

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT

Sixth Delegated Legislation Committee

DRAFT DEBT RESPITE SCHEME (BREATHING SPACE MORATORIUM AND MENTAL HEALTH CRISIS MORATORIUM) (ENGLAND AND WALES) REGULATIONS 2020

Wednesday 7 October 2020

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Sunday 11 October 2020

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The Committee consisted of the following Members:

Chair: † MARK PRITCHARD

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| † Aiken, Nickie (<i>Cities of London and Westminster</i>) (Con) | Oppong-Asare, Abena (<i>Erith and Thamesmead</i>) (Lab) |
| † Coutinho, Claire (<i>East Surrey</i>) (Con) | † Rutley, David (<i>Lord Commissioner of Her Majesty's Treasury</i>) |
| Cruddas, Jon (<i>Dagenham and Rainham</i>) (Lab) | † Saxby, Selaine (<i>North Devon</i>) (Con) |
| † Glen, John (<i>Economic Secretary to the Treasury</i>) | † Smith, Jeff (<i>Manchester, Withington</i>) (Lab) |
| † Henry, Darren (<i>Broxtowe</i>) (Con) | † Stafford, Alexander (<i>Rother Valley</i>) (Con) |
| Hill, Mike (<i>Hartlepool</i>) (Lab) | † Stevenson, Jane (<i>Wolverhampton North East</i>) (Con) |
| Jarvis, Dan (<i>Barnsley Central</i>) (Lab) | † Young, Jacob (<i>Redcar</i>) (Con) |
| McCabe, Steve (<i>Birmingham, Selly Oak</i>) (Lab) | |
| † McFadden, Mr Pat (<i>Wolverhampton South East</i>) (Lab) | Seb Newman, <i>Committee Clerk</i> |
| † Marson, Julie (<i>Hertford and Stortford</i>) (Con) | † attended the Committee |

Sixth Delegated Legislation Committee

Wednesday 7 October 2020

[MARK PRITCHARD *in the Chair*]

Draft Debt Respite Scheme (Breathing Space Moratorium and Mental Health Crisis Moratorium) (England and Wales) Regulations 2020

2.30 pm

The Economic Secretary to the Treasury (John Glen):
I beg to move,

That the Committee has considered the draft Debt Respite Scheme (Breathing Space Moratorium and Mental Health Crisis Moratorium) (England And Wales) Regulations 2020.

It is a pleasure to serve under your chairmanship, Mr Pritchard. This scheme is a priority of mine; I have spoken about problem debt and its corrosive effects on individuals and their families. I know that hon. Members present will know only too well the challenges that we face and will share my determination to help.

The draft regulations come at a crucial time. Despite the Government's unprecedented interventions, the impact of covid-19 has put many people's finances under enormous strain. No one should feel pressured or panicked into making decisions about debt, and today's announcement on default notices is the latest example of how the Government are making efforts to help where we can.

A breathing space, or "moratorium" in the regulations, is a temporary period of respite to help people consider their options and engage with professional debt advice. It will pause most enforcement action, creditor contact and interest and charges on debts in the scheme. There are two kinds of moratorium: a breathing space moratorium, which lasts up to 60 days for anyone who engages with debt advice and meets the eligibility criteria; and a mental health crisis moratorium, where someone who is in mental health crisis treatment is protected for the length of that treatment plus 30 days.

Debt advice providers are the gateway to the scheme, and their judgment and expertise are central to its success. A debt adviser must first consider whether their client meets the eligibility criteria and conditions. If a person could go into a debt solution straight away, or just needs help with budgeting, a moratorium would not be appropriate. In a breathing space moratorium, the debt advice provider must also carry out a midway review to ensure that their client is complying with the scheme's rules. The debt advice provider can decide to end a breathing space moratorium early if those rules are not observed—for example, if certain ongoing liabilities, such as a mortgage or rent, are not paid as they fall due. The debtor must engage with debt advice in a way that the debt adviser considers appropriate.

When a person is receiving mental health crisis treatment, expert debt advice is not easy to access. That is why I committed to include an alternative way into the scheme

for people in mental health crisis treatment. An approved mental health professional—AMHP, or AMP for short—will be able to certify that a person is in crisis treatment. After an eligibility check, a debt adviser can use this evidence to initiate a mental health crisis moratorium without directly providing debt advice. We are working with the Money and Pensions Service to make this process smooth for AMPs and debt advisers.

The protections in a mental health crisis moratorium last longer, and the conditions on the debtor are relaxed. For example, the ongoing liabilities rule, and other obligations on engaging with debt advice, will not apply. There will be no midway review, but a debt adviser will check in regularly. The protections will end 30 days after crisis treatment ends. However, because crises can recur, there is no limit on the number of times that a person can have a mental health crisis moratorium. These are strong measures to address an important gap in provision, and I hope that they make a difference in many people's treatment and recovery.

The scheme will start on 4 May 2021. I am conscious that that date will seem too late for some and too soon for others. In the light of the ongoing covid-19 situation, creditors have made extraordinary efforts to help customers over recent months, and I know how demanding it is to make these changes at pace. I am confident that, by May 2021, although it is ambitious, this target will also be achievable. For the 700,000 people who could benefit from breathing space in its first year, we must keep pushing forward. Clear information about the administration of the scheme is necessary to support implementation, and I can confirm that the Government intend to publish detailed scheme guidance by the end of this year.

Lastly, a concern for many is the impact of a moratorium on credit files. Debt advisers need to understand that to advise their clients properly, and lenders also need accurate information to lend responsibly. Reporting the moratorium via a new flag or code in credit files could affect a person's credit file for a long time after the moratorium, depending on how lenders interpreted it. Reporting the longer "mental health crisis" moratorium could also mean that sensitive health information could be inferred from credit files. That would be unacceptable. We therefore propose that creditors should continue to report in line with their existing arrangements. The Government are mindful to avoid unintended consequences and will keep this position under review.

I hope the Committee agrees that the regulations are an important intervention to protect and support people in problem debt, at a time when that support has perhaps never been so crucial. I hope colleagues from both sides will join me in supporting the regulations, which I commend to the Committee.

2.36 pm

Mr Pat McFadden (Wolverhampton South East) (Lab): It is a pleasure to serve under your chairmanship, Mr Pritchard. I am grateful to the Minister and thank him for his explanation of the regulations. I should make clear at the outset that we support the idea of a breathing space for indebted households and businesses. I am grateful to charities such as StepChange, the Children's Society, Citizens Advice and others, with whom we have discussed the matter or who have provided information about it.

This idea has been some time in the making. A similar scheme already exists in Scotland. The hon. Member for Rochester and Strood (Kelly Tolhurst) introduced a private Member's Bill on this issue in 2016. There was a consultation and a response between 2018 and 2019, all leading to the regulations before us today.

Although the regulations themselves are quite detailed, the basis of the scheme is simple: those seeking approved debt advice will be given a breathing space of 60 days, during which they can reach a sustainable repayment plan. That 60-day duration can be longer for people undergoing mental health treatment. During the breathing space, debtors will be protected from fees, charges and enforcement action. The overall aim is that repayment plans will be reached that make returns to creditors and that stop debtors from being financially crushed by the weight incurred.

The regulations are important not only because of the ongoing problems of debt but because a lot of households are under increased financial pressure because of covid, as the Minister said. Those effects are likely to become worse in the coming months as unemployment rises. In the wider context, the Minister might be aware, for example, of the Reset the Debt campaign, organised by a number of UK Churches, that draws attention to the problem of increased debt due to covid and calls for a jubilee fund to help with repayment.

Any help that people can get in coping with such debt is, of course, urgent and important. I have a few questions for the Minister, and I would be grateful if he addressed them. The regulations say that the breathing space should be of 60 days' duration. For many people, that might be enough time to agree a repayment plan, but for some it might not, particularly if a major event—the death or serious illness of a family member, for example—occurs within that 60 days. Extra covid-induced debt may also make it harder to agree a repayment plan within 60 days. Although the regulations say 60 days at the moment, will the Minister undertake to review the 60-day period at some point in case it needs to be lengthened?

Secondly, the regulations stipulate that there can be only one breathing space within a 12-month period for the non-mental-health part of this. I appreciate that that is designed to stop people from gaming the system by entering repeated breathing spaces over and over, but again there can be drastic changes in circumstances within a 12-month period. Will the Minister keep that aspect of the regulations under review?

Thirdly, there is the question of which kinds of debt qualify for protection under the regulations and which fall outside it. One area raised with us is the question of advance payments under universal credit, which currently fall outside the scope of the regulations and are therefore not protected by the breathing space. Citizens Advice has reported that in 2018, for example, deductions for advance payments were taken from 41% of universal credit payments, and those deductions can be high—they can go up to 30% of a claimant's standard weekly allowance. Given that everyone expects universal credit claims to grow in the coming months and that, therefore, it is also highly likely that the number of advance payments will grow, will the Minister review the decision to place advance payments from universal credit outside the scope of the breathing space?

Finally, I would like to ask the Minister about the cost-benefit analysis in the impact assessment before us today. There are some sizeable figures here, with an estimated overall benefit to society of some £9.2 billion. Can the Minister tell us how that is calculated and how confident the Government are in that estimate?

This is a welcome measure, which we will support, but it is also one measure coming in after several years of debate and consultation, and it does not come into force until May next year. There is no doubt that on both the household and business debt fronts the issue will grow in importance and it is likely to require further Government action in the coming months.

We saw in the early days of the pandemic what can be done where there is a will and additional resources—on homelessness, for example. As we approve the regulations today, I hope that the Minister can give some indication that the action we are taking today will not stop just with these breathing space provisions and that the Government will also consider what further help can be given to indebted households and businesses in the months ahead.

2.42 pm

John Glen: I thank the right hon. Gentleman for his characteristically constructive approach and for the support of the Labour party throughout the passage of this legislation. There is a wide consensus on this measure. The right hon. Gentleman asks four questions and then makes some wider observations about the debt context in the country, and I will address each in turn.

First, the right hon. Gentleman asks about the duration of 60 days. He drew attention to the fact that there will be a need to review that, given the extra debts and the evolving situation of individuals in the moratorium situation. Through the design of this and through consultation, we looked very carefully at that time period and the flexibilities that should or should not exist, and it was decided that it was necessary to have a standard process. If we had a long list of supplementary conditions, that would make it very difficult for the scheme to be clear and understood by the wide range of debt professionals who will be trained to work with it. In the sense that all measures that the Government take are under review, I give the right hon. Gentleman the commitment that we will look at the issue very carefully. However, I am yet to be persuaded that we can develop a clear model to make that work.

On the second question, the right hon. Gentleman remarks about the fact that there will be a stipulation that an individual can enter the moratorium only once in a 12-month period. I would answer in a similar way: as he acknowledges, that stipulation is to prevent people from gaming the system or not taking the outcome seriously. It is a serious intervention to go into a moratorium, put all one's debts on the table and actually come up with a plan—for which there are different pathways, which we are working on—in terms of how an individual would move forward. We do not want to diminish the significance of that intervention. Obviously, we will work with the sectors involved in delivering it to see how it works, but at the moment we will stick to that policy.

The right hon. Gentleman then asks about qualifying debts and rightly draws attention to the exclusion of advance payments in respect of universal credit; third-party

[John Glen]

reductions are also excluded. It is our aspiration as a Government to include all UC debts—indeed, we do include overpayments in the scheme—but the situation is a function of the systematic upgrade of the IT systems of the DWP, which are, of course, under significant strain at the moment. However, we are moving in that direction, and I will work with colleagues across Government to improve the scope of the coverage of UC advances. This is not the final word on the matter.

The right hon. Gentleman then asks about the cost-benefit analysis, which forecasts a social value of £9.2 billion in 2016 prices in economic benefits to businesses, charities and voluntary bodies. The business net present value is forecast to be £6.1 billion. I cannot give him chapter and verse on how that has been calculated, but if I can secure any more details, I will write to him.

The right hon. Gentleman then asks about the broader context and the evolving needs of the nation with respect to debt advice. He is right to say that it is incumbent on Government to move as that situation evolves, and that

is why we gave an extra £37.8 million to the debt advice sector: it has £100 million through this financial year. We will keep that under review and, further to the Budgets from 2018 onwards, we will continue to pilot the no-interest loan scheme credit union reform; legislation to do that is on the agenda and has been committed to. I will continue to work with the Minister for Pensions through the Financial Inclusion forum on other interventions in this space.

I acknowledge that there is still a lot of work to do for Government, creditors, debt advice providers and others to make the breathing space a reality, but I do think we can see today as a significant moment of progress. I believe this scheme will have a genuinely transformational effect on the lives of people in problem debt in England and Wales when it comes into effect next May. I hope the Committee agrees and will now support the regulations.

Question put and agreed to.

2.47 pm

Committee rose.

