moneyadvicescotland

Scotland's Money Charity

RESPONSE

Call for evidence:
Independent Review of the Funding of Debt Advice in England, Wales, Scotland and Northern Ireland

December 2017

About Money Advice Scotland

Money Advice Scotland is Scotland's Money Charity.

Our mission is to be the driving force towards financial wellbeing for the people of Scotland.

Background

Money Advice Scotland welcomes the opportunity to respond to the independent review of debt advice funding.

To help form the basis of this submission, we issued a survey to our membership primarily focused on block one of the consultation. Respondents included debt advisers from local authorities, CAB, other independent advice centres and commercial free advice providers.

We also note that this latest consultation closely follows the recent Money Advice Service consultation, *A strategic approach to debt advice commissioning 2018-2023*. Our response to the previous consultations can be accessed at: http://www.moneyadvicescotland.org.uk/content/consultations.

1.1 Can you provide any data about the causes driving people to need to seek debt advice, which could inform a forecast of how demand might change over the next five years?

Our members point to the growing prevalence of what might be referred to as living cost debts: council tax and rent arrears, utility bills etc., rather than conventional consumer credit debts. Priority debts present particular challenges as by their very nature these debts often lead to more severe consequences. The fact that there are continuing liabilities adds a further layer of complexity to how these debts are dealt with.

It is important that the review acknowledges the profile of people going through the debt advice process. In Scotland, the average income for people going through debtor application bankruptcy is £1,186 per month. More than two thirds of all debtor bankruptcy applications are made by individuals with a household income of less than £1500 per month. This is a reminder if any were necessary that debt is more often precipitated by low incomes and rising living costs, rather than an indicator of profligacy or low levels of financial capability. It is difficult to envisage how this might change in the years ahead – the Resolution Foundation note that by 2025, wages will be worth no more than they were in 2007. A number of our members also noted specific concerns about the impact of Universal Credit.

At the same time, however, consumer credit borrowing is increasing rapidly and has returned to pre-crisis peak levels. The long-anticipated increase in interest rates may also stretch just-getting-by households to breaking point. Historically low levels of savings means that households are not equipped to deal with unexpected costs. This is not because households do not want to save, or do not know how to save, but rather as a result of the prolonged erosion of disposable incomes.

Regulation may also influence the causes that drive people to seek debt advice. For example, the Financial Conduct Authority's proposed measures to address persistent credit card debt may have the effect of driving people who are not currently seeking advice to advice providers.

1.2 Can you provide any data about stage(s) at which people seek debt advice (for example: when they feel that they have taken on too much debt; when they are struggling to pay their debts; when they have court orders enforced against them)?

Our members noted the following typical trigger points for a person to seek debt advice:

- When they are no longer able to meet the cost of essential items
- When they cannot access more credit
- When they receive a court order – particularly where earnings or bank arrestments act as a spur to act
- When the debt begins to impact on physical or mental health

1.3 How does your organisation determine/define who needs debt advice and is there a mismatch between that and who, in practice, receives it?

As noted previously, the trend across the advice sector is for clients to present with debts that are a result of basic living costs. In response to this, a number of advice services within our membership appear to be adapting their approach to meet the needs of clients who are already at the point of crisis:

> We generally try to keep some appointment slots available to help those with rent arrears and mortgage arrears who tend to present very near crucial court hearing dates or eviction dates. Additionally, we do find that there are occasions where we have to see those who contact us immediately to help them avoid the more serious consequences such as eviction and repossession.

A number of agencies said that they deploy duty workers to pick up on the most urgent cases. As evidence of the increasing demand for advice services, some CAB within our membership also reported that they are now receiving enquiries from neighbouring local authority areas where there is no CAB. Several local authorities which previously funded and/or directly provided services are either reducing funding or opting out altogether due to local government budget cuts. The impact of this increasing demand – and the growing prevalence of priority debts – means that some people are waiting longer for advice:

> Absolute priority for anyone facing court action for eviction/possession. Next priority for anyone with housing debt. Others have to wait longer for debt advice (up to 6 weeks to see a money adviser). We are currently undergoing an advice service review which could possibly result in the loss of the service, or certainly in a reduction, which will mean we will be unable to support the number of people we currently help.

The funding review should also consider the impact of this type of crisis-management style of working on staff on the frontline of advice services. In many agencies, advisers continually go above and beyond the call of duty to help clients in the bleakest of circumstances:

> We prioritise by how urgent the issue is - is there a court date? Is there an eviction date, or are they at risk of eviction/repossession? For these kind of things, we will see clients ASAP, so if someone is being evicted the following day we will squeeze the client in somewhere that day. This obviously puts extra pressure on advisers and the bureau but in these types of cases there is little option.

1.4 Can you provide any data about the make-up and quantum of the debts of the people you serve with debt advice?

Again, our members note the growing prominence of living cost debts:

> There is a wide range but we have observed that more and more people approach for advice and their only debts are priority debts: usually rent arrears, or mortgage arrears, council tax arrears, gas and electricity arrears.

That said, it is clear that consumers also turn to consumer credit debt to balance household budgets:

> There are two types. The increasing majority is rent, council tax and other priority debts with benefit overpayments being recovered from ongoing awards causing severe hardship. We see a lesser amount who have these debts but also have consumer debt (mostly credit cards) as they have been using credit to meet essential expenses until access to credit is exhausted. Most of our clients are single parents, single people and single pensioners.

Importantly, one respondent noted that there is no such thing as a "typical debt case" and this should be factored in to any future funding model.

1.5 What are your views about how funding of debt advice could be targeted more directly at the people who need it? What in your view are the most effective ways of targeting advice?

A majority of our members were of the view that face to face remains the most effective way of targeting advice. There is no question that technology offers the opportunity to improve the delivery of debt advice. Some people may prefer to make initial contact by web-chat, for example. Open Banking may also result in a more efficient and accurate method of capturing income and expenditure data for financial statements. Nonetheless, we are concerned that the review implies a move to a focus on digital and online services. This may lead to a diminution in the role of the money adviser and a new approach towards a self-service, do-it-yourself model of debt advice. One member said:

> The swing towards distance advice through email and telephone is unbalanced and I feel strongly that face to face advice provides a greater level of support and assistance as well as efficiency to clients (speaking as someone providing face to face, email and telephone advice).

A number of our members provided examples of clients for whom face to face was the most appropriate channel of advice:

> I think all clients benefit from at least an initial face to face appointment. Clients need to feel that they can open up, that they are looked at as people and not numbers and figures, that we empathise with their circumstances and want to help them.
>
> A recent client came in with a citation for sequestration which was due in court the next week. The face to face appointment helped the client understand the very difficult situation he was in and was at risk of losing his home and business. We discussed at length the pros and cons of the situation and whether DAS was possible to resolve the situation. If the client had needed to have that appointment on the phone, I don't doubt that we wouldn't have been able to assist in a DAS in such a timely manner. The situation was too complex and urgent for a phone call, online chat or email.

Digital exclusion is also a central factor for the review to consider. Recent research by the Scottish Council for Voluntary Organisations (SCVO) found that one in five people in Scotland do not possess basic digital skills.[1] Households without internet access are also most likely to be deprived in other ways – and these are the very households where levels of over-indebtedness are highest.[2] As one adviser noted:

> We are a rural area and we have connectivity problems. Although not all pensioners are unable to deal with online, we see many who would not be confident. We have people with severe mental health issues and health issues that can make it impossible for self-help. Most of our clients are in debt due to low income not because of irresponsible borrowing - they are some of the most disempowered in society who, even if they have computer and phone skills, will often have tried and failed to negotiate directly with creditors.

Co-location of advice services within established community settings such as GP practices, foodbanks and libraries was considered as an effective method of ensuring that people can

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[1] SCVO, *Tackling digital exclusion in Scotland*, August 2017

[2] Carnegie Trust, *The role of digital exclusion in social exclusion*, September 2016

access advice. A recent pilot from the Glasgow Centre for Population Health embedded a financial worker from the Greater Easterhouse Money Advice Project (GEMAP) within two GP practices in Parkhead Health Centre, and resulted in almost £850,000 worth of financial gain through income maximisation, equating to, for successful applicants, a median amount of almost £7,000 financial gain per person, per year.[3]

Some respondents also observed a distinct case for home visits in certain circumstances:

> Recent client who has learning difficulties, no access to internet and finds it hard to leave the house. We did a home visit and provided support this way. This resulted in client financial gain of £12k of mis-selling by doorstep lender. People want face to face as they are worried about being ripped off – they are scared of faceless scammers.

1.6 Could more be done to encourage people to seek advice earlier? If so, how and by whom?

By its very nature, the need for debt advice typically comes at the point of crisis. A number of advisers noted that people are not always ready to engage at an earlier stage:

> Obviously, it is good if people seek advice earlier, and a number of clients do seek advice prior to defaulting on any payments, aware they expect to struggle in a few months' time if their income has dropped. However, it is also important for people to seek advice when they are ready. We do often have parents/friends/etc. make appointments on their behalf and persuade them to come in, but these clients are not always receptive to advice and make up part of our missed appointments. I think overcoming the stigma of struggling with debt is important as people are embarrassed. We need an awareness that there are options as clients often think there's nothing they can do and are surprised when there are routes to go down.

One member observed a more prominent role for creditors in identifying people in potential financial difficulty:

> Creditors should take into account the number of debts a client has - even where still manageable - as this can eventually lead to a "straw that breaks the camel's back" situation. Once debts start to rise and interest starts to take up the bulk of payments rather than the capital being reduced, it can then suddenly become too overwhelming for clients to begin to deal with, thus leading to further delays in seeking advice.

The need for an effective advertising and awareness campaign was also a recurring theme in our survey responses. One member noted concerns that there was currently an imbalance between the reach of fee-charging debt advice organisations and the free sector:

> Greater importance on advertising free impartial debt advice agencies as opposed to fee-charging advice providers who are able to advertise on national radio and newspapers etc. Being able to advertise in schools, GP surgeries, hospitals etc. would be a way of advising the general public to know where to access local help. A general knowledge of where to seek help and the type of service that they will receive is needed.

[3] Glasgow Centre for Population Health, *The Deep End Advice Worker Project: embedding an advice worker in general practice settings*, September 2017

That said, a number of members also commented that while the aim of directing people towards advice is a laudable one, this must be matched with adequately funded services given that demand for help is far outstripping supply in many areas.

1.7 Do you spend any money on outreach to people who could benefit from debt advice? If so, how much and on what?

Again, co-location of advice services was identified as an important outreach method, particularly for clients who are initially unaware where to go for advice and support. A large number of advice agencies have developed partnerships with local GP practices and hospitals. A large commercial advice provider also reported that their organisation works with various trade unions and workplaces to talk to people about debt and budgeting. In these circumstances, surgeries are subsequently arranged as well as follow-ups by email and telephone.

Members also reported that the short-term nature of funding agreements hinders the effectiveness of outreach activity and advice services more generally:

> We are currently collaborating with schools and will be delivering sessions in outreach locations. This is in its early stages and it is unknown as to whether this will be well utilised due to the stigma attached to debt advice. This project runs for 16 months. We also deliver outreach sessions in mental health drop in centres, however, this is not specifically for debt but general advice where debt issues are identified. This project runs until March 2018. At the end of these projects, if we wish to continue to reach these specific groups, we are required to reinvent ourselves and apply for short term grant funding. This is extremely frustrating. I feel that we would reach more people, more effectively, if core funds were sufficient and agencies such as the NHS, Jobcentre Plus etc. were more aware of debt services and discussed this with their clients as part of a holistic process.

The majority of respondents to our survey were frontline advisers and managers, many of whom were unaware of specific budgets for outreach activity.

1.12 What are your views about how channel costs can or should change, taking into account your organisation's strategy, shifts in consumer behaviour, and new technologies? Are you able to provide data on cost-effectiveness per channel? (If so, please say how you have defined cost-effectiveness for this purpose.)

As we note in our response to 1.5, a number of our members were concerned that the review of debt advice – alongside the recent Money Advice Service consultation on a strategic approach to debt advice commissioning 2018-2023 – signified a shift to a predominantly online based, self-help model. Around 85% of respondents to our survey noted a preference for face to face advice over telephone and email advice, with the remaining 15% opting for a combination of the three selections.

One member noted that it was important to empower clients while acknowledging that enhanced levels of support will still be required for many people, particularly for statutory debt solutions:

> We are keen to empower clients to feel confident in speaking to their creditors, for example. However, I cannot see how "self-service" could work with any statutory debt solutions or mortgage to rent where a money adviser has to assess their finances and give advice. As we are a holistic service, there are often other underlying problems which are better assessed by an adviser, for example we carry out a benefit check. We also check client's contracts, ensure agreements are valid etc. and look at a client's particular circumstances as an individual.

Another respondent noted that vulnerable people find it still more difficult to engage:

> The majority of our clients are vulnerable or have difficulty engaging with the process of debt management which has been a contributing factor in their financial issues. Once they engage with us they are often relieved to have someone else assisting them so I am not confident they would work through a self-service process to the stage that their finances stabilised.

Problem debt that is often years in the making can take a considerable time to unravel and address. A central pillar of the money advice process is to determine a full and thorough picture of a client's circumstances. This is particularly necessary where there are underlying issues such as gambling debts, financial abuse and illegal money lending, wherein it can take several meetings with a client to realise the full picture. Face to face may be a more expensive delivery channel, but in certain circumstances, it will remain the only appropriate channel.

1.13 Is enough being done to ensure the quality of the advice provided? If more should be done, how would this be best achieved and what are the cost and benefit implications?

To ensure the highest quality possible advice, the review should ensure that adequate levels of funding are allocated towards training for advisers, particularly in response to the changing debt landscape. Standards are also important, but this should not direct a disproportionate amount of resources away from helping people. A number of our members have previously noted concerns that the standards process can be overly burdensome and leads to unnecessary duplication:

> The SFGB should not have a role in setting standards because Scotland already has a set of relevant standards for advice giving prior to the Money Advice Service's standards framework, namely the Scottish National Standards for Information and Advice Providers. Having the additional Money Advice Service standards framework has increased the burden of administration on free debt advice providers and should not continue into the SFGB.

1.14 What are your views about how funding of debt advice could be more closely linked to better outcomes?

The issue of funding on the basis of outcomes was raised during the Money Advice Service consultation on a future strategic approach to debt advice commissioning. We are concerned that funding based on outcomes may drive the wrong types of behaviours. This approach may pre-empt and improperly influence the advice provided to a client. For example, will an advice provider be considered as performing well based on the number of people in specific debt solutions, even where other options may have been more suitable?

Research published in 2016 from the University of Warwick provides a longitudinal study on the impact of debt advice. The research follows the experiences of people on low incomes over a period of eight years. The authors emphasise that the outcome of debt advice is often about more than being debt-free and this should be acknowledged in the design of client outcomes:

> A clear message from participants across all groups was that debt advice must focus not only on ways to become debt-free, but also on ways to live with debt – the manageability of debt was as important to their assessment as being debt-free. Fundamentally, this meant that participants sought advice on how to manage the process of being in debt and stop debt becoming all-consuming.[4]

A number of our members also made a connection between the channel of delivery and the eventual outcome for people in debt:

> I've had clients who haven't disclosed severe mental health issues to free-to-client phone agencies who have ended up in repayment arrangements they couldn't afford. We still do a reasonable amount of Debt and Mental Health Evidence Form write-off requests that are successful as we have good relationships with community psychiatric nurses and other support agencies. That seems to happen less with other agencies, if at all though it is the best outcome for those vulnerable clients.

[4] Atfield, G., Lindley, R. and Orton, M. (2016) *Living with debt after advice. A longitudinal study of people on low incomes*, York: Friends Provident Foundation

3.1 What are your views on who benefits from debt advice, and why?

Primarily, the client is generally considered as the main beneficiary of debt advice. The impact of debt on an individual and their family is well-known:

> Debt can significantly change how people live their lives, induce feelings of uncertainty about what is going to happen next, as well as engendering feelings of stigma and shame.[5]

In our experience, debt advice makes an invaluable contribution to alleviating this pressure on people. That said, we must ensure that the client accesses the right outcomes as if things go wrong and an unsuitable option is pursued, the client can be left in a worst place than when they initially sought advice.

The benefits to creditors – whether consumer credit lenders or public-sector creditors such as HM Revenue Customs and local authorities – cannot be underplayed either, however. Our members were also quick to point out the wider benefits to society of adequately funded debt advice.

> Debt funding should be seen as an extension of health funding as there is clear evidence of the impact of indebtedness of the health of those in debt and on their children. It is preventative spending.

3.2 Some people use free-to-client debt advice agencies and some people use fee-charging debt management firms. Based on your experience do you consider people find the route that is appropriate to their circumstances?

We have previously noted concerns that many clients are opting for trust deeds when other debt options are more suitable.[6] Our members perceive an imbalance whereby fee-charging debt management firms are likely to have access to larger advertising budgets which ensures a greater reach:

> The advice landscape is confusing and fragmented due to the current funding model. Clients who are more able are attracted by television advertising fee charging debt management firms are not aware of free services. More publicity for free services is needed.

We are also particularly concerned about the use of lead generators who are fuelling the growth in trust deeds. Through our Evidence Base, we have also recently encountered cases where clients in trust deeds are being sold early-exit loans by a lender linked to the fee-charging debt management firm. The early-exit loan ultimately costs more than the existing payments left in an agreement. While this is potentially an issue for regulators and out with the remit of this current review, it is a reminder of the advantages of advice that is free, independent and impartial.

Our members are also of the view that choice for clients is important:

> The debt advice review should take into account the good work and quality of advice that is being offered by many free debt advice organisations across Scotland and will

[5] Fitch, C., Hamilton, S., Basset, P. and Davey, R. (2010). *Debt and Mental Health: What Do We Know? What Should We Do?* London: Royal College of Psychiatrists

[6] Our 2017 Manifesto is available here: http://www.moneyadvicescotland.org.uk/sites/default/files/MAS_manifesto_2017_2.pdf

> be able to continue doing so providing funding is available to them. People should have a choice as to where they can access advice providers and should not feel that they have no alternative option but to pay for it which in turn can be detrimental to their circumstances and in some cases make their situation worse.

3.3 What are the considerations from the different arrangements and customer needs in England, Northern Ireland, Scotland and Wales that should be taken into account in my Review, and why?

Respondents called on the advice review to pay sufficient heed to the separate and distinct legislative context in Scotland. A number of our members highlighted the impact of the Bankruptcy and Debt Advice (Scotland) Act 2014, now consolidated under the Bankruptcy (Scotland) Act 2016. If a person cannot secure an appointment with a money adviser due to low or no availability, this means that access to bankruptcy is precluded as a result of the requirement for compulsory debt advice.

Funding should be made available to help increase awareness of the legislative differences between Scotland and the rest of the UK. One adviser noted that it is often necessary to remind creditors (and clients) that information they may have picked up from television or elsewhere may not apply in Scotland. In our experience, this can often lead to poor outcomes for clients who are not made aware of the full suite of debt options available to clients in Scotland.

In remote rural communities in Scotland, the precarious nature of seasonal employment, comparatively high levels of fuel poverty, increased travel costs and poor connectivity must also be recognised within the review. There is still a predilection to view Scotland as a single region, rather than a series of distinct regions often with very different social and economic characteristics. Poverty in the central belt is a key driver for people to turn to debt advice for support. Challenges caused by the collapse of the oil industry in Aberdeen has led to a similarly heightened demand for advice, albeit for very different reasons. It is imperative that the review demonstrates a keen understanding of the distinct needs of people in Scotland.

Respondents also referred to a tendency for UK-wide organisations to misread the concerns of the sector in Scotland:

> Scotland should not be treated as one region in the UK as has been the case with the CFS/SFS for example and fails to consider significant differences throughout the rural and more populated areas in terms of advice available, transport costs, basic food costs, housing prices, etc.

While welcoming the devolution of debt advice funding, we have previously noted concerns that funding for money guidance will remain reserved. If it is considered beneficial to deliver debt advice and money guidance in “a blended fashion”, then it follows that funding for money guidance projects and interventions should also be devolved. As we noted in our recent response to the consultation:

> The prospect of providing an integrated service when the debt advice strand is commissioned by the Scottish Government but the money guidance function remains reserved seems laced with difficulty. The requirement to report to two funding streams may also lead to duplication of effort and impact on time that could be better served dealing with clients.

We are also concerned that the consultation on a strategic approach to debt advice commissioning states that the financial guidance body will set priority groups across the UK. In our view, if debt advice is to be devolved, then the responsibility for identifying and targeting priority groups should also rest with the Scottish Government and the local authorities and advice agencies who will be delivering these services. Local agencies are often best placed to identify the needs of the local area and target services accordingly. The future funding strategy needs to be able to flex and react to meet the needs of clients.

3.4 Are there any particular considerations for the protected groups covered under the Public Sector Equality Duty (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation; and marriage and civil partnership) that should be taken into account in my Review, and if so why?

A number of respondents noted that clients with disabilities often required enhanced levels of assistance including home visits. While this type of support is more expensive in terms of cost, funding for these services must be maintained going forward.

Members also reported the growing prevalence of clients presenting with mental health:

> We have people with severe mental health issues and health issues that can make it impossible for self-help. Most of our clients are in debt due to low income not because of irresponsible borrowing – they are some of the most disempowered in society who, even if they have computer and phone skills, will often have tried and failed to negotiate directly with creditors.

This underlines the importance of committing to continuing levels of face to face support going forward.

3.5 What are your views about any political, economic, social or technological changes that might impact on the future of debt, debt advice and its funding in the next five years?

It is difficult to be optimistic about the next five years given the unrelenting wave of gloomy forecasts. As we note in our response to 1.1, real income growth is anticipated to be weak to non-existent for close to a further decade. When this remains the central driver and cause of over-indebtedness, the prospects for financial wellbeing look bleak.

In Scotland, the Joseph Rowntree Foundation recently warned that progress made on tackling poverty risks unravelling.[7] The new social security powers for Scotland have been described as an opportunity to shape a distinctly Scottish system with dignity and respect at its heart. We are concerned that people going through the debt advice process can, on occasion, encounter a different experience. With that foremost in mind, this review into funding should also mark the opportunity to review how debt advice can feature as part of the wider objective of tackling poverty across these islands.

[7] Joseph Rowntree Foundation, *Poverty in Scotland 2017*, December 2017

3.6 Are there other funding models that should be considered? If so, what are they and what would the advantages be?

Broadly, members were supportive of the current funding model, although they have previously expressed support for including utility providers such as major energy companies to be included as part of the debt advice levy.

Perhaps above all else, our members sought assurances that the debt advice funding review will not signify a reduction in funding. As might be expected, members also called for longer-term, stable funding agreements:

> Costs during economic struggles are of course the deciding factor, but tendering processes, looking for the cheapest option is a false economy and completely forgets the purpose of the service provision in the first place to give much needed accurate, holistic and helpful advice and support. Any funding model should be clear and determined by the area/need rather than a one-size-fits-all.

Longer term funding is a recurring and near-universal ask across the advice sector. Again, in the context of a rather grim economic outlook, we know that the need for high quality debt advice is unlikely to subside anytime soon. Longer term funding will provide certainty to the advice sector, but most importantly to the clients who depend on this advice and support.