Financial Vulnerability in the Covid Pandemic:
An Auriga Services Round Table

On 26th August 2020, Auriga Services hosted a roundtable with 32 leaders from water and energy companies, regulators, government and charities, to discuss how to best identify and get support to financially vulnerable households in the Covid pandemic, including – but not limited to – the use of data. This document outlines the key discussion points from that round table.

Key statistics:

750k
jobs lost[1]

160k
redundancies[2]

9.4m
people furloughed[3]

8 million
households[4]

either could not pay their debts or were 'constantly anxious' about paying them before the pandemic, according to the Wyman Review.

20.4%
fall in output[5]
the biggest UK quarterly fall ever and the largest in any of the world's major developed economies

1 https://www.ft.com/content/c8ef84bf-0539-4281-b353-d5b840d10b5e
2 https://www.theguardian.com/world/2020/jul/31/uk-coronavirus-job-losses-the-latest-data-on-redundancies-and-furloughs
3 https://www.ft.com/content/c8ef84bf-0539-4281-b353-d5b840d10b5e
4 https://www.ons.gov.uk/economy/grossdomesticproductgdp/articles/coronavirusandtheimpactonoutputintheukeconomy/june2020
5 https://masassets.blob.core.windows.net/cms/files/000/000/900/original/Peter_Wyman_Review_of_Debt_Advice_Funding_2018.pdf

Department for Work & Pensions (DWP)

DWP has seen huge demand during the pandemic and has had to be extremely agile to respond to it.

- There were 2 million new claims for UC in first two weeks of lockdown
- Staff have come in from other departments
- Senior leaders have been processing claims
- 13.5k new recruits are joining as work coaches
- 2k new staff have been recruited to help with claims
- Corporate hubs are turning into benefit payment centres

One of the key tools DWP has to support customers of utility firms with problem debts is its third party deduction scheme, which helps people in debt pay bills and reduce the risk of enforcement action. It can also be used for other payments such as fines or child maintenance.

Energy suppliers can apply for third party deductions (ie money taken from benefit payments at source and paid direct to the company) when debt reaches £74.35, emphasising the need for companies to act before debt reaches problem levels.

There are safeguards in place, such as a maximum of three arrears which can be deducted at once, and caps in place to ensure that too much money isn't taken without consent.

Creditors are paid in priority order.

Automated processes being introduced/planned for an increasing number of deductions (fuel and water should be in place by the end of this year).

If people are struggling they can apply for reduction in payments. There is a three month repayment holiday in place at the moment.

The 'Breathing Space' scheme, which is coming into effect on 4 May 2021, will protect debtors from deductions for 60 days while they work to get a repayment plan in place. DWP will therefore have to stop third party deductions during this period of 60 days, but are working on an automatic process whereby they start again after 60 days so creditors won't have to reapply.

Department Business, Energy & Industrial Strategy (BEIS)

Lessons learned in the Grenfell disaster and Somerset Levels floods have helped BEIS develop cross-departmental working during Covid, co-ordinate action across the regulated sectors and collaborate effectively with external stakeholders such as Energy UK and Citizens Advice. The department has also been working closely with colleagues in Scotland, Wales and Northern Ireland.

BEIS has applied a different approach to data in this crisis, adopting a principles-based approach - in line with Ofgem's strategy – to support customers affected by Covid and keep them on supply, particularly if they are on pre-payment meters.

Until November, macro-economic interventions such as furlough, additional payments and protection schemes for the self-employed will be key to BEIS's approach to supporting financially vulnerable consumers, along with the voluntary agreement reached between Ofgem and energy suppliers.

Meanwhile, invaluable data is being provided weekly by energy companies via Ofgem, while insight is being provided by Citizens Advice (particularly around self-disconnection) National Energy Action, Christians Against Poverty and other debt and consumer charities.

BEIS is now working to understand what kind of support will be needed for energy consumers in the autumn and winter - and beyond. One of the biggest problems is that protections for the increased number of low and/or volatile income people, who may well have to stay home for longer if they can't work, are due to end just as the weather gets colder – so costs will be rising as incomes fall for a larger number of people than usual.

BEIS has also been working on issues such as:

- Ensuring self-isolating pre-payment meter customers can top up thanks to NHS volunteers
- The robustness of the pre-payment meter vend network
- Supporting financially vulnerable customers during the time-lag between making a benefits claim and receiving benefits
- Working with Ofgem to repurpose the redress scheme to provide more emergency credit to people at risk of being unable to top up their meters

Work is ongoing to identify high-risk groups and design measures to help them – BEIS are currently looking at households on free school meals as one group particularly at risk.

To view the presentations visit:
https://www.aurigaservices.co.uk/financial-vulnerability-during-the-covid-19-pandemic

The experience of debt advisers

Debt specialists at the round table reported:

- Much higher contact rates than normal
- Channel shift – calls are up, other channels are down
- The length of calls has increased, highlighting the isolation people are feeling as much as the complexity of their conditions
- The degree of urgency has also increased – people are less concerned than usual about long-term debt, more about short-term crisis
- More focus on 'what if' scenarios – people don't know how things could pan out and what their options would be

Homeworking has been smooth, but throws up new challenges. For example, new guidance from DWP has to be briefed out to advisors as quickly as possible – this a different challenge under remote working compared to when all your advisers are in one building.

There's a concern that financially vulnerable customers aren't addressing the long-term issues that could be building up – eg in energy customers may be taking advantage of payment holidays during a time (summer) when they would normally be putting a positive balance of their accounts ahead of winter when consumption increases.

There was also a discussion around future funding of debt advice, and what third sector debt advice agencies can be expected to do without additional funding. One charity reported an increase in financially vulnerable customers calling to request a reference number so they can obtain a 'wind-on' (credit on their pre-payment meter) from their supplier – but the charity isn't geared up for this kind of emergency assessment, they specialise in long-term, holistic counselling.

Other participants also noted that the financial services sector had carried more of the burden of funding debt advice in recent years, and this was an issue other sectors needed to reflect on.

Innovation in data sharing

- DWP will do targeted mailshots for select groups of benefit claimants; they charge, but this is at cost
- StepChange will be informing companies that they work with – with the consent of the clients concerned – about individuals' financial vulnerability from January 2021

The impact of the pandemic: changing behaviour

- In Scotland the existing Breathing Space scheme has seen the initial protective window extended to six months
- Water companies which used to send staff into job centres and other community hubs to share information on social tariffs have now shifted to remote support, with more customers asking to be walked through the application process

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Car park – issues floated but not resolved

- Could Government help encourage people in financially vulnerable situations to ask for help from their water and energy suppliers? There's some evidence that awareness programmes on help with mortgage payments etc are driving more voluntary requests for help from vulnerable customers
- Would Government consider underpinning a debt write-off scheme (eg if the customer pays a third of what they owe and the supplier writes off a third, would Government take on the final third)?
- Is there any possibility of Government support for social tariffs in the water industry?

Volatile incomes and the looming debt problem

Participants in the round table reported that people have been asking for short term help – but there is the risk of a second wave once people realise they are building problematic debt during payment holidays. Come 2021 there is likely to be a lot more debt, and it will be more challenging for companies to get that debt back.

Many people getting into debt today may never have had to face these kinds of problems before so have less experience of how to ask for help

Covid has exacerbated the number of people on volatile incomes, whether because they work on zero hours contracts, in the gig economy or are self-employed.

In the past, debt counselling sessions were focussed on options such as debt repayment plans that would be a holistic solution to the client's debt. It is very hard to do that when people's incomes are volatile.

Three final take-aways

It used to be seen as a sign of bad faith when people failed to adhere to repayment arrangements they'd negotiated with their creditors, but that's is no longer the case – it's understood that some people would continue repaying if they could, but they just can't.

Is there a risk that people who had a record of historic debt pre-Covid might get less favourable treatment than those who became vulnerable for the first time
as a result of the pandemic? We should aim for levelling up.

Customers are talking about their financial circumstances a lot more thanks to Covid. And it is down to us to show more empathy in return.