Debt in the pandemic

SEFYDLIAD bevan FOUNDATION

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The Bevan Foundation is Wales' most innovative and influential think tank. We develop lasting solutions to poverty and inequality.

Our vision is for Wales to be a nation where everyone has a decent standard of living, a healthy and fulfilled life, and a voice in the decisions that affect them.

As an independent, registered charity, the Bevan Foundation relies on the generosity of individuals and organisations for its work.

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Summary

Thousands of people across Wales were living in problem debt long before the pandemic. The economic impact of Covid-19 has seen the financial position of many Welsh families deteriorate, pushing some into problem debt for the first time and deepening the amount of debt owed by some of those already struggling. Across Wales 130,000 households, 10 per cent of all households, had fallen behind on a bill between January and May 2021. Over the same period 230,000 households, 17 per cent of all households had borrowed money.

The impact of the pandemic on debt has been very uneven. Home working and reduced opportunities to spend due to Covid-19 restrictions have enabled some households to pay down debt. The actions of both the UK and Welsh Governments has also provided some protection, preventing the escalation of over-indebtedness amongst many households. Some households have seen their economic position worsen as a result of the pandemic, however.

Low-income households, renters, disabled people, 25 – 49-year-olds, lone parents and BAME households were all at a heightened risk of being in problem debt prior to the pandemic. The evidence suggests that the situation for these at risk groups has deteriorated over the course of the pandemic.

There are concerns that the situation may worsen over the coming months. Many of the support schemes that have protected households have either recently come to an end or are due to come to an end soon. Living costs are set to increase further whilst there are still concerns about the health of the economy.

Given the significant consequences of problem debt and the concerns that the number of people affected could be set to increase over the autumn it is vital to take action. This report argues that the time is right for the Welsh Government to adopt a new approach to personal and household debt with a clearer focus on debt prevention and relief.

1. Introduction

The economic impact of Covid-19 has affected thousands of people across Wales. Its full extent was recently set out in the Bevan Foundation's *A snapshot of poverty in spring 2021* report.[1] It revealed that over 110,000 households, about the same as the number of households in Swansea, struggle to cover the cost of everyday essentials, whilst thousands more have seen their incomes fall and their living costs increase over the course of the pandemic.[2]

Among the findings set out in that report was that personal and household debt is a major problem in Wales. It revealed that between January and May 2021, 10 per cent of Welsh households have fallen behind on a bill whilst 17 per cent have borrowed money to pay a bill.[3] The evidence of a growing debt problem is reflected in the experiences of people living on low incomes.

Since January 2021 the Bevan Foundation has been working with two partner organisations: Action in Caerau and Ely (ACE) and Trefnu Cymunedol Cymru/ Together Creating Communities (TCC) to gain a better understanding of people's lived experience of poverty. During a discussion we held in May, debt was an issue that was raised multiple times.

> *We are pretty sure that the debt in Caia Park will be millions… tenancy support workers are saying it is through the roof… they have never seen this level of debt.*
>
> Resident and community worker, Caia Park, Wrexham, Bevan Foundation and TCC online discussion group, 4 May 2021

Debt is, in itself, not necessarily a problem. The majority of the population borrow money at some point in their life. Being in problem debt, however, does negatively affected people's lives.[4] A household is said to be in problem debt if they are struggling to make payments, view their debt as a burden or have very high credit in relation to their income.[5] This can create significant stress and hardship, affecting people's health and wellbeing and resulting in people going without everyday essentials.[6] Being over-indebted can also affect people's medium- to long-term prospects, as historic debts, a poor credit score or a record of court proceedings can prevent people from renting a home, accessing services and limiting opportunities.

This report will explore the impact of the pandemic on problem debt in three parts, each based on three key findings:

- Problem debt has become a greater issue for those who were already at a heightened risk of being in problem debt pre-pandemic.
- Problem debt has not become as significant a problem for the population as a whole as many may have feared at the outbreak of the pandemic.
- We are yet to see the full impact of the pandemic on problem debt and the situation may deteriorate further this autumn.

To conclude, the report will explore possible solutions to problem debt in the context of the pandemic and beyond.

2. Methodology

The findings set out in this report are based on a mixed methods approach, including both qualitative and quantitative approaches, and a literature review.

The primary quantitative method was two polls that were conducted by YouGov on behalf of the Bevan Foundation. The fieldwork for the first of these was undertaken between 7th and 11th December 2020, with a total sample size of 1,031 adults. The fieldwork for the second poll was undertaken between 20th and 24th May 2021, with a total sample size of 1,035 adults. Both surveys were carried out online and all figures quoted have been weighted (unless specified otherwise) and are representative of all Welsh adults (the first survey aged 18+ and the second aged 16+). In addition, the Bevan Foundation has undertaken quantitative analysis of a range of official statistics accessible via Nomis and Stat Xplore.

The qualitative methods used in the formation of this report can be split in two approaches. The first approach involved interviews with key stakeholders working on issues related to debt, undertaken over summer 2021. These were supplemented by a stakeholder roundtable discussion on 26th August 2021.

The second approach involved workshops or group discussions with people with lived experience of poverty, in partnership with TCC and ACE. We held additional discussions organised with South Riverside Community Development Centre (SRCDC) to ensure the input of migrants' and BAME people's views.

3. The impact of the pandemic on problem debt

Prior to the pandemic some 193,000 people in Wales, eight per cent of all adults, were estimated to be in problem debt.[7] On top of this, 412,000 people (16 per cent of the population) were showing signs of financial distress.[8]

By November 2020, Citizens Advice estimated that 280,000 people in Wales had fallen behind on payments up to the start of that month.[9] These arrears were estimated to be worth around £73 million with approximately half of these arrears being new debts that had built up a result of the pandemic.[10]

By June 2021, there were signs that the number of households (rather than individuals) in financial difficulty was increasing further. Our research estimated that 130,000 households, 10 per cent of all households in Wales, had fallen behind on a bill between January and May 2021.[11] Over the same period 230,000 households, 17 per cent of all households had borrowed money.[12]

The rest of this section considers household arrears and borrowing over the course of the pandemic.

3.1 Arrears

Being in arrears on a bill is a strong indicator that a household is trapped in problem debt, and there is evidence that payment arrears have steadily grown during the pandemic. The debt advice charity StepChange estimated in January 2021 that the average arrears among those that had fallen behind on a bill was £1,076 across the UK.[13] Among people who had fallen into arrears a significant proportion (six out of ten) had faced financial hardship since the onset of the pandemic. [14] In the autumn, Citizens Advice estimated that as many as a third of people with household bills debt had been unable to afford food or other basics.[15]

In Wales, approximately 10 per cent of all Welsh households were found to have fallen behind on at least one bill between January and May 2021.[16] Household debt can be to a number of creditors - our survey focused on four types of bills: utility bills, Council Tax, credit/ loan/ hire purchase repayments and rent/ mortgage.

Utility bills

By May 2021, households were more likely to report that they were in arrears with utility payments than with any other type of household bills. Six per cent of all households in Wales (equivalent to 80,000 households) reported that they had fallen into arrears on gas, electricity, oil, water, mobile phone or internet bills.[17] This is slightly higher than the number of households Citizens Advice had found to be in arrears on their energy bills during the autumn of 2020, but this is likely to be a result of the fact that phone and internet bills were classified as utility bills in the Bevan Foundation survey but were classified separately in the Citizens Advice survey.[18] The total value of energy debt in Wales (excluding telecoms) is estimated to be in excess of £10 million.[19]

StepChange's data allows us to explore which utility bills households have fallen into arrears on in more detail. Of those who were in arrears in January 2021 at a UK level StepChange estimate that 35 per cent were in arrears on their electricity bills, 31 per cent were in arrears on their water bills, 25 per cent were in arrears on their gas bills and 21 per cent were in arrears on their telecoms bills.[20]

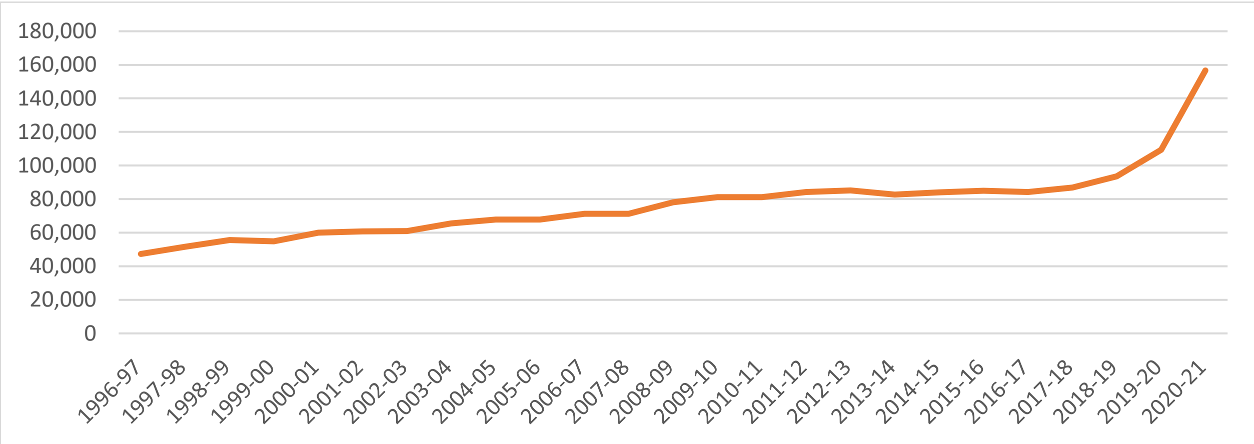
The fact that so many households are in arrears with utility payments is not surprising given that lockdown and rising fuel prices forced many to increase their expenditure on heating and internet use. More than four in ten households reported seeing an increase in the cost of their heating, electricity and or water between January and May 2021 on top of significant increases they experienced in the previous nine months.[21]

Utility bills are considered a priority debt by support agencies because failure to pay can lead to services being stopped.[22] Even with the extra protections afforded to people through the pandemic thousands of households saw their gas and electricity supply cut off last year,[23] whilst thousands more are likely to have rationed their use as they simply could not afford the cost of heating their home.

Council Tax

Council Tax arrears have increased significantly during the pandemic. Approximately four per cent of Welsh households, nearly 55,000 Welsh households, were in arrears on their Council Tax between January and May 2021.[24] The available data unfortunately only indicates the number of households in arrears and the total outstanding amounts, rather than the numbers falling into debt during a year (or repaying debt).

Chart 1 – Total Council Tax Arrears (£ thousand)



Stats Wales, *Arrears of council tax, by billing authority (£ thousand)* available at - https://statswales.gov.wales/Catalogue/Local-Government/Finance/Council-Tax/Collection/arrearsofcounciltax-by-billingauthority

Chart 1 shows that Council Tax arrears had been increasing even before the pandemic, with the value of arrears accelerating in recent years. In 2018/19 total Council Tax arrears increased by seven per cent, before increasing by 15.2 per cent in 2019/20. The situation worsened significantly in 2020/21 with total Council Tax arrears rising by 42.1 per cent to £160 million.[25]

Research undertaken by Citizens Advice found that as many as one in seven people reported struggling to pay their Council Tax pre-pandemic.[26] In addition, seven in ten people who have fallen behind on their Council Tax report that they have fallen behind on another bill, whilst one in three report not having enough money to afford to buy food and other day-to-day essentials.[27]

The challenges faced by households in Council Tax arrears could be exacerbated by the regulations that govern how local authorities are permitted to collect arrears, which some consider encourage local authorities to use collection methods that deepen people's debt.[28] Of particular concern is that people who miss a single Council Tax payment can be liable for the full annual bill.[29] This can substantially increase a household's debt when they are already struggling to make payments. A further concern is that local authorities have limited avenues to pursue outstanding Council Tax without obtaining a court order.[30] This coupled with many local authorities use of bailiffs to enforce court orders does not only cause stress and anxiety for those in arrears but can also lead to the amount that people have outstanding increasing as they become liable for legal and bailiff fees.[31]

Credit repayments

Households in Wales borrow from a wide variety of sources. These include a mortgage on their home, finance on their car or household appliance, a personal loan, money on a credit card or catalogue debt. For most people, repaying this debt is not a challenge. However, our survey found four per cent of Welsh households, around 55,000 in total, were in arrears on credit, loan or hire purchase payments between January and May 2021, a major indicator of problem debt.[32] This figure excludes households who were in arrears with their mortgage repayments.

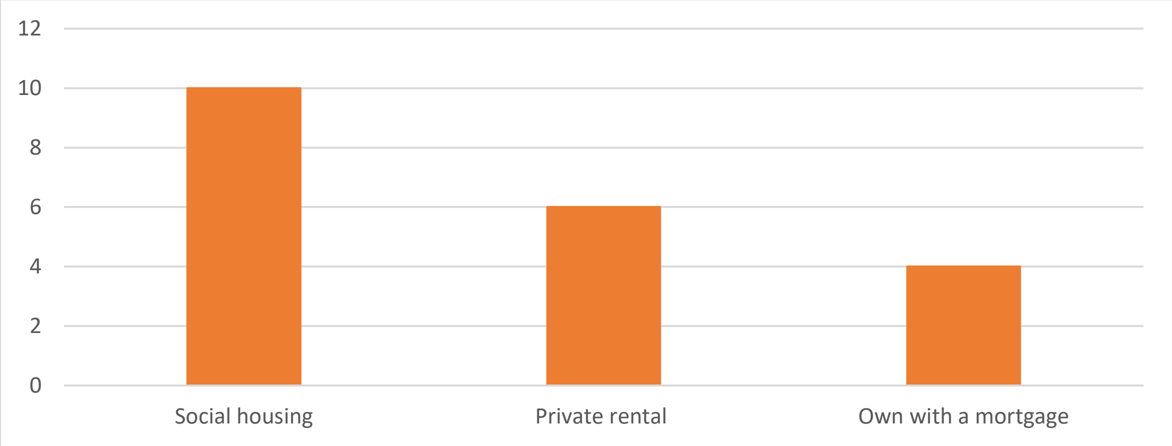
Rent or mortgage repayments

Rent and mortgage arrears are arguably the arrears of greatest concern. A household that falls behind in meeting their housing costs risks eviction or having their home repossessed, and ultimately faces a risk of homelessness.

Our survey found that in June 2021 some 80,000 households, six per cent of all households in Wales had already been notified that they would lose their home, with a further five per cent being worried about the prospect of eviction or repossession.[33] One of the key reasons why so many households were facing insecurity is rent and mortgage arrears.[34]

Across Wales three per cent of households report they are in arrears on their rent or mortgage repayments. The figure is even higher if households which have no housing costs, for example because they own their house outright, are excluded from the estimate. Chart 2 shows that people who rent are more likely to be in arrears than owner occupiers with a mortgage, with social renters being more like to be behind than private renters.

Chart 2 Proportion of households in arrears on rent/ mortgage by tenure type (%)



Survey undertaken by YouGov on behalf of the Bevan Foundation in May 2021

Although the number of households in arrears appear high, it has not risen as much as many expected. Indeed research undertaken by the Joseph Rowntree Foundation found that levels of rent arrears in the private rental sector and levels of mortgage arrears had returned to near pre-pandemic levels in May 2021.[35] Similarly, some social landlords report that whilst rent arrears have increased within the social rented sector, the increase has been lower than feared at the start of the pandemic.[36] It is likely that a number of measures adopted during the pandemic limited the increase in rent and mortgage arrears.

Nevertheless, arrears amongst more than one in twenty renters and one in 25 mortgagees remains a significant challenge. We heard from one community organiser that the number of people seeking advice from tenancy support officers in their community had increased sharply, with officers also seeing a record number of mortgage holders coming to them seeking support.

3.2 Borrowing

Over 230,000 households, 17 per cent of all Welsh households, borrowed money between January and May 2021 to cover essentials.[37] In November 2020, StepChange estimated that, at a UK level, those who had borrowed money to make ends meet as a result of the pandemic had, on average, borrowed £1,577.[38] This was a sharp increase from the position in May 2020 when the average amount borrowed was £997.[39] Across the UK the total amount borrowed by households who had been negatively affected by the pandemic at the end of 2020 stood at £6.5 billion.[40]

Households which borrowed during the pandemic are not necessarily in problem debt – some which borrowed may have paid back or be repaying the sum due as their economic position recovered. However, there is strong evidence that households which use credit as a coping strategy face a significantly heightened risk of falling into problem debt than households who are able to manage without.[41]

Households have borrowed money from a variety of different sources and the next section will provide an overview of each in turn.

Friends and family

Friends and family are the most common source of funding for households who have had to borrow money. We found that eight per cent of Welsh households borrowed money from their friends and family between January and May 2021.[42]

Low-income households are especially reliant on borrowing from friends and family, and for households with an income of less than £20,000 friends and family were their primary source of borrowing.[43] The amounts involved can often be relatively small. We heard from a mother in Cardiff who had borrowed £100 from her mother to ensure that she had enough money to feed her children at the end of the month. Having the ability to borrow the money was vital in enabling her to make ends meet. Others have been forced to borrow more substantial sums:

> *I owe my mother loads. I've managed to pay back my partner's family, but I still owe my mother loads.*
>
> Mother, Cardiff, workshop with Action in Caerau and Ely, 6 July 2021

There were serious concerns raised by stakeholders that whilst many respondents to our survey had borrowed money from genuine friends or from family members, others may have selected this option when they had borrowed money from illegal lenders or loan sharks. These concerns were echoed by people in our workshops:

> *We've got people who have been using loan sharks. It's not just money owed, other things too. I've heard conversations about explicit activities to pay that money back. We have had to deal with some of that and it's been horrible. Seeing some of the nasty side of debt, loan sharking and pay day loans.*
>
> Resident and Community worker, Caia Park, Wrexham 24 June 2021

Credit cards and overdrafts

Credit cards and overdrafts are by far the most popular formal source of borrowing for households in Wales when it comes to day-to-day borrowing. Six per cent of Welsh households, over 80,000, borrowed money through their credit card between January and May 2021 with five per cent going into their overdrafts.[44]

Overdrafts and credit cards are used by thousands of households on a monthly basis. It can be a useful way to manage resources, especially for those who are paid monthly and who may be running short at the end of the month. Whilst many households manage this process with no problem, over time regular credit card borrowing can pull households into problem debt.

Before the pandemic, 62 per cent of new clients who approached StepChange for support in Wales owed money on at least one credit card, whilst 46 per cent were in their overdraft.[45] The value of this debt was often significant with the average credit card debt of a new client being over £5,500 and the average overdraft being in excess of £1,200.[46]

More recent data gathered at a UK level suggests that there has been a shift in the source of borrowing over the pandemic. In June 2020 66 per cent of StepChange's new clients had credit card debts, slightly up on the position pre-pandemic (62 per cent).[47] The number of new clients who were in their overdrafts has reduced markedly across the UK.

Pre-pandemic, on average 47 per cent of Step Change's new clients were in their overdrafts, this has reduced to 35 per cent.[48] The reason for this is unclear but one possibility is that rule changes and new guidance issued by the Finance Conduct Authority have made using current account overdrafts more difficult and expensive.[49] This may have led to people who are financially struggling to borrow money from elsewhere.

Personal bank loans and other formal lending sources

Some households have turned to personal bank loans whilst others have borrowed from Credit Unions or Community Development Finance Institutions (CDFIs). These forms of borrowing are relatively uncommon sources of funding for households struggling with their bills. Just two per cent of households took out a personal loan between January and May 2021 whilst the number of people who borrow from credit unions was too small to show up on our survey.[50] It is still important to keep these sources of funding in mind when exploring the impact of the pandemic on problem debt for several reasons.

Personal loans are often the single largest debt owed by households in problem debt. Before the pandemic the average value of a personal loan owed by a new StepChange client was £6,743.[51] Not only does the value of the loans tend to be larger than other forms of debt, but they are also a form of debt owed by a large number of people who are in problem debt. Over half of StepChange's new clients in Wales before the pandemic had a personal loan.[52] Across the UK the proportion of new clients requesting support from StepChange who have a personal loan has remained stable at 49 per cent throughout the pandemic.[53]

Even though the number of households who turn to personal loans as a source of finance when facing financial difficulties may be low, the repayment of a personal loan can trigger problem debt. It is perhaps not surprising that stakeholders were concerned that some small business owners or self-employed workers who had borrowed funds to invest in their business may have been at a particular risk of being in problem debt.

Whilst the number of people borrowing from Credit Unions and CDFIs may not be significant enough to show up on our data, insights gained from stakeholders remain important given that they are predominantly used by people on low incomes.[54] It is therefore extremally concerning that both Credit Unions and CDFIs are reporting an increase in the complexity of the debt of clients approaching them for financial support and an increase in the number of people who are falling behind on payments owed to them.

Pay day loans and catalogue debt

Pay day loans are another form of borrowing that is used by some households. As with personal loans, the number of households who have turned to pay day loans as a result of the pandemic has been small.

Just one per cent of Welsh households took out a pay day loan between January and May 2021.[55] Not only are the number of people who have turned to pay day loans small they also account for a small proportion of problem debt. Prior to the pandemic only one in ten of StepChange's new clients in Wales had a pay day loan, with very little change evident in the most recent UK-wide data.[56]

A form of borrowing that has a greater impact on problem debt is catalogue debt. More than four in ten of Step Change's clients in Wales were in catalogue debt, prior to the pandemic, with it remaining an issue throughout.[57] We did hear some concerns from communities that catalogue debt and new app-based platforms such as Klarna are causing difficulties to some households.

> *Klarna, is more accessible because you can use it without credit checks. I know it's interest free, but people often spend beyond their means and then get caught by late payment fees etc.*
>
> Resident, Plas Madoc, Wrexham, 6 July 2021

Loans from Government for Universal Credit or legacy benefit claimants

A final source of borrowing for some households who are in receipt of Universal Credit or legacy benefits has been the UK Government, for example through a budgeting advance. This is another form of borrowing that is not widely used across the Welsh population. Only one per cent of respondents in our most recent *Snapshot* survey reported that they had borrowed money in this way.[58]

The eligibility criteria for these loans restrict support to low-income households. The Department for Work and Pensions (DWP) provide low-income households with access to two types of loan.

New Universal Credit claimants must wait a minimum of five weeks to receive their first payment. Any claimant who is faced with financial hardship as a result of this wait may apply for an advance payment from the DWP within a week of submitting their application.[59] This advance payment is, in essence, a loan with claimants being required to repay it either through deductions from future Universal Credit payments, or through contributions from any salary they may earn.[60]

A second form of support provided by the DWP is Budgeting Advances. Budgeting Advances are made available to claimants who are already in receipt of Universal Credit or legacy benefits and who are on a very low income.[61] They are intended to cover specific costs including the replacing a broken appliance, costs incurred whilst trying to get a new job or keeping a job, and funeral costs.[62] The amount that claimants can borrow through Budgeting Advances is modest, and is capped depending on the number of people living in a household and their ages.[63]

The fact that the number of Universal Credit claimants in Wales doubled over the course of the pandemic means that it likely that borrowing money through either of these schemes is likely to be significant. Between 1st March 2020 and 23rd June 2020 alone over 1.3 million advances were paid across the UK.[64] Whilst these advances do provide short term relief there is a broad body of evidence that highlights that repaying these advances as well as other deductions from Universal Credit payments[65] places significant financial stress on households, pushing some into problem debt.[66]

4. The unequal impact of the pandemic on problem debt

The risk of being in problem debt was unequal across the population prior to the pandemic and the gap has widened over its course. This section will look at the experiences of those groups and consider why they have been more likely to fall into problem debt.

4.1 The groups at greatest risk of problem debt

Before the Coronavirus outbreak the groups of people at heightened risk of being in problem included:

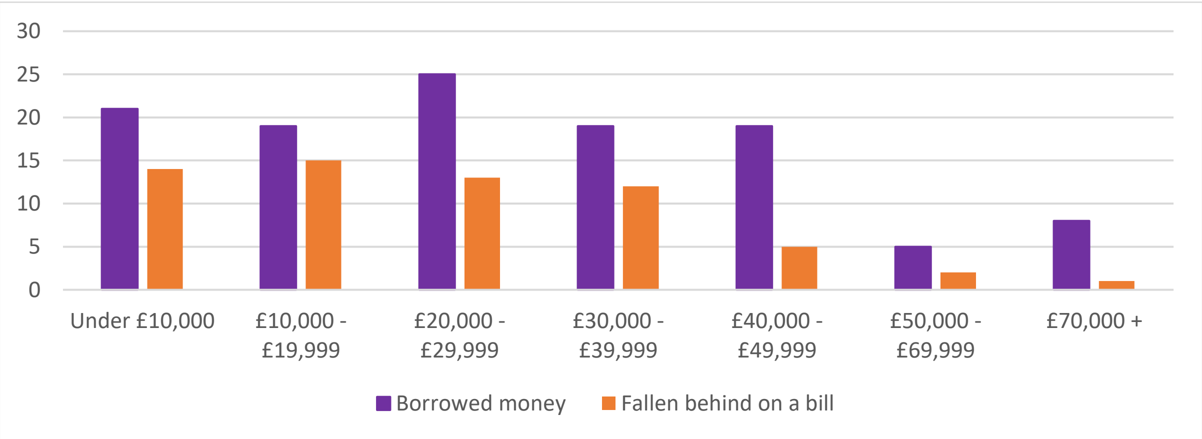
- low-income households
- renters
- disabled people
- 25 – 49-year-olds
- lone parents
- BAME households.[67]

These groups remain at a higher risk of facing problem debt, with evidence suggesting that the situation has deteriorated over the course of the pandemic.

Household income

Household income is one of the factors that has the greatest impact on the risk of being in problem debt. Arrears are overwhelmingly concentrated in lower-income households: those with an income of less than £40,000 were significantly more likely to be in arrears in May 2021 than higher income households. Similarly households with an income of less than £50,000 had been significantly more likely to have borrowed money than better-off households.[68]

Chart 3 – Proportion of households which have fallen into debt by gross household income between January and May 2021 (%)

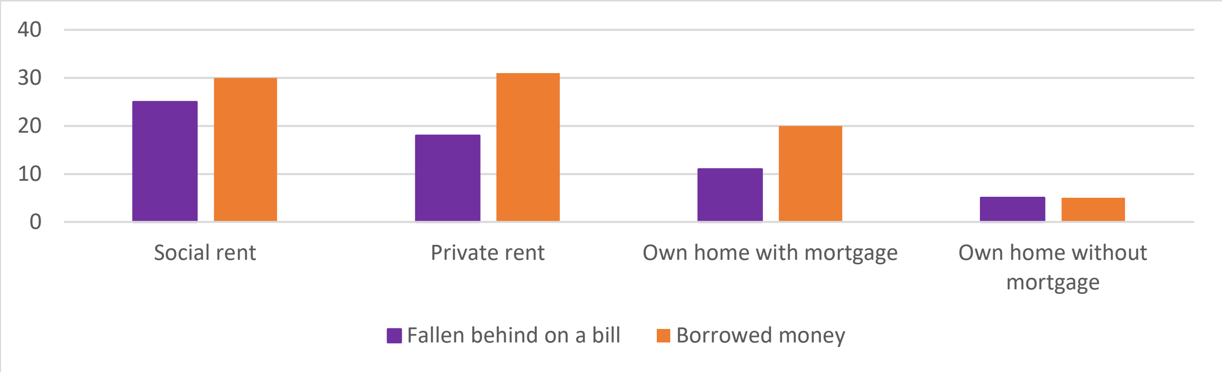


Survey undertaken by YouGov on behalf of the Bevan Foundation in May 2021

Housing tenure

Renters have been significantly more likely to fall into debt during the pandemic than owner occupiers. Social renters have been especially badly affected when it comes to arrears, with social renters being more likely to report being arrears on every major bill, than any other group.

Chart 4 – Proportion of households which have fallen into rent arrears by housing tenure between January and May 2021 (%)

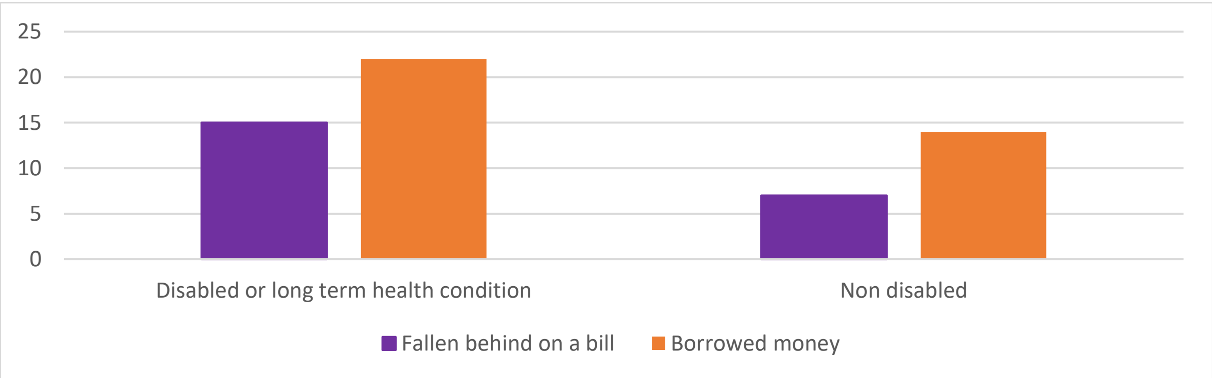


Survey undertaken by YouGov on behalf of the Bevan Foundation in May 2021

Disability

Disabled people have been twice as likely to be in arrears over the course of the pandemic as non-disabled people and have faced a significantly heightened risk of having to borrow money to make ends meet. Disabled people or people with long-term health conditions whose activities are limited "a lot" have been even more heavily affected with 21 per cent being in arrears between January and May 2021 and 24 per cent borrowing money.

Chart 5 – Proportion of households which have fallen into rent arrears by disability status between January and May 2021 (%)

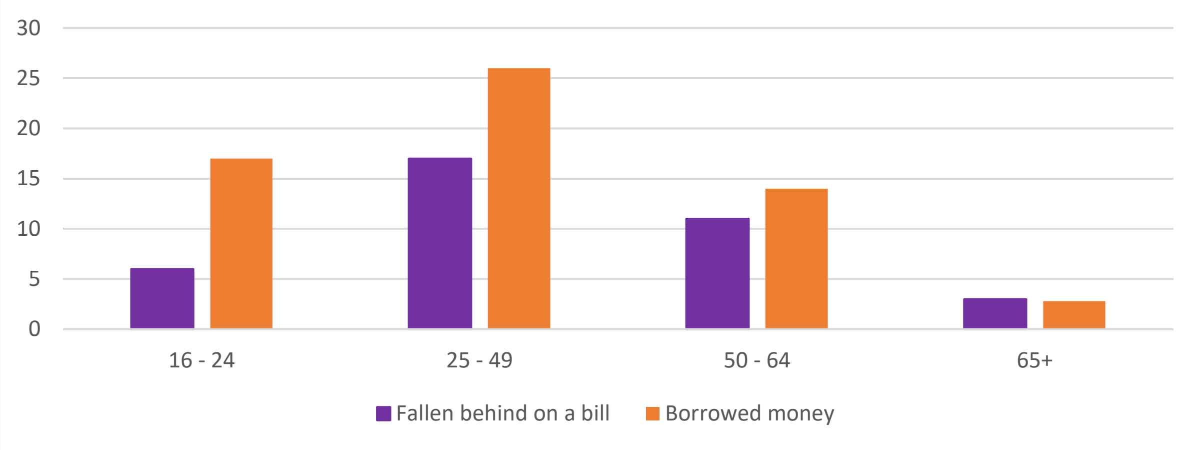


Survey undertaken by YouGov on behalf of the Bevan Foundation in May 2021

Age and household composition

Working age adults aged 25 to 49 are the age group who have faced the greatest risk of falling into debt during the pandemic. This is likely to be driven, at least in part, by the fact that adults within this age group are more likely to be responsible for a child than older or younger households, putting more pressure on living costs.

Chart 6 – Proportion of households who have fallen into debt by age between January and May 2021 (%)



Survey undertaken by YouGov on behalf of Bevan Foundation in May 2021

The challenges of meeting the cost of raising children is likely to be a major factor in problem debt amongst lone parents. The sample size of our two YouGov polls was too small to draw definitive conclusions but both suggest that lone parents have been amongst the most affected groups. Data gathered by StepChange supports this finding. Between March and May 2021 lone parents accounted for 22 per cent of people who approached Step Change for support despite constituting only six per cent of the broader UK population.[69]

Ethnicity

Some minority ethnic groups have been at a heightened risk of adverse economic impact during the pandemic. People from BAME groups in Wales have been more likely to work in sectors that have been shut down as a result of lockdown than white people.[70] Given that Black and Asian groups were more likely to live in poverty before the Coronavirus outbreak and that low-income households have been more likely to fall into debt, it is reasonable to assume that BAME households been more likely to experience problem debt during the pandemic than others.[71]

4.2 The causes of problem debt during the pandemic

There are multiple reasons why people are pushed into problem debt. Major life events, income shocks, high living costs, a lack of financial skills and weaknesses within the social security system are all factors that affect people's financial position.[72] The pandemic has exacerbated the impact of these factors whilst also presenting some new challenges. As ever, the groups of people that were already at greater risk of living in problem debt have been most affected.

The impact of the pandemic on incomes

The pandemic has seen the incomes of thousands of households across Wales fall. Between January and May 2021 one in five Welsh households saw their incomes decrease.[73] This follows nearly a quarter of households reporting a drop in their incomes between March and December 2020.[74] For some of these households, the fall in income since January will be on top of decreases in income experienced earlier in the pandemic, others will have seen their incomes drop for the first time. There have been several factors that have led to households seeing their incomes fall:

- A rise in unemployment.[75]
- Workers receiving reduced pay due to being furloughed.[76]
- Workers receiving reduced pay due to working reduced hours.[77]
- Workers being unable to work due to shielding guidance/ self isolation rules.[78]
- The impact of the pandemic on people's health and wellbeing.[79]

These five factors have disproportionately affected people who were already at greatest risk of being in problem debt. For example, workers in low-paid roles were less able to work from home than higher paid workers.[80]

Any reduction in income can place a strain on household finances. For those that were already struggling to make ends meet, the additional pressure can push some households into problem debt and deepen the debt of those with existing problems.

> *Some of the families lost their job, especially zero hours workers so there is huge financial difficulty in the area…*
>
> *Some of people have struggled, especially the taxi drivers, they have arrears with their housing. The Government did give help with a grant or something like that, but, I know, my friends have a problem with rent arrears and are behind on their bills. It was terrible during the first lockdown.*
>
> Resident, Riverside, Cardiff, Bevan Foundation, TCC and SRCDC discussion group 19 August 2021

The impact of the pandemic on costs and services

Many households across Wales have seen their living costs increase over the last 18 months, especially utilities, food and internet:

- 43 per cent of households are spending more on heating, electricity and/or water.
- 38 per cent of households are spending more on food.
- 20 per cent of households are spending more on internet costs or devices to access the internet.[81]

Households who have experienced a drop in income or which were already struggling have faced the difficult decision of whether to cut back, borrow or go into arrears.

This process can quickly become cyclical. We heard from one mother in Cardiff who did have some modest savings prior to the pandemic but who no longer had any left and had to start borrowing money to make ends meet:

After I pay my bills I have to borrow money to cover the rest of the month which means by the time I pay that back from my next pay I'm short again which puts me back in the same problem.

Mother, Cardiff, workshop with Action in Caerau and Ely, 6 July 2021

Additional pressures on households come from ongoing financial commitments from which they cannot simply withdraw. These include commitments such as internet contracts or car finance. The terms of agreements often mean that contracts cannot be cancelled without significant penalty. The lack of flexibility means that households cannot rapidly reduce their living costs in line with any reduction in their income, giving households very little room to manoeuvre and pushing some into problem debt.

Many families with two full-time workers have been put on furlough, it's meant a 40 per cent reduction in income – and that was their disposable income, e.g. for paying off a car. So they're now going to the food banks.

Resident and worker, Caia Park, Wrexham, Bevan Foundation and TCC online discussion group, 4 May 2021

The closure of key public services and private business during lockdown is also likely to have affected households' ability to cope. On the one hand closures have increased living costs, for example the reduction in the availability of public transport meant that people were forced to pay for taxis or to shop in local convenience stores, rather than in supermarkets, increasing their expenditure. On the other, the closure of such services has made it much harder for people to pay their bills or to get support to maximise their income.

It doesn't help that estate offices are closed, if you don't have internet access you can't pay bills over the internet and then you then get into more debt...

Resident, Plas Madoc, Wrexham 6 July 2021

These problems were even greater for people for whom English or Welsh are not their first language.

That was the main barrier, because these people don't speak the language clearly so they don't know what support is available and if we send them a form they cannot fill it...

Resident and community worker, Wrexham, Bevan Foundation, TCC and SRCDC discussion group 19 August 2021

Other factors

There have been other developments over recent months which have affected low-income households' financial position. One example is the decision by Provident Loans to stop doorstep lending.[82] Provident Loans had provided high-interest doorstep loans, often to people with poor credit history for over a century. Whilst the high-interest loans often trapped people in a cycle of debt, we heard from stakeholders that the fact that the lender had been operating for more than a century meant that generations of some families had grown reliant on the credit provided by Provident. Whilst the company's business practices were criticised by all stakeholders there were concerns that the company's withdrawal from the market would leave many Welsh households without access to credit. The Credit Unions of Wales and Moneyline both reported seeing some former Provident customers using their services for the first time, but there are concerns that many may have turned to loan sharks.

The impact of the pandemic on the labour market may also have pushed some households into problem debt for reasons other than a fall in their income. We heard concerns that workers from low-income households who lost their jobs as a result of the pandemic have had to borrow money to re-enter the labour market. For example, we heard that there are a number of jobs available in the construction and logistics industry where workers require certificates to prove that they are capable of using equipment safely. Many workers who have lost jobs have the skills to take on these roles but lack up to date certification and do not have funds to get the necessary documentation. We heard of some workers borrowing money to cover the cost of testing and certification, including using loan sharks.

We also heard that many migrants to Wales have families in other parts of the world which they have been unable to visit for many months due to international travel restrictions, or the high costs of Covid testing and quarantine. Some migrants who had travelled for major family events such as funerals have borrowed money to allow them to do so, placing them at risk of problem debt.

Linked to this we heard that the closure of international travel led to financial hardship for some migrants as people became stuck in different countries.

> *I have a couple that were stranded in Portugal for almost a year. That bought many financial difficulties because they had to carry on paying the rent and everything here and one of the partners lost his work as there was no way to return, and there have been lots of these strange, complicated, cases.*
>
> Resident and community worker, Wrexham, Bevan Foundation, TCC and SRCDC discussion group 19 August 2021

5. Mitigating the impact of the pandemic on debt

The pandemic has unquestionably had a negative impact on the financial position of thousands of Welsh households although overall it has not been as severe as many feared.

Many stakeholders that provide people with direct support to manage debt reported seeing a reduction in the number of people using their services. Furthermore, the total value of unsecured debt to individuals has actually fallen since the start of the pandemic.[83] Credit scores have also improved on average.[84] There is also some evidence to suggest that rent arrears have returned to pre-pandemic levels,[85] whilst other forms of arrears have not increased as dramatically as may have been expected given the scale of the economic crisis.[86]

The unique circumstances of the pandemic are in part responsible for this. Home working and social distancing rules meant that many households experienced a sharp fall in their expenditure whilst their incomes remained stable,[87] creating surplus income that was used to pay off some or all debts. Middle- and higher-income households have been significantly more likely to be able to work from home than lower-income households, making them more likely to have been able to pay off debts.[88] This is likely to explain, at least in part, why the overall picture on debt has appears to be improving whilst problem debt in low-income households appear to be worsening.

In addition, there has been significant support provided to households, especially low-income households, which has helped to prevent problem debt increasing. This section will explore the role of this support looking at five categories:

- supporting incomes
- payment relief
- emergency help
- limits on debt recovery
- debt relief.

5.1 Supporting incomes

The UK Government has taken significant action over the past eighteen months to safeguard the incomes of households affected by Covid-19. Perhaps the most significant of these measures was the furlough scheme. At its peak nearly one in three employments in Wales were furloughed, with a further 110,000 self-employed workers claiming support through SEISS.[89] There is consensus that both schemes played an important role in maintaining both jobs and incomes.[90]

The actions taken by the UK Government to temporarily increase elements of the social security system has also helped to protect incomes. The decision to increase Universal Credit by £20 a week boosted the income of the least well-off households, whilst the increase to the Local Housing Allowance provided private sector renters with more support towards their housing costs. These measures have meant that many households on the very lowest incomes have actually seen their incomes increase over the course of the pandemic.[91]

The Welsh Government also took action to protect the income of workers. Its self-isolation support scheme provides low-paid workers who were required to isolate either as a result of being contacted by track and trace or as a result of testing positive for Covid-19 with a one-off payment.[92] Initially this payment stood at £500 but has subsequently increased to £750. The Welsh Government has also provided support to self-employed workers to supplement the support provided by the UK Government.

These measures have undoubtedly played an important role in protecting household incomes and preventing more households from falling into problem debt. Despite this there were some gaps in provision – across the UK 2.5 million self-employed workers and company owner-managers were unable to access either the furlough scheme or SEISS[93] while some households could not receive the £20 a week UC uplift as they claimed legacy benefits or were affected by the benefit cap.

5.2 Payment relief

Both the Welsh Government and private sector have offered support to either offset increased costs during the pandemic or to help with payments. These measures have allowed people to access essential services without having to into arrears in the short term.

The Welsh Government's support in lieu of Free School Meals (FSM) provided children who were eligible for FSM with support equivalent to £19.50 a week per child in lieu of the meals provided in schools.[94] The fact that most Welsh local authorities chose to provide this support as direct cash payments[95] and that the support continued to be available over the holidays has ensured that many low-income households have been able to afford to provide a good quality diet to their children. This support was described by parents at our discussion groups as a *"God send,"* a *"massive help"* and *"absolutely fantastic".*

Private businesses have also supported households. Most banks provided mortgage holders with an opportunity to take a payment holiday to enable them to rearrange their finances without falling into arrears on their repayments and made it easier for households to cover other living costs. Similarly utility companies developed schemes help households manage their finances. We heard that local Citizens Advice Bureaux had been provided with vouchers from British Gas that allowed people to top up their meter for free. Other providers offered credit to put on meters (as loans) to allow people to continue to have heating and electricity even if they were struggling financially.

Stakeholders were concerned that some of this support could lead to households falling into problem debt in the medium- to long-term, particularly as a result of utility companies' loans to top up meters. Residents told us that the repayment terms were steep:

> *When the pandemic first started energy suppliers said they would give credit on account, they gave £50 or so but people had to pay it back, so are now topping up £10 but only get £5 of heating. It's a vicious cycle of debt now, everyone would say yes to keeping their house warm.*
>
> Resident, Plas Madoc, Wrexham, 6 July 2021

Long-standing issues with Free School Meal eligibility criteria also meant that many low-income working families missed out on the additional support provided by the Welsh Government.[96]

5.3 Emergency help

UK and Welsh Government emergency schemes such as Discretionary Housing Payments (DHP) and the Discretionary Assistance Fund (DAF) already played an important role in helping households to avoid problem debt by providing a grant to households struggling to make ends meet. [97] Both these schemes have been strengthened over the course of the pandemic.

DHPs are administered by local authorities with a pot of money being allocated to each from the UK Government. Local authorities are entitled to spend two and a half times their allocation, using their own resources to fund the increase. In response to the pandemic the Welsh Government has provided local authorities with additional funds to allow them to provide extra support beyond the funds provided by UK Government for 2021/22.[98]To maximise the value of this support it is important that all local authorities spend their allocation in full. Some authorities did not do so in 2020/21.[99]

In March 2020 the Welsh Government increased the DAF's budget, allowed more frequent payments and introduced new flexibilities into the qualifying criteria. The impact was immediate, with almost 220,000 Covid-related Emergency Assistance Payments made via the DAF since then, with the average award being £67.[100] Whilst this was invaluable to those who received it, it is worth noting that in excess of 100,000 DAF applications have been rejected, in part as a result of difficulties proving that an application for support met the scheme's eligibility criteria.[101] One of the challenges faced by households has been that proving that any increase in expenditure or reduction in cost has been as a direct result of the pandemic rather than broader economic pressure.

5.4 Limits on debt recovery

The UK and Welsh Governments put limits on how debts could be recovered. These measures have protected households, at least temporarily, from facing significant hardship and may have prevented some households from falling into problem debt in the first place.

Perhaps the most important of these measures was the eviction ban, which saw most evictions in Wales being prohibited until 30 June 2021.[102] After this date landlords are now required to provide tenants with six months' notice in most eviction cases.[103] Insights provided by stakeholders suggests that this measure has supported households in two ways. First, for those who are in arrears, it reduced their immediate risk of homelessness during the height of the pandemic and second it may have also prevented some tenants being pushed into arrears in the first place.

We heard from Community Housing Cymru that the social landlords that had already developed more progressive approaches to housing management such as adopting 'no evictions into homelessness' policies appear to have seen their levels of rent arrears increase less significantly than other landlords. The eviction ban encouraged other social landlords to adopt similar approaches with Community Housing Cymru believing that this, at least in part, explained why arrears had not increased as dramatically within the sector as had been feared.

A similar process was thought to have taken place in the private rented sector (PRS). Stakeholders believed that given that there was little prospect of landlords finding new tenants during lockdown and they would not have been able to evict a tenant in rent arrears in any case, many landlords and tenants came to arrangements to manage their rent so reducing arrears.

Other limitations have also had a positive impact. We heard from stakeholders in our roundtable discussion that the suspension of face-to-face debt enforcement had reduced some of the pressures felt by households and that the decision to halt Council Tax enforcement had had a similar benefit. There are still concerns that these measures may only provide a temporary reprieve.

5.5 Debt relief

Some measures have been taken by the Welsh Government to assist households who have fallen into debt to clear what they owe. Perhaps the best example of this is the introduction of the Tenancy Hardship Grant.

The Tenancy Hardship Grant was introduced over the summer of 2021 as a replacement for the Tenancy Saver Loan Scheme.[104] The grant makes support available for tenants in the private rental sector who are in arrears by allowing them to write off some or all of their housing debts. The scheme complements the support already in place for those in receipt of Housing Benefit or the housing element of Universal Credit through DHPs which are permitted to be used to clear arrears.

There are fewer examples of other types of debt relief. Every year, local authorities write off some Council Tax debt but this is done on a case by case basis. Some private businesses provide customers in debt with support, with many energy companies providing customers with grants to clear any arrears they have built up.[105] The availability of such support is dependent on the energy provider, however.

There was significant concern among the stakeholders that households that have fallen into problem debt as a result of the pandemic may have to rely on other forms of debt relief such as bankruptcy, individual voluntary arrangements (IVA) and debt relief orders (DRO). Whilst these forms of debt relief can be useful for households who are in significant problem debt, the cost of accessing them can often be prohibitive and they have an impact on a person's credit score. This raises the risk that if other forms of debt relief are not developed, the pandemic may have a lasting scarring effect on indebted individuals.

6. Problem debt and the months ahead

There are good reasons to think that the number of people in problem debt may increase over the coming months. Many of the support schemes that have protected households have either recently come to an end or are due to come to an end soon. With living costs increasing and concerns about the health of the economy persisting, many households could see their financial position deteriorate.

6.1 The end of Covid support schemes

Recent months have seen the UK and Welsh Governments begin the process of winding down many of Covid-related schemes. The UK Government's contribution towards the employers' costs in the furlough scheme has been reduced, and it has re-frozen the Local Housing Allowance rate at 2020/21 levels.[106] The Welsh Government has reduced the provisions of the Discretionary Assistance Fund,[107] ended the eviction ban and enabled bailiff enforcement action in line with relevant Covid 19 workplace safety regulations.[108]

The removal of these protections is already having an impact on some Welsh communities.

> *Debt collecting was paused during Covid but they are back on the estate and they are going to want their pound of flesh – well the whole cow!*
>
> Resident and community worker, Caia Park, Wrexham, Bevan Foundation and TCC online discussion group, 4 May 2021

It is later in 2021 that the most significant changes to support will come into effect. On 30th September 2021 the furlough scheme will end.[109] With thousands of Welsh workers still on furlough there are concerns that many of these workers will lose their jobs. Also, on 30th September the flexibilities to the Welsh Government's DAF scheme will be removed, meaning that a claimant will only be entitled to emergency cash support in more restricted circumstances.[110] On 6th October 2021 Universal Credit will be cut by £20 a week, meaning the last payment at the higher rate will be in late September.[111]

Each of these development by themselves could have a detrimental impact on financial resilience and problem debt. Recent research by the Joseph Rowntree Foundation has revealed that more than a third of families with children will be affected by the cut to Universal Credit in all bar three Welsh constituencies.[112] Stakeholders feared that taken together the cumulative impact of these changes could be devastating.

6.2 The timing on the decision

The timing of the loss of support is likely to increase its effects on problem debt. Living costs are expected to continue to increase. Ofgem have already confirmed that the price cap on domestic energy will increase by £139 from October.[113] Food costs are also projected to continue to rise. The effect of the surge in house prices on rents is still unclear, but any significant increases will further stretch household resources.

On top of these pressures, we heard from parents during our discussion groups who were worried about managing increased costs on a reduced income, during a time of year that they had historically found to be expensive.

It's coming at a time when school uniforms need to be bought, people are losing the extra £20 from Universal Credit, even before people on legacy benefits weren't getting the additional money. If you think things are improving, in my opinion that is a complete falsehood as on top of all that food prices are going up and it's going to be a crisis.

Resident, Caia Park, Wrexham, Bevan Foundation and TCC online discussion group, 4 May 2021

6.3 Trigger events

The combination of loss of support and rising costs may push more people into problem debt and act as a trigger that will allow us to see the full impact of the pandemic on problem debt for the first time.

We heard from stakeholders that provide front line support that eviction notices, enforcement letters or visits by bailiffs often act as trigger points for seeking advice. Some of the temporary protections removed those triggers, meaning that the true scale of the impact of the pandemic on problem debt may not yet have come to light. They are therefore braced for a surge in requests for help with problem debt this autumn.

7. Findings and next steps

The pandemic has had a very uneven impact on debt. It has provided some households with an opportunity to pay down debt, whilst the actions of both the UK and Welsh Governments has prevented over-indebtedness has helped to prevent an escalation of problem debt amongst many households. However, the situation has deteriorated for households that were already at a significant risk of being in problem debt.

In the short term, households in problem debt are likely to find the coming autumn and winter difficult. In the medium- to long-term, households in problem debt face multiple challenges. Repaying debt accrued over the course of the pandemic will leave many households with less disposable income, creating everyday shortfalls in income. Accumulated debt will also make it difficult for households to access some services, and they may find it more difficult or expensive to borrow money in future.

Given these significant consequences and concerns that the number of people affected could be set to increase over the autumn it is vital we develop measures to remedy the weaknesses within existing support schemes and to address some of the new issues that have been raised by this report. We therefore believe that the time is right for a new approach to solving problem debt, with a clearer focus on relief and prevention.

7.1 Emergency debt relief

Exiting problem debt is a significant challenge for many. The process of paying off historic debts often leaves households short, leading to households having to cut back on essentials or accrue new debt. Whilst there are some avenues available to establish arrangements with creditors to manage repayment or write off debt in its entirety, there are barriers to using IVAs, DROs and other forms of relief.[114]

The Welsh Government's decision to introduce the Tenancy Hardship Grant provides another possible model. In providing a route for tenants to clear their rent arrears, the Grant helps recipients to rearrange their finances and to become free of arrears, benefitting them in both the short- and long-term. This Grant complements the support already provided through DHPs.

There are examples of similar schemes in the private sector, with some energy companies offer grants to customers in significant arrears. The availability of schemes depends on which energy provider is used by a household, however.

With pressure on low-income households increasing, it is timely to consider a more progressive approach to debt relief in Wales. The levers to put such an approach into practice are to be found at Westminster and at Cardiff Bay.

At a Welsh level, the Welsh Government should work with local authorities to clear some of the significant Council Tax arrears that have been built up over the course of the pandemic. The Tenancy Hardship Grant itself should be revised so that the Grant is put on a demand-led footing and extended so that social housing tenants who are not eligible for DHPs can access the scheme.

With powers over fuel poverty devolved to Wales but with powers over energy regulation retained as Westminster, the Welsh and UK Governments should work together to establish a consistent baseline of support by energy suppliers for indebted customers. The UK Government should take similar measures with regards to internet and phone bills, and work with stakeholders to explore how current mechanisms can be improved for those who have borrowed money.

7.2 Debt prevention

Debt relief is only one part of the answer to problem debt. It is also important that action is taken to prevent people falling into debt in the first place. We therefore recommend exploring the possibility of legislation that would place a duty on all public bodies,[115] including schools and colleges, to prevent debt. There is precedent to take such action, with the Welsh Government having already placed such a duty on local authorities to prevent homelessness.[116]

Such a duty could have a number of benefits. It would ensure that all public bodies in Wales adopted a progressive approach to debt management. For example, we have highlighted evidence from Community Housing Cymru that suggests that rent arrears within the social housing sector may have been minimised due to more landlords developing progressive approaches to rent arrears. Enacting a prevention duty could ensure that similar practices are adopted across other sectors.

A prevention duty could also prohibit public bodies adopting practices that deepen debt. Council Tax collection practices, for example, can often deepen problem debt by making those who are in arrears liable for their outstanding bill in full or by charging additional fees.[117] Prohibiting such practices could ease some of the debt problems faced by over indebted households.

The UK Government could adopt a similar duty for bodies within its remit. The approach taken by DWP to Universal Credit deductions, for example often exacerbates problem debt. Adopting a prevention duty could lead to such practices being amended and improved, reducing people's risk of being pushed into problem debt.

Alongside introducing a new legislative duty to prevent debt the Welsh Government should increase its investment in debt advice and education. The success of the Welsh Government's Income Maximisation Programme has demonstrated that investing in advice services can improve people's financial situation.[118] It is important that the Welsh Government draws on these lessons and rolls out the piloted approaches more broadly.

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