Funding Money Advice Services

Exploring sustainable models for the UK

Morag Gillespie and Louise Dobbie

FRIENDS PROVIDENT Foundation

scottish poverty information unit

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Executive summary

Policy context

This study is concerned with the lack of funding security for money advice services, particularly those located in the voluntary sector and providing services for low-income clients. It set out to develop a framework for a new funding model that delivers a more sustainable future for the money advice sector. It draws on a literature search, unpublished documents, analysis of funding of services and key informant interviews.

The study focuses on money advice that: is comprehensive, independent and free-to-client; provides support including casework, negotiation and representation; and uses a range of delivery methods, including face-to-face and telephone advice.

Following a period of growth in borrowing and credit, the credit crunch and recession have contributed to growing levels of indebtedness in the UK. This affects low-income groups more than others. The reasons households get into financial difficulties include financial shocks, persistent low income, poor money management, creditor behaviour and over-commitment and over-spending. Creditor behaviour can make problems worse for people and add to their distress.

Even in a time of economic growth, demand for money advice has grown and is expected to increase further in the recession. Greater 'middle class debt' is adding to the pressures on advice services. Recent initiatives to tackle debt include money advice projects in England and Wales funded through the UK Government's Financial Inclusion Fund. There are other funding initiatives in Northern Ireland and Scotland. However, there is not a clear strategic direction for money advice funding.

Key problems for free-to-client money advice include the lack of coordination of funding and services, short-term funding, a narrow range of funding sources and the need for a more holistic approach to financial inclusion services. The finance and credit industry provides little funding for money advice. Plans for generic financial advice services and a growing fee-charging advice sector may add to the funding risks for free-to-client money advice.

Existing money advice provision

Estimating provision and demand for money advice is difficult, but indicative estimates suggest that:

- Between 4,330 and 4,500 full-time equivalent advisers (3,030 to 3,200 paid and 1,300 volunteers) provide money advice.
- They advise 1.1 million clients per year at a cost of around £160–£165 million.
- Government sources provide two-thirds of funding and local authorities are the largest single funders.
- The finance and credit industry contributed less than 1 per cent of the total funding for a sample of services, even including funding from charitable trusts.
- Taking account of support for the money advice infrastructure and National Debtline, industry funding for money advice is only around 3 per cent of the total.

We estimated three levels of unmet and potential demand for money advice:

- The additional cost of meeting current unmet demand for around 0.5 million people is estimated to be close to £110 million (2,170 posts).
- Costs are similar for a further 0.5 million people who would benefit from measures that address promotion and accessibility of services.
- To reach a further 1 million people who are amongst the growing group of people struggling with repayments of debt in the current economic climate would cost around £220 million (4,340 posts).

Alternative funding models

Although some of our interviewees thought they could work within the current funding model, most agreed that the money advice sector needs longer-term, more sustainable and adequate funding. Some current opportunities include:

- In Northern Ireland, the funds released from dormant bank accounts.
- Some large charitable trusts are increasing the time for which they will consider funding projects or services.

Alternative approaches discussed included:

- The 'fair shares' model, which is based on debt management plans, where payments are distributed to creditors who pay back a share of the money to the service – it has limited relevance for low-income groups with little or no money to make payments to creditors.
- An alternative used by Christians Against Poverty in the UK, and the Money Advice and Budgeting Service in the Republic of Ireland, which involves a national network operating special accounts for clients to repay debts and save.
- Charging those who can pay for services to cross-subsidise free provision, which was supported by some interviewees in this study, though others thought it would divert attention from service provision and may disadvantage low-income communities.
- Charging creditors rather than clients, which could involve a review of fee structures and distributing the 'fair shares' payments from a centralised debt management plan service to fund more direct money advice work.
- A social enterprise model, possibly with some core funding and some charging – some thought this would create barriers for the most vulnerable groups.

- A systematic industry contribution, or levy – this would be a formal compulsory contribution from the finance and credit industry, based on criteria to define who would pay, the basis of charging and level of contribution.

Funding models based on charging and debt management plans may be a part of the solution, but could not meet the level of funding needed. Most interviewees supported the idea of the systematic industry contribution and some viewed it as the only way to achieve a sustainable funding base for money advice. Others thought the model might negate existing goodwill and voluntary contributions from the finance and credit industry. However, this has brought little support to date for frontline advice.

Government commitments to a levy to fund generic financial advice suggest this approach is feasible in principle and interviewees suggested a 50:50 split between government and industry funding. Key issues that need to be considered include:

- **Who should pay:** contributions should reflect the range of lenders and the extent of their contribution to indebtedness – the 'polluters should pay'. The role of key creditors such as utilities and telecoms companies should be addressed through other routes than inclusion in the systematic industry contribution.
- **The basis for charging:** suggestions included – it should be based on lending levels rather than individual loans; the 'polluting' effect of high interest rates should be targeted with a higher systematic industry contribution rate; the rate should reflect market share.
- **Collection of the systematic industry contribution:** this should be linked to registration and license payments through the Financial Services Authority and Office of Fair Trading.
- **The relationship with generic financial advice:** generic financial advice may reflect a problem of 'silo' thinking around financial inclusion and the structures and mechanisms would be more effective if it delivers a more holistic suite of services, providing an integrated service that can respond to the checks and balances needed over the economic cycle or at key times of change.
- **Disbursing funds:** a central coordinating service could disburse funds through grants or fees for services, taking account of the continuum of service needs and determined by user requirements more than delivery structures.

The cost of current money advice funding and additional funding identified in the three scenarios is £275 million to £600 million per year. To meet a 50 per cent contribution, the systematic industry contribution would need to generate £138 to £300 million per year from the finance and credit industry. For illustration, the cost of funding the levy from new lending in 2008 is equivalent to 30.5p per £1,000 to 66.5p per £1,000 of lending.

RECOMMENDATIONS

- The UK Government should address the lack of a strategic overview of money advice provision, and the need for services and future development, and should monitor the impact of major changes in the funding environment.
- The Government should put in place a regulatory requirement for a systematic industry contribution, widely applied across the finance and credit industry, to contribute additional funding for a nationally coordinated money advice service.
- A national service to administer funding should be strategic and proactive, developing services and building understanding of and monitoring in the sector.
- Often, people need help with a range of issues, so advice should retain a mix of generic and specialist provision across the UK.
- A nationally coordinated service should ensure effective and targeted promotion of a range of service types and high standards of advice and accessibility.
- Potential funders of advice that have decided not to fund direct advice provision at present are encouraged to reconsider their position.
- The money advice sector should develop monitoring to improve future intelligence on provision, and unmet and potential demand.
- Further research is needed to understand more about: the nature and levels of money advice provision; the impact of funding changes and the development of generic financial advice; and money advice activity in non-Citizens Advice bureaux advice networks and local authorities.
- Urgent progress needs to be made to address demand for money advice as more people face financial difficulties and incomes drop in the current recession.

Chapter 1
Policy context

SUMMARY

Recently, borrowing and debt have risen sharply and are major causes for concern. Yet money advice services suffer from a lack of funding security, particularly those located in the voluntary sector and providing services for low-income clients.

Over-indebtedness can be caused by and contribute to poverty and social exclusion. Key reasons for financial difficulties include financial shocks, persistent low income, poor money management, creditor behaviour and over-commitment. Creditor behaviour can exacerbate people's debt problems and add to their distress.

Demand for money advice has increased over recent years, and is expected to grow during the recession. Increasing 'middle class debt' will add to service pressures. The key concern is how to build money advice services that meet the needs of low-income groups.

Background

This study is concerned with the lack of funding security for money advice services, particularly those located in the voluntary sector and those that provide services for clients with low incomes. The work is particularly relevant and timely because the 'credit crunch', rising levels of debt and the current economic downturn mean money advice is particularly important.

Early advice provision in the UK laid emphasis on a 'claims-based' approach to welfare benefits (Dean 2001). However, in recent years there has been a consistent growth in demand for money advice, and there has been an increase in provision of advice and support for people with money difficulties, including advice about debts and debt management. In response to growing concerns about unmanageable debt and financial exclusion, government has increased the level of public funding available for financial inclusion measures, including money and debt advice, across the UK.

However, funding for money advice has developed in a piecemeal fashion. Concern is growing that funding for money or debt advice services for people on low incomes is inherently insecure. The security, adequacy and sustainability of funding for advice services has implications for the overall quality of services, including continuity and promotion of services, the capacity to identify or address unmet demand and the depth and quality of advice.

About this study

In light of these concerns, this project aimed to develop solutions to current funding problems, and a framework for future policy development. Specifically it set out to:

- review the sustainability of funding for money advice services provided to low-income groups;
- understand more about the need for money advice:
- document the size of and funding for the free-to-client money advice sector for low-income groups;
- explore options for a more sustainable model for funding free-to-client money advice services;
- provide data to inform the development of a new infrastructure for the money advice sector;
- provide a clear framework for policy development and effective solutions to funding money advice services;
- inform policy and practice responses.

Methodology

The methodology involved four stages:

- **Stage 1: Review of key documents and literature**
  This provided context and background for the review and summarised current available knowledge on the scale of the issues, including:

  – an overview of client demand for money advice and evidence of the size of the free money advice sector;
  – available data on sources of funding, the size and duration of funding streams and options for potential alternative funding sources.

- **Stage 2: Analysis of funding of money advice providers**
  We scrutinised funding sources and structures, drawing mainly on:

  – a review of annual reports and published accounts of 25 principal organisations and advice providers that reflect the diversity of advice services in the UK, and funding data provided by Citizens Advice and Citizens Advice Scotland:
  – informal telephone interviews with eight key staff in selected advice provider organisations and two individuals from key funders in government. Key informants helped to clarify information and fill gaps where data were missing or unpublished. This also informed the development of our stage 3 interview schedule.

- **Stage 3: Telephone interviews with key informants**
  We gathered views on a range of approaches to funding of money advice, focusing primarily on policy and strategic level funding issues. In total, 15 interviews

were conducted with high-level representatives including government and non-governmental funders; advice providers; infrastructure support organisations; policy makers; the finance and credit sector; lobby groups and think tanks. Interviews were conducted face-to-face and by telephone.

- **Stage 4: International comparisons**
  Desk research was conducted to explore whether there were any transferable lessons for funding and practice from the Republic of Ireland, the Netherlands and Australia. These countries were chosen because they have similar existing demands for money advice and offer the potential for some transferable lessons. This stage was limited by constraints on time and resources. Only evidence available in the English language was reviewed.

Money advice services within the scope of the study

'Money advice' and 'debt advice' are terms that are often used interchangeably. Although both types of advice are included in this study, 'money advice' is the preferred term because it has a wider application than debt advice alone and includes advice on a range of money-related issues, for example income maximisation (see Sharp 2004 for a more complete definition). This broader approach is important for people from low-income groups because it can reduce the depth of poverty they experience, make budgeting or management of debts easier and, in some situations, can leave individuals debt free (Gillespie et al. 2005).

There now exists a diverse free-to-client advice sector, operated mainly by the voluntary sector and local authorities, delivering free advice on a range of social, legal and welfare rights. In recent years demand has grown for advice and support to deal with money difficulties, including debts and debt management. There is also a growing fee-charging sector through which people may repay debts using debt management plans or debt consolidation programmes (Money Advice Trust 2008a). Some services operate debt management plans and do not charge a fee from the client: instead they are funded through creditors paying back an amount to the service based on a percentage of the payments made (called the 'fair shares' model).

Table 1 provides a summary of the types of services included in the scope of this study. Overall, the main focus is on services that include face-to-face advice, which is recognised as being particularly important for vulnerable client groups and when dealing with complex issues (Pleasence et al. 2007) and are often preferred to telephone-based services by lower-income groups (HM Treasury 2004a). Research also indicates that, whilst such organisations may provide their services to wide, often geographically defined populations, their clients are more likely than the population as a whole to be on low incomes, living in social tenancies and not in employment (Edwards 2003; Aznar 2009, Gillespie et al. 2009). Low-income groups embrace a large proportion of the population: there were 13 million people living in households below 60 per cent of median income in 2005/06 and 'more than half of the people now in poverty are working-age adults' (Palmer et al. 2007: 11).

Table 1
Money advice services in the scope of this study.

Services included	*Services excluded*
Free-to-client money (or debt) advice, both generalist and specialist, such as Citizens Advice Bureaux and many AdviceUK members and services targeting specific groups or subject areas.	Fee-charging services.
Independent and impartial advice.	Most commercial services, even if free-to-client.
A level of support that includes some or all of casework support, advocacy, negotiation with creditors, and representation at courts or tribunals, self-help advice.	Services providing information or signposting only.
Services using mixed methods of delivery, including telephone and email advice.	Internet-only services.
Telephone-based self-help advice services (e.g. National Debtline).	Other telephone-only services.
Consumer Credit Counselling Service and Payplan that include debt management plans amongst their services, but are free-to-client ('fair shares' model).	Most debt management plan and debt consolidation companies.

Borrowing and debt in the UK

Credit has become part of most people's day-to-day lives. The word 'debt' is often used as a generic term to include borrowing and credit, and this study is concerned primarily with over-indebtedness. Many people have loans that can be managed without difficulty, and borrowing can be a useful tool to help households smooth out the effects of temporary fluctuations in income and expenditure. However, over the last decade, levels of borrowing in the UK have risen sharply.

At the time of writing, consumer credit, borrowing and debt are major causes for concern, heightened by the crisis in the banking and credit industry and the recession in the UK economy. Total consumer credit lending to individuals at the end of July 2008 was £231 billion, an increase of 6.8 per cent over the year (Credit Action 2008). According to PricewaterhouseCoopers (2009: 3), household borrowing in the UK continued to rise in 2008 despite the 'credit crunch' and 'total indebtedness increased by 5.4 per cent over the 12 months to 30 September 2008, reaching almost £1.5 trillion'. This total takes account of secured borrowing, including mortgages and unsecured credit, which continues to grow and now accounts for 16 per cent of the lending market.

The first report of the Over-indebtedness Task Force (2001) noted a 'cultural change in society in recent generations from the 'save first, spend later' approach to one of 'borrow now and repay later". Consumption is a key driver of economic growth and rising consumption has

been a feature of the significant rises in living standards in the UK over recent decades. Such changes in consumption have affected socio-economic groups in different ways, contributing to greater inequality and new risks for lower-income households. Rising consumption aspirations have contributed to higher levels of household debt and vulnerability to changes in income.

Over-indebtedness is a complex issue and studies have developed a range of definitions and measures. One finance industry study proposed defining over-indebtedness as those households or individuals who are in (or are at a significant risk of getting into) arrears that are not temporary, and where they are not withholding payment (for example because of poor service) (Oxera 2004). Citizens Advice defined problem debt as being when someone is 'unable to pay their current credit repayments and other commitments without reducing other expenditure below normal minimum levels' (Edwards 2003: 48). The Over-indebtedness Task Force (Department of Trade and Industry and Department for Work and Pensions 2004: 11) used 'a basket of indicators' to illustrate different facets of the problem in order to monitor levels of over-indebtedness, including the extent of arrears and the characteristics of people affected.

Although levels of consumer credit and personal debt have been rising among all income groups, over-indebtedness can be caused by and contribute to poverty and social exclusion. In two studies, existing datasets were used to explore the relationship between poverty and indebtedness and who is affected:

- Research using the British Household Panel Survey to examine the long-term relationship between poverty and debt found that people in poverty in 2000 tended to have debts relative to their incomes 20 to 25 per cent higher than those of the population as a whole (Mitchell et al. 2005).
- Research using several datasets to look at the characteristics of families in debt and the nature of their financial difficulties showed that low-income groups were most at risk of arrears: more than half of over-indebted households had incomes of less than £7,500 per year. Groups at greater risk included lone parent families, younger families, large families, families living as tenants, families with very low incomes and those without access to a current account (Kempson et al. 2004).

A consistent picture of the reasons why households get into financial difficulties is emerging (Edwards 2003; Elliot and Lemert 2005; Pleasence et al. 2007; Gillespie et al. 2007). The main reasons are adverse financial shocks (for example, loss of employment, onset of ill health, relationship breakdown); persistent low income; poor money management; creditor behaviour; over-commitment; and over-spending. There can often be multiple causes for debt problems and the causes can mount up in a cycle of debt (Pleasence et al. 2007; Turley and White 2007).

A recent European study argued that, in such qualitative studies, people tend to externalise the causes of problem debt, whereas financial mismanagement actually plays a much larger role than people seem prepared to admit, and often compounds other causes (European Commission 2008). However, the central necessity of an adequate income can easily be lost

in debates around individual capability, and this assessment may not reflect adequately the situation of people living on a low income. People on low incomes often have good budgeting skills through necessity, but may have little or nothing in reserve to cushion the impact of a change in circumstances or a drop in income.

Amongst some disadvantaged groups, particularly people with learning disabilities or mental health problems, 'lack of knowledge, capacity or confidence to manage their financial affairs' can lead to over-indebtedness or financial loss that can get out of control very quickly (Gillespie et al. 2007). Indeed, some low-income groups are still unable to take full advantage of the benefits of using bank accounts and other financial services (Mitton 2008).

Macroeconomic factors such as inflation, interest rates and levels of employment have a strong impact on people's ability to maintain repayments on credit or household bill commitments. McAteer and O'Reilly (2008) analysed the impact of changing financial conditions on consumers in the UK. They identified a unique combination of factors that could create 'the perfect storm':

- record debt levels;
- the credit crunch: mainstream commercial lenders are tightening lending conditions, ending special mortgage rates and increasing interest rates;
- rising prices: essential bills, including food and utilities;
- limited savings: half of UK households have few or no savings to help them through times of financial difficulty;
- falling house prices: house prices have been falling consistently in recent months.

Another study explored the potential risk of financial stress from financial shocks (Kempson and Atkinson 2006). Key risk factors included:

- A 40 per cent increase in fuel bills. The impact of fuel bills on household incomes was greatest for households with low incomes, people aged over 60, social tenants, single adults living alone and lone parents.
- Income shocks. The majority of people who were struggling on a low income or struggling and over-indebted had fallen into arrears following a drop in income and a significant number experienced multiple arrears.
- Effect of a future job loss. There was a strong link between current levels of financial stress and whether people would be able to make ends meet following the loss of the main wage. Nine in ten people struggling on a low income or struggling and over-indebted who currently had a wage coming in, would be in real financial difficulty in such circumstances.

Creditors and over-indebtedness

Whilst a range of factors contribute to over-indebtedness, creditor behaviour is an important element. In one study people in debt identified issues including ease of access to credit for people on very low incomes, and feeling misled by the creditor (Pleasence et al. 2007: 4). Campaign organisations such as Debt on Our Doorstep (2007) attribute much of the

difficulty faced by low-income consumers to irresponsible lending practices. They highlight as key areas for concern evidence of lenders failing to check ability to repay loans, the growth of interest-only mortgages and a series of issues in the sub-prime lending market.

Creditor behaviour towards people once they are over-indebted is another major concern. Priority creditors and those providing secured lending are more likely to pursue formal recovery action than those providing unsecured lending. Consumer credit lenders are more likely to pursue other approaches to recovering debt, including the use of debt collection agencies (Edwards 2003). Research highlights a series of problems with creditor behaviour that can exacerbate debt and add greatly to the distress of people in debt (see, for example, Gillespie et al. 2009; McPhee 2008; Pleasence et al. 2007; Citizens Advice 2006; Gillespie et al. 2005, Edwards 2003), some of which include:

- pressure exerted by creditors and debt collection agencies, including heavy-handed collection tactics and pressure to take out a consolidation loan;
- high costs and mis-selling of payment protection insurance, and lack of transparency about conditions;
- banks drawing on accounts to pay other debts to the bank, with the possible addition of charges for being overdrawn – such practices can leave the debtor with insufficient living costs or lack of funds to repay other debts;
- continued or increased interest and administration charges added to debts, which can make them spiral out of control;
- reluctance of creditors to take court action to recover debts, restricting the scope for people in debt to access insolvency remedies;
- refusal to negotiate repayments with debtors.

Growing demand for money advice

Although there are links between low income and indebtedness, the relationship is not straightforward. Based on the research conducted by Kempson and Atkinson (2006), Fearnley (2007) estimated that just over 4 million people (9 per cent of the population) showed signs of financial stress (although they are not necessarily the lowest income groups). Of greater concern was a group of around 3.7 million people who were either struggling on a low income (6 per cent) or over-indebted (2 per cent, or around 1 million people). More recently, PricewaterhouseCoopers reported that a YouGov survey indicated that:

> a worrying minority (16 per cent) are already unable to meet their current debt obligations. When those same respondents were asked about their ability to repay debts in the future, the number of those worried increased to nearly 30 per cent.
> (PricewaterhouseCoopers 2009: 4)

When people are struggling with debt, their first step is often to contact their creditors to negotiate a solution. However, when this fails or if individuals are unable to negotiate with creditors directly, many will seek advice. Although services may not gather data in a consistent manner (Fearnley 2007) there are indications of growing demand for advice.

In Citizens Advice, for example, debt issues rose by 118 per cent over the decade to 2005, and by 2004–05 the service dealt with over 1.1 million debt enquiries. By 2007–08 the number of debt issues dealt with by Citizens Advice bureaux in England and Wales had risen to more than 1.7 million, an increase of more than half in just three years (Citizens Advice 2006 and 2008). Data for the Citizens Advice service in Scotland show an equally rapid change – in the five years between 2002–03 and 2007–08 the number of debt issues doubled from 158,411 to 315,588 (Gillespie et al. 2009). In addition, debt was one of two areas of notable unmet demand for a casework service in a recent report for the Advice Services Alliance (Sefton 2008).

Services that offer debt management plans are also finding changes in demand. The Consumer Credit Counselling Service (2008), which includes debt management plans in the services it offers, placed fewer people on debt management plans in 2007 compared with 2006. Payplan (2008) reported that all their client groups have less disposable income available for debt repayment and the debt burden is worsening for everyone, but most especially for clients with mortgages. A significant proportion of their clients now have no surplus available for repayment of unsecured debts, so are not entering into debt management plans. However, they have been replaced in the number of new debt management plans taken up by higher earners:

> Essentially we are seeing debt repayment problems extend up the economic ladder to client groups who previously would not have had problems maintaining contractual payments. This provides further evidence that it is this group that is feeling the price shock of external economic factors most severely.
>
> (Payplan 2008: 4)

Levels of mortgage repossessions and insolvencies provide further indication that demand for advice is likely to continue and grow. Home repossession orders are increasing: there were 11,300 repossessions in the third quarter of 2008, an increase of 12 per cent on the previous quarter and '1.44 percent of all mortgages were at least three months in arrears at the end of September 2008' (Consumer Credit Counselling Service 2009). In Northern Ireland, repossession cases lodged with the Court service in the first three months of 2008 were 33 per cent higher compared with the same period in 2007 (Citizens Advice Northern Ireland 2008b).

Individual insolvencies in England and Wales, and Northern Ireland rose sharply between 1999 and 2006 and are maintaining a similar level. Table 2 shows that Individual Voluntary Arrangements account for a growing proportion of the total in England and Wales. Debtors' petitions accounted for a much higher proportion (84 per cent) of bankruptcy orders than creditors' petitions in 2008 (16 per cent), compared with 57 and 43 per cent respectively in 1999. In Scotland there is a different legal framework and recent changes affect the figures. This includes a new route to bankruptcy for people with a low income and low assets, which has accounted for the number of sequestrations more than doubling between 2006 and 2008.

The evidence from a period of economic growth indicates substantial and growing demand for advice services. This can be attributed to a range of external and internal factors, such as ease of access to credit, capability, low income and income shocks or changes. As the UK

Table 2
Individual insolvencies, selected years, 1999–2008. Individual Voluntary Arrangements account for a growing proportion of the total number of insolvencies in England and Wales.

	1999	*2003*	*2006*	*2008**
England and Wales	28,806	35,604	107,288	106,544
bankruptcy orders	(21,611)	(28,021)	(62,956)	(67,428)
Individual Voluntary Arrangements	(7,195)	(7,583)	(44,332)	(39,116)
Northern Ireland	573	835	1,809	1,638
bankruptcy orders	(401)	(517)	(1035)	(1,079)
Individual Voluntary Arrangements	(172)	(318)	(774)	(559)
Scotland	5,339	8,780	13,638	19,864
sequestrations	(3,195)	(3,328)	(5,430)	(12,322)**
Protected Trust Deeds	(2,144)	(5,452)	(8,208)	(7,542)

Source: Insolvency Service (2009)
Notes:
* Figures for 2008 are provisional.
** Figures for 2008 in Scotland include 7,133 applications under the Low Income, Low Assets route to bankruptcy.

enters recession, the indications are that advice services will be in even greater demand. The growth of 'middle class debt', indicated by services such as Payplan, will add to the pressure since this group are likely to be better at accessing services than low-income and disadvantaged groups. The key concern for this study is how to build a base for a service for which there is an ongoing and substantial need and that meets the needs of low income groups.

Structure of the report

This report estimates the size and funding of free-to-client money advice in the UK, explores the extent to which it meets demand and considers potential options for more sustainable funding:

- Chapter 2 provides an overview of current policy responses to growing borrowing and debt, and provides an overview of the strengths and weaknesses of current funding arrangements.
- Chapter 3 provides estimates of the scale of provision of free-to-client money advice in the UK. It considers the challenges of measuring need and demand for services, and develops estimates of the extent of funding required to meet existing unmet demand and potential need for advice.

- Chapter 4 focuses on options for funding of free-to-client debt advice in the UK. Looking beyond the UK, this chapter describes approaches to the development and funding of advice in Ireland, Netherlands and Australia. It goes on to discuss alternative approaches to funding money advice.
- Chapter 5 presents a summary of the key issues identified in assessing provision of, potential demand for and funding of free-to-client money advice. It outlines a potential alternative model to achieve more sustainable funding for money advice services. It makes recommendations for approaches to funding and for improving understanding of the nature and capacity of money advice provision that meets the needs of low-income groups.

Chapter 2
Money advice funding and policy development

SUMMARY

The problem of ensuring adequate and sustainable funding for money advice has been an ongoing concern for many years. In an attempt to tackle the issue of funding, the UK government established a Financial Inclusion Fund, which supports 16 face-to-face debt advice projects in England and Wales. Scotland and Northern Ireland have separate funding initiatives.

Current funding for money advice has not been consciously or strategically developed. Key problems include the lack of coordination of funding and services, short-term funding, a narrow range of funding sources and the need for a more holistic approach to financial inclusion services.

Most interviewees thought funding from the finance and credit industry is not adequate, and plans for generic financial advice services and a growing fee-charging advice sector may add to the funding risks for free-to-client money advice.

This chapter draws together information about policy responses to growing demand for money advice and considers the strengths and limitations of the current funding environment.

Policy responses to demand for free-to-client money advice

Whilst advice provision has grown, the problem of ensuring adequate and sustainable funding for money advice has been an ongoing concern for many years. As long ago as 1992, the National Consumer Council was seeking solutions to inadequate resources for the sector. At that time, the Money Advice Trust was set up with a target of 'raising £9 million over 3 years in voluntary contributions from the finance industry, but looked unlikely to reach its target' (National Consumer Council 1992: 5). The National Consumer Council explored the potential for a statutory levy on the industry, but accepted there was no consensus on the issue. Creditors were more supportive of donations on a voluntary basis either through the Money Advice Trust or directly to services. The National Consumer Council recommended that the Department of Trade and Industry should ensure that adequate funds were available for money advice. It also recommended that the Department should work with the Money Advice Trust and the Office of Fair Trading to identify ways of making a voluntary levy more effective.

More than a decade later, however, research looking at advice services in Scotland found that there was a relatively narrow funding base, with a heavy reliance on public sector funding, particularly local government (Gillespie et al. 2005). Although the demand for and supply of money advice had grown over the intervening years, no major policy developments took place for more than a decade, at which point specific and growing concerns about unmanageable debt and financial exclusion became a focus of policy, particularly for the UK and Scottish governments.

Government policy responses and priorities

The UK Government set out to address concerns about unmanageable debt and financial exclusion. In the 2004 Spending Review, HM Treasury (2004b) announced the establishment of a £120 million Financial Inclusion Fund to support initiatives to address financial exclusion. The government also created a Financial Inclusion Taskforce to monitor progress of the fund and produce a Financial Inclusion Action Plan. Support has developed for advice to address two key areas of concern in relation to credit and debt: the need for consumers to be better able to manage their financial affairs and choose appropriate financial products; and the need to address indebtedness. One approach, known as 'generic financial advice', focuses on financial capability and consumer confidence, while the other, face-to-face money advice, targets groups and areas affected by debt and financial exclusion.

The Financial Services Authority established generic financial advice, also referred to as 'money guidance', as one of seven key priorities (Financial Services Authority, 2004). Their aim was to ensure greater access to high-quality, affordable, 'sales-free' financial advice for those most vulnerable to the consequences of poor financial decision-making. The Thoresen Review feasibility study of generic financial advice published in March 2008 recommended that the costs of such a service should be split equally between the Government and the financial services industry. Pathfinder projects are currently at the early stages of development (Thoresen 2008).

England and Wales

The Financial Inclusion Fund supports 16 face-to-face debt advice projects in England and Wales. Funding of £45 million for 2006–08 was split over two years: £15.5 million in 2006/07 and £32 million in 2007/08. A further £2.5 million was added in 2006. The new Financial Inclusion Fund for 2008–11 includes £85 million to continue advice provision and support the infrastructure in England and Wales (HM Treasury and Financial Services Authority 2008). This is equivalent to £28.3 million per year and represents a reduction of £3.7 million per year compared with 2007–08. This part of the Financial Inclusion Fund is administered by the Department for Business, Enterprise and Regulatory Reform.

Partnerships of established providers including Citizens Advice bureaux, members of the AdviceUK network and others are delivering three projects that operate across England and Wales, one in each of the English regions and one in Wales. According to the Department for Business, Enterprise and Regulatory Reform (2008), 500 new advisers have been recruited,

trained and deployed and over 193,500 clients were seen and helped by face-to-face advice services. Some other features of the Financial Inclusion Fund include:

- In Wales Citizens Advice Cymru, the only grant recipient of funding under the Financial Inclusion Fund, received £3.15 million during 2005–08 to appoint 37 debt advice workers across Wales.
- £5 million has been put into a prison-focused money advice outreach, funded partly by the Ministry of Justice (HM Treasury 2007).
- The Money Advice Trust that operates the National Debtline telephone helpline service receives funding of over £2 million from the Financial Inclusion Fund and Ministry of Justice (Money Advice Trust 2008b).

In England and Wales, the Legal Services Commission is a key funder of advice services, including provision for debt advice. The majority of providers delivering money advice are in the not-for-profit sector (approximately 200 Citizens Advice bureaux, 50 other voluntary sector advice services and 100 solicitors). In 2007–08 the Legal Services Commission spent £151million on services to deliver Family Help on social welfare matters such as debt, welfare benefits and housing (Legal Services Commission 2008a: 11) and spent 'about £20 million on debt advice in 06/07', according to one of our interviewees. The Legal Services Commission is developing a new approach to services it supports and is introducing community legal advice centres and community legal advice networks in some areas of England and across Wales.

The Welsh Assembly Government does not provide direct funding for money advice services but is committed to consider future need. However, working in partnership with the Legal Services Commission, the aim is to have jointly commissioned community legal advice centres and networks in Wales to coordinate easy local access for clients to a wide range of advice services that will cover a range of concerns, including debt and money advice (Legal Services Commission 2007).

Scotland

The Financial Inclusion Action Plan in Scotland initially outlined a similar approach to that of the UK Government's approach for England and Wales. The (then) Scottish Executive provided £5 million funding over 2005–07 for approximately 120 posts in Citizen Advice bureaux, other voluntary sector services and local authorities and 12 pilot money advice projects for vulnerable groups (Gillespie et al. 2007). Funding also targeted infrastructure support for the sector, including training, second-tier consultancy and accreditation for the new Debt Arrangement Scheme. Over 2006–08, £10.6 million of funding was allocated to 11 local authority areas with 'the greatest problems of financial exclusion' for a range of projects, including debt advice (Scottish Government 2008a).

Although initially ring-fenced, funding for these posts was later provided through the local government budget. The new administration changed the approach to funding and the Scottish Government has amalgamated the Financial Inclusion Fund with other funding streams into the Fairer Scotland Fund that is allocated to all 32 local authorities. Although there is a budget line for money advice, local authorities have discretion to spend more or

less than the underlying budget allocation (Scottish Government 2008b). The allocation of resources for money advice is now not collated centrally so it will be more difficult to quantify resources for money advice in future. The Scottish Government funds National Debtline directly (£100,000 in 2007/08) and funds training and second tier support for the sector.

Northern Ireland

In Northern Ireland, following a public consultation by the Department for Social Development, the Department of Enterprise, Trade and Investment, in partnership with the Department for Social Development, funded a pilot project for the delivery of an integrated debt advice service in Northern Ireland. A subsequent, two-year contract for £400,000 per annum was awarded to Citizens Advice Northern Ireland to fund 12.5 full-time equivalent money advice posts for 2006–08 (Department of Enterprise, Trade and Investment 2008). Recently, the funding has been doubled to £800,000 per annum. One interviewee indicated that there are plans to fund a telephone debt advice service for Northern Ireland:

> 'In the scheme of things, that doesn't sound like an awful lot but, given the size of the population in Northern Ireland and where we are with our debt problem, it is significant.'

Government strategy on money advice

There are several government departments and statutory bodies involved in financial inclusion strategy: the Cabinet Office; the Financial Services Authority; HM Treasury (which has overall responsibility for determining financial inclusion priorities and coordinating the delivery of policy); Department for Work and Pensions; the Legal Services Commission; the Office of Fair Trading; Department for Business, Enterprise and Regulatory Reform; Department for Innovation, Universities and Skills; the Ministry of Justice and cross-cutting bodies such as the Financial Inclusion Taskforce. Across the administrations in Scotland, Northern Ireland and Wales there are separate developments in relation to financial inclusion that are at different stages and are taking different directions.

The range of bodies involved in taking forward financial inclusion may help to explain the lack of a clear unified strategy on money advice and debt. However, although uneven in places, the current investment has clearly strengthened the capacity of the advice sector to deliver face-to-face advice and has gone some way to address financial exclusion and the negative effects of problem debt. Government has been very active in the field of developing money advice services and capacity, but a core problem remains in terms of the sustainability and security of funding.

The current funding environment

Whilst the key policy initiatives identified above are important developments, funding for money advice comes from a range of sources. The piecemeal development of money advice and the lack of a clear strategic approach to funding for the sector in the UK mean that the current

situation does not represent a model that has been consciously or strategically developed. Interviewees identified a range of issues that arise in this current funding environment.

Strengths

Some interviewees thought the current funding environment has strengths and worked well, particularly in relation to the manner in which the finance and credit industries contribute funding. They identified key strengths as including:

- Voluntary contributions from the finance and credit industry have worked for the infrastructure of the sector through support for training and quality standards, and enabled the advice networks and the Money Advice Trust to build positive relationships with the industry.
- Funding for pilots and innovative work provide opportunities for such approaches to be picked up and mainstreamed, for example by local authorities.
- One public sector interviewee highlighted that government can only make three-year commitments because of the spending review process but thought some philanthropic trusts are considering longer-term funding. The Big Lottery, for example, can give grants for one- to five-year periods and other trusts are considering taking longer-term approaches (Brick et al. 2009).
- Several interviewees identified that funding should come from different public sector routes, including local government, as is the case at present, and that the government or public sector must continue to play the key role in ensuring the availability of money advice.

Weaknesses

However, while interviewees accepted a key role for government in ensuring appropriate levels of provision of money advice, most did not consider that the current funding model is ideal and identified a range of problems and weaknesses, including:

- the lack of coordination of funding and services;
- short-term funding;
- a narrow range of funding sources;
- the need for a more holistic approach to services provided as part of financial inclusion work.

Lack of strategic planning and development

Interviewees identified issues that arise because of the piecemeal development of services, the large number of government departments and services involved in funding and the lack of co-ordination and planning:

- Some thought there is insufficient evidence at this stage of whether and to what extent funding from the Legal Services Commission and Financial Inclusion Fund will affect other funding sources currently available to the sector. Although the evaluation

of the Face-to-Face Debt Advice Project found 'no evidence of widespread funding displacement' (Opinion Leader 2008: 8), ongoing monitoring will be needed. One interviewee thought that, for example, the development of Community Legal Services had been:

'an excuse to cut the Legal Aid budget and that was a real pity. It is clear that the capacity in the legal system has shrunk for actually giving free legal advice to the most needy...I really hope that they don't make the same mistake and use the Money Guidance service as a way of cutting budgets overall.'

- Information about money advice work and monitoring of effectiveness is not well coordinated. For one finance and credit sector interviewee this meant that the evidence of need for more debt advice was questionable. However, advice providers emphasised problems of meeting different demands for monitoring, which is challenging and time-consuming and can be an unhelpful diversion from delivering core services.
- There are inconsistencies across nations and regions and what is perceived of as a 'postcode lottery' of funding. For example, the Financial Inclusion Fund face-to-face advice funding applies in England and Wales only, although the Scottish Government and Northern Ireland Assembly administer their own funding streams. Scotland has had proportionately more posts funded through government compared with the Financial Inclusion Fund, but has little Lottery funding, and the Legal Services Commission does not operate there or in Northern Ireland, although some legal aid work is done by, for example, law centres.
- A number of interviewees expressed the view that not enough long-term thinking is being done about outcomes for clients or the effective use of resources. One advice provider anticipated that changes to the conditions for Legal Services Commission contracts would present problems because advice is time-limited, so does not take enough account of the clients the service works with who need more support (for example, because they have mental health problems or learning disabilities). Several thought it was essential that service delivery is client-driven rather than funder-driven. Some thought that funders' approach to targets was 'about bums on seats – it's not necessarily about outcomes and certainly not long-term outcomes'.
- Different requirements of funders can affect how services are delivered and have an impact on advice-giving. One interviewee said that, in services with posts funded by the Legal Services Commission and Financial Inclusion Fund, advisers had to do 'a decision tree in their head about how that advice will be funded so, therefore, what advice they can give may involve moving service users between adviser posts'.

Problems created by short-term funding

Interviewees identified the following issues concerning short-term funding:

- Money and debt problems can be long-term and complex, and clearing debts can take a number of years. Services providing long-term support for clients need more assured and long-term funding in order to provide appropriate support and plan ahead.

- Since service users are likely to need ongoing rather than one-off debt advice sessions, awareness and continuity of services are key. However, advice posts are gained and lost over short periods and services struggle to retain staff and maintain continuity of service, contributing to poor promotion of the services they offer. Many advice services still do not advertise their services, and this means that they do not compete effectively with the commercial fee-charging sector.
- The current arrangements offer few guarantees – all key funding groups, including the finance and credit industry and their charitable arms, may identify different priorities for funding, and money advice is at risk because it is seen as routine, and not as new or innovative. Although the various government funding pots have collectively created around 700 new posts, one government official conceded that this 'doesn't go that far'. While the Financial Inclusion Fund for England and Wales is at the start of the three-year funding cycle and Northern Ireland has additional funding coming on-stream, there are no long-term guarantees on what is a *current* political priority. In a tighter economic climate, this model is vulnerable because of its reliance on the public sector and:

  'budgets are reviewed and reviewed downwards in more difficult economic circumstances. When do you want financial advice? In more difficult economic circumstances.'

- Advice sector interviewees stressed that even three-yearly project funding does not give sufficient time to set up and deliver services. Innovative work is often not widely implemented at the end of projects, and services are lost along with the skills of staff.
- Advice centres in any one area are in competition with each other. In an increasingly competitive environment, advice agencies are bidding for work and some interviewees had concerns about the time and resources involved in this. Some also thought that funding 'goes to the usual suspects' and that the best services at preparing funding bids will not necessarily deliver the best advice services.

Narrow funding base

Advice sector interviewees had concerns about the impact of the development of community legal advice centres and networks in England and Wales for general advice provision. The first of these have already resulted in some advice services closing their doors. In addition to more commercial providers entering the field, one interviewee envisaged fewer providers in the future. Some local authorities in Scotland are also beginning to issue advice services contracts for provision in defined areas within their authority.

Funding for money advice in Scotland is not ring-fenced, so offers no guarantees for the future. At present most local authorities in Scotland are thought to be spending above the baseline indicated in the financial settlement. Whilst lack of ring-fencing offers the possibility of gaining more funds than a fixed budget might determine, it adds to the uncertainties faced by money advice providers.

One charitable trust representative saw the field as too large for their involvement so they supported what they saw as 'strategic projects' alongside community projects addressing financial exclusion and credit unions, rather than face-to-face debt advice.

Finance and credit industry funding for money advice has not been a policy concern for government to date. The Money Advice Trust remains the main channel for industry funding on the basis of voluntary contributions, supporting the advice infrastructure and the telephone helpline service National Debtline (Money Advice Trust 2008b). However, as part of the response to the crisis in financial markets, the UK Government agreed a recapitalisation scheme for banks and building societies. Part of that agreement is that the financial services should undertake a series of commitments. These include support for schemes to help people struggling with mortgage payments to stay in their homes, and support for the expansion of financial capability initiatives (HM Treasury 2008). Although this does not make an explicit link to funding for money advice, it does acknowledge that the finance and credit industry has a role to play in addressing the problems faced by their consumers.

Although not all agreed, most interviewees thought funding for money advice from the finance and credit industry is inadequate, particularly in the current economic climate, and concentrated on supporting the advice infrastructure and National Debtline. Some viewed the finance industry as funding advice for people who are better off through the 'fair shares' model, but because it contributes little to other forms of money advice they felt it does not help people on low incomes. One finance industry interviewee connected the 'fair shares' support to commercial operations in that it wants to 'support those that typically use bank finance and subsequently find themselves in financial difficulty'. Other issues concerned with funding from the industry included:

- Voluntary contributions mean more enlightened services contribute while other, possibly more significant, 'polluters' do not.
- Other key creditors such as utilities and telecoms companies are only marginally involved in funding the sector. Some interviewees felt strongly that utilities companies had a responsibility to meet the costs of their customers' advice needs. The Money Advice Trust has successfully lobbied for the utilities' social action fund to include money advice. The Money Advice Trust has also raised concerns about the impact on customers when the energy watchdog Energywatch is absorbed into the new super-regulator, Customer Focus, later in 2009.

The need for a holistic approach to financial inclusion

The funding environment for debt advice sits in contrast to the more structured approach being taken towards generic financial advice. Using a health analogy, one interviewee described generic financial advice as the preventative 'well woman' clinic approach and money advice as the 'accident and emergency':

> 'But the "A and E" doesn't have any long-term sustainable funding, the "A and E" relies on handouts, which is completely disparate all around the country and is usually short term'.

The development of a generic financial advice service that envisages referral on for 'crisis support' (Thoresen 2008) will only work if there are services to refer to that have capacity to respond to that demand: 'You can have all the processes in the world; if you don't have people on the front line, no process is going to work!' There were some concerns that one effect of developing a generic financial advice service could be to destabilise the funding market for money advice or that it could lead to a funding blight.

A key concern for several interviewees was whether the demand for generic financial advice exists to the extent anticipated by the Thoresen Review. In particular people who are juggling their money on a low income may not see the value in such a service. For several interviewees the planned service misses the mark:

> 'It's not because [people on low incomes] are feckless or reckless...It's a simplistic view that actually has been played out in the media for a long time now and it hasn't really helped the discussion. It's the issue that people are trying to address and it's the wrong issue I would say.'
>
> (finance industry interviewee)

> 'I would honestly say that a focus on adult literacy and numeracy would be a better focus than hoping that suddenly on a wet Tuesday you want to ring up a government help line and depress yourself by realising you have to put £500 a month into a pension and you are never going to be able to achieve that.'
>
> (credit industry interviewee)

For some interviewees the narrow range of issues that the review has focused upon has been a disappointment and, instead of coordinating a range of related services and support in the field of financial inclusion, generic financial advice was viewed as being too narrow in focus and part of a wider problem perceived to reflect 'silo thinking' in relation to financial inclusion policy.

Commercial advice providers

Some advice services have identified that fee-charging companies are targeting lower-income groups – one example concerned someone with £5,000 of debt and a low income. One interviewee thought fee chargers may already be gaining the custom of more people from low-income groups than may be imagined:

> 'People who are most vulnerable will use their last pound to give to somebody they think will help them but I don't think it's a road we want to go down.'

Recognising the significance of this sector, the Money Advice Trust has commissioned the Personal Finance Research Centre to undertake an independent review of the industry, its customer base and their experiences. The research is due to be concluded early in 2009.

Even with the benefits of recent additional funding for money advice, the current funding environment falls short of ideal. However, before going on to look at alternative approaches

to funding in Chapter 4, the next chapter brings together information about the size of the money advice sector, the extent of provision and demand for money advice, and the funding that services receive.

Chapter 3
Money advice services provision and funding

SUMMARY

Indicative estimates show 4,330 to 4,500 full-time equivalent advisers (3,030 to 3,200 paid and 1,300 volunteers) are delivering money advice to around 1.1 million clients per year at an estimated cost of £160–£165 million. Government sources provide two-thirds of funding and local authorities are the largest single funders.

Three scenarios estimate unmet and potential demand:

- The additional cost of meeting current unmet demand for around 0.5 million people is estimated to be close to £110 million (2,170 posts).
- Costs are similar for a further 0.5 million people who would benefit from measures that address promotion and accessibility of services.
- To reach a further 1 million people who are amongst the growing group of people struggling with repayments of debt in the current economic climate would cost around £220 million (4,340 posts).

This chapter discusses the scale of existing money advice provision, the extent to which that advice meets demand and the funding received by free-to-client money advice services.

Developing estimates in these areas presents a number of challenges. Money advice in the UK is provided by a wide range of services so it is not a homogeneous network. Services do not gather information about service users or advice provision in a consistent manner, making it difficult to estimate the resources available for money advice. Issues that affect the assessment of the extent to which demand is met include: the capacity of services in terms of availability and expertise; access needs; lack of knowledge about services; barriers to using them; and negative prior experience of advice services (Fearnley 2007). Funding for the sector is complex: it has developed in a piecemeal manner over recent decades and services rely heavily on public sector funding. This is often to provide advice on a range of issues, including debt.

This report seeks to build upon Fearnley's discussion paper by building on evidence of the demand for money advice and the availability of free-to-client debt advice for low-income groups. It also refers to work published by New Philanthropy Capital (Blake and de Jong 2008) and goes on to develop a profile of funding sources for services. The estimates developed in this chapter are further informed by existing literature, key informant interviews, discussion

and communication with advice services and funders, estimates derived from the annual accounts of a sample of services delivering money advice, and data about funding and debt advice provided by Citizens Advice and Citizens Advice Scotland.

Fearnley found that data available on met demand for money advice were not consistent across agencies, and data for some parts of the sector were not available. He also highlighted that assessing the need for advice (potential demand) is particularly problematic, since it does not always translate into expressed demand (2007: 4). Blake and de Jong (2008) produced some estimates of the number of clients and main income sources for money advice, but also faced problems with estimating the number of providers and clients, particularly in relation to some types of agencies, including local authorities, and in estimating spending and resources specifically for debt advice.

The Government's Financial Inclusion Taskforce has commissioned research to gain a more comprehensive picture of the nature of free-to-client debt advice services. However, the results of this study are not yet publicly available. A survey of the legal advice sector workforce in England and Wales identified that there are approximately 8,700 organisations that deliver legal advice services supported by public funding in private legal practice, statutory services and not-for-profit agencies (Smith and Tam 2007). While less than a third of these organisations provided advice on debt, almost half (47.5 per cent) in the not-for-profit sector did so. The study did not consider funding but did identify that more than half of not-for-profit agencies had six or fewer paid employees and that 40 per cent had between one and ten volunteers.

The limited data available about money advice services and the lack of consistency in data collection and reporting by different types of advice services mean that no comprehensive data is available about the sector. The estimates developed in this chapter provide a starting point on which to build a more accurate picture in future. In order to gain an overview of money advice services and their funding, the next section discusses current met demand and the potential need for money advice. This is followed by a summary of funding sources of advice services and the final section provides estimates of the gap in resources on the basis of three different scenarios and the additional costs involved in meeting the gap.

Existing provision and met demand for debt advice

The problems associated with lack of consistency of collecting and recording data in the advice sector have been the subject of debate for some time and continue to be discussed. However, it should be noted that some networks, such as Citizens Advice, are developing more sophisticated monitoring of their services. The data gathered for this project come from services that use different criteria and, for example, the extent of double counting of individuals is not known. There are also gaps in information about the scale of provision in some sectors. As a result, the estimates of existing provision, unmet demand, staff resources and financial resources discussed below are indicative only. They have been drawn from sources that included advice networks and services, and other research reports.

The assumptions used for estimating staffing levels and the number of people getting money advice (met demand) are detailed in Appendix I. The following provides a summary of the key points (see also Table 3):

- Where estimated, annual caseloads for debt advisers are assumed to be 200 for specialist debt advisers and 260 for the Citizens Advice networks that operate with a high proportion of volunteers in general advice.
- Citizens Advice has 426 member bureaux across England and Wales. With approximately 1,000 to 1,100 full-time equivalent paid advisers and 1,050 full-time equivalent volunteers doing debt work, they helped 521,000 clients in 2007–08.
- Citizens Advice Scotland has 55 member bureaux operating from 71 offices. They had approximately 132 paid and 80 volunteer full-time equivalent advisers who helped approximately 50,000 people with debt problems in 2007–08.
- Citizens Advice Northern Ireland has 22 bureaux with 30 offices. Approximately 37 full-time equivalent paid and 48 volunteer staff assisted approximately 21,000 clients in 2007–08.
- AdviceUK has 850 services, 350 of which provide money advice across England, Wales and Scotland. They have approximately 1,050 full-time equivalent staff, estimated to include 900 paid and 150 volunteer full-time equivalents, dealing with around 210,000 debt clients per year.
- The AdviceNI network has 65 member services. Approximately 26 full-time equivalent paid and four full-time equivalent volunteer advisers help approximately 6,000 debt clients.
- Around 200 to 220 local authorities across the UK provide some money advice and 600 to 660 advisers will assist 120,000 to 130,000 clients.
- National Debtline employed 116 full-time equivalent people in 2007, assisting 105,000 people in 2007.
- Legal Services Commission-funded services outside of the main advice networks are estimated to involve advice for around 10,000–15,000 clients.
- Consumer Credit Counselling Service are estimated to assist 70,000–100,000 people.
- Payplan aimed to assist around 120,000 people in 2006.
- Other sources of advice: In an estimated 300 organisations there will be approximately 225 full-time equivalent staff who will help 45,000 people with debts.

The estimates indicate that around 1.3 to 1.4 million people are getting debt advice each year. Excluding Consumer Credit Counselling Service and Payplan, which are less well targeted towards low-income groups and generate income from debt management plan programmes, around 1.1 million people are getting advice from 4,330 to 4,500 full-time equivalent general and specialist advisers, approximately 3,030 to 3,200 of whom are paid and almost 1,300 are volunteers.

Around 1,250 voluntary sector advice services deliver debt or money advice in the UK, the majority of them generalist services. These services are also delivering benefits and income maximisation advice, most often within local geographical areas. In addition approximately

Table 3

The main free-to-client advice services and estimated annual provision of advice. The estimates indicate that around 1.3 to 1.4 million people are getting debt advice each year.

Network/ service	*Coverage*	*Number of debt advice staff (estimate)*	*Number of debt clients per annum (estimate)*
Citizens Advice	England, Wales	1,000–1,100 paid and 1,010 full-time equivalent volunteers	521,000
Citizens Advice Scotland	Scotland	132 paid and 80 full-time equivalent volunteers	50,000
Citizens Advice Northern Ireland	Northern Ireland	37 paid and 48 full-time equivalent volunteers	21,000
AdviceUK	UK	900 paid and 150 full-time equivalent volunteers	210,000
AdviceNI	Northern Ireland	26 paid and 4 full-time equivalent volunteers	6,000
Local authority	UK	600–660	120,000–130,000
National Debtline	England, Wales, Scotland	116	105,000
Legal Services Commission Community Legal Advice	England, Wales,		10,000–15,000
Consumer Credit Counselling Service	UK		100,000–150,000
Payplan	UK		120,000
Others	UK	225	45,000
Total			**1,308,000–1,373,000**

200–220 local authorities provide debt or money advice services. This suggests that almost 1,500 organisations in the not-for-profit sector are providing free-to-client independent debt advice.

Unmet demand for money advice and future need

Assessing potential demand for free-to-client advice is difficult, but a range of indicators have been identified already that point to demand continuing to grow. Rising bankruptcies, sequestrations, individual voluntary arrangements and protected trust deeds indicate growing numbers of people are in serious difficulties.

The extent to which people use fee-charging services is not known at present, but the Money Advice Trust (2009) has commissioned research to develop a better understanding of that part of the sector. However, interviewees viewed them as being proactive and effective in converting need into demand for their services through advertising. Whilst commercial and debt consolidation services were perceived by some interviewees to be a necessary part of the overall environment, targeting mainly people who are in a position to pay for services, others thought they were also effective at reaching low income groups through advertising:

> 'there is acute pressure on individuals in financial difficulty and if someone suggests to them that they can make their monthly commitments smaller on whatever income, they might just reach out and grab that even though…the advice might not be comprehensive and even though they might be able to get the same advice for free.'

Amongst interviewees, there were concerns to ensure that people are fully informed of their options so that they are best placed to make decisions about how to proceed in their situation. Some had concerns that not all money advice services achieved advice that is 'consistent with a rights-based approach', i.e. by providing full information of all the options available. Another interviewee highlighted than not enough account has been taken of the commercial sector:

> 'The suite of products and services and remedies is complicated and I remain to be convinced that all money advisers provide comprehensive advice on all those different remedies. I think they are too quick to polarise and…that is particularly acute in the commercial debt management sector because there are commercial drivers that sit behind it.'

Despite their inability to compete in advertising terms with fee-charging services, free-to-client advice services continue to identify growing use of face-to-face advice services and new groups of clients are accessing services for support. In order to address growing demand that cannot be fully met, some services are using self-help packs to try to reduce the pressure on services.

However, even if people feel able to negotiate for themselves, if they do not receive a positive response from their creditors they may still turn to advice services for representation. The effectiveness of self-help advice to assist people who are negotiating directly with creditors remains a problem, but a range of advice networks are seeking to address concerns through improved practice amongst creditors and advisers (MacDermott 2008). Current difficulties with this, however, add to the pressure on advice services and caseload management.

It is important to acknowledge that the people thought to need help are not a static population and a key problem is that often people are unaware of the existence of services in their locality that can help them with their problem (Buck et al. 2007). Despite developing understanding of the benefits that people can gain from getting free-to-client money advice, research continues to show that access to mainstream advice services is problematic for disadvantaged groups of service users (see for example Orton 2008; Buck et al. 2007; Gillespie et al. 2007). This highlights the importance of raising awareness of services and the help they can provide. However, even with much greater awareness of advice services through advertising and

improved signposting, a proportion will chose to do nothing about their financial stress, some will go to fee-charging organisations and some will use self-help packs and Internet sites to help them work through problems themselves.

There are indications of geographical variations in the provision of debt advice. More local authorities provide advice directly in Scotland, increasing the number of services delivering debt advice. However, Scotland and Northern Ireland do not benefit from Legal Services Commission funding, although a small number of law centres in Scotland generate income from legal aid work, some of which may relate to debt issues. Developments in Northern Ireland are at an earlier stage and one interviewee thought waiting times were still too long. Citizens Advice Northern Ireland (2008a) estimated that 11 per cent of the population aged 16 or over is potentially struggling with debts, equating to almost 150,000 people. The data summarised in Table 3 suggest that only around 14 per cent of that group are accessing advice at present.

In terms of existing capacity, some interviewees thought that there may be some spare capacity in telephone-based services. However, this is not borne out by the evidence from Consumer Credit Counselling Service and Payplan, identified above, which indicates that the profile of clients is changing and fewer debt management plans are being set up, but not that there is significant spare capacity. Face-to-face advice services are perceived to remain under some pressure, indicating the need for capacity to increase in conjunction with improved access, awareness raising and advertising to maximise the reach of services. When the effects of the current economic downturn are added to these pressures, a strong case begins to build up for additional resources both to address demand and take steps to ensure that more people who need money advice are able to access it through, for example, improving awareness of services and their accessibility for disadvantaged groups.

Potential demand

While around 1.1 million people have accessed free-to-client advice, how many of the 4 million or so people in the UK facing serious financial problems in 2006–07 are likely to make use of advice services? PricewaterhouseCoopers (2009) suggests that the number in need of advice may be growing rapidly, with 16 per cent of people unable to meet their current debt obligations. This suggests there may be 6 or 7 million people who could potentially benefit from advice. They are not necessarily people on low incomes, but all the evidence on over-indebtedness points to low-income groups being over-represented in this group compared with the general population.

The Legal Services Research Centre survey of civil justice in England and Wales (Pleasence et al. 2007) found an increase in the proportion of people who had experienced one or more problems in connection with money/debt issues between 2006 (5.5 per cent) and 2007 (6.5 per cent). Less than half of them obtained advice (43 per cent), while 48 per cent handled the issue alone, 2 per cent did nothing and 7 per cent tried and failed to get advice and handled the issue alone.

Applying the proportions identified in the Legal Services Research Centre survey, even without any further pressures from the economic or credit environments in the UK, there is evidence of pressure on services and unmet need for free-to-client advice. If around 7 per cent of the 6 to 7 million people are trying and failing to access advice, this would suggest there are approaching 500,000 people whose need for advice is currently unmet.

The additional provision of advice through funding streams such as the Financial Inclusion Fund face-to-face advice and equivalent funding streams in Scotland and Northern Ireland highlight how increasing capacity of itself has the effect of increasing the use of services. More proactive approaches reasonably would be expected to reach a much wider group of people. These could include: promoting and raising awareness of services; providing better access through, for example, outreach in local communities, longer opening hours and faster appointments; and other measures targeting low-income and disadvantaged groups of people. If a similar proportion of the 6 to 7 million people are in this situation that would be equivalent to a further 500,000 people per year or an additional 1 million in total.

Even if half the 6 to 7 million people who are in difficulty handle their problems on their own, use telephone or Internet-based services or fee-charging services, there would be 3 to 3.5 million people who would potentially benefit from free-to-client advice, only a third of whom are currently accessing such services. This suggests that there are potentially 2 million people (1 million additional to those identified above) who could benefit from advice but are not currently accessing it. To reach this group free-to-client services would need to do much more to promote and advertise services in addition to addressing access issues in terms of location, time and delivery methods.

The scenarios outlined above present three potential estimates of increased demand for money advice in addition to the existing client group of 1.1 million whose demand is being met:

- around 500,000 people whose current demand for advice is not being met;
- an additional 500,000 people who would use better-promoted and accessible services, regardless of changes in the economic and financial environments;
- a further 1 million people who represent potential future clients of free-to-client money advice services, who are under increasing pressure in the prevailing financial climate and developing recession.

Before assessing the additional costs that such an increase might involve, the next section assesses information about existing resources. In addition to gaining a better understanding about the amount of funding available to money advice services, this will help to estimate how much more money is needed for money advice, and how to achieve more sustainable funding for services that have manageable caseloads and high-quality, accessible services that are promoted effectively to the low-income groups who need them.

Funding sources of money advice services

This section looks at the funding sources of advice services and summarises the key funding streams targeting debt advice. In order to estimate the range and size of funding streams

for free-to-client money advice services, the researchers gathered information from sources including funders, advice service networks and a sample of individual services. The study has also benefited from gaining access to additional information about funding sources for Bureaux across the Citizens Advice and Citizens Advice Scotland networks.

Funding of the advice services sample

A sample of 25 services was selected and data gathered about funding sources through analysis of annual accounts. Of the total, three were excluded from the analysis and the remaining 22 included 11 CABs and 11 other voluntary sector services including one law centre. Full details of the sample are provided in Appendix I and a summary of key points is provided here. Although involving a relatively small number of services, this sample helps to illustrate the issues identified in this study, particularly in relation to funding levels and sources. Characteristics of services included the following:

- Thirteen were generalist services, six were specialist and in three services money advice was a marginal activity.
- The number of advice staff ranged from two to 71, and money advice-dedicated staff ranged from none in two organisations to 56 in the largest.
- The range of debt enquiries varied greatly from 1.4 per cent, to 100 per cent in some specialist services.

To summarise funding sources of services (see also Table A3, page 66):

- Citizens Advice bureaux had more public funding sources on average (eight compared with four in other voluntary sector services), but fewer voluntary and charitable funding sources (four compared with 13). However, one of the voluntary sector services had more than 60 different charitable funding sources.
- There was evidence across the services of new projects starting and others stopping, and reports of changes to staffing levels to accommodate funding 'lows'.
- There were differences in funding between areas. For example, only services in England and Wales get Legal Services Commission funding, but one Scottish service (a law centre) generated legal aid income; none of the Scottish services had Lottery funding or other charitable funding; three services with funding from the finance and credit industry are all based in England.
- Overall, the sample had more than £15 million of funding. Local authorities were the single largest funder (27 per cent of the total, but 47.2 per cent of funding for generalist services).
- Most of the £3.3 million funding identified as dedicated to money advice was from government sources; none came from the finance and credit industry.

What is clear in our sample of services is the negligible contribution of the finance and credit industry to funding frontline face-to-face advice services. Even adding together the contributions from trusts and from companies, the total is less than 1 per cent of all funding. In addition, in the case of our sample the small amount of funding was not specifically for money advice work.

Funding estimates for services across the UK

Estimates of current expenditure on money advice services across the UK are shown in Appendix I, Table A4 (page 67). In the region of £160–£165 million is being spent on money advice in advice services that rely primarily on funding rather than income generation (Consumer Credit Counselling Service and Payplan are excluded here).

It is not possible, with the information available, to identify how much each of the main funding sources contributes to debt advice. This problem arises because, in considering the funding for generalist advice services that makes up the vast majority of services being considered here, funding is for a mixture of core services (usually including some debt advice) but also for projects that may relate entirely to other types of advice or exclusively to debt advice. However, the sample of accounts analysed in this study suggests that local authority funding is likely to account for around £43–£44 million of the total estimated funds for advice. Chapter 1 highlighted that there have been a series of initiatives in recent years to boost financial support for free-to-client money advice. The estimates discussed above exclude the most recent of these announcements since they are based on past accounting periods.

Finance and credit sector funding for money advice

The finance and credit industry contributes to funding for the Money Advice Trust, including National Debtline and, through the Money Advice Trust and Citizens Advice, makes a financial contribution to the infrastructure for debt advice. However, the benefits of such input are not evenly spread and, for example, 'there is no second tier support...in Northern Ireland at present' (advice sector interviewee).

One finance sector interviewee argued that the finance and credit industry also contributes funding for debt advice through income generated by debt management plans because the creditor pays a share of the money they receive back to fund the service. Such funding, of course, does not benefit the lowest income groups, who do not have disposable income to contribute to debt management plans, or those who chose to access face-to-face advice.

The 1992 National Consumer Council report identified that the Money Advice Trust was set up with a target of 'raising £9 million over 3 years' but that it looked unlikely to reach that target. Since that time, the Money Advice Trust has relied on voluntary contributions. In 2007 it had an income of £7.5 million, £2.8 million of which came from various government sources and around £4 million of the remaining income came from a large number of funding sources, predominantly finance industry and charitable foundations. Taking account of inflation in the intervening years, this level of input does not reflect the kind of funding the Money Advice Trust had set out to achieve at that time, nor the scale of the growth in money advice provision in the intervening years. Most of these funds are used for National Debtline and Business Debtline (£4.9 million) and training programmes (£1.8 million), some of which goes to Citizens Advice and Money Advice Scotland for delivery of training (Money Advice Trust, 2008b). However, none of these funds contribute to face-to-face advice services.

The finance and credit industry also make contributions to the advice infrastructure through the main advice networks of Citizens Advice and AdviceUK. However, even taking account of those contributions, the scale of support that comes from a small number of financial institutions is negligible.

Overall, we found little evidence of funding of money advice from utilities companies. However, according to an advice sector interviewee, the electricity company in Northern Ireland is providing 'about £2million over the next two years to help their vulnerable customers to maximise their benefit entitlements'.

The sample of advice services is not representative but illustrates the relative weight of different funding sources. Applying the ratios found in the sample to £157.5 million funds (mid range of estimate excluding Money Advice Trust funding) and apportioning Money Advice Trust funding on the basis of £2.8 million from government, £4 million from the finance industry and related trusts and £0.7 million from other income, provides the estimated spread of funding outlined in Figure 1. These figures are indicative only but suggest that, even when industry funding for infrastructure support is included, the finance and credit industry contribute only 3.3 per cent of funding for debt advice, while public sector funds account for two-thirds of the total.

Costs of meeting unmet and potential demand

In the scenarios identified above, three different levels of unmet and potential demand were identified. Assuming that provision of advice for each group of 230 people (midway between the estimated caseloads for specialist (200) and generalist (260) advisers) would cost £50,000, the additional costs of meeting the advice needs of these groups would be as follows:

- £108.7 million for 500,000 people whose current advice needs are not being met.
- £108.7 million for 500,000 people who would use better-promoted and more accessible services, regardless of changes in the economic and financial environments.

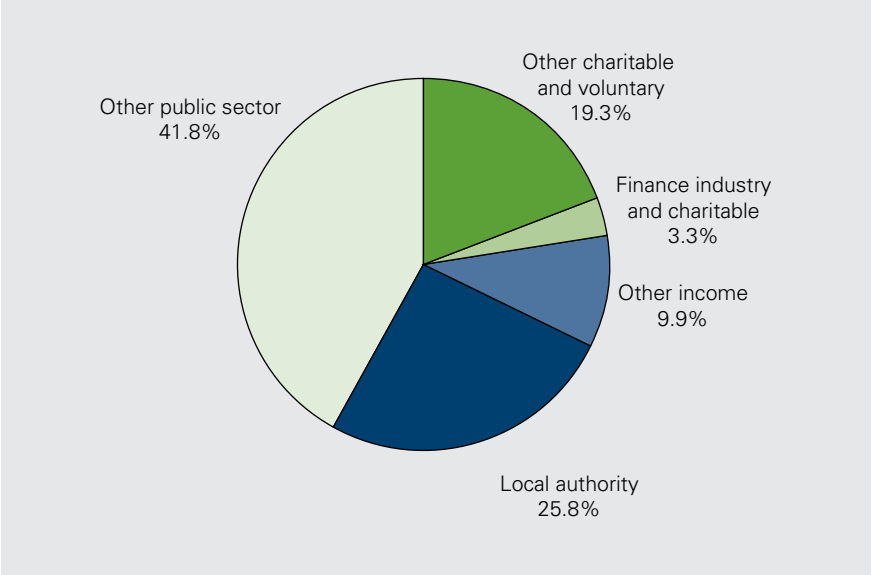

Figure 1
Public sector funds account for two-thirds of the total funding for services providing debt advice.

- £218 million for 1 million people that represent potential future clients of free-to-client money advice services, who are under increasing pressure in the prevailing financial climate and developing recession.

Summary and conclusions

In attempting to estimate met and unmet need for advice, the size of the free-to-client debt advice sector and the nature and scale of funding, the following is a summary of the key indicative estimates based on the evidence available:

- Excluding debt management plan services, free independent money advice is being delivered to around 1.1 million clients per year by around 4,330 to 4,500 full-time equivalent advisers (3,030 to 3,200 paid and 1,300 volunteer advisers).
- Estimates of funding indicate that around two-thirds comes from government sources, and local authorities are the largest single funders.
- The current level of money advice provision is estimated to cost £160–£165 million a year.
- Current caseloads are under pressure and the geographic spread of different funding sources is uneven. The immediate future presents increasing uncertainty in relation to public funding sources that are significant contributors to the sector.

Based on evidence of unmet demand and a large pool of people who would potentially benefit from money advice, three scenarios for estimating unmet and potential demand were developed:

- The additional cost of meeting current unmet demand for around 0.5 million people is estimated to be close to £110 million (around 2,170 posts).
- Similar costs would be needed to reach a further 0.5 million people who would benefit from measures to address improved promotion and accessibility of services.
- Approaching £220 million and around 4,340 posts would be required to reach a further 1 million people who are amongst the growing group of people struggling with repayments of debt in the current economic climate.

The estimates provided above are based on provision of services that reflect different levels of need for support. This assumes a high level of face-to-face advice consistent with the mix of services provided by specialist money advice and generalist advice services. The estimates of caseloads and costs of such services assume that generalist services will have higher caseloads than specialist services. Caseload estimates fall between the lower numbers advised in specialist Financial Inclusion Fund funded posts and the higher numbers assisted through services that provide telephone-based and self-help advice. The costs also assume a proportion for overheads, administration and awareness raising, and advertising of services.

Whilst major initiatives such as the Financial Inclusion Fund have clearly helped to build the capacity of services to deliver money advice, the additional resources needed to address current unmet demand are considerable. Additional resources of £110 million are suggested as a starting point, with the aim of building towards comprehensive accessible and well-promoted

services over a short period of time. However, if the pressure on household budgets continues to rise as it has done recently, even the sums of money identified here may be inadequate. In such circumstances, low-income groups are vulnerable because they are less likely than higher-income groups to have alternative sources of support available to them.

At best, much core funding for money advice is subject to the three-year spending review cycle of governments and local authorities. Project-based funding can last for different periods and has no guarantee of longer-term funding at the end. Given the existing profile of funders for money advice, the key questions that arise are:

- Who should provide funding for more sustainable money advice?
- What funding arrangements will ensure greater stability and quality of services that meet the needs of low-income and disadvantaged groups of people?

The very low levels of funding from the finance and credit industry are in contrast to the role that the finance and credit industry have played in contributing to the situation of over-indebtedness across the UK. Industry funding is also disproportionately small compared with, for example, the contribution that people with 'insufficient funds' in their accounts contribute to bank profits. A recent study by the Office of Fair Trading identified that:

> there seems to be a substantial cross subsidisation from those consumers who incur insufficient funds charges to those who do not; and to a significant extent from 'vulnerable', low income and low saving consumers, to higher income, higher saving ones.
>
> (Office of Fair Trading 2008: 1)

The study went on to highlight the scale of this source of income: in 2006 the aggregate revenue of banks from current accounts was around £8.3 billion and:

> PCAs [personal current accounts] generate more revenue for banks than savings and credit cards combined: 31 per cent compared with 17 per cent and 13 per cent respectively. Banks earned over 85 per cent of their revenues on PCAs from two sources: net interest income from credit and debit balances (£4.6 billion), and levying charges associated with insufficient funds (£2.6 billion).
>
> (Office of Fair Trading 2008: 3)

The cost of delivering money advice, therefore, is insignificant compared with the money generated from people facing financial difficulties in just one part of the finance and credit industry.

The next chapter explores alternative models of funding and considers how a more appropriate level of funding from the industry might be achieved. It goes on to develop a model for a more sustainable approach to funding, and outlines what may be required to achieve the promotion and delivery of high-quality, accessible, free-to-client, independent advice that is able to meet the resulting demand.

Chapter 4
Alternative funding models

SUMMARY

A review of three countries did not uncover any funding models that were radically different from the UK but they offered some lessons for a new UK funding model. Interviewees discussed alternative funding models including:

- The 'fair shares' model, based on debt management plans distributed to creditors or revision of this model to benefit more advice services.
- Charging those who can pay for services, to cross-subsidise free provision.
- A social enterprise model, that might include some core funding.
- A systematic industry contribution, or levy, based on criteria to define how services are included, the form a contribution might take and the rate of contribution.

Most interviewees supported a broad base for inclusion in a systematic industry contribution. It could be collected by the Financial Services Authority and Office of Fair Trading along with existing registration and license arrangements. Aspects of the planned generic financial advice service may be more appropriate for money advice. A UK-wide coordinated service would need to work with providers to ensure equitable provision, monitoring and a mix of well-advertised and high-quality services, responsive to demand.

Although there is a clear and substantial need for core money advice services, Chapter 3 showed that their funding has a narrow base, and is heavily reliant on public funding and short-term and project-based resources. The key issue considered in this chapter is what an alternative funding model might be that would provide more sustainable funding for money advice.

The first section of this chapter provides a summary of the approaches used in three other countries. The second section discusses the strengths and weaknesses of different options for funding in the UK, and the chapter concludes by identifying key elements of a money advice delivery model for low-income groups.

Approaches in other countries

We explored the approach to funding and delivery of money advice in three other countries – the Netherlands, Republic of Ireland and Australia – and considered how they can inform

alternative approaches in the UK (see Appendix II for more details). A short desk-based search of evidence available in English did not uncover any funding models that were radically different from the UK. However, each of the countries offer some lessons in relation to funding stability, holistic approaches, protection and prevention measures and cross-sector engagement that can inform the development of a new more sustainable model for debt advice in the UK.

The Netherlands

Recent developments in the Netherlands have included government funding of €25 million to help people get out of debt, including preventive approaches, and €65 million for combating poverty and debt relief assistance. The Dutch approach to over-indebtedness is characterised by preventive and consumer protection measures (e.g. against predatory lending and high interest rates), crisis support and organising insolvency structures. Independent organisations and municipal banks accountable to local councils provide debt counselling and advice and they estimate that only 5 per cent of former clients become over-indebted again. The main approaches used include education and training, advice, basic bank accounts, small loans and balancing income through an agreement with the client. There is an emphasis on non-judicial settlement of debts.

There are clear strengths to the Dutch approach, which is holistic and addresses protection and prevention as well as crisis intervention. However, a European peer review of the Dutch debt settlement process concluded that there is a need to discuss the role played by mediators and trustees, including ensuring an appropriate balance between control and privacy, since all of the debtor's mail is re-directed to the trustee who is handling their case. In the UK, services for disadvantaged groups that combine access to affordable credit, banking and advice are still novel and being tested through small-scale pilots. Scotcash is one example of a loans service targeting low-income groups that offers a range of services and products including affordable loans, saving accounts, white goods packages, basic bank accounts and money advice.

Republic of Ireland

In the Republic of Ireland, financial inclusion is a recent priority in the National Action Plan for Social Inclusion 2007–16 and there is a new Consumer Protection Code to improve consumer protection and rights of access to financial services. The Combat Poverty Agency is working with a state-funded network of money advice services called the Money Advice and Budgeting Service to tackle over-indebtedness. The Money Advice and Budgeting Service was established in 1992 and is funded by the Department of Social and Family Affairs. It aims to help people regain control of their finances and gain access to affordable credit available in their local credit union. The majority of its clients are on a low income (over 70 per cent) and 54 per cent are on social welfare. The service is free, confidential, independent and open to anyone who seeks help. It has 65 offices across the country, with 228 money advisers and support staff covering a population of 4.1 million. Funding in 2004 was €11.4 million.

The Money Advice and Budgeting Service has a unified monitoring system that it describes as easy and quick to use. Local credit unions operate 'special accounts' for its clients: many clients

open these accounts to enable them to repay their debts and are also encouraged to save a small amount. Like the Dutch model, the Money Advice and Budgeting Service is founded on practical advice on budgeting to remove dependence on moneylenders. It also provides access to low-cost credit and crisis loans and has a non-judicial Debt Settlement Programme. There is a continuing commitment to support the scheme in the Programme for Government for 2007–12.

There are similarities with the UK in terms of public sector support for money advice, but the Republic of Ireland has a much longer-established nationally coordinated service that has more integrated approaches. The Money Advice and Budgeting Service is wholly state funded but has some key strengths to draw upon, including: the commitment of central funding and coordination; a unified monitoring system that is easy to use; collection of standard quarterly statistics; and accounting software that enables services to organise a single regular payment for distribution among creditors through credit unions. Two examples of services in the UK with similarities to this model are a Money Advice Budgeting Service in Merseyside, which is based on the Republic of Ireland model, and the Christians Against Poverty network. The approach used by the Money Advice and Budgeting Service to distribute debt management plans through credit unions operating special accounts provides an alternative approach to the existing approach used in the UK for debt management plan services that are delivered through a small number of organisations and do not involve advice providers in an integrated way.

Australia

In Australia, financial counsellors provide specialist information and assistance to people faced with debt and money issues. Financial counsellors work mainly with socially disadvantaged and marginalised people. The service seeks, through casework knowledge, to bring about social and systemic change based on a community development philosophy. The service is not promoted to the public and struggles to meet demand, and provision is geographically patchy across Australia.

There are parallels with the UK in that the Australian financial services industry has focused investment on financial literacy and inclusion initiatives, and some investment has been made in the advice infrastructure. In terms of good practice in delivering advice, financial counselling in Australia has been able to engage with all sectors involved in addressing debt, including the finance and credit industry, and to work across sectors to the benefit of low-income and vulnerable consumers. However, advice services are perceived to face the same problems as the UK of short-term and inadequate funding. A key argument is that long-term funding arrangements are crucial for the funding of casework, advice, financial counselling and other frontline services provided to consumers by community and not-for-profit organisations.

Alternative funding models for the UK

While some interviewees thought the current UK funding environment was one they could work within, several anticipated a funding squeeze in the medium term and most thought change in the funding environment was needed:

> 'You wouldn't make up the system that we have. It's hideously complex and diverse. In many ways, with the Financial Inclusion Fund, that extra money is really good. The more money that comes in, the more people we can deal with. But if we were to step back we would have a much more coherent strategy.'

One suggestion, to draw in more funds in Northern Ireland, was for the money released from dormant bank accounts to be used to fund money advice. Although other causes will benefit from this windfall in other areas of the UK, the fund of around £30 million initially is being advocated as a funding route for debt advice in Northern Ireland. Consultation is taking place in 2009 about priorities for the fund in Northern Ireland and the Big Lottery Fund will operate the Dormant Accounts Scheme that will open in 2010 (Grant Tracker 2009).

Overall, most interviewees agreed that the money advice sector needs funding that is both longer-term and more sustainable and adequate. The quality of the service that is delivered is crucial, and the support infrastructure for the sector must be a key consideration in the development of any new funding regime.

'Fair shares' model

The basis of the 'fair shares' model used by companies like Consumer Credit Counselling Service and Payplan is the debt management plan, in which the individual deposits a single monthly payment with the organisation, which is distributed to creditors who then return a percentage to the company managing the plan. Key strengths of this model identified by interviewees include:

> 'It flexes with demand, it provides a measurable and quantifiable income stream, and it enables organisations using that model to plan forward with more certainty.'

An alternative approach is operated by Christians Against Poverty, who negotiate payments with creditors on behalf of people in debt. The client makes weekly payments into a Christians Against Poverty account, and the money is then distributed to creditors. Account holders can also make savings in a CAP account (Christians Against Poverty 2009). This is similar to the approach used by the Money Advice and Budgeting Service in Northern Ireland, where special credit union accounts let clients repay debts and save.

For the lowest income groups, the weakness of the 'fair shares' model is that it is not relevant for those with no disposable income for a debt management plan, and they need to have advice that explores the range of other options available to them so they are likely to need referral on to other advice services.

Charging for services and cross-subsidy

Interviewees had mixed views about the increased use of charging for services by free-to-client advice services. It is not an approach that has been used widely across the sector, but more services charge for some areas of work now than in the past, particularly in immigration and employment law. One view is that there is not enough money to fund free money advice for

all and that those who can afford to pay should pay. For other interviewees, the fact of having unmanageable debt means that people can ill afford to add to their financial difficulties by paying for advice. Although a strength of the model is the scope it offers to expand services through cross-subsidy, weaknesses of the model were identified:

- There are tensions around selecting an appropriate level at which individuals should be charged and the model would introduce further bureaucracy to delivering advice.
- It risks a growing focus on charging if other income streams disappear, to the possible detriment of non-paying low-income and disadvantaged groups. For one advice sector interviewee there was:

  ‘no question…that our core business should remain the poorest people in society who nobody else is going to make a profit out of…the trick is to continue to deliver to our core client group that nobody else really wants to touch. How do we do that and remain viable? That’s what my big concern is.’

Charging creditors

One suggestion was to develop a new approach in which the finance and credit sector was charged rather than the client. Further work could be done around fee structures combined with government funding for core costs. This could include wider involvement of processing and benefiting from the fair shares approach used for debt management plans.

At present someone can use a face-to-face advice service and then have to go to a debt management plan service if that is the best option, but the original advice service would not generate any income. Whilst it may not be a realistic option for hundreds of advice services each to operate debt management plans, one approach could be for debt management plans to be processed on behalf of the sector in what is largely a call-centre operation. The income generated could fund the central operation but also provide some payment back to the originating advice service. Alternatively, the equivalent service in the Republic of Ireland operated through special Credit Union accounts suggests local access to a debt management plan service through a trusted route may be feasible.

With any of the approaches above, there is a point at which debt management plans become uneconomic to process. In order to prevent individuals repaying small payments for small debts that they cannot really afford to pay, one interviewee suggested having write-off protocols and it may be ‘cheaper to have a pot from which you pay bankruptcy fees’ rather than fund potentially expensive legal processes. This would require careful consideration and balancing of the wider costs and benefits, including legal administration costs, the implications of alternatives to bankruptcy for debtors and potential fluctuating demand.

Social enterprise model

Interviewees identified some alternative approaches that can be described as a social enterprise model in which advice services would rely less on funding from government or other sources. Interviewees who thought such approaches should be considered generally acknowledged that some

sort of hybrid model may be necessary, involving some core funding in order to ensure that the need for advice could be met for low-income groups who could not afford to pay for services. Some interviewees in the advice sector raised concerns about a model that encompassed fee charging. They felt this could present barriers to the most vulnerable groups at times of financial crisis.

Systematic industry contribution

Several interviewees made reference to the research by the National Consumer Council (National Consumer Council 1992) that called on the credit industry to fund money advice. The research identified mixed views on the 'polluter pays' model that was proposed at the time in the form of a statutory levy of the finance industry. The idea of a levy, or systematic industry contribution as it is described in this report, is for a formal means of gathering a compulsory contribution from the finance and credit industry, based on a set of criteria to define how services are included, the form a contribution might take and the rate of contribution.

Some interviewees thought a levy/systematic industry contribution is the only way to achieve a sustainable funding base for the money advice sector. However, others stressed that imposing such an approach on the finance and credit sector would create problems. It could negate a lot of goodwill and the existing financial support and good working relationships would be affected because the industry would be paying a tax and not working with providers in an integrated way. In addition, a concern is that some parts of the industry will not be included:

> 'If the industry is mandated to pay – and, of course, it would be cross-subsidising its competition because you are not going to get to the small lenders in there – you may end up with the big six reviewing their commitment to the existing infrastructure. There are finite budgets for these things.'

Others thought that consultation would be key to any change and maintaining good relations across the sectors:

> 'if people feel that a process is just and equitable, they are more likely to accept an outcome, even when it's not favourable to themselves. If they feel that a process has been arbitrary and they have been denied the opportunity to contribute, and they don't understand what has gone on, they won't accept the outcome...if we think the process is just and the data used is robust, then we might not like it, but we might accept it.'

How would a systematic industry contribution work?

Most interviewees were supportive of the idea of some kind of systematic contribution from the finance and credit industry, but some thought the timing was not right. The government's commitment to a levy from the industry to fund generic financial advice could make it more difficult to argue for a further systematic contribution to be drawn for debt advice, but it does suggest that the approach is achievable in principle. Most interviewees thought both government and the finance and credit industry should contribute to funding free-to-client money advice and some suggested a 50:50 split.

Who should pay?

The question of who should contribute to the systematic industry contribution is key. It is mainly large high street banks that contribute to the debt advice infrastructure at present. Interviewees thought an important principle is that contributions should reflect the range of lenders and the extent to which they contribute to the scale of indebtedness: in short, 'the polluters should pay'. Some interviewees said 'anybody who lends money' should pay.

The inclusion of key creditors such as utilities or telecoms companies is less clear. Their contribution to unmanageable debt may be substantial and growing, but they contribute little to money advice. However, their inclusion in a levy could be a complicating factor and their contribution to reducing the financial pressures on low-income groups may be addressed better through other routes. Examples of measures that could be considered include: removing inequities in the cost of utilities for people with prepayment meters or keycards or those who pay by cash rather than direct debits; improved winter fuel payments; and improved energy efficiency measures for low income households.

The basis for charging

The systematic industry contribution could be a rate based on loans or levels of lending. Interviewees thought a systematic industry contribution on lending levels is more practical than one based on individual loans, particularly where a credit company provides a large number of small loans. However, in this approach mortgages would be the most significant component of the amount lent, although they are not the biggest contributor to over-indebtedness.

Some interviewees thought account should be taken of the 'polluting' effect of high interest rates that are associated with smaller unsecured loans. An alternative approach would seek to draw a higher systematic industry contribution from creditors who charged higher rates of interest, but such an approach would add greatly to the administrative complexity of any systematic industry contribution. Another interviewee said it could be based on the market share of debt: 'you could review it and give them a differential levy depending on how much of a headache they've created'. Key questions with this approach would be whether it targets key areas of problem debt and how to address possible unintended effects, for example creditor behaviour in relation to charging policies or debt recovery practices.

The most obvious practical route for collecting the contribution would be to link the systematic industry contribution to registration fees and licenses paid to the Financial Services Authority and Office of Fair Trading. The Financial Services Authority collects fees to recover their expenditure on the National Strategy for Financial Capability and has recently expanded the types of firms that pay the fee (Financial Services Authority 2009). Most businesses that offer credit or lend money to consumers, including finance for purchases, have to be licensed by the Office of Fair Trading. Debt collectors and debt advisers also require to be licensed (Office of Fair Trading 2009).

Relationship with generic financial advice

The focus of the Thoresen Review on a preventive generic financial advice service was the wrong priority, according to some of our interviewees, and it has the potential to add to problems of capacity. Thoresen envisaged that 'people who are in crisis may contact the service and they should be referred to the organisations best able to assist them' (2008: 6). However, as this study highlights, there is a danger of generic financial advice generating a demand for debt advice that services are unable to provide unless resources increase.

Some interviewees argued that generic financial advice, money advice, financial education and financial capability are all elements of financial inclusion and these different components should not be separated from each other. For example, an advice sector interviewee thought:

> 'it should be there to help a whole range of problems…anything that you were worried about in relation to money, that would be a single point of reference. But we definitely saw benefits, welfare and debt advice as being a core part of it… (In) the next couple of years, there's not going to be a lot of people saving for the future but there are going to be 3 or 4 million people looking for emergency debt advice.'

In summary, some interviewees thought the structures and mechanisms developed for the generic financial advice service should, instead, deliver a more holistic suite of services designed to address broader financial inclusion aims. This approach would enable the service to provide for the checks and balances needed over the economic cycle: greater emphasis could be placed on different elements of financial inclusion at relevant stages, for example a stronger focus on debt advice during recession and on financial capability in a period of economic growth or at a time of major change in, for example, pension provision. This approach would also increase the scope for wide application of a levy. It may also help to address concerns about how realistic is the anticipated scale of need for generic financial advice, concerns that are heightened in the current economic climate.

Managing the systematic industry contribution fund

Thoresen (2008) considered the different options for generic financial advice and explored the factors for and against coordination of the service being located with an existing public sector body or a new organisation. Similar considerations would apply to a nationally coordinated money advice service. The systematic industry contribution would require a regulatory framework and need to be administered in a way that ensures funds gathered are ring-fenced and directed towards free-to-client money advice. The body coordinating services would need to ensure delivery is responsive to demand and that low-income groups in all areas of the UK benefit. It should provide appropriate governance, accountability and stakeholder involvement.

These are all issues that require much more detailed consideration than is possible in this report. However, principles that interviewees identified as important include that the services funded to deliver advice should remain independent and be led by their local communities, but with service standards to maintain aspects of advice quality and monitoring. Liaison with other advice service funders is another important role, particularly in view of the large number

of services delivering general advice that have funding from a range of sources but are heavily reliant on local authorities.

Interviewees' suggestions for disbursing funds included administration through local government. However, more often, suggestions were based on a centralised approach in which funds would be administered by a grant giver other than the government and would work with local and national partners who deliver services.

A centralised service would also have a key role in assessing and reviewing demand and potential need for advice to inform the allocation of funds. It would need to ensure that the best advice practice is identified and supported.

One suggestion was that the service should take on a role as 'champion', proactively identifying the agencies or services that are most appropriate for delivering high-quality services in local areas. This recognises that such services may not be the most successful or effective at completing funding applications. It also highlights the need to take steps to monitor advice provision and trends, and learn more about and promote effective practice. There is also a potential role to play in service development, particularly in areas where there is a lack of appropriate service provision.

It is essential that any new system addresses current problems of insecure and short-term funding. Options for the method of disbursing funds include a programme of grants for projects or services that could be based on a model such as the grant programmes operated by large charitable trusts. An alternative approach would be the payment of fees for services provided, using a model such as the Legal Services Commission approach, which is based on an average cost for money advice.

However, it is clear from our attempt to estimate the number of clients advised and evidence of the advice needs of disadvantaged groups (for example people with learning disabilities or mental health problems) that the basis for disbursing funds needs to be equitable. Account should be taken of the nature and depth of support provided as well as the means of delivery. For example, the cost of an hour's support by telephone is not comparable with many hours of direct support and advocacy for someone face-to-face in an office or the person's home. However, both types of advice and support, and all the stages in between, need to be available and funded on a reasonable and equitable basis that is determined more by service user requirements than service delivery structures. A nationally coordinated network would have an important role in ensuring effective referral processes are in place.

Finding the right service model

Interviewees discussed some underpinning features for a money advice service, particularly in relation to service provision, quality and accessibility. These included:

- The model should enable service providers to gain *more control of planning and delivery* of their services as a priority.

- For most interviewees, the system should be *efficient in maximising the resources* to deliver advice to clients and it should minimise the resources expended on looking for funds.
- *Holistic provision* is important. For some this meant comprehensive financial information, education and advice, but for others this related more to the fact that people often need advice at a time of change in their lives, when they may have a cluster of problems to deal with. Therefore it is preferable that services are delivered in an integrated way, covering a range of social, legal and welfare issues, to reduce the need for people to use several services. The current development of community legal advice centres and networks represents an approach that is more holistic, but on the other hand it may reduce client choice of service provider. Developing holistic provision would involve resources to build capacity to respond to the extra clients and work generated.
- Services need to *raise awareness* of their existence and what help they give. Free-to-client services need to compete with commercial providers and debt consolidators who are investing in advertising to convert the need for advice into demand for their services. Advertising and proactive approaches to raising awareness and making services accessible are essential components of a properly resourced advice service.
- Service provision should focus on outcomes for clients and should give careful consideration to balancing cost-effectiveness with delivering the service that individuals need and, in addressing access needs, work with (other) trusted sources of support to maximise client confidence in service and locations, and their relevance to clients.
- *Consistent monitoring* is needed that reflects the level and types of service provision, outputs delivered and outcomes for clients. At present it is a struggle to gain a clear picture of existing provision as there is a risk of 'comparing apples and pears'.
- It should contribute to *understanding, reducing and preventing bad lending practices* and be based on an approach the places the rights and options of *the client at the centre*, unhindered by commercial or competitive considerations.
- It should ensure that, across the service, agencies can meet different needs for face-to-face, telephone, online and self-help advice, but with emphasis on targeting low-income and disadvantaged groups.
- It should develop a sustainable and *flexible service model* with the ability to increase and decrease different modes of service provision according to demand and prevailing economic and financial circumstances.

Ensuring efficiency and effectiveness

Strategies to manage services effectively include the provision of self-help advice for people who are able to negotiate with creditors themselves. Some interviewees thought that telephone and Internet services would be cost effective for reaching groups such as people in low-paid employment. Examples of existing services that are free to client and reflect the kind of model envisaged include the telephone and Internet services of organisations such as Consumer Credit Counselling Service and Payplan, the self-help advice approach of National Debtline and the Community Legal Advice helpline, which is telephone-based but provides casework support. A recent Citizens Advice report involving a consortium of agencies highlights the need to improve practice amongst creditors and advisers to make self-help advice more effective than it is at present (MacDermott 2008).

Early intervention is needed to encourage people to take up free and independent debt advice, including:

- Banks and other financial services should provide customers facing difficulties with information about independent advice services.
- Signposting and referral from other services is important. This might include, for example, health services that could build on 'social prescribing' for people suffering from stress or depression in which debt or other financial difficulties are major contributory factors (Scottish Development Centre for Mental Health 2007).

Chapter 5
Conclusions and recommendations

SUMMARY

Whilst a mix of methods of service delivery is needed, face-to-face advice remains central to money advice provision, particularly for dealing with complex issues or for people who need support or have literacy problems.

Including current costs for money advice and taking account of the additional advice provision needed in the three scenarios developed, a 50 per cent funding contribution from the finance and credit industry would require the generation of £138 to £300 million through the systematic industry contribution.

Illustrative costs suggest that, based on gross lending in 2008, this is equivalent to around 30.5p to 66.5p per £1,000 of lending.

Recommendations include:

- a strategic approach needs to be developed, including monitoring the impact of funding changes;
- a regulatory requirement or systematic industry contribution is needed that is widely applied across the finance and credit industry, to fund nationally coordinated money advice;
- the service should take forward a full range of high quality services;
- urgent progress needs to be made to address demand for money advice in the current recession.

The backdrop to this report is one of global financial crisis. In the UK the effects of the credit crunch and recession include growing levels of indebtedness, with low-income and disadvantaged groups over-represented amongst those affected. A range of types and sources of advice are available that help people to address these difficulties, but the development and funding of money advice services has been piecemeal, with much of the funding short-term and insecure. The purpose of this study was to develop a framework for addressing the sustainability and security of funding for money advice services for low-income groups across the UK. While few services target low-income groups exclusively, research shows that face-to-face advice is particularly important for this group.

The study has focused on money advice that is comprehensive; free-to-client; independent and impartial; provides support including casework, negotiation and representation; and uses a range of delivery methods, including face-to-face and telephone advice. We have estimated the

scale of provision and funding of free-to-client money advice and the extent to which demand for advice is being met. Recent government interest in addressing over-indebtedness has led to initiatives across the jurisdictions of the UK. Even in UK government structures alone, however, there are many services and departments with an interest in money advice, but there is no clear unified strategy.

There are many barriers to gaining a full and accurate picture of money advice provision, and met and unmet demand. Money advice is delivered by a range of specialist and generalist advice services that receive funding from a range of sources. However, growing levels of over-indebtedness, the difficult finance and credit environment, evidence of demand and lack of awareness all combine to show there is pressure on existing services. Using published and unpublished data, the study has built a picture of existing provision, funding and unmet need for advice. Information on advice provision and resources is patchy outside of the Citizens Advice networks and little is known about direct local authority provision. In view of the gaps in knowledge and the different criteria used for recording available information, the estimates developed should be treated with caution and are indicative only.

In summary, our estimates suggest that:

- Around 1,500 organisations in the not-for-profit sector are providing free-to-client independent money advice to 1.1 million people.
- The advice is provided by 4,430 to 4,500 full-time equivalent general and specialist advisers, including 3,030 to 3,200 who are paid and approaching 1,300 who are volunteers.

Analysis of a sample of accounts indicates that most services rely heavily on public funds, particularly local government in the case of general advice services. Funding specifically for money advice relies on financial inclusion initiatives of the UK government and other jurisdictions. There was evidence of short-term and insecure funding. Since most services are generalist, the actual amount of money spent on debt advice is difficult to assess.

Based on available evidence, indicative estimates are as follows:

- Overall, £160 to £165 million is spent on money advice across the UK, two-thirds of which comes from public funds, including approximately £43–£44 million from local authorities.
- The finance and credit industry contributed less than 1 per cent of the total funding for our sample, even including funding from charitable trusts.
- Taking account of support for the money advice infrastructure and National Debtline, the current industry funding for money advice is estimated at only 3.3 per cent of the total.
- Funding from the industry contrasts with the scale of revenue generated by financial services from interest charged on credit and debit balances on current accounts and from levying charges amongst those paying 'insufficient funds' charges.

Three scenarios enabled estimates to be made of the extent of additional unmet demand and potential need for advice:

- Around 500,000 people are not having their current demand for advice met.
- An additional 500,000 people would use better-promoted and accessible services, regardless of changes in the economic and financial environments.
- A further 1 million people who are under increasing pressure in the prevailing financial climate and developing recession represent potential future clients of free-to-client money advice services.
- To achieve these additional levels of service, an estimated £110 million would be required for each 0.5 million people. To reach an additional 2 million people this would mean an addition £440 million is needed.

Recent government initiatives have contributed a considerable amount to improving capacity in money advice services. However, funding for the sector remains insecure and, whilst some interviewees thought the existing approach to money advice had some strengths, most identified problems with the piecemeal development, the lack of coordinated strategic development and the narrow funding base. There are also geographical differences in provision of debt advice that need to be kept under review and significant changes in the funding environment that add to the uncertainties facing money advice services in future.

Whilst a mix of methods of service delivery is already in place, there was interest in increasing the number of telephone- and Internet-based services, particularly for the provision of self-help advice, as they were thought to be cost-efficient and able to reach new or under-represented groups of service users.

However, face-to-face advice services will remain central to money advice provision, particularly for dealing with complex issues, or for people who need support or have literacy problems. The effectiveness of self-help advice is limited by the difficulty that people face in negotiating directly with creditors to get a financial statement accepted or agree a repayment schedule. Effectively, creditors can force people to use advice services. This does not sit easily with the fact that the main service that is funded through finance industry contributions – National Debtline – focuses mainly on self-help advice and referrals (MacDermott 2008: 4). This adds pressure to the demands on advice services at no cost to the finance and credit industry.

Interviewees discussed possible alternative models that could be developed to achieve more sustainable funding for money advice. However, most of these involve elements of charging for services. A different approach to debt management plans using the 'fair shares' model offers the potential to be part of the solution. However, if the 'fair shares' model becomes a significant model for debt advice, it has the potential to create uneven geographic provision because services in deprived areas would have fewer debt clients able to make repayments. This could make the problem of sustainable services for low-income communities even more acute than they are now. Further, a key strength of services delivering free-to-client debt advice is their independence. Charging would undermine both principles and could create an additional barrier to people seeking the advice they need at the earliest possible stage.

The majority of our interviewees supported the idea of a levy, or systematic industry contribution, from the finance and credit industry. They had some concerns that this could negate existing goodwill and affect the 'corporate responsibility' approach of the industry. However, our research indicates that the existing voluntary approach has generated little financial support for frontline money advice, despite the scale of the demand for advice and the contribution of the industry to the problem of over-indebtedness. Individuals on low incomes face financial difficulties due to a wide range of reasons, including irresponsible lending by the industry, high interest rates, aggressive marketing and strategies such as sub-prime lending and charging structures that mean low-income groups are generating much of the industry's revenues.

Independent of the funding model developed, more centralised coordination and planning of debt advice services is needed. Although the systematic industry contribution may impact on funding for the Money Advice Trust and National Debtline, it is important that telephone services and the infrastructure support role are included in the range of services provided for through a nationally coordinated service. Infrastructure support will be crucial for building the skills of advisers and the quality and range of advice services provided.

Although there is a range of possibilities for how the systematic industry contribution could work, public funding remains important and suggestions centred on funds coming half from the public sector and half from industry. Taking account of the significant role of the finance and credit industry in contributing to the problem of over-indebtedness and assuming the systematic industry contribution is widely applied, an argument can be made for a higher industry contribution, possibly 75 per cent, in the longer term.

Across the three scenarios developed, the total cost of money advice, including current provision, would range from £275 million to address estimated current unmet demand, through £390 million to £600 million for a comprehensive service reaching around 3 million people. A 50 per cent contribution from the industry would involve generating £138–£300 million through the systematic industry contribution. This is much greater than present funding levels from the industry. However, it represents a small fraction of current lending.

For example, the Bank of England shows that gross lending secured on dwellings was £259,195 million in 2008 and consumer credit gross lending was £192,099 million (Bank of England 2009), making total lending over the year £451,294 million. How the systematic industry contribution would be apportioned in practice would depend on how widely it was applied and the basis for charging. However, for illustration, the cost of funding the levy from new lending in 2008 would result in a range of costs from 30.5p per £1,000 to 66.5p per £1,000 of lending.

The amount of the systematic industry contribution would need to be kept under review, initially to build the resources for a comprehensive service, but at a future date, particularly if lending and over-indebtedness reduce over time, the systematic industry contribution could reduce.

Generic financial advice and money advice

Greater strategic planning and coordination will become more important as generic financial advice develops, effectively creating a national network that will refer people for money advice if they are in crisis. Some interviewees thought that what money advisers already do includes a great deal of what is anticipated by the Thoresen Review. As it is planned, there is a risk that the generic financial advice service could 'cream off' less time-consuming work.

The proposed generic financial advice service anticipates referring people in crisis to services that are insecure and working to full capacity. Building a service on the assumption that generic financial advice will mean that crisis intervention will be needed less over time is not guaranteed, particularly in the current economic climate. The impact that a national service might have for the extent and security of funding for money advice is not predictable. What is needed – but is lacking at the moment – is an overall advice strategy that clarifies all these issues while respecting the complexities that are inherent to them.

It is important to recognise that providing crisis support to deal with indebtedness is a key gateway to ongoing support to help improve money management in the longer term, but it is support that advice services are often unable to provide. The scale of the ongoing demand for money advice and the funding problems that exist suggest that a more holistic approach to financial advice services would be more effective for low-income groups. Such a service could provide for the checks and balances needed over the economic cycle and ensure that the different elements of the service are adequately resourced and integrated where possible. Money guidance pathfinder projects may help to address concerns about how realistic is the anticipated scale of need for generic financial advice, but it may not provide any more clarity about the scale of the problem of over-indebtedness that currently exists and can only be expected to increase as recession bites.

The fee-charging sector

Interviewees raised concerns about the completeness of advice provided in the commercial sector. This raises the question of whether there is a need for greater regulation of money and debt advice than exists at present. Whilst this issue is outside the scope of this study, it may benefit from further consideration following publication of the research on fee charging services commissioned by the Money Advice Trust.

RECOMMENDATIONS

The strong links between poverty and over-indebtedness suggest that financial capability is not the main problem for many people living on a low income. Measures to address poverty could do more to reduce over-indebtedness than debt advice in the long term, but without significant poverty reduction advice will remain a vital lifeline for all low-income groups. In order to move towards more sustainable funding for money advice, our main recommendations are as follows:

- The UK Government should address the lack of a strategic overview of money advice provision, the need for services and future development. This is a matter of some urgency in light of the prevailing economic climate.
- Part of a more strategic approach to money advice should be to monitor the impact of major changes in the funding environment for money advice including, for example, Legal Services Commission funding changes and the introduction of community legal advice centres and networks and local authority contracting for services.
- The Government is also recommended to put in place a regulatory requirement, described here as a systematic industry contribution, that is widely applied across the finance and credit industry, to contribute to funding for a nationally coordinated money advice service. The funds generated need to be additional to existing resources from public sector funding.
- A national structure should be identified or developed to undertake a strategic and proactive role in administering funding, developing services and building an understanding of the size, scale and activities of the money advice sector, including recording and monitoring of advice work. This is essential to gain a more complete understanding of service provision and gaps.
- Advice should retain a mix of generic and specialist provision across the UK in recognition of the need for many people to get help with a range of issues, of which debt may be only one.
- A nationally coordinated service should ensure effective and targeted promotion of services, high standards of service and accessibility. It also needs to ensure that a full range of 'access to advice' needs can be met, ranging from telephone- and Internet-based self-help advice to long-term intensive support and advocacy.
- Potential funders that have decided not to fund direct advice provision at present are encouraged to reconsider their position. This includes charitable trusts and, for example, Lottery programmes.
- The money advice sector should work with others to develop consistent monitoring to ensure that the future development of services is grounded in complete and reliable information on advice provision and information on unmet and potential demand.

This study has undertaken only the first steps in seeking to gain an understanding of provision, funding and demand for free-to-client money advice for low-income groups. Further research is needed to understand more about the nature and levels of money advice provision. Research is also needed to understand the impact of funding changes and the development of generic financial advice on money advice resources and demand for services. Accounting for time and resources for money advice work is always going to be a difficult task for generalist services. However, it will be important to learn more about activity in areas such as local authority and non-Citizens Advice networks.

The proposals outlined here are likely to take some time to come to fruition, even if they meet with wide support. More urgent progress needs to be made towards addressing the problems of demand for money advice as more people face financial difficulties and incomes drop in the current recession.

Appendix I
Estimates of money advice clients, staffing and funding

This appendix provides estimates of the number of people getting free-to-client money advice, the staffing levels involved and the funding available for such advice.

Advice services staffing and clients

The assumptions used for estimating staffing levels and the number of people getting money advice (met demand) are outlined before going on to provide estimates of staffing and debt advice provision in different services.

Annual caseloads for debt advisers vary between organisations and the type of service provided. The calculations below indicate that, overall, Citizens Advice advisers deal with approximately 260 cases per full-time equivalent adviser (paid and volunteer). However, caseloads of Financial Inclusion Fund specialist money advisers are lower at around 200 per year. The Legal Services Commission minimum performance threshold for the outreach pilots was 220 per year; the case opening target was 275 and the average number of cases opened per full-time equivalent ranged from 74 to 277, although only one service met the higher target (Smith and Patel 2008: 2–3).

Advisers working on Financial Inclusion Fund face-to-face advice projects had seen much lower numbers, averaging 166 clients over the seven quarters of monitoring, but this included training and start-up time (Opinion Leader 2008). Collard and Burrows (2002) thought a workable caseload would be around 150 ongoing or complex cases per adviser per year. Assuming a ratio of 1:5 simple to complex cases, this would translate to an annual caseload of 180.

For the calculations below, from the range of 180 to 220 cases per year identified across these sources, where caseloads per full-time equivalent adviser are estimated they are assumed to be 200 for specialist debt advisers. For the Citizens Advice networks that operate with a high proportion of volunteers in general advice caseloads they are assumed to be 260 per full-time equivalent combined paid and volunteer staff, reflecting a higher proportion of simple cases.

Limited detail is available about local government direct provision of money advice. One survey estimated that less than half of local authorities provide money advice for 'social sector tenants' – most of these fund provision through other services, often in addition to some

direct provision. Levels of provision were found to be higher in Scottish local authorities in comparison to England and Wales (Durrant et al. 2006). Some interviewees thought the numbers may be increasing. In Scotland this is linked with the introduction of the new Debt Arrangements Scheme that requires accreditation of advisers.

The following is a summary of evidence available about the main free-to-client advice services and networks in relation to money advice (summarised in Table A1).

- Citizens Advice has 426 member bureaux across England and Wales. In 2007–08 they dealt with 5.5 million issues, including 1.74 million debt issues (32 per cent) and helped 1.9 million people including 521,000 debt clients (28 per cent of the total) (Citizens Advice 2008; Peto 2008). This equates to a ratio of debts to clients of 3.3:1. The proportion of Citizens Advice general advice work that relates to debt is estimated here to be in the range of 28–32 per cent.
- The Citizens Advice service has around 4,000 paid and 12,000 volunteer advisers, estimated to equate to the full-time equivalent of 2,170 paid and 3,300 volunteer advisers. Citizens Advice has approximately 350 full-time equivalent paid specialist debt advisers funded under the Financial Inclusion Fund and approximately 200–250 under Legal Services Commission contracts (source: unpublished data). Of the remaining 1,570–1,620 paid staff, assuming debt work accounts for 28–32 per cent of work overall, approximately 450 to 500 paid advisers will provide debt advice in the general service, bringing the total estimate of full-time equivalent paid advisers doing debt work to 1,000 to 1,100 and approximately 1,050 full-time equivalent volunteers.
- Citizens Advice Scotland has 55 member bureaux operating from 71 offices that have approximately 500 paid staff in total. The number of volunteers is not known. Whilst Citizens Advice bureaux provide a generalist service, the Scottish bureaux have 88 paid staff recorded as money advice specialists (Citizens Advice Scotland 2008; and unpublished data). Citizens Advice Scotland dealt with 315,588 debt issues in 2007–08, accounting for 35.7 per cent of the 884,225 issues raised over the year (Citizens Advice Scotland 2008 and unpublished data). The number of debt clients is not known but, based on research (Gillespie et al. 2009) that found the average number of debts was 6.3, this is approximately equivalent to 50,000 people. Assuming caseloads of 200 each, the 88 specialist staff would deal with approximately 17,600 people. Assuming caseloads of 260 per adviser in the general service, the remaining 32,400 debt clients will involve work for approximately 124 staff. If staff-to-volunteer ratios are similar to Citizens Advice, that represents approximately 44 paid and 80 full-time equivalent volunteer staff. This results in Scottish bureaux having an estimated 132 full-time equivalent paid staff and 80 full-time equivalent volunteer staff doing debt work per year.
- Citizens Advice Northern Ireland has 22 bureaux with 30 offices (Citizens Advice Northern Ireland 2009). Bureaux have 12 money advice specialist advisers and a central research post funded through the Department of Enterprise, Trade and Investment's Dealing with Debt project. Bureaux also deliver debt advice as part of their generalist service. During 2007–08, Citizens Advice Northern Ireland dealt with 279,222 issues, 52,318 of which related to debt (18.7 per cent of the total) (Citizens Advice Northern Ireland 2008a). Statistics for the Department of Enterprise, Trade and Investment Dealing with Debt project (Citizens Advice Northern Ireland 2008b) showed that,

during the year from 2007–08, the 12 specialist advisers dealt with a total of 1987 clients including 1,670 new clients who had a total of 4,270 debts (a ratio of 1:2.5). Assuming the ratio of debts to clients is similar across the general service (and lower than the other Citizens Advice services), approximately 21,000 clients used the service over the year, including 19,000 in the general service. Assuming average caseloads of 260, the estimated staff equivalent working on debt advice in the general service is approximately 73 full-time equivalent. Approximately 48 full-time equivalent are assumed to be volunteers and 25 paid, making 37 full-time equivalent paid money advisers in total.

- AdviceUK has 850 services, 350 of which provide money advice across the UK. These services are predominantly in larger urban centres and target deprived areas and 40 per cent have a focus on black and minority ethnic groups (source: interview). AdviceUK estimated in 2005 that they had around 210,000 debt clients per year (Fearnley 2007). On the basis of dealing with around 210,000 debt clients per year and assisting 200 clients per adviser, the number of advice staff is estimated to be in the region of 1,050 full-time equivalent staff – the total is likely to include some volunteers. For the calculation the full-time equivalent of volunteers is estimated as150, so 900 are assumed to be paid staff. This assumes lower levels of volunteering in AdviceUK organisations, since some have no volunteers, and is consistent with AdviceNI information below.
- The AdviceNI network reported that it has 65 member services and a total paid staff of 185 including 69 advice workers, 14 paid and 2 voluntary specialist money advisers (AdviceNI 2008). Debt accounted for 9 per cent of the total of over 200,000 enquiries (around 18,000). Helping approximately 6,000 clients, around 30 full-time equivalent staff in total are estimated to be involved in providing debt advice, anticipated to be 26 paid and 4 volunteer.
- There is limited information available on local government provision of money advice. Information from the Scottish Government suggests that, of around 255 full-time equivalent money advisers in Scotland in 2006, around 125 were in local authorities, approximately one-third of them supported by Scottish Government funding streams. Money Advice Scotland estimates that 27 of the 32 Scottish local authorities have in-house services. However, money advice is less prevalent elsewhere in the UK (Durrant et al. 2006). On the basis of the available information, it is anticipated that around 200 to 220 local authorities across the UK provide some money advice – assuming the average number of advisers per local authority is 3, that represents around 600 to 660 advisers in local government. The number of people assisted by local authority money advice services is not known. However, based on caseloads of 200 per year, the number of clients is estimated as 120,000 to 130,000.
- National Debtline is a national service delivering telephone and web-based debt and money advice. It employs 116 full-time equivalent people and the service helped 105,000 people in 2007 (Money Advice Trust 2008b).
- In addition to funding projects and activities located in face-to-face settings, the Legal Services Commission provides a Community Legal Advice telephone service that includes debt amongst the issues that it deals with, and it funds some work on debt by solicitors as well as the not-for-profit sector (Legal Services Commission 2008b). The Community Legal Advice Helpline dealt with 22,000 debt 'matters' in 2007–08, and the Legal Services Commission (2008b) also notes that solicitors dealt with 15,263 debt matters, in addition to the 74,261 delivered by not-for-profit organisations that are

likely to be already included in the totals above. We have assumed that this is likely to involve around 10,000–15,000 clients.

- Consumer Credit Counselling Service report that 75,000 people used their online resource, Debt Remedy, and they took 400,000 calls from existing and new clients and advised 63,836 people through in-depth counselling sessions. The extent of any overlap between those assisted via telephone calls and face-to-face, and those who accessed Debt Remedy is not clear (Consumer Credit Counselling Service 2008). Client numbers are estimated to be 100,000–150,000.
- Payplan aimed to assist around 120,000 people in 2006, estimated to equate to around 400,000 enquiries (Fearnley 2007).
- Other sources of advice: New Philanthropy Capital estimate that there are 300 other sources of free-to-client advice and most provide debt advice as one of a range of services. Information from our analysis of accounts (see below) indicates that the number supported through this route is likely to be relatively small. Assuming that each provides advice to approximately 150 people, this suggests a total of 45,000 people advised per year and 225 full-time equivalent staff.

Overall, the estimates show that around 1.3 to 1.4 million people are getting advice each year. Unlike the other services listed below, Consumer Credit Counselling Service and Payplan generate income for debt advice from operating debt management plan programmes and do not rely on external funding to the extent of other services. Whilst such services assist some people in low-income groups, they are less well targeted than other free-to-client services. For example, average monthly net income of Consumer Credit Counselling Service clients was £1,503 (Consumer Credit Counselling Service 2009) compared with £1,021 in a recent Citizens Advice survey of debt clients (Aznar 2009). When these services are excluded, an estimated 1.1 million people are being advised by 4,330 to 4,500 staff in free-to-client money advice services. Approximately 3,030 to 3,200 full-time equivalent advisers are paid and approaching 1,300 full-time equivalent are volunteers.

Funding of the advice services sample

A sample of 25 services was selected and data gathered about funding sources through analysis of annual accounts. Of the total, 3 were excluded from the analysis: debt advice was marginal to the service provided in 2 cases; and information provided by the Money Advice Trust was analysed separately since it acts as a 'gateway' organisation, and as a funder and provider of infrastructure and training support. Information about resources was gathered from two Scottish local authority services. However, the information available from them reflects their location within large council departments and is not comparable with the full accounts of the other services. Although involving a relatively small number of services, this sample helps to illustrate the issues identified in this study, particularly in relation to funding levels and sources. Initial hopes that the sample would provide detailed information about client numbers and staffing for debt advice were not met, and the information from services is more limited in that respect.

Table A1

The primary free-to-client money advice services, and estimated advice provision

Network/ service	*Coverage*	*Number of money advice staff (estimate)*	*Total enquiries/ issues per annum*	*Number of debt issues or enquiries per annum*	*Number of debt clients per annum (estimate)*
Citizens Advice	England, Wales	1,000–1,100 paid and 1,010 full-time equivalent volunteers	5.5 million	1,740,000	521,000
Citizens Advice Scotland	Scotland	132 paid and 80 full-time equivalent volunteers	884,000	315,588	50,000
Citizens Advice Northern Ireland	Northern Ireland	37 paid and 48 full-time equivalent volunteers	280,000	52,300	21,000
AdviceUK	England, Wales, Scotland	900 paid and 150 full-time equivalent volunteers		701,400	210,000
AdviceNI	Northern Ireland	26 paid and 4 volunteer full-time equivalent		18,000	6,000
Local authority	UK	600–660			120,000–130,000
National Debtline	England, Wales, Scotland	116		208,000	105,000
Legal Services Commission Community Legal Advice	England, Wales			35,000 inc. solicitor provision	10,000–15,000
Consumer Credit Counselling Service	UK			250,000	100,000–150,000
Payplan	UK			400,000	120,000
Others	UK	225			45,000
Total					**1,308,000– 1,373,000**

The 22 remaining services included 11 Citizens Advice bureaux and 11 other voluntary sector services including one law centre – 13 based in England and 3 each in Scotland, Northern Ireland and Wales. Most (15) were generalist services, including 2 that delivered a range of services in addition to advice, while 7 were specialist services including 6 money advice and one housing specialist service. While 10 services covered part or all of city areas, 4 covered a city and surrounding areas, 5 covered mixed local authority areas, 2 covered specific groups and geographical area and 1 delivered services across England and Wales. Most provided information for the financial year ending in 2007, but 4 provided accounts for the year ending in 2008. Table A2 provides an outline of the characteristics of services broken down by 13 generalist services (for example, Citizens Advice), 6 specialist services dedicated to money advice and 3 for which money advice is a marginal issue. Other characteristics of services included the following:

- The services reflected a range of organisation sizes – general staffing ranged from 3 to 81 people, the number of advisers ranged from 2 to 71 and money advice dedicated staff ranged from 0 to 56.
- Some services expressed their advice work in relation to enquiries, others in relation to people. The range of debt enquiries varied greatly from 1.4 per cent to 100 per cent in some specialist services.

Table A3 provides an outline of the overall funding situation of the services. The following points about the funding of services are worth noting:

- Some of the accounts included amounts that could not be clearly allocated to one of the funder types. Most services also had a catch-all category for small amounts of funding and donations – these are included in the 'other income generation' category along with income such as membership fees, bank interest, etc.
- The 'specialists' group includes two large organisations – one with religious principles that did not receive public funding and one city-wide partnership service set up to deliver one of the Financial Inclusion Fund projects, involving delivery by generalist and specialist services in the area.
- Citizens Advice bureaux had more public funding sources on average (8 compared with 4 in other voluntary sector services), but fewer voluntary and charitable funding sources (4 compared with 13). However, it should be noted that one of the voluntary sector services had more than 60 different charitable funding sources.
- Across the services there was evidence in accounts and annual reports of new projects starting and others stopping, and reports of changes to staffing levels to accommodate funding 'lows'. The annual report of one service, for example, thanked two part-time advisers for taking voluntary redundancy to protect the remaining service because funding for a project had ceased.
- Only services in England and Wales got Legal Services Commission funding, although one Scottish service (a law centre) generated legal aid income.
- All three Welsh services had health service funding compared with around one in three services across other areas.
- Only services in Northern Ireland, Wales and London had European funding.

Table A2
Summary of characteristics of sample of advice services. All figures are average numbers.

	Generalist		*Specialist*		*Marginal MA*		*All*	
		base		*base*		*base*		*base*
Advice staff	15.5	12	25.7	6	7	3	17.7	20
Money advice staff	3.7	13	13.7	6	0.2	3	5.8	22
Public funders	7.23	13	3.80	5	5.33	3	6.14	21
Voluntary sector funders	3.8	11	18.3	4	10.7	3	8.2	18
Finance sector funders	–	–	2	2	–	–	2	2

- No Scottish services had Lottery funding or other charitable funding – although advice services in Scotland have benefited from Lottery funding in the past, a brief search of the database indicates a handful of services receive funding, only three or four of which provide face-to-face advice.
- The three services with funding from the finance and credit sector are all based in England.
- Overall the services in the sample had more than £15 million of funding. Local authorities were the single largest funding group, provided 27 per cent of funding overall, but 47.2 per cent of funding for generalist services.
- An estimated £3.3 million of funding overall could be identified as dedicated to delivery of money advice (including £3 million of government funding), none of it from the finance and credit industry.
- There was no funding identified from any utilities company.

Table A4 provides estimates of existing funding for the main free-to-client advice services and networks. The assumptions are:

- Where overall income is known, resources in generalist services are assumed to be proportionate to debt as a percentage of all advice work.
- Other financial resources are based on the assumption that an administrative assistant is needed for every four advisers. Estimates are based on:

Adviser salary and employer costs	£35,000
0.25 administrator @ £28,000	£7,000
Overheads	£5,000
Advertising/awareness raising	£3,000
Total	£50,000

- This formula is used to estimate income for debt advice work as well as estimates of funding required. This is broadly consistent with Legal Services Commission funding for debt work (£196 per client and anticipated caseloads of 220 per year) and assumes a mix

Table A3

Summary of funding of sample of advice services

	Generalist		*Specialist*		*Marginal MA*		*All*		
	No.	*% of total*	*No.*	*% of total*	*No.*	*% of total*	*No.*	*£*	*% of total*
Financial Inclusion Fund/ Department of Enterprise, Trade and Investment funding	8	7.9	4	33.3	1	0.5	13	2,725,990	17.4
Legal Services Commission funding	9	15.0	1	2.8	–	–	10	1,309,325	8.3
Other central government	3	1.2	1	2.3	2	10.8	6	424,599	2.7
National parliament/ assemblies	5	4.9	–	–	2	38.9	7	1,068,401	6.8
European funds	1	0.6	1	1.5	3	10.4	5	328,163	2.1
Local authority	13	47.2	4	7.1	2	12.8	19	4,235,145	27.0
Health	8	5.2	-	-	1	0.0	9	388,070	2.5
Other public sector	7	2.2	1	1.7	1	4.2	9	349,059	2.2
Voluntary sector	9	3.7	2	0.6	2	3.2	13	376,991	2.4
Lottery	5	4.1	1	0.8	2	0.7	8	373,178	2.4
Other charitable	6	0.6	4	33.7	3	12.7	13	2,426,109	15.5
Financial trusts/ foundations	1	0.2	1	0.6	2	0.5	4	59,923	0.4
Finance/credit sector	–	–	3	1.3	–	–	3	80,018	0.5
Legal aid	2	3.2	–	–	–	–	2	238,185	1.5
Other income generation	12	1.6	5	12.8	3	4.8	20	1,027,472	6.5
Not clear	6	2.3	3	1.7	2	0.5	11	284,501	1.8
Total funding	**13**	**£7,518,252**	**6**	**£6,385,826**	**3**	**£1,791,051**	**22**	**£15,695,129**	
Average funding	13	£578,327	6	£1,064,304	3	£597,017	22	£713,414	

Table A4
Annual funding estimates for advice services

Network/service	*Paid debt advice staff (estimate)*	*Clients*	*Overall income (estimate)*	*Estimated % spend on debt advice*	*Approximate debt advice resources*
Citizens Advice	1,050	521,000	£148 m	28–32%	£60–£65m[1]
Citizens Advice Scotland	132	50,000	£13m	36%	£4.7m
Citizens Advice Northern Ireland	27	21,000	£4.5m	19%	£0.9m
AdviceUK	900	210,000	–		£45m
AdviceNI	26	6,000	–		£1.3m
Local authority	630	125,000	–		£31.5m
National Debtline/ Business Debtline	116	105,000	£4.9m		£4.9m
Others	225	45,000	–		£11.3m
Total	**3,106**	**1,083,000**			**£159.5–£164.5m**

Note:
1 Estimate based on: £17 million Financial Inclusion Fund; estimated £10m Legal Services Commission funding for debt advice; remaining funding of £121 million, less £5m funding for other specific areas of work, is £116m, of which approximately 28–32 per cent is spent on debt advice (£33–£38 million).

of complex and simple casework, so overall cost estimates are lower than advice posts funded by the Financial Inclusion Fund.

- Where debt clients, issues or staffing levels are in a range, resources estimates are based on the mid-point of the range.

Table A4 indicates that in the region of £160–£165 million is being spent on debt advice in advice services that rely primarily on funding rather than income generation (Consumer Credit Counselling Service and Payplan are excluded here).

Appendix II
Approaches to debt advice in other countries

This appendix summarises the key issues drawn from the delivery and funding of money advice in the Netherlands, Republic of Ireland and Australia. The selection of countries for review was based on validity of comparison (for example, similarity in levels of demand, nature of welfare and advice provision) and the potential for transferable lessons on funding and practice. The review is based on a desk-based literature search of evidence available in English.

The Netherlands

A European Commission study on financial services provision and prevention of financial exclusion was conducted in 2006. This reported that the issue of financial exclusion and over-indebtedness was under-researched in the Netherlands (European Commission 2006). This study reported that there is very little existing literature relating to financial exclusion in the Netherlands because policy and practice has tended to be developed at the local level. Since that report, key policy developments have included the following (Ministry of Social Affairs and Employment 2009):

- In 2006, the government earmarked 25 million euros to help people get out of debt. The State Secretary of Social Affairs and Employment also announced that the organisations involved and local authorities should work more closely together to tackle debt problems.
- Most recently, the Dutch Ministry of Social Affairs and Employment announced a focus on 'development of spending power, combating and preventing poverty and debts', and the intention to 'drive back the number of people with problem debts by half in 2011 and restrict the waiting lists for the debt relief assistance'.
- In 2009, 65 million euros of the 350 million euros during the full Cabinet period will be reserved for combating poverty and debt relief assistance.

The Dutch approach to tackling over-indebtedness

Over-indebtedness can be tackled by regulating lending, capping interest rates and similar measures, or by facilitating organisations that help solve the problems of over-indebtedness and by organising insolvency structures. In this model, national level legislation regulates the industry while local municipalities develop local solutions to support their residents. The

Dutch approach is characterised by a combination of both elements and delivered as follows (Norder 2007):

- **Regulation, including self-regulation:** Consumer laws protect clients from predatory lending and high interest rates. A number of the provisions of the Dutch Consumer Credit Act, linked to self-regulation, contribute directly to the prevention of indebtedness, including maximum interest rates, the registration system of the Bureau of Credit Registration (BKR) credit reference agency and the code of conduct of the Union of Finance Companies (VFN). Other important instruments are the debt settlement code of the Dutch Association for Public Credit (NVVK) and the draft law on debt resolution.
- **Direct support for people who have problem debts:** Advice, debt counselling, debt mediation and debt resolution through local organisations such as social welfare bodies, the social welfare services of local authorities, municipal credit banks and a professional organisation with many local branches that specialises in the management of household financing, whose services are hired by local authorities.
- **Advice:** The National Institute for Information on Household Budgeting (NIBUD) is an independent organisation that provides information, advice, lectures and policy support on household finance to social welfare organisations, government, the financial services sector and legal experts. It also provides information to consumers through brochures and CD ROMs, and budget counselling by telephone. The most frequent enquires the service receive relate to: costs of children and alimony, food, budgeting, debts and college expenses. The National Institute for Information on Household Budgeting has developed an online 'Money Manager' programme, which enables consumers to create household budgets. The NVVK also gives advice to its members and has developed a debt regulation scheme, which describes in detail the process for settling problem debts.

In the Netherlands, municipal banks are key actors in providing debt counselling. The Volkskredietbank acts as a social bank and a debt-solving agency. These banks are founded by, and accountable to, their respective local councils. In that sense they may be unique and the Consumer Credit Act exempts them from an obligation to be licensed in order to provide credit. Their banking rules are approved by their province's administrative authority (Provinciale Staten) (Koopman 1999). There are 49 members, and this provides almost national coverage. The NVVK is the representative organization of these municipal credit banks. Clients of the Volkskredietbanken are on average serviced for a period of two to three years. Within this period:

- 75 per cent solve their debt problems through a combination of education and money management (balancing income).
- On average 5 per cent of (former) clients become over-indebted again (Koopman 1999).

The Volkskredietbanken were originally established in order to wipe out sub-prime lending. The municipal banks were the first institutions operating in the consumer credit market to benefit low-income groups. They have grown into fully fledged banks, providing 'normal'

credit at commercial rates in addition to their prime task of providing 'social' banking services. The Volkskredietbanken provide the following services to help tackle over-indebtedness:

- **Prevention:** Educational and training programmes are delivered at schools, in companies or to individuals (in a pre-client phase). One-to-one tailored coaching sessions deliver information and guidance on a range of issues such as insurance, saving and budgeting.
- **Advice:** This includes analysing the underlying problems and dealing with priority issues (e.g. housing), providing information about the ongoing process (debt solving and budgeting) and follow-up.
- **Bank account:** Provision of a basic bank account with no overdraft facility. Use of the card is controlled and can be accompanied by a learning programme.
- **Balancing income:** Controlling the client's income, based on an agreement between the client and the municipal bank (and in accordance with the related law). A schedule for all necessary payments, including those to debtors, is developed with the objective of developing a better financial balance in the long run.
- **Responsible credit:** Small loans at low interest rates to cover a mortgage or to finance, for example, a washing machine. Loans are granted on a non-commercial base and with strong restrictions.
- **Debt settlement:** The banks assist with two key options. First, a non-judicial 'amicable' debt settlement (reference), which is an arrangement managed by the bank. The rescheduling of debts and its financing (through clients' own means or a loan by the municipal bank) can be managed by the members of the NVVK. Secondly, the Wet Schuldsanering Natuurlijke Personen (WSNP) is almost identical to the 'amicable' settlement. Those who have tried unsuccessfully to come to an amicable arrangement can ask the Court to impose a settlement. The WSNP is executed by administrators/ trustees and overseen by supervisory judges.

There are clear strengths to the Dutch approach, which addresses prevention as well as crisis intervention. However, a European peer review of the Dutch debt settlement process concluded that there is a need to discuss the role played by mediators and trustees, including the balance between 'the capacity to listen to people's problems and the need for strictness' (European Commission 2008). These criticisms relate to the fact that as well as engaging in a structured programme of advice and education about budgeting, all of the debtor's mail is redirected to the trustee who is handling their case (Korczak 2006).

In the UK, services for disadvantaged groups that combine access to affordable credit, banking and advice are still novel and being tested through small-scale pilots. Scotcash (www.scotcash.net) is one example of a loans service targeted at low-income groups that offers a range of services and products, including affordable loans, saving accounts, white goods packages, basic bank accounts and money advice.

Republic of Ireland

Financial exclusion has become an important issue at European and international levels. However, a recent policy review of financial exclusion in Ireland reported that the issue was largely ignored in debates around social exclusion in Ireland until recently (Corr 2006: 4).

A European peer review of financial exclusion in Ireland highlighted the following policy developments (European peer review, n.d.):

- Financial inclusion was highlighted as an issue in the *National Action Plan for Social Inclusion 2007–2016.*
- The National Payments Implementation Programme was established in November 2005 and is developing proposals made by the Irish banking industry on a 'universal account'. It is considering how its work could lead to greater financial inclusion.
- The Consumer Protection Code came into operation on 1 July, 2007 and offers greater protection to consumers. It sets out specific provisions in relation to financial access and general principles, and rule for guarantors, payment protection insurance, non-mortgage personal lending, mortgages and lifetime mortgages.
- The Financial Regulator has taken a number of steps to promote access to financial services in Ireland.

The key policy development in relation to tackling over-indebtedness in Ireland has been the decision of the Department of Social and Family Affairs to delegate the issue of over-commitment to the Combat Poverty Agency, a statutory organisation responsible for advising the Irish Government on policies to reduce poverty in Ireland. To tackle the problem of over-indebtedness, the Agency works together with a state-funded network of money advice services called the Money Advice and Budgeting Service (European Commission 2008).

The Department of Social and Family Affairs provides funding for this advice network, which addresses the problems of money-lending and over-indebtedness. This programme was established in 1992 as a response to a Combat Poverty Agency report (Daly and Walsh 1988). The basic aim of the service is to help people who are in the clutches of money-lenders and others who have debt problems, to regain control of their finances and gain access to affordable credit, which is available in their local credit union (Edwards 2004). The majority of Money Advice and Budgeting Service clients are on a low income (over 70 per cent) and 54 per cent are on social welfare (European Commission 2008: 85).

The Money Advice and Budgeting Service is free, confidential, independent and open to anyone who seeks help. It does not pay clients' debts, but provides counselling. The programme has expanded gradually, and currently this community-based, non-profit debt counselling service has 65 offices across the country, with 228 money advisers and support staff to help people gain control over their finances and their lives. The ratio to Ireland's population of 4.1 million is one adviser per 18,000 population.

Some €11.4 million was provided in the year 2004 for the service (European Commission 2008: 2). The Department funds the cost of staff as well as other running costs of the individual services. The projects are funded on the basis of a three-year, renewable contract, based on a work plan. The three-year plan includes a detailed breakdown of costs, which covers staff salaries, accommodation costs and general expenses such as insurance, maintenance and other running costs.

The service contract provides for agreement on a detailed breakdown of each annual budget, submission of an annual report, annual audited accounts and quarterly returns and projections of expenditure. The statistics and figures are provided in a specific format used by all Money Advice and Budgeting Services. The statistics comprise four sections: financial statistics, client statistics, outreach activities, other activities. To complete the reports, less than two days' work per quarter is needed. Especially interesting is that the client statistics are gathered from the 'MABS1' system. It is estimated that these statistics can be produced in less than half a day every quarter (Money Advice and Budgeting Service n.d.).

The Money Advice and Budgeting Service and credit unions

The credit union movement was established in the late 1950s to help those who were borrowing from money-lenders and from other high-interest sources. Money Advice and Budgeting Services clients are encouraged to join their local credit union, where they can save small amounts and borrow at reasonable interest rates. Local credit unions operate 'special accounts' for Money Advice and Budgeting Services clients and many open these to enable them to repay their debts. The client agrees to pay a fixed sum to the credit union on a weekly basis. This payment will provide for outstanding debts, arrears of rent and fuel and current expenditure on rent and fuel. The client is also encouraged to save a small amount with a view to being able to borrow in the future (Edwards 2004).

Like the Dutch model, the Money Advice and Budgeting Service is founded on practical advice on budgeting to remove dependence on money-lenders. It also provides access to low-cost credit and crisis loans as well as developing an innovative non-judicial Debt Settlement Programme (Korczak 2004). An evaluation of the service recommended the need for strategic planning at national level; the need for a greater focus on community education, which prevents people falling into debt; and the need to focus on low-income consumers (European Commission 2008). In response, the Money Advice and Budgeting Service has developed its community education function nationally not only for those who are indebted, but to include a preventive role. It has also developed a new service delivery model, where those with financial literacy and a certain educational standard and income level can access financial counselling through a helpline, and others needing more support will receive one-to-one counselling. Furthermore, the Money Advice and Budgeting Service is continuing to develop closer relationships with community and voluntary groups.

The European peer review's key criticism of the service was that it has no statutory base. However, in the latest *Programme for Government 2007–2012* the Irish Government has committed to:

> Further enhance the Money Advice and Budgeting Service (MABS) by the establishment under legislation of a new structure with national leadership for the 21st century which maximises and recognises the current local voluntary involvement together with a strong professional role aimed at continuing to provide strong and confidential support for its clients.
>
> (Taoiseach 2008)

There are similarities between Ireland and the UK in terms of the development of debt advice services, but Ireland has a much longer-established nationally coordinated debt advice service that is now developing more integrated approaches. However, key strengths to draw from the Money Advice and Budgeting Service include the commitment of central funding and coordination, a unified monitoring system that is easy to use, collection of standard quarterly statistics, and accounting software that enables services to make a single regular payment for distribution among creditors through credit unions. This may be an interesting alternative approach to that used in the UK for distributing debt payments, which are presently delivered through a small number of organisations and do not involve advice providers in an integrated way.

Australia

Australia has developed an advice network that is very similar to the UK. In Australia, financial counsellors provide information and assistance to individuals (and sometimes small businesses) facing financial difficulty. This is a specialist service that assists people faced with debt and money issues. It requires specialist knowledge (paralegal skills and competencies), especially in regard to credit and debt issues affecting clients and their rights and obligations. According to the Australian Financial Counselling and Credit Reform Association, financial counsellors work mainly with socially disadvantaged and marginalised families and individuals (Australian Financial Counselling and Credit Reform Association 2007). The service seeks, through casework knowledge, to bring about social and systemic change based on a community development philosophy.

Financial counsellors are based in community agencies and are funded largely by State or the Federal Governments. Financial counsellors can advocate on a consumer's behalf to creditors and government agencies; explain the options to consumers who are unable to pay their debts, are involved in the debt recovery process, or are considering bankruptcy; and help with developing a budgeting plan and the skills to take control of finances. In 2005, financial counsellors were reporting that their services are being increasingly stretched by the demand from consumers in financial difficulty (Centre for Consumer Credit and Law and Financial Councillors Association of Queensland 2005). A briefing paper prepared the Centre for Credit and Consumer Law, Griffith University and the Financial Counsellors Association of Queensland (2005: 5) summarised the profile of clients as follows:

- 82 per cent of the financial counselling client group in New South Wales (NSW) in 2002 reported incomes of $30,000 or less, and 61 per cent reported incomes of $20,000 or less.
- 58 per cent of the new clients visiting a Brisbane financial counsellor in 2003/2004 reported that their income derived from Centrelink payments.
- 24 per cent reported incomes of $10,000 or less, 35 per cent reported incomes of $10,001 to $20 000, and 26 per cent reported incomes of between $20,001 and $30,000.

Provision is geographically patchy across Australia. In relation to population size, Victoria's provision is about the average: one financial counsellor for 49,174 of the population. This is much better than Queensland, which has one for 66,610 if volunteer financial counsellors are included, but not as good as Western Australia with one financial counsellor for 39,046 people (Barker 2005). However, this is a difficult comparison to make, given the differences in population, geographical areas, and mix of paid and unpaid workers in some states. It is also confusing in the South Australian context, with the majority of the 40 to 50 'financial counsellors' in that state being employed directly by the State Government and undertaking what could be considered as a limited form of financial counselling service provision.

Victoria has the broadest range of agencies providing financial counselling (Pentland 2005). Service provision in other states and territories has a greater proportion of church-based agencies and in Tasmania the sole provider of financial counselling services is Anglicare (Anglicare n.d.). The largest provider of financial counselling in the Australian Capital Territory is Care Financial Counselling Service, a community based welfare agency, which also hosts the Consumer Law Centre. The Commonwealth Department of Family and Community Services funded a project through the Commonwealth Financial Counselling Program in 2005 to map financial counselling provision nationally.

Regardless of the level of service provision in the states and territories, Pentland (2005) has reported that all areas experience considerable casework demand. Agencies generally do not promote their services to the public and referrals come primarily from community sector networks rather than directly from the public. In Victoria, Financial and Consumer Rights Council provides a telephone referral service, which is a direct link between the general public, other referring agencies and the funded financial counselling agencies. Any promotion of financial counselling, including through community education and community development activities, or the media is likely to generate further casework demand which may be difficult to meet within the current resources.

Investment from Australian financial services

Like the UK, the Australian financial services industry has focused investment on financial literacy and inclusion initiatives. Partnerships between the community sector including financial counsellors and the ANZ and National Banks acknowledge the important work of financial counselling and have provided resources to include financial counsellors in their strategies for addressing these issues. Other areas of investment are in the advice infrastructure; for example, the ANZ Bank has recently provided $150,000 through AFCCRA to facilitate opportunities for financial counsellors to enhance their professional development by meeting at national and state financial counselling conferences in 2006 and 2007.

In terms of good practice, in delivering advice, an achievement of financial counselling in Australia has been its capacity to engage with all sectors involved in addressing debt, including the finance and credit industry, and to work across sectors to the benefit of low-income and vulnerable consumers.

Like the UK, advice services face the problems of short-term funding. In a submission to the Productivity Commission, the Centre for Credit and Consumer Law argued that the Commonwealth, State and Territory Governments need to put adequate resourcing into ensuring that all consumers in Australia have access to a minimum level of information, advice and individual advocacy in relation to complaints and disputes on consumer issues. A key argument was that long-term funding arrangements are crucial for the funding of casework, advice, financial counselling and other frontline services provided to consumers by community and non-profit organisations.

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