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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 – Issues paper

Purpose of this briefing

The purpose of this briefing is to highlight issues to discuss with witnesses as part of the Committee's consideration of debt and low income.

At this meeting, the Committee will hear from two panels of witnesses. The first features frontline money advisers, the second organisations who can talk about digital exclusion.

Panel 1

Alan McIntosh, Approved Money Adviser, Advice Talks Ltd

Charlene Kane, Armed Services Advice Project Regional Support Officer, Denny & Dunipace Citizens Advice Bureau

Matthew Irvine, Money Adviser, Advice Direct Scotland

Panel 2

Lawrie Morgan-Klein, Public Affairs Officer, StepChange;

Heather O'Rourke, Digital Transformation Lead, Money Advice Scotland;

David McNeill, Director of Development, Scottish Council for Voluntary Organisations (SCVO);

Conor Forbes, Head of Business Development and Policy, Advice Direct Scotland;

Susie Fitton, Policy Manager, Inclusion Scotland.

At future meetings, the Committee will hear from national money advice providers, organisations with expertise in money advice and mental health, the Accountant in Bankruptcy and witnesses with experience in rent and council tax arrears processes.

Background

Debt and poverty discussion

In November 2021, the Committee had a meeting with people with lived experience of debt and low income. Read the note from this meeting here. This inquiry follows on from that work. The key issues emerging from the discussion were:

- digital exclusion, with a lack of skills, confidence and financial means to use online services being a major barrier
- the stigma people felt in admitting they had a debt problem, which delayed action to get support
- problems accessing free money advice – with online information directing people to paid-for services, difficulty identifying relevant services and issues with free services being over-stretched
- health – particularly mental health – problems associated with debt
- barriers to finding work created by childcare costs
- the impact of losing the £20 Universal Credit increase.

Call for views

The Committee issued a call for views on the subject of debt and low income. The main issues emerging from that were:

- low income is a key vulnerability leading to digital exclusion – this creates barriers to accessing information and services, including money advice. Public services were particularly criticised for failing to cater for people who were digitally excluded

- there are a range of other barriers to people accessing money advice, including stigma and lack of awareness of services. There was discussion about better referrals from trusted local services, but pathways and availability of services are complex and not properly mapped

- free money advice services could not currently meet demand, and this was only likely to get worse in the future. Reduced funding from local authorities and project-based funding from national sources fed into this

- debt is both a cause and a symptom of mental health issues. There were challenges in providing money advice to people with mental health issues, but this was an important part of delivering the service

- bankruptcy is the main statutory debt solution available to people on low incomes. However, there were concerns that it could no longer work to provide anything but short-term relief if people did not have sufficient income to cover essential expenditure

- there were calls for reform to the statutory framework – including in relation to bank arrestments and providing for more flexible contribution levels in bankruptcy so that people could develop some financial resilience

- public sector arrears collection processes could be harsh, especially for council tax. More flexibility and engagement at an earlier stage were recommended.

- the social security system played a role in keeping people on low income in debt. A large proportion of new-style benefit entitlement can be taken in direct deductions, and the five week wait for Universal Credit can require households to borrow.

Scottish Government work

The Accountant in Bankruptcy (AiB) is the Scottish Government agency responsible for supervising statutory debt solutions (bankruptcy, Protected Trust Deeds and the Debt Arrangement Scheme). It is currently working with stakeholders to undertake a debt review.

Work at Stage 2 of the review has involved working groups looking at interim improvements for statutory debt solutions. Reports are either finalised or close to being finalised, but we are not aware of an exact date for publication.

Stage 3 of the review will involve a more fundamental consideration of the appropriateness of the legal framework for dealing with debt.

The AiB is also reviewing the framework for "diligence" (that is, court sanctions debt enforcement used by creditors – such as seizing money in bank accounts). It expects to consult on reform proposals soon.

Legal framework

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.

Bankruptcy will be the main option for people on low incomes as they will lack any surplus income to pay fees or repay debts in full. However, there can be circumstances where a Protected Trust Deed or the Debt Arrangement Scheme could be used.

Issues for panel 1

Delivery of money advice services

There are various pieces of research which show that demand for free money advice outstrips availability. Comments in the call for views suggested that waits following a referral could be between two and six weeks.

There were concerns that clients might disengage from the process due to long waiting times. Delay can also have financial consequences – e.g. interest and charges may continue to accrue, income maximisation options may be missed. The impact on digitally excluded clients may be worse, as they may not be able to access self-help information online.

The effects of the pandemic on incomes and the increased pressure of the cost of living crisis are likely to increase demand on money advice services.

<u>Funding</u>

Local authorities are the main funders of advice provision, and there have been significant cuts over the past 10 years. There are various other sources of funding – e.g. from the Scottish Government or charities. However, respondents to the call for views noted that top-up funding tends to be short-term and project-based, which makes it difficult to create sustainable services.

The short-term nature of funding has had an impact on the retention of skilled money advisers. Respondents to the call for views also noted that high demand, coupled with distressing situations, was causing adviser burnout.

<u>Channel-shifting</u>

One option for making funding go further is to switch to telephone and online delivery, encouraging clients to self-help wherever possible. The Wyman Review made recommendations about the delivery of money advice services across the UK in 2018. A key recommendation was to shift 15% of face-to-face provision to telephone and 20% of telephone provision to online in the following two years.

The pandemic caused a shift to remote provision of money advice services. Alan McIntosh was of the view that this was mainly via telephone advice, with IT enhancements, rather than fully online. Services are returning to some face-to-face provision, but this is not yet offered everywhere.

Many respondents called for a rapid return to face-to-face provision in the call for views. The Committee has also heard about the role of digital exclusion in preventing people on low incomes accessing advice and information.

However, the issue is complex. Several respondents noted that most clients can access money advice remotely, so it was necessary to embrace these ways of working to be more effective in meeting demand. Telephone and online access can be better for some low income groups – e.g. where it removes travel costs as a barrier to access.

Nevertheless, the emphasis from respondents to the call for views was on “channel choice” rather than “channel shift”.

The best model of delivery

Some respondents to the call for views noted the importance of trusted sources for accessing advice. This was likely to be a community group, support group or professional a person was engaged with. This fits in with what the Committee heard from people with lived experience. They described not knowing where to go for specialist help.

These sources are unlikely to be able to provide in-depth money advice. It was therefore argued that the best model of delivery was to work with local groups and facilitate referrals to specialist sources of advice.

However, there are issues with this model. The complex interaction between various services is not well-understood and referral pathways may not be well developed.

There are also various levels at which money advice can be offered. There was concern that the focus might be on crisis or basic interventions rather than full money advice. This may delay clients being able to properly deal with their problems, and may also result in opportunities for legal challenges (e.g. to a bank arrestment) being missed.

A number of good practice examples highlighted in the call for views, such as link workers in GP surgeries, work on this model of referrals. Some respondents highlighted that funding signposting, without funding the services signposted to, was not sustainable.

Issues for people dealing with low income and debt

Digital exclusion

Digital exclusion is an issue for people with low income and debt – covering lack of equipment, lack of internet connection and lack of skills. However, as people’s debt situation worsens, even those who can use online services may have to cut back on internet access to focus on more pressing areas of expenditure.

People with low income and debt are also more likely to use their mobile phones to access online services. This makes it more difficult to read information and fill in forms. Data limits may also have an impact e.g. in the ability to download documents.

Deficit budgets

A key issue identified by respondents to the call for views was that an increasing number of money advice clients did not have enough money to meet essential expenditure. The cost of living crisis was likely to make this situation worse.

In the past, with advice on income maximisation and budgeting, advisers would expect that most clients would be able to live debt free at some point in the future. However, this was increasingly not the case.

There was no easy solution for clients in this situation. Respondents commented that cases were complex and took time to try to resolve. In some cases, there weren’t any solutions (other than for clients to prioritise expenditure towards rent, food and fuel). This could be distressing for clients and advisers.

Bankruptcy is traditionally used to provide debt relief. Once someone has gone through the process, almost all previous debts are written off, giving them a new financial start where expenditure is directed towards current liabilities.

However, there was some concern that, if people went into bankruptcy with a deficit income it could, at best, provide only short-term relief as they would need to start borrowing again to meet essential services. Some respondents worried that the credit restrictions in bankruptcy would be a barrier. Others noted that it was only possible to go bankrupt once every five years (with Minimal Asset Process bankruptcy only available once every ten years).

Mental health

Mental health issues don’t just affect people in debt with low income. However mental health can be a contributory factor to living on a low income, and living on a low income can exacerbate mental health issues.

Respondents to the call for views described additional adaptations for delivering advice to people with mental health issues. For example, it may be difficult to keep them engaged, they may not be able to remember the details of their financial circumstances and they may need shorter appointments

Some money advice providers have specialist support available for people with mental health issues, but others lack the resources to provide this.

Types of debt

Respondents to the call for views overwhelmingly highlighted debts relating to essential expenditure – council tax, fuel and rent. Deductions from benefits – and loans to cover the waiting time for a Universal Credit payment – were also highlighted.

Council tax arrears could move quickly to enforcement, with little consideration given to clients’ circumstances. Councils have access to the summary warrant process to enforce council tax debts, which avoids individual court action. It also results in a 10% surcharge. Sheriff officers may use enforcement options such as bank arrestments to deal with arrears. In the informal focus group session, it was highlighted that access to services differed between different local authorities with one participant noting that Council Tax phoneline services in their local authority had not been available since March 2020 (with a 7-week response time for emails).

Pre-action requirements for rent arrears (in both the social and private sectors) - including signposting to advice – were an improvement on council tax processes. However, it was still argued that there needed to be more and earlier engagement with tenants.

Reform suggestions

There were a wide range of suggestions for reform in the call for views.

One theme was that the issue for people on low income with debt issues was more about income than it was about debt. Therefore, a number of suggestions focussed on raising incomes. These included increasing the Scottish Child Payment, introducing a basic income, building more affordable housing and capping rents.

There were also calls for public sector debt write-off and increased creditor forbearance (as was required during the pandemic).

Specific suggests for legal reforms included:

- increasing the protected minimum balance– what someone is left with in their bank account – from £529 to £1,000 in bank arrestments
- removing fees for accessing bankruptcy
- providing a savings/budgeting element to income in bankruptcy and Protected Trust Deeds so people have the flexibility to respond to price increases and unexpected expenditure.

Issues for panel 2

The focus of panel 2 is on digital exclusion. However, several of the witnesses represent major money advice providers. It is therefore likely that they will also want to cover some of the wider issues around debt and low income.

- The Scottish Council for Voluntary Organisations (SCVO) delivers the Connecting Scotland project on behalf of the Scottish Government.
- Inclusion Scotland works with disabled people, a group which is at increased risk of both low income and digital exclusion.
- Both StepChange and Advice Direct Scotland provide remote (via telephone and online) money advice services at a national level.
- Money Advice Scotland represents money advisers and has been looking at options for delivering money advice digitally.

Digital exclusion

As discussed above, people on low incomes are particularly likely to experience digital exclusion. People with debt who can access online services may have to cut back on internet access.

The key elements to digital exclusion are:

- not being able to access an appropriate device (with people on low incomes being more likely to have to rely on a mobile phone)
- not being able to access an effective internet connection
- not having the skills and confidence to do things online.

Digital exclusion impacts on people's ability to access information and advice online. But it also affects their ability to manage their finances (e.g. check bank balances or claim benefits). They may take longer to seek advice, which is likely to have made their debt situation worse. During the informal focus group discussion, we were told that one elderly man made a journey to court each week to make a payment of £2 towards his debt as he didn't have the knowledge or ability to access online services such as banking.

People with lived experience told us that digital exclusion was a major issue for them when it came to accessing advice and information. This compounds the effect of not being aware of which services are available in the first place.

The situation was exacerbated during the pandemic when most services moved to remote provision. This left some people feeling extremely isolated and unable to deal with their situation.

It is likely that a proportion of people who would have accessed money advice before the pandemic were simply not able to. Referrals from support services may also have been less likely, as many of these were also only available remotely.

Disabled people are more likely to have low incomes. They are also more likely to experience additional barriers to accessing online information, for example, because of communication issues, physical disabilities or learning disabilities.

However, there can also be advantages to accessing information and advice online for disabled people, depending on their condition. The need to travel to physical locations is removed, and it may be possible to access information in different formats or in a timescale that works for them.

Support for people to access online services

Connecting Scotland is the Scottish Government's main funding stream for addressing digital exclusion. It provides access to devices, internet connections and skills training for target groups.

It works through existing community and support groups to better target people experiencing exclusion. It has a model of "embedding" skills training in local organisations. It argues that people are most likely to approach services they already trust for support with online access, so this method of delivery provides the best approach.

Advice Direct Scotland also works with community groups – such as foodbanks – to support online access to its services.

Other projects providing support with online access were mentioned by respondents to the call for views, including The Good Things Foundation and AbilityNet.

Delivering remote money advice

It has been suggested that remote money advice is mainly delivered via telephone with IT enhancements, rather than completely online. However, a number of online self-help tools have been developed – e.g. to help people identify benefit entitlement, explore money advice options, or create budgets. Webchat is also used.

As discussed above, the Wyman Review recommended – before the pandemic – that the money advice sector should work to shift more face-to-face users to telephone and more telephone users to online. This would allow more people to be reached with fewer resource. This recommendation remains contentious, with the debate between “channel shift” and “channel choice” ongoing.

Both StepChange and Advice Direct Scotland were delivering remote services before the pandemic and continue to do so. Several respondents noted that most money advice clients can access remote services, so this mode of delivery has an important contribution to make. StepChange noted:

“Despite some limitations, digital services are key to offering support at scale and a majority of consumers are online, indeed this is often where credit is now most often accessed. Therefore, access to advice and information on debt needs to be in this space too. StepChange has been providing a 24/7 digital advice for several years.”

Questions

Panel 1

Members may wish to raise the following issues:

Theme 1: Delivery of money advice services

- **Is your service able to meet the current demand for money advice? If not, what impact do you think this has on clients?**
- **How has your delivery of money advice changed since the pandemic?**
- **How do you think money advice services are best delivered in the future?**
- **The importance of trusted local services in signposting people to specialist sources of advice has been discussed as a delivery model? What do you see as the benefits and risks of this approach?**

Theme 2: Issues for people dealing with low income and debt

- **Is digital exclusion an issue for your clients, and how do you support people in this situation?**
- **Our call for views highlighted an increasing number of money advice clients without sufficient income to meet essential expenditure. How do you support clients in this situation and what options are there for them?**
- **What additional barriers do people with mental health issues face, and how does your service support them?**
- **What are the issues when dealing with priority debts like rent, council tax and fuel?**
- **We've also heard that things like direct deductions from benefits and the waiting time for Universal Credit are exacerbating the experiences of low income clients. Is this your experience?**
- **Would you like to see any changes to better support clients – to the law, to processes or procedures?**

Panel 2

Below are some suggested questions for panel members:

<u>Theme 1: Digital exclusion</u>

- **What are the key factors involved in digital exclusion?**
- **How does digital exclusion impact on those affected by it?**
- **Are there particular challenges to the money advice process for people experiencing digital exclusion?**
- **What can be done more generally – e.g. in the delivery of public services – to support people experiencing digital exclusion?**

<u>Theme 2: Support for people to access online services</u>

- **The Committee is aware of the Connecting Scotland project and of support provided by Advice Direct Scotland to access devices and connections. Can you tell us about your work, your model for delivery and who you target?**
- **What more needs to be done to support people to be able to access online services?**

<u>Theme 3: Delivering remote money advice services</u>

- **StepChange and Advice Direct Scotland currently provide remote money advice services. Can you tell us about what you do and whether there are differences between advice in this context and advice in traditional agencies?**
- **What else is being done in the money advice sector to support remote delivery of money advice – and to support digitally excluded people to access this?**
- **What role should remote delivery have in the future delivery of money advice services?**

Theme 3: Issues for people dealing with low income and debt

- **The focus of this evidence session has been on digital exclusion, but we are aware that several of you may have wider views on the Committee's inquiry into low income and debt. We'd welcome comments on the specific issues faced by people on low incomes with debt problems and any suggestions for reforms or improvements to processes.**

Abigail Bremner, SPICe Research,

25 April 2022