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Social Justice and Social Security Committee

Robbing Peter to pay Paul: Low income and the debt trap

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Social Justice and Social Security Committee

To consider and report on matters falling within the responsibility of the Cabinet Secretary for Social Justice, Housing and Local Government, excluding matters relating to local government, housing and planning.

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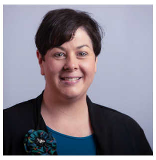
Committee Membership



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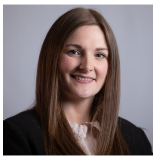

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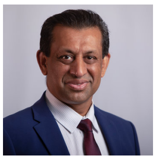

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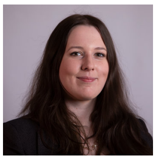

Emma Roddick
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Conclusions and recommendations

We make the following conclusions and recommendations as part of this report:

Households' financial resilience

We welcome the announcements made by both UK and Scottish Governments to tackle the cost of living crisis. However, we remain deeply concerned by the financial pressure people face.

Impact of the rise in energy prices

In our consideration of the Scottish Government's proposed Tackling Fuel Poverty Strategy, we previously asked:

> The Scottish Government to make use of its devolved powers to the full extent to make sure that social security benefits are used for maximum impact on tackling fuel poverty, particularly for disabled children and adults who face higher costs to meet their needs.

We reiterate this ask and urge the Scottish and UK Governments to continue to consider what more could be done to alleviate the burden of rising inflation, increased energy prices and the cost of living on low income households and to target support at those most in need. The Scottish and UK Governments must use experience and learning from the Covid-19 pandemic and economic crisis to develop a framework for distributing emergency funding in a fair and timely manner. We urge both governments to seek clarity from energy companies on what current actions are being taken to address fuel poverty, including actions to recognise the disproportionate impact fuel cost has on disabled people.

Changing pattern of credit and debt

We were concerned to learn that people use high interest forms of credit and Buy-Now, Pay-Later services to delay or split the cost of essential items like food. We note that witnesses were broadly reassured that regulation will be brought in, but we remain concerned that these types of lending will see greater uptake with current inflation rates resulting in future debt.

We note the UK Government has recently announced its approach to address Buy-Now, Pay-Later and instalment lending with an aim of having secondary legislation in place by mid-2023. We believe it is crucial that regulation is introduced quickly before it becomes a bigger problem and urge the UK Government to move quicker, as many more people could have suffered harm with no recourse before mid-2023.

On access to affordable credit, we ask the Scottish Government what plans it has to invest in affordable credit in Scotland for families who are turning to high interest forms of credit. Also, we would welcome an explanation as to why there is an apparent change of emphasis on affordable credit between the Best Start, Bright Futures: tackling child poverty delivery plan 2022 to 2026 and the Every child, every chance: tackling child poverty delivery plan 2018-2022.

Households in financial crisis

We have heard a lot of evidence throughout the inquiry that aspects of the Universal Credit system were significant contributors to their experience of low income and debt. In particular; the two child limit, the benefit cap, the 5-week wait and the differential rate paid for parents under 25. We believe that the UK Government should look very closely at these aspects of Universal Credit and consider the impact they have on the experience of low income and debt.

The evidence we heard about people's survival on low incomes and the budgeting decisions that they are forced to make is stark. Many people are in a cycle of financial crisis. We urge the Scottish Government, UK Government and Local Government to work collectively to develop a system of automation to consider the complexities of eligibility for benefits and to shift the burden of responsibility from the individual. We intend to look at issues around poverty and low income throughout our work this session, including scrutiny of social security, the Scottish Government's budget and other relevant inquiry work.

Scottish Welfare Fund

We welcome the Scottish Government's commitment to undertaking a full independent review of the Scottish Welfare Fund and ask it to complete this review with urgency. With a cost of living crisis, a sharp rise in applications for the Fund and a difficult winter looming, it is vital this review is completed quickly and certainly before the end of this year.

We recommend that any agreed actions following the review that could help those in crisis are prioritised for implementation. We ask the Scottish Government to confirm the timescales it is working to.

We have been concerned to hear from many witnesses that there is disparity in the success of applications depending on where you live, and urge the Scottish Government to make this a priority following the independent review. Consideration should also be given across the sector to where people are accessing other crisis funds to ensure these are adequately funded.

Management and recovery of "public debt"

We believe the public sector should aim to lead best practice by handling debt in a fairer and more considerate way akin to the regulations surrounding private creditors. We note that where possible it is important to recover money on behalf of the taxpayer, but this must be done in a proportionate way based on individual circumstances.

We recommend that the Scottish Government works in partnership with public bodies to develop a debt management strategy covering all public bodies within devolved competence in Scotland. This should include:

- **information on identifying customers who can't pay their debts or who need additional support to do so**
- **a requirement for active liaison with, and referral to, money advice services**
- **processes to ensure a proportionate approach to debt enforcement**
- **structures to enable performance across the sector to be monitored and improved**
- **an evaluation of the cost-effectiveness of debt collection**

Administrative error

We were concerned to hear from our experts by experience that they have had to fight administrative errors that have led to debt. We heard that there is an assumption that the public body is correct and that the person in debt is wrong with the onus on the individual to prove that an error has been made. Many people have not retained the evidence required to challenge administrative errors and it requires persistence, time and energy to fight incorrect decisions.

We recommend that all public bodies have clear processes to deal with disputes about whether a debt exists, or the amount of money owed. These should allow for independent consideration of disputes and could form part of the public sector debt management strategy discussed above.

The experts by experience highlighted the need for a fundamental change in attitude from frontline public sector staff dealing with people in debt. As noted below, the Committee supports their recommendation of trauma-informed practice training for all public sector staff dealing with debt issues.

Communication

It is clear to us that some local authorities take a person-centred approach to tackling arrears with different council departments working together to consider all council debt as a package. Meanwhile other local authorities' communication can be disconnected, with each department seeking to fulfil their own debt collection targets. We strongly believe it is in everybody's best interests to take a joined-up approach and for council departments to think holistically about what debt can be recovered, what support can be offered and to develop a clear communication and engagement strategy.

Our experts by experience highlighted that there is a lack of transparency in communications on public debt and it can be difficult to ask questions or clarify information on the debt owed. We were concerned to hear that some local authorities only offer online communications and there can be a 7-week response time for emails. It is essential that there is channel-choice when contacting local authorities and government agencies like the DWP and Social Security Scotland regarding arrears.

Prioritising a person-centred approach

We were concerned to hear that public sector processes are not always sensitive enough to individual circumstances to consistently take account of their duty of care. Our experts by experience stressed that compassion must be built into processes and services. We agree with their recommendation that creditors should be trained in trauma informed practice and urge the Scottish Government, COSLA and other public bodies to incorporate further training for public sector staff as part of their continuous professional development.

Council Tax

Differences in the approaches taken between local authorities in relation to council tax processing and collection are clearly evident. The Improvement Service and the Institute for Revenues, Rating and Valuation gave examples of good practice, but it is not clear how wide spread this is. The Improvement Service has worked with various organisations in the advice sector to create good practice guidance – the Collaborative Council Tax Collection guide. However, we consider much more can be done to improve practice before someone reaches the stage they need to seek advice. The onus should be on councils to improve systems, rather than on individuals to seek advice. Local authorities should proactively identify people in their area who owe any form of local authority public debt and contact them to offer individualised support and signposting.

The Committee calls for local authorities, COSLA and the Scottish Government to work together with the free advice sector to develop national standards for Council Tax collection. Consideration should be given to placing these on a legislative footing to make them binding and enforceable. The standards should cover:

- **promotion of Council Tax Reduction and Council Tax rebates – through easy to understand leaflets and links to online entitlement calculators**
- **identification of customers who may require appropriate adjustments and support to meet their circumstances**
- **active referral to sources of advice**
- **flexible payment methods, including two-weekly and four-weekly options starting at a date of choice for the customer (as recommended by our experts by experience)**
- **a requirement to maintain negotiations with the customer at all stages of the collection process and to accept reasonable repayment offers**
- **agreed parameters for proportionate enforcement action and consideration of individual debt write-off where there is no reasonable route to recovery**
- **access to an independent dispute resolution process**

Council Tax Reduction

It seems that the burden of responsibility is on the individual to research and apply for reductions to Council Tax bills. We recommend the Scottish Government works with COSLA and local authorities to proactively advertise and raise awareness of Council Tax Reduction (CTR) and Council Tax rebates, so that there is greater balance between the responsibility of the individual and of the council. As such, we recommend that the proposed national standards for Council Tax collection, include set minimum standards for communicating CTR entitlement and changes to entitlement.

We note that people can be unaware of decisions made about entitlement for council tax reduction and entitlement can also change. We recommend that COSLA works with local authorities to examine the use of online dashboards to provide people with real-time information about their Council Tax bills, relevant reductions and rebates. Recognising that some people may be digitally excluded, there should also be investment in supporting people to access this information in other formats. Local authorities should invest in targeted, personalised, support for those groups most in need to improve transparency and understanding.

As noted above, we hope that a system of automation to consider eligibility for benefits will be developed and that this improved automation will remove the burden on the individual to manage their own correct entitlement.

Social Security direct deductions

We note with concern the level of strain that repayment of UK social security overpayments places on people's budget making them more likely to go into debt. The recent report by Lloyds Banking Foundation, Deductions: Driver of Poverty, recommends a set repayment period after which any outstanding debt is written off. The report noted a similar approach is taken to repayment of student loans. We invite the UK Government to provide an update on its consideration of how to manage historic Tax Credit and recovery of other benefit overpayments, particularly given the impact of the cost of living crisis.

It is still early days in terms of the delivery of Scottish benefits. We will monitor the levels of debt from overpayments and debt recovery policies as the volume of Social Security Scotland benefits increase to ensure claimants are treated with dignity and respect and their personal circumstances are considered. We intend to seek an update from Social Security Scotland in 2-years to consider any debt related to overpayments.

Rent arrears

Much of the evidence we received welcomed the more regulated processes which exist for rent arrears. We heard that pre-action requirements for both private and social sector landlords have improved practice. Although, this was broadly successful in encouraging early engagement from social sector landlords more could still be done, particularly to engage with vulnerable tenants with mental health conditions or language and literacy barriers.

There are processes in place to help tenants on low incomes manage their housing debt so they do not become homeless. Many of these steps were welcomed by witnesses, but given the heavy emotional and practical cost of homelessness, more should be done. We agree with Shelter Scotland's view that there is neither a business case nor a moral case for using eviction or the threat of eviction, as a rent arrears collection tool.[i] We strongly believe that every effort should be made to sustain tenancies.

Early intervention and preventative support must be prioritised to avoid escalation of debt and potential homelessness. We recommend the Scottish Government tightens the pre-action requirements to formalise the need for a referral for free independent money advice. We also draw attention to our recommendation on funding debt advice, as there would need to be sufficient capacity within debt advice services to support this change.

School meal debt

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i Jeremy Balfour and Miles Briggs dissented from the sentence "We agree with Shelter Scotland's view that there is neither a business case nor a moral case for using eviction or the threat of eviction, as a rent arrears collection tool."

We fully acknowledge that local authority budgets must be carefully managed and debt collection is part of the revenue that pays for vital services. However, balance must be found when children are going hungry and debt is plaguing families for years after the school meal has been consumed. We recommend that the Scottish Government works with COSLA and local authorities to write-off individual school meal debt to allow families a clean slate as they move into the new school year and possible new school setting.

We welcome the Scottish Government's commitment to expand free school meals to all primary school children by the end of this parliamentary session. However, it is clear with the current accrual of school meal debt, families are struggling to feed their children now. We urge the Scottish Government to implement its free school meal expansion as soon as possible. By combining the individual write-off of existing school meals debt and preventing future accrual of debt in this area, we can eliminate this public debt which only burdens low income families.

We believe that families do not choose for their children to go hungry at school and this must be addressed. We recommend that COSLA works with local authorities on a national school meal policy, which is founded on human rights and removes stigma, to ensure that children are treated with dignity in a consistent and fair way.

Stigma

We welcome the commitment from Social Security Scotland to develop a social security system which has dignity, fairness and respect at its heart, and recognise the potential for this to help in tackling stigma. We urge the Scottish Government to ensure it delivers on this target.

Information and awareness campaigns

A number of factors including stigma, a lack of awareness of services and feeling overwhelmed all mean that people delay seeking money advice. We heard throughout this inquiry that the earlier people access advice, the better. These issues are long-standing and raising awareness continues to be key. Our experts by experience suggested that there should be a widespread campaign. We believe all spheres of government must lead the way in bringing organisations together to raise awareness of a wide range of services and make a concerted effort to increase benefit uptake.

Funding

We were extremely concerned to hear about the current pressure debt advisers face and the impact that demand and resource is having on their own wellbeing. While we welcome the additional investment made by the Scottish Government during the COVID-19 pandemic, this does not begin to compensate for widespread reductions in funding over the past 10 years. The value of money advice services is not in question. Neither is the high level of demand. There is therefore an urgent need for increased and stable funding to allow for future planning and job security for staff.

We note the Scottish Government's commitment to multi-year funding arrangements, and urge it to work with local authorities to agree a 3-year funding agreement which supports staff retention, cuts waiting times and builds capacity to offer preventative as well as crisis support. The Scottish Government must ensure that project funding does not detract from the need for adequate core funding for organisations. We recognise the need to look at the wider funding framework for advice, but recommend the Scottish Government considers longer term funding arrangements for debt advice as a priority. We also urge the Scottish and UK Governments to move swiftly on their review of the Fiscal Framework to agree a settled position.

Advice delivery

We note evidence that there was a lack of face-to-face services provided during the Covid-19 pandemic. This has led some people in debt to feel isolated and overwhelmed. We therefore urge the Scottish Government and Local Authorities to map geographical and communities of interest service provision to ensure that every person has access online, telephone and face-to-face advice.

Digital exclusion

Our experts by experience described making long journeys to access free wifi or to use a public computer. They recommended:

> **There must be the ability to use public services such libraries to use computers to apply for benefits for example. In public spaces this must be confidential and accessible.**

We agree with this important recommendation. It is vital that open access to public computers continues to be supported in places like libraries and community hubs and that there is access to free wifi in public spaces, particularly in rural areas. We ask the Scottish Government what measures it is taking to support access to free internet services and devices in public spaces.

We heard that during the pandemic, the Government worked with telecommunications businesses to provide access to certain websites without using data. We ask the Scottish Government to work with the UK Government and stakeholders to consider if this model could be developed to allow access to trusted money advice websites.

We recognise there is a marked geographical disparity in access to mobile and broadband services and that this contributes to digital exclusion. Noting that telecommunications responsibility lies with the UK Government, we welcome work being carried out by the Scottish Government via the R100 programme to address this, and we urge the Scottish Government to continue the rollout of this programme at pace.

Connecting Scotland

We welcome the Scottish Government's commitment to enhance funding for Connecting Scotland for the remainder of this parliamentary session. with the aim of reaching 300,000 households by 2026. We highlight concerns from our experts by experience that those who are the most isolated are not engaged with organisations and therefore cannot access the project. We ask the Scottish Government to outline what targeted support will be offered to these people.

The Connecting Scotland project can provide free internet access for up to two years for those most in need. We urge the Scottish Government to consider how it can support low income households to continue to access an internet connection in the longer-term. It is vital families making difficult budgeting decisions are not forced to sacrifice internet access when online connectivity provides an essential lifeline to many services.

Early-intervention and prevention

Despite advertising and campaigns, people are still unaware of how to seek help with debt. We believe that proactive referral systems would take some of the onus away from individuals to know how, where and when to seek debt advice. Evidence of good practice was highlighted to us, but there must be better understanding of what services people are accessing and where they could be referred on to for this to be rolled out more widely. Given local variance and their role as the biggest funder of advice and community services, we believe this may be a job for local authorities. We therefore recommend that the Scottish Government supports COSLA and local authorities to map money advice services, as well as potential contact points for referrals to inform service delivery.

We recognise that there could be a particularly valuable role for debt advice referrals from healthcare and mental healthcare settings. We recommend that the Scottish Government evaluates how the Money and Pensions Service money guidance programme has raised awareness among mental health professionals of the money advice process. We recommend that consideration is also given to how best to integrate debt knowledge into continuous professional development modules for healthcare professionals in Scotland.

Community link workers

We believe that community link workers play an important role in connecting services and making referrals for people with low incomes who do not know where to turn for money advice. We note that in 2016 the Scottish Government made a commitment to recruit at least 250 community link workers by the end of 2021-22, and request an update on whether this target has been fulfilled. We recommend that the Scottish Government evaluates the impact of community link workers and considers if further investment should be made.

Preventative approaches

Too many people in Scotland are struggling with unmanageable debt. In this work we have focused on the specific challenges faced by people with low income finding support and solutions to their debt situation. We have explored ways to help those in need now, but recognise that methods for early intervention and prevention should be developed to promote sustainable change.

We note that the Scottish Government intends to invest in Whole Family Wellbeing Funding over the course of this Parliamentary term "to ensure that all families can access preventative, holistic support which is wrapped around their needs, provided when they need it and for as long as they need it".

We ask the Scottish Government to consider how money and debt advice will be embedded in whole family wellbeing support to improve outcomes and ease the burden on crisis advice and how its impact will be evaluated. We also fully recognise the value of holistic advice, but would warn against conflating welfare and income maximisation advice with specialised debt advice. Both are important, and must be adequately resourced.

Mental health

We are deeply concerned by the clear links between debt and mental ill-health, and the reported level of suicidal ideation. We note that the Scottish Government is intending to develop a new long-term suicide prevention strategy for Scotland which is due to be published in September 2022. We also note that there is no reference to debt in the Scottish Government's 20017-2027 Mental Health Strategy. We urge the Scottish Government to give particular consideration to debt within the Suicide Prevention Strategy and any future work on the Mental Health Strategy.

Given the overlap between debt problems and mental health issues, there is a need for money advice services to be better able to meet the needs of people with

mental health conditions. We call on the Scottish Government to make specific funding available for money advice agencies to test better ways of working with people with mental health issues, with the aim of developing best practice recommendations that could be taken forward by all services. We note as a result, however, that ongoing funding may be needed to enable money advice organisations to adapt their services.

Mental health evidence form

We believe that the Debt and Mental Health Evidence Form has the potential to be a valuable tool in ensuring that people with mental health conditions receive the support that they need to manage their problem debt. However, there must be greater awareness of the benefits of the form among individuals, mental health professionals and creditors if it is to be of real impact. We recommend that the Scottish Government works with health and social care partnership to promote the form and endorse its use.

We think it is inappropriate for people with mental health conditions to be charged a fee for the completion of the Debt and Mental Health Evidence Form, simply to be treated in a considerate way that is mindful of their needs. It is particularly unacceptable for individuals to incur these costs given that many have low incomes and are already in debt. We note that this charge has been removed in England and Wales and call on the Scottish Government to work with GPs to implement a similar change in Scotland.

Breathing Space

We believe that it is unfair for people experiencing a mental health crisis to be pressurised by creditors and continue to be charged interest on their debt. We note that the Accountant in Bankruptcy's Stage 2 review recommended there be a mental health element to the moratorium on diligence and urge the Scottish Government to progress quickly to implement this change.

Bankruptcy

Applying for a Minimal Asset Process Bankruptcy or full administrative bankruptcy can be the best, and sometimes only, option for someone to escape the debt trap. We believe that application fees are an unnecessary barrier, which could prevent people on low incomes from becoming debt-free. We welcome the removal of fees introduced for people receiving certain social security benefits, but urge the Scottish Government to consider removing the application fees for bankruptcy where someone is assessed as having no surplus income using the Common Financial Tool.

Minimum debt threshold

The barrier to dealing with debt created by minimum debt thresholds has been identified by respondents to our call for views, witnesses, our experts by experience and the Stage 2 debt review. We call on the Scottish Government to move quickly to introduce legislative change in this area to provide debt relief for those currently excluded from bankruptcy by the threshold. The Stage 2 debt review recommended removing the threshold for Minimal Asset Process Bankruptcy. In addition, we would also encourage the Scottish Government to consider removing the threshold for full administration bankruptcy within this parliamentary term.

Bankruptcy cycle

We recommend that the Scottish Government considers reducing the period that people must wait to reapply for a Minimal Asset Process Bankruptcy.

Debt Arrangement Scheme

We recommend that the Accountant in Bankruptcy raises awareness among creditors of the Debt Arrangement Scheme, as evidence highlighted that some creditors continue to take enforcement action when this should have been stopped. Money advisers spend significant amounts of time explaining the system to creditors when they should be offering advice to people in debt.

Bank arrestments

We believe it is unreasonable to expect households to live on £566. We therefore welcome John Mason MSP's Stage 2 amendment to the Coronavirus (Recovery and Reform) Scotland Bill, which increased the Minimum Protected Balance to £1,000. We also welcome the Scottish Government's commitment to "carry out further consultation to look at both the process and the thresholds and consider what longer-term improvements can be made to bank arrestments."

Earnings arrestment

We recommend that creditors should be given greater flexibility to reduce the amount of money taken in an earnings arrestment (to address the situation where someone cannot pay their current Council Tax liability because too much money is being taken to pay arrears). We note there is precedent elsewhere and recommend that the Scottish Government takes forward this change in legislation.

We recommend the review of diligence further considers if household composition could be factored into banking and earning arrestment to enable

people who are more likely to live in poverty (such as lone parents, families with three or more children and disabled people) to retain more of their income.

Throughout this inquiry we have been guided and informed by people experiencing debt and financial hardship. They formed an experts by experience panel and worked alongside us during this inquiry:

We are extremely grateful to our experts by experience panel for reliving their personal experiences with us. They showed a great deal of commitment while engaging in the series of discussions held and carefully reflected upon the improvements that they would like to see made. We thank them all for their time and considered input into this inquiry.

The experts by experience told us that people with lived experience should have a greater role in policy design and implementation at a local and national level. It can be difficult for people to relive their personal experiences, but the experts by experience group we worked with were committed to helping others and enacting change. A key part of our strategic aim is to offer a platform and voice for those with lived experience. We also recognise the lived experience within our membership and seek to lead by example by being proactive, flexible and participative. Wherever possible, we urge public bodies to do the same and facilitate genuine participation by people experiencing their systems and services.

Part 1: Low income and debt

1. This inquiry set out to better understand the challenges faced by people with low incomes and debt problems, against a backdrop of increasing pressure from the global "cost of living crisis" on household incomes. The crisis has been deepening during the time we have been conducting this inquiry, though we recognise some people have been experiencing difficulty in making ends meet for a long time.

2. Before the Covid-19 pandemic it was estimated that over 600,000 people were over indebted in Scotland and 150,000 people sought debt advice. It is likely that the pandemic exacerbated money problems for many people. A YouGov poll conducted for Citizens Advice Scotland (CAS) suggested that, during the pandemic, more than 60,000 people in Scotland had either got into debt for the first time or seen existing debts get worse. [1]

3. Concern about problem debt is reflected in the Scottish Government's National Performance Framework, which sets out a vision for national wellbeing in Scotland across a range of economic, social and environmental factors. The framework contains 11 national outcomes, one of which is to tackle poverty by sharing opportunities, wealth and power more equally. Unmanageable debt is one of the indicators used by the Scottish Government to measure progress against the poverty outcome. [2]

4. In November 2021, we worked in partnership with organisations to hold an online focus group discussion on low income and debt. [3] We heard powerful testimony from the participants and agreed that we needed to use what we had heard to do further work in this area. The points highlighted by people experiencing debt formed the basis of our call for written views.

5. The focus of our inquiry was:

> To understand the specific challenges faced by people with debt issues and low income in relation to accessing support and finding solutions to their debt situation. This will include a focus on the types of debt commonly experienced by this group and what improvements could be made to debt processes and the legislative framework.

6. We sought the views of people living with low incomes who have experience of debt as well as from front line debt advisers, public sector and third sector organisations, creditors, regulators and the Accountant in Bankruptcy. We also met informally with the Anchor Project, which is based in Shetland, to hear about preventative models of support and advice for families. We are grateful to everyone who contributed to this inquiry.

> If you or someone you know is affected by debt, there are a number of organisations that can provide you with free and impartial advice:
>
> The Scottish Government's money support website has links to trusted national advice organisations which you can contact direct for more information:

https://moneysupport.scot/

Your MSPs can also help direct you to organisations who can offer help and advice, including local services. You can find out who represents you by entering your postcode on our website: Find MSPs by postcode

Experts by experience

7. Throughout this inquiry we have been guided and informed by people experiencing debt and financial hardship. We believe that it is important to empower people with experience of issues to participate in the parliamentary process. It has been a key aim for this inquiry to not just listen to people with experience, but to consult them as experts on the problems being discussed.

8. Our panel of experts by experience, drawn from the focus group we held in 2021, followed the formal committee meetings and were involved in a series of sessions to build awareness of the parliamentary process and the policy background to the issues being discussed. They shared their experiences and worked together to consider actions that would have helped them. This formed the basis of a series of recommendations which are reflected throughout this report. A full note of the panel's discussions is included as an annexe.

9. We are extremely grateful to our experts by experience panel for reliving their personal experiences with us. They showed a great deal of commitment while engaging in the series of discussions held and carefully reflected upon the improvements that they would like to see made. We thank them all for their time and considered input into this inquiry.

10. The experts by experience told us that people with lived experience should have a greater role in policy design and implementation at a local and national level. [4] It can be difficult for people to relive their personal experiences, but the experts by experience group we worked with were committed to helping others and enacting change. A key part of our strategic aim is to offer a platform and voice for those with lived experience. We also recognise the lived experience within our membership and seek to lead by example by being proactive, flexible and participative. Wherever possible, we urge public bodies to do the same and facilitate genuine participation by people experiencing their systems and services.

Households' financial resilience

11. There is widespread concern that problem debt is going to worsen in the coming years because households' financial resilience[ii] was quite low before the Covid-19 pandemic and it is now lower as a result of it. As we come out of a health crisis and into a cost of living crisis many people have very little financial resilience left. [5]

Many people's current circumstances are already extremely difficult and witnesses expressed resounding concern that the problem is growing sharply. Our experts by experience panel all stressed their concern about the future. [4]

12. In April 2022, the Consumer Price Index (CPI) measure of inflation rose to 9%. This marks a 40-year high, driven by sharp rises in energy bills and the highest food price inflation in a decade. This will mean a significant fall in real incomes for many Scottish households, but the impact on lower income households will be felt most acutely. Low income households spend more of their money on essentials and often have little or no disposable income to cover the rise in costs. [6] Increases in inflation and cost of living are expected to compound the debt issues already being seen, particularly as the Institute of Fiscal Studies show that the "bottom ten percent" of earners face inflation above 10 per cent. [7]

13. Our focus for this piece of work has been on what more can be done to help people experiencing problem debt who have little or no disposable income to manage debt payments. However, the context of that debt - mainly the rapid increase in cost of living - is inescapable.

14. The evidence we received from people living in low income households with problem debt and from the organisations who work closely with these households showed that financial problems are often complex, as is the journey to addressing them.

15. Certain groups are more likely to experience poverty and as such are at greater risk from the increased cost of living and therefore debt. Inclusion Scotland highlighted that disabled people in Scotland face the highest excess costs in the UK, with one in five disabled people and one in four families with disabled children facing extra costs of more than £1,000 a month. Even before the cost of living crisis, disabled people are disproportionately likely to be living in poverty - they make up 48 per cent of the total number of people in Scotland living in poverty, but only 22 per cent of the population. Inclusion Scotland called for targeted support for this group. [5]

16. Women are also more likely to be in poverty, more so than men. Their experiences of poverty are directly tied to their experiences of the labour market, social security and by undertaking caring roles. Their increased likelihood of low income increases women's chances of being in debt and to feel the impact of heightened costs of living. [8]

17. Living rurally was also highlighted as incurring additional living costs. There is a rural premium on certain key goods and services and some areas experience lower quality digital connectivity. People in rural areas are also more likely to use non-regulated energy like oil, which can require large up-front payments. Food and travel are often more expensive. One of our experts by experience felt that travel costs incurred to attend Department of Work and Pensions (DWP) meetings, Job Centre appointments and travelling to access wifi were unfair and prohibitive. [4]

18. Young parents and larger families were also raised by organisations. One Parent

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[ii] The House of Commons Financial Resilience All-Party Parliamentary Group defines financial resilience as a person's ability to cope with sudden falls in household income and make provision for their financial future.

Families Scotland said that young parents experience increased financial hardship because parents under 25 receive less Universal Credit than those who are over 25. [9] One of our focus group participants also noted this point from their own experience. [3] CPAG highlighted research from the Trussell Trust which indicated that because more families are being affected by the two-child limit on benefits, an increasing number of families with younger children are using food banks. [10]

19. We heard from the Poverty Alliance:

> we need to remember that the cost of living crisis comes on top of budgets already being stretched for people on low incomes during the pandemic, which comes on the back of the fact that benefit levels were unfrozen only at the start of the pandemic. We need to remember that the context in which we go into the inquiry is one in which people already face significant challenges. We must bear that in mind when we think about solutions. [9]

20. Aberlour said:

> We hear a lot about the cost of living crisis. It is everywhere we look—in the newspapers and on the television. We cannot get away from it. However, the cost of living crisis is not new for many people and is very serious for them. A lot of people on the lowest incomes have been experiencing a cost of living crisis for many years... Families on the lowest incomes are trapped in on-going, long-term cycles of debt. [10]

21. We welcome the announcements made by both UK and Scottish Governments to tackle the cost of living crisis. However, we remain deeply concerned by the financial pressure people face.

Impact of the rise in energy prices

22. A key element of the rise in cost of living is increased energy prices. For almost everyone we consulted during this inquiry, energy costs were of real concern. Our experts by experience advised for many disabled people and people with health conditions, heating is essential. They were genuinely terrified of what the future would bring with further rises expected. [4]

23. Powers to address fuel poverty are devolved to the Scottish Government, but energy policy is reserved to the UK Government. Therefore the levers available to support people who are struggling to pay energy bills lie with both Governments. [11]

24. We explored fuel poverty in November 2021, when we looked at the Scottish Government's approach to its proposed Tackling Fuel Poverty Strategy to see if it was sufficient to meet the needs of low income households. As part of that work, we also heard directly from people living in fuel poverty and looked at the issues relevant to disabled people, single parents and those living in rural and island communities. Their testimony describing the impact of fuel poverty on their daily lives was compelling. [12]

25. At the same time as our debt inquiry, the Scottish Parliament's Net Zero, Energy

and Transport Committee was undertaking an inquiry into energy prices. Fuel costs are therefore not a focus of this piece of work, but set an important context for the financial hardship people currently face. [13]

26. Debt advisers told us that even during the pandemic there was a rise in the number of people seeking advice for energy debt. It was noted that this was before the increased price cap and should be considered as a "red flag" for the future. [10]

27. Organisations like Shelter Scotland explained the correlation between low-income households and higher fuel charges through actions taken by energy companies, for example, by installing prepayment meters - "the harder someone's life, the harder we make it". [10]

28. CAS raised similar concerns, stating:

> If a person is in arrears, the company can put in a prepayment meter and say that, for every £10 that the customer puts in, it will take £5 back. If the person uses fuel directly, the payment would be set at a flat rate of, I think, £3.70 a week. We need the Scottish Government to do something about the energy crisis as well as food poverty. [5]

29. The Scottish Government described the almost £3 billion investment it has made in a range of support measures to mitigate the impact of the cost of living. This included work to tackle child poverty, reduce inequalities and support financial wellbeing, as well as increases to social security payments. [14] We did not ask the UK Government to give evidence as part of this inquiry.

30. We note that the Net Zero, Energy and Transport Committee undertook a short inquiry into energy prices which ran alongside our inquiry.[iii]

31. In our consideration of the Scottish Government's proposed Tackling Fuel Poverty Strategy, we previously asked:

> The Scottish Government to make use of its devolved powers to the full extent to make sure that social security benefits are used for maximum impact on tackling fuel poverty, particularly for disabled children and adults who face higher costs to meet their needs.

We reiterate this ask, and urge the Scottish and UK Governments to continue to consider what more could be done to alleviate the burden of rising inflation, increased energy prices and the cost of living on low income households and to target support at those most in need. The Scottish and UK Governments must use experience and learning from the Covid-19 pandemic and economic crisis to develop a framework for distributing emergency funding in a fair and timely manner. We urge both

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iii Further information about the inquiry and links to the output from this work will be made available at the following link once published: [Energy Price Rises | Scottish Parliament Website]

governments to seek clarity from energy companies on what current actions are being taken to address fuel poverty, including actions to recognise the disproportionate impact fuel cost has on disabled people.

Changing pattern of credit and debt

> We cannot help people to pay off traditional debts because we are having to advise them on how to retain their house and put food in their mouths. It is that alarming. [5]

32. We heard that the types of debt people have has moved away from credit cards and loans (although those debts may still feature) to debts for essential services, such as rent, fuel and council tax. These are often called "priority debts" by money advisers. Non-payment of priority debts can result in harsh enforcement, such as summary warrants or eviction.

33. Although the key focus of this inquiry was these priority debts, debt advisers also noted concerns about the use of credit to buy basic everyday items. Some of our experts by experience said that they had also used credit cards to buy food. [4]

34. Debt advisers highlighted that people seem to be actively encouraged to use Buy-Now, Pay-Later (BNPL) facilities, such as those offered by Klarna, ClearPay and Laybuy. These options are being offered in a "very casual manner and could impact people who wouldn't normally find themselves experiencing problem debt". They also described clients using this to pay for food. [3]

35. Nevertheless, witnesses were broadly reassured by processes for monitoring and regulating creditors. CAS said that although "it feels as though once we deal with one bad approach, such as payday lending, which was brought under heavy regulation, another approach pops up. Buy now, pay later just seems to be the latest approach. However, the Financial Conduct Authority and Regulators (FCA) are on top of it." [5]

36. The AiB agreed that the FCA have radically changed the marketplace over the last 10 years through its proactive approach to regulation. [9]

37. Under plans set out by the UK government on 20 June 2022, BNPL lenders will be required to carry out affordability checks to ensure loans are affordable for consumers. Financial promotion rules will also be amended to ensure BNPL advertisements are fair, clear, and not misleading. Lenders offering the product will need to be approved by the FCA, and borrowers will be able to take a complaint to the Financial Ombudsman Service. Secondary legislation will be laid by mid-2023, after which the FCA will consult on its rules for the sector. [15]

38. High interest rates were raised as another issue. Given the widely recognised difficulties of paying-off high interest debt, the experts by experience believed there should be monitoring of private lenders who offer them. [4]

39. Access to affordable credit was highlighted in the Scottish Government's First Child Poverty Delivery Plan in 2018, but the Poverty Alliance was disappointed that it now seems to have less emphasis and no clear approach set out for investment in affordable credit in Scotland. [9]

40. We were concerned to learn that people use high interest forms of credit and Buy-Now, Pay-Later services to delay or split the cost of essential items like food. We note that witnesses were broadly reassured that regulation will be brought in, but we remain concerned that these types of lending will see greater uptake with current inflation rates resulting in future debt.

41. **We note the UK Government has recently announced its approach to address Buy-Now, Pay-Later and instalment lending with an aim of having secondary legislation in place by mid-2023. [15] We believe it is crucial that regulation is introduced quickly before it becomes a bigger problem and urge the UK Government to move quicker, as many more people could have suffered harm with no recourse before mid-2023.**

42. **On access to affordable credit, we ask the Scottish Government what plans it has to invest in affordable credit in Scotland for families who are turning to high interest forms of credit. Also, we would welcome an explanation as to why there is an apparent change of emphasis on affordable credit between the Best Start, Bright Futures: tackling child poverty delivery plan 2022 to 2026 and the Every child, every chance: tackling child poverty delivery plan 2018-2022.**

Households in financial crisis

43. This inquiry remit focuses on access to debt support and debt solutions for people on low income, but the lack of income in itself is an important factor highlighted throughout the inquiry. Many witnesses suggested that if people had more money they would be in less debt.

44. Debt is usually a result of a change in circumstance or lack of income rather than uncontrolled spending. A debt adviser told us:

> A lot of people fall into debt due to a change in circumstances like a relationship breakdown, bereavement, losing a job or having a child. People don't decide to spend, spend, spend and then be in debt. The idea of wilful debt is a myth - certainly in the clients I see. [3]

45. Debt advisers highlighted that many low-income households are "the most prudent money managers you will ever come across. They know where every penny goes and can account for every part of their income. The problem is that the income is simply not enough to cover the costs." [10] This was described as a deficit budget

and we were told that much of the help available to these people will only provide temporary relief.

46. Someone with experience of debt highlighted:

> When you're in poverty and in debt you have no money to put anywhere, you rob Peter to pay Paul. [3]

47. Witnesses stressed that "no amount of advice and information can change the fundamentals. People have too little coming in and too much going out". [10] A key concern was the money going into people's pockets and CAS said:

> Unless the root causes of what is pushing those people into poverty and debt are dealt with, they will fall back into debt and they will have to return for advice three, six or nine months down the line. [9]

48. Christians Against Poverty (CAP) described working on a budget with a client who is about to become debt free through a Minimal Asset Process (MAP) bankruptcy. Their sole income is social security benefits. They suffer from depression, anxiety and panic attacks. Once they are debt free they will have £8.55 a week to live on for food and all household items. CAP said, "living on a budget of £8.55 is not sustainable, and the very tragic reality is that that individual will fall back into problem debt". [9]

49. Advisers are feeling helpless in the scale of people's problems and lack of available solutions. One Citizen Advice Bureau adviser said:

> It is very difficult to help someone to budget when, in effect, they have no money to budget with and they have no disposable income for us to deal with. As a result, we are hand holding with clients more than we ever did. Clients' cases are staying open for longer periods of time, as we try desperately to find a solution. We probably say prayers at night, in the hope that there will be a solution for those people further down the line. [5]

50. A number of suggestions were made on ways to increase income including increasing the Scottish Child Payment, introducing a basic income, building more affordable homes, capping rents and restoring the uplift to Universal Credit. The Scottish Association for Mental Health (SAMH) noted that we need to ensure people can meet basic costs through higher wages, social security payments and ensuring better benefit take-up. [9]

51. Restoring the uplift to Universal Credit was a significant issue for many of the organisations, money advisers and individuals we heard from. All of our informal focus group participants highlighted the significant impact the £20 Universal Credit uplift had made. One money adviser described a client who spent the uplift on food, but now it has been removed they are struggling despite working-full time. [3] Govan Law Centre thought the £20 Universal Credit uplift should be reinstated for the duration of the cost of living crisis. It said:

> This payment made the difference between many people having to rely on foodbanks or not. [16]

52. North Lanarkshire Council and Inclusion Scotland both welcomed the doubling of the Scottish Child Payment. The Poverty Alliance said:

> In relation to boosting income, there is a lot that can be done. We have spoken to the committee and have submitted evidence on a range of areas in which we could look to boost incomes. It is important to repeat that the Scottish Government's efforts to boost incomes through measures such as the Scottish child payment and the mitigation of the benefit cap are welcome. [9]

53. Inclusion Scotland highlighted:

> We warmly welcome the doubling of the Scottish child payment from £10 to £20 a week, the rise to £25 a week by the end of the year and the benefit's extension to under-16s, but the Scottish Government could also use existing delivery mechanisms at the local authority level to deliver additional targeted help to families with school-age children. In and of itself, that would go some way towards supporting families of disabled children and households that include a disabled adult to meet the additional costs of living. [5]

54. In addition, the Child Poverty Action Group (CPAG) observed that people are now in a position where they can claim benefits from the DWP, Social Security Scotland, local authorities and HMRC. The onus therefore needs to be less on the claimant knowing what to claim and who to claim it from, and much more on the benefits system to make those links. [17]

55. We have heard a lot of evidence throughout the inquiry that aspects of the Universal Credit system were significant contributors to their experience of low income and debt. In particular; the two child limit, the benefit cap, the 5-week wait and the differential rate paid for parents under 25. We believe that the UK Government should look very closely at these aspects of Universal Credit and consider the impact they have on the experience of low income and debt.

56. **The evidence we heard about people's survival on low incomes and the budgeting decisions that they are forced to make is stark. Many people are in a cycle of financial crisis. We urge the Scottish Government, UK Government and Local Government to work collectively to develop a system of automation to consider the complexities of eligibility for benefits and to shift the burden of responsibility from the individual. We intend to look at issues around poverty and low income throughout our work this session, including scrutiny of social security, the Scottish Government's budget and other relevant inquiry work.**

Scottish Welfare Fund

57. One way that people with low income can bolster their income in the short-term is by applying to the Scottish Welfare Fund (the Fund). The Fund awards the community care grant and crisis grant. Neither grant has to be paid back, but not all applicants will be successful in securing money. Each case is considered on its own merit and is administered through individual local authorities.

58. Front line advisers described how people make repeated applications to the Fund as an advance to their benefits or wages in some areas rather than due to a specific crisis. However, people can only apply three times per year and there has been heightened demand. A CAB adviser highlighted that in some local authorities money is running out quicker due to the volume of legitimate applications. She said:

> I think that the money is being spent more quickly because more people are relying on that crisis grant. I do not think that councils are just giving it out willy-nilly. They are doing the diligence, but there is just not enough money. [5]

59. We heard local authorities are best placed to administer applications to the Fund, as they have the best knowledge of local services and link people with further support. However, some witnesses questioned if budget responsibility should sit centrally. In some local authorities there was considerable underspend and others were using additional money to top-up the Fund.

60. One of our experts by experience was told that the Fund cannot be used for fuel oil. This is not outlined in the Scottish Government's 'Scottish Welfare Fund: statutory guidance'. They suggested that there needs to be more consistency around administration and operation of the Fund rather than guidance which can be interpreted differently by different local authorities. The experts by experience said application forms should be standardised and where possible, elements should be automated. [4]

61. Aberlour highlighted that issues around administration of the Fund have been raised in the past and have led to a Scottish Government review. However, they wanted the review to progress quicker:

> One thing that we [Aberlour] are calling on the Scottish Government to do right now is to expedite the review of the role, the management and the delivery of the Scottish Welfare Fund. We know what lots of the issues and challenges are and, with others, we have highlighted that using our own evidence. I note the time that the review has taken thus far and how long it is likely to be before we can start to implement some improvements. We believe that it should not be taking as long as it is. [10]

62. Some organisations also have their own crisis funds, which are under high levels of demand. Aberlour said:

> At the peak of the pandemic applications to the fund by families needing emergency financial support increased by more than 1000%. [18]

63. During our consideration of the Scottish Government's budget in January, the Cabinet Secretary for Social Justice, Housing and Local Government (the Cabinet Secretary) told us:

> We committed to undertake a full independent review of the welfare fund to ensure that it works as well as possible across the country, and it will look at issues such as funding, administration, promotion, take-up and accessibility. I can tell the committee that, following our competitive tendering exercise, a preferred contractor has been identified to undertake independent research... I expect the work to start imminently—by the end of the month—and the final report is expected by the end of this year. [19]

64. When asked about the progress of the Scottish Welfare Fund review in June, the Cabinet Secretary noted the keenness of stakeholders to see this work progressed quickly, but emphasised that it is important to do the review once and to do it well. The Cabinet Secretary said it would be published early next year and welcomed steps by several local authorities to top up money allocated to the Fund. [14]

65. **We welcome the Scottish Government's commitment to undertaking a full independent review of the Scottish Welfare Fund and ask it to complete this review with urgency. With a cost of living crisis, a sharp rise in applications for the Fund and a difficult winter looming, it is vital this review is completed quickly and certainly before the end of this year.**

66. **We recommend that any agreed actions following the review that could help those in crisis are prioritised for implementation. We ask the Scottish Government to confirm the timescales it is working to.**

67. **We were concerned to hear from many witnesses that there is disparity in the success of applications to the Scottish Welfare Fund depending on where you live, and urge the Scottish Government to make this a priority following the independent review. Consideration should also be given across the sector to where people are accessing other crisis funds to ensure these are adequately funded.**

Part 2: Management and recovery of "public debt"

68. Money advisers described separate issues with private and public debt. Private debt included things like credit cards and loans. Our focus was on public debt which included Council Tax, Social Security deductions, rent and school meal arrears. We also heard some people have debt from local social care charges. Witnesses, such as Aberlour, noted concern about the increase in debt owed to public bodies. [18]

69. A main concern for witnesses is the way public debt is managed and debt collection is enforced.

70. Many stakeholders agreed that public bodies have fallen behind consumer creditors in their “punitive” approach to debt collection. [10] We heard that debt enforcement actions are “quicker and harsher” than consumer creditors who are regulated by the FCA. CAS felt FCA regulation meant private lenders took measures to ensure customers were treated fairly, with consideration of individual circumstances and vulnerabilities. However, there is no requirement for public creditors to treat customers fairly.

71. Stakeholders commented on the variation in the approaches taken to debt enforcement by individual public bodies, but noted overall that public debt enforcement remains harsher—

> There is a real inconsistency around how debt recovery is approached across the country, but it largely seems to be punitive and fundamentally quite difficult and challenging for families’ wider wellbeing. [10]

72. We also heard that there is a real need for standards and guidelines which embed consistency and a rights-based approach to public debt. [10]

73. The Institute of Revenues, Rating and Valuation, Scotland Association (IRRV) noted that public debt enforcement must strike a balance between recuperating public funds which will be invested back into public bodies and services, and supporting people who cannot pay their debt. For example, the revenue lost to local authorities through failure to pay Council Tax must be found elsewhere. IRRV said that the "right thing to do" is to recover debt from those who can pay and support those who cannot. [10]

74. The UK Government consulted on fairness in government debt management in 2020. [20] Stakeholders are calling for a UK Parliament debt management bill to create a new legislative framework for public debt. In Scotland, Aberlour is also calling on the Scottish Government to introduce a public debt management bill to "update and reform public debt management and recovery by all public bodies in Scotland in line with regulations for private sector lenders". [18]

75. We asked the Scottish Government what consideration it has given to improving debt management in the public sector by introducing a public sector debt management strategy in Scotland. The Cabinet Secretary said the Scottish

Government is looking broadly at benefit uptake and ensuring people across public bodies promote advice. [14]

76. We believe the public sector should aim to lead best practice by handling debt in a fairer and more considerate way akin to the regulations surrounding private creditors. We note that where possible it is important to recover money on behalf of the taxpayer, but this must be done in a proportionate way based on individual circumstances.

77. **We recommend that the Scottish Government works in partnership with public bodies to develop a debt management strategy covering all public bodies within devolved competence in Scotland. This should include:**

- **information on identifying customers who can't pay their debts or who need additional support to do so**
- **a requirement for active liaison with, and referral to, money advice services**
- **processes to ensure a proportionate approach to debt enforcement**
- **structures to enable performance across the sector to be monitored and improved**
- **an evaluation of the cost-effectiveness of debt collection**

Administrative error

78. Our Experts by Experience panel was frustrated by what they described as "bureaucratic incompetence". [3] In other evidence we heard, administrative error was prevalent and problematic in public debt.

79. CPAG told us that:

> On public debt, we have found that—this is quite surprising—some of it could be avoided with better administration. On universal credit for example, there is no onus to get decisions right in the first place because all overpayments are recoverable. [10]

80. CPAG noted the DWP can recover certain benefit overpayments regardless of whether the mistake was the claimant's or the Department's. With previous benefits, overpayment recovery was only possible where the claimant had made an error. [17]

81. It was noted that the DWP can choose not to recover overpayments caused by its own mistakes. However, CPAG advised that it only exercised its discretion not to recover in 10 cases across the whole of the UK in 2020/21. [17]

82. The AiB noted:

> The other big problem debt relates to the Department for Work and Pensions collecting overpayments of benefits. Compared to other creditors, the DWP is perhaps a relatively aggressive creditor in pursuing debt. [14]

83. IRRV also shared an example of a case where a care leaver requested for their first rent payment to be deducted from their universal credit to be paid direct to the landlord, but it was not deducted. They spent the money and "now have rent arrears for the first two months of their tenancy despite their attempts to do the right thing." [10]

84. We were concerned to hear from our experts by experience that they have had to fight administrative errors that have led to debt. We heard that there is an assumption that the public body is correct and that the person in debt is wrong with the onus on the individual to prove that an error has been made. Many people have not retained the evidence required to challenge administrative errors and it requires persistence, time and energy to fight incorrect decisions.

85. **We recommend that all public bodies have clear processes to deal with disputes about whether a debt exists, or the amount of money owed. These should allow for independent consideration of disputes and could form part of the public sector debt management strategy discussed above.**

86. **The experts by experience highlighted the need for a fundamental change in attitude from frontline public sector staff dealing with people in debt. As noted below, the Committee supports their recommendation of trauma-informed practice training for all public sector staff dealing with debt issues.**

Communication

87. Several issues were raised around poor public debt communications. We heard it is really difficult for people to contact public sector organisations about debt and internal communication within organisations can be poor. Issues also went wider than individual organisations and included problems around data sharing between organisations.

88. Difficulties in contacting local authorities and other public creditors was flagged as a concern. Our experts by experience panel emphasised there must be different ways to contact local authorities and the DWP as being unable to discuss payments or bills contributed to debt. [4]

89. The UK Government's consultation on “fairness in public sector debt management” touched on this issue. The summary of responses highlighted that government can be difficult to contact and slow to respond, and can send communications which are

hard to understand or intimidating. [20]

90. We heard writing to creditors by letter, particularly the DWP, can take weeks to receive a response and slows down the process of sorting the debt. [21] One of our experts by experience said that Council Tax phoneline services in their local authority had not been available since March 2020 and there is a 7-week response time for emails. [3]

91. Stakeholders repeatedly said information provided to individuals by public sector creditors about their debts is inadequate. Across different types of public debt, people receive letters with numbers and little explanation of what they mean. This resonated with our experts by experience who said that they had difficulty understanding letters. They said:

> sometimes people can’t even work out what their balance is and there is no telephone number to phone and ask for more information...Better and more compassionate/ understanding communication is needed. [4]

92. Edinburgh Tenants Federation explained literacy is a real issue for 33.3 per cent of people in Edinburgh alone. People need support in understanding and acting upon the contents of letters. [10]

93. We also heard that communications within public authorities must be improved. Witnesses felt there was little incentive within public authorities to work collectively. Instead of thinking about the whole cost, each department is concerned with their own budget and caseload. Shelter Scotland explained "one team's job is to cover arrears, one team's job is to recover Council Tax and one team's job is to sustain tenancies. Making people work together and involving third sector partners in the process makes a difference." [10]

94. However, we did hear that some local authorities are better at collaborating than others. IRRV said that Falkirk Council consider rent and council tax arrears together, considering income maximisation and individual support for payments. It suggested there are very few local authorities that do not combine their knowledge of rent and council tax debt, "it would be the exception rather than the rule." [10] However, Edinburgh Tenants Federation said "communication between the different sections in the council is horrendous at the moment," and Aberlour echoed concerns that departments are not necessarily speaking to each other, so they are not able to understand and map out where families might be struggling. [10]

95. IRRV and Edinburgh Tenants Federation both thought that re-introduction of more face-to-face meetings following the pandemic would improve communications. [10]

96. In addition to improving communications within public authorities some witnesses raised issues with wider data-sharing arrangements. It was acknowledged that this was complex, but "crucial". The Poverty Alliance highlighted that attempts are being made in Glasgow to improve data-sharing. It noted the relationship with the DWP was critical in data-sharing to allow more automatic identification of entitlement to state support. [9]

97. CPAG noted in terms of entitlement to free school meals, that the benefits system

has lots of different eligibility criteria for different benefits making it difficult to automate all the payments. They considered "it would be better if someone could apply for one payment and automatically be entitled to the other payments". This would also require data sharing. [17]

98. It is clear to us that some local authorities take a person-centred approach to tackling arrears with different council departments working together to consider all council debt as a package. Meanwhile other local authorities' communication can be disconnected, with each department seeking to fulfil their own debt collection targets. We strongly believe it is in everybody's best interests to take a joined-up approach and for council departments to think holistically about what debt can be recovered, what support can be offered and to develop a clear communication and engagement strategy.

99. Our experts by experience highlighted that there is a lack of transparency in communications on public debt and it can be difficult to ask questions or clarify information on the debt owed. We were concerned to hear that some local authorities only offer online communications and there can be a 7-week response time for emails. It is essential that there is channel-choice when contacting local authorities and government agencies like the DWP and Social Security Scotland regarding arrears.

Prioritising a person-centred approach

100. Not only have people experienced barriers to accessing information about public debt, people also reported being treated in an intimidating, judgemental and aggressive way. Many people in debt are vulnerable and experiencing multiple crises. They are anxious about their financial situation and concerned about the consequences of debt collection activity.

101. Edinburgh Tenants Federation was concerned about reports it had received suggesting housing officers can be aggressive with people. [10] This matches accounts from our experts by experience of "intimidating" debt collection. Organisations like Aberlour called for more sensitive and compassionate treatment of individuals and families. [10]

102. Our experts by experience found themselves in debt for a variety of complex reasons. Some members of the group experienced domestic abuse and described the impact of trying to deal with debt that passed to them, incurred by their partner, during a complex, traumatic and emotional situation. Another participant shared that dealing with debt collectors evoked childhood memories of answering the door to drug dealers for their brother. [4]

103. The experts by experience said creditors lacked compassion or an understanding of people in debt's life experiences and circumstances. Participants described being treated harshly and suggested that creditors should be trained in trauma informed

practice. Compassion should be built into all processes used by organisations like local authorities and companies. They said, if the process is rigid and faceless and assumes the debtor is always 'wrong' on any issue, it makes the whole experience worse, besides the debt. [4]

104. IRRV suggested that it is in both the individual's and the local authority's best interest to encourage early engagement on debt issues before they escalate. Key to this is advice on welfare entitlement and income maximisation. However, any bad experiences will have a lasting impact:

> People, once they are talked down to, will not go back and talk to the council. [10]

105. We were concerned to hear that public sector processes are not always sensitive enough to individual circumstances to consistently take account of their duty of care. Our experts by experience stressed that compassion must be built into processes and services. We agree with their recommendation that creditors should be trained in trauma informed practice and urge the Scottish Government, COSLA and other public bodies to incorporate further training for public sector staff as part of their continuous professional development.

Council Tax

106. Council Tax arrears was one of the biggest areas of concern for respondents to our call for views. Problems outlined included poor communication, rigid payment dates, and harsh enforcement through the summary warrant process. Council Tax debt can follow people for decades and through multiple changes of address. CAS said Council Tax debt was the most common debt that it dealt with. For StepChange, the number of clients with Council Tax debt had increased significantly.

107. In the Lloyds Bank Foundation report which looks at Universal Credit deductions as a driver for poverty, Joseph Rowntree Foundation (JRF) said:

> Debts owed to the state feature heavily for those in multiple kinds of debt, with council tax arrears making up half of the estimated £1.5bn owed to the state. [22]

108. The AiB confirmed that in the first three months of 2022, around 400 MAP bankruptcies were awarded. Of these 65% listed council tax debt, totalling around £900,000. This equates to £3460 per case which included council tax debt. [23]

109. Our experts by experience told us that there needed to be greater flexibility in the administration around council tax. They shared experiences where their local authority had been "rigid" about payment dates and there was no allowance for personal circumstances. The payment date for social security payments can change every month, but direct debit payments for council tax are often required on a specific date agreed in advance. To address this, they suggested as long as someone is showing willingness to pay their Council Tax by making payments every month (albeit not by the due date at the beginning of the month), no further action

should be taken. [4] At present, missing the payment date by a day can generate formal warnings, and enforcement via summary warrant can happen after two missed payment dates.

110. Some local authorities already offer this flexibility. IRRV said that Falkirk Council allow people to pay council tax weekly, fortnightly, monthly, four-weekly, over 12 months or over 10 months. [10]

111. Council Tax enforcement was a huge are of concern. Local authorities' powers in relation to Council Tax are set out in legislation. Where someone continues to build-up Council Tax arrears, local authorities can move to formal enforcement action. This is usually via the summary warrant process, which adds a 10 percent surcharge on any sums due and unpaid. This can be something that happens every year to people on low income, increasing the burden of paying their Council Tax bills. Once a summary warrant has been issued sheriff officers can take enforcement action. We heard that the process for enforcing council tax debts can be inflexible and can have harsh consequences without consideration of household composition or individual circumstances.

112. IRRV felt that local authorities have a moral obligation to their communities to pursue debts and fund local services. StepChange stated:

> The local authority is obliged to pursue the debt and collect the tax, but those cycles of non-payment and collection activity end up increasing the cost for the local authority and putting huge pressure on the individual concerned. Those arrears are not collected effectively, so we really need to consider how to do that. [5]

113. Aberlour questioned if the time and effort that it takes local authorities to chase and pursue council tax really represented the most efficient use of public funds. [10]

114. Organisations and individuals described the fast escalation to summary warrant and the distress that this caused. IRRV emphasised that early engagement is key, as the summary warrant is avoidable if people contact their council. However, it was acknowledged that people do not generally engage and do not think that they will get a positive outcome by getting in touch. IRRV told us that incentivising people who are struggling to pay to ask for help is essential, as is building trust. Each person must be treated as an individual and the council should consider their circumstances. [10]

115. The Improvement Service also argued that early support by advice services would improve people's experiences. Work is ongoing to improve collaboration between advice providers and local authorities, and to encourage people to seek advice at an earlier stage. [10]

116. In 2019, the Improvement Service worked with local authorities and advice providers to produce a best practice guide to collaborative council tax collection. This was funded by StepChange. However, due to the Covid-19 pandemic, this policy was not launched or rolled-out. The guide contains a list of recommended standards which includes effective communication, looking out for signs of vulnerability, encouraging people to claim benefits and rebates, and taking a proportionate approach to enforcement.

117. In written evidence, it was suggested that:

> In terms of council tax there should be good practice procedure which is laid out and published and a copy given to every person who is in debt. That should be Scotland wide with all local authorities signing up to it. [24]

118. Mounting historic Council Tax debt can impact someone's ability to pay their current bill. We asked IRRV if local authorities ever consider writing-off debt. It said Fife Council, in line with the fair collection policy, looks at the circumstances of the individual, considers the on-going liability and then looks at whether mitigation of the historical debt will allow sustainable on-going payments. IRRV said:

> That needs to be done in cognisance of the fact that this is public money and it is the council tax payers' money, so it cannot be done liberally... We cannot incentivise people to accrue arrears with the intention of hoping to get those relieved at a future date. [10]

119. We asked the Scottish Government if councils have a legal duty to pursue council tax debt. The Cabinet Secretary shared her understanding that council tax liability is set out in law, but recovery is a decision for each local authority. The Cabinet Secretary outlined her respect for local authority autonomy, but felt that engagement with individuals was key. The Cabinet Secretary noted that it would be very difficult to endorse a wholesale write-off of council tax debt, but felt that it was right to look at individual cases. [25]

120. Differences in the approaches taken between local authorities in relation to council tax processing and collection are clearly evident. The Improvement Service and the Institute for Revenues, Rating and Valuation gave examples of good practice, but it is not clear how wide spread this is. The Improvement Service has worked with various organisations in the advice sector to create good practice guidance – the Collaborative Council Tax Collection guide. However, we consider much more can be done to improve practice before someone reaches the stage they need to seek advice. The onus should be on councils to improve systems, rather than on individuals to seek advice. Local authorities should proactively identify people in their area who owe any form of local authority public debt and contact them to offer individualised support and signposting.

121. **The Committee calls for local authorities, COSLA and the Scottish Government to work together with the free advice sector to develop national standards for Council Tax collection. Consideration should be given to placing these on a legislative footing to make them binding and enforceable. The standards should cover:**

- **promotion of Council Tax Reduction and Council Tax rebates – through easy to understand leaflets and links to online entitlement calculators**
- **identification of customers who may require appropriate adjustments and support to meet their circumstances**

- **active referral to sources of advice**
- **flexible payment methods, including two-weekly and four-weekly options starting at a date of choice for the customer (as recommended by our experts by experience)**
- **a requirement to maintain negotiations with the customer at all stages of the collection process and to accept reasonable repayment offers**
- **agreed parameters for proportionate enforcement action and consideration of individual debt write-off where there is no reasonable route to recovery**
- **access to an independent dispute resolution process**

Council Tax Reduction

122. Witnesses told us that confusion and a lack of transparency about payment reductions also contributed to council tax arrears. Evidence suggested that there was low awareness of entitlement to rebates or benefits which would reduce Council Tax bills. This meant that people could build up Council Tax arrears when they were entitled to help.

123. Council Tax Reduction (CTR) eligibility is not always straightforward and it can be confusing to know if you are already receiving a discount or if you are entitled to one. There are several online tools to help people work out if they are entitled to additional support. However, witnesses suggested that this did not go far enough to reach all people who were struggling to pay their bill. They considered local authorities should be much more proactive in advertising discounts.

124. A money adviser at Denny and Dunipace Citizens Advice Bureau raised that even a small CTR can become a passport benefit to things like Energy Efficiency solutions, additional benefits and the Warm Home Discount Scheme (with eligible suppliers). People therefore need encouragement to have a benefit check to confirm their entitlement. [26]

125. Money advisers noted the lack of transparency in communications about CTR. At present, there is no obligation on local authorities to issue decision letters for CTR. Normal practice is for entitlement to be highlighted on the bill sent out at the beginning of the year. CPAG noted that, when circumstances or entitlement changed during the year, it could be incredibly difficult, even for trained advisers, to work out what had happened and what the actual level of entitlement was. [10]

126. CPAG told us that if councils issued more decision letters on CTR there would be greater transparency and understanding. It also argued that prompt decision letters would allow people to question and challenge decisions which have been made. [10]

127. Our experts by experience also focused on the need for CTR communications to be less confusing. They said deductions and calculations are very difficult to follow and in particular, letters for CTR need to make clear that contributions can be

recalculated if income changes. [4]

128. People receiving full CTR will also still have to pay water and sewerage charges and we were told by debt advisers that many people are unaware of those costs. Water and sewerage charges can be enforced in the same way as council tax arrears, although some discounts are available.

129. CAS advised that many people who are eligible for Severe Mental Impairment Council Tax Exemption, as they have Parkinson's, Dementia, severe learning disabilities or Alzheimer's are not aware of it. This has led to a significant difference between the numbers who claim Severe Mental Impairment and those who are entitled to claim it. [27]

130. We asked the Scottish Government if it felt more letters should be sent to people to improve their understanding of CTR. The Scottish Government acknowledged the complexity of CTR and the frequency that people's circumstances can change. It felt the emphasis should be on personalised support by local authorities for people who do not understand their council tax reduction or bills rather than deluging people with letters. The Scottish Government acknowledged there was scope for it to work with COSLA in promoting information on CTR, considering best practice on communications and creating guidance so there is a single source of information and support. The Cabinet Secretary felt it is in local authorities' best interests to ensure take-up by people who are entitled. [14]

131. **It seems that the burden of responsibility is on the individual to research and apply for reductions to Council Tax bills. We recommend the Scottish Government works with COSLA and local authorities to proactively advertise and raise awareness of Council Tax Reduction (CTR) and Council Tax rebates, so that there is greater balance between the responsibility of the individual and of the council. As such, we recommend that the proposed national standards for Council Tax collection, include set minimum standards for communicating CTR entitlement and changes to entitlement.**

132. **We note that people can be unaware of decisions made about entitlement for council tax reduction and entitlement can also change. We recommend that COSLA works with local authorities to examine the use of online dashboards to provide people with real-time information about their Council Tax bills, relevant reductions and rebates. Recognising that some people may be digitally excluded, there should also be investment in supporting people to access this information in other formats. Local authorities should invest in targeted, personalised, support for those groups most in need to improve transparency and understanding.**

133. As noted above, we hope that a system of automation to consider eligibility for benefits will be developed and that this improved automation will remove the burden on the individual to manage their own correct entitlement.

Social Security direct deductions

134. Payments towards certain debts and services can be deducted at source from social security benefits. These are called “direct deductions” and can be used to repay certain debts, including rent, council tax and water and sewage charges.

135. The DWP can also make deductions to recover advance payments and overpayments of benefits. Given that entitlement to Universal Credit changes from month to month depending on the claimant’s financial circumstances, overpayments are not uncommon. The DWP can also recover historic overpayments (for example from a previous tax credits claim).

136. The five-week wait between claiming Universal Credit and receiving the first payment was concerning to witnesses as people often had to borrow from friends, family or commercial sources to tide them over. People can also apply for a Universal Credit advance, which is repaid from future benefit entitlement through deductions. CPAG said:

> The social security system can be a cause of debt for some low-income households. Someone making a new claim for Universal Credit will have to wait at least five weeks for their first payment. Claimants may ask for an advance but this is repaid by reducing universal credit payments. This contributes to ongoing financial hardship for many claimants, especially when coupled with deductions for other debts. [17]

137. In any of these situations, people must then use some of their ongoing benefit entitlement to repay what they have borrowed, putting additional strain on their budget. Inclusion Scotland highlighted research from the Trussell Trust about the impact of debt recovery from social security benefits. This argued that the system for Universal Credits was setting people up to fail. By the time a Universal Credit payment came in and repayments were made, people did not have enough to live on. [28]

138. The Lloyd's Banking Foundation report, Deductions: Driver of Poverty, explained that the most common deductions are Advance Payments (for example in Universal Credit) and historic Tax Credit overpayments but they can include other debts such as energy or rent arrears as well. It noted that unlike in the private sector, no checks are undertaken to understand whether people can afford these deductions.

139. CAP told us that 43 per cent of its clients have universal credit deductions, which makes managing a budget incredibly difficult.

140. CPAG said:

> In November 2021, 47 per cent of universal credit claimants in Scotland had a deduction and, for 45 per cent of those claimants, it was due to having to pay back the advance that they had received during the five-week wait. [10]

141. CPAG also described the impact of historical benefit-related debt:

> very aggressive collection of historical debt relating to tax credits and the social fund...might affect people who claimed such benefits in the past and whose debts are now being recovered through Universal Credit. The debts are often so old that there is little way of anybody finding any evidence about whether there is in fact a debt in the first place It is certainly the case that there are few ways in which people can challenge those debts after such a long time. [10]

142. CAS explained that its clients with benefit overpayment reductions were more likely to have a negative monthly income than for other kinds of debt and considered this shows the unaffordable nature of the current deductions scheme. CAS has called for replacement of the DWP debt recovery process with a revised system based on a robust holistic affordability check. [27]

143. It is noted that the 2020 House of Lords Economic Affairs Committee report on Universal Credit recommended writing-off historic tax credit debt stating:

> The Government should write off historical tax credit debt owed by Universal Credit claimants. We believe that the £6 billion of tax credit debt should be treated as a sunk cost—it is highly unlikely to be repaid in full, and the Government should not jeopardise the financial security of claimants in pursuit of it. [29]

144. Though this recommendation was not accepted, the Secretary of State's response acknowledged that "more should be done to manage under and overpayments while in tax credits". [30]

145. **We note with concern the level of strain that repayment of UK social security overpayments places on people's budget making them more likely to go into debt. The recent report by Lloyds Banking Foundation, Deductions: Driver of Poverty, recommends a set repayment period after which any outstanding debt is written off. The report noted a similar approach is taken to repayment of student loans. We invite the UK Government to provide an update on its consideration of how to manage historic Tax Credit and recovery of other benefit overpayments, particularly given the impact of the cost of living crisis.**

146. It is still early days in terms of the delivery of Scottish benefits. We will monitor the levels of debt from overpayments and debt recovery policies as the volume of Social Security Scotland benefits increase to ensure claimants are treated with dignity and respect and their personal circumstances are considered. We intend to seek an update from Social Security Scotland in 2-years to consider any debt related to overpayments.

Rent arrears

147. The consequences of rent arrears can be significant and can ultimately lead to

homelessness. Tenants in both the social and private rented sectors who are struggling to pay their housing costs may build up rent arrears, which makes them at risk of eviction. Witnesses told us that that the 5-week wait for Universal Credit payments had an impact on their ability to pay rent.

148. The Scottish Government's Twelfth Report on the Coronavirus Acts shows that social housing rent arrears increased from £150 million in April 2020 (at the beginning of the pandemic) to £174 million at the end of December 2021. This is a considerable 16% increase.

149. Prior to the coronavirus pandemic, the ground for eviction for rent arrears in a private residential tenancy was mandatory. This meant that if the landlord could prove that the tenant had been in arrears for three months and at least one month's rent was due on the day of the tribunal, eviction would be automatically granted.

150. Under temporary coronavirus legislation, the tribunal could exercise its discretion. Shelter Scotland believed that this should remain discretionary and consideration should be given to whether eviction is fair and reasonable. These temporary provisions were made permanent by the Coronavirus (Recovery and Reform) (Scotland) Bill. [31]

151. Pre-action requirements are steps the landlord must take before raising court action to evict tenants. They cover things like signposting tenants to sources of advice and negotiating reasonable repayment offers. Social landlords have been subject to pre-action requirements since 2012. Emergency coronavirus legislation introduced pre-action requirements for private landlords on a temporary basis. We heard that pre-action requirements for both private and social sector landlords have improved practice.

152. Shelter Scotland would like to see these temporary changes for private landlords made permanent in housing legislation. The Coronavirus (Recovery and Reform) (Scotland) Bill gave Scottish Ministers permanent powers to make regulations in this area. Also, although pre-action requirements provided a helpful incentive and paper trail for landlords to act reasonably. Shelter Scotland noted, it was still regularly successful in defending eviction actions, which demonstrates that there is more that could be done by social landlords to prevent court-authorised eviction. [31]

153. Witnesses noted that there is no rent cap in the private rented sector meaning that the market rental value in some areas is very high for people on low incomes. Shelter Scotland noted:

> the structural solution to the high levels of rent arrears experienced by many private tenants is to ensure that those tenants can access decent, affordable social homes in the areas they wish to live. Shelter Scotland is therefore calling on the Scottish Government and local authorities to deliver the 110,000 affordable homes of which 70% must be social homes at pace and in the right places. [31]

154. Both Shelter Scotland and Edinburgh Tenants Federation also thought more could be done to gather data on rent levels through landlord registration and the secure deposit scheme. [10] Shelter Scotland said:

> We are offering low-income households tenancies only in the private rented sector, and we need to acknowledge that it costs the public sector money when those tenancies fail. [10]

155. Money advice organisations highlighted examples of private sector landlords pressurising people to make unsustainable, additional payments to rent arrears. When someone is in a statutory debt solution, it is against the law to treat one creditor more favourably than the others in this way.

156. Shelter Scotland highlighted:

> eviction rates in the social rented sector, particularly by local authorities, are still too high. We [Shelter Scotland] believe no one should be evicted from a social tenancy into homelessness. Eviction must be a last resort. [31]

157. Research conducted by Shelter Scotland estimated that in 2019-20 social sector evictions in Scotland cost £27.8m. It considered this to be a "very conservative" estimate. This shows that as well as having a significant impact on the individual, evictions are also a deeply inefficient use of public funds. The estimated cost of evicting a single person from social rented housing and place them in temporary accommodation is £24,000. Not only is there a significant emotional cost, that person will also go back into homeless accommodation and have to be rehoused. Shelter said:

> There is not a business case—there is certainly not a moral case—for using eviction and the threat of eviction as a rent arrears collection tool. It does not work. It costs more money. Therefore, let us invest in the early prevention services and the advice and the representation that we know works. [10]

158. In particular, we heard that more could be done to engage with vulnerable tenants with mental health conditions or language and literacy barriers to support rent payments. [31] Edinburgh Tenants Federation said that trust can be built between tenants and the public sector if housing officers visit areas where people have difficulties, get them to talk about their problems and offer help. It was felt that they needed to be proactive in building this trust and offering support. [10]

159. Age Scotland said engagement between the landlord and tenant often waited until the landlord had moved to legal action. It said the requirement to signpost to sources of financial support is welcome but vague, and the method of communication is left up to the landlord. Clearer wording would be useful to ensure tenants are pointed to appropriate, accessible advice, given in a way they can understand fully. [32]

160. Some social landlords felt that they would like to give tenants more support and advice to avoid rent arrears mounting, but they lacked the resource and capacity. Glen Housing Association said they rely solely on tenants' rent and do not receive any other funding. They are therefore restricted in the amount of money they can use to fund debt advice, though they told us that they "try hard". They also provide referrals to local services, but they often also lack capacity to help. They said, "if the services are not properly funded, people will be disillusioned". [33]

161. Stirling Council suggested, that for social landlords, there should be a requirement to make an actual referral to an independent advice agency before any eviction action is taken. [34] Shelter Scotland highlighted a successful homelessness prevention pilot in Dundee. It noted that part of the pilot's success may be linked to access to advice which is independent of the landlord. It said Dundee City Council previously found 11% of tenants were engaging with their support, but this was now 56% of tenants. Initial estimates showed that 3 evictions have taken place out of 140 tenants who were referred to the pilot. [31]

162. Much of the evidence we received welcomed the more regulated processes which exist for rent arrears. We heard that pre-action requirements for both private and social sector landlords have improved practice. Although, this was broadly successful in encouraging early engagement from social sector landlords more could still be done, particularly to engage with vulnerable tenants with mental health conditions or language and literacy barriers.

163. There are processes in place to help tenants on low incomes manage their housing debt so they do not become homeless. Many of these steps were welcomed by witnesses, but given the heavy emotional and practical cost of homelessness, more should be done. We agree with Shelter Scotland's view that there is neither a business case nor a moral case for using eviction or the threat of eviction, as a rent arrears collection tool.[iv] We strongly believe that every effort should be made to sustain tenancies.

164. **Early intervention and preventative support must be prioritised to avoid escalation of debt and potential homelessness. We recommend the Scottish Government tightens the pre-action requirements to formalise the need for a referral for free independent money advice. We also draw attention to our recommendation on funding debt advice, as there would need to be sufficient capacity within debt advice services to support this change.**

School meal debt

165. Local authorities have a statutory duty to provide a school lunch to some, but not all pupils. Eligibility generally relates to the benefits or tax credits the parent/carer receives. Up to August 2021, free school meals were offered to all primary school pupils, up to the end of P3. This has now been extended to cover all pupils in P1-P5, and the Scottish Government plans to include all primary pupils during this parliamentary session.

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iv Jeremy Balfour and Miles Briggs dissented from the sentence "We agree with Shelter Scotland's view that there is neither a business case nor a moral case for using eviction or the threat of eviction, as a rent arrears collection tool."

166. Despite this, there are still some primary children who are not, or until recently have not been, eligible for free school meals and whose families have fallen into school meal debt. Aberlour's analysis suggests that there are about 25,000 children in Scotland whose families are in some level of school meal debt because they cannot afford for their children to eat. [10]

167. Aberlour suggested that any debt accrued at primary school should be written-off when the child goes to secondary school. Instead it found debt often follows the family, and some local authorities also pursue debt accrued following a late application for school meals. [10] It called for an increase to the income threshold for free school meals to help families who are above that threshold currently, but who are struggling to feed their children.

168. Most secondary schools operate a cashless payment system for school meals, with top ups being made by a parent or carer. This makes it very difficult to accrue debt for secondary school children, as those with no money can't access a lunch. It also means there is currently no way to determine the extent of hidden hunger in secondary schools. Aberlour shared with us a quote from a young person who said:

> I know a good few people who don't actually get lunch because they feel like they're using the money their parents could be using for something better. They feel responsible, so they don't buy lunch so they can give the money back to their parents. [10]

169. Aberlour indicated that, in some local authorities, provision of a school meal for children without the ability to buy one appeared to be discretionary, which it felt was a fundamental breach of a child's right to eat:

> We are calling on COSLA and local authorities to work together so that they can develop a much more consistent, rights-based single policy to enable them to respond effectively, compassionately and in a supportive way to the families who find themselves accruing school meal debt. We are clear that the reasons why families are accruing debt is not because they do not want to pay for their children's meals: it is simply because they cannot do so. [10]

170. We heard Falkirk Council uses eligibility for Council Tax Reduction to identify children who belong to families on low incomes and offer free school meals to them. This is a concessionary scheme paid for by the local authority. [10]

171. During First Minister's Questions on 9 June 2022, it was highlighted that over £1 million is owed in school meal debt and the First Minister said that she is "very sympathetic to calls for that debt to be written off". The First Minister also stated that while preparing for the planned expansion of free school meals, Scottish Government officials would also be talking to COSLA about what more could be done. The First Minister said:

> Local authorities also have the flexibility to offer free school meals to families who do not meet eligibility criteria but are experiencing financial hardship, and I encourage anyone who thinks that they have become eligible for free school meals to apply as soon as possible. [7]

172. **We fully acknowledge that local authority budgets must be carefully managed and debt collection is part of the revenue that pays for vital services. However, balance must be found when children are going hungry and debt is plaguing families for years after the school meal has been consumed. We recommend that the Scottish Government works with COSLA and local authorities to write-off individual school meal debt to allow families a clean slate as they move into the new school year and possible new school setting.**

173. **We welcome the Scottish Government's commitment to expand free school meals to all primary school children by the end of this parliamentary session. However, it is clear with the current accrual of school meal debt, families are struggling to feed their children now. We urge the Scottish Government to implement its free school meal expansion as soon as possible. By combining the individual write-off of existing school meals debt and preventing future accrual of debt in this area, we can eliminate this public debt which only burdens low income families.**

174. **We believe that families do not choose for their children to go hungry at school and this must be addressed. We recommend that COSLA works with local authorities on a national school meal policy, which is founded on human rights and removes stigma, to ensure that children are treated with dignity in a consistent and fair way.**

Part 3: Barriers to debt advice

175. Seeking money and debt advice is an important step towards finding a way out of debt for many people. A range of local and national services exist, offering a variety of support on income maximisation, general money advice, combined welfare and mental health support as well as in-depth debt advice. Help is also offered through a range of different channels.

176. We heard about barriers to debt advice including shame and stigma, poor awareness of services, huge demand on advice without matching capacity/ availability and people struggling to find advice or services which can be difficult to navigate. Our experts by experience described the relief they felt when they found a debt adviser who would help them and they no longer felt alone. Accepting help is a big step for many people, though we heard it can be difficult to know where to go.

177. Debt advisers told us that some people delay seeking support because they are optimistic that they will be able to resolve their problems themselves ("next week I'll have a job and it'll be fine"), others delay through fear ("everyone will come after me if I speak to one creditor") and some have to prioritise other things because they are fleeing domestic violence, getting access to children through courts, or focusing on feeding their family. They said that "people get pulled in a hundred different directions. Life just happens to them." [3]

178. When the Scottish Government's Debt Advice Routemap for Scotland was published in 2019, 14.2 percent of people in Scotland were identified as being in problem debt. However, only 20.5 percent of this group sought advice from a free debt advice provider. [35]

Stigma

179. Witnesses discussed the challenges around stigma and people's misplaced sense of shame. Advice services said that anything that can be done to address that is crucial, because it delays people seeking help. Our experts by experience also talked about the stigma and shame they felt because of their debt.

> Problem debt has a particular stigma and shame attached to it that leaves people feeling trapped, isolated, unable to sleep. Many of these worries are related to wider stigma around poverty. [36]

180. Respondents to our call for views highlighted the particular impact of stigma on their client group. CAS noted potential barriers for people from black and ethnic minority backgrounds. We were told that "We find that for people in BME communities [the delay before seeking advice] is even longer, because in some communities and cultures the stigma attached to debt is higher". [9] AgeScotland highlighted that older people can also find it particularly difficult to admit they need help or to talk with family about money. [32] Poppy Scotland noted that the culture of self-reliance in the armed forces affected veterans willingness to seek financial advice. [37]

181. The Centre for Excellence for Children's Care and Protection (CELCIS) spoke about the situation for care-experienced young people who may lack financial skills or

trusted adults to speak to. It also suggested that a common behavioural response to shame was to withdraw, meaning avoidance is often used as a coping mechanism to stigma. [38]

182. The AiB said that statutory debt solutions can be put in place quickly, but people must be encouraged to seek help sooner. It suggested that tackling stigma and raising awareness of services are key ways of doing this. [39]

183. **We welcome the commitment from Social Security Scotland to develop a social security system which has dignity, fairness and respect at its heart, and recognise the potential for this to help in tackling stigma. We urge the Scottish Government to ensure it delivers on this target.**

Information and awareness campaigns

184. A key way to raise awareness and tackle stigma is through information campaigns. Witnesses felt that despite some efforts and recent action, more could be done in this area.

185. We heard there is wide-spread recognition of the stigma associated with mental illness and steps have been taken to tackle this with the national anti-stigma campaign 'See Me' which has been running since 2002. We heard there are some campaigns focused on tackling the stigma around debt, like the 'Debt Happens' campaign run by Citizens Advice Scotland, but nothing on the same scale as the national 'See Me' campaign.

186. The Scottish Government has taken steps to raise awareness. It launched the Money Support Scotland website to bring financial support information together in one place. The accompanying publicity campaign focused on benefits take-up (from November 2021), moving to money advice (from January 2022) and affordable credit (in February 2022). It also aimed to show that people are not alone in having financial worries. [40] This campaign included TV adverts and posters.

187. Christians Against Poverty described this awareness campaign as "an excellent example of how organisations can work together, each highlighting their unique strengths so that individuals can make the right choice". [9]

188. Despite the Scottish Government running recent campaigns, our experts by experience thought that advertising of services needed to be improved. They recommended:

> There should be a widespread awareness campaign with radio, tv and poster adverts. The campaign could use schools, doctors' surgeries, community facilities like libraries and cafes for example, to raise awareness of the issue of debt, to try and address stigma and to provide clear routes to safe support and advice. Awareness of services and support needs to be made available to people of all sectors of society. [4]

189. As well as publicity at a national level, they wanted easy to understand information to be available in community settings which people accessed regularly, such as

health settings, schools and libraries. [4] StepChange told us that they produce an A5 booklet which explains the debt advice process in simple terms. It is available in multiple languages for distribution across community venues. [36]

190. Edinburgh Tenants Federation suggested that information about benefit entitlement could be advertised in the council's newspaper, the 'Tenant's Courier'. [10]

191. However, it would be irresponsible to drive demand for free advice services without first ensuring that those services can meet the increase in demand, which links to points raised on the current work pressures experienced by debt advisers.

192. A number of factors including stigma, a lack of awareness of services and feeling overwhelmed all mean that people delay seeking money advice. We heard throughout this inquiry that the earlier people access advice, the better. These issues are long-standing and raising awareness continues to be key. Our experts by experience suggested that there should be a widespread campaign. We believe all spheres of government must lead the way in bringing organisations together to raise awareness of a wide range of services and make a concerted effort to increase benefit uptake.

Availability and demand

193. Before the pandemic, several pieces of research suggested that demand for money advice services outstripped availability. The Scottish Government's Debt Advice Routemap acknowledged concern about demand and how this linked to low morale and high staff turnover among money advisers. [35]

194. We heard money advice services are now stretched to breaking point, resulting in long waiting times for appointments. Witnesses were concerned that the worst was likely still to come, with people's financial resilience deteriorating during the pandemic and cost of living increases. Protections created by emergency coronavirus legislation and creditor forbearance are also now being rolled back. North Lanarkshire Council said that it has seen a 42 percent increase in referrals for money advice this year. [5] There was genuine concern among advisers that services would not cope with the increase in demand over the coming 12-months. [5]

195. Demand was also high for specialist advice services. Positive Action in Housing works with people from BME, refugee, and migrant communities. It also said the demand for its service outstrips supply. It said the service is always extremely busy and full. [41]

196. Debt advisers said that they are firefighting and hanging on by their fingertips. We were concerned to hear advice staff are "burnt out" with many experiencing their own financial concerns. [5] We also heard advisers go to bed at night worrying about whether a family will be hungry or a solution can be found. Staff are "just keeping their heads above water", but many advisers are on the brink of sickness absence which will add increasing pressure. [5]

197. StepChange also highlighted that with more advisers working from home, there must be adequate wellbeing support to allow staff to process difficult calls. We were told that "there is concerning pressure on advisers, right across the sector." [5]

198. Advice service witnesses advised cases are becoming more complex, especially where clients have “deficit budgets” (that is, not enough money to meet essential expenditure, even after income maximisation advice). There are no obvious solutions for people in these circumstances, with applications for charitable grants and re-negotiation with creditors to focus on current liabilities being the main options. Even bankruptcy may not be a long-term solution, as the need to borrow will mean that debts would mount up again. Money advisers highlighted that this complexity also made their jobs more emotionally difficult as they tried to find solutions. [21]

199. It was suggested that the waiting time following a referral for money advice could be between 2 and 6 weeks. There was concern that even if people had got as far as seeking advice, they may disengage due to long waits. Delays could also have financial consequences as interest and charges mounted up.

200. Demand for services also created challenges in prioritising people in crisis rather than taking longer-term interventions. Denny and Dunipace Citizen Advice Bureau noted an increase in the number of people seeking budgeting advice services earlier. There is a need for income maximisation support and prevention, but also emergency debt advice and juggling both when there are long wait times for appointments is difficult. More resource is needed to deal with this increase in case numbers and to reflect the complexity of issues. We were told that "prevention is better than cure, but it is not sustainable for one or two members of staff". [5]

Funding

201. Both frontline money advisers and national money advice organisations talked about the challenges of delivering money advice with current funding. Local authorities are the main funders of money advice services and, reflecting their difficult financial position, overall funding for money advice has been reduced significantly over the past 10 years.

202. In addition to local authorities, there is also some other funding through the Scottish Government, charities and creditors themselves. The UK Government places a levy on providers of credit, which is used to support money advice. Spending the money raised by that levy was devolved to the Scottish Government in 2019.

203. Free debt advice providers said that, while there has been additional funding over the pandemic, it was not enough to recruit new debt advisers to help to meet the rise in demand.

204. As well as more funding, there were calls from the sector for an improved funding framework. This covered funding in three-year cycles rather than one year and more funding for core services rather than focusing on new projects. Short-term funding cycles mean that people lack job security and therefore staff turnover is high. [21] The funding environment was described as "cut-throat" by one adviser. [5] SCVO highlighted that a lot of time is spent making funding applications, which is time that could be used delivering services. It noted:

> In the programme for government, there are positive intentions about multiyear funding, but we want to see more of that in practice and for those warm words to become a reality. [5]

205. We heard that the lack of job security is making advisers fearful about their own future and finances, meaning that staff have the same anxieties as their clients.

206. The discretionary nature of funding for debt advice by local authorities was also of concern. One suggestion from the money advice sector was that there should be a statutory obligation on local authorities to fund money advice services, with local discretion on who provides the service. This would put money advice on a par with other vital local authority services. A debt adviser at North Lanarkshire Council said:

> We are but a small fish within the council's bigger budget. We are not a mandatory service, which is alarming; it has been alarming for more than 10 years and it is particularly alarming now. There are areas within the council that simply must be funded, but we do not have that protection. Because we do not have that protection, an alarming number of our staff are term funded, project funded and funded to deal with specific challenges. That limits the number of staff who can deal with the bigger picture, but it also prevents forward planning. We cannot plan to deliver a service, because we do not know what the staffing levels will be. We have no budget to be a proactive service; we are a reactive service, which makes people fearful. [5]

207. The Improvement Service, however, suggested that making debt advice mandatory may not have the desired effect. It said:

> My concern would be that, if it were made a statutory duty, it would just be added to all the other ones, which would take away the ability in some senses to meet local needs and circumstances. It might be better to think about having, say, some minimum standards for the advice services that we offer to provide the kind of local flexibility and engagement that could be adapted for each area. [10]

208. The Scottish Government described its investment and commitment to support advice services to adapt and continue operation during the Covid-19 pandemic. In 2020-21 and 2021-22, the Scottish Government highlighted that it granted additional in-year funding to front line debt advice services. It said:

> By allocating this additional funding within the financial year, we made best use of resources and ensured advice agencies had capacity to deal with unexpected changes to demand. [40]

209. During our consideration of its budget, the Scottish Government noted that it "will continue to advocate for long term funding for the third sector across the Scottish Government where this is possible. We [the Scottish Government] will develop an approach to track progress of the commitment and report back to the committee on a regular basis." [42] The Scottish and UK Governments have also agreed on arrangements for jointly commissioning the Independent Report, which will precede and inform the upcoming Fiscal Framework Review.

210. In recognition of the cuts to local government funded debt advice and the pressures experienced by advice services, we asked what steps the Scottish Government is taking to bring stability to advice staff with a three-year funding model. The Cabinet Secretary said that the Scottish Government would continue to work with the sector on the issue of fair and stable funding and move to multiyear funding where possible. The Cabinet Secretary committed to reviewing the delivery of services and funding framework to see where change could be implemented. [14]

211. We were extremely concerned to hear about the current pressure debt advisers face and the impact that demand and resource is having on their own wellbeing. While we welcome the additional investment made by the Scottish Government during the COVID-19 pandemic, this does not begin to compensate for widespread reductions in funding over the past 10 years. The value of money advice services is not in question. Neither is the high level of demand. There is therefore an urgent need for increased and stable funding to allow for future planning and job security for staff.

212. **We note the Scottish Government's commitment to multi-year funding arrangements, and urge it to work with local authorities to agree a 3-year funding agreement which supports staff retention, cuts waiting times and builds capacity to offer preventative as well as crisis support. The Scottish Government must ensure that project funding does not detract from the need for adequate core funding for organisations. We recognise the need to look at the wider funding framework for advice, but recommend the Scottish Government considers longer term funding arrangements for debt advice as a priority. We also urge the Scottish and UK Governments to move swiftly on their review of the Fiscal Framework to agree a settled position.**

Advice delivery

213. Efforts to meet demand for advice have led to an increase in online services. We heard the sheer volume of requests for advice meant that face-to-face is no longer practical. Services must use alternative delivery models to cope with demand, but channel-choice remains key to meeting different users' needs. [5] When discussed with our experts by experience there was a range of accessibility needs and preferences for online, phone or face-to-face services. [4] For example we heard that 75 per cent of people with mental health problems struggle with at least one main communication channel - the main one being the telephone.

214. We heard the shift from in-person face-to-face advice towards other channels has been significant. This can be a major barrier to people who are digitally excluded. We discuss digital exclusion more generally later in the report. We were told some organisations have not held any drop-in services since the beginning of the pandemic. This was a concern to some of the money advisers who felt that people who have been clients for years, through drop-in sessions have not been

adequately supported during the pandemic. They are unable to access online services, cannot navigate the appointment booking system and have not been contactable by phone, which advisers found concerning. [3]

215. For others there are advantages to accessing service online or by telephone, such as reduced travel time and cost or greater anonymity. Someone experiencing debt, highlighted:

> I would rather deal with people online with paperwork as my son can help me if I don't understand things. Plus I find it difficult to take things in when people are asking me questions over the phone. [43]

216. Money Advice Scotland noted that the smoother the digital journey is for those who are able to access it, the more time can be spent with people who are digitally excluded. [5]

217. StepChange noted that there "must be a horses-for-courses approach" with a range of online, telephone and face-to-face services. That helps to address capacity issues and ensures that nobody is left behind. [5]

218. **We note evidence that there was a lack of face-to-face services provided during the Covid-19 pandemic. This has led some people in debt to feel isolated and overwhelmed. We therefore urge the Scottish Government and Local Authorities to map geographical and communities of interest service provision to ensure that every person has access online, telephone and face-to-face advice.**

Digital exclusion

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

220. As well as digital advice, the Covid-19 pandemic accelerated the move towards digital service delivery for essential services like energy companies and banks, and also for advice, local authorities and government departments. We heard that digital exclusion can contribute to people getting into problem debt and can be a barrier to accessing information and advice, which keeps people trapped in debt. Debt advisers said that the pandemic has "exacerbated digital exclusion and created an 'internet underclass'". [3]

221. We heard digital access and skills are now a prerequisite for checking your bank balances, claiming benefits, accessing work opportunities and searching for better deals. [44] People who are digitally excluded may take longer to seek advice, which is likely to have made their debt situation worse. During the informal focus group discussion, we were told that one elderly man made a journey to court each week to make a payment of £2 towards his debt as he didn’t have the knowledge or ability to access online services such as banking. [3]

222. SCVO highlighted:

> There are at least 200,000 households in Scotland that cannot afford an internet connection in the house and 800,000 people who do not have digital skills. It is a large challenge. [5]

223. Money Advice Scotland stressed that these issues take a long time to address. In their view, there was a need for more action as people who cannot access digital services are waiting longer for support and meaningful outcomes:

> That pushes people who are on low incomes, who are vulnerable, or who live in rural areas to experience potentially prolonged financial duress. [5]

224. As people's debt situation worsens, even those who can use digital services may have to cut back their internet access to pay for more pressing things. People on low incomes are more likely to use their mobile phones to access online services than people who are on higher incomes. This makes it difficult to read information and fill in forms. Data limits may also have an impact.

225. Our experts by experience panel recommended:

> There must be the ability to use public services such as libraries to use computers to apply for benefits for example. In public spaces this must be confidential and accessible.

226. Age Scotland also highlighted the closure of public spaces such as libraries during the pandemic, which made digital exclusion worse for people without internet access at home. [32]

227. Similarly, GEMAP Scotland said it is important to have readily accessible free wifi hubs/spots in places like shopping centres and on public transport to encourage people who are "tech savvy but unable to afford to get online" the ability to access free online debt advice. [45]

228. StepChange also noted that people are required to have mobile phone and internet access for universal credit. Inclusion Scotland highlighted that failure by many public bodies and creditors to offer suitable alternatives to digital communications and services excludes many disabled people. Disabled people are more likely to have low incomes and more likely to experience additional barriers to accessing information.

229. For people whose digital exclusion is due to unaffordable internet connections and mobile data packages, it was suggested that certain trusted websites could be made available for free without using data. An agreement was made during the pandemic for mobile phone providers to allow access to NHS information without using a data allowance or credit. Money Advice Scotland suggested that a similar arrangement could be reached for credible sources of debt advice. In CAP's report Digital Divide: Financial difficulty and digital exclusion, it suggested applying a ‘zero-rate the essentials’ approach, where essential and government services 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. CAP highlighted "People in emergency scenarios need to

have free access to the online crisis support they need." [46]

230. We asked the Scottish Government if it had considered making access to trusted debt advice websites completely free so that people in debt did not have to use data to access them. The Cabinet Secretary and Minister were not aware of any work being done in this area. [25]

231. **Our experts by experience described making long journeys to access free wifi or to use a public computer. They recommended:**

> **There must be the ability to use public services such libraries to use computers to apply for benefits for example. In public spaces this must be confidential and accessible.**

We agree with this important recommendation. It is vital that open access to public computers continues to be supported in places like libraries and community hubs and that there is access to free wifi in public spaces, particularly in rural areas. We ask the Scottish Government what measures it is taking to support access to free internet services and devices in public spaces.

232. **We heard that during the pandemic, the Government worked with telecommunications businesses to provide access to certain websites without using data. We ask the Scottish Government to work with the UK Government and stakeholders to consider if this model could be developed to allow access to trusted money advice websites.**

233. **We recognise there is a marked geographical disparity in access to mobile and broadband services and that this contributes to digital exclusion. Noting that telecommunications responsibility lies with the UK Government, we welcome work being carried out by the Scottish Government via the R100 programme to address this, and we urge the Scottish Government to continue the rollout of this programme at pace.**

Connecting Scotland

234. Witnesses welcomed the Connecting Scotland project, which tackles digital exclusion. It is the Scottish Government's main funding stream for addressing digital exclusion and is delivered by the Scottish Council for Voluntary Organisations. It provides access to devices, internet connections and skills training for target groups. The Scottish Government originally committed over £48 million to Connecting Scotland, which has reached over 60,000 people. This commitment was extended in the Programme for Government 2021-22 to a total of £200 million in funding by the end of 2026, and a target of reaching 300,000 households.

235. SCVO noted that the Connecting Scotland Project started with an aim to reach people who were clinically vulnerable during the Covid-19 pandemic and grew to

families, care leavers and those who are more widely digitally excluded. The Scottish Government noted that now, as it focuses on Covid recovery, the programme is targeted at people who are digitally excluded due to low income and those most likely to experience additional disadvantage. [40]

236. The project is delivered through existing community and support groups to better target people experiencing exclusion. It has a model of “embedding” skills training in local organisations. This approach was supported by witnesses as individuals trust the organisations and support can be tailored to specific needs rather than a more generalised digital skills offering. Inclusion Scotland praised the work Connecting Scotland did with Glasgow Disability Alliance to tailor its support, coaching, devices and information for disabled people. [5]

237. However, our experts by experience felt that targeting support through organisations would miss the people who are most excluded. The panel said that there should be further consideration of how Connecting Scotland identifies priority groups for support and how it will reach the most isolated people, who are not in touch with any other services. The experts by experience said:

> Digital access should be an option available to everyone. [4]

238. Connecting Scotland can provide free internet access, currently for a period of two years. Witnesses were unclear clear what provision has been made to support people on low incomes to maintain their connection to the internet after this period.

239. The Scottish Government highlighted that Connecting Scotland will be reviewing where it will target support over the next 4 years, which will likely align with priority groups identified in the Tackling Child Poverty Delivery Plan. It will also research if the project should focus on skills, devices or connectivity during its next phase. [14]

240. **We welcome the Scottish Government's commitment to enhance funding for Connecting Scotland for the remainder of this parliamentary session. with the aim of reaching 300,000 households by 2026. We highlight concerns from our experts by experience that those who are the most isolated are not engaged with organisations and therefore cannot access the project. We ask the Scottish Government to outline what targeted support will be offered to these people.**

241. **The Connecting Scotland project can provide free internet access for up to two years for those most in need. We urge the Scottish Government to consider how it can support low income households to continue to access an internet connection in the longer-term. It is vital families making difficult budgeting decisions are not forced to sacrifice internet access when online connectivity provides an essential lifeline to many services.**

Part 4: Early-intervention and prevention

242. Much of the evidence we heard centred around the need for early-intervention and preventative approaches. Some aspects of debt were highlighted as requiring a more targeted focus, for example mental ill-health. This is because mental ill-health can be both a cause and a symptom of debt problems. Early-intervention primarily focused on the referral and signposting to debt help services.

243. Some witnesses advocated that more organisations should work in partnership to develop a person-centred approach, encourage earlier action, and improve awareness of the help available. Some referred to this as utilising trusted relationships – that is working with groups or individuals that people are already engaged with to make referrals for money advice.

244. We have discussed in this report the barriers people face to accessing advice. Signposting and referrals could be a key way of improving this. [35] The Poverty Alliance highlighted that, in research it had carried out into accessing welfare and debt advice in Edinburgh, "almost all" respondents did not know where to go. [47]

245. The City of Edinburgh Council said that there is a range of providers and models of support. The Edinburgh Partnership is planning to map advice service provision across the city in 2022 as advice is offered by a range of organisations and some that would not ordinarily be associated with the provision of money advice like Edinburgh Food Project. It said there is broad advice provision with variations in approach, delivery channels, and degrees of specialism. It felt other local authorities should do a similar mapping exercise. [48]

246. Witnesses particularly highlighted the need for referrals from healthcare settings where people are most likely to already be engaged. VOX Scotland noted that many people with complex mental health problems have limited contact beyond their clinical support. [9] The Money and Mental Health Policy Unit told us that:

> The expectation what people are in a position to act on signposting and referral routes is not realistic. For those people, we want to see more integration with debt and money advice in secondary mental healthcare settings. [10]

247. CAP told us:

> It is incredibly important that, across civil society, the third sector and the national health service, everybody is aware that free professional debt help exists and is available. We really believe in the concept of no wrong door. Whether I speak to my general practitioner, my health visitor or my son's primary school teacher about debt help, that person should be able to say that free debt help is available in Scotland and point me in the right direction. [9]

248. The Money and Mental Health Policy Institute said that healthcare professionals must be empowered to ask questions about how someone's financial situation could be impacting on their mental health. [9] CAS agreed that medical professionals would benefit from training on debt issues. It was noted that:

> although our advisers are trained to have an understanding of mental health and how it interacts with money, the same cannot be said about mental health professionals' understanding of debt and advice service processes. [9]

249. Examples were highlighted of this happening elsewhere. CAS told us that in Wales, the Money and Pensions Service money guidance programme is used to raise awareness among mental health professionals of the money advice process. It was suggested that this could be integrated into continuous professional development modules in Scotland. [9]

250. Advice Direct Scotland has created links to debt advice through foodbanks, which have built trusting relationships within their communities. That makes it easier for people to engage with debt advice. We heard examples of universal credit teams going out into communities in some areas and places where financial inclusion officers are based within school clusters. This was all seen as positive to increasing awareness and encouraging early action.

251. This also links closely with the solutions suggested by the Experts by Experience group. Participants called for a flexible and holistic referrals system which made links between specialist money advice and other services people might need, such as mental health support and benefits advice. They thought that "Doctors should have leaflets on debt available when they recognise that this is an issue and not just deal with the mental health issue." [4] They also recommended that leaflets should be distributed in libraries and with health visitors and midwives. It was emphasised that all information should be available in different formats and be compliant with the Equality Act 2010. [4]

252. However, improving referral systems requires knowledge and witnesses indicated that it is not clear how aware various support groups or professionals are of the need for money advice, or where to make referrals. It is also not clear if specialist services can meet demand.

253. **Despite advertising and campaigns, people are still unaware of how to seek help with debt. We believe that proactive referral systems would take some of the onus away from individuals to know how, where and when to seek debt advice. Evidence of good practice was highlighted to us, but there must be better understanding of what services people are accessing and where they could be referred on to for this to be rolled out more widely. Given local variance and their role as the biggest funder of advice and community services, we believe this may be a job for local authorities. We therefore recommend that the Scottish Government supports COSLA and local authorities to map money advice services, as well as potential contact points for referrals to inform service delivery.**

254. **We recognise that there could be a particularly valuable role for debt advice referrals from healthcare and mental healthcare settings. We recommend that the Scottish Government evaluates how the Money and Pensions Service money guidance programme has raised awareness among mental**

health professionals of the money advice process. We recommend that consideration is also given to how best to integrate debt knowledge into continuous professional development modules for healthcare professionals in Scotland.

Community link workers

255. A specific example of referrals from healthcare settings to money advice is the Community Link Worker Programme. In areas where the service is available, people can access support from a Community Link Worker (CLW) when they visit their GP. The link worker can make onwards referrals for money advice, as well as for other services like employability or mental health support. This is sometimes referred to as "social prescribing".

256. In 2016, the Scottish Government made a commitment to recruit at least 250 CLWs to work in Scotland's most deprived areas. CLW programmes are being rolled out at different rates across Scotland, and it is for local areas to plan how these staff members are utilised and in which GP practices they work. The Link Worker programme was highlighted as an example of good practice in the written submissions.

257. This model utilises trusted relationships with health professionals to support signposting to advice, which was thought to be particularly useful for people with mental health conditions. The Scottish Association for Mental Health (SAMH) highlighted that link workers can more thoroughly explore people's problems to help identify help and referral routes. It said that in 2021, about half of referrals to the CLW services it provided in Aberdeen included a mental health component and a further third involved finances and benefits. [9]

258. Diabetes Scotland felt CLWs play a "critical role" in addressing socio-economic circumstances that affect patients' health. It noted that awareness of money advice services is essential to helping people with long term health conditions like diabetes. [49]

259. The experts by experience described positive interactions with CLWs and felt that it was a helpful model, but one participant warned that people should still have choice. They were concerned that because investment has been made in CLWs they may be "forced on people who do not want to use it". It was their preference to be helped by a trusted personal assistant. This raises an important point echoed in other evidence received about people having all the information they need to have ownership of decisions about their debt. [4]

260. Mental Health UK said:

> Unfortunately, it is not easy to get a community link worker. It is great when you can get one, but there are limitations to what they can do. [9]

261. SAMH indicated that "there is not a standard community link worker role" and "that is affecting consistency of delivery across Scotland". Some health boards do not have link workers and the role varies with some unable to access medical records

because of the health board's job banding criteria. [9]

262. We asked the Scottish Government about the role of social prescribing in the delivery of debt advice. The Cabinet Secretary highlighted the important role CLWs play in helping people with underlying debt concerns. The Scottish Government plans to use CLWs' insight to plan future policy work. It has also commissioned Voluntary Health Scotland to develop a national network of CLWs to share best practice, experience and expertise. [14]

263. **We believe that community link workers play an important role in connecting services and making referrals for people with low incomes who do not know where to turn for money advice. We note that in 2016 the Scottish Government made a commitment to recruit at least 250 community link workers by the end of 2021-22, and request an update on whether this target has been fulfilled. We recommend that the Scottish Government evaluates the impact of community link workers and considers if further investment should be made.**

Preventative approaches

264. There was an emphasis on prevention across the range of topics covered during this inquiry. Witnesses highlighted that taking steps to avoid debt, court-action, homelessness and bolster income are all preferable to waiting for crisis to hit. Income maximisation and budgetary advice can help prevent debt from spiralling and referrals can be useful in promoting early intervention. We also heard from advice services taking a holistic approach to supporting people with the range of challenges they may face in addition to their finances.

265. Given households' low financial resilience and the combined pressures of living costs and low incomes, we heard that people need to be supported to tackle their problems and take early action. Our experts by experience emphasised that:

> information should be easy to access early on. People should not be struggling for weeks trying to find the right information. [4]

266. Shelter Scotland highlighted that "making information available is not the same as making a referral". People experiencing multiple types of debt need resilience to navigate to the right person and repeatedly share their information. Offering a web link or phone number is insufficient.

267. Where people lack the confidence or ability to navigate referral pathways and signposting it was suggested a "warm handover" (where the referring agency makes contact with the new service on their behalf) or a greater degree of personalised support may be needed. [10] The Money and Mental Health Policy Unit suggested that people can struggle to "access, understand and act" on advice that has been given. It felt that funding models do not allow for the more tailored and bespoke support that clients with complex needs, such as mental health problems, require. [9]

268. There are best practice examples of this type of wraparound support being offered through pilot projects. We heard about the Anchor Project in Shetland which uses schools as community hubs for signposting and support. In April 2022, we met informally with the Anchor Project to hear about the work it is doing to empower and support families to tackle problems before they develop into crisis. [50] Our experts by experience recommended that CLWs could be accessed through other community spaces like schools not just GP practices. In ways what the Anchor Project does is similar to this recommendation.

269. The Anchor Project found that in Shetland early indicators of need, which were evident across different services, were not being joined up. That echoes the evidence we heard about the need for different local authority departments to share information and take a person-centred approach. However, it also goes further to include indicators of need presented through schools and health care settings. It presented an example where an early indication of a family having difficulties could be overdue school dinner payments, but escalate to police and social work intervention. [50]

270. Aberlour also told us about a pilot they are running, which is funded by the Robertson Trust that:

> Provides financial assistance to vulnerable families across three local authorities in Tayside. All the families have rent arrears, among other debts, which is causing them deep anxiety. Alongside the provision of welfare rights officers, as part of our family support approach, we provide direct help for whole families including children, to support them with other issues that financial concerns and anxiety can exacerbate and make even more challenging. [10]

271. We heard these kinds of whole family support projects where there is holistic support, early intervention and a constant point of contact are seeing positive results. The Anchor Project emphasised that too many families are experiencing complex crisis before they receive support. It believes that its project model proves that early action can help avoid crisis, improve outcomes for the individual and family, and reduce the level of service intervention needed. This approach also encourages families to have a more proactive role in problem solving which is empowering and boosts confidence for an individual to enact longer-term change. [50]

272. Some of our experts by experience were supported by services which combined befriending, home visits and money advice, which people appreciated. They also suggested that there should be more outreach hubs where people can access different services and advice, particularly in rural areas. The experts by experience recommended that:

> No one size fits all when it comes to advice referrals. Debt advice referral and support needs to be holistic and flexible and adapt to suit individual circumstance. Staff dealing with people in debt need to understand issues around mental health. More interaction between services is needed, for example with benefits advice. [4]

273. The Cabinet Secretary highlighted that the Scottish Government is investing £12

million to support welfare, debt and income maximisation advice. The Cabinet Secretary acknowledged the need to go beyond debt advice to support holistic services and committed to looking at the advice funding framework. [14]

274. Too many people in Scotland are struggling with unmanageable debt. In this work we have focused on the specific challenges faced by people with low income finding support and solutions to their debt situation. We have explored ways to help those in need now, but recognise that methods for early intervention and prevention should be developed to promote sustainable change.

275. We note that the Scottish Government intends to invest in Whole Family Wellbeing Funding over the course of this Parliamentary term "to ensure that all families can access preventative, holistic support which is wrapped around their needs, provided when they need it and for as long as they need it". [51]

276. **We ask the Scottish Government to consider how money and debt advice will be embedded in whole family wellbeing support to improve outcomes and ease the burden on crisis advice and how its impact will be evaluated. We also fully recognise the value of holistic advice, but would warn against conflating welfare and income maximisation advice with specialised debt advice. Both are important, and must be adequately resourced.**

Mental health

277. Mental ill-health can be both a cause and a symptom of debt problems, creating a vicious cycle which can be extremely difficult to break. There are challenges in providing money advice to people with mental ill-health, but it should also be an important consideration in service delivery.

278. The majority of our experts by experience noted the impact of debt on their mental health, anxiety and depression. [4] They felt that mental health impacted on their ability to deal with their debt situation, which was echoed by the debt advisers we took evidence from. Money adviser Alan McIntosh described the worry and anxiety that clients experience:

> I am quite disturbed by the times at which people try to contact me or send emails; it demonstrates that their mental health is affected and that they are not sleeping. [5]

279. Some witnesses suggested that the way in which creditors engage with people in debt causes further distress. Mental Health UK shared the experience of "a client who suffered a heart attack because of the pressures of debt and of being contacted by creditors by text messages or by phone." It said, "it is really challenging for vulnerable people to deal with that." [9] We repeatedly heard from our experts by experience and other witnesses that creditors lack empathy and training

in engaging with people who have complex problems. One CAB adviser said:

> The creditor might be phoning them five times a day to ask them for £250 for a debt—I am not exaggerating about it being five times a day—so we tell the creditor that we need them to stop. [5]

280. Witnesses were concerned by the links between debt and suicide and we were told that some research suggests that suicidal thoughts are three times more likely among people who are in problem debt. [52] Whilst the correlation should not be oversimplified, SAMH highlighted that "drivers [for suicide] can include feelings of humiliation, entrapment and hopelessness, all of which are very common amongst people in problem debt." [52]

281. The impact of the pandemic on mental health was also highlighted in The Money and Mental Health Policy Unit's report 'The State We're In: Money and mental health in a time of crisis'. The report found that 2.5 million adults in the UK with a mental health problem considered taking or attempted to take their own life while behind on payments during the pandemic. [9]

282. SAMH said:

> The current national suicide prevention plan recognises at-risk groups, including people in poverty. However, no action has been dedicated to that yet, and we would like the relationship between poverty and debt and mental health to be acknowledged in the new strategy that the Government is developing. In particular, we would like a focus on local suicide prevention plans and their local implementation.

283. Our focus group participants suggested that the pandemic had exacerbated their mental ill-health. They noted that the pandemic had been a great leveller as no one could go out and do things. However, as those on higher incomes returned to normal life, those on low incomes were re-experiencing their exclusion. In addition, during the pandemic, many creditors had reduced their contact with debtors. This may be because they were showing forbearance, as required by the FCA, or because they had to adapt to new ways of working. However, this lull in activity had now come to an end. [3]

284. A debt adviser noted:

> People have sat on their debt problems for 18 months as nobody was coming to their door. Now the calls and letters are starting again, and they are panicking. [3]

285. We heard that people with mental health issues may need adaptations in order to access services, including money advice. The Money and Mental Health Policy Unit felt that essential services firms should provide support for people with mental health problems by default. Providing transcripts of conversations and having follow-up interaction can help customers to process and understand information and decisions. Shorter and more frequent advice sessions could also help people to understand and retain information. [9]

286. Some services offer additional support or specially trained staff and we heard from

Support in Mind, which runs a money advice helpline specifically for people with mental health issues.

287. We were told that mental health can impact on a person's ability to engage with services, creditors and advice and can lead to low-levels of energy and motivation. VOX Scotland told us:

> The issue is not about knowledge; it is about things such as how depression can impact on motivation. Those factors mean that people feel quite terrified. [9]

288. However, given the wide ranging needs of people with mental health issues, and the pressure being experienced by the money advice sector, not all services were able to provide tailored support.

289. It was highlighted that both mental health services and debt advice services are struggling with demand, which makes building effective communications and referrals a real challenge. Glen Housing Association noted that "the lack of resources mean that agencies are not geared to actively seek out and engage with people who might have mental health issues." [33] Support in Mind Scotland told us that people are also experiencing long waiting times for mental health support:

> There have been so many cuts to support, including to psychiatrist and psychologist services in our NHS. Even getting an appointment with a GP, never mind seeing them face-to-face, is really difficult. I know a client who had to wait three years to see a psychiatrist-for some people that is three years too late. [9]

290. SAMH also suggested that the distress brief intervention programme is an example of good practice which should be rolled out nationally. It felt that the programme delivery should also shift from telephone to face-to-face as many people experiencing mental ill-health struggle with telephone services.

291. We asked the Scottish Government how it would encourage public services to be trauma informed and if it plans to refresh the Mental Health Strategy to reflect the close link between mental health and debt. The Cabinet Secretary highlighted that the Scottish Government is working with CAS and Support In Mind to develop a money and mental health toolkit in recognition of the links between mental health and debt. [14]

292. **We are deeply concerned by the clear links between debt and mental ill-health, and the reported level of suicidal ideation. We note that the Scottish Government is intending to develop a new long-term suicide prevention strategy for Scotland which is due to be published in September 2022.** [53] **We also note that there is no reference to debt in the Scottish Government's 20017-2027 Mental Health Strategy. We urge the Scottish Government to give particular consideration to debt within the Suicide Prevention Strategy and any future work on the Mental Health Strategy.**

293. **Given the overlap between debt problems and mental health issues, there**

is a need for money advice services to be better able to meet the needs of people with mental health conditions. We call on the Scottish Government to make specific funding available for money advice agencies to test better ways of working with people with mental health issues, with the aim of developing best practice recommendations that could be taken forward by all services. We note as a result, however, that ongoing funding may be needed to enable money advice organisations to adapt their services.

Mental health evidence form

294. The Equality Act 2010 gives some creditors a duty to make reasonable adjustments for people in debt with mental health problems. However, this means that people have to tell their creditors about their mental health.

295. The Debt and Mental Health Evidence Form (DMHEF) was launched in 2008 and is used to provide creditors with information about the impact of a person's mental health condition. Creditors could use it to provide better support to people with mental health issues and may go as far as writing off a debt in some circumstances.

296. The DMHEF should be filled in by a health or social care professional and commonly GPs are approached to complete the forms. Because such work does not form part of their NHS contract, they are at liberty to charge the patient.

297. Several witnesses called for the ability to charge for the DMHEF to be removed. We heard that for people in debt, the charge is an obvious barrier to support. [9]

298. We were told that, in England and Wales, GPs contracts were updated to prohibit them from charging a fee to complete the forms. However, the process for reviewing and revising GP contracts in Scotland has not included this change.

299. It was noted that these contractual changes in England and Wales were made on the condition that a shortened version of the form would be introduced in an attempt to reduce the burden on GPs for completing it. [9] This is important as GPs time was an issue. A CAB adviser said:

> We have come across GPs who completely refuse to complete it, or they say, "Yes, I'll do it for £25," GPs are overworked, so we cannot blame them. If I were to send a GP a debt mental health evidence form for every client I have, given that I currently have 89 clients, the GP would not get any work done. Perhaps having someone whose role it is to go through a patient's records and complete the form might help—someone in the GP surgery could be trained to do it. The cost for completion should definitely be taken away. As I said, people do not have to pay for it in England. [5]

300. However, Mental Health UK told us that even if completed, creditors do not always take the DMHEF into account. [9] The Money and Mental Health Policy Unit was also concerned to note that its research found that "one in three people who have disclosed to an essential services firm that they have a mental health problem have not had any additional support on the back of doing that." [9]

301. Witnesses also said that it could be difficult to get health professionals to engage with the process of filling out a form. This meant that money advisers were not always able to get the best information about the impact of mental health issues on their clients.

302. CAS raised concern that there is a lack of awareness about the purpose of the form or how it is used:

> Our advisers have to spend time and resource that are limited and precious to them—especially at the moment—to explain to mental health professionals what the debt and mental health evidence form is so that they can get it completed. They then have to go off to creditors and do the same thing again—explain what the form is and what it does. Equipping those professionals with knowledge of the money advice process would not only encourage discussion but mean that service users would look at their multilayered issues. [9]

303. **We believe that the Debt and Mental Health Evidence Form has the potential to be a valuable tool in ensuring that people with mental health conditions receive the support that they need to manage their problem debt. However, there must be greater awareness of the benefits of the form among individuals, mental health professionals and creditors if it is to be of real impact. We recommend that the Scottish Government works with health and social care partnership to promote the form and endorse its use.**

304. **We think it is inappropriate for people with mental health conditions to be charged a fee for the completion of the Debt and Mental Health Evidence Form, simply to be treated in a considerate way that is mindful of their needs. It is particularly unacceptable for individuals to incur these costs given that many have low incomes and are already in debt. We note that this charge has been removed in England and Wales and call on the Scottish Government to work with GPs to implement a similar change in Scotland.**

Breathing space

305. In Scotland, people considering entering a statutory debt solution can ask for a “moratorium on diligence”. This is a legally required pause on creditors taking any action to enforce their debts.

306. The length of the pause was extended from six weeks to six months by emergency coronavirus legislation. This change was made permanent in the medium term in the Coronavirus (Recovery and Reform) (Scotland) Bill.

307. There is a similar scheme, called “Breathing Space” (or the Debt Respite Scheme) in England and Wales.

308. Under this scheme, where someone is receiving mental health crisis treatment,

various people supporting them can apply for mental health crisis Breathing Space. Creditors must freeze interest and charges, cease contact and halt enforcement action for the length of the crisis treatment plus 30 days. Crisis treatment is intensive support, which covers detention and in-patient treatment as well as some types of community support. This was a key factor for the Money and Mental Health Policy Unit who explained that contact by creditors added pressure and can be detrimental to mental health. [9]

309. Witnesses were supportive of a similar Breathing Space scheme being introduced in Scotland and felt that the scheme could work like the moratorium on diligence scheme. SAMH questioned if the Breathing Space scheme should replicate the system in England and Wales, particularly the need for people to be in crisis before accessing protection. It was also unsure if ending support 30-days after someone has completed treatment for their mental health was appropriate. However, it noted that in Scotland we have a good opportunity to learn from the system in England and Wales and incorporate changes. [9]

310. The Money and Mental Health Policy Unit felt that a key learning point was implementing the scheme in conjunction with healthcare professionals to increase awareness. [9]

311. The Accountant in Bankruptcy's Stage 2 review (described in more detail below) recommended that there should be a mental health element to the moratorium on diligence. However, it noted this needed to be developed further with stakeholders as it should not directly mirror what happens in England and Wales. In particular, some members of the review group thought a wider range of professionals should be able to provide evidence that someone is in mental health crisis treatment. [54]

312. Money Advice Scotland suggested that it would also be helpful to introduce a Breathing Space type of arrangement for people who are digitally excluded, to allow more time to make appointments and complete the necessary paperwork.

313. **We believe that it is unfair for people experiencing a mental health crisis to be pressurised by creditors and continue to be charged interest on their debt. We note that the Accountant in Bankruptcy's Stage 2 review recommended there be a mental health element to the moratorium on diligence and urge the Scottish Government to progress quickly to implement this change.**

Part 5: Statutory debt solutions and debt enforcement

314. Part of our aim for this inquiry is to determine if any changes should be made to the legislative framework in relation to statutory debt solutions. We want to ensure that it is fit for purpose and that the balance between the creditor and the debtor is fair. We received a number of suggestions for change in relation to statutory debt solutions and to the regime for debt enforcement. Some of the information in this section is quite technical but, if implemented, could make a real difference to people's lives and management of their debt.

315. There are three statutory debt solutions in Scotland: Bankruptcy, Protected Trust Deeds and the Debt Arrangement Scheme. We mainly considered changes to bankruptcy as that is the main option for people on low incomes. The other two statutory solutions require regular payments which can be difficult to meet if you have a low or variable income.

316. There are two types of bankruptcy. The Minimal Asset Process (MAP) bankruptcy is a simpler and quicker bankruptcy process for people with low income and few assets. People who cannot fit the criteria to apply for a MAP bankruptcy can apply for a full administration bankruptcy, which covers all other circumstances. Alternatively, money advisers can often help people make informal payment arrangements with their creditors, which means that a statutory debt solution is not used.

317. The Accountant in Bankruptcy highlighted that the number of people entering a statutory debt solution is below pre-pandemic levels. He said that as people usually delay seeking advice, it is often several years until people's financial situations lead them to a statutory debt solution and therefore for it to show in uptake of solutions. After the financial crash of 2008, it was not until 2010 that there was an increase in bankruptcies. [39]

318. The framework for statutory debt solutions seeks to balance the needs of creditors and people in debt. In its response to our call for views, the University of Aberdeen stressed the importance of balancing these interests. It also suggested that the legal framework must look at the interests of all people in debt, not just those on low incomes. Overly focusing on low income could result in a system that is not fair or balanced. [55]

319. The Accountant in Bankruptcy has been working with stakeholders to facilitate a wider debt review to consider if changes should be made to the law. This inquiry offers a timely opportunity for us to consider some of the issues which have also been raised during the review. Reports from Stage 2 of this review were published in May and look at changes to the moratorium on diligence (a legally enforceable pause on creditors taking court action while someone in debt seeks advice), Protected Trust Deeds and bankruptcy. These reports will now be considered by the Minister for Public Finance, Planning and Community Wealth. Stage 3 of the review will consider more broadly whether statutory debt solutions meet the needs of a modern economy.

320. Looking at when changes recommended by the Stage 2 review might be introduced, the Accountant in Bankruptcy stated:

> Quite a few of the recommendations would require primary legislation. As you will know, the Government announces primary legislation for the coming year in September. Were it to want to take forward some of the recommendations in that timeframe, we could indeed be ready to pursue a bill in the next year or two, should that be attractive to the Government to do so. [39]

321. The groups looking at Stage 2 issues were unable to reach consensus in a number of areas and have deferred consideration to Stage 3. When asked about the timescale for Stage 3, the Accountant in Bankruptcy said:

> Stakeholders have been quite clear that they want this to take the time needed to get it right. They are not looking for something quick; they are looking at a process that might well run for a year or two and do a fundamental strategic look. [39]

322. CPAG suggested that it was not clear if the debt review's aims mirrored the Scottish Government's national mission on child poverty. It felt debt processes should be designed to avoid pushing children into poverty. [17] It is also unclear if the Stage 3 review will be considering its aims differently in the context of the pandemic and cost of living crisis.

Bankruptcy

323. In the right circumstance, bankruptcy can allow people a fresh start free of debt. Someone must seek debt advice from an accredited adviser before applying for their own bankruptcy.

324. The current fee for a MAP bankruptcy is £50 (reduced from £90 in 2020). It is £150 (reduced from £200 in 2020) for a full administration bankruptcy.

325. Witnesses questioned why there was a fee to enter MAP bankruptcy when the people applying have no money. We have already highlighted evidence heard on the challenges people face trying to live on deficit budgets. Emergency coronavirus legislation reduced the fee for MAP bankruptcy to £50 and introduced exemptions for people receiving certain social security benefits. Nevertheless, frontline debt advisers told us that they still spend time finding charities to cover the bankruptcy application cost for clients. Advisers said:

> If we can prove in a black and white calculation that there is no disposable income, there should be no fee for applying for sequestration, regardless of the individual's background. [5]

326. The AiB said that the equivalent fees were higher in England and the vast majority of people in Scotland do not pay an up-front fee. When asked if the fee was a barrier, the AiB said:

> It will be for some people, because getting together £50 can be a stretch. However, bankruptcy is quite a serious step to take, and we want people to pause and think about it. Also, bankruptcy has to be funded. [39]

327. The AiB also said it makes a huge loss running bankruptcy cases, noting:

> Clearly, you could abolish fees, and you might expect to see an increase in bankruptcies as a result. I would expect to see an increase in the support that I require to continue to administer them. That is a political judgement. [39]

328. The AiB provided us information highlighting the actual income generated by bankruptcy by bankruptcy application fees between 2017/18 and 2020/21. Income ranged from £487,000 to £63,000 per year. This is based on the actual fees charged at the time. The Scottish Parliament Information Services provided information on estimated losses based on the current fee structure. This suggested that, if fees were removed entirely, the average, estimated loss over the past four years would have been £99,000 per year. [56]

329. **Applying for a Minimal Asset Process Bankruptcy or full administrative bankruptcy can be the best, and sometimes only, option for someone to escape the debt trap. We believe that application fees are an unnecessary barrier, which could prevent people on low incomes from becoming debt-free. We welcome the removal of fees introduced for people receiving certain social security benefits, but urge the Scottish Government to consider removing the application fees for bankruptcy where someone is assessed as having no surplus income using the Common Financial Tool.[v]**

Minimum debt threshold

330. In order to enter a Minimum Asset Process bankruptcy, someone must owe at least £1,500. The figure is £3,000 for full administration bankruptcy. We heard that, for people on low income, making repayments to debts under the £1,500 threshold could still be a significant burden. There could be an ongoing impact on their mental health and available budget.

331. Our experts by experience described feeling "penalised" when they had got to the point of accepting that they needed to address their debt and exploring options, only to realise that they "did not have enough debt" to go through bankruptcy. They felt the current minimum debt threshold should be removed or lowered. However, participants were also clear that this should only be for people applying for their own bankruptcy – it should not make it easier for creditors to make people bankrupt. [4]

332. CAP agreed that the £1,500 threshold for MAP bankruptcy was too high for people on low incomes:

> Even debts of £800, £900 or £1,000 can be devastating for households on the lowest income. The current threshold removes the insolvency option for those households. Even small amounts of debt can keep people trapped not only in debt but in poverty, which should concern us all. [9]

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v **The Common Financial Tool is the system used to assess income across all three statutory debt solutions. It uses benchmarks of average expenditure by low income households in particular categories. However, people can provide evidence to justify certain additional expenditure in their particular circumstances.**

333. The Bankruptcy Stage 2 Debt Review Group recommended that the minimum debt threshold should be removed for Minimal Asset Process bankruptcies. [57]

334. **The barrier to dealing with debt created by minimum debt thresholds has been identified by respondents to our call for views, witnesses, our experts by experience and the Stage 2 debt review. We call on the Scottish Government to move quickly to introduce legislative change in this area to provide debt relief for those currently excluded from bankruptcy by the threshold. The Stage 2 debt review recommended removing the threshold for Minimal Asset Process Bankruptcy. In addition, we would also encourage the Scottish Government to consider removing the threshold for full administration bankruptcy within this parliamentary term.**

Bankruptcy cycle

335. We heard that one of the impacts of having a “deficit budget” was that a person may continue to run up debt to access essential services. This means that, for some people, bankruptcy (if appropriate at all) would provide only short-term relief as debts would quickly accumulate again.

336. The Accountant in Bankruptcy suggested that bankruptcy cannot be the answer for families who do not have enough money to live on:

> You cannot have a system designed so that you go bankrupt, you get straight back into unsustainable debt, you go bankrupt, you go straight back into unsustainable debt...Bankruptcy has to be there as a last resort for people who have got into a position in which giving them a fresh start actually does give them a fresh start. [39]

337. Under the current arrangements, someone can only access Minimal Asset Process bankruptcy once every 10 years. Some stakeholders called for this timescale to be relaxed to allow easier access to Minimal Asset Process bankruptcy. The Debt Relief Order is targeted at low income debtors in England and Wales. CAP told us that people can reapply for a Debt Relief Order after six years.

338. We asked the Minister for Public Finance, Planning and Community Wealth if 10 years was an appropriate time for someone to wait to access another Minimal Asset Process Bankruptcy. The Minister advised that it was important to recognise the significance of sequestration, but would continue to consider this issue closely with stakeholders. [14]

339. **We recommend that the Scottish Government considers reducing the period that people must wait to reapply for a Minimal Asset Process Bankruptcy.**

Debt Arrangement Scheme

340. The Debt Arrangement Scheme (DAS) allows people to pay their debts in full over a longer period of time. We did not look at DAS in close detail as there is very limited provision for debt write-off. This means that people must have sufficient surplus income to pay their debts in the longer term, making it unsuitable for many of the people on low incomes who were the focus of this inquiry.

341. However, witnesses did raise some issues with DAS in relation to creditors (and in some cases, court officers) failing to recognise that clients were protected by a statutory debt solution. [36] Some creditors had a poor understanding of the effects of the Debt Arrangement Scheme and there were examples of clients being subject to enforcement action when they should have been protected by being in a statutory debt solution.

342. A particular problem highlighted was creditors selling on debt which was included in a DAS, without notifying clients, advisers or the AiB. Advisers spend time dealing with these issues which could be spent resolving money problems for people in crisis. [5]

343. **We recommend that the Accountant in Bankruptcy raises awareness among creditors of the Debt Arrangement Scheme, as evidence highlighted that some creditors continue to take enforcement action when this should have been stopped. Money advisers spend significant amounts of time explaining the system to creditors when they should be offering advice to people in debt.**

Debt enforcement

344. We have explored some of the issues around rigid and impersonal enforcement of public sector debt as well as the potential mental health affects heavy-handed debt enforcement can have on people who may already be vulnerable. Debt enforcement action through court is called diligence and 90 per cent of diligences executed related to summary warrant for council tax.

345. As a result, money adviser Alan McIntosh has seen a rise in the number of people seeking advice on formal debt enforcement by creditors. Debt enforcement action through court-sanctioned diligence decreased during the pandemic, but witnesses were concerned that it has increased again in the last 12 months. CAS highlighted that council tax debt is one of the biggest debts seen in Citizens Advice Bureaux and local authorities tend to favour bank arrestments for collection. We heard it is "almost as if the sheriff officers are making up for lost time" since creditors showed more forbearance during the pandemic. [5]

346. Earnings and non-earnings arrestments are by far the most common types of diligence used by creditors. A non-earnings arrestment can seize a range of moveable assets in the hands of third parties. However, the vast majority are bank arrestments, where a creditor seizes money in someone's bank account. Between

2011/12 and 2019/20 the increase in bank arrestments was 136,865 to 218,785. [58]

Bank Arrestments

347. Bank arrestments freeze money in the person who is in debt's bank accounts. Creditors are then usually able to claim any money above the Minimum Protected Balance. Several witnesses noted concerns about bank arrestments and called for changes to be made. Alan McIntosh of Advice Talks Ltd told us:

> A bank arrestment arrests all the money in someone's bank account, leaving them only what is called a protective minimum balance, which is currently £566, while the rest of the money is taken. That sum is set at £566, no matter whether someone is single or a mother with four children, so there is a disproportionate effect on families, which means that people are left literally having to decide whether to pay the rent, buy food or go to work. In addition, an arrest on the money in a bank account does not discriminate based on the source of those funds, so it can arrest universal credit payments as well as housing costs and childcare costs that are paid as part of someone's universal credit. One proposal that I ask the Parliament to look at as a matter of urgency is increasing the protected minimum balance. [5]

348. CAS also noted that money is arrested regardless of a person's personal situation and household composition and can be taken from benefit income. This means that "those on the lowest incomes are being left without any means to support themselves". [9]

349. The experts by experience described bank arrestments as "very shocking" and "unexpected". They said that they "make situations worse". [4]

350. There was discussion around the optimum minimum protected balance if it were to be changed. CAS suggested it should be raised to £1000 as an emergency measure in the short term with a wider review to determine the best level in the longer term. CAS would also like household composition to be taken into account with only a percentage of any income above the threshold being subject to a bank arrestment. It highlighted:

> We know that certain groups such as lone parents, families with three or more children or people with disabilities face higher living costs and are more likely to live in poverty, yet bank arrestments have no protections or mitigations for those groups, so they are disproportionately affected by that form of diligence. [9]

351. It was suggested that if families are in significant debt, any increases made to social security come from the public sector and go back into public bodies to service debt. Many are not seeing the full benefit of their social security because this money is not protected.

352. We believe it is unreasonable to expect households to live on £566. We therefore welcome John Mason MSP's Stage 2 amendment to the Coronavirus (Recovery and Reform) Scotland Bill, which increased the Minimum Protected Balance to

£1,000.[vi] We also welcome the Scottish Government's commitment to "carry out further consultation to look at both the process and the thresholds and consider what longer-term improvements can be made to bank arrestments." [59]

Earnings arrestments

353. Witnesses also raised concerns about earnings arrestments. These allow creditors to seize wages in the hands of an employer. Earnings arrestments can catch wages above £566.51 per month, with a varying percentage of the money above this being paid to creditors. This depends on how much money the person who is in debt earns.

354. There are no clear powers for the creditor to vary the amount seized in a wage arrestment. The amount taken is set out in legislation. Alan McIntosh proposed that creditors should have greater flexibility. People can be in a situation where someone has an earnings arrestment for council tax arrears which leaves them insufficient money to pay the current year's bill, which will then incur a 10 percent surcharge via summary warrant. He said:

> We should consider making wage arrestments more flexible by allowing a money adviser or the client themselves to contact the creditor and propose a variation. [5]

355. In the medium-term it was suggested that there should be proportionate treatment of any sum above the minimum protected balance, either introducing a percentage which goes to creditors above the threshold or by giving consideration to household size.

356. The AiB said:

> The suggestion that the creditor and the debtor come to an agreement that would allow the earnings arrestment to be regularly adjusted up or down would, as I have said, put a significant burden on the employer, and we would need to think through the impacts of such a move on payroll and other systems.

357. Alan McIntosh disputed the negative impact that allowing for variation in earning arrestments would have on employers. He said:

> Earning Arrestments are based on a percentage of earnings over the Protected Minimum Balance, so as employee's income varies the level of arrestment can vary on a weekly or monthly basis. I don't see how therefore, allowing an employee and their creditors to agree either a lower fixed amount (which won't vary) or lower percentage would place a significant burden on employers. Also, I would draw the Committee's attention to the fact that Direct Earning Arrestments used by the Department of Works and Pensions work exactly like this and employers legal comply with those. [60]

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vi The Coronavirus (Recovery and Reform) Scotland Bill was passed on 29 June 2022

358. We asked the Scottish Government if greater consideration of household composition could be considered in earning arrestments. The Minister for Public Finance, Planning and Community Wealth noted stakeholder interest in this area and acknowledged the complexity of making changes which could have unintended consequences. The Minister noted that the issue could be considered further during the review of diligence. [14]

359. **We recommend that creditors should be given greater flexibility to reduce the amount of money taken in an earnings arrestment (to address the situation where someone cannot pay their current Council Tax liability because too much money is being taken to pay arrears). We note there is precedent elsewhere and recommend that the Scottish Government takes forward this change in legislation.**

360. **We recommend the review of diligence further considers if household composition could be factored into banking and earning arrestment to enable people who are more likely to live in poverty (such as lone parents, families with three or more children and disabled people) to retain more of their income.**

Annex A - Minutes of Meetings

14th Meeting, Thursday 28 April

2 Inquiry into low income and debt problems: The Committee took evidence from—

Matthew Irvine, Money Adviser, Advice Direct Scotland;

Alan McIntosh, Approved Money Adviser, Advice Talks Ltd;

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

Jim McPake, Debt Advisor, North Lanarkshire Council

and then from

Lawrie Morgan-Klein, Public Affairs Officer, StepChange;

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

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

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

Susie Fitton, Policy Manager, Inclusion Scotland.

3 Inquiry into low income and debt problems (in private): The Committee considered the evidence heard earlier in the meeting.

15th Meeting, 12 May 2022

2 Inquiry into low income and debt problems: The Committee took evidence from—

Peter Kelly, Director, The Poverty Alliance;

Sarah-Jayne Dunn, Policy Manager for Financial Health, Citizens Advice Scotland;

Emma Jackson, National Director Scotland, Christians Against Poverty;

Anne Baldock, Financial Inclusion Team Leader, One Parent Families Scotland;

and then from

Zahra Hussain, Mental Health and Money Advice Senior Adviser, Mental Health UK;

Hannah Brisbane, Public Affairs Assistant, Scottish Association for Mental Health;

Rebecca Stacey, Senior Research Officer, Money and Mental Health Policy Institute;

Wendy McAuslan, Development Coordinator - VOX (Voices of Experience), VOX Mental Health Foundation Scotland.

3 Inquiry into low income and debt problems (in private): The Committee considered the evidence heard earlier in the meeting.

16th Meeting, 19 May 2022

2 Inquiry into low income and debt problems: The Committee took evidence from—

Paul Ferguson, Member, IRRV Scotland Association Executive;

Gordon MacRae, Assistant Director for Communications and Advocacy, Shelter Scotland;

Betty Stone, Convenor, Edinburgh Tenants Federation;

Karen Carrick, Evaluation Manager, Improvement Service;

Kirsty McKechnie, Early Warning System Project Manager (Scotland), Child Poverty Action Group in Scotland;

Martin Canavan, Head of Policy & Participation, Aberlour.

3 Inquiry into low income and debt problems (in private): The Committee considered the evidence heard earlier in the meeting.

17th Meeting, 26 May 2022

2 Inquiry into low income and debt problems: The Committee took evidence from—

Richard Dennis, The Accountant in Bankruptcy and Chief Executive, Accountant in Bankruptcy.

4 Inquiry into low income and debt problems (in private): The Committee considered the evidence heard earlier in the meeting.

20th Meeting, 23 June 2022

3 Inquiry into low income and debt problems: The Committee took evidence from—

Shona Robison, Cabinet Secretary for Social Justice, Housing and Local Government,

Tom Arthur, Minister for Public Finance, Planning and Community Wealth,

Elaine Moir, Head of Financial Wellbeing Unit, Scottish Government;

Robin Haynes, Head of Council Tax & Alternative local tax policy, Scottish Government;

Alex Reid, Head of Policy Development, Accountant in Bankruptcy.

5 Inquiry into low income and debt problems (in private): The Committee considered the evidence heard earlier in the meeting.

21st Meeting, 30 June 2022

2 Inquiry into low income and debt problems (in private): The Committee considered a draft report. Various changes were agreed to, and the report was agreed for publication.

Annex B - Written evidence

Written submissions (received on the digital platform Citizen Space):

- Response 42521613
- Response 581056859
- Glen Housing Association
- Loretta gaffney
- Response 109801832
- Trevor Swistchew
- Faith Ougham
- Inclusion Scotland
- Douglas Welsh
- Response 417376881
- Response 500024969
- Response 1046346968
- Response 710509042
- Response 232679715
- Centre for Scots Law at the University of Aberdeen
- Advice Direct Scotland
- Response 403589363
- Thomas Irvine
- Response 184952019
- Response 316519389
- Stirling Council
- Moray Firth Credit Union
- Response 1009112445
- Family Fund
- Shelter Scotland
- Diabetes Scotland

- Response 523830146
- Support in Mind Scotland at Mental Health UK
- Response 829207863
- SAMH
- The City of Edinburgh Council
- CELCIS
- Positive Action in Housing
- GEMAP Scotland Ltd
- Poppyscotland
- Christians Against Poverty Scotland
- Citizens Advice Scotland
- Money Advice Scotland
- Age Scotland
- CEMVO Scotland
- One Parent Families Scotland
- Equality and Human Rights Commission
- Govan Law Centre
- Save the Children
- Scottish Council for Voluntary Organisations (SCVO)
- Alan McIntosh
- Child Poverty action Group in Scotland
- Institute of Chartered Accountants of Scotland (ICAS)
- Aberlour
- Children 1st
- StepChange
- Accountant in Bankruptcy
- The Poverty Alliance

Supplementary written evidence:

- Advice Direct Scotland

- Denny and Dunipace Citizens Advice Bureau
- Close the Gap
- Alan McIntosh
- Alan McIntosh
- Scottish Association for Mental Health
- Edinburgh Tenants Federation
- Accountant in Bankruptcy (AiB)
- Citizens Advice Scotland
- Improvement Service

Annex C - Focus Groups and Informal meetings

Focus Group

On 18 November 2021, the Committee held an online focus group, the aim of which was to hear lived experience from those with experience of low income and problem debt.

Summary of 18 November Focus Group

Informal meeting with Shetland Anchor Project

On 25 April 2022, the Committee held a remote, informal meeting with the Shetland Anchor Project. The Aim of the meeting was to hear about the work that is being done in Shetland to empower and support families to tackle problems before they develop into crisis.

Note of meeting with Shetland Anchor Project

Experts by Experience Panel

Throughout May 2022, ten people with experience of debt and low incomes took part in 3 online sessions. During these sessions the group heard about the Social Justice and Social Security Committee inquiry and considered the formal oral evidence the Committee had heard. The group shared their experiences and then considered their own ideas for solutions and improvements that could be made to support people in debt. On Monday 6 June the group met with the Committee in private to share their experience and the series of recommendations they have made. The full extract of their solutions and recommendations is included below:

Experts by Experience Panel - Summary of experience and recommendations

Solutions & Improvements

The Experts by Experience group at their third meeting on Monday 23 May decided on a series of recommendations that they would like to make to the Social Justice and Social Security Committee to consider as part of their Debt Inquiry. The group shared some positive experiences of support and some ideas for solutions and improvements.

A Suitable Referral System

No one size fits all. Debt advice referral and support for people in debt needs to be holistic and flexible and adapt to suit individual circumstance. For example, staff dealing with those in debt need to understand issues around mental health. More interaction between services is needed, for example with benefits advice. Some participants were supported by services which combined befriending, home visits and money advice, which people appreciated.

Community Link Workers

People described positive experiences of Community Link Workers and thought this was a helpful model. However, we need to ensure that this a choice and is not forced on people who do not want to use it. Sometimes people prefer to be helped by trusted, known supporters, such as Personal Assistants.

Specialist Money Advisers Referrals should be made to a specially qualified Money Adviser not to a generic advice service giving general advice. They should also understand mental health issues.

Raising Awareness (a campaign)

There should be a widespread awareness campaign with radio, tv and poster adverts. The campaign could use schools, doctors' surgeries, community facilities like libraries and cafes for example, to raise awareness of the issue of debt, to try and address stigma and to provide clear routes to safe support and advice. Awareness of services and support needs to be made available to people of all sectors of society

Information

Doctors should have leaflets on debt available when they recognise that this is an issue and not just deal with the mental health issue. Leaflets should be widely distributed. For example, in libraries and with health visitors and midwives.

- Service providers should make sure information is available in different formats. All processes and communications should be compliant with the 2010 Equality Act

Information should be easy to access early on. People should not be struggling for weeks trying to find the right information.

There must be a variety of ways to access information: online, phone and in person, and by letter. Face to face is sometimes necessary and preferable. However, members of the group were also clear that online or telephone services could be better in some circumstances, e.g. when dealing with anxiety or caring responsibilities. People should have access to online services too – with a need for greater support for people to use these where they lacked the skills or the money to do so.

There must also be different ways to contact local authorities, the DWP and energy companies. If you want to speak to someone about payments or bills it is difficult to contact them.

Bankruptcy

People raised the issue of getting to the point of accepting they needed to address their debt and exploring bankruptcy but felt penalised as they 'did not have enough debt' to go through bankruptcy. They felt the current minimum debt threshold of £1,500 should be removed or lowered. However, participants were clear that this should only be for people applying for their own bankruptcy – it shouldn't make it easier for creditors to make people bankrupt.

Digital Access

There must be the ability to use public services such libraries to use computers to apply for benefits for example. In public spaces this must be confidential and accessible.

There should be further consideration of how Connecting Scotland identifies priority groups for support. Current facilities can only be accessed by organisations. There was also concern about how the most isolated people, who were not in touch with any other services, could access this support. This is because the current model works with existing local groups to deliver support.

Digital access should be an option available to everyone.

Improvements in Creditor Processes

Improve the rigidity and inflexibility of payment dates where there is no allowance for personal circumstances. This could be alleviated by:

- allowing people on benefits to pay fortnightly, weekly or 4-weekly, depending on how they received their benefits. The payment dates for social security benefits can change every month, but direct debits must be agreed in advance. For example, with Local Authorities, Housing.

- Not taking further action where someone was paying their council tax every month, albeit not by the due date at the beginning of the month.

- Bank arrestments are very shocking and unexpected and make situations worse.

- There should be monitoring of private lenders who have high interest rates.

Council Tax

Council tax enforcement is making situations more difficult. It is a challenge to get support or to set up an account. Letters are difficult to understand – sometimes people can't even work out what their balance is and there is no telephone number to phone and ask for more information. Council Tax Reduction doesn't align with the rest of the benefits system which meant it didn't always respond to changes in income. There should be recognition of how benefits and self-directed support all tie in so that someone's circumstances are fully understood. Better and more compassionate/understanding communication is needed.

Trauma Informed Practice

People described being harshly treated by creditors and suggested that creditors should be trained in trauma informed practice. Compassion should be part of all processes used by organisations and built into organisational processes by creditors like local authorities and companies. If the process is rigid and faceless and assumes the debtor is always 'wrong' on any issue, it makes the whole experience worse, besides the debt.

- Staff training in trauma informed practice should be prioritised.

Writing off some public sector debts

There should be consideration of writing off some public sector debts. For example:

- Relief on school meal debt.

- A moratorium on council tax debt.

Welfare fund

Grants should be available to cover the costs of fuel oil

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