

# Helping people who are in debt



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**Session 3 Main Room 13:45**



# Learning content



The A+E of debt



Debt advice for the non-adviser



Debt relief orders

Average total debt per UK household is £59,441

Debt enquiries handled by CAB increased by 14.3% in the last year

Outstanding Consumer Credit lending is £7874 per household (£4146 per adult)

One person is declared insolvent or bankrupt in the UK every 4 minutes

13.6% of adults in Cambridge are in 'problem debt', of these, only one in six seeks debt advice (around 2,000 to 3,000 enquirers).

# 1. Diagnosing debt Statistics



# 1. Diagnosing debt Investigations

**The presenting problem,  
the cause of the problem,  
or caused by the problem**



# 1. Diagnosing debt

## Symptoms and signs

**Stress, anxiety, depression, physical ill-health, relationship conflict**

**Deductions from benefits**

**Letters from court, bailiffs, 'solicitors' debt-collection agencies, any other creditor**

**Texts, phone-calls and emails**

**Free statutory credit reports**

- **TransUnion – [creditkarma.com](https://www.creditkarma.com)**
- **Equifax – [equifax.com](https://www.equifax.com) (or [clearscore.com](https://www.clearscore.com))**
- **Experian – [experian.com](https://www.experian.com)**

# 1. Diagnosing debt

## Two types of debt

**Priority debts** – loss of liberty, livelihood, housing, essential services

**Non-priority debts** – e.g. consumer credit, water arrears, money owed to family

### PRIORITY

1. *rent / mortgage*
2. *council tax*
3. *gas & electric*

- mortgage repayments and loans secured on your home;
- rent;
- HP payments for car, furniture etc;
- guarantor loans and logbook loans;
- gas and electricity bills;
- child support and maintenance payments;
- council tax;
- income tax, VAT and other tax debts;
- TV licence payments;
- Magistrates Court fines and penalty fines such as parking; and
- certain payments ordered by the courts.

# 1. Diagnosing debt

## Tricky debts

- TV licensing arrears
- Social Fund loans
- Universal Credit advances
- Magistrates' Court fines
- Student loans
- 'Car finance'

## 2. Treating debts

# Manage or cure?

### Managing debts

1. Diagnose and list debts
2. Construct a household budget



# 2. Treating debts Financial statements

Stepchange FS unlocked - Excel

Outgoings: Your living costs				Income: What money do you receive?			
Enter the total amount you pay including towards arrears you may have	Payment amount	How often? e.g. weekly	Average per calendar month	If income is variable enter an average	Amount	How often?	Per calendar month
<b>HOUSING &amp; UTILITY BILLS</b>				Your wage			
4 Rent				Your partner's wage			
5 Mortgage				Part-time wages			
6 Secured loan (other than your mortgage)				Child benefit			
7 Mortgage endowment premium				Rent or board received			
8 Service charge or ground rent				State pension			
9 Water				Private pensions			
10 Council tax				Pension credit			
11 Gas				ESA			
12 Electricity				USA			
13 Other household fuels (oil, coal etc)				Child Support or CSA			
<b>INSURANCE &amp; OTHER BILLS</b>				DLA or PIP			
14 Buildings & contents insurance				Income Support			
15 Telephone and internet				Council Tax Support			
16 TV licence				Child Tax Credit			
17 Satellite or cable TV				Housing Benefit			
18 Repairs, service contracts				<b>TOTAL INCOME</b> £0			
19 Repairs, service contracts							
20 Repairs, service contracts							
21 Child support paid by you							
22 Childcare							
23 Life insurance & private pension							
24 Medical or accident insurance							
<b>TRAVEL</b>				<b>Debts: Who do you owe money to? (This could include rent arrears, gas or electricity)</b>			
25 Spares & servicing				Name of organisation			
26 Road tax				Type of debt			
27 Car insurance				Amount owed			
28 Breakdown cover				How often?			
29 Fuel & parking				Per calendar month			
30 Public transport							
<b>FOOD &amp; HOUSEKEEPING</b>							
31 Food, toiletries & cleaning products							
32 School meals							
33 Meals at work							
34 Pets (food & insurance)							
35 Tobacco							
36 Clothing & footwear							
<b>OTHER SERVICES</b>							
37 School trips & activities							
38 Medicines & prescriptions							
39 Dentist & optician							
40 Hairdressing							
41 Professional or union fees							
42 Education fees							
43 Laundry or dry cleaning							
44 Newspapers & magazines							
45 Sports, hobbies & entertainment							
46 Children's pocket money							
47 Church or charity donations							
48 Sundry & emergencies							
<b>OTHER COSTS</b>							
49 Care							
50 Adult care costs							
51 Clothing etc.							
52 Baby costs							
53 Alcohol							
54 (Other please state)							
<b>TOTAL EXPENSES</b> £0				<b>TOTAL ASSETS</b> £0			

StepChange spreadsheet

Monthly Outgoings: Flexible costs

Communications and leisure	Amount (£)	Frequency
Home phone, internet, TV package (including film subscriptions)	£ 9.99	M
Mobile phone	£ 37.63	M
Hobbies, leisure or sport (e.g. socialising, eating out, outings, clubs, leisure courses)	£ 40.00	M
Gifts (e.g. birthdays, festivals, charity donations)	£ 30.00	W
Pocket money	£ 5.00	M
Newspapers, magazines, stationery and postage	£ -	M
Other costs	£ 139.29	M
<b>Total communications and leisure costs per month</b>	<b>£ 232.91</b>	

Monthly Income

Earnings	Amount (£)	Frequency
Salary or wages (take home)		
Partner salary or wages (take home)		
Other earnings (including self employment)		
<b>Total salary and wages per month</b>	<b>£ -</b>	<b>M</b>

Benefits and tax credits

Benefits and tax credits (e.g. maternity benefits)	Amount (£)	Frequency
Child Tax Credit	£ 170.96	W
Universal Credit	£ 48.10	W
Child Benefit	£ 138.95	W
Maternity Allowance or Statutory Maternity Pay	£ 57.30	W
Other	£ 127.95	M
<b>Total benefits and tax credits per month</b>	<b>£ 443.26</b>	

SFS (Standard Financial Statement)

Citizens' Advice, National Debtline

Making Money Count

### My Personal Budget Where do I start?

If you have not done a budget before these are the main things you need to consider

My Money In

Wages	
Benefits and tax credits	
Pensions	
Other	
<b>Total</b>	

My Money Out

FOR YOU AND YOUR FAMILY	Weekly	Monthly
Food and drink		
Clothing and shoes		
Cleaning / laundry and toiletries		
School meals / expenses		
Childcare / babysitting costs		
Bus fares / petrol / car costs		
Going out / holidays / entertainment		
Prescriptions / dentist		
Pets		
Telephone / internet / mobile / TV		
Mobile		
Other		
<b>Total</b>		

FOR MONEY YOU OWE	Weekly	Monthly
Arrears		
Court Fines and Maintenance Payments		
Catalogues / hire purchase / loans		
Credit cards		
Bank charges		
Family / friends		
Other		
<b>Total</b>		

Money In less Money Out: £ 0

Money saved each month: £ 0

Donations given / other: £ 0

Money left over: £ 0

To change from weekly to monthly: Multiply by 52 and divide by 12  
 To change from monthly to weekly: Multiply by 12 and divide by 52  
 To change from 4 weekly to weekly: Divide by 4

Making Money Count | August 2014 Page 2 of 2

www.makingmoneycount.org.uk

(starter budget)

## 2. Treating debts Manage or cure? [cont.]

### Managing debts

1. Diagnose and list debts
2. Construct a household budget
3. Ask for breathing space
4. Get interest and fees stopped
5. Satisfy priority creditors
6. Make token offers on non-priority debts

## 2. Treating debts Cure

### Debt solutions\*

	Pay off in full	Pay off in part	No payment
Immediate	<ul style="list-style-type: none"><li>● Use savings/assets</li><li>● Third party</li><li>● Charitable grant</li><li>● Council discretion</li></ul>	<ul style="list-style-type: none"><li>● Full and final settlement (direct or via an IVA)</li></ul>	<ul style="list-style-type: none"><li>● Request write-off</li><li>● Statute barring</li><li>● Challenge creditor</li></ul>
Via instalments (or delayed)	<ul style="list-style-type: none"><li>● Debt management plan</li></ul>	<ul style="list-style-type: none"><li>● Individual Voluntary Agreement (IVA)</li></ul>	<ul style="list-style-type: none"><li>● Insolvency</li><li>● Token offers</li></ul>

\*Not intended to be a comprehensive or accurate list – for guidance only

### 3. Discharge from debts

## Insolvency options

Debt Relief Order (DRO)

Bankruptcy (by debtor petition)

Bankruptcy (by creditor petition)

Administration order

Individual voluntary agreement

# 3. Discharge from debts

## Introduction to DROs

### **Debt Relief Orders**

**March 2009: “No income; no assets”**

**Sara Williams, Debt Camel: “Bankruptcy lite”**

# 3. Discharge from debts

## DROs in practice

### **Eligibility criteria (per person)**

- Savings + assets <£1K; Car <£K
- Monthly surplus <£50
- Total eligible debt <£20,000
- No previous DRO in last 6 years
- Hasn't 'broken the rules'

### **Recommendations**

- Basic banking
- No foreseeable upturn in 12 m
- Beware rent arrears

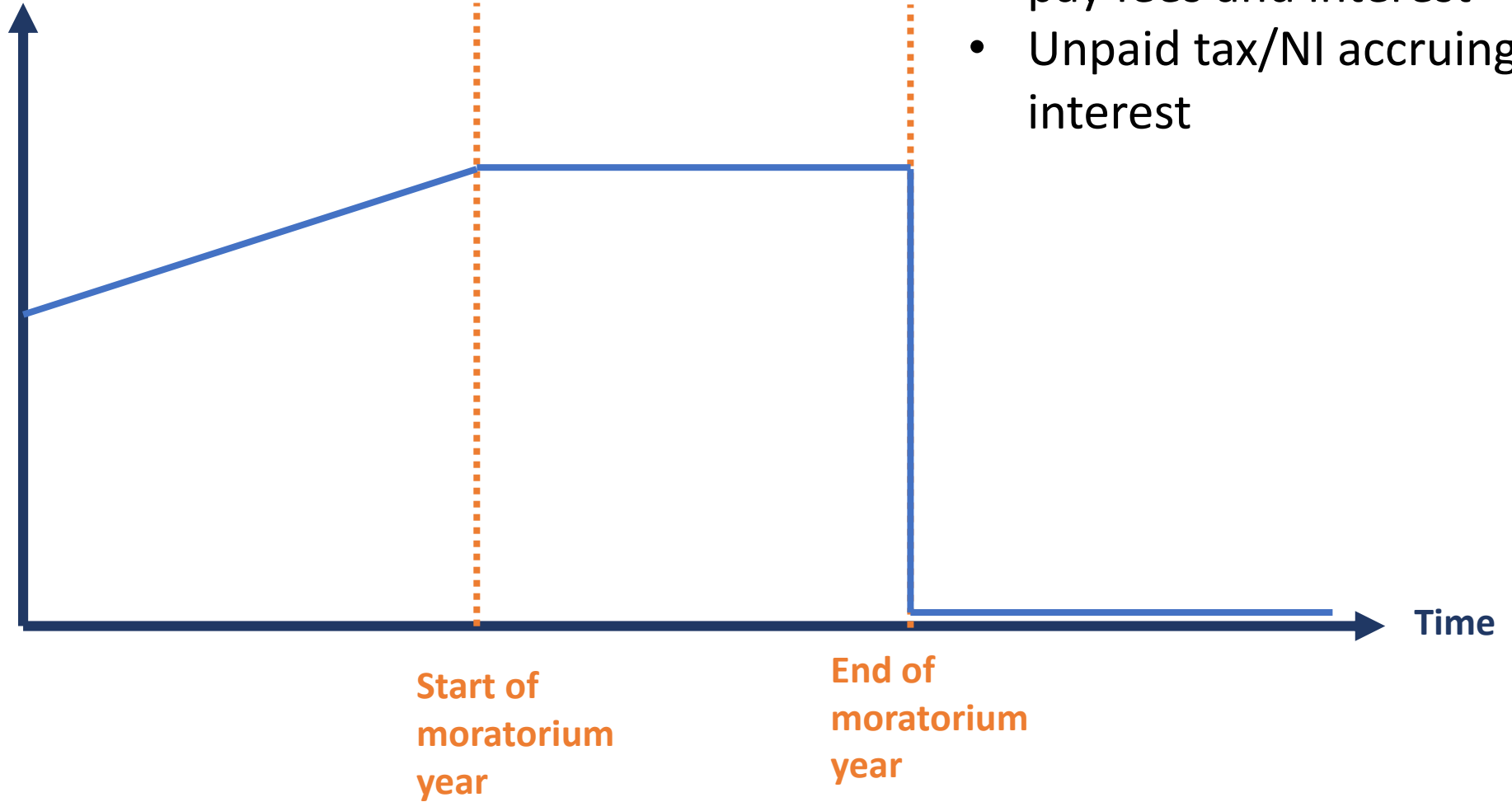
### **Negative implications**

- Further borrowing
- Reputation
- Insolvency Service register

## Examples of DROs

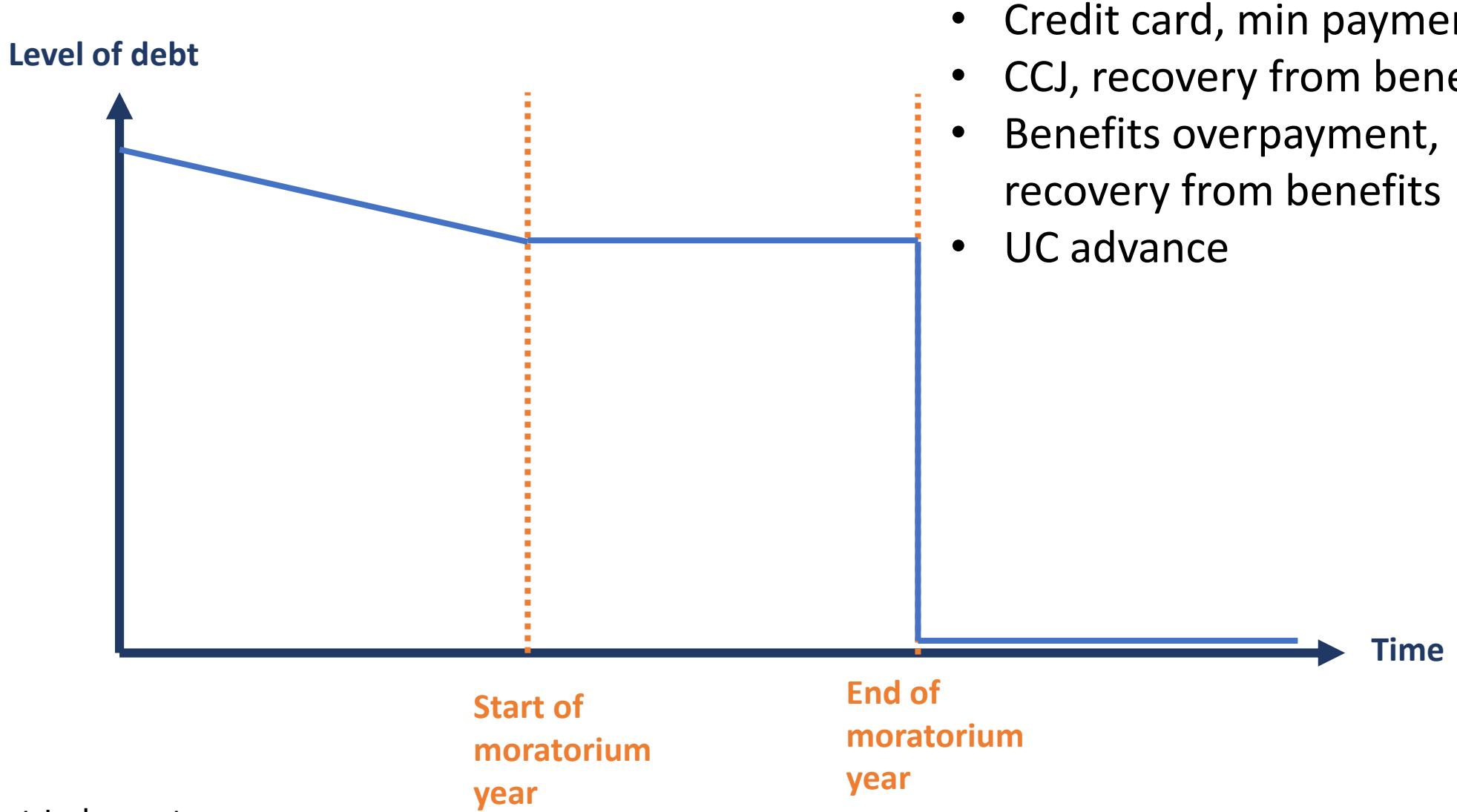


Level of debt

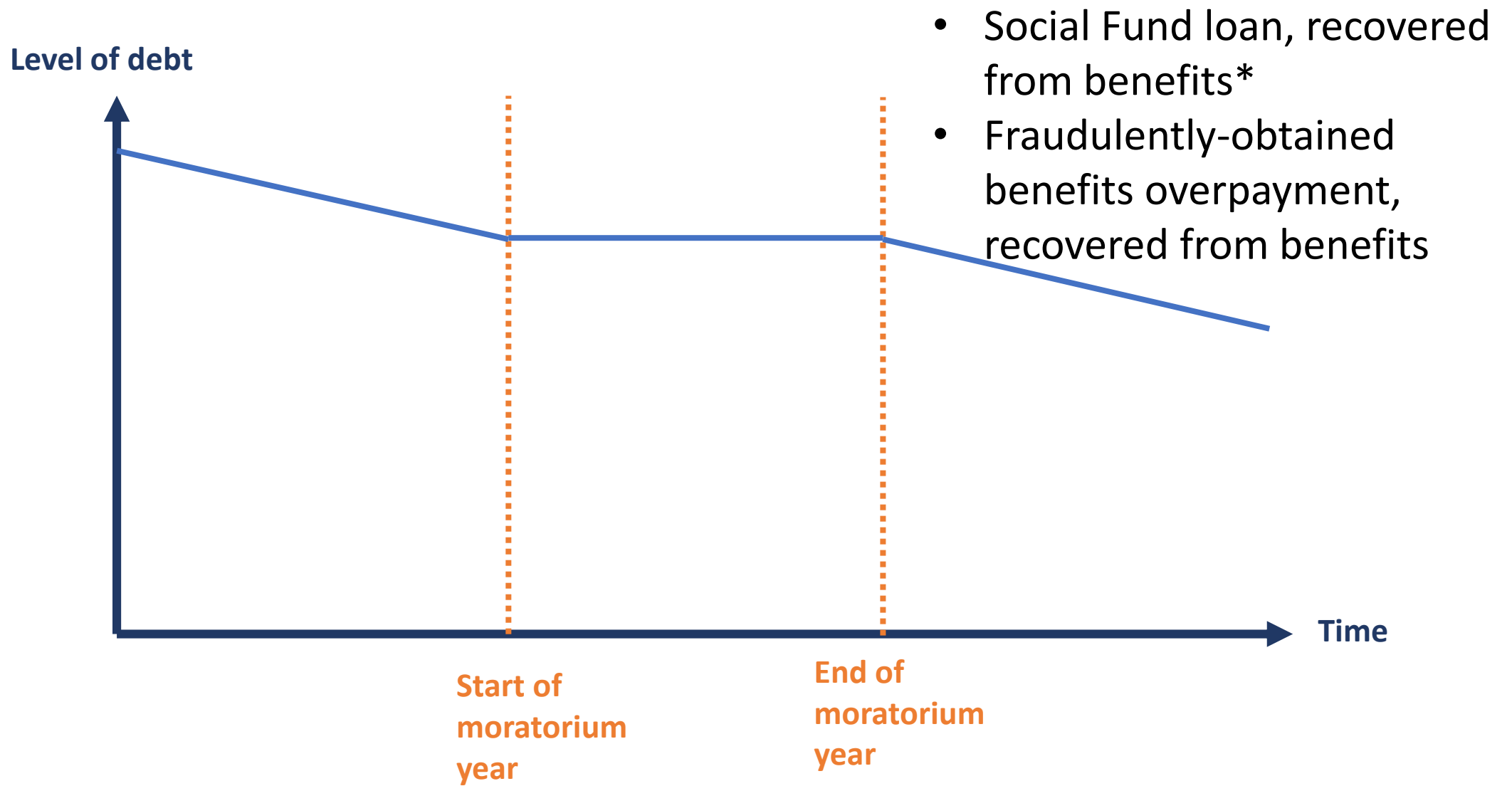


- Bank overdraft, unable to pay fees and interest
- Unpaid tax/NI accruing interest



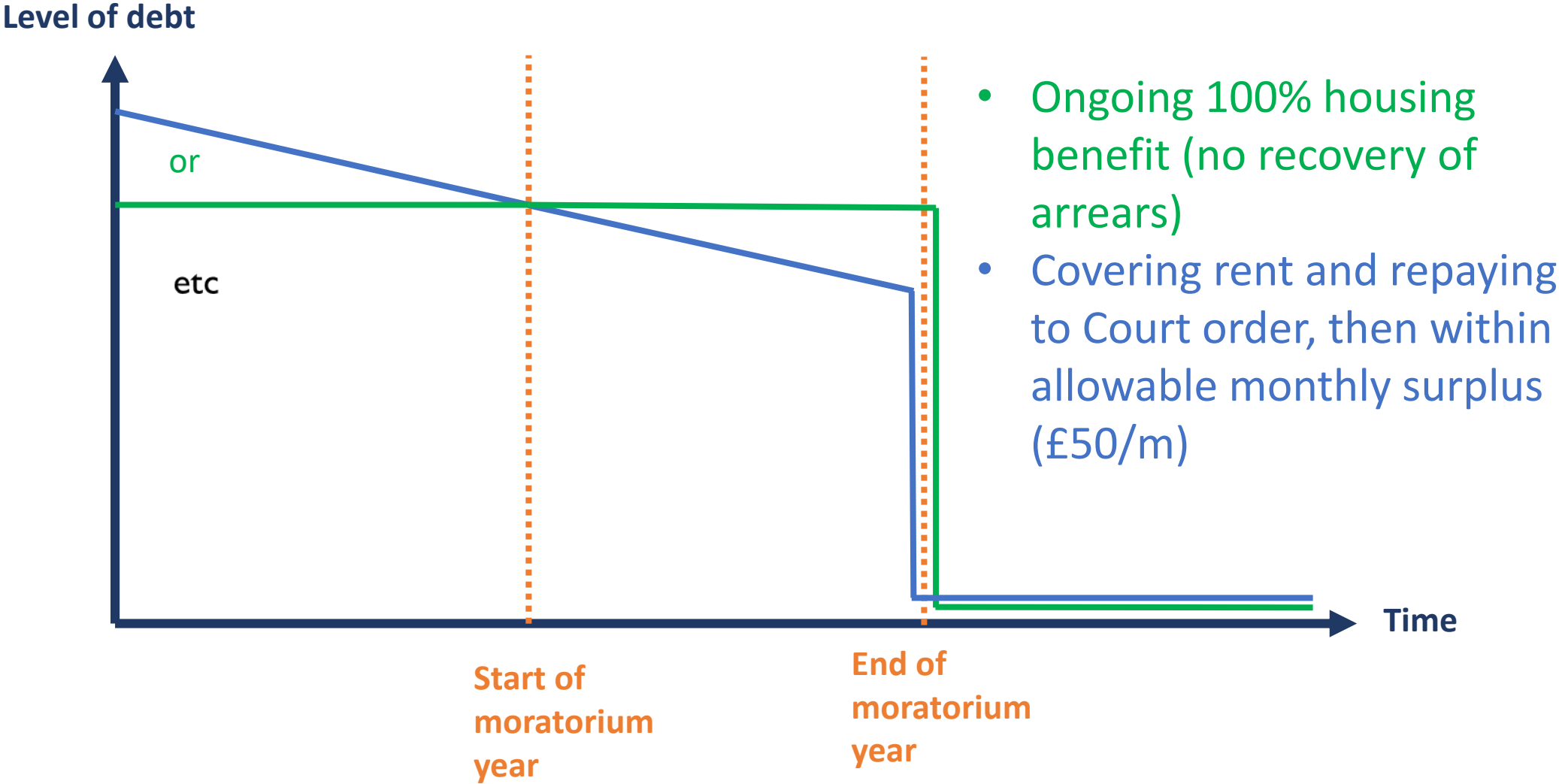


CCJ-County Court Judgment



\* DWP policy to suspend recovery for 12 m

# Rent arrears



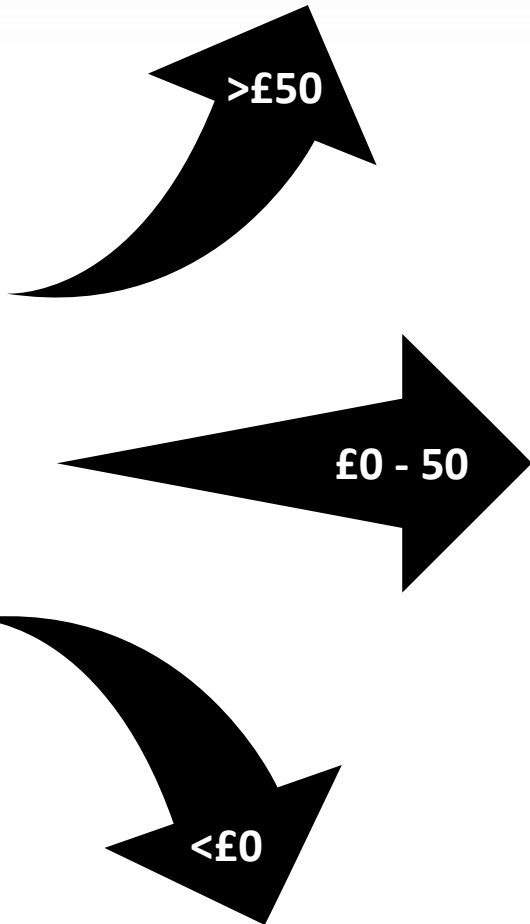
# 3. Discharge from debts

## Tricky DRO issues

- Rent arrears
- HP and other “finance” arrangements
- Statute-barred debts (the six year rule)
- Forgotten debts
- Preferential treatment of creditors
- Couples
- Pensions in the over 55s

# 4. Treatment pathway A simple model\*

Monthly disposable income from financial statement (before any debt repayments)



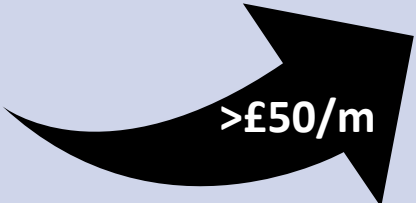
Monthly Income		
Earnings		
	Amount (£)	Frequency
Salary or wages (take home)		M
Partner salary or wages (take home)		M
Other earnings (including self employment)		M
<b>Total salary and wages per month</b>	£ -	
Benefits and tax credits		
Universal Credit		
Jobseeker's Allowance (increased)		M
Jobseeker's Allowance (reduced)		M
Income Support		M
Widow's Pension		M
		M
		M
	£ 170.96	W
	£ 48.10	W
	£ 138.95	W
	£ 57.30	W
	£ 127.95	M
	£ 1,413.66	W
	-	A
	-	W
<b>Total</b>	<b>£ 2,471.93</b>	

Monthly Outgoings: Flexible costs		
	Amount (£)	Frequency
<b>Communications and leisure</b>		
Home phone, internet, TV package (including film subscriptions)	£ 9.99	M
Mobile phone	£ 37.63	M
Hobbies, leisure or sport (e.g. socialising, eating out, outings, clubs, leisure courses)	£ 40.00	M
Gifts (e.g. birthdays, festivals, charity donations)	£ 30.00	W
Pocket money	£ 5.00	M
Newspapers, magazines, stationery and postage	£ -	M
Other costs	£ -	
<b>Total communications and leisure costs per month</b>	<b>£ 139.29</b>	
<b>Food and housekeeping</b>		
Groceries (e.g. food, pet food, non-alcoholic drinks, cleaning)	£ 130.00	W
Nappies and baby items	£ 4.00	M
School meals and meals at work	£ -	M
Laundry and dry cleaning	£ 6.00	W
Alcohol	£ 250.00	A
Smoking products	£ -	M
Vet bills & pet insurance	£ -	
House repairs and maintenance	£ -	
Other costs	£ -	
<b>Total food and housekeeping costs per month</b>	<b>£ 627.50</b>	

\*Not intended to be a comprehensive or accurate model – for guidance only

## A simple model\* of debt advice [cont.]

	Small assets	Large assets
	<ul style="list-style-type: none"> <li>• IVA</li> <li>• Debt management plan</li> <li>• Bankruptcy</li> </ul>	<ul style="list-style-type: none"> <li>• IVA</li> <li>• Debt management plan</li> <li>• Full and final settlement</li> </ul>
	<ul style="list-style-type: none"> <li>• Debt Relief Order (DRO)</li> <li>• Mini-debt management plan</li> <li>• Token offers</li> </ul>	<ul style="list-style-type: none"> <li>• Mini-debt management plan</li> <li>• Token offers</li> <li>• Full and final settlement</li> <li>• Bankruptcy</li> </ul>
	<ul style="list-style-type: none"> <li>• Re-budget then as above</li> <li>• DRO/tokens if expecting an upturn</li> </ul>	<ul style="list-style-type: none"> <li>• Re-budget then as above</li> <li>• Dispose of assets then as left</li> <li>• Bankruptcy</li> </ul>

\*Not intended to be a comprehensive or accurate model – for guidance only

## **Debt advice charities offering DROs**

- Citizens' Advice
- Stepchange\*
- Christians Against Poverty\* (CAP, from Jan 2020)
- Community Money Advice (Cambridge, St Ives, Huntingdon, Haverhill, St Neots, Peterborough)

## **Further information about debt and DROs**

- Shelter Specialist Debt Advice for Professionals (0330 058 0404)
- National Debtline\* (personal and business debt helpline)
- The Money Charity
- The Insolvency Service
- Money Advice Service directory of debt advice services

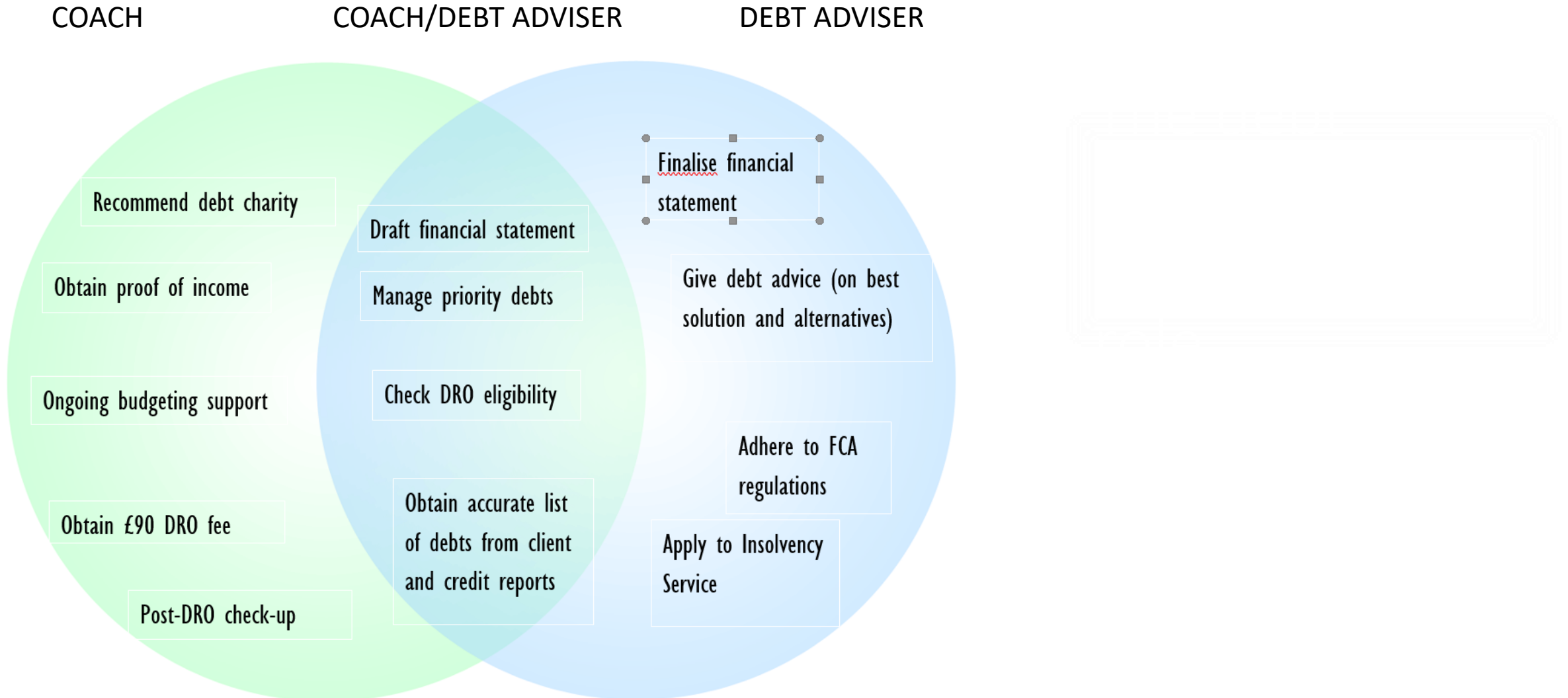
## **Other possible sources of support**

- Housing associations
- Occupational/benevolence charities

***\*also offer debt management plans***

# Debt advice for the non-adviser

- Highly regulated by Financial Conduct Authority (FCA)
- Strict insolvency legislation





# Conclusions

**“No debt problems are unsolvable. It might not be easy or quick, but there's always a route. And the earlier you deal with them, the easier they are to deal with.”**

**[www.moneysavingexpert.com](http://www.moneysavingexpert.com)**

**DROs are a fast, effective way out of debt, and often be the only solution for our client group**

**Stay within FCA rules and don't give formal debt advice – rely on the debt charity**

**Your main tasks are some of:**

- diagnosing debt
- income maximization and budget coaching
- managing priority debt recovery
- getting the financial statement right
- explanation and support through the debt process