Consultation Response

StepChange Debt Charity response to the consultation on the Money Advice Service's 2017/18 Business Plan

February 2017

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Introduction

StepChange Debt Charity is the UK's largest specialist not for profit debt advice and solutions provider. In 2016 we were contacted by over 600,000 individuals in financial difficulty.

Summary

We would like to see a more focused, but more ambitious Business Plan that delivers more funding for free debt advice and solutions. This funding should not be "more of the same" but break new ground in terms of commissioning process and delivery. We call for fully open access to funding as part of a refreshed framework that secures innovation and diversity of provision for service users, efficiency and effectiveness for funders, and long term stability for all stakeholders.

We strongly agree that there is "a significant and widening funding gap" for free debt advice. MAS are correct that funding is set to decrease (eg from local authorities) but the plan must also recognise that overall funding has been falling further behind need in recent years as free debt advice agencies provide more services to more people.

In this context, MAS's proposal for an extra £3 million funding, securing 43,000 additional debt advice sessions to make sure "at least part of the shortfall is met", does not seem ambitious enough. Unmet debt advice demand will grow in the short term, and provision will not be on a trajectory to meet the Government's aim (in the Public Financial Guidance consultation) that MAS's successor "must continue to fund debt advice to ensure supply meets demand". We think MAS should, at a minimum, aim to fund sufficient additional debt advice sessions to grow overall capacity year on year.

Our analysis suggests that demand for our phone and on-line services in 2017 will be 5% above 2016 levels. Projecting this across the sector we estimate that overall demand for free debt advice will increase, driven by increasing financial vulnerability. Household budgets face further strain as incomes remain stagnant and inflation, interest rates and unemployment look set to rise. Against this background, lending is rising historically fast. Forecasts show personal insolvencies and unsecured consumer debt defaults increasing in the coming years.

We believe an increase in front line debt advice funding of £7 million would represent a serious start in the journey to match debt advice services to the need.

We welcome the move towards the commissioning focus set out by the Government, and welcome MAS's early engagement with the sector on how the next commissioning round should work. This sets out to fund provision when current funding arrangements expire in the Autumn of 2017. We believe such an exercise would be appropriate to ensure diversity of provision, in appropriate channels, and to bring in fresh thinking on how to deliver the best client outcomes. We would welcome more detail in the Business Plan on:

- How MAS defines a 'gap' in provision
- A timeline, including any extensions of current agreements, mapped against the timetable for the successor public guidance body getting up and running

- The extent to which its focus is exclusively on the provision of free/not-for-profit debt advice (we do not believe anyone in difficulty should have to pay for help and advice, and therefore support Aim 2, which points to providing free debt advice for significantly more over-indebted people)
- The circumstances, if any, in which MAS might “provide” debt advice services rather than commission them. We think the free debt advice sector is sophisticated and varied enough to meet the need, given sufficient funding.
- Conditions and requirements that might fall on funded partners, and how these dovetail with FCA requirements
- MAS’s appetite to fund debt solutions as well as advice sessions. Advice and solutions together deliver good client outcomes, and some solutions, notably DROs, are not self-financing.
- MAS’s appetite to fund digital infrastructure

We would like the final Business Plan to:

- Prioritise and accelerate the review of debt advice funding. This will be a big project and a demanding but realistic timeframe is essential to minimise the risk that short term funding is blighted
- Prioritise activities that transition towards the replacement financial guidance body (FGB) eg a piece of work to move quality issues to FCA
- Review and potentially pause other activities to secure resources for these priorities

Our research broadly aligns with MAS’s analysis of over-indebtedness, but it would be helpful for the final plan to map financial capability and money guidance plans against a finer-grained segmentation of the 8 million over-indebted population, not all of whom need debt advice.

We broadly support MAS’s outline “debt advice strategy” but we are concerned about sequencing. Prioritising work which will bring more people to debt advice, and which changes the nature of the services they need by bringing them to advice earlier, should follow, rather than precede, measures to ensure capacity is available to deal with increased demand. In other ways too MAS’s plan should schedule activity – eg PR, pilots and research – to smooth rather than reinforce seasonal peaks and troughs in demand for advice

We agree the sector needs to change: agencies need to collaborate to provide the best journeys for clients, and each provider has an obligation to improve efficiency and productivity, and demonstrate effectiveness.

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Financial capability improvements are necessary in the long term, but will not be sufficient given the root causes of problem debt. A complete prevention strategy also requires improvements in the stability and sufficiency of income for vulnerable groups, and better options and protections for people using credit to get by.

Answers to Consultation Questions

1. Do you have any comments on the analysis of customer needs that underpins our Corporate Strategy?

The “struggling”/ “squeezed”/“cushioned” model is one of many useful descriptions of people in and at risk of problem debt. Our own research highlights many similar facets, suggesting that problem debt, and the risk of problem debt, is concentrated in the “struggling” and “squeezed” segments:

- A small decrease in the overall population in severe financial difficulty (from 2.9m at the end of 2013 to 2.6m at the end of 2015).
- The importance of welfare benefits: over half of our clients receive at least one working age benefit or tax credit
- A small increase in the proportion of clients in full-time employment (30% in H1 2016 compared to 29% who are unemployed)
- A continuing increase in the proportion of clients who rent their home (77% in H1 2016 up from 67% in 2013)
- A lack of savings, with 45% of people earning less than £20,000 a year unable to save in any month over the previous year

We would also highlight the following additional characteristics of the over-indebted population:

- An over-representation in households with children (26.5% of our clients vs 23% in the overall population), particularly single parents (20.2% vs 7%)
- Three-quarters of our clients are coping with some form of vulnerability (including, mental health conditions such as depression)
- The rising proportion in part time employment (19% of our clients in H1 2016 compared to 17% in 2013)
- A concentration in lower paid jobs, and in households with at least one partner in insecure work (and so vulnerable to income shocks)
- The persistence of problem debt among the self-employed
- Low and static incomes (the average income of our clients was £16,650 in H1 2016, up by only £70 since 2013)
- Income and cost shocks remain the most prevalent cause of problem debt (caused by job or income loss, poor health or relationship breakdown). These were the main reasons for debt for 57% of our clients.
- A persistent struggle to meet essential costs. 40% of clients have arrears on at least one essential bill, and after debt advice, 29% have “deficit budgets” (ie insufficient income to cover essential costs – up from 24% in 2013).
- This is mirrored by changes in credit use. We have identified a population of 4 million people who use credit as a safety net, including to cover essential costs. This group are using traditional credit products in ways for which they were not intended or designed, and are increasingly resorting to high cost forms of credit to plug short term gaps (including unplanned overdrafts and pay day loans). A considerable

proportion of this group are using credit cards (63%) and overdrafts (41%) and many borrow from family and friends (51%). A significant minority are using non-mainstream forms of credit to get by, with 16% using payday loans, home credit, pawnbrokers, logbook loans and guarantor loans, and 14% using retail credit including hire purchase, mail order and rent to own.

From this we conclude:

- Low, unstable incomes are a persistent cause of problem debt, especially when essential costs are rising
- Low resilience to shocks derives from low levels of saving, but also correlates with low and uneven incomes and employment patterns. This insight is crucial to designing interventions that are effective at changing behaviours
- The design, governance and regulation of credit products is vital to keeping people out of problem debt and reducing demand for debt advice in the longer term
- People in problem debt are often not in a position to commit to a debt solution at the point they take advice. Their budgets are too stretched and unstable, and they need to prioritise the underlying cause of the problem (eg addressing a health issue, dealing with divorce, separation or bereavement, or looking for new work). Debt advisers are often able to provide short term help via token payment arrangements and negotiating extended forbearance from creditors, but these options are resource-intensive compared to a rules- and rights-based system to protect people while they get back on their feet. Our breathing space proposal would not only encourage people to seek debt advice, but also improve the cost-efficiency of advice and the effectiveness of solutions

2. Do you have any comments on the approaches we have chosen to meeting the different needs we have identified?

The evidence of what causes problem debt, and how problem debt causes harm, suggests that the approaches set out in the draft plan cover some of what needs to be done to tackle problem debt, but not all of it. A wider perspective will help reach consensus on priorities, looking to balance supply and demand for debt advice, while taking account of the fact that different approaches are effective over different time horizons.

There is no agreed definition of problem debt, but academic consensus is to think about it in terms of a basket of subjective and objective signs of financial difficulty.

There is also no agreed definition of what degree of problem debt equates to a need for full debt advice and a debt solution. The draft Business Plan talks of “around 8m people in the UK struggling with burdensome debts”, and “fewer than one in five” (ie fewer than 1.7 million) actively seeking advice. Earlier MAS research put the number of people “already getting advice” at just under 1.5 million. The 8m is the population exhibiting at least one of two signs of over-indebtedness. We use a similar framework. According to our research, the key signs of financial difficulty - signs that people are on the edge of tipping into problem debt - are:

- Using credit to keep up with essential bills
- Using credit to keep up with existing credit commitments
- Using credit to last until payday
- Making minimum payments on a credit card for longer than three months
- Falling behind on essential bills
- Regularly facing late payment charges.

An individual displaying three or more of these signs can be said to be in severe financial difficulty. Based on this metric, we estimate a population of around 2.6 million who would benefit from debt advice urgently. Other studies use other methods and arrive at populations around 3 million in serious debt.

There is no doubt that supply of (particularly free) debt advice falls short of demand, but the gulf suggested by the "fewer than one in five" indicates further work needs to be done on segmenting the population to identify those most in need of debt advice and most likely to benefit from it.

We think MAS's strategy could be further refined by:

- Agreeing the proportion of the 8 million who could most benefit from debt advice, by virtue of the severity of their financial difficulties.
- Ensuring that scarce free debt advice is best equipped to help this target population, eg by ensuring that the people who come for debt advice are "advice ready" – psychologically and practically prepared for the advice process and most likely to complete advice and take any recommended action. We recognise that some of our clients need time to obtain information and take decisions in difficult circumstances, but funders' resources go further when avoidable repeat contacts are minimised.
- Ensuring that a comprehensive strategy is in place to prevent those not in the most acute need from needing debt advice in the future. This will include, but extend beyond, measures focused on financial education and capability, budgeting help and opportunities to improve financial resilience through saving.

Our research has explored the "journeys" that have led our clients into problem debt. Typically these include at least one income or expenditure shock, the exhaustion of personal resources such as savings and available credit lines, and the ultimate use of high cost and other credit to get by until the situation becomes unmanageable. These journeys give a clue about how MAS's various programmes can reinforce one another.

In Annex 1 we offer two diagrams illustrating how we would look at priorities. The first looks at the timelines over which different measures will impact on supply and demand for free debt advice. The second diagram looks at different measures of current demand (or need) and illustrates how different policies and priorities need to be packaged up to ensure that

- we minimise the proportion of the over-indebted population whose circumstances worsen so that they find themselves in acute need of scarce free debt advice
- we make available other kinds of support for people at different stages of the journey into severe debt

- we make maximum use of expert debt advice infrastructure now by ensuring it is used to help as many as possible of those who are most in need and most likely to benefit, and
- look to expand such resources in future

In terms of the "other kinds of support", the key dimensions of financial capability that relate to over-indebtedness and the demand for debt advice are:

- budgeting
- rainy day saving
- understanding the risks of borrowing
- taking debt advice promptly when problems occur
- taking action based on that advice

We therefore welcome the emphasis in the draft Business Plan around budgeting and saving. There is a tension between encouraging advice-seeking and the short term ability of the sector to fulfil demand, and balancing demand and supply should drive the focus, priority and timing of financial capability and money guidance work.

The strategy therefore could be:

- financial capability and money guidance services to help the managing but not resilient population to improve resilience
- measures to promote saving, including promoting take up of the new Help to Save scheme
- budgeting and other support for those who are in difficulty but not at crisis point, to halt the downward journey into serious debt. Some of these could be efficiently provided by agencies who also provide full debt advice, others might be best separated to increase the appeal to the target group
- "other support" could include FCA-led improvements to credit products and creditor conduct, and new rights for people, like a statutory breathing space scheme

3. Given the intent and scope of our aims, what are your comments on the activities and priorities for April 2017–March 2018 we have set out in the individual chapters covering each aim?

Applying our research and experience to the priorities for the debt advice elements of MAS's Business Plan, the conclusions we reach are as follows.

The top priority is to secure a bigger boost in funding for the free debt advice sector than proposed in the draft plan. The Debt Advice Steering Group's (DASG) proposal for a full review of funding, while necessary, will take months to years, and people need help now. Demand for debt advice continues to significantly outstrip capacity, and this shortfall will:

- Have negative short-term financial consequences for creditors, who will have to bear the financial and reputational risks of customers in difficulty going without help. These costs and risks are currently managed by referring customers for independent free debt advice.

- Have negative regulatory consequences for FCA-regulated creditors, who will have to find alternative means to demonstrate fair treatment of customers in difficulty, including some of the most vulnerable. We see an increasing appetite among creditors to refer vulnerable people to us. While we welcome the chance to help these clients, doing so is more resource-intensive than supporting other clients, and yet this is not reflected in the funding ambitions for the sector.
- Result in overall economic costs, especially to the public purse, since problem debt imposes costs on local authorities, the health service and employers in support services and lost productivity. We estimate these costs at £8.3 billion.
- Take MAS on a trajectory away from, rather than towards, the strategy proposed for its successor body, which is to commission and fund sufficient free debt advice to meet demand
- Most importantly, worsen and prolong the anxiety, hardship and health problems that problem debt creates for individuals and families.

Additionally, existing funding is converting into less capacity as costs have risen to meet the standards of FCA regulation. Delivering debt advice is more expensive than it used to be, and the funding plan needs to recognise this. Furthermore there has been a shift of clients from fee-charging to free sectors. Although smaller than anticipated, this too needs to be recognised in the long term provision map.

The economy and the credit cycle are both likely to increase the need for debt advice in the next few years:

- Economic growth is forecast to slow
- Unemployment is forecast to rise
- Welfare provision is set to become less generous
- Inflation will continue to offset income rises
- Consumer credit defaults are forecast to rise
- Personal insolvencies are forecast to rise

Yet capacity looks likely to reduce, or at best remain static. MAS should be looking to set a budget for debt advice that progressively closes the gap between need and demand. That gap currently stands at around 1.2 million people (2.6 million in need; 1.4 million currently advised). Against that background, a budget increase of £7 million – which would fund around 100,000 extra advice sessions at MAS's marginal unit cost, or a mixture of advice, solutions, infrastructure and other services, would not be an excessive response. It would ensure overall capacity increases year on year, rather than MAS-funding simply replacing capacity that would otherwise fall away.

Such an increase would be a substantial additional burden on creditors. We have argued elsewhere that public funds should contribute more to tackling debt as part of a strategy on social justice and helping to provide a safety net for families who are currently "just about managing" but who might not be managing sustainably. But in the absence of increased Government provision, the levy is a key tool for raising more funds. The burden on funders needs to be mitigated via further efficiencies in provision, via innovation, broader access to funds securing diversity of delivery, via improved infrastructure and via a more open commissioning approach.

Another priority is the proposed review of sector funding. It is the number one issue for creditors and advice agencies alike. By the end of 2017-18, we would like ground-work led or commissioned by DASG to be complete, and a plan for follow-up action to be underway. This might include independent work by Government, FCA or others to take forward the DASG's initial work. If other work in MAS's Plan needs to be slowed or paused to free resources for this, we would support that prioritisation. We have suggested areas of work which could potentially be de-prioritised (or not started) in our answers to other questions.

We would like the final plan to set out the principles that will underpin the multi-year commissioning exercise that we hope will be a centrepiece of the 2017 work programme. These might include specific aims, on which the sector should be consulted, around:

- the proportion of the acutely needy, advice-ready population that funding will aim to help
- what constitutes a "gap" in free debt advice funding
- funding other than to provide "advice sessions" eg funding for debt solutions. Solutions are essential as an action for people to take following advice. Advice and actions together deliver good client outcomes. On current terms, Debt Relief Orders are not self-financing, which means debt advice charities provide them using funding that could otherwise provide advice to more people. Annex 2 expands on the case for additional funding for DROs.
- A more open commissioning model
- Diversity of provision
- channel strategy
- explicit, published criteria for commissioning decisions relating to cost-efficiency, outcomes and quality (assuming all bids will meet the quality benchmarks provided by FCA rules)

We support the components of the proposed debt advice strategy aimed at improving engagement and take-up, and seeking to spread good practice among creditors. However, these pieces of work must be designed and timed so as not to cause the sector to struggle with additional unplanned demand. We suggest that this work could be paused until additional funding is secured. It also needs to take account of FCA's regulatory standards.

MAS should also review its PR, research, piloting and other activity to align with sector efforts to manage capacity and demand (eg calls to action around taking debt advice and pilots that require new processes or approaches could be timed with seasonal troughs in natural demand).

The final Business Plan should be more explicit about how MAS's work programme will move it towards the model and priorities set out by the Government for its successor body. We realise that the Government hasn't finalised its proposals, but MAS should have close regard to the emerging position and pause work that might not support the transition until the final picture is clear. For instance, the Government's latest consultation confirms the earlier conclusion that the successor body should not have MAS's responsibility for the quality of debt advice, which it regards as a regulatory matter. As part of its Business Plan, MAS should scope out a piece of work with the sector and the FCA to decide how FCA should reflect existing quality standards and qualifications in its rules. That work should be ready to start as soon as the policy is confirmed. In the meantime, MAS could pause further work on training infrastructure, accreditation, and the skills base of advisers, freeing resources to other priorities.

The Government's latest consultation is largely silent on the successor body's role in co-ordinating the sector. The previous consultation was much clearer that the role of the money guidance body should be centred on commissioning services, with minimum associated support activity. MAS runs a great many work streams and projects, each of which draws in resource from around the sector, and the Business Plan should set out how each piece of work it intends to undertake will support the medium-long term trajectory. To minimise sunk costs, MAS should review all workstreams, and identify work that can be re-focused, paused or discontinued pending the finalisation of the remit of the new body.

While this response concentrates on the debt aspects of MAS's work, we support several other aspects not directly connected to debt and debt advice. In particular,

- we welcome the "what works" approach to money guidance and financial capability interventions
- we support the focus on saving among lower income segments. It's good news that MAS are planning work to support the Government's new "Help to Save" scheme. We are concerned that the Government's own estimates suggest a low rate of take up (around one in seven of the eligible population) when the scheme goes live. We would support a programme of work, perhaps aligned to MAS's existing support for UC claimants, to maximise the number of people taking advantage of the scheme's generous "savings match".

4. Do you have any evidence, research or insight that can help make our programmes of work more effective?

Insight covering aspects of problem debt is available at our policy and research web page.

In particular we would highlight:

- Statistics Mid Year Book for 2016 and the underlying data
- Life on the Edge, 2014
- Navigating the New Normal, 2015
- The Credit Safety Net, 2016

5. With regard to digital, we invite third-sector organisations, including debt advice organisations, to comment on the type of support that could help them expand their digital reach

into the ‘struggling’ segment and/or directly deliver more debt advice through online or assisted self-service.

We welcome this focus on the provision of debt advice and solutions digitally. We pioneered the provision of debt advice online in 2006 with the launch of Debt Remedy, our online debt advice tool. Currently, Debt Remedy is responsible for around 12,000 debt advice sessions each month, approximately half the charity’s first-time debt advice and 71% more than five years ago.

We have developed the tool regularly, especially to reflect the mass adoption of mobile devices, and the rise in computer literacy. We have found that online debt advice clients tend to have higher incomes and higher surpluses than telephone clients, and they also have more debt. They tend to be slightly younger than the average client, and are more likely to be employed. Although there are differences between telephone and online clients, these are becoming less significant as online becomes the norm.

Users now want and expect the option of accessing debt advice online. User research commissioned by StepChange included the following verbatim feedback on prospective clients’ needs for debt advice. This summarises our findings more generally for a significant part of our audience:

“I don’t like to speak on the phone; I very much prefer to use the internet”
“With it being online, you're not face-to-face so this seems easier”
“Personally I would prefer to do it online and not call someone”

The cost-effectiveness of online debt advice is proven; the cost of providing telephone-based advice is significantly more expensive than online advice. There are therefore substantial economies to be had by offering debt advice through digital services while still meeting client and regulatory needs.

Alongside our core online debt advice provision, in 2016:

- We had over 3.3m visits to our website and 1.5m visits to our blog
- An average of 112,000 clients visited our OnlineDMP service each month to view statements, make small changes to plans, and update information
- Over 85,000 clients started their annual budget review online rather than phoning our aftercare departments
- 49% of all DMP and IVA clients visited our blog at least once for advice and support as they pay off their debt

While we are at the vanguard of offering online debt advice and support, more needs to be done to offer a fully-rounded online service throughout the lifetime of a client’s relationship with us and other debt advice charities, and to help the ‘struggling’ segment.

Our four main recommendations are:

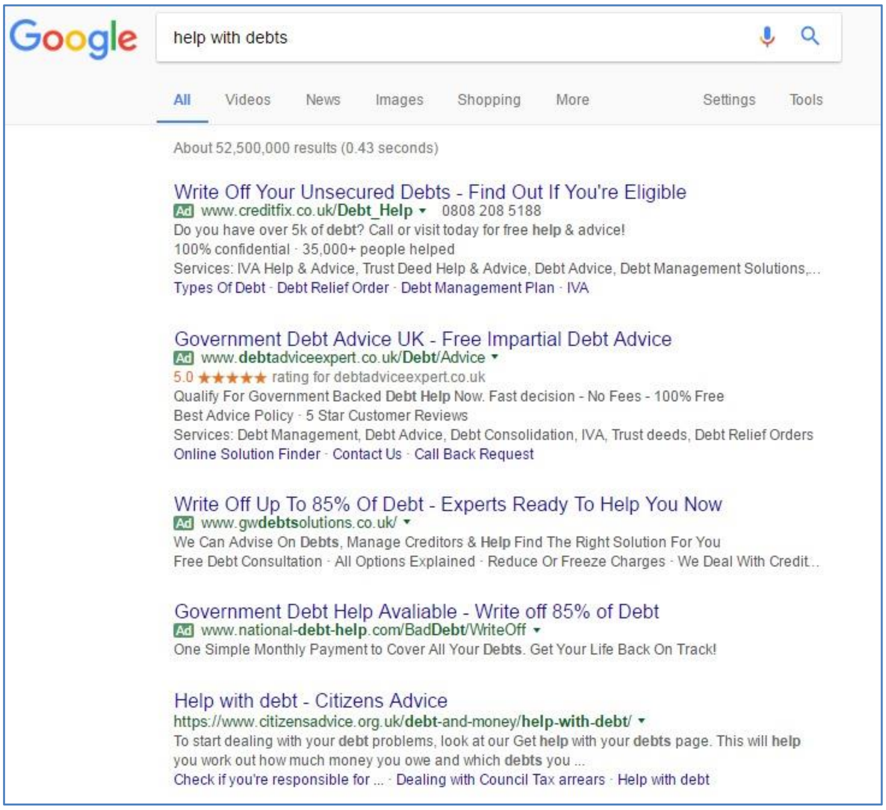
1. There needs to be more of a focus on a truly client-driven online user journey with appropriate controls in place to ensure client and regulatory needs are being met. Having

developed organically, no services within the sector offer an integrated end-to-end user experience (i.e. initial engagement and signposting, advice, solution, activation and aftercare).

2. Help maintaining engagement with those for whom a formal or informal solution isn't suitable - for example those with a 'deficit budget' or who need to maximise their income. Factsheets, booklets, guides, videos and referrals to other agencies can and do help, but an opportunity exists to coordinate and deliver high quality online resources and tools to support to those, particularly in the "struggling" segment for whom debt advice alone doesn't provide a solution.

3. Support for investigating the feasibility of systems, perhaps based on APIs and the move towards Open Banking, to enable clients to securely share the information they have provided (i.e. a budget, or their income and expenditure) with their creditors and/or with a debt advice organisation, subject to collecting the correct permissions. Data-sharing applications and other infrastructure would make the provision of timely debt advice and support from creditors much more efficient. This could be greatly advantageous for clients with a deficit budget.

4. Support for the sector to promote free online debt advice/self-serve tools through search engines such as Google or Bing.



Paid search (pay-per-click) adverts appear above 'organic' results on a search engine results page. This means advertising messages from for-profit/lead generation companies often dominate debt-related search results. These messages focus on 'debt write off' and

‘Government debt advice’, which could be misleading, or promote solutions available to a narrow proportion of those in problem debt.

As debt advice is a ‘distress purchase’ many people click on the first search result they see, to the detriment of those who remain unaware that advice is available from the free sector.

Additional support could also be provided to ensure that advertisers within the sector are compliant with legislation and FCA guidance, and to encourage Google to review their current advertising policies.

6. Do you have any comments on whether our programmes of work fit the differing circumstances and needs of people in the four countries of England, Northern Ireland, Scotland and Wales?

There is increased pressure on the provision of free debt advice by Local Authorities in Scotland with many Local Authorities removing that provision. This is placing an increased pressure on other providers. Increase in demand for StepChange services in Scotland correlates with those LAs that have cut back services.

We are, therefore, concerned about ensuring that devolved nations receive an appropriate share of budget funding. The budget allocation for the provision of debt advice for people in Scotland remained static in the Money Advice Service Business Plan for 2016/17, compared to increases in England, Wales and Northern Ireland

MAS must also be mindful of potential new gaps in the provision of free debt advice, with increased doubt over current project funding agreements. With the delays in the joint funding through the Scottish Legal Aid Board, there are increased doubts over current project funding agreements. The Scottish sector needs assurances that these existing projects will continue to receive support through this period of transition to prevent more gaps from opening up.

7. Do you agree that the performance indicators we have identified effectively capture the intended impact of the Service’s work?

As indicated under Q3, we think the timetable for the funding element of the Debt Advice Strategy should be accelerated (KPI 2.2).

More generally, we think a better articulated strategy for commissioning debt advice services in the forthcoming multi-year round (see our answer to Q3) will point to a more specific list of KPIs. For instance, a clear channel strategy could point to a KPI on the number or proportion of debt advice sessions to be delivered digitally.

8. Are there any other ways we should measure our effectiveness?

The KPIs in the draft business plan tend to be activity and output measures (numbers of projects funded, numbers of advice sessions etc). We welcome MAS's continued focus on the client outcomes delivered by debt advice; this is the long term way forward for measuring the effectiveness of the services MAS enables and funds, and hence its own added value. While measures of value for creditors and funders are important, nothing matters more than ensuring that debt advice makes a difference to the people who use it. We look forward to continuing to work with MAS on developing a suite of outcome indicators for our service.

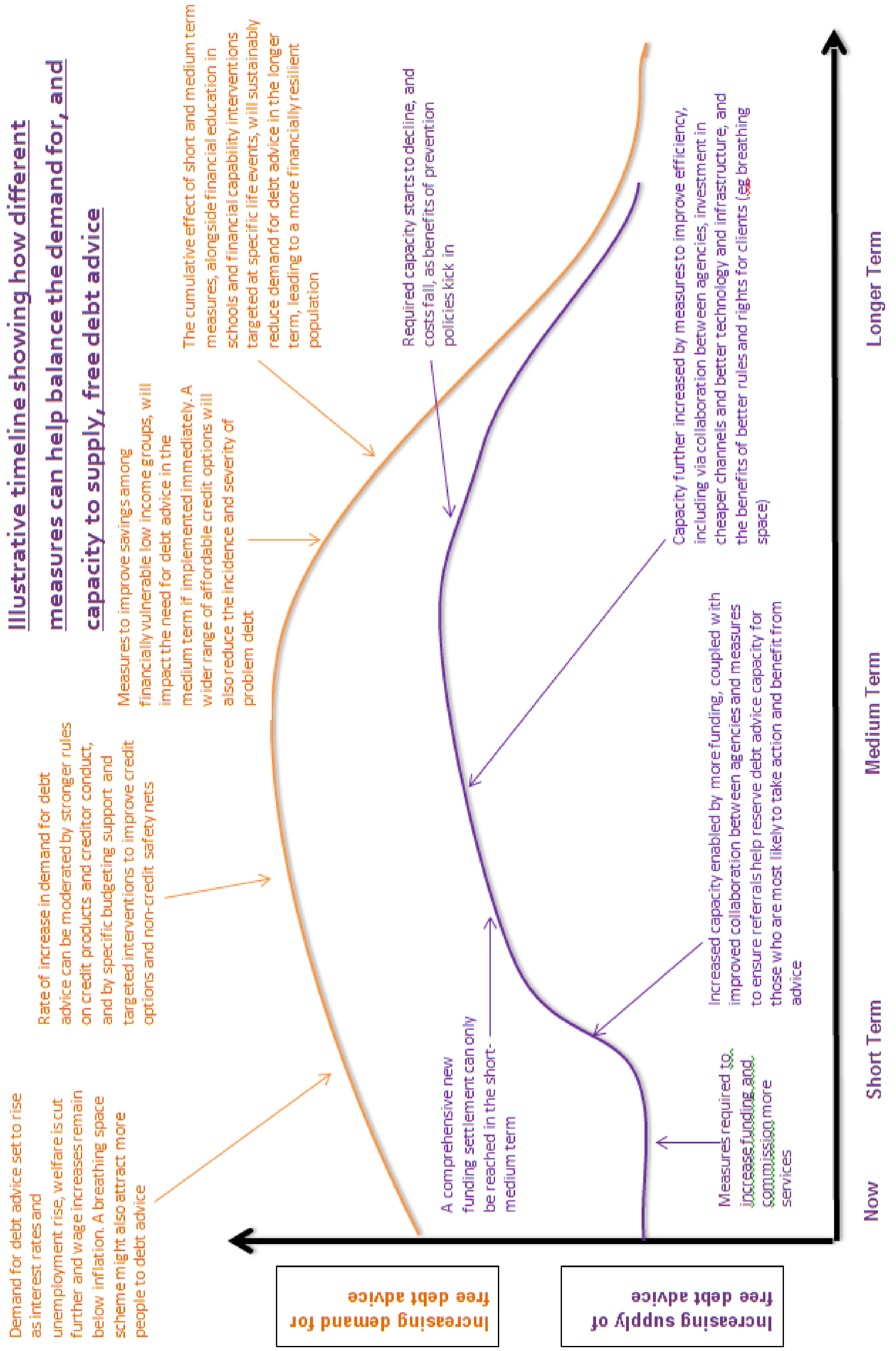
9. Following consultation with people in Northern Ireland, Scotland and Wales we have not published discrete chapters on our work in each country (we did this in previous years) but instead have explained our plans for work in devolved countries in each chapter of this document. Do you find this approach more successful than the discrete-chapter approach we used in previous years?

Yes.

10. Is the plan clear and easy to understand? If not, please indicate sections that you think should be made clearer.

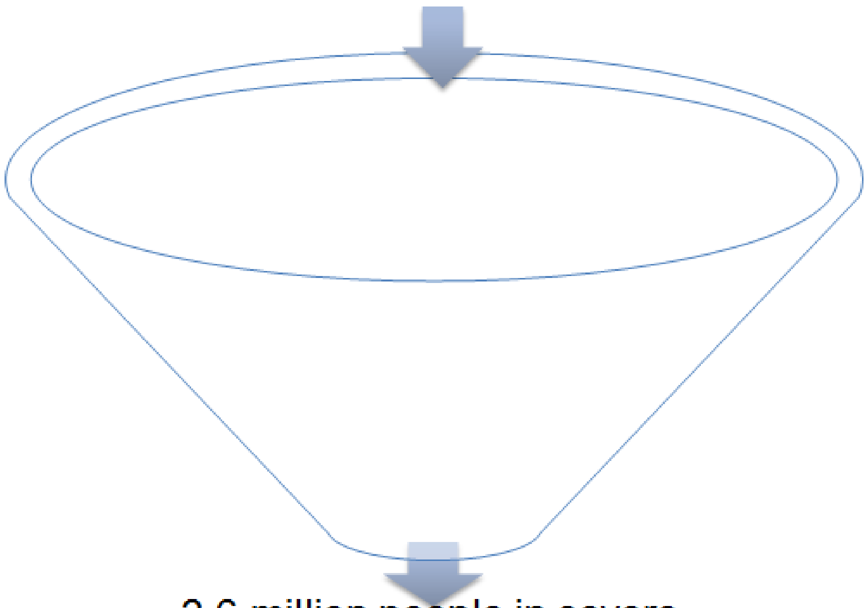
No additional comments. Earlier answers indicate where we think the plan could be clarified.

Annex 1— Supply and Demand for Debt Advice



Short term framework for balancing supply and demand for debt advice

Approx. 8 million people over-indebted



2.6 million people in severe financial difficulties, would benefit from debt advice now

Focus should be on short-mediumterm debt prevention/remediation to minimise the number of people in this group whose situations deteriorate to the point where they urgently need debt advice, eg

- budgeting help, including product switching to reduce costs and ways to maximise income
- guidance on borrowing options
- breathing space
- situation-specific money guidance (eg based on life events)
- rules to improve credit product design and creditor conduct.

Focus should be on the provision of adequate free debt advice and solutions:

- More ambitious funding and commissioning, including optimising channels, covering the costs of providing uneconomic debt solutions
- making referrals as effective as possible
- maximising the efficiency of debt advice and solutions for providers and creditors (eg via breathing space)

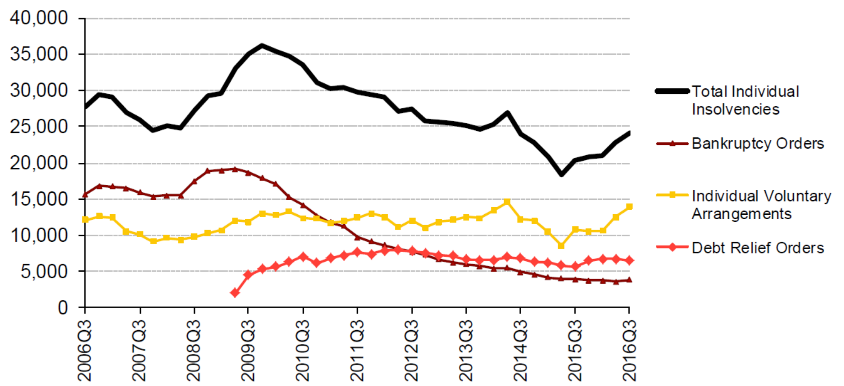
Annex 2 – Funding of Debt Relief Orders

Introduction

Debt Relief Orders (DROs) were introduced in 2009 as a bankruptcy option for people with low incomes, few assets and smaller debts. Debts are cleared after 12 months, there are a number of qualification criteria, and conditions ("restrictions") apply during the Order. DROs are overseen by the Official Receiver (OR) and application is via intermediaries within a "competent authority" (usually a debt advice body or Insolvency Practitioner).

The following chart is from the July-Sept 2016 official insolvency statistics. DROs number around 6,000-7,000 per quarter.

Figure 2: Individual insolvencies in England and Wales[1] (quarterly data, seasonally adjusted)[2]



The following data for DROs by competent authority is for 2013-14. 82% of DRO applications came from wholly charitable intermediaries.

NAME OF COMPETENT AUTHORITY	NUMBER OF INTERMEDIARIES AND % OF TOTAL	NUMBER AND % OF DRO APPLICATIONS
Advice UK	140 (8%)	827 (3%)
Baines and Ernst	7 (0%)	229 (1%)
Christians Against Poverty	7 (0%)	1097 (4%)
Citizens Advice Bureau	1337 (72%)	14520 (53%)
Debt Release Direct	1 (0%)	120 (0%)
Insolvency Practitioners Assocation	2 (0%)	225 (1%)
Institute of Money Advisers	287 (16%)	3707 (14%)
National Debtline	12 (1%)	1227 (4%)
Payplan	12 (1%)	269 (1%)
Shelter	10 (1%)	40 (0%)
StepChange Debt Charity	31 (2%)	4962 (18%)
Think Money	5 (0%)	106 (0%)
TOTAL	1851	27329

How are DROs paid for?

An individual can only apply for a DRO via an approved intermediary. The Insolvency Service recommends that intermediaries check the paperwork and evidence of income and liabilities provided by the client. There are risks to the client from an unsuccessful application, so careful preparation is necessary. This can be labour-intensive and therefore costly. The OR charges £90 per application, and pays the intermediary £10 per successful application. The client fee is sometimes covered or supported by charitable trusts or by the intermediary. An individual cannot be charged for the intermediary service.

How much do DROs cost?

In 2016, StepChange Debt Charity's unit cost per approved DRO averaged £301. It includes the cost of cases which do not result in an application and a very small number of unsuccessful applications. Overall our unit costs £1.3 million annually (including a small amount of work supporting bankruptcy).

With £10 receivable for each successful application, £291 per case comes from general charity resources. In some charities this deficit will be covered by hypothecated funding streams. In others (including ourselves) it is resource that could be put to alternative use (eg more clients debt advised).

Funding arguments

Charities' share of DRO work suggests that DROs require a cross-subsidy that commercial organisations are unable or unwilling to support.

One condition for being granted a DRO is a maximum budget surplus (income less essential living costs) of £50. So the OR fee is a minimum of almost two whole months of surplus, and could be much more. This is why clients rely on charities to support applications, or have to trim essential expenses and save up. This adds to the stress of their debt situation, delays their journey out of debt, restricts the appeal of the solution, and most importantly suggests it is unrealistic to ask clients to bear more of the costs.

Creditors fund the majority of the non-commercial debt advice and solution provision in the UK, either by direct charitable donation or through MAS's levy. There is a sound business case for this in terms of financial recovery and reduced regulatory and commercial risks, and a sound public policy argument in terms of "polluter pays".

There is a two-fold case for a higher taxpayer contribution to DROs: (a) the solution meets a public policy concern that the most vulnerable people in problem debt should have an efficient, quick, and low cost option, so that they can re-establish themselves in society and in work without long term impairment of opportunity, security or health. (b) the public sector is a major creditor that currently doesn't contribute proportionately to free debt advice and solutions, and whose financial contribution is falling as local authority funding for debt advice and legal services is curtailed. Funding DROs would be a good way of directing stretched Exchequer funds to the most vulnerable and at the same time release other funds so that more people could receive debt advice.

Conclusion

There is a case for more (truly) public funding to support DROs. Their growing public policy importance was confirmed when eligibility was widened in 2014. In a world where MAS funding could be limited to "offsetting some of the reduction in other funding for debt advice" there is also a powerful case for MAS to seek additional levy funds to ensure that they can both support growing demand for DROs and additional debt advice capacity.