

# PERSONAL DEBT

## Social Inclusion Unit



### 1. Introduction – what is debt?

1.1 Many people live with debt throughout their lives in one form or another. Mortgages, rent, credit cards, loans and overdrafts are all common forms of credit or debt. Debt however is not an intrinsic problem for everyone; many people manage their debt repayments and are able to pay off any money they owe without incurring additional costs. Borrowing and credit activities are essential to a healthy economy. However, where people are financially excluded, have a limited income or have experienced an unexpected change in circumstances, debt has the potential to become unmanageable and seriously affect quality of life.

### 2. Debt as a problem

2.1 For one person a debt of £1 million may not be a problem, for another a debt of £50 may pose a huge problem in terms of affordability. Obtaining credit poses an issue for those who are not deemed credit 'worthy' and cannot access mainstream financial providers. Recently there has been an explosion of high interest lenders (doorstep lenders, payday lenders, loan sharks) who are easily accessible to various financially excluded groups. High interest borrowing often results in increasing levels of debt due to payments being defaulted and additional fees and charges added to loans not paid back on time.

### 3. Problem debt locally

3.1 Advice Plymouth, our local information and advice service has seen a changing scene of debt over the time they have been operating. (Since October 2012). Under the previous Citizens Advice Bureau contract, from July to September 2012 they delivered intensive debt casework to 111 customers with a total of £0.5million problem debt. Under the Advice Plymouth contract, for July to September 2013, 114 customers were seen with a total of £1.5million problem debt. This trend illustrates that customers who approach Advice Plymouth have a larger level of personal problem debt.

3.2 Some examples of increases in why customers are seeking advice services include:

1. Unsecured personal loan debts have risen from 6.17% in 2012 to 10.20% in 2013
2. Council Tax arrears which have risen from 0.73% to 4.70%, and
3. Rent Arrears with Housing Associations which have risen from 0.0% to 1.11%

See the table below for comparisons between 2012 and 2013 on customers presenting with debt issues

<b>Type of debt</b>	<b>Amount dealt with 2012 Jul-Sep £</b>	<b>% of customers seeking advice services 2012 Jul-Sep</b>	<b>Amount dealt with 2013 Jul-Sep £</b>	<b>% of customers seeking advice services 2013 Jul-Sep</b>
Mortgage and secured loan arrears	71,869	16.63	59,000	3.79
Fuel Debts	26,948	7.29	15,925	1.02
Telephone and Broadband Debts	0	0	2,629	0.17
Rent Arrears (Local Authority)	2,681	0.58	2,756	0.18
Rent Arrears (Housing Associations)	0	0	17,308	1.11
Rent Arrears (Private Landlords)	2,927	0.63	2,525	0.16
Council Tax arrears	1,068	0.73	73,187	4.70
Magistrates court fines and arrears	0	0	2,100	0.13
Bank and Building Society Overdrafts	0	0	3,697	0.24
Credit, store and charge card debts	6	0	90,883	5.83
Unsecured personal loan debts	26,400	6.17	159,055	10.20
Water supply and sewerage debts	3,293	0.71	15,764	1.01
Unpaid parking penalty and congestion charges	0	0	200	0.01
Overpayments of working and child tax credit	1,022	0.72	31,197	2.0
Social Fund debts	0	0	800	0.05
Payday loan debts	0	0	3,345	0.22
Private Bailiffs	0	0	0	0.0
Debt Relief Order	147,865	32.24	78,409	5.03
Bankruptcy	155,693	33.83	543,259	34.85
Other	2,203	0.47	456,610	29.29
<b>Total</b>	<b>465,796</b>	111 customers seen	<b>1,558,639</b>	114 customers seen

3.3 Our Housing Options Department has an Advice Plymouth member of staff based at their counter to offer financial assistance to customers who present with a Housing issue. Between July and September 2013 they held Financial Capability workshops for 80 people, helped another 36 with debt advice sessions, and resolved £209,845.00 worth of debt and associated debt issues.

3.4 Plymouth City Council no longer holds any housing stock, with virtually all Social Housing in the City provided by Housing Associations. None of them currently report their arrears figures to Plymouth City Council as they class this to be sensitive information, although there are regular meetings between Plymouth City Council Housing Managers and Housing Associations in order to discuss areas of concern.

3.5 155 single homeless people presented themselves to Plymouth Access to Housing (PATH) between July and September 2013. None of these people could afford a rental deposit without assistance from PATH. For this period PATH also helped 71 households manage their rent arrears.

3.6 Due to the introduction of the council tax changes from April this year, locally 16,000+ residents now have a council tax liability for the first time. For this group of customers, between April and September 2013 14,408 reminders have been issued, 6224 summonses sent, and 3,798 liability orders have been issued. Due to the fact that the scheme run from April 2013 is a different scheme to previous years, there are no comparable figures to show. However, the fact that 16,000+ customers now have a council tax liability for the first time, and 90% of them have received a reminder, does indicate a high number of these new council tax payers are in council tax debt.

3.7 Plymouth Citizen's Advice Bureau delivers a contract for South West Water to run a water debt gateway, where customers can get advice, arrange affordable payments and in some cases apply to have their debt written off. Between April and October 2013 the fund wrote off a total of £64,500 of water debt. This represents a 189% increase on the same period in 2012 when £33,900 of debt was written off.

3.8 Our local food bank has seen dramatic increases in customers over the past year. Between January and October this year, 2507 vouchers were issued. This compares with 1484 for the whole of 2012. If the referrals continue at the same rate the food bank expect a 237% rise in customers in one year.

#### **4. What are we doing about it?**

4.1 We have commissioned Advice Plymouth, a universally accessible information and advice service that serves the needs of local people. The service combines the expertise of four experienced advice agencies in the city – Plymouth Citizen's Advice Bureau, Plymouth Age UK, Routeways Ltd and Disability Information and Advice Centre. Advice Plymouth provides professionals who can support customers with their financial issues. Through a combination of telephone, counter and digital access, customers are able to access advice and information, and specialist case work where required.

4.2 The Revenues and Benefit staff who administer the Emergency and Welfare Fund have close contacts with Advice Plymouth and refer customers for further assistance as required.

4.3 We work very closely with our local Credit Unions in order to encourage customers to save and to access affordable borrowing. This month, we have supported the opening of a shop in the City Centre (Frankfort Gate) for City of Plymouth Credit Union. In September 2013 the City of Plymouth Credit Union administered 51 loans totalling £40,165.00. The total amount of interest attracted on these loans would be £4,149.45, whereas the same loans from a doorstep lender would attract interest of £32,935.30.

4.4 We ensure customers have access to qualified debt advice via referrals to Advice Plymouth. Our Housing Options Department accommodates an Advice Plymouth debt adviser at their customer services desk. Any customer who presents with a housing issue is automatically offered a consultation with the adviser who will look at their financial situation, including debt and welfare benefits as well as offering financial capability workshops.

4.5 We hold several discretionary pots of money which can offer financial support to eligible customers. Our Emergency and Welfare Fund will meet financial needs in the case of a crisis or resettlement in the community. The Discretionary Housing Payment Fund supports those who cannot afford rent or removal costs. Our Council Tax Exceptional Hardship Fund can be accessed for those struggling to afford their council tax payments. Finally our Housing Options team can access a Homeless Prevention Fund. Customers are assessed and directed to the relevant fund for their particular need. So far this year these schemes have assisted over 1,200 customers.

4.6 The Revenues and Benefits Department are currently planning to utilise the Council Tax Exceptional Hardship Fund to help customers having difficulty paying their council tax bills. As take-up is low, all officers who deal with recovery are being directed to encourage applications from those customers in difficult situations. They are also planning to work proactively by targeting groups of customers. For customers who claim Council Tax Support, where we have had a request for an Attachment to their Benefit returned from the Department for Work and Pensions as unsuccessful, these are likely to be vulnerable customers who are already experiencing high levels of deductions from their limited income. Plans are to contact these customers and encourage an application. Trials are currently being undertaken to consider whether phone contact or sending a form will get the better response from these customers.