

How to deal with your debts and manage your money

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If you are struggling to pay your debts, don't panic! Follow these simple steps to help you deal with your debts:

- work out a personal budget
- deal with the most urgent debts first
- don't forget to deal with your non priority debts
- make sure you have considered all the available options to deal with your debts

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Work out a personal budget

First of all, you need to create a personal budget. This will show all the money you have coming in and all the expenses you have going out.

There may be ways you could increase your income, for example:

- claiming benefits that you are entitled to
- paying the correct tax on your earnings

You may also find you can reduce some of your expenses, for example:

- moving to a cheaper fuel supplier or phone provider
- finding cheaper car and home insurance

If you're not sure how you are spending your money, you should keep a spending diary for about a month. This will give you a clearer picture of where you are spending your money. Also, if you're part of a couple and have joint expenses, you should both complete the budget sheet.

There are many online budgeting tools you can use to create a personal budget. See:

- [Citizens Advice – work out your budget](#)
- [National Debtline – your budget](#)

Once you've completed your budget, you'll know how much money you have left once your essential expenses have been paid.

Deal with your most urgent debts

You should then make a list of who you owe money to and how much money you owe to each creditor.

Once you've made a list of all your creditors, you need to work out which debts are the most urgent. Some debts are more urgent than others because the consequences of not paying them can be more serious such as:

- losing your home
- disconnecting your gas and electricity
- being imprisoned

These are known as priority debts. Less urgent debts are known as non priority debts.

Sometimes non priority creditors might pressurise you and it can be tempting to pay them first. But it's important that you pay the priority creditors first as not paying them could lead to serious consequences.

Priority debts include:

- mortgage, rent or service charge arrears - if you don't pay these you could lose your home
- gas and electricity arrears - if you don't pay these, you can have your supply disconnected
- Council Tax arrears - If you don't pay these, an enforcement agent could take your goods, or you could have money taken from your benefits or wages or even be sent to prison
- Magistrates' court fines - If you don't pay these, an enforcement agent could take your goods or even be sent to prison
- maintenance arrears for children or ex-partner - this includes arrears to the Child Support Agency. If you don't pay these, a court can use enforcement agents to take your goods or even be sent to prison

- TV licence or TV licence arrears - it's a criminal offence to use a television without a licence. You could be fined. If you do not pay this fine, you could be sent to prison

You may have other debts which may be very important for you to pay, in your particular situation. For example, if you need a car to get to work or due to your disabilities, you may need to make sure you keep up to date with the payments. Non payment could result in the care being taken away depending on the type of loan agreement you have.

You need to think very carefully about which debts you treat as the most important ones. You must have very good reasons, as you might have to convince a court or your other creditors why it is reasonable for you to treat these debts as more important than others.

You should contact your priority creditors with a copy of your budget sheet showing your offer of payment. If you're not sure if your debts are priority debts, or if court action has been taken, or if you need help making offers to your creditors, please seek further advice.

[See useful contacts for further advice.](#)

Dealing with the other debts

If you have money left over after making an arrangement for your priority debts you should make an arrangement to deal with your non priority debts.

Non-priority debts include:

- credit debts such as overdrafts, loans, hire purchase, credit card accounts and catalogues
- water and sewage charges – you can't be cut off for water debts
- student loans
- money borrowed from friends or family

You cannot be sent to prison for not paying non-priority debts. But if you don't make any offers to pay, without explaining why, your creditors may take you to court.

If you still fail to pay when the court has ordered it, your creditors can take further action. For example, they can get another court order which allows them to send bailiffs round to take your property away. This will be sold to cover your debts.

If you don't make arrangements to pay off non-priority debts, your creditors may take you to court. You may not have much money left and you may therefore only offer a very small amount towards your debt (for example £5 per month). This is called a token offer.

If you have no spare income to offer you could ask the creditor to put a hold on any recovery action for a period of time in the hope that your financial situation may improve.

When writing to a creditor, you should also include a copy of your personal budget and provide an explanation of your particular circumstances.

If you need help in writing to your creditors or making offers, please seek further advice. [See useful contacts for further advice.](#)

[See National Debtline sample letter library](#) for template you could use when contacting your creditors.

Look at the options in dealing with your debts

There are various options in dealing with your debts but not all options may be suitable for you. For example:

- you could negotiate with creditors directly with offers of payment, or ask creditors to write off your debts or make a lump sum offer in full and final settlement

- you could have a debt management plan if you have sufficient disposable income - there are companies that offer free debt management plans, for example:
 - [StepChange](#)
 - [Payplan](#)
- an administration order may be appropriate if you:
 - are able to make a regular monthly payment
 - owe less than £5,000
 - have at least one county court judgment or high court judgment
- an [Individual Voluntary Arrangement](#) may be suitable if you have enough disposable income - this is a legally binding agreement between you and the creditor for a set period of time, after which the remaining debts are written off
- a debt relief order where debts are written off after 12 months may be suitable if:
 - the qualifying debts are less than £15,000 (most debts are included but you may need further advice to see if your debts would be included)
 - you have less than £50 per month disposable income and very little or no assets
- bankruptcy may be suitable if you have little or no assets and no money left over to pay your debts, or you have so little that it will take many years for you to repay your debts

It's important to look at all the options carefully as there are advantages and disadvantages to each option and there are costs involved with some options.

You'll need to decide which option is the most suitable one for you. More details of the options available can be found here: [National Debtline: ways to clear your debt](#).

Alternatively, [see the debt and money section on Citizens Advice](#).

Useful contacts

Luton Citizens Advice Bureau

Community House
15 New Bedford Road
Luton
Bedfordshire
LU1 1SA

Website: [Citizens Advice Luton](#)

National Debtline

Tel: 08088084000

Website: [National Debtline](#)

StepChange

Tel: 08001381111

Website: [StepChange](#)

Payplan

Freephone (including mobiles): 0800 280 2816

Website: [PayPlan](#)

Money Advice Service

The money advice service has been set up by the government to offer free and impartial money advice and covers a wide range of topics. For example, it covers useful information on:

- debt and borrowing
- budgeting and managing money
- savings and investments
- insurances
- home and mortgage
- benefit entitlement
- pensions and retirement

Tel: 03005005000

Website: [Money Advice Service](#)

Business Debt Line

If you have business debts, please contact BDL.

Tel: 08001976026

Website: [Business Debt Line](#)

Taxaid

Free help and advice on tax issues

Tel: 03451203779

Website: [TaxAid](#)

Money Saving Expert

Martin Lewis's money saving expert website contains lots of information on money and debt as well as helpful forums.

Website: [Money Saving Expert](#)

Insolvency Enquiry Line

For information and guidance on bankruptcy

Tel: 03006780015

Website: [Insolvency Enquiry Line](#)