



Mainstreaming Financial Inclusion.

Dealing with financial distress: access to debt advice

March 2010

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Part A

Introduction

1. In 2004 the Government made improving access to free debt advice a priority for tackling financial exclusion, and announced funding from the Financial Inclusion Fund for a face-to-face debt advice project.
2. The project, which is led by BIS, now helps around 100,000 people a year. It focuses on providing free, in-depth advice and support to financially excluded client groups who are often difficult to reach, including prisoners.
3. A recent report by the National Audit Office finds it “good value for money” and notes that it is “helping more people than planned, at slightly less than the planned cost per person”. The NAO also found that the advice is well regarded, finding that 81 per cent of the clients said it had improved their debt situation, compared with 69 per cent of clients of private sector advisors and 59 per cent of people who received advice from a bank.
4. The Government committed £85 million to the project over the period 2008-2011. This funding ends in March 2011, along with budgets for telephone debt advice and consumer advice. The future of the face-to-face project – and support for related advice services such as the National Debtline - is therefore in doubt, pending the next government spending review.
5. The Financial Inclusion Taskforce was established in 2005 to monitor and influence Government initiatives to promote financial inclusion. Its Money Advice Subgroup has led the drafting of this submission.

Key findings

Our key findings are as follows:

- Government intervention through the financial inclusion fund has successfully delivered a significant increase in the debt advice available to the most vulnerable.
- High quality debt advice reduces the costs of over-indebtedness to the public purse, as well as helping households.
- Many people find online and telephone advice more convenient than face-to-face advice. These channels are also cheaper. However there will always be a proportion of the population for whom face-to-face advice and case management is the only viable means of help.
- Many free advice agencies have greater demand than they can meet; and demand caused by the downturn is likely to persist for up to three years and to be amplified by demand caused by rising interest rates.
- There is a broad mix of debt advice provision from charities and private sector agencies. Private sector agencies do not offer help in all cases, as to do so would be uneconomic for them.

- For the reasons given above, we think there is a clear business case for Government funding of debt advice, including face-to-face advice.
- The finance and credit industry makes a low overall level of contribution to the non-commercial advice sector, and should be asked to contribute more.
- There is some potential for increasing efficiencies in the delivery of debt advice.
- Co-ordination between relevant Government decision-makers could be improved.

Key issues

6. There are five questions in particular that the Financial Inclusion Taskforce believes require the attention of the Ministerial Working Group:
- (i) What support should the Government provide for free and impartial debt advice after March 2011?
 - (ii) Should debt advice be more closely linked to Money Guidance than at present?
 - (iii) Should we expect the credit industry to contribute more funding for free and impartial non-commercial debt advice?
 - (iv) Where within Government should responsibilities lie for policy-making, funding, and delivery of debt advice?
 - (v) Is there a need to create new cross-policy coordinating roles? If so, where should responsibilities be placed?

Recommendations

7. The Financial Inclusion Taskforce recommends that the Government:
- (i) continues to support free, impartial debt advice after March 2011, in particular for people whose circumstances make them commercially unviable as clients for private sector advisors, and that it therefore:
 - a) maintains support for expert face-to-face debt advice;
 - b) continues to support debt advice through other channels, such as the telephone, the internet and self-help;
 - (ii) encourages and helps to enable efficiencies achievable through co-operation between Departments and advice providers.
 - (iii) brings together debt advice and Money Guidance, recognising their different but strongly inter-connected roles.

- (iv) requires the credit industry, and major creditors such as utility companies, to contribute more funds to free non-commercial debt advice.
- (v) establishes a clear framework for responsibilities within Government. (Our suggested framework is set out in our conclusions and recommendations in full at paragraph 79.)

Part B

Consumer issues

Over-indebtedness and the impact on vulnerable households

8. People typically fall into over-indebtedness following a sudden drop in income. Chronic poverty puts households at particular risk of over-indebtedness.

9. Problem debt carries a number of serious impacts for households, in particular those on low incomes. As it impacts on disposable income, many households with problem debt find themselves unable to make ends meet without cutting back on essentials such as food and fuel or medicines.

10. Problem debt is also liable to impact on confidence, well-being and stress. Research shows a link with relationship stress and the likelihood of family breakdown. Some groups can be particularly hard hit. Arguments and tension within the home are reported as having a very negative impact on relationships with children. A study found that one in ten disabled people with debt problems had contemplated suicide as a result of their debt.

11. Indebtedness can also jeopardise an individual's longer-term financial security. It can lead to enforced moves from private to social housing and can be a barrier to employment. A study of debt advice recipients found that around one in five had had to take time off work due to money worries. One in eight suggested that these problems had caused them to give up work. Another study found that 38% cited debt problems as a reason for not moving into employment, with fear of creditors expecting a return to full repayments as a main barrier.

12. Debt recovery procedures create administrative costs for creditors and take up court time, as well as impacting on debtors.

13. These problems create costs for the public sector, as well as costs for lenders and distress for the individuals involved.

14. More detailed evidence on the impact of over-indebtedness on vulnerable households is set out in **Annex A**. The evidence shows that where over-indebtedness is not quickly addressed it can lead to a proliferation of problems both financial and non-financial. A downward spiral can ensue, resulting in a mix of problems that are increasingly difficult, and expensive, to resolve.

Demand for debt advice

15. In August 2009, consumer debt in the UK stood at £1,450 billion, which is 160 per cent of household annual pre-tax income. A 2008 analysis of the 1995 and 2000 British Household Panel Surveys found that 11 per cent of the population in those years said they were finding it difficult to pay their bills and

make debt repayments¹. So it is not surprising that, even in non-recessionary periods, there is demand for debt advice.

16. Demand for debt advice has increased since the start of the credit crunch and the recession, reflecting increasing levels of problem debt. In May 2009 the Friends Provident Foundation research "Funding Money Advice Services" suggested that there were around 500,000 people whose need for debt advice was not being met.

17. Demand for the financial inclusion face-to-face advice service has always outstripped supply and waiting lists have now risen to several weeks at many agencies, sometimes stretching to beyond a month. The NAO found that, "Following the economic downturn, capacity has not kept pace with demand," and that some of the advice agencies it had surveyed had lengthy waiting lists.

18. It is difficult to predict levels of future demand with precision but it is likely that demand will remain high for up to approximately another three years following the formal end to the recession. This is for several reasons. Firstly, unemployment, repossessions and insolvencies tend to continue to rise for a period of time after economies move out of recession. Secondly, there is a time lag between the debt trigger (for example, redundancy, short-time working or loss of overtime) and the client seeking advice. Debt advice agencies tell us that this lag is due to many households "muddling through" for as long as they can after a drop in income, for example by drawing on savings.

19. In addition, if or when interest rates rise, demand for debt advice is almost certain to rise too. Fourthly, shortage of available credit may also, for a period of time, increase demand for debt advice, as there is evidence that some households have been using credit to deal with short-term problems in meeting commitments. In the longer term, we think that shortage of readily available credit is likely to reduce the risk of problem debt in the average household: although a recent increase in the availability of "pay day", and other expensive cash loans, suggests that this benefit - and a corresponding drop in demand for debt advice - may not extend to very low income households, even in the longer term.

20. Finally, it should be noted that the rising cost of fuel has contributed to an increase in fuel debt; and that if fuel costs continue to rise they will further drive demand for debt advice, for low income households in particular.

21. It is too early to assess the effectiveness of Money Guidance in reducing its clients' risk of over-indebtedness. However it is hoped that Money Guidance clients who receive guidance on managing budgets will become less likely to fall into problem debt. Money Guidance, which will start to roll out nationally in 2010, may therefore start to reduce demand for debt advice.

¹ <http://www.ingentaconnect.com/content/routledg/rafe/2008/00000018/00000015/art00003>

22. Other Government efforts to reduce financial exclusion and over-indebtedness are summarised at paragraph 39 and in **Annex G**.

Benefits of debt advice

23. Studies show that recipients of debt advice are very positive about its effects. Debt advice can bring benefits by setting sustainable repayment schedules, increasing household income, and avoiding or mitigating legal and recovery action (including eviction). Health and wellbeing are reported to have improved dramatically among people who received advice. The evidence also suggests that receiving advice may lead to an increase in financial capability, improving people's money management skills and confidence. Regional economies can also benefit by a multiplier effect (see paragraph 113 showing a Financial Inclusion Fund face-to-face debt advice service in Leeds bringing an estimated pay back of £2.70 for every £1 invested). Research by the Legal Services Commission suggests that the costs stemming from debt problems (in terms of increased public spending and reduced productivity at work) are £1,000 per person, with more serious problems causing costs of many times this amount. **Annex B** provides a more detailed review of evidence on the benefits of debt advice.

Debt advice providers and debt management options

24. Debt advice is available from a range of third sector organisations and profit-making companies. It is delivered through a number of channels: face-to-face, the telephone, the internet, and leaflets and booklets. In addition, work is underway to make it easier for high-capability individuals to use "self-help" standard forms to arrange repayment plans with their creditors. **Annex D** summarises debt advice options and their appropriateness for different debtors.

25. A range of debt management options are available to the over-indebted. These include informal repayment plans, debt management plans, debt relief orders, administration orders, individual voluntary arrangements (IVAs) and bankruptcy. Some options offer a potential medium or high revenue stream to the debt advisor. Others, such as Debt Relief Orders, do not. **Annex E** includes more information about the different debt management schemes.

26. Debt solutions are unlikely, in the case of the poorest households, to generate a commercial return for debt advisors. Consequently, low-income debtors make unattractive customers for most private sector debt advisors.

27. Generally speaking, free-to-client face-to-face debt advice is delivered by third sector agencies, funded from national government, local authorities and charitable donations. The main debt advice agencies offering free-to-client, face-to-face advice are Citizens Advice Bureaux and members of the Advice UK network.

28. Telephone advice is usually better suited to those who are capable of handling their debt problems independently after receiving advice. The

National Debtline, an agency of the Money Advice Trust, provides free telephone advice from its Birmingham contact centre. The Money Advice Trust also provides training and advisor support across the sector and takes a lead on research and innovation in debt advice services. The Financial Inclusion Fund has contributed £1.5 million to the Money Advice Trust to March 2011 for training, including training for Homeowner Mortgage Support, the Mortgage Rescue Scheme and Debt Relief Orders.

29. The Consumer Credit Counselling Service (CCCS), a non-profit organisation that offers free internet and telephone debt advice, operates without funding from government². CCCS make its income from lenders through a “fair shares” split of revenue from repayment plans. Payplan, which offers free debt advice by telephone or email, covers its costs in the same way but is a profit-making company. CCCS is now in an expansionary phase and anticipates having spare capacity to take calls.

30. Many debt solutions companies offer free initial advice about options, but charge for a follow-on service. Some offer “free” follow-on services but will agree a repayment plan that requires payment of more than the initial debt. Some tend to concentrate on IVAs as a solution. (See “the quality of debt advice” at paragraphs 137 to 141.)

31. Some companies, including Paymex, charge their clients fees upfront to cover the costs of their service and do not split revenue with creditors. They argue that doing so ensures that their advice is impartial, as it makes the question of which debt solution would raise the most revenue irrelevant to their income streams. Clients of fee-charging services need to have enough surplus income to be able to pay upfront fees.

32. Across the commercial debt advice sector, low income clients may receive help as part of corporate social responsibility effort but only in relatively small numbers.

33. Consumer groups often call into question the quality of private sector debt advice, viewing it as tied to solutions that generate income for the advice agency, such as Individual Voluntary Arrangements (IVAs). However, we do not believe that all commercial advice is disreputable, and there may be a valuable role for commercial providers in addressing particular kinds of over-indebtedness. Organisations such as CCCS and Paymex would strongly dispute that their advisors are biased towards particular solutions.

34. An advantage of the FIF-funded and National Debtline advisors is that high confidence can be placed in the impartiality and quality of their advice.

² The Consumer Credit Counselling Service (CCCS) are not traditionally recipients of HMG funding. However in 2009 they received a small contribution from CLG towards providing advice on the Mortgage Rescue Scheme.

Industry support for debt advice

35. Over-indebtedness generates costs for lenders (and other creditors) on several fronts: their revenues decline; recovery action is costly; and vigorous debt recovery brings with it reputational risk. A further complication is that people with problem debt are often in debt to a number of creditors.

36. An impartial debt advisor will help a debtor to deal with multiple lenders in a coordinated way, reducing recovery costs for lenders and reputational risk. An impartial advisor can also help to ensure that debts are only written off on the basis of clear evidence that they cannot be repaid. Income streams are established for creditors which otherwise might have been unobtainable or less reliable.

37. Therefore many creditors are motivated for commercial reasons to refer their indebted customers to debt advisors and many have “fair share” revenue split arrangements with CCCS and Payplan. In 2008 the private sector paid £23m to CCCS as “fair shares” of debt management plan revenue.

38. A few creditors also support non-commercial free debt advice as a matter of corporate social responsibility. In 2008, the private sector donated £4m in grants to the Money Advice Trust (which runs the National Debtline), half of the Trust’s total £8m income.

39. However according to research carried out for the Friends Provident Foundation in 2009, the finance and credit industry contributes only around three per cent of the funding for grant-based free debt advice.

40. It appears that most of the companies in the finance and credit industry do not contribute funds to free debt advice where the advice provider’s average client profile means they cannot see a direct business case for doing so.

Government intervention to date

FIF-funded BIS face-to-face debt advice project

41. The BIS face-to-face debt advice project started delivering advice in 2006 and has since helped over 296,000 clients. It has been targeted at areas and groups suffering from high financial exclusion, and has recruited and trained an extra 500 debt advisers, along with 250 support staff. The Government has committed a further £85 million to the project over the period 2008-2011.

42. The face-to-face advisors are trained to be expert debt advisors (in contrast with, for example, Citizens Advice general advisors). Not every locality has a face-to-face debt advisor and they are regarded as a precious resource. The needs of their financially excluded clients means that face-to-face advice is usually the best way for them to deliver advice but in fact the “face to face” label is slightly misleading: what counts most is that the advisors are debt experts and can give their clients the time and support they need. In some instances, talking over the phone might be appropriate.

43. The National Audit Office's recent report on helping over-indebted consumers noted that the project is delivering good value for money. The report also found that the service was well regarded by clients, with 81 per cent of recipients saying that it had improved their debt situation. 95 per cent of those receiving face-to-face advice were found to have followed that advice. An earlier independent evaluation found that around 40% of clients said their general health had got better as a result of receiving advice and 12% of clients said they were making fewer visits to their GP. There is no evidence of "displacement" caused by other funders cutting support.

44. The project has been a strong example of partnership-working across the money advice sector, with third sector advice providers, including Citizens Advice Bureaux and members of Advice UK coming together to form consortia to deliver services. Findings from the evaluation show that the projects are reaching an above-average number of financially excluded clients. **Annex C** provides more information on the delivery and the learning generated by the face-to-face project.

FIF-funded debt advice for prisoners

45. In addition, between 2006-08 the Government piloted models of money advice outreach aimed at reaching those who do not normally present themselves to debt advisers. Evaluation showed that prison-based outreach had been especially effective at reaching financially excluded people.

46. Building on these pilots, £4 million of joint-funding from the Financial Inclusion Fund and the Legal Services Commission has been made available for prison-focused outreach, delivered through the Legal Services Commission and the National Offender Management Service (NOMS). FIF-funded face-to-face money advice is now available in five prisons in Wales and forty-nine prisons in England, and six prisons are receiving telephone advice. The LSC reports that there is high take-up by prisoners. In addition to delivering advice, the projects will deliver further findings about the impact that advice can have on reducing re-offending.

Other central government support

47. The Ministry of Justice, through the Legal Services Commission, funds face-to-face and telephone debt advice for people who qualify for legal aid. It spends around £22-23m per annum on face-to-face advice - provided via Citizens Advice Bureaux and other advice agencies - and around £3.7m on a Community Legal Advice phonenumber.

48. BIS currently provides Citizens Advice head office with an annual grant of approximately £20m to support its administration, IT and policy work.

Other public funding

49. Local authorities collectively provide approximately £70m each year to local Citizens Advice Bureaux for all forms of advice, including debt advice. This is decentralised provision and is decided by individual local authorities on

the basis of their own requirements. There is no statutory obligation on local authorities to provide debt advice and there is often the risk that in times of stretched budgets such discretionary expenditure will be withdrawn.

Access to information and “signposting”

50. Directgov provides information about options for dealing with debt, including contact details for the free debt advice and a link to CCCS’s Debt Remedy options analysis tool. It also contributes funding for leaflets and booklets about debt advice.

51. Increasingly, Government services are “signposting” people with money problems to free advice services. So, for example, the new NHS Credit Crunch Stressline refers a proportion of its callers to debt advisors. Whilst this is good practice, it is not clear that the referring services are aware that there are often waiting lists for free debt advice. Nor is it clear that referring services, and Departments whose meeting of Strategic Objectives is aided by free debt advice, build making financial contributions to advice agencies into their calculations.

Government legislation and schemes

52. Legislation has created a number of routes to debt liquidation or reduction for people who are unable to repay their debts. The latest addition is Debt Relief Orders, which are an option for people with disposable incomes of £50 a month or less. Information about these routes is available online but as the overall picture is quite complicated, debt advice can be helpful even to those with high financial capability. For more on debt management schemes, see **Annex D**.

53. The Government has also put in place several schemes (the Mortgage Rescue Scheme; Homeowners Mortgage Support; and Support for Mortgage Interest) to help people who are finding it difficult to keep up with mortgage repayments. This group includes people on low incomes, as well as higher income groups.

54. For those whose income allows them to repay some or all of their debts over time, agreeing a debt management plan with their lenders remains the primary option.

Government intervention from 2011

What happens if Government support ends?

55. If support from central government funding ends in 2011, it is unlikely that charitable donations or other sources will fill the gap; and private sector debt advice will continue to require a commercial level of revenue flow from clients. Therefore all people whose debt problems do not fit with commercial advice models would face longer queues for face-to-face and telephone advice. People needing face-to-face case management support and outreach

services would be even worse served. Many vulnerable peoples' debt-related problems would worsen, with impacts on public services run by a number of Departments (health, housing and welfare).

What happens if Government support is radically re-targeted?

56. Debt advice is more expensive per client when it is face-to-face, when clients are given more time or when advisors are highly trained. The FIF face-to-face advice, which combines all three of these elements, is therefore relatively expensive. However, for a substantial number of debtors, less supportive advice would be ineffective. Therefore, while we believe there is some scope for further efficiencies (see below), a radical re-targeting of Government support in order to reduce cost-to-serve would remove support for the financially excluded. As noted above, other voluntary sources (commercial advice, donations) would not provide replacement support.

What happens if Government support is reduced?

57. We think there is potential for further efficiencies in the way that subsidised debt advice is delivered and for more funding from the credit sector, though we have yet to quantify this potential (please see below). So there is some potential for balancing reduced funding against efficiencies without impacting adversely on the status quo. However, any reduction in face-to-face advisors numbers would mean the end of a face-to-face service for some localities, irrespective of the level of success in efficiency gains.

58. Further, as the recent NAO report notes, the status quo is unsatisfactory. There are lengthy queues for debt advice in some areas; and demand caused by the economic downturn is likely to continue for some time to come.

59. If Government support is reduced below a level that efficiencies and increased support from the credit sector could compensate for, then an increasing number of indebtedness problems will be dealt with inefficiently, with resulting impacts on households and public services.

What happens if Government support stays at the same level?

60. If the level of Government support remains broadly the same and further efficiencies are introduced, then people will find it easier to access debt advice when they need it and the effectiveness of advice will increase.

Potential for increased efficiencies

61. The Taskforce believes that there is potential to improve efficiencies in the delivery of FIF-funded debt advice, reducing waiting times. However cutting a FIF-funded debt advisor would remove the service for a particular locality and cutting paid hours might prompt some advisors to move to the private sector, where their expertise would be welcomed. It is therefore less clear if increased efficiencies could be translated into reduced costs without a loss in service for the financially excluded. We recommend that, in anticipation of the next spending review, the Government should work with FIF-funded delivery agents to identify the scope for improved delivery after March 2011.

62. The recent NAO report noted variation in costs per client between face-to-face projects. Although much of this variation is due to varying objectives and locations and was built into the contracts, we think that scope remains to share good practice. For example, we think that some agencies could make more effective use of administrative support for the face-to-face advisors.

63. We also think that the FIF face-to-face advisors should be encouraged to make more use of the telephone where appropriate. However there needs to be more consultation on this point to determine if this would in fact reduce costs, given that the face-to-face advisors would still need office space and to give clients the same amount of time. So while use of the telephone by face-to-face advisors could improve access to the service, at present it is not clear that it would increase efficiencies.

64. We also think that potential remains to identify at an early stage of client contact whether clients could be served by debt advice that is cheaper than FIF face-to-face for the public purse: general face-to-face guidance, telephone, internet, self-help or commercially-funded advice. If agencies were confident that clients would be well-served by other means, queues for FIF face-to-face advice could be shortened.

65. The potential to reduce cost-to-serve through improved “channelling” of people to appropriate services also applies more widely across the advice sector. For example, there is likely to be scope to make better use of self-help debt management support. The Money Advice Trust and Citizens Advice estimate that in appropriate cases an assisted self-help approach, where clients are given the options but fill in their own budget sheets, has the potential to save approximately four hours of an adviser’s time. Advice agencies, major lenders and trade bodies have come together to form a Self-Help Debt Advice Services working party, with the vision that assisted self-help customers will be treated in the same way by creditors as customers who are represented by a third party advice agency. With financial support from BIS, the Money Advice Trust is developing and piloting a self-help debt management toolkit, called CASHflow.

66. A recognised quality assurance framework, with a kitemark or kitemarks for private and third sector debt advice services, would make it easier for debt advisors to refer appropriate clients to other sources of advice. Again, work is already underway. The Money Advice Trust has led a working group to look at quality assurance. The group has produced a range of accredited qualification options for money advisers; materials for advisers, including fact sheets and sample letters; and information on good practice in monitoring casework. The aim is to ensure that wherever people turn for money advice, they receive an acceptable standard of service. It is too early to say when or if this or a similar framework will be accepted across the sector. However, Government support might help to encourage interest and progress.

67. We think there is also scope for administrative costs to be reduced if Government Departments work together to bring more coordination to their procurement and monitoring of advice services.

Should debt advice be more closely linked to Money Guidance?

68. Money Guidance service provides free and impartial information and guidance on personal finance issues. It is available to all, but targeted at those most vulnerable to poor financial decision-making.

69. PBR 2009 announced plans to roll out the service across the rest of the country from 2010, with the Government and the Financial Services Authority providing £20m in 2010/11. It also announced that the Government intends to direct at least 25 per cent and up to £100 million of dormant account funds to Money Guidance over a number of years (subject to the final volume of funds available for distribution in England and alongside other priorities).

70. The Money Guidance service does not include debt advice but it does refer over-indebted clients to debt advisors. It also offers guidance on budgeting, an important skill for people struggling to balance their budgets. The Money Guidance Pathfinder September 2009 interim report states that 37% of face-to-face users received information and guidance on budgeting, as did 15% of telephone users and 17% of internet users.

71. The Financial Inclusion Taskforce believes that people will be better served and public funds spent more efficiently if Money Guidance and debt advice policy and procurement is brought more closely together.

Should we expect the credit industry to contribute more to debt advice?

72. The Taskforce recognises that some companies give substantial grants to free debt advice organisations such as Citizens Advice bureaux and the Money Advice Trust (which runs the National Debtline).

73. However, as noted above, it appears that many or most of the companies in the finance and credit industry do not contribute funds to free debt advice where the advice provider's average client profile means they cannot see a direct business case for doing so.

74. The Taskforce therefore believes it would be more equitable if the credit sector overall made a larger contribution towards non-commercial debt advice. This should include debt purchase and recovery companies, which directly benefit from problem debt.

75. Funding for Money Guidance will be channelled through the new consumer financial education body (CFEB). As we also believe that the delivery of Money Guidance and debt advice should be brought more closely together, we think a practical mechanism for achieving greater contributions for debt advice from the private sector would be to place procurement of some or all government-funded debt advice within CFEB too. CFEB will be able to receive funds from any source, not just the Financial Services Authority levy. It could also therefore receive funds from companies regulated by the Office of Fair Trading or Ofgem.

Where within Government should responsibilities lie for policy-making, funding, and delivery of debt advice?

76. In *Financial Inclusion: an action plan for 2008-11* the Government said that at the next spending review financial inclusion work would be mainstreamed into departmental strategic objectives and budgets. However the Taskforce believes that financial inclusion policy continues to need leadership from a single responsible Minister. A Treasury minister would be best placed to take a lead within Government.

77. Financial inclusion and debt advice are closely related but not everyone in need of debt advice is financially excluded or in danger of financial inclusion. Currently no minister has responsibility for considering whether debt advice services are working well for the population as a whole. We recommend that this gap be filled, and that either the Treasury or BIS expands its remit to cover debt advice for the populace as a whole.

78. Money Guidance does not fall within the remit of the Financial Inclusion Taskforce. However, given the close connections between debt advice and Money Guidance³, we would like to note our opinion that debt advice and Money Guidance policy and delivery should be brought together more closely. The new consumer financial education body (CFEB) should be used as a vehicle for debt advice funding and delivery.

79. It is unlikely that, even with action by Government, contributions from the credit sector will increase sufficiently to enable support from public funds to cease, in the medium term at least. It is also unlikely, given that budget cuts are expected for most or all Departments, that Departments such as BIS, the Department of Work and Pensions, or the Ministry of Justice, would welcome major new responsibilities for debt advice provision. Nonetheless we recommend that funding for the Financial Inclusion Fund face-to-face debt advisors and the Money Advice Trust continues to be provided by the Government.

Is there a need to create new policy coordinating roles?

80. Money Guidance, debt advice for the financially excluded (and those in danger of financial exclusion) and debt advice for the broader population are all closely linked to other policy areas: policies that impact on advice services in general; policies that impact on over-indebtedness in general; and a range of other areas including policies to reduce welfare dependency, poor health, child poverty and energy inefficiency.

81. The Financial Inclusion Taskforce recognises that it is difficult for the Government to be perfectly joined-up across all these policy areas given the many inter-connections. However we believe that coordination could be improved. We therefore recommend that one or more civil service roles be

³ The delivery agents of non-commercial debt advice (such as Citizens Advice) are likely to bid in to the procurement competition for a national roll-out of Money Guidance; and Money Guidance includes general guidance on how to manage debt.

created to enable improved coordination. Better coordination would allow improved planning and monitoring, and improved budget allocation.

Conclusions and recommendations in full

82. The Financial Inclusion Taskforce recommends that the Government:

- (i) continues to support free, expert and in-depth “face-to-face” debt advice after March 2011, in particular for people whose circumstances make them commercially unviable as clients for private sector advisors;
- (ii) continues to support free telephone and internet debt advice; up-to-date leaflets and booklets; and third sector services promoting quality and efficiency, such as those provided by the Money Advice Trust;
- (iii) encourages and helps enable efficiencies, through modifications to contractual arrangements and inter-Departmental and sectoral co-operation;
- (iv) brings together debt advice and Money Guidance, recognising their different but strongly inter-connected roles;
- (v) requires banks and other members of the credit sector to make a more equitable contribution towards the funding of non-commercial debt advice; but taking care that, in doing so, overall contributions to some third sector organisations are not inadvertently reduced as a consequence of reducing voluntary donations.

83. The Taskforce also recommends the following distribution of responsibilities within the Government:

- (i) HM Treasury to have responsibility for setting a policy framework for financial inclusion.
- (ii) HM Treasury or BIS to have responsibility for setting the policy framework for debt advice (and money guidance).
- (iii) The new independent consumer financial education body (“CFEB”), which will be created in 2010 as the delivery body for Money Guidance, to also receive funds for debt advice, plan and manage delivery, and monitor results.
- (iv) HM Treasury to make funds for debt advice available directly to the new consumer financial education body.
- (v) The new independent consumer financial education body, and the Department with ministerial lead on debt advice, to co-ordinate in hosting regular consultative meetings on debt advice and money guidance with Government departments and other organisations.

- (vi) A Government Department, such as BIS, to track policy and discussions with relevance for the advice sector more widely, and to lead on ensuring links between players across Government.

Part C. Annexes

Annex A. Impact of financial distress

84. Debt repayments reduce the amount of disposable income available to cover household costs. One study of low-income households found that debt repayments account for over a quarter of disposable income in some cases, even among those with higher incomes. In the most extreme cases, households were left with virtually no disposable income at all.

85. On top of the repayments, problem debt generates additional money problems, as penalty charges, court fees and compound interest deepen the original debt. Fees charged by private sector debt management companies can also worsen debt problems. A survey of debt clients presenting to a national sample of Citizens Advice Bureaux found that 40% of people who had sought help before approaching a Bureau said they had come to the CAB because they could no longer afford debt management fees.

86. Many households with problem debt are unable to make ends meet without cutting back on essentials such as food and fuel or, in the case of people with health problems or disabilities, medicines and health-related services.

87. One study found that almost two thirds of disabled people who were in debt had cut back on areas of essential spending. A number of people had reduced their use of heating, with a cold environment often exacerbating painful conditions. Many said they had had to cut back on services or equipment that helped them manage their disability.

88. There is little doubt that debt and financial distress can have a significant and often severe impact on health and well-being. Few research reports fail to refer to the health impacts of indebtedness. In one study of recipients of debt advice, virtually all respondents felt their debt problems had impacted on their health; and 48% felt that debt had had a big impact on their health. A comprehensive evidence review found that debt and financial distress can be associated with an increased likelihood of suicidal thoughts. One in ten disabled people with debt problems said they had contemplated suicide as a result of their debt. Another report notes that it is 'hard to over-estimate' the costs to health and well-being of over-indebtedness.

89. The consequences of stress can include making it more difficult for people to help themselves to get out of debt. Among a sample of people presenting to CABx with debt problems, 60% of those who had not attempted to negotiate with their creditors said they felt too stressed about their debts to do so. Such lack of action makes it difficult for creditors to take appropriate steps to manage the debt recovery process sensitively.

90. Debt problems are related to relationship breakdown, although the extent to which financial distress is a causal factor is unclear. Secondary analysis of a nationally representative survey found that 11% of debt problems were reported to have resulted in relationship breakdown. Negative impacts on

other relationships are also widely reported. Arguments and tension within the home are reported as having a very negative impact on relationships with children.

91. Debt can prompt people to work longer hours or take on additional employment. The evidence, however, suggests a stronger link between over-indebtedness and reduced capacity to keep, find or move into a job. A study of debt advice recipients found that around one in five had had to take time off work due to money worries. One in eight suggested that these problems had caused them to give up work, and one in seventeen said their money problems had resulted in them losing their job. Another study found that almost one in ten people with debts or debt-related problems cited them as having led to the loss of a job and a period of unemployment.

92. Among people who are not in employment, debt is cited as a significant barrier to moving into work. A study (though of a small sample of people) found that 38% cited debt problems as a reason for not moving into employment. The main debt-related barriers to employment were the emotional energy required to deal with their financial situation; and fear of creditors expecting a return to full repayments.

93. A survey of low-income advice clients found that they had experienced a range of procedural consequences from debt. Around one in twenty people reporting debt problems had experienced a forced change in their housing, including moving into local authority temporary accommodation. Other procedures experienced included threatened and actual legal action, action by debt recovery agencies and bailiffs, disconnection from utilities and bankruptcy. Loss of equity in homes, due to further secured borrowing in the form of debt consolidation loans, was also noted.

94. Most or all of these procedures have longer-term implications in addition to their immediate impact, including credit impairment and loss of goods and property.

Annex B. The benefits of debt advice

95. Pleasance et al (2007) found that in a random control study there was a statistically significant difference between the intervention and control groups in terms of improved circumstances. Day et al (2008) noted real potential for debt management to break on-going cycles of debt and poverty.

Debt management

96. Having repayment schedules drawn up and negotiated by advisors was a key benefit, and having a payment arrangement established is an important positive outcome of advice. Participants in a study of the impact of debt advice on low-income households felt offers negotiated by advisors were likely to be accepted, reducing the time and costs they had to incur in negotiating directly.

97. Where repayment arrangements are put in place following advice, it appears that there is a relatively high degree of success in sticking to them. Overall, studies suggest that at least half of advice recipients stick to negotiated repayment arrangements.

98. People who have received advice also say they feel more confident about contacting their creditors directly. Research suggests that where people negotiate repayment arrangements themselves, following advice, the sustainability rate is higher.

99. Debts being reduced over time was also an important material benefit of receiving advice. One study of debt advice recipients found two in three reported a reduction in the amounts they owed six months and 12 months later.

100. An LSRC study found that 70 per cent of debt advice clients felt they had made headway against their debts after twelve months and one-third stated they owed 'a lot less' than a year before. Around two-thirds saw a lessening of the level of pressure exerted by creditors and over 90 per cent detailed one or more positive benefits of advice. Sixty seven per cent reported a decrease in the amount they owed of, on average, £7,585.

101. A confidential briefing given by NDL to the HMT in July 2009 estimated that the average NDL telephone advice client who entered into a repayment agreement would pay back £1347 each year to their non-mortgage creditors.

Increased income

102. Increased income was another material benefit from advice identified in the evidence base, due to income maximisation procedures utilised by advice agencies. Usually this additional income is from benefits that were previously not being claimed and, in some cases, back payments of unclaimed benefit.

Avoiding legal and recovery action

103. Avoiding or mitigating legal and recovery action is also cited as a key benefit of receiving advice. One study of debt advice recipients found that, 12 months after they had received advice, just over half (54%) felt that advice had helped them to avoid or curtail legal action.

104. Advice appears to help a significant proportion of recipients remain in their homes. Just under a third of advice recipients in one study reported that the advice they had received meant they had been able to avoid eviction, and a further quarter felt they had avoided being forced to sell their home.

Health and well-being

105. Reduced levels of stress, following advice, are widely reported. Much of this reduced stress appears to stem from having someone to talk to, who is sympathetic and non-judgemental, providing reassurance and helping to put their situation into perspective. Two thirds of advice recipients in one study reported that their health had improved, accompanied by a reduction in GP and other appointments, and the majority attributed this to having received advice.

106. An LSRC study used 2004 Civil and Justice Survey data to show that forty per cent of debt problems led to physical or stress-related ill-health, of which slightly more than half led to GP visits. The mean number of visits to a GP was 3½. Appointments with counsellors and community psychiatric nurses and outpatient hospital visits were also mentioned. It also found, at the twelve-month follow-up, that about two thirds of clients stated their health had improved a little or a lot since the time of initial interview and 90 per cent of those felt the health improvement stemmed from the receipt of advice.

107. People's relationships – widely reported as being adversely affected by debt – are also reported to improve following advice.

Financial capability

108. Increased understanding of their financial circumstances and becoming more knowledgeable about financial matters are reported by a number of studies. A random control study, however, found only a small difference between the intervention and control group in this respect

Annex C. Success and learning from the FIF face to face project

109. Since its inception, the Financial Inclusion Fund face-to-face (F2F) project, which is managed by BIS, has been much welcomed and it is deemed a great success. It was planned and launched both on budget and to time with lean administrative support. There have been a number of studies of it, due to its high profile nature within both the UK debt advice community and Whitehall.

110. The advice provision was targeted at areas and groups at a high risk of financial exclusion. These areas are found across each of the regions covered by Government Offices. They particularly feature in deprived urban areas. There is also a project dedicated to combating over indebtedness in rural areas and a project targeting those suffering with disabilities. HMT played a leading role in the selection of the locations, using commissioned research that supplemented indices of multiple deprivation. BIS also used intelligence from leading debt advice providers as to where need was greatest.

111. The National Audit Office audited the project in 2009 and in the resulting report (published in February 2010) commented favourably:

- (i) “Our survey found that BIS funded advice is well regarded, with 81 per cent of recipients saying that it had improved their debt situation. We found that 95 per cent of those receiving face to face advice had followed the advice given.”
- (ii) “BIS’s face to face advice project is delivering good value for money.”

112. The F2F Project was also independently assessed in 2007 and 2008, receiving many welcome comments:

- (i) “Projects are reaching an above average number of financially excluded and vulnerable clients”;
- (ii) “FIF clients are overwhelmingly positive about the advice which results show has made a considerable impact on their lives (not just the original debt/ money problem)”;
- (iii) “The client survey results are overwhelmingly positive suggesting the clients place a high value on the service they receive. Nearly nine out of ten (87%) clients report that the service met or exceeded their original hopes and expectations and more than nine out of ten (92%) would recommend the service to others. The results also suggest that FIF advice provides a service to those who would otherwise not receive it”;
- (iv) “The FIF project has succeeded in providing additionality to the sector, both in terms of attracting new advisors to the sector and the impact extra advisors have had on client outcomes.”

113. An in-depth analysis of the F2F Project's Leeds Money Advice Project (five debt advice agencies that linked together in a partnership) has been undertaken by the University of Salford. In their study, conducted with clients six months after F2F debt advice provision, they noted that:

- (i) 66% of clients said they were better off.
- (ii) 60% had reduced, or paid off, their debts.
- (iii) 61% had made new arrangements for paying off debt.
- (iv) 55% found it easier to manage their money.
- (v) 41% said their general health had got better (and 96% of those attributed this to the F2F debt advice provision).
- (vi) 12% said they were making fewer visits to their GP. This suggests large savings for the NHS budget although these were not quantified in the study (see below for other estimates).
- (vii) The increase in the disposable income of the clients was 2.5 times higher than the cost of the advice provision.
- (viii) There was good news for the regional economy with an estimated pay back of £2.70 for every £1 invested in debt advice. This is pleasingly high because the financially excluded - who are the clients of the F2F Project - spend a higher percentage of their income on local services than the more well off. This is also much welcomed because the Leeds areas that the F2F Project is located in are those of high financial exclusion, which need new cash injections. Such multiplier effects will be repeated elsewhere around the country, in similar areas, by the F2F Project.

114. In looking further at the monetary payback on the F2F Project, the following observations are relevant:

Figures suggest that around 1800 clients had repossession avoided.

- (i) The cost of repossession is higher than many realise. The then Housing Minister, Margaret Beckett cited the average cost to a lender at about £35,000. The cost to the exchequer has been estimated at £16,000. As CLG estimates that 10% of repossessed households are entitled to homelessness assistance, then the lender and exchequer saving from the F2F project from reducing repossessions is just under £9.2m to date.
- (ii) The Legal Services Research Centre's (LSRC) "A Helping Hand – the impact of debt advice on people's lives" estimates that debt problems cost on average over £1000 to the public purse and in terms of lost economic output. This can be viewed against the NAO estimate that the F2F Project costs on average £269 per client.

Annex D. Types of debt advice: availability and suitability for debtors

97. Table summarising the availability and suitability, for different types of debtor, of the debt advice provided under the current main income-raising models.

Debtor by type		Free. Grant-aided.	Free. % split. Non-profit.	“Free”. % split. Profit-making.	Fee. No split. Profit-making.
		Eg CAB	CCCS	Payplan	Paymex
Excluded.	Small debts. Low income. Low capability.	√	x	x	x
May be excluded or in danger of exclusion.	Small debts. Low income. High capability.	√	x	x	x
May be excluded or in danger of exclusion.	High debts. Low income. High capability.	√	?	?	?
Not excluded.	High debts. High income. High capability.	?	√	√	√

98. Table summarizing the suitability, for different types of debtor, of the debt advice provided through different “channels”.

Debtor by type	F2F General level	F2F Expert level	Phone	Online. Self-help.
Simple problem. Low capability.	√	?	?	x
Complex problem. Low capability.	?	√	x	x
Simple problem. High capability.	x	x	√	√
Complex problem. High capability.	x	?	?	?

Annex E. Debt management options

Table: Bankruptcy and alternatives to bankruptcy

Measure	Qualifying debt	Required disposable income	Other qualifiers	Route	Terms
DRO	Less than £15,000	Up to £50 per month	Assets under £300 (excl. a car). £90 fee. No other DRO within six years.	Debt advisor and Insolvency Service	Protected from creditors for 12 months, then debts cancelled if circumstances unchanged.
AO	Up to £5,000	£50 per month or more.	Must have at least one court judgment	Court	Regular agreed payments, distributed to creditors pro-rata.
IVA	None	Substantial (usually over £200 per month)	No other IVA within one year	Insolvency practitioner and Insolvency Service	Regular agreed payments, usually over 5 to 7 years.
Payment plan	None; or set by advisor.	None; or set by advisor.	None	Debt advisor or self-help	Gentlemen's agreement. (Statutory plans may be introduced too.)
Bankruptcy	More than £750	None	£495 fee	Court	Any assets will be sold. After a year all debts usually written off.
ERO (planned)			Repayments realistic after a year.	Court	Protected from creditors for 12 months.

Debt Relief Orders (DROs)

115. DROs are suitable for people who do not own their own home, have little surplus income and assets and less than £15,000 of debt. An order lasts for 12 months. In that time creditors named on the order cannot take any action to recover their money without permission from a court. At the end of the period, if your circumstances have not changed you will be freed from the debts that were included in your order. DROs do not involve the courts. They are run by the Insolvency Service in partnership with skilled debt advisers, called approved intermediaries. There is a £90 application fee.

116. The Insolvency Service has decided that in 2010 the Money Advice Trust will start to receive a £10 remission for every Debt Relief Order processed, to be distributed for the benefit of the money advice sector.

117. To apply for a DRO, you must meet certain conditions:

- You must be unable to pay your debts.
- You must owe less than £15,000.
- You can own a car to the value of £1000 but the total value of other assets must not exceed £300.
- After taking away tax, national insurance and normal household expenses, your disposable income must be no more than £50 a month.
- You must live in England or Wales, or at some time in the last three years have been living or carrying on business in England or Wales.
- You must not have been subject to another DRO within the last 6 years.
- You must not be involved in another formal insolvency procedure at the time you apply.

118. For an advisor to become an approved intermediary they must apply to a 'competent authority'. A competent authority is a body designated by the Secretary of State as being able to authorise intermediaries. In advance of DROs coming into force the Secretary of State gave interim approval to six organisations to act as Competent Authorities: Citizens Advice, the Money Advice Trust, the Consumer Credit Counselling Service, Payplan, Paymex and the Institute of Money Advisers.

Administration orders (AOs)

119. If one or more of a debtor's creditors has obtained a court judgment against him, the county court may make an administration order. Administration is a court-based procedure whereby you make regular payments to the court to pay towards what you owe your creditors. Your total debts must not be more than £5,000 and you will need enough regular income to make weekly or monthly repayments. The court distributes this payment to the client's creditors on a pro-rata basis. You do not have to pay a fee for an administration order but the court will take a small percentage from the money you pay towards its costs. If you do not pay regularly, the order could be cancelled and you may become subject to the same restrictions as someone who is bankrupt. If your circumstances change and you cannot pay as ordered, you can apply to the court to change the order. The Government has plans to reform the existing county court Administration Order. However, due to the current replacement of county court IT systems, it is now clear that the reform of the AO cannot now be implemented before April 2011 at the earliest.

Individual Voluntary Arrangements (IVAs)

120. This is a more formal version of Debt Relief Orders. An IVA is a legally-binding agreement between a debtor and their creditors to repay debts in part or in full over a fixed period of time (usually five to seven years). An IVA is authorised by the court and supervised by an insolvency practitioner. The debtor must have a substantial amount of available income for their non-priority creditors, usually least £200 per month. They also have to pay the practitioner's fees, which can amount to several thousand pounds, although these fees are often paid by instalment. Any agreement reached with your

creditors will be binding on them. The insolvency practitioner tells the court the details of your proposal and whether in his or her opinion a meeting of creditors should be called to consider it. At the meeting, the creditors vote on whether to accept your proposals. If enough creditors (over 75% in value of the creditors present in person or by proxy, and voting on the resolution) vote in favour, the proposals are accepted. They are then binding on all creditors who had notice of, and were entitled to vote at, the meeting.

121. The court cannot make an interim order if you have applied for one in the previous twelve months. There is no maximum or minimum level of debt and no maximum or minimum level of repayments, except what is acceptable to your creditors. An arrangement might particularly suit you if you have friends or relatives prepared to help pay or contribute towards paying your debts; or your income enables you to pay regular sums to creditors.

An informal arrangement or debt management plan

122. If you know that you cannot pay all your debts, you could consider writing to your individual creditors to see if you can reach some compromise. Include a timetable of when you will repay them. The disadvantage with an informal arrangement is that it is not legally binding so your creditors could ignore it later and ask you to pay in full. Your local Citizens Advice Bureau can advise and help you make this kind of arrangement.

Bankruptcy

123. Bankruptcy is a legal status that usually lasts for a year and can be a way of clearing debts you can't pay. When you're bankrupt, your non-essential assets (property and possessions) and excess income are used to pay off your creditors (those you owe money to). At the end of the bankruptcy period, most debts are 'discharged' (cancelled).

Enforcement Restriction Order (planned)

124. The Government plans to introduce a new measure, the Enforcement Restriction Order (ERO), which is designed to assist those who experience a sudden and unforeseen downturn in their financial circumstances and where there is a realistic prospect that the debtor's financial circumstances will improve by stopping all enforcement action for up to 12 months. However, due to the current replacement of county court IT systems, the introduction of the ERO cannot be implemented before April 2011 at the earliest.

Statutory Debt Repayment Plans (under consideration)

125. The non-statutory basis of current DMPs means that creditor involvement is voluntary and they are not legally bound to plans. Under statutory debt repayment plans, enforcement action and interest would be frozen unless the plan was successfully challenged in a court. A formal consultation by the Ministry of Justice, which considers introducing statutory debt repayment plans, closed in December 2009. The responses are being considered.

Annex F. Debt advice providers and debt management options

126. Debt advice is available from a range of third sector organisations and profit-making companies. Some lenders also offer in-house debt advice, although lenders are more likely to refer customers to advice elsewhere. Debt advice is delivered through a number of channels: face-to-face, the telephone, the internet, and leaflets and booklets. In addition, work is underway to make it easier for high-capability individuals to use “self-help” standard forms to arrange repayment plans with their creditors. **Annex D** summarises debt advice options and their appropriateness for different debtors.

127. A range of debt management options are available to the over-indebted. These include informal repayment plans, debt management plans, Debt Relief Orders for people with less than £50 of disposable income per month, Administration Orders, Individual Voluntary Arrangements (IVAs) and bankruptcy. Some options, such as debt management plans and IVAs, offer a potential medium or high value revenue stream to the debt advisor. Others, such as Debt Relief Orders, do not. An impartial and well-trained debt advisor will seek to match the best solution to the client. **Annex E** includes more information about the different debt management schemes.

Low income debtors and debt remedies

128. Poorer households often struggle with low value debts and sometimes also a range of other welfare issues. Poorer clients can often lack the required skills or knowledge to progress their own negotiations confidently. This can make providing advice to this group complex and time consuming. Debt solutions such as Debt Management Plans or IVAs are unlikely, in the case of the poorest households, to generate a commercial return for an advice agency. This is due to lower overall levels of indebtedness and lower levels of disposable income to cover any related fees. Consequently, low-income debtors make unattractive customers for most private sector debt advisors.

129. Many advice agencies that depend on fees or income from settlements will refer customers, where they are not in a position to help them directly, to non-commercial advice agencies.

Non-commercial debt advice

130. Generally speaking, free-to-client face-to-face debt advice is delivered by third sector agencies, funded from national government, local authorities and charitable donations. The main debt advice agencies offering free-to-client, face-to-face advice are Citizens Advice Bureaux and members of the Advice UK network.

131. Funding for Citizens Advice Bureaux comes from central government through the financial inclusion fund and from contracts with the Legal Services Commission. Local authorities and other public bodies also provide significant funding, as do some companies and charities. Citizens Advice headquarters

receives about £20 million a year from BIS for IT, administration and policy work.

132. The Advice UK network maintains a strong “bottom up” approach. As with Citizens Advice Bureaux, many of its members attract government funding through the financial inclusion fund, the Legal Services Commission and local authorities, as well as charitable funding. Unlike Citizens Advice, Advice UK does not receive Government support for its IT, administration and policy work, and employs only a small number of staff at its headquarters.

133. The National Debtline, an agency of the Money Advice Trust, provides free telephone advice from its Birmingham call centre. The Money Advice Trust also provides training, and takes a lead in co-ordination, research and innovation in debt advice services. The Financial Inclusion Fund has contributed £1.5 million to the Money Advice Trust to March 2011 for training, including new training for Homeowner Mortgage Support, the Mortgage Rescue Scheme and most recently Debt Relief Orders. The Trust traditionally receives around a third of its budget from Government and the rest from the creditor sector, although the Government moved this ratio to 50:50 when it announced in the 2008 PBR an additional £5.85 million to March 2011 for the National Debtline. This additional funding has allowed the National Debtline to increase its client capacity by 50% to around 220,000 per annum⁴.

134. A note on language. For the purposes of this paper, a “grant” is money for services from which the donor will receive no direct benefit.

Free debt advice funded through debt solutions income

135. The Consumer Credit Counselling Service (CCCS), a non-profit organisation that offers free internet and telephone advice, operates without funding from government⁵. CCCS make its income from lenders when repayment plans are agreed, through a “fair shares” split of revenue.

136. Payplan, which offers free debt advice by telephone or email, covers its costs in the same way but is a profit-making company.

137. CCCS is now in an expansionary phase and anticipates having spare capacity to take calls. It helps 250,000 callers each year, although only around a quarter are likely to be put through to an expert debt counsellor. CCCS also offers a free-to-use online service called Debt Remedy.

138. Other, less well-known companies advertise similar services and tend to concentrate on IVAs as a solution. (See “the quality of debt advice” at paragraph 137 below.)

⁴ The contract also allows the MAT to use a small proportion of the £5.85m for its Business Debtline, which advises small businesses.

⁵ The Consumer Credit Counselling Service (CCCS) are not traditionally recipients of HMG funding. However in 2009 they received £250,000 from CLG to help them provide advice on the Government’s mortgage support schemes.

139. Some companies offer a “free” service with no upfront services but will agree a repayment plan that requires payment of more than the initial debt.

140. For these “fair shares” revenue models to work, clients’ debts must represent revenue-raising opportunities. Under them, “low value” debtors may receive help as part of corporate social responsibility effort but only in relatively small numbers.

Fee-charging debt advice

141. Some private sector debt advisors, including Paymex, charge their clients fees upfront to cover the costs of their service and do not split revenue with creditors. They argue that doing so ensures that their advice is impartial, as the question of which debt solution would raise the most revenue is irrelevant to their income streams.

142. Clients of fee-charging services need to have enough surplus income to be able to pay upfront fees. Low income clients may receive help as part of corporate social responsibility effort but, again, only in relatively small numbers.

The quality of debt advice under different revenue models

143. Consumer groups often call into question the quality of private sector debt advice, viewing it as tied to solutions that generate income for the advice agency, such as Individual Voluntary Arrangements (IVAs). However, we do not believe that all commercial advice is disreputable, and there may be a valuable role for private sector providers in addressing particular kinds of over-indebtedness.

144. There is no black-and-white relationship between revenue models and the quality of debt advice. Organisations such as CCCS and Paymex would strongly dispute that their advisors are biased towards particular solutions.

145. In terms of the knowledge and skills of debt advisors, there is also no simple relationship between revenue models and quality. The Debt Resolution Forum and the Debt Managers Standards Association, whose members come from the private sector, run an externally-verified qualification in debt advice and “mystery shopping”. The Money Advice Trust has led a working group of partners to look at quality assurance throughout the money advice process (please see paragraph 63). It is as yet unclear whether such initiatives would be welcome to all providers.

146. There is clearly a problem with “debt solution providers” who make misleading claims and use “look-a-like” websites. The Office of Fair Trading has closed some down; but they spring up again under slightly different guises. This is an issue that needs addressing but the Taskforce believes that it should not be a priority for Ministers at this point in time.

147. An advantage of the FIF-funded and National Debtline advisors is that high confidence can be placed in the impartiality and quality of their advice.

Annex G. Government responses to household over-indebtedness

Financial Inclusion Fund and Taskforce

148. HM Treasury set out in 2004 a strategy to tackle financial exclusion. The Treasury also launched a £120m Financial Inclusion Fund for delivery over three years to March 2008, and a Financial Inclusion Taskforce to oversee progress. The strategy has three priorities: access to banking, access to affordable credit and access to free face-to-face debt advice.

149. A second Financial Inclusion Fund (£130m across all projects) has allowed progress to continue from April 2008 to March 2011.

BIS Face-to-Face Debt Advice Project

- Tender for participation by debt advice agencies took place in 2005/6.
- Sixteen projects were selected to launch in Spring 2006. Thirteen were regional and three were nationwide projects aimed at particular deprived subgroups (disabled people, people in rural locations and customers of third sector lenders).
- £85m was provided from 2008 to March 2011, of which £6.5m came from BIS.
- BIS found an extra £300,000 in 2009/10, helping 1,200 more clients.
- The project has stayed within budget and helped about 10% more than the targeted number of clients.

BIS Illegal Money Lending Project

- Illegal moneylenders, or loan sharks, lend money without a credit licence. HMG has invested over £16.5m since 2004 to tackle them.
- Following pilots in Glasgow and Birmingham an Illegal Money Lending project was rolled out to all regions of Great Britain. BIS has committed funding to March 2011.
- The project focuses on enforcement against loan sharks, but also promotes financial inclusion by referring victims to appropriate money advice so that they learn about legal, affordable credit.

BIS Debt Advice Support

- BIS spends £1m per annum on the National Debtline.
- Since 2006/7 HMT has given BIS ring fenced funds (£123.5m) for F2F.
- In 2009/10 and 2010/11, HMT has given BIS given £5m ring-fenced for National Debtline.
- HMG has allocated £10 million in 2009/10 for extended opening hours at Citizens Advice bureaux, with a further £5 million commitment for 2010/11.
- HMG spends £5 million annually on its Illegal Money Lending project.

OGDs' Debt Advice Support

- MoJ/Legal Services Commission spends around £22-23m on their legal aid F2F debt advice.
- MoJ/ Legal Services Commission spends around £3.7m on their legal aid phonline debt advice (CLA Direct).
- MoJ spends £750k (2009/10) on National Debtline.
- Scottish Executive spends £100k (2009/10) on National Debtline.
- CLG spent £250k in 2009/10 on support for the Consumer Credit Counselling Service (CCCS) to support mortgage advice.

Consumer White Paper initiatives

Measures include:

- A wide ranging consultation on significant reforms to the regulation of credit and store cards to put consumers more in control of their borrowing and to help guard against people running up debts they can't pay off. This will balance the importance of choice and a flexible market with personal responsibility and protection from over-indebtedness;
- A ban on unsolicited credit card cheques which can tempt consumers unaware of the high interest rate charges to borrow money they cannot afford;
- A review by the Office of Fair Trading of the market for high cost credit, typically above 50% APR, such as pay day loans and door step lending;
- A new self-help tool-kit developed by the Money Advice Trust and a new guide for debtors from the Insolvency Service to help people in debt take control of their finances.