moneyadvicescotland
Scotland's Money Charity

RESPONSE

Feedback on the findings of the independent review of debt advice funding

April 2018

Background

We welcome the invitation from the Debt Advice Steering Group (DASG) to provide feedback on Peter Wyman's independent review of debt advice funding.

To help form the basis of our feedback, we held a consultation day with our members on 20 March 2018 to discuss the recommendations from the review.

Delegates included money advisers from local authorities, CABs, housing associations and other advice centres, as well as a number of insolvency practitioners from the commercial sector.

Recommendation 1 Face-to-face advice should continue to be widely available, but the free-to-client providers should commit, as a whole, to shifting 15% of face-to-face demand to telephone advice, and 20% of telephone demand to webchat-assisted advice, over the next two financial years, with a further and corresponding channel shift over the following three financial years

Members at our consultation event welcomed the recommendation that face-to-face advice should continue to be widely available. Indeed, in a recent survey around 85% of our members noted the opinion that this is the most effective method of advice delivery. The examples of the type of client for whom it was felt that face-to-face remained the most suitable channel of advice included people with mental health problems, people who are considered vulnerable, and people who are not computer literate.

Members emphasised that debt advice is a complex subject and it is often necessary to meet with a client face-to-face to ensure that the options proposed were sufficiently understood. A number of advisers also noted that by the time some clients seek advice, mobile phone contracts have been cut-off making face-to-face the only possible channel of advice. We cannot reiterate enough the importance that this remains a widely available advice channel.

Despite the proposed change in the make-up of delivery channels, we recognise that the recommendation is not advocating a cut in face-to-face advice, but instead represents an uptick of an additional 90,000 people who will be able to access face to face advice.

Members were slightly concerned that the review overlooked the actions that advice agencies had already taken to diversify channel delivery, and overestimated the scope for additional shifting. Members were also of the view that to categorise advice as relating to a single channel only was overly simplistic. For example, in most cases a blended delivery approach is already deployed: initial data may be collected via webchat, a face-to-face appointment may be arranged thereafter, additional updates may be provided by telephone. It was also highlighted that if an agency specialises in one method of delivery, any obligation to shift proportionally to other channels may prove counter-productive.

It is also important to highlight that certain debt solutions will be more or less conducive to certain delivery channels. This is especially pertinent to advice agencies in Scotland where the suite of debt options is markedly different. The Debt Arrangement Scheme (DAS) offers a statutory debt management plan with protections that are unavailable elsewhere in the UK. However, the process of applying for a DPP is generally accepted as cumbersome and bureaucratic and may not lend well to webchat advice.

Recommendation 2

Free-to-client providers should commit to 20% efficiency savings over the next two financial years, achieved by greater use of technology and greater sector collaboration

Again, our members were slightly concerned that the commitment to 20% efficiency savings overlooked the existing impact of year-on-year cuts in advice provision. In the words of one member, there was little meat left on the bone to cut at this stage.

Analysis from the Improvement Service's Money Advice Performance Management Framework shows that investment from local authorities in Scotland stood at approximately £21m in 2014/15, but by 2016/17, this had fallen to £11.7m. In terms of FTE paid staff members, there was a decline from 370 to 305 (18%) over the same period.

Importantly, our members highlighted that the move towards digital and webchat based advice does not necessarily guarantee savings. A member representing an advice agency based in remote/rural Scotland noted that the cost of delivering this type of service is more expensive than conventional face-to-face delivery, but was necessary nonetheless due to geographic logistics and time constraints. The initial transition towards digital advice services will also require significant outlay. A number of agencies were concerned that these initial costs would be far out with their means.

Recommendation 3

MAS should continue to be funded solely by the FCA levy, under the new arrangements proposed in the FCA's consultation document CP 17/38.

Recommendation 4

The financial services levy for debt advice should be temporarily increased by £10m per year for 2018/19 and 2019/20. This should facilitate:

- a sector-wide goal of increasing debt advice supply from free-to-client providers by 50% by the end of the second year;

- improving quality; and

- enabling innovation

We support the recommendation that MAS/SFGB should continue to be solely funded by the FCA levy.

We also welcome the increase to the financial services levy for debt advice by £10m per year for 2018/19 and 2019/20. Members were of the view that this should be extended, however. A recent Money Advice Service report (*The Economic Impact of Debt Advice*, 2018) provides a timely reminder on the beneficiaries of debt advice, estimating – conservatively they stress – that additional creditor recovery is increased by £133-360m annually. When creditors stand to benefit to this extent, we should consider whether there is scope to increase their support towards the costs of an effective debt relief and debt management system.

Recommendation 6

The Insolvency Service should be funded so that it is able to pass the full fee it collects from each Debt Relief Order (currently £90) back to the adviser (who currently receives only £10 from the fee). Equivalent arrangements should be made for Northern Ireland and Scotland.

Members at our consultation event did not support this recommendation. It was anticipated that the process would be bureaucratic in practice. There was also unease from members in what could be construed as a transfer of money from the lowest income clients to advice agencies.

Research by the Money Advice Service consistently emphasises the importance of seeking advice at the earliest opportunity, but we know that upfront fees can be a barrier to securing a solution. If a person is eligible for the Minimal Asset Process (MAP) route into bankruptcy, it should not be surprising that they cannot raise the £90 fee.

We recently called on the Accountant in Bankruptcy (AiB) to undertake a research exercise on how individuals and households are funding upfront fees to help influence any evidence-based review of upfront debtor application fees in future. In the experience of our members – and the review references this too – clients typically rely on charitable grants or borrowing from friends and family to meet the cost of fees. Members also highlighted clients who met this cost by forsaking other essential costs.

While being completely in favour of more funding going to advice agencies, we are not convinced that this is the correct approach. That is not to say that we are of the view that the current policy works well. A majority of our members were favourable towards the AiB being funded so that it can waive the MAP fee altogether.

Recommendation 10

Employer organisations including the CBI, the IoD and the Federation of Small Businesses should bring the availability of free debt advice to the attention of their members. Large employers should be encouraged to consider the benefits from providing debt advice within employee assistance programmes. Smaller employers without a dedicated employee assistance programme should signpost employees to the MAS Debt Advice Locator tool.

We support the recommendations that employers should have a greater responsibility to make employees aware of debt advice. It should be noted that the benefits to an employer of improved employee financial wellbeing are well established.

Recommendation 11

MAS should rebrand and upgrade its Debt Advice Locator tool. The tool should allow consumers to choose the most appropriate delivery channel and to select from a comprehensive list of authorised and exempt advisers, including commercial providers. The tool should be maximally optimised to draw search engine traffic

We welcome this recommendation. Members highlighted concerns around the omission of Scottish local authority advice agencies from the Debt Advice Locator tool. In some local authorities, there is no CAB provision and free advice is provided by local authority advice agencies only. The current approach means that a potential client is unable to determine a complete picture of available agencies in their area.

Recommendation 15

The quality assurance processes of organisations that offer debt advice should be monitored and transparently reported. To this end:

- All organisations that offer authorised debt advice, including commercial providers and charities alike, should have a quality assurance process authorised by the FCA, and annually report headline data from this process to the FCA. The headline results should then be publicly available

- MAS should develop a quality management process (to be authorised by the FCA), enhanced by inexpensive software, that can be used by smaller debt advice organisations to fulfil the obligations set out in this recommendation.

Our members reiterated previously stated concerns that the standards process can be overly burdensome and leads to unnecessary duplication. That is not to say that we do not support robust quality assurance processes; rather, that we are concerned about the time and resources that will be directed away from helping clients if two sets of quality assurance frameworks are in operation. This also undermines the case made under recommendation 2 for improved efficiency. In our initial response, we noted concerns about how this would interlink with the existing Scottish National Standards for Information and Advice Providers (SNSIAP) when, as the review sets out consistently, demand continues to far outstrip supply.

The question of quality is of course also bound up with the issue of funding. When resources are being cut, when agencies are trying to see more people, when agencies are losing experienced advisers – it is perhaps inevitable that this will have an impact on quality.

Members welcomed the commitment that quality assurance processes should apply to all types of providers. In their view, no particular segment of the sector has a monopoly on poor advice. A number of advisers also highlighted the growing trend for clients who are presenting for advice after being in protected trust deeds (typically arranged via lead generators) which were unsuitable. One adviser described this as “fixing other people’s bad debt advice.” The impact of this on advice agencies which are already stretched to breaking-point merits closer examination.

Recommendation 16

All authorised debt advisers should have a debt advice qualification before they can offer debt advice unassisted, and should be required each year to undergo proportionate continuing professional development that includes updating for changes in law and reviewing the latest evidence of effective practice. The requirement for, and syllabus of, the debt advice qualification, and the requirement for continuing professional development, should be set out by the FCA. There should be a phased transition for existing advisers, where they have a window of three years to obtain an approved qualification to enable them to continue to work in the sector

We welcome this recommendation in principle. We firmly support an increased emphasis on continuing professional development and recognise concerns (within the Scottish sector at least) about the lack of training and resources for experienced advisers. This recommendation will require adequate funding to develop and update training materials so that annual CPD is more than a box ticking exercise.

Members were slightly concerned about the potential impact on resources that may arise from this recommendation at a time when services are already stretched. If the other recommendations lead to the intended increase in the supply of debt advice, then these concerns may be alleviated somewhat.

Again, we emphasise that Scotland has a distinct debt landscape. For a qualification to be relevant and valuable, this will require a Scottish-specific debt advice qualification. As part of our updated strategic plan for 2018-23, we will be consulting with our members on what format and specification that a Scottish debt advice qualification should take.

Recommendation 18

MAS should focus its debt advice activities and expenditure on:

- Providing coordination, infrastructure and training that will increase capacity and quality in the debt advice sector.

- Enabling targeted innovation that benefits the not-for-profit providers, especially: - the use of technology to import customer spending and income data into the debt advice process; - developing digitally assisted services for debt clients; and - in the medium term, using machine learning to improve referrals and provide automated or semiautomated advice to debtors.

- Contributing to the provision of debt advice for people who are unlikely to be viable clients of Fair Share or commercial providers. This funding should be directed, through good procurement practice, to any authorised provider

Again, we note our concern about the role of MAS/SFGB in the quality assurance process as set out previously.

We support the role of MAS/SFGB as the driver of targeted innovation. There is the risk that smaller, free-to-access advice providers may be priced out of technological advances that can be developed by larger providers. If MAS/SFGB can develop tools that advice providers can pick up and run with inexpensively, then this will help secure a more level playing field.

The use of technology to support the collection of client income and expenditure is an interesting concept that may arise from developments around open banking. In the view of our members, the current process is bureaucratic and time-intensive, but one that does not necessarily result in an accurate outcome.

Recommendation 19

The not-for-profit debt advice providers across the UK should commit to reducing duplicated effort and increasing mutually complementary specialisation and cross-referral. They should use the MAS Debt Advice Steering Group, and the Debt Advice Operational Group, as forums and means to achieve their commitments, but should not rely on MAS solely to propose, deliver or fund change.

Members did not recognise this picture of duplication. As noted throughout this feedback, the sector in Scotland has been subject to cuts of around 46 per cent in local authority funding in the last two years alone.

Recommendation 20

The UK Government should appoint a 'Debt Advice Tsar' for England (independent of government, MAS, or the FCA) as a coordinator across these recommendations, on a five year time-limited term. I also recommend that the devolved governments should consider making similar appointments. This highly senior and influential person should be able to challenge government and industry to ensure that these recommendations are implemented, should be able to advise on regulatory measures where they are not, and should be expected to continue to challenge the sector where appropriate. The Debt Advice Tsar should report annually on progress.

We support the recommendation to appoint a debt advice tsar. The sector faces a period of considerable challenge in the face of the changing profile of people in debt and the increasing demand on services. In this context, the sector needs a strong and persuasive advocate for the benefits of sufficiently funded debt advice provision.