

# Public Document Pack



## **Democratic Support**

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#plymreview

## **SCRUTINY - CO-OPERATIVE SCRUTINY REVIEWS**

### **PROBLEM DEBT**

Wednesday 15 October 2014

10 am

Warspite Room, Council House

#### **Members:**

Councillor Kate Taylor, Chair.

Councillors Damarell, Philippa Davey, Downie and Riley.

Members are invited to attend the above meeting to consider the items of business overleaf.

**Tracey Lee**

Chief Executive

# **SCRUTINY - COOPERATIVE SCRUTINY REVIEWS**

## **AGENDA**

### **PART I – PUBLIC MEETING**

#### **1. APOLOGIES**

To receive apologies for non-attendance submitted by members.

#### **2. DECLARATIONS OF INTEREST**

Members will be asked to make any declarations of interest in respect of this agenda.

#### **3. CHAIR'S URGENT BUSINESS**

To receive reports on business which, in the opinion of the Chair, should be brought forward for urgent consideration.

#### **4. CO-OPERATIVE REVIEW : PROBLEM DEBT**

The panel will consider various documentation and information submitted as well as hear from a number of witnesses –

##### **4a Co-operative Review Request Form (Pages 1 - 2)**

##### **4b Briefing Paper - Problem Debt (Pages 3 - 18)**

The panel will receive a briefing paper and presentation which will set the scene for the co-operative review.

##### **4c Supporting Information / Evidence (Pages 19 - 24)**

The following additional documentation has been provided in order to help inform members with their deliberations –

- Letter from Alison Seabeck, MP for Plymouth Moor View
- Problem Debt Case Studies

##### **4d Witnesses**

The panel has identified and invited the following witnesses to attend and present information in order to aide members' consideration of this matter –

10 am                      Pete Aley, Head of Community Services, and Laura Griffiths, Financial and Social Inclusion Officer and Councillor Penberthy, Cabinet Member for Co-operatives, Housing and Community Safety

10.45 am	Alistair Macpherson, Low Carbon City Team Leader
11.15 am	Jenny Endean, Area Support Services Manager, Devon and Cornwall Housing)
11.45 am	Eunice Halliday, Foodbank
<b>12.15 pm</b>	<b>LUNCH</b>
1.15 pm	Sarah Mcneice, Advice Team Manager, Citizens Advice Bureau
1.45 pm	Paul Williams, Credit Union
2.15 pm	Ann Thorp, Service Manager (Customer Services)
2.45 pm	End of witness session

## **5. SUMMARY AND REVIEW**

The panel will take the opportunity to review its findings and form recommendations for submission to the Cabinet Member and/or Cabinet.

## **6. EXEMPT BUSINESS**

To consider passing a resolution under Section 100A(4) of the Local Government Act 1972 to exclude the press and public from the meeting for the following item(s) of business on the grounds that it (they) involve the likely disclosure of exempt information as defined in paragraph(s) of Part I of Schedule 12A of the Act, as amended by the Freedom of Information Act 2000.

## **PART II - PRIVATE MEETING**

### **MEMBERS OF THE PUBLIC TO NOTE**

that under the law, the panel is entitled to consider certain items in private. Members of the public will be asked to leave the meeting when such items are discussed.

NIL.

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# REQUEST FOR A COOPERATIVE REVIEW



Please submit this document to Democratic Support once complete.

The request will be submitted to the Co-operative Scrutiny Board for consideration against the approval criteria and you will be notified of its success. If the Board approve the request for a Co-operative Review on the subject matter below then a project plan will be completed and you may be asked for further information.

<b>What is the name of the review?</b>	Personal Problem Debt
<b>Please provide a brief outline of the subject and scope of the review?</b>	To ascertain the level and depth of personal problem debt in the city and the effectiveness of how we respond as a Council
<b>Please outline the reasons as to why you believe a review needs to take place?</b>	According to the Money Advice Service's report "Indebted lives: the complexities of life in debt" Plymouth has 29.3% of its population over-indebted, and ranks 48th out of 406 Authorities in a league table of local debt levels. This makes us the most indebted local authority area in the South of England. We need the review to establish whether we are providing the services needed to meet this need.
<b>What will the review attempt to achieve?</b>	The review will a) establish the causes b) the local impact and c) the quality of the response in respect of personal problem debt
<b>Who will benefit from the review?</b>	Members of the public, Councillors, Officers, Partners
<b>How long do you think the review might take?</b>	It is expected that the review would take one calendar month from start to finish. There is potential for a wide range of witnesses from across all sectors. This will include 3 separate days of witnesses.
<b>When do you think the review should commence and why?</b>	The review should commence by March 2014 in order to be completed prior to the end of the Civic Year.
<b>When do you think the review should be completed by and why?</b>	The review should be completed by April 2014 as above.
<b>Review requested by?</b>	Requested by Councillor Tuffin

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**PROBLEM DEBT**

Social Inclusion – August 2014



## 1. Contextual Background

- 1.1. Debt is becoming a high profile issue with media reporting reflecting the significant levels of concern about rising levels of debt. The Money Advice Service (MAS) in their survey report 'Indebted lives: the complexities of life in debt' (November 2013)<sup>1</sup> estimates that 8.8 million people over-indebted<sup>2</sup> in the country and with just over 4 million of those have been struggling to pay their bills for more than a year.
- 1.2. This large and diverse group represents 18% of the UK adult population and within it there are a range of different levels of knowledge, skills, attitudes and behaviours towards debt and seeking advice. At least 48% of those surveyed said that being in debt prevents them from buying the basics with 40% feeling unable to talk to their creditors about repaying their debts even though it is important to them to get it sorted out. About 83% would like to pay off their debts as soon as possible, with 82% believing it is important to be debt free.

## 2. Types of Debt

- 2.1. There are many different types of debt and they are often dealt with in terms of priority<sup>3</sup> and non-priority:
- Priority: mortgage or rent arrears; fuel arrears; council tax arrears; court fines such as traffic offences; child maintenance; income tax; TV licence.
  - Non-priority: benefit overpayments; credit debts such as loans, overdrafts, hire purchase, credit cards, catalogue; student loans, money from friends and family; Pay day loans & door stop lenders
- 2.2. Debt charity StepChange indicates that in 2013<sup>4</sup>, the most prevalent debts of their clients were:
- Credit card (31%)
  - Overdraft (14%)
  - Payday loans (12%) and on average clients have 3 pay day loans.
- 2.3. According to the National Citizen's Advice Bureau<sup>5</sup> during the first three months of 2014, Council tax has overtaken credit card and personal loan debt as the most common reason for people to seek help for debt problems. Nationally, approximately 27,000 people who had fallen into Council tax arrears got guidance from the charity, a 17% increase on the same period last year.
- 2.4. A national Citizens Advice Bureaux (CAB) survey found of those in serious financial difficulty on average had seven debts with outstanding balances of over £15,500, of which two were priority debts totalling more than £4,300. These outstanding payments will be having a knock on effect on their creditors and the overall economy.

## 3. Causes of Debt

- 3.1. Debt in itself need not necessarily be a problem. Many people will live with some sort of long or short term debt over their life time (e.g. mortgages, buying cars or furniture, setting up a home). Many of them are able to pay off any money they owe without incurring unreasonable or additional costs. However, for some debt can become a real and significant problem.
- 3.2. National charity StepChange<sup>6</sup> identified the top three reasons why their customers were in debt:
- Unemployment/redundancy (19.2%)
  - Reduced income from loss of hours (16.1%)
  - A lack of budgeting (10.3%)

<sup>1</sup> Source – Money Advice Service, Indebted Lives : the complexities of life in debt, November 2013

<sup>2</sup> Defined by Money Advice Service as individuals who have been at least three months behind with bills in the last six months, or have said they feel their debts are a heavy burden

<sup>3</sup> Priority Debts are those where the ultimate sanction for non-payment is loss of home, liberty, essential goods or services

<sup>4</sup> Source – <http://www.stepchange.org/Portals/0/documents/media/PersonalStatsYearbook2013.pdf>

<sup>5</sup> Source - <http://www.theguardian.com/money/2014/may/26/council-tax-arrears-most-common-debt-problem-citizens-advice>

<sup>6</sup> <http://www.stepchange.org/Infographics/Causesofdebt.aspx>



- 3.3. Being in debt can be made worse if people are not able to understand interest rates related to their lending especially in cases where this is not made fully clear by lenders. In such cases, debt can become unmanageable and seriously affect a person's quality of life. This is known as problem debt or over-indebtedness.
- 3.4. In addition, for a range of reasons, some people are not able to access mainstream financial services. Often they will resort to using high interest money lenders (e.g. doorstep lenders, payday lenders, loan sharks and 'rent to own' hire purchase stores such as Brighthouse). These types of lenders have increased in availability and accessibility in recent years. This combined with individual circumstances, has put some people at risk of increasing their debt levels and getting trapped in an ever increasing spiral of debt due to defaulting payments, additional fees and charges added to loans not paid back on time.
- 3.5. The Welfare Reform Act 2012 has been widely reported to have increased the levels of debt due to the reduction of income for households dependent on benefits. The Local Government Association<sup>7</sup> highlighted Plymouth as an area most at risk due to its high dependency on benefits. Clearly the loss of income will have a direct impact on the amount of money working age households have to pay their bills and financial commitments.

#### 4. Impact of Debt

- 4.1. Debt can have many effects on a person's life. Below is a non-exhaustive range of examples of the potential impact:
- Not being able to obtain any type of credit rating
  - Having to borrow from lenders or 'rent to own' companies that have high interest rates
  - Limiting employment opportunities especially if employers undertake credit checks because they feel this will gauge trustworthiness and responsibility in potential employees
  - Homelessness or not being able to rent a home due to lack of deposit, credit rating checks by some landlords and significant rent arrears causing exemption or de-prioritisation for social housing registers
  - Damaged relationships as money pressures bring frustrations and tensions
  - Health concerns especially worry, anxiety and associated symptoms like sleeplessness leading to potential mental health needs. Mental health charity Mind report that 1 in 4 adults with a mental health problem are living with debt or arrears<sup>8</sup>.
  - Poor performance at work and socially due to the above causing lack of focus and perhaps irritability
- These can operate independently of each other or in tandem. As the pressure of debt increases, the risk of borrowing more money on unfavourable terms increases so having the potential to lead some into a never ending cycle of debt. (See Appendix E – Case study 1)
- 4.2. The MAS report reveals that the vast majority of over-indebted people feel anxious, stressed and unhappy as a result of their situation, however; only a minority are accessing advice. At least:
- 74% are unhappy
  - 70% often feel anxious because of their debt
  - 56% report a negative impact on their family life
- 4.3. The MAS report provides a picture of types of debt by dividing the over indebted population into eight profiles. These are Struggling Students; First Time Workers; Optimistic Young Workers; Low Wage Families; Stretched Families; Worried Working Families; Benefit Dependent Families and Uncomfortable Retirees. For further information about these profiles see Appendix A & B

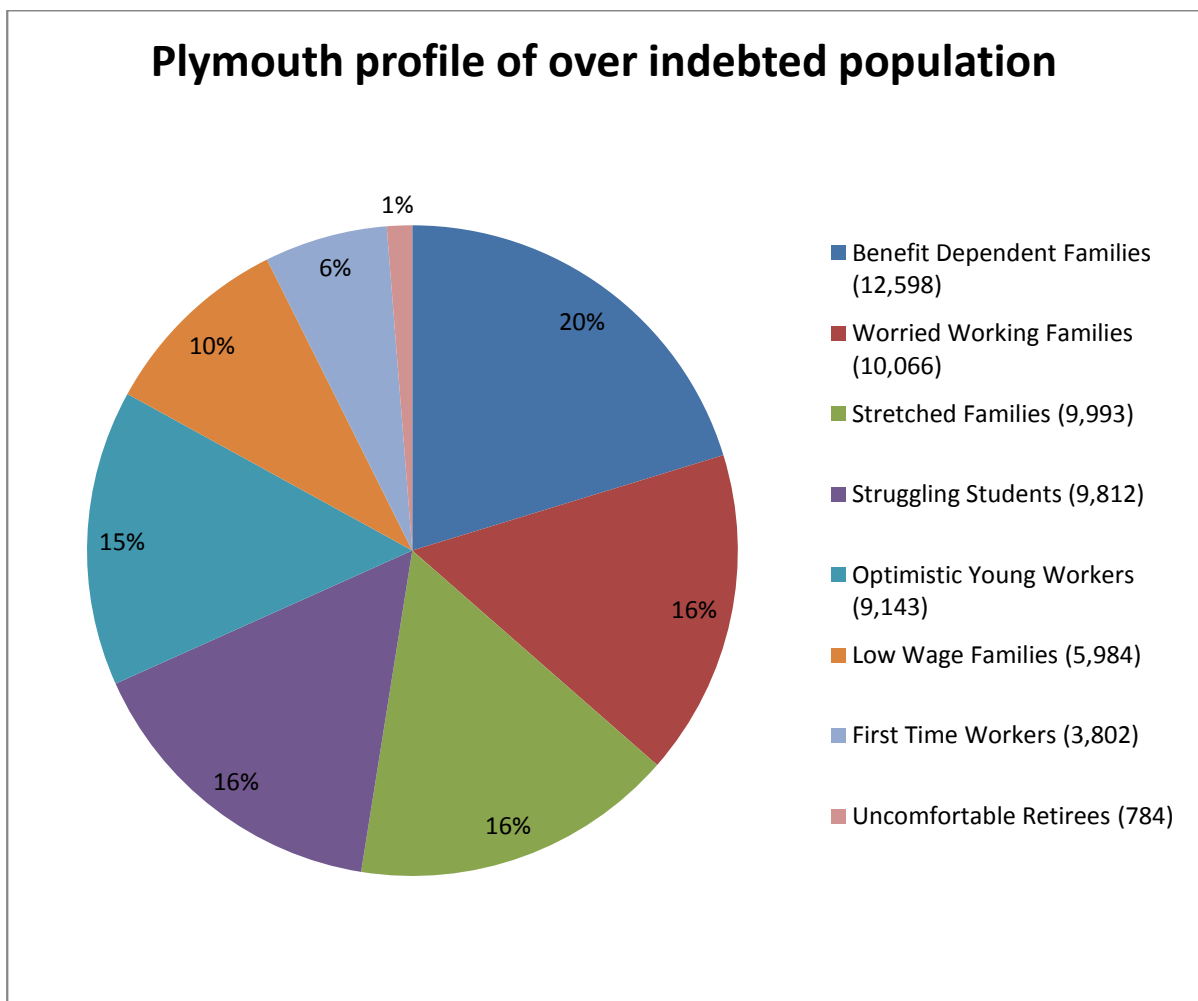
<sup>7</sup> Wilson, Tony et al. The local impacts of welfare reform. Local Government Association. August 2013.

<sup>8</sup> Mind. Still in the red: Update on debt and mental health. 2011.

## 5. Debt in Plymouth

- 5.1. Plymouth has higher levels of debt than any other local authority in the South West and is the 48th most indebted out of 406 Local Authority Areas nationally; with circa 29.3% of its 212,118 adult population being over-indebted (this means 62,182 of the adult population of Plymouth are over indebted). Bristol is ranked 110th; Torbay 137th and South Hams 310th. This makes us 6<sup>th</sup> in relation to our standard comparator local authorities. For full comparison see Appendix C.
- 5.2. Using the MAS report groups; Plymouth has a similar profile to the national trend in that Benefit Dependent Families; Worried Working Families and Stretched Families make up a significant proportion of those in debt. We appear to have a higher number of Struggling Students and Optimistic Young Workers than the national average.

This pie chart illustrates the full Plymouth profile:



- 5.3. The debt charity StepChange<sup>9</sup> in 2013 reported a 44% increase in calls from Plymouth residents seeking advice around personal problem debt. Plymouth residents contacting the charity owed an average of £12,594

<sup>9</sup> Source - <http://www.plymouthherald.co.uk/Increase-calls-debt-help/story-20483295-detail/story.html>

- 5.4. Advice Plymouth<sup>10</sup> reports that approximately 66% of all enquiries are related to debt and financial issues. The following tables highlight the approximate amounts of total priority and non-priority debt people have when they first have make contact with the Advice Plymouth<sup>11</sup>. Over 12 months priority debt rose by more than 50% and total debt by over 8%.

<b>Debt Type</b>	<b>April to June 2013</b>	<b>April to June 2014</b>
Amount of priority debt	£ 100,788	£ 152,107
Amount of non-priority debt (mostly unsecured personal loans and credit card debt)	£1,398,444	£1,472,680
<b>Total</b>	<b>£1,499,232</b>	<b>£1,624,787</b>

(Figures are not currently kept on the amount of rent/mortgage arrears; amount of pay day loan debt owed and numbers of unmanageable pay day loan cases)

- 5.5. In just 9 months, our Housing Options Service has also seen a 22% increase in the amount of debt highlighted by their clients.
- 5.6. Advice Plymouth reports that it is rare that when a person contacts them, they only have a single debt concern. Several will have also explored and exhausted other potential options and possibilities to try and cope with their financial situation. Invariably they have a mixture of priority and non-priority debts from a variety of creditors. People try to borrow their way out of debt moving through the usual High Street lending providers (ie Banks and Building Societies), to less reputable sub-prime lenders and then onto home credit and ultimately pay-day loan companies.
- 5.7. With regard to pay day loans, agencies in Plymouth do not hold any specific data (it is included in the figures on unsecured debt). They are though finding that many of their clients now have pay day loans and quite often will have several. Often new payday loans are taken out to repay the original and or subsequent loans. It also appears that people have resorted to payday loan companies to pay for essential expenditure including gas and electricity bills and council tax. Advice Plymouth has anecdotal information that pension credits or Disability Living Allowance is being accepted as income that can be used to make repayments on payday loans. Clients are not always fully cognisant of the repayment process or requirements meaning many incur unforeseen additional costs.
- 5.8. Without a local picture, the Consumer Finance Association<sup>12</sup> has produced a report on the national picture of pay day lending. The pay day lending market has grown from 2008/09 worth £900m to 2011/12 worth £2.2bn this would equate to 8.2 million new loans. They state that the average customer is aged 34 years, they are male and single and 27% earn under £15,000. The report also states that whilst access to mainstream credit is becoming harder it has also seen customers losing trust in mainstream providers – 60% of their survey said they had lost faith in their bank.
- 5.8. 20% of Plymouth's population are 'low income, dependent on benefits'<sup>13</sup> and the loss of income from benefits payments to the City for 2012/13 was estimated at over £20m. The reforms are having two key impacts affecting people's ability to meet their financial commitments:

<sup>10</sup> Advice Plymouth is Plymouth City Councils commissioned information, advice and signposting service. The service includes CAB, The Guild, Routeways & Age UK Plymouth

<sup>11</sup> Source – Debt in Plymouth – based on data provided by Peter Lock; Advice Plymouth Project Manager

<sup>12</sup> Credit Crunched: A commentary on the UK's changing attitude towards borrowing and spending. Consumer Finance Association. May 2013. The Consumer Finance Association is a trade membership organisation.

<sup>13</sup> The Fairness Commission: A presentation of introductory data. March 2013

- A drop in income at a time when the cost of living is rising and as a result those who are only just making ends meet are falling into financial difficulty; and those already in financial difficulty are finding they are unable to maintain agreed repayment agreements
  - Some people may be struggling to adapt to changes benefit allowances and the way they are paid meaning this are not as able to budget as effectively.
- 5.9. Welfare Reforms, specifically the Bedroom Tax, Council Tax Support and Benefit Cap, have had an impact on the level of debt in the City (See Appendix E – Case study 2):
- Registered Social Landlords report a 10% increase in rent arrears since April 2013, directly caused by the bedroom tax.
  - Plymouth City Council has seen a significant increase in demand for Discretionary Housing Payments from those affected by the bedroom tax. Between April – June 2014 the council paid £33,836 to 157 customers compared to the same period in 2013 of £25,557 to 112 customers. This is an increase in payments of 32% and increase in demand of 40%
  - During 2013/14 Plymouth City Council collected only 81.5% from Council Tax Support customers (against a target of 96.5%). The monetary difference between the target and actual collection was over £1.2million.
  - In the past 12 months there has been a 66% increase in Emergency Welfare Fund (EWF) payments. Between April – June 2014 the Emergency Welfare Fund has spent £136,575 compared to £46,900 in the same period last year. During the same period there was an increase in claim demand by 21%.
  - The Trussell Trust<sup>14</sup> reports that nationally 48% of referrals are due to benefits sanctions and delays. The Plymouth Foodbank has seen an increase of nearly 30% in voucher referrals in the past 12 months.
- 5.10. At the same time we are also seeing the cost of living rise impacting in Plymouth. Energy prices are still rising with five out of the six main providers increasing prices at the end of 2013/beginning of 2014. The Fairness Commission highlighted that 14,000 households in Plymouth were living in fuel poverty; CAB Plymouth state that approximately 25% of clients debt relate to fuel. In June 2014 UK inflation rose by 1.9% with food price rises highlighted. There are many reports of people paying bills to avoid debt but then cannot afford to buy food<sup>15</sup>. Salaries in Plymouth are also lower than the national average. In 2012 the average gross weekly wage for a full-time worker in Plymouth was £454, compared to the national figure of £506<sup>16</sup>.

## 6. Demand for Debt advice services

- 6.1. People within the profiles identified by the MAS will all benefit from some form of debt advice. Each is likely to bring a different attitude meaning that the advice should be tailored to them specifically to maximise participation.
- 6.2. Students may believe that their debt will be managed once their studying is over and likewise first time workers may feel that as the wage comes in this will also be possible. This may mean neither group recognises the need for debt advice before the situation is out of control. Common attitudes to debt in this group are 'I would prefer to have luxuries and treats than be debt free' and 'being in debt does not worry me'. Many would rather keep up their life-style than free themselves from debt. As Optimistic young workers are beginning to face key life events such as buying a house and having a baby they may view debt as a temporary necessity that can be overcome as their children get older. Many feel they are in control of their debt, and would be willing to take on new credit commitments to pay off their debts this puts them at risk of getting deeper into debt, instead of taking advice to resolve their debt without further credit. They are though likely to recognise the link between debts and open to a mixture of money and debt advice.

<sup>14</sup> <http://www.trusselltrust.org/foodbank-figures-top-900000>

<sup>15</sup> Cooper, Niall & Dumpleton Sarah. Walking the breadline. Oxfam GB & Church Action on Poverty. May 2013

<sup>16</sup> Fairness Commission. A presentation of introductory data. March 2013

6.3. Many Low Wage Families will know that they need assistance with debt but resigned to their situation and feeling trapped. Often they are receptive to debt advice about how to deal with creditors and prioritise debts. Their situation is similar to those in Stretched Families who often feel that their debt is not solvable. While they would benefit from debt advice they may be reluctant to come forward. Worried Working Families in the main are able to identify the nature of their debt and seek assistance before it becomes over whelming. They will though be anxious and stressed as they would not have anticipated being in such levels of debt and this may put a barrier in the way of asking for assistance.

6.4. It is Benefit Dependent Families that require debt advice assistance but there is little evidence of this group engaging or seeking help. This is perhaps because many consider their situation as inevitable or hopeless and are resigned to living in debt. Uncomfortable Retirees are our smallest indebted population group. Having said this, those that are in debt are likely to feel some level of shame, stigma or guilt about their situation and reluctant to seeking help.

## **7. Debt advice in Plymouth**

7.1. Debt advice works, and the earlier people access it the better their chance of reaching good outcomes for themselves and their creditors. We know that high quality debt advice increases an individual's wellbeing, it improves collection rates for creditors and it boosts the health of communities. The challenge is that most over-indebted people don't access advice many for the reasons outlined in section 6.

7.2. In Plymouth we are hearing evidence that intensive work with customers struggling financially is an effective tool in tackling debt – See Appendix E case study 3.

7.3. Advice Plymouth provides money and debt advice including one off enquiries for information either by phone or face to face and more in depth advice and case work. Appendix D illustrates a breakdown of the types of debt they are seeing.

7.4. In addition to Advice Plymouth, our Housing Options Service provides the income maximisation, financial capability and debt advice service for customers that present with housing needs. During April – June 2014 Housing Options have provided:

- 1:1 debt casework to 25 people;
- Debt advice sessions to 30 people;
- Budgeting skills sessions to 83 people;

7.5. Our Housing Options service have identified that engagement is an issue. Only 55% of referrals attend budgeting skills and 45% of referrals attend debt advice sessions. Anecdotally, we are also aware that there are similar issues with the scheme Wisser Wonga<sup>17</sup>

7.5. We have also set up Plymouth Energy Community (PEC) which is our energy co-operative that in addition to aiding customers to switch to cheaper energy tariffs employs two energy debt advisors. As well as helping customers to access funds to clear their energy debts, they also give generalist debt advice. These advisors also work closely with City of Plymouth Credit Union and are based in their office for half the week.

7.6. Our Emergency and Welfare Fund has provided a package of assistance for:

- A housing options case worker is in place giving debt advice;
- A bedroom tax arrears clearance package and removal costs support for tenants who are unable to afford their properties or moving costs including eviction prevention measures;
- Young people supported with moving costs and 'My Money Matters' training and the opening of a credit union account.

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<sup>17</sup> Wisser Wonga works with 16 – 24 year olds social landlord tenants living in Whitleigh, Stonehouse, Devonport and Barne Barton to build financial confidence and money management skills

- Young people can access a low cost loan to pay off arrears which enables a young person to access supported housing;
- Provided Citizens Advice Bureau with funds to support DBS checks for clients unable to afford cost;
- We are training teachers to deliver Financial Capability education for pupils (starting September 2014)
- We have commissioned a feasibility study into how the council might be able to provide an ethical alternative to current pay day loans and will report the outcomes in the autumn
- The government is cutting the EWF from April 2015 and consideration is being given to how we can sustain the most vital elements of this support over the medium term using 2014/15 funding.

7.7. Customers who struggle to pay their council tax and are in arrears can make an application for financial assistance from the Exceptional Hardship Fund. Currently, we are paying an average of £3,419 a month compared to £1,428 a year ago.

7.8. We are working in partnership with, Plymouth Citizens Advice Bureau and JBW (debt recovery service) and have developed a new online database which makes it easier for people to manage council tax and parking fines. This new co-operative way of working helps people with debt, not only will people be able to speak to CAB about their worries, CAB will also have instant access to information and be able to agree repayment options. This will help prevent people incurring even more debt.

7.9. There are also other organisations (such as Children Centres, faith groups and drugs and alcohol services) in our city that offer a range of low level advice, guidance, intensive support and casework around debt. We do not currently have a clear picture of the extent of these services. Work is being developed to collect information by the commissioning team.

## 8. Lending services in Plymouth

8.1. As a city we have the usual mainstream facilities with all the main high street banks having a city centre presence. In addition, we have a number of lending outlets such as pawn brokers, cash converters and the store Bighthouse. These facilities are most prevalent in the West End part of the city centre. Residents also have access to the range of online pay day lenders

8.2. Access to mainstream finance across the city is not equitable. Our sustainable neighbourhoods assessment identified that Barne Barton does not have any banks and residents travel to St Budeaux for services.

8.3. The Illegal Money Lending Team England has evidence that loan sharks are a problem in Plymouth. Whilst the most difficult area of debt to substantiate due to the fear and intimidation, we are seeing local prosecutions<sup>18</sup>.

8.4. There are two Credit Unions in the City - Hope Credit Union and City of Plymouth Credit Union:

- We actively promote them as an alternative to pay day and doorstep lenders as well as a positive way to start and keep saving.
- We have supported the opening of city centre shop front for the City of Plymouth Credit Union. Credit Unions provide a credible low cost option on loans for the repayment many debts.
- As at June 2014, Plymouth has a total of 3,130 credit union membership (this is both the City of Plymouth Credit Union and HOPE credit union).
- We continue to work in partnership with them and currently funding savings schemes for both adults and young people. This work also includes financial capability education.

<sup>18</sup> <http://www.plymouthherald.co.uk/Trial-set-pensioner-charged-illegal-money-lending/story-21176098-detail/story.html>

- 8.5. We were the first in the country to ban payday lending sites from being accessed from any of our computers and to ban their advertising on billboards we owned. To date we have blocked 50 pay day loan websites and there is no advertising on council owned premises and facilities. We have recently commissioned a feasibility study into ethical alternatives to pay day loans and our role within this. A report on this will be available in late autumn. In partnership with Advice Plymouth, we are undertaking a survey on pay day lending in Plymouth, which will help us better understand and address the problem. Advice Plymouth is also launching a social media competition to raise awareness about the dangers of pay day loans and promote money advice services in Plymouth. We are considering good practice from elsewhere to inform further work in this area.

## 9. Conclusion

- 9.1 Understanding debt is complex and often kept invisible by those who are falling behind with their bills. Gathering a picture of what is happening locally and nationally is complex and scrutiny may wish to utilise this opportunity to find out more and or highlight the gaps for further consideration. Glasgow City Council held a 'Sounding Board'<sup>19</sup> to hear evidence from residents about pay day leaning experiences.
- 9.2 The accessibility of high interest lenders, especially to various financially excluded groups, has more than likely increased personal problem debt and it is likely that the full extent of this is still invisible. Better and more accessible information embedded in multi-media promotional campaign can only assist. An agreed and planned approach to high level lenders and their accessibility should be considered. We should also be making plans for ensuring that ethical alternatives are available especially for the most vulnerable in relation to illegal lending. Scrutiny may wish to further consider the geographical spread of pawn brokers, brighthouse, cash convertors, gambling shops in terms of considering access and targeting of groups/neighbourhoods. Glasgow City Council carried out a mapping exercise to illustrate spread of these businesses.
- 9.3. The pay day lending industry is currently experiencing significant change from Financial Conduct Authority regulation<sup>20</sup>. Whilst this is welcome, payday loans will still be the most expensive form of credit. It might be useful to consider whether people may be pushed into illegal & doorstep lending (Australia & Germany already has this sort of regulation and has seen a rise in this area<sup>21</sup>). Potentially we could see an increase in people accessing payday loans as it becomes more 'mainstream' and acceptable to different groups of people. If people cannot access these loans they may consider debt advice earlier which is positive but does Plymouth have the capacity/service to support?
- 9.4. Debt is clearly an issue for the people of Plymouth and the impacts of welfare reform and the overall economic climate are having an effect on individuals and families. It is an unclear future picture for households in receipt of benefits as the rollout of Universal Credit has been delayed. There are concerns about people having to adapt to a monthly budget and may not be able to access online facilities. We need to be prepared to ensure we can mitigate the impact of these changes.
- 9.5. Scrutiny may wish to consider the role of Plymouth city Council as a creditor. The Fairness Commission recommends: 'Plymouth City Council, housing associations or other agencies work together to consolidate customers' debts, offer payment plans and signpost to expert sources of help and advice'. We are learning from other authorities: Islington Borough Council is an example of an authority that has set up a multiple debt team<sup>22</sup>; Lambeth Council writes off uncollectable debt<sup>23</sup>

<sup>19</sup> <https://www.glasgow.gov.uk/councillorsandcommittees/submissiondocuments.asp?submissionid=62786>

<sup>20</sup> <http://www.fca.org.uk/news/firms/consumer-credit-detail>

<sup>21</sup> <http://www.cfa-uk.co.uk/information-centre/payday-facts-and-research/payday-facts-and-research/the-unintended-consequences-of-credit-caps-around-the-world.html>

<sup>22</sup> <http://www.islington.gov.uk/advice/money-advice/Pages/default.aspx>

<sup>23</sup> <http://www.lambeth.gov.uk/sites/default/files/ec-corporate-income-and-debt-recovery-policy.pdf>

- 9.6. Meeting the demand to deal with problem debt remains a major challenge. Given past information and recent trends we have cause to be concerned that this is going to be a problem in the future. Our debt specialists in Advice Plymouth are working to capacity and any increases in indebtedness levels will have a negative impact on the level of service they can deliver. While other service providers give a useful and supportive role, it should be noted that more could be done to join up our approach more systematically across the city.
- 9.7. It is clear that intensive casework is successful in helping people resolve their debt and financial issues but that must be targeted to the individual and their reservations or understanding as shown in relation to the debt groupings. We can keep on providing debt advice and support to those in most dire situations but if we are to significantly improve our local communities' resilience a better focus might be on breaking the cycle of debt for a customer before it happens. This will be time and resource intensive but early intervention is proven to be more cost effective for all concerned and so perhaps worth the investment to save money in the longer term.



## Appendix

### Appendix A – MAS definitions of groups

**Benefit Dependent Families** will have low income and be benefit dependent. Their household income will be below £15,000 and will be aged between 35-64. They are unlikely to have employment opportunities or to be able to buy their own home and 40% have difficulty accessing finance.

**Worried Working Families** have adults aged 35-44 within them and most will be buying their own homes and an income of £30,000 to £50,000. It is likely that they will also have dependent children over the age of 16.

**Stretched Families** are made up of adults around the age of 35-44, with the majority in full time employment, with some receiving some benefits to enhance their income. Their income will be less than £30,000 and the majority will be renting their homes.

**Optimistic Young Workers** will be between 25-34, in full time employment with an income between £20,000 and £40,000. In the main they will receive no benefits, unlikely to have any dependents and about half will own their own home.

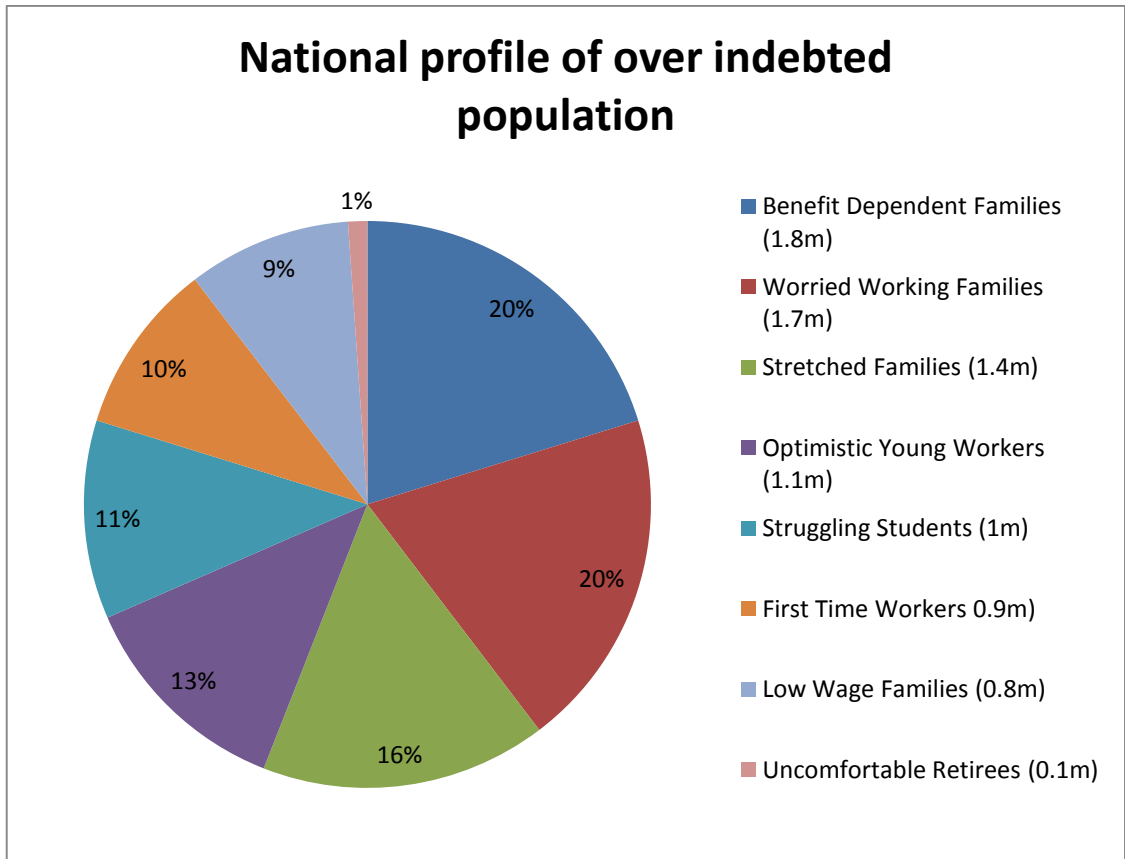
The majority of **Struggling Students** will be aged 18-24, with an income of under £15,000 made up of benefits and entitlements and some part time work. They are in full time education, renting from a private landlord and in the main only responsible for themselves. Often they do not recognise the need to engage with debt advice and its impact will be felt long after their studying has ceased.

**First time Workers** will generally be aged between 18-24, in full time employment and with an income of less than £20,000. Most will not have dependants and not entitled to any benefits. Approximately half will rent privately while a third will have taken steps to buy their first home.

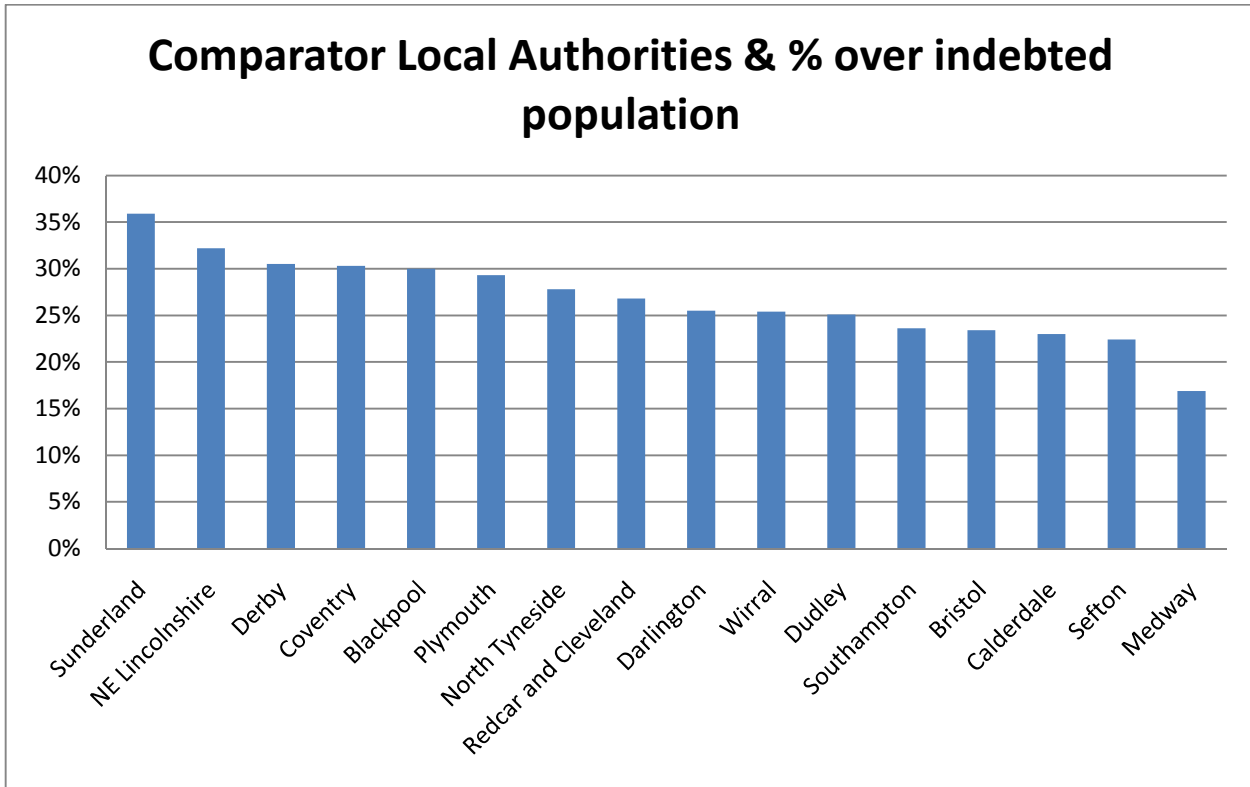
**Low Wage Families** will mostly be made up of adults between the ages of 25 – 34, with an income of less than £20,000 made up of a mixture of benefits and part time employment. In the main, they will be renting, mostly from private landlords and two thirds are either part time or at home raising their children. Approximately a third are in education or unemployed.

**Uncomfortable Retirees** - are aged 55+, with an income of less than £15,000 made up of personal income and state benefits. Two thirds own their own home and 89% of this group are retired.

**Appendix B - % of over-indebted population in each profile**



**Appendix C – Plymouth in relation to our comparator Local Authorities**



## Appendix D - Type of debts clients present with at Advice Plymouth (and wider Plymouth CAB) April 2014 – June 2014

Types of Debt	Percentage
Fuel debts	24.70%
Debt Relief Order	10.30%
Council tax arrears	8.80%
Other	8.60%
Credit, store & charge card debts	8.50%
Unsecured personal loan debts	5.30%
Water supply & sewerage debts	4.40%
Magistrates Courts - fines & compensation order arrears	3.60%
Rent arrears - housing associations	3.10%
Bank & building society overdrafts	3.00%
Rent arrears - private landlords	2.80%
Mortgage & secured loan arrears	2.70%
Bankruptcy	2.50%
Catalogue & mail order debts	2.20%
Telephone & broadband debts	2.00%
Rent arrears - LAs or ALMOs	1.50%
Payday loan debts	1.30%
Individual Voluntary Arrangement	0.80%
Unpaid parking penalty & cong. charges.	0.70%
Overpayments of WTC & CTC	0.70%
Overpayments. Housing & Council Tax Bens.	0.50%
Hire purchase arrears	0.40%
Social Fund debts	0.40%
Arrears of income tax, VAT or NI contributions	0.40%
3rd party debt collection excl. bailiffs	0.40%
Overpayments of IS/JSA/ESA	0.20%
Debts to loan sharks/illegal lenders	0.10%
Overpayments of other benefits	0.10%
Not recorded/not applicable	0.10%
Maintenance & child maintenance arrears	0.00%
Logbook/bill of sale loan debts	0.00%

**Appendix E – Case studies**

## Case study 1

*“June needed help with her mounting debt problems. The trigger was a letter from South West Water threatening to cut off her water. On the bottom of her letter there were two phone numbers of organisations that could help her namely, Citizens Advice Bureau and Christians against Poverty (CAP). June decided to call CAP because she thought that they would help her without judging her, as she felt very ashamed and embarrassed about her situation. CAP found her total debt was £14,800. This was made up of credit cards taken out by her husband, a Provident Loan, and catalogue credit in her name. She had separated from her husband and previously had no idea that these loans and credit cards existed. When she approached CAP she was desperate as she could not afford her household bills. She had run up rent and council tax arrears and was trying to pay money to everybody. Her daughter was using half her wages to help pay, but they still could not afford food, and were not eating properly. Provident were continually knocking on her door, and the gentleman who used to call was very aggressive and threatened “consequences”. June and her daughter used to hide when they knew he was due. The credit card companies were also continuously phoning and writing letters.”*

## Case study 2

*‘A woman sought debt advice from a South West CAB in June 2013. She rented a three bed property and lived alone. Her Housing Benefit had been reduced from April as a result of the Bedroom Tax, and she accumulated arrears of over £200 as a result. In May 2013 her housing provider served her with a notice to start the eviction process. While offered appointments to sort this out she was unable to attend as they clashed with the work programme she had to attend in order for her benefits not to be sanctioned. This was new experience for her as she had previously been in receipt of sickness based income support. While adjusting to the new demands of job seekers allowance, she had already been sanctioned for four weeks because she had not applied for enough jobs. She was then advised she had to reapply for Employment and Support Allowance (ESA) when serious surgery meant that she was no longer fit for work. The forms were put in the post but delayed meaning she had no income and was falling even further behind with her bills. She tried to apply for emergency funds and was told that the crisis loans no longer existed and no help was available to her until she filled in and returned her ESA forms.’*

## Case study 3

*In February 2013 Miss S attended a budgeting session. Then in December 2013 her housing situation changed and she was told she needed to attend again. She said - "I learnt so much back in February and even though I didn't want to attend the session I was so glad I did.*

*This week my car needed 3 new tyres and because I had opened a Credit Union account and had been saving I didn't panic and cry like I usually would when an unexpected bill arrived. I had enough money in my account to pay CASH for the tyres. I have 3 children and this year I didn't need to borrow a penny for Christmas! On top of this I have bought a large plastic coke bottle which I put all my loose change into and this has amounted to £180 already. The children have got the "bug" and any loose change they find around the house is put in the coke bottle. I have now bought each child a tin savings box (the sort you need a can opener to get into) and the children are busy saving!*

*With regards to food; me and the children sit down and make out a menu for the week using similar ingredients – every week different - and put it on the fridge. We now know what's for dinner every night, look forward to it and make it together."*



Our Ref: SIJ/GCWS01001

Your Ref:

HOUSE OF COMMONS

04 September 2014

LONDON SW1A 0AA

Dear Katey

**Re: Scrutiny of Problem Debt**

Thank you for your recent email inviting me to the problem debt review on 15<sup>th</sup> October. Unfortunately, I have parliamentary duties on that day which I cannot rearrange. I do however welcome the opportunity to share my own thoughts and observations with the panel, as I am deeply concerned about the level of personal debt in the City.

**The Cause**

My constituency office post bag is predominantly laden with housing and benefit related problems, so we are picking up why and how someone got into financial difficulties.

The bedroom tax is certainly one which is impacting on families who are already struggling on a low income or who have a disabled person living with them.

The delays benefit claimants are now experiencing with their claims for Personal Independence Payments (former DLA) are hitting people very hard indeed. Most claimants who have contacted me have been waiting six months or more for an assessment. From the time of the assessment to the point of decision-making, claimants are being told it could take up to 26 weeks. In effect, some have therefore been waiting for a year to get a decision. In the meantime, they get nothing.

The level of private rent is another reason we are picking up. Whilst many private landlords are very decent and fair, some do charge extortionate rent. The lack of affordable housing plays, in my view, a very big role in the level of debt we are seeing. Linked to this is the issue of fuel poverty. Many properties, social and private, in my constituency are badly insulated, suffer from damp and draft and antiquated, inefficient heating. Some housing associations are finding it difficult to raise funds for the level of repairs needed and are considering demolition and new-builds instead, negotiating with the HCA, but this doesn't happen overnight and in the meantime I have constituents, particularly in the Barne Barton area, complaining about being unable to stay warm in their properties and having excessive heating costs.

There is a growing call from all social groups to improve financial education, particularly for young people. The Youth Parliament have approached me some time ago asking for this to be one of five 'new' subjects to be included in the mandatory curriculum at schools. I know some schools are already doing a fantastic job but I am happy to continue to campaign on this.

**Understanding the Local Impact**

Debt and financial difficulties very often cause a snowball effect and lead to a range of other problems. We are seeing many people diagnosed with stress, anxiety and depression – so there is an almost tangible impact on public health, physically and mentally, and on local health providers.



HOUSE OF COMMONS

LONDON SW1A 0AA

We are seeing relationships breaking down as a result. Someone who has lost their job is often in danger of losing their home, too. We also see this impacting on child welfare - the last figure I had was a shocking 25 per cent children in Plymouth living in poverty.

I also strongly presume that we are seeing an impact on local crime levels, although I appreciate this is inconclusive. I allege that people are more likely to commit benefit fraud as a result. Speaking to the police, we have also seen an increase in the theft of food items, which could be a teller.

Quality of Response

Overall, I believe we have a good advice network in Plymouth. My assistant attends meetings with Advice Plymouth to share and exchange experience and information, which is helpful. We also make referrals to Advice Plymouth, who now host Citizens Advice as well as DIAC. In addition, I know that Money Advice are doing a very good job and I also refer constituents to Christians Against Poverty, who are doing a great job in debt advice and consolidation. Plus we have a number of smaller advice organisations like Routeways and the Zone, who are also very helpful. I think, therefore, Plymouth is well equipped to provide advice and assistance but there are often waiting times for those who seek advice, because of the sheer number of people who need it. And it does of course only address the symptoms, but not the cause, which is where I believe much more needs to be done, preventatively.

I have picked up mixed reports on the council's emergency welfare scheme and last year there was some criticism over the council not using all of its DHP funds, leaving approximately £130,000 unused. I do believe this has been addressed.

I hope this information is of some use to you.

Yours sincerely

A handwritten signature in cursive script, appearing to read 'Alison'.

Alison Seabeck  
MP for Plymouth Moor View

Ms Katey Johns  
Democratic Support Officer  
Democratic and Member Support  
Plymouth City Council  
Civic Centre  
Plymouth  
PL1 2AA



## **Samples of Debt Case Studies**

### **CASE ONE**

Ken is single and lives in privately rented property. His rent is £475pm. He has difficulties with his mental health and in particular: anxiety and depression. He is in receipt of Employment Support Allowance (ESA) Work Related Activity Group (WRAG) £100.15 per week and Disability Living Allowance (DLA) low rate care and mobility £42 per week. He receives £69.23 per week Housing Benefit and Council Tax Reduction. Ken's rent is £475 per month so he needs to pay £175 per month from his other income towards his rent.

#### **Household Bills**

- Council tax – Client pays £18.76 per month and has arrears of £60.
- Gas/Electric/Phone/Broadband – Client pays £130 per month to the Utility Supplier.
- Water – Client pays SW Water £30 per month. He has arrears of £90.
- TV – Client doesn't have a TV and has made TV Licensing aware of this.
- Mobile – Client has a contract and pays £20.55 per month.

#### **Assets & Savings**

None

#### **What Help Was Required**

Ken's debts have accumulated over a period of time due to his poor mental health and relying on benefits as his main income. He contacted the CAB about his options.

#### **Clients Debts**

Council Tax £60

Water £90

Payday lender - £1400

Catalogue Debt - £600

Bank Loan - £700

Bank Overdraft - £120

Vet Bill - £32

Debt Collection agent - £390.

#### **What Help Was Given**

Due to the lack of disposable income, the type of income and the Ken's long-term illness it was identified that his situation is unlikely to improve. The caseworker discussed the option of helping him to apply for a Debt Relief Order, the caseworker explained the advantages and disadvantages and suggested that he consider making an application. Ken felt it was a good option to help him resolve his situation.

#### **How Did Our Intervention Help**

With the assistance of the caseworker, the client made an application for a Debt Relief Order. This means that the debts owed by a debtor included in a DRO cannot be recovered by a creditor and will usually be discharged after a year. This has made an extremely positive change to Ken's life as his debts and the constant contact from his creditors were having a negative effect on his already poor mental health. The client is now able to manage his essential household expenditure more effectively in the future.

## **CASE TWO**

Sheila and Tony are married and live in a mortgaged property. The property value is £155,000. They have lived in the house for 8 years. Their 17 year old niece also lives with them but is a 'non-dependant' as she works. Sheila is in good health but Tony has various illnesses' including Spinabifida.

Sheila works and is on a temporary contract. She has been employed there for 8 months and is hoping it will become a permanent position. She works 36.5 hrs per week and earns £258pw. Tony is in receipt of Incapacity Benefit £104 per week, DLA low rate mobility £21.55 per week and £392 Occupational Pension every 4 weeks.

### **Household Bills**

All up to date but some mortgage arrears.

### **Assets & Savings**

Very little equity in the property.  
No savings.

### **What Help Was Required**

The couple also had a secured loan attached to the property and were being taken to court by their lender who was seeking to repossess the property. They were unsure what to expect and wanted to be prepared. The couple had tried to negotiate a repayment plan to avoid court but their lender would not accept anything less than a lump sum payment of £2300 before any agreement could be made.

### **Client's Debts**

#### **Mortgage**

Arrears £280. No court action  
Clients paying an additional £40 per month towards arrears.

#### **Secured Loan**

Arrears £2842.75 – lender seeking possession.

#### **Other Debts**

None

### **What Help Was Given**

The caseworker contacted the secured loan company on behalf of the client and confirmed arrears of £2842.75. This figure was increasing every day due to charges and interest accruing on the account.

The arrears had accumulated over several years due to irregular payments and charges. The client's seemed unaware that so many payments had been missed but as the case progressed, it transpired that the couple had not discussed their situation on managing their finances.

The caseworker attempted to negotiate an adjournment on the grounds of a payment arrangement being reached but the lender refused due to the poor payment history.

The lender also advised that a lump sum payment would also be required if a payment arrangement was to be agreed.

Sheila and Tony were able to offer a £500 lump sum which was borrowed from a family member and an agreement of £100 per month thereafter was proposed. This was not accepted verbally by the lender and the caseworker also confirmed this in writing but this was also declined.

To prepare them both for the court hearing, the caseworker prepared a financial statement which demonstrated that the extra £100 per month in addition to their ongoing payment was affordable and sustainable.

#### **How Did Our Intervention Help**

Sheila and Tony attended court feeling prepared to put their case and payment proposal forward. The judge accepted the arrangement and the possession order was suspended, this resulted with them being able to remain in the family home. Sheila and Tony talked about how she struggled to manage their finances and they have decided to share the responsibility in the future.

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