

Identifying and Resolving Personal Debt

INTRODUCTION

The hospitality industry can be a seasonal business for many operators and their employees. Seasonality combined with the current economic situation and any number of other factors that interrupt business continuity - from weather conditions to strike action – can result in redundancies, salary reductions and business closures.

A consequence of these circumstances is the rising level of personal debt. Recent statistics show that the total UK household debt at the end of 2010 stood at £1.45 trillion. A forecast by the Office of Budget Responsibility expects this to grow over the coming years.

Within the hospitality industry, the situation is equally worrying. Hospitality Action, the trade charity for the hospitality industry, has witnessed a considerable shift in the type of help requested by those currently or formerly employed in hospitality. There is an increasing demand for help with debts and debt-related problems and between 2009 and 2010 there was an increase of over 50% in requests for help towards bankruptcy.

DEBT: WHO IS AFFECTED?

The Consumer Credit Counselling Service (CCCS), the UK's leading charity on debt advice, confirms:

- In 2010, CCCS clients with children, on average owed 20% more than those without children. They also found their debt levels fell at almost half the rate of those clients without children. This can be attributed to their lifestyles being less flexible.
- Amongst CCCS clients, men owe more than women (approximately £25k compared to £20k)
- During 2010, one third of CCCS clients were only able to start repaying their debts once they had increased their income. This is a continuation of 2009 and reflects the rise in long-term unemployment and underemployment since 2008. These clients found themselves in a deficit budget with monthly expenditures higher than their earnings.
- The average gross annual income for a CCCS client last year was £22,401 and 55% of clients were in receipt of some type of benefit.
- Over a third of CCCS clients earning between £13,500 and £25,000 have no money left at the end of the month to repay their unsecured debt after basic living costs.

A report by The Financial Inclusion Centre in conjunction with CCCS suggests that 6.2 million households in the UK are financially vulnerable. Of this figure, 3.2 million are already in financial difficulty - either structural arrears or already subject to some form of debt relief. A further 3 million are at risk of getting into financial difficulty because they are finding it

hard to make ends meet and are vulnerable to increases in household bills.

CAUSES OF DEBT

Last year at the CCCS, the most common reason for a client falling into financial difficulty was redundancy or a reduction in the working hours resulting in an 'income shock'. As well as redundancy, there are a number of other reasons why people find themselves in this position including simply being over committed on credit, experiencing a breakdown in a family relationship, a serious health issue or bereavement.

DEBT: THE SIGNS

There are a number of signs that may indicate a budding or serious debt problem including:

- Borrowing money from family and friends
- A recent reduction in income
- Taking one or more cash advances from the business or an employer
- Using one form of credit to pay for another
- Arrears on essential bills such as utilities, mortgage payments or rent
- Approaching payday lenders to make ends meet
- Using credit to meet regular monthly expenditure such as food or utility bills
- Credit applications being refused
- Creditor calls at work or an increased number of 'personal calls' in the workplace
- Asking for - or undertaking - significant levels of overtime
- General impact on health, happiness and/or relationships
- Time off owing to stress or depression

If you exhibit one or more of these behaviours, or notice an employee who does, it could indicate a debt problem.

DEBT STRESS

Anyone experiencing debt-related stress can find it even more difficult to deal effectively with the financial situation. In the workplace, debt stress can lead to problems concentrating, poor judgment, overreacting to situations, time off work and mood swings.

RESOLVING DEBT

There are organisations that can help people who are or have been employed in the hospitality industry and are affected by debt problems.

Managers addressing an employee's debt issue will find that empathy is fundamental to dealing effectively with someone who finds themselves in debt. Counsellors recommend the following pointers for an empathetic approach:

- Remain calm
- Use a soft tone
- Have a two way conversation
- Listen
- Take a non-judgmental approach
- Give information in manageable chunks
- Use open body language
- Provide clear and concise instructions

Employers can raise awareness of debt matters by running personal money management training for employees, adding financial awareness information to employee inductions/handbooks and informing employees where they can obtain free, reputable debt advice.

If speaking about the situation is difficult, feel free to post or hand out this guide to all employees or to every new starter to avoid anyone feeling singled out about debt issues.

DEBT ADVICE AGENCIES

There are a whole host of organisations that are able to provide debt advice but some provide a free service whereas others charge a fee. Consider the following key points:

- It is a common misconception that paying for a debt advice service leads to a better level of service. In fact, debt repayment can take up to 2 years longer when using a fee-based debt advice service.
- **FREE** confidential advice agencies in the UK include The CCCS, Citizens Advice and National Debtline (part of the Money Advice Trust charity).
- The CCCS offers free advice including a telephone helpline service operating between the hours of 8am and 8pm, Monday to Friday. The CCCS helpline advisors make an initial assessment of the caller's circumstances resulting in either emergency assistance or the offer of a more in-depth debt counselling appointment where a full analysis of the caller's financial situation is made. Advice is tailored to each individual's needs and CCCS makes a debt solution recommendation based on the information provided along with providing an action plan towards becoming debt-free.
- Should anonymity be preferred, the CCCS also provides an online counselling service called Debt Remedy. Users can go through a series of online questions related to their finances without the need for a debt counsellor to be present. The system will analyse the information provided and produce a debt solution appropriate for the user's circumstances. Debt Remedy is completely free of charge and can be accessed 24 hours a day, 7 days a week at: <http://www.cccs.co.uk>

FEE-CHARGING DEBT SERVICES

It is commonly believed that once a fee-charging company is engaged, the person is tied in to that agreement and is not able to approach a free organisation for advice and assistance instead. This is inaccurate. Guidance from the Office of Fair Trading (OFT), The Lending Standards Board and Financial Services Authority (FSA) state that lenders should be doing all they can to promote free advice services to clients and this includes signposting a client currently with a fee-charging organisation to a free service instead.

If you are already using the services of fee-charging company it is **strongly recommended** that you approach a free advice service to consider the alternatives. It could save you thousands in fees and reduce the length of time it takes to become free of debt.

In the meantime, Hospitality Action can help those currently or previously employed in the hospitality industry with the possibility of grants to help with the fees required for Debt Relief Orders or to Petition for Bankruptcy. Assistance towards general living costs may also be given if someone is unable to work for a period due to, for example, ill health or redundancy. Hospitality Action is a good first move for anyone wanting confidential help.

CONCLUSION

Any number of issues - from the loss of a job or a business, a serious medical condition or an unexpected bereavement - can quickly bring a solvent person into debt. But there is FREE help available to people who have worked, or currently work, in the hospitality industry through organisations such as Hospitality Action and the CCCS. The services and advice are free, confidential, non-judgmental and highly recommended.

*This guide has been produced by the Institute of Hospitality with The **Consumer Credit Counselling Service (CCCS)**, the UK's leading money advice and debt management charity, and **Hospitality Action**, the trade charity that has been assisting individuals employed - or formerly employed - in the hospitality industry for over 170 years.*

*The **CCCS** provides **FREE**, confidential advice and support to help thousands of people each year take control of their finances. Over 1.8 million people have been helped by the **CCCS** which provides assistance with: structured repayment as part of a debt management plan, welfare benefits, debt advice for self-employed, advice for clients struggling with mortgage/secured lending arrears, equity release, applications for Debt Relief Orders, debt counselling for Scottish clients, bankruptcy advice and assistance with Individual Voluntary Arrangements. For help go to: <http://www.cccs.co.uk> or ring: 0800 138 1111.*

***Hospitality Action** assists current and past industry employees with a broad range of confidential advice and support including grants, a Family Members Scheme for industry retirees, UK-wide counselling, alcohol and drug misuse education through the Ark Foundation & Ark for Business, and debt and money advice with the **CCCS**. Contact HA at: www.hospitalityaction.org.uk For grants ring: 020 3004 5500. For counselling services ring: 0800 9757 141.*

FURTHER RESOURCES

ACAS (Advisory, Conciliation and Arbitration Service) - assists with prevention and resolution of employment disputes. www.acas.org.uk Tel: 08457 47 47 47.

Adaction - drug and alcohol treatment. www.addaction.org.uk, Tel: 020 7251 5860

Carers UK - support for carers. www.carersuk.org, Tel: 0808 808 7777.

CCCS - free UK debt advice services. www.cccs.co.uk Tel: 0800 138 1111.

Citizens Advice (England & Wales, Scotland) - helps resolve legal, money and other problems. www.citizensadvice.org.uk, Tel: 08444 111 444 (England), 0844 477 2020 (Wales). Scotland: www.cas.org.uk.

Cruse Bereavement Care - help for coping with grief. www.crusebereavementcare.org.uk, Tel: 0844 477 9400.

Hospitality Action - free support services for hospitality industry. www.hospitalityaction.org.uk

National Debtline - free debt counselling service. www.nationaldebtline.co.uk Tel: 0808 808 4000.

Relate - relationship counselling for families. www.relate.org.uk, Tel: 0300 100 1234.

Samaritans - support for suicidal feelings. www.samaritans.org, Tel: 08457 90 90 90.

Shelter - for housing issues and homelessness. www.shelter.org.uk, Tel: 0808 800 4444.

DISCLAIMER

This document is intended as a guide only. While the information it contains is believed to be correct, it is not a substitute for appropriate professional advice. The Institute of Hospitality and the authors bear no responsibility for action taken solely on the basis of this information.

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