

christians  
against  
poverty

**CAP**

## ***Call for evidence on debt advice clients with deficit budgets***

***CAP's written response to the Money and Pension Service's  
call for evidence***

August 2022

**always hope.**

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## Summary

Christians Against Poverty (CAP) has been tackling poverty for 26 years, providing free debt help and local communities groups. A high proportion of CAP clients are on low income, with two thirds (63%) of clients pursuing insolvency in response to problem debt. Currently, one in two (51%) CAP clients' budgets are unsustainable, having received debt advice and having budgets that are not sustainable through the length of a debt management plan. With our experience of supporting this level of clients with unsustainable budgets, CAP is well-placed to offer insight into the challenges and solutions surrounding deficit budgets.

### Key points:

- Debt advice can only ever go a small way towards resolving deficit budgets whilst inadequate income remains unresolved.
- CAP supports the building of sector-wide data collection and encourages MaPS to make use of existing data to benefit clients.
- A growing part of Debt Advisors' roles involves explaining unsatisfactory solutions and prioritising immediate survival.
- Debt Advisors are under significant strain as they are increasingly needing to draw on expertise outside of debt advice, such as specialist welfare or energy advice.
- With 51% of clients with unsustainable budgets – even after debt advice – there is no 'good' financial outcome for these clients, only the best that can be achieved within the current constraints.
- While people remain in chronic deficit budget situations, there should be statutory long-term forbearance to shield clients from the very worst impacts of deficit budgets.
- Deficit budget clients could be better supported through more social tariffs more readily available across sectors.
- Proactive data sharing between different Government departments could help to target support and increase take-up of initiatives such as Pension Credit.
- It is important that wider organisations play a role alongside debt advice in areas such as income maximisation, housing and welfare rights.

## Questions

### Section 1: Who are deficit budget clients?

#### 1. Do you agree with our understanding of how deficit budgets and situations vary? Is there anything you disagree with, or anything you can add?

Of the 4,468 cases who have received debt advice and had their budgets reviewed and evaluated for sustainability since 1 January 2022, 51% have unsustainable budgets. This figure refers to the proportion of clients whose budgets would not be sustainable through the length of a debt management plan. To assess what is considered a sustainable amount for the client, debt advisors consult with clients on what they consider they need on a weekly/monthly basis, and weigh this up against spending guidelines from the Standard Financial Statement and CAP's internal minimum sustainability figures. The average unsustainable budget needs £237.67 per month more to become sustainable. Within this report unsustainable budget data is used as a proxy for deficit budget data, with the recognition that while figures do not precisely reflect characteristics of deficit budget clients, the data is still reflective of general trends.

CAP agrees that awareness of how deficit budget situations vary is helpful when considering the sort of response needed, and in ensuring that financial services can be as sensitive to these needs as possible. A more detailed understanding within different types of deficit budgets may be helpful; for example, it would be helpful to understand the specific needs of temporary deficit budget clients.

While consideration of varying situations may be helpful, it is important to take care when grouping clients into distinct cohorts as the categories are not mutually exclusive. Some clients may fall into multiple categories at the same time, and may leave or enter different situations.

Finally, while the listed characteristics reflect variation between different deficit budget clients, it is important to remember that there is an underlying cause that is a challenge for nearly all deficit budget clients: inadequate income. Whilst this challenge may present itself differently across individual situations, tailored advice can only go a small way towards resolving deficit budgets whilst inadequate income remains unresolved.

#### 2. Noting that every client has individual circumstances, if you were to segment deficit budget clients into groups with similar characteristics, what key cohorts would you recognise? What do these look like and what are the major differences between them?

CAP recognises and records data in a range of areas in order to help us better understand the characteristics and circumstances of clients who are most affected by deficit budgets. The following data summarises trends identified across our client data for clients with unsustainable budgets:

### 1. Housing tenure

CAP records whether clients are social, private rented or house owners. 66.1% of all clients with unsustainable budgets are social tenants, with private tenants accounting for 24.5%.

### 2. Family composition

CAP records how many people live in a household, and number and age of children. These things are important to consider as they affect benefit entitlement and access to support; for example, a 25% Council Tax reduction is available for single person households. CAP clients with unsustainable budgets are most likely to be single (**63%**), divorced (**13.5%**) or separated (**9.3%**). They are also most likely to not have children (**59.7%**).

### 3. Geographical location

CAP records the geographical region and city/town of clients. This helps to target support; for example, to account for varying Council Tax rates and support. Unsustainable budgets are found all over the UK but are highest in Yorkshire and the Humber (**62.5%**), Wales (**63.6%**) and the North West (**57.4%**).

### 4. Mental and physical health

CAP records clients' vulnerabilities, including mental and physical health conditions. This helps to assess support available and suitable routes out of debt. Clients who have unsustainable budgets are more likely to have vulnerabilities indicated on their account. Two in three (**66.7%**) clients with unsustainable budgets have at least one vulnerability on their account, with anxiety and depression being the most common. This compares to 51% of CAP clients more broadly.<sup>1</sup>

**3. As mentioned, we plan to create a specification of data that could be collected to improve understanding of different types of deficit budget clients and their needs.**

**This might include:**

- Debt size and debt types.
- Deficit size and type.
- Key reason for deficit budget (e.g. change of situation vs. ongoing low income).
- Solutions and/or strategies that are available/recommended/agreed.
- Financial characteristics informing options – e.g. income, variability of income.
- Demographic characteristics informing options – e.g. housing tenure, vulnerabilities.
- Other factors informing options – e.g. capability, future expectations, wider issues.

<sup>1</sup> Christians Against Poverty (2022). [On the Edge - Client Report 2022](#).

**Our thinking is that, to enable large scale analysis, this data would be recorded systematically by advisors (or other staff), in specific data fields (as opposed to in case notes).**

**We understand that collecting data comes with a cost/time impact though, so we would like you to tell us what data you think would be most valuable to collect to build a sector-wide understanding of who deficit budget clients are, how they differ from each other, the options they do/don't have available and their support needs.**

CAP records all the listed categories above (other than strategies to tackle deficit budgets), and in principle supports the building of sector-wide data collection and understanding in these areas. MaPS should also make use of existing data to benefit clients, such as Citizens Advice *In the red index* launched this summer.<sup>2</sup>

While CAP reports on debt solutions, reporting on debt strategies is not currently a standardised practice. Some Debt Advisors choose to add information into client case notes, but there are currently technological constraints around reporting this information in a set format that is easily shareable.

While CAP is not opposed to recording data on strategies in theory, there are a number of things to consider before implementing this. Firstly, a sound business case would need to be made for collecting this data. In order for organisations to report such information there would need to be significant investment into the relevant technologies. For organisations that receive MaPS funding, these additional costs could feasibly be built into funding. For the rest of the debt advice sector, however, this is unlikely to be prioritised unless there are very clear and strong benefits to collect this data.

Secondly, there needs to be consideration of the impact that responding to this data may have on Debt Advisors' workloads and client capacity. For example, if a recorded solution is not followed through by a client, this could create more workload for Debt Advisors if they are required to follow up on this. Similarly, reporting this data may be burdensome for clients who are already inundated with documents and information-sharing. Again, there would need to be consideration around where the relevant funding would come from in order for debt advisors to complete these additional tasks.

## **Section 2: How are deficit budget clients currently supported by debt advice services?**

**4. Do you agree with our understanding of how deficit budget clients are currently supported by debt advice services? Is there anything you disagree with, or anything you can add?**

CAP agrees with MaPS's outline of the challenges faced by debt advice services, and would add a number of points. Income maximisation support varies considerably across different organisations and has become increasingly specialist.

<sup>2</sup> Citizens Advice (2022), [In the red index](#).

CAP Debt Advisors are not trained as welfare or energy advisors and do not currently have capacity to advise in these areas. Signposting clients to support with income maximisation can also be time-consuming and place a strain on resources when clients do not follow up on recommendations.

In addition to the challenges outlined, increasing incidences of deficit budgets mean that it is becoming more complicated and time-consuming to conduct previously simple tasks. For example, it is taking more time for Debt Advisors to create budgets and attempt to balance them. Clients are also having to spend a lot of time and energy navigating through myriads of paperwork, and having conversations with official service providers and creditors as a result of their complex financial situation.

The mounting mental health crisis means that Debt Advisors are needing to spend more time supporting clients in this area; for example, safeguarding referrals (the process whereby Debt Advisors report concerns to an internal safeguarding coordinator) for mental health rose by 700% between January 2022 and October 2022. Dealing with situations is not only difficult for clients, but also impacts on staff morale and wellbeing.

These additional challenges outlined place financial and time pressure on debt advice services. CAP does not have funding to conduct these activities and they are not outlined in funding contracts.

## **5. Thinking about deficit budget clients, what approaches do you take to:**

- **Address their deficit?**
- **Agree a solution or strategy to manage their debts?**
- **Otherwise support their needs (e.g. help with hardship, dealing with wider issues)?**

The main ways of addressing deficit budgets involve sourcing grant funding or providing insolvency fees to give people access to debt relief. Often, however, there are no solutions to address deficit budgets, meaning that a growing part of Debt Advisors' roles involves explaining unsatisfactory solutions and prioritising immediate survival. Deficit budgets are an income problem, not a debt problem. In response to this, CAP has begun a client-led escalation of deficit budget cases to MPs in order to highlight the ongoing difficulties for clients who have become debt free and yet still face financial challenges.

More often than not the client does not have options available to them to make their budget sustainable, and those that do are not always realistic. Local Housing Allowance, the Bedroom Tax or benefit cap often mean rents are unaffordable, yet it is usually not possible for clients to find cheaper accommodation that meets their needs. This means that only temporary fixes are available to try and provide clients what they need to survive rather than secure positive financial wellbeing.

Wider client needs are increasingly being met temporarily through Debt Advisors upskilling to provide advice on accessing local support services, such as food

pantries, warm spaces and Discretionary Housing Payments. Coverage of additional support, however, is patchy across the UK, meaning that some clients face difficulties in accessing it. Providing intensive additional support in this way also has a knock-on effect on debt service efficiency.

## **6. What do these approaches achieve for clients, and for how long?**

Whilst grant funding or insolvency may give some clients the opportunity to temporarily clear their debt, CAP is increasingly witnessing individuals falling back into debt soon after they become debt free. This is generating rising numbers of repeat clients and an increased future demand on the debt service. This is because the underlying driver of deficit budgets (insufficient income) remains an issue. Many others are simply unable to escape debt in the first place, having insufficient income to pay for essentials, let alone pay off their debts.

## **7. Are there cohorts of clients where it is often not possible to agree solutions or strategies across all debts – either because they do not agree, or creditor(s) do not agree?**

- **What prevents debt solutions or strategies being agreed across all debts?**
- **Which debts are most problematic to agree solutions or strategies for?**

While CAP is largely able to agree debt solutions with creditors, rent arrears are often a problematic debt for clients. Dealing with rent arrears can put clients' tenure at risk, especially if they are going through insolvency. Often CAP advises clients to keep up payments to rent arrears to avoid risk of eviction, but sometimes this is not possible for deficit budget clients and, therefore, risk of eviction is greater for these clients.

Energy trust funds will also often refuse debt write-off applications from clients with deficit budgets because their financial position is unsustainable. If they deem the client unable to afford ongoing bill payments, debt write-off is refused, despite this offering a material improvement to the clients situation and possibly would allow the client to avoid insolvency.

Whilst reaching agreements on debt with creditors is often feasible, helping clients to keep up with bill payments is more challenging. With rent, Council Tax and energy bills often being substantial figures, these payments provide some of the greatest stress for clients. Deductions from social security often make paying for essentials even more difficult. This means that, post-insolvency, many are at risk of falling back into debt. MaPS's guidance on prioritisation of bills would be helpful in situations like this, where deficit budget clients are simply unable to pay all their essential bills.

## **8. What is a good outcome for a deficit budget client – thinking about both financial and non-financial outcomes?**



A good financial outcome for a client is a sustainable budget that allows them to live in a dignified manner - at the very least able to meet basic standards of living. As this is currently not possible for half (51%) of our clients, this means that there is no 'good' financial outcome for deficit budget clients, only the best that can be achieved within the current constraints.

Within the current financial constraints, one of the best possible non-financial outcomes for clients is improved mental wellbeing. A staggering 36% of CAP clients have considered or attempted suicide as a way out of debt. A high proportion of CAP clients also report having high levels of isolation, with 79% reporting that they felt that they had nobody to turn to when they had a problem.<sup>3</sup> A hugely important outcome of debt advice, therefore, is helping to improve people's wellbeing by connecting them with people who support them with their current and future challenges. Wellbeing is also boosted through increasing confidence and knowledge around finances and how to prioritise payments and communicate with creditors.

Single working-parent Janice describes how it feels to have support whilst facing problem debt:

*'It's hard to come to the decision that you need help... but it was one of the best things that could have happened... I used to question myself on how I got into this mess but [with CAP] there was never any feeling of judgement.'*

## 9. To what extent do you believe current approaches to helping deficit budget clients deliver:

- **Value for the client (good outcomes for the specific clients in question)?**
- **Value for money (good outcomes for the amount of resource used)?**

Returns in the way of long-term financial solutions for deficit budget clients are limited under the current debt advice model, with nearly half of clients unable to balance their budget even after going through debt advice. Even for clients who can balance their budgets, solutions are often unsustainable due to the ongoing pressures of living on a tight budget. Often budgets can place a strain on clients' mental and physical health if they are not able to do seemingly simple things, such as attending exercise classes or meeting a friend occasionally for coffee.

Under current political and economic constraints, the value for deficit budget clients is largely achieved through clients gaining a better understanding of their circumstances, and significantly improving their mental wellbeing. While tight finances may mean that clients continue to experience mental health challenges even after working with CAP, often people are brought back from the brink after interacting with us (see question 8). This highlights the value of a face-to-face debt advice service delivered in local communities through churches.

<sup>3</sup> Christians Against Poverty (2022). [On the Edge - Client Report 2022](#).

Clients may also benefit from referrals to help with wider needs they may have, whether that be mental health-related or practical, such as fuel vouchers or food banks. This may provide good value for some clients, but others do not have the capacity to engage with too many things at once. Needing to address wider needs can also impact negatively on workload for Debt Advisors.

To improve efficiency of debt service, and thereby value for money, forbearance protections should be extended for the duration of the cost of living crisis. The cost of living crisis needs the same scale of protection and support enacted during the COVID-19 pandemic across the whole of the UK. Within Scotland, for example, we are seeing that the extension of emergency legislation such as rent freezes is making a significant difference for people in vulnerable circumstances.

## **10. To what extent can income maximisation (income max.) be used to reduce or eliminate budget deficits?**

- **What aspects of income max. do you cover with clients, and how much help do you give them with identifying and accessing opportunities identified?**
- **Which aspects of income max. do you not support clients with, and why?**
- **What types of income maximisation are more/less impactful and why?**

Income maximisation often offers the best of chance of clients being able to escape deficit budgets. The most common aspects of income maximisation that CAP focuses on involve identifying grants and social security that clients may be eligible for, including Personal Independence Payments and Local Welfare Assistance schemes. Clients will often undergo a benefits check, and can access a free benefits calculator on the CAP website at any time.<sup>4</sup>

However, even after this process, 51% of clients' budgets remain unsustainable. All too often, any amount by which clients are able to increase income is not sufficient to eliminate their deficit. Cases with unsustainable budgets have £633.90 less in income per month than cases whose budgets were reviewed as sustainable. This is reflective of low basic payment rates across social security which are leaving many households with insufficient income to live on.

## **11. To what extent can bankruptcy/DROs be used to help deficit budget clients?**

- **Are bankruptcy/DROs helpful options for deficit budget clients? Why/why not?**
- **How do you decide when it is an appropriate time to recommend bankruptcy/DRO?**
- **Where bankruptcy/DROs might be helpful, are there barriers to clients accessing these solutions, and if so, what are they?**
- **Can these barriers be overcome, and if so how?**

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<sup>4</sup> Christians Against Poverty (2022), [benefits calculator](#).

Bankruptcy and DROs are designed to relieve a person of some or all of their debts. In limited situations, they may help to relieve deficit budgets; for example, their impact on stopping benefit deductions.

Bankruptcy and DROs do not, however, help with deficit budgets caused by insufficient income. For many deficit budget clients the bankruptcy/DRO route is not feasible, as debt is likely to accumulate almost immediately after finishing the process. In some cases, undergoing bankruptcy and DROs may even exacerbate a difficult situation. As mentioned above, it may trigger insolvency clauses and put people at risk of eviction. It can have an effect on the poverty premium (the extra costs that low income households face as a result of poor credit score) for example.

The impact on the availability of affordable credit in the future is one of the barriers clients face when accessing these solutions. Fees are also a barrier to accessing bankruptcy. After applying for a DRO, clients are then unable to have another one for six years, forcing clients to instead declare for bankruptcy if needed subsequently.

In situations where a bankruptcy or DRO is not currently feasible but may be in the future, there needs to be protections in place, such as long-term forbearance until that time arises.

## **12. To what extent does non-statutory creditor forbearance support deficit budget clients?**

- **As far as you know, what forbearance is offered to different client types/by different creditors?**
- **How is forbearance obtained and maintained? What evidence do creditors require, and how does this vary by client type/creditor?**
- **What are the challenges to obtaining and maintaining forbearance?**
- **What help do clients need/you give with this? How much resource does this incur?**
- **How long do these types of forbearance tend to last, and how much do they help?**
- **How different are creditors from each other in terms of their forbearance offers and processes?**
- **What impact does differentiation have (if applicable)?**

Creditors vary significantly in the extent to which they accept Standard Financial Statements and offer forbearance to deficit budget clients. Challenges can arise when creditors make non-viable suggestions about where savings can be made in household budgets; for example, through using Personal Independence Payments to finance household costs instead of costs associated with a disability or health condition. Some of the most intolerant creditors tend to be in the Government and energy sectors.

**13. What other activities do you undertake to support clients' immediately pressing needs (e.g. help with hardship or wider issues, e.g. housing)?**

- What does this involve, and how much resource does it take?
- How do you resource this?
- What does this help achieve for clients?
- Is it possible to help a client with debt solutions/strategies without also helping them with their immediately pressing needs? Why/why not?

CAP's frontline Debt Coaches often support their clients to meet urgent needs through referrals to emergency support services (such as food banks) and vouchers (such as fuel vouchers). Increasingly, Debt Coaches themselves have been known to even provide food for clients in really desperate circumstances. This helps clients to meet their immediate needs in a crisis situation.

It is not possible to address problem debt without meeting a person's immediate needs; often these needs are integral to a person's survival, such as eating or keeping the house at a safe temperature. It should not, however, have to fall to the debt advice sector alone to address these needs – the underlying drivers of problem debt should be addressed, and access to suitable lifelines increased.<sup>5</sup>

**Section 3: How could deficit budget clients be helped by debt advice services?**

**18. What are your views on the opportunities above?**

- Which has the biggest potential to help deficit budget clients, and why?
- Which has the least potential to help deficit budget clients, and why?
- Which would deliver best value for clients? (I.e. good outcome(s) for the specific clients in question).
- Which would deliver best value for money? (I.e. good outcome(s) for the amount of resource used).

More comprehensive income maximisation may provide the greatest opportunity to help deficit budget clients. As outlined in question ten, however, this approach has significant limitations. Supporting clients to make difficult decisions and trade-offs, as well as supporting their wider needs, are good things to do but realistically may have little impact on financial wellbeing for low income clients. While these options may make a small impact for deficit budget clients, there needs to be the time and budget allocated to allow these things to happen.

Creditor forbearance has the least potential to help deficit budget clients, as it fails to address the underlying issue: unmatched income and outgoings. It may be helpful, however, in giving Debt Advisors and clients time to explore all the possible options and should work in tandem with the other approaches. Generally speaking, creditors have become more understanding in recent years, with the notable

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<sup>5</sup> Christians Against Poverty (2022), [Lifelines to safety](#).

exception of Government debt collection including by Council Tax, His Majesty's Revenues and Customs, the Department for Work and Pensions, and His Majesty's Courts and Tribunals Service.

**19. Are there other ways of better supporting deficit budget clients you think are important to explore/have potential? What are these and how would these deliver value for clients/value for money?**

**Where relevant please link your answers to specific client groups/the key cohorts you identified in your answer to Q2.**

While people remain in chronic deficit budget situations, there should be statutory long-term forbearance so that clients are shielded from the very worst impacts of deficit budgets. This would help to reduce client distress and reduce the subsequent workload for Debt Advisors when dealing with debt enforcement.

Deficit budget clients could be better supported through more social tariffs across sectors. For example, this could be delivered through unfreezing and setting Local Housing Allowance for rent at the 50th percentile, and increased provision of 100% Council Tax Support for Council Tax. This would help clients to reduce outgoings and make it more likely for them to achieve a balanced budget, thereby reducing the number of repeat clients.

Proactive data sharing between different Government departments could help to target support and increase take-up initiatives such as Pension Credit, thereby decreasing the number of people with deficit budgets.

**20. Thinking about opportunities with potential from Q18/19, how might these be implemented?**

- **What would their ideal delivery look like?**
- **What might barriers/challenges to implementing them be?**
- **What might be needed to implement them effectively and efficiently at scale?**

Long-term forbearance could be achieved through modifying Breathing Space legislation to be up to twelve months and include deductions from Universal Credit. This would help to stop debt enforcement for clients in deficit.

Social tariffs across sectors such as housing and Council Tax could be implemented through existing mechanisms. For example, while Council Tax Support currently varies geographically, social tariffs could be implemented through consistent Council Tax Support across the UK that either exempts or significantly reduces rates of Council Tax for low income households.

**22. Is there a limit to what debt advice can be expected to do, or should be funded to do, to support clients with deficit budgets? If so, where is this limit and how can it be navigated sensitively in practice by frontline providers?**

Clients with deficit budgets should ideally have access to holistic support to help address the interlocking challenges they face. There are different ways in which this can be achieved, and different debt advice organisations will favour different approaches. Some organisations will favour having strong triage routes to direct clients to relevant sources of support. Other organisations will prefer to co-locate some or all of the additional support services, such as support with income maximisation. CAP would welcome MaPS' role in securing increased access to support services for clients alongside debt advice across the sector.

There is a role for wider organisations to play alongside debt advice organisations in areas such as income maximisation. For example, the Government can help to increase the take-up of social security and support across vulnerable households to decrease the number of people with deficit budgets in the first place. Additionally, policies that tackle insufficient incomes can help to limit deficit budget incidences. This could include, for example, reducing the lag time between inflation increases and social security uprating, and increases in the national living wage.

## About Christians Against Poverty (CAP)

Christians Against Poverty (CAP) is a Christian charity tackling poverty in communities across the UK through free debt help and local community groups. CAP provides award-winning free debt help through local churches. Each church's CAP Debt Centre offers emotional and practical support, while our head office team in Bradford provides bespoke debt advice and a plan to help people get out of debt.

CAP also offers community groups dedicated to tackling poverty at the root. These are run through local churches, and cover topics such as interview skills, applying for a job and writing a CV, how to budget, making money go further and key life skills.

## Requests for further information

This response has been written by Emma Hide, Policy and Public Affairs Officer for Christians Against Poverty (CAP), with contributions from:

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