

Financial Guidance and Claims Bill: The introduction of a Breathing Space to support households in debt

- **The Conservative and Labour manifesto included a promise to address problem debt by introducing a Breathing Space scheme – this must be implemented in full.**
- **The Government is considering a new statutory Breathing Scheme to give households in financial difficulties protection from spiralling debt. The proposal would introduce a legal freeze on interest and charges, collections and enforcement action to give people time and space to stabilise their finances and get back on their feet.**
- **Ministers are yet to come forward with proposals for a Breathing Space scheme so it would be helpful to understand the Government's intentions, including when it plans to bring forward proposals.**

The scope of the amendment

The Financial Guidance and Claims Bill seeks to establish a new financial guidance body [SFGB] that members of the public can access for free and impartial money guidance, pensions guidance and debt advice.

The amendment on Breathing Space is a probing amendment – the new clause would ask the new body to make recommendations to the Government on how a breathing space scheme should be adopted and implemented. The amendment would require these recommendations to be made within six months of the commencement of this section of the Bill. We would like to see the Government make a decision and act to introduce such a scheme at the earliest possible opportunity.

What is the current problem a statutory breathing space scheme is seeking to address?

There are around 2.4 million children living in families with problem debt in England and Wales. Children living in families with problem debt are more likely to be unhappy than those in families without debt troubles and at greater risk of developing mental health problems later in life¹. The Children's Society has also found that it is not the amount owed by households that directly

¹ The Children's Society (2017) The Damage of Debt <https://www.childrenssociety.org.uk/sites/default/files/the-damage-of-debt-2016.pdf>



impacts on children's wellbeing but the number of creditors they owe money to, with StepChange Debt Charity clients having around six creditors on average.

According to StepChange Debt Charity, the majority of people accessing debt advice fell into debt because of an unexpected life event. The charity reports that 60% of clients fell into problem debt because of job loss, reduced income, illness or a relationship breakdown, all changes of circumstance that hit their income and made it impossible in the short term to keep up with debt repayments.

Households in difficult financial circumstances says that 'Breathing space' is vital – 60% of StepChange Debt Charity clients told the charity that their financial situation stabilised once creditors agreed to freeze further interest, charges and enforcement action. None of the people who said they did not get this help said their situation had stabilised.

Yet while good forbearance practice is widespread and effective, 'Breathing Space' is not guaranteed. Between a third and a half of people who contacted their creditors for help said creditors had not given them any kind of temporary 'Breathing Space'. Without this protection, pressure to repay debts at an unaffordable rate and threats of enforcement can leave households cutting back on everyday essentials like food and heating and falling further behind on bills².

What protections would a breathing space scheme provide?

In England and Wales there is no statutory scheme to support people in temporary difficulty and people seeking to repay their debts. A new statutory scheme should be capable of providing two broad protections:

- (1) An initial 'breathing space' period where interest, charges and collection activities are postponed, without a requirement to make payments. This would give those facing problem debt time to seek advice and to stabilise their finances enough for a debt adviser to recommend a long-term debt solution. Breathing Space would only be available when people are working to get back in control of their debts with the assistance of and continued engagement with a provider of regulated debt advice.
- (2) A continued freeze on interest, charges, and enforcement action where people are able to enter an agreement to repay their debts within a reasonable period. This would provide statutory backing to existing "Debt Management Plans" and avoid these plans failing because a small number of creditors refuse to take part.

² – StepChange Debt Charity (2015), Safe Harbours: why we need a new extended breathing space guarantee to help people in temporary financial difficulties recover from debt, <http://www.stepchange.org/Portals/0/documents/media/reports/StepChange%20Safe%20Harbours%20.pdf>



The creation of a Breathing Space scheme by Ministers would make the SFGB's debt advice function easier to execute. It would, for instance:

- Remove an important different between different parts of the UK and therefore start to improve the congruence between the SFGB's strategic and co-ordinating functions and its financial education/capability activity (UK-wide) and its debt advice function which is devolved.
- Make debt advice more efficient and effective to deliver by encouraging people to seek advice earlier and immediately stabilising their troubled circumstances.

Cross-party support for breathing space and the Government's response

There has been extensive cross-party support for a new statutory Breathing Space scheme. Both the Conservative and Labour party committed to introducing a Breathing Space scheme in their 2017 manifestos.

The proposal for a Breathing Space scheme has been supported by the Financial Inclusion Commission³ and Parliament's Work and Pensions Select Committee⁴.

In 2015 the Government accepted the recommendation of an independent review into the future of the Money Advice Service to look at "provid[ing] consumers who agree to specified debt repayment schemes with a 'Breathing Space' by freezing interest and charges...to ensure a fair and appropriate basis for debt repayments to different classes of creditor". The original deadline for the Treasury and Insolvency Service Review of 'Breathing Space' passed in December 2015, since then more than 1.1 million people have sought help with their debts from free debt advice providers.

Following the Private Members Bill ballot 2016/17 Kelly Tolhurst MP brought forward the [Families with Children and Young People in Debt \(Respite\) Bill](#). Over [50 MPs publicly supported](#) the introduction of this protection for families.

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³ The Financial Inclusion Commission recommended that the Government should 'adapt Scotland's Debt Arrangement Scheme for the whole United Kingdom, with frozen interest, reduced arrangement fees, more breathing space, reduced time on the credit file and the offer of financial skills training' – Financial Inclusion Commission (2015) Financial inclusion: Improving the financial health of the nation, http://www.financialinclusioncommission.org.uk/pdfs/fic_report_2015.pdf

⁴ The Work and Pension Committee recommended the Government launch a consultation on an England and Wales wide debt "breathing space" scheme, drawing on the Debt Arrangement Scheme run by the Scottish Government – House of Commons Work and Pensions Committee, The local welfare safety net, <http://www.parliament.uk/documents/commons-committees/workand-pensions/373.pdf>