money advisers who could do things like challenge bank arrestments or evictions if these legal rights were to have any real meaning for clients.

A number of respondents commented favourably on initiatives to put link workers in GP surgeries, who could support people with social issues which may be contributing to health problems. This was argued to significantly improve access to advice for people who may not be aware of the support available.

However, several respondents commented on the need to also support the agencies that link workers referred onto. An individual respondent noted that the creation of a new service like this could result in specialist services being overwhelmed with referrals.

Long waiting times

Long waiting times were also highlighted as a barrier. This was often raised alongside points in relation to demand and funding, which are discussed below.

Waiting times for the main money advice providers were estimated at between two and six weeks. There was concern that people disengaged from the process if they had to wait too long. Clients were also disadvantaged (e.g. by interest continuing to accrue on their accounts, and by continued stress) by prolonged waits.

Other barriers

Other barriers highlighted by respondents included:

- literacy and additional support needs
- caring responsibilities – for example, parents may struggle to have difficult conversations around their children. Children 1st noted that its helpline opened until 9pm and parents welcomed the opportunity to call once children had gone to bed
- nine to five availability of services – more generally, standard opening hours were thought to be a barrier to people in work
- misinformation – in particular, people may have unjustified concerns about bankruptcy (and the focus of online advertising on insolvency solutions exacerbated this). A society-level emphasis on the importance of credit ratings and access to credit was also highlighted.
- reliance on high cost credit (such as doorstep or payday lending) was argued to keep people trapped in a cycle of debt which they may not even recognise.

Q4. Are free money advice services able to meet demand?

The general view was that free services were not able to meet demand.

Demand

As discussed above, there were long waiting times to access advice from the main agencies. CAS highlighted a YouGov poll it had carried out which found that:

> "over 600,000 people have encountered new debt problems during the pandemic, either getting into debt for the first time or seeing existing debts deepen."

Other respondents highlighted reviews of the money advice sector and Scottish Government research which confirmed that there was more demand for services than availability.

Advice provider respondents were also keen to stress that demand was likely to increase in the near future. Money Advice Scotland (MAS) noted that the predicted increase in demand created by the pandemic had yet to materialise, but that this was to be expected.

It noted that various emergency measures (e.g. extended protection from creditor enforcement), coupled with creditor forbearance measures (e.g. payment holidays) meant that people had not yet been required to deal with mounting debt. It predicted that people would soon be facing two years' build-up of complex debt problems.

Respondents also highlighted the impact of the cost of living crisis. Agencies reported that they were already dealing with higher numbers of clients with "deficit budgets" (where their income did not cover their essential expenditure) and this problem was only likely to get worse.

GEMAP was among those who highlighted that there were no simple solutions to people in this situation, so the advice-giving process was more complex. It stated:

> “This means that more creative solutions and debt strategies are required to achieve client’s goals and involves more time from advisers to put this in place.”

Funding

Many respondents highlighted funding issues as the root cause of their inability to meet demand. Funding had decreased significantly since the 2008 financial crisis while demand had risen.

Local authorities are the main funders of advice services. There was acknowledgement that they faced a tough funding environment, meaning that they had reduced funding to services which they didn’t have a statutory duty to provide.

There were also a number of comments on the nature of the funding available. It was noted that, while more money for money advice had been made available, this had been in relatively small amounts for individual agencies. It wasn’t enough to employ additional money advisers. There was also a view that smaller organisations often received funding only to provide specific services, so they couldn’t offer a proper money advice service.

The project-based nature of most national funding came in for criticism. This meant that projects – even very successful ones – were not sustainable. It also placed the emphasis on offering new services, while funding available for core services dwindled. GEMAP noted that much funding recently had been directed at developing digital advice options, further entrenching digital exclusion.

Stepchange highlighted that short-term nature of funding also had an impact on their ability to retain staff. Others commented that money advisers were leaving the sector because of job instability.

There were calls, from Inclusion Scotland and CAS, for a duty on local authorities to fund advice provision. CAS made a number of other recommendations designed to provide a more stable funding environment which it argued would support the economic development of communities and tie into the Community Wealth Building agenda.

The role of the private sector was discussed by some respondents. Alan McIntosh noted that the biggest providers of statutory debt solutions (via Protected Trust Deeds and the Debt Arrangement Scheme) were in the private sector. Recent reforms had increased their role in the Debt Arrangement Scheme.

However, there was general acknowledgement that the private sector was only interested in people with debt problems who had disposable incomes as this was how they made money. There was therefore a pressing need to fund the free sector to support the increasing number of people without any surplus in their budgets.

Adviser burn-out

Some respondents also commented on the impact of high demand on advisers. MAS noted that digital ways of working meant that there was an increased expectation that money advisers would be constantly available, as well as less downtime to do administration. MAS offers training to advisers on dealing with stress and burnout, but this did nothing to address the root causes.

Other respondents highlighted that money advisers often dealt with distressing situations and, increasingly, there was a lack of options for low income clients. The need for mental health support was also noted.

Q5. How does having a debt problem impact on people's mental health?

There was general agreement that debt was both a cause and a symptom of mental health problems. CELCIS was among those highlighting research on this issue:

> "The Royal College of Psychiatrists reports that one in two adults with debts has a mental health problem, and one in four people with a mental health problem are also in debt."

While noting that suicide rarely has one cause, the Scottish Association for Mental Health (SAMH) noted that research from the Money and Mental Health Policy Institute showed that people in debt are three times as likely to have suicidal thoughts.

Many respondents explained in detail how the mounting pressures of debt fed into mental health problems, and that low mood, compulsive behaviour and impaired cognitive functioning were all factors in building up debt. Others noted quite forcefully that a daily struggle to afford basic essentials while fending off unserviceable creditor demands would obviously have an impact on mental health.

Save the Children referred to the "toxic stress" of dealing with debt and low income. It noted that stress is known to have an impact on the early development of children. It also highlighted that, for people managing on low income, this was likely to be a recurring experience.

Respondents highlighted that there were other factors which were exacerbating the situation, such as long waiting times to access mental health services and the impact of the pandemic on income and isolation. The Poverty Alliance noted that, despite the acknowledged link between debt and mental health, support services remained divided.

SAMH noted that there are wider structural issues that feed into the link between debt and mental health. People with mental health problems are likely to earn and save less. It also impacts on employability, and people who have to take time off work because of mental health issues report ending up in debt as a result.

SAMH also noted that people in debt are less likely to be able to afford the things that are good for mental health, and may end up cut off from their support networks and other coping mechanisms.

Delivering money advice services to people with mental health issues

A number of respondents commented on the challenges of delivering money advice to people with mental health problems.

Stirling Council noted that people with mental health problems might struggle to answer the phone or keep appointments, so it was difficult for money advice services to continue to engage with them. If people with mental health issues had stopped their contact with other services, then there would be no one to refer them for money advice.

GEMAP noted that people with mental health problems may struggle to remember the details for their debt, may not contact a money adviser until they were in crisis and may not be able to cope with long appointments. All this means that a slower, more tailored approach is needed, which has resource implications in terms of time and training.

However, respondents also continually emphasised the importance of money advice, and the huge impact this could have on improving someone's mental health situation.

Alan McIntosh stated that, given the prevalence of mental health issues, all money advice agencies should have policies in place to support access for clients. Christians Against Poverty noted that, in many cases, a mental health problem would constitute a disability under the Equality Act 2010. This means service providers have a duty to make reasonable adjustments to support access.

MAS noted that some organisations have extra support for people with mental health problems, but not all have the resources to do this. This meant that money advisers could be left dealing with the brunt of people's distressing situations. GEMAP highlighted that the wide range of mental health conditions, and the varying impacts these have on people, could make it difficult for services to develop appropriate responses for everyone.

Q6. Are there examples of specific research looking at the relationship between debt and mental health issues?

Respondents highlighted a range of research work and statistics in this area. The Money and Mental Health Policy Institute's "The Facts" webpage provides an accessible overview.

Q7. Are you able to provide "good practice" examples of projects which work to reduce the mental health impact of debt?

Respondents also cited various examples of good practice. Link workers in GP surgeries (discussed above) were seen as an ideal way of directing people with mental health issues to money advice services.

Support in Mind runs the Mental Health and Money Advice Service in Scotland. It provides support to people with mental health problems who are struggling with money as well as people whose debt problem is impacting on their mental health. StepChange also has a specialist service.

GEMAP highlighted the Vulnerability Registration Service. This provides a register of people with vulnerabilities which financial service providers can use. People register themselves. They can opt to be pre-declined for credit services, or they can have a referral flag to make lenders aware of their circumstances. People can also remove themselves from the register at any point after the first three months.

Several respondents highlighted the Debt and Mental Health Evidence Form. This was used by some creditors as a way of evidencing mental health problems and could result in debts being written off. However, not all creditors use them.

Money advisers also reported problems getting health professionals to provide the necessary evidence. In some cases, people were asked to pay to have the forms filled out. It was noted that GPs were not allowed to charge a fee for this in England.

There were more general calls to raise awareness of the impact of debt on mental health problems, as well as what was involved in the money advice process, among health professionals. Some respondents commented that advisers may see more clearly how much of an impact mental health is having on someone's debt situation.

ICAS and SAMH highlighted the Debt Respite Scheme (also called Breathing Space) provision for mental health in England. People receiving mental health crisis treatment (usually some form of in-patient care) can pause enforcement action and contact from creditors for the length of their treatment plus an additional 30 days. ICAS noted that proposing a similar scheme for Scotland was actively considered as part of the Accountant in Bankruptcy's Stage 2 debt review (discussed below).

Q8. Does the current legal framework for formal debt solutions – in other words, bankruptcy, Protected Trust Deeds and the Debt Arrangement Scheme - meet the needs of people on low incomes with debt problems?

There are three statutory debt solutions in Scotland:

- **Bankruptcy** – where an individual's assets are managed (usually sold) by a trustee for the benefit of creditors. Once someone has completed the process, almost all remaining debts are written off. Minimal Asset Process bankruptcy is simpler and quicker and can be used by people with low income and few assets. Full Administration Bankruptcy covers all other circumstances.

- **Protected Trust Deed** – a more flexible form of bankruptcy where the trustee is an insolvency practitioner in private practice. To enter a Protected Trust Deed, someone must have sufficient assets or income to pay the trustee's fees and offer some level of payment to creditors.

- **Debt Arrangement Scheme** – allows people to pay their debts in full over a longer period of time. There is very limited provision for debt write off in the Debt Arrangement Scheme, so people must have sufficient surplus income to pay their debts in the longer term.

Note though that most people in debt do not enter a statutory debt solution. Instead, they make reduced payments to debts through informal agreements with creditors.

CAS noted that official statistics showed applications for both Protected Trust Deeds and bankruptcy were down during the pandemic, while applications for the Debt Arrangement Scheme increased. Citizens Advice Bureaux had provided more advice on formal debt solutions and less on informal options.

Broadly, respondents mainly thought that the current framework for statutory debt solutions did work, although there were many suggestions for improvements.

ICAS raised a general point about way statutory debt solutions are promoted. It suggested there was "perhaps a skewing of messaging" from the Scottish Government which encouraged people to pay off debts in full via the Debt Arrangement Scheme. While accepting that this would be the best option for some people, ICAS emphasised that debt write off via bankruptcy or Protected Trust Deeds would benefit many. It noted that there was already significant stigma around these processes.

Of the bankruptcy process, it said:

> "One of the fundamental drivers behind debt relief being provided within society is to allow individuals to be provided with a 'second chance'. It is widely recognised and accepted that rehabilitation measures should be swift and no longer than necessary. To force individuals into an unnecessary extended period of debt repayment through products such as DAS does not meet these objectives. Entering a debt relief process such as bankruptcy or a PTD has the potential to provide a significant number of individuals with that 'second chance', with the resultant benefits to their mental health from a much shorter route to a fresh start."

Several respondents also highlighted the Accountant in Bankruptcy's ongoing debt review. Stakeholders have been involved in detailed consideration of changes to statutory debt solutions as part of Stage 2 of this review. As SPICe understands it, some or all of the working groups have reported, but it is not clear when the reports will be published.

Bankruptcy

A key point made by many respondents was that bankruptcy was usually the only formal option available to low income debtors because they lacked any surplus income to pay trustee fees, or repay debts in the longer term.

Some respondents also expressed concern about whether bankruptcy was even effective for low income debtors. Traditionally, bankruptcy would allow existing debt to be written off and, with support on income maximisation and budgeting, a client would be able to move on, paying only their current liabilities, to a fresh financial start.

However, a number of respondents noted that they were increasingly seeing clients with what they called a “deficit income”. This means that they do not have enough money to meet essential living costs. There was no way to budget out of this situation, so clients would start running up debts again as soon as bankruptcy happened.

There were no easy fixes in situations like this, so cases were complex and time-consuming to deal with. The Advice Shop noted that it was incredibly unsatisfactory, for both clients and money advisers, not to be able to come up with solutions.

One respondent commented that bankruptcy can work when someone is in debt because of a change of circumstances (e.g. relationship breakdown). However, it could only be a sticking plaster for people with chronic low income.

Another concern was that there were limits on how often people could access bankruptcy. It was not possible to apply for bankruptcy if you have been made bankrupt in the previous five years. In addition, it is not possible to use a Minimal Asset Process bankruptcy more than once every ten years.

Bankruptcy also places restrictions on access to credit while the process is ongoing. However, people with deficit incomes will be unable to avoid running up further debt.

Fees to enter bankruptcy were also a barrier – and described as “illogical” by several respondents. Recent reforms (discussed below) have created fee reductions, as well as exemptions for people on certain benefits.

However, several agencies noted that they still had clients required to pay the fees, despite being on low income. The Accountant in Bankruptcy stated that, over the past year, 83% of Minimal Asset Process bankruptcies have paid no fee.

Where people cannot afford the bankruptcy fee, many money advice agencies will try to access charitable grants to pay it on their behalf. This has resource implications for the agency, and delays a resolution for the client. One respondent also questioned whether charitable income should be used to pay for public services in this way.

There were calls for the government to do more to increase people's income from several organisations. This chimes with some of the responses from individuals, who described the situation as an income problem rather than a debt problem. Christians Against Poverty called for the Scottish Government to use its full powers to examine the intersection between social security and problem debt.

Some respondents did think that there was a gap in the statutory framework for people on low incomes and called for more intervention.

StepChange noted that there wasn't a statutory option for people with low levels of debt (but which could be no less distressing to deal with). People must owe at least £1,500 to apply for a Minimal Asset Process bankruptcy, and the threshold for a Full Administration Bankruptcy is £3,000. Christians Against Poverty noted that even small amounts of debt could keep people trapped in poverty.

Protected Trust Deeds

Protected Trust Deeds are heavily advertised online by businesses which get a fee for passing on information to insolvency practitioners ("lead generation"). The marketing of Protected Trust Deeds is discussed in more detail in the Session 5 Economy, Energy and Fair Work Committee's report Protected Trust Deeds (2020).

There may be situations where a Protected Trust Deed is the best option for someone with low income. For example, there is greater protection for a family home than in bankruptcy. However, people may end up in a Protected Trust Deed because it has been mis-sold to them.

The Advice Shop noted that it had not referred anyone to a Protected Trust Deed for a number of years. The only situations it could think of where it would be appropriate would be where someone had assets to protect or was a company director.

Several organisations highlighted situations where they had seen clients or service users in Protected Trust Deeds when this was not suitable for them. Some questioned whether they had received appropriate money advice, and some suggested that the client had not understood any advice received.

Some respondents noted the significant consequences where a Protected Trust Deed failed. It was possible for all the money paid towards the Protected Trust Deed to be eaten up by trustee fees, so that they were no further forward in repaying their debts.

There were calls for reform, and for better regulation of the advertising of Protected Trust Deeds.

Debt Arrangement Scheme

There were fewer comments on the Debt Arrangement Scheme because it will usually be out of reach for low income debtors. However, there were several suggestions for changes that could help make it more relevant.

Govan Law Centre noted that debt write-off was possible as part of the Debt Arrangement Scheme, but only if 70% of the debt had been paid and the arrangement had been running for at least 12 years. It argued that more generous provision for debt write-off could make the Debt Arrangement Scheme more suitable for those on low incomes.

Christians Against Poverty noted that, when a Debt Arrangement Scheme failed, interest and charges relating to debts (which could have been suspended for years) were re-applied. This added significantly to people’s debts. Christians Against Poverty suggested that this would not be the case in the broad equivalent for England and Wales, the Statutory Debt Repayment Plan (not yet operational).

Alan McIntosh noted that people could access the Debt Arrangement Scheme without paying a fee, which might be one reason why applications had risen. He also highlighted that the biggest providers of Debt Arrangement Scheme Debt Payment Programmes were in the private sector. Reforms in 2019 made it possible to generate an income from these.

StepChange highlighted several changes which had benefited clients. It was now possible to take two payment breaks (where changes to financial circumstances mean someone can’t afford their usual contribution) a year. It was also possible for people in debt to propose a contribution level, rather than being required to pay all their assessed surplus income towards debts, which made budgeting easier.

StepChange also highlighted the existence of the “low and grow” Debt Arrangement Scheme. This allowed people in debt to propose initial low payments to creditors (not enough to repay debts in full) where they expected their financial circumstances to improve in the following six months.

Q9. Have recent reforms to bankruptcy laws helped people on low incomes with debt problems?

Emergency legislation made several changes to bankruptcy, as well as extending the “moratorium on diligence” (which creates a pause on debt enforcement by creditors while someone seeks debt advice). The intention was to provide greater protection for people in debt because of the financial effects of the pandemic.

A number of the reforms have since been made permanent, including fee reductions and exemptions, and a higher maximum debt threshold to use the Minimal Asset Process. The debt threshold for a creditor petition for bankruptcy and the length of the moratorium are being considered as part of the Coronavirus (Recovery and Reform) (Scotland) Bill.

Respondents generally welcomed the fee reductions and exemptions as significantly improving access to bankruptcy, as well as saving time in the money advice process. However, as noted above, there was concern that a number of low income clients still have to pay fees.

The increased debt threshold for Minimal Asset Process bankruptcy was also welcomed as expanding access to this option. It is simpler, quicker and cheaper than Full Administration Bankruptcy, so this benefits clients.

PoppyScotland welcomed the acceptance of digital signatures. The use of these in the money advice process is discussed in the section dealing with digital exclusion.

The COVID-19 Recovery Committee has published its Stage 1 Report on the Coronavirus (Recovery and Reform) (Scotland) Bill. This summarises the range of views on the creditor debt threshold and moratorium period.

Q.10 Do you have any suggested changes to the law in this area?

Various reform suggestions are also highlighted in the text discussing the current legal framework above.

A number of respondents highlighted the ongoing Accountant in Bankruptcy debt review. It was suggested that Stage 2 of this review would propose interim reforms relevant to people on low income with debt problems.

The Accountant in Bankruptcy noted that it had also been undertaking a review of diligence (formal enforcement action to recover debts – like seizing money in a bank account). It plans to consult soon on proposals.

The University of Aberdeen cautioned that reforms needed to consider the interests of all debtors (not just those with low income) as well as creditors to avoid unintended consequences. It noted that the legal framework for debt can only go so far to address issues of low income, and overly focussing on this could result in a system which is not fair or balanced.

Conversely, Christians Against Poverty noted that it was unclear if the review had an “overarching policy intention of reducing poverty and improving outcomes for those on low incomes”.

Administrative processes

The Accountant in Bankruptcy is the gatekeeper for entry into bankruptcy (in most cases) and the Debt Arrangement Scheme. There have been concerns in the past that its administrative processes placed an undue burden on money advisers and clients. The Accountant in Bankruptcy has issued new guidance to improve the process, and is still working on this issue.

However, several respondents highlighted the need to improve administrative processes to enter bankruptcy. They weren’t specific. However, this is likely to relate to the requirement to provide evidence of income and expenditure, so that available income to pay debts can be assessed under the “Common Financial Tool”. The level of available income determines which debt solutions an individual can enter.

The Child Poverty Action Group (CPAG) made a wider point about the way income is assessed for all statutory debt solutions using the Common Financial Tool. The process does not ensure households are left with a minimum level of income to support an acceptable standard of living. It notes:

> “Debt processes should support the Scottish Government national mission on child poverty, and the objectives of the statutory Tackling Child Poverty delivery plan. They should be designed to avoid pushing children into poverty, deeper poverty or material hardship.”

It suggests that there should be a minimum income floor, based on the Minimum Income Standard (as developed by the Joseph Rowntree Foundation and partners) but recognising personal circumstances.

More flexible contributions in bankruptcy

There were several calls for there to be more flexibility in the level of contribution from income a client makes in bankruptcy. In both bankruptcy and a Protected Trust Deed, all surplus income (as assessed using the Common Financial Tool) must be used to service debts. This removes flexibility from budgets and prevents people in debt building up any savings to deal with financial emergencies. Govan Law Centre noted that the Debt Relief Order in England and Wales allows a buffer of £75 above assessed expenditure, which would improve resilience post-bankruptcy.

CAS highlighted that requiring all assessed surplus income to be paid towards debts could create a disincentive for people to improve their financial situation e.g. by getting a better job. It also removes any flexibility to deal with increased costs flowing from the cost of living crisis.

Bank arrestments

A number of respondents called for reform of “bank arrestment” (which allows creditors with court authority to seize money in bank accounts). The law currently allows for a “Minimum Protected Balance” to remain in an account to prevent people being left destitute. This amount links into the threshold for earnings arrestment (where creditors seize wages in the hand of an employer). It is currently £529.90.

However, respondents noted that, unlike an earnings arrestment, creditors could seize all money above this sum in a bank account. This could leave families destitute, with respondents citing various case examples of people’s experiences (including losing a job because someone could not afford to travel to work). In earnings arrestment, there is a sliding scale of how much creditors can seize above the minimum threshold.

Govan Law Centre noted that the legal protection under an earnings arrestment to the wages of people in debt became irrelevant as soon as the money was paid into a bank account.

Respondents called for the Minimum Protected Balance to be increased to £1,000 as an interim measure. Longer term reform could include introducing a taper on the money which could be seized as well as giving consideration to household size.

Some respondents also called for a better court process to challenge a bank arrestment. It is currently possible to do this, but it requires a court application and a wait of many weeks.

Some respondents also highlighted that some creditors were failing to check the relevant registers before moving to formal debt enforcement. Someone who is in a moratorium period or is participating in any of the statutory debt options is protected from debt enforcement by their creditors.

Formal debt enforcement is carried out by court officers, usually sheriff officers. They should check public registers held by the Accountant in Bankruptcy to see whether the intended target of the enforcement action is protected.

Respondents noted that additional, urgent work was created for advisers in dealing with situations when diligence had been used incorrectly. StepChange noted that money advisers had to spend time explaining to creditors more generally the protections created by statutory debt solutions.

Earnings arrestments

Alan McIntosh called for more flexibility in relation to earnings arrestments. He suggested that it wasn't possible for creditors to unilaterally adjust the amount of money taken as part of an earnings arrestment. Allowing them to do this (particularly local authorities dealing with council tax arrears) would give more scope to deal with clients' difficult financial circumstances.

He also highlighted that there were a range of legal processes which enabled creditors to seize wages. He called for greater co-ordination of these so that people in debt did not face unsustainable deductions from their wages.

Other reform suggestions

Continuing the theme that, for low income debtors, the issue is more about insufficient income than improved debt solutions, several respondents called for measures to improve income. These included increases to social security benefits (such as the Scottish Child Payment), better access to grant payments (with the Scottish Welfare Fund highlighted) and action on unaffordable rents and fuel bills.

There were also calls for better options for low- or no-interest credit for people who had to borrow to meet essential living costs.

Other suggestions for reforms of the legal framework included:

- reconsidering how the family home is treated in bankruptcy (the Accountant in Bankruptcy states that this may form part of Stage 3 of the debt review)
- making council tax and social security debts unenforceable (under legal rules called "prescription") after five or ten years. Recent legislation (the Prescription (Scotland) Act 2018) set the period at 20 years.

- ensuring that landlords can't use rent arrears which are included in a Debt Payment Programme under the Debt Arrangement Scheme as a basis of eviction action.

Q10. What are the main types of debt that people on low incomes with debt problems are likely to have?

Respondents listed a range of debts commonly experienced by their low income client groups. Rent, council tax and energy debts featured heavily, as did debts created under the social security system. MAS referred to the situation for people on low income with debt problems as being "eat or heat" debts.

Some respondents also highlighted personal loans, overdrafts and credit cards. In some cases they noted that these debts may still have been run up to meet essential living expenses. Some respondents also mentioned high-cost sources of credit such as doorstep lending (where a representative visits someone's home to collect repayments) and payday loans. Catalogue debts, and the growing area of "buy now, pay later" debts were also mentioned.

CAS noted that, for Citizens Advice Bureaux clients, the top five debt issues were: 1) council tax; 2) credit and store cards; 3) local authority rent arrears, 4) unsecured personal loans; and 5) fuel debts.

Aberlour highlighted debt to pay for school meals. It had recently undertaken research in this area which showed a high level of debt, suggesting many parents were struggling to meet these costs. It also noted an inconsistent approach from local authorities to repayments and write off, with some approaches increasing stigma or likely to result in children going hungry.

Q12. Do processes to deal with rent arrears (including private sector rent arrears) and council tax arrears support people on low incomes to deal with their debt problems?

Several respondents commented on the role that good quality advice had in supporting people to deal with rent and council tax arrears.

Some also commented that processes for enforcing public sector debts, especially council tax, tended to move quicker and have harsher consequences than other forms of debt. Aberlour argued that the public sector was behind the private sector in this area, in comparison to consumer creditors. It noted a UK Government consultation on fairness in government debt management.

Respondents also commented on processes around energy debts and social security benefit debts, so these are also discussed below. The role played by the benefits system in exacerbating the experiences of people with low income and debt was a particular concern.

Rent arrears

Emergency legislation introduced additional protections for private sector tenants. Mandatory grounds for evictions (which included some circumstances of rent arrears) were made discretionary. In addition, the first tier tribunal (Housing and Property Chamber) could consider whether landlords had followed certain steps – including signposting to advice – before granting eviction orders. These are known as pre-action requirements.

Proposals to make these provisions permanent are contained in the Coronavirus (Recovery and Reform) (Scotland) Bill. They are considered in the Local Government, Housing and Planning Committee’s Stage 1 Report on the bill.

Note that there are already pre-action requirements, such as signposting to advice, in place for social landlords.

Several respondents indicated their support for the changes to be made permanent.

There were more general comments about the pre-action requirements in both the private and social sectors.

In the view of AgeScotland, the engagement requirements kicked in at too late a stage – essentially once the landlord moved to legal action. They called for more to be done at an earlier stage in the process. They also noted that the language was vague, leaving it up to landlords what they did.

Stirling Council suggested that, for social landlords, there should be a requirement to make an actual referral to an independent advice agency. Shelter highlighted that the success of one of the projects it was involved in may be linked to access to advice which is independent of the landlord.

Shelter was among those calling for more to be done to support tenants with barriers to engagement – e.g. language barriers or mental health problems.

CPAG noted the role Universal Credit could play in creating rent arrears. It could only be paid from the date a tenant moved in. However, people would often be liable for rent before this (e.g. where there was an overlap between an old tenancy finishing and a new one starting). This meant people can start tenancies with arrears. OPFS noted that, often Housing Benefit wouldn’t cover the full rent payment.

One respondent noted that, sometimes, private landlords would want an increased contribution, even when a tenant was in a statutory debt solution. More needed to be done to make private landlords aware of the law in this area.

Another respondent noted the power that landlords (both private and social) have. Tenants think they will be evicted and can be driven to making unsustainable repayment offers. OPFS noted instances in its client group of people being pressured into increasing rent arrears payments by social landlords.

There were also calls for structural reforms to the housing market – such as more affordable housing and rent caps. Govan Law Centre noted that poverty was growing fastest in the private rented sector.

Turning to the social sector, Shelter noted that its legal team was very successful in preventing evictions, suggesting that there was room for improvement. In its view, social landlords moved too quickly to tribunal action. This was sometimes used as an arrears management tool rather than focussing on supporting people to keep tenancies.

Shelter highlighted that eviction was not a cost-effective option for public sector landlords. It had commissioned research which showed:

> “that the average total cost of evicting a single person with low support needs into homelessness, with a not unusual nine month stay in temporary accommodation, is nearly £24,000 per eviction.”

One respondent noted that the cost of evictions to the public sector made a clear case for investing in advice services.

Some respondents welcomed the first-tier tribunal as an improvement on court action as a way to enforce rights. However, OPFS called for an arbitration system, not based on formal legal processes, to help landlords and tenants resolve disputes.

Council tax debts

Many respondents focussed on council tax, because this debt was considered to be the most harshly enforced. It was noted that the cost of living crisis meant that more people would need to prioritise more urgent payments above council tax.

CAS noted that councils had offered six-month payment breaks for council tax during the pandemic. However, the arrears built up are now becoming due.

Respondents also commented that people may not be aware they had council tax arrears. There is low awareness among those receiving full Council Tax Reduction that they remain liable for water and sewerage charges. When arrears build up, they are enforced in the same way as council tax.

It was also noted that there was low awareness of Council Tax Reduction, and other discounts to council tax bills. There were calls for a national campaign to highlight these.

CPAG highlighted councils were not required to issue decision letters in relation to Council Tax Reduction. If entitlement changed during the year, people may not be aware that arrears were building up. It could be incredibly difficult to work out unpick someone’s correct entitlement.

It noted that it is only possible for Council Tax Reduction to be backdated for six months (and a request to review a decision to remove it can only be made within two months). This meant that even people who qualify for full support can end up with arrears.

Local authorities have access to an expedited process for enforcing council tax debts called a summary warrant. This avoids the need to take people to court on an individual basis. A 10% surcharge is added to a debt which is the subject of a summary warrant to compensate for the additional collection costs.

Advice Direct commented that councils could move quickly to enforcement action. People lost the right to pay by instalments after two missed payments. People wouldn't be able to afford the full year's bill, so it would be sent to sheriff officers (court officers who enforce debts) with a 10% surcharge.

Govan Law Centre noted that council tax enforcement processes had the opposite effect of supporting people on low incomes. When someone was hit with a 10% surcharge and sheriff officer fees, it could add months to a painstakingly calculated repayment plan.

A number of respondents called for improved processes. There was thought to be a need for councils to engage with people at an earlier stage, and to give more consideration to personal circumstances. Often, once a debt had been sent to sheriff officers for enforcement, councils would be reluctant to discuss it.

StepChange highlighted the Improvement Service's Collaborative Council Tax Collection guide. This was designed to improve communications between councils and money advisers.

CAS called for councils to accept repayment proposals at any point in the process. Advice Direct noted that the progress made in relation to rent arrears handling was not reflected in council tax. Another respondent called for national procedures which councils would be required to follow.

Council tax may be the subject of deductions from benefits (which are discussed below). The Advice Shop noted that people commonly assumed that deductions covered ongoing liability as well as arrears, but this may not be the case.

In some cases, people could not afford ongoing liability due to the amount they were paying in arrears. GEMAP noted that advisers spent a lot of time trying to re-negotiate arrears payments so that clients could maintain ongoing liability. Sheriff officers were often not prepared to be flexible.

Alan McIntosh noted that, with various deductions and enforcement action, people struggled to maintain ongoing liability. This mean that every year, their council tax bill went to summary warrant, with a10% fee.

The legal framework in Scotland does not give councils any discretion to write off council tax debts or reduce an individual's liability. A number of respondents highlighted that councils in England do have this flexibility (under Section 13A of the Local Government Finance Act 1992). They called for this to be replicated in Scotland.

Energy debts

There was significant concern about the impact of rising fuel costs on people with low incomes. Agencies highlighted that fuel debt was already a big issue for clients, and this was only going to get worse.

Christians Against Poverty was of the view that people on low income could not afford fuel costs. It noted:

> "More than half (55%) of CAP clients have rationed their energy at least occasionally in the last two years, with three in ten (29%) doing so weekly."

Respondents also highlighted the risk of hidden disconnection for people on pre-payment meters. If they couldn't afford to top up the meter, there was no supply.

There was also concern about the way debts could be recovered from those on pre-payment meters, with suppliers setting an additional recovery rate on the payments they made towards their energy supply.

GEMAP argued that energy companies should not be able to set the rate that debt is recovered from pre-payment meters. It stated that there should be a standard rate – a suggested £3.70 per week. Customers could contact their supplier if they were able to pay more.

There were calls for more action from the Scottish and UK governments to reduce costs.

Social security debts

A key issue for some respondents was the rate at which direct deductions (for certain debts) could be made from new benefits. Inclusion Scotland reported that deductions could amount to 40% of new-style Jobseekers' Allowance and Employment Support Allowance and 30% of Universal Credit. This was at a much higher rate than previous benefits and could leave people without enough to live on.

Inclusion Scotland also highlighted research from the Trussell Trust about the impact of debt recovery from social security benefits. This argued that the system for Universal Credits was setting people up to fail.

Because people had to wait five weeks for a Universal Credit payment, they would have to borrow in the meantime. This could be in the form of an advance on their benefit payment or from other sources. The result was that, by the time a Universal Credit payment came in and repayments were made, people did not have enough to live on.

Inclusion Scotland reported:

> "As of Jan 2021 at a UK level over one million (1,060,000) households had a deduction of some kind being made from their UC. Of those, 810,000 were repaying a UC advance only, 50,000 had a deduction for another reason and 200,000 had deductions to repay a UC advance and another debt."

It further highlighted:

“CPAG estimated that a family facing the maximum deduction from their benefits would fall £579 below the poverty line each month.”

CPAG noted that, with previous benefits, the Department for Work and Pensions (DWP) could not recover benefits overpayments caused by its error. However, any overpayment can be recovered from Universal Credit. The DWP has discretion to waive recovery but this is rarely used.

The Scottish Welfare Fund was highlighted as an example of good practice. However, Save the Children highlighted that some of its clients were unable to navigate the claims process and so missed out. There were concerns that people in this situation might claim a Budgeting Loan instead, which had to be paid back.

There were various calls for improvements to social security entitlement and processes, including a return of the pandemic-related £20 uplift.

Q13. Do you have any suggested changes to the law or practices in this area?

There were a range of suggestions for improvements. These included:

- early intervention when public sector debts occur, with a move away from a punitive process to one which supports service users
- good access to advice services
- changes to the social security system, at both Scottish and UK government level, to increase incomes – one suggestion was to allow a greater period of backdating
- the need for income maximisation to be built into processes for recovering council tax and rent arrears
- exploration of a basic income for all – CELCIS highlighted work on this for care leavers but noted that there was UK Government opposition
- consideration of options for writing off some public sector debt
- using the Coronavirus (Recovery and Reform) (Scotland) Bill to create a duty on public bodies to mitigate the impact of the cost of living crisis
- extending creditor forbearance required by the Financial Conduct Authority during the pandemic to cover the cost of living crisis
- a greater role for financial education – in school, and for those who provide support services.

Abigail Bremner, SPICe Research,

24 April 2022