A life in debt
The profile of CAB debt clients in 2008

Key findings:

In July 2008, 52 Citizens Advice Bureaux in England and Wales surveyed 1,407 new debt clients. We found that:

- On average CAB debt clients owed £16,971 in 2008, two thirds higher than in 2001.
- More than half of the clients in 2008 had four or more priority debts, such as mortgage or rent arrears, fuel bills or council tax arrears.
- One client in ten had ten credit debts or more.
- Forty five per cent of the homeowners had mortgage or secured loans arrears in 2008, up from 30 per cent in 2004.
- Thirty per cent of the homeowners spent half or more of their monthly income on housing costs.
- Two thirds of the homeowners with mortgage or secured loans arrears were in priority need for rehousing.
- Forty three per cent of the CAB debt clients in 2008 were in fuel poverty because they spent more than 10 per cent of their income on fuel.
- Half of CAB debt clients were in water poverty because they spent more than three per cent of their income on water.
- More than half of the clients (58 per cent) had no spare money to pay their credit debts.

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- Clients who had spare money to pay their debts would take on average 93 years to repay them in full.
- Nearly a third of CAB clients could be eligible for the debt relief order (DRO), a new alternative to bankruptcy which comes into force in April 2009.

Introduction

Citizens Advice Bureaux have seen a dramatic 100 per cent increase in the number of debt enquiries they have dealt with over the last 10 years. Debt is now the number one advice issue in bureaux, accounting for one in three of all enquiries. CAB advisers around the country are dealing with over 6,923 new debt problems every working day. Here are a few examples:

> A lone parent with three children sought advice from a CAB in West Yorkshire. She was suffering from serious depression and had attempted suicide several times following domestic violence and a relationship breakdown. She had a number of debts, including a £706 fuel bill which was being collected at £10 per week via her pre-payment meter. The client could not afford her basic living expenses and was falling into debt with other priority bills. At the time of seeking advice, she relied on her local church delivering food parcels and could not afford to meet her health costs.

> A Greater Manchester CAB helped a woman who was unable to work following an accident and was now living on benefits. She needed advice about her debts. The client told the CAB that she could not afford to put the heating on this winter and was terrified of getting further into debt. She had borrowed a ski suit from a friend to wear to keep her warm in her house.

> A man sought advice from a CAB in North East Wales about £60,000 of credit debts and mortgage arrears. His home was being repossessed. He had decided that the best way forward to clear his debts was to go bankrupt but could not afford the court fees to petition for bankruptcy (£495).

It has been four years since we last undertook a survey of CAB debt clients. The statistics from the 2004 survey proved extremely valuable by giving us a clear snapshot of CAB debt clients. We wanted to see whether this profile of CAB debt clients had changed in 2008 in different economic conditions.

Methodology

This report sets out the characteristics of Citizens Advice Bureau debt clients in 2008. A 20 per cent random sample of bureaux in England and Wales completed a short survey form for all new debt clients seen in July 2008 for whom a financial statement was completed. In all, we have data from 1,407 clients seen by 52 bureaux across England and Wales.

The questionnaire was divided into two parts. The first one contained questions about the client's personal circumstances. We also asked clients to give us up to three reasons why they were in debt. The second part of the survey contained questions about the client's income, expenditure and debts. The information collected was taken directly from the client's financial statement – a key document which sets out the client's income from all sources, essential expenditure, debts and repayment offers and is used as a basis for negotiation with creditors.

This report compares the results of the 2008 survey with two previous surveys of CAB debt clients in 2001[1] and 2004[2]. We start by analysing the clients' income and expenditure before looking closer at clients' debt situations. We have used evidence from bureaux to illustrate various points throughout the survey.

1 *In too deep – CAB clients' experience of debt*, Citizens Advice, 2003.
2 *Deeper in debt – the profile of CAB debt clients*, Citizens Advice, 2006.

CAB debt clients' profile

More than 20 per cent of CAB debt clients are lone parents. They represent 45 per cent of respondents with children; in comparison 24 per cent of UK families were lone parent families.[3]

Twelve per cent of respondents were from ethnic minority backgrounds, compared to 7.9 per cent of the UK population.[4]

Twenty seven per cent of the respondents reported that they had a person with a disability or long term illness living in their households. This is a higher proportion than in the general population. The 2001 census found that 18 per cent of the population say they have a long term illness, health problem or disability which limits their daily activities or the work they could do.[5]

More than two thirds of respondents were renting their homes, compared with less than a third of the UK population.[6]

For more information about the profile of CAB debt clients, please see Annex 1.

Who advised the clients

Since we carried out research on CAB debt clients in 2004, there has been a major new source of funding for debt advice – the Government's Financial Inclusion Fund (FIF). Nearly half of the debt clients (46 per cent) in the 2008 survey were advised by FIF-funded advisers. Just under a third (29 per cent) were advised by debt advisers funded by the Legal Services Commission (LSC). A further quarter saw generalist or money advisers funded by some other funding stream.

The FIF debt advice project aims to increase the provision of free face-to-face debt advice to specific socio-economic groups and geographic areas of high financial exclusion. Nevertheless FIF advice is potentially open to every individual, regardless of their income. In contrast, to be eligible for civil legal aid the client's capital and income must be within certain limits.[7]

As we shall see later in the report, the type of funding of the adviser could be significant in explaining some of the changes in the profile of CAB debt clients in the last four years.

Income

At the time of seeking advice, the current average net monthly income of the debt clients in the survey was £1,021 per month – less than two thirds of the average monthly household income in the UK at that time (£1,772 net per month).[8]

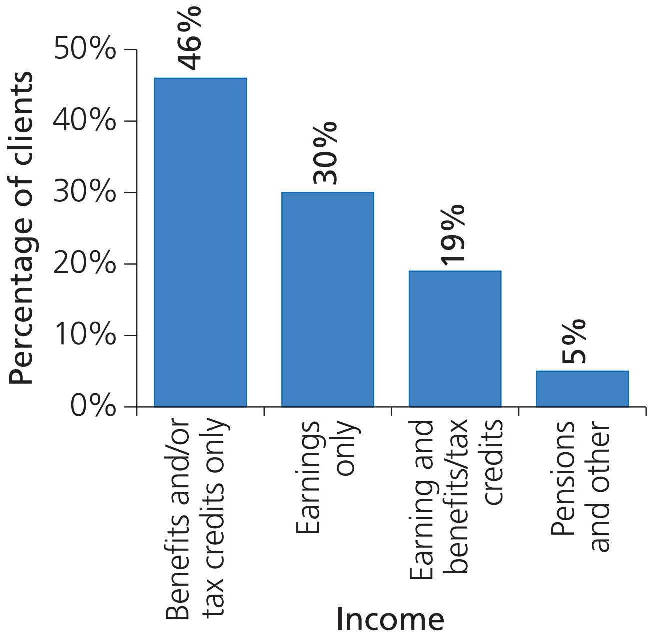
Even taking into account inflation over the last few years, the average income in 2008 is higher than in 2004 and the proportion of respondents with income over £1,000 is higher. Twenty five per cent of the clients in the 2008 survey had a monthly household income above £1,500, whereas only seven per cent of 2001 CAB debt clients had an income above £1,600 per month.

There was a marked difference between the average income of clients advised by LSC-funded advisers and FIF advisers. The average monthly household income of the clients advised by LSC-funded advisers was £756, compared to £1,102 for a FIF client and £1,308 for clients of other money advisers.

3 Office for National Statistics (ONS) (data is from the 2001 Census) statistics.gov.uk
4 ibid.
5 ibid.
6 ibid.
7 To be eligible for civil legal aid, someone must be entitled to certain means-tested benefits or have a gross income of less than £2,530 a month and have less than £8,000 capital.
8 *Family Spending Survey 2006/07*, ONS, 2008, statistics.gov.uk

Type of income

Figure 1: Types of income



Base: 1,354 clients.

An indication of the poverty of CAB debt clients was the proportion whose only income was benefits or tax credits (46 per cent). A further 19 per cent had a benefit or tax credit element to their income. In contrast, only 30 per cent relied solely on an earned income. Slightly more than five per cent had some pension income.

Nearly half of CAB debt clients (46 per cent) were claiming means-tested benefits such as income support, jobseekers allowance or pension credit. Nineteen per cent of the CAB debt clients were working and in receipt of working or child tax credits, which aim to boost the income of people in low-paid work and those with children. Twelve per cent of the clients were claiming disability benefits and 12 per cent received incapacity benefit.

Expenditure

A crucial part of the debt advice process is going through the client's income and expenditure in order to find out if he/she is able to repay his/her non-priority debts.

Housing costs – rent

It is not possible to be accurate about expenditure on rent as the figures given on the financial statements may be net of housing benefit. However, if those who paid rent and did not have a benefit income of any kind are isolated, the average rent paid was £350 per month. This amount is significantly higher than the average monthly rent of CAB debt clients in 2004 of £266.

Housing costs – owner-occupiers

The figures should be more reliable for owner-occupiers' housing costs because there is no equivalent of housing benefit for owner-occupiers. The average housing costs for owner-occupiers was £596 per month. This is significantly higher than in 2004 when it was £365. Thirty owner-occupiers in the survey had no housing costs.

Research for the Department of Trade and Industry suggested that the proportion of households spending over 50 per cent of their income on secured and unsecured borrowing should be a key objective measure of over-indebtedness.[9] Thirty per cent of these homeowners spent half their monthly income or more on housing costs. This is a striking increase in four years. In 2004, 20 per cent paid over half of their income on housing costs. Less than a quarter (24 per cent) paid 25 per cent or less of their income on housing costs compared with 31 per cent four years before. The 2008 survey also showed that 28 households had housing costs which equalled or exceeded their income.

In 2008, 21 per cent of the homeowners were entirely dependent on benefits and 30 per cent of these had mortgage arrears.

9 Department of Trade and Industry (DTI), *Overindebtedness Task Force Second Report*, 2003.

Housekeeping, travel and phone expenditure

Housekeeping expenditure includes amounts for food, clothing, cleaning materials, toiletries, milk, cigarettes, newspapers, alcohol, pet food, laundry and dry-cleaning. A client with a baby may need extra expenditure on baby food, nappies and toiletries. Based on the statements of 1,235 clients, the average spend on housekeeping per week was £69.50, far below the national weekly average of £142.[10]

Ninety per cent of the CAB debt clients had travel costs and spent on average £115 per calendar month, £23 higher than 2004 but far below the national monthly average of £646.80.[11] Car owners had significantly higher average travel costs than non car owners (£183 per month compared to £80 per month).

Eighty seven per cent of the clients had telephone costs and the average spend was £11.50 per week (£2.75 more than in 2004 and similar to the national weekly average of £11.40[12]).

For further information about expenditure and the Common Financial Statement (CFS), please see Annex 2.

Assets

It is important for money advisers to ask clients about assets which could be used to pay debts. They are also an important consideration in insolvency remedies such as bankruptcy.

More than half of the CAB debt clients in the survey (53 per cent) had at least one asset such as equity in their home, money in a bank or building society account, a life insurance policy, a motor vehicle or money owed to them. This was a slightly smaller proportion than in 2004, when 56 per cent of debt clients had at least one asset.

Nine per cent of respondents had assets worth more than £300, excluding equity in the home. The average value of these assets was quite high at £29,229. Only three per cent had a motor vehicle worth more than £1,000.

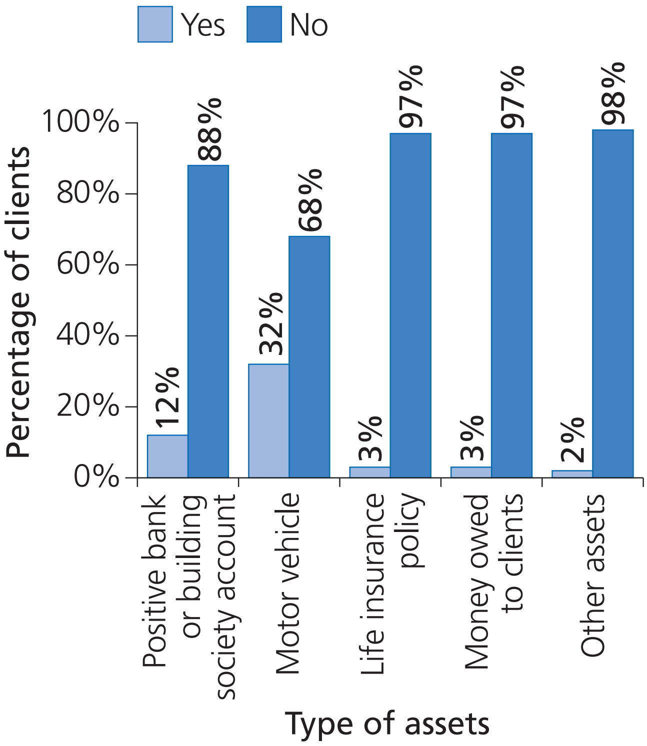
Table 1: CAB debt clients' average monthly costs for housekeeping, phone and travel

Household type	Couple with no children		Couple with children		Single person		Single parent	
Average monthly **housekeeping** costs	£298		£438		£181		£390.50	
Average monthly **phone** costs	£51		£53		£38		£49	
Average monthly **travel** costs	Car	No car	Car	No car	Car	No car	Car	No car
	£185.44	£98	£197	£107	£186	£46	£182	£78.50

Base: Travel: 1,159, phone: £1,183, housekeeping: 1,236 clients.

10 *Family Spending Survey 2006/2007*, ONS, 2008, statistics.gov.uk
11 Ibid.
12 Ibid.

Figure 2: Assets of CAB debt clients in 2008



Base: 1,407 clients.

Only 168 of the CAB debt clients in the survey had money deposited in a bank or building society account. The amounts ranged from £50 to £21,000 with a median amount of savings of £100.

Very few people had life insurance. Most of these were home owners (77 per cent of those with life insurance). Nevertheless, only six per cent of the owners-occupiers in the 2008 survey had a life insurance policy.

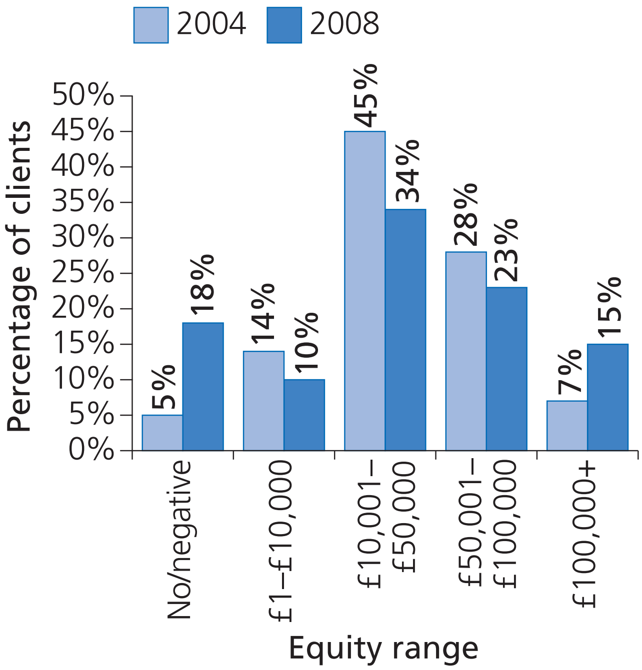
Almost three quarters of UK households own at least one vehicle,[13] compared with only 32 per cent of CAB debt clients. The value of the cars owned by clients in the survey ranged from £50 to £20,000 and the average value was £2,006. Seven per cent of the car owners in the survey estimated their car was worth nothing. Fifty seven per cent valued their car at £1,000 or less.

Seventy five per cent of the car owners in the survey said they needed a car for work. Over a quarter said they needed a car because they were living in a rural area with poor public transport. Twenty five per cent needed a car for mobility reasons.

Equity

Nearly one in five of the homeowners in the 2008 survey had no or negative equity in their homes. This is a substantial increase since 2004, when only five per cent had no or negative equity. The proportion is likely to be even higher today as house prices have dropped by 9.6 per cent[14] in the UK between July and December 2008.

Figure 3: The established amount of equity in CAB debt clients' homes in July 2008



Base: For 2004: 125, for 2008: 130 clients.

13 *UK in figures*, ONS, (data is from 2001 Census) statistics.gov.uk
14 *House price index*, Nationwide, 2008, nationwide.co.uk

About the debts

Total debt

CAB debt clients in the 2008 survey owed on average two thirds more than in 2001. The average total debt in 2008[15] was £16,971 compared to £12,431 in 2004 and £10,700 in 2001.

Priority debt

The CAB debt advice process makes a distinction between 'priority debt' and 'non-priority debt'. This distinction is based on the enforcement powers of creditors. Priority debts are those debts where non-payment can result in the loss of:

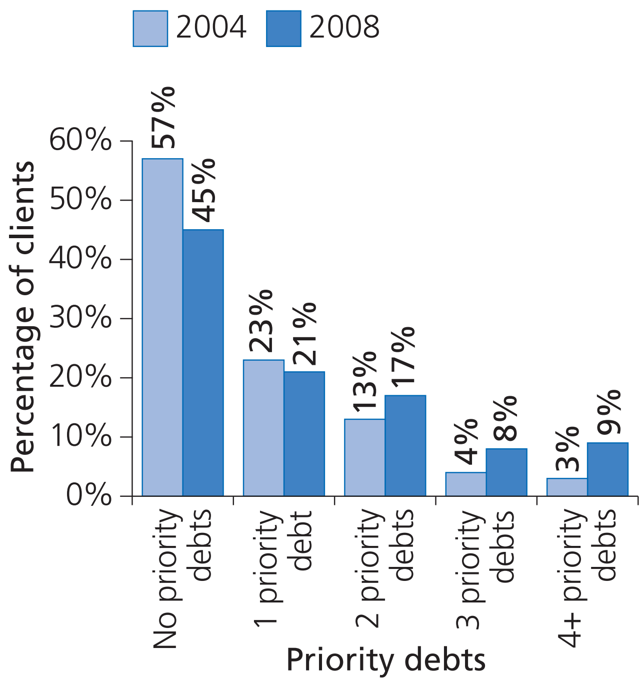
- liberty
- home
- essential services
- essential goods on hire purchase.

Common priority debts are mortgage, rent and secured loans arrears, council tax arrears, magistrates court fines, fuel debts and hire purchase agreements for essential goods. Debt advisers will negotiate repayments to these creditors first before dealing with other creditors.

It is often assumed that being in debt means being behind with credit payments. In fact more than half of the CAB debt clients surveyed in 2008 (55 per cent) had at least one priority debt and more than a third of them owed money to two or more priority creditors.

We had data on priority debts for 724 clients in the survey. The average priority debt for these clients was £6,257. This amount is 38 per cent higher than the 2004 survey. This could be explained by the increase of mortgage and secured loans arrears among CAB debt clients.

Figure 4: Number of priority debts



Base: For 2004: 567, for 2008: 1,309 clients.

Non-priority debts

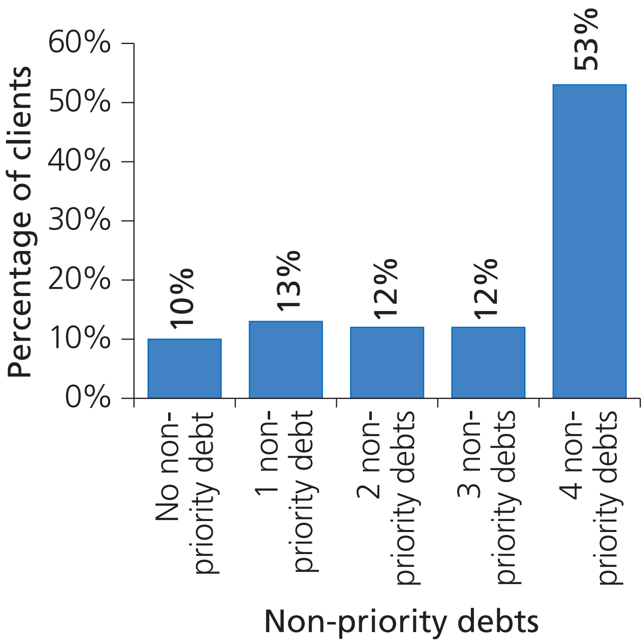
Credit cards, overdrafts, unsecured loans, store cards, catalogues, home credit and water arrears are all examples of non-priority debts. The sanctions open to creditors for non-payment of non-priority debts are generally less serious for the client than those for priority debts. For example, in the case of non-priority debts, the creditor can issue a county court claim to recover the debt.

The average non-priority debt was £13,943, 12 per cent more than in 2004. The median amount owed was £8,615. Ninety per cent of clients had at least one non-priority debt. More than half of the clients in the 2008 survey had four or more non-priority debts; one in ten had ten non-priority debts or more.

The highest amount of non-priority debts owed by one household was £240,000. Another client had as many as 37 non-priority debts.

15 The debts included mortgage arrears but not outstanding mortgages.

Figure 5: Number of non-priority debts



Base: 1,340 clients.

Nearly a third of clients in 2008 who had non-priority debts owed less than £5,000. Sixty eight per cent of the clients had non-priority debts below the average of £13,943.

Nearly one quarter of the clients (24 per cent) had non-priority debts above £20,000, seven per cent more than two years ago. Ten clients had non-priority debts above £100,000.

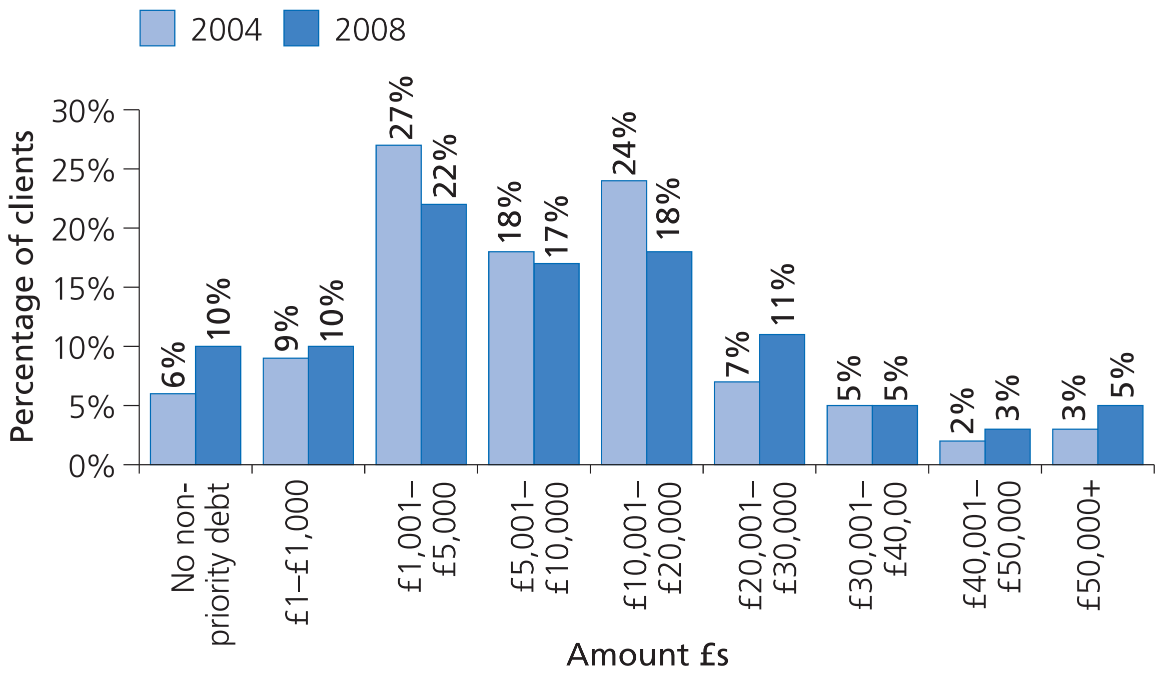
While tenants had an average total non-priority debt of £11,681, the average for homeowners was more than double at £26,936. The 2001 and 2004 surveys showed similar results.

Taking a closer look at housing debt, arrears on household bills and tax credit overpayments

We asked whether CAB clients had the following debts:

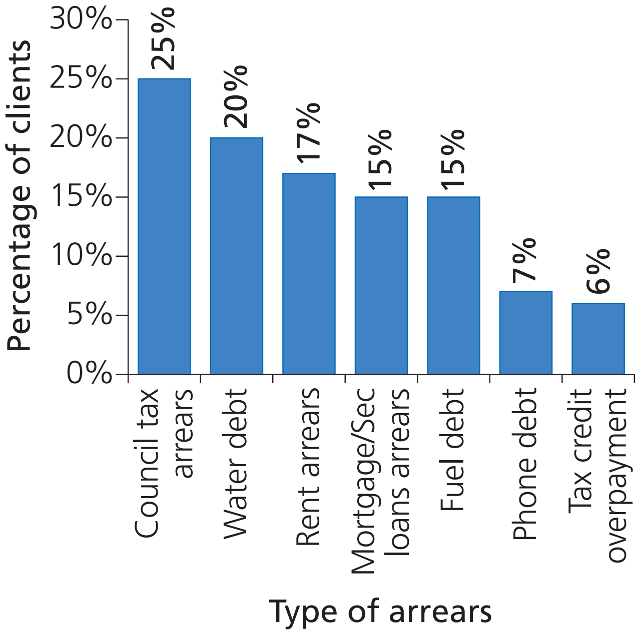
- council tax, mortgage or secured loans
- rent
- water
- fuel
- phone
- tax credit overpayment arrears.

Figure 6: Value of non-priority debts in 2004 and 2008



Base: For 2004: 534, for 2008: 1,294 clients.

Figure 7: The incidence of particular types of debt



Base: 1,407 clients.

Council tax arrears

A quarter of the CAB debt clients had council tax arrears. These are regarded as very serious and non-payment can have severe consequences. This can include deductions from wages, bankruptcy, bailiffs sent to seize goods or a charging order on the debtor's property where taxes are owed. The most serious consequence of not paying council tax could be imprisonment.

In the third quarter of 2008/09, Citizens Advice Bureaux had to deal with 10 per cent more enquiries about council tax arrears than in the same quarter the previous year.

Mortgage arrears

Forty five per cent of clients who were owner-occupiers had mortgage or secured loans arrears in 2008. This is a substantial increase since 2004 when 30 per cent had mortgage arrears or secured loans arrears. This is not surprising given increasing numbers of enquiries to bureaux about mortgage and secured loans arrears problems. Citizens Advice Bureaux in England and Wales have seen a 39 per cent increase in enquiries about mortgage and secured loans arrears between the third quarter of 2007 and the third quarter of 2008.

Homelessness legislation states that people who are over 60 years of age, have a disability or long term health problems or have dependent children might be considered to be in priority need for support with their housing needs. Two thirds of the homeowners with mortgage or secured loans arrears were in priority need for rehousing.

Rent arrears

Twenty seven per cent of all the CAB debt clients who were tenants had rent arrears. Thirty two per cent of the local authority tenants, 34 per cent of the housing association tenants and 20 per cent of the private tenants in the survey had rent arrears.

Fuel debt and fuel poverty

The CAB service has seen a significant increase in enquiries on fuel debt issues over recent years. Citizens Advice Bureaux in England and Wales have seen a 14.5 per cent increase in fuel debt enquiries between the third quarter in 2007/08 and the same quarter in 2008/09.

At the time of seeking advice, one client in six had a fuel debt in 2008. On average, they had 2.5 priority debts totalling £3,955 and 5.2 non-priority debts totalling £11,722. Nearly two thirds of these had no available income at all to repay their non-priority creditors. In 2008, CAB debt clients spent on average £89 on fuel per month, compared with £68.80 for the UK population.[16]

Bureaux report how people on low fixed incomes struggle to pay for rising fuel prices:

> A CAB in Buckinghamshire reported that a man with long term physical and mental health problems came to the CAB for advice about a number of

16 *Family Spending Survey 2006/07*, ONS, 2008, statistics.gov.uk

priority debts to sort out. The client's payments for fuel and water accounted for approximately half his weekly income of £59.20 incapacity benefit. As a result, it was difficult for him to meet essential expenditure and have sufficient available income to offer creditors. He decided not to use his gas heating in order to pay his other priority commitments.

A CAB in Hertfordshire reported that a lone parent on income support with two children fell into arrears with her electricity bill when she lost her entitlement to disability living allowance. She had been paying £5 per week for electricity arrears on a pre-payment meter, but her costs had gone up to £40 per week just for the fuel for cooking and hot water. She could no longer afford to put the gas on for heating.

A CAB in Yorkshire reported that a man on incapacity benefit was repaying five non-priority debts by instalments of £1 per month. The client was struggling to pay his electricity bill, even though he understood the importance of keeping up payments. The client sought advice as he had seen on the news that utilities bills were due to rise by up to 40 per cent over the next year. He told the CAB that he would not be able to afford to pay if prices went up that much.

As we have data on the amount clients spent on fuel, we can calculate how many of them were in fuel poverty at the time of seeking advice. A household is said to be in fuel poverty if it needs to spend more than 10 per cent of its income on fuel to maintain a satisfactory heating regime. The overall number of households in fuel poverty in England in 2006 was estimated to be 2.4 million (around 11.5 per cent of all households)[17] and more than 130,000 households in Wales (around 10.5 per cent of all Welsh households) find it difficult to keep their homes warm in winter.[18] Forty three per cent of CAB debt clients in the 2008 survey could be deemed to live in fuel poverty.

Debt clients in fuel poverty were on very low incomes. They had an average income of £677 per month and only 12 per cent of them had an income from a full time wage, far below the average for the survey as a whole. More than a third of them (35 per cent) were disabled or had a long term illness and 31 per cent were lone parents.

Water debt and water poverty

At the time of seeking advice, 20 per cent of the respondents in 2008 had water debts. Two thirds of them had no available income to repay their debts. On average they had 2.4 priority debts totalling £4,948 and 4.8 non-priority debts totalling £8,574.

The term 'water poverty' is used for people whose water bills account for more than three per cent of their net income. Based on this definition, half of CAB debt clients in this survey are in water poverty. Their average income was £870 per month. Thirty one per cent were single parents and 31 per cent had a disability or long term illness. In 2008, CAB debt clients spent on average £36 a month on water compared with £24 for the UK population.[19]

A CAB in Merseyside reported that a disabled man living on his own came for assistance as he was struggling to pay his water bill from his benefits. He was unable to afford his water bill of £450 and felt that because there was no help available for him, there was nothing he could do to avoid sliding into debt.

A North London CAB helped a client in receipt of income support who looked after four children and her 88 year old mother. The client was very worried

17 Department for Business, Enterprise and Regulatory Reform (BERR), berr.gov.uk
18 Welsh Assembly Government, new.wales.gov.uk
19 *Family Spending Survey 2006/07*, ONS, 2008, statistics.gov.uk

about paying her water bill and felt that her benefits were not sufficient to cover daily expenses and maintenance. The water company were insisting on the bill being paid over a 12 month period and were not willing to accept smaller repayments or agree to reduce the bill. The client was also disappointed to learn that she would have to be in arrears before there was a possibility of receiving any assistance.

A CAB in Somerset reported that a 19 year old man who had been rehoused into a housing association flat after leaving care, was finding it difficult to find reasonably paid employment as he had dyslexia and no transport of his own. He was currently on the lower rate of jobseekers allowance of £46.85 per week and was finding it difficult to manage. His water rates were £7.09 per week. The client's financial statement showed his very reasonable expenditure exceeded his income by nearly £20 per week and his bank account was going overdrawn due to bank charges. This would push him into further arrears.

Reasons for debt

All the clients who took part in the 2001 and 2008 surveys were asked to give up to three reasons why they thought they had got into debt. We asked clients to use their own words rather than offer a multiple choice response. The reasons people gave were grouped into a number of different categories from low income to getting behind with council tax payments. The four reasons given most frequently by clients in 2008 are similar to those in 2001 though in a slightly different order. In 2001 overcommitment came first (16.5 per cent) followed by job loss (14.6 per cent), low income (13 per cent) and illness (11.8 per cent).

Clients who were advised by LSC-funded advisers were most likely to attribute their debt problems to living on a low income (at least 20 per cent of the LSC clients). This could be explained by the income criteria for legal aid. In comparison, the main reason for getting into debt for clients helped by FIF advisers was overcommitment (one client out of six) with low income coming second (13 per cent).

Bureaux often report cases of clients experiencing a range of events affecting their income and expenditure. Nearly three quarters (72 per cent) of the 2008 survey group felt there was more than one cause to their debt problem (compared to 60 per cent in 2001). We now look at the most significant of these.

Debt due to low income and problems with benefits

Low income appeared to be the most common cause of indebtedness for CAB debt clients in 2008. Benefit and tax credit recipients have to be resourceful money managers to budget for all their expenditure needs. An unforeseen event or circumstance can easily send them into a spiral of debts:

A CAB in Cumbria reported that a single man on jobseekers allowance of £60.50 a week was struggling to make ends meet. He had a £6 per week deduction to repay a social fund loan used to furnish his flat. During the last 10 years, he had been in and out of work and this had led to a deteriorating financial situation. He was in arrears with his utility bills and also had other debts of approximately £1,200. After getting into arrears with his current fuel supplier the client had a pre-payment meter installed. However, the minimum payment to keep a supply on the meter was £5 per week for gas and £10 per week for electricity.

The 2008 results are given in the following table:

Table 2: Reasons for debt problems given by CAB debt clients in July 2008

Reasons CAB clients gave for debts	Number of times this reason was mentioned	Percentage of responses	Percentage of clients giving this reason
Low income	441	15.7%	31.3%
Overcommitment	396	14.1%	28%
Illness	340	12.1%	24%
Job loss	266	9.4%	19%
Relationship breakdown	226	8.0%	16%
Cost of living increases	192	6.8%	13.6%
Poor financial skills	178	6.3%	12.6%
Fault of others	114	4.0%	8.1%
Cut in income	111	3.9%	7.9%
Problems with benefits and tax credits	104	3.7%	7.4%
Other change of circumstances[20]	96	3.4%	6.8%
Business failure	53	1.9%	3.8%
Addiction	38	1.3%	2.7%
Major essential expenditure	29	1.0%	2%
Being a student	15	0.5%	1%
Other	216	7.6%	15.3%
All	**2,815**	**100%**	**199.50%**

20 Becoming a carer, bereavement and having children.

A CAB in the West Midlands was helping a woman with her finances. She had difficulty understanding paperwork and found it hard to keep on top of her finances. She had only recently applied for the single person discount on her council tax. She had two housing benefit overpayments of around £1,000 and was reluctant to claim housing benefit again because her income fluctuated and she might be overpaid again. The client had no spare money as all her available income was used to pay rent arrears and court costs. Her debts included council tax arrears, water arrears including a county court judgment and a magistrates court fine for not having a TV licence. She also had a loan of about £2,000, and catalogue debts. She told the CAB that she had been sitting in the dark at home in fear of a bailiff's visit.

More than seven per cent of CAB debt clients stated that problems with the administration of benefits and tax credits caused or exacerbated their financial problems:

A CAB in Cornwall reported that a 63 year old man had run up substantial debts, including rent arrears due to a computer error by the Pension Service. About four years ago he had a nervous breakdown and had to give up work. He claimed incapacity benefit and when he reached 60 years old he claimed pension credit, but received less than he was entitled to. He was not claiming housing benefit or council tax benefit. In 2006, at the suggestion of Job Centre Plus, he had applied for housing benefit and council tax benefit but his claim was refused as he had not given the full information required (the client said that his mental state at the time was such that he was unable to deal with these requests). Eventually the Pension Service admitted their mistake, and after the CAB had chased them many times, paid arrears. The local authority also agreed to backdate his housing benefit for two years providing his doctor confirmed his poor mental state. Because the client had not received his correct entitlement, he had used up his savings, and then used credit cards to make ends meet. He avoided losing his home only because a sympathetic landlord allowed him to stay when he had no money for rent.

Just over five per cent of the 2008 CAB debt clients had a tax credit overpayment.

Debt due to overcommitment and money mismanagement

A significant number of people surveyed attributed their debt to being financially overcommitted or having poor financial skills. In some cases they borrowed more than they could afford to repay. For example, clients told us:

- "We had lots of outgoings and no incoming expenditure."
- "We overextended ourselves by remortgaging."
- "We had storecards, credit cards, loans and an expensive mobile contract."

In other cases, their problems had been compounded by poor lending practices which did not appear to take account of ability to repay, for example:

- "I had easy access to credit."
- "The limit of my credit card kept increasing."
- "Credit was pushed at me – I was given new loans to consolidate or pay off my debts."

A 22 year old woman sought advice from a Yorkshire CAB about her debts totalling £29,000. These included a bank loan of £18,000, a finance loan of £8,000 and a credit card debt of £3,000. She had no assets and only earned £900 per month. The client told the CAB that she found it easy to apply for credit, but was now struggling to pay it back. The CAB felt that her only options were bankruptcy or an individual voluntary arrangement (IVA).

A CAB in Kent reported that a retired woman ran up £60,000 debts without her husband's knowledge. She had been given large limits on credit cards and a £16,000 bank loan which with interest and payment protection insurance totalled £25,660. The repayments on this loan alone were more than the client's monthly retirement pension. The CAB commented that the bank did not seem to have taken her financial or personal circumstances into consideration before lending her the money. The client's family only found out that she had debt problems when she went missing for two days. She was severely depressed and had been planning to kill herself. She texted the family to say goodbye and to say sorry for what she had done. Fortunately her family found her in time.

Financial overcommitment can also result from poor financial skills:

- "I did not understand the credit terms. I owe £12,000 for a £3,000 television."
- "I was not fully aware of the consequences of using credit cards."
- "It is due to negligence on my part and not having enough experience of handling money when I moved out of my parents' home."

More than six per cent of the clients in the survey felt that poor financial skills had contributed to their debt problems. Difficulties in budgeting and a lack of understanding of financial products can cause or worsen a debt problem:

A CAB in Hampshire reported that a man needed to borrow £11,500. He took out a bank loan but did not realise that he would also have to pay £3,126.56 interest, £3,098.71 payment protection insurance and £842.09 interest on the insurance. The total cost of the loan came to £18,567.36. When the adviser explained to the client that he would be paying back 61.45 per cent more than the original loan, he was horrified. He had just focused on the APR for the whole loan at 6.4 per cent.

A Derbyshire CAB reported that a woman bought an electrical item from a high street store with what she thought was a loan agreement. She told the CAB adviser that she could not understand why she got a statement every month showing a large amount of interest. It appeared that the credit agreement was actually a store card at 30 per cent APR. The client, who was 85, had no understanding of the way her account worked or its financial implications.

Debt due to ill-health

Illness and disability was the third major reason for debt problems given by clients in the 2008 survey. In many cases, the debt had arisen when the client had to give up work because of their ill health. In other cases, the client had to give up work to care for an ill or disabled relative (24 clients in the survey). Not only do the clients' incomes drop, but also their expenditure may rise because they need to keep the heating on for longer or require a special, more expensive diet:

A Yorkshire CAB reported that a couple had been struggling with their mortgage payments, particularly since the wife had been off sick from work. The client's husband had increased his hours at work, but could not do more as he cared for their 14 year old daughter who had mental health problems. Their mortgage lender had been unhelpful to them when they asked what options were available to them to help them control their arrears.

A West Midlands CAB reported the case of a retired couple on benefits who had accumulated multiple non-priority debts of more than £34,000. A year and a half earlier, their daughter had been diagnosed with cancer and her husband had given up work to look after her. He did not claim benefits and the clients took out loans and credit cards to pay for their daughter's household expenditure. The daughter was still in need of full time care and the clients were unable to make the contractual payments. They felt that they had no alternative but bankruptcy.

Debt caused by job loss

Given the current economic climate and an increasing level of unemployment, it is not surprising to find a significant proportion of clients (9.4 per cent) who had got into debt because they lost their job. The number of unemployed people increased by 290,000 in 2008 to reach 1.92 million in the UK.[21] Between April and December 2008, bureaux had dealt with 128 per cent more enquiries about redundancy and 85 per cent more enquiries about jobseekers allowance:

A Gloucestershire CAB saw a client who had taken out an unsecured personal loan for £5,000 with a major high street bank. When he lost his job and got into arrears with payments, the bank insisted he had to repay that loan by taking out another loan for £6,000 to cover the original debt and arrears. The bank knew he was unemployed at the time. The client struggled to repay this debt and the bank passed on his debt to a debt collection agency who added interest and charges. By the time of seeking advice, the debt had risen to nearly £10,000.

Even a short period of unemployment can have serious consequences on people's finances.

A CAB client from East London fell behind with his mortgage payments for three months after losing his job. He managed to secure a new job and entered into arrangements with the creditors to clear all his debts. The client managed to negotiate a payment break with his lender and subsequently agreed to start paying the current instalments plus an extra £50 off the arrears. Although the client stuck to this arrangement and had been paying the mortgage regularly since he started work, his mortgage lender started possession proceedings.

Debt caused by increases in the cost of living

In 2008, over 13 per cent of debt clients attributed their debt problems to cost of living increases in essential expenditure such as petrol, energy, water and council tax. In contrast, cost of living increases were not cited as a reason for their debt problems by any CAB client in the 2001 debt survey.

A CAB in South West Wales reported that a pensioner living in a rural area used oil for heating and cooking. He had his oil tank filled at various times throughout 2008. He paid an agreed monthly payment of £150 to his oil distributor. As a result of the rising price per litre of oil, the price of filling his oil tank increased and he had built up a deficit of £2,000. He received a letter from the oil company stating that his monthly bill had now been set at £600 in order to pay back the deficit. The client was living on a low income and could not afford to pay £600 a month.

21 ONS, statistics.gov.uk

A CAB in East Yorkshire reported in 2008 that a disabled man's fuel supplier informed him that they intended to increase his payments from £24 per month to a minimum of £46. The client could not afford the almost 100 per cent increase in payments and was worried about not being able to afford to eat properly in future.

Offers of payment to non-priority creditors

From the information obtained, advisers were able to calculate the available income to repay non-priority creditors for 1,301 out of the 1,407 clients.

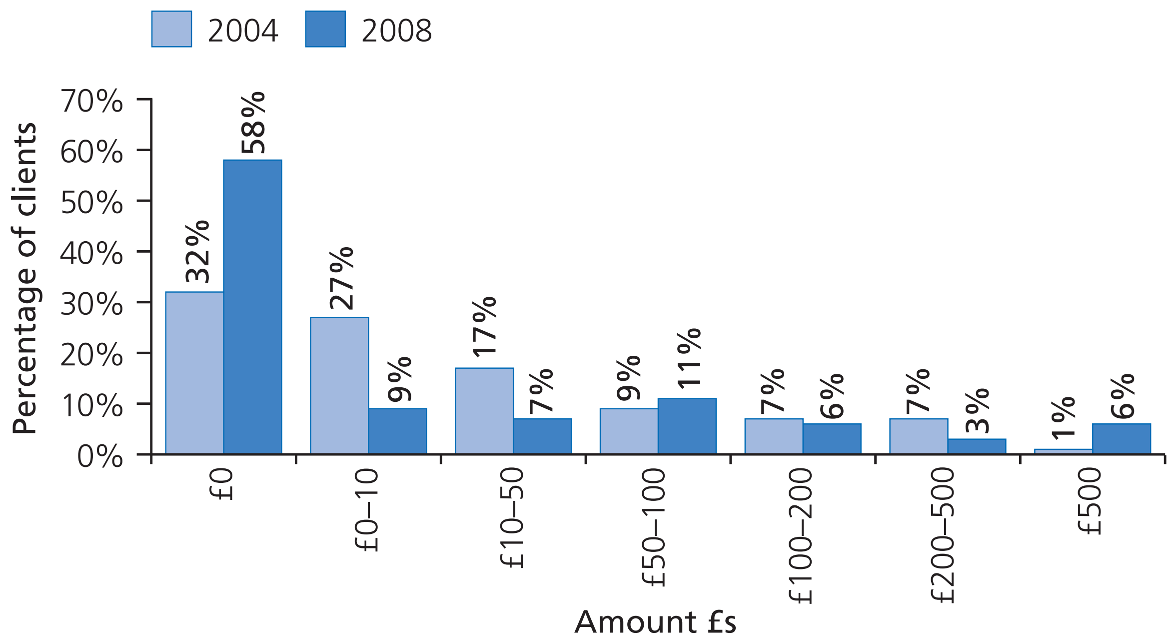
Most CAB clients are often too poor to afford more than a few pounds a month to repay their creditors. More than half of the clients in this survey (58 per cent) were not able to make any offer to their non-priority creditors. This is a substantial increase from 2004 when only 32 per cent of the respondents had nothing to offer.

In contrast, the number of people who had more than £500 per month available income for non-priority creditors has increased from one per cent to six per cent in four years. This could be explained by the higher number of clients with relatively high incomes who had attributed their debt problems to overcommitment.

There were also significant differences between the amounts available for non-priority creditors depending on the type of adviser the client received help from. More than two thirds of clients who had received help from debt advisers funded by the Legal Services Commission (67 per cent) had nothing at all to offer to their non-priority creditors whereas this was the case for less than half of the clients who saw generalist advisers (47 per cent).

A majority of FIF clients (57 per cent) also had no available income for non-priority creditors but 20 per cent had more than £100 to offer per month. In comparison, only seven per cent of clients advised by LSC advisers had more than £100 per month of available income.

Figure 8: Amount offered to non-priority creditors 2004 and 2008

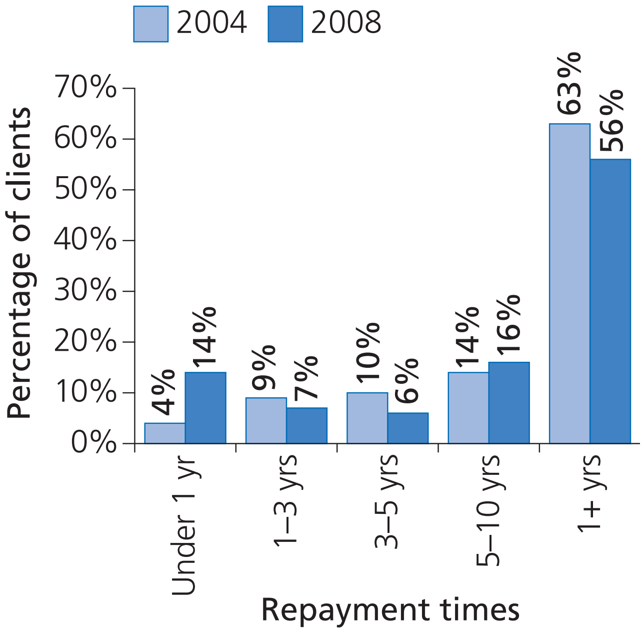


For 2004: 476, for 2008: 1,301 financial clients.

How long would it take clients to repay their debts in full?

The data collected makes it possible to compare clients' total debt with their available income in order to find out how long it would take to repay their debts in full.

Figure 9: Time taken to repay total debts in 2004 and 2008



Base: For 2004: 483, for 2008: 551 clients.

We had information on offers of repayment and amount of non-priority debts for 551 clients. The number of clients able to repay their non-priority debts in less than 10 years has increased from 37 per cent in 2004 to 44 per cent in 2008. Nevertheless, there are more clients with extremely long repayment times. More than half of CAB debt clients would take more than 10 years to repay their non-priority debts in full, the average being 93 years. Sixteen per cent would take more than 100 years to repay their non-priority debts in full.

It is therefore important that advisers and clients should consider other options for dealing with debt such as bankruptcy and other forms of insolvency.

Eligibility for debt remedies

Insolvency procedures are not easy options for dealing with a multiple debt but can be useful as a last resort for people who have no prospect of ever repaying their debts. Currently there are three insolvency remedies with different rules:

- Bankruptcy: people owing more than £750 can petition for bankruptcy. After 12 months all their debts will usually be written off. Any assets will be sold to repay the costs of bankruptcy and the creditors. The fee for bankruptcy is currently £495 and many CAB debt clients cannot afford this.
- An individual voluntary arrangement (IVA) is an alternative to bankruptcy. It is a legally-binding agreement between a debtor and their creditors to repay debts in part or in full over a fixed period of time (usually five to seven years). An IVA is authorised by the court and supervised by an insolvency practitioner. The debtor must have a substantial amount of available income for their non-priority creditors, usually least £200 per month. They also have to pay the practitioner's fees which can amount to several thousand pounds, although these fees are often paid by instalments.
- County Court administration order: currently the debtor must have debts of less than £5,000, including at least one county court judgment. The client must make an agreed payment into court each month. The court distributes this payment to the client's creditors on a pro-rata basis.

Citizens Advice has long campaigned for a more comprehensive insolvency regime to ensure that more people on lower incomes can access insolvency remedies.

Debt relief order

In April 2009, a new insolvency remedy, the debt relief order (DRO), comes into force. It is aimed at people on lower income with few or no assets and little or no available income.

To be eligible for a DRO people must have:

- debts of less than £15,000
- assets worth less than £300 (if they have a car, it must be worth less than £1,000)
- disposable income of less than £50 per month.

Under the DRO scheme the applicant will be discharged after 12 months, with all their debts written off.[22] The application fee for a DRO will be £90.

Taking the DRO criteria into account it appears that 416 out of the 1,407 households surveyed (30 per cent) could be potentially eligible for a DRO.[23] If this were to be scaled up for the whole CAB service we estimate that 51,900 CAB debt clients could be eligible for a DRO.[24]

Clients who are eligible for DROs come from some of the most vulnerable groups in society:

- Sixty one per cent of them were social tenants.
- Their average household income of £668 per month was far below the survey average of £1,021.
- Less than one out of six (14 per cent) were working full-time.
- Eighteen per cent were from ethnic minority backgrounds (13 per cent of them were Black-African, Black-British or Black-Caribbean).
- More than three quarters (78 per cent) had no assets at all.
- Twenty one per cent were lone parents.
- Eighty eight per cent had less than £10 available income per month for their non-priority creditors.
- They had an average of 3.5 non-priority debts and owed an average £4,093 to their non-priority creditors.
- On average they had 1.3 priority debts totalling £1,042.
- Thirty per cent were disabled.

Administration Order

The Tribunals, Courts and Enforcement Act 2007 contains measures to reform County Court administration orders. These reforms are likely to come into effect in 2010. The new eligibility criteria will be for the debtor to have a total debt of less than £15,000 and a disposable income of £50 per month or more.

Nine per cent of the debt clients in the 2008 survey would be eligible for the new administration order. If this were to be scaled up, 15,570 CAB debt clients could be eligible for the new administration order.

People who are not eligible for either a debt relief order or an administration order

People with debts over £15,000 will not be able to access either the DRO or the revised administration order. This is the case for nearly a third of the CAB debt clients surveyed (31 per cent). Among these, 89 per cent had non-priority debts above £15,000. Some may be able to access an IVA, but only if they have disposable income for their creditors above £200 per month. This is the case for 20 per cent of these clients. We believe many people seeking advice from the CAB service will not have this amount of disposable income.

People in these circumstances will be left with two main choices to help them deal with their debts – 'full' bankruptcy or an informal debt management plan with their creditors. This is the case for a quarter of the debt clients in this survey. Consequently, there is a gap in the current patchwork of debt relief remedies

22 For more information about DROs see the Insolvency Service website: insolvency.gov.uk
23 Homeowners are excluded as they will have assets more than £300.
24 We estimate that in 2008/09 the CAB service will provide debt advice casework to around 173,000 clients.

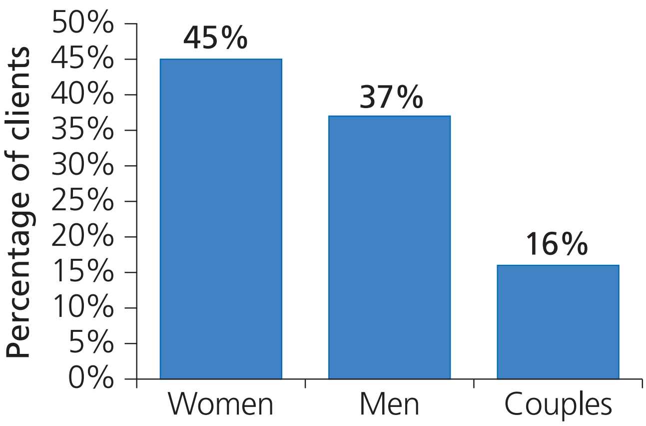
which applies to a number of debtors. For these debtors the remaining choices are likely to be inappropriate or unhelpful. We believe that the statutory debt management measures contained in Chapter 4 of the Tribunals, Courts and Enforcement Act 2007 could provide an alternative method of debt relief that would allow them to deal with their debts in a more effective and equitable way. This part of the Act provides a way for people to make affordable repayments to their creditors which are binding. It would also stop any further enforcement action and may provide for partial debt write-off. This part of the Act has yet to come into force.

From the results of our survey, we estimate that a scheme solely for debtors with debts above £15,000 would benefit at least 8,600 CAB clients a year and possibly as many as 41,500.

Annex 1: The profile of CAB debt clients

Gender

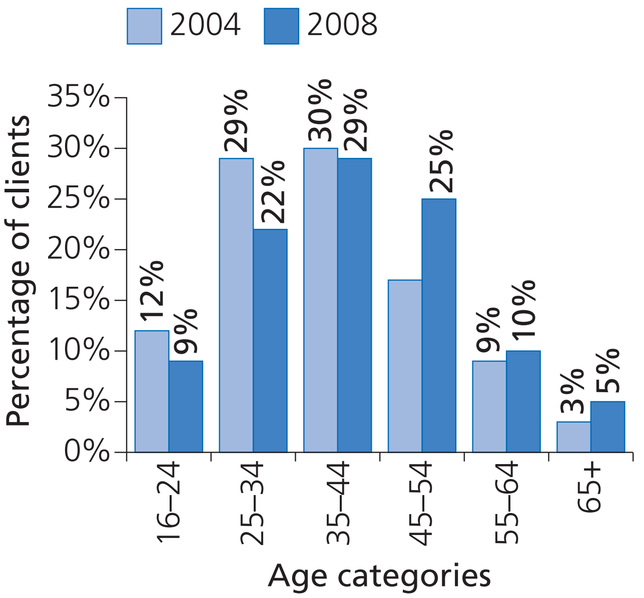
Gender distribution of CAB clients in 2008



Base: 1,385 clients.

Age

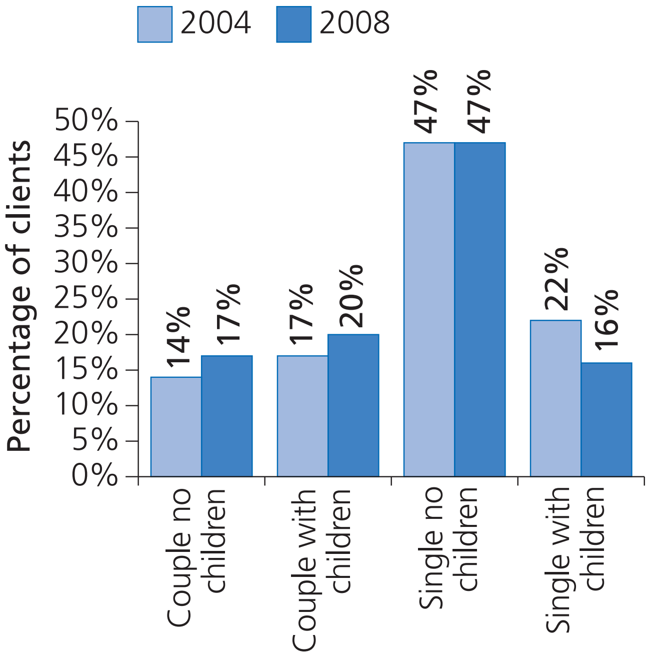
Age of CAB debt clients in 2004 and 2008



Base: 1,383 clients.

Household composition

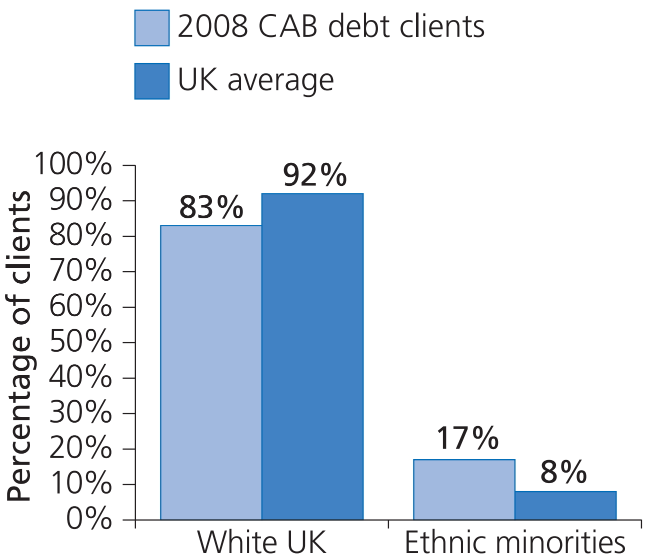
Household type of CAB debt clients in 2004 and 2008



Base: 1,388 clients.

Ethnic origin

Ethnic background of CAB debt clients in 2008 compared to the UK population

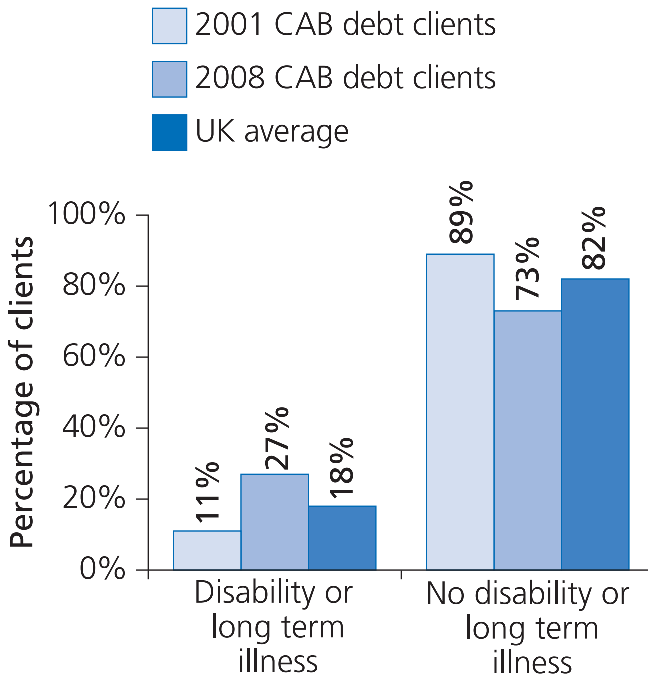


Note: UK average figures are based on the 2001 national census

Base: 1,392 clients.

Disabled people

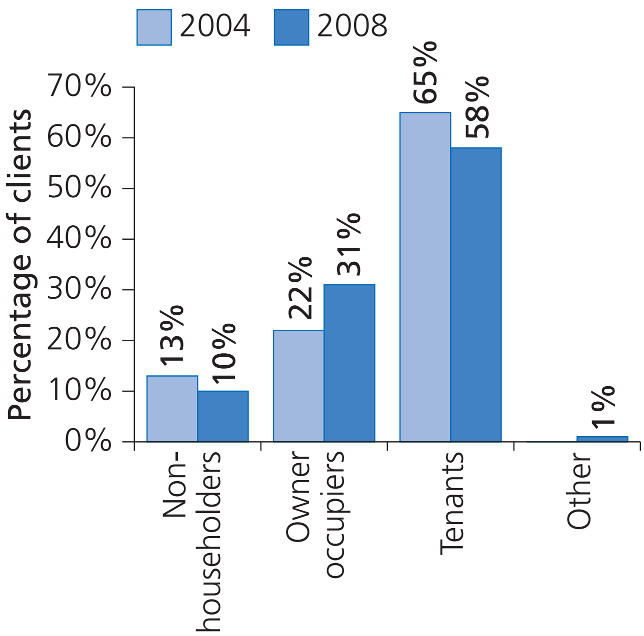
Disability or long term illness for at least one person in the household in 2001 and 2008 compared with the UK average



Note: UK average figures are based on the 2001 national Census

Base: 924 clients.

Housing tenure



Note: 39 per cent of the tenants were local authority tenants

Base: 1,391 clients.

Annex 2: The MAT/BBA common financial statement's trigger figures analysis

In the past, CAB debt advisers sometimes found it difficult to persuade creditors to accept offers of repayment because the creditors would question the client's expenditure. To tackle this problem, the Money Advice Trust (MAT) and the British Bankers Association (BBA) launched the Common Financial Statement (CFS) initiative. This initiative includes the introduction of trigger figures which are pre-agreed levels for certain areas of discretionary expenditure. They help creditors and money advisers to identify levels of monthly expenditure which, unless exceeded, are deemed reasonable and will not require comment or explanation. MAT, BBA and the Finance and Leasing Association (FLA) re-launched an improved and updated version of the CFS in June 2008.

There are trigger figures for telephone, travel, housekeeping and 'other' costs. Categories of fixed expenditure, such as rent and mortgage payments, do not have their own trigger figures because what people spend on these items varies widely and it is rarely possible to have any real control over these expenditure levels. In 2008 a 'child multiplier' was introduced so that expenditure on all the trigger figures can be matched to the actual number of children in a household (rather than an assumed average under the former system) with a higher amount for children over the age of 14.

A specific car expenditure allowance under the travel trigger figure was also introduced rather than the previous single figure covering all travel expenditure. Going forward, therefore, a more accurate assessment should be possible. Nevertheless, the travel expenditure does not take into account where the client lives and whether they are working.

Although we asked the clients how many dependents were living in their households we do not know their ages. We are therefore unable to check how many clients with children have expenditure within the trigger figures. We are able, however, to do so for single people and couples with no children.

Twenty one per cent of the CAB debt clients surveyed had a housekeeping expenditure higher than the CFS housekeeping trigger figure.

Housekeeping

Household type	Couple with no children	Couple with children	Single person	Single parent
Average monthly housekeeping costs	£298	£438	£181	£390.50
% of clients in excess of the CFS housekeeping trigger figure[25]	21%	19%	21%	27%

25 The trigger figures also take into account the age of the children as it is generally assumed that expenses for a child above 14 is higher than for a child under 14. For example, the housekeeping trigger figure for a child under 14 is £63 per month whereas it is £107 per month for a child over 14. As the survey did not ask the age of the dependents, we were consequently unable to distinguish between the two age groups in the trigger figures so an average value is used.

Travel

Household type	Couple with no children		Couple with children		Single person		Single parent	
	Car	No car	Car	No car	Car	No car	Car	No car
Average monthly travel costs	£185.44	£98	£197	£107	£186	£46	£182	£78.50
% of clients in excess of the CFS travel trigger figure[26]	68%	41%	57%	30%	73%	28%	72%	24%

Phone

Household type	Couple with no children	Couple with children	Single person	Single parent
Average monthly phone costs	£51	£53	£38	£49
% of clients in excess of the CFS phone trigger figure[27]	28%	20%	30%	24%

26 Ibid.
27 Ibid.

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