CAB briefing

May 2006

Deeper in debt

The profile of CAB debt clients

Summary

This report sets out the characteristics of Citizens Advice Bureau debt clients. The debt survey updates the 2003 Citizens Advice report, *In too deep*. It draws on survey data collected from 567 clients from 61 bureaux across England and Wales. What is clear is that debt is a continuing and often debilitating problem for an increasing number of people, with its effects often felt most strongly amongst the most vulnerable members of society.

Main findings:

- Nearly two in five households in this survey depended entirely on benefit income.
- The average total household debt was £13,153, an increase of approximately 30 per cent between 2003 and 2006.
- On average, debts were 17.5 times the client's total monthly household income. This is a significant increase from 2001 when average debts were 14 times a client's average total monthly household income.
- Half of the clients in the survey had less than £20 per month to offer to all of their creditors, and over half of those had nothing to offer creditors at all.

Inside

- On average it would take CAB debt clients who were able to make a repayment to their non-priority creditors 77 years to repay the debts at the amount offered.
- Only 10 per cent had a positive balance in a bank or building society account and the average amount held was only £404. Forty four per cent had other assets, such as a vehicle, their home or a life insurance policy. However, in many cases the value of these assets may not be realisable.
- Twenty three per cent of CAB debt clients in this survey had a disability or long-term illness.
- Citizens Advice believes that a significant proportion of CAB clients will benefit from the Debt Relief Order proposed by the Insolvency Service.

Introduction

In 2004, Citizens Advice, working in partnership with the Insolvency Service, asked a 10 per cent random sample of Citizens Advice Bureaux to take part in the *Financial Statements Survey (FSS)*. The survey was undertaken for two reasons. Firstly, the Insolvency Service needed information in order to quantify the possible take-up and cost of a new insolvency remedy, the Debt Relief Order, targeted at debtors with low incomes and assets. Secondly, Citizens Advice wanted to use the opportunity to update the profile of CAB debt clients outlined in our 2003 evidence report, *In too deep, CAB clients' experience of debt.*

Citizens Advice is in a unique position to do such a piece of work as the provision of holistic money advice forms a significant and ever increasing proportion of the work that bureaux do. Over the last 10 years, consumer debt enquiries to bureaux have doubled, and enquiries about all debts formed 22 per cent of all enquiries made to Citizens Advice Bureaux in 2004/05.

Holistic money advice aims to look at solutions to an individual's debt problem which take account of the client's wider financial and social situation. It involves:

- exploring the extent of the client's debt problem, including establishing the amount the client owes, details of all the creditors and the action each creditor has taken to collect the debt
- checking liability for all the debts
- checking whether the client's income could be increased e.g. by claiming benefits or tax credits
- advising on expenditure
- drafting a financial statement which sets out the client's income, expenditure and debts, including whether any income is available to repay creditors. This will be used to negotiate with creditors and to provide evidence of the client's circumstances to county courts and magistrates courts
- advising on strategies for dealing with the client's debts, including making repayments and bankruptcy. Separate strategies will be needed to deal with priority debts where the ultimate sanction for non-payment is loss of home, fuel supply, liberty or essential goods on hire purchase
- helping the client negotiate with creditors and respond to any court action to recover the debt.

Each of the 61 bureaux that took part in the survey was asked to send a copy of every financial statement drafted for a new debt client in February 2004. For each financial statement, an additional top sheet of information was included profiling the client's socio-economic situation. Altogether data on about 567 clients was gathered.

The report looks at the profile of CAB debt clients on the following issues:

- age and household structure
- ethnicity
- disability
- housing tenure
- assets
- income
- expenditure
- priority debt
- total debt and non-priority debt
- offers of payment to non-priority debts.

Age and household structure

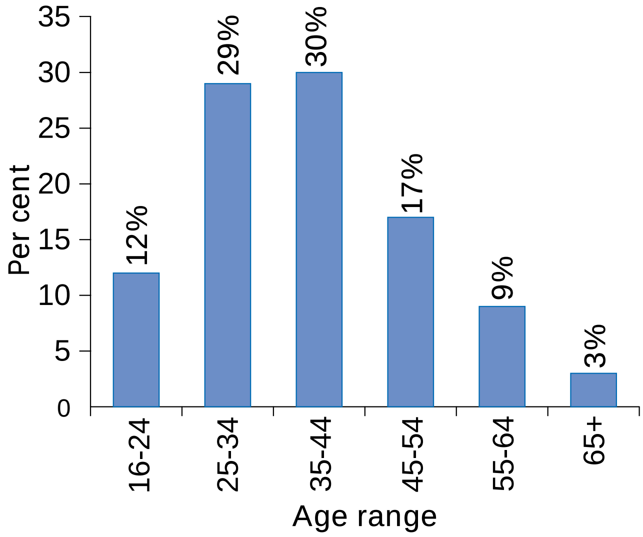
The *FSS* showed that for CAB clients, debt is an issue which mainly affects people of working age. Nearly 60 per cent of CAB clients fall in the age bracket 25–64, whereas

84 per cent of CAB debt clients come within this group.[1]

Research for the Department of Trade and Industry (DTI) identified that young householders seemed to run the highest risk of financial difficulties.[2] Four in ten of those in their twenties reported that they had been in arrears with their financial commitments in the past twelve months. Figures from the *FSS* show that those in the under 35 age group had the lowest incomes, perhaps indicating why they are more susceptible to debt.

> A woman aged 22 sought advice from a CAB in Kent about debts totalling £15,000 to five credit card companies. The client told the bureau that she had got into difficulties when she lost her job and could no longer keep up the repayments.

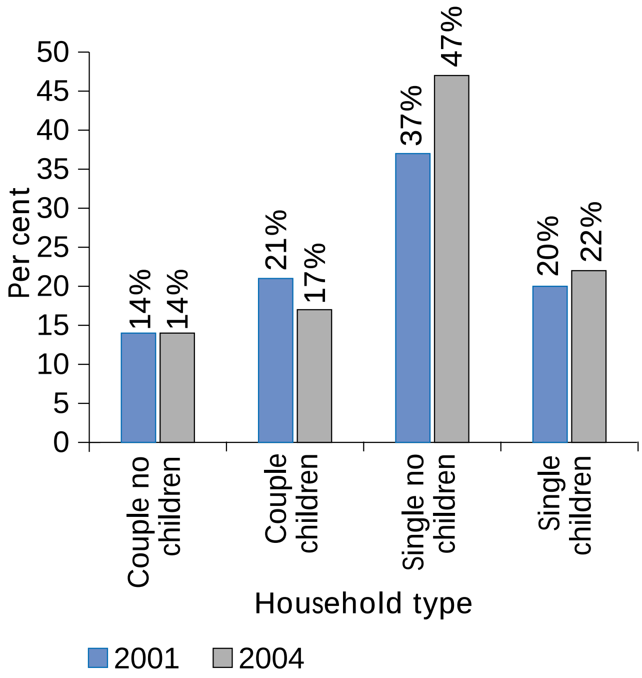
Figure 1: Age of debt clients, 2004



Base: 567 statements.

Twenty nine per cent of households in the UK have children but in the *FSS* 53 per cent of debtor households had one or more children.[3] The group with children surveyed in the *FSS* spent significantly more on rent, housekeeping and utilities than both those without, and the average.

Figure 2: Family makeup comparison, 2001 and 2004 debt clients



Base: For 2004: 567, for 2001: 924 CAB debt clients.
Source: *FSS*, 2004 and *In too deep*, 2001.

Traditionally, there has always been a link between the incidence of children and debt, but there appears to be a new category of debt client emerging, which is the "single person without children" household. In the *FSS*, 47 per cent of all the debt clients fell into this category.

In the *FSS*, 56 per cent of parents were lone parents. The incidence of relationship breakdown is often cited as a significant factor in indebtedness. The loss of an income or the failure of a parent to make child support payments can precipitate a situation where an individual can no longer meet loan or credit card repayments or even meet their basic needs.

> A CAB in Yorkshire reported that a lone parent sought advice about a number of small debts she was having difficulties in repaying. She had council tax arrears, a

1 *In too deep*, Citizens Advice, 2003.
2 Kempson Elaine, *Overindebtedness in Britain, A Report to the Department of Trade and Industry*, September 2002.
3 Department for Work and Pensions (DWP), *Family Resources Survey*, 2003-04.

social fund crisis loan and an overpayment of child tax credit. The client also had a plastic shopping card with a limit of £500. The client did not want to give this up even though she found it difficult to make the repayments of £5 per week because it was the only way she could get small presents for her child.

Ethnicity

Ninety-three per cent of households in the UK describe themselves as white.[4] In the *FSS*, 90 per cent of the respondents described themselves as "White UK" and a further three per cent described themselves as "White Other". In 2001, for *In too deep*, eight per cent of respondents were from ethnic minority backgrounds.

Disability

The Disability Rights Commission estimates that more than one in five people in the UK are disabled by mobility, sensory, mental health or learning difficulties. In the *FSS* a similar proportion (23 per cent) of households included someone with a disability or long-term illness.

Recent research from the charity Leonard Cheshire shows that almost half of adults aged 45 to 64 in the poorest fifth of the population have a limited long-standing illness or disability, twice the rate for those on average incomes.[5] For many, the impact of this over a sustained period of time, combined with a reliance on welfare benefits and the extra cost of disability, means that problem debt is the result of many years of barely making ends meet.

A CAB in Devon saw a couple who had been getting deeper into debt. The husband had been out of work for several years due to arthritis and had had a hip replacement. He was still on mid-range disability living allowance. He had been working for the past five years but was living on a very low-income and this had resulted in increasing indebtedness. At the time of seeking advice, the husband had loans totalling £16,000 and four credit cards, all over their limits. His wife had a loan of £25,000 and one credit card with a debt of £2,500.

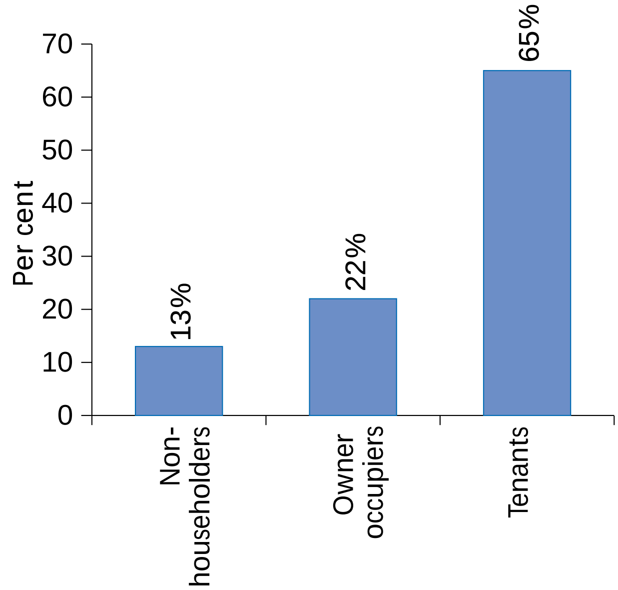
Housing tenure

Data from the *FSS* shows that nearly two thirds (65 per cent) of households were tenants. This is more than double the proportion of tenant households in the population generally (30 per cent). Conversely, whilst 70 per cent of households in the UK are owner-occupiers, in the *FSS,* the proportion of owner-occupiers was only 22 per cent. Thirteen per cent were non-householders, i.e. non-dependent relatives living with someone else.

In a recent report it was noted that tenants in both the private and rented social housing sectors were more likely to be in financial difficulty than homeowners, reflecting the strong association between low income and debt.[6]

4 Office for National Statistics, www.statistics.gov.uk
5 Claire Kober, *In the balance: disabled people's experiences of debt*, Leonard Cheshire, 2005.
6 Kempson, ibid.

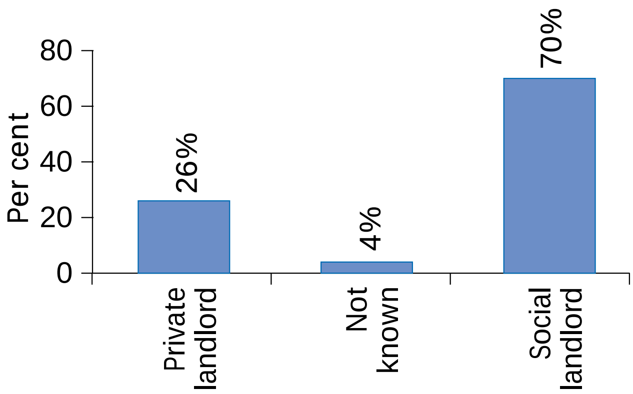
Figure 3: Housing tenure of CAB debt clients, 2004



Base: 567 financial statements.

An indicator of the poverty of CAB debt clients is that 70 per cent of tenants in the *FSS* were tenants of social landlords, such as a local authority or a housing association. This proportion is almost the same as the distribution in 2001 reported in *In too deep* where 69 per cent of tenants were with social landlords. This breakdown also broadly reflects the distribution of tenants in the population as a whole, where two thirds of tenants are from social landlords.

Figure 4: Type of tenancy of CAB debt clients, 2004



Base: 368 financial statements.

Assets

The ownership of assets is very important in debt advice. If a client has substantial assets their creditors might well expect those assets to be sold to repay all or part of their debt. The legal procedures, for example bankruptcy, that exist to assist and rehabilitate debtors often require the sale of assets. In the context of debt advice and repayment strategies, assets also include the family home. As the Insolvency Service has been considering introducing debt resolution systems which distinguish between people with no income and assets and those with assets, we wanted to find out how useable these proposals might be for CAB debt clients. The survey asked about the following assets:

- their home
- a balance in a bank account or building society account
- a life insurance policy
- a motor vehicle
- money owed to them
- any other assets.

A total of 318 households (56 per cent) had one or more of those assets listed. This is a positive statistic especially in light of the current thinking on the role that assets can play in supporting household finances. Assets are not only important in managing indebtedness, research shows that they give households a degree of freedom in planning their futures. As a recent report highlights, "having an asset allows a household to be more confident looking to the future and will enable people to take more active control of their lives".[7]

Homes

However, assets can only be utilised if their value can be realised. For example if a debtor has a car, they might not in practice be able to

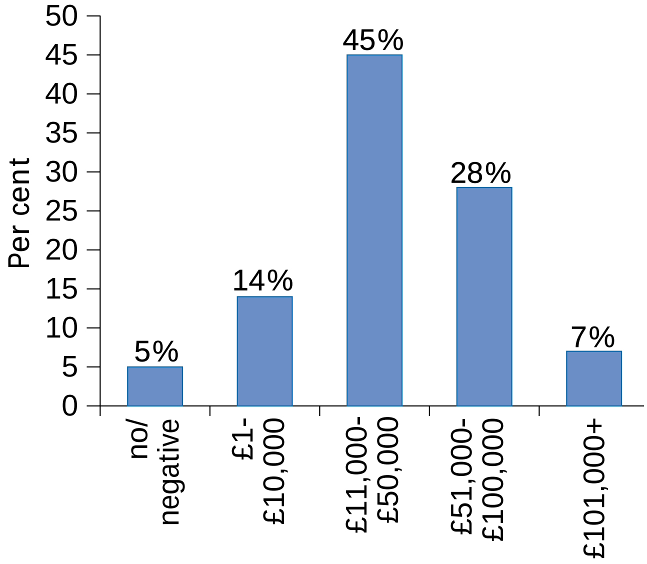
7 Bynner and Paxton , *Assets Effect*, ippr, 2001.

sell it in order to release the capital because they may need it in order to get to work, or for mobility if they have a disability. The equity in a home may not be able to be realised if for example, it would be difficult for an individual to refinance their mortgage and afford the higher repayments or find somewhere else to live. The complexity of the decisions debtors face in these circumstances also highlights the need for access to generic financial advice.

> A CAB in Sussex reported that a divorced woman was unable to use the equity in her home to finance court proceedings to pay solicitors' bills to enforce payment of maintenance against her ex-husband as she needed somewhere to live. The client did not qualify for legal aid as she had over £100,000 equity in her home and she had already taken out a £15,000 loan to pay legal bills on the advice of her solicitor. She could not afford to make payments on this loan or afford to extend her mortgage.

Amongst owner-occupiers who comprised 22 per cent of those surveyed, it was possible to compare the equity in the property with the total debts outstanding in 100 cases. In 70 of these cases the equity exceeded the debts outstanding. In 49 of those cases the equity exceeded the outstanding debts by more than £20,000. Caution should be exercised in interpreting these figures, however, as it is not known from the *FSS* data whether the equity in the property belongs entirely to the debtor. This might suggest that for a small proportion of CAB clients, advice on re-mortgaging would be needed.

Figure 5: Home owners equity for CAB debt clients



Base: 125 financial statements.

Bank and building society accounts

Seventy-three per cent of the population in the UK have some savings. In the *FSS* only 10 per cent said they had a positive balance in a bank or building society account and those balances ranged from 87p to £7,884 with an average of £404. Evidence shows that if people have savings they are less vulnerable to the income shocks, which can force them into debt. There is also some psychological benefit because research shows that whilst having savings of more than £300-£600 does not necessarily provide more material benefit, it does make people feel more secure in the knowledge that they have a savings buffer.[8]

Vehicle

Less than a third (30 per cent) of the respondents in the *FSS* said they had a motor vehicle with any value and the value of these vehicles ranged from £150 to £15,000. The average value was £1,966. Almost half (48 per cent) valued their vehicle at £1,000 or less, and three quarters valued it at £2,000 or less. It is not always possible for people to sell their car in order to come up with a lump sum:

8 Ibid.

A CAB in Essex saw a client who had unsecured debts of £50,000. He had opted for bankruptcy as he was wholly reliant on state benefits. The Official Receiver had declared that the client's car, worth £2,000 should not be exempt. However, the client had very limited mobility and without a car would need to use a taxi for hospital visits and for shopping.

Other assets

Only five debtors had a life policy (less than one per cent). Three debt clients in the *FSS* said they had money owed to them by another party (less than one per cent).

Only nine respondents (1.6 per cent) said they had other assets. These ranged in value from £500 to £50,000. There were two listed with substantial values, £50,000 and £42,000. Both of these were properties. In the former case it was a second property, and in the latter case it was the matrimonial home the respondent had left. These cases are complex and may require specialist financial and legal advice.

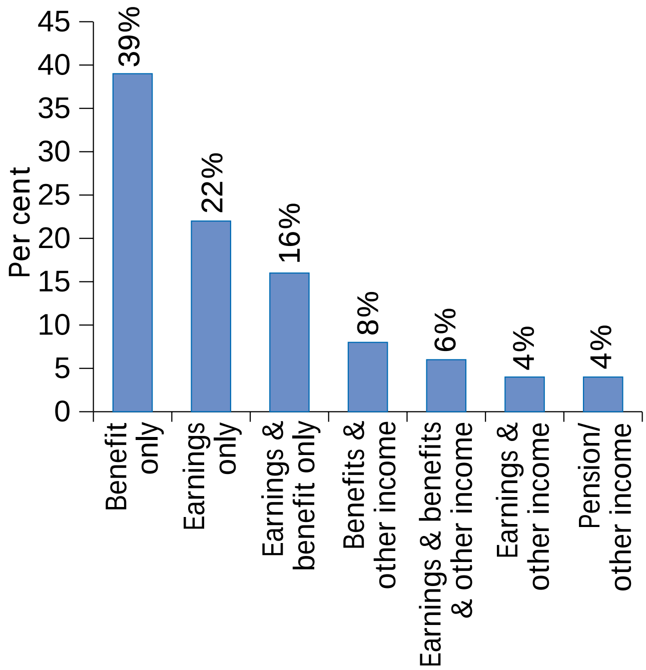
Income

Clients seeking debt advice from a CAB tend to have substantially lower incomes than the population generally and are also poorer than CAB clients as a whole. Living on low incomes leaves people vulnerable to income shocks as well as the day to day difficulty of making ends meet leaving them prone to indebtedness. Figure six shows the types of income received by the households in the survey. It illustrates that the largest proportion (39 per cent) of the households depended entirely on a benefit income, and a further 30 per cent had a benefit element to their income, including tax credits. The nature of the different financial statements used for the survey meant that it was not possible to distinguish tax credit income from other types of income. Just over one in five (22 per cent) relied on an earned income only but a further 26 per cent had an earnings element in their income.

The category "other income" includes for example, statutory sick pay, income from lodgers, child support and maintenance.

Fifty-five households (eight per cent) had some pension income, and fifteen of these (three per cent of the sample) depended entirely on a pension income.

Figure 6: Type of income, 2004



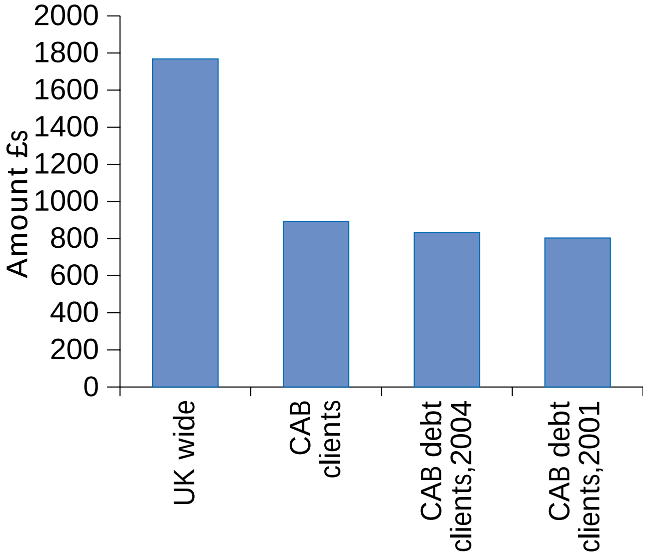
Base: 567 financial statements.

Average incomes

The average income amongst the households in the survey was £833.11 per calendar month. This is less than half the UK average household income of £408 per week (£1,768 per calendar month).[9] The Institute of Fiscal Studies (IFS) found that two thirds of the UK population lived in households below that average. Of the households surveyed in the *FSS*, 95 per cent (538) were below the average.

9 Poverty and Inequality in Britain, IFS, 2005.

Figure 7: Average household incomes



Base: CAB (2004) 567; CAB (2001) 900; IFS (205) unknown.
Source: IFS (2005), CAB *FSS* Survey (2004) and CAB survey (2001).

The *FSS* shows that owner-occupiers, who made up 22 per cent of the sample were more likely to have an earnings element to their income. Those with children were significantly more likely to have a benefit element as part of their income and this was most likely to be the effect of tax credits.[10]

In 2003 the average *earnings* in England were £400.75 per week or £1,736.60 per month. In the *FSS*, 275 households had an earned income element to their total income (49 per cent) and the average earned income was £882 per month, a little over half of the national average. The range was from £68 per month to £3,200 per month, with 56 per cent of the households in the survey reporting an earned income below the average.

Expenditure

The object of a financial statement is to give a breakdown of expenditure against income, to show how much income is available to make offers to creditors. Different types of financial statement used by the bureaux participating in the survey collect different amounts of detail of individual expenditure. For the *FSS* specific items of expenditure were collected:

- housing costs
- council tax
- utilities
- travel
- housekeeping
- telephone

The Money Advice Trust / British Bankers Association Common Financial Statement trigger figures

In November 2002, the British Bankers' Association (BBA) and the Money Advice Trust (MAT) published a Common Financial Statement. The Common Financial Statement is critical in improving trust and understanding between banks and advisers. It aims to increase the likelihood of repayment schedules being accepted and the speed at which an agreement can be reached,[11] and to avoid cases like these:

> A CAB in south west England saw a client who had taken out a consolidation loan of £7,000. The client is a widower with two dependent children and in receipt of benefits. He is now unable to make repayments so an adviser completed a financial statement on his behalf to back his offer of repayment. However, the lender disputed the amount which was being spent on clothing even though the client has two growing children who both need school uniforms and other clothes.

The Common Financial Statement works on the basis of ‘trigger figures’ for the following items of expenditure: telephone, mobile phone, fares and motoring, housekeeping, children, health, pets, repairs and maintenance and other discretionary

10 In this analysis, tax credits have been included in benefits.
11 Money Advice Trust, www.moneyadvicetrust.org.

expenditure. These are based on analysis of the Government's annual Family Expenditure Surveys and represent the maximum figures on a financial statement that will be accepted without question by members of the BBA. Trigger figures are updated regularly.

The *FSS* enables a comparison to be made between the results of the survey and two of the trigger figures for 2004. The table below shows the proportion of financial statements in the *FSS* which exceeded the trigger figure for that item and that family group.

Housekeeping

It can be seen from the table that approximately 20 per cent of the financial statements for couples with and without children and single people without children exceeded the trigger figure for housekeeping. For lone parents, however, 29 per cent exceeded the trigger figure.

The trigger figures for housekeeping and children for families with children are based on an average of 1.9 children per household. Money advisers have argued for some time that this makes it harder for households with more than two children to keep expenditure for these items under the trigger figures and the *FSS* seems to confirm this perception. Of those households in the survey sample containing one or two children (both single parent and couple households) roughly 88 per cent showed a figure for housekeeping below the relevant trigger figure. However, where households contained three or more children, only 57 per cent of financial statements showed housekeeping below the trigger figure. Initial analysis suggests this difference is highly significant.

Therefore Citizens Advice believes that the common financial statement trigger figures need to be revised to take better account of the extra expenditure needs of households with more children. The BBA and MAT Common Financial Statement working party are currently revising the trigger figures for housekeeping and children to take account of varying family sizes. Citizens Advice welcomes this work and hopes that the changes should be put into effect as soon as possible. We have already submitted the data from this survey to the review, and we propose that future reviews of the trigger figures should include similar survey data.

Travel costs

Travel costs were recorded on 470 of the statements in the *FSS*, and the average amongst these was £92 per calendar month (pcm).

Telephone

Five hundred households (88 per cent) in the *FSS* recorded a figure for telephone costs, and the average spent was £37 per month. Telephone costs ranged from £5 to £150 per month.

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

Table 1: Proportion of financial statements in excess of CFS trigger figures

Item of expenditure	Couple with no children	Couple with children	Single person	Single parent
Housekeeping	21%	23%	19%	29%
Fares and motoring	14%	15%	4%	7%

Base: 567 financial statements.

rent and who did not have a benefit income of any kind are identified, the average rent paid was £266 per month amongst 76 households.

Housing costs – owner-occupiers

The figures should be more reliable for owner-occupier housing costs because there is no housing benefit for owner-occupiers.[12] Amongst the owner-occupiers, some had additional second mortgages and some had additional rent either as ground rent in leasehold properties or as shared ownership rent. The average total housing costs of the owner-occupiers was £365 pcm, which includes all three elements. The average first mortgage cost was £340 per month. Ten owner-occupiers had no housing costs.

The DTI uses the proportion of households spending over 50 per cent of their income on secured and unsecured borrowing as a key objective measure of over-indebtedness. In the *FSS*, for those owner occupiers where it was possible to calculate (108), some 20 per cent paid over half of their income on housing costs while 31 per cent paid less than a quarter of their income on housing costs and 48 per cent paid between a quarter and a half. This suggests that sustainable home ownership might be beyond the reach of many CAB debt clients. The *FSS* also showed four households where the amount of housing costs was over 100 per cent of their income. All of these households were dependant on a benefit income; questioning the adequacy of current benefit safety nets for home-owners.

Whilst tenants dependant upon income support or equivalent can receive up to a maximum of 100 per cent of their housing costs through housing benefit, mortgagors dependant on income support will only receive a payment towards the interest on their mortgage (which is not calculated by reference to the actual interest paid but by reference to a standardised interest rate) and in most cases will not receive any payment towards their mortgage interest until between two and nine months after their claim. Consequently, for most mortgagors, dependence on income support is a route to mortgage arrears, more mortgage arrears, other debt or homelessness. In the *FSS,* 18 of the mortgagors were entirely dependent upon a benefit income, and eight (44 per cent) of these had mortgage arrears.

> A CAB in Hertfordshire reported that a woman whose husband was on remand awaiting trial for smuggling drugs had claimed income support including housing costs to pay the mortgage. The client was devastated to find out that she would have to wait nine months before she was given any help with her mortgage interest payments. This has exacerbated the stress she has experienced as a result of her husband being on remand, and she is now at risk of losing her home.

Council tax

The collection of accurate information about council tax is subject to similar problems as rent since the figures given in the financial statements may be net or gross of council tax benefit. According to the financial statements, 274 households listed council tax as an expenditure, on a range of £1.20 per month to £500 per month.[13] Amongst those who listed a figure (267) the average was £66 per month. For those who paid council tax but had no benefit income, the average paid was £64 per month. Twenty eight per cent of those surveyed had council tax arrears. Council tax debts are the most common priority debt for CAB clients and research shows that CAB clients face enormous difficulties in making payment arrangements for council tax arrears and often face unacceptably harsh enforcement procedures as a result.[14]

12 Owner-occupiers in receipt of income support may get an element of their interest payment as part of their income support, but this is not usually paid direct to the lender.

13 The sums listed reflect those listed in the financial statements.

14 Data collected from a statistical recording programme in which 85 bureaux participated between October and December 2005.

> A CAB in East London reported that a couple sought advice about council tax arrears. The problem had been caused by a tax credits overpayment, which in turn caused problems in calculating the clients' council tax benefit correctly, thus exacerbating the debt. The clients had at all times kept the council tax department informed of what was happening. However, the local authority was unwilling to accept repayments of the council tax arrears lower than £19 per week although this would leave the clients living on income well below income support levels. When the CAB called, the council tax arrears officer refused to negotiate further, stating that the clients' debt must be recovered within the financial year irrespective of their ability to repay. The arrears officer said that a longer repayment plan could only be agreed once the account had been passed to the bailiff, even though this would add to the clients' debt with court and bailiff's fees.

Utilities

The survey collected a total figure for expenditure on utilities. This includes gas, electricity and water. Amongst the 567 financial statements, 20 were not able to record a figure, and 71 did not pay anything for these items – most of these were non-householders (53). Of the remaining 476 households who recorded a figure, the average spent was £95 per month.

Fuel poverty is defined as those households who have to spend more than 10 per cent of their income to keep warm. As this survey cannot exclude water charges from the utilities figures, it is not possible to accurately identify those who might fall into fuel poverty. However, as an estimate, 38 per cent (179) of households in the 476 households in the *FSS* who recorded a figure for utilities spent more than 15 per cent of their income on utilities, and 21 per cent (102) spent more than 20 per cent of their income on utilities. In light of recent announcements by fuel suppliers that there will be a significant price increase, it is likely that we will see more people struggling to pay their fuel bills and potentially slipping into fuel poverty.

> A CAB in Shropshire saw a client who was struggling with a variety of debts. Her situation was made worse by the increasing size of her electricity bill. In January 2005 she received a bill for £91 this was followed by a bill for £871 in June 2005 and another bill for £1,392 in October.

Within this context it will be important for debt advisers to take steps to provide their clients with more practical support in tackling fuel poverty. For example, they could do more to publicise, and provide assistance in applying for, the various government, local authority and provider-run schemes which offer grants or subsidies to help people improve their heating and energy efficiency. This suggests a need for better information and training on this subject.

Income available for creditors

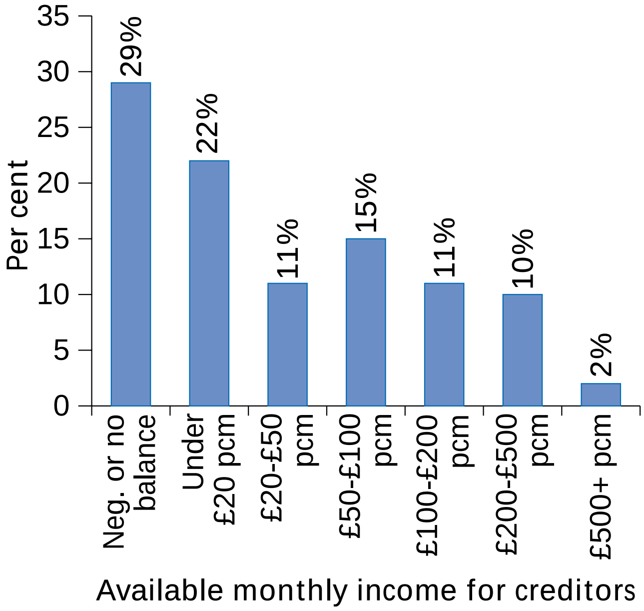
The object of debt advice, after establishing the client's liability for their debts is to identify how much they can reasonably offer to pay their creditors. By deducting the total expenditure figure in the financial statement from the total income for the household, the amount available for all creditors can be identified.

Half of the households in the *FSS* had less than £20 per month to offer to all of their creditors, and over half of those had a negative balance or nothing to offer creditors at all. Certain groups are more likely to experience this, including, people whose sole income is benefits, students reliant on loans and limited opportunities to earn income and single people on low wages whose income is too high to get much help in the way of benefits.

A Yorkshire CAB saw a client with multiple debts. He was made homeless three years ago due to the re-possession of his home following a divorce. He has four children and a grandchild. His youngest children stay with him regularly at weekends and in the school holidays. The client has now got a permanent address and a new job. However, his monthly wage is £553 and he has significant outgoings including council tax, utilities and rent. He is already in arrears. The client thinks he might be better off giving up his job and going back on benefits however, he did not want to do this as he enjoyed his job.

The chart below gives the breakdown of disposable income for creditors.

Figure 8: Income available for all creditors



Base: 567 financial statements.

Current proposals for reforming the procedures available for those with multiple debts make a distinction between those able to pay more and less than £50 per month.[15] County court administration orders will only be available to debtors with more than £50 per month available income and the proposed debt relief order will only be available to those with less than this amount. In the *FSS,* 61 per cent of debt clients had less than £50 per month available to pay their creditors, indicating that the proposed debt relief order will become an important remedy for CAB debt clients. **Citizens Advice recommends that the government introduces the legislation bringing the debt relief order and changes to the administration order to parliament as soon as possible.** This is important as access to free money advice for people on low incomes will shortly be transformed thanks to £45 million from the Treasury's Financial Inclusion Fund which will be used to recruit about 500 debt advisers for a two year period.[16] It is not clear yet whether the funding will be extended, but access to the debt relief order would have been a great help to enable the new debt advisers to advise more people and to resolve debt problems quickly.

Priority debt

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

- liberty
- home
- essential services
- essential goods.

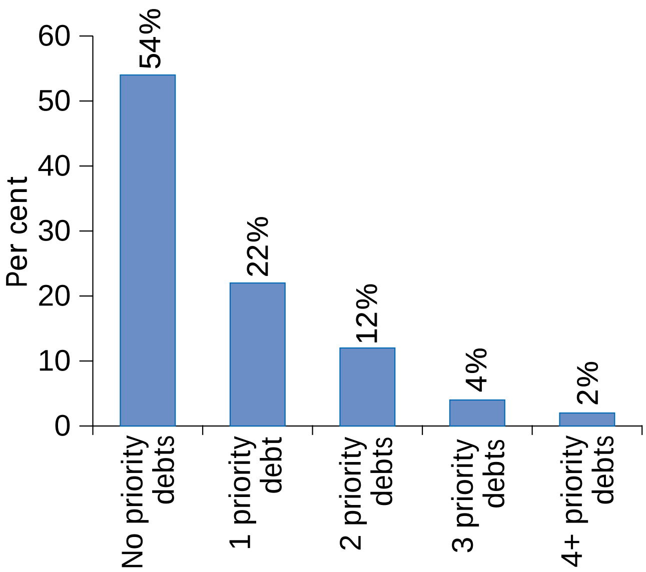
Having identified the priority debts, the debt adviser will suggest to the client that s/he applies any excess income towards repayment of the priority debts first in order to protect the client from losing their liberty, home or essential goods and services. The *FSS* collected details of the most common priority debts:

- housing debt – rent and mortgage arrears

15 Department for Constitutional Affairs, *Choice of Paths*, June 2004.
16 DTI press release, 6 April 2006.

- council tax arrears
- fuel debts
- magistrates court fines
- child support.

Figure 9: Number of priority debts



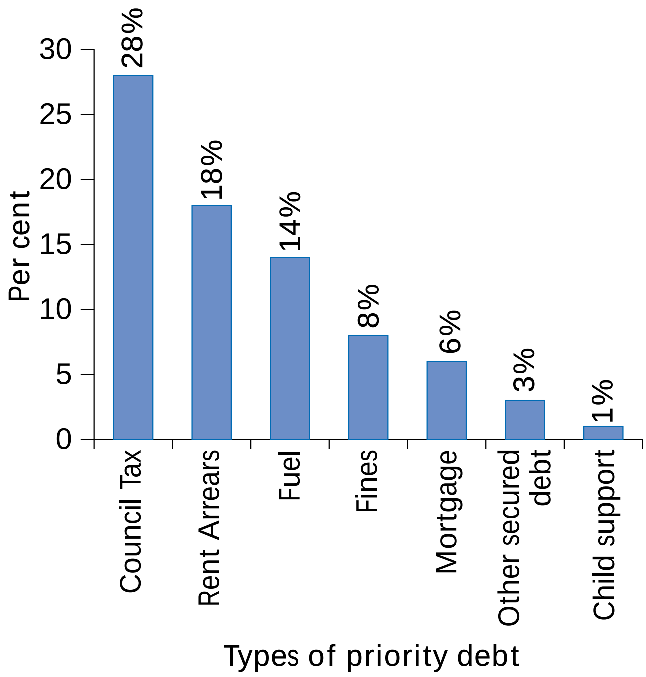
Base: 567 financial statements.

It is often assumed that being in debt means being behind with credit payments. In fact almost half of the clients in the *FSS* owed money to priority creditors, and a small proportion (six per cent) only owed money to priority creditors.

Two hundred and fifty nine households (46 per cent) had at least one priority debt, and more than one in five clients (23 per cent) owed money to two or more priority creditors as shown in the chart above.

The chart below shows the incidence of particular priority debts. The single largest type of priority debt owed was council tax, which was owed by 28 per cent of the total sample. Amongst both the owner-occupiers and the tenants, 26 per cent had mortgage or rent arrears.

Figure 10: Incidence of types of priority debt



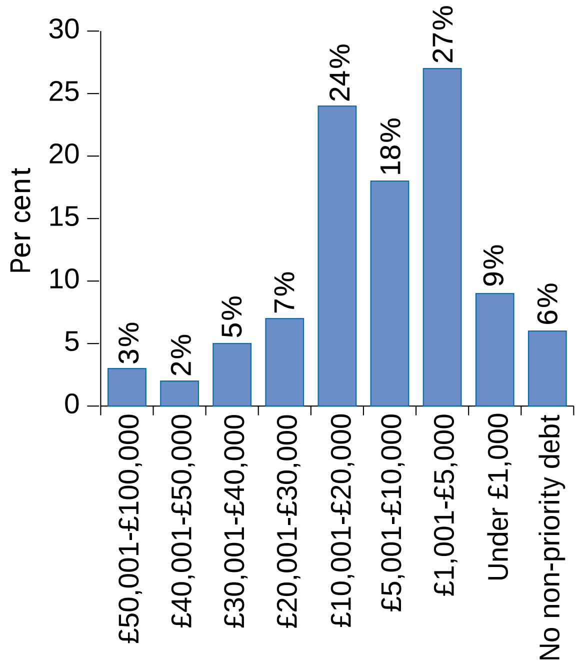
Base: 567 financial statements.

The total amount owed for the priority debts identified in the survey was recorded in 191 of the financial statements. The average amount of the priority debt amongst these clients was £2,360 with a range of £1-£53,786.

Total debt and non-priority debt

Almost all the households (534) in the survey had some non-priority debt (94 per cent). Non-priority debts include most consumer credit debts. The average non-priority debt was £12,431 with a range of £28.88 to £77,802.

Figure 11: Value of non-priority debt



Base: 534 financial statements.

It can be seen from the chart that 36 per cent of people with non-priority debts had debts totalling less than £5,000. Sixty-one per cent of the statements had total non-priority debt below the average of £12,431. Only very few of CAB debt clients had non-priority debt exceeding £20,000. Nevertheless, small amounts of indebtedness can have a substantial impact on people's lives, as the following case shows:

> A CAB in the south west saw a client who was very distressed because she had received a water bill indicating that her current rate of payment would not be sufficient to cover her ongoing liability and as a result arrears had built up. The bureau contacted the water company on the client's behalf but they were unwilling to accept the client's offer of £25 per month and insisted on £20 a fortnight. After essential expenditure the client had no funds for water bills of this size as she was already struggling to afford shoes and clothing for her two children.

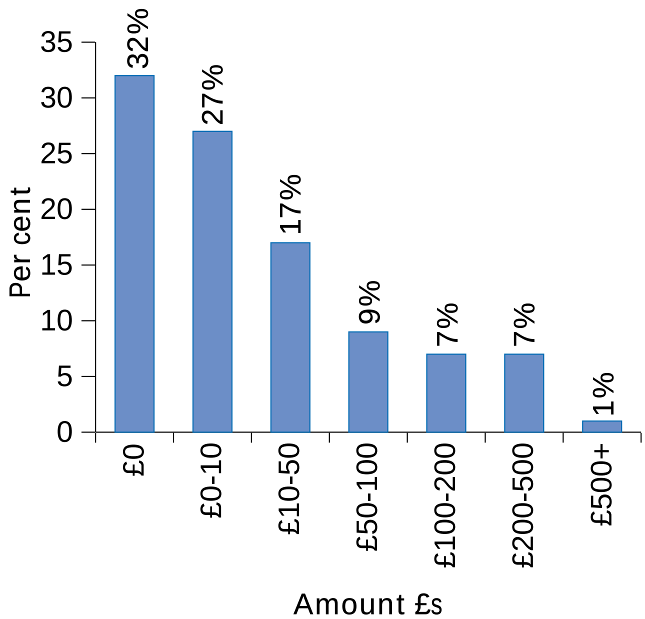
Although only 22 per cent of clients in the survey were homeowners, they had the highest average total debt (the average total debt for owner-occupiers was £23,587 compared to £13,153 for all the clients in the survey). The 2001 survey showed similar results.

Average total debt amongst CAB debt clients has increased by approximately 30 per cent in the last three years. In 2001, for *In too deep*, the average *total* debt owed was £10,700. If the amounts owed for priority debt collected in the *FSS* are added to the total non-priority debt, the average for total debt in 2004 had grown considerably to £13,153.

By comparing the household's total debt against their income, a figure for income-to-debt-ratio can be identified. In the *FSS* the average monthly income-to-debt-ratio was that debts were 17.5 times income. In 2001, the ratio was 14 times income.

Offers of payment to non-priority creditors

Figure 12: Amount offered to non-priority creditors



Base: 476 financial statements.

It is CAB experience that creditors often expect substantial sums in repayments, but CAB debt clients are usually too poor to afford more than a few pounds per month. For example:

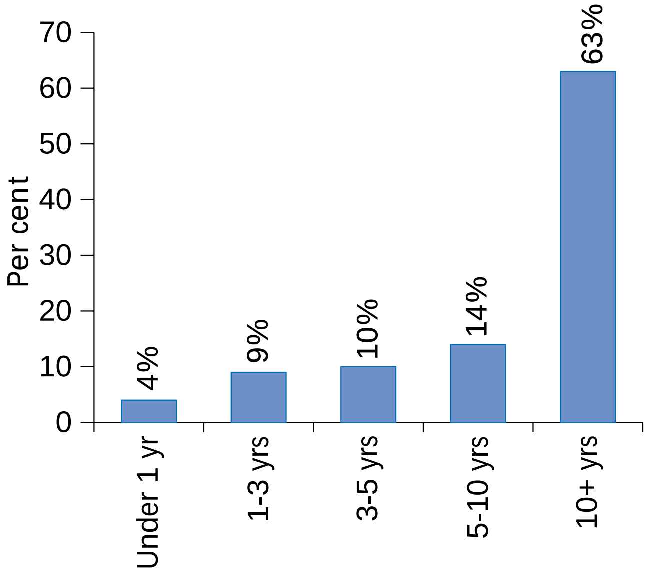
> A CAB in Northern Ireland reported that a couple had got into debt when the husband, a taxi driver, had an accident. Since then he had been unable to work due to depression. The CAB had made pro-rata offers to all their creditors from a total surplus income of £112 per month. One of the creditors would not accept their offer of £21 per month and insisted on being paid £123 per month instead, even though it was clear from the financial statement that only £112 was available to all the clients' creditors.

Details were recorded in 476 statements of the offer made to the non-priority creditors. Just under a third (32 per cent) were able to offer nothing at all, and a further 27 per cent could offer less than £10 per month, making a total of nearly 60 per cent who were unable to offer more than £10 per month.

The data in the *FSS* makes it possible to compare the total debt figure with the total available income figure in order to find an estimate of the time needed to repay *total* debts. The data to make this calculation was available in 483 financial statements.

In 320 of the financial statements there was an offer of payment and a figure for total non-priority debt recorded. In these 320 cases it would take an average of 927 months (77 years) to repay the debts at the amount offered. Of more significance perhaps, only 12 per cent of these clients could repay their total non-priority debts in under three years, 18 per cent in under five years and only 36 per cent in under 10 years if their circumstances remained the same. For these reasons, insolvency remedies such as bankruptcy, Individual Voluntary Arrangements, and the proposed Debt Relief Order are often the most realistic options for dealing with CAB clients' debt problems because they offer light at the end of the tunnel by writing off all or part of the client's indebtedness.

Figure 13: Time taken to repay total debts



Base: 483 financial statements.

> A CAB in Somerset reported that a single disabled man had been trying to sort out affordable repayments on a £30,000 bank loan for more than two years. The bank had made this impossible by constantly increasing his bank charges and adding interest. The client felt so distressed by the situation that he felt that bankruptcy was the best option for dealing with his debts.

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