christians against poverty CAP

Simplify the solution

A look at the roadblocks that prevent access to debt relief and proposals for the Debt Relief Order (DRO).

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About Christians Against Poverty (CAP)

Christians Against Poverty (CAP) is a Christian charity tackling poverty in communities across the UK through award-winning free debt help and local community groups. We exist to equip and empower local churches in serving the community, and together we're bringing hope to tens of thousands of people every year.

Acknowledgements

We would like to thank everyone who has made this report possible – to all the members of the CAP team who took part in the focus groups, edited and designed the report, and most of all we are incredibly grateful to Denis, Penny and Joanne who have generously allowed us to feature their experiences in this report.

Methodology

This report draws on quantitative analysis of data from all CAP Debt Help clients in England and Wales who completed an insolvency application between 23 July 2018 and 23 July 2020, as well as qualitative analysis of focus groups and interviews with CAP Debt Coaches and Advisors. For more information about the methodology please see the appendix (p28).

Foreword

Paula Stringer
Chief Executive CAP UK

I know from experience how it feels to face debts that seem impenetrable. It's like walking through a dense, overgrown forest. Everywhere you turn, there's something in your way, preventing you from reaching that light at the end of the path: becoming debt free.

We're fortunate to not only have a well-established debt advice sector here in the UK, which helps hundreds of thousands of people each year find their way out of the darkness of debt, but also a range of solutions that clear the way when it seems to be a dead end. The Debt Relief Order (DRO) is one of these solutions, providing a lifeline for people who would otherwise have no means to repay.

The DRO currently isn't effectively serving those it was designed to help and the system is in need of reworking. The Insolvency Service's recent proposals to update the monetary eligibility criteria for DROs are incredibly important, but will not fully remove the roadblocks currently preventing people from accessing the solution they need.

This report sets out the experiences of CAP clients and the changes that would benefit them, and the millions in similar situations. I hope you will engage with us and the Insolvency Service's consultation to see the solution to problem debt simplified.

Paula Stringer

Executive summary

The DRO is a form of insolvency that was originally designed to offer a simple and inexpensive path to debt relief for those in otherwise insurmountable financial distress. As well as being significantly more affordable than bankruptcy, Debt Advisors also report that it provides a more timely, more certain and less stigmatised journey for clients (p20).

However, due to the current criteria, many people are not eligible for a DRO and have no choice but to go through the more expensive route of bankruptcy to get out of debt.

Debt relief must be effective, accessible and affordable. Let's simplify the solution to problem debt.

More than half (53%) of CAP clients in England and Wales who apply for bankruptcy are now displaced from a DRO (p9). Despite being the target group for a DRO, those living on low incomes and without significant assets must pay an additional £590 to access a bankruptcy instead of a DRO because they fail one of the eligibility criteria. These clients have a considerably lower income and fewer assets compared to the average client on a bankruptcy route.

The debt limit of £20,000 is the most significant obstruction to accessing a DRO (p13). More than a third (37%) of CAP's bankruptcy clients only fail to qualify for a DRO because of the debt limit. The Insolvency Service's recent proposal to increase the limit to £30,000 is a welcome step in the right direction, but would only bring three in five CAP clients currently excluded from a DRO (due to the debt limit) back into that solution (p16).

The vehicle value threshold of £1,000 is problematic too for people who need a reliable car for commuting or taking children to school (p14). In addition, a DRO can be ineffective, and the individual still trapped in problem debt, after it is granted because only debts scheduled in the DRO are discharged (p13). We need to remove these roadblocks too.

The 2014 DRO reforms were a significant step in the right direction, but many in the sector wanted these to go further. The recognition that further changes are needed now is encouraging to see, but we need to ensure these really do make sure the solution works for those it was created to help. This is especially pertinent now as an estimated three million additional people will be in need of debt help in the wake of the coronavirus pandemic (p22).[1]

By definition, a solution is an answer to a problem – it shouldn't be the reason for more barriers blocking the path to becoming debt free. Let's simplify the solution to problem debt by allowing the DRO to be an effective, accessible and affordable solution for the low income households it was designed to help.

This can be achieved by:

- Raising the debt limit from £20,000 to £50,000, so that people with a higher level of debt are able to access a DRO.
- Allowing additional pre-existing debts to be scheduled in the DRO after the application has been made, if this would not breach the debt limit.
- Raising the vehicle value threshold to £2,000 to reflect the current costs of a low-priced reliable vehicle, and excluding mobility scooters from the limit.
- Regular reviews of the DRO monetary eligibility criteria (every three years) to futureproof access to the solution.

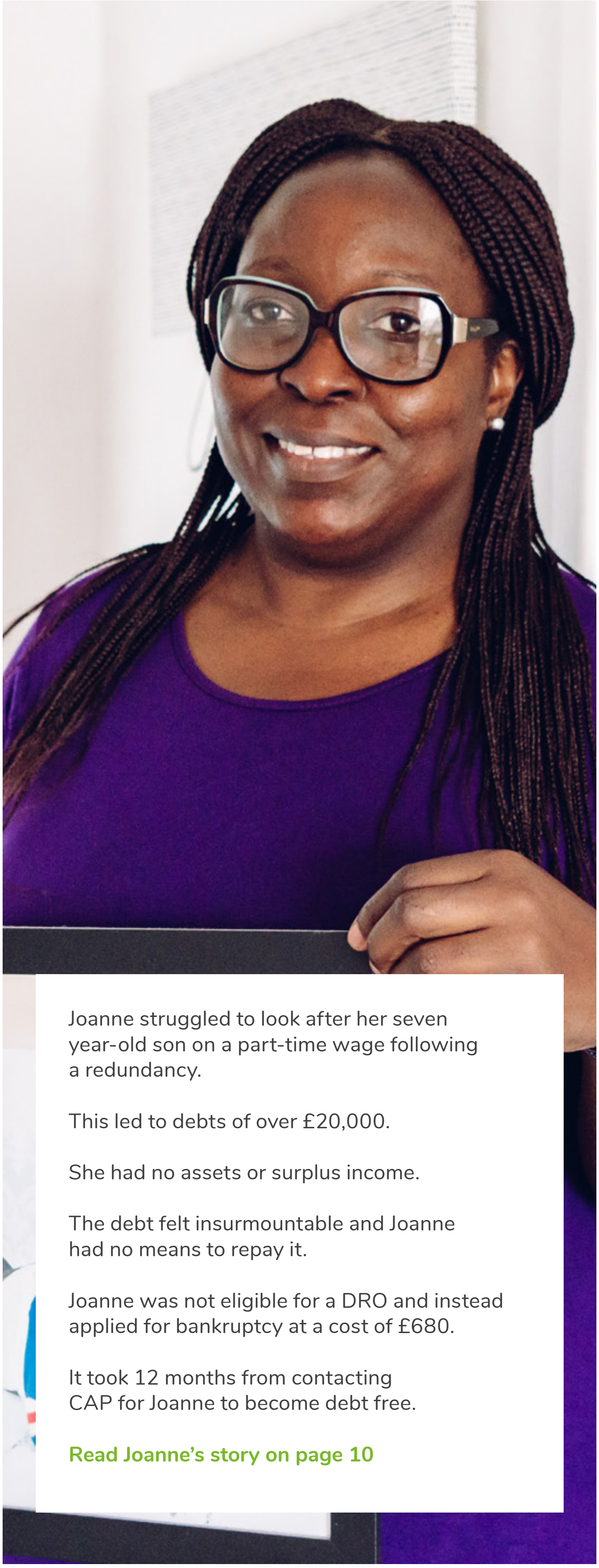
For more information on the recommendations, see page 26.

In this report

This report examines the roadblocks that prevent CAP clients from accessing affordable debt relief, and considers further changes that are needed to give those on the lowest incomes an effective route out of debt. It considers:

For more information on the methodology and research for this report see the appendix (page 28).

1 | MaPS modelling, Additional £38 million for debt advice funding in England goes into action press release 02/07/2020



Joanne struggled to look after her seven year-old son on a part-time wage following a redundancy.

This led to debts of over £20,000.

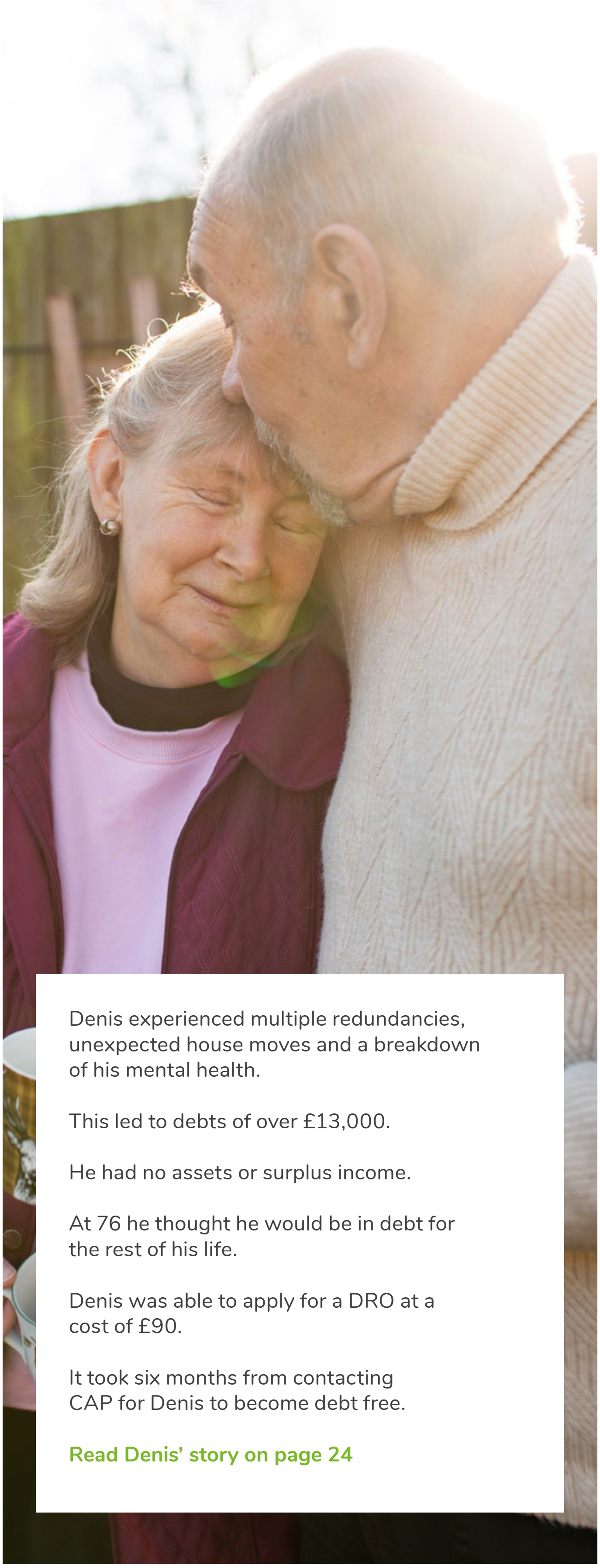
She had no assets or surplus income.

The debt felt insurmountable and Joanne had no means to repay it.

Joanne was not eligible for a DRO and instead applied for bankruptcy at a cost of £680.

It took 12 months from contacting CAP for Joanne to become debt free.

Read Joanne's story on page 10



Denis experienced multiple redundancies, unexpected house moves and a breakdown of his mental health.

This led to debts of over £13,000.

He had no assets or surplus income.

At 76 he thought he would be in debt for the rest of his life.

Denis was able to apply for a DRO at a cost of £90.

It took six months from contacting CAP for Denis to become debt free.

Read Denis' story on page 24

Let's simplify the solution

Top three most common primary causes of debt:

Low income (25%)

Mental ill-health (21%)

Relationship breakdown (14%)

9 million people in the UK are over-indebted

59% of CAP clients require an insolvency option to become debt free

It would otherwise take **58 years** on average to repay their debts

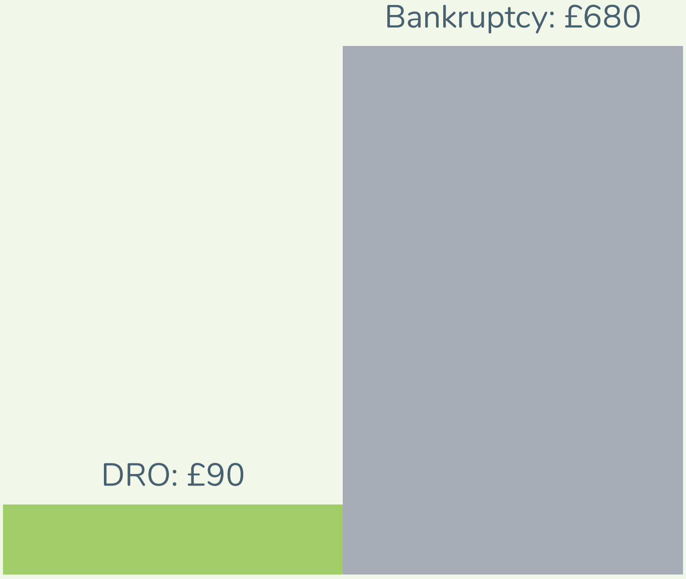
Roadblocks to effective, accessible and affordable debt relief through DROs:

- Debt limit of £20,000
- Vehicle value threshold of £1,000
- Only debts scheduled in the DRO discharged

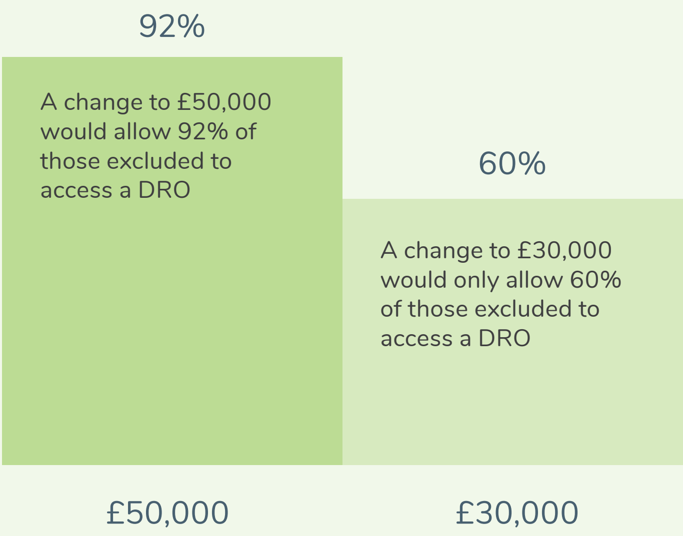
Compared to bankruptcy, CAP Advisors say DROs are:

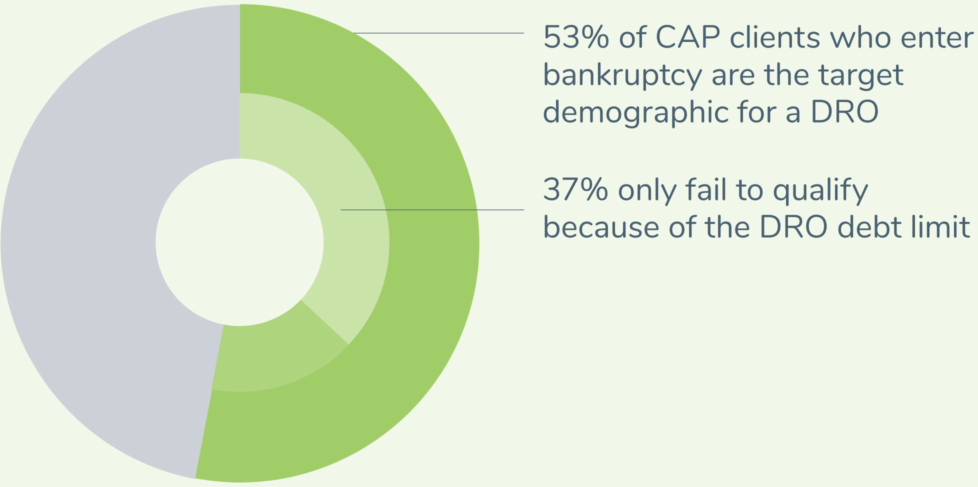
- Affordable
- Timely
- Assured
- Less stigmatised

Cost to apply for bankruptcy and DRO



Increasing the debt limit would bring those unfairly excluded back into a DRO





Introduction

Nine million people in the UK are estimated to be over-indebted.[2] This means they are unable to meet repayments or are falling behind with other bills as a result of paying existing debts. Juggling debts and struggling to keep up with interest payments means debts continue to spiral, and repaying what they owe can become an impossible feat. In these situations it is well established that debt problems are associated with deteriorations in mental and physical health, as well as social relationships and productivity at work.[3] Where no other viable route exists, insolvency solutions are a lifeline to provide people with a route to rebuild their life and start afresh financially.

In England and Wales today, more than 100,000 people become insolvent in a given year, either through an Individual Voluntary Arrangement (IVA), bankruptcy, or Debt Relief Order (DRO).[4] These solutions are designed to cater for people in different circumstances, and ensure that creditors receive repayments as far as the person's income and assets allow.

There has been a dramatic rise in the need for insolvency solutions since the 1990s, rising from less than 5,000 per quarter in 1990 to over 30,000 by 2020.[5] Yet, despite growing numbers experiencing destitution and problem debt in the UK, the number of DRO applications has fallen in recent years after following a broadly flat trend since 2013.[6]

In January 2021, the Department for Business, Energy and Industrial Strategy (BEIS) and the Insolvency Service proposed changes to the monetary eligibility criteria for the DRO, having recognised that many people cannot access the right debt solution for their circumstances. These proposed changes include raising the debt limit to £30,000 (from £20,000), the surplus income threshold to £100 per month (from £50 per month) and the asset threshold to £2,000 (from £1,000). It is estimated that these changes would give 15,500 more people access to a DRO in 2021/2022, 58% more than the number who accessed one in 2019/20.[8]

It is clear that change is needed to the DRO scheme. The current system means many people living on the lowest incomes are not eligible for a DRO, and they have no choice but to remain trapped in the unbearable pressure of unmanageable debt or go through the more expensive and complex route of bankruptcy to get out of debt. However, the proposed changes do not go far enough to remove the biggest roadblocks that stop CAP clients and others in financial distress from accessing an appropriate and affordable debt solution.

This report considers the impact the proposed changes will have and where other roadblocks must also be overcome to allow access to debt relief for those who urgently need it.

Insolvency solutions available in England and Wales[7]

Bankruptcy	Debt Relief Order (DRO)	Individual Voluntary Agreement (IVA)
There were 16,702 bankruptcies in the UK in 2019	**There were 27,497 DROs in the UK in 2019**	**There were 77,982 IVAs in the UK in 2019**
£680 fee	**£90 fee**	**£5,000 cost on average**
19% of CAP clients pursue a bankruptcy route	**36% of CAP clients pursue a DRO route**	**Less than 1% of CAP clients are suitable for an IVA**
For people who do not have enough surplus income to repay their debts in a reasonable timeframe. Investigations are carried out by the Official Receiver to allow for any assets or surplus income to be distributed to creditors during the bankruptcy period.	For people on low incomes and without significant assets who do not have enough surplus income to repay the debts they owe. DROs are intended to provide quick relief with less administrative burden by using the debt advice sector as Approved Intermediaries. Currently to be eligible for a DRO someone must have debts of less than £20,000, a surplus income below £50 per month, no more than £1,000 worth of assets and not have a vehicle valued at more than £1,000.	For people with a stable income, or a lump sum, who can repay most but not all of the debt they owe, and would benefit from this being managed by an Insolvency Practitioner. They may also have an asset, like a house, that they wish to protect.

2 | MaPS (2020) *The UK Strategy for Financial Wellbeing 2020-30*
3 | For example see Clifford, J. Ward, K. Coram, R. Ross, C. (2014) *StepChange Debt Charity: Social Impact Evaluation of certain projects using Social Return on Investment*, National Audit Office (NAO) (2018) *Tackling problem debt*, Europe Economics (2018) *The Economic Impact of Debt Advice: A Report for the Money Advice Service*
4 | The Insolvency Service (2019) *2019 Individual Insolvency Statistics England & Wales*
5 | The Insolvency Statistics and COVID-19 presentation by the Insolvency Service at Insolvency Live! 24/12/20
6 | The number of DROs fell by 0.7% in 2019 compared to 2018, and has been following a broadly flat trend since 2013. The Insolvency Service (2020) *Individual Insolvencies by Location, Age and Gender, England and Wales, 2019*, The Insolvency Service (2020) *Annual Report and Accounts 2019-20*, The Insolvency Service (2020) Annual Report and Accounts 2018-19
7 | The Insolvency Service (2019) *2019 Individual Insolvency Statistics England & Wales*, CAP (2020) *Client Report: Is anyone listening?*, *Cost of an Individual Voluntary Arrangement* article from Citizens Advice webpage, accessed 15/01/21
8 | The Insolvency Service (2021) *Debt Relief Orders: Consultation on changes to the monetary eligibility criteria*

The roadblocks

Shift from DRO to bankruptcy

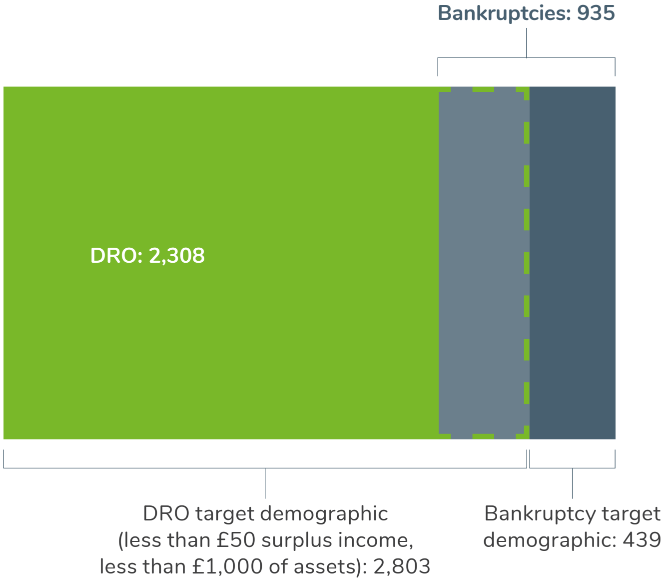
In its first year of operation, a DRO was accessed by 17,446 people, growing to over 30,000 by 2012/13.[9] However, despite a context of rising financial difficulty, and the numbers living on a relative low income remaining consistently high (between 21-22% of the population) since 2013, DRO numbers have been broadly stable and have recently begun to fall.[10] In 2019/20, 27,434 DROs were granted, 2.3% lower than the 28,085 DROs in 2018/19.[11]

Across the debt advice sector, DROs are still recognised as an essential part of the insolvency landscape, but they no longer serve the group they were intended for. More than half (53%) of CAP clients who apply for bankruptcy are now displaced from a DRO. Despite being the target demographic for a DRO, living on low incomes and without significant assets, they must pay an additional £590 to access a bankruptcy instead because although eligible on income and asset criteria, they fail one or more of the other criteria.

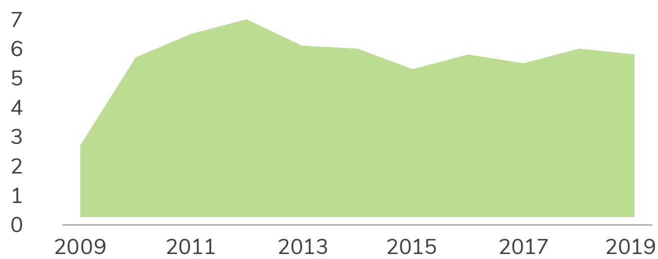
'[The DRO has] got quite strict entry criteria and [clients] can just be flat out rejected if they don't fit those ... it can get quite tricky when you get to the edge of things, like the asset limit or the £20,000 debt limit. Imagine you've got twenty thousand and one pounds of debt and you automatically have to shell out another £500 for your insolvency.' – **CAP Insolvency Advisor**

CAP clients who meet the income and asset limits of a DRO but are still forced to apply for bankruptcy have materially different situations to the rest of our clients who apply for bankruptcy. The average household income of these clients forced into bankruptcy is £1,119 a month, 30% less than the average household income (£1,700/m) of clients who apply for bankruptcy and exceed the asset and income thresholds for a DRO.[12] Furthermore, a larger number of those forced into bankruptcy are in debt because of low income (22% compared to 19%) and mental ill-health (22% compared to 16%).

Number of insolvency applications submitted by CAP clients in the past two years:



The DRO rate has been broadly stable for several years
Rate per 10,000 adults in England and Wales, 2009 to 2019



Source: Insolvency service (2020) *Individual Insolvencies by Location, Age and Gender, England and Wales, 2019*

9 | The Insolvency Service (2010) *Annual Report and Accounts 2009-10*, Insolvency Service (2013) *Annual Report and Accounts 2012-13*
10 | MAS [now MaPS] (2018) *Levels of Over-indebtedness in the UK*, DWP (2020) *Households Below Average Income: An analysis of the UK income distribution: 1994/95-2018/19*
11 | The Insolvency Service (2020) Annual Report and Accounts 2019-20, The Insolvency Service (2020) Annual Report and Accounts 2018-19
12 | For single adult households this is £1,045 compared to £1,492, and for couples it is £1,930 compared to £1,492.

Real lives - Joanne

While looking after her son on a part-time wage, Joanne faced debts she could not find a way to repay, despite downsizing to a one-bed flat and budgeting carefully. She needed a fresh start but was shocked to learn that bankruptcy would cost £680 – money she did not have. Joanne's experiences show why we must simplify the solution and make sure the DRO is accessible and affordable.

'I used to work in the IT industry, but I lost my job and then everything changed. I was offered another part-time job in a school. I had to adjust my budget based on what I was earning, but then the bills just kept coming.

To try to manage, we downsized to a one-bedroom flat, but still I simply had no money in my account. I'd have to borrow to make it to payday. When I started getting visits from enforcement agents, I realised it was out of control and I didn't know what to do. I was living in fear and with a lot of uncertainty. It impacted every area of my life – even parenting my lovely seven-year-old. I was not able to provide what he wanted and it felt like I was a constant disappointment.

My son understood to an extent. He used to come up to me and pull up my cheeks and say, 'You need to smile, Mommy'. It was heartbreaking. I hid it from everyone else. I didn't even want to open my door to friends just in case debt collectors turned up while they were here. I shut my door, I shut my mind. I thought, 'No one needs to know'.

The first time I actually spoke to someone about the debt was with CAP. There were a lot of tears but right after that first meeting I felt relief and ease knowing there was a way out. I owed well over £20,000. To pay it off monthly would have taken a long time and it wouldn't have been practical for me while raising my son. He would be a man by the time I was done, a full-grown man!

The decision was bankruptcy. But then I was told about the fees. I was shocked. I did not have that money. CAP was able to help me find a grant to pay the fee. I'm so deeply thankful for that. I wouldn't be sitting here free and liberated if not for that. I would not have had the chance to start again.

When I got the green light to say I'd be going bankrupt, I slept differently. You don't know what it's like until you go through it. I can think clearly now because I'm not afraid. I'm able to be the best that I can be for myself and as a mother. Now I don't have to be reminded to smile. To know I have a second chance, I'm excited.'

Photography by Colchester Streets photography

Problems with the DRO

To be eligible for a DRO, applicants must meet a set of criteria. These criteria act to protect the integrity of the solution, ensuring fairness to creditors and that DROs are appropriately targeted to those on low incomes and without assets. These are important to ensure that the DRO remains distinct from the other solutions and serves its purpose within the landscape.

DRO eligibility criteria

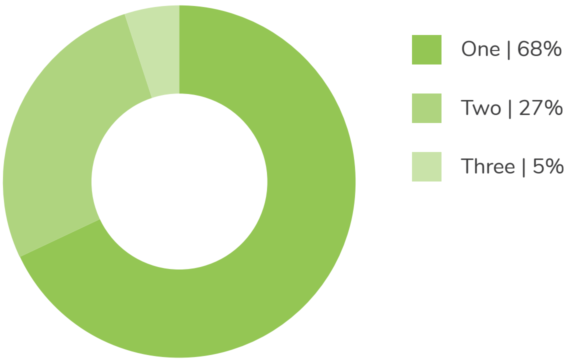
To qualify for a DRO you must meet all of the following criteria:

- **Debt limit:** owe less than £20,000 in outstanding debt
- **Surplus income threshold:** have less than £50 per month surplus income
- **Asset value threshold:** have assets worth less than £1,000 (plus a car worth no more than £1,000)
- **Previous DRO:** have not been granted a DRO in the past six years

However, these thresholds create sharp cliff edges, which have become increasingly outdated over time, so that they no longer support the policy intent of the DRO. The majority (68%) of CAP clients who apply for bankruptcy are ineligible for a DRO because they fail to meet just one of the criteria. Most commonly this is the debt limit, followed by having surplus income in excess of £50 per month, a previous DRO and assets worth more than £1,000.

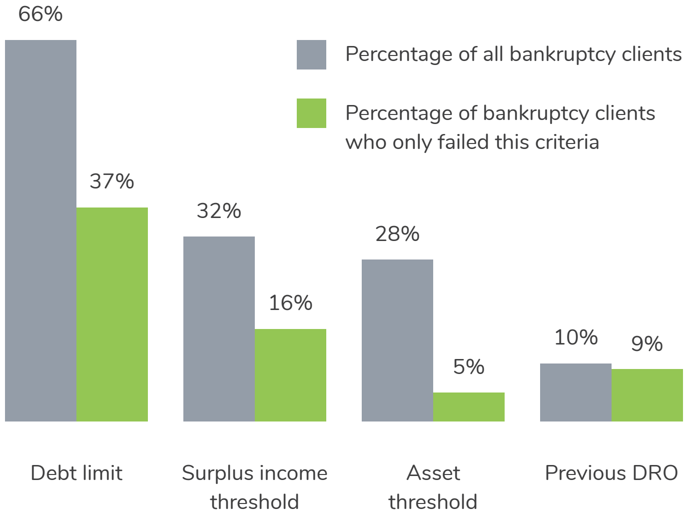
DRO ineligibility - number of criteria failed

The number of DRO eligibility criteria failed by CAP clients who made a bankruptcy application in the past two years:



DRO ineligibility - type of criteria failed

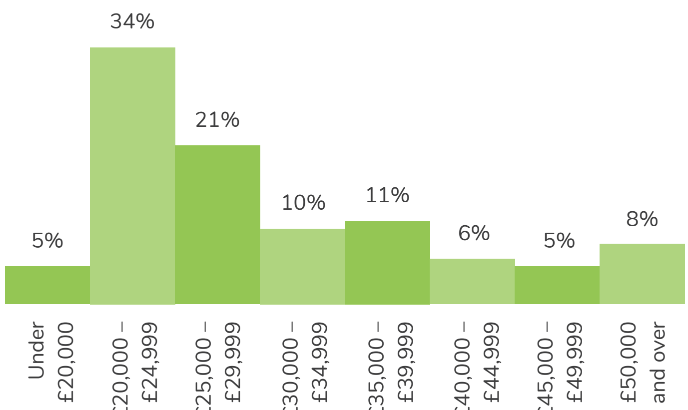
The type of DRO eligibility criteria failed by CAP clients who made a bankruptcy application in the past two years:



For the most part, CAP Debt Advisors do not encounter clients who exceed the income threshold and whom they feel should be eligible for a DRO. They recognise that a limit on surplus income is needed to ensure DROs meet the intention of only serving those with low incomes. Similarly, significant assets also mean the Official Receiver's investigations are warranted to see if equity can be recouped, and therefore the clients who exceed these thresholds should pursue bankruptcy. However, the debt limit, discharge of scheduled debts only, vehicle value threshold and rules on preferencing creditors were all cited as significant roadblocks.

DRO ineligibility - level of debt

The level of qualifying debt held by CAP clients who only failed to qualify for DRO because of the debt limit:[13]



13 | Note: this data is for single person households only, due to reporting restrictions. These clients have surplus income below £50 per month, assets of less than £1,000, no vehicle worth more than £1,000 and have not had a previous DRO within the last six years.

The debt limit

At present, someone is only eligible to apply for a DRO if they owe less than £20,000 of qualifying debts. More than a third (37%) of CAP's bankruptcy clients only fail to qualify for a DRO because of the debt limit. This rises to four fifths (79%) of bankruptcy clients who meet both the low income and assets criteria, and are therefore in the target demographic for a DRO, and further to 95% when removing clients who have also had a DRO in the past six years.

More than half (60%) of those excluded purely on the basis of their debt level have less than £30,000 of debt, and nine in ten (92%) have less than £50,000 of qualifying debt. A small number (5%) appear to meet all of the DRO criteria, yet due to having debts close to the debt limit choose to opt for bankruptcy. This appears to be to avoid the risk of a DRO being revoked, where the client fears that their debt balances are higher than currently known or that there are additional debts currently without evidence.

'If someone has £20,000 of debt or £25,000, it doesn't make any difference does it really if they've got nothing else? If they've got no money to pay into an Income Payment Plan and no assets, then what is the harm of someone with more debt having a DRO? It's going to save the official receiver time and the creditors aren't going to get anything whether they have a DRO or bankruptcy.' – **CAP Debt Advisor**

Real lives[14]

Julie is in her 60s and lives on an income of £750 per month. She has limited literacy, and this makes budgeting and managing finances more difficult. As a result, she has a range of debts totalling £22,000, which would take nearly 14 years to repay. Despite her low income and having no significant assets, bankruptcy was the only route forward for her because her debt exceeds the DRO limit by £2,000.

Scheduled debts

All debts that someone is liable for are cleared in a bankruptcy at the point the order is made. However, only those listed on the application are discharged in a DRO. Where a debt is accidentally omitted, this simple mistake can have a considerable and lasting impact on the client, who is required to repay the remaining debt or pay for a bankruptcy. This puts considerable pressure on advisors and clients to ensure that all debts are included, but this is no easy feat as credit reports rarely present a complete record and debts owed to government organisations can come to light many years after the fact.

Previous research found that this issue is one of the top ten reasons an insolvency solution does not always provide a fresh start for clients.[15] This is a demoralising and deeply upsetting situation for clients who believed they were about to have the chance of a new beginning. It means the debt relief provided is incomplete and therefore ineffective. Often people in this situation, many of whom are living on a low income, experience continued financial hardship to repay these omitted debts, whereas a higher earner in the same situation who had applied for a bankruptcy would not be expected to do so.

'It can be tricky when we have clients whose debt balances we think are quite out of date and the credit report doesn't give a clear indication. It can be hard to have certainty when we're submitting the application. There will be clients who just didn't know about a debt, especially for clients who have so much debt from a dark time. Down the line it's then the client who suffers and has this debt to repay.' – **CAP Debt Advisor**

Real lives[16]

Natasha has learning difficulties and autism. Her trouble with debts originated from a period of mental health problems and CAP helped her apply for a DRO in 2018. Just six days later, she was sent a letter informing her she must repay a Housing Benefit overpayment from 2012-14. The DRO notification had caused the Council to search their records and they had found this additional debt. Their letter stated, 'As the above overpayment is NOT listed in your Debt Relief Order [the Council] can continue with recovery of this debt'. Natasha could not afford these repayments and subsequently applied for a bankruptcy less than a year after her DRO.

14 | Names have been changed for anonymity.
15 | CAP (2019) *Unlocking a new start*
16 | Names have been changed for anonymity.

Vehicle value

While the vehicle value threshold alone only stops a small number of clients accessing a DRO, these clients are prominent in advisors' reported experiences of people trapped in a sub-optimal solution. Advisors give examples of lone parents being barred from a DRO because they owned a car of modest value, but over the £1,000 threshold. The clients needed their vehicles to be reliable to take children to school and get to work. Disabled clients are also particularly affected, because public transport is less likely to be suitable for their needs and mobility scooters often breach the £1,000 value limit. In addition, mobility cars on lease agreements often have insolvency clauses in the contracts which mean the car can be repossessed if the client enters an insolvency, even if all payments have been maintained.

Mostly, where a vehicle was the only barrier to accessing a DRO, the value was stated as just over £1000. It is doubtful that the Official Receiver would show interest in a vehicle valued below £2,000 in the bankruptcy process and as such the client may be able to keep it, whereas to access a DRO they would be required to sell the vehicle.

'I had one single mum who chose not to do any debt solution because she said it made no sense to get rid of her car – it was only worth about £2,000 and was reliable – to buy an old banger. She needed a car to take the kids to school and was worried about affording repairs. We couldn't guarantee what the Official Receiver would say. It was sad because there was no way she could repay the debts, but I understood why she made that decision.' – **CAP Debt Coach**

Real lives[17]

Ruby, aged 72, approached CAP for help following a dementia diagnosis. She lived alone and as her budgeting had deteriorated, her debts had become unmanageable. She also had several physical health conditions that limited her mobility. She owed £14,750, and it was estimated it would take 18 years to repay as her only income was her state pension (including Pension Credit) and Attendance Allowance. Ruby met all the criteria for a DRO, aside from owning a mobility scooter worth more than £1,000. She instead had to pursue a bankruptcy, at an extra cost of £590, and hoped that the Official Receiver would allow her to keep her mobility scooter, although this would not be known until after the bankruptcy was granted.

Preferencing creditors

Individuals entering into a DRO are expected not to have made disproportionately high repayments to any particular creditor. The intention is that when the individual enters the insolvency, no creditor should be in a better position than the others because of preferential treatment.[18] Preferencing is mainly determined on the basis that the individual chose to preference, and there are allowances for payments that were made because the creditor applied pressure. However, while an Official Receiver will consider whether preferencing has occurred in a bankruptcy, a DRO application is typically automatically rejected where potential preferencing is flagged on the application.

'I had this client who had made payments to one of his creditors over others but the circumstances of that meant I thought it would be allowable. But because we knew about it, we had to tick the box to say a creditor has been preferenced on the application. The DRO was then rejected straight away without the circumstances being looked into.' – **CAP Debt Coach**

Real lives[19]

Gary approached CAP for help after struggling to live on a low income. He had only a small amount of debt totalling £700. Gary was unable to afford a repayment plan and needed an insolvency solution. He had recently had a back-payment from work and had repaid a £400 debt to his mother. This meant it had to be declared on his DRO application that he had preferenced a creditor. As a result, the DRO was rejected, and he lost the non-refundable £90 fee he had already paid. Gary needed to make a bankruptcy application for consideration by the Official Receiver, but he could not afford to pay the bankruptcy fee of £680, which was almost as much as the debt he owed.

17 | Names have been changed for anonymity.
18 | The Insolvency Service (2010) *Preferences technical manual February 2010*
19 | Names have been changed for anonymity.

A previous DRO

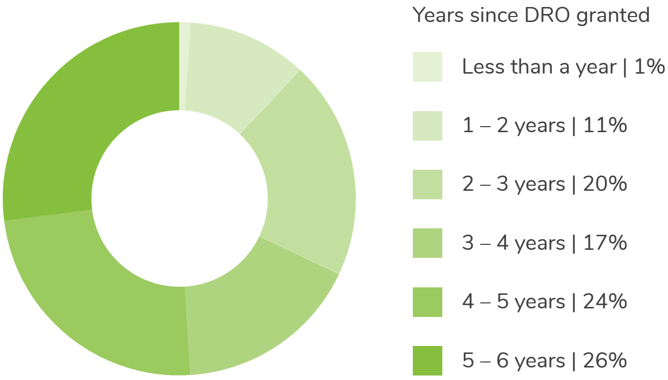
Just under one in ten (9%) of CAP's bankruptcy clients only fail to qualify for a DRO because they have already accessed a DRO within the last six years. On average, just under four years has elapsed and the average debt balance is substantially lower. CAP clients in need of bankruptcy have debts of £28,139 on average, whereas for clients who return within six years of a DRO and need a bankruptcy, it's £7,418.

The proportion of bankruptcy clients who have had a DRO in the last six years who report low income as the primary reason for their debt is also noticeably different.[20] Just over a third (35%) report low income as being the main cause of their debt problems, compared to 20% of all CAP clients on a bankruptcy route. However, many have faced new life events which significantly impacted their finances – most notably a mental health crisis (22%), a long-term illness (9%), unemployment (7%) or relationship breakdown (7%). This is not surprising considering that on average CAP clients face three additional difficulties, on top of their debt problems, which put them at risk of being in vulnerable circumstances.[21] These are dynamic situations that do not end once debt relief has been provided, and debt free clients often continue to face obstacle after obstacle.

'It's clients who can cope now, but they have little or no disposable income, it just takes a little bit of hardship, something that makes things more difficult and they're back in debt again. They don't have disposable income to repay, so it's bankruptcy, £680 instead of £90. As the economy stalls, I think the likelihood is that we're going to see more people in that situation.' – **CAP Debt Advisor**

A previous DRO

The length of time between DRO and bankruptcy for CAP clients who applied for bankruptcy within six years of a DRO being granted:



Real lives[22]

Gabrielle, in her 30s, works variable hours and on average takes home £1,300 per month. Living in London, this does not always stretch far enough, and after escaping an abusive relationship she required a DRO in 2017. Subsequently she was notified about a benefit overpayment and tax debts totalling £5,600. She had not been aware of these debts before the DRO, but if they had been listed they would have been cleared. Instead, Attachments of Earnings were put in place that meant Gabrielle could not afford to keep up with rent and utility payments. It would have taken Gabrielle over 13 years to repay these debts. Just two years after her DRO, she needed to apply for bankruptcy.

20 | For clients with a previous DRO, the reason for debt has been taken from their second CAP Plan (recorded at the beginning of their bankruptcy application process).
21 | CAP (2019) Stacked Against: *Revealing the breadth and depth of vulnerability and the overwhelming nature of multiple complex needs*
22 | Names have been changed for anonymity.

Clearing the path

Right now, DROs are not delivering what they were intended to, having not kept pace with inflation and changes in society. Too many people, like CAP client Joanne, are excluded from a DRO and pushed into bankruptcy when they cannot afford it.

'The type of person at whom the scheme is aimed cannot pay even a portion of their debt within a reasonable timeframe. Such people are often living on very low incomes, and whilst at the time they borrowed the money they had every intention of paying it back, they simply lack the means to do so.'

Source: Department for Constitutional Affairs (now BEIS) (2004) *A choice of paths: better options to manage over-indebtedness and multiple debt, consultation paper CP23/04*

Recent proposals to update the DRO monetary eligibility criteria

The Insolvency Service are consulting on a set of proposals to update the DRO's monetary eligibility criteria in light of the economic outlook as a result of the COVID-19 pandemic.[23] The aim is to make sure people with few assets and low income, who therefore have nothing to offer creditors, have a suitable and proportionate option for debt relief. To do this, the Insolvency Service propose to set new monetary limits on the criteria for obtaining a DRO by:

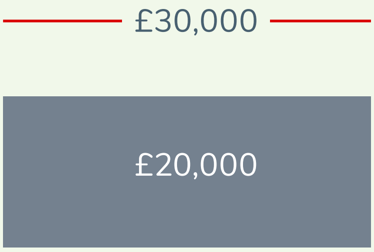
- Increasing the total amount of debt allowable to £30,000 (from £20,000)
- Increasing the value of assets owned by the individual to £2,000 (from £1,000) but not the £1,000 limit on the value of a domestic motor vehicle
- Increasing the level of surplus income to £100 (from £50) per month

Changes of this nature have the potential to remedy the imbalance in England and Wales' personal insolvency landscape ahead of the expected increase in demand for debt advice, and in turn DROs. The proposed changes are expected to allow an additional 15,500 people to access a DRO in 2021/22, including people slightly higher up the income distribution scale who do not meet the current surplus income and asset thresholds.

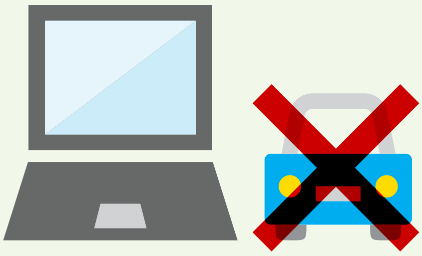
However, we estimate that each year 10,000 people on the lowest incomes will still be wrongly forced into bankruptcy.[24] This includes two in five of those wrongly pushed into bankruptcy despite meeting the current surplus income and asset thresholds for a DRO.

23 | The Insolvency Service (2021) *Debt Relief Orders: Consultation on changes to the monetary eligibility criteria*
24 | The Insolvency Service estimates that increasing the debt limit to £30,000 will allow 15,500 more people to access a DRO in 2021/22 (if the changes to the monetary criteria are made in May 2021). This would include 60% of CAP clients unable to access a DRO because they exceed the current debt limit (this group having debts between £20,000 and £30,000, surplus income of less than £50 per month and assets valued at less than £1,000). Assuming CAP clients are representative of the population, this would leave a proportion of the population equivalent to the 40% of CAP clients still unable to access a DRO because of the debt limit, having debts in excess of £30,000 and meeting the current surplus income and asset thresholds, or 10,333 people.

The Insolvency Service propose to set new monetary limits on the criteria for obtaining a DRO by:



Increasing the total amount of debt allowable to £30,000 (from £20,000)



Increasing the value of assets owned by the individual to £2,000 (from £1,000) but not the £1,000 limit on the value of a domestic motor vehicle

Increasing the level of surplus income to £100 (from £50) per month

This is an opportunity to simplify the solution to problem debt, but to address the most significant roadblocks for people in debt today we need to:

- Increase the DRO debt to £50,000
- Increase the vehicle value threshold to £2,000.
- Create flexibility to add pre-existing debts to an application after it has been submitted.
- Introduce regular reviews of the DRO monetary eligibility criteria.

What else needs to change?

A higher debt limit

We recommend

The DRO debt limit is increased to £50,000 to bring 92% of those excluded by the debt limit back into the solution.

The Insolvency Service suggests that an increase in the debt limit above £30,000 would only provide a marginal increase in the number of people eligible for a DRO. However, CAP's analysis shows that this is not the case. Of the 37% of CAP clients who only fail to qualify for a DRO because of the debt limit, 40% have debts over £30,000. These clients are amongst the poorest households in England and Wales, having less than £50 per month surplus income and less than £1,000 in assets.

The injustice of extending access to the DRO to households higher up the income distribution, but not to those already under the current surplus income and assets thresholds must be addressed. While an improvement, a debt limit of £30,000 would still force an estimated 10,000 people into a more expensive solution despite their income being as low as, or lower than, others able to access a DRO. However, an increase in the debt limit to £50,000 would make sure the DRO continues to serve those it is intended for.

While creditors may be concerned about the impact this would have on their balance sheets, those people who would gain access to a DRO through a higher increase to the debt limit cannot afford to repay their debts, nor do they have surplus income or assets that can be distributed to creditors in bankruptcy. Academics have also questioned the rationale for any debt limit when what is an appropriate and affordable solution is determined by income and assets - the amount of debt owed being irrelevant where there are no means to repay.[25]

A higher vehicle value threshold

We recommend

The vehicle value threshold is increased to £2,000, and mobility scooters excluded, to allow for a low cost but reliable car to be retained in a DRO.

The new proposals will increase the value of allowance assets to £2,000 but no change is proposed to the vehicle value threshold. This is at odds with the concerns of CAP advisors who more often encounter clients they feel should be able to benefit from a DRO but are excluded because they own a modest value car which breaches the £1,000 value threshold. Indeed, the average asking price of a used car according to the AutoTrader Retail Price Index is now 58% higher than five years ago when the £1,000 threshold was set (£12,612 compared to £7,992 in 2015).[26]

A dilemma is now increasingly imposed on clients who must either sell a modestly valued car to purchase an older vehicle and potentially face significantly higher maintenance costs, or pay a higher fee to go bankrupt instead. It is not guaranteed that the Official Receiver will take an interest in a car worth just a little over £1,000 in bankruptcy and therefore the DRO threshold creates unjustifiably divergent outcomes for clients in the same position but accessing different solutions.

Furthermore, disabled people are disproportionately and unfairly penalised by the vehicle value limit as mobility scooters are not exempt. To allow for a reliable car to be kept under a DRO and make sure disbaled people are able to keep a suitable means of private transport, the vehicle value thresholds should also be raised to £2,000, and mobility scooters made exempt.

25 | Department for Constitutional Affairs (now BEIS) (2004) *A choice of paths: better options to manage over-indebtedness and multiple debt, consultation response paper CP23/04*
26 | Comparison of figures from October 2015 and 2020 for petrol used cars from Auto Trader Retail Price Index

Discharge of all pre-existing debts

We recommend

Additional pre-existing debts are allowed to be scheduled in the DRO order post-application if the debt limit is not breached, to ensure no one is left to repay a debt they cannot afford.

Changes are also needed to stop people being penalised for simple mistakes and expected to repay debts that would have been discharged if listed on the application. The 'listed debt' rules for DRO applications are out of line with the process for bankruptcy, where all debts the person is liable for before the date the bankruptcy is granted are discharged, and can render the debt relief provided through a DRO ineffective.

DRO applications are limited to one every six years, and so where someone cannot afford to repay an additional debt they are forced into bankruptcy at a cost of £680. Therefore, to avoid this detrimental outcome, advisors in the debt advice sector, who already bear the majority of the administrative burden for DRO applications, take on more work to endeavor to reduce the risk that this happens.

It is incredibly difficult to establish a watertight list of debts owed. Not all lenders report to credit reference agencies, and credit reports only list lending and repayments in the past six years. Advisors also find it difficult to retrieve up to date and complete information from government authorities, such as Councils and HMRC ahead of a DRO application, as often the DRO being granted is the trigger for demands for historic overpayments and Council Tax arrears to be sent to the client. This issue particularly affects more vulnerable clients with complex health issues or situations, who have lots of challenging circumstances and cannot provide paperwork for all their debts or face the prospect of extensive enquiries ahead of a DRO application.

There is no reason why a pre-existing debt should not be discharged by a DRO application, if its inclusion would not have caused the debt limit to be breached. Clients must already advise the Insolvency Service if a new debt comes to light that would mean they are in breach of the debt limit. Where this is not the case, to allow for a debt to be retrospectively scheduled would make sure the debt relief provided through a DRO is effective, and significantly lighten the burden on the debt advice sector when supporting people with applications.

Regular reviews

We recommend

The Insolvency Service commit to a schedule of regular reviews of the DRO monetary eligibility criteria (every three years) to futureproof access to the solution.

The DRO monetary eligibility thresholds are not updated in line with inflation each year, and aside from the one-time changes made in 2015, no other adjustments have been made since the DRO's introduction in 2009. Consequently, inflation has eroded the value of the limits over time and advisors report that they are now seeing more people excluded from accessing a DRO who they feel should be able to benefit. Therefore the current review of the monetary thresholds is welcome, but will not futureproof the solution.

The period between 2015 and 2021 demonstrates how rapidly the profile of people in financial difficulty can change. For instance, since 2015 low income households have particularly felt the burden of rising household bills, such as Council Tax, which has increased by 22% since 2009.[27] Average household debt has also increased during this period, with median household financial debt rising 12% between 2014 and 2018, and the biggest rise in total financial debt has been from higher cost sources such as hire purchase.[28]

With the proposed updates suggested to take effect in May 2021, the DRO thresholds have needed radical updating every six years since their introduction. Therefore, it would be beneficial for a regular schedule of reviews to be established to make sure the DRO continues to reflect the economic circumstances it operates in. Six yearly intervals have led to big shifts in the DRO thresholds. More frequent adjustments would be beneficial (for example, every three years) to smooth these changes and make sure the DRO eligibility criteria more closely tracks the economic and financial context the solution operates in.

27 | Comparison of figures from April 2009 and March 2020, Office for National Statistics (ONS) (2020) *CPIH INDEX 04.9 Council Tax and rates 2015=100*
28 | ONS (2019) *Household debt in Great Britain: April 2016 to March 2018 (Analysis of the Wealth and Assets Survey)*

The impact of further changes

At CAP, we know from experience that the DRO is a proven and effective debt solution. It is a path to a financial fresh start, providing an accessible solution to allow people to focus on rebuilding other areas of their lives. Widening access to DROs will be extremely beneficial for people in desperate need of debt relief, as well as wider civil society and the economy.

Benefits for people accessing a DRO

Advisors report DROs provide a better experience for people in problem debt for a variety of reasons. Therefore it makes sense to ensure all those the DRO was intended to serve have access to it. Nearly all those who have been through a DRO report improvements in their mental health, and previous CAP research has found that 91% of clients remain free of problem debt after a DRO (surveys conducted up to five years after becoming debt free).[29]

'Some people have so much they are dealing with that they just need debt relief as fast as possible, and it lets them move forward in a way they can't with the debt still hanging over them.' – **CAP Debt Coach**

For people unable to pay their debts, a low income and few assets, a DRO is:

The only path forward

A DRO clears a path to debt relief where no other exists. Advisors describe insolvency as a lifeline for those who would otherwise have no hope of repaying and cannot afford the bankruptcy fee. On average, it would take CAP clients on an insolvency route 58 years to repay without an alternative, and it is not unusual for repayment terms to regularly exceed the life expectancy of the client.[30] Similarly, 96% of respondents to a survey conducted in 2015 for the Department for Business and Industrial Strategy - now (BEIS) - stated that without a DRO they would not be able to deal with the debts.[31]

'I had a client who had really ill health and ended up not being able to work because of that and had a relationship breakdown, and he ended up basically sleeping in his car and then in a homeless hostel eventually. At the end of the day he needed an insolvency solution. He's not the only one, and when you're on Universal Credit and you're waiting for an operation and you're not allowed to work for whatever reason, you just can't repay [your debts].'
– **CAP Debt Coach**

29 | MAS [now MaPS] (2012) *Debt Advice in the UK*, CAP (2016) *The freedom report: The importance of debt advice in building financial capability and resilience to stay free of problem debt*
30 | CAP (2020) *Client report: Is anyone listening?*
31 | Department for Business, Innovation and Skills [now BEIS] (2015) *Insolvency Proceedings: Debt relief orders and the bankruptcy petition limit – Call for evidence*

An accessible and more timely route out of debt

DROs give people on very low incomes and without cash savings access to a solution that they desperately need. The average CAP client who accesses a DRO has a household income of just £1,009 per month. This is a group not served by the other insolvency options, as the fee for a DRO is just £90, compared to £680 for a bankruptcy, money that people in debt typically do not have. The lower cost of a DRO overcomes the biggest obstacle that stops people accessing bankruptcy, and in turn this brings quicker relief. Advisors report that sourcing the bankruptcy fee adds many months to the debt advice journey. During this time, clients become increasingly disheartened and stressed by the pressures being in debt add to the other challenging circumstances they are trying to overcome. This reduces the chance that they make it through the complete journey and become debt free.

'The biggest difference is the time and the fees. With the process we have now, it can take a month to get a DRO from visit to approval. Bankruptcy, you're still looking at months and months of waiting and working, changes and updates. I think a lot of that is down to the cost differences.' – **CAP Insolvency Advisor**

Avoids the stigma trap

The term and history of bankruptcy carries significant stigma whereas, as a newer solution, DROs come with less negative associations. Despite the consequences being very similar, advisors report clients are typically much more apprehensive about entering into bankruptcy in comparison to a DRO. This is confirmed in other research, including an evaluation of the effectiveness of current debt solutions by Revealing Reality in 2018, which found that bankruptcy was the most widely known debt solution, but also carried the most stigma.[32] The Financial Conduct Authority (FCA) has also found people associate bankruptcy with 'giving up' and moral notions of shame, while DROs are generally well regarded by those who use them.[33]

'As soon as you even mention bankruptcy to a client they say, 'Oh no, I can't do that, I can't do that. I have to have a DRO'. It's almost like the history of bankruptcy, like when you had to go to prison back in the day, is sort of carried forward. And because DROs are so new, people have never heard of them, so they don't have that perception.' – **CAP Insolvency Advisor**

A more certain client journey

A DRO is a more certain journey for clients to follow. The checks and questions are asked of the client before the DRO application is submitted, allowing advisors to give more certainty about what they can expect once the DRO is granted and a specific endpoint to their journey (normally within 24 hours of the application being submitted). In contrast, it is only after the bankruptcy is granted that the Official Receiver conducts their investigations and considers whether the client's income, expenditure and assets are acceptable. This makes the resolution of the journey much slower for the client and brings added uncertainty. Clients can also find it difficult or distressing to switch contact from the advice agency to the Official Receiver for this process.

'The way we explain is: it's like knocking on the door of insolvency. If you're doing a bankruptcy, you knock on the door and they let you in and ask questions later. Whereas if you're doing a DRO, you knock on the door and they'll ask you the questions before they let you in.' – **CAP Insolvency Advisor**

32 | Revealing Reality (2018) *The effectiveness of current debt solutions*
33 | FCA (2014) *Consumer Credit Research: Payday Loans, Logbook Loans and Debt Management Services*

Benefits for civil society and the economy

There would also be wide ranging benefits for civil society and the economy from increasing the effectiveness and accessibility of the DRO. This includes:

1. Easing capacity in the debt advice sector to help more people in the wake of the coronavirus pandemic
2. Improving debt advice outcomes by reducing stigma and the cost barrier to accessing a solution
3. Improving efficiency and reducing costs for the Insolvency Service
4. Supporting the economic recovery by reducing wasted collection costs for creditors and supporting the aims of the new statutory Breathing Space scheme

1. Easing capacity in the debt advice sector to help more people in the wake of the coronavirus pandemic

Following the financial implications of the coronavirus pandemic on people's personal finances, the debt advice sector is expecting a surge in demand. It is estimated that this could be as many as three million additional people over the next 18 months, on top of the five million people who were already in need of debt advice.[34] The Government has made a welcome £37.5 million injection to increase debt advice capacity in 2021, but people typically wait two years or more before seeking help. As such, the increased pressure on the sector is likely to last for several years to come.

Continued funding for debt advice and the provision of DROs as recommended in the Woolard Review is crucial for the sector, but wider changes to the DRO rules would also improve efficiency and support debt advisors in helping more people. The current debt limit and listed debt rules make the DRO application process cumbersome for debt advisors, and extend the time it takes for clients to access debt relief. Others in the sector have also highlighted that currently DRO applications often take ten weeks or more because of the need to list every debt and double-check the debt amounts.[35] DROs can only be accessed through an Approved Intermediary, which means the administrative burden of providing the solution falls heavily on the debt advice sector. Without further changes to the DRO rules, the policy intent of the proposals to solely raise the monetary eligibility criteria could be harmed if the sector is not able to meet the increased demand for DROs being projected.

A further point of investigation would be to reconsider the fairness of the £90 DRO free as highlighted in the Woolard Review which recommended an emergency fund to cover the cost of application fees for the poorest applicants. Scotland has already taken steps to reduce the fee for their DRO-equivalent Minimal Asset Process bankruptcy to £50, and waived completely for people in receipt of certain benefits. Similar measures in England and Wales would make sure cost is never a barrier to accessing a needed DRO.

34 | MaPS modelling, Additional £38 million for debt advice funding in England goes into action press release 02/07/2020
35 | *Coronavirus & the reform of Personal Insolvency in England* blog posted by Debt Camel, accessed 18/12/20

2. Improving debt advice outcomes by reducing stigma and the cost barrier to accessing a solution

People in debt typically only seek help from a debt advisor when the problem reaches a critical point.[36] Fear and stigma can play a significant role in this, with more than 40% of people struggling with serious debt issues too afraid to seek advice and solutions.[37] Advisors find that the feared stigma associated with an insolvency is much more acute for bankruptcy than for a DRO. This stigma can stop people completing a debt solution altogether, and allowing more people to access a DRO where it would be appropriate would increase the number of good outcomes from debt advice, with more people completing a debt solution.

In addition, the higher fees for a bankruptcy application can prevent people from completing a debt solution where they are ineligible for a DRO. In a YouGov survey conducted for the Money Advice Service in 2012, it was found that half of those recommended to declare themselves bankrupt did not do so.[38] The unaffordability of fees continues to be a common barrier preventing people from accessing debt solutions that are not free of charge even after the introduction of the DRO.[39] For those on low incomes who have no choice but to go through displaced bankruptcy, the higher insolvency fees they are required to pay are an even more unaffordable amount than when the DRO was first introduced. These fees are now a blanket £680 for all applications since the process moved online, whereas fee remissions in the court system meant the cost paid in 2013 was £525 for those on means-tested benefits. On average, CAP clients who meet the income and asset criteria for a DRO, but instead require a bankruptcy, were only able to save £151 towards their fees when the application was submitted, compared to £336 for people over the asset and surplus income thresholds.

3. Improving efficiency and reducing costs for the Insolvency Service

The approved intermediary system for DROs works well. Less than 0.3% of DROs are rejected following an application being submitted.[40] 97% of people who apply for a DRO are very satisfied with the overall service they received from the Insolvency Service, compared to 84% of those who go through a bankruptcy.[41] DROs also have a lower delivery cost than bankruptcy, with much of the work completed by the debt advice sector ahead of an application being made, rather than investigations by an Official Receiver after a bankruptcy application. When the DRO was introduced, the Insolvency Service noted considerably less time would be spent by the Official Receiver on administering cases which do not have assets from which these costs can be recouped.[42]

4. Supporting the economic recovery by reducing wasted collection costs for creditors and supporting the aims of the new statutory Breathing Space scheme

The ongoing pandemic has been detrimental to millions of households' personal finances. Economic forecasts predict that unemployment will still be as high as 6.7% in the last quarter in 2021.[43] Personal debt is expected to be a hangover of this period for many years to come.

To alleviate the impact of problem debt, the Government has introduced a statutory Breathing Space scheme (commencing May 2021) and has ambitions to develop a statutory Debt Repayment Plan alongside this. The need for these schemes is now intensified, as will be the benefit to society, estimated in February 2020 to be £9.1 billion from higher recoveries for creditors, lower debt servicing costs for debtors, productivity benefits for employers and less negative health outcomes.[44] However, these schemes do not dovetail well with other debt solutions, and with the insolvency framework in particular.

Advisors note that many people are unable to enter an insolvency solution immediately after debt advice due to the fees they need to pay, but making changes to the DRO would help more people to progress more quickly and avoid the scarring effects of prolonged problem debt. This also serves creditors. Those displaced from bankruptcy back into a DRO cannot afford to repay their debts, and creditors' resources are wasted attempting to collect debts in these circumstances.

36 | Revealing Reality (2018) *The effectiveness of current debt solutions*
37 | The Centre for Social Justice (2013) Maxed out - *Serious personal debt in Britain*
38 | MAS (now MaPS) (2012) *The effectiveness of debt advice in the UK*
39 | ICF International (2017) *Review of the literature concerning the effectiveness of current debt solutions: Final report for the Money Advice Service (MAS)*
40 | The Insolvency Service (2020) *Official Statistics: Debt Relief Orders Refused Following Submission Q1 2017 to Q4 2019*
41 | The Insolvency Service (2013) *Annual Report and Accounts 2018-19*
42 | The Insolvency Service (2009) *Impact Assessment of Debt Relief Orders*
43 | HM Treasury (2020) *Forecasts for the UK economy: a comparison of independent forecasts*
44 | HM Treasury (2020) *Impact Assessment of Breathing Space*

Real lives – Denis

Denis worked in hospitality for 30 years before a run of redundancies, house moves and health problems caused his and his wife's finances to spiral out of control. Aged 76 years old he thought he would be in debt for the rest of his life, but thanks to a DRO everything is now different.

'It was a series of things that led to the debt. My wife, Penny, and I were made redundant four times over a number of years, and then she became disabled a few years ago. Losing her income totally was a big blow.

I was handling all the finances and I could see we had a problem. We were maxed out on two credit cards and we had a fairly big overdraft, but I kept it all to myself. When my wife went shopping with a carer she'd be asking which card to use. I used to juggle one with the other.

One of the biggest problems was that we live in rented accommodation and it's hard to find a long-term let. Every few years the landlord wants to sell up or move you on. It's hard with my wife's disability and when you haven't planned to move there are big chunks of money to find.

We were also trying to maintain a vehicle to get around. But every time we bought a car there was a major problem within a few months and we had to spend £400 to £600 to fix it. It just went on and on and it got beyond us.

Debt affects you physically as well as mentally. We weren't able to deal with it. It got to the stage where we had to choose between paying a bill or buying food.

A few years ago I had a mental breakdown. I was getting to a stage where my wife said I was showing symptoms again – she said we needed to do something. We sat down and talked about it and then got in touch with CAP.

That got the whole thing rolling pretty quickly. Within a matter of two or three weeks Nick from CAP came to see us with a budget and the recommendations. I'm retired, 76 this year, so we didn't have any options for increasing the money we had coming in. The only clear way forward was a DRO.

When you first talk to someone and they say we can do something about the debt as long as you work with us – you don't really believe it. When it happens, it's an amazing feeling!

My wife and I also went on a CAP Money Course and we've implemented all the tips and tricks we learnt there. I wanted to know everything I could to be able to be better at managing our money in the future.

It was such a big deal for us to have the DRO granted. It's the simple things. We can go out and go shopping. If we stop somewhere we can get a cup of coffee. We're able to do things we haven't in 30 years. It's a totally different way of life! It's like we've gone through a period of heavy rain and now the sun's out and it's totally different.

Before we started with CAP, we were maxed out on all the cards and the overdraft – now we've got no plastic, no overdraft. The bank account is always in control. But the biggest change is the fact that my wife and I talk on a daily basis. It's given us a much stronger relationship, it's given us control.'

Photography by Kathryn Anne Photography

Conclusions and recommendations

'The DRO plays two roles. One: it makes insolvency more accessible for people who need it. It's £600 cheaper than a bankruptcy and if you need to go through insolvency, chances are you don't have that money to spare.

Two: it takes a lot of unnecessary work away from the Insolvency Service because the people who are accessing a DRO... there's not really any scope for the Official Receiver to get any money out of them for [the] creditors.'
– **CAP Insolvency Debt Advisor**

Insolvency solutions are vital to allow a route forward where there is no other way. For people like CAP clients Denis and Penny (p24), not being able to find a solution to problem debt can be destructive. 69% of CAP clients who faced destitution said being in debt had caused a new mental health problem and 95% had experienced social isolation.[45] Previous CAP research has also detailed how insolvency greatly improves not just people's financial wellbeing, but relationships, emotional and mental wellbeing too.[46]

The personal insolvency landscape in the UK today is out of shape at a time when there are many people in desperate need of a fresh start following the hard-hitting financial implications of the pandemic. We need to simplify the solution to ensure access to debt relief is assured for those in desperate need, now and in the years to come.

Debt relief should be effective, accessible and affordable. However, one in ten CAP clients, like Joanne (p10), are currently pushed into bankruptcy despite meeting the income and asset criteria for a DRO. More than half (53%) of CAP's bankruptcy applications in the past two years have been in this situation. This means they face a higher fee, more uncertainty and the social stigma of bankruptcy.

The DRO was designed to cut costs for the Insolvency Service and provide a route to debt relief for people on very low incomes who were excluded from current insolvency solutions. The criteria set out in 2009 to govern access to DROs, and amended in 2015, no longer reflect the evolution of problem debt and living costs. In light of this, the Insolvency Service has proposed changes to the monetary eligibility criteria, raising the debt limit to £30,000, surplus income threshold to £100 per month and asset threshold to £2,000 (but not the vehicle value threshold) (p16).

These changes will bring 60% of CAP clients who are wrongly forced into bankruptcy back into a DRO. However, we estimate 10,000 people will still be excluded from affordable debt relief. This is because the debt limit and vehicle value threshold present the biggest roadblocks, and other rules, such as restrictions on which debts are discharged, can also prevent clients from accessing debt relief through a DRO (p18).

Simple changes to the DRO rules would allow many more people who desperately need it to access affordable debt relief, while also cutting costs for the Insolvency Service and reducing the wasted resources of creditors attempting to collect debts that cannot be repaid. These changes are also needed to support the debt advice sector as significantly higher demand for help is anticipated in the years following the coronavirus pandemic (p22).

45 | CAP (2019) *Left destitute by debt*
46 | CAP (2019) *Unlocking a new start*

Let's simplify the solution to problem debt: our recommendations

Increase the DRO debt threshold to £50,000

This would make 92% of those excluded by the debt limit able to access it.

Create flexibility to add pre-existing debts to an application after it has been submitted.

Providing the additional debts don't cause the applicant to breach the DRO debt limit, this change could help ensure no one is left to repay a debt they can't afford.

Increase the vehicle value threshold to £2,000.

Mobility scooters should also be excluded from this asset assessment. This would allow a low-cost but reliable car to be retained in a DRO.

Introduce regular reviews of the DRO monetary eligibility criteria.

A commitment from the Insolvency Service to review criteria every three years would future-proof access to the solution.

Appendix

Methodology

Quantitative data

The data used in this report is from an analysis of all CAP Debt Help clients in England and Wales who submitted an insolvency application between 23 July 2018 and 23 July 2020. This includes 935 bankruptcy clients and 2,308 Debt Relief Order (DRO) clients.

Due to available data, only cases in which a bankruptcy was submitted have been included in the dataset. To check for potential selection bias, the average monthly income of those in the sample has been compared with clients who were recommended an insolvency route but did not submit an application. As shown in the table below, the average monthly income of both groups was broadly comparable and therefore did not raise significant concern with the representativeness of the sample.

There were also limitations in data available only at household level, whereas insolvency applications and criteria are concerned with the individual. To accommodate this in some sections of the report, the analysis only uses data for clients living in households with one adult. Where this is the case it is indicated by a footnote.

Qualitative data

The quotes and themes used in the report are from two focus groups with CAP Insolvency Debt Advisors and two interviews with CAP Debt Coaches. These focus groups and interviews were held through video conferencing in December 2020. In total, six Insolvency Debt Advisors from CAP's head office took part in the focus groups.

Type of insolvency recommended	Number of clients in household	Average household income (monthly)	
		CAP clients who submitted an application	CAP clients who did not submit application
Bankruptcy	One	£1,275	£1,283
	Two	£2,218	£2,134
DRO	One	£899	£844
	Two	£1,553	£1,613

A background to insolvency advice and CAP client demographics

Insolvency solutions are really important for CAP clients – 59% require an insolvency to become debt free.[47] To be insolvent is to be unable to pay the debts you owe. Without an insolvency, it would take on average 58 years to repay the debt they owe. In many cases, this is a life sentence, with the individual expected to make debt repayments for longer than their life expectancy.

Reason for debt

The reason the debt occurred in the first place is often complex. Using credit and owing debt is not unusual in the UK today. Most of us use credit at some point in our lives, whether to fund further education, buy a house or spread the cost of large purchases. Collectively, UK households owe more than £1,500 billion in outstanding debt.[48] £200 billion of this is consumer credit, consisting of credit cards, loans and other advances.

While the costs of servicing debt are not insignificant, for the most part credit is viewed as a valuable method to smooth consumption across our lifetimes. However, no one has perfect foresight. Many people suddenly find their debts become unsustainable when facing a life event with an associated income shock, such as losing their job, a relationship breakdown or a significant illness. A quarter of the UK population are thought to be at risk of financial difficulty, having significant financial commitments but little provision to cope with income shocks, having on average just £580 in savings.[49]

On the other hand, one in five people in the UK live in poverty, the majority (63%) of whom are in working households.[50] As a result, increasing numbers now rely on credit as a lifeline. The Money and Pensions Service (MaPS) estimates that nine million adults in the UK (17% of the population) often borrow money for food or bills.[51] These households walk a financial knife edge and it is easy for the cost of servicing these debts to spiral out of control. CAP clients typically fall into this category as three in five (61%) have borrowed in order to buy food, clothes or to afford other living costs, and 38% to cover unexpected costs.[52]

'In the last ten years we've seen an increase in people needing to go insolvent. One of the issues I've come across is that insolvency is now acting as social insurance because it's filling in the gap that should be filled in by the welfare state. People aren't earning and they're filling the gap with loans because wages haven't increased as they should.'
– CAP Insolvency Advisor

When debt becomes a problem

Problem debt is used to describe situations where a person has become overburdened by their debt, and is unable to keep up with the repayments or other household bills as a result.[53] In the UK, there are an estimated nine million adults who are over-indebted.[54] Many people in problem debt, with advice and support, are able to agree a repayment plan or restructure their debts to resolve their financial difficulty. However, for others this is not possible and an insolvency solution is the only route forward.

'Quite a few people get into debt through no fault of their own or things spiral away from them with interest rates and things, and so insolvency is a real lifeline to help them resolve something that they'd have no chance of otherwise doing.'
– CAP Insolvency Advisor

In the advice process, someone's over-indebtedness is determined by comparing the total debt balance owed and the income available to repay debts, using a tool like the Standard Financial Statement (SFS). Ultimately the client has discretion as to the route out of debt taken, but CAP advisors typically recommend insolvency options when it would otherwise take more than five years to repay debts (unless there is benefit in doing so to protect a property or job that the client would be disqualified from), or when the budget the person would be required to live on, if they repaid their debts, would be below the subsistence level, the minimum amount needed to live on.

'In an ideal world people would repay their debts, but we really don't live in an ideal world, and we see cases where people not only can't afford to pay their debts, they can't even afford to pay their ongoing bills and feed themselves. There does need to be a solution for them.' ***– CAP Insolvency Advisor***

'How can people repay the debts they owe when the repayment term would be longer than their life expectancy?'
– CAP Insolvency Advisor

47 | CAP (2020) *Client Report: Is anyone listening?*
48 | *Bank of England Lending to individuals amounts outstanding data, September 2020*
49 | MAS [now MaPS] (2016) *Market segmentation - an overview*
50 | Social Metrics Commission (SMC) (2020) *Measuring Poverty 2020*
51 | MaPS (2020) *The UK Strategy for Financial Wellbeing 2020-30*
52 | CAP (2020) *Client Report: Is anyone listening?*
53 | NAO (2018) *Tackling problem debt*
54 | MAS [now MaPS] (2018) *Levels of Over-Indebtedness in the UK*

Client demographics

Amongst CAP clients, those who require insolvency are typically slightly older than the average client, and live alone. However, over a third are families with children (35%), with the vast majority (71% of those with children) being lone parent families. On average, CAP clients in need of insolvency have outstanding debt totalling 106% of their annual household income.

The average insolvency CAP client:

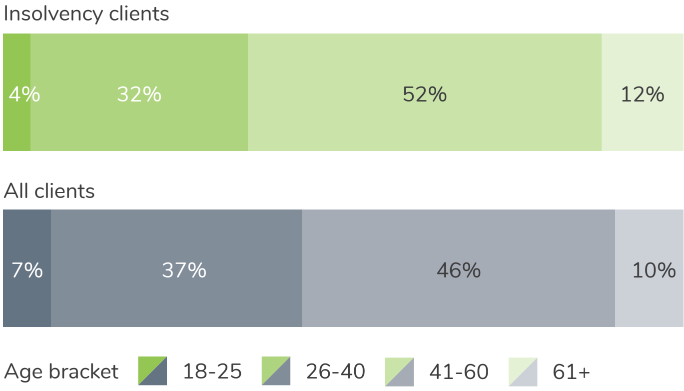
45 years old
Lives alone or as a lone parent
58 years to repay debts

Top primary reasons for debt:

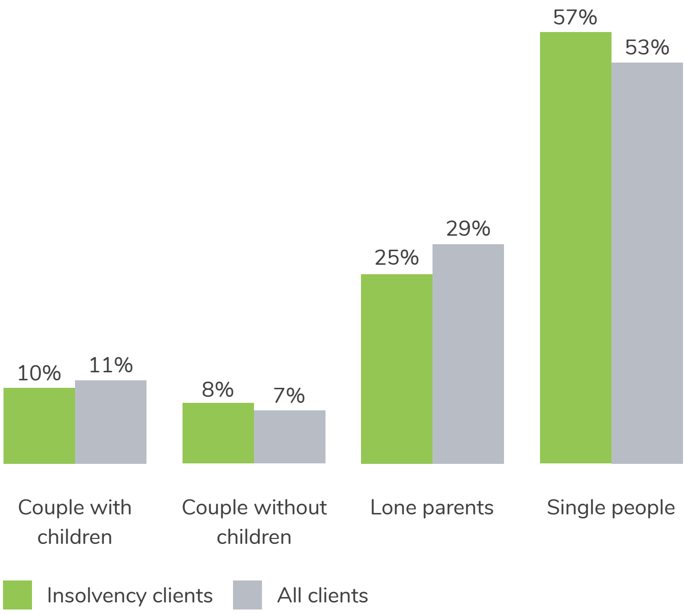
- Low income
- Mental ill-health
- Relationship breakdown

Average debt and household income:
£14,591 outstanding debt
£13,780 annual household income

Age breakdown
CAP clients who submitted an insolvency application in the past two years compared to all CAP clients in 2019



Household composition
CAP clients who submitted an insolvency application in the past two years compared to all CAP clients in 2019:



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always hope.