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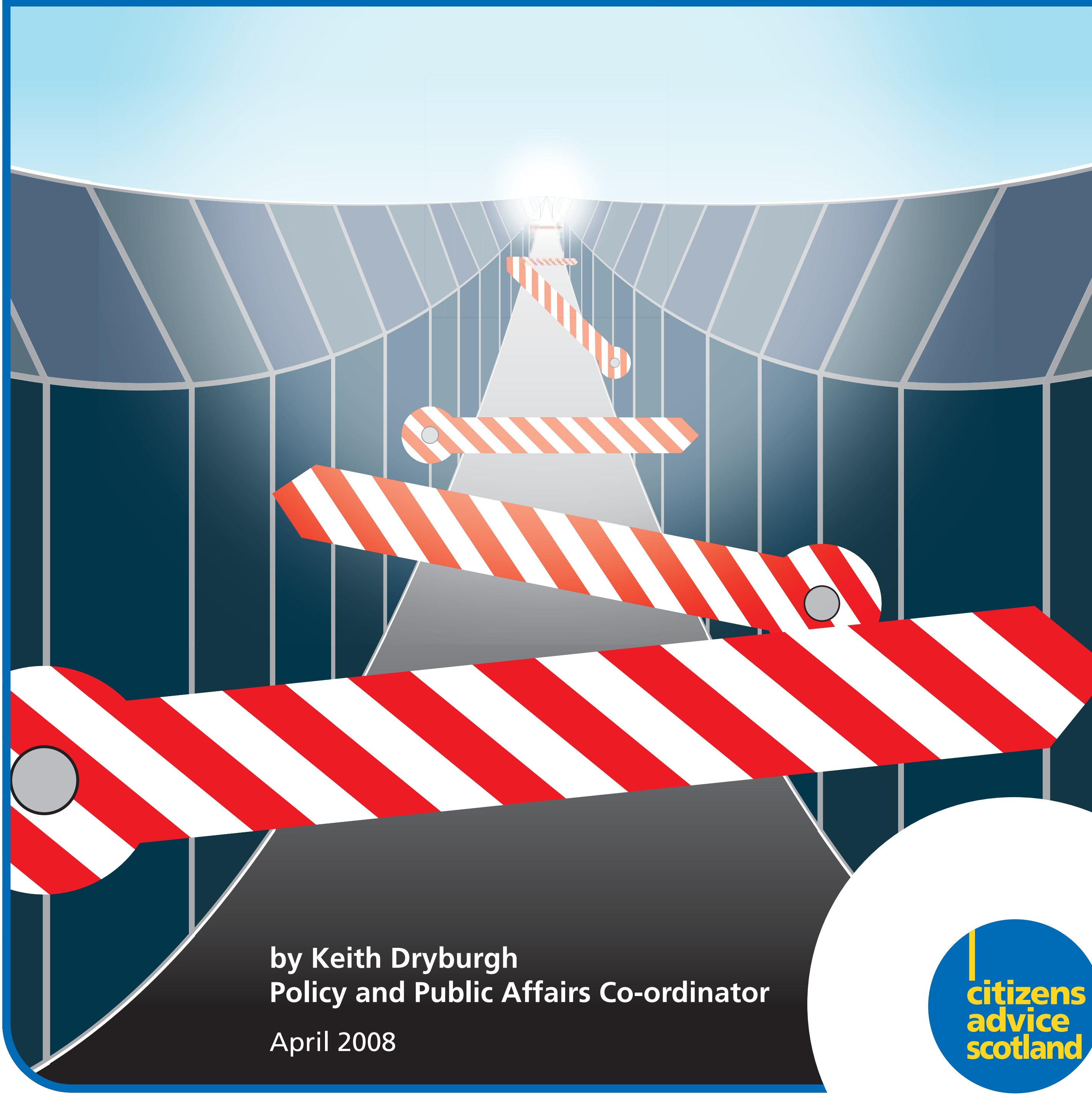
The Debt Arrangement Scheme

based on the evidence of Citizens Advice Bureau clients across Scotland



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April 2008

citizens advice scotland

Citizens Advice Scotland

Scottish Association of Citizens Advice Bureaux

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Citizens Advice Scotland and its 76 CAB offices form Scotland's largest independent advice network. CAB advice services are delivered through 208 service points throughout Scotland, from the islands to city centres.

The CAB service aims:

to ensure that individuals do not suffer through lack of knowledge of their rights and responsibilities, or of the services available to them, or through an inability to express their need effectively

and equally

to exercise a responsible influence on the development of social policies and services, both locally and nationally.

The CAB service is independent and provides free, confidential and impartial advice to everybody regardless of race, sex, disability or sexuality.

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Key Findings

1. The Debt Arrangement Scheme is a positive debt option for debtors who are willing and are able to repay their debts given the chance to do so. The scheme offers a way to avoid the stigma and problems of bankruptcy for the debtor. However, the low take-up of the scheme suggests that it has not been a success, and that other debt options are continuing to be more likely choices for those in debt. Debtors who are willing to repay their loans are still often without access to the scheme, while those with access are choosing other debt options.

2. This research has found a number of key findings, which show the numbers of clients with and without access to DAS, why clients do not have access, the profile of these clients, and ways in which to make the scheme more accessible and advantageous for clients:

Key Findings

Access to DAS

- Only around a fifth (19%) of clients that participated in the survey would qualify for the Debt Arrangement Scheme;

- A further 7% would qualify for DAS, but would NOT be able to make full payment within the specified 10 years. Nearly three-quarters of the debt clients in the survey (71%) do not have access to DAS;

- One in four clients in the survey did not have access to DAS or any other debt options, while over one in ten of the total clients have a debt of at least £10,000 and no access to any debt options;

- Only 13 clients (25%) out of the 52 clients who qualified for DAS in the survey are likely to choose to access the scheme as their next step. Therefore, 13 clients (5%) of the 274 multiple debt clients that took part in the study both qualify and are likely to make an application to the Debt Arrangement Scheme.

Why debtors fail to qualify for DAS

- Around three-quarters of clients in the survey who do not have access to DAS fail the conditions of the scheme by having no (or little) disposable income to offer to creditors;

- 20% of clients who do not have access to DAS have disposable income to offer to creditors, but it is not at a level high enough to pay off the total debt within the 10 year time period;

- Access to the Debt Arrangement Scheme does not appear to vary widely between different amounts of debt. For example, clients with debts of between £25,001 and £50,000 were as likely to be able to access DAS as those with a debt of between £1,001 and £1,500;

- Eleven clients (4% of all the clients in the survey) could repay their debts in a period of between 11 and 14 years, and therefore just miss out on being eligible for DAS. Therefore, if the time period for DAS was raised to 15 years, the proportion of clients in this survey with access to DAS would rise from 19% to 23%.

Increasing access to DAS

- Increasing the amount of time clients have to repay their debt in the scheme would increase the number of people who can access DAS. In this survey, increasing the time limit from 10 years to 15 years would increase the proportion of clients who can access DAS from 19% to 23%;

- Composition of debt would help these clients to repay most of their debts and avoid the stigma of being bankrupt, while creditors would receive more of the money owed to them than they would through Protected Trust Deeds or sequestration. In this survey, including composition of debt of 70p in the pound would increase the proportion of clients able to repay their total debt within 10 years from 19% to 23% and, importantly, decrease the length of repayment periods for clients;

- A wide range of clients would benefit from a widening of the scheme, particularly married clients, owner occupiers and private renters, self employed and part-time employees, those with a monthly disposable income of between £50 and £150 to offer to creditors, both those on lower and higher incomes, and those with one or two dependent children.

Making DAS more attractive to debtors

- Using the findings from this report, nearly 3,700 bureaux debt clients in 2005/06 could have been eligible for DAS, with a further 1,300 who would qualify but cannot repay their total debt within 10 years;

- Given that there are a number of bureaux debt clients who could have accessed DAS, but ultimately did not, it must be asked why these clients did not consider DAS. These figures suggest that DAS was not an attractive option during the first three years of its existence, and that other debt options, such as sequestration and Protected Trust Deeds, were far more widely used;

- The reforms to DAS that took place in July 2007, particularly the freezing of interest in the scheme, have been relatively successful in widening access to the scheme. The number of successful applications to DAS has increased, while the average disposable income needed to enter the scheme appears to have decreased;

- The methods of extending the scheme discussed in this research - composition of debt and the extension of the reasonable time period for repayment - have the potential to not only provide greater access to DAS for clients, but also to encourage clients to actually use the scheme to pay their debts.

Introduction to the research

Context

3. The Debt Arrangement Scheme (DAS) was introduced by the Debt Arrangement Scheme and Attachment (Scotland) Act 2002 and launched in November 2004. Citizens Advice Scotland had been involved in its development for almost fifteen years. In 1992, we put forward an amendment to the Bankruptcy (Scotland) Act 1993 in an attempt to introduce a debt arrangement scheme. The amendment was rejected at that time, on the basis that protected trust deeds were considered a suitable alternative[1].

4. In 1999, we again attempted to introduce a debt arrangement scheme onto the agenda, by providing the Scottish Law Commission with a briefing on the topic[2] during their deliberations on an alternative to poinding and warrant sale. The case for a debt arrangement scheme was accepted by them and included in the final report[3].

5. In addition, we were represented on the working group set up by the Scottish Parliament to look at an alternative to poindings and warrant sales which also recommended the introduction of a statutory debt arrangement scheme[4].

6. We continued to campaign vigorously on this issue during our evidence sessions on both the Abolition of Poindings and Warrant Sales Bill 2000, and the Debt Arrangement and Attachment Scotland Bill 2002, and in submissions to the committees of the Scottish Parliament.

7. Throughout we have maintained that in order to be effective, a debt arrangement scheme needs to allow for both the freezing of interest and composition of debt. The scheme as introduced in November 2004 allowed for these aspects only by voluntary, mutual agreement, and did not introduce any compulsion in relation to these two key elements.

8. In October 2005 – one year on from its introduction - we consulted with all Scottish citizens advice bureaux (CAB) on the operation of the scheme. In summary, bureau advisers found that the lack of freezing of interest and composition of debts were the biggest barrier to CAB debt clients accessing and using the scheme, followed by the recommended length of time for the operation of a DAS.

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[1] Hansard, Parl Debt HL 1992-93 vols 540 and 541

[2] Briefing on Debt Arrangement Schemes by Citizens Advice Scotland 1999

[3] Report on Poinding and Warrant Sale, Scottish Law Commission April 2000 (Scot Law Com no. 177)

[4] Striking the Balance – a new approach to debt management, Report of the Working Group on Replacement for Poinding and Warrant Sale, July 2001

9. As of May 2007, only 202 people had entered into the Debt Arrangement Scheme since it began. Ninety trained advisers had received only 273 applications in three years, but the majority (70%) had been accepted for the scheme at this point.

10. The low take-up of DAS contrasts with figures showing that the number of people going bankrupt is increasing in Scotland. The total number of personal insolvencies reached 6,000 in 2006/07, and a further 8,000 people in Scotland granted a Protected Trust Deed. The Debt Arrangement Scheme was set up as an alternative to these debt options, but is clearly less well used by a wide margin.

11. Since 30 June 2007, the situation has changed and interest is now frozen as soon as a debt payment programme (DPP) under DAS is put in place, allowing people to work towards paying off their debts without interest spiralling out of control. Applications to DAS have begun to increase following the implementation of reforms to the scheme.

Research Aims

12. This research aims to look at whether the amendments introduced in June this year have had any impact on these client groups in relation to access to the scheme; determine the numbers of those who still cannot use the scheme despite the reforms; examine why they do not qualify for DAS; look at the profile of this group; and work out what is required so that they can be included in DAS. The research will also examine the take-up of the scheme of those who would qualify, and look at ways of encouraging debtors to use DAS.

13. The research aims in the study are outlined below:

    a. Determine the numbers of those who cannot access the scheme;

    b. Examine why people are not qualifying for DAS;

    c. Examine the profile of those who are not qualifying for DAS;

    d. Work out what is required so that they can be included;

    e. Examine the take-up of DAS of those who would qualify, and look at ways of encouraging debtors to use DAS.

The Study

14. The study was guided by a Debt Arrangement Scheme Advisory Group, consisting of members of the social policy and money advice teams at Citizens Advice Scotland, and money advisers from eight Scottish citizens advice bureaux. The group agreed the research aims of the study, and drafted a questionnaire for advisers to ask multiple debt clients that they were assisting. The questionnaire is included in Appendix 1.

15. 274 questionnaires were returned from 12 bureaux across Scotland. The data collection period was from July 2007 to October 2007.

16. The bureaux that participated in the survey were from a wide range of areas in Scotland. Five bureaux that participated are based in the West of Scotland (111 questionnaires – 41% of all questionnaires), four bureaux were from the South of Scotland (87 questionnaires – 32%), two bureaux were from the East of Scotland (68 questionnaires – 25%), and one bureau from the North of Scotland (7 questionnaires – 3%).

17. The bureaux that took part in the survey are based in a mixture of urban and rural settings with five bureaux based in an urban setting and seven bureaux based in a rural setting. 152 questionnaires (55% of all questionnaires) were from bureaux in urban areas, while 121 questionnaires (44%) were received from bureaux in rural areas.

18. The following table shows the number of questionnaires completed at each bureau:

Bureaux	**Questionnaires completed**
Argyll and Bute	3
Central Borders	3
Clydesdale	24
Dumfries and Galloway	53
East Ayrshire	55
East Kilbride	10
Grangemouth and Bo’ness	21
Motherwell & Wishaw	19
Orkney	7
Peebles	3
Roxburgh	28
West Lothian	47
Total	**274**

19. Full details of the research design are included in Appendix 1.

Access to the Debt Arrangement Scheme

20. This survey took place following the introduction of the new reforms which allow for the freezing of interest and charges. It involved 274 multiple debt clients from bureaux across Scotland, with advisers assessing whether each would be able to access the Debt Arrangement Scheme as amended to repay their debts.

21. Initially, advisers were asked to assess whether a debt client could access the scheme dependant on the length of time required to repay their debts. The results of this are shown in Table 1:

Table 1: Access to the Debt Arrangement Scheme

Can the client access the Debt Arrangement Scheme?	Number of clients	Percentage of clients
Yes, but full payment completed with 10 years	52	19%
Yes, but with full payment NOT completed in 10 years	19	7%
No	195	71%
Not known	8	3%

22. Only around a fifth (19%) of clients that participated in the survey would qualify for the Debt Arrangement Scheme as amended within a recommended repayment period of ten years. Although debt payment programmes have been accepted for a longer period than ten years, it is generally accepted amongst DAS advisers that any period beyond ten years is most likely to be unsustainable.

23. A further 7% would qualify for DAS, but would NOT be able to make full payment within the specified 10 years. Nearly three-quarters of the debt clients in the survey (71%) do not have access to DAS at all.

Access to other debt options

24. Bureaux advisers who undertook the questionnaires assessed whether each client would be able to access other debt options as a route to managing their debts, such as a Protected Trust Deed and sequestration (bankruptcy). The table below outlines the proportion of clients that can access DAS alongside their access to other debt options.

Table 2: Access to other debt options

	Can the client access other debt options?			
Can the client access DAS?	Yes (%)	No (%)	Don't know (%)	Number of clients
Yes	79	13	8	45 clients
Yes, with full payment NOT completed within 10 years	90	11	0	16 clients
No	62	35	4	173 clients
Not known	50	13	38	15 clients
Total	**67**	**28**	**5**	**241 clients**

25. The majority of clients (67%) of clients in the survey had access to debt options other than DAS, such as sequestration or protected trust deeds. However, 68 clients (25% of all the clients in the survey) could not access either DAS or any other debt options. Of these 68 clients, 56 had a disposable monthly income of less than £50 suggesting that a lack of disposable income is barring these clients from debt options. However, this is not to say that these clients have smaller debts: 43% of the clients with no access to debt options have total debts of at least £10,000.

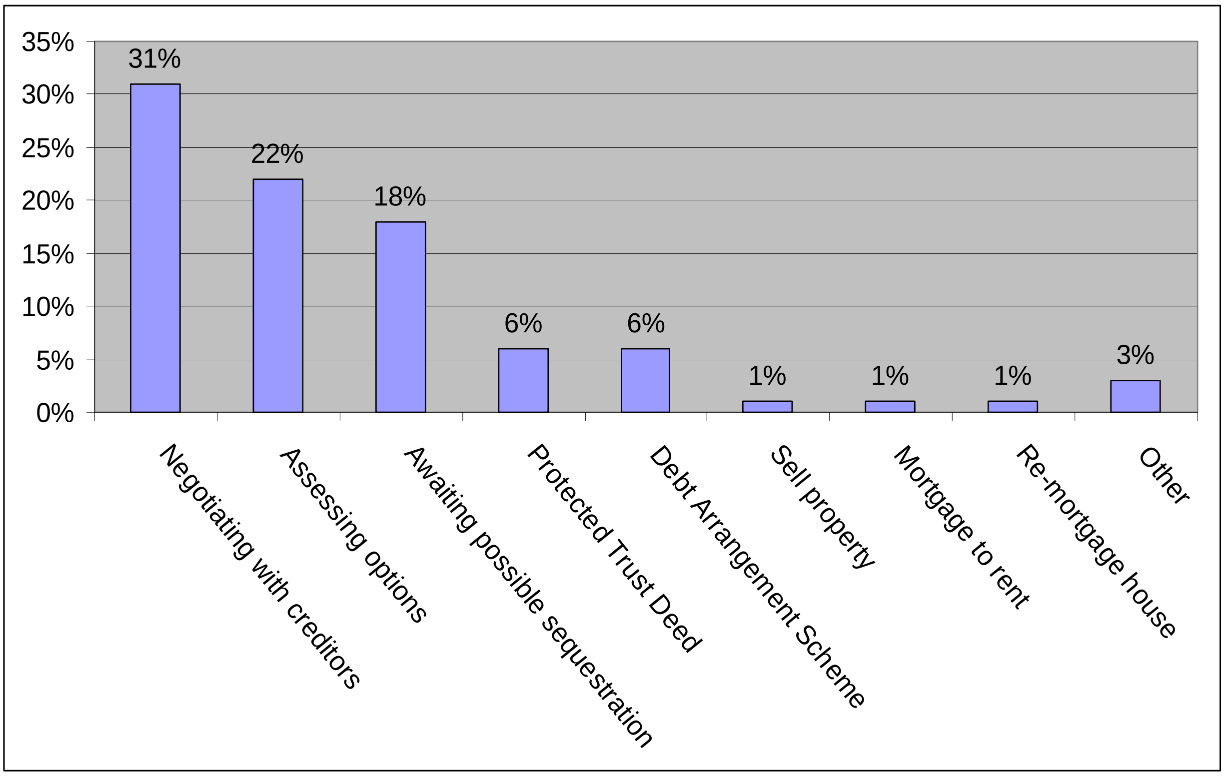
26. One in four clients in the survey did not have access to DAS or any other debt options, while over one in ten of the total number of clients have a debt of at least £10,000 and no access to any debt options.

27. For those that do have access to other debt options, the option of sequestration was most common. This was the main debt option for the clients who do not have access to DAS. Many of these clients also had the option of offering reduced payments to creditors, however this would be under a voluntary repayment programme, and not under a Protected Trust Deed. For those with access to DAS, the majority would also have access to a Protected Trust Deed.

Next Steps

28. The bureaux advisers who undertook the questionnaires with the clients were asked to note what the client's next steps would be in relation to addressing their debt. These next steps are outlined in Figure 1:

Figure 1: Next steps



29. Even where other options were available to them the majority of all the clients in the survey chose not to (or were not able to) access formal debt options. Only 30% of the clients were planning to use sequestration, a Protected Trust Deed, or the Debt Arrangement Scheme. Only 6% of clients were planning to access DAS compared to the 19% of all clients who were able to access the scheme.

30. The most common option taken by clients was that of negotiating with creditors to offer token payments or to agree a new payment plan. There were also a number of clients (around a quarter) who were currently assessing their options, but who were essentially waiting for their creditors to take action against them. This is often a prerequisite to allow access to sequestration.

31. There is a relatively low take-up of DAS even amongst those clients that qualify for the scheme. Only 13 clients (25%) out of the 52 clients who qualified for DAS in the survey are likely to choose accessing the scheme as their next step. A further two clients who qualify for DAS, but cannot make full repayment within 10 years, planned to make an application for the scheme. This implies that only 5% of the 274 multiple debt clients that took part in the study qualify and are likely to make an application to the Debt Arrangement Scheme.

32. The clients in the survey who would qualify for DAS were as likely to choose negotiating with their creditors on an informal basis, as they were to access DAS. A small number would choose a Protected Trust Deed instead of accessing DAS. However, a third of these clients were either assessing options or were yet to decide which option to take, so it is possible that uptake of DAS would be higher than is shown in the table.

33. Of those without access to DAS, half of the clients are effectively waiting for their creditors to take action by saying that they cannot do anything at present or that they are waiting for sequestration proceedings to be taken against them. This group of 195 clients (71% of the survey sample) have little access to debt options, and tend to either offer token or reduced payments to creditors or wait for sequestration.

Summary

- Only around a fifth (19%) of clients that participated in the survey would qualify for the Debt Arrangement Scheme;

- A further 7% would qualify for DAS, but would NOT be able to make full payment within the specified 10 years. Nearly three-quarters of the debt clients in the survey (71%) do not have access to DAS;

- One in four clients in the survey did not have access to DAS or any other debt options, while over one in ten of the total clients have a debt of at least £10,000 and no access to any debt options;

- Only 13 clients (25%) out of the 52 clients who qualified for DAS in the survey are likely to choose to access the scheme as their next step.

- 13 clients (5%) of the 274 multiple debt clients that took part in the study both qualify and are likely to make an application to the Debt Arrangement Scheme.

Why are debtors not qualifying for DAS?

Conditions of DAS

34. To be eligible to apply for a DPP through the Debt Arrangement Scheme, a client must: -
    - Have an approved money adviser, and
    - Be habitually resident in Scotland, and
    - Have more than one debt; and
    - Have sufficient disposable income to repay her/his debt in a reasonable period of time.
35. A reasonable period of time is defined in the guidance to approved money advisers as ten years. A programme which exceeds ten years is unlikely to be approved by the DAS administrator, unless all the creditors consent.

36. It is likely that a DPP may be a viable option where:-

    - The client is employed and has enough excess income to repay her/his debt within a reasonable length of time; and
    - Is a homeowner with a high level of equity which may make a protected trust deed or sequestration unfeasible; or
    - The client does not wish to use insolvency options, for example, because her/his employment or public position would be adversely affected; or
    - The client wishes to avoid the threat of diligence.

Level of monthly income

37. The main stipulation for DAS is that clients should have a level of disposable income that allows them to pay off their debt within a 'reasonable' time period (this is generally accepted to be 5 years with a maximum of 10 years but will vary according to the client's circumstances). Therefore, the higher the level of monthly disposable income, the more likely the client is to be able to access DAS.

38. Table 3 shows the proportion of clients in the survey who are able to access DAS by their level of monthly disposable income:

Table 3: Access to DAS by level of monthly disposable income

	Can the client access the Debt Arrangement Scheme?				
Level of monthly disposable income	**Yes (%)**	**Yes, but full payment NOT within 10 years (%)**	**No (%)**	**Not known (%)**	**Total number of clients in the survey**
None	0	0	98	2	117 clients
£1-50	12	10	76	2	51 clients
£51-100	25	35	35	5	20 clients
£101-150	41	22	36	0	22 clients
£151-200	55	0	45	0	11 clients
£200+	58	5	28	9	43 clients
Not known	10	0	90	0	10 clients
Average	**19**	**7**	**71**	**3**	**274 clients**

39. A total of 195 clients (71% of all clients in the survey) did not have access to the Debt Arrangement Scheme. There were also 19 clients (7% of all clients) who would be able to access DAS, but not with full payment within 10 years.

40. The table shows that the majority of clients in the survey have a level of monthly disposable income of less than £100 and that it is relatively difficult to access DAS on this level. Only 6% of clients in the survey with a monthly disposable income of less then £100 could access DAS. In comparison, 53% of clients with a disposable income of higher than £100 could access DAS.

41. The ‘borderline’ point for access to DAS, according to the analysis of monthly disposable income in the table, appears to be between £51-100 as over a third of clients (35%) in this group would be eligible for DAS but would not be able to pay back their debt within 10 years.

42. 43% of the total survey sample (117 clients) had no monthly disposable income, and accordingly had no access to DAS. Thus, over half (60%) of all clients in the survey who do not currently have access to DAS fail the conditions due to their lack of disposable income.

43. A further 51 clients in the survey had monthly disposable incomes of between £1 and £50. Of these 51 clients, 39 do not have access to DAS – presumably on the basis of their low level of disposable income. Therefore 80% of the total clients in the survey without access to DAS do not have access due to having little or no disposable income to offer to creditors.

44. A total of 76 clients in the survey have a monthly disposable income of over £101. However, 25 clients (33%) of these 76 cannot access DAS. This suggests that income is an important factor in access to DAS, but that a high level of disposable income does not guarantee access.

Total amount of debt

45. There is no limit to the total amount of debt that a client has outstanding in relation to accessing DAS, however given that the debt must be repaid within a reasonable time period it should be expected that a lower amount of debt would increase the probability of being able to access DAS.

46. Table 4 shows the proportion of clients in the survey who are able to access DAS by their level of total debt:

Table 4: Access to the DAS for total amount of debt

	Can the client access the Debt Arrangement Scheme?				
Total amount of debt	**Yes (%)**	**Yes, but full payment NOT within 10 years (%)**	**No (%)**	**Not known (%)**	**Total number of clients in the survey**
Less than £1,000	0	0	93	7	15 clients
£1,001 – 1,500	22	0	78	0	9 clients
£1,501 – 5,000	19	2	75	5	59 clients
£5,001 – 10,000	28	4	66	2	47 clients
£10,001 – 25,000	19	13	68	3	79 clients
£25,001 – 50,000	22	8	68	3	37 clients
More than £50,000	11	22	56	11	9 clients
Unsure	15	0	85	0	13 clients
Average	**19**	**7**	**71**	**3**	**274 clients**

47. Access to the Debt Arrangement Scheme does not appear to vary widely between different amounts of debt. For example, clients with debts of between £25,001 and £50,000 were as likely to be able to access DAS as those with a debt of between £1,001 and £1,500.

48. This shows that the amount of debt is less important than the individual's ability to repay that debt. The relationship between total debt and level of monthly disposable income is therefore key to accessing DAS and is examined in the next section.

Relationship between total debt and level of monthly disposable income

49. Access to DAS depends mainly on the client's ability to repay their debts within a reasonable period – usually no more than ten years. Therefore, a high disposable income or low levels of debt are not guarantors of accessing DAS.

50. The main stipulation for DAS is that clients should have a level of disposable income that allows them to pay off their debt in a 'reasonable' time period (this is generally accepted to be 10 years). For example, if a client has a debt of £10,000, they would need to have a disposable income of at least £83 a month to pay to their creditors to qualify.

51. As aforementioned, this study found that 195 clients (71% of all clients) in the survey were without access to DAS, and that 80% of these 195 clients were without access due to having little or no disposable income to offer to creditors.

52. This leaves 39 clients in the survey (20% of those without access/14% of all clients) who have some disposable income to offer to creditors, but still do not qualify for DAS.

53. Table 5 shows the link between the total amount of debt and the level of disposable income, and the combinations that are required to qualify for DAS. The numbers indicate how many clients in the survey fall into each combination. The red colouring coding indicates that all the clients with this disposable income/debt combination do not have access to DAS, while the green indicates that all the clients with this combination do have access. The yellow colour coding indicates that some clients with this particular combination have access (the first number) while other clients do not (the second number).

Table 5: Disposable income/amount of debt combinations

<table>
<tr><td></td><td colspan="14">What is the total amount of client's debt?</td></tr>
<tr><td>Level of monthly disposable income</td><td colspan="2">Less than £1,000</td><td colspan="2">£1,001 – 1,500</td><td colspan="2">£1,501 – 5,000</td><td colspan="2">£5,001 – 10,000</td><td colspan="2">£10,001 – 25,000</td><td colspan="2">£25,001 – 50,000</td><td colspan="2">More than £50,000</td></tr>
<tr><td>None</td><td colspan="2">6</td><td colspan="2">4</td><td colspan="2">22</td><td colspan="2">28</td><td colspan="2">38</td><td colspan="2">15</td><td colspan="2">3</td></tr>
<tr><td>£1-50</td><td colspan="2">3</td><td>1</td><td>2</td><td>3</td><td>13</td><td>1</td><td>2</td><td>1</td><td>11</td><td colspan="2">5</td><td colspan="2">0</td></tr>
<tr><td>£51-100</td><td colspan="2">1</td><td colspan="2">1</td><td>2</td><td>1</td><td>1</td><td>2</td><td colspan="2">8</td><td colspan="2">1</td><td colspan="2">0</td></tr>
<tr><td>£101-150</td><td colspan="2">1</td><td colspan="2">0</td><td>1</td><td>1</td><td>3</td><td>1</td><td>5</td><td>6</td><td colspan="2">4</td><td colspan="2">0</td></tr>
<tr><td>£151-200</td><td colspan="2">0</td><td colspan="2">0</td><td>1</td><td>2</td><td colspan="2">3</td><td>2</td><td>1</td><td colspan="2">1</td><td colspan="2">1</td></tr>
<tr><td>£200+</td><td colspan="2">2</td><td colspan="2">1</td><td>3</td><td>5</td><td colspan="2">5</td><td colspan="2">7</td><td>8</td><td>2</td><td>1</td><td>3</td></tr>
<tr><td>Total</td><td colspan="2">13</td><td colspan="2">9</td><td colspan="2">54</td><td colspan="2">46</td><td colspan="2">77</td><td colspan="2">36</td><td colspan="2">8</td></tr>
</table>

KEY:

- RED = Clients do not have a high enough level of disposable monthly income to fully pay off their debt within 10 years (128 clients = 53%)
- YELLOW = Clients may have a high enough level of disposable monthly income – they are on the borderline (85 clients = 35%)
- GREEN = Clients do have a high enough level of disposable monthly income to fully pay off their debt within 10 years (24 clients = 10%)

54. Therefore, despite the changes to DAS under the new regulations, a number of debtors are unable to access DAS despite having some disposable income, due to their inability to repay their debts within the reasonable timeframe of ten years. Twenty percent of those without access to DAS in the survey did not qualify despite having income to offer to creditors. Table 5 also shows that there is a high number of clients in the survey who would be on the borderline of qualifying for DAS, implying that widening access to the scheme could benefit a number of debtors.

Debt repayment period

55. Advisers were asked to note the estimated repayment period for clients who could and could not access DAS. Table 6 shows the estimated debt repayment period for those with access to DAS:

Table 6: Debt repayment period for those with access to DAS

Estimated debt repayment period	Clients who have access to DAS with full payment completed within 10 years
1 year	2
2 years	6
3 years	4
4 years	10
5 years	6
6 years	3
7 years	4
8 years	7
9 years	3
10 years	3
Not known	4

56. The 52 clients in the survey with access to DAS had a wide range of estimated debt repayment periods. Just over half of the 52 clients (54%) could pay off their total debt within 5 years.

57. Nineteen clients (7% of the clients in the survey) were termed as having access to DAS, but could not repay their debts within the ten year period. These clients could repay their debt in a period of between 11 and 23 years. This group of clients have disposable income to be able to repay their debts, but fail to meet the conditions of accessing DAS. This is shown in Table 7:

Table 7: Debt repayment period for those who cannot complete payment within 10 years

Estimated debt repayment period	Clients who have access to DAS, but with full payment NOT completed in 10 years
11 years	2
12 years	5
14 years	3
15 years	1
18 years	1
19 years	2
20 years	3
21 years	1
23 years	1

58. Eleven clients (4% of all the clients in the survey) could repay their debts in a period of between 11 and 15 years, and therefore just miss out on being eligible for DAS.

59. Therefore, if the time period for DAS was raised to 15 years, the proportion of clients in this survey with access to DAS would rise from 19% to 23%. This is a proportional increase of over a fifth in those able to access DAS.

60. The clients in this group would also benefit from possible composition of debt, which would be likely to place them within the same range as those who can pay off their debt in the 10 year time period.

Summary:

- Around three-quarters of clients in the survey who do not have access to DAS fail the conditions of the scheme by having no (or little) disposable income to offer to creditors;

- 20% of clients who do not have access to DAS have disposable income to offer to creditors, but it is not at a level high enough to pay off the total debt within the 10 year time period;

- Access to the Debt Arrangement Scheme does not appear to vary widely between different amounts of debt. For example, clients with debts of between £25,001 and £50,000 were as likely to be able to access DAS as those with a debt of between £1,001 and £1,500;

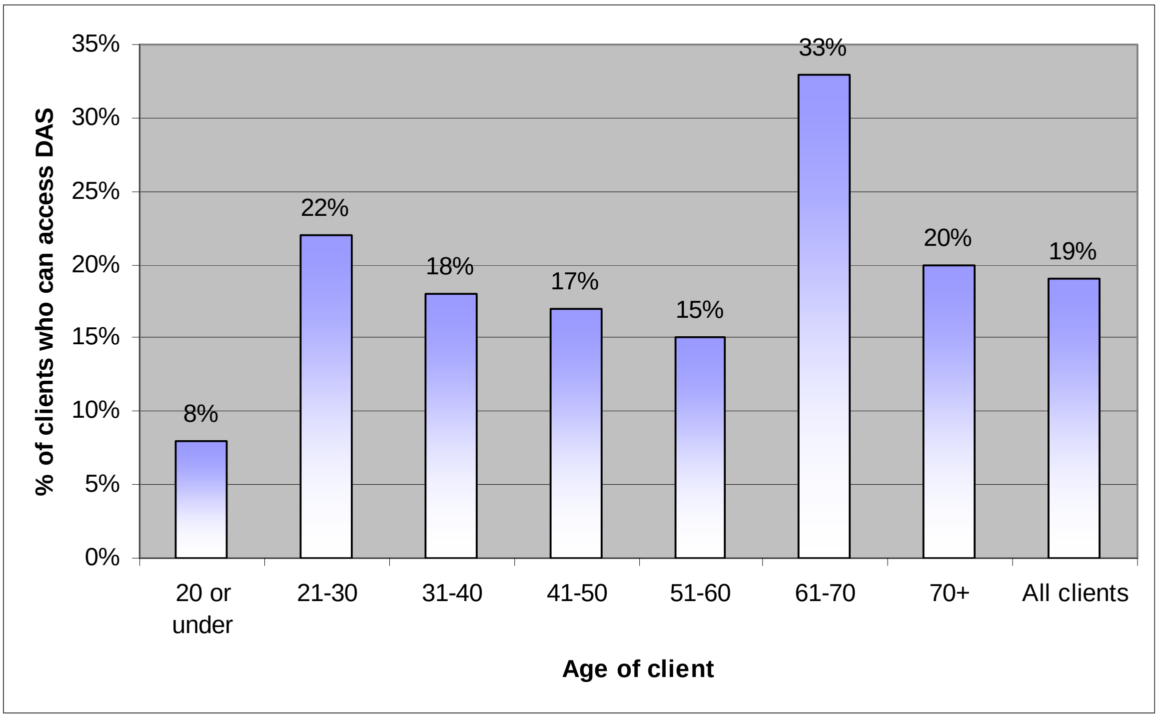
- Eleven clients (4% of all the clients in the survey) could repay their debts in a period of between 11 and 15 years, and therefore just miss out on being eligible for DAS. Therefore, if the time period for DAS was raised to 15 years, the proportion of clients in this survey with access to DAS would rise from 19% to 23%.

Profile of debt clients

61. 195 clients in the survey (79% of all clients) could not access DAS to repay their debt. This section will examine the profile of different social groups and their respective access to DAS. These social groups are:

- Age
- Gender
- Marital status
- Dependent children
- Employment type
- Housing status
- Equity
- Income
- Amount of debt

Figure 2: Access to DAS by Age



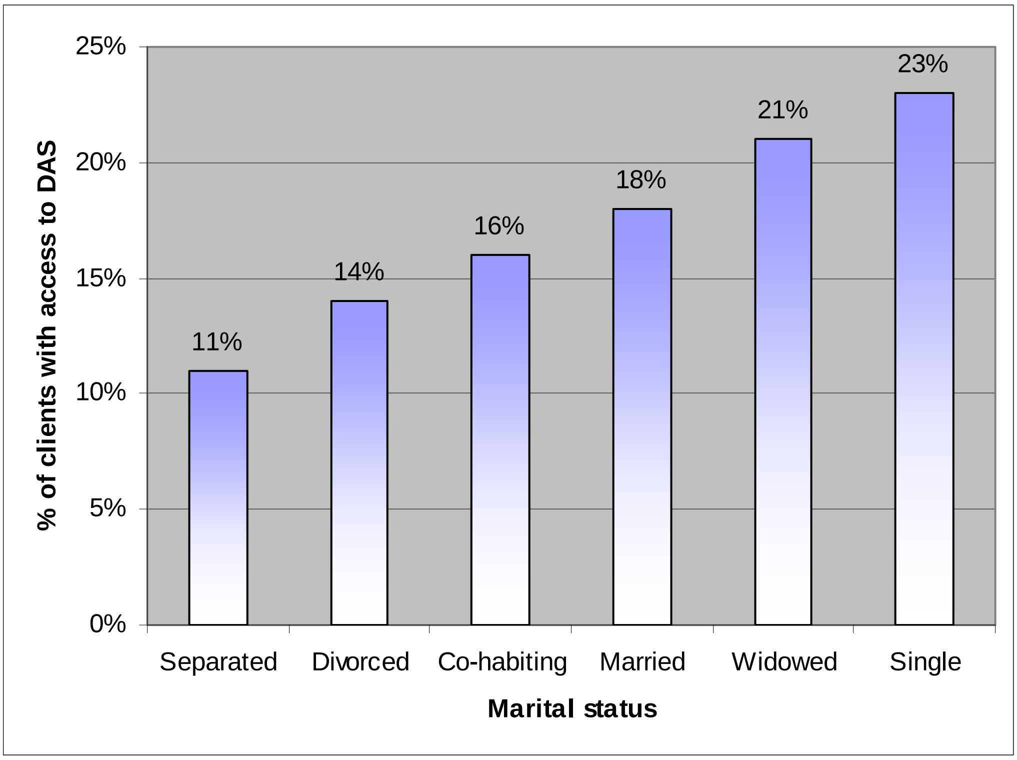
62. Access to DAS did not vary significantly between most age groups, although clients in the 61-70 age group were more likely than the average to have access to DAS, while clients in the 20 or under age group were less likely than the average to have access. However, as 70% of the debt clients in the survey were aged between 21 and 50, it is most likely that clients without access to DAS will be in this age range.

Table 8: Access to DAS by Gender

Gender of client	% of clients with access to DAS
Male	15%
Female	19%
Couple	25%

63. There was little difference between access to DAS for male and female clients. However, the clients who took part in the research as a couple were more likely to be able to access DAS.

Figure 3: Access to DAS by Marital Status



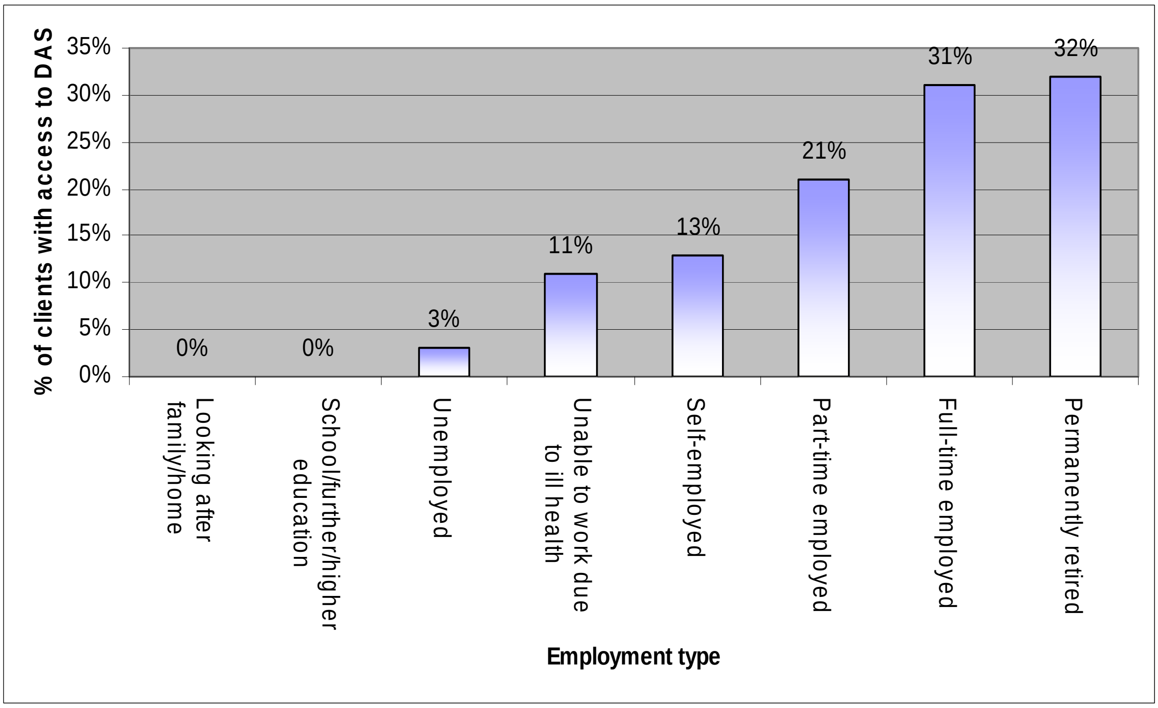
64. The clients in the survey who were separated or divorced were least likely to have access to DAS, possibly due to the financial constraints associated with separation. In contrast to what might be expected, single clients were the most likely to be able to access DAS.

Table 9: Access to DAS by number of children

Number of dependent children	% of clients who can access DAS
None	21%
1 child	18%
2 children	9%
3+ children	22%

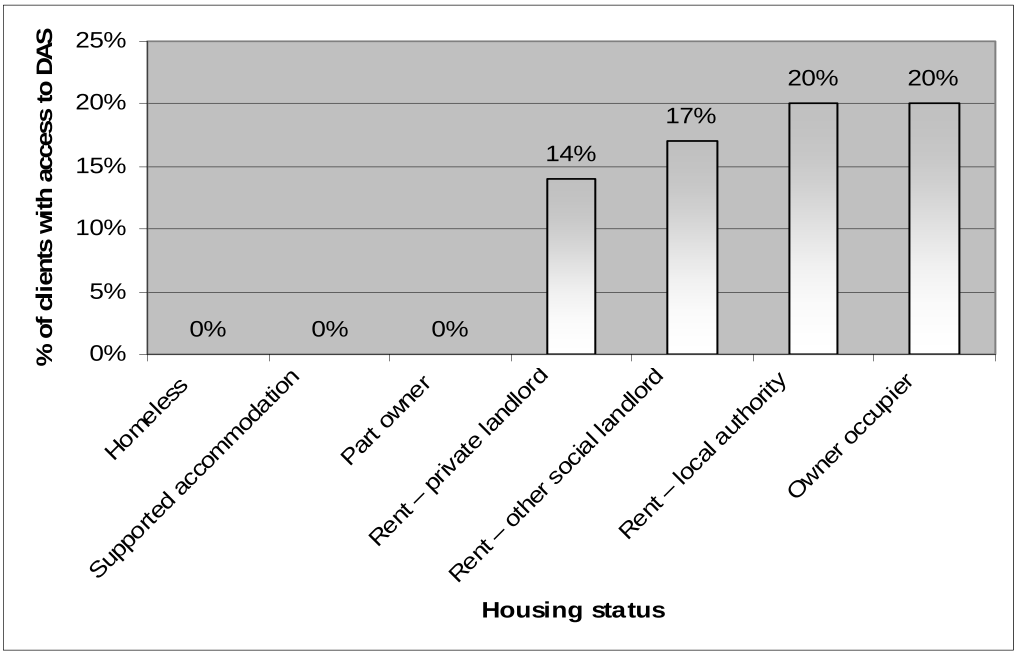
65. Clients with children (16%) were less likely than those without children (21%) to be able to access DAS. This is likely to be attributable to the additional costs involved in supporting a family, impacting on the amount of disposable income available for paying to creditors.

Figure 4: Access to DAS by Employment Type



66. As would be expected, clients in full-time employment are more likely to be able to access DAS due to having a steady income. However, less than a third of those in full-time employment could access the scheme. Clients who were permanently retired were also likely to have access to the scheme. Clients who were looking after their family/home, who were unemployed, or unable to work due to ill health/disability, were unlikely to be able to access DAS.

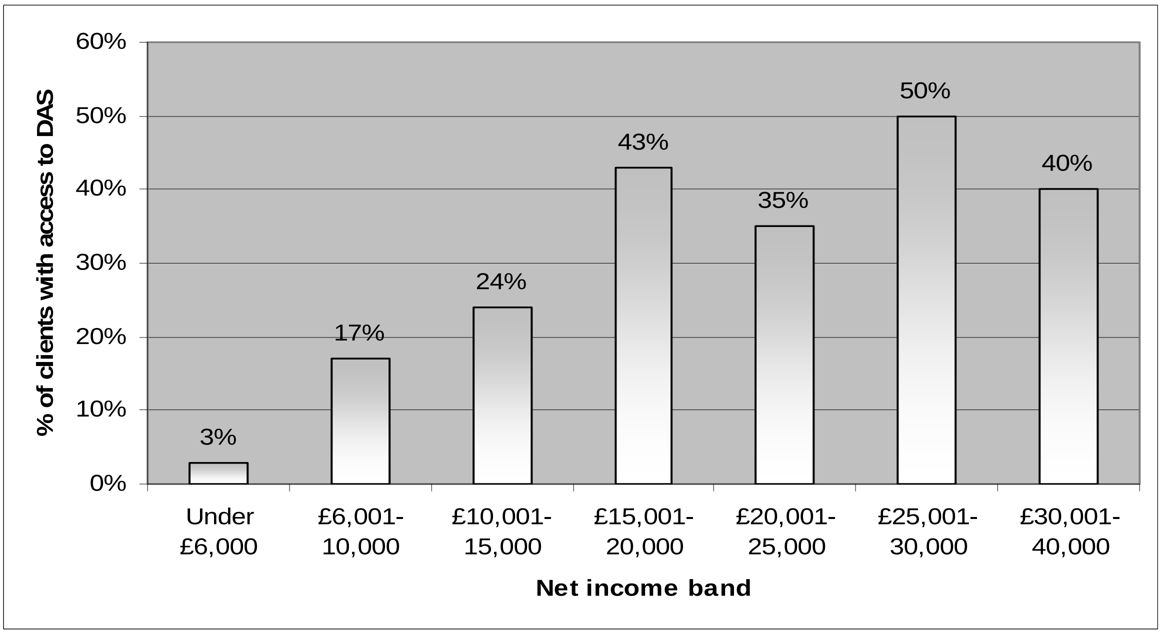
Figure 5: Access to DAS by Housing Status



67. Clients who rented their accommodation were slightly less likely than those who were owner occupiers to be able to access DAS. Aside from homeless clients and those in supported accommodation (none of whom had access), the group with the highest proportion of clients not able to access DAS were those that rented from private landlords or a social landlord.

68. Debt clients who are homeowners with high equity are liable to lose their home through realisation of equity should they opt for a protected trust deed or sequestration. However, the Debt Arrangement Scheme is a good option for these clients, as it provides protection against diligence and bankruptcy. The dwellinghouse is therefore not at risk unless the client accrues mortgage arrears. The results of the survey indicate that those with equity in their homes (23%) were more likely than those without equity (18%) to be able to access DAS. However, nearly two-thirds of owner occupiers (64%) in the survey could not access the scheme, which is a significant figure as DAS is a preferred option for debtors who want to protect the equity in their property. Nearly a quarter (22%) of clients without access to DAS in the survey are homeowners.

Figure 6: Access to DAS by Net Income Band



69. Unsurprisingly, those on lower incomes are less likely to be able to access DAS than those with higher incomes. 159 clients in the survey had a net income of £10,000 or less, with only 11% of these clients being able to access DAS. This is an expected finding, as clients on low incomes are unlikely to have a high level of disposable income. However, those on higher incomes can still struggle to access DAS. For those who earn a net income of £20,001 and above, less than half (39%) would be able to access DAS.

Table 10: Total amount of debt

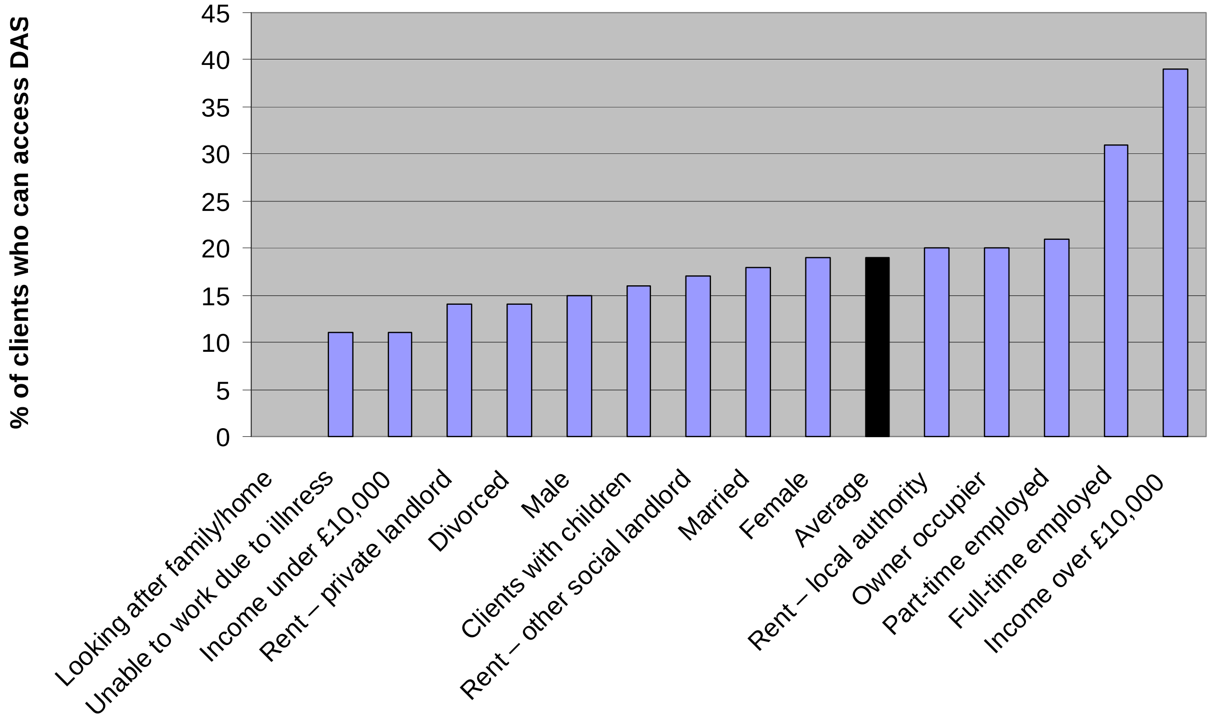
Total amount of client debt	% of clients who have access to DAS in the survey	% of clients who do NOT have access to DAS in the survey
Less than £1,000	0	7
£1,001 - £1,500	4	4
£1,501 – 5,000	21	23
£5,001 – 10,000	25	16
£10,001 – 25,000	29	28
£25,001 – 50,000	15	13
More than £50,000	2	3

70. Clients without access to DAS had slightly lower amounts of debt than those with access to the scheme – but not by a large margin. Forty-four percent of clients without access had a debt of more than £10,000, compared to 46% of those with access to DAS.

Summary:

71. Access to the Debt Arrangement Scheme (DAS) varies by social grouping. This is illustrated in Figure 7:

Figure 7: Summary of access to DAS by social group



72. Unsurprisingly, clients who are in full-time employment and/or have a net annual income of over £10,000 were more likely than the survey average to be able to access DAS. However, only around a third of each group could access DAS.

73. Social groups with little access to the scheme included clients looking after family/home, those unable to work due to ill health/disability, clients with low incomes, and divorced clients.

74. Those with equity in their homes were more likely than the average to be able to access DAS, although less than a quarter of homeowners in the survey were deemed to have access to the scheme.

How can those not currently able to access DAS be included in the future?

75. The majority of the clients in this survey who cannot access DAS are without access due to the lack of a disposable income to offer creditors. This group includes 156 clients – 80% of those who cannot access DAS in the survey. These clients are not suitable for DAS due to their inability to offer their creditors payments but may be helped through other initiatives, such as LILA (low income low assets), that will offer a fast track route to sequestration[5]. However, the LILA scheme is not available to homeowners so this option automatically excludes this client group.

76. Additionally, there are a number of clients who do have some disposable income to offer to creditors, but at a level that is still too low to access the scheme. The aim of DAS in the future should therefore be to concentrate on including those who are on the fringes of the scheme to ensure that all people with the ability to pay back their debts are given the chance to do so.

77. The freezing of interest rates in DAS has already had an impact in terms of the number of debtors who can access the scheme. However, there are a number of measures that could be taken to ensure that the Debt Arrangement Scheme is as inclusive as possible. These include:

- Amending the guidance in relation to the length of time in which it is considered reasonable for debtors to pay off their debt;
- Introducing composition of debt into the scheme.

Increasing the time period in which the debtors pay off their debt

78. A possible measure that could be taken to make DAS more inclusive is an increase in the time period in which clients have to repay their debt. This would decrease the level of disposable monthly income clients need to have to be able to access DAS, thus making the scheme more open to those on lower incomes. This is effectively already happening in some cases, where creditors are agreeing to DPPs that have a repayment period of longer than 10 years.

[5] LILA Consultation – http://www.scotland.gov.uk/Publications/2007/03/30134649/0

79. The following paragraphs show a scenario in which clients have 15 years to pay their debts under DAS instead of the current recommended 10 year limit. This is to evidence the potential increase in the number of clients that could access DAS if this guidance were to be changed. Table 11 shows the total amount of client debt and the disposable monthly income needed to pay off each amount of debt within a 10 year and then a 15 year time period.

Table 11: Disposable income required to repay total debt

Total amount of client debt	Minimum disposable monthly income needed to repay debt in **10** year time period	Minimum disposable monthly income needed to repay debt in **15** year time period
£1,000	£8	£6
£1,500	£12	£8
£5,000	£42	£28
£10,000	£83	£56
£25,000	£208	£139
£50,000	£417	£333

80. Table 11 shows that the level of disposable monthly income required to repay the total debt decreases markedly between the 10 year and 15 year time periods.

81. This scenario would reduce the disposable monthly income needed to pay off debts under DAS. For example, under existing guidance, clients need to have a disposable income of at least £83 to repay a debt of £10,000 or more within 10 years. However, this figure is reduced to £56 if spread over 15 years.

82. The On the Cards report published by CAS in 2004 found that the average debt of a CAB client in Scotland was £13,380. This debt would require a monthly disposable income of £112 to allow the debt to be repaid within 10 years. However, around 70% of clients in this survey did not have enough disposable income to meet this total. If the scheme was expanded to recommend 15 year debt payment programmes the monthly disposable income required to repay this average debt under DAS would be £74.

83. Table 12 shows the link between the total amount of debt and the level of disposable income in the current 10 year scenario, and the combinations that are required to qualify for DAS. The numbers indicate how many clients in the survey fall into each combination.

Table 12: 10 year scenario

	What is the total amount of client's debt?						
Level of monthly disposable income	Less than £1,000	£1,001 – 1,500	£1,501 – 5,000	£5,001 – 10,000	£10,001 – 25,000	£25,001 – 50,000	More than £50,000
None	6	4	22	28	38	15	3
£1-50	3	3	18	5	12	5	0
£51-100	2	1	3	3	8	1	0
£101-150	1	0	2	4	11	4	0
£151-200	0	0	3	3	3	1	1
£200+	2	1	9	5	7	11	4
Total	13	9	54	46	77	36	8

KEY:

- RED = Clients do not have a high enough level of disposable monthly income to fully pay off their debt within 10 years (139 clients = 55%)
- YELLOW = Clients may have a high enough level of disposable monthly income – they are on the borderline (63 clients = 25%)
- GREEN = Clients do have a high enough level of disposable monthly income to fully pay off their debt within 10 years (50 clients = 20%)

84. Table 13 shows the link between the total amount of debt and the level of disposable income in the 15 year scenario. The boxes indicate the combinations that have changed colour code between the 10 and 15 year scenario tables.

Table 13: 15 year scenario

	What is the total amount of client's debt?						
Level of monthly disposable income	Less than £1,000	£1,001 – 1,500	£1,501 – 5,000	£5,001 – 10,000	£10,001 – 25,000	£25,001 – 50,000	More than £50,000
None	6	4	22	28	38	15	3
£1-50	3	3	18	5	12	5	0
£51-100	2	1	3	3	8	1	0
£101-150	1	0	2	4	*11*	*4*	0
£151-200	0	0	3	3	3	*1*	1
£200+	2	1	9	5	7	11	4
Total	13	9	54	46	77	36	8

KEY:

- RED = Clients do not have a high enough level of disposable monthly income to fully pay off their debt within 10 years (134 clients = 53%)
- YELLOW = Clients may have a high enough level of disposable monthly income – they are on the borderline (57 clients = 23%)
- GREEN = Clients do have a high enough level of disposable monthly income to fully pay off their debt within 10 years (61 clients = 24%)

The bold numbers indicate the combinations that have changed colour code between the 10 and 15 year tables

85. Table 13 shows that there are three disposable income/debt combinations that would benefit from an increase in the time limit of DAS to 15 years. It shows that those with disposable incomes of between £101 and £200 will have a greater chance of being able to repay debts of between £10,001 and £50,000 under DAS.

86. Table 14 shows a comparison between the 10 and 15 year scenarios, showing the increase in the number of clients able to access DAS:

Table 14: Comparison between 10 and 15 year scenarios

	Current 10 year period	15 year scenario	Difference
RED = Clients **do not** have a high enough level of disposable monthly income to fully pay off their debt within 10 years	139 clients (55%)	134 clients (53%)	**-2%**
YELLOW = Clients **may** have a high enough level of disposable monthly income – they are on the borderline	63 clients (25%)	57 clients (23%)	**-2%**
GREEN = Clients **do** have a high enough level of disposable monthly income to fully pay off their debt within 10 years	50 clients (20%)	61 clients (24%)	**+4%**

87. The table shows that there would be a 4% increase in the proportion of clients in this survey being able to access DAS within the reasonable time limit if this was increased to 15 years, with access increasing from 20% to 24%. This figure matches that of earlier in the report in which 4% of clients were shown to be within 5 years of the 10 year time period to be able to access DAS.

Positives

- The extension of the reasonable repayment period under DAS would provide greater access to those on the fringes of the scheme. In this survey, increasing the repayment period to 15 years would increase access from 20% to 24%.
- Debtors with lower disposable incomes would have greater access to the scheme.
- A number of DPPs for longer time periods than 10 years have already been agreed. This indicates that there are debtors and creditors who are willing to agree to a longer time period.

Negatives

- Evidence from Scottish bureaux has indicated that clients will take the debt option that offers them a ‘quick fix’ to their money problems. Debtors are unlikely to agree to a repayment plan of up to 15 years, even if keeping to this plan would leave them debt free and able to access mainstream credit in the future.

- Therefore, despite the widening in access that increasing the reasonable time period would afford to debtors, this option would not necessarily increase the numbers of those using DAS to repay their debts.

- Even if a debtor was prepared to undertake a DPP for a fifteen year period, there is some concern relating to the feasibility of sustaining repayments for this length of time.

88. While this would be a good option to increase access to the scheme for those on its fringes, increasing the repayment period would not necessarily increase the number of debtors choosing to use the scheme. Bureaux advisers who are DAS accredited have reported that clients can be put off DAS by the length of time required to repay their total debt. A potentially more attractive option for debtors would therefore be to include composition of debt under the Debt Arrangement Scheme, which is discussed in the following paragraphs.

Composition of debt

89. Composition of debt, in which creditors accept a percentage of the total debt owed to them, is not currently legislated for under DAS. However, its addition as a compulsory element to the scheme could lead to greater inclusion for those with some disposable income to offer, but not currently high enough to enter the scheme. This would work in a similar way to the 15 year scenario above, where those who are on the ‘borderline’ of the scheme would have a greater chance of being able to gain access.

90. At the moment, there is little provision for clients who have some disposable income to offer to creditors, but not enough to repay within the reasonable time limit. Composition of debt would help these clients to repay most of their debts and avoid the stigma of being bankrupt, while creditors would receive more of the money owed to them than they would through Protected Trust Deeds or sequestration. This would allow DAS to place itself between total repayment and Protected Trust Deeds, where both debtors and creditors would benefit more than they would if the client could not access the scheme.

91. Protected Trust Deeds involve debtors paying around a minimum of 30 pence in the pound back to creditors. Given that DAS does not allow for composition of debt, this means that debtors who would be able to repay as much as 80 or 90 pence in the pound of their debt back to creditors in the 10 year period would not be able to access DAS and may have to look at a Protected Trust Deed as an option – even though this debt option is more suitable for those with less disposable income to offer. There is therefore scope for the DAS scheme to position itself between a Protected Trust Deed and full repayment through including an element of composition of debt in the scheme. This would have the advantage of including more debtors with the ability to repay the majority of their debt in the scheme, as well as ensuring that creditors receive more repayments than they would under a Protected Trust Deed.

92. The following paragraphs outline two scenarios of composition of debt under DAS, one in which debtors pay 80 pence in the pound of their total, and the other in which debtors pay 70 pence in the pound. Composition of debt is likely to involve a more complicated method under DAS, but these scenarios serve to evidence the changes in access that would result if the scheme included some elements of composition of debt. Table 15 shows the disposable monthly income needed to repay total debt in the 10 year time period:

Table 15: Disposable monthly income needed to repay total debt

Total amount of client debt	Minimum disposable monthly income needed to repay debt in 10 year time period	Composition of debt – **80p in the pound**	Composition of debt – **70p in the pound**
£1,000	£8	£7	£6
£1,500	£13	£10	£9
£5,000	£42	£34	£29
£10,000	£83	£66	£58
£25,000	£208	£166	£146
£50,000	£417	£334	£292

93. Table 15 shows that composition of debt under DAS would allow debtors with a lower level of disposable income to have greater access to the scheme. For example, the level of disposable income required to repay a total debt of £10,000 over ten years would be reduced from £83 to £58 under composition of debt where clients repay 70 pence in the pound.

94. The On the Cards report published by CAS in 2004 found that the average debt of a CAB client in Scotland was £13,380. This debt would require a monthly disposable income of £112 to allow the debt to be repaid within 10 years. However, around 70% of clients in this survey did not have enough disposable income to meet this total. If the scheme included composition of debt as evidenced by the above scenario, the level of monthly disposable income required to repay the average debt would be reduced from £122 to £90 (in the 80p in the pound scenario) and £78 (70p in the pound scenario) respectively.

95. Table 16 shows the estimated debt repayment period of the clients in the survey that can access DAS, and the estimated debt repayment period of these clients in the composition of debt scenario:

Table 16: Estimated debt repayment period

Estimated debt repayment period	Estimated debt repayment period – **80p in the pound** scenario	Estimated debt repayment period – **70p in the pound** scenario	Clients who have access to DAS with full payment completed within 10 years
1 year	0.8 years	0.7 years	2
2 years	1.6 years	1.4 years	6
3 years	2.4 years	2.1 years	4
4 years	3.2 years	2.8 years	10
5 years	4.0 years	3.5 years	6
6 years	4.8 years	4.2 years	3
7 years	5.6 years	4.9 years	4
8 years	6.4 years	5.6 years	7
9 years	7.2 years	6.3 years	3
10 years	8.0 years	7.0 years	3
Not known			4

96. The 52 clients in the survey with access to DAS had a wide range of estimated debt repayment periods. Just over half of the 52 clients (54%) could pay off their total debt within 5 years.

97. In the 80p in the pound composition of debt scenario, the proportion of clients able to pay off their debt under DAS within 5 years increases to 60%, while all of the 52 clients in the survey who could access DAS would be able to repay their debt within 8 years.

98. In the 70p in pound scenario, the proportion of clients able to pay off their debt under DAS within 5 years increases to 67%, while all of the 52 clients in the survey who could access DAS would be able to repay their debt within 7 years.

99. Nineteen clients (7% of the clients in the survey) were termed as having access to DAS, but could not repay their debts within the ten year period. These clients could repay their debt in a period of between 11 and 23 years. Table 24 shows the estimated debt repayment period for these clients in the composition of debt scenario. The highlighted boxes indicate the clients would be able to repay their debt in 10 years under DAS in the composition of debt scenarios.

Table 17: Estimated debt repayment period

Estimated debt repayment period	Estimated debt repayment period – **80p in the pound** scenario	Estimated debt repayment period – **70p in the pound** scenario	Clients who have access to DAS with full payment completed within 10 years
11 years	8.8 years	7.7 years	2
12 years	9.6 years	8.4 years	5
14 years	11.2 years	9.8 years	3
15 years	12 years	10.5 years	1
18 years	14.4 years	12.6 years	1
19 years	15.2 years	13.3 years	2
20 years	16 years	14 years	3
21 years	16.8 years	14.7 years	1
23 years	18.4 years	16.1 years	1

100. In 80p in the pound scenario, composition of debt would allow a further seven clients to repay their debt within 10 years. The proportion of clients able to repay within 10 years would increase from 19% to 22%. A further three clients would be able to repay their debts in 11 years.

101. In the 70p in the pound scenario, composition of debt would allow a further ten clients to repay their debt within 10 years. The proportion of clients able to repay within 10 years would increase from 19% to 23%. A further eight clients would be able to repay their total debt within 15 years.

Positives

- Composition of debt would increase access to the scheme as it would allow those on the fringes of the scheme to repay their debt within the 10 year time period. The proportion of clients able to repay within 10 years would increase from 19% to 23%, with a further eight clients able to repay their total debt within 15 years.

- All debtors entering the scheme would be able to repay their debt within a shorter time period. The scheme would therefore become a more attractive option to debtors as evidence from bureaux has shown that clients prefer to take options that clear their debt in a short amount of time.

- Creditors would receive a greater percentage of the debt owed to them than they would under a Protected Trust Deed, which a debtor would be likely to use if they could not access DAS.

Negatives

- Creditors would not receive the full value of the total amount owed to them, and may be less likely to agree to a debtor's DPP.

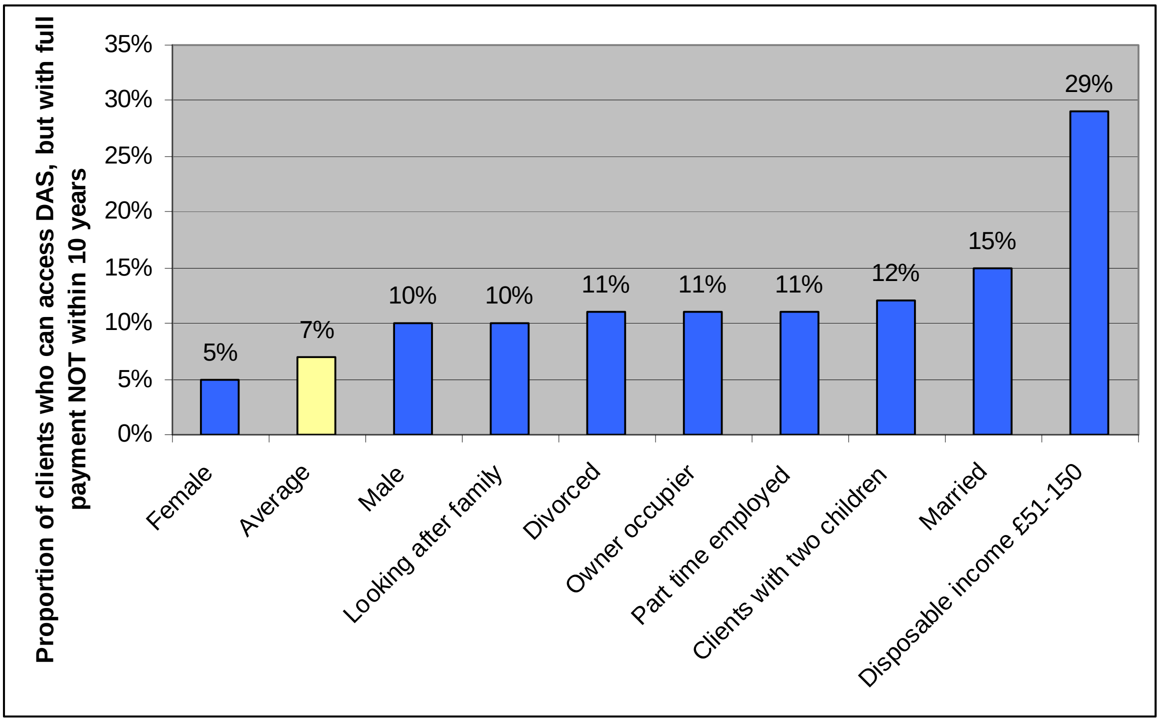
102. Therefore, in this survey, the two options discussed - increasing the repayment time allowed under DAS to 15 years and that of adding composition of debt (70p in the pound) to the scheme - would both increase access in the survey from 19% to 23%. The advantage of composition of debt is that this increase is achieved through decreasing the repayment period under DAS, which would make the scheme more attractive to debtors who are looking for a 'quick fix' for their debt problems.

Who would benefit from DAS reform?

103. Nineteen clients (7% of all clients) in the survey were judged to be viable candidates for accessing DAS, but could not repay their total debt within the 10 year limit. This group of clients have disposable income to offer to creditors, but not at a high enough level to repay their debt within the stipulated period. This is the main group that would benefit from reforms to widen the scheme. Including this group of clients in the scheme would increase the proportion of clients in the survey who are able to access DAS from just under a fifth (19%) to over a quarter (26%).

104. The main social groups that would benefit from widening of DAS are shown in Figure 8. The Figure shows the percentage of clients in each social group who could access DAS, but could not make full repayment within 10 years – those who are on the fringes of the scheme:

Figure 8: Social Groups that would benefit from DAS reform



105. A profile of this group of clients – those likely to benefit from a widening of the scheme – is shown under the following headings:

Marital status

- The main group that would benefit from wider access to the scheme would be married clients. Access to DAS for this group would increase from 18% to 33% if all the clients who would qualify for DAS but who cannot pay within 10 years could be included in the scheme.

Housing status

- The main beneficiaries of a widening of the scheme in this survey would be clients who rent from private landlords, owner occupiers, and, to a lesser extent, clients in social rented accommodation.

Employment type

- There would be an increase in the number of clients with access to the scheme who are self-employed, in part-time employment, and who are permanently retired.

- However, the clients in the survey who are unemployed and seeking work or are unable to work due to ill health/disability would not have an increase in their low access to the scheme.

Dependent children

- Clients with one or two dependent children in the survey would be likely to benefit from the widening of the scheme. Eight more clients in the survey with children would be able to access the scheme, raising the proportion of clients with children that are able to access the scheme from 14% to 24%.

Monthly disposable income

- Clients in the survey with a monthly disposable income of between £51 and £150 would be the overwhelming beneficiaries of a widening of the scheme, effectively more than doubling DAS access in this group from 25% to 60%. This increase would almost put this group on a par in terms of access to DAS with those clients with more than £150 to offer to clients.

- Clients with a disposable income of less than £50 would have an increase in access from 4% to 7%, while clients with a disposable income of more than £150 would have an increase in access from 53% to 62%.

Net Income

- The extension of the scheme to include those clients on the borderline of qualifying would benefit both those on higher incomes and lower incomes.

- The proportion of clients in the survey earning less than £15,000 and able to access DAS would increase from 14% to 19%.

- The proportion of clients in the survey earning more than £15,000 and able to access DAS would increase from 41% to 55%.

Amount of debt

- The clients that are on the borderline of qualifying for DAS have higher debts than other clients in the survey. 84% of clients who could access DAS but not with full payment in 10 years have debts of higher than £10,000, compared with 46% of those who can access the scheme and 43% of those who do not have access. A widening of the scheme would therefore benefit those with larger debts.

106. A wide range of clients would benefit from a widening of the scheme, particularly married clients, owner occupiers and private renters, self employed and part-time employees, those with a monthly disposable income of between £50 and £150 to offer to creditors, both those on lower and higher incomes, and those with one or two dependent children.

107. The groups that are less likely to benefit include clients in local authority accommodation, clients who are unemployed or unable to work due to illness/disability, and clients with three or more children.

Summary

- There are a number of clients who have some disposable income to offer to creditors, but at a level that is too low to access the scheme;

- The aim of DAS in the future should therefore be to concentrate on including those who are on the fringes of the scheme to ensure that all people with the ability to pay back their debts are given the chance to use the scheme to do so;

- Increasing the amount of time clients have to repay their debt in the scheme would increase the number of people who can access DAS. In this survey, increasing the time limit from 10 years to 15 years would increase the proportion of clients who can access DAS from 19% to 23%;

- Composition of debt would help debtors to repay most of their debts and avoid the stigma of being bankrupt, while creditors would receive more of the money owed to them than they would through Protected Trust Deeds or sequestration. In this survey, including composition of debt of 70p in the pound would increase the proportion of clients able to repay their total debt within 10 years from 19% to 23% and, importantly, decrease the length of repayment periods for clients.

- A wide range of clients would benefit from a widening of the scheme, particularly married clients, owner occupiers and private renters, self employed and part-time employees, those with a monthly disposable income of between £50 and £150 to offer to creditors, both those on lower and higher incomes, and those with one or two dependent children.

Why aren’t debt clients using DAS?

DAS and Scottish bureaux clients

108. Consumer debt enquiries continue to be the biggest single issue dealt with by Scottish bureaux, with 60,870 enquiries related to consumer debt in 2006/07.

109. The On the Cards report, published in 2004, found that Scottish CAB clients have increasing amounts of debt. Debt clients owe an average of £13,380, and over one in five clients have debts of more than £20,000. The average number of debts is just over five. Only a fifth of clients have just one debt – therefore in principle, four-fifths of CAB debt clients could qualify for DAS on this account.

110. However, over half of CAB debt clients have monthly incomes of less than £800, and almost one quarter have incomes under £400. CAB debt clients are considerably poorer than the population of Scotland as a whole. Therefore, there is a question mark over the extent to which bureaux clients will have sufficient disposable income to access the scheme.

111. If we are to take the sample of 274 clients in this survey as broadly representative of bureaux debt clients as a whole, it is possible to make estimations of the total number of clients who might be eligible and be able to benefit from DAS.

112. There were 19,387 clients who brought new multiple debt cases to bureaux during 2005/06, with a total debt of over £200 million. This made an average total debt of around £11,000 with an average number of debts of 5.

113. This research found that around 19% of clients in the survey would have access to DAS, with a further 7% who would qualify, but who would not be able to repay their debts within the recommended 10 year period. When these findings are applied to the bureaux debt clients in 2005/06, it shows that nearly 3,700 debt clients could be eligible for DAS, with a further 1,300 who would qualify but cannot repay their total debt within 10 years. This is shown in Table 18:

Table 18: Potential bureaux clients with access to DAS

	Can the client access the Debt Arrangement Scheme?				
	Yes	**Yes, but full payment NOT within 10 years**	**No**	**Not known**	**Total number of debt clients**
Bureaux debt clients (2005/06)	**3,684**	**1,357**	**13,745**	**582**	19,387
Total	19%	7%	71%	3%	

114. Without analysing all of the debt cases individually, it is difficult to say exactly how many clients would be able to access the Debt Arrangement Scheme. However, the analysis of this survey has shown that nearly one in five bureaux clients with multiple debts would qualify for DAS, which shows that there are significant numbers of clients who are potential users of the scheme. Using these figures, nearly 3,700 bureaux debt clients could have qualified for DAS in 2005/06, compared with the figure of 326 clients who actually did access the scheme in the first three years of its existence prior to the recent reforms.

115. This survey found that only a quarter (25%) of those who were found to qualify for DAS are taking action to access the scheme. Given this figure, this would imply that out of the 3,700 bureaux debt clients outlined above, around 925 would have chosen to access the scheme. Of course, we know that this was not the case. The following paragraphs will therefore examine why clients have not used DAS and suggest ways in which they could be encouraged to access the scheme.

Why don't clients use DAS?

116. There would appear to be a number of bureaux debt clients who could have accessed DAS, but ultimately did not. Consideration must then be given as to why they have not accessed the scheme. These figures suggest that DAS was not an attractive option during the first three years of its existence, and that other debt options, such as Protected Trust Deeds, were far more widely used. Table 19 shows the marked difference in the take up of Protected Trust Deeds compared to DAS:

Table 19: Use of debt options

Debt option	Number of clients	
Debt Arrangement Scheme (DAS)	326	(2004 – July 2007)[6]
Sequestration	16,803	(2004 – Q2 2007)[7]
Protected Trust Deed	24,971	(2004 – Q2 2007)[8]

117. There is evidence from bureaux that clients prefer or benefit from debt options other than DAS. Protected Trust Deeds are the most used debt option in Scotland, and they are attractive to debt clients as they have an element of debt relief and are for a shorter time period (typically three years). However, the client's assets can be included in the agreement possibly leading to the loss of property, while the client is likely to struggle to access affordable credit in the future. Despite the disadvantages of Protected Trust Deeds, they often prove to be more attractive to clients than DAS.

An East of Scotland CAB reports of a client who would be eligible for DAS, but found that a Protected Trust Deed would be a more attractive option for him. The client had debt of £22,000, was in full-time employment, and had a disposable income of £150 per month. The bureau went over all the debt options with the client, and found that DAS was a possibility, but would mean a repayment period of approximately 12 years. A Protected Trust Deed was the preferred option for the client, as it would allow him to be clear of his debt after 3 years.

An East of Scotland CAB reports of a client with access to the Debt Arrangement Scheme, but chose a Protected Trust Deed as this required a shorter commitment period. The client had a debt of around £10,000 and a disposable income of £150 a month. The client could have made an application to access DAS and pay off his debt in around 5 ½ years. However, the client was attracted to the idea of a Protected Trust Deed as this would mean that the client would be debt free in three years.

118. The lack of use of DAS has been blamed on the lack of provision for the freezing of interest on debts in the original legislation. Freezing of interest has since been incorporated into the Debt Arrangement Scheme, and it can be expected that this will increase the number of debt clients who choose DAS as a debt option.

[6] Accountant in Bankruptcy, November 2007

[7] The Insolvency Service, November 2007

[8] The Insolvency Service, November 2007

119. It may also be the case that clients choose to manage their debt through making informal offers to their creditors, and repaying their debt in this fashion. If the debt was a relatively low amount that could be repaid without the use of formal debt options, this would be a more attractive method for debt clients. However, given the increasing amount of debt that clients are incurring and the record number of sequestrations in Scotland in the last year, it seems likely that clients will need to resort to formal debt options to escape the debt cycle.

What would encourage clients to use DAS?

120. The Debt Arrangement Scheme offers those who are willing and able to repay their debts a secure method of repayment while being protected from action from creditors and the loss of their home. Recently, the scheme has been extended to offer debtors the chance to repay without incurring extra interest and charges on their existing debt. The scheme is a positive way of offering debtors a way out of the debt cycle without being labelled with the stigma of bankruptcy.

121. However, the low take-up of DAS suggests that the scheme has so far not been a success. Debt clients have opted for Protected Trust Deeds over the Debt Arrangement Scheme at a ratio of around 80:1. This disparity has been partly attributable to the conditions of accessing DAS excluding some debtors who have small disposable incomes, but also due to the scheme not being attractive enough to debtors as a means of getting out of debt.

Freezing of interest

122. The introduction of reforms to DAS has seen an increase in the number of debtors applying for the scheme. This is mainly due to the freezing of debt in the scheme, as this provision was one of the main perceived advantages of Protected Trust Deeds. Table 20 outlines the increase in numbers applying to DAS as a result of the reforms in July 2007:

Table 20: Applications to DAS following reforms to the scheme[9]

Year	Applications	Approved	Rejected
2005	115	108	7
2006	150	147	3
2007 (Jan – July)	61	55	6
2007 (July – Nov)	206	191	9

[9] Figures obtained from the Accountant in Bankruptcy, November 2007

123. Table 20 shows that the number of approved applications to DAS has increased by nearly 350% from the first half to the second half of 2007. There have also been 155 intimations of an intention to apply to the scheme, of which 62 have so far put in an application.

124. Table 21 shows ‘snapshots’ of debtors using the scheme before and after the reforms were implemented. The figures in the ‘snapshots’ relate to debtors being accepted to the scheme in two randomly chosen weeks, one before the reforms and one after. Thirteen clients are represented in the first week and 15 in the second week.

Table 21: Comparison of DAS clients before and after changes to the scheme[10]

	Pre July 2007	**Post July 2007**
Average level of debt	£23,753	£21,814
Range of debt	£3,796 - £64,102	£7,705 - £56,770
Average monthly disposable income	£255	£218
Range of disposable income	£50 - £599	£60 - £417
Average number of years to pay off debt	7.8	8.4
Range of years	2.8 – 10.8	4.6 – 11.3
Average debt to monthly disposable income ratio	93:1	100:1

125. The table shows that there are differences in the clients being accepted into DAS before and after the changes to the scheme. The clients accepted post-reform had a lower average disposable income (£218) than those accepted before the reforms (£255). This suggests that the reforms of DAS have allowed clients with lower disposable incomes to have greater access to the scheme.

[10] Figures obtained from the Accountant in Bankruptcy, November 2007

126. The increase in the take-up rate of DAS in the second half of 2007 indicates that the reforms to the scheme, most notably the freezing of interest rates under DAS, has had some success in widening access the scheme. The number of successful applications to DAS has increased, while the average disposable income needed to enter the scheme appears to have decreased.

127. However, the average disposable income in DAS shown above (£218) is still higher than that of the majority of the clients in this survey. Over 80% of the clients in this survey had less than £200 in disposable monthly income to offer to creditors. There is therefore scope for the scheme to lower the average monthly disposable income of clients to include a greater number of lower income debtors.

Composition of debt

128. There are other provisions that could be included as part of the scheme that could further extend DAS to debtors. The same methods of extending the scheme examined in Section 4 of this research also have the potential to not only provide greater access to DAS for clients, but also to encourage clients to actually use the scheme to pay their debts.

129. DAS could be further extended to appeal to debtors who would benefit from it by including composition of debt within the scheme. At the moment, there is little provision for clients who have some disposable income to offer to creditors, but not enough to repay within the reasonable time limit. Composition of debt would help these clients to repay most of their debts and avoid the stigma of being bankrupt, while creditors would receive more of the money owed to them than they would through Protected Trust Deeds or sequestration. This would allow DAS to place itself between total repayment and Protected Trust Deeds, where both debtors and creditors would benefit more than they would if the client could not access the scheme.

130. Composition of debt could allow debtors greater access to the scheme and DAS clients would be able to repay their debts in a quicker time. An important perceived advantage of Protected Trust Deeds for clients, as shown by client evidence in this report, is that trust deeds are typically only for a three year period. Composition of debt within the scheme would allow debtors to pay off their debt in a quicker time, thus potentially making DAS a more attractive and palatable debt option. In this survey, including composition of debt of 70p in the pound would increase the proportion of clients able to repay their total debt within 10 years from 19% to 23% and, importantly, decrease the length of repayment periods for clients.

Summary

- The evidence in this report has shown that not only are there a number of debt clients who cannot access DAS despite having money to offer creditors, but there are also a large number of debt clients who could access the scheme, but choose not to.

- Using the findings from this report, nearly 3,700 bureaux debt clients in 2005/06 could have been eligible for DAS, with a further 1,300 who would qualify but cannot repay their total debt within 10 years.

- Given that there are a number of bureaux debt clients who could have accessed DAS, but ultimately did not, it must be asked why these clients did not consider DAS. These figures suggest that DAS was not an attractive option during the first three years of its existence, and that other debt options, such as sequestration and Protected Trust Deeds, were far more widely used.

- The reforms to DAS that took place in July 2007, particularly the freezing of interest in the scheme, have been relatively successful in widening access to the scheme. The number of successful applications to DAS has increased, while the average disposable income needed to enter the scheme appears to have decreased.

- The same methods of extending the scheme examined in Section 4 of this research, composition of debt and the extension of the reasonable time period for repayment, have the potential to not only provide greater access to DAS for clients, but also to encourage clients to actually use the scheme to pay their debts.

Conclusion

131. The Debt Arrangement Scheme is a positive debt option for debtors who are willing and are able to repay their debts given the chance to do so. The scheme offers a way to avoid the stigma and problems of bankruptcy for the debtor. However, the low take-up of the scheme suggests that it has not been a success, and that other debt options are continuing to be more likely choices for those in debt. Debtors who are willing to repay their loans are still often without access to the scheme, while those with access are choosing other debt options.

132. This research has addressed the reasons for the lack of use of DAS, looking in particular at the lack of access to the scheme for many debtors. The research found that the majority of debtors do not have access to DAS, and that there are a number of clients who do not have access despite having disposable income to offer to their creditors.

133. The freezing of interest rates will certainly help to open access to the scheme for clients, and recent statistics show that this reform has had a positive effect on encouraging clients to access DAS. However, there are other possible measures that could be taken to make DAS as inclusive as possible, including extending the reasonable time limit for repayment and the composition of debt.

134. Extending the reasonable period for repayment under DAS would increase access to the scheme for those on its fringes. In this survey, extending the period for repayment to 15 years would increase access for clients from 19% to 23%.

135. However, evidence in this report suggests that debtors prefer shorter time periods of repayment and will opt for the shorter debt options, such as Protected Trust Deeds. Including composition of debt under DAS would have the effect of increasing access to the scheme for clients who have disposable income to offer, with the added benefit of making the scheme more attractive to debtors as repayment times would be reduced.

136. Clients who would benefit from a widening in access to the scheme would include married clients, owner occupiers and private renters, part-time employees, and those with a monthly disposable income of between £50 and £150 to offer to creditors. A widening in access would give greater access to those on lower incomes.

137. Extending the Debt Arrangement Scheme is key to providing those on its fringes, those that have disposable income to offer but not at a high enough level, a route out of debt that doesn't involve sequestration or Protected Trust Deeds. This is particularly the case for home owners, who are afforded protection for their equity under the scheme. However, only a fifth of homeowners could access the scheme, with a further 11% who were just outside of the scheme.

138. The Debt Arrangement Scheme is a positive way for debtors to repay their debts away from the problems of punitive charges and harassment by creditors. It offers people a way out of the cycle of debt. However, it is essential that those that are willing and able to get out of debt are allowed the chance to do so. Extending the scheme to those on its fringes would not only allow a greater number of debtors to be able to access the scheme, it would also encourage those who can access it to actually use it. The inclusion of freezing of interest under DAS is a positive step forward for those with debt in Scotland. Further extending the scheme, particularly through including composition of debt, would be the next step towards helping those that are ready and willing to escape the debt cycle.

Appendix 1: Bureau Questionnaire

Bureau name: Bureau case number: Date:

Q1 *Gender*

Male	[1]
Female	[2]

Q2 *Age*

20 or under	[1]
21 - 30	[2]
31 - 40	[3]
41 – 50	[4]
51 – 60	[5]
61 – 70	[6]
70+	[7]

Q3 *Marital Status*

Single (never married)	[1]
Married	[2]
Separated	[3]
Divorced	[4]
Widowed	[5]
Co-habiting	[6]

Q4 *Housing circumstances*

Owner occupier	[1]
Part owner (part rent & part mortgage)	[2]
Rent (local authority)	[3]
Rent (other social landlord)	[4]
Rent (private landlord)	[5]
Not householder	[6]
Homeless	[7]
Supported accommodation	[8]
Other	[9]

Q5 *Employment type*

Self-employed	[1]
Full-time employed	[2]
Part-time employed	[3]
Looking after family/home (including carers)	[4]
Permanently retired	[5]
Unemployed and seeking work	[6]
School/Higher/Further education	[7]

Q6 *Net income band*

Under £6,000	[1]
£6,001 – 10,000	[2]
£10,001 – 15,000	[3]
£15,001 – 20,000	[4]
£20,001 – 25,000	[5]
£25,001 – 30,000	[6]
£30,001 – 40,000	[7]
Over £40,000	

Government work/training scheme	[8]
Unable to work due to ill health/disability	[9]
Other	[10]

Q7 *<u>Dependant children</u>*

None	[1]	1	[1]
2	[3]	3 +	[4]

Q8 *<u>What is the total amount of the clients' debt?</u>*

Less than £1,000	[1]	£5,001 – 10,000	[4]	More than £50,000	[7]
£1,001 – 1,500	[2]	£10,001 – 25,000	[5]	Unsure	[8]
£1,501 – 5,000	[3]	£25,001 – 50,000	[6]		

Q9 *<u>What is the level of monthly disposable income?</u>*

None	[1]	£101 – 150	[4]
£1 – 50	[2]	£151 – 200	[5]
£51 – 100	[3]	£200+	[6]

Q10 *<u>If client is a homeowner, what is the total equity in their home?</u>*

£ 0 – 3,000	[1]	£40,001 – 50,000	[7]
£3,001 – 5,000	[2]	£50,001 – 60,000	[8]
£5,001 – 10,000	[3]	£60,001 – 70,000	[9]
£10,001 – 20,000	[4]	£70,001 – 80,000	[8]
£20,001 – 30,000	[5]	£90,001 – 100,000	[10]
£30,001 – 40,000	[6]		

Q11 *<u>Can the client access the Debt Arrangement Scheme?</u>*

Yes, with full payment completed within 10 years	[ ]
Yes, but full payment not completed within 10 years	[ ]
No	[ ]

Q12 <u>What is the estimated debt repayment period</u>? (please indicate in years)

____

Q13 *<u>Can the client access other debt options?</u>* (If no, please go to Q15)

Yes [ ] No [ ]

Q 14 *<u>If yes, which ones?</u>*

Protected Trust Deed [ ] Sequestration [ ] Other [ ]

Q15 *<u>What will be the next step for this client?</u>* (please indicate in as much detail as possible)

Acknowledgements

Thanks to all the Citizens Advice Bureaux that submitted evidence – without it, this report could not have been written.

- Argyll & Bute
- Central Borders
- Clydesdale
- Dumfries & Galloway
- East Ayrshire
- East Kilbride
- Easterhouse
- Grangemouth & Bo’ness
- Motherwell & Wishaw
- Orkney
- Peebles
- Roxburgh
- West Lothian

Special thanks to the following for their help and assistance with the publishing of this report: Kirsten Cameron and the admin team at Citizens Advice Scotland, Louise Goulbourne, Lindsay Isaacs, Sarah McGarrol, David McNeish, Susan McPhee, and Lyndsay Russell.

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Large print copies available on request