

Managing your money

Advice on dealing with debt



Money worries affect almost everyone at some point. If you're finding it difficult to manage your finances, you are not alone – and we're here to help. This guide gives you some simple steps to deal with debt, and lists useful contacts you can turn to for advice.

Worried about money?

Any change in your circumstances can lead to financial strain. You may have lost your job, suffered an illness or injury, had a reduction in income or a relationship breakdown.

It's natural to worry about how you will pay your bills, but please don't suffer in silence.

We're here to help

The most important thing you can do is tell someone, and ask for professional advice. There are a number of specialist agencies dedicated to helping people manage their money and combat debt – you'll find these listed on page 22. Our Tenancy Support team is a great place to start – get in touch with us on 0300 5000 926.

Our Money Matters service also provides a range of ways to help manage your money and access support. We can help you with fuel vouchers if you're at risk of being disconnected and struggling to pay

your fuel bills; independent debt advice; mental health and wellbeing support; and support to get online. Contact us at moneyanddigital@sovereign.org.uk

One step at a time

Fixing your finances takes time, but it can be done. This guide gives practical advice on how you can deal with your debts, and shows you:

- How to work out your personal budget – including your income, your outgoings, and your debts
- How to decide which debts you should deal with first – these are your priority debts
- How to explain your financial situation to your creditors (creditors are the companies or people you owe money to)
- How to make repayment offers you can afford
- What action creditors can take.



It's easier to tackle things when we break them down into smaller steps. Here we've outlined the things you should do to manage your debt, one stage at a time. You'll find more details on each step over the following pages.

8 easy steps to managing your debt



Step 1

Contact your creditors



Step 2

Prepare a personal budget



Step 3

Work out your income



Step 4

Work out your spending



Step 5

Calculate how much money is left each month to pay creditors



Step 6

Decide which debts are a priority, and pay these first



Step 7

Divide any money left over for non-priority debts



Step 8

Make your creditors a payment offer

Step 1 – Get in touch with your creditors

If you are having trouble making payments, it's really important to get in touch with the companies you owe money to as soon as possible and explain your difficulties. The creditors may be able to allow you to take a short payment holiday, or to reduce your monthly payments.

- Make a list of all your creditors, and how much you think you owe.
- Call each creditor, tell them you are having difficulty making payments, and ask for the name of someone you can phone or write to. Ask to speak to someone senior if you need to.

- Find out exactly how much you owe each creditor. Ask them for your account details, the outstanding balance, type of agreement, terms of repayment and if there is an insurance protection policy attached to the agreement.
- Tell your creditors that you are preparing a personal budget and you'll come back to them once you have calculated how much you can afford to repay.
- If you've been sent court papers or urgent letters from any creditors, ask for help from a professional agency (such as Citizens Advice) straight away.



Step 2 – Prepare a personal budget

Knowing how much money you have available to repay your debts is crucial, and to work this out you need to prepare a budget. This means calculating how much money comes in each month, how much you spend each month, and what's left over.

Working out your personal budget takes a bit of preparation, but it's worth the effort. You won't be able to deal with your debts unless you have a budget.

- Set aside some time when you won't be disturbed
- Find a calculator, a pen and some paper – or contact us on 0300 5000 926 for a copy of our handy personal budget template. An example personal budget is detailed on page 20
- Find proof of your income – such as pay slips or benefit payments
- Collect details of your monthly payments on debts and other bills
- Calculate your living expenses such as food, clothes, childcare and travel costs.

Dos and don'ts when in debt

- | | |
|--|---|
| ✓ Do ask for professional help | ✗ Don't ignore letters or calls from your creditors |
| ✓ Do contact Sovereign for advice | ✗ Don't borrow more money to repay debts |
| ✓ Do contact your creditors to explain your situation | ✗ Don't arrange to make repayments you can't afford |
| ✓ Do prioritise your debts and pay the most important ones first | ✗ Don't ignore debt, it will only get worse |
| ✓ Do work out your budget – and stick to it | |

Calculating monthly figures



When completing your personal budget, you'll need to make sure your income and payments are all based on monthly amounts. Some of your incomings and outgoings may be paid weekly or four-weekly.

You can convert these figures into per calendar month (pcm) payments by making the following calculations:

For example

Sample calculation	Multiply the weekly amount by 52	Divide the annual amount by 12	Total per calendar month
Convert weekly payments to monthly	£87 per week x 52 = £4,524	£4,524 ÷ 12	£377

Sample calculation	Multiply the four-weekly amount by 13	Divide the annual amount by 12	Total per calendar month
Convert four weekly payments to monthly	£250 per four weeks x 13 = £3,250	£3,250 ÷ 12	£270.83



Step 3 – Work out your income

Your income is the money you receive from your salary, benefits, an allowance or a mixture of these. When calculating your income:

- Only include the 'net' amount you receive. This is how much you're paid after tax, national insurance and pension contributions have been deducted (this will be shown on your pay slip).
- Don't include overtime, commission or bonuses, unless they're guaranteed.

- If you have an attachment of earnings (ordered by the court) for things like maintenance payments or council tax, you'll need to add these amounts back into your net income.
- If you receive Attendance Allowance, don't include this as income. For the purpose of your personal budget, Disability Living Allowance or Personal Independence Payments should be included in your income, but any costs covered by them should be included in your monthly spending.

Can you increase your income?

Any extra money coming in each month will help. Ask yourself...

- Are you paying too much tax?
You can check on:
www.gov.uk/income-tax
- Could you be entitled to claim any benefits? Visit www.citizensadvice.org.uk/benefits to find out more
- Could you find a job that pays more, or take on extra work? (be mindful that this may affect your benefits entitlement)
- Are others living with you able to contribute (or increase their contributions) towards household bills and living expenses?
- If you are owed money, can you ask to be repaid?

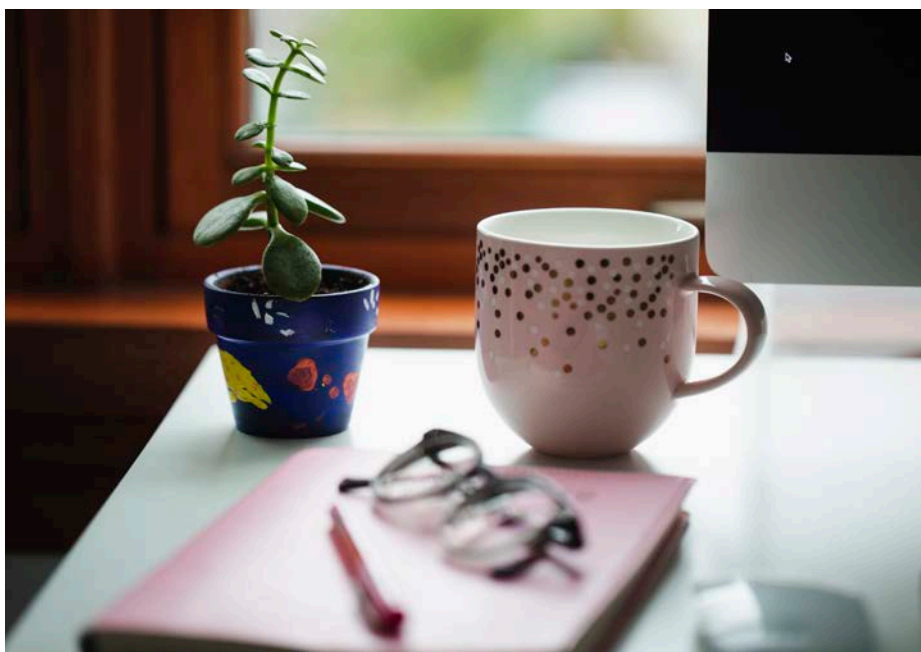
Step 4 – Work out your spending

It's important you know how much money you must allow each month to cover essential living expenses, such as household bills, food, clothing, travel and childcare.

- Collect your household bills (such as rent and service charges, council tax, gas and electricity, water and telephone)
- Some expenses, such as your weekly food shop or the amount you spend on clothes or leisure, may need to be estimated. Try to be realistic

- If you're self-employed, you may need to include income tax and national insurance contributions, insurance or other costs
- Don't include credit card debts or other loans in this section. We'll look at these next, once you've worked out your basic cost of living.

You may be able to reduce your spending in some areas – by switching suppliers, checking if you are eligible for a discount, or cutting back on certain non-essentials.



See where you could cut your spending and save money

Outgoings	How you could save
Rent or service charge	Check whether you're entitled to help with housing costs. Call us on 0300 5000 926 or visit: www.gov.uk/housing-benefit
Council tax	Check if you are entitled to council tax benefit or a discount (or both). Visit www.gov.uk/apply-for-council-tax-discount Ask if you can pay weekly, or monthly over 12 months rather than 10.
Water charges	To help spread the cost, ask if you can pay each week or month, rather than every 6 months.
Gas or electricity	Think about different payment methods, such as budget schemes, a pre-payment meter or monthly bill. See whether you can switch to a cheaper supplier, and check if you can make any home improvements to improve energy efficiency.
Childcare	Childcare includes nurseries, childminders and afterschool clubs. Check if you are eligible for any discounts, such as tax-free childcare, at www.gov.uk
Housekeeping	The monthly amount you spend on food and drink and household items may fluctuate, so try not to underestimate this cost. Make savings on your food shop by planning meals, buying items on special offer (but only if you need them), choosing own brands and remembering to use discount coupons. Check if your children are eligible for free school meals. Some creditors will ask you to justify items such as cigarettes.
Clothing	Work out roughly how much your family spends on clothes each year, and divide it by 12. Check with your local authority to see if you're eligible for help in paying for school uniforms.
TV licence	You can pay your licence yearly or monthly – check which suits your circumstances best. Visit www.tvlicensing.co.uk
TV and online subscriptions	If you're paying for satellite or cable TV or any online subscriptions, check how best to spread the cost – and be aware that some creditors may ask you to cancel these subscriptions.

📅 Step 5 – Calculate how much money is left each month to pay creditors

Now you've checked your income and your outgoings, you can calculate how much money you have left each month to put towards paying your creditors. Simply take away your total spending from your total income.

Whatever is left over – if anything – must be used to repay your debts. If you don't have any money remaining, or you are spending more than your income, contact one of the agencies on page 22 for support.

If possible, cut down on your spending to increase the amount you have to pay your debts – but don't neglect essential costs like rent, electricity or food. Your income needs to be equal (or more) to your spending, otherwise your debts will increase.

🇬🇧 Step 6 – Decide which debts are a priority

Some debts are more important than others. Certain bills are considered 'priority' because the consequences of not paying them are serious – for example, your rent is a priority as you could lose your home if you don't pay.

To help you decide which debts are a priority, you'll find below examples of debts and the legal action that may be taken against you if an agreement isn't reached.

Make a list of your priority creditors, and tackle these first. These are the debts that, if you continue not to pay, could result in having your gas or electricity cut off, being evicted, or even going to prison.

Type of overdue debt	Possible action against you
Rent or service charge	Repossession of your home
Council tax	Bailiffs or imprisonment
Gas or electricity supply	Supply cut off
Magistrates' court fines	Imprisonment
Maintenance or child support	Imprisonment
Tax	Bailiffs or imprisonment
Telephone or mobile	Disconnection
Water rates	Court action*

* If anyone takes court action against you, you'll need legal advice – you can get free independent guidance from your local Citizens Advice.





Step 7 – Divide any money left over for non-priority debts

If after paying your essential living costs and your priority debts you have money remaining each month, you can use this to repay your non-priority creditors. This could include credit cards or store cards,

catalogues, overdrafts or hire-purchase agreements. If there isn't money available for this, you can explain your financial situation to the creditors (more on this on page 17).

How to calculate how much to offer non-priority creditors

Divide each debt by the total amount of all your debts added together. Then multiply this by the amount of money you have left over each month to pay these non-priority debts.

This will give you how much you can afford to pay each creditor.

If you're concerned about paying your rent,
let us know so we can help
0300 5000 926

For example

Sample calculation	Divide credit card balance by total debt	Multiply by money left over	Total per calendar month
Calculating non-priority creditors cost	$£596 \div £2246$	$\times £122.92$	£32.62

Step 8 – Make your creditors a payment offer

Make contact again with each of your creditors – making sure you deal with your priority debts first.

Explain your financial situation and how much you can reasonably afford to repay each month. Make them a payment offer, and include a copy of your monthly budget so they can understand the limitations of your finances. Don't be afraid to make a low offer if that's all you can realistically afford.

Your creditor should work with you to put together an affordable repayment plan. Keep communications channels open, even if you feel the creditor is being difficult. If you need professional advice, contact one of the agencies listed on page 22 who will be able to guide you.

Helpful letter template downloads

To help you when writing to various creditors, we have created example letters you can use as a template to get you started.

Example letter templates include:

- Repayment offer letter to send to your creditors.
- Letter to tell your creditors you can't make them an offer.
- Letter to send to your creditors after six months, changing your offer.
- Letter to send to your creditors after six months telling them that your situation hasn't changed.
- Letter you could send to your bank to exercise your first right of appropriation.

Please contact us on 0300 5000 926 and ask to speak to the Tenancy Support team if you'd like any of these templates.

Contacting priority creditors



Rent and service charge arrears

Offer to pay your landlord a reasonable monthly amount from your income to pay off your arrears. At Sovereign, we will always work together with you to reach a solution if you are unable to pay the full amount. Contact our Income team on 0300 5000 926.



Water charges

Failure to pay your water bill will normally result in a county court notice. If you receive income support or universal credit and still owe at least half the year's bill, you can ask the benefits agency to deduct your current charge (plus a standard charge towards your debt) and pay it directly to the water company. Contact your supplier to find out more.



Gas and electricity

You'll usually need to agree to a payment plan to make sure your supply isn't cut off. You may be offered a key or card meter, but this can be a more expensive way to pay – ask about a budget payment card. If you receive income support you can ask the benefits agency to deduct your current charge (plus a standard charge towards your debt) and pay it directly to the energy supplier. Contact your supplier to find out more.

Contacting non-priority creditors

- If you have money available after paying your priority creditors, divide this between your non-priority debts (see page 15 for a tip on how to calculate the amount you could pay) and make each creditor an offer.
- If you don't have any money left over, tell your non-priority creditors. Send them a copy of your personal budget (see example on page 20) and ask them to delay taking action until your circumstances improve, or offer them a token payment of at least £1 per month.
- Your debt will continue to grow if the repayment offer is less than the interest being added. Ask the creditor to stop charging interest until your circumstances change.

What next?

Once you've completed everything outlined so far, you will be making good progress in dealing with your debts.

Your creditors will normally ask for an update on your financial situation within six months. If your circumstances change within that time – for better

or worse – it's important that you tell your creditors. Explain the situation and draw up a new personal budget and a revised offer.

If things get worse, please seek help. Contact Citizens Advice or the agencies detailed on page 22.

More information

Dealing with harassment

Creditors do have the right to send you reminder letters outlining how much you owe them. However, if you feel you are being treated unfairly or being harassed by creditors, contact Citizens Advice immediately. Creditors should not:

- Threaten violence
- Mislead you about the action they can take
- Phone you at unreasonable times or ring you repeatedly at work
- Contact your friends, neighbours or employers
- Give anyone else your personal information without your permission.

Hire purchase

If you have a hire purchase agreement (paying for something in instalments, for example your sofa or car), you don't own the goods until you've made the final payment.

If you fall behind with payments and have paid less than a third of the total price, the company can take it back. If you've paid more than a third, the company must get a court order before they can do this.

Not all goods bought on credit are on hire purchase, and there are many types of agreement. With most, you own the goods and the only action the creditor can take is to start court action to recover their money.

Bank accounts

When dealing with debts, it's important to have control over your income – and this includes managing your bank account.

If your account is overdrawn, you could consider protecting your income with first right of appropriation. This means you can tell the bank how you want the money paid into your account to be used – see page 16 about the example letter templates we can send you.

Without first right of appropriation, your bank will use any money coming into your account to reduce your overdraft – meaning your income may not cover your essential living expenses, like rent and utility bills.

Another option, especially if you're seriously overdrawn and paying high bank charges, is to consider having your wages or benefits paid elsewhere. Try opening a basic account with a different bank or building society. You won't be able to have a cheque book or overdraft, but most accounts offer standing order and Direct Debit facilities.

By doing this, you'll be able to deal with the bank in the same way as your other non-priority creditors. Take a look at the Money Advice Service website for more details.

Remember – if you open a new bank account, cancel Direct Debits and standing orders on your previous account, otherwise the bank will continue to make charges for unpaid amounts and your overdraft will increase.

Personal budget example

Contact us on
0300 5000 926 for
a copy of our handy
personal budget
template

Personal budget sheet

Name:

Address:

Number of people in my household

Adults:

Children (under 18):

Monthly income

Enter all the income for you and your household. If you receive a wage or salary, you should enter your net income (the amount you take home after tax) and any benefits you receive.

If you have any attachment of earnings (for example, a court order to pay Council Tax), you must add these amounts to your net income. Enter figures in monthly amounts on your budget sheet.

1. Monthly income

Wages or salary 1	
Wages or salary 2	
Universal credit	
Jobseeker's allowance	
Income support	
Tax credits	
Pension	
Child benefit	
Employment and Support Allowance	
Maintenance and child support	
Non-dependants' contributions	
Other (please give details)	
Total	

2. Monthly spending

Rent and service charges	
Council tax	
Water charges	
Gas	
Electricity	
Magistrates' court fines	
Maintenance payments	
Contents insurance	
Life insurance and pension	
Housekeeping (2 adults, 2 children)	
TV rental and licence	
Phone	
Travel expenses	
School meals	
Clothing	
Laundry	
Childminding	
Prescriptions	
Other (please give details)	
Total	

Monthly spending

Enter all your basic essential outgoings. To work out the monthly cost of future bills, divide the amount you paid last year by 12 (for a monthly average).

3. Priority debts

Debt	Amount owed	Monthly payment
Rent	£500.00	£40.00
Council tax	£250.00	£15.00
Gas	£100.00	£10.00
Electricity	£150.00	£10.00
Court fines	£350.00	£20.00
Total		£95.00

Total monthly income	£1,413.02
Less total monthly spending	£1,195.10
Equals money left over	£217.92
Less priority debt	£95.00
Equals money left for other credit debts	£122.92

4. Other credit debts

Debt	Amount owed	Monthly payment
Credit cards	£596.00	£32.62
Store cards	£850.00	£46.52
Overdraft	£800.00	£43.78
Total owed	£2,246.00	
Total monthly payment		£122.92

This is an accurate record of my financial position.

Signature:

Date:

Priority debts

These are the most important debts you have and may not always be the largest of your debts.

Other credit debts

Enter the names of all your creditors (the person or company you owe money to). This includes creditors such as: catalogues, store cards, overdrafts.

Work out payment offers for other credit debts

Divide each debt by the total amount of all your debts added together. Then multiply this by the amount of money you have left over each month to pay these non-priority debts. See page 15 for an example of how to work this out.

Finding further help

If you need specialist help and advice, the agencies and charities listed here can give you their expert guidance. Please seek advice if you are worried about your financial situation – help is always available.

Age UK

Help and advice for older people.
0800 678 1602
www.ageuk.org.uk

Citizens Advice

Free advice and help on a wide range of issues including money, benefits, employment and consumer rights. May also provide financial literacy in your area.
03444 111 444
www.citizensadvice.org.uk
www.adviceguide.org.uk

Department of Work and Pensions

Responsible for welfare, pensions and child maintenance policy.
www.gov.uk/government/organisations/department-for-work-pensions

Directgov

Official UK Government website.
www.direct.gov.uk

Entitled to

Free online benefits calculator to check what you're entitled to.
www.entitledto.co.uk

Inland Revenue

Your local tax enquiry office can give advice on tax issues.
www.gov.uk/government/organisations/hm-revenue-customs

Job Centre Plus

Manage benefit claims and provide free advice on what benefits you might be entitled to.
www.gov.uk/contact-jobcentre-plus

Money Advice Plus

Money and debt advice by phone nationwide.
0800 988 7037
www.moneyadviceplus.org.uk

Money Advice Service

Helps people manage their money.
0800 138 7777
www.moneyadvice.service.org.uk

Money Saving Expert

Top tips on managing your money and dealing with debt.
www.moneysavingexpert.com

National Debt Line

Free money advice helpline.
0808 808 4000
www.nationaldebtline.org

PayPlan

Free debt management plans, Individual Voluntary Arrangements (IVAs) and free debt advice.
0800 280 2816
www.payplan.com

Relate

Advice and counselling on relationship difficulties.
www.relate.org.uk

Samaritans

A listening ear for everyone.
116 123 (free phone number)
www.samaritans.org

Shelter

Your local Housing Aid Centre can offer specialist housing advice.
www.england.shelter.org.uk

Sovereign Housing Association

Contact us if you're finding it difficult to keep up with your rent or service charges. We'll do all we can to help.
0300 5000 926
www.my.sovereign.org.uk

StepChange

Free advice on problem debt
0800 138 1111
www.stepchange.org

Turn to us

National charity providing financial support.
www.turn2us.org.uk

Your Local Authority

Manages Housing Benefit, Council Tax Benefit and free school meals. Some also provide advice about welfare benefits and debt.



Get in touch

0300 5000 926

All enquiries and out of hours emergencies

Head office

Sovereign House
Basing View
Basingstoke
RG21 4FA



my.sovereign.org.uk

At my.sovereign.org.uk you can pay your rent, raise a repair and get in touch with just a few clicks