



Sedgemoor

## EXECUTIVE SUMMARY

# A PRELIMINARY ANALYSIS OF PROBLEM DEBT IN SEDGEMOOR

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There are two parts to the problem of Debt: one is of course the money. A second, massive, hidden, difficulty is the psychological hurdle of contacting Creditors to open discussions and maybe negotiate a viable solution. The psychological hurdle is so big that many good outcomes are lost. The automation and long waiting times for telephone call centres add a deterrent effect.

Debt cannot be considered in isolation. It is merely a part of Poverty.

Government related Debt certainly cannot be considered in isolation. Our clients routinely declare a portfolio of Debt of which Government Debt such as Council Tax is merely a part.

We see few cases relating to Bailiffs. We think that this is partly because it is clear that our clients have no significant assets – they are not worth chasing from the point of view of a business/organisation – or The Taxpayer. Bailiffs and Debt Collectors cost money and it would be very easy to spend yet more on chasing these hopeless debts. This is a central point of central importance.

The main route for Debt Collection in Sedgemoor seems to be Deductions from Benefits.

We would therefore argue that the problem of Government Debt Collection Management is a symptom of much greater problems. While the Government operates with the interests of The Taxpayer in mind, companies (who employ people), and individuals (often with dependent issues such as Care Home fees) have similar problems with Debt Collection Management, and usually they have appreciably less ability to chase late payments.

We strongly suspect that the Debt problem is a major one throughout the UK economy. A problem both to Debtors and to Creditors; to businesses and individuals.

Another important point is that Problem Debt is not always the result of bad lending decisions. The most common examples in Sedgemoor result from imposed taxes. The third biggest category of Debt problems is about Water (and sewage) – which neither side originally thought of as being a credit issue.

A main problem in relation to Debt is the capabilities of our clients. Of course – some of our clients are competent and capable, but have fallen on hard times, perhaps lost a job that they have held for years. Some try hard but have problems with Literacy or Numeracy or IT Literacy, or more than one of these: understanding concepts such as interest is a problem.

Others have problems with drink or drugs or both, don't have employment, take benefit sanctions as a matter of routine, don't read incoming correspondence let alone deal with it or reply, don't keep appointments, don't have any appreciable assets, may be homeless: we refer to them as having Complex Lives. Neither money nor the lack of it is a significant motive for them. The Criminal courts are not an uncommon part of their lives – as victims, witnesses and offenders. Their thinking does not routinely go back to commitments they made in good faith in the past. They live for the moment and don't worry too much about the future.



Many of our clients reject or delay dealing with correspondence because it is a stressful experience: good news doesn't come to them in writing.

Another group of our clients has no apparent income: they originate in other countries and their travel documents show that they have no access to public funds. But they can still incur Debts including Government Debts, such as Income Tax, Council Tax, and Rent.

One of our Homeless hostels provides a service of helping its visitors to deal with their correspondence.

The Debt problem exists in a climate in which Negative Budgets are reasonably common. Debt is hardly a surprise.

This problem is worsening as we write: the COVID-19 pandemic is leading to reduced incomes and job losses: this in turn will certainly lead to an even greater amount of Problem Debt, and Council Tax debts can be expected to retain the leading position.



### *We Recommend:*

**Treating this as a far wider problem:** a problem not just for Government but throughout the economy – a significant drag factor. A problem that if resolved should increase company revenues (perhaps with implications for employment), and tax revenues, and save older people from difficulties with their care home fees – which are also capable of impacting on local authorities.

**Improving Financial Capability** training for young people as well as for adults.

**Improving the experience of calling a Creditor** to begin negotiating. Such as reducing call waiting times.

The wide adoption of the **Standard Financial Statement (offered by the Money Advice Service)** as an assessment tool.

Adopting a principle that it is **unacceptable for a Creditor to put a debtor into Negative Budget.**

The group of **Complex Lives** is not well enough understood, let alone managed/addressed. This group may well contain some explanations for debt arising from fraud and/or non-compliance.

**Reviewing the alignment of Benefits with real costs of living to reduce or ideally eliminate Negative Budgets.** Particularly making the temporary changes to Universal Credit and Housing Benefit into permanent uplifts. These are the roots of Debt and Poverty and Misery – and we are convinced that they increase Mental Health problems and Suicides.

Council tax debt, for example, is at present painful for both sides, and expensive for the authorities, when there may well be no assets: **we recommend developing a Debt Advice scheme for those with Debt problems.** Citizens Advice should offer a service so that when an authority sends a Reminder, it also routinely refers the individual to Citizens Advice so that the Debt problem can be brought under control early, and our Advisers can negotiate a best possible payment plan rather than resort to law.