

Debt Relief Orders Initial Evaluation Report

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INVESTOR IN PEOPLE

1. Purpose of the Paper

To provide an initial evaluation of the Debt Relief Order (“DRO”) regime. DROs provide debt relief, subject to some restrictions. They are suitable for people who do not own their own home, have little surplus income and assets and less than £15,000 of debt.

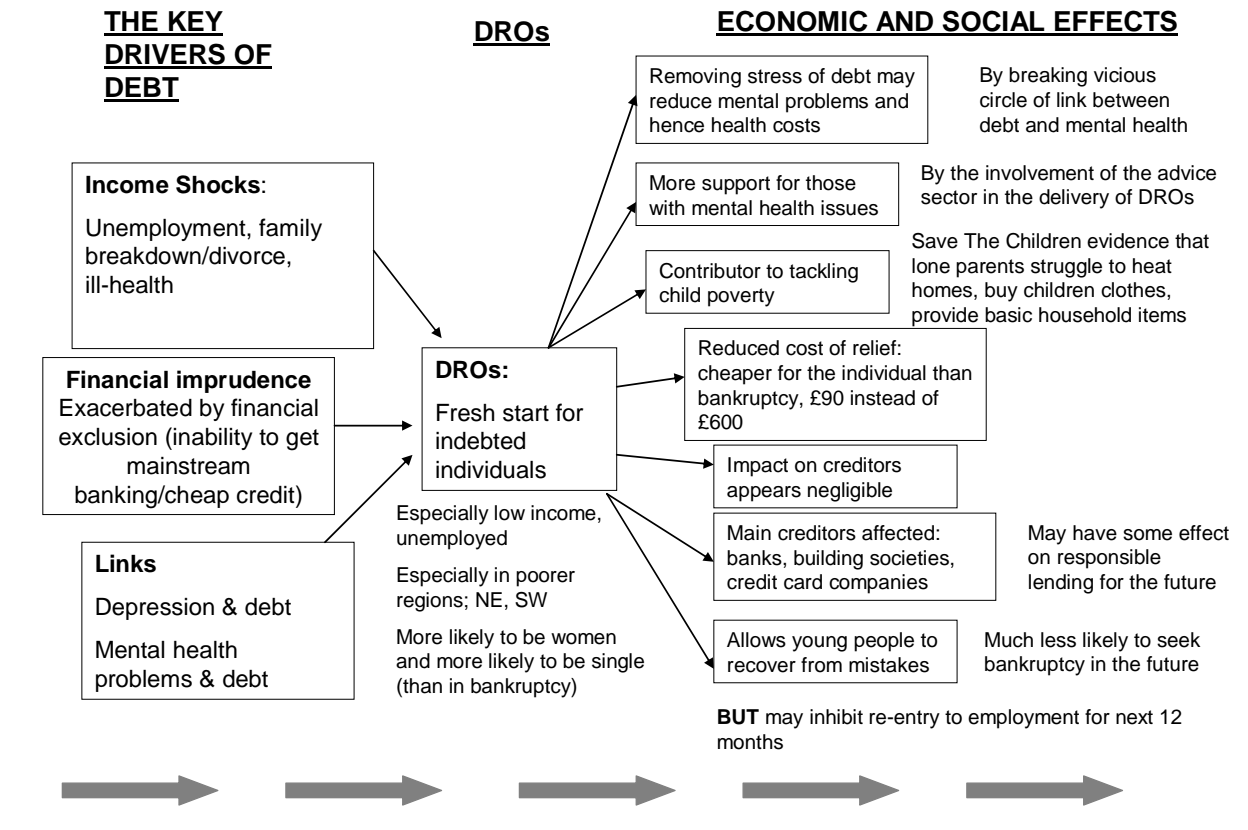
2. Executive Summary

Key findings

- In the period 6 April 2009 to 31 March 2010, there were 17,441 DROs granted in England & Wales.
- At 31 March 2010, there were 1,430 approved intermediaries available to assist debtors in applying for a DRO.
- The profile of debtors accessing DROs, in terms of age and location, is broadly in line with bankruptcy data. The incidence of women seeking DROs is, however, far higher than for men, a pattern which is the opposite of the profile for bankrupts.
- DROs would seem to be as accessible, across England and Wales, as bankruptcy.
- London and the South East had the lowest rates of DROs in England and Wales, whilst the South West and North East had the highest. This is in line with bankruptcy rates for the same regions in 2008.
- The profile of debtors accessing the DRO system would seem to be those types of individuals for whom the relief was intended, i.e. low income, predominantly unemployed, individuals.
- Individuals with small pension funds in excess of £300 are currently ineligible to access DROs due to the asset limit.
- The total amount of debt scheduled in DROs to 31st March 2010 was £150.5 million.
- The majority of debt, over 53%, was owed to banks, building societies and credit card companies.
- In the region of 17% of debts had already been passed to collection agents or debt purchasers before being scheduled in a DRO.
- The average number of creditors per DRO was 6.
- The average DRO level of debt was £8,700.
- Impact on different classes of creditors would appear to be minimal in the context of levels of total bad debts per sector.
- There is little published evidence or research discussing the social or wider economic impact of DROs. However debt problems are known to be linked with families on low incomes, individuals with health, particularly mental health, problems, relationship breakdown and unemployment, and some limited assumptions can be made on how DROs may impact on these situations.

3. The Effects of DROs

THE EFFECTS OF DEBT RELIEF ORDERS



4. Evaluation approach

This evaluation is limited in scope. The Insolvency Service is committed to undertake a full evaluation of DROs by 2012. This initial report considers the following:

- Accessibility of the DRO system;
- The profile of debtors who have accessed DROs;
- The wider social and economic impact of DROs;
- Further research opportunities for DRO evaluation.

5. Background

Debt Relief Orders were introduced by the Tribunals, Courts and Enforcement Act 2007 with effect from 6 April 2009. In 2004, the Department for Constitutional Affairs produced a paper which sought views on options to help deal with over-indebtedness and in particular, people in multiple debt. The introduction of DROs in April 2009 was timely as people on low incomes who depend on credit have been particularly affected by the credit crisis. The DRO was, therefore, a key element of the Government's strategy to provide 'real

help for those who need it most'¹. Prior to the launch of DROs, the only debt relief system available to debtors who had no assets and no surplus income with which to come to an arrangement to pay their creditors, was bankruptcy. Such debtors were unable to access debt relief systems that require re-payment of creditors, such as Individual Voluntary Arrangements, Debt Management Plans and County Court Administration Orders. The costs of entering bankruptcy were prohibitive for those debtors with no surplus income or assets. Prior to the launch of DROs the petition deposit for bankruptcy was £345, rising to £360 from April 2009 (£450 from 6th April 2010). In addition a court fee of £150 was also payable, although this could be waived for hardship cases.

The DRO was developed to address this problem by providing a statutory form of debt relief for those unable to access such existing processes, providing financial rehabilitation for the debtor and protecting creditors' interests. DROs involve a partnership between The Insolvency Service (through the Official Receiver) and the professional debt advice sector. The division of responsibility is that approved intermediaries working for Competent Authorities will assist the debtor in making an application for the DRO to The Insolvency Service via an online application form. The Insolvency Service is the agency responsible for assessing the application, granting the DRO and administering the effects.

6. Detailed Findings

Accessibility of DROs

Eligibility

- Entry Criteria – to be eligible for a DRO, a debtor must meet the following criteria:
 - The debtor's total liabilities do not exceed £15,000;
 - The debtor's total gross property level does not exceed £300;
 - The debtor's disposable income, following deduction of normal household expenses, does not exceed £50 per month;
 - The debtor lives in England and Wales, or in the last three years has been resident or carrying on business in England and Wales;
 - The debtor has not been subject to a DRO within the previous six years, nor subject to any other current formal insolvency procedure.
- Entry Costs - £90, which can be paid in instalments.
- Application Process – A debtor can only obtain a DRO through an approved intermediary who guides the debtor through the DRO application process and assists them in completing the application. The intermediary is required to ensure that the debtor meets the eligibility for a DRO (see above). The application process is, largely, on-line, and sent to the Official Receiver electronically.

¹ HM Government, 2009. *Building Britain's Future*.

Volumes of DROs – 6th April 2009 to 31st March 2010

In the Insolvency Service's Corporate Plan 2009-12, DRO volumes for 2009-10 were expected to fall within a range from 21-50,000 cases. For the 12 month period from launch in April 2009 to 31st March 2010, 17,441² DROs were made. As the DRO was new form of insolvency relief, there was little relevant data with which to predict the level of DRO uptake. In 2009, Citizens Advice Bureau issued a report which considered the reasons for debt and eligibility for debt remedies. The report suggested that up to 51,900 of its clients in 2008 could have been eligible for a DRO, but to date volumes have been well below these estimates.

The rate of DRO applications has increased since 6th April 2009:

Individual Insolvencies in England and Wales (not seasonally adjusted)						% change – Q1 2010 on
	2009 Q1	2009 Q2	2009 Q3	2009 Q4	2010 Q1 p	Q1 2009
Total Individuals	30,253	33,073	35,242	35,574	35,682	17.9
Bankruptcy Orders	20,446	18,870	18,347	17,007	18,256	-10.7
Debt Relief Orders	:	1,978	4,505	5,348	5,644	:
Individual Voluntary Arrangements	9,807	12,225	12,390	13,219	11,782	20.1

Source: Insolvency Service
p = provisional
: = Not Applicable

Following the introduction of DROs, levels of bankruptcies began to fall since peaking in Q1 2009. However Q1 2010 has seen a rise in bankruptcy orders in tandem with a steady rise in DROs. Further research would need to be done before making a correlation between the initial fall in bankruptcy numbers and the rise of DROs. The Insolvency Service had envisaged that some debtors meeting the DRO criteria would chose this option over bankruptcy, but further research would be required to evidence this.

One issue which has arisen since the introduction of DROs is with regard to pension rights as a barrier to DRO eligibility. A pension is, for DRO purposes, considered to be an asset and a debtor with rights to a pension worth in excess of £300 would currently not be eligible for a DRO, even if the amount of pension received would be small and possibly not receivable for many years. In January 2010, representatives from five of the Competent Authorities met with Ian Lucas MP, Minister for Business and Regulatory Reform, to raise this issue. Initial estimates by the group suggested that 1 in 8 clients who met all other eligibility criteria, were unable to access DROs due to having a small pension fund in excess of £300. This issue is currently being

² This is the official figure published by the Insolvency Service.

considered further and a formal consultation was issued by the Service on 23rd March 2010.³

Authorised Intermediaries

A key objective of the DRO scheme was to ensure that debtors across England and Wales were able to readily access the DRO system. Insufficient numbers of Competent Authorities would lead to too few approved intermediaries in too few areas.

To date the following bodies have Competent Authority status:

- The National Association of Citizens' Advice Bureaux (CAB)
- The Foundation of Credit Counselling (Consumer Credit Counselling Service)
- Baines & Ernst Ltd
- Institution of Money Advisers (IMA)
- Money Advice Trust trading as National Debtline
- Totemic Ltd trading as Payplan
- Insolvency Practitioners Association
- Advice UK
- Shelter

From October 2010:

- Christians Against Poverty
- Think Money Limited

The accessibility of DROs depends on both the number and location of intermediaries. At 31st March 2010 there were 1,430 approved intermediaries to undertake DRO application work. Coverage is both local, through networks of advice agency offices such as the CAB, and national via those advice agencies who can offer the intermediary role over the telephone (e.g. National Debtline, Baines & Ernst).

³http://www.insolvency.gov.uk/insolvencyprofessionandlegislation/con_doc_register/DROconsultationComplete.pdf

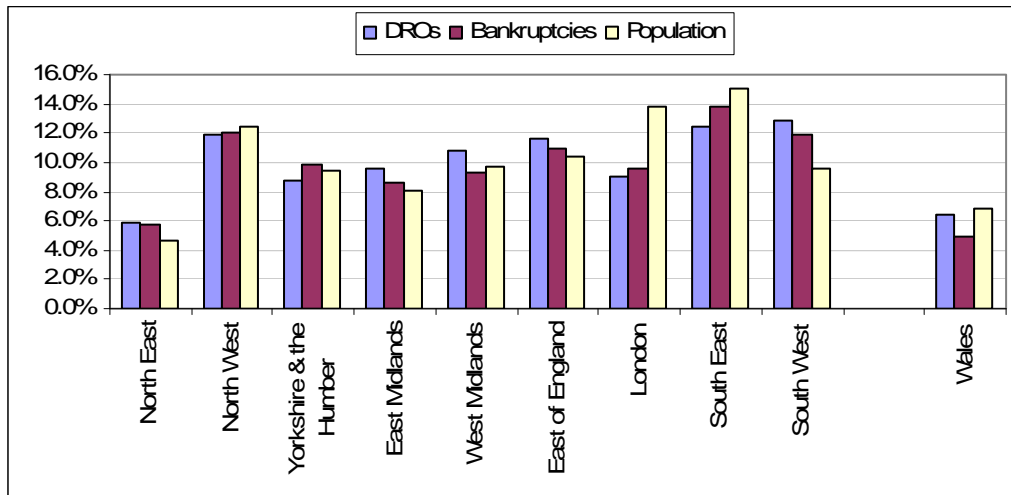
At Annex 1, the geographical spread of DROs made between April and 31st March 2010 shows a higher concentration of orders in the South West and North East. The table below shows the breakdown of DROs by area in comparison to bankruptcies and population:

Geographical Breakdown								
NUTS1*	DROs			Bankruptcies			Population	
	Count	Percentage	Rate*	Count	Percentage	Rate	Count	Percentage
England	16,233	93.1%	4.0	61,888	91.7%	15.3	40,891,968	93.1%
North East	1,024	5.9%	5.0	3,853	5.7%	18.9	2,050,452	4.7%
North West	2,081	11.9%	3.8	8,132	12.1%	15.0	5,457,514	12.4%
Yorkshire & the Humber	1,537	8.8%	3.7	6,653	9.9%	16.2	4,165,571	9.5%
East Midlands	1,665	9.5%	4.7	5,810	8.6%	16.5	3,562,875	8.1%
West Midlands	1,886	10.8%	4.4	6,233	9.2%	14.8	4,249,909	9.7%
East of England	2,032	11.7%	4.5	7,346	10.9%	16.4	4,539,402	10.3%
London	1,580	9.1%	2.6	6,497	9.6%	10.9	6,034,795	13.7%
South East	2,181	12.5%	3.3	9,327	13.8%	14.2	6,618,704	15.1%
South West	2,247	12.9%	5.3	8,037	11.9%	19.3	4,212,746	9.6%
Wales	1,110	6.4%	3.7	3,324	4.9%	14.1	3,007,703	6.9%
<i>Unknown</i>	<i>98</i>	<i>0.6%</i>	<i>..</i>	<i>2,253</i>	<i>3.3%</i>	<i>..</i>	<i>..</i>	<i>..</i>
Total	17,441	100.0%	4.0	67,465	100.0%	15.7	43,899,671	100.0%

* Geographical breakdown based on NUTS (Nomenclature of Units for Territorial Statistics). This is directly comparable to the regional figures, for bankruptcies and individual voluntary arrangements, that can be found on the Insolvency Service website.

**Rate is the number of DROs per 10,000 of population

Source – The Insolvency Service



The areas of highest DRO numbers and rates are broadly in line with the data on bankruptcy cases, suggesting that the accessibility for DROs is similar to that for bankruptcy where debtors are served by local County Courts and Official Receivers.

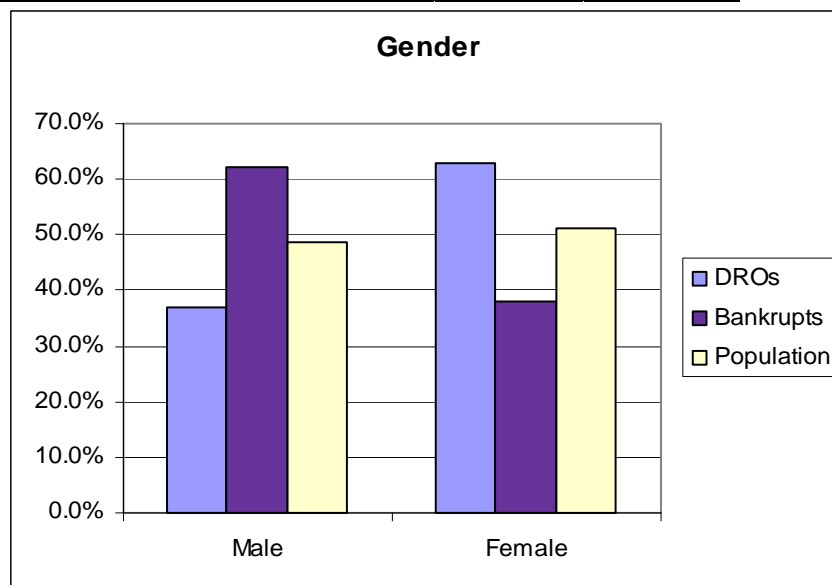
The Profile of DRO debtors

The following information was extracted from an analysis of the DRO data from 6th April to 31st March 2010 and bankruptcy data for 2008.

Gender:

- Over half (63%) of people subject to a Debt Relief Order (DRO) were women. This is compared to the population, where 51% are female. Conversely, over half of bankrupts in 2008 were male (62%).

Gender	DROs	Bankrupts	Population
Male	37.0%	62.1%	48.7%
Female	63.0%	37.9%	51.3%
Total	100.0%	100.0%	100.0%



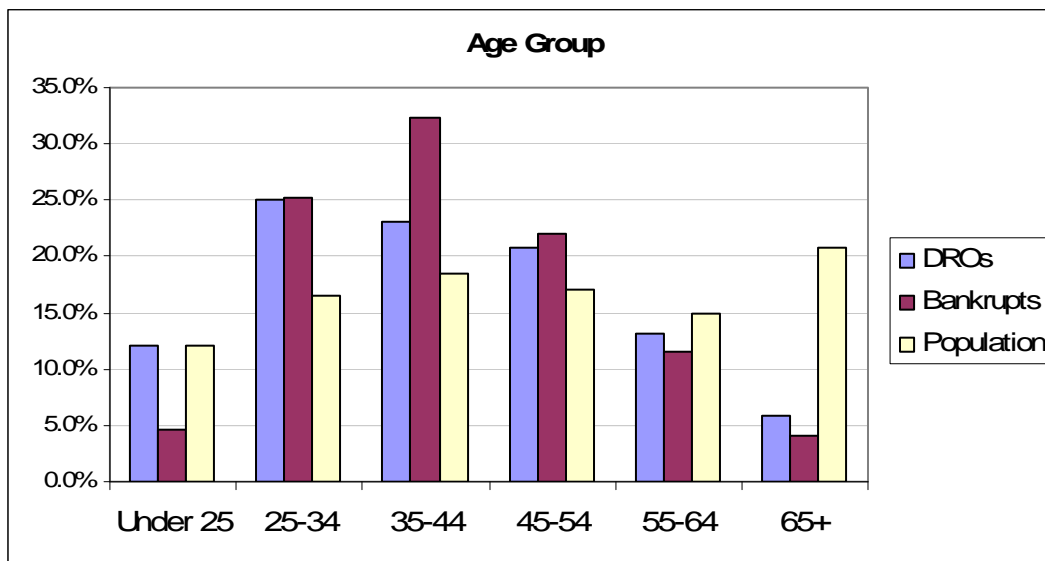
The data on gender supports the findings from the British Household Panel Survey research undertaken by the Bank of England. This research observed that females are likely to have more unsecured debt, although the amounts borrowed are significantly smaller than for men⁴. The eligibility criteria for DROs would seem to fit with this profile of low level unsecured debt usage, and it is therefore not surprising to see a higher level of take-up from females than males, whose higher average levels of borrowing would make it more difficult to meet the DRO liability cap.

⁴ Del-Río, A. & Young, G., 2005. *The determinants of unsecured borrowing: evidence from the British Household Panel Survey*. Bank of England Working Paper, no 263, pg 32.

Age:

- The average age of someone subject to a DRO is 41, with men tending to be slightly older (the average age for a man is 42 and for a woman is 41). The average age of a bankrupt in 2008 was 42, with men being older (the average age for a man was 43 and 40 for a woman).

Age Group	DROs	Bankrupts	Population
Under 25	12.1%	4.6%	12.2%
25-34	25.0%	25.3%	16.5%
35-44	23.2%	32.3%	18.5%
45-54	20.8%	22.1%	17.0%
55-64	13.1%	11.5%	15.0%
65+	5.8%	4.1%	20.8%
Total	100.0%	100.0%	100.0%



The results broadly mirror the findings from the British Household Panel Survey. For age groups above 25-34, the probability of having unsecured debt of less than £15,00 and assets less than £300 decreases over time as people acquire property and pensions. This would mean for those people seeking debt relief, the DRO option becomes less available due to the asset cap in the entry criteria. Unsecured debt for the under 25s is typically low due to the relative economic immaturity of the age range. This could explain the stark difference between rates of bankruptcy and DRO for the under 25 age group. The Bank of England study further notes that level of debt borrowed by the under 25s is significantly lower than for the other age groups, which suggests

that the under 25 age group are more likely to satisfy the DRO entry criteria for total liabilities less than £15,000 making the DRO a more attractive route for relief from indebtedness than the more expensive bankruptcy option.

Other findings:

- Almost half of all those granted a DRO were single, with the remainder being fairly evenly distributed between the married/cohabiting group and the divorced/separated/widowed group. This is compared to 30% of bankrupts being single with nearly 45% married/cohabiting. 50% of the population are married with the rest being fairly evenly distributed between the single and separated/divorced/widowed groups.
- Over half of people granted a DRO were unemployed, 19% in employment and only 1.4% self-employed. In 2008 12.1% of bankrupts were self-employed.
- 7.1% of those who were granted a DRO were from a black and ethnic minority (BME) background, compared to 12.5% of the population.
- The majority of people with a DRO (22%) had liabilities upwards of £10,000 (bearing in mind the upper limit of £15,000).
- The average debt for men (£8,864) is a little higher than the average debt for women (£8,624). A larger difference in the average level of debt was observed in bankrupts with men having a higher average level of debt (£64,926 compared to £40,743 for women).
- The average number of creditors per debtor was 6.
- The average liability per creditor was £1,358.

7. Views of key stakeholders

Feedback provided from the advice sector focussed on entry criteria (their wish that pensions be excluded) and the online application form which was proving time consuming. Feedback from creditor representatives focussed largely on processes. Creditors were keen to receive fuller information in the notices they receive of orders made and of orders revoked, and they wanted to better understand the safeguards against abuse.

Overall the advice sector appears to have a positive view of debt relief orders as exemplified in the report by the Consumer Credit Counselling Service 'Surging forward meeting demand, a review of 2009' which stated that, "Debt Relief Orders, although conceived outside the current recession, are proving

their worth as a way out of the debt impasse for those on relatively low incomes with no assets.”⁵

8. System checks and enforcement

From 6 April 2009 to 31 March 2010, the official receiver made 17,475 debt relief orders. The majority of these applications were granted without further intervention. The Official Receiver obtained further information in 896 cases before making the DRO, just under 5% of applications received.

Of the applications made, the official receiver declined to make a DRO in 178 cases (just under 1%) and out of all DROs made, 90 were subsequently revoked.

Between 6 April 2009 and 31 March 2010 the official receiver received 335 objections from creditors. The largest number of objections received (more than 30%) were in respect of the liabilities being inaccurate, either because a particular liability was understated or not disclosed or occasionally because it was overstated.

The second most frequent reason for objection related to creditor claims that there were undisclosed assets or income in excess of allowed amounts. Such objections were usually based on information made on loan applications or based on the amount that was being paid to the creditors before the DRO had been made.

The majority of objections were not upheld but in 32 cases the DRO was revoked as a result of those objections.

Two Debt Relief Restrictions Undertakings were granted between 6 April 2009 and 31 March 2010 where the official receiver identified misconduct by the debtor. One undertaking was for three and a half years and one for nine years. In both cases the DROs were also revoked.

9. Wider Social and Economic Impact of DROs

At a basic level, a DRO will enable those who meet the entry criteria to have a ‘fresh start’ from their indebtedness by unburdening them from their debts after 12 months. There is a consensus of opinion between academics and the advice agencies on the links between financial distress and stress and anxiety (and in some cases more serious mental health issues), relationship problems, and the consequential detrimental impact on the family. In light of this it could be expected that DROs may have a wider social and economic impact than just debt relief. Published research on the wider impact of debt relief on the individual and society is very limited, however. Studies tend to focus on the causal link between ill health, relationship breakdown, job loss

⁵ <http://www.cccs.co.uk/Portals/0/Documents/media/reports/annualreviews/Annual-review-2009.pdf>. Pg 2

and financial stress, but the impact of relief from debt remains somewhat anecdotal. It would be logical, for example, to assume that if debt problems can be one of the causes of anxiety, stress and depression, then relief from debt would remove at least one of the causal factors behind the health problems. There is little longitudinal research being undertaken in the field of personal insolvency, and in the case of DROs, the relative newness of the regime means there is no data on the impact this form of relief has given to those accessing it. However, consideration of the broader socio-economic effects of indebtedness generally will provide some indication of how DROs may have impacted on society beyond merely the relief from debt. It is anticipated that this will form the basis for future research into DROs as part of the longer term evaluation project. The remainder of this section is a literature review of published research into debt and consideration of how DROs may have had a wider impact.

The Drivers of Indebtedness

In a report commissioned by BERR⁶, qualitative evidence from the credit industry and debt advice agencies suggested that some of the main drivers of over-indebtedness are financial imprudence and income shocks. The main sources of income shocks were identified to be unemployment, family breakdown/divorce and ill health.

A report published by the Citizens Advice Bureaux⁷ found that debt was the number one advice issue for CABs accounting for one in three of all enquiries. The report cites a number of case studies where indebtedness was linked to serious depression and 'life shocks' such as unemployment or accidents. In addition increased living costs (such as fuel) and the restriction in the availability of cheap credit had been exacerbating factors.

The Impact of Debt on Families

The BERR report further noted the relationship between family type and debt problems. Families with children were found to have an increased likelihood of debt arrears, which further increased if the family was a lone-parent family. In terms of household, the report identified a link between low-income, tenant households and debt. These households were more likely to have some financial exclusion, such as having less access to mainstream banking facilities or cheap credit. These households would seem to fit the profile for a DRO as low-income would preclude other forms of debt relief such as IVAs and DMPs, and the level of income compared to priority debts such as rent and fuel could see these households accruing low levels of debt and credit for essential expenditure within the DRO liability limit.

⁶ Disney, R. Bridges, S. & Gathergood J., 2008. *Drivers of Over-indebtedness*. Report to BERR. Available at: <http://www.berr.gov.uk/files/file49248.pdf>

⁷ Citizens Advice Bureaux, 2009. *A Life in Debt: The Profile of CAB debt clients in 2008*. Available at: http://www.citizensadvice.org.uk/a_life_in_debt_final.pdf

The clients canvassed in the CAB study cited low income as the main reason for their indebtedness. A quarter of the clients surveyed had council tax arrears and (for tenants) rent arrears. The report identifies fuel debt and fuel poverty (where greater than 10% of income is required to maintain a satisfactory heating regime) and water poverty (where water costs account for > 3% of net household income) as increasingly significant issues. The report cites a number of examples where CAB clients found themselves with debts for rent and utilities, not due to overspending or extravagance, but because a 'life-shock' had left them unable to cover basic essential household costs.

The DRO process would seem particularly suited to help those individuals suffering from 'life-shocks' such as unemployment, ill health or relationship breakdown, providing a mechanism for relief from an inescapable financial predicament. The low-income, low asset profile of 30% of the households surveyed by CAB would have been eligible for a DRO. The report describes these households as 'some of the most vulnerable groups in society'⁸:

- Sixty one per cent of them were social tenants.
- Their average household income of £668 per month was far below the survey average of £1,021.
- Less than one out of six (14 per cent) were working full-time.
- More than three quarters (78 per cent) had no assets at all.
- Twenty one per cent were lone parents.
- Eighty eight per cent had less than £10 available income per month for their non priority creditors.
- They had an average of 3.5 non-priority debts and owed an average £4,093 to their non-priority creditors.
- On average they had 1.3 priority debts totalling £1,042.
- Thirty per cent were disabled.

A report published by Save the Children⁹ goes further by stating that measures which help to put low-income families back in control of household finances are essential to tackle child poverty. The report considers the impact of carrying debt on families struggling to heat their homes, buy clothes for their children and provide basic household items such as a cooker and a fridge. The report further considers the issue of financial exclusion from mainstream banking and cheap credit, citing desperate families obtaining high interest loans (with a number of examples in excess of 100%APR) to purchase basic essentials, and the impact that attempting to repay such credit has on the already low levels of available household income. The DRO would seem to be a measure which could be of significant benefit to such low-income families trapped in poverty and burdened with debt by providing a means of dealing with existing financial problems, as well as providing a fresh start and an opportunity to get back in control of their domestic finances.

⁸ Pg 19

⁹ The Save the Children Fund, 2009. *The impact of debt on the UK's lowest earning families*. Available at: http://www.savethechildren.org.uk/en/docs/Debt_brief.pdf

Debt and Health

It is reported that mental health problems lose UK employers 11.4 million man days per annum¹⁰. This is estimated by the NHS to cost the UK economy in the region of £23 billion, plus care costs of £12.5 billion¹¹. In the BERR report on over indebtedness, the relationship between ill health and over-indebtedness was particularly highlighted. The report identified that the relationship could potentially be two-way: over-indebtedness might lead to depression and vice versa. For some individuals persistent ill health combined with unresolved credit commitments can cause a prolonged cycle of debt and ill health (most commonly ill health relates to psychological conditions). A new study identifies a 'moderate association' between debt and mental health, suggesting that the individual's attitude towards debt is important, as the extent to which they worry about debt can have a greater impact on mental health than the level of debts¹², but the overall mental health issue for people in debt is significant, citing international studies which found links between debt and suicide/self harm¹³. The study further states that creditors were not, on the whole, interested or sympathetic when debtors with mental health issues approached them for help. The study calls for co-ordinated 'debt care pathways' between local health and advice services – that is, the routes by which individuals with debt and mental health problems gain access to the support they need¹⁴.

Whilst further research would be required to prove a positive relationship between the relief from inescapable debt offered by a DRO and recovery from stress and anxiety-related health problems, the close relationship between the type of debt situation DRO applicants find themselves in and anxiety, stress and depression is evidenced and therefore a broad assumption can be made that a DRO could have a positive impact on the health of some of those individuals suffering due to debt problems.

The Economic Impact of DROs

The management information systems for the DRO database are still being refined, but preliminary data suggests that over £151m of debt has been written off through DROs. This averages £8,700 per applicant. The wider

¹⁰ Health and Safety Executive. *Labour Force Survey 2008/09*. Available at: <http://www.hse.gov.uk/statistics/causdis/stress/scale.htm>

¹¹ NHS Evidence resource. Available at: <http://www.library.nhs.uk/mentalhealth/viewresource.aspx?resid=105867>

¹² Fitch, C et al, 2010. *Debt and Mental Health: What do we know? What should we do?* Available at: [http://www.rcpsych.ac.uk/pdf/Debt%20and%20mental%20health%20\(lit%20review\).pdf](http://www.rcpsych.ac.uk/pdf/Debt%20and%20mental%20health%20(lit%20review).pdf)

¹³ Pg 14

¹⁴ Pg 19

economic impact of this could be significant if, for example, small businesses and sole traders already struggling with the recent recession were losing money and consequently going out of business as a result. However there are two aspects to DROs which mean that the impact on such businesses is negligible. Firstly the profile of debtors meeting the DRO criteria, the absence of surplus income above £50 and assets under £300, means there is little if any prospect that their debts would be repaid in the foreseeable future, particularly for those debtors locked into a cycle of long-term unemployment. So whilst it is an obvious issue for any creditor to see their debts become irrecoverable, recoverability would always have been in doubt given the profile of individuals for whom the DRO is targeted. From the initial data available from the DRO system to 31 Dec 2009, it can be seen that 17% of debt was in the hands of collection agencies or bulk debt purchasers, indicating the extent to which recoverability was already in doubt. These debts will have most likely already been through an initial recovery process with the original lender which has proved unsuccessful. Secondly the eligibility criteria gears the DRO process to consumers rather than those engaged in trade, and therefore it is unlikely that there would be any significant amount of trade debts in any DRO application. Only 1.4% of DRO debtors were self-employed, compared to over 12% of bankrupts.

Data analysed to 31st December 2009 (£100m of creditors) shows the main groups of creditors as:

Organisation Type	Total	%
Banks/Building Societies	33,877,161	34%
Credit Cards	19,231,606	19%
Collection agents/debt purchasers	16,843,579	17%
Other lenders	8,682,097	9%
Catalogues	3,560,801	4%
Utilities	2,731,890	3%
Government (DWP, HMRC)	2,688,084	3%
Local Authority	1,256,388	1%
Store Cards	1,027,447	1%
Telephone/internet/TV	1,026,555	1%
Credit Unions	48,305	0%
Miscellaneous	9,299,293	9%
	<u>100,273,209</u>	

The data analysed has some integrity issues due to some inaccuracies in the creditor type input field. This has led to 9% of total debts being categorised unhelpfully as miscellaneous. Furthermore, debts listed as being with collection agencies do not detail the original source, thereby understating the other categories of creditor. Work is continuing to refine the reporting system to improve future data analysis.

In the context of sector bad debt, UK financial institutions wrote off £8.4bn of unsecured debts to customers in 2009¹⁵. To 31st December 2009, the total amount of DRO debt owed to financial institutions compares to less than 1% of this total. For English local authorities, £0.7bn of £21bn of council tax due went uncollected in 2008/2009¹⁶. The DRO debt to local authorities to 31st December 2009 compares to less than 0.2% of this uncollected amount. The impact of DROs on the majority of large creditors would seem, therefore, to be low, if not negligible.

Unemployment

The second aspect to the economic impact of DROs is the extent to which the rehabilitation and fresh-start offered by a DRO is an enabler to get people back into employment and off benefits (over half of DRO applicants were unemployed). Being in debt can impact on people's plans to return to work¹⁷. Creditors may pursue people for increased debt repayments if they return to work and this may have a negative effect on the decision to seek work, as any potential financial gains will be negated. Faced with the prospect of any additional income only being available to pay priority debts (such as council tax which would have been subject to relief for the unemployed) and other existing credit commitments an economic and psychological barrier may exist to seeking employment. The DRO could help these people by providing a means to write off their debts, and therefore removing this barrier to seeking employment¹⁸. However, immediately following a DRO, this disincentive to seek employment may persist. Under the eligibility rules for DROs, if an individual's income increases during the 12 months that the DRO runs for, the debtor has to inform the Official Receiver who may decide that the debtor can make payments to his creditors and therefore terminate the DRO. In Gibbon's study on worklessness in Manchester¹⁹, one participant stated that the DRO was a disincentive to seek work during the moratorium period:

"It costs £90 and you basically list all of your creditors and they can't touch you. But if you get a job within 12 months of agreeing it then you've lost [the £90 fee] basically, because if you've got more than £50 disposable income at the end of the month, then you have to pay all the debts back. It doesn't matter what you've done. I mean, you might have gone 11½ months not working and only had £50 disposable income and now your creditors can

¹⁵ BBC News, 1 March 2010. *UK Banks see surge in bad debts.*

<http://news.bbc.co.uk/1/hi/business/8543083.stm>

¹⁶ Department for Communities and Local Government, 25 June 2009. *Collection Rates for Council Tax and Non-domestic rates in England 2008-09.* Available at:

<http://www.communities.gov.uk/documents/statistics/pdf/1264176.pdf>

¹⁷ DWP White Paper, 2009. *Building Britain's Recovery.*

¹⁸ Damon Gibbons, 2010. *A study of financial inclusion and worklessness in Manchester: how to improve support for people with money problems to obtain and sustain employment.*

¹⁹ Pg 46

come back for their money. If you get a job and you fail to declare it, there's a fine on top of it as well."

(Male, aged 27, unemployed for 12 months)

However, DROs may have some positive role to play in enabling the individual to get back in control of their finances and thereby encouraging a return to work, if not in the moratorium period, then after 12 months. In the longer term evaluation work, the Service plans to work with debt advice agencies to gather data on the experience of debtors post DRO to gauge the longer term impact of the fresh start it affords.

10. Further research opportunities for DRO evaluation

As previously mentioned, the Service has committed to a full evaluation of the DRO system by 2012. Work is already underway analysing the data captured to date, as well as working with the over-indebtedness team in BIS to incorporate questions into the annual over-indebtedness survey. The Service will be working closely with the debt advice sector to gather further information on the DRO regime, such as gathering case study data of debt advisor clients who were subject to a DRO and have since exited the process. The Service will also be looking at further research opportunities into the social and economic impact of DROs in England and Wales.

Annex 1
Geographical spread of DROs

