Title: Statutory Debt Repayment Plan **IA No:** **RPC Reference No:** RPC-HMT-5143(1) **Lead department or agency:** HM Treasury **Other departments or agencies:**	Impact Assessment (IA)
	Date: 13/05/2022
	Stage: Consultation
	Source of intervention: Domestic
	Type of measure: Secondary legislation
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Summary: Intervention and Options

RPC Opinion: No formal opinion

Cost of Preferred (or more likely) Option (in 2019 prices)			
Total Net Present Social Value	**Business Net Present Value**	**Net cost to business per year**	**Business Impact Target Status**
£1,605.0m	£1,595.4m	-£185.3m	Qualifying provision

What is the problem under consideration? Why is government action or intervention necessary?

There is currently no statutory debt solution that facilitates full repayment of debts. Debt Management Plans allow debtors to enter voluntary agreements with their creditors to repay debts, but there are a number of barriers to entry into and success of these plans due to their voluntary nature – creditors are not obliged to agree to a plan, or to stay within one if they change their minds. The absence of a statutory repayment solution means that many debtors enter sub-optimal solutions that mean they are unable to repay their debts, despite having the potential ability to do so.

What are the policy objectives of the action or intervention and the intended effects?

The government wants to fill a gap in the market for a statutory debt repayment solution and provide debtors with a greater opportunity to repay their debts in a way that is sustainable, stable and inclusive. The intention is to reduce barriers to entry into and success of repayment solutions by providing statutory backing for such a solution, allowing more people to reach financial stability without requiring insolvency or other suboptimal solutions.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

To achieve these objectives, the government has considered two options in detail:

a) **Do nothing.** No government intervention to address the gap in the market for a statutory debt repayment solution or the barriers to entry and success of voluntary repayment solutions.
b) **A Statutory Debt Repayment Plan (preferred)**, delivering the second part of the Debt Respite Scheme and the government's manifesto commitment. Given there already exists a non-statutory debt repayment solution, this is the only option beyond doing nothing and is expected deliver a higher net present social value than the counterfactual.

This impact assessment also sets out why a non-regulatory option has been ruled out.

Is this measure likely to impact on international trade and investment?		No		
Are any of these organisations in scope?	**Micro** Yes	**Small** Yes	**Medium** Yes	**Large** Yes
What is the CO_2 equivalent change in greenhouse gas emissions? (Million tonnes CO_2 equivalent)		**Traded:** N/A	**Non-traded:** N/A	

Will the policy be reviewed? It will be reviewed. **If applicable, set review date:** The policy will be reviewed within five years of commencement. When a commencement date is fixed, the RPC Secretariat will be made aware.

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible SELECT SIGNATORY: ______________ Date: ______________

Summary: Analysis & Evidence

Policy Option 1

Description: Do nothing

FULL ECONOMIC ASSESSMENT

Price Base Year 2019	PV Base Year 2020	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low:	**High:**	**Best Estimate:** 0

COSTS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Cost** (Present Value)
Best Estimate	0		0	**0**

Description and scale of key monetised costs by 'main affected groups'

In the absence of intervention, no change is expected relative to the counterfactual. Existing debt solutions would remain to be used and doing nothing would not have an impact on this or on the costs experienced by relevant parties.

Other key non-monetised costs by 'main affected groups'

Nil.

BENEFITS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Benefit** (Present Value)
Best Estimate	0		0	**0**

Description and scale of key monetised benefits by 'main affected groups'

As with costs, doing nothing would mean existing debt solutions continue to be used, providing the same level of benefits as they would otherwise.

Other key non-monetised benefits by 'main affected groups'

Nil.

Key assumptions/sensitivities/risks	**Discount rate (%)**	3.5%

Nil, as doing nothing is not expected to change the counterfactual.

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			**Score for Business Impact Target (qualifying provisions only) £m:**
Costs: 0	**Benefits:** 0	**Net:** 0	0

Summary: Analysis & Evidence

Policy Option 2

Description: Statutory Debt Repayment Plan (SDRP)

FULL ECONOMIC ASSESSMENT

Price Base Year 2019	PV Base Year 2020	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low:	High:	Best Estimate: 1,604.99

COSTS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Best Estimate	0		35.5	**305.5**

Description and scale of key monetised costs by 'main affected groups'

Creditors would be required to make greater contributions to fund the administration of the SDRP than they would otherwise be required in the counterfactual. This is estimated to amount to £267.90m over the first 10 years of the scheme. Debt advisers would face higher administration costs of the SDRP than they would in the counterfactual due to the obligations that it creates. This is estimated to amount to a cost of £37.56m in the first 10 years of the scheme. Creditors and debt advice providers would also be expected to face additional costs from systems development, familiarisation and dissemination, and creditors will also face their own administration costs. Given the challenge in estimating these costs without stakeholders having sight of the full regulations and policy, this has not yet been included. These costs will be explored further as part of the consultation and set out in the final impact assessment.

Other key non-monetised costs by 'main affected groups'

Nil.

BENEFITS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Best Estimate	0		221.9	**1,910.4**

Description and scale of key monetised benefits by 'main affected groups'

The SDRP is expected to benefit debtors, creditors, debt advisers by providing a solution with higher success and repayment rates than counterfactual debt solutions. It is estimated that debtors will receive a monetised benefit of £9.61m as a result of the increased success rate of SDRPs when compared to solutions in the counterfactual. However, debtors are also expected to receive a significant degree of non-monetisable benefits on top of this (see below). It is estimated that creditors will receive an additional £1,834.57m from increased recoveries as a result of the SDRP in its first 10 years and that debt advisers will gain a total benefit of £66.27m over the first 10 years of the scheme from a net increase in income and a reduction in repeat debt advice sessions.

Other key non-monetised benefits by 'main affected groups'

Non-monetised benefits to debtors include: lower dependence on state-subsidised housing; more positive education and employment outcomes, partly as a result of higher levels of parental engagement; lower risk of children being taken into care; lower rates of desperation crime; lower risk of eviction or repossession; lower risk of job loss; lower rates of relationship breakdown; increased social security take-up; higher rates of small business continuity, and more positive future credit access.

Key assumptions/sensitivities/risks	Discount rate (%)	3.5%

The costs and benefits of SDRP are sensitive to changes in take-up. If take-up was to be lower than forecast, the benefits and ongoing costs of the scheme would be lower. As government programmes that rely on consumer demand are often over-forecast, this has been accounted for with an optimism bias adjustment to the forecast caseload of 20%. The inverse risk of take-up rising above forecast levels is low. Demand for debt advice can be volatile but supply constraints within the debt advice sector would limit the scope for significant caseload increases.

BUSINESS ASSESSMENT (Option 2)

Direct impact on business (Equivalent Annual) £m:	

Costs: **305.45**	**Benefits:** 1,910.44	**Net:** -1,604.99	**Score for Business Impact Target (qualifying provisions only) £m:**

1 Legislative context

1.1 This impact assessment is based on the draft Statutory Debt Repayment Plan (SDRP) regulations included in the Government's April 2022 public consultation. This impact assessment does not introduce new policy detail beyond those regulations. The government will use this public consultation to finalise the Regulations, and to inform development and refinement of a final stage impact assessment that will accompany those Regulations.

1.2 The first part of the Debt Respite Scheme is breathing space, which came into force on 4 May 2021 and offers people in problem debt a moratorium on enforcement action, fees and certain forms of interest while they engage with professional debt advice.[1] Though two parts of the same scheme, breathing space and the SDRP are distinct policies. Only the SDRP is assessed here.

1.3 Section 35 of the Financial Services Act 2021 provided for additional legal powers to deliver the SDRP. It did not, of itself, deliver any part of the SDRP; rather, it provided the powers that will be used to legislate for the delivery of the SDRP in due course.

1.4 Section 35 of the Financial Services Act 2021 amended sections 6 and 7 of the Financial Guidance and Claims Act 2018 to allow, as set out in the consultation response, an SDRP to be imposed on a creditor in limited circumstances without their consent and to provide for a charging mechanism through which creditors will contribute to the cost of running the Scheme.

2 Problem under consideration

2.1 There is currently no statutory debt solution focussed entirely on repayment in England and Wales. Existing statutory debt solutions for individuals are all forms of insolvency and almost always involve some element of debt relief: bankruptcies, individual voluntary arrangements (IVAs), and debt relief orders (DROs).

2.2 For many debtors, while repayment of their debts may be possible, the solutions mentioned above do not support them to achieve this.

2.3 Debt Management Plans (DMPs) are an existing non-statutory debt repayment solution. Analysis produced for the Money and Pensions Service (MaPS) suggests that DMPs are the UK's most common debt solution. While DMPs do support some debtors to repay their debts, the non-statutory nature of DMPs means that they are prone to failure where creditors or debtors do not adhere to their terms.

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[1] The government has delivered Breathing Space via *The Debt Respite Scheme (Breathing Space Moratorium and Mental Health Crisis Moratorium) (England and Wales) Regulations 2020*.

2.4 There are also barriers to entry into DMPs. As DMPs are non-statutory, creditors are not obliged to accept them and the cumulative level of repayments demanded by creditors can be unaffordable for the debtor.

2.5 DMPs also do not provide for the repayment of priority debts, including rent arrears and arrears on utility bills. Those who enter DMPs with such debts are required to make separate arrangements to ensure that these debts are repaid, meaning that debtors are left managing multiple agreements with their creditors, all of which are voluntary in nature. This creates additional complexity and burden for debtors in their attempts to manage their finances. The non-statutory nature of DMPs also means that debtors are not protected from enforcement action, or from the impact of ongoing interest, fees and charges on their debts.

2.6 Debt advice providers who shared data used in producing this impact assessment suggested that approximately a third of DMPs end prematurely. Before the pandemic, creditors received an average repayment rate of 50% from these DMPs, whereas those that reached completion offered a higher repayment rate, suggested to be 73%.

2.7 Further, the fact that many DMPs end before debtors have fully repaid their debts causes them to require debt advice multiple times to find a new solution. For those whose DMP runs to completion, the likelihood of needing further debt advice is reduced. Debt advice providers who engaged in the development of this impact assessment suggested that at least 11% of debtors whose DMPs terminate before their debts have been repaid require further debt advice. This reduces debt advisers' capacity to meet demand from new clients and by extension means that debt advice funding, and its resultant supply, is not used to full efficiency.

2.8 The outcomes for debtors whose DMPs end prematurely are also likely to be poor. By virtue of having been in a DMP, these debtors had the means to repay their debts when they entered into the DMP. As such, they were likely not to have been eligible for statutory debt solutions, which are all forms of insolvency.

2.9 In some cases, premature DMP terminations are unavoidable, for example where the debtor's circumstances change substantially and for the long-term, causing them to lose the ability to repay their debts. However, these people remain able to access insolvency solutions if required.

2.10 By contrast, if a debtor's DMP ends prematurely but their underlying ability to repay their debts remains the same, they are likely to be left without a long-term solution to turn to that is appropriate for their specific circumstances. Instead, they are likely to enter a temporary informal arrangement with their creditors, such as a Token Payment Plan or a non-statutory moratorium request, in which creditor recoveries are lower than in DMPs and where debtors experience the costs of problem debt more acutely than if they'd been in a formal repayment solution.

2.11 People in this situation could fall into further debt as they seek to repay their existing creditors, ultimately entering an insolvency debt solution in which their assets are lost, their future access to credit falls, and, in some sectors, their job is lost. Premature termination of DMPs therefore carries significant costs for debtors, as well as for creditors and debt advice agencies.

3 Rationale for intervention

3.1 As set out in the section above, there is a clear market failure at present arising from the lack of a statutory debt repayment solution. Current debt solutions are unable to sufficiently support all those who would be able to reach financial stability through the use of a statutory repayment solution.

3.2 The Debt Arrangement Scheme (DAS) in Scotland offers a statutory debt repayment solution known as a Debt Payment Plan (DPP). The barriers to entry into and completion of DPPs are lower than those in Scottish DMPs. Debt advice providers who engaged with the development of this impact assessment suggested that the completion rate of DPPs was 15% higher than that of Scottish DMPs. The DPP provides a natural and suitable comparator for the SDRP. This suggests that the barriers to completion of SDRP would also be lower than those of DMPs.

3.3 The outcomes for debtors who do not overcome the barriers to entering and completing a DMP are suboptimal for all parties. Creditors receive a reduction in repayments relative to what they would have received via a completed DMP, debt advisers must support debtors whose DMPs fail and those who cannot find a suitable alternative, and debtors experience both the stress of a tumultuous financial situation and the long-term costs of being unable to reach stable financial footing, often ending up being forced into suboptimal solutions.

3.4 Debt advice providers also experience inefficiencies, needing to offer multiple advice sessions following the failure of voluntary repayment solutions or entry into alternative inappropriate solutions.

3.5 A statutory debt repayment solution that is structured but flexible and accommodates repayments over a realistic timeframe would be expected to address most of these problems, reducing failure rates and leading to higher repayment rates for creditors and consequently for debt advice providers as well, more sustainable solutions for debtors, and more capacity in the debt advice sector.

3.6 The Statutory Debt Repayment Plan (SDRP) addresses this gap in the market for a statutory debt repayment solution. The SDRP is expected to address these barriers to entry and completion of DMPs, increasing creditor recoveries, improving the wellbeing of people in problem debt, increasing capacity in the debt advice sector to serve new debt advice clients and yielding a greater efficiency in the delivery of debt advice services.

4 Policy objective

4.1 The aim of the SDRP is to increase the completion rate of repayment plans relative to the DMP counterfactual, helping people in problem debt return to a stable financial footing, and to support more people in problem debt into a sustainable debt repayment solution.

5 Description of options considered

5.1 Non-statutory and informal debt repayment solutions, such as DMPs and token payment plans, already exist. Introducing a new non-statutory repayment solution has not been considered in detail as an option in this impact assessment as a non-statutory solution would face the same challenges as existing solutions and would therefore not fill the identified gap in the market, nor would it yield any additional benefits. In particular, any non-statutory solution will always be voluntary on behalf of both creditors and debtors and will not provide formal protections for the latter, meaning that success rates will be suppressed and debtor wellbeing is less well protected.

5.2 Introduction of a new voluntary solution would still create familiarisation and implementation costs for debt advice providers and creditors. Given such a solution would likely be very similar to those that already exist, introducing this to the market would create oversaturation and complication for debt advice providers when considered alongside the existing suite of options, and would likely lead to the solution being under-used as it would fail to offer anything that isn't already provided for in the market.

5.3 Alternatively, consideration could be given to the strengthening of existing solutions so that they are able to fill the gap in the market themselves. However, the challenges faced by non-statutory repayment solutions primarily arise from their inability to ensure creditor compliance or to provide legal protections for debtors. The Government's view is that these powers can only be provided by regulatory intervention.

5.4 The government therefore considers that non-regulatory intervention would not be able to achieve the policy intent set out above and that it would be disproportionate to consider this in any further detail in this impact assessment.

5.5 Instead, the impacts of regulatory intervention in the form of the SDRP, the government's preferred option, are assessed relative to doing nothing, which would introduce no benefits and no costs additional to those outlined in section 2. The policy features of the SDRP are outlined below.

6 Policy outline

6.1 DMPs often offer a sub-optimal repayment rate to creditors. Though DMPs are non-statutory debt solutions with a high degree of flexibility, the inconsistent application of this flexibility contributes to the excess rate of pre-completion termination, which in turn

causes sub-optimal repayment rates to creditors. This issue is addressed by the statutory nature of the SDRP.

6.2 There will be more limited scope for creditor objection in SDRPs than in DMPs, with a Fair and Reasonable test administered independently by the Insolvency Service balancing the rights of creditors with the interests of debtors.

6.3 Debt advice providers will be required to complete annual reviews of SDRPs to ensure that any given plan continues to be the most suitable solution for the debtor, or debtors on it, to measure progress within the plan, and determine whether any amendments are required. The debt advice provider will be able to use these reviews to propose changes to an individual's SDRP payments, through a plan variation, if the person experiences a rise or fall in disposable income. Debt advisers will also be able to complete reviews in-year as appropriate, or at the request of a debtors if their financial circumstances change. The flexibility that variations provide will reduce barriers to completion of SDRPs by ensuring that they are able to appropriately capture changes in circumstances, and allowing debtors to continue on their plans in a sustainable way.

6.4 Where debtors experience a substantial temporary change of circumstance such as a short period of unemployment, a variation may not be necessary. In these circumstances, debtors will be able to apply to their debt adviser for a break in their plan, lasting for one month, or for one payment, whichever is longer. Debt advisers will be permitted to extend any given break to two months, or two payments, but debtors will be limited to one break in any given 12-month rolling period. This will allow debtors to manage short-term income shocks, promoting completion of SDRPs, without compromising the long-term affordability of a plan, or overly infringing on creditor rights to repayment.

7 Debt advice supply

7.1 The SDRP will be accessible only via professional, FCA regulated debt advice, or through a local authority, so the SDRP caseload will be a sub-set of the number of people who receive debt advice in England and Wales.

7.2 The Money and Pensions Service (MaPS) estimate that 7.5% of debt advice supply is in Scotland and Northern Ireland, and so not SDRP-eligible.[2] This suggests that 92.5% of debt advice supply is delivered in England and Wales and so might lead to an SDRP. As set out in the June 2019 consultation document, the government will continue to work with

[2] Money Advice Service (2018) Mapping the unmet demand for debt advice in the UK Available at: https://masassets.blob.core.windows.net/cms/files/000/001/064/original/Mapping_the_unmet_demand_for_debt_advice_in_the_UK.pdf

the Department for Communities and Department for the Economy in Northern Ireland to consider the introduction of an equivalent scheme in Northern Ireland.[3]

7.3 Not all debt advice is delivered to unique clients. Some return to the same debt advice provider for advice multiple times in the same year and others receive advice from multiple debt advice providers in a single year. MaPS estimate that between 22% and 36% of debt advice supply is delivered to clients who have already received advice in a given year. The exact proportion is not known but is a central estimate is taken to be 29% for this impact assessment. This suggests that 71% of advice delivered in England and Wales is provided to unique clients, who might enter an SDRP.

7.4 Outturn data on debt advice supply is currently only available up to 2017-18 and as far back as 2015-16. This data is illustrated in table 1 below and adjusted according to paragraphs 7.2 and 7.3.

Debt Advice Supply	2015-16	2016-2017	2017-18
UK	953,764	1,134,607	1,390,776
England and Wales	882,232	1,049,511	1,286,468
Unique supply in England and Wales	626,385	745,153	913,392

Table 1: *Debt advice supply, 2015-16 to 2017-18.*

7.5 Table 2, below, breaks down this data by advice channel: face-to-face, telephone, and online.[4] This shows that the online channel has grown substantially more quickly than the more established channels. This is because, during the three-year period for which data on debt advice supply is available, the online channel was relatively new and the debt advice sector was adapting to accommodate it.

Debt Advice Supply, England and Wales only	2015-16	Change	2016-2017	Change	2017-18
Total	882,232	19%	1,049,511	23%	1,286,468

[3] HM Treasury (2019) *Breathing Space scheme: response to policy proposal.* Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/810058/______17June_CLEAN_response.pdf

[4] Table 2 assumes that the channel composition in England and Wales mirrors that of the United Kingdom.

Face to face	313,115	-5%	297,954	7%	318,730
Phone	410,562	24%	510,597	-5%	485,798
Online	158,554	52%	240,961	100%	481,940

***Table 2:** Debt advice supply by channel, 2015-16 to 2017-18.*

7.6 These figures show that overall debt advice supply has grown by 46% between 2015-16 and 2017-18. However, this is driven primarily by the substantial growth in online supply. When excluding online supply from these figures, the average annual growth rate of debt advice supply between 2015-16 and 2017-18 was 5.4%. As explained in the paragraph above, the large increases in online supply are as a result of the fact that it is a new channel with regards to debt advice and it is therefore not expected that this level of growth rate will be maintained.

7.7 Reliable outturn data on debt advice supply provided across the sector is currently not available beyond 2017-18, making it challenging to establish an appropriate figure for historic growth that isn't skewed by the recent growth in online supply. In the absence of this data, it is considered appropriate to use 5.4%, the observed growth rate of supply excluding the online channel, as a provisional baseline for the historic growth rate in overall supply. The government will continue to seek to obtain further outturn data on debt advice supply in the years since 2017-18 to help form an accurate and complete picture of historic supply that can be used in the final impact assessment.

7.8 The independent 2018 Wyman Review of the funding of debt advice set out that demand for debt advice has tended to exceed supply. The Government's aim is to ensure people who seek debt advice have access to the support that they need.

7.9 That's why funding for the debt advice sector has continuously increased over recent years, and in 2020-21 by over 15% from £55.8m in 2019-20 to £64.6m. The Government went even further in response to COVID-19, providing an additional £37.8m to debt advice providers in 2020-21 so they could continue to provide essential debt advice services and help more people who are struggling with their finances due to the pandemic.

7.10 However, an unexpected outcome of pandemic was that demand for debt advice fell well below pre-pandemic baseline assumptions. While it is still not clear what the exact cause of this was, nor what the ultimate result will be, evidence provided by MaPS' for this impact assessment suggests that, for the majority of those in problem debt, interventions put in place by the government during the COVID-19 pandemic, such as those providing forbearance and financial support, mostly served to suppress and push demand to the right rather than relieving it entirely. Much of this suppressed demand is expected to re-emerge over the second half of 2021-22 and over 2022-23.

7.11 MaPS' latest forecasts suggest that debt advice supply in the UK for this financial year (2021-22) will be around 2.2 million, although this remains dependent on outturn in the final months of the year. While full details of levels of supply in the following years are yet to be determined, this impact assessment uses information provided by MaPS to develop a conservative provisional estimate of total debt advice supply in the UK in 2022-23: 2.9 million. [5]

7.12 Supply beyond 2022-23 has not yet been forecast but, while uncertain, this impact assessment assumes that supply will grow at the assumed historic rate of 5.4% as set out in paragraph 7.7 above. This is shown in chart 1 below. These forecasts will continue be refined as levels of future supply become more certain.

7.13 While these figures attempt to take account of the latent effect of COVID-19 and the support interventions put in place by the government over the last two years, there also remains a great degree of uncertainty within this given the fact that the impacts of the pandemic and support measures are still being felt. This will continue to be considered as the final impact assessment is developed, particularly with regards to the degree to which the impacts of COVID-19 are expected to remain for the long-term.

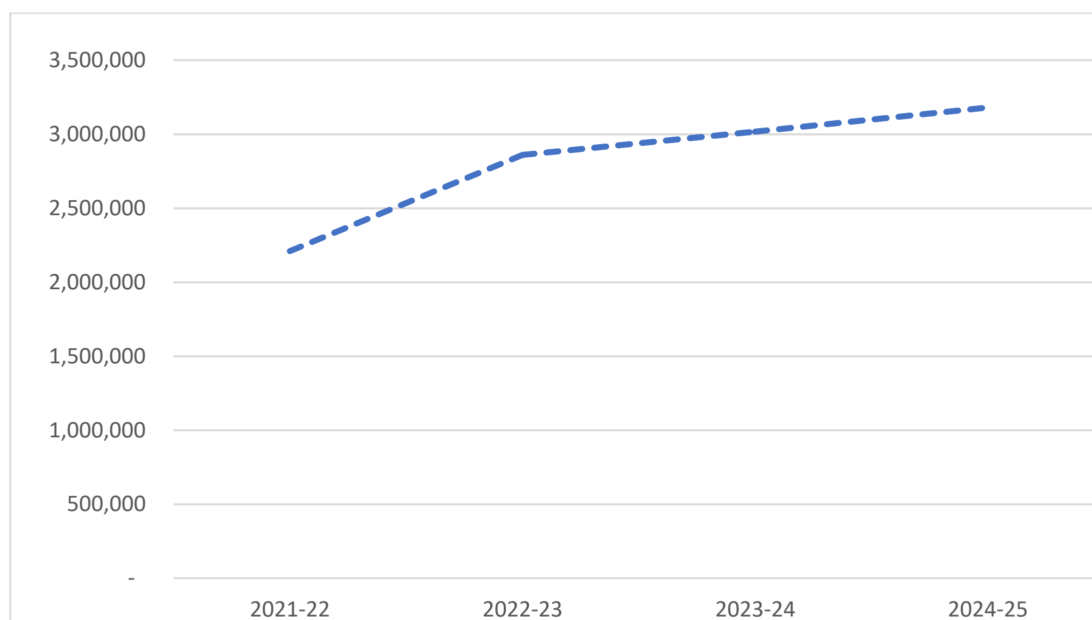

Chart 1: Provisional forecast levels of debt advice supply, 2021-22 to 2024-25.

8 Debt advice demand

8.1 The growth rate of the SDRP caseload will be determined partly by the rate at which take-up of debt advice increases. Debt advice take-up is a factor of both supply and demand.

[5] MaPS' responses to the Treasury Select Committee, available at: https://committees.parliament.uk/publications/8016/documents/82665/default/

Where the limiting factor is supply, take-up rises when supply is increased. When the limiting factor is demand, take-up rises when new demand is induced.

8.2 Paragraph 7.8 explained that the limiting factor has historically been supply. However, during the pandemic, this limiting factor has become demand. Given the current forecast is that demand for debt advice has been pushed to the right by government interventions during the pandemic, the expectation is that, over the coming years, the limiting factor will return to being supply, with demand increasing well above the levels anticipated pre-pandemic, and above the level of supply available.

8.3 Evidence provided by MaPS for this impact assessment suggests that need for debt advice will increase significantly over 2022-23 as suppressed need re-materialises. It is expected that this will lead to a level of need that is well above the baseline level identified in 2019. This need is currently assumed to peak by the end of 2022-23.

8.4 This expectation arises from conservative preliminary forecasts provided by MaPS and does not take account of any potential impacts that current cost-of-living increases may have on demand for debt advice. It is therefore possible that this impact assessment's current forecasts underestimate the level of need for debt advice that will be seen in 2022-23.

8.5 Formal medium and long-term forecasts of need for debt advice are not currently available but it is provisionally assumed that need for debt advice will steadily decrease after this stabilisation point, as pent-up need is serviced. It is therefore assumed that need for debt advice will decrease linearly back to baseline levels over the following three years. However, this assumption contains a great deal of uncertainty and has also not yet been updated to take account of the potential impacts that increases in cost-of-living may have on need.

8.6 MaPS have historically estimated that the propensity of those who need it to seek debt advice is 49%. Their latest forecasts also take account of temporary demand suppression as a result of COVID-19 interventions, in particular the reduction in collection activities, with these suppression levers tapering off during 2021-22 and the first half of 2022-23. However, as set out in paragraph 7.10 above, some of this suppressed demand is expected to remain and re-emerge over 2022-23.

8.7 While there are uncertainties around both future need and demand for debt advice, based on the expectation that these will stabilise by the end of 2022-23, it is assumed that demand will return to 49% of MaPS' need estimates from 2023-24 onwards, in line with historic estimates of the propensity to seek advice without any suppressed demand.[6]

[6] These estimates include those who sought debt advice from a debt advice provider (excluding Insolvency Practitioners), including both those who did and didn't receive it and exclude those who ended up receiving other money help (e.g. budgeting), who didn't complete the process, or who did not interact with an adviser.

This suggests that demand, like need, will peak in 2022-23 before gradually returning to baseline levels (c. 2.6 million per year) by 2025-26.

8.8 Using the forecasts mentioned in paragraph 7.11, it is currently expected that at some point after 2022-23, demand will once again become the limiting factor of debt advice take up. At this point, the growth rate in take up will fall, as inducing additional demand is more difficult than servicing demand that already exists. There is a large body of academic research exploring the significant social barriers to demand for debt advice by people in problem debt, including fear, shame, embarrassment, and the hope that professional help will not be needed.[7]

8.9 The point at which the limiting factor in debt advice take-up switches from supply to demand is an important consideration in the growth rate of the SDRP caseload, as it determines the baseline rate at which take-up of debt advice will rise, which in turn dictates how quickly the SDRP caseload will grow: the SDRP is accessible only via debt advice.

8.10 While there are uncertainties around both future need and demand for debt advice, based on the expectation that these will stabilise by the end of 2022-23, it is assumed that demand will return to 49% of MaPS' need estimates from 2023-24 onwards, in line with current estimates of the propensity to seek advice without any suppressed demand.

8.11 One aim of the government's 60-day breathing space for people in problem debt is to increase engagement with professional debt advice and to encourage people in problem debt to seek help sooner, before they reach crisis point. The realisation of this ambition could increase the rate of engagement with debt advice amongst those who need it to more than 49%. It is still too early to suitably assess this impact given how new the scheme is, but early feedback from debt advice providers feeding into this impact assessment has suggested that those accessing breathing space are significantly more likely to go on to full debt advice and to enter a recognised debt solution. This impact will remain under consideration and, if appropriate, will be factored into the final stage impact assessment.

8.12 The provisional information MaPS has provided with regards to forecast debt advice supply, and the assumptions this impact assessment makes on supply and demand for debt advice suggest that the limiting factor will become demand by the time the SDRP launches in 2024-25, as demonstrated in chart 2 below.

[7] Christians Against Poverty (2019) Client Report: Changing Perceptions. Available at: https://capuk.org/fileserver/downloads/general/cap-clientreport-2019-dp.pdf

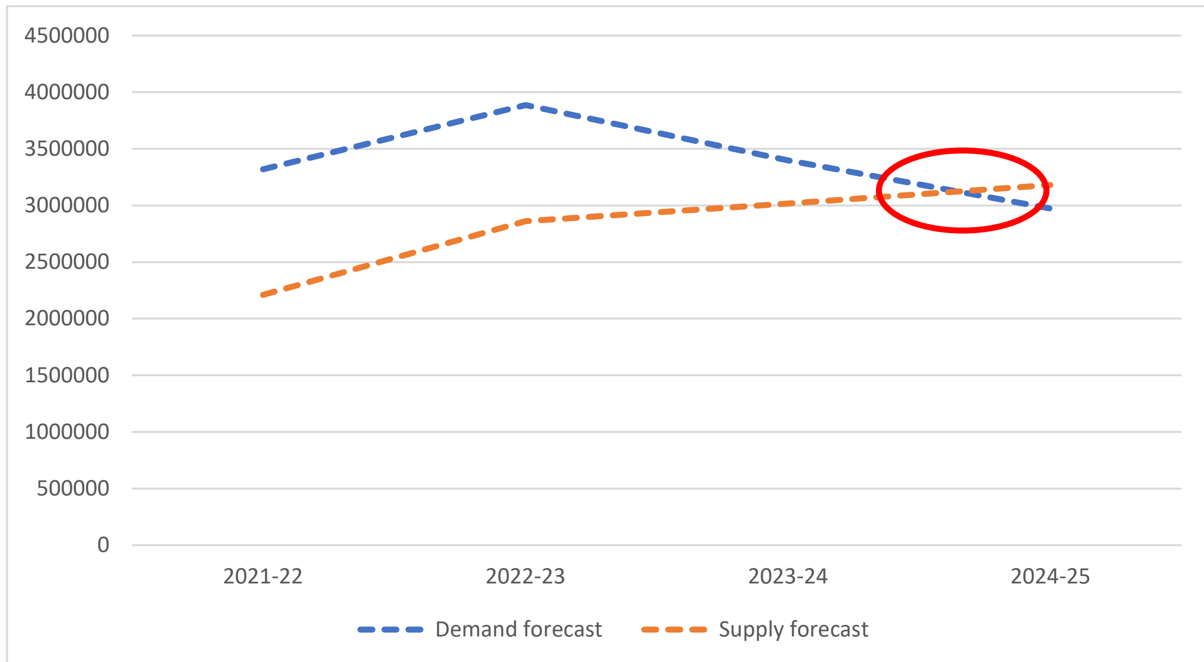

Chart 2: *Provisional debt advice supply and demand forecasts, total UK, 2021-22 to 2024-25.*

8.13 There remains significant uncertainty as to when supply will exceed demand. If debt advice need falls faster than expected beyond Q4 2022-23, the inflection point will be sooner and if more than 49% of those who need debt advice seek it, or if debt advice need doesn't fall beyond 2022-23, the inflection point will come later, to name just a few of the uncertainties. In the central scenario, the inflection point is forecast to come in 2024-25, as per the previous paragraph.

8.14 The timing of this inflection point is significant because it will impact the rate at which the SDRP caseload will grow in the years after its launch. The SDRP caseload's growth rate is constrained by the rate of growth of the limiting factor.

8.15 This analysis shows that the relevant limiting factor will be demand, not supply, by the time the SDRP launches in 2024-25, with that demand reaching baseline levels in 2025-26 and levels of supply being adjusted accordingly to match that. As discussed in paragraph 8.8, the rate at which demand can be induced is likely to be lower than the rate at which supply has historically risen.

8.16 As set out in paragraph 7.7, the historic growth rate of debt advice supply is assumed to be 5.4%. However, the growth rate of demand is unknown as it is dependent on a number of highly uncertain and difficult to predict factors including wider economic conditions.

8.17 This impact assessment uses a preliminary assumption that the growth rate of demand beyond 2025-26 (the point at which baseline demand is expected to return) will be 2% per annum; approximately one third of the assumed historic rates of growth in supply.

8.18 These assumptions yield a forecast number of unique debt advice clients in England & Wales in each year of the assessment period, as set out in chart 3 below.

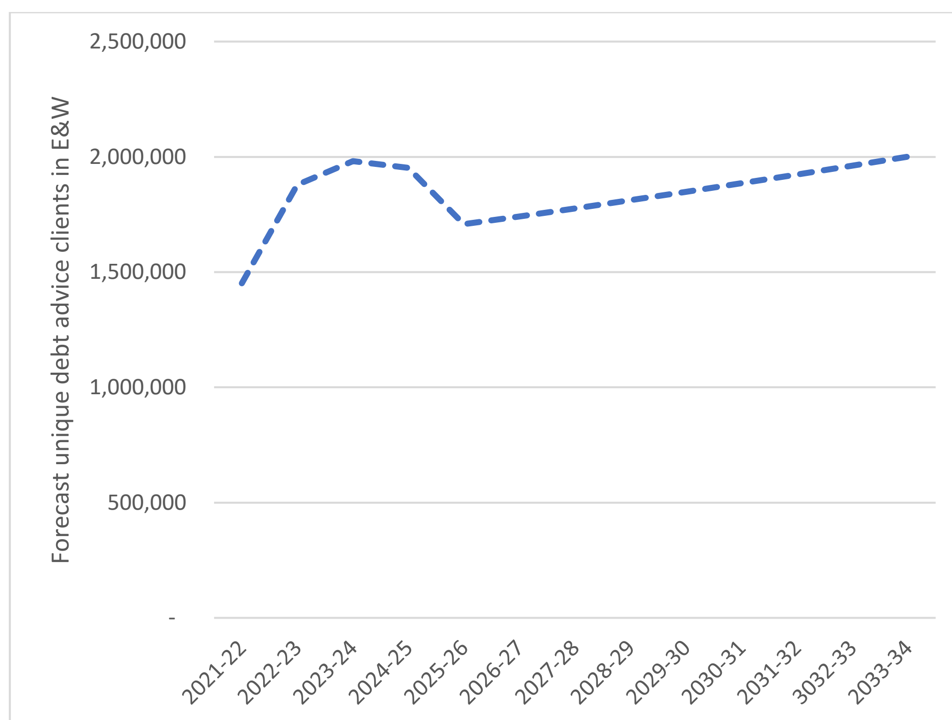

Chart 3: Provisional forecasts of unique debt advice take-up, E&W, 2021-22 to 2033-34.

9 SDRP caseload

9.1 The breathing space impact assessment[8] set out estimates for the number of people who would access the scheme in its first 10 years. For 2021-22, this has shown to be an overestimate. However, while breathing space and SDRP are related, these lower outturns are not expected to have a significant impact on the caseloads of the SDRP, as it is a distinct debt solution that can be accessed without first accessing breathing space, and demand for it is expected to be more closely related to demand for DMPs.

9.2 Nonetheless, this impact assessment uses the lessons learned from the outcome of breathing space to make appropriate adjustments to assumptions on demand for the SDRP, as set out below.

9.3 The SDRP is a new debt solution. Evidence shared by debt advice providers who supported the development of this impact assessment suggests that roughly 60% of debt advice clients are recommended a recognised debt solution, defined either as a DMP or insolvency. This impact assessment assumes that only those who are recommended a debt solution in the counterfactual will be recommended an SDRP.

[8] HM Treasury (2019) *Breathing Space Impact Assessment* https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/863869/Breathing_Space.pdf

9.4 Amongst the cohort of people who receive advice and are recommended a formal debt solution as opposed to budgeting advice or lighter-touch money guidance, not all are recommended a repayment solution; some are recommended insolvency.

9.5 This consultation stage impact assessment assumes that the SDRP caseload is made up entirely of people who would have entered a DMP in the counterfactual. This underestimates the caseload as some people who will enter an SDRP would have entered an insolvency solution, or no recognised solution at all in the counterfactual. The consultation will be used to explore debt advice provider expectations of the proportions of their clients currently offered insolvency solutions, or those entering informal agreements who would instead be recommended a SDRP and this will be reflected in the final stage impact assessment.

9.6 This impact assessment also makes no adjustment to account for debt advice demand presenting at insolvency practitioners where SDRPs cannot be offered. It is assumed that any potential effect of this will be negated either by clients being ineligible for an SDRP and thus captured in the calculations below or by eligible clients being referred to those who can offer SDRPs. This is an assumption that will be tested through the consultation.

9.7 Evidence shared by debt advice providers who supported the analysis underlying this impact assessment and MaPS suggests that of those eligible for a recognised debt solution, 37% are recommended and subsequently enter into a DMP.

9.8 However, unlike DMPs, the draft SDRP regulations set out that only people who are able, at the outset of a plan, to repay their debts in ten years or less would be eligible to enter an SDRP. Evidence shared by debt advice providers who supported the analysis underlying this impact assessment suggested that 75% of DMPs also meet this criteria, meaning that 25% of those recommended and entering into a DMP would not be eligible for the SDRP on the grounds of plan duration.

9.9 Further, even if the SDRP is a possible option, it will not be suitable, or the most appropriate solution for everyone who would otherwise be recommended a DMP of less than 10 years. DMP offers increased flexibility to debtors than a SDRP, and for those less at risk of creditor action, or those who would be able to repay their debts through a DMP in a relatively short time period, a SDRP may not be deemed to be the most appropriate solution.

9.10 In order to estimate the proportion of those still recommended a DMP, the equivalent figures in Scotland are taken into account. Information provided by debt advice providers feeding into this impact assessment suggests that over the last 5 years, of all those recommended either a DMP or a DPP, 21% were recommended the former, with the remaining 79% recommended a DPP.

9.11 The DPP does not have the same 10-year limit as SDRPs and so the equivalent proportions for the SDRP will likely be different to the above, with a lower proportion of people recommended a SDRP. However, since eligibility on the basis of duration has already been accounted for in paragraph 9.8 and since the DPP is a reasonable proxy for the SDRP, this impact assumes that of those eligible for a SDRP, only 79% of will be recommended one, with the remaining 21% still recommended a DMP.

9.12 The consultation will explore further with debt advice providers their expectations about the proportions of clients who would be recommended SDRPs, once they sight of the full draft regulations for the scheme.

9.13 The SDRP is a statutory solution, whereas DMPs are not, and although the government aims to reduce the friction associated with entering an SDRP as much as possible, it is likely that the rate at which people follow recommendations to enter a SDRP will be lower than the rate of those following recommendations to enter DMPs.

9.14 To inform these assumptions, rates of entry into DPPs in Scotland have been considered, given they represent the nearest match to the SDRP currently in the market. Evidence shared by debt advice providers in developing this impact assessment suggest that 40% of Scottish clients who are recommended a DPP instead enter a DMP. This impact assessment therefore assumes that 40% of clients in England and Wales who are recommended a SDRP will instead enter a DMP.

9.15 New debt solutions introduced to the market do not immediately reach full integration. Instead, it takes time for new solutions to be introduced fully, and debt advice providers and creditors will need time to familiarise themselves both with the operation of the SDRP, and with the circumstances in which it could and should be recommended to clients. This impact assessment therefore overlays a transition adjustment in the first three years of the scheme. While it is difficult to know exactly how this transition will occur, the central estimate assumes that caseloads will be reduced by 50%, 30% and 10% in the first three years of the scheme's operation respectively. This assumption will be tested further as part of the consultation and in the final impact assessment by seeking evidence on the implementation of existing debt solutions.

9.16 Finally, an optimism bias adjustment is overlaid, to account for the uncertainty in this caseload forecast. The expert judgement of debt advice providers who supported the analysis underlying this impact assessment was that the uncertainty tended towards over-estimation of the caseload. For that reason, the caseload is reduced by 20%.

9.17 Combining all of the steps above yields the annual flow of new SDRPs, illustrated in chart 4 below. To account for uncertainty in the exact launch date of the SDRP, the caseload in year one of the scheme is reduced by 25%.

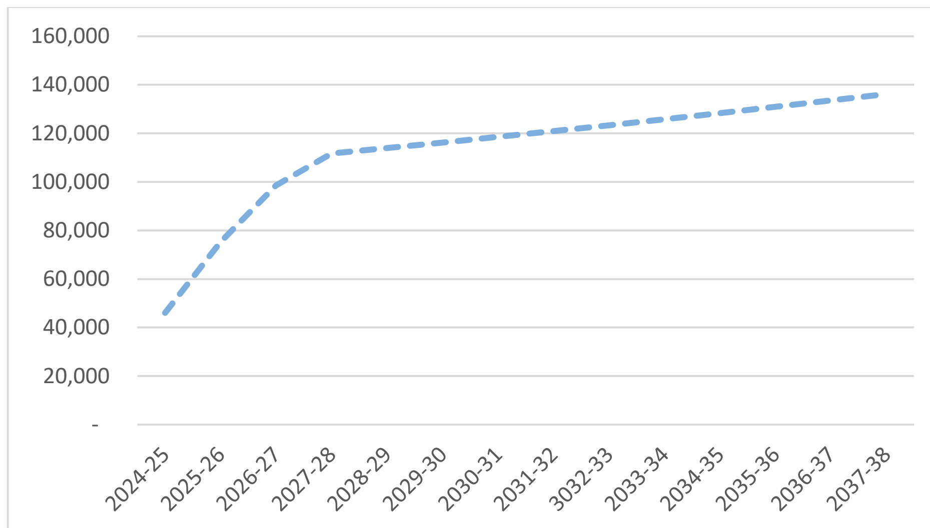

***Chart 4:** Central forecasts of SDRP flow caseload across the impact assessment period.*

9.18 The total SDRP caseload in any one year will be a product of both new SDRPs that start in that year and existing SDRPs that are ongoing in that year. The SDRP caseload is assumed to behave in the same way as the Debt Payment Plan (DPP) caseload in Scotland, which is the nearest comparable policy to the SDRP. The median DPP duration is six years. Some DPPs end before completion. The annual DPP failure rate is higher in early years than in later years, as illustrated in chart 5 below.[9]

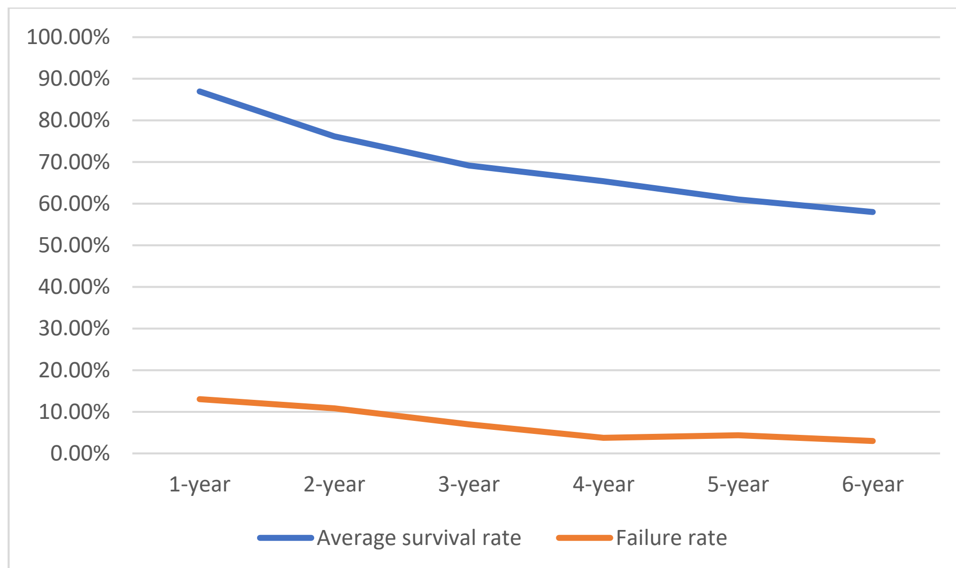

***Chart 5:** Average Debt Payment Plan (DPP) survival and failure rates (outturn).*

9.19 The SDRP median duration and annual failure rate is assumed to be the same as that of the DPP. This gives the stock caseload set out in chart 6 below.

9.20 This impact assessment assumes that the caseload only approaches its steady-state level in 2030-31, with six years of flow in the stock caseload. The stock caseload grows

[9] Accountant in Bankruptcy (2019) *Ad-hoc Statistics Release: The Debt Arrangement Scheme (DAS) cases.* Available at: https://www.aib.gov.uk/aib-ad-hoc-statistical-release-id1

again in the following two years as a result of the transition adjustment set out in paragraph 9.15, with 2033-34 the first year in which there are six *full* years of flow. In subsequent years, the flow caseload reverts to growing at the rates set out in paragraph 8.17.

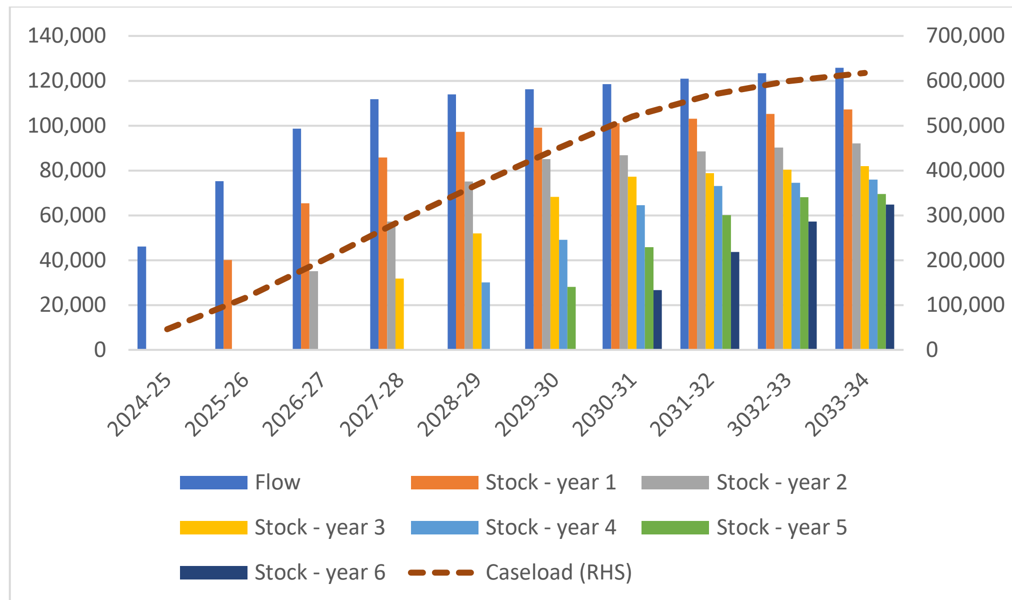

***Chart 6:** SDRP stock caseload forecast across the impact assessment period.*

9.21 The annual benefits to debtors, creditors and debt advisers set out in sections 10 to 14 below are calculated using these estimated flow figures and are based primarily on the estimated marginal benefit that plans will provide across their lifetime, and the distribution of those benefits over that lifetime. The methodology for this is set out in greater detail below.

9.22 The annual benefit to debt advice providers, set out in sections 13 and 14 below, also takes account of the number of SDRPs that are projected to terminate in each year of the assessment period. This is calculated by taking the sum of a given year's flow and the previous year's caseload, and subtracting the actual caseload from that year. These plans may have ended successfully by running their course, or unsuccessfully. The number of terminations in each year is illustrated in chart 7 below.

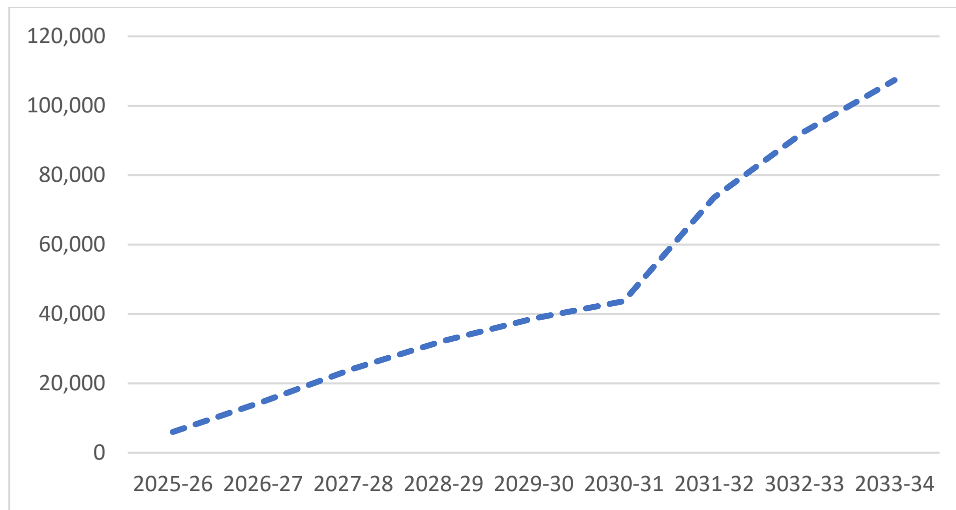

Chart 7: Forecasted annual SDRP terminations across the impact assessment period.

10 Benefit to debtors

10.1 As set out in section 3, the intention of the SDRP is to fill a gap in the market for a statutory repayment solution that will give those in problem debt greater opportunity to repay their debts in a way that is sustainable and affordable, without having to rely on insolvency, or other suboptimal solutions. It is expected that the scheme will provide significant benefits to those who ultimately use it to repay their debts and reach financial stability.

10.2 As set out in section 8, the estimated SDRP caseload is currently assumed to be comprised of those who would have entered into a DMP in the counterfactual. The expectation is that these will have higher success rates than in the counterfactual.

10.3 Debt advice providers who engaged in the development of this impact assessment suggested that 66% of DMPs reach completion, 33% through early settlement and 33% because their DMP has run its course. In Scotland, debtors have access to both DMPs and Debt Payment Plans (DPPs), which are comparable to SDRPs. The DPP completion rate is 15% higher than that of Scottish DMPs, so this impact assessment assumes that the same will be true of SDRPs.

10.4 While this suggests that more SDRPs will reach completion by running their course than DMPs, there is no reason to believe that the completion rate of SDRPs by early settlement will be different to that of DMPs.

10.5 This suggests that the completion rate of SDRPs will be 71%. This figure is made up of a 15% increase in the 33% rate of completion amongst SDRPs that run their course and a further 33% rate of completion amongst SDRPs that are paid off early. This suggests that the SDRP completion rate will be 5 percentage points higher than that of DMPs.

10.6 People in problem debt who receive debt advice experience a wide range of benefits, many of which are very challenging to monetise. Those benefits include: lower dependence on state-subsidised housing; more positive education and employment outcomes, partly because of higher levels of parental engagement; lower risk of children being taken into care; lower rates of desperation crime; lower risk of eviction or repossession; lower risk of job loss; lower rates of relationship breakdown; increased social security take-up; higher rates of small business continuity, and more positive future credit access.[10]

10.7 Given the challenges in monetising these benefits, this impact assessment monetises a much narrower range of benefits to debtors of being in a debt solution, set out in table 3 below. These benefits are derived from a report by Europe Economics for MaPS' precursor, the Money Advice Service, using the methodology set out in paragraph 10.1 of the Breathing Space impact assessment, which identifies unit benefits per advised debtor and uprates that from the year in which they were identified to 2021-22 prices.[11] [12]

Benefit	Upper value	Lower value	Average value
Lower rates of depression	£134	£71	£102.50
Lower rates of anxiety	£36	£21	£28.50
Lower rates of panic attacks	£52	£25	£38.50
Higher debtor wellbeing	£846	£635	£740.50
		Sum	£910

Table 3: *Benefit to people in problem debt of being in debt solutions.*

10.8 The base year of this impact assessment is 2024-25. Uprating these benefits from £910 in 2021-22 prices to 2024-25 prices suggests that the benefit to debtors of improved wellbeing because of being in a debt solution is £985. This is a one-off benefit.

10.9 Since the SDRP caseload is assumed to be DMPs in the counterfactual, and as DMPs are a form of debt solution, the SDRP caseload would have experienced some of this £985 benefit in the counterfactual.

10.10 Data provided by debt advice providers feeding into this impact assessment showed that the average repayment rate in unsuccessful DMPs prior to the pandemic was 50%. This has since fallen to 40%. However, it is expected that COVID-19 has had a substantive impact on this figure and that this will subside in the coming years. This impact

[10] Europe Economics (2018) *The Economic Impact of Debt Advice*. Available at: https://moneyandpensionsservice.org.uk/wp-content/uploads/2021/03/economic-impact-of-debt-advice-main-report.pdf
[11] *Ibid.*
[12] HM Treasury (2019) *Breathing Space Impact Assessment*. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/863869/Breathing_Space.pdf

assessment therefore assumes that across the assessment period, the average repayment rate of unsuccessful DMPs will be 50%. Assuming a constant monthly rate of repayment, this suggests that plans that do not end successfully terminate approximately halfway through their course.

10.11 The £985 benefit set out above applies in respect of debt solutions that run to completion, as clearly debtors whose solutions fail would continue, to some extent, to experience the costs of problem debt.

10.12 It would not be proportionate to undertake the primary research necessary to identify exactly what proportion of the £985 benefit is lost when a DMP fails halfway through its expected course. If 50% of the debt has been repaid at the point of failure, the debtor is left to manage the outstanding 50% of their original debt alone. As their debt value has halved, it is assumed that the benefit of being in a debt solution is also halved. This is an assumption that will be tested through the consultation and reviewed within the final stage impact assessment.

10.13 As set out above, the completion rate of SDRPs is expected to be higher than that of DMPs. Therefore, more people in problem debt will experience the full £985 benefit when they otherwise would only have received half of that. The marginal benefit of the SDRP to this group is therefore £493.

10.14 For plans starting in any given year, 29% are assumed to fail before reaching completion. However, in the counterfactual, 34% are assumed to fail. Comparing these two figures yields an estimated reduction in failures of plans starting in any given year and thus a number of retained SDRPs that would otherwise have been failed DMPs.

10.15 Evidence provided by debt advice providers feeding into this impact assessment suggests that 11% of these failed DMPs would have subsequently led to another formal solution and are therefore assumed to receive the full benefit of being in a debt solution as set out in paragraph 10.8 above. The remaining 89% is multiplied by the £493 marginal benefit mentioned above which provides an estimate of the lifetime marginal benefit to debtors starting their plans in a given year.

10.16 For these plans, it is assumed that the marginal benefits will not occur evenly across their lifespans, as the counterfactual DMPs are assumed to generate their benefits during the time that they are in effect. These lifetime benefits will therefore be back-loaded and only be generated in the years after the counterfactual DMPs have failed, something that will progressively increase as the proportion of DMPs expected to fail rises.

10.17 This impact assessment therefore assumes that the marginal lifetime benefits of these retained SDRPs increase year-on-year for the duration of their existence. As set out in paragraphs 9.18 and 9.19, SDRPs are assumed to have a median duration of 6 years.

10.18 The progression of the year-on-year increase in benefits is modelled using the assumed failure rates of SDRPs set out in chart 5 above as a proxy and therefore occurs as a slower rate each year. Repeating this for plans starting in each year of the assessment period yields an estimated annual benefit for debtors.

10.19 Repeating this for new plans starting in each year of the assessment period yields an estimate for the annual benefits to debtors of the SDRP. This is this reduced by 20% to account for optimism bias in these calculations. The resultant annual benefit to debtors is set out in chart 8 below.

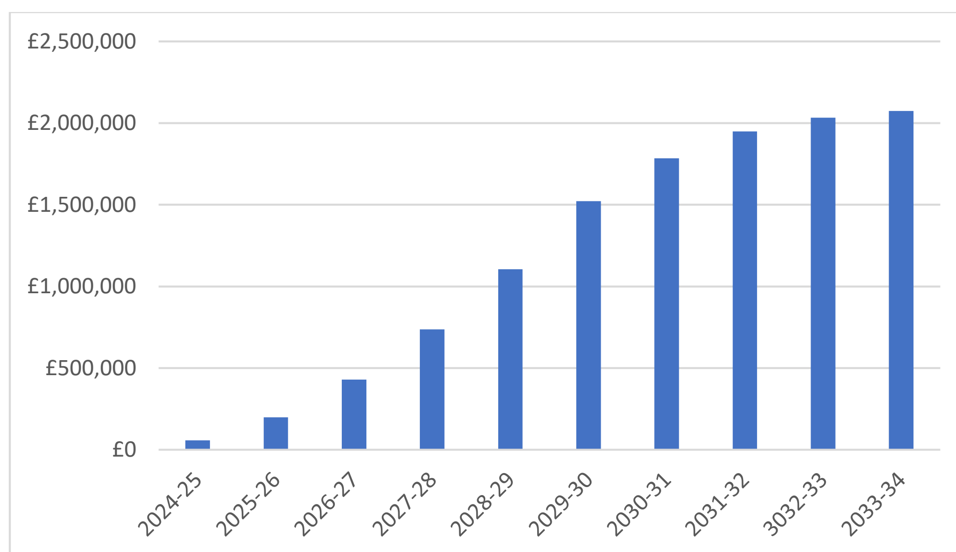

***Chart 8:** Estimated annual benefit of the SDRP to debtors in SDRPs across the impact assessment period.*

10.20 These benefits are expected to be a significant underestimate of the overall benefits to debtors due to the fact that many of the other benefits provided by debt advice and of being able to successfully repay all of one's debts to reach financial stability have yet been monetised.

10.21 Further, it is also expected that, by allowing more people to reach financial stability, the SDRP will generate subsequent indirect benefits for the wider economy, and for people and businesses within it. Those who are no longer burdened by problem debt will gain greater spending power and could experience greater employment and education opportunities, all of which could benefit those debtors, and wider society.

10.22 As set out in chapter 3, the SDRP is expected to result in higher repayments to creditors, and thus from debtors. This arises both from the expectation that the SDRP will have a higher success rate than counterfactual DMPs, and that, on average, successful SDRPs will have higher a repayment rate than successful DMPs (see further detail in chapter 12). It is currently unclear what impact this increased repayment rate would have on debtors due to the wide range of factors that need to be considered to determine this.

This impact assessment has therefore not attempted to quantify this impact, but it will be considered further as part of the consultation.

11 Further benefit to debtors

11.1 The benefits to debtors calculated in the section above only take account of a narrow range of potential users of the SDRP.

11.2 While this impact assessment has not attempted to estimate the number of people entering into SDRPs who would otherwise have entered into insolvency, or not have had any recognised solution at all, it is expected that for these people the benefits will be even more significant. In particular, debtors entering into SDRPs who would otherwise not have had any form of debt solution at all will likely experience much greater marginal benefits of their SDRP as they are unlikely to receive any of the benefits of being in a debt solution, set out in table 3, in the counterfactual.

11.3 It is expected that there would be a further range of benefits for those who would otherwise have entered into an insolvency solution, including in relation to consequential impacts on credit score and the social and psychological impacts associated with entering into insolvency. As SDRPs are intended to exist on a private register, debtors accessing the scheme are expected to be affected to a much smaller degree by the stigma attached to problem debt and with entering into publicly visible debt solutions, including bankruptcy and DROs.

11.4 While this impact assessment does take into account of the expected increase in success rates of SDRPs in comparison to counterfactual DMPs and the subsequent marginal benefits of increased wellbeing of those accessing the scheme, it is also expected that the protections provided by the SDRP would generate further benefits.

11.5 For anyone entering into a DMP in the counterfactual, regardless of whether it succeeds or not, for anyone with an informal solution in counterfactual, and for anyone with no solution at all in the counterfactual, the protections of the SDRP are expected to provide wellbeing benefits. The SDRP is a statutory scheme that prevents creditors from taking enforcement action, restricts creditor contact, pauses interest, fees and charges on most debts and creates certainty and security for debtors while also providing flexibility. These factors are therefore expected to provide greater peace of mind for those with SDRPs, relieving them from the worry of potential enforcement action or of their creditors choosing to terminate their plan.

11.6 The extent of all of these benefits, as well as the non-monetised benefits mentioned in section 10 will be considered further as part of the consultation and assessed again in the final impact assessment.

12 Benefit to creditors

12.1 Creditors are expected to benefit from the SDRP as it is expected to generate higher repayments than counterfactual DMPs. This is because the barriers to completion of SDRPs are lower than those of DMPs and so the mid-plan failure rate in SDRPs is expected to be lower than in DMPs, with more SDRPs reaching completion. These benefits are significantly easier to monetise than those set out in the sections above.

12.2 These benefits exclude the fact that the barriers to entry of SDRPs will also be lower than DMPs, which will mean that more people are expected to be able to make use of a debt solution focussed on repayment, with the expectation that this will yield greater recoveries for creditors. This is driven mainly by the fact that SDRPs will capture more types of personal debt than DMPs. In particular, as set out in paragraph 2.5, DMPs do not provide for the repayment of priority debts, which often makes them a non-viable option due to debtors being unable to manage both a DMP and separate repayments to their priority debts. The SDRP, however, will allow for the inclusion of such priority debts, and is therefore expected to be a more viable option for many of the debtors mentioned above.

12.3 Further, as mentioned in paragraph 2.4, the non-statutory nature of DMPs means that creditors are not obliged to agree to them. If even one creditor refuses to agree to the terms of a DMP, the viability of the plan can be compromised and prevent its use. In such circumstances, all other creditors are disadvantaged by the DMP not proceeding. However, this will not be the case for the SDRP as it will have explicit objection and adjudication processes embedded within it, meaning that creditor objections will not automatically prevent a plan from starting or from being a viable option. The SDRP will also set out a narrower range of specific grounds for objection that must be used by creditors if they wish to object to a plan.

12.4 Data gaps have prevented the assessment of the impact of reduced barriers to entry of SDRPs relative to DMPs in this impact assessment but this will continue to be considered as part of the consultation and in the development of the final impact assessment.

12.5 As set out in section 10, the estimated completion rate of SDRPs will be 71%, 5 percentage points more than that of counterfactual DMPs.

12.6 Further, not only will more SDRPs end successfully than DMPs; the repayment rate will also be higher in these SDRPs than in equivalent DMPs. Debt advice providers who engaged with the development of this impact assessment suggested that the average repayment rate in DMPs that end successfully is 73%. In SDRPs, the repayment rate in completed plans is expected to be 100%, as it is intended to be a full repayment solution. The consultation will be used to test this assumption and it will be confirmed or adjusted in the final stage impact assessment.

12.7 As the SDRP caseload is made up of people who would have entered DMPs of 10 years or less in the counterfactual, the average debt in SDRPs is assumed to be the same as that in DMPs of that length. Debt advice providers who engaged with the production of this impact assessment suggested that the average debt level across all DMPs is £24,246. As set out in paragraph 9.8, 75% of DMPs last 10 years or less. While DMP and SDRP durations are and will be based on both total debt value and debtor payment sizes, using the former as a sensible proxy would suggest that average debt values in SDRPs will be £18,185.

12.8 As a sense check, the average total debt values in DPPs have also been considered, with data from the AiB showing this to be £21,707 across 2017-18 and 2018-19.[13] However, this must also be adjusted to take account of the fact that DPPs do not have the same 10-year limit that is currently being proposed for SDRPs. Further data from AiB shows that approximately 14% of DPPs last longer than 10 years. As in the paragraph above, this is taken to be a sensible proxy and would suggest that the average total debt values of plans lasting less than 10 years is £18,644.

12.9 Taking both of the above into account, this impact assessment assumes that the average total debt value in SDRPs would be £18,354. This does not take account of the fact that the SDRP will allow for the inclusion of a wider range of debts than DMPs, with this impact assessment assuming that any debts not included in a debtor's DMP would be repaid in full. This assumption will be tested further as part of the consultation.

12.10 This suggests that the amount of debt repaid in an average counterfactual DMP that ends successfully will be £13,398, £4,956 lower than the equivalent amount repaid in an SDRP than ends successfully. This suggests that creditors will benefit substantially from successful SDRPs relative to successful DMPs.

12.11 29% of SDRPs will not end successfully, meaning that creditors will not receive 100% repayment. As set out in paragraph 10.10, this impact assessment assumes that, across the assessment period, the average repayment rate of unsuccessful DMPs will be 50%. While still uncertain, the average repayment rate in unsuccessful SDRPs is assumed to be the same. This means that there would be no marginal benefit to creditors in respect of SDRPs that do not end successfully. This assumption will be tested further as part of the consultation.

12.12 The remaining 71% of SDRPs that commence in each year of the assessment period are assumed to ultimately end successfully, whether that be by running their course, or by ending early. These plans will generate benefits for creditors as a result of increased repayments in two ways:

a) Higher repayment rates of successful SDRPs relative to successful DMPs; and

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[13] https://www.aib.gov.uk/aib-ad-hoc-statistical-release-id1

b) Higher success rates of SDRPs relative to DMPs and the increased recovery of successful SDRPs relative to failed DMPs.

12.13 The number of new plans starting in any given year has been calculated in section 8. 71% of these are assumed to be successful. As set out in paragraph 10.5 above, 5% of those new plans would have been unsuccessful DMPs in the counterfactual, while 66% would have been successful DMPs.

12.14 For the latter, as set out in paragraph 12.10 above, each plan will yield a marginal lifetime benefit for creditors of £4,956. Multiplying by the assumed number of successful SDRPs that would otherwise have been successful DMPs starting in any given year yields the total lifetime marginal benefit of those plans.

12.15 Given these benefits arise from successful plans that would also have been successful in the counterfactual, they are assumed to be spread evenly across their lifetimes. The lifetime marginal repayment of these plans starting in any given year is therefore divided by the estimated median duration of those plans, with this benefit reoccurring in each of the following years until those plans are assumed to end. Repeating this for each year of the assessment period yields an estimated annual benefit for creditors arising from 12.12(a).

12.16 The remainder of the SDRPs in any given year that are assumed to be successful would otherwise have been failed DMPs in the counterfactual. However, this is reduced by 11% to account for the assumption that this proportion of people with failed DMPs will subsequently enter into another debt solution. The marginal benefit of SDRPs in such instances is significantly more difficult to calculate given the number of factors that it depends on. This impact assessment therefore assumes that the marginal benefit in these instances is the same as if those DMPs had been successful and is calculated in the same way as 12.12(a). This is likely an underestimate of the true benefit and is an assumption that will be tested in the consultation.

12.17 For the remaining 89%, SDRPs will generate increased repayments for creditors given that in the counterfactual they would have been failed DMPs not leading to other solutions. As mentioned in paragraph 12.11, the average repayment rate of such DMPs is assumed to be 50%. Since successful SDRPs are assumed to have a repayment rate of 100%, this means they yield a marginal repayment of 50%, or £9,177 per plan, as per the average debt value set out in paragraph 12.7.

12.18 As above, multiplying this lifetime marginal benefit by the assumed number of successful SDRPs that would otherwise have been unsuccessful DMPs not leading to any other solution starting in any given year yields the total marginal lifetime benefit of such plans for creditors.

12.19 However, as with the benefits to debtors, for these plans the marginal benefits will not occur evenly across their lifespans due to the fact that the repayments generated by failed DMPs will be front-loaded, occurring during the time that they are in effect. The lifetime benefits calculated here will therefore also be back-loaded, only being generated in the years after the counterfactual DMPs have failed. This impact assessment estimates the distribution of these benefits using the same model as in section 10. Repeating this for plans starting in each year of the assessment period yields an estimated annual benefit for creditors arising from 12.12(b).

12.20 Combining both 12.12(a) and 12.12(b) yields an estimated total marginal annual benefit for creditors and is illustrated in chart 9 below. This is a gross benefit to creditors. Creditors will also incur costs, which are assessed in section 15 alongside an optimism bias assumption.

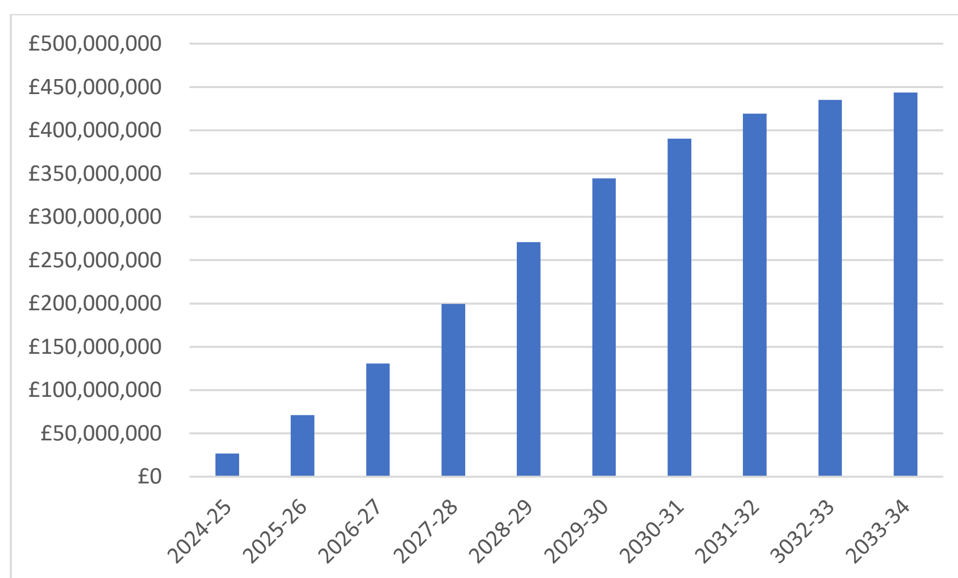

***Chart 9:** Estimated annual gross benefit of the SDRP to creditors across the impact assessment period.*

12.21 As mentioned previously, this impact assessment assumes that the SDRP caseload would be comprised only of those who would have entered into DMPs in the counterfactual. For those who would otherwise enter into insolvency or have no formal solution at all, the marginal benefits for creditors are expected to be even greater, as the repayment rates in either scenario would be expected to be significantly lower than that of the SDRP and of the counterfactual DMPs currently in consideration.

12.22 As set out in paragraph 9.5, the consultation will be used to further explore how much of the SDRP caseload will be made up of those entering into insolvency or no solution in the counterfactual and the final impact assessment will set this out alongside the associated benefits to creditors.

12.23 This impact assessment recognises that there may be an associated disbenefit for debtors as a result of increased repayment. However, given the variety of factors surrounding this, the full impact has not yet been considered, and will be explored further

through the consultation. The expectation is that any potential disbenefit to debtors is significantly outweighed by the benefits they will receive from the SDRP.

13 Reduced duplicate demand for debt advice

13.1 The SDRP is expected to benefit debt advice providers by providing an alternative repayment solution with higher success rates than the counterfactual and thus reducing duplicate demand for debt advice.

13.2 Debt advice providers who engaged in the development of this impact assessment estimated that 11% of debt advice clients whose DMPs fail subsequently enter another solution, doing so immediately and with the same debt advice provider.

13.3 This figure is likely to be a substantial underestimate as it excludes people who go from a failed solution to a new solution that administered by another debt advice provider, as well as those who disengage with debt advice after the failure of their debt solution, but subsequently return.

13.4 As set out in paragraph 10.5, the success rate of SDRPs will be five percentage points higher than that of DMPs. This will mean that fewer people will require duplicate debt advice to help them find another solution after their original solution fails.

13.5 Debt advice providers who engaged in the development of this impact assessment estimated the cost of delivering debt advice to be £289 per client. The benefit to debt advice providers is equivalent to the reduction in the number of duplicate debt advice clients, multiplied by the cost of delivering duplicate advice to those clients.

13.6 To monetise this benefit, the number of annual SDRP terminations identified in paragraph 9.22 is multiplied by the marginal completion rate relative to DMPs, using the assumption that 5% of SDRPs ended in any given year will have completed successfully, when they would otherwise have been failed DMPs in the counterfactual.

13.7 This is multiplied by 11%, to account for the fact that not all debtors whose repayment plans end in failure receive duplicate debt advice. This yields the reduction in duplicate debt advice sessions. This figure is multiplied by £289 to monetise the saving.

14 Debt advice provider income

14.1 As with creditors, debt advice providers are also expected to receive additional benefit from the income provided by SDRP clients who would otherwise have entered into DMPs due to the increased repayment and success rates, although this benefit will also be impacted by the income structure of SDRPs in comparison to DMPs.

14.2 Due to the uneven spread of this income, this will be broken down into three sections:

a) Income received from successful SDRPs that, in the counterfactual, would have been successful DMPs;
b) Income received from successful SDRPs that, in the counterfactual, would have been failed DMPs not leading to another solution; and
c) Income received from failed SDRPs that, in the counterfactual, would have been failed DMPs.

14.3 For 14.2(a), the lifetime repayment of successful DMPs starting in any given year is calculated using their assumed success and repayment rates. As per paragraph 15.5 below, this is then multiplied by 9%: the estimated average creditor contribution to debt advice providers in DMPs.

14.4 Had these DMPs been SDRPs however, the repayment rate would have been 100%, rather than 73%, but the income for debt advice providers would only have been 8% of this. The difference yields the marginal lifetime income received from successful SDRPs that would otherwise have been successful DMPs, which can be seen to be a benefit to debt advice providers.

14.5 Since this is considering successful plans, as in paragraph 12.15, this marginal benefit is assumed to occur evenly across their lifetimes and so is divided by the assumed median duration of 6 years, with this amount then reoccurring in each year. Repeating for new plans in each year of the assessment period yields a total marginal income for 14.2(a).

14.6 Similarly, for new SDRPs in any given year, 38% are assumed to run their course to completion, resulting in full repayment of debt. In the counterfactual, only 33% of DMPs will have run their course to completion. The difference represents retained SDPRs that would have failed in the counterfactual but instead have run their course to completion.

14.7 Given 11% of clients whose DMPs failed are assumed to enter alternative solutions, the remaining 89% are assumed not to. Therefore, it is assumed that 89% of the retained SDRPs mentioned in the previous paragraph would otherwise have failed and not led to an alternative solution.

14.8 The repayment rate of these failed DMPs is assumed to be 50%, with debt advice providers again receiving 9% of this. As with 14.2(a), the successful SDRPs are assumed to have a repayment rate of 100%, with 8% of that being received by the debt advice provider. The difference yields the marginal lifetime income received from successful SDRPs that would otherwise have been failed DMPs, which again can be seen to be a marginal benefit.

14.9 However, similarly to what is set out in paragraphs 10.17 and 12.19, these lifetime benefits are assumed to be back-loaded to account for the fact that some income would have been received by debt advice providers in the years that the failed DMPs would

have been place – something that will progressively increase as more and more DMPs are expected to fail.

14.10 This impact assessment therefore assumes that the marginal lifetime benefits of these retained SDRPs increase year-on-year for the duration of their existence, again assuming that they exist for the assumed median of 6 years. As in sections 10 and 12, the progression of this increase is modelled using the known survival rates of DPPs as a proxy and therefore increases as a slower rate each year.

14.11 Again, repeating this for plans starting in each year of the assessment period yields a total annual benefit for debt advice providers arising from 14.2(b).

14.12 Similarly to the income for creditors calculated in section 12 , the failed DMPs that do lead to another solution are assumed to yield the same income for debt advisers as if they had been successful and are therefore included in the calculations for 14.2(a).

14.13 Unlike creditors, it is also important to consider failed SDRPs that would also have been failed DMPs here as the level of income for debt advice providers would vary between the two.

14.14 For new SDRPs in any given year, 29% are assumed to ultimately fail. It is assumed that all of these would have been failed DMPs in the counterfactual. This impact assessment assumes that the same proportion of these would enter another solution and that the income for debt advisers following that will be the same in either scenario, thus having no impact on these calculations. As set out previously, the repayment rate of both failed SDRPs and failed DMPs is assumed to be 50%.

14.15 As above, debt advice providers are estimated to receive 9% from repayments in DMPs. For the equivalent SDRPs however, the income received by debt advice providers is assumed to be only 8% of the repayments made. Given the repayment rates are assumed to be the same in either scenario, this represents a direct reduction in the level of income received by debt advice providers from 9% to 8% and is therefore actually a marginal cost.

14.16 Unlike the marginal benefits calculated for 14.2(b), since this is exclusively considering failed plans, the lifetime costs of plans starting in a given year are assumed to be front-loaded. This takes account of the fact that the costs are generated by plans during the years that they are in place and therefore will decrease as more and more fail.

14.17 This impact assessment therefore assumes that the marginal lifetime costs of these plans will decrease year-on-year for the duration of their existence. The progression of this decrease is also modelled using the failure rates of DPPs as a proxy, effectively representing the inverse model to what is set out above.

14.18 Combining these three elements, along with the savings calculated in paragraph 13.7 yields a total estimated annual benefit to debt advice providers and is illustrated in chart 10 below.

14.19 This section does not make any consideration of the benefits or costs for debt advice providers that also act as payment distributors for SDRPs. These debt advice providers will receive a further 1% of a debtor's repayments and it is assumed that this will lead to a marginal benefit for these providers. However, it is not yet known what proportion of SDRPs will have debt advice providers acting as payment distributors and what proportion will use the Insolvency Service for this, nor what the costs of implementing and providing this service will be. The consultation will be used to explore this further and the resultant costs and benefits will be captured in the final impact assessment.

14.20 Further direct costs to debt advice providers are considered below in section 16 alongside an optimism bias assumption.

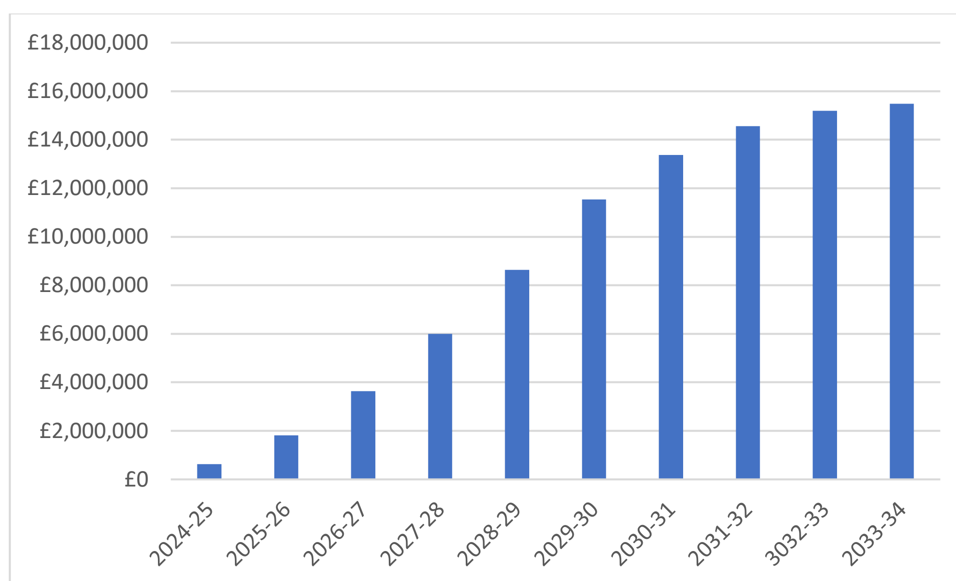

Chart 10: *Estimated annual benefit of the SDRP to debt advice providers across the impact assessment period.*

14.21 As with creditors, the assumptions about the SDRP caseload mean that the impact on debt advisers arising from clients entering into a SDRP rather than insolvency or no solution at all have not been captured. In both scenarios, and in particular the latter, it is expected that debt advisers would gain further marginal benefits.

14.22 As set out in paragraph 9.5, the consultation will be used to further explore how much of the SDRP caseload will be made up of those entering into insolvency or no solution in the counterfactual and the final impact assessment will set this out alongside the associated benefits to debt advisers.

15 Cost to creditors

15.1 As set out in the draft SDRP regulations, 10% of a debtor's monthly payments will be provided to the organisations that operate the plan. This funding model ensures that plans remain sustainable to operate for debt advice agencies, whilst providing fairness to creditors.

15.2 Of this 10% of monthly repayments, 8% will be provided for ongoing administration of an individual's plan. This funding will be available to FCA-regulated and exempt debt advice agencies. 1% will be provided for payment distribution. This funding will be available to debt advice agencies with the relevant FCA handling client money permissions, or to the Insolvency Service. 1% will be provided to the Insolvency Service for providing administrative oversight of the scheme.

15.3 This 10% approach broadly mirrors the funding levels received by debt advice providers under the Fair Share Contributions model. The Fair Share Contributions model sees creditors voluntarily forego a fraction of the repayments made via DMPs to support the costs incurred by debt advice providers in establishing those plans.

15.4 If all debt advice providers received 10% of monthly repayments in the counterfactual, there would be no marginal cost to creditors. Debt advice providers who contributed to the development of this impact assessment suggested that the true figure was between 8% and 11%.

15.5 This suggests that the impact on creditors ranges between a 1% marginal benefit (if the sector-wide average is 11%) and a 2% marginal cost (if it is 8%). No sector wide figure was available, so this impact assessment assumes that creditors contribute 9% under DMPs and will increase this contribution to 10% under SDRPs. This assumption will be reviewed within the consultation and in the final stage impact assessment.

15.6 The costs to creditors arising from this is calculated in almost exactly the same way as the benefits to debt advice providers covered in section 10. Similarly, the following three categories of plans need to be considered:

a) Additional contribution to successful SDRPs that, in the counterfactual, would have been successful DMPs;
b) Additional contribution to successful SDRPs that, in the counterfactual, would have been failed DMPs not leading to another solution; and
c) Additional contribution to failed SDRPs that, in the counterfactual, would have been failed DMPs.

15.7 The process for calculating each of these is the same as that used for calculating the income in section 10, with the exception of using the 10% contribution proportion for SDRPs, rather than 8%, which is the proportion debt advice providers receive. The annual marginal cost for creditors as a result of this is the sum of each of these three sections and is set out in chart 11 below.

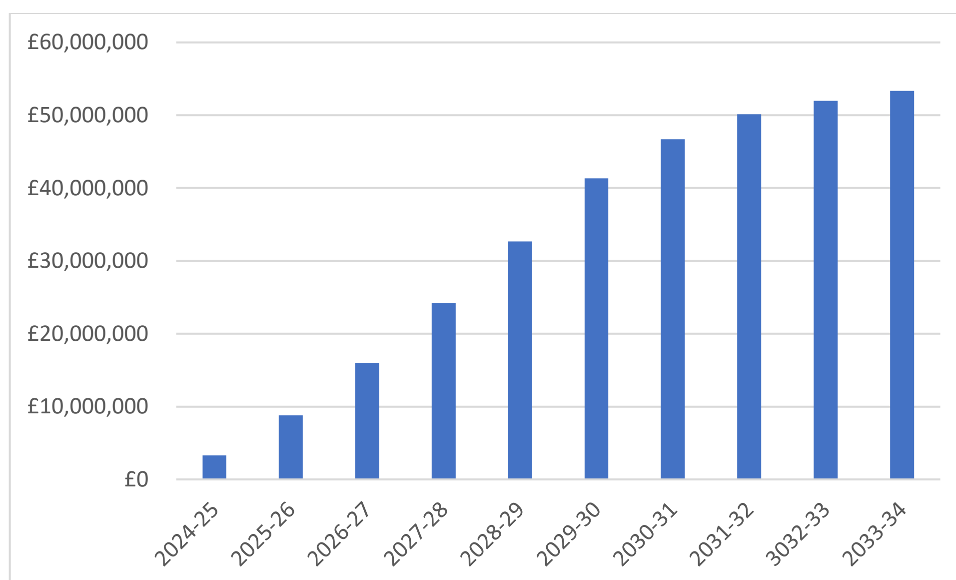

Chart 11: *Estimated annual cost of contributions to the SDRP for creditors across the impact assessment period.*

15.8 It is recognised that creditors will also face front-loaded costs arising from the development of new systems required to comply with and deliver SDRPs that they are involved in, as well as from initial familiarisation and dissemination of the scheme.

15.9 It is also likely that creditors will face a certain degree of additional administration costs arising from SDRPs. While the estimated caseload is assumed to be DMPs in the counterfactual, which will have their own administration costs, SDRPs place a number of legal requirements on creditors in relation to development and operation of plans, including amendment of debt values, searching for additional debts and the objection mechanism.

15.10 The costs arising from each of these for creditors are incredibly difficult to estimate at this stage due to the vast range of creditors and creditor types that will ultimately be impacted by the scheme. Large financial service firms will have significantly different needs and requirements when compared to local authorities or to smaller private creditors such as landlords, and the comparative costs for each will be vary considerably in almost every area. These costs will also be heavily dependent on caseload assumptions and on what creditors deem is necessary to meet their own individual needs – some will be able to comply with SDRP regulations through manual workarounds, while others will likely seek to implement automated and digital processes to support that work.

15.11 These costs have therefore not been estimated in this impact assessment and instead will be explored in detail through the consultation by seeking views from the creditors involved in that, both on their intended approaches to delivering the scheme and on the resultant costs of those approaches.

15.12 As mentioned in paragraph 9.5 above, if deemed appropriate, the final stage impact assessment will include debtors with non-DMP counterfactual outcomes, such as no debt

solution or a different debt solution that isn't a DMP. This may substantially change the impact of the new funding model on creditors.

15.13 Broadening the caseload is likely to mean that the cost to creditors rises. On a net basis, though, the impact on creditors is expected to improve, as the counterfactual repayment rates of debtors who in the counterfactual enter no debt solution or a form of insolvency are likely to be substantially lower than that of those who enter a DMP in the counterfactual.

15.14 Further, this impact assessment has not attempted to estimate the potential marginal cost that may arise from SDRPs freezing most interest, charges and fees on the debts included within them. The level of this cost will be highly dependent on a number of uncertain factors, including the amount of income that creditors would otherwise receive from interest, charges and fees in the counterfactual. These factors will be explored further as part of the consultation and in developing the final impact assessment.

15.15 For the time being, the estimated net annual benefit only takes account of the explicitly calculated costs and benefits in this section, and in section 9 respectively. This is however adjusted by a 20% optimism bias figure. The resultant net benefit is set out in chart 12 below.

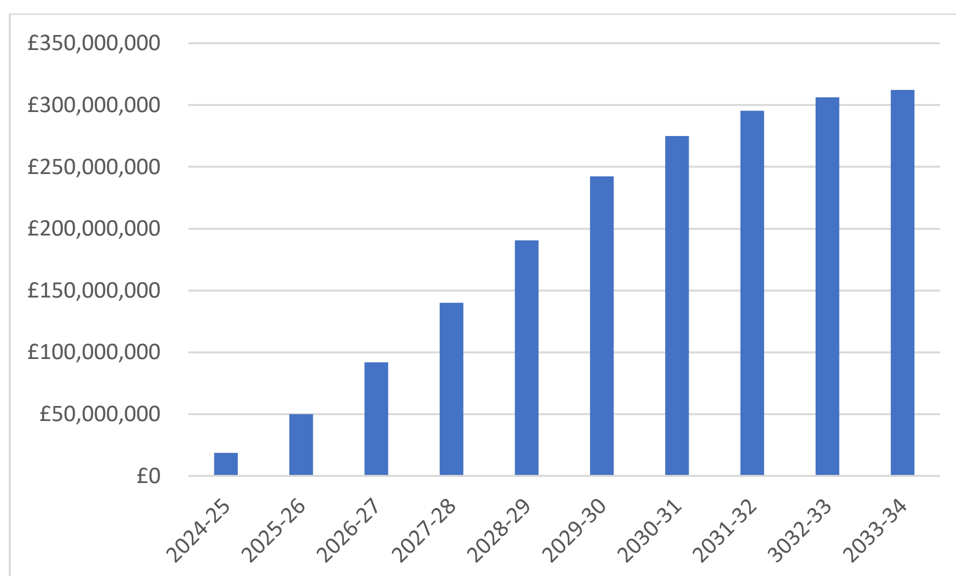

Chart 12: *Estimated net annual benefits to creditors as a result of the SDRP across the assessment period.*

16 Costs to debt advisers

16.1 SDRPs are a more formal and structured debt solution than DMPs and have more explicit requirements for debt advisers in their role administering plans, including in relation to reviews, revocations and plan flexibilities.

16.2 The SDRP would require debt advisers to conduct an annual review of any live plan at least once a year, as well as an in-year review in certain circumstances, including at the request of the debtor. Debt advisers will also be required to conduct reviews as a result of requests from creditors, engage with a more structured revocation process, and consider and implement payment breaks and plan variations. Many aspects of these requirements are present and do occur in DMPs, but it is expected that the explicit requirements of the SDRP will create marginally increased costs in relation to maintenance of plans.

16.3 It is currently assumed that DMPs have a maintenance cost of £107 per annum, using evidence provided by debt advice providers feeding into this impact assessment.

16.4 There is currently a high level of uncertainty with regards to the existence and extent of any marginal cost of a SDRP in comparison to a DMP and the consultation will therefore look to explore this further once debt advice providers are able to assess in more detail alongside the draft regulations. However, for the sake of this impact assessment, maintenance costs for SDRPs are assumed to be 5% higher than those of DMPs: £112.

16.5 Similarly, the more structured nature of SDRPs and the broader legislative requirements with regards to development of plans will likely mean that setup costs will also be higher than that of DMPs, which is assumed to be £289, using evidence provided by debt advice providers feeding into this impact assessment. As with maintenance, there is a lot of uncertainty around the extent of this difference but this impact assessment assumes that this cost will also be 5% higher for SDRPs: £303. This assumption will be explored further in the consultation.

16.6 These increased costs must be considered alongside the increased completion and retention rates of SDRPs in comparison to DMPs in the counterfactual to establish a total marginal cost. To calculate this, the same process is taken as in section 14, but maintenance costs are considered instead of debt advice provider income.

16.7 For successful plans, whether they be SDRPs or DMPs, the maintenance cost is calculated by taking the respective annual maintenance cost and multiplying by the assumed median duration of those plans, 6 years. For failed plans, the same calculation is done, and is then multiplied by 50% to reflect the assumption that the average repayment rates in failed plans is 50%.

16.8 Comparing SDRPs to their counterfactual equivalents in the same way as in section 14, marginal lifetime maintenance costs are calculated. For successful SDRPs that would have been successful DMPs, this lifetime cost is split evenly across 6 years. For successful SDRPs that would have been failed DMPs, this cost is assumed to increase year-on-year. And the costs of failed SDRPs that would have been failed DMPs are assumed to decrease

year-on-year. Combining all three yields an estimated marginal annual maintenance cost of SDRPs.

16.9 The marginal annual setup costs of SDRPs are calculating simply by taking the number of new plans in any given year and multiplying by the assumed cost of setting up an SDRP, and by the assumed cost of setting up a DMP. The difference yields the marginal annual setup cost for the SDRP.

16.10 Combining both marginal costs above yields a total marginal administration cost for debt advice providers arising from implementation of the SDRP. This is illustrated in chart 13 below.

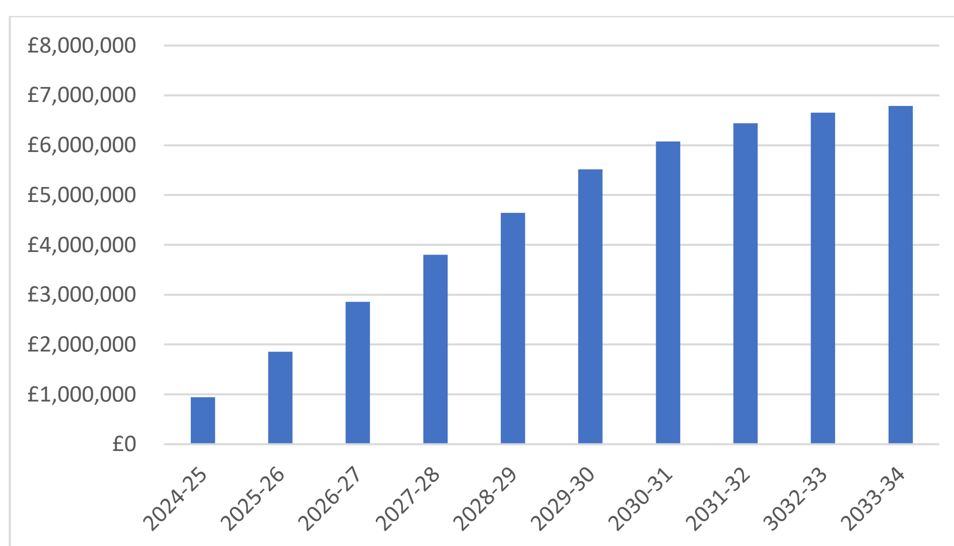

Chart 13: *Estimated annual marginal administration costs for debt advice providers as a result of SDRP.*

16.11 Debt advice providers will face costs due to the need to develop new or updated systems to deliver SDRPs, and to interface with the Insolvency Service's own electronic service. The draft regulations have been developed with the intention of minimising this additional cost, drawing on existing systems and processes as much as possible, but the SDRP is nonetheless a new scheme that will require adjustment and create additional costs.

16.12 Similarly, debt advisers will face costs in relation to familiarisation and dissemination. The scale of all three of these costs will be highly dependent on debt advice provider assessments of how complex the scheme is in comparison to existing solutions, the requirements that it creates, and the Insolvency Service's electronic system. These costs will be explored in detail through the consultation process once those providers have gained sight of the draft regulations.

16.13 As mentioned in paragraph 9.5 above, the final stage impact assessment will seek to include debtors with non-DMP counterfactuals, something that will also have an impact of debt advice provider costs.

16.14 Although the model set out in this section may represent some increased maintenance cost to some debt advice providers in respect of clients who would in the counterfactual have entered DMPs, overall it is assumed that they will receive a net benefit due to the increased income generated by the higher repayment and success rates of SDRPs. Further, it is likely that the addition of debtors who would have experienced non-DMP counterfactual outcomes will further increase this benefit as debt advice providers are likely to derive more income from debtors in SDRPs than those in no debt solution or in insolvency. On a net basis, it is therefore likely that the SDRP funding model will even further benefit debt advice providers.

16.15 For the time being, the estimated net annual benefit to debt advice providers is based on the costs and benefits explicitly calculated in this section, and in sections 13 and 14 respectively.

16.16 As with the net benefits to creditors, an optimism bias adjustment of 20% is applied. For debt advice providers, a small net cost is expected in the first two years of the scheme, followed by significant net benefits in the years following. The optimism bias has increased these net costs by 20%, and decreased the anticipated net benefits by the same amount. This is illustrated in chart 14 below.

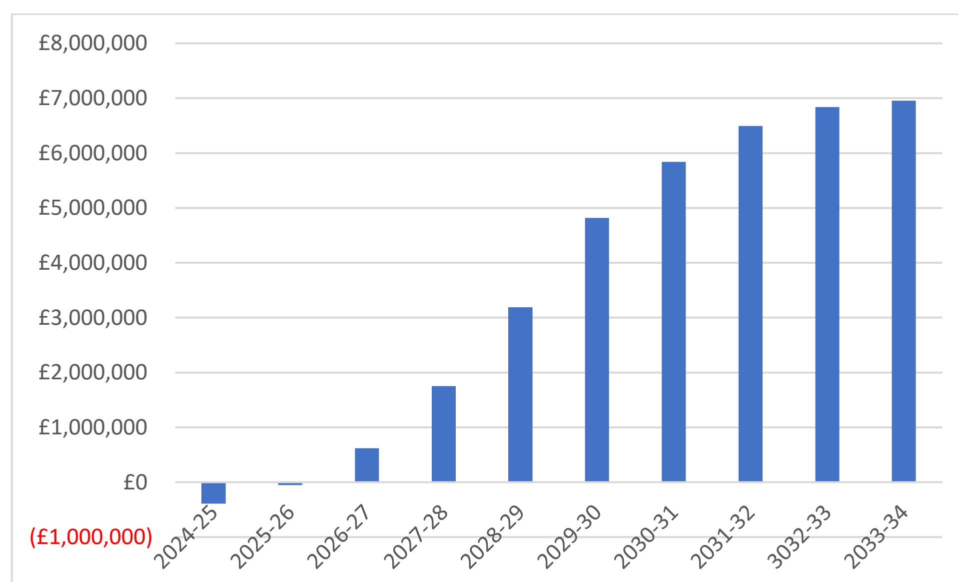

Chart 14: *Estimated net annual benefits to debt advice providers as a result of the SDRP across the assessment period.*

17 Small and Micro Business Assessment

17.1 Regulations 6 to 9 of the draft SDRP regulations set out which debts will be within and outside of the scope of the scheme. The SDRP will include almost entirely the same broad range of debts as the Breathing Space Moratorium Regulations. Some of these debts, such as rent arrears, will be owed to Small and Micro Businesses (SMBs).

17.2 Paragraphs 24.10 to 24.12 of the Breathing Space impact assessment assessed that there would be a disproportionate impact on SMB private landlords of any net costs of Breathing Space.[14] Similar arguments can be made about the number of debtors accessing SDRP who will have housing debt owed to SMBs. However, SDRP is a repayment solution that will ensure such housing debt is paid back. As this impact assessment has previously set out, recoveries for creditors is assumed to be higher in SDRP than in the counterfactual, meaning that the impact of SDRP on private landlords will be a net positive and could therefore be a relative benefit if there are high proportions of people accessing SDRP with such debt.

17.3 The draft regulations, published alongside this impact assessment, also set out which debts will be prioritised within the scheme and that this will include rent arrears. These debts will be repaid faster than those that aren't prioritised, with 30% of a client's payment being set aside to be split between priority debts, and the remainder being split between all debts. Both parts of this will be done on a pro-rata basis dependent on debt size, meaning that all priority debts will be paid off simultaneously, and all non-priority debts being paid off together at the end of the plan. In particular, the fact that housing debt will be prioritised within SDRPs will further benefit certain SMBs by increasing the rate at which they recover debt through plans.

17.4 Given their size, SMBs are likely to be more susceptible to cash flow issues than large creditors such as financial services firms. SDRPs will extend the period over which debtors repay their debts, which would reduce cash flow for creditors relative to what would otherwise be expected, something that could have a disproportional impact on SMBs. However, as previously set out in this impact assessment, those entering SDRPs are assumed to be those who would have entered DMPs in the counterfactual and therefore would have had extended repayment periods regardless. SDRP therefore is assumed to have no less than a neutral impact with respect to cash flow, and in fact is likely to provide a positive impact given the assumed increase in success rates of plans, and the certainty that they provide. The prioritisation of certain debts, including housing debt, will also provide further benefit for certain SMBs by increasing the rate of recovery, and thus the income they receive each month from plans.

17.5 The SDRP regulations have been developed to enable the use of postal and email communications with creditors. It is more likely that such communication methods will be utilised by SMBs rather than larger creditor organisations, and by not precluding them from the scheme, such SMBs are not forced to develop new electronic systems to allow them to interface with the Insolvency Service's electronic service.

17.6 In most cases, SMBs involved in the scheme as creditors will likely not be owed debts through multiple different plans, or be owed multiple different debts within the same plan. Instead, they will primarily only be owed a single debt through single plan at any one time. This means that individual SMB creditors will face reduced administrative burden in comparison to larger creditor organisations such as banks as they will not need

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[14] HM Treasury (2019) *Breathing Space Impact Assessment.* Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/863869/Breathing_Space.pdf

to search for additional debts across a number of different systems or maintain administrative oversight of and involvement in multiple different plans. Given that, it is also likely that SMBs will be able to more easily comply with the scheme through manual workarounds than larger creditors facing larger caseloads, and therefore won't need to implement new and costly systems or processes to administer plans that they are involved in.

17.7 Enforcement action undertaken by creditors comes at a proportionately higher cost for SMBs than it would for larger firms. For example, private landlords seeking to evict tenants comes at a high cost for those landlords, a cost that is proportionately much higher than it would be for a large creditor organisation. The protections of the SDRP prevent such enforcement from being undertaken, but the scheme is also intended to reduce the need for such action to be taken by enabling debtors to repay their debts in full when they would otherwise be unable to do so. This will therefore reduce the cost of enforcement to SMBs when compared to the counterfactual, while also still providing more sustainable debt recovery.

17.8 The SDRP is designed to allow debtors to repay their debts in a sustainable way, and is expected to increase recoveries for all creditors involved, creating a net benefit for them. While there will be associated costs arising from contributions to plans, as well as the development of new systems and familiarisation, the benefits of the scheme are expected to far outweigh these. The latter two costs are also expected to impact SMBs far less than larger creditors as fewer systems changes will be required, lower administrative burden will be faced and implementation of the scheme will be on a much smaller scale, thus requiring less dissemination.

17.9 It is therefore considered that the overall impact on SMBs will be a significant net positive, and will be greater than that of the impact on larger organisations. The consultation will explore in greater detail these impacts and will inform a more thorough assessment in the final impact assessment.

17.10 Given the assumption above, exemptions and mitigations for SMBs of the scheme have been disregarded as there would be a risk that doing so prevents such businesses from accessing its benefits.

18 Wider impacts

18.1 The Government's preferred option has been formulated with due regard to the Public Sector Equality Duty. A number of potential disadvantages in access to SDRP have been identified as arising as a consequence of debtors' protected characteristics. These have been mitigated appropriately.

18.1.1 **Age:** the Money Advice Service estimates that 1% of the overindebted population is aged over 65.[15] The Wyman Review suggests that 7% of debt advice clients are aged

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[15] Money Advice Service (2013) *Indebted Lives: The Complexities Of Life In Debt.* Available at: https://mascdn.azureedge.net/cms/cs-indebted-lives-the-complexities-of-life-in-debt_november-2013.pdf

over 65.[16] This suggests that people in problem debt who are aged over-65 will benefit disproportionately from SDRP. However, evidence from Ofcom suggests that people aged over-65 may be less able to access debt advice via online or telephone channels than the general population. For example, people aged 65-74 are 15 percentage points less likely than the adult population to use a mobile phone, nine percentage points less likely to use a computer, and 16 percentage points less likely to use a tablet.[17] To ensure that this inequality of access to debt advice delivered via telephone or online channels does not discriminate against those aged over-65, the government will make SDRP accessible via either telephone, online, or face-to-face debt advice channels.

18.1.2 **Gender:** the Money Advice Service estimates that 64% of overindebted people are female.[18] The Wyman Review suggests that 59% of debt advice clients are female.[19] This suggests that Breathing Space is more likely to benefit females than males, both because females are more likely to be overindebted but also because they are more likely to take-up debt advice.

18.1.3 **Disability:** the Wyman Review estimates that 40% of debt advice clients suffer from a disability or long-term health condition.[20] Disability may restrict the channels through which debtors may seek advice. For example, the Money and Mental Health Policy Institute suggests that those with mental health problems are 22 percentage points more likely than the population in general to have serious difficulty carrying out essential administration over the phone.[21] Likewise, difficulties of physical access may make seeking face-to-face debt advice problematic for those with physical health problems.

18.1.4 To ensure that difficulties in accessing debt advice via some channels does not discriminate against disabled people accessing SDRP, the government will make SDRP accessible via a range of debt advice channels, including telephone, online, and face-to-face.

18.2 SDRP is accessible only via professional debt advice. The debt advice sector make a variety of adaptations to ensure that advice is accessible to those with protected characteristics. For example, StepChange – a debt charity – has an advocacy team who provide additional practical support to vulnerable debt advice clients. This support is delivered in partnership with dedicated support organisations including Macmillan, Age

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[16] Wyman (2018)
[17] Ofcom (2017) *Adults' Media Use and Attitudes Report 2017*. Available at: https://www.ofcom.org.uk/__data/assets/pdf_file/0019/102772/section-5-digital-media.pdf
[18] Money Advice Service (2013)
[19] Wyman (2018)
[20] *Ibid.*
[21] Money and Mental Health Policy Institute (2019*) Annual review 2018/19*. Available at: https://www.moneyandmentalhealth.org/wp-content/uploads/2019/07/Money-and-Mental-Health-Annual-Review-2018-19.pdf

UK, Dementia Friends, Mind, and Samaritans. It can involve offering supplementary debt advice sessions, referring debt advice clients to specialist third party organisations, and submitting debt write-off requests to creditors in certain circumstances - ensuring that people with protected characteristics have access to debt advice.

18.3 **Family Test**: The costs of problem debt are felt strongly by families. Debt advice agencies suggest that large proportions of parents in problem debt cut back on essential items for their children to help them keep up with their debts. They also suggest that families in problem debt are more likely to argue about money than families in general, contributing to relationship strain and family breakdown. These problems are not limited to parents. Amongst children from families in problem debt, it has been found that large proportions are often worried about their families' finances.

18.4 SDRP is expected to reduce the psychosocial burdens of problem debt by allowing people to repay that debt in a manageable, sustainable and safe way, without needing to worry about potential enforcement action from creditors.

18.5 The government remains committed to ensuring that the wider impacts of the SDRP, particularly on those with protected characteristics, are thoroughly and sufficiently explored. The consultation on the SDRP regulations will therefore be used to directly seek further views from stakeholders on potential impacts of the SDRP that have not been considered or captured here. The final impact assessment will then seek to capture any such views as appropriate.

19 Summary of impacts

Impact	Category	Present Value/£m	Section
Benefit to debtors: reduced costs of problem debt (includes optimism bias adjustment)	No business impact	9.6	11
Benefit to creditors: higher repayment rate (includes optimism bias adjustment)	Indirect business impact	1,834.6	9
Benefit to debt advice providers: lower duplicate demand for advice & higher income (includes optimism bias adjustment)	Indirect business impact	66.3	10
Cost to creditors: SDRP funding contribution	Direct business impact	-267.9	12
Cost to debt advice providers: additional administration of SDRPs	Direct business impact	-37.6	13
Net Present Value	1,605.0		

Table 4: summary table of present value of impacts assessed in this impact assessment.

20 Description of implementation plan

20.1 This impact assessment demonstrates the substantial net benefits of the SDRP. Vital to the realisation of these benefits will be the effective implementation of the policy.

20.2 HM Treasury is working closely with the Insolvency Service to implement both parts of the Breathing Space Scheme – the SDRP and breathing space – and to do so with regard to the advice provided by the Money and Pensions Service (MaPS) in accordance with section 6(4) of the Financial Guidance and Claims Act 2018.[22]

20.3 This advice sets out how HM Treasury may raise awareness of the scheme amongst stakeholders with a role in delivering the scheme and amongst people in problem debt who might benefit from it. The implementation plan will be set out in more detail in a final stage impact assessment, once the policy has been finalised.

21 Post-implementation review plan

21.1 HM Treasury will publish a Post-Implementation Review within five years of the commencement of the SDRP, in accordance with section 28 of the Small Business, Enterprise and Employment Act 2015.

21.2 In addition to raising awareness of the Breathing Space Scheme, the MaPS advice covers the Scheme's evaluation.[23] MaPS recommends conducting separate impact and process evaluations.

21.3 The impact evaluation will consider how effectively the SDRP has delivered its aims of increasing the completion rate of repayment plans relative to the DMP counterfactual, helping people in problem debt return to a stable financial footing, and supporting more people in problem debt to repay their debts in full. The process evaluation will consider whether there is scope to improve the operational delivery of the policy.

21.4 The Debt Respite Scheme (Breathing Space Moratorium and Mental Health Crisis Moratorium) (England and Wales) Regulations 2020 commenced on 4 May 2021. This phased implementation will help to assess the separate impacts of the two parts of the scheme, while also providing opportunities to evaluate any overlaps.

21.5 The Post-Implementation Review plan will be set out in more detail in a final stage impact assessment, once the policy has been finalised. This will include setting out the government's approach to ongoing monitoring and publication of official statistics and administrative data on the SDRP, in accordance with the MaPS advice.

[22] Money and Pensions Service (2019) Response to Request for Advice. Available at: https://www.gov.uk/government/publications/breathingspace-scheme-money-and-pensions-service-advice
[23] ***Ibid.***

21.6 The final impact assessment will also consider and set out the specific metrics that will be used to inform the evaluation of the scheme, highlighting those that are already recorded and those that the government will seek to develop.