

Consultation Response



Money Advice Service – consultation on draft business plan 2014/15

Response from StepChange Debt Charity

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We are an independent charity dedicated to overcoming problem debt. Our advice and solutions are effective, tailored and importantly, free. Foundation for Credit Counselling. 123 Albion Street, Leeds, LS2 8ER. Company No 2757055. Charity No 1016630. www.stepchange.org

Introduction: about StepChange Debt Charity

StepChange Debt Charity is the UK's largest independent debt advice service and the country's only major charitable provider of free-to-client debt management plans (DMPs). Last year we helped around 50 percent more people take action to deal with their debts after major investment to raise awareness of our service.

In 2013, over 500,000 people sought help from the charity and we dealt with around 1.8 million problem debts – around two thirds via our telephone helpline and a third via our online counselling service, Debt Remedy. Almost half our referrals come from creditors and a further 6 percent directly from MAS, National Debtline and Citizens Advice.

Our advice and support is free, independent and impartial. In 2013, the charity helped clients to repay just under £339 million of unsecured debt. We currently manage around £4 billion of unsecured problem debt.

StepChange Debt Charity is funded by a unique mechanism known as “Fair Share”, this is a system of voluntary donations based on the percentage of monies returned to lenders via DMPs. Fair Share rests on 20 years of trust, transparency and co-operation with the creditor community. Paid by most major UK lenders, it enables StepChange Debt Charity to provide help to all who seek it, including the nine out of ten indebted people who seek our help but do not enter a DMP.

The following response addresses areas of the MAS draft business plan of most relevance to our work, in particular “theme 2” on debt advice.

General questions:

- **Do you think the business plan sets the right direction for the Service?**
- **Does the plan present our priorities, initiatives and budget in a clear way and is it easy to understand (written in plain English)?**
- **Overall, is there anything missing from the business plan that you would expect to see?**

StepChange Debt Charity broadly welcomes the Money Advice Service's draft business plan, in particular its “theme 2” objectives aimed at improving access to high quality debt advice. We welcome MAS's intention to support 3-year funding arrangements from October which will help to improve long-term planning and investment in the sector. We agree that one of the key strands of MAS's work should be to support more consistent implementation of preventative measures so that creditors help more people earlier before they fall into arrears.

One of MAS's theme 2 objectives this year is to “increase uptake” of high quality debt advice, however the draft business plan has relatively little to say about how MAS will work to achieve this. Research shows there is a large gap between the numbers of people who are over-indebted and the numbers who get help to manage their debts¹. StepChange Debt Charity therefore believes the most important aim

¹ Indebted Lives: The Complexities of Life in Debt, Money Advice Service, 2013

must be for the free and charitable debt advice sector to extend service reach. We are disappointed the draft business plan does not include extending the reach of non-profit debt advice services as a strategic priority. We would urge MAS to be clear that this is one of its overriding goals.

StepChange Debt Charity believes one of the key ways for MAS to increase the availability of high quality debt advice services is through facilitating charitable partnerships that improve access to free-to-client telephone and digital delivery channels. We would welcome further information in the final business plan about how MAS expects to facilitate partnerships in the charitable sector in order to increase access to remote channels.

In addition, we want MAS to make sure that its new multi-channel framework for debt advice promotes access to telephone and online channels in a way that makes sense for the customer journey. We would ask MAS to be clearer about how the business plans of its debt advice partners will be assessed. We would welcome confirmation in the final business plan that funding allocations from October will be based not just on maintaining levels of face-to-face provision, as in the past, but on the strength of a more rounded multi-channel proposition. Given the gaps in provision identified in *Indebted Lives*, one of the criteria we expect MAS to look at is whether and how debt advice partners are planning to extend service reach.

We believe there are significant questions that remain unanswered over the role that MAS sees for itself in the customer interface with debt advice services. We would welcome more consistency in debt advice provision but believe this needs to be weighed against the customer journey and client experience. We believe MAS will need to build on existing referral relationships in ways that ensure people who do take action to deal with their debts are helped in a joined-up way. The drive to commonality must happen in a way that minimises duplication.

Specific questions:

Chapter 2: Is there anything you would add to our reflections on these achievements based on your experience of the Service during 2013/14?

Chapter 3: Have we identified the right strategic priorities and themes for the Service in 2014/15? Is anything missing from these priorities for 2014/15?

As stated in our opening remarks, StepChange Debt Charity shares MAS's concern that more free-to-client debt advice provision is required in order to meet existing need. Extending the service reach of free and charitable debt advice is one of the key challenges the sector faces so we would like to see the final business plan establish this as a clear strategic priority.

StepChange Debt Charity welcomes the National Audit Office's assessment that MAS's debt advice work is offering good value for money. In the context of new three year funding arrangements – and with payday lenders and other consumer credit firms due to pay the debt advice levy for the first time – we believe MAS should do whatever it can to increase the funding envelope for debt advice so that the sector can do more to meet existing need.

Theme 1: In addition to example initiatives we have described in Theme 1, how else could we make the Service more engaging for customers so that we help them manage their money effectively?

StepChange Debt Charity welcomes many of the measures in the draft business plan to increase the supply of quality debt advice but we believe MAS needs to devote more resources to ensure people who need it engage with advice. Research shows less than one in five of the over-indebted population get help to manage their debts so we welcome MAS's intention to promote early take-up of free debt advice services via direct-to-consumer marketing, in particular its focus on telephone and online services. However, we believe that to be effective these campaigns will need to achieve scale. Over the last year, StepChange Debt Charity has been at the forefront of driving awareness of free debt advice, and we look forward to continuing to make contributions to MAS's thinking and share our insights in the development of its plans.

Theme 2: How best can we work with other funders of advice to enhance the experience for over-indebted people?

What would you suggest that we and the sector should focus on, using the insight from our recent customer segmentation research, to put in place the best possible services for over-indebted people?

Reach and channelling: StepChange Debt Charity agrees that the bulk of MAS debt advice resources should continue to fund face-to-face advice services where there is clearly a need. We believe funding for face-to-face advice should be tightly focused on people who would not be effectively served through other channels.

We believe there is a significant opportunity to promote access to remote channels in order to improve uptake² and we are glad this appears to be recognised in MAS's draft business plan. We welcome the fact that MAS's new agreements with partners in England and Wales will embed a new multi-channel delivery approach, an approach that needs to be delivered in a joined-up way that enhances the customer journey.

The targets MAS is setting for debt advice from October 2014 should seek to build on the achievements the Service recorded last year. MAS has set out 10 criteria for its partners to meet in order to secure three-year funding grants, which we welcome. However, some of the criteria are not immediately clear. For example, we would urge MAS to expand on what it wants from organisations in order to "address gap[s] in provision in their area". In light of the gaps in provision identified in *Indebted Lives*, one of the criteria we would expect MAS to look at is whether debt advice partners are planning to extend service reach.

Common initial assessment: MAS has indicated it intends to facilitate channel shift through the introduction of a common initial assessment and we understand the focus is on a common assessment *across different organisations* as opposed to a

² A strong case for shifting the default option for debt advice to telephone and online is made in: Debt Advice Channel Strategy Research, Money Advice Trust & Policis, 2012

single entry point. This is welcome. We believe the drive to commonality must be weighed against different advice models and, above all, the customer experience. More consistency in debt advice should not come at the expense of the customer journey so we have a number of concerns about what MAS has set out:

- First, we believe MAS should be clear that channel shift will only be sought in a way that is effective and efficient. We want MAS to build on systems that work, it should not seek to fund unnecessary duplication.
- Second, we would like MAS to weigh up how a common initial assessment will impact on existing referral relationships. In particular, we would ask MAS to clarify how funding will be allocated within the framework of a common initial assessment. How will such an assessment work? How will it be governed? We would welcome further discussion on these issues.
- Third, we would like MAS to be clear about the principles it will be asking creditors to observe when determining which delivery channel to refer to. We believe the principles will need to revolve around advice quality, capacity and need.
- Fourth, we would welcome more clarity about the specific role MAS sees for itself in this space. Significant questions remain unresolved over what role, if any, MAS will play in the new ways customers interface with debt advice services.

Filling gaps: StepChange Debt Charity shares MAS concerns about whether the demand for debt advice is being properly met, particularly with the large scale reduction in free debt advice following the withdrawal of legal aid funding and cuts to local government support. We believe MAS should perform an analysis of where gaps in support are opening up and guarantee sufficient resources for the sector in order to meet demand. The key focus should be to increase uptake of charitable debt advice and maintain access to specific debt advice functions.

For instance, the best solution recommended to over 25,000 clients last year was a Debt Relief Order, but DRO intermediaries are a largely unfunded service and there has been a significant reduction in funds allocated to this function since the withdrawal of large areas of legal aid. We would like MAS to take a hard look at DROs and adopt long-term plans to ensure that resources are in place to maintain sustainable access to this type of debt solution.

Single Financial Statement: StepChange Debt Charity operates one of the two nationally recognised budgeting tools that creditors accept when dealing with people in financial difficulties. We welcome discussions with MAS on its proposal to move towards a single financial statement and are engaged with the Scottish Government as it develops plans to move to such a system. StepChange Debt Charity recognises the potential benefits of a single tool and we believe there is consensus that all current systems need to evolve to create the right standard tool going forward. However, this means there will be considerable migration costs across the sector. MAS will want to weigh up carefully how it will support these costs so that different organisations are helped to adapt (we would be happy to provide MAS with further details on this). We believe MAS should be clear that any transition costs charities face in moving to a single tool will be supported.

Embedding the quality framework: StepChange Debt Charity provides a high quality service for people with financial difficulties and we are in general supportive of steps taken by MAS to raise standards. However, there are a number of areas in the draft business plan where we have concerns.

- First, it is not clear how the MAS quality framework fits together with the FCA's authorisation process. Even if the FCA requires firms to operate to standards accredited by the MAS framework, the FCA would not itself exercise direct quality control. We would therefore urge MAS to ensure there is no duplication with the FCA in this area, and demonstrate exactly how this will work in the long-term.
- Our second point is related – we do not believe it would be appropriate for debt advice charities to have to demonstrate adherence to the same set of standards to two different bodies, which would seem unduly burdensome. Again, we would urge MAS to think carefully about its role.

Scope of second tier support and peer review: The MAS draft budget sets out planned spend on second tier support. We believe many of the areas referred to, such as specialist support and support to adopt MAS's quality standard, should be open to the whole sector, which will be impacted by MAS's plans. We are similarly keen to understand the scope of the peer review process for debt advice referred to in the draft business plan. In particular, we would expect MAS to be clearer about whether this only applies to funded organisations or whether it is intended for the whole sector.

Theme 3: In addition to leading and coordinating the UK strategy, conducting research, and supporting other organisations, what other activity should the Service undertake with others to improve the financial capability of the UK?

StepChange Debt Charity welcomes MAS's focus on the risk and detriment caused by low levels of financial capability; we believe this focus will help to support the work of organisations aiming to improve the nation's financial health.

We welcome the opportunity to work with MAS on ways to prevent problem debt and deal with its costs and consequences and would be happy to discuss further how best to co-ordinate our respective areas of work. We believe there are several areas where MAS could add value to the way the debt advice sector works to support financial capability:

- For example, under its statutory objectives, MAS is well-placed to provide research that monitors the impact of various reforms to social security, such as the direct payment of housing benefit and the payment of Universal Credit in arrears. This could provide insights to debt advice agencies helping to ensure they target their budgeting advice and support at groups who are most in need.
- Second, MAS is in a good position to build on its customer segmentation research to promote awareness of debt advice services so that more people are empowered to act early to deal with their debts. In particular, MAS could provide further diagnostic work on the key indicators and tipping points for problem debt in order to help develop direct-to-consumer marketing plans for debt advice.

- Thirdly, MAS is well-placed to contribute with data and analysis of how the consumer credit market adapts to the standards required by FCA regulation, helping the debt advice sector, creditors and others secure improvements.

We welcome the specific initiatives named in the draft business plan that MAS is taking with Government and regulators on Universal Credit, social care and payday loans. We are keen to work closely with MAS as it contributes to the policy debate in these areas and others.

Chapter 7: Our revised KPI framework is intended to capture the impact of the Service on individuals and also across the advice landscape. Do you think it does this?

How else can we measure the effectiveness of the Service? In particular we would welcome the views of other advice organisations on how they measure 'engagement' and the actions taken by their customers.

MAS has set out five new key performance indicators (KPIs) (including 3 for debt advice) that will help to show how well it is meeting its statutory objectives. We broadly welcome this new focus. In particular we support MAS's proposal for a designated new KPI to track improvements to the quality, consistency and availability of debt advice across the sector. We believe MAS should work closely with its key debt advice partners to establish a baseline measure for this KPI in 2014/15. StepChange Debt Charity would be happy to share its expertise and data as part of this process.

We note that one of the broader measures of success for the Service will be based on 24 actions MAS intends to track. Clients of services like StepChange Debt Charity will usually take at least 9 or 10 of these actions in the routine course of going through our debt advice process – this will no doubt be a consideration as MAS determines where to focus its efforts in coordinating the sector to achieve better outcomes.