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A Fresh Start After Covid-19

An outline strategy to tackle Britain's household debt crisis.

Introduction

We need urgent action to address Britain's household debt crisis.

Even before the Covid-19 pandemic 7.2 million people (fourteen percent of the population) were heavily burdened by debt[1] and research by the Money and Pensions Service[2] had found high concentrations of debt problems amongst lower income households, renters, younger households, and families with children – especially single-parent households.

These same groups have faced further financial pressures because of the pandemic, which has also had a disproportionate impact on people from ethnic minority backgrounds and the low paid self-employed.[3]

The result has been a fifteen percent increase in over-indebtedness. The Financial Conduct Authority (FCA) warns that, of the 8.5 million people now in this position, as many as 6.7 million may not yet be receiving debt advice but think they will likely need to seek this within the next six months.[4]

The average *pre-pandemic* level of unsecured[5] debt held by individuals seeking advice has been independently reported by both StepChange[6] and Europe Economics[7] to be around £14,000. This would indicate that an aggregate amount of approximately £119 billion is owed by all over-indebted households, and that £93.8 billion is owed by those who are yet to seek advice.

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However, due to the increased borrowing of many financially stressed households in the early stages of the pandemic,[8] and increasing rent and Council Tax arrears throughout the past year,[9] total debt could now be considerably more.

Unless we find ways to write off a considerable proportion of this debt, there is a significant risk of trapping people in poverty for years to come, with huge social and economic costs.

Based on National Audit Office calculations in 2018,[10] we can expect over-indebtedness to cost the taxpayer *at least* £9.7 billion per year. This is due to its negative impacts on mental health and its knock-on implications for employment and housing problems.

And collecting the full outstanding debt from over-indebted households – equivalent to around five percent of GDP – would hold back the country's recovery from Covid, even if this were to be spread over several years with all interest frozen.

Write down the debt!

According to the FCA, 1.7 million people sought debt advice between March and October last year.[11] Yet fewer than five percent of them obtained access to an insolvency solution and therefore a write-down of any of their debt over the same period.[12]

Nevertheless, *a major write-down of debt is taking place.* Just not in a form which helps those in debt. In 2018/19, lenders sold over £55 billion of household debt on the 'secondary market' to debt purchasing and collection firms.[13] These firms buy up debt for pennies in the pound and make profits by collecting the debt over periods of up to twelve years.

On average, debt purchasers expect to collect back between two and three times[14] what they paid for the debt. This indicates that as much as seventy percent is not expected to be recovered at all. Because of the low price that they have paid for the debt, and the need to incentivise people to repay, many firms also offer debtors a discount on the amount owing if they can pay a lump sum in 'full and final settlement'.[15]

However, these offers are not made available to people who seek advice, who do not have lump sums available to pay off the debt, and who subsequently have to enter into long-term Debt Management Plans. In these cases the full face value of the debt is collected over lengthy periods, even though the original lender has already sold the debt for a fraction of that amount.

This is manifestly unjust, creating considerable social and economic harm which the government must urgently act to address.

What should be done?

We need a new strategy from the government to address our household debt crisis. This must:

- Provide direct grants to households to help clear rent and Council Tax arrears;
- Widen access to insolvency procedures, such as Debt Relief Orders, so that more people with low incomes and no real assets can have their debts written off and obtain a fresh start;
- Provide people who enter Debt Management Plans with a 'fair debt write-down' if their debts have been sold on the secondary debt market; and
- Freeze all evictions and bailiff action to enforce household bills until this wider package of solutions has been implemented and the recovery from Covid is well underway.

This briefing provides further detail of the case for action and the measures needed in each of these areas.

SECTION 1

Over-indebtedness and the Covid-19 pandemic

Debt levels before the outbreak of Covid-19

According to the FCA, fourteen percent of adults (7.2 million people) were already over-indebted before the start of the pandemic. Their debt problems had been caused by a range of factors:

- In July 2019, StepChange[16] noted that "financial distress" was being caused by low savings levels,[17] insecure work (leading to reduced hours and/or job loss), and cuts to social security as well as more traditional 'life events'[18] which create income and/or expenditure shocks.
- Immediately before the outbreak of Covid-19, Citizens Advice reported[19] that the benefit freeze, benefit cap, restrictions to Local Housing Allowance, high benefit overpayment recovery rates, and the five-week wait for Universal Credit payments were creating significant harm. Due to these issues forty percent of all people using its advice service to get help with debt problems lacked sufficient income to cover their essential outgoings. On average the shortfall in income was £203 per month. This was despite over a quarter of people in this position being in employment. The report identified the worst-affected households as more likely to be female, disabled people, and those with long-term health conditions.
- Citizens Advice also highlighted[20] an alarming growth in Council Tax debts. More than one in four people reporting debt problems to them prior to the pandemic were in Council Tax arrears. The report highlighted how Council Tax collection processes often made these problems worse: by charging people for Liability Orders, requiring that all arrears be cleared within the same financial year, and by using bailiffs, who also added their own fees. Taken together, these collection practices led to debts "spiralling out of control".

The impact of the pandemic on household finances

The initial national lockdown, which began in March 2020, ushered in the most severe recession in modern times.[21] The government rightly responded to this with a package of measures designed to provide financial support to those worst affected. This included the introduction of the Coronavirus Job Retention Scheme; a £20 per week increase to Universal Credit; and suspensions of the recovery of Council Tax and benefit overpayments, as well as of evictions for households in rented accommodation.[22]

The government made further funds available to local authorities to support hardship and local welfare payments, and the FCA put in place requirements for consumer credit lenders to allow customers in financial difficulty to defer payments towards their debts, although there has been no freeze on interest during this time.

However, the measures did not prevent the pandemic from having a dramatic negative impact on many people's finances. A Money and Pensions Service review of evidence in June 2020[23] highlighted that:

- Between a fifth and a quarter of adults had experienced a reduction in income. This was mainly due to employees being put on furlough, but with significant financial difficulties also experienced by the self-employed.
- The initial response to their income shocks by many households was to borrow, and this additional borrowing was most concentrated amongst those who were previously in "serious financial difficulty".

- Overall, more than one in five (22%) adults were struggling to pay for housing, food, and energy, and were unable to meet their credit commitments. This rose to two-thirds among people who had already been experiencing financial problems before the lockdown.

Retrenchment of government measures

The national lockdown began to be eased from June 2020 onwards and there was a subsequent upturn in overall economic activity.[24] However, many parts of the country remained under local restrictions and some of the initial measures introduced by government began to be reduced or removed entirely. These included the resumption of benefit overpayment recovery and an end to the suspension of the use of bailiffs to recover Council Tax arrears.

There was also a period of considerable confusion concerning the possible replacement of the Job Retention Scheme. This contributed to a sharp rise in redundancies before the government's announcement, in November 2020, that the scheme would be retained through to March 2021.[25]

Research conducted over the latter half of 2020 indicates that many households experienced a further negative impact on their finances over this period. For example:

- In August, Citizens Advice reported[26] the results of a nationally representative survey indicating that three million adults had fallen behind with both consumer credit and household bills.
- In November, StepChange reported[27] that "financial difficulty is crystallising into harm". It estimated that 5.6 million adults had accrued an additional £10.3 billion of debt in the first six months of the pandemic alone. This additional debt, averaging just over £1,800 per affected adult, was composed of both more unsecured borrowing, and increased arrears on household bills including rent and Council Tax.

As we now emerge from the second national lockdown, and the financial support and enforcement protections on households are further reduced and/or withdrawn entirely, there have been warnings of a 'debt tsunami' unless government retains the uplift to Universal Credit and provides a 'Jubilee Fund' worth up to £5 billion to help those who have fallen into arrears or been forced to borrow because of the pandemic.[28]

SECTION 2
The social and economic consequences

Previous research has shown that over-indebtedness incurs considerable social and economic costs.

High levels of debt repayment relative to disposable income make it difficult for households to maintain acceptable living standards, forcing them to cut back on consumption, go into arrears on their credit agreements and household bills, or a combination of both.[29] A recent report from the Trussell Trust found that half of the people visiting their foodbanks are repaying debts.[30]

These severe financial pressures contribute to relationship breakdown, poor health – including mental health[31] – and loss of housing.[32] They can also harm debtors' employability,[33] reduce their productivity at work,[34] and affect the welfare of their children.[35] At its most severe, over-indebtedness can also be a contributory factor in suicide.[36]

These impacts carry significant costs for wider society. For example, in 2018 the National Audit Office estimated that:[37]

- Roughly one in every twelve over-indebted individuals will experience mental health problems such as anxiety or depression, with each of these creating a direct additional cost for health services of around £300 per year.
- When factoring in additional costs arising from mental health problems caused by over-indebtedness, such as costs for social care services and knock-on impacts on employment, the amount rose to £11,100 per person per year.
- A further three percent of over-indebted individuals will also be more likely to move into, or remain in, state-subsidised housing, creating additional costs of £9,739 per year.

Applying the National Audit Office's calculations to the Financial Conduct Authority's current estimate of 8.5 million over-indebted individuals indicates a current annual cost of over-indebtedness to the taxpayer of £9.7 billion.

However, even this enormous sum is likely to fall far short of the true cost. For example, many of the social impacts of over-indebtedness, including its negative effects on the welfare of children, were not included in the National Audit Office's calculations.

Further to this, the repayments being made on the debt represent sums which could otherwise have been spent on consumption or saved by households.

How much debt do over-indebted households have?

Surprisingly, there is no regularly published measure of the concentration of household debt in the UK.

However, in 2018, a report by Europe Economics for the Money Advice Service indicated that the debts of people seeking advice averaged in the region of £14,000,[38] and in 2019, StepChange also reported[39] £14,000 as the average level of unsecured[40] debt amongst its debt clients that year.

Using this pre-pandemic figure would imply that approximately £119 billion of unsecured debt is currently held by over-indebted individuals, although the true figure could be even higher due to the additional borrowing and arrears incurred over the previous year.

On this basis, we estimate that although over-indebted adults constitute just sixteen percent of the total population, they hold around forty percent of all unsecured debt.[41]

SECTION 3

Why isn't the current system for managing high debt levels fit for purpose?

The traditional mechanism for writing off debt is through the insolvency system, which offers three procedures: Bankruptcy, Debt Relief Orders, and Individual Voluntary Arrangements.

All three of these procedures need urgent reform:

- **Bankruptcy** offers the prospect of a complete discharge from debt within one year in return for the sale of any assets and the disbursement of the proceeds from this to creditors. However, the fees to access Bankruptcy are high (£680), there is considerable stigma, and the procedure is not available to people with mortgages, who would ordinarily be forced to sell their homes and any other assets so that the proceeds can be released to their creditors.
- **Debt Relief Orders (DROs)** were introduced in 2009 as a means for debtors with low incomes and low assets to gain the benefits of a bankruptcy. However, there is an application fee of £90 – which many people struggle to raise – and there are limits to the maximum amount of debt that can be included (£20,000), as well to the value of assets that debtors can have (£1,000 plus an additional £1,000 vehicle allowance). People with more than £50 per month of 'surplus income' (see box 1, below) are also excluded.
- **Individual Voluntary Arrangements (IVAs)** were originally intended to provide access to a partial write-off for debtors with mortgages and/or those debtors with considerable 'surplus incomes'. Debtors typically make payments for a period of about five years, after which any remaining debts are written off. However, the calculation of 'surplus income' suffers from the same problems as for Debt Management Plans (see box 1, below) and can mean that people are trapped in poverty for this period. The recent 'Woolard Review' by the FCA also observed that upfront commissions charged by lead generators can now be up to £1,000, which is driving "potentially harmful business models".[42] The review also noted that providers were poorly regulated; that there have been concerns about potential mis-selling to people who would otherwise have been eligible for Debt Relief Orders, and that, as a result, an increasing number of people are failing within the first two years, leaving them once again at risk of enforcement for the full value of their debts. The Woolard Review concluded that the market is "broken" and called for the government to act swiftly to remedy these problems.

Common to all three procedures is the fact that they disincentivise debtors from improving their circumstances while they are in the schemes. They also fail to provide a genuine fresh start after the discharge of debts because credit scores are negatively affected for six years afterwards.[43]

Although the Insolvency Service is currently consulting on proposals to raise the monetary eligibility limits for Debt Relief Orders,[44] it has indicated that only 15,500 more people per year would be able to access Debt Relief Orders under its proposed changes.

Debt Management Plans

The vast majority of over-indebted people seeking debt advice do not access insolvency procedures and achieve any write-down of their debts.

The total number of people accessing insolvency in the period between April and October 2020 was under 75,000. This was less than five percent of the number of people accessing debt advice in the same period.[45]

People with debt problems are much more likely to be offered a long-term Debt Management Plan instead.

Debt Management Plans – operated by StepChange and other providers, including Payplan – are voluntary agreements negotiated with creditors on behalf of people in debt, and for which the providers receive funding through the 'fair shares' model (see box, below).

Over 300,000 people completed a debt advice session with one of the largest providers of these plans, StepChange, in 2019.[46] Of these, nearly 55,000 went onto a long-term Debt Management Plan compared to 6,000 who were assisted to apply for a Debt Relief Order.

'Fair Shares' for advice agencies or fair outcomes for debtors?

Long-term Debt Management Plans are provided for people in debt, where they have some 'surplus income' from which they can make repayments after accounting for essential outgoings.

The Debt Management Plans collect the debts owed in full over often very lengthy periods, and creditors are asked to donate a proportion of the amounts collected back to the debt advice agency to cover their costs. A typical 'fair shares' payment to the debt advice agency is between ten and twelve percent of the amount collected.[47] However, not all creditors who benefit from the Debt Management Plans make a contribution.

Problems with this model include:

- The calculation of 'surplus income' is based on very low living standards, equivalent to the actual cost of living for the poorest income quintile.[48] Virtually all income above this level is expected to be paid to creditors through the plans. This means people can be kept in poverty for many years and have little incentive to improve their circumstances over the duration of the plan.
- Between half and two-thirds of the debt being collected by 'fair shares' providers has already been written off by originating lenders[49] and sold onto debt collection companies for an average of about 10p in the pound (£).[50] Debt collection agencies bought up over £55 billion in household debt in 2019 at rock bottom prices. They typically base their business models on collecting about twice as much as they paid over a period lasting up to fifteen years. However, if a debtor becomes a client of a 'fair shares' provider, the debt collection company can expect to collect the full face value of the debt over about ten years in return for their 'fair shares' contribution.

The 'fair shares' funding model delivers a considerable revenue stream for Debt Management Plan providers, with StepChange receiving around £44 million in 'fair shares' contributions in 2019.[51] But the model also increases the profits of debt purchasing firms.

For example, a debt purchasing company that has bought up a £5,000 debt for 10p in the pound will have paid just £500 for this. It would normally expect to recover between £1,000 and £1,500. But in the event that the debt is included in a Debt Management Plan and collected in full, the company will receive £5,000 less the twelve percent 'fair shares' payment that it makes to the Debt Management provider (£600). In total it therefore receives £4,400 on a debt that it has bought for just £500.

Questions also arise over the potential conflict of interest that Debt Management Plan providers face when assessing whether someone should be advised to enter insolvency or a long-term plan in the first place. And, if a plan is taken out, conflicts of interest are also possible when determining the amount of 'surplus income' that a debtor has available to pay to their creditors.

Reflecting the low price that they have paid for the debt, it should also be noted that purchasing firms do frequently offer to write down the amount owing if debtors can pay them a lump sum in 'full and final

settlement'. However, such offers are not available to people repaying in instalments through a Debt Management Plan.

What action is the government proposing?

The government has recognised the need to give people with debt problems greater protection from enforcement whilst they seek debt advice and is introducing a new 'Breathing Space' scheme on 4th May this year. This provides for a 60-day suspension of debt enforcement for most people, but longer for those who are receiving treatment for a mental health crisis.

Whilst the initiative is welcome, limiting the protection from enforcement to 60 days in most cases significantly reduces the benefits of the scheme. It will not give people who need to make benefit claims or seek new employment sufficient time to recover financially before their creditors can once again take action against them. Front-line debt advisers have therefore called to be provided with discretion to extend the 'breathing space' if this is warranted by a debtor's circumstances.[52]

It is also now apparent that the operational processes behind 'breathing space' will not be adequate to secure a suspension of rent and Council Tax collection for many people. And, given the lack of capacity in the debt advice sector, there may also be considerable delays before people facing eviction or bailiff action can access this support in any event. To address these types of priority debts, the Reset the Debt Campaign has called for[53] the creation of a £5 billion 'Jubilee Fund' to make grant payments to those most impacted by the pandemic.

Statutory Debt Repayment Plans

When previously consulting on its proposals for 'Breathing Space', the government also indicated that it would also be introducing a new 'Statutory Debt Repayment Plan' scheme.[54] This has not yet happened, although the Financial Services Bill currently before Parliament contains legislation to bring this in.

Although the precise details are yet to be set out, the scheme essentially seeks to place the existing Debt Management Plan and 'fair shares' funding model on a statutory footing. People for whom insolvency options are not appropriate, and who are assessed as able to repay their debts over a seven-to-ten-year period, will be routed into long-term Debt Management Plans, to which all creditors will have to contribute 'fair shares' funding. Creditors would be obliged to freeze interest and stop enforcement action rather than being asked to do so voluntarily as currently happens.

However, this approach would only further embed the problems identified with the 'fair shares' funding model (see box above) – trapping people in poverty for up to ten years and failing to deliver a fair debt write-down where debts have been sold on the secondary debt market.

SECTION 4
Conclusions and Recommendations

There is an urgent need to support the 8.5 million people who have become over-burdened with debt. Over three-quarters of these are not yet in contact with debt advice agencies.

Unless action is taken, we will witness a huge surge in social problems associated with over-indebtedness, which will have an estimated cost to the taxpayer of at least £9.7 billion per year. In addition, collecting the debt in full will act as a considerable drag on economic growth.

Our current insolvency and debt solution framework is not fit for purpose. Even after factoring in the government's current proposals to relax the eligibility criteria for Debt Relief Orders, only a tiny percentage of people obtaining debt advice will proceed through insolvency and obtain any write-off of their debts. The government also urgently needs to act on the Woolard Review's recommendations to fix the "broken" IVA market.

A new strategy is needed which:

1. Provides grants directly to households to help clear rent and Council Tax arrears.

- We support calls made by Reset the Debt, Citizens Advice, and others for the government to provide this support.

2. Widens access to insolvency procedures, such as Debt Relief Orders, so that more people with low incomes and no real assets can have their debts written off and obtain a fresh start.

- We are calling for the immediate removal of the total debt limit for Debt Relief Orders, the abolition of application fees, and improvements to the calculation of 'surplus income' for all insolvency and debt solutions, so that debtors are not trapped in poverty.
- The government should also address recognised failures in the IVA market: remove disincentives to work or progress in employment by reducing the discharge period from one year to six months, and ensure a genuine fresh start by requiring credit reference agencies to delete negative repayment data after this time.

3. Provides people who enter Debt Management Plans with a 'fair debt write-down' if their debts have been sold on the secondary debt market.

- We are calling for the government to create a rolling 'debt restructuring fund' to be channelled through providers of Debt Management Plans and, once the scheme is in place, Statutory Debt Repayment Plans. The fund should be used to buy debts which have already been written off by originating lenders and sold to debt collection agencies as they appear on these plans. We estimate that as much as seventy percent of the face value of these debts could be written off through this mechanism, meaning a significant reduction in the amounts that people in debt will need to repay.

The ultimate size of the debt restructuring fund will depend on the number of people accessing debt advice, the proportion of these who move onto Debt Management and Statutory Debt Repayment Plans, and the extent to which their debts have been sold on the secondary market over time.

Careful modelling will also be needed to establish an appropriate 'buy out' rate to be paid to the debt purchasing firms. To inform this, HM Treasury should undertake and publish an analysis of the business models and potential impact of a debt restructuring fund on the ten largest debt purchasing firms in the UK.

However, an initial £6 billion investment in the fund would likely boost household consumption by around £24 billion, and, based on previous studies of the wider social and economic costs of indebtedness, reduce the costs to the taxpayer associated with over-indebtedness by a minimum of approximately £3.8 billion (see table 1, below).

Table 1: Estimated benefits of a £6 billion 'fair debt write-down'

	Debt write-down and the boost to household consumption	Savings to the taxpayer and wider benefits
1.	Debt purchasers will have paid approximately £3 billion for £30 billion of debt.	The average debt level of over-indebted individuals is about £120 billion and half of this has been sold on the secondary debt market – £60 billion outstanding
2.	This debt can be identified by DMP providers and is bought out for £6 billion	Assuming an even spread, the £30 billion 'buy out' could therefore reach approximately 4.3 million debtors
3.	A face value of £30 billion of debt is written off, which would otherwise have been collected in full through Debt Repayment Plans.	Approximately eight percent of these improve their mental health saving the taxpayer £11,100 per person.
Impact	This releases a benefit of £24 billion back to the economy. The £6 billion remaining is repaid through the DMPs.	A total of £3.8 billion is saved.

In total, this would provide a return on investment to the country of £27.8 billion. However, as the initial investment would also be recouped through repayments made through Repayment Plans, the original £6 billion would also return over time and be available for reinvestment.

4. Freeze all evictions and bailiff action to enforce household bills until this wider package of solutions has been implemented and the recovery from Covid is well underway.

- We also call on the government to implement a freeze on bailiff collection. Such a freeze was in place in the first half of 2020 but was abandoned in August last year.

Taken together these measures should go a significant way towards addressing Britain's household debt crisis. Writing down debts is not only one of the most effective approaches to support those most in need, but also one of the most effective ways to support our economic recovery.

Endnotes

1. Financial Conduct Authority (2021, p. 14), 'Financial Lives 2020 survey: the impact of coronavirus'.
2. Money Advice Service (2016, pp. 8-10), 'A Picture of Over-indebtedness'.
3. Money and Pensions Service (2020, Executive Summary, p. 3), 'Corporate Plan 2020/21: Responding to the Covid-19 pandemic'.
4. See note 1, p. 23.
5. This includes consumer credit debts such as loans, credit card balances and overdrafts as well as household liabilities such as arrears on rent, Council Tax and utility bills, but excludes mortgages and student loans.
6. StepChange Debt Charity (2020, p. 8), 'Statistics Yearbook: Personal debt in the UK, January to December 2019'.
7. Europe Economics (2018, p. 19), 'The Economic Impact of Debt Advice: A report for the Money Advice Service'.
8. The Financial Conduct Authority has recently reported that 15% of adults saw their unsecured borrowings increase because of the pandemic (see note 1, p. 78).
9. StepChange Debt Charity (2020, p. 9), 'Covid-19 Client Data Report: Exploring the experience of debt advice clients during the Covid-19 pandemic'.
10. National Audit Office (2018), 'Tackling Problem Debt'.
11. See note 4 above.
12. Calculated from tables 3 and 4 in Insolvency Service Monthly Statistics, January 2021.
13. See presentation by John Ricketts, Chair, Credit Services Association to the UK Credit and Collections Conference 2019, available online at UKCCC 2019 – State of the collections industry – YouTube
14. Figures taken from Cabot Credit Management Limited, Annual report and accounts, 2019, available from Companies House.
15. There is, for example, an active forum on this issue on the MoneySavingExpert website at Full and Final Settlement Offers — MoneySavingExpert Forum
16. StepChange Debt Charity (2019), 'Financial resilience in a world of uncertainty'.
17. The Money and Pensions Service reported that 11.5 million people (22% of all adults) had less than £100 in savings prior to the pandemic. P. 4. (2020).
18. For example, the birth of a child, relationship breakdown, illness, and bereavement.
19. Citizens Advice (2020), 'Negative Budgets: a new perspective on poverty and household finances'.
20. Citizens Advice (2020), 'Wrong side of the tax: Council Tax debt collection needs to change'.
21. GDP contracted by 21.2% in the first six months of 2020. GDP quarterly national accounts, UK – Office for National Statistics (ons.gov.uk)
22. For a comprehensive list of the support put in place by government, see Coronavirus: Support for household finances – House of Commons Library (parliament.uk)
23. Money and Pensions Service (2020), 'Impacts of Covid-19 on financial well-being'.
24. GDP increased by 16% in the third quarter of the year. GDP quarterly national accounts, UK – Office for National Statistics (ons.gov.uk)
25. See LFS: ILO redundancy rate: UK: All: SA – Office for National Statistics (ons.gov.uk)
26. Citizens Advice (2020), 'Excess Debts – who has fallen behind on their household bills due to coronavirus?'.
27. StepChange Debt Charity (2020), 'Tackling the coronavirus personal debt crisis'.
28. See note 26 and Reset The Debt – A fresh start for families in Britain swept into debt by Covid-19
29. Centre for Responsible Credit (2011) 'Can Consumer Credit be Affordable to Households on Low Incomes'.
30. See Almost half of people at food banks have money taken by government from benefit payments during economic crisis – The Trussell Trust
31. Richardson, T, Elliott, P. Roberts, R. (2013). 'The Relationship Between Personal Unsecured Debt and Mental and Physical Health: A Systematic Review and Meta-analysis'; Gathergood, J. (2012). 'Debt and Depression: Causal Links and Social Norm Effects'.
32. Providing help to people debt problems is a common element of homelessness prevention strategies in many countries. See, for example, Gaetz, S. & Dej, E. (2017), 'A New Direction: A Framework for Homelessness Prevention'. Canadian Observatory on Homelessness, Toronto.
33. Gibbons, D. (2010). 'Out of Work and Out of Money: A study of financial inclusion and worklessness in Manchester: how to improve support for people with money problems to obtain and sustain employment'. Manchester City Council.
34. Joo, S. & Garman, E.T. (1998), 'The potential effects of workplace financial education based on the relationship between personal financial wellness and worker job productivity'.
35. The Children's Society & StepChange (2014), 'The Debt Trap: exposing the impact of problem debt on children'.
36. See Financial Times: Problem Debt and Suicide – Money and Mental Health
37. See note 10, above.
38. See note 7, above.
39. See note 6, above.
40. Unsecured debt is defined here as consumer credit plus arrears on household bills but excluding student loans.
41. We calculate the total amount of unsecured liabilities (excluding student loans) using Bank of England Series BI2O (consumer credit amounts outstanding, excluding student loans) and adding in ONS series NIXM ('financial liabilities: other accounts receivable') from the household sector accounts.
42. Para 2.31, 'The Woolard Review: A review of change and innovation in the unsecured credit market', Financial Conduct Authority (2021).
43. For a thorough analysis of the operation of insolvency systems, including the benefits and drawbacks of different approaches see Insolvency and Creditor/Debtor Regimes Task Force (2014). Report on the Treatment of the Insolvency of Natural Persons, Washington DC: World Bank.
44. The consultation proposes to increase the total debt limit to £30,000; the general asset limit to £2,000 and the monthly surplus income limit to £100.
45. See note 12, above.
46. StepChange Debt Charity is the trading name of the Federation for Credit Counselling. Figures are taken from the Federation for Credit Counselling's Annual Report and Accounts, 2019, available via Companies House.
47. See Providers of debt advice warn of funding crisis', Financial Times, 24th August 2018 and StepChange accounts, 2019 as above.
48. The calculation of 'surplus income' uses the Standard Financial Statement spending guidelines provided by the Money Advice and Pensions Service. These spending guidelines are reviewed annually but are anchored to the actual living costs of the poorest income quintile as reported by the Living Costs and Food Survey conducted by the Office for National Statistics.
49. See note 46 above.
50. See note 14, above.
51. See note 45, above.
52. See https://wearedebtadvisers.uk
53. See note 27, above.
54. See HMT policy response to the consultation on the 'breathing space scheme' at Breathing space scheme: consultation on a policy proposal – GOV.UK (www.gov.uk)

This paper has been produced by the Centre for Responsible Credit, together with Jubilee Debt Campaign.

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