MONEY
ADVICE TRUST

Debt options in the new normal

Improving debt options and the insolvency regime in the wake of the Covid-19 outbreak

October 2020

1. Introduction

The temporary measures put in place by Government and regulators to support household finances through Covid-19 are without precedent in scale or scope. The introduction and subsequent extensions to the Job Retention Scheme, Self-employment Income Support Scheme and payment deferrals on mortgages, credit cards and loans have all helped households to deal with the immediate effects of the outbreak.

As these temporary measures come to an end, attention has rightly turned to the future. Many households are likely to be dealing with the financial consequences long after these temporary measures are lifted. Action is needed now, across a range of areas, to ensure a path to recovery for these households.

One element of ensuring this path to recovery is providing **robust and effective debt options** that work within the new context of the pandemic, are accessible to those who need to access them, and which support the financial recovery of households and the UK economy. We recommend that the Government commissions a **full review of the debt options available to be people in financial difficulty**. Given the urgency created by the impact of the pandemic, this review should be **conducted in two phases** – 1) a quick-fire review of the short-term temporary changes to debt options that need to be made for Covid-impact customers, followed by 2) reviewing longer-term changes needed to reset and future proof the debt options landscape.

This briefing explores some of the possible changes that such a debt options review could consider. Such a review should also take into account the recommendations of *Debt Solutions in the UK*, published by the then Money Advice Service in January 2018[1].

[1] Money Advice Service. Debt Solutions in the UK. January 2018.

2. The current debt options landscape

A range of debt options and solutions[2] are available to people in problem debt in different jurisdictions of the UK. The main options are summarized below.[3]

Debt Relief Order (DRO) – England, Wales and Northern Ireland

A debt relief order (DRO) is an insolvency option that may help if someone cannot pay their debts, has total debts of £20,000 or under, assets of less than £1,000, a vehicle worth a total of £1,000 or less, does not own their home, and has under £50 available income to pay their creditors. Some debts are excluded. An application for a DRO is made through an advice agency via an 'approved intermediary' to the Insolvency Service. The fee is £90 and a DRO is therefore a cheaper option than bankruptcy. There is no requirement to make payments to creditors. Most creditors cannot take action to recover debts for 12 months, after which the debts included in the DRO are written off.

Bankruptcy – England and Wales

Individual bankruptcy is an insolvency option that can help to end liability for debts that cannot be paid. There is no upper or lower debt limit and most debts are included. Bankruptcy applications are made online to the Insolvency Service but there is a fee to pay of £680 to apply. An official receiver is appointed to deal with the bankruptcy, contact creditors and assess assets and liabilities. Bankruptcy stops most creditors from taking further action against you. Valuable assets can be sold to raise money to pay creditors and a house with equity will be at risk. After a year, debts included in the bankruptcy are written off but people can be asked to make payments to the official receiver under an income payment arrangement for three years.

Creditors can petition to the court to make an individual bankrupt if they owe £5,000 or more, after serving a form of notice called a statutory demand.

Individual Voluntary Arrangement (IVA) – England, Wales and Northern Ireland

An Individual Voluntary Arrangement (IVA) is a formal insolvency option which can be applied for with the help of an insolvency practitioner (IP). This allows payments to be made under the IVA, which runs typically for five or six years. After this period, the remaining debts are written off. An IVA can be based on monthly payments, a lump sum payment, or the realisation of assets. A majority of creditors have to agree to the IVA proposal. Any creditors included in the agreement are prevented from taking further action to recover the debts. Interest and charges are frozen unless the IVA fails. Most types of debt can be included, and there is no minimum or maximum amount of debt that can be subject to an IVA. However, the fees for an IVA are substantial and this can make a difference to the IVA's viability. It is important to assess what proportion of the actual debt is cleared and

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[2] The terms 'debt options' and 'debt solutions' are often used interchangeably – in this paper we tend to use 'debt options' to describe the wide range of options, both statutory and non-statutory, formal and informal. and 'debt solutions' when referring to statutory insolvency schemes.

[3] For further information and detail on all the options available see the National Debtline website.

what is paid to the IP in fees. An IVA may allow people to keep their homes as an alternative to bankruptcy but if the IVA fails, the IP can make people bankrupt.

Debt management plan (DMP) – England, Wales, Scotland, Northern Ireland

This is an informal payment plan which is based upon paying affordable monthly payments to a debt management company (DMC). The DMC negotiates with non-priority creditors on the client's behalf, and shares out their monthly payments to creditors on a pro-rata basis. There is no minimum or maximum debt amount and debts are cleared in full. However, there is no guarantee that creditors will accept the plan, stop enforcement action, or freeze interest and charges. A DMP usually lasts for a maximum of ten years. There are free DMPs available but commercial DMCs can charge high fees for their service, which means debts take longer to pay off.

Writing off the debt – England, Wales, Scotland, Northern Ireland

Where someone has no money, creditors may sometimes write off the whole balance owed on individual debts. This is a mechanism that can be used where there are no assets or savings and the situation is unlikely to change, perhaps due to long-term ill health. This is a voluntary agreement with individual creditors.

Debt solutions in Scotland

Debt solutions differ in Scotland, with options for different circumstances including standard bankruptcy, a Minimal Asset Process (MAP) Bankruptcy (broadly similar to a DRO in the rest of the UK), a debt payment programme under the Debt Arrangement Scheme (DAS) (a form of statutory debt management plan) and a Protected Trust Deed (broadly similar to an IVA). **Temporary changes to debt solutions in Scotland as a result of the impact of Covid-19 have already been made** (*see Section 4.5*).

Improvements already on the way

The need to improve debt options did not start with Covid-19 – and fortunately, some progress on this agenda has been made in recent years, including widening eligibility for DROs and some simplifications to the bankruptcy application process.

Most significantly, the forthcoming statutory Breathing Space scheme[4] and Statutory Debt Repayment Plans[5] offer hope of a significantly more effective, and easier to access, debt solutions landscape for households in England and Wales. If these two schemes had been in place before Covid-19 struck, we would be in a much stronger position to help people.

It is therefore reassuring that the government and Insolvency Service are aiming to deliver the launch of Breathing Space on the same Spring 2021 timetable. Greater clarity is needed, however, on the timetable for the introduction of Statutory Debt Repayment Plans (SDRPs). **The Government should treat implementing SDRPs as an urgent priority.**

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[4] The Breathing Space scheme will go live in Spring 2021 and offers protection from interest, charges and creditor action for 60 days, giving time for people in debt to access debt advice and begin to enter a solution
[5] Statutory Debt Repayment Plans, being delivered on a longer timetable, are an extension of the concept of a Debt Management Plan, but placed on a mandatory/statutory footing and covering a wider range of creditors

3. Challenges arising from Covid-19

Existing statutory debt solutions can provide a safe route out of problem debt. When they work well, they offer people vital protection from creditor action and help stabilise situations.

Demand for debt advice is expected to significantly increase as a result of the coronavirus outbreak, with the Money and Pensions Service expecting a 60% increase by the end of 2021.[6] Many more people will find themselves needing to enter a debt solution. At the same time, given the circumstances many will face, the way existing debt solutions work will present several challenges.

- **Deficit budgets are likely to increase** – the proportion of clients with deficit budgets after essential costs is only likely to increase as a result of the outbreak.
- **Eligibility gaps are widening in statutory solutions** – In these new circumstances, the pre-outbreak eligibility rules for statutory solutions are in some cases no longer appropriate, with a risk of people being excluded from solutions that would otherwise help them to resolve their financial difficulties.
- **Income shocks make fees even harder to meet** – Many people will have significantly less income than they had going into the crisis, and those with savings will have used these in trying to deal with the income shock they have faced. Having to come up with money to cover the fees charged to enter some solutions – such as a DRO or bankruptcy – is going to be a significant challenge.
- **Missed payments for those already in debt solutions** – Those who have been impacted by the outbreak, who were already in debt solutions, are likely to have been thrown off course – for example, missing or reducing payments into their DMP or an IVA. There have been some welcome measures introduced to try and help those in this situation, such as changes to the IVA Protocol to allow extended payment holidays.[7] The last thing that is needed is for those who were making progress in dealing with their debt before the outbreak to end up back at square one. Added protection may be needed over the longer term to ensure completions.

Given these challenges, a wide-angle look at the debt solutions landscape would be timely. As we recently recommended in the Money Advice Trust's response[8] to the Cabinet Office's recent call for evidence on fairness in government debt management, we believe the Government should commission a **full review of the debt options available to people in financial difficulty** – to ensure that no one is allowed to fall through the cracks in a framework that has evolved in a piecemeal fashion over several decades.

Given the urgency created by the impact of the pandemic, this review should be **conducted in two phases** – 1) a quick-fire review of the short-term temporary changes to debt options that need to be made for Covid-impact customers, followed by 2) reviewing longer-term changes needed to reset and future proof the debt options landscape. This review should also take into account the recommendations of *Debt Solutions in the UK,* produced by the then Money Advice Service in January 2018[9].

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[6] Money and Pensions Service, June 2020, available here

[7] The Insolvency Service. "Covid-19 Individual Voluntary Arrangement Protocol Guidance". 17 April 2020

[8] The Money Advice Trust's response to the Cabinet Office call for evidence is available here

[9] Money Advice Service. Debt Solutions in the UK. January 2018.

4. Changes that a full review could consider

Given the wide-ranging impact of Covid-19 on the UK's problem debt landscape – and some long-standing issues that the outbreak risks exacerbating – changes are required to existing debt options. In Scotland, some of these changes have already been made; including the waiving of fees for those on certain benefits, and significant reductions for others.

In this section we consider changes that a full review could consider. **It is important to say that the actions listed here are a range of possibilities, rather than a suite of collective recommendations that cohere as one package of measures**. It will be important for a review to consider not only each individual change, but also the holistic impact of combinations of these changes, how they interact with each other and their overall effects.

4.1. Debt Relief Orders (DROs)

Most debt advisers would agree that changes are needed to make Debt Relief Orders (DROs) available to more people, and simpler to administer. Many people were already finding it extremely challenging to raise the money for the £90 fee, and the current debt limit of £20,000 is a barrier for many who would benefit from a DRO.

The DRO rules were revised by the Insolvency Service in October 2015.[10] The previous debt limit of £15,000 was raised to £20,000. The maximum asset level was raised from £300 to £1,000 (with a car as an additional asset valued up to £1,000). The application fee of £90 was not altered. This was the first time that the DRO limits had been reviewed since their introduction in 2009, and a further review is overdue.

The Insolvency Service also needs to review the time involved for debt charities in setting up DROs and find ways of minimising the administrative burden on advisers of protracted checks on income and expenditure, and delays in obtaining credit reports. It would be worth looking at a parallel in Scotland where the Accountant in Bankruptcy (AiB) has relaxed the level of supporting evidence required for Scottish bankruptcy applications.[11] Implementation of such measures for DROs might help with minimising adviser time in a similar way.

Illustrative example

A person lives alone with their young child. Before the coronavirus outbreak, they were working in a shop but this has to close due to lockdown so their hours were cut and they have now lost their job completely. They receive Universal Credit but has only a couple of pounds left each month after covering all their essential costs. Over recent years, they have built up debt as they struggled to get by, and now owe £23,500. They meet all the other eligibility criteria for a Debt Relief Order (DRO), but because they owe above £20,000 they are not able to take one out. They cannot afford the £680 fee to go bankrupt. The only option is to try to negotiate directly with creditors but they have no disposable income to put towards even reduced repayments so they are stuck. Even if they met the debt limit criteria, they worry about where to find the money for the £90 fee. They have no savings and, it would take them almost a year to save up for it.

[10] "Insolvency Proceedings: Review of debt relief orders and the Bankruptcy petition limit". 6 August 2016.
[11] https://www.aib.gov.uk/bankruptcy-applications-reduced-evidence-requirements

Changes a review could consider

- The £90 DRO fee could be waived for an extended temporary period of 12 months for all applicants – and for those on income-related benefits, this waiver could be put in place on a permanent basis. This would be to reflect the fact that Covid-19 is increasing unemployment significantly and the current fee – which many applicants struggle to find as it stands – will present a barrier for growing numbers of people for whom a DRO is the best solution.

- The £20,000 debt limit for applying for a DRO could be increased to a higher amount – such as £30,000 – to prevent people with next to no assets and very little available income being forced instead into bankruptcy.

- The £1,000 asset limit for DROs could be increased – perhaps to £3,000 – to reflect the additional numbers of people who have fallen into debt unexpectedly due to the Covid-19 outbreak.

- Given rising rent arrears due to the impact of Covid-19, the Insolvency Service could give greater flexibility and allow people to prioritise paying back their rent arrears within their DRO budget as an allowable expense, even if this means payments of more than their £50 a month surplus income limit.

- There could be a temporary suspension of rules preventing people from taking a DRO for a second time if they have entered a DRO in the last six years, if their debt relates to Covid-19 (and providing they are not subject to a debt relief restriction order).

- The DRO regulations could be amended to allow applications to include missing or overlooked debts retrospectively. This would be particularly important where old benefit tax credit overpayments are concerned as these often re-emerge but cannot be included in the DRO once it is in place.

4.2. Bankruptcy

Many people have an impossible barrier to climb to find the total fee and deposit of £680 to make themselves bankrupt. The Insolvency Service has made it easier for people to apply to go bankrupt by the introduction of a straightforward online bankruptcy application process.[12] Although applicants can pay the fee in instalments, this is a very high amount to find when people are struggling with a reduced income and increased indebtedness due to the Covid-19 emergency. Removal of the previous court fee element and the corresponding ability to apply to HMCTS for a fee exemption, has not helped.

A creditor can currently make someone bankrupt if they owe £5,000 or more to that creditor by issuing a statutory demand. There is a case for increasing this limit in the wake of Covid-19, to avoid creditors taking rapid bankruptcy action against people in dire circumstances.

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[12] Gov.uk, Apply for bankruptcy

Illustrative example

A person lives with their partner and child. They were made redundant from their job towards the start of the coronavirus outbreak and have not been able to find a new one yet. They are now reliant on Universal Credit. Their partner has been furloughed, meaning they are only being paid 80% of their usual salary.

They owe £35,000 across a range of debts and, having sought debt advice, are recommended bankruptcy as an option. However, They are unable to afford the £680 fee. Before the coronavirus outbreak hit, the couple had around £250 in savings but they had to use this to cover their essential bills when they lost their job, and whilst they were waiting for the Universal Credit payment to come through.

With the money they have leftover each month, after paying essential costs, it will take them over six months to save the money for the bankruptcy fee. They owe too much debt to be eligible for a DRO and do not have enough money to make repayments through an IVA so are not suitable for this either.

Changes a review could consider

- The Insolvency Service could waive the bankruptcy application fee for those on income-related benefits for an extended twelve month temporary period, which could then be reviewed at the end of this time frame.
- For all other applicants, the bankruptcy application fee could be significantly reduced. There is a precedent in Scotland where the fee for full administration bankruptcies in Scotland has been reduced from £200 to £150 and the fee will be waived for those in receipt of benefits.[13]
- The Insolvency Service could introduce formal Covid-19 payment breaks on existing bankruptcy income payment arrangements or income payment orders, allowing people whose finances have been affected by the outbreak an easy mechanism to suspend or reduce their payments for a set period on request.
- Government could also act to protect tenants and mortgage holders so that mortgage lenders and landlords cannot repossess a bankrupt's main home whilst bankrupt for mortgage or rent arrears already included in the bankruptcy.

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- Given rising rent and mortgage arrears due to Covid-19, the technical guidance for Official Receivers could be changed to give greater flexibility and allow people to prioritise paying back their mortgage or rent arrears above payments to other creditors under their income payment arrangement.
- The £5,000 limit for creditor bankruptcies could be increased to match the new temporary limit for creditor sequestrations that has been set in Scotland of £10,000 (increased from £3,000).[14]

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[13] Ibid.
[14] The Coronavirus (Scotland) (No.2) Act 2020

4.3. Individual Voluntary Arrangements (IVAs)

There have been a number of problems with IVAs over the years. The Insolvency Service has not yet released its response to its own call for evidence on Insolvency Practitioner (IP) regulation from 2019. We raised many issues in our response relating to the need for a single regulator, the lack of transparency of fees and disbursements and both failure rates and lead generation.

Early failure rates published by the Insolvency Service[15] suggest that IVAs are being set up where another debt option such as a DRO or bankruptcy would be suitable instead. The Insolvency Service should take swift and effective action against firms that mis-sell IVAs and the lead generation firms that supply leads to those firms.[16]

In response to the Covid-19 crisis, the IVA Protocol has already been adapted to extend payment holidays for an extra three months.[17] From 7 September 2020, the consumer may be allowed to reduce payments by up to 50% and to take payment holidays for up to six months. This is in addition to the existing provision that allows payment holidays of up to nine months allowed during an IVA.

Whilst these changes are welcome, it is vital to ensure there are measures put in place so people can continue with their existing IVAs. New applicants should be able to take out an IVA if it is appropriate for them, but be protected against taking out an unsuitable IVA.

Changes a review could consider

- The Insolvency Service could further amend the IVA Protocol to allow the missing payments to be written off rather than added to the length of time the IVA has to run.
- IPs could be given the power to mark the IVA as completed if the IVA is more than four years through its term at the point a client is unable to pay due to Covid-19.
- IPs could allow for the reduction in monthly payments on IVAs longer-term if required, but the original IVA term could be retained. This would effectively result in a remission of the outstanding debt.
- The Insolvency Service could allow IPs to agree that clients can suspend regular payments into the IVA for a lengthy set period.
- The Insolvency Service could put in place a mechanism that avoids any requirement for formal variations to be made for individual IVAs. This would avoid an extra administrative and costs burden on IPs and creditors and extra fees being charged to clients.

[15] Individual Voluntary Arrangement Outcomes and Providers. 31 January 2020.
[16] For more see Why more transparency is needed on IVA failure rates on the *Thoughts at the Trust* blog, 14 February 2020.
[17] Covid-19 Individual Voluntary Arrangement Protocol Guidance. 17 April 2020. The Insolvency Service.

- IPs could be not required to realise equity within IVA Protocol compliant IVAs for an extended period of twelve months under any circumstances, irrespective of the level of equity in the property.

- The Insolvency Service could prevent interest and charges from being added back by creditors where the IVA fails as a result of Covid-related financial difficulties. Currently, where an IVA fails, most people find that they owe most or all of their outstanding debts in full again. Creditors will add all the interest and charges back retrospectively and in many cases, the payments clients have made, will have gone directly to the IP due to the high cost of their fees and upfront payments.

- The Insolvency Service could consider whether a new simple model of IVAs could be put in place that allows for very small initial payments with a realistic plan to increase the payments after a set period – an idea known as a 'low and grow' IVA. However, IP fees would need to be adjusted accordingly.

Illustrative example

A person has been paying into an IVA for a number of years before the coronavirus outbreak hit, and was due to make their last payment at the end of this year. They have been furloughed by their employer and their pay has dropped to 80%, meaning they have not been able to afford the IVA payments. Thanks to the greater flexibility introduced to respond to the coronavirus outbreak, they have been able to get a three month payment break.

However, they are concerned that they will not be able to begin repayments longer term, especially as there is a risk they will be made redundant due to the impact of coronavirus on the company. If they cannot restart repayments when the payment break ends in July, the IVA could fail. This means creditors will be able to reapply and backdate the interest and charges that have been frozen for the duration of the IVA so far, significantly increasing the amount of debt owed, especially as part of the repayments they have made so far have gone on Insolvency Practitioner fees, rather than on repaying the debt.

4.4. Debt Management Plans (DMPs)

People in existing Debt Management Plans (DMPs) whose income reduces as a result of the Covid-19 emergency could find themselves paying back their debts over a protracted period. This could extend beyond the ten year FCA guideline. This could mean a DMP is no longer a suitable debt option for that individual and needs to be reviewed.

We have looked at some short-term measures that could assist individuals who are in an existing DMP or might be suitable to take a DMP out as a result of Covid-related debt. The role of the FCA is key in ensuring that any package of measures is effective and works across the sector, as the FCA regulates both Debt Management Companies (DMCs) and most credit.

Changes a review could consider

- The FCA could issue new temporary rules and guidance in the CONC rules[18] for the operation of DMPs which is binding for both DMCs and authorised lenders. This would set out how a DMP could be conducted as a result of the Covid-19 emergency. Such a move could include:
    - The suspension of the requirement to make any regular payments under the DMP for a set period, so the DMP is temporarily frozen.
    - DMCs and lenders to consider the suspension of payments on DMPs longer-term if required in individual cases.
    - The DMC should be able to reduce the level of regular payments on a DMP without requiring the agreement of all lenders in individual cases.
- Providers could be enabled to put in place a sustainable 'low and grow' model of DMP, but this would be subject to how the FCA guidance on maximum repayment times may need to be addressed.
- If payments have to be suspended or reduced for a client on an existing DMP, the FCA could allow an element of remission built into the DMP if it will now last over 10 years as a consequence. There is an equivalent under DAS in Scotland where a composition can take place if over 70% of the balance owed under the debt payment programme has been repaid, and payments have been made for 12 years.
- The FCA could review the level of fees that commercial DMCs should be allowed to charge in order to limit costs for consumers. The level of fees charged could be capped or limited for a temporary period.

Illustrative example

A person is currently on furlough from their full-time job, receiving 80% of their usual pay. Their partner is a self-employed music teacher and has not been able to work as much as normal due to lockdown, meaning they are on a reduced income. They owe £12,500 in total and is confident that, on their return to work from furlough later this year and their partner's work picks up, the debts can be repaid in full through a Debt Management Plan (DMP).

However, they are unable to enter one now due to the fact that they could only afford very small token repayments, meaning at the current rate it would take over 15 years to repay. They are concerned that they will continue to be chased for the debts, and will have extra fees and charges added to the debts until their circumstances stabilise enough for them to enter into a DMP.

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[18] FCA Consumer Credit Sourcebook (CONC). Chapter 8 "Debt advice".

4.5. Statutory debt solutions in Scotland

In Scotland, the need to adapt existing statutory debt solutions to respond to the financial impact of the coronavirus outbreak has already been recognised through the Coronavirus (Scotland) Act 2020 and Coronavirus (Scotland) (No. 2) Act 2020. The Scottish Government has also committed to conducting an overarching review of Scottish debt solutions[19].

Extended moratorium period

In early April, the moratorium period – during which someone seeking to enter a debt solution can get protection from creditors taking action against them – was temporarily extended from six weeks to six months[20] - later extended by a further six months to 31st March 2021[21]. The restriction of only being allowed to enter a moratorium once per year was also lifted. Unfortunately, a proposal to increase the protections of the moratorium to include a freeze on interest rates, fees, charges and penalties has not been accepted by the Scottish Government. We would urge the Scottish Government to reconsider this. This form of 'breathing space' could give those who have been financially impacted by Covid-19 much needed time to seek advice and find a solution to their debt problems.

Making debt solutions easier to access

Alongside the extended moratorium, welcome temporary changes have also now been made to certain debt solutions, with the intention of making it easier for people to get into a debt solution, while protecting them from creditor action. The changes include:

- Waiving the fees for Minimal Asset Process (MAP) Bankruptcy and Full Administration Bankruptcy entirely for those on certain benefits, and reducing the fees for all others.
- Increasing the amount of debt an individual can have and still be eligible for MAP Bankruptcy from £17,000 to £25,000 – meaning more people will be able to use this route to deal with their debts, rather than having to go for full bankruptcy.
- Increasing the amount an individual must owe before a creditor can make them bankrupt from £3,000 to £10,000.[22]

These changes are welcome and have increased the accessibility of debt solutions in the wake of the coronavirus outbreak. In addition, welcome action has been taken to protect those already in certain solutions, with the Accountant in Bankruptcy announcing that no DAS debt payment programme (DPP) will be revoked due to missed payments that have resulted from the Covid-19 outbreak.

[19] Scottish Government response to Economy, Energy and Fair Work Committee, October 2020
[20] Coronavirus (Scotland) Act 2020: Guidance to Scottish Government Stakeholders". April 2020.
[21] Coronavirus Acts extended, Accountant in Bankruptcy, 9 September 2020.
[22] Coronavirus (Scotland) (No.2) Act 2020.

Further changes required

One Scottish debt solution which is yet to see changes in relation to the coronavirus outbreak is Protected Trust Deeds. These work in a similar way to IVAs in England and Wales – whereby an individual makes regular repayments towards their debts and, after a fixed time, the rest are written off. [23]

As with IVAs, there are ways in which Protected Trust Deeds could be made to work better for people in debt. This was a recent focus for the Scottish Parliament's *Economy, Energy and Fair Work Committee,* which released a report in May calling for a number of reforms to be made, including changing the fee structure and introducing greater regulation of 'lead generators' – working with the Westminster government and Financial Conduct Authority to achieve this.[24] The Scottish Government has supported this recommendation, and has also committed to formally reviewing debt solutions more widely.

Many of these issues existed before the Covid-19 outbreak and may require longer-term changes. However, we would urge the Scottish Government to look closely – as part of its review – at the Committee's recommendations and to consider where more immediate, temporary changes could be introduced to give extra protection to people affected by the coronavirus outbreak who are already in, or considering entering a Protected Trust Deed.

5. New debt options required?

In addition to changes to existing debt options, there is undoubtedly a need for imaginative solutions to the accumulated debt caused by the Coronavirus outbreak. In recent months there have been various proposals put forward that take a wider view than the changes we have outlined to existing debt options.

- In their report *Excess debts - who has fallen behind on their household bills due to coronavirus?*[25] Citizens Advice has argued for one off financial support to help people pay back debts that have arisen through coronavirus. This could include increased hardship funding and increases in council tax support, as well as funding for interest free loans and grants for people in rent arrears. These ideas extend to household bills such as utilities where it can be argued that examples such as the winter fuel allowance, water and energy social tariffs constitute a form of debt remission that could be expanded to protect wider groups.

- StepChange Debt Charity recently published *Coronavirus and personal debt: a financial recovery strategy for households*.[26] This report suggests, amongst other recommendations, that the government should set up a national fund to provide grants to households to help them pay arrears accumulated to pay for essential bills during coronavirus. They also support increasing funding to local authorities to provide crisis support grants.

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[23] More information can be found from Citizen's Advice Scotland.
[24] Scottish Parliament's Energy, Economy and Fair Work Committee report, Protected Trust Deeds. May 2020
[25] Citizens Advice. Excess debts. August 2020.
[26] StepChange Debt Charity. Coronavirus and personal debt. June 2020

- For those with available income and who can afford to meet a proportion of their payments, StepChange Debt Charity has developed a Covid Payment Plan[27], designed for Covid-impacted clients who are likely to be in only temporary financial difficulty.

- At the Money Advice Trust, we have been discussing with stakeholders ways of ensuring that Covid-impacted consumer credit customers have greater access to firms' ability to reschedule/rewrite agreements, with appropriate safeguards in place, as a means to minimise credit rating impacts for people in temporary difficulty. The FCA has included specific guidance on refinancing, in their post-October Covid guidance[28], which could form the basis of going further in this important area.

- A number of charities, landlords and letting agents have joined with Shelter to call on the government to set up a short-term package of emergency grants and loans in England to help tenants pay off rent arrears accumulated during the Covid-19 crisis.[29] This would include ring-fenced grants for renters already in receipt of government benefits or with no recourse to public funds – and government-backed interest free loans for other tenants in temporary difficulty. Scotland and Wales have already adopted similar schemes.

On this last note, Covid-19 has made it even more urgent that the Government implements the No Interest Loan Scheme, which it committed to pilot in the 2018 budget. HM Treasury commissioned a study by London Economics[30] that found that a pilot scheme was feasible, but this has not yet been taken forward. It is clear that the scheme needs to be set up on a larger scale, and more quickly, than initially envisaged, to help alleviate the impact of Covid on arrears on household bills.

We are interested to see how these various ideas and proposals develop – and any full review of debt options should be prepared to think in similarly bold terms.

6. Conclusion

A debt options review, both in terms of considering the urgent short-term changes necessitated by Covid-19, and how to reset and future-proof the debt options landscape for the longer term, would have its work cut out on both fronts. A review is badly needed, however, if we are to ensure that no one is left without an option appropriate for their circumstances.

This briefing has set out some of the options that such a review could consider. We look forward to working with stakeholders on these and other ideas in the coming months.

For information about this briefing contact Money Advice Trust Policy Manager Meg van Rooyen at meg.vanrooyen@moneyadvicetrust.org

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[27] StepChange Debt Charity. Covid Payment Plan announcement. October 2020
[28] FCA, Consumer Credit and Coronavirus: Additional guidance for firms, September 2020
[29] Shelter, Landlords, letting agents and charities urge the government to help renters clear Covid-19 rent debts and stay in their homes, August 2020
[30] London Economics NILS feasibility study report. March 2020.