

christians
against
poverty

CAP

Low income and debt problems inquiry

***CAP's official response to the Social Justice and
Social Security Committee inquiry.***

February 2022

always hope.



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Summary

Christians Against Poverty (CAP) has a desire to see people set free from problem debt and an end to UK poverty, so that everyone has the opportunity to flourish. To reach this goal, there needs to be a holistic and person-centred approach to supporting people in problem debt, with advice and support available for people which meet their individual needs. In parallel with this, all households, and in particular those on the lowest incomes, should have access to sufficient income via a cash-first approach to ensure that debt is not a predictable consequence of being unable to meet everyday needs.

There is always hope. CAP believes that through the power and desire of both the sector, the Scottish Government and the local Church, we can provide accessible, person-centred and fair solutions to problem debt, and through a targeted and joined up policy approach, we can reach an end to poverty in Scotland. To this end CAP welcomes this important inquiry from the Social Security and Social Justice Committee, and the focus it places on low income and debt as important and related issues in Scotland.

Key points:

- Digital exclusion can come in the form of a lack of access to devices, unaffordability of the internet, or low knowledge or confidence in using technology. Digital exclusion results in people being unable to find out about reliable money advice and access support, which can trap vulnerable people in financial difficulty.
- Face-to-face approach enables support to be accessible for those unable to use digital means or who have more complex needs. However, there needs to be more funding in this area to enable people to be adequately supported.
- Barriers to accessing money advice can include lack of awareness of the support available, emotions attached to seeking support and societal stigma, and accessibility challenges, in addition to digital exclusion.
- There is a circular cause and effect relationship between mental health and problem debt with people both being pulled into financial difficulty due to mental health challenges, but also problem debt causing and exacerbating mental health challenges.
- Low income can trap people in poverty and, unless addressed, will continue to put a strain on the debt support sector.

Recommended actions:

- The Scottish Government should ensure that people in Scotland have sufficient income to meet their basic needs and prevent problem debt, especially in the face of the rising cost of living.
- Essential and government services should work with telecommunications firms to allow free access on mobile devices to web pages needed to reach key services like Universal Credit, debt advice and support for those self-disconnecting.
- The minimum debt threshold for debtor-petition MAP bankruptcy should be removed, and action taken to stop bankruptcy fees from preventing people on low incomes being able to access a debt solution.
- Debt advice services need to be available through a range of channels, including sufficient face-to-face provision, and provide person-centred support.
- Legal action needs to be taken to address misinformation online and standards need to be increased to ensure that paid advertising for debt help by corporate companies clearly defines the nature of the support and the free options that are available.
- Action policy changes to enable everyone in receipt of Universal Credit to travel for free to money support services such as extending free bus travel, as proposed through The Poverty Alliance's Everyone Aboard campaign.
- The protected minimum balance for Bank Arrestment should be reviewed with a view to increasing this amount and considering whether different amounts should be applied per size of household.
- A formal review of the definition of an 'essential service' is needed to enable laws and policies to acknowledge the scope of needs that people face.

Questions

Digital exclusion

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

One in four CAP clients have limited digital engagement and periodic exclusion¹. People experience digital exclusion for a whole range of reasons, from the wide range and complexity of online tasks, to the cost of data and devices needed to access the internet. The type of barriers people face affects which online tasks they find difficult.

In a society that is becoming increasingly digitised, this causes huge impacts for people in financially vulnerable positions, and prevents them from accessing essential services and the support they need. This exclusion can come in three forms: the lack of available devices, an inability to maintain the use of the devices due to costs of broadband and electricity (needed for charging), and a lack of knowledge or confidence on the use of digital equipment.

A recent report by Lloyds Bank, UK Consumer Digital Index (2020)², 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 and 85% in Northern Ireland. Only 72% of those in Scotland were able to do at least one task per 'life skill', compared with 82% in London and 78% in the UK as a whole. It is important to remember that many individuals who do have easy internet access do not possess the required basic skills needed to maximise their use of the internet.

Digital exclusion can also arise from financial barriers. It is low income households, single parents and people in receipt of means-tested benefits who experience financial barriers the most. 98% of people who can't afford enough data on their phone face a vulnerability factor, with 85% of people who are unable to afford a broadband contract in receipt of a means-tested benefit³. This digital exclusion can subsequently cause even more barriers for people who are already vulnerable if they are unable to seek and access the support they need.

¹ CAP UK, *Digital divide: Financial difficulty and digital exclusion* (2021) available at capuk.org/digitaldivide

² Lloyds Bank, *UK Consumer Digital Index* (2020) available at lloydsbank.com/banking-with-us/whats-happening/consumer-digital-index.html

³ CAP UK, *Digital divide: Financial difficulty and digital exclusion* (2021) available at capuk.org/digitaldivide

James⁴ from Uddingston, a client at a CAP Debt Centre, continues to experience digital exclusion. James is a young, single male on a low income. He is currently recovering from cancer and is working with CAP to pursue bankruptcy through the Minimal Asset Process (MAP).

He is unable to afford internet on a phone or home broadband. This means he has been unable to use any teleconferencing software, such as Zoom, to get advice and support during the COVID-19 pandemic. Being digitally excluded is exacerbating his isolation and also preventing him from accessing the help he needs for both his health and finances.

Not only does digital exclusion result in a lack of access to online resources and support, but it is becoming harder for those who are excluded from reaching information online to receive hard copies of documents from creditors and money advice services. 24% of CAP clients can only access the internet through a smartphone, which can make accessing money advice, reading long documents, and completing complex online tasks challenging.⁵ People who are not able to access information online easily or at all are left in a time-consuming and stressful position. Additional barriers include long 'on-hold' times – which can be unaffordable for those on 'pay-as-you-go' phone contracts – and set phone-line hours that may coincide with their working hours. CAP advocates for people to have a choice, to access information and support in a format that is most suitable for them.

Although some people located in urban locations can access digital services through public libraries, this solution is not always fit for purpose. For example, before the pandemic, many librarians were requesting additional training to better support individuals with limited IT capability. Without this training and support, people in financially vulnerable positions are at risk of only being exposed to misinformation or at greater risk of scams. In addition, libraries and public spaces across Scotland are closing at an increasing rate as part of reductions in local authority spending⁶. To further exacerbate the digital access divide, there are rural and island communities in Scotland where they face both no library located nearby, in addition to unstable broadband and a lack of access to data due to signal issues. Citizens in these locations can face inability to access money advice online without additional costs or long, costly journeys.

CAP recognises that the Connecting Scotland initiative has been a beneficial addition to resource and support people to access online services, but this service needs to be easier to receive for those in isolation and currently not engaging with services. Going forward, the Scottish Government must ensure that no one is left

⁴ Client's name has been changed.

⁵ CAP UK, *Digital divide: Financial difficulty and digital exclusion* (2021) available at capuk.org/digitaldivide

⁶ The Scotsman, *Scotland libraries: One in eight Scottish libraries permanently closed since 2010, figures reveal* (2022) available at scotsman.com/lifestyle/family-and-parenting/one-in-eight-scottish-libraries-permanently-closed-since-2010-figure-s-reveal-3598723

behind when accessing debt and money advice as Scotland moves to become increasingly digital.

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

The Connecting Scotland scheme has showcased the power and importance of providing resources and training to break down the barriers created by digital exclusion. This initiative has filled a gap in public services and offered a solution to individuals' digital exclusion as well as provided a gateway to develop other beneficial skills. It has been positive for organisations to be able to signpost people to these services to enable them to be supported beyond the capacities within debt support organisations.

The Scottish Government has the ability to mitigate the gap so that the disadvantages experienced by people who cannot always engage digitally are reduced. CAP has carried out research into financial difficulties and digital exclusion and have identified eight digitally inclusive design principles. These principles should be applied through both the planning and implementation phases to ensure that policies and practices seek to reduce rather than increase the digital divide within Scotland.

These digitally inclusive design principles are:

- 1) No sudden cut-off
- 2) No blacklisting
- 3) Zero-rate the essentials
- 4) Inclusive design
- 5) Design for mobile
- 6) Omni-channel by default
- 7) Enable third party support
- 8) Offer help

More information regarding these eight principles can be found in CAP's report, [Digital divide: Financial difficulty and digital exclusion](#).⁷ The Scottish Government should pay particular attention to item number three. Applying a 'zero-rate the essentials' approach would help to break the vicious cycle between the finance needed to access the internet to apply for financial support. Essential and government services should work with telecommunications firms to allow free access on mobile devices to web pages needed to reach key services like Universal Credit, debt advice and support for those self-disconnecting. People in emergency scenarios need to have free access to the online crisis support they need.

⁷ CAP UK, *Digital divide: Financial difficulty and digital exclusion* (2021) available at capuk.org/digitaldivide

In addition to the provision of mobile data as a form of crisis support, practices such as CAP's face-to-face model enables CAP to support clients who do struggle with accessing or using digital equipment. Through offering in-person meetings, CAP has established an inclusive design which reduces barriers from digital exclusion.

Accessing money advice

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

The main barriers to accessing money advice for people with low incomes and debt problems that CAP has identified are: a lack of awareness of the support available, stigma and emotions attached to seeking support, and accessibility challenges.

Barriers can exist at every stage of the journey for getting money advice and support for problem debt. Seeking help for problem debt remains a hard first step for many. Polling carried out by CAP in March 2021 found that almost half (45%) of citizens in Scotland were unsure of where to access free debt help⁸. This issue is further exacerbated by a lack of access to good quality and reliable information about sources of advice and the support they are entitled to, with 45% of CAP clients claiming that they did not know where to get help⁹.

Uncertainty, fear and shame keep people trapped in debt. Poverty-related stigma is prevalent for people living on a low income in Scotland. Problem debt has a particular stigma and shame attached to it that leaves people feeling trapped, isolated, unable to sleep at night and considering suicide¹⁰. This stigma and shame surrounding problem debt then holds people back from seeking debt help, meaning people are often waiting until they hit crisis point before seeking support.¹¹ Over half of CAP clients wait over a year before seeking help and one in four wait for over three years.¹² Past negative experiences of 'officials' such as Sheriff Officers can also act as a barrier to accessing money advice from those associated with the sector due to a lack of understanding of the support that is available and fear of repercussions. People can have misconceptions and thus concerns around the impact announcing a debt issue or claiming bankruptcy will have on their credit files, which can result in not seeking support or not disclosing the extent of their situation. Paid advertising for debt help by corporate companies has been known to mimic free advice services and further spread misinformation and detract from sources of free independent advice. Those who are not familiar with digital searching and those who experience

⁸ ComRes poll of 1000 people living in Scotland commissioned by CAP in March 2021.

⁹ CAP UK, *Client report* (2021) available at: <https://capuk.org/connect/policy-and-government/client-report-21>

¹⁰ CAP UK, *Inquiry on poverty and stigma in Scotland* (2022) available at https://capuk.org/filesserver/downloads/policy_and_government/Inquiry_on_poverty_and_stigma_in_Scotland.pdf

¹¹ CAP UK, *Inquiry on poverty and stigma in Scotland* (2022) available at https://capuk.org/filesserver/downloads/policy_and_government/Inquiry_on_poverty_and_stigma_in_Scotland.pdf

¹² CAP UK, *Client report* (2021) available at: <https://capuk.org/connect/policy-and-government/client-report-21>

mental ill-health are particularly vulnerable to misinformation and mistrust around money advice.

Debt often comes hand-in-hand with mental ill-health, acting as both a symptom and a cause.¹³ Even if people are aware of the support available, people's mental health and wellbeing can become a barrier to whether they feel able to access this. Living in financial insecurity and experiencing debt can deeply affect emotional wellbeing, and has the potential to exacerbate already existing mental health issues someone may experience.¹⁴ Thus mental health and wellbeing plays a role in whether someone is able to process, acknowledge and seek support for their financial issues.

Beyond the barrier of a lack of awareness of the money advice available, and mental barriers to receiving it, are the physical and financial restraints for accessing support. CAP knows the value of face-to-face advice, particularly for those who are challenged by digital services and those who have additional vulnerabilities - including those with learning disabilities and mental ill-health. Accessing face-to-face services in rural communities comes with additional barriers. Not all debt help organisations have services in all parts of Scotland and travel to the nearest face-to-face provision can mean additional costs for people already facing financial hardship. Policy changes such as extending free bus travel to everyone in receipt of Universal Credit, as proposed through The Poverty Alliance's Everyone Aboard campaign, would help to reduce this barrier and enable support to be more accessible to people on a low income.

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

No, there is not enough capacity for free money advice services to meet the needs of the quantity of people who need the support. This issue is expected to worsen with the impacts of the pandemic in addition to the increasing cost of living. Citizens Advice Scotland (CAS) have identified that over 600,000 adults in Scotland either entered debt during the pandemic, or saw their pre-existing debt get worse¹⁵. Support is needed to increase the capacity and coverage in both rural and urban regions in Scotland.

People need to be able to access the right support in the right places. This means that the sector needs the Scottish Government to increase the capacity, but also to ensure that this support is available across Scotland through a variety of channels. There is a need for a range of support services that are able to meet people's different needs and enable them to choose what would be accessible for them. This

¹³ Money and Mental Health Policy Institute, *Money on your mind* (2016) available at <https://www.moneyandmentalhealth.org/wp-content/uploads/2016/06/Money-on-your-mind-full-report.pdf>

¹⁴ CAP UK, *Shipshape or sinking ship? Problem debt's impact on financial and mental wellbeing* (2021) available at <https://capuk.org/shipshape>

¹⁵ Citizens Advice Scotland, *New debt problems for over 600,000 people during the pandemic* (2022) available at <https://www.cas.org.uk/news/new-debt-problems-over-600000-people-during-pandemic>

must also include support for those with the most complex needs. There is a huge benefit in online money advice provided by organisations such as StepChange, but CAP acknowledges that there is also a need to ensure face-to-face support is available for those who need it. Offering face-to-face support can be beneficial for those with additional needs in the form of disabilities or when people are experiencing a range of intersecting challenges. Face-to-face support can be a useful way of developing a relationship with people experiencing problem debt to enable them to access holistic support. While the cost-to-serve through face-to-face services is higher, this is crucial for providing good outcomes for many of the most vulnerable.

While a problem debt crisis is usually the factor that points clients to CAP services, there are underlying issues that cause this financial insecurity that people also need support with, such as mental ill-health, relationship breakdowns and immigration issues¹⁶. Through acknowledging people's complex network of needs, there needs to be a more holistic approach. Beyond the capacity challenge of providing financial advice, there is also a need for specialist advice to be available to meet the additional support that clients often need. There is a need for more collaboration between service providers, but also increased funding for follow-on services. The process will only be viable if the full journey of the social prescription is considered, to ensure that not only the link worker but also those offering the follow-up support are funded. Through an acknowledgment of the places in local communities where people are already going, good community partnership would enable people to access holistic support that addresses the cause and effects of their financial situation.

Laura is a single parent from Edinburgh, who ended up in problem debt after her son was born prematurely. Due to the stress of this situation she wasn't able to manage bills or work to earn money. At the time Laura was in an abusive relationship and her partner wouldn't let her get debt help.

Over time, Laura's debt grew and had a massive impact on her mental health. She lived in fear of debt collectors coming to the door and hid the letters in a drawer as she didn't know how she would be able to pay them. She felt ashamed and embarrassed and didn't know where to turn. Problem debt had such an impact on Laura's mental health that she tried to take her own life twice.

Last year, Laura managed to escape from domestic abuse and was in a position to get debt help. She heard about CAP through her local food bank. Laura felt like CAP was her safe place and her CAP Befriender became like a mother to her. She was able to go debt free through sequestration in December 2021. Once Laura met her Debt Coach she felt like a weight had been lifted and she was able to laugh again.

¹⁶ CAP UK, *Client report* (2021) available at: <https://capuk.org/connect/policy-and-government/client-report-21>

However, Laura is still struggling on a low income. She already has to travel quite far around Edinburgh on the bus to shop around and find the cheapest items. She is worried about how she will be able to keep going with rising costs. At the moment Laura's son is too old for them to qualify for the Scottish Child Payment. She needs this to be rolled out to older children as soon as possible to give her essential income to meet rising costs.

Although the right support in the right place delivered in the right way is crucial, there are factors that trap people in financially insecure positions. The free money advice service sector cannot address the root causes of this, but are left in the position to respond to the consequences. Factors such as insufficient income via social security can push and keep households in problem debt as people have to borrow to cover the costs of everyday essentials such as food and fuel.¹⁷ Consequently, some debt support is providing a plaster on an endlessly open wound as households can quickly fall back into problem debt after going through a debt solution. CAP would urge the Scottish Government to use the fullness of all of its powers to look at this intersection between social security and problem debt .

Debt and mental health

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

There is a circular cause and effect relationship between mental health and problem debt with people both being pulled into problem debt due to mental ill-health, and also problem debt causing and exacerbating mental ill-health. As highlighted by the Money and Mental Health Policy Institute (MMHPI), adjustments need to be made to enable financial services to be accessible for those who are going through financial difficulties alongside mental ill-health. Mental ill-health is classified as a disability if it has a long-term effect on your normal day-to-day activity as defined under the Equality Act 2010. As stated by the Scottish Government, there is a vision of 'Scotland where people can get the right help at the right time, expect recovery, and fully enjoy their rights, free from discrimination and stigma'.¹⁸ Consequently, there needs to be increased financial support to enable the debt advice sector to offer adjustments to accommodate people's additional needs.

The fear of being pushed over the edge by problem debt and the challenges of life on a low income can feel overwhelming. Trapped, isolated, suicidal – these are all words that CAP regularly hears being used by clients. Many describe their debt as all-consuming. Shame and embarrassment rob people of dignity as they feel compelled to hide their debt, which compounds already heightened levels of stress. Nearly a third (28%) of CAP clients across the UK seriously considered or attempted suicide because of problem debt.

¹⁷ CAP UK, *Client report* (2021) available at: capuk.org/clientreport

¹⁸ Healthier Scotland, Scottish Government, *Mental Health Strategy 2017-2027* (2017) available at gov.scot/publications/mental-health-strategy-2017-2027/pages/3/

One Scottish client, Bethany¹⁹, told CAP: 'Debt can be such a secret pain and worry. It can be something you don't even speak to your family about so you don't have any support'. Sadly this feeling of shame and taboo around debt is all too common.

The uncertainty and lack of security caused by debt traps people on shaky ground and it is easy to lose footing. The burden of problem debt is especially oppressive for those already carrying a heavy load; ill-health, bereavement, family breakdown or trauma. At CAP, around nine in ten (87%) clients have at least one additional difficulty on top of financial crisis, with 38% experiencing mental ill-health.²⁰ Bethany also shared: 'When you have debt you feel like you are hiding. You feel like people are after you, especially if you have mental health problems and are getting terrifying letters.'

The process of acknowledging problem debt, reaching out and accessing support can place additional pressure on a person's mental health. CAP also acknowledges how challenging it can be for people to both take in and come to terms with the next steps required for them to become debt free. As a result, CAP offers ongoing support for clients and can handle all negotiations with creditors throughout. Providing person-centred and holistic support requires significant resources in terms of people and funding. Tailored arrangements that meet people where they are at and journey at their pace cost more to deliver. However, they offer the best possible opportunity for people to journey out of debt in a way that is right for them.

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

In CAP's 2021 report, *Shipshape or sinking ship?*, CAP identified the impact of problem debt on financial and mental wellbeing. Unsurprisingly, people in problem debt have lower wellbeing scores on average than the UK population²¹. Using the Warwick-Edinburgh Mental Well-Being Scale which focuses on seven elements for mental wellbeing (optimism, useful, relaxed, dealing with problems well, thinking clearly, feeling close to people, and being able to make up your mind) there was a very strong positive relationship between clients in debt and lower mental wellbeing scores in comparison to the rest of the population in the UK²². Low mental wellbeing and financial wellbeing are prevalent, and the evidence showed low income was a significant driver of this²³. Some groups typically fare worse than others, with much lower financial and mental wellbeing scores: insolvency clients,

¹⁹ Client's name has been changed.

²⁰ CAP UK, *Stacked against: Revealing the breadth and depth of vulnerability and the overwhelming nature of multiple complex needs* (2019) available at capuk.org/stackedagainst

²¹ CAP UK, *Shipshape or sinking ship? Problem debt's impact on financial and mental wellbeing* (2021) available at capuk.org/shipshape

²² CAP UK, *Shipshape or sinking ship? Problem debt's impact on financial and mental wellbeing* (2021) available at capuk.org/shipshape

²³ CAP UK, *Shipshape or sinking ship? Problem debt's impact on financial and mental wellbeing* (2021) available at capuk.org/shipshape

those on the lowest incomes, younger people and those subject to particular welfare policies.²⁴

Ron from Irvine is in his sixties and ended up in problem debt after losing his job. He set up his own business doing painting and decorating but ended up charging too little and not having enough income. He also acted as a guarantor for a friend's loan which wasn't paid back.

All of this left Ron in a very difficult situation. He stopped going outside, wasn't sleeping well and became increasingly isolated. When Ron reached out to CAP for Debt Help he was days away from suicide. Contacting CAP was his last ditch attempt at turning his life around.

Ron felt immediately better. He managed to sort through years worth of paperwork himself so he was able to hand it over to his Debt Coach at their first meeting. Working with CAP has meant that Ron is able to sleep at night, he is eating better and his mental health has massively improved. He was worried about being judged but felt accepted and empowered to work towards becoming debt free.

Ron was also given a tablet and broadband through a Scottish Government funded project. Alongside debt support, access to the internet enabled him to take part in support groups for people struggling with mental ill-health and helped him to stay connected with people during the COVID-19 lockdowns. He was able to volunteer with a local charity through online groups which gave him a sense of purpose.

Ron is still working with CAP on his debt free journey and is due to become debt free this year.

30% of CAP clients interviewed rarely or never feel relaxed, but despite pressures on people in debt, debt advice has a positive effect on financial and mental wellbeing²⁵. Debt advice helps people attain financial security in the present and feel able to achieve their goals in the future. To make the journey itself more positive, the process must be supportive and personalised.

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

CAP provides community-based and person-centred debt advice. CAP Debt Advisors and local community Debt Coaches are trained to understand the challenges people may face around mental health to enable them to support clients to overcome barriers, and journey with them through the process. CAP knows the

²⁴ CAP UK, *Shipshape or sinking ship? Problem debt's impact on financial and mental wellbeing* (2021) available at capuk.org/shipshape

²⁵ CAP UK, *Shipshape or sinking ship? Problem debt's impact on financial and mental wellbeing* (2021) available at capuk.org/shipshape

importance of ensuring the support provided is non-judgemental, and instead full of understanding. Susan, a CAP client from Midlothian, spoke of her experience after having CAP home visits: *'You'd be surprised at how comforting it is to have people there who will not judge you for ending up in your situation'*.

The Child Poverty Action Group Scotland notes that the vast majority (80%) of adults living in Scotland's 20% most deprived areas perceive that they can rely on someone in their neighbourhood for help²⁶. To enable trust to be built, CAP strives for consistency with staff and offers a Befriender so people know who to turn to and can feel connected throughout the process. The relationships CAP staff create with clients break down feelings of isolation and instead empower people to become debt free. Our debt service celebrates this strength by bringing hope and advice to individuals from within their own community.

People's journey to becoming debt free does not end with short term fixes for people on low incomes. CAP has a desire to equip people as much as possible for life when they are debt free, with the hope that where incomes allow and with the right support, people will remain debt free going forward. As a result, CAP offers a 'debt free budget' to clients in Scotland. This is an additional touchpoint after completing a debt solution where CAP's community-based Debt Coaches can assist a client with allocating any newly available income that was being used for debt repayments into a workable budget moving forward and discuss ways to increase their financial resilience in the future.

However, there are underlying issues that CAP and other debt support organisations are unable to address alone. For some CAP clients on low incomes, there is an imbalance between income and the basic costs of living. If people do not have sufficient incomes then they are very likely to end up back in debt even with the best efforts of the debt advice sector, and good budgeting due to the high costs of living. People cannot out-budget insufficient income. Low income and systemic challenges will continue to pull people into debt and lead to mental health challenges unless addressed.

CAP appreciates the good practice highlighted by the approach of the Social Justice and Social Security Committee to seek feedback from organisations working to address low income and debt problems, and Social Security Scotland's proactive approach to recruiting people with lived experience. CAP also acknowledges the policy measures that the Scottish Parliament has been seeking to reduce underlying issues associated with debt. The efforts that the Scottish Parliament has made to work effectively cross-party to relieve the factors that push people into poverty, such as the provision of Scottish Child Payment, have provided a significant impact on families across Scotland. CAP also welcomes the recent commitment to uplift Scottish Child Payment to £25 per week per child by the end of 2022²⁷. Measures such as this are a step towards meeting Scotland's interim child poverty targets. But

²⁶ Poverty in Scotland 2021: towards a 2030 without poverty, edited by: John H McKendrick, John Dickie, Fiona McHardy, Angela O'Hagan, Stephen Sinclair, Morag C Treanor

²⁷ Scottish Government, Best Start, Bright Futures: tackling child poverty delivery plan 2022 to 2026 (2022) available at <https://www.gov.scot/publications/best-start-bright-futures-tackling-child-poverty-delivery-plan-2022-26/documents/>

these steps do not go far enough. CAP urges the Social Justice and Social Security Committee and the wider Scottish Parliament to do everything in their power to increase this payment across Scotland and support families with children over the age of six until the support ages are increased. As highlighted by Trussell Trust and Save the Children: '*Scotland stands at a crossroads on its path to securing a fairer country, free from poverty and destitution*', which can be reached with the help of the Scottish Government providing more inclusive support and considering the long-term impacts of low income for individuals²⁸.

CAP welcomes the work being done by the Scottish Government Minimum Income Guarantee (MIG) steering group and looks forward to understanding the options for progressing this work.

Attention also needs to be given to the provision of mental health support for staff working in the debt advice sector. Due to the nature of the role, staff are faced with supporting clients who are suffering distress, at times putting staff in difficult and mentally challenging positions. CAP supports the work that Money Advice Scotland and the Money and Mental Health Policy Institute are doing to advocate for staff wellbeing. However, more recognition needs to be made to the challenging experiences faced by members of staff in the sector on a daily basis.

The legal framework for dealing with debt

8. 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?

Low income is an underlying issue. Although debt advice and legal framework can pull people out of poverty, this is not a guarantee, with factors such as insufficient income trapping people in the cycle of debt and poverty. This issue is particularly prevalent with the rising cost of living. The majority of low income households cannot afford the cost of the energy they need to live safe, warm and well. 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 weekly²⁹. CAP is aware of the personal side of these statistics, with clients such as Ron from Irvine not being able to turn on his heating and instead wrapping up to try and stay warm inside his own home. Low income, expensive energy tariffs and a lack of practical help available means people simply give up and make do without, or are pulled back under a wall of debt.

CAP welcomes the changes to Minimal Asset Process (MAP) that have been made under the emergency coronavirus bill and would advocate to see these made

²⁸ Rachel Statham, Casey Smith and Henry Parkes at IPPR Scotland for the Trussell Trust and Save the Children, *Tackling Child Poverty and Destitution: Next Steps for the Scottish Child Payment and Scottish Welfare Fund* (2022) available at https://www.savethechildren.org.uk/content/dam/gb/reports/scotland-tackling-child-poverty-and-destitution_003.pdf

²⁹ CAP UK, *A dark place: Unaffordable energy costs and how low-income households cope* (2020) available at: capuk.org/connect/policy-and-government/a-dark-place

permanent. The extension of the moratorium and thresholds along with the reduction of fees and paperwork are welcome changes. The changes that are required are stated in question ten.

The current legal framework looks at both the needs of those in debt and creditors, and we recognise the need for fairness. It is, however, unclear if these solutions have the overarching policy intention of reducing poverty and improving outcomes for those on low incomes.

CAP also has particular concerns around the current framework for Bank Arrestments, a legal form of debt recovery carried out by Sheriff Officers. While there are no limits on the amount creditors can take, The Debtors (Scotland) Act 1987 makes the protected minimum balance (PMB) in a bank account arrestment the same as the protected minimum balance in a wage arrestment (where paid monthly). Currently this is only £529.90 (increasing slightly in April). This flat rate applies to single person households, as well as family households.

Unlike with wage arrest, where only 19% of the amount above a protected minimum balance can be taken, in bank account arrestment, all sums over and the PMB can be taken (up to the full amount owed). This can leave both individual households and families with only £529.90 for the rest of the month to cover all living costs including housing, food, fuel and travel, and therefore push people towards further debt or destitution as impossible decisions are forced to be made. Within the current cost of living crisis this is causing extreme distress for people.

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

CAP has seen some improvements from regulations such as the capacity to apply to the Sheriff court for a 'time to pay plan', which has enabled a client's whole situation to be considered, rather than solely focusing on a debt with a single creditor. Other welcome changes have been the reduction of bankruptcy application fees, which has reduced the pressure on bursary funds. Raising the debt threshold up to £25,000 for Minimal Asset Process (MAP) has also offered some clients more options than before. The introduction of fee exemption for those in receipt of qualifying benefits has also broadened the way in for some people. Although these have provided some CAP clients with some relief, the challenge still remains for those on low incomes who are trapped by a limited budget no matter the time provided.

CAP offers a bursary scheme to help pay for people to go debt free. Despite the recent changes, CAP still frequently uses this bursary scheme, with the majority of CAP insolvency applicants who do not only receive income from social security still requiring their fee to be covered by CAP. The issue still remains that fees and time restrictions are a challenge for people on low incomes.

While some of the reforms have made the process easier for those on low incomes to access debt solutions and go debt free, the issue remains that a growing number of people will be pushed back into problem debt due to insufficient income and may need to access another debt solution in the not too distant futures. This can come

with the fear of judgement and belief that help will not be provided a second time. Recent reforms have not put in place any measures to prevent those on low incomes repeatedly experiencing problem debt.

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

In CAP's view, the Protected Trust Deeds (PTD), Debt Arrangement Scheme (DAS) Minimal Asset Process (MAP) bankruptcies and Full Administration Bankruptcies (FAB) serve distinct purposes and groups of people, and do not need wholesale reform. There are, however, concerns about whether individuals are accessing the right solution and barriers exist which prevent someone exiting a statutory solution early if it is not or no longer appropriate. These concerns particularly stem from the PTD market. It is CAP's view that the choice landscape and advertising of statutory solutions should be scrutinised.

In the 2020 PTD consultation, CAP raised several other concerns including;

- PTD charges that are levied upfront, especially with regards to situations where the PTD fails or is terminated early.
- Risks from how PTDs are advertised and advised that mean another debt solution could be better for the debtor.
- Difficulties contacting the trustee to adjust or terminate a PTD.

CAP's experience shows that the wrong people can end up accessing the wrong debt solutions and incur penalties to leave. CAP agrees that the changes made to DAS in recent years have gone a long way to improve this solution and it is in a strong position. However, the outstanding concern is that interest and charges can be retrospectively added if a DPP fails. This will be at odds with the rules for the Statutory Debt Repayment Plan in England and Wales and this would therefore be worth revisiting for discussion.

The minimum debt limit for a MAP is also a concern. The current £1,500 limit already excludes people who need this solution but only have a relatively small amount of debt. CAP would support a minimum debt limit for creditor petition bankruptcy, but not for debtor petition. Even a small amount of debt can significantly affect people and keep them trapped in poverty. Professional debt advisors in Scotland are trained and capable of establishing whether a client has the financial capacity to pay back a loan or not. Removing the minimum amount of debt, and trusting money advisors to make informed decisions on a person-to-person basis, will ensure that what may be deemed a 'small' debt does not remain an overwhelming barrier for someone on a low income.

There are additional areas that need to be addressed through altering policies and laws to support the realities experienced by people on a low income. In relation to Bank Arrestments, at present the only way to legally challenge this is to raise an action in the Sheriff Court using the Debtors (Scotland) Act 1987, which can take at least eight weeks by which time undue hardship has already been suffered. Especially in light of the current cost of living crisis, CAP recommends that the protected minimum balance is reviewed with a view to increasing this.

Another barrier faced by people in Scotland on a low income is the 'poverty premium' where they are faced with escalated costs for essential goods and services. Factors such as being tied into prepaid energy meters and facing high insurance premiums and low credit scores push people further into poverty.

Further challenges to the precarious balance between income and expenditure are the correlations between low income and disability. People with disabilities can often face additional barriers to both seeking and retaining employment, and employers can fail to make the necessary reasonable adjustments. CAP welcomes the work Social Security Scotland are doing to research and shape policy through putting dignity, fairness and respect at the core. CAP advocates for a holistic anti-poverty strategy and a more joined-up way of working across Government to tackle these issues.

More could be done to lift people out of poverty, not just out of problem debt. Scotland's policy ambitions, including the Child Poverty Bill which aims to reduce the number of children experiencing the effects of poverty by 2030, have been fundamental in focusing attention, and although there is a desire to achieve this as set out by Best Start, Bright Future³⁰, more needs to be done to enable action that brings about meaningful change and meets the targets set.

Essential services

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

As highlighted in the CAP 2021 *Client report*, 64% of the debt owed by a typical CAP client in Scotland is owed to non-priority creditors, such as consumer credit lenders.³¹ The top four non-priority debts were bank or consumer credit loans, overdrafts, credit card debts and mobile phone debt. Priority debts, which have more severe implications if unpaid, such as rent arrears, Council Tax and benefit overpayments, have grown over the past decade and now form a large proportion of the debt clients owe. The four priority debts that new client households in Scotland sought help with were: Council Tax arrears (40%), rent arrears (10%), energy arrears (9%), and mortgage arrears (6%).

The potential for increases in Council Tax creates a risk of further increases in the level of Council Tax debt issues. The erosion of Council Tax support and the removal of the capacity for people to have 100% of their bill covered by social security, where their income means they need support with these payments, both exacerbate this issue.

³⁰ Scottish Government, Best Start, Bright Futures: tackling child poverty delivery plan 2022 to 2026 (2022) available at

gov.scot/publications/best-start-bright-futures-tackling-child-poverty-delivery-plan-2022-26/documents/

³¹ CAP UK, *Client report* (2021) available at: capuk.org/connect/policy-and-government/client-report-21

Three quarters (71%) of CAP clients live in rented accommodation and only one in ten (12%) are homeowners³². An anticipated change CAP is expecting to see is an increase in people with rent arrears. As a result of the pandemic eviction ban, people have been protected, however, CAP is beginning to recognise that this is leaving some people with heightened rent debt that is now unaffordable to repay on the income they receive.

Another factor expected to be heightened in the coming year are the debts caused by increasing living costs. The current definition for fuel poverty in Scotland is: 'If a household spends more than 10% of its income on fuel costs and if the remaining household income is insufficient to maintain an adequate standard of living'³³. Therefore, as the energy prices increase, CAP expects utility debts to increase. Although the Scottish Government's steps to reduce the shock have been welcome, these short-term measures do not address the issues and will either cause unintended consequences or push this issue further down the road.

CAP welcomes the low income assistance scheme that was recently consulted about and will be introduced in Scotland. CAP encourages the Scottish Government's consideration of making a Scottish specific Warm Home Discount scheme. The introduction of this scheme in Scotland would be an opportunity to provide more effective financial assistance with energy costs to low income households through a more accurate understanding of the actual fuel poverty gap being experienced by different households.

Debt is not just a maths problem. Looking beyond the numbers, CAP recognises that, in addition to the financial debt, people in financially vulnerable positions have also experienced challenges linked to their low income, such as social isolation, health consequences and reduced living standards. For people living on low incomes, sometimes even the basics can be unaffordable. One in two (56%) CAP clients borrowed money in order to pay for food, clothing or other living costs, and one in three borrowed for an event like a birthday or Christmas (34%). Almost two in three (62%) borrowed in order to pay a bill or debt³⁴.

12. 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?

Local Authorities can be quick to send Council Tax arrears out to Sheriff Officers, and the Sheriff Officers are not always accurately informed of the situation. As a result, Sheriff Officers have visited both rented and owned properties in relation to Council Tax arrears for previous occupants. This issue has been identified in situations where the council have already been informed of the change in the occupants, but this information has not been effectively passed on. Such instances have led to stress being caused and personal information about people in debt being passed to new

³² CAP UK, *Client report* (2021) available at: capuk.org/connect/policy-and-government/client-report-21

³³ Energy Action Scotland, *Fuel Poverty across the UK* (2022) available at eas.org.uk/en/fuel-poverty-across-the-uk_50535. More information available at eas.org.uk/en/definitions-and-targets-scotland_50553/

³⁴ CAP UK, *Client report* (2021) available at: capuk.org/connect/policy-and-government/client-report-21

tenants or homeowners. In addition, this unnecessary visit leads to additional costs that are added on to the debt of the person in Council Tax arrears. To address this issue, there needs to be more reliable and efficient sharing of information between all parties involved in rent and Council Tax arrears.

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

There needs to be a single customer view of debt applied within the Scottish context where each case is linked to the person it applies to, enabling a holistic understanding of their situation to be built. Data relating to government debts needs to be more rapidly updated and shared with formal debt collectors to ensure that people are not wrongly accused or misinformed.

Due to a lack of alternative options, people often use credit as a lifeline. This is an unsustainable solution as it can cause more financial insecurity and lead to increasing debt in the long term. A cash-first approach to support is needed to help people with financial emergencies. A cash-first approach to support is recommended to enable people to experience dignity and choice. Through resourcing people to have agency, approaches can be financially viable whilst also enabling people to feel empowered. An example of this is the Scottish Welfare Fund, where the capacity to receive the funds to enable people to purchase their own furniture rather than being given standardised models provides a more dignified approach.

A formal review of the definition of an 'essential service' is needed to enable laws and policies to acknowledge the scope of needs that people face. As highlighted in this consultation, digital exclusion is a key factor in people's ability to thrive in Scotland, so factors such as digital and broadband access need to be considered. Transport is another example of a service that is essential for people, particularly in Scotland where there is a large gap between urban and rural locations. Alongside these factors, childcare and social care costs also need to be considered within an essential service review as considerable burdens in household budgets which limit people's opportunities to escape poverty.

About Christians Against Poverty (CAP)

CAP is an FCA accredited charity that works across both Scotland and the rest of the UK, in partnership with 580 local churches, to restore hope for people in desperate need. Through a network of 26 CAP Debt Centres in Scotland, CAP offers a free face-to-face debt help service, with advice and ongoing support provided from head office. CAP also runs the CAP Money Course, Job Clubs and Life Skills groups to help people overcome unemployment and provide financial education, all with community and holistic support at their core. CAP's services are completely free and available to all regardless of age, gender, sexual orientation, faith or background.

Requests for further information

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always hope.