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Pwnc | Subject: Debt Bonfire proposals

Annwyl Jenny,

I am writing to you following a letter from the Minister for Social Justice addressed to you in your capacity as Chair of the Equality and Social Justice Committee on June 28th about recommendation 7 in the ESJ committee report Debt and the Pandemic.

In the letter the Minister asks for further clarity on what the committee would aim to achieve through this recommendation.

As the Member who made this recommendation, I have set out some further thoughts overleaf. In order to assess to what extent those outcomes may be achievable, it would be beneficial if the Government could provide information on the number of people affected by debt, how much a proposal to address the council tax debt may cost, and what could be the eligibility criteria.

In responding to the letter from the Minister, I think it would be also useful to pursue widening the scope beyond local authorities to explore whether Welsh Government could purchase a portion of bad debt on the open market in order to 'write off those debts', in addition to using the existing powers available to local authorities in relation to council tax.

My office would also be happy to meet with committee clerks and researchers to consider the recommendation in more detail.

Yn gywir,



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Debt Bonfire recommendation

Recommendation 7. The Welsh Government should explore the feasibility of introducing 'debt bonfires' in relation to aspects of public sector debt, drawing on evidence from Wales and beyond, and should write to the Committee with its conclusions by the end of June 2022

Possible policy outcomes to explore

- 1. Ensure that those who are most dependent on public services, such as housing support, do not face barriers to accessing services owing to public sector-related debt.**

2018 research from StepChange found that debt had implications for clients being made homeless (11%), being unable to move into a new home (39%), feeling forced to move from their current home (12%) or simply putting up with problems because of the worry of eviction (38%).

The Government should explore how public sector-related indebtedness might have implications for accessing entitlements or support i.e. access to housing support or homelessness entitlements, and how a debt bonfire could be targeted at those individuals who are at greatest risk of further homelessness or indebtedness.

For example, evidence suggests that individuals with social housing rent arrears can sometimes face difficulties in accessing housing support at a later date owing to those historic arrears.

- 2. Reducing the debt burden on individuals and vulnerable households where debt payments form a significant portion of their spending commitments.**

With the growing cost of living crisis, how can the Government ensure that those people with council tax debt (as per the focus of the Minister in her letter) do not face unnecessary additional costs or debt where local authorities try to recoup payments which would push them further into poverty.

Citizens Advice Cymru find that more than a third (38%) of council tax debt clients are living on a negative budget. They also find that regulations governing the collection of council tax arrears can exacerbate financial insecurity. How can a debt bonfire prevent those facing the greatest financial insecurity from facing further indebtedness as a result of council tax collection arrangements?

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3. Provide breathing space for people to get control of their debts.

Evidence shows that those in financial difficulties progress to more serious and persistent arrears. A debt bonfire should provide breathing space to allow people to engage with financial support services to prevent an escalation of their financial difficulties.

Previous StepChange Debt Charity research found around 70% of clients living below the poverty line when contractual debt repayments were taken from net household income. StepChange estimate that in just six months a typical StepChange Debt Charity client would see an extra £2,300 added to their debts if creditors applied default interest and charges on all their accounts.

4. Help prevent the mental health pressures on those in debt from worsening owing to growing debt pressures.

Debt has a human cost that grows as financial difficulties mounts. Research from StepChange finds that the distress problem debt creates is linked to poor mental health and can have negative consequences for family life and employment.

Can a debt bonfire help those who may be referred by financial support organisations for mental health and wellbeing support?