Association of Business Recovery Professionals

3rd Floor (East), Clerkenwell House, 67 Clerkenwell Road, London, EC1R 5BL

Tel: 020 7566 4200
Email: association@r3.org.uk

www.r3.org.uk

Labour's National Policy Forum – Annual Consultation 2025

"How could Labour reduce regional economic inequalities to improve living standards?"

About R3

- R3 is the trade association for the UK's restructuring, turnaround and insolvency profession.

- Our members work across the spectrum of the profession, from global legal and accountancy practices to sole practitioners. Our members include licensed insolvency practitioners (IPs) and restructuring professionals who have direct experience of business failure and personal financial distress and the impact on individuals and businesses across the UK.

- The restructuring, turnaround and insolvency profession is a vital part of the UK economy. The work of the profession promotes economic regeneration, resolves financial distress for businesses and individuals, saves jobs, and creates the confidence and public trust which underpin trading, lending and investment.

- This submission focuses on the following question:

  "How could Labour reduce regional economic inequalities to improve living standards?"

- The focus of our response is on the personal insolvency framework, a full Government review of which is pending following a Call for Evidence issued during 2022. An effective personal insolvency framework provides a structured and fair system for individuals facing overwhelming debt, balancing the needs of both creditors and debtors.

- An effective personal insolvency framework enables individuals in financial difficulty to have a fresh start and provides for an orderly repayment to creditors where this is possible.

- This will assist individuals to return to economic activity more quickly and have beneficial impacts for their mental health, family, other dependents and wider society. An effective framework has the potential to reduce economic inequality by enabling access to debt resolution, supporting financial recovery, and preserving housing and employment stability for vulnerable individuals and households.

Reducing economic inequalities to improve living standards

- Rising levels of personal debt, particularly among low and middle-income households, contribute significantly to economic inequality. Debt burdens limit financial mobility, reduce productivity, and increase the risk of homelessness, poverty and poor mental health.

- Research published in March 2025 by the National Debtline showed that 24.5 million people were worried about the state of their finances, with 3.6 million people saying that they had borrowed money from family and friends to cover costs. Furthermore, 7 million people were identified as being behind on at least one household bill.

- A major area of concern is people who have a deficit budget and do not have sufficient income to meet essential expenditure. It is noted however that the tools provided by the personal insolvency framework will not address issues faced by those individuals and how to deal with negative budgets is not considered as part of this consultation response.

- The personal insolvency framework provides structured solutions such as Debt Relief Orders (DROs), Individual Voluntary Arrangements (IVA) and Bankruptcy to help individuals resolve unmanageable debts. The current framework, based on recommendations made in 1982, lacks cohesive intent and the development of the different processes, at different points over the last 40 years, has contributed to this. This has made the current regime fragmented, difficult to navigate and complex to understand for those individuals facing financial distress.

- An effective personal insolvency framework must strike the right balance: on the one hand, it should allow people to get back on their own two feet by relieving them of their indebtedness, while on the other hand, it should seek to return to creditors what is owed to them.

- R3 considers that the fundamental purpose of the framework should be to strike the right balance between:

    - Preventing individuals from needing to enter into a formal personal insolvency solution where possible;

    - Rehabilitating indebted individuals who genuinely need financial help enabling a fresh start;

    - Protecting creditors' interests and maintaining the confidence of lenders and other economic actors, through supporting the principle that debts should be repaid where possible; and

    - Penalising debtors who abuse the system.

- The current framework is not as effective as it could be in supporting indebted individuals. Below are recommendations, developed by the R3 Personal Insolvency Committee, members of which have extensive experience working with individuals in financial distress.

1. A wholesale review of the personal insolvency framework

- The policy intention behind the existing personal insolvency framework is unclear. Individual changes to the various formal and informal solutions over the years, without a holistic review of how these options work together, have meant that there is a lack of synthesis between the more rehabilitative and punitive measures.

- Furthermore, the system does not effectively account for the individual circumstances of those in debt or how those circumstances can change over time. Individuals in genuine need of help are sometimes disproportionately penalised. At the same time, the framework allows for abuses and wrongdoing.

- Any changes to the framework as a whole must address the above to ensure it is fit for purpose, so that indebted individuals can better resolve their debts and creditors can improve their chances of seeing their money repaid in some form (either in full or partly).

- We would also recommend that the review includes Debt Management Plans and The Debt Respite Scheme (Breathing Space), which are both currently outside the scope of the planned review.

2. Reforming regulation to enhance access to debt advice

- The persistent cost-of-living crisis has overwhelmed the debt advice sector's resources as more individuals fall into financial distress. An effective way of spreading this burden on broader shoulders and improving the accessibility of debt advice would be to expand the existing exemption from the Financial Conduct Authority (FCA) authorisation for licensed IPs.

- The FCA should expand the debt advice exemption to allow licenced IPs to provide debt advice even where they do not contemplate an appointment in a subsequent procedure. The wording of the current exemption from FCA regulation means that IPs are unable to provide advice on bankruptcy, even where it is in the individual's best interests. This is despite licensed IPs being appointed as trustee in bankruptcy under the legislation. IPs are heavily regulated and monitored when it comes to debt advice: they are subject to licensing and oversight from the UK's Recognised Professional Bodies (RPBs), which are in turn regulated by The Insolvency Service.

- Whilst a small number of IPs have sought to be dual regulated by both their RPB and the FCA in order to advise on bankruptcy, a greater number have ceased to advice individuals altogether. An expansion of the exemption, such that IPs could advise on all solutions, could increase the availability of regulated advice to debtors and alleviate pressure off oversubscribed debt charities. It would also remove the unnecessary burden of being dual regulated.

- In terms of Debt Management Plans, whilst the providers of these plans are regulated by the FCA, there is a notable lack of transparent data regarding several key aspects. Specifically, there is insufficient information on the number of individuals currently utilising these plans, the associated costs they incur, and critically, whether these plans lead to positive outcomes for the debtor or secure a satisfactory return for creditors. Addressing this data gap is essential for a comprehensive evaluation.

- Regarding Breathing Space, it is important to highlight that a significant number of individuals enter a "breathing space" annually, which represents a substantial cost to the government. Currently, there is no established mechanism for recording the outcomes of these breathing space periods. This lack of data prevents an assessment of whether the initiative enables individuals to seek appropriate advice and ultimately leads to a better result for them than if they had not had this period of respite. Consequently, there is a clear need for improved data collection to effectively evaluate the effectiveness of this measure. Implementing a robust data collection system is therefore essential to accurately assess the effectiveness of this measure and ensure it achieves its intended objectives.

3. Restoring the balance between debtors and creditors

- Our members and other personal insolvency stakeholders, including organisations and charities providing free debt advice, have noted that one of the key barriers to preventing individuals from accessing the right solution for their circumstances is the cost of entering the procedure.

- It is particularly difficult for people who are already indebted to pay the £680 application fee for bankruptcy, unless they enter further into debt and/or avoid paying other creditors.

- When they cannot afford to go bankrupt, indebted individuals often must seek alternative debt relief solutions when bankruptcy would have been most appropriate – or they may have to delay going bankrupt. This risks individuals accruing more debt, avoiding paying their creditors and being pursued by those they owe money to.

- The initial cost of entering bankruptcy in England and Wales is high when compared to countries such as Scotland, where the cost is £150 and can be paid in instalments under certain circumstances and Ireland, where the cost is €200.

- The Government took steps during 2024 to remove the £90 fee for entering into a DRO which, together with an increase in the debt limit to £50,000, has seen a significant increase in individuals entering into this solution and having their debt written off as a result.

- In a DRO, creditors receive no payments as all debts subject to the DRO are written off in full. In a bankruptcy, where the debtor has surplus income and/or assets, these will be realised to make repayments to creditors of sums due to them. IVAs provide for contributions of income and/or assets, over a defined period, to enable repayments to creditors to be made, with an agreed amount of debt being written off should the IVA be successfully completed. The personal insolvency framework should ensure that there is a balance between the desire of debtors for a fresh start, and the need to repay creditors.

- In addition, the current 12-month term of bankruptcy makes no distinction between those who have accrued their debts recklessly or have sought to hide their assets and those who have been the unfortunate victims of circumstance. The reduction in the bankruptcy term to 12 months means that trustees have insufficient time to undertake a full investigation into the debtor's affairs, particularly where they are not co-operating, in order to maximise potential returns to creditors.

- R3 is calling for a return to a three-year bankruptcy term to restore the balance between debtors and creditors. We believe this should include an option for the debtor to apply to the trustee of their bankruptcy for this to be reduced to a two-year term if they demonstrate they are engaging with the process and the debtor is able to show that they are attending financial education courses.

- Financial education becoming a condition for early discharge from bankruptcy would help prevent individuals from entering a cycle of debt as well as to help identify individuals who abuse the system.

- The trustee, being able to take into account the debtor's level of progression with financial education and engagement with the process when making this decision to discharge early would bring the framework in England and Wales closer in line with the Scottish framework whereby the trustee in bankruptcy must decide whether an indebted individual should undertake a course of targeted financial education within six months of the date of award of bankruptcy.

Closing comments

- The personal insolvency framework is a vital, underutilised tool in the fight against economic inequality. With the right policy enhancements and a continued emphasis on accessibility and fairness, it can provide not only debt relief but also the foundation for a more inclusive and resilient economic recovery.

- We urge policymakers to view the framework not simply as a legal mechanism, but as a cornerstone of a fairer financial and social system.

- R3 would be delighted to discuss the points raised above in greater detail. If you would like to meet, or if you have further queries, please contact R3 Policy and Public Affairs Manager, Ceara Roopchand at Ceara.Roopchand@r3.org.uk or on 0207 566 4212.

6 June 2025