The introduction of a breathing space scheme to support households in debt


Summary

- 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 has now brought forward a consultation on Breathing Space and is seeking views on how the scheme should operate. The consultation closed on 16th January.
- At Third Reading in the House of Lords, the Government introduced an amendment to the Financial Guidance and Claims Bill that underlined the commitment to introduce a scheme, and gave the Government the power to make regulations for the establishment of the scheme, following advice from the new Single Financial Guidance Body.
- 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 put in place an affordable and sustainable plan for repaying what they owe.
- In developing a scheme which works it is vital that:
  a) Breathing Space protections apply to all relevant debts including central and local government debts
  b) the scheme’s protections continue long enough for families to seek and receive the support they need to deal with their debts, and get their finances back on track. As a minimum it must be ensured that there is no gap in protection between the initial proposed six week breathing space and transition onto a statutory debt management plan, and
  c) a Breathing Space is introduced as quickly as possible to protect children and families in debt.

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 life.

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 70% of clients fell into problem debt because of a negative life event such as 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 say 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. Without the protection of a statutory breathing space scheme, 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 bills.

Aaron, 21, is a care leaver from Lancashire

‘There’s a massive difference financially when you leave care because you don’t get things paid for you anymore. I got into debt quite fast with council tax and my phone bill through sheer ignorance and a lack of understanding.

‘I was on benefits but I had good intentions and worked out a budget. All of a sudden I realised that things you don’t expect pop up. Every time I got a letter I was genuinely scared. Instead of asking for help, I was just embarrassed. I was summoned to court for my council tax debt and I was really stressed because you can get fined £1,000 or six months in prison. I also got behind with my phone contract and additional data charges and ended up owing more than £1,000.

‘I had bailiffs coming round which was really nerve-racking. Your heart starts pounding. I would push a book shelf in front of the door.

‘The Government should give us more time to get financially stable. It's really important that this Breathing Space scheme goes ahead and we get the help we need to pay back debt without extra fees and charges.’

What are the key elements of an ideal Breathing Space scheme?

1. Ensuring no gap in protection for families

It is crucial that the breathing space scheme includes two main parts. The first part is an initial respite period from interest, charges, collections and enforcement action. The initial period could offer support in two ways, first it would provide time for individuals in debt crisis to get advice on the best way to resolve their debts; and secondly, provide time to stabilise finances and recover from a period of financial difficulty.

Under the current proposals of a six week initial period, only the first objective of giving people time to seek debt advice would be met, but the period would not provide enough time for a family to move beyond a temporary financial shock, such as a job loss, illness or bereavement.

Evidence from a comparable scheme in Scotland (the Debt Arrangement Scheme) shows that a six-week period would often not be long enough to seek advice and put in place a debt repayment plan. As a minimum, it should be possible to extend protections where debt advisers need additional time to get a repayment plan in place. Whatever the period decided upon, the Government should commit to review the length of the Breathing Space after the scheme has been in operation for 12 months.

The second crucial component of a breathing space scheme is the introduction of a statutory repayment plan for families to pay off their debts in a manageable way. It offers the long-term sustainable solution, allowing the debtor the protection and stability to repay their debts in full, while giving creditors more certainty. **There should be no gap in protection between the end of the initial breathing space period and the start of the statutory repayment plan.**

---

2. Debts that need to be included in the scheme

The Children’s Society has found that it is not the amount owed by households that principally directly impacts on children’s wellbeing but rather the number of creditors they owe money to, with StepChange Debt Charity clients having around six creditors on average.

In order for the scheme to be as effective as possible all debts existing at the date the debtor seeks advice should be covered within the scheme and The Children’s Society believe this should form a central component to the scheme. Importantly, this must include debts to national government, local government and public bodies.

3. Timeline for introduction

In 2015 the Government accepted the recommendation of the Farnish review into the future of the Money Advice Service to look at “providing consumers who agree to specified debt repayment 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 Government’s announced timeframe for a breathing space scheme indicates that regulations will be put before parliament for the establishment of the scheme around December 2020. This will leave many families struggling with their debts and, whilst recognising the need for full consultation on how Breathing Space will operate in practice, the Government should bring forward the scheme as quickly as possible within this timeframe.

Questions to the Minister

- Will the Government outline their timetable for the introduction of a Breathing Space scheme?
- Given that Government creditors have some of the worst ‘unfairness’ scores of any type of creditor, will the Government outline their thinking on whether debts to central and local government will be included within a Breathing Space scheme?
- How will Ministers ensure that there is no gap in protection between the initial Breathing Space period and transition onto a statutory debt management plan?

For more information please contact Lucy Capron, Public Affairs Manager on lucy.capron@childrenssociety.org.uk or 0207 841 4494