christians against poverty
CAP

Shipshape or sinking ship?

Problem debt and the effect on a person's financial and mental wellbeing

July 2021

always hope.

Why does wellbeing matter?

Financial and mental wellbeing are central planks that allow us to plan, connect and have control over our lives.

We all wish to be healthy, happy and comfortable in life. As human beings, there are many factors that contribute to the quality of life and level of satisfaction we experience, and the concept of wellbeing is often applied to these. When we have high wellbeing we feel 'secure and in control' and we all benefit – communities are stronger, businesses benefit and the economy is boosted.[1]

Two key and interconnected factors to living well are financial and mental wellbeing. Having a high level of wellbeing in these areas allows people not only to meet essential living costs and cope with the pressures of daily life that we all face, but also to feel connected to others, prepared to weather the storms that may come in the future and to feel positive about their lives.

Understanding financial wellbeing at the wider population level indicates how well the financial sector and education are meeting people's financial needs. It also provides a way to understand this in the context of broader social and economic concerns, such as income, employment and safety nets.[2]

Similarly, mental wellbeing is about people feeling good and, crucially, functioning well. It is influenced by external factors, which we often do not have control over, and how we respond to them. Understanding wellbeing gives us an indication of people's resilience and ability to keep sailing in challenging circumstances.

This is also important to understand at the population level, as mental wellbeing is known to have a powerful influence on physical health, productivity and relationships, and is important for public health, the economy and society.[3] This also has relevance to debt advice and financial difficulty, in which poor wellbeing can limit someone's ability to resolve issues and prevent financial difficulties recurring.

1 | *Money and Pensions Service (2020) The UK Strategy for Financial Wellbeing 2020-2030*
2 | *E. Rhyne (2020) Measuring financial health: What policymakers need to know*

3 | *Warwick Medical School webpage 'What is mental wellbeing?' accessed 25/05/21*

In this paper

This paper looks at the level of financial and mental wellbeing of people facing financial difficulty, and the factors that harm and limit the wellbeing they can achieve.

Particular focus is paid to the impact of deficit budgets, which have become increasingly common, and the protection offered by the social security system.

The data used in this research is from a survey of 897 CAP clients, and has been compared to the Consumer Financial Protection Bureau (CFPB) Financial Well-Being Scale and Warwick-Edinburgh Mental Wellbeing (WEMW) scales (see methodology for more information on page 23).

The results show that people accessing debt advice have a range of mental and financial wellbeing scores, but on the whole these are lower than for the UK population as a whole. Some groups fare worse than others, and insolvency clients, those on the lowest incomes, younger age groups and those subject to particular welfare policies all have lower financial and mental wellbeing.

This has implications for the debt advice sector and creditors, who have a key opportunity to improve people's financial health as well as helping them deal with debts. It also demonstrates how all forms of wellbeing are compromised by a lack of income and social security, which are essential to underpinning health and setting a course for positive futures.

Recommendations

To help people who are recovering from debt to sail safely ahead we recommend:

Increasing awareness and action on wellbeing

- The UK's financial wellbeing should be measured annually by the Money and Pensions Service (MaPS) using an agreed academic index.
- Problem debt should be named a public health issue.
- Further research should be conducted to understand the link between wellbeing, support networks and debt advice outcomes.
- Regulation of financial services should utilise measures of financial wellbeing outcomes and behaviours.

Enabling people to maximise their wellbeing

- Insolvency fees must be removed for people with insufficient surplus income to save for them.
- Initiatives should be trialled to improve the wellbeing of people pursuing insolvency during and after debt advice.
- The planned cut to Universal Credit and Tax Credits should be cancelled and legacy benefits increased by £20 per week.
- A cost of living review of social security should be conducted.

Real lives

Serious health issues meant Richard[4] had to leave his well-established job after a period of sick leave. Social security payments barely kept Richard's head above water; he was living in a hostel after having slept in his car for weeks. His financial and mental wellbeing suffered.

Now awaiting six months of treatment for a tumour, which has been delayed because of the COVID-19 pandemic, Richard shares how he reached this point and his fears for the future.

'When my marriage broke down I found myself in a massive freefall. I became homeless and slept in my car to avoid living on the streets. I had debts that my ex-wife had taken out, and trying to maintain all the payments was really difficult.

The car got impounded as I couldn't afford to pay the road tax. I had no money and my mental state completely went. That was the point that I could not stay in my job any longer. The first few weeks were fine, but I had nowhere to wash and the cracks started to show. It was then that I was also diagnosed with a tumour in my ear.

I had no food. I had no money. My income was just not enough to cover everything. The analogy I used was I felt like I was in a sinking ship and I was putting plywood in different places but the water was still coming in. I was still sinking.

Being able to speak to Lin [CAP Debt Coach] took some of the load away from me and gave me the ability to start thinking straight. Without the debt, there has definitely been a respite. But I'm stuck. It's really difficult as I can't work with my health issues. That's the predicament I find myself in. A couple of years ago I was working, and unaware of all of this. I'm not asking even to be able to live comfortably, it's just about surviving. Even that's too difficult.'

Read more from Richard throughout the briefing.

4 | *Names have been changed to protect anonymity.*

Financial wellbeing

Being financially healthy is different from being financially included, which relies primarily on having access to financial products and services. Financial wellbeing is concerned with someone's security, control and freedom.[5] This is best understood on a spectrum (see figure one) on which access and knowledge (financial inclusion) are only the starting point, and capability and health are key, but alone are insufficient to achieve a high level of financial wellbeing.

Figure one: Financial wellbeing continuum

Basic financial inclusion	Financial capability	Financial health	Financial wellbeing
Access and knowledge	***Confidence and usage***	***Stability and resilience***	***Freedom***
Access to financial products and services	*Confidence to apply knowledge and skills to money management*	*Management of day-to-day financial needs*	*Ability to meet long-term financial commitments*
Basic financial education knowledge		*Ability to face unexpected financial challenges*	*Ability to make financial choices that enable enjoyment*

Source: United Nations Capital Development Fund

'Financial wellbeing is about feeling secure and in control. It is knowing that you can pay the bills today, can deal with the unexpected, and are on track for a healthy financial future. In short: confident and empowered.'

The Money and Pensions Service, 2020

5 | *UNCDF Financial Health presentation to Financial Inclusion Commission 2 June 2021*

Financial wellbeing

Both someone's present financial security and the ability to safeguard this security in the future matter for financial wellbeing. So does having control over day-to-day finances now, and being able to meet future financial goals. This research uses the CFPB Financial Well-Being Scale, which is the primary evidence-based measure of financial wellbeing.[6] This measure considered four key elements of financial wellbeing (see figure two).

It is not possible to judge how the scores of CAP clients compare to the UK population as no comparable data or regular measurement of financial wellbeing exists. However, available data suggests CAP clients have lower financial wellbeing than the general population. For instance, the Fidelity Global Financial Wellness Survey consists of four similar elements (budgeting, debt, protection and savings) and in 2020 reported an average financial wellness score of 63 out of 100.[7] Comparison to the Coronavirus Financial Impact Tracker suggests CAP clients are three times more likely to be struggling financially than the UK population.[8]

Figure two: The four elements of financial wellbeing

	In the present	In the future
Financial security	*1. Control over day-to-day, month-to-month finances*	*3. Capacity to absorb a financial shock*
Financial freedom of choice	*2. Financial freedom to make choices to enjoy life*	*4. On track to meet financial goals*

Source: Consumer Financial Protection Bureau (2015) Measuring financial wellbeing: A guide to using the CFPB Financial Well-Being Scale

6 | E. Kempson et al. (2017) *Financial Well-Being: A Conceptual Model and Preliminary Analysis*

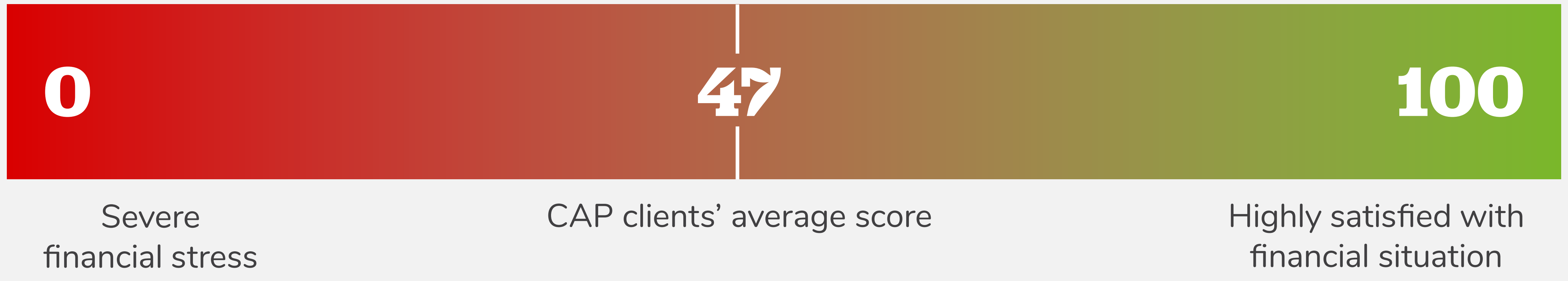
7 | Fidelity (2020) *Fidelity's Global Financial Wellness Survey: What it means to be financially well - a comprehensive framework*

8 | E. Kempson and J. Evans (2020) *Coronavirus Financial Impact Tracker: Key findings from a national survey, Standard Life Foundation. 12% answered 'constant' to the question 'How much of a struggle is it to keep up with living costs, bills or commitments?', whereas 34% of CAP clients said they are always or often struggling financially. This is broadly comparable as 35% of respondents to the Standard Life survey who were in arrears said they were constantly struggling to pay bills or meet credit commitments.*

On the whole, CAP clients have an intermediate financial wellbeing score, with the average being 47 out of 100. However, individual scores range from 19 to 90 out of 100.

Financial wellbeing – average scores

Average (mean) financial wellbeing scores mapped to the CFPB scale:



Being in debt, especially problem debt, constrains both present financial security and freedom, and also makes it difficult to build resilience and meet future goals. For instance, research by the Financial Conduct Authority (FCA) found that people who have spent fewer days in their overdraft reported higher financial wellbeing.[9] However, falling into problem debt or becoming debt free are not automatic switches between poor and good financial wellbeing. Financial wellbeing exists on a continuum, and there is substantial variation in the level of wellbeing experienced by people in debt.

There are a few factors that contribute to the variation in scores:

Recovery from financial difficulty is a journey

Some of the clients surveyed are only just beginning to address their problem debts and receive advice, while others are several years into a debt management plan and have had more opportunity to put new financial management skills into practice.

Not everyone in debt has poor financial capability

13% of CAP clients report problems with budgeting as the primary reason for their debt problems. However, the top reason is low income (20% of CAP clients) and many people face difficulty due to an income shock rather than a lack of skills and confidence.[10]

Depth and persistence of poverty

Having insufficient income and savings significantly limits people's financial wellbeing, and while the majority of CAP clients live on a low income, those living in poverty (and particularly persistent or deep poverty) will have the most difficulty achieving gains in wellbeing.

9 | *FCA (2020) Occasional Paper 58: Understanding consumer financial wellbeing through banking data*

10 | *Christians Against Poverty (2021) Client Report 2021: Our story*

The elements of financial wellbeing

The CFPB Financial Well-Being Scale index asks people to indicate how often a range of statements about their finances are true, drawing out their felt financial security or freedom both now and in the future. This includes whether they feel their finances control their life, whether they have sufficient savings or have money left over at the end of the month. The less often a statement that indicates low financial wellbeing is true, the higher their overall score.

However, for all of the statements a greater number of CAP clients answered negatively than positively. These span all four components of financial wellbeing – present and future, financial security and freedom are both limited.

+ The most common positive contributors to CAP clients' financial wellbeing scores were:

- **Present security:** No longer struggling financially.
  30% rarely or never feel that they are still struggling financially.

- **Future freedom:** Not being held back from achieving their goals.
  30% rarely or never feel they will never have the things they want in life because of their money situation.

– The most common negative contributors to CAP clients' financial wellbeing scores were:

- **Present freedom:** Finances controlling their life.
  51% always or often feel their finances control their life.

- **Present security:** Not having money left over at the end of month.
  47% rarely or never have money left over at the end of the month.

- **Future security:** Concern savings would be insufficient.
  42% always or often feel concerned that they money they have saved will not last.

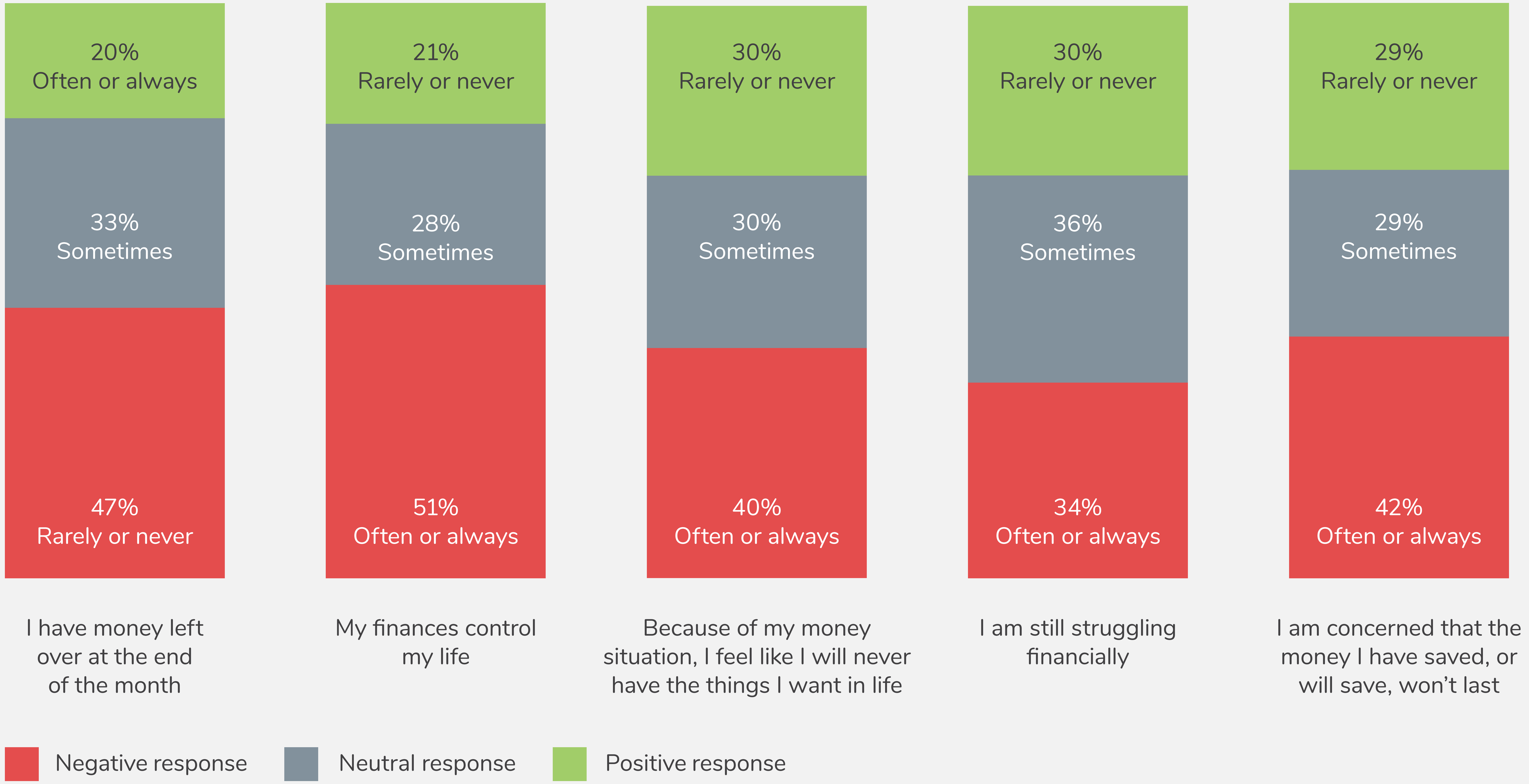
- **Future freedom:** Being held back from achieving their goals.
  40% always or often feel they will never have the things they want in life because of their money situation.

'I've now moved into supported living accommodation because of my health, and so my full rent is covered but I'm still walking a tightrope. If you make one mistake or have one issue there's not enough surplus to cover it. Once I've bought food and paid bills, the money's just gone.' – Richard

The elements of financial wellbeing

Financial wellbeing – components

CAP clients' responses to CFPB Financial Well-Being Scale index statements:[11]



11 | Note: not all respondents answered all questions in the index. Wellbeing scores have only been calculated for respondents who answered the full set of questions, but percentages for individual questions are based on all responses to individual questions regardless of whether respondents completed the full index.

Mental wellbeing

'A state of wellbeing in which every individual realises his or her own potential, can cope with the normal stresses of life, can work productively and fruitfully, and is able to make a contribution to his or her community.' WHO, 2001[12]

Debt often comes hand-in-hand with mental health problems, acting as both a symptom and a cause.[13] However, just as financial health is not the sole determining factor of financial wellbeing, the absence of mental illness, or being 'mentally healthy', is just one of several factors that contribute to a person's overall mental wellbeing.

Mental wellbeing is concerned with what it means to flourish and be able to contribute to a society that places demands upon all of us. How someone is functioning psychologically, as well as how they are feeling, are both important contributors.

There are many ways that being in debt depletes someone's mental wellbeing. For instance, debt causes social isolation and is known to reduce productivity at work, reducing how optimistic and useful people feel.[14] Low mental wellbeing can also exacerbate debt problems by making it harder to think clearly and deal with problems head-on, which limits someone's ability to engage with creditors and follow advice.

12 | *World Health Organisation (2001) The World Health Report 2001, Mental health: A new understanding, a new hope*
13 | *Money and Mental Health Policy Institute (2016) Money on your mind*
14 | *LSE Housing and Communities (2018) Never just a number: Evaluating the impact of a holistic approach to UK Poverty, report for Christians Against Poverty, Baker Tilly (2014) Transforming Lives: A review of the social impact of debt advice for UK individuals and families, report for Stepchange Debt Charity*

Figure three: How factors of mental wellbeing interact

Psychosocial functioning
Psychosocial functioning is our ability to perform the activities of daily life, engage in relationships with others and meet the demands of living in our society. This interplays with how we feel about ourselves and because of our external circumstances'.[15]

Negative feelings
Negative feelings can reduce a person's confidence in their capabilities and lead to reduced psychological functioning, which again diminishes mental wellbeing and emotional resilience to negative life events.[16]

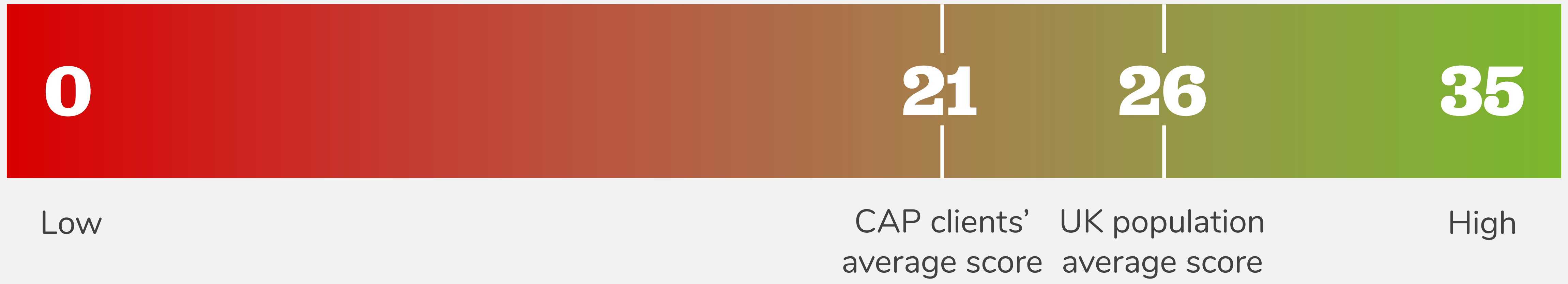
15 | Mehta et al. *(2015) Psychosocial Functioning in Depressive Patients: A Comparative Study between Major Depressive Disorder and Bipolar Affective Disorder*
16 | *Warwick Medical School webpage, Mental wellbeing: disciplinary and historical context, accessed 07/05/21*

Mental wellbeing

On the whole, CAP clients have a lower mental wellbeing score than the UK population, with a mean score of 21 compared to the UK average of 26.[17] However, individual scores range from the lowest possible score of 7 to the highest of 35.

Mental wellbeing

Average (mean) mental wellbeing scores compared to the WEMW scale:

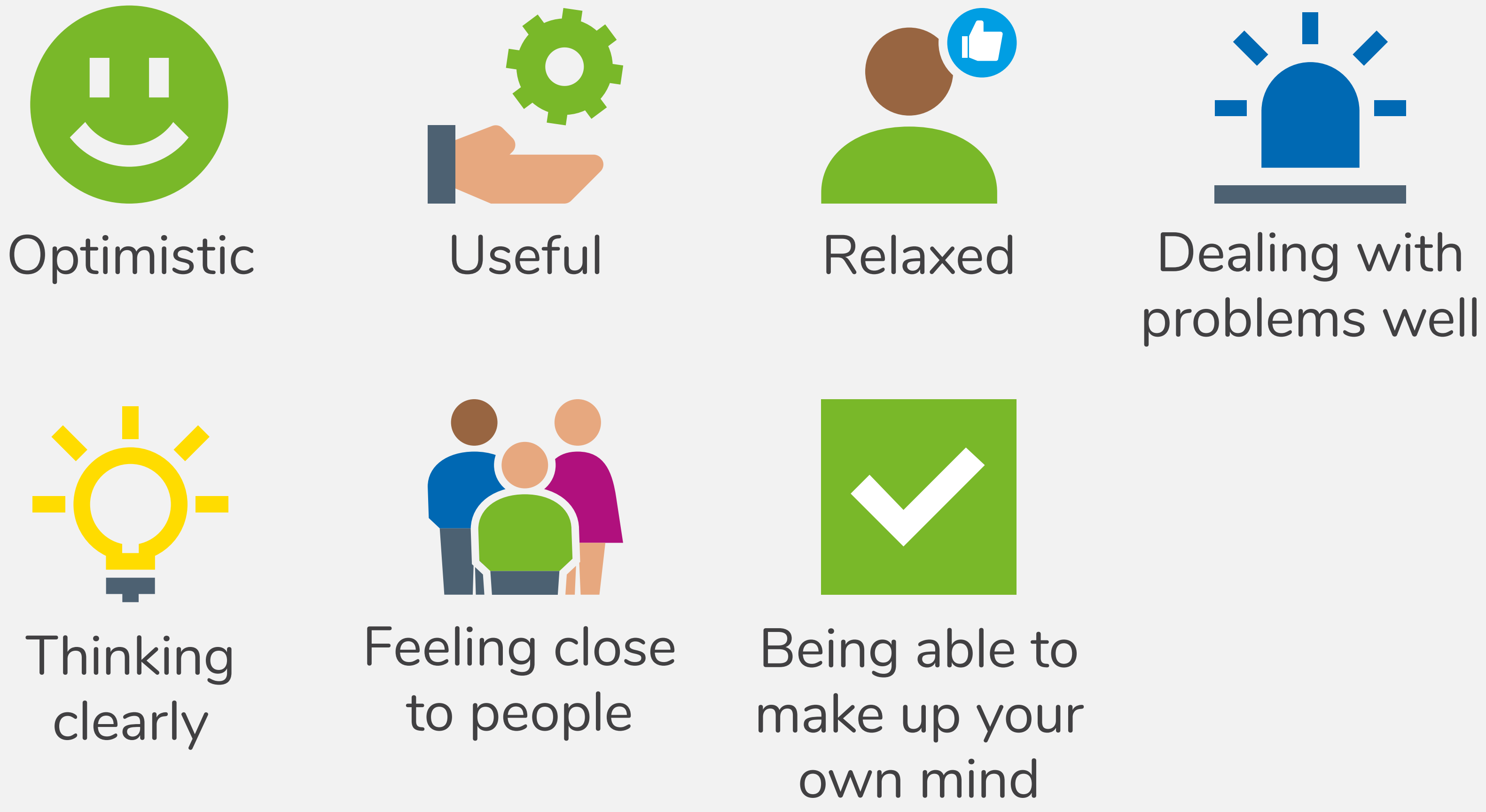


A large number of CAP clients (45%) report that they or a household member has mental ill-health and this will have a bearing on the average score. Looking at this group in isolation, the average mental wellbeing score is one point lower than the average for all clients, at 20 out of 35. Of note is the smaller range in scores for this group. 28 is the highest score for any respondent with a mental health problem, seven points below the highest possible score.

The Warwick-Edinburgh Mental Well-Being Scale looks at seven elements of mental wellbeing, which are all determined by both someone's psychosocial functioning and their feelings. The impact of each factor cannot be isolated into completely separate components of mental wellbeing due to their connection.

'I arranged payment plans, but after each month I was still in the same situation as my income was not enough. I couldn't think straight as I was madly depressed with a lot going on. My concentration levels weren't great.' – Richard

Figure four: The seven elements of mental wellbeing



Source: The Short Warwick-Edinburgh Mental Wellbeing Scale

17 | NHS Digital (2017) Health Survey for England 2016 Wellbeing and mental health. Average wellbeing scores for men and women in England were 50.1 and 49.6 respectively, converted to the abbreviated scale this equates to an average score of 25 for both groups.

The elements of mental wellbeing

For all elements of mental wellbeing, more CAP clients responded positively to the statements than responded negatively.

The most common positive contributors to CAP clients' mental wellbeing scores were:

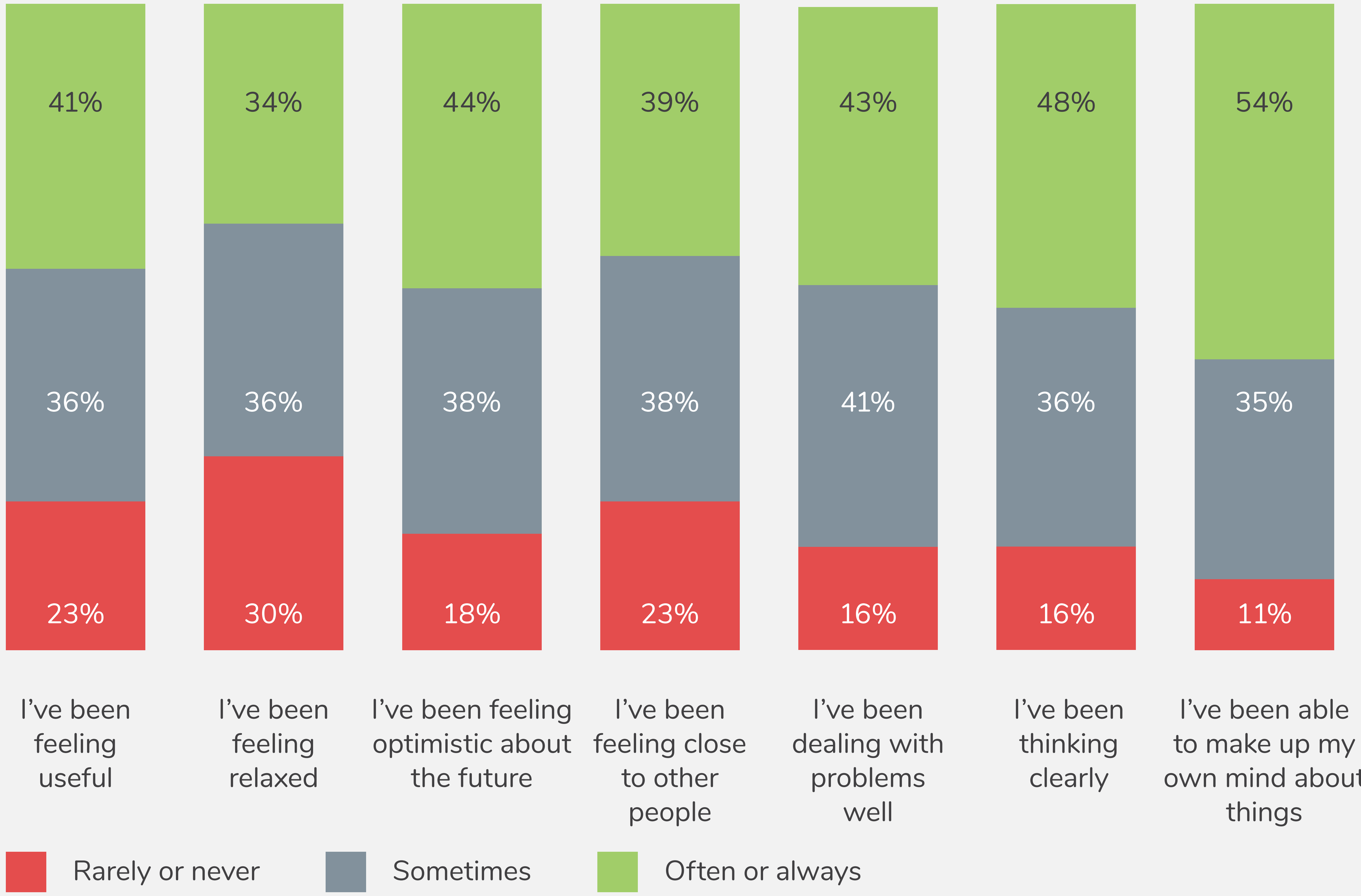
- **Being able to make up their own mind**
  54% are always or often able to make up their own mind.
- **Thinking clearly**
  48% can always or often think clearly.

The most common negative contributors to CAP clients' mental wellbeing scores were:

- **Feeling stressed or anxious**
  30% rarely or never feel relaxed.
- **Not feeling close to others**
  23% rarely or never feel close to other people.
- **Not feeling useful**
  23% rarely or never feel useful.

Components of mental wellbeing

CAP clients' responses to WEMWBS statements:[18]



18 | Note: not all respondents answered all questions in the index. Wellbeing scores have only been calculated for respondents who answered the full set of questions, but percentages for individual questions are based on all responses to individual questions regardless of whether respondents completed the full index.

What harms wellbeing?

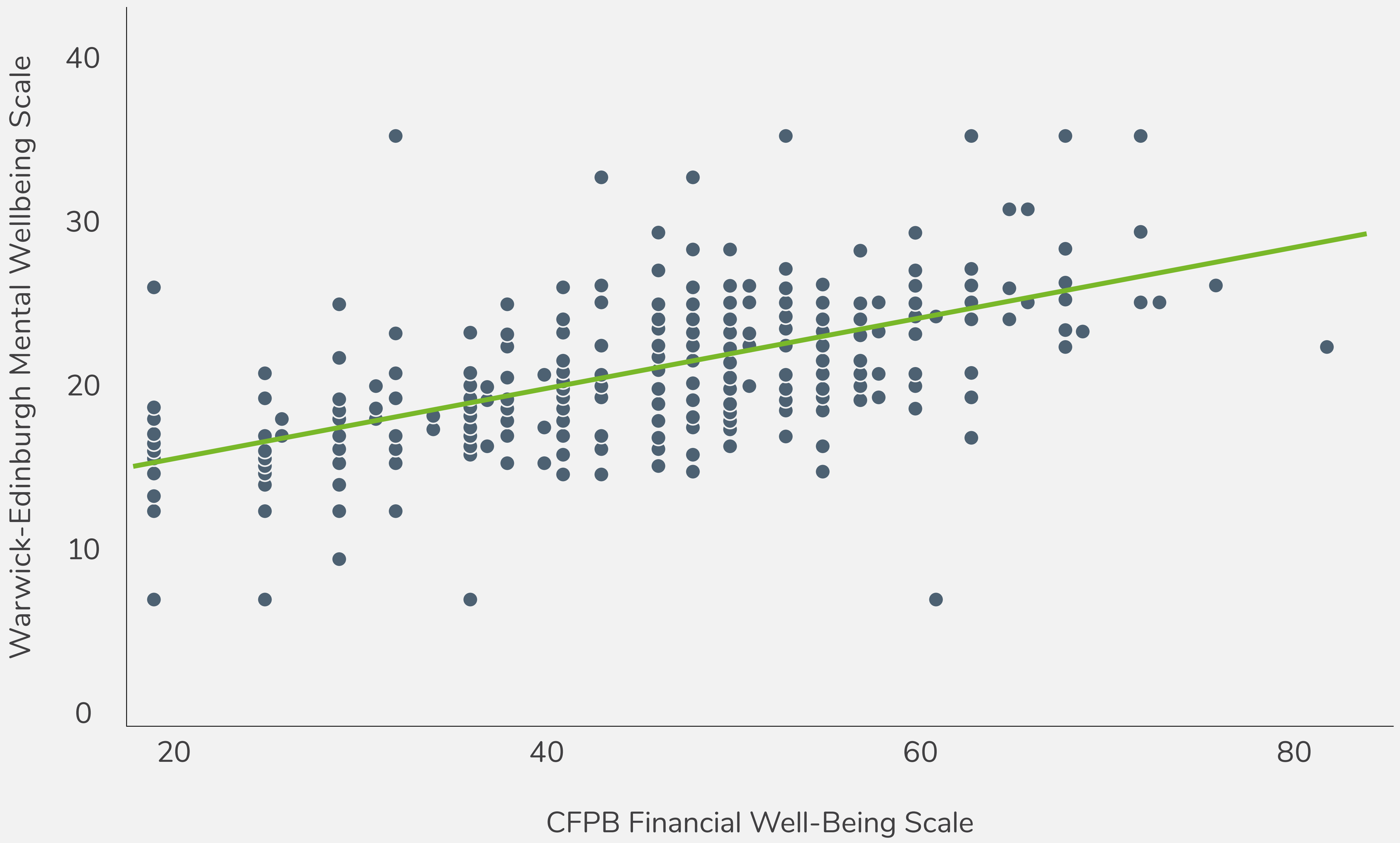
In recent years, there has been a growing understanding of how financial and mental wellbeing come hand-in-hand.

This can also be seen in this data. While there is some divergence, on the whole CAP clients' financial and mental wellbeing scores are positively correlated, meaning that people were more likely to have both high mental and financial wellbeing than one high and one low score.[19]

While mental and financial wellbeing impact each other, there are other protective and harmful factors, many of which appear to have a similar effect on both types of wellbeing. Social and economic factors have an important influence on financial wellbeing in addition to behaviours (as determined by knowledge, skills, attitudes and psychological factors).[20] For example, globally, financial health has a strong positive correlation with income, and the opposite relationship with income volatility.[21]

Mental and financial wellbeing

CAP clients' financial and mental wellbeing scores compared:



19 | *Correlation score of 0.597 (a moderate correlation).*
20 | *E. Kempson et al. (2017) Financial Well-Being: A Conceptual Model and Preliminary Analysis*
21 | *E. Rhyne (2020) Measuring financial health: What policymakers need to know*

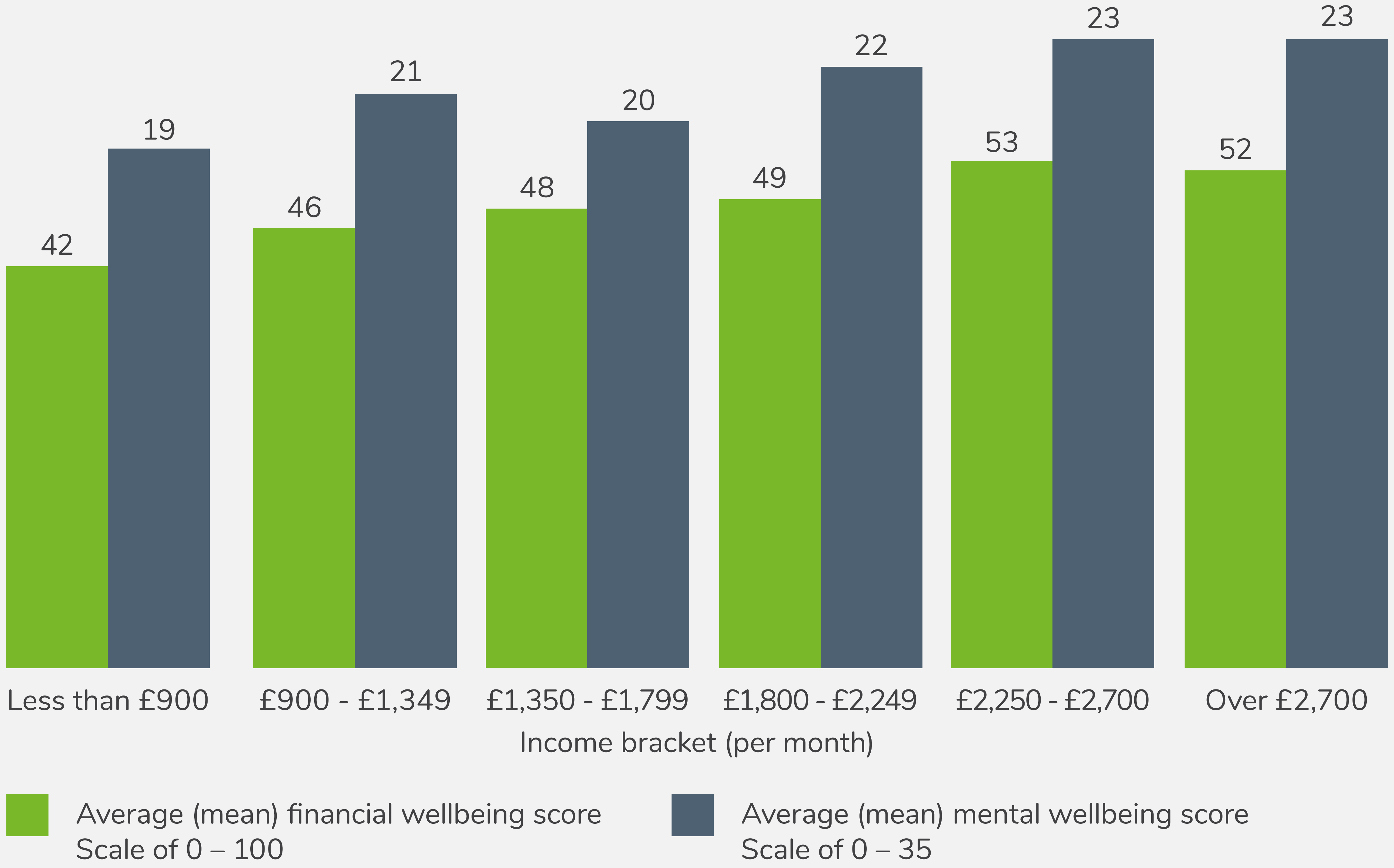
What harms wellbeing?

While it is not possible to prove the relationship between cause and effect with this data alone, it indicates the following.

Low income harms both financial and mental wellbeing

Both scores rise with income, particularly at the lower end of the income distribution.

Average (mean) financial and mental wellbeing scores by income bracket:



Older age groups have higher financial and mental wellbeing

Both average scores rise with age, but gains in mental wellbeing stop before financial wellbeing ones.

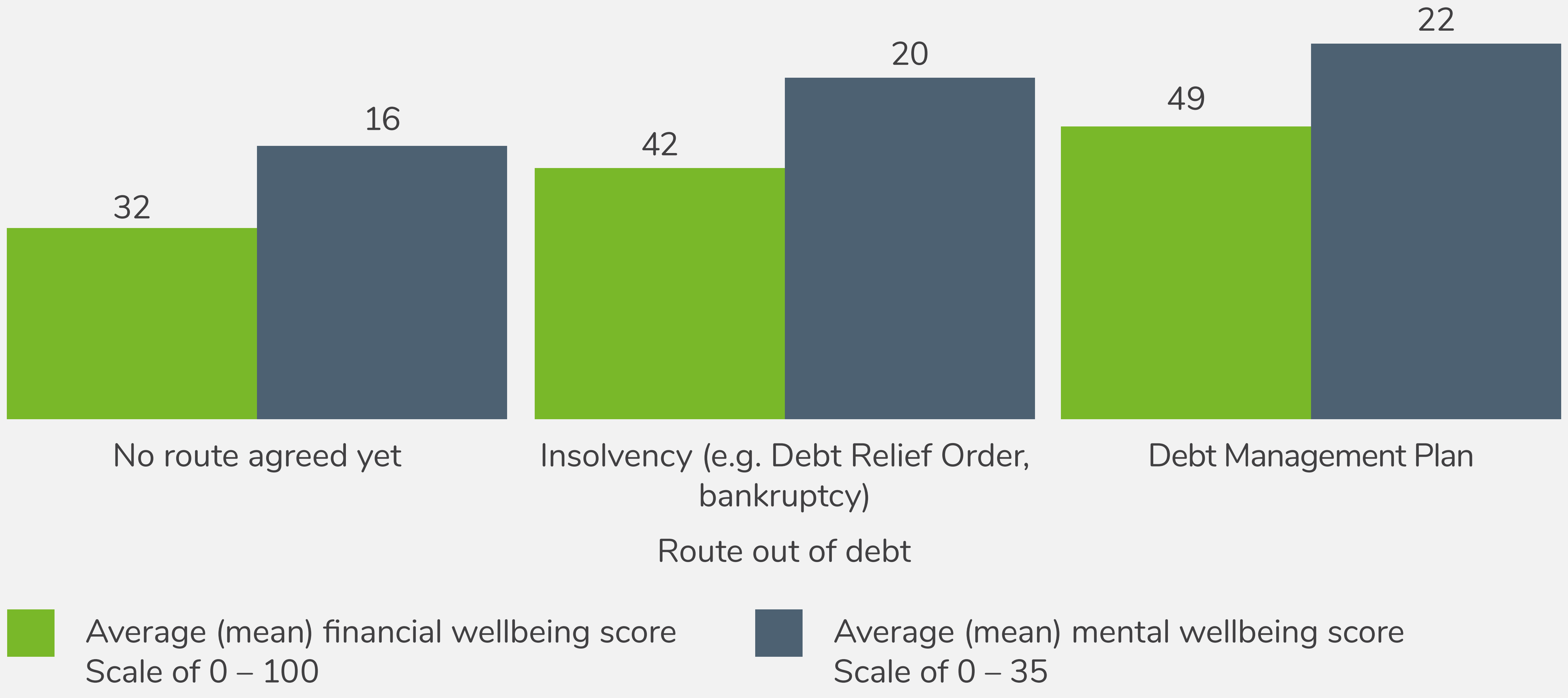
Average (mean) financial and mental wellbeing scores by age bracket:

What harms wellbeing?

An agreed debt solution increases financial and mental wellbeing

Both average scores are higher for people with an agreed debt solution in place, particularly for those able to repay their debts through a Debt Management Plan.

Average (mean) financial and mental wellbeing scores by debt solution status:



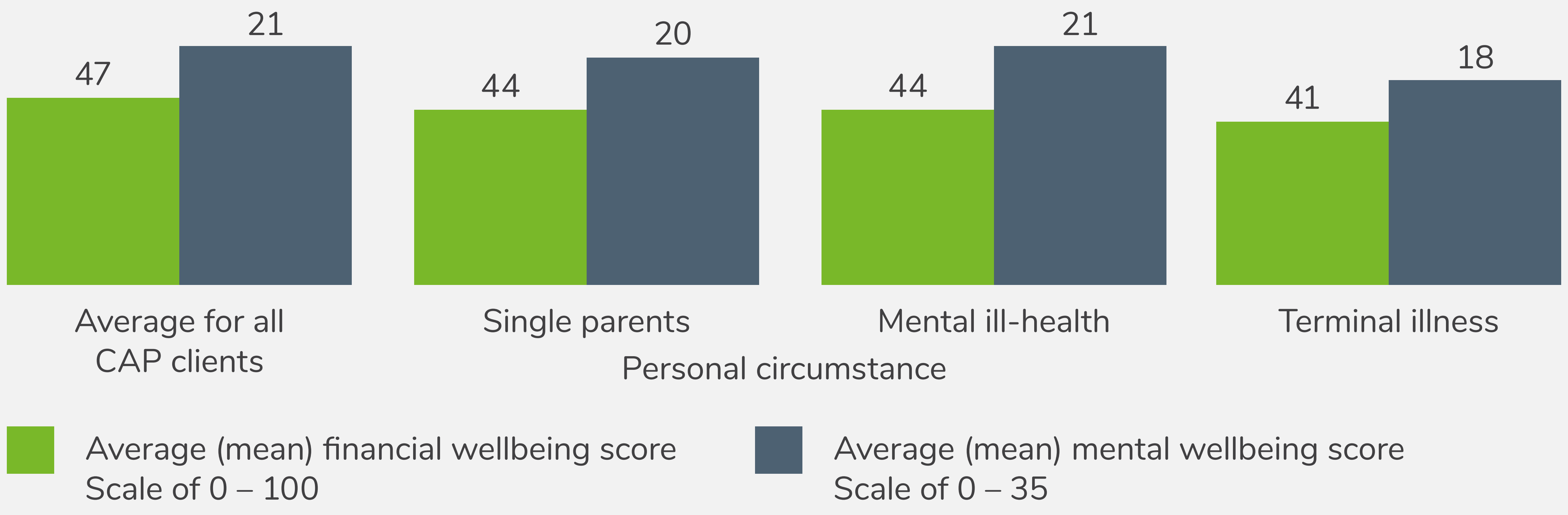
'I was so elated when I received a Debt Relief Order. Life is still really difficult and my health has deteriorated, but there have definitely been a few months of complete relaxation and it's wonderful not to worry when I see letters come through the letterbox or private numbers calling me.' – Richard

Not all personal circumstances have an additional impact on financial and mental wellbeing by these measures

Many of the common personal challenges faced by people in debt, or characteristics that increase the risk that someone is vulnerable, have little or no additional effect on average financial or mental wellbeing scores.[22] Exceptions to this are:

- Having a terminal illness, which reduces both average scores.
- Being a single parent or having a mental health problem, which reduces average financial wellbeing scores.

Average (mean) financial and mental wellbeing scores by personal circumstances or vulnerability risk indicators:



22 | This includes physical disability (average financial wellbeing score of 47 and mental wellbeing score of 20), learning difficulty (average financial wellbeing score of 45 and mental wellbeing score of 21), bereavement (average financial wellbeing score of 45 and mental wellbeing score of 20) and serious illness (average financial wellbeing score of 46 and mental wellbeing score of 20).

What harms wellbeing?

Certain welfare policies harm financial and mental wellbeing

Both average scores are highest for CAP clients who do not receive income from social security. They are also substantially lower for those subject to certain welfare policies.

Average (mean) financial and mental wellbeing scores by receipt of social security and welfare policies:

'The cheapest room I could find was £400 a month but they wanted £800 for the deposit. It was really difficult to find that. At the time I was on sick leave but to get help with my housing costs, I had to get Universal Credit. It took two months for my benefits to start by which point the hostel said I was £2,000 in debt. I just felt panic. I had bailiffs calling and PCNs too.' Richard

A spotlight on deficit budgets

Where someone has a deficit budget, their financial wellbeing is significantly impaired. Finances are continually a struggle, with money running out before the end of the month, leaving bills unpaid or no money for food and utility bills.

Deficit budgets – where someone does not have enough money to cover their essential living costs – are becoming increasingly common. Two in five (38%) people accessing debt advice now do not have enough money to cover their essential living costs.[23]

Unsurprisingly, those with low financial wellbeing scores are the most likely to be forced to go without these basic essentials. 35% of those with scores in the bottom quarter of the Well-Being Scale have regularly gone without two basic necessities (food, lighting, heat, basic toiletries, appropriate clothing for the weather).

The daily experience of not having enough is also known to have a cognitive impact, whereby the scarcity effect limits cognitive capacity, and also leads to increased negative feelings.[24] Living on a deficit budget is a constant struggle, and going without has a significant impact on other areas of life, such as being unable to keep in touch with loved ones or use public transport to get to health appointments.

Deficit budgets are a significant challenge for the debt advice sector and funders. Recent research found that 10% of CAP's bankruptcy cases in the past two years were returning clients who had accessed a Debt Relief Order in the past six years.[25] If this trend continues, not only will some people be unable to increase their financial wellbeing, but for those people, avoiding recurring financial crises and problem debt will be impossible.

'It's very difficult. If a bill is higher one month it completely throws you off and has a knock-on effect for the next month. I don't know what else I could sacrifice. There is nothing else. I don't know what I should do.' Richard

23 | *Citizens Advice (2020) Negative Budgets: A new perspective on poverty and household finances*
24 | *The Behavioural Insights Team (2016) Poverty and decision-making: How behavioural science can improve opportunity in the UK, S. Mullainathan (2014) Scarcity: The true cost of having nothing*
25 | *Christians Against Poverty (2021) Simplify the solution*

A spotlight on deficit budgets

The drivers of deficit budgets can be expenditure or income-related. Helping someone with debts is not only about advice, but helping people make difficult and complex choices. These are often highly emotional decisions, with implications on people's lives and families. It is especially difficult where people are forced to choose between basic necessities and keeping something that deeply matters to them, something that will impact their mental wellbeing if it's given up, such as a long-term pet who is their sole companion.

Clients may be able to take some action to reduce their deficit, but in many cases there is little opportunity for immediate change in their situation or they require specialist advice or significant support to take necessary actions. In many cases, improving their situation is impossible due to welfare policies, for example being unable to reduce deduction rates for debts below the minimum set by the Department of Work and Pensions, or having little true choice due to the unavailability of cheaper housing or better paid work in their area.

Figure five: Deficit budgets

Potential actions to address income and expenditure-related drivers of deficit budgets by impact and difficulty of taking the action:

A spotlight on social security

64% of CAP clients in this sample received income from the social security system.

This could be to supplement low wages, provide help with the costs of raising children or because they are not working due to unemployment, health or disability. In all of these circumstances, the social security system provides a vital lifeline to allow people to stay afloat financially.

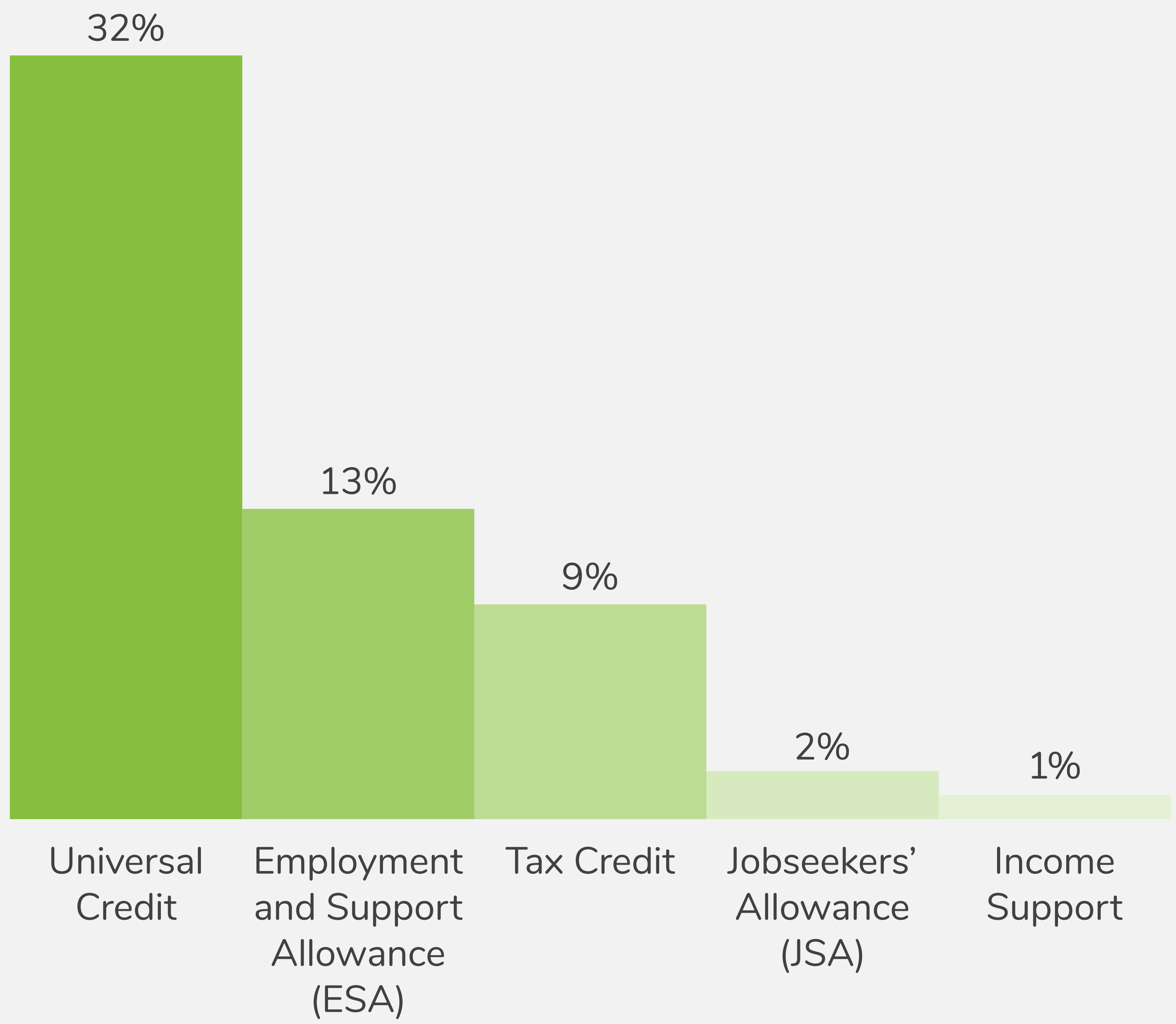
However, many people struggle to afford their essential living costs despite help from social security. This is particularly the case for those who are entitled to lower rates because they receive a legacy benefit (ESA, JSA or Income Support), which were not increased in April 2020 like Universal Credit and Tax Credits. This affects 16% of CAP clients.

For those who received it, the £20 per week increase reduced the level of poverty experienced by those receiving Universal Credit and Tax Credits.[26] However, this protective effect will be lost when one in five (22%) CAP clients face a cut of up to £20 per week in October 2021. This reduction of £87 a month is significant because 40% of CAP clients in receipt of Universal Credit receive less than £900 of income a month, which makes the cut equivalent to 10% of their total income. Many people, like Richard, are not aware that this is coming, having not been in receipt of Universal Credit before it was increased, and are therefore unprepared for their income to drop.

'I didn't realise my payments were due to reduce in April, and now will in October. It will be a lot worse if my payments are cut by £20 a week. It's already made worse by the deductions that are taken. It would be better if on a case-by-case basis they looked into people's situations to see what is affordable, but they are for a blanket amount.' – Richard

Social security type

Percentage of CAP clients receiving each type of income-related social security:



26 | *Joseph Rowntree Foundation (2020) Briefing: Autumn Budget - why we must keep the £20 social security lifeline*

A spotlight on social security

This picture is further complicated because 11% eligible for the £20 per week increase did not receive the full amount, and 25% did not see any material increase in their payments at all due to the impact of other welfare policies or the taper rate.

While legislation defines social security entitlements as the amount that the law says someone needs to live on, 22% of CAP clients in receipt of social security receive less than their entitlement because their payments are reduced by welfare policies or debt repayments.[27] Many are subject to multiple policies, the impact of which is not assessed holistically, and people subject to the benefit cap, Bedroom Tax, Local Housing Allowance and deductions to repay debt are unable to afford basic necessities or forced to borrow to pay for them in greater numbers.

80% of CAP clients subject to the **benefit cap** borrowed money to pay for food, clothing or other living costs

40% of CAP clients subject to the **Local Housing Allowance** are single parents.

58% of CAP clients subject to the **two-child limit** could not afford appropriate clothing for the weather for them or their family

67% of CAP clients subject to the **Bedroom Tax** regularly went without heating while in debt

48% of CAP clients repaying a **Universal Credit Advance** are often or always still struggling financially

60% of CAP clients subject to **deductions to repay debts** have mental ill-health

27 | 9% of CAP clients have their payments reduced because of welfare policies, including the benefit cap, Bedroom Tax, two-child limit and/or the Local Housing Allowance. 17% of CAP clients have their benefit repayments reduced to pay debts, including Universal Credit Advances and/or other debts.

Conclusions

Despite pressures on people in debt, debt advice has a positive effect on financial and mental wellbeing. In particular, debt advice helps people attain financial security in the present and feel able to achieve their goals in the future. However, there are substantial social and economic constraints that stop people from achieving high levels of wellbeing. This limits all areas of financial wellbeing for a large number of people, exacerbates feelings of stress and prevents a sense of meaningful social connections and contribution to society.

Almost half of people accessing debt help from CAP rarely or never have money left over at the end of the month, and deficit budgets mean many do not have enough money to see them through the month. This can be seen in the lower wellbeing attained by people on an insolvency route, who are much more likely to have a deficit budget.

The social security system is a major driver of deficit budgets and lower wellbeing. People subject to the benefit cap have the lowest average financial and mental wellbeing scores of all CAP clients, and the majority did not see any material rise in their payments when the standard Universal Credit allowance was increased in April 2020. As a result, more people subject to welfare policies, including the benefit cap and Local Housing Allowance, experience destitution and are forced to borrow for basic necessities.

How debt is collected from the social security system is also important. People with Universal Credit Advance repayments taken from their social security payments have an average financial wellbeing score seven points lower than the average for all CAP clients, and nearly half are still struggling financially.

A focus on wellbeing in the round brings to the surface other outcomes, beyond bringing debts under control, which are important to help someone realise high levels of financial wellbeing, helping them to set a course and sail higher in the water through any storms they may face.

To be able to do this the debt advice sector needs to be shipshape too. Yet debt advice alone cannot set people up to sail safely ahead. We need action to better understand the links between poor wellbeing and the social and economic seascape, and tackle the reasons some people continue to take on water despite continually working to plug the holes up as best they can.

Recommendations

To help people who are recovering from debt to sail safely ahead we recommend:

Increasing awareness and action on wellbeing

- **The UK's financial wellbeing should be measured annually** by the Money and Pensions Service (MaPS) using an agreed academic index to benchmark and encourage continuous improvement.
- **Problem debt should be named a public health issue** to encourage a whole systems approach to tackling and improving financial wellbeing.
- **Further research should be conducted to understand the link between wellbeing, support networks and debt advice outcomes,** with particular regard for single parents, to enable more people to have successful debt advice outcomes.
- **Regulation of financial services should utilise measures of financial wellbeing outcomes and behaviours** to encourage products and consumer journeys that increase wellbeing.

Enabling people to maximise their wellbeing

- **Insolvency fees must be removed for people with insufficient surplus income to save** so that everyone accessing advice can progress to a debt solution as soon as possible.
- **Initiatives should be trialled to improve the wellbeing of insolvency clients during and after debt advice** to help them achieve a stable financial footing and future financial goals.
- **The planned cut to Universal Credit and Tax Credits should be cancelled and legacy benefits increased by £20 per week** to immediately provide people on low incomes with sufficient financial security.
- **A cost of living review of social security should be conducted** to ensure welfare policies do not collectively strip people of an adequate basic standard of living.

Methodology

The data used in this report, unless otherwise stated, is from a survey of 897 CAP Debt Help clients conducted online and by post between October and November 2020. This data set is referred to as 'CAP clients' throughout the report.

Financial wellbeing scores have been calculated using the CFPB Financial Well-Being Scale, using the abbreviated version of the questionnaire.[28] The scale ranges from 0 (low) to 100 (high). Mental wellbeing scores have been calculated using the Warwick-Edinburgh Mental Well-Being Scale, using the short seven-item scale. The scale ranges from 7 (low) to 35 (high). Scores have only been calculated where an individual answered all the questions needed to calculate the score.

28 | *Note: the age brackets used in the survey differed slightly from those used for the CFPB Financial Well-Being Scale scoring tables. As such, all respondents aged 61+ have been scored in accordance with the 62+ age group.*

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Author:
Rachel Gregory, Social Policy Manager

capuk.org/policy

externalaffairs@capuk.org

01274 761985

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