2012/13 Debt Advice Business Plan

Continuity and Transition

Introduction from Chairman and Chief Executive

High quality debt advice can transform the lives of people in financial crisis. It can also result in economic benefits for creditors. It makes sense then, particularly so in tough economic times, to bring greater coherence, consistency and sustainability of funding to the fragmented provision of debt advice currently available to those most in need.

These are our aims at the Money Advice Service, as we take on a new coordinating role for debt advice at the request of Government. In the months since accepting the request in July 2011 we have carried out a wide-ranging programme of research and consultation to clarify the numbers of people for whom debt advice is a priority, and the needs and motivations of those people. We are grateful to everyone who contributed to the research and to the Department for Business, Innovation and Skills for the funding. The findings are available on our website.

The research has been instrumental in shaping the high-level programme of work set out in this Business Plan, and the principles on which it is based. Importantly, we have prioritised the continuing provision of high quality face-to-face debt advice during 2012/13. We aim to increase capacity by 50% by introducing efficiencies and spreading best practice.

All but a modest proportion of the £34.5m budget in this plan will go to ensuring continuity of frontline service. We will fund six delivery organisations across England and Wales that provide debt advice face-to-face and contribute funds proportionately towards debt advice provision in Scotland and Northern Ireland.

Gerard Lemos CMG
Chairman

Tony Hobman
Chief Executive

The remaining £2.2m will be used in development work towards a new and more coordinated system for the delivery of debt advice – one that will enable more people in debt to find the right sort of help for their needs more quickly and easily. Built into this newly coordinated system will be the means to harness existing resources better, to bring everybody's standards up to match the best, and to capture data in a way that will inform continuous improvement. We expect to have this new delivery system operating by the end of 2013.

Two significant considerations inform our every step. The first is that we are spending money raised through the levy on financial services firms that is collected by the Financial Services Authority, and this needs to be used as effectively and efficiently as possible. The second is that our aim should not simply be to meet the demand for debt advice, but to reduce the need for it. The best way for us to do that is to align our debt advice coordination work with our money advice operation in a way that helps people get out of debt, stay out of debt and feel prepared for all the events in life, both expected and unexpected, that can cause financial shocks.

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Who we are

We were launched as the Consumer Financial Education Body in April 2010, an independent organisation set up under the Financial Services Act 2010 to help people understand financial matters and manage their money better.

The Act removed the 'public awareness' objective from the Financial Services Authority and set out new, broader objectives for our organisation.

We became the Money Advice Service on 4 April 2011.

Our Money Advice Business Plan 2012/13, available on our website, sets out how we intend to deliver against the above objectives and is a companion to this document.

Our statutory objectives are to:

- enhance the understanding and knowledge of members of the public of financial matters (including the UK financial system), and
- enhance the ability of members of the public to manage their own financial affairs

Introduction

The Money Advice Service was set up to help people understand and manage their money better. In July 2011 we announced, following a request from Government, that we will also, in addition to our major 'preventative' role helping people to better understand and manage their money, play a central role in the coordination and provision of debt advice across the UK, starting from 1 April 2012.

The announcement followed the Government's response to the Consumer Credit and Personal Insolvency Review, which found that we are well placed to both take a role in the coordination of debt advice services, and to develop a model which ensures that debt advice outcomes can be delivered in an effective and efficient way. This role includes taking over responsibility for the face-to-face debt advice services funded by the Department for Business, Innovation and Skills (BIS). The Government's draft Financial Services Bill includes a provision to clarify our statutory function to expressly include the coordination and provision of debt advice.

The coordination and provision of debt advice complements our money advice function, and provides us with the opportunity, over time, to integrate debt advice with money advice so that fewer people find themselves in difficulty and those that do can be equipped with the skills and knowledge to both get out and stay out of debt and then move on to plan their finances for the future.

With funding from BIS in July 2011 we began our development work. We have consulted extensively with organisations that have a stake in the future delivery of debt advice and a perspective on the existing debt advice landscape. We have established an Advisory Forum to ensure the input of key stakeholders in the sector and have worked closely with the existing BIS-funded face-to-face providers to identify delivery efficiencies, good practice and beneficial new processes.

We have undertaken an extensive programme of research to map and understand the debt advice landscape in the UK and the desired outcomes of people using debt advice and other stakeholders. We have also completed research to update previous measures of consumer demand and need, and to understand consumer behaviour and requirements. This research and our response to it is available on our website.

This work has highlighted just how great the need is for effective debt advice provision. There are 4.3 million 'over-indebted' households in the UK, of which 2.1 million will actively seek debt advice while 2.2 million would benefit from debt advice but will not proactively seek it. The work also shows that current provision is fragmented and there are demonstrable market failures, with overlaps and gaps and unacceptable variance in standards and outcomes. This is perhaps unsurprising as the debt advice sector has grown organically rather than in a planned way. Nevertheless, from the perspective of an indebted consumer, the picture is confusing.

Our role is to bring coherence and consistency, while enabling a more efficient and effective service for customers. We need to ensure that debt advice reaches more people with a more consistent offer and improved long term outcomes. Help needs to be provided through the most effective means, be that face-to-face, over the telephone or through currently under-utilised channels such as the internet.

We will work to co-ordinate provision from other debt advice providers, setting standards, ensuring effective triage, and monitoring performance to ensure customers get the advice they need in a timely and effective way.

Our vision is that people with unmanageable debt know where and how to access a free, effective multi-channel debt advice service that delivers consistent and fair outcomes for them and their creditors, and are able to do so.

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Key priorities and budget for the year ahead

Our priorities for 2012/13 are two-fold: to ensure people continue to have access to high quality debt advice during 2012/13 and to continue our work developing a longer term model for debt advice provision for introduction by Autumn 2013.

The total budget for 2012/13 is £34.5m, with 94% of this figure given over to providing advice.

This budget comprises the previous level of BIS grant funding, funding for delivery in Scotland and Northern Ireland calculated using the Barnett Formula and a small component of internal development costs for the new approach to delivering debt advice. We have also included provision for contingent contractual liabilities under the existing grant agreements.

Type of expense	£'000
Face-to-face projects in England and Wales	27,150
Barnett Formula for Scotland	2,700
Barnett Formula for Northern Ireland	783
Service delivery costs sub-total	**30,633**
BIS providers' contingent employment contractual liabilities	1,750
TOTAL Service delivery costs	**32,383**
Longer-term model development costs (including evaluation, procurement, marketing and Money Advice Service internal staff costs)	**2,161**
TOTAL	**34,544**

Reaching more people and ensuring continued access to good quality debt advice during 2012/13

Having assumed responsibility for managing and funding the existing £27m BIS face-to-face projects in England and Wales from 1 April 2012 we will continue to fund six key delivery organisations. A summary of our approved 2012/13 budget for this is set out below. This represents the current allocation and may be subject to change in line with performance.

Delivery organisation	£'000
Citizens Advice	17,936
Capitalise	3,357
East Midlands Money Advice Partnership	2,351
Greater Merseyside Money Advice Partnership	1,565
Bristol Debt Advice Centre	835
Community Finance Solutions	706
Other*	400
TOTAL	**27,150**

*includes training and accessibility services

We will aim to achieve efficiencies from these projects to extend their reach from 100,000 customers per annum to 150,000 customers during the course of the year. Our discussions with the sector indicate that we can achieve this without compromising quality. This will help cope with an expected increase in demand as organisations prepare for the Legal Aid scope changes and Local Authority budgets come under further pressure. We will achieve this extended reach by encouraging the following best practices:

- Empowerment of clients on a 'one-off advice' basis wherever appropriate to encourage self-help.
- Different ways of working using telephone and email.
- Increasing drop-in sessions so that debt advisors can use their specialist skills more of the time.
- Helping administrators and debt advisors to work more closely together to free up debt advisors' time to see more clients.

In Scotland we will provide £2.2m grant funding to the Scottish Legal Aid Board to support the provision of debt advice across Scotland, and will provide £500k to fund separate debt advice projects run in partnership with the Convention of Scottish Local Authorities, the Accountant in Bankruptcy and Money Advice Scotland.

In Northern Ireland we will provide £783k grant funding to the Department of Enterprise Trade and Investment to support the delivery of face-to-face debt advice across the country.

In order to monitor quality, we are developing an evaluation framework for provision in 2012/13 in consultation with key partners in the sector. This encompasses reach, quality and impact to assess the overall effectiveness and any required changes needed to ensure that we are maximising value for money in this transitional year.

Over the coming year we will complete in-depth development and modelling to ensure demand is managed effectively and met. Our priority for provision over the coming year is to ensure the current service can help as many people as possible in the most efficient and effective way.

Developing a longer term model

In addition to the work above, we will develop a new model for the provision of debt advice across the UK that is clear and effective and ensures people in financial difficulties know where and how to access advice that delivers consistent and effective outcomes for them and their creditors. We will develop an effective service that uses an agreed approach and adopts common principles and standards, based on the needs and best interests of customers.

We will prioritise delivering customer focused solutions that address both the immediate need of those in difficulty and also drive behaviour change, establishing capability and habits that will be effective in the longer term.

Better outcomes for customers will in turn benefit the financial services industry. This is backed up by research from the Friends Provident Foundation, which suggests that the current £45m a year invested by the financial services industry into the debt advice sector generates reductions in debt write-offs in the order of £1bn a year[1].

Over the course of 2011/12 we consulted widely and commissioned a programme of formal market research into over-indebtedness across the UK. Further sub-segmentation work is planned for 2012/13 to deepen understanding of the sector's customers, their attitudes and needs and the effectiveness of emerging solutions.

Better outcomes for customers will in turn benefit the financial services industry.

1 'The impact of independent debt advice services on the UK credit industry' (Friends Provident Foundation, 2010).

A number of key principles for the future delivery of debt advice emerged from the 2011/12 research. These are critical in meeting the needs of over-indebted people and delivering fair outcomes for them and their creditors.

These **key principles** are:

- **Reach and accessibility** – We will increase availability in a cost-effective way to ensure over-indebted people have access to high quality debt advice when they need it;
- **Simplicity** – We will make it easy for people to get the right advice at the right time; advice which addresses both their immediate money problems and helps them build long-term financial resilience;
- **Self-help** – We will encourage people to help themselves whenever practical; and
- **Addressing gaps in delivery** – The services we commission will focus on addressing any delivery gaps in the sector as identified by our ongoing research. It is not our intention to displace current funding arrangements.

To deliver against these key principles, we have identified nine areas that are critical to a debt advice sector which meets the needs of over-indebted people and delivers fair outcomes for them and their creditors.

Taking account of these areas, we are developing a model which we will test with customers during the year. This will lead to a preferred service offering which we will then facilitate and procure where necessary. It is not envisaged that this will be completed during the 2012/13 Business Plan period but the aim is to introduce this enhanced service by Autumn 2013.

Our long term model for debt advice

Reflecting these key principles set out above, our model for the future will be built on the following framework:

1. Creditor referrals

We will develop an enhanced approach to customers accessing debt advice services by changing the current default position of referrals from 'self-referral' (customer) to much wider creditor referral. We will achieve this by working directly with creditors, regulatory, and self-regulatory bodies to encourage industry-wide protocols for the triggering and referral of customers with debt issues to an appropriate triage mechanism. We know this happens to some extent already but more consistency across sectors and types of creditors is needed to minimise customer confusion and maximise the time debt advisors can spend assisting customers with sustainable plans for reducing their debts.

2. Triage

The confusing current landscape means that customers find it difficult to access debt advice when they need it and by the time they do find a good debt advisor, their problems are likely to have worsened. We will introduce a new approach to triage by developing and procuring, where necessary, triage systems to ensure that over-indebted people reach the best source of advice, through the most appropriate channel, as quickly as possible.

Our priority will be to ensure that this process can be readily accessed and most referrals to this triage function will be by creditors at a consistent point in the arrears process. Our discussions with debt advisors and creditors have confirmed that a triage service would be welcomed by all.

We do not envisage developing a new brand for this system, but will harness as appropriate the potential of those brands already in the sector for both preventative and crisis debt advice.

3. Face-to-face advice

It is clear that for a proportion of over-indebted people, face-to-face debt advice is the most effective option. The triage systems we will develop will ensure that those who *need* rather than simply *prefer* face-to-face advice receive it in a timely fashion.

We will commission face-to-face debt advice services in response to this need as part of our aim to meet the demand for advice across the UK, and we will want to ensure that we can maximise the value of this channel by adopting the most efficient and effective working practices (and at the same time maintaining quality of service).

4. Fair-share arrangements for telephone and online debt advice

The 'fair-share' arrangement between some creditors and a number of free-to-client advice providers is an effective method for matching demand and supply over the telephone and online.

We see clear benefits to customers in having access to the single payment solutions provided at no cost to them through 'fair-share' funded advice services. The single payment is straightforward to administer for the customer and provides peace of mind. We also acknowledge the strong support for this model across the creditor sector.

We will encourage greater participation in this system while maintaining the important principles of proportionate creditor contribution and a free service for customers. We will work with the 'fair-share' funded organisations and creditors to encourage more comprehensive participation by creditors, including priority creditors, to complement work already in train.

We will not seek to duplicate 'fair-share' funded services. We expect that the triage systems we develop will lead to an increase in demand for 'fair-share' funded services.

5. Other advice models

We will seek to ensure that services continue to be available online and over the telephone to meet the need for advice that is specifically focussed on enabling people to take forward self-help and assisted self-help solutions with their creditors. If it is necessary, in due course, we will commission these services directly.

A significant proportion of over-indebted people in our research exhibited a strong desire to address their problems themselves and we believe they should continue to be able to access the tools to do so.

6. Improved customer segmentation

The attitudes, behaviour and needs of customers in debt and in need of debt advice are not all the same. We do not currently know enough about these differences. Understanding these is essential to knowing whether customers are more likely to use the internet, telephone or seek face-to-face advice.

Understanding customer attitudes and behaviour will also give us a much better sense of the outcomes that customers seek and can realistically achieve. Working with creditors and debt advisors we will develop more sensitive customer segmentation. This will not just consider 'hard' factors like level of debt and income.

It will also draw on attitudes, behaviour, family structure and household structure, age and so on. We see this as an essential backdrop to spending money raised through the levy on the financial services industry in the most cost-effective way. Creditors and debt advisors have welcomed our initiative to develop a better segmentation of customers in debt.

7. Standards

The importance of debt advice interventions in people's lives means it is crucial that the advice is of the highest quality. We have encountered various quality measures through our programme of research and believe that the quality of the individual advisor and the quality of advice organisations should be subject to a regular, transparent quality assurance process. Individuals and organisations that have been subject to assurance processes and who meet agreed standards should be able to publicise this as a way of demonstrating their quality.

We will develop and embed best practice quality assurance processes in services we fund and seek to expand their use across the sector, building on existing examples of good practice.

8. Consistency and integration of data and evaluation framework

We will introduce standardisation of data collection, something that is currently lacking and which will facilitate better measurement of impact, improve learning, enable more accurate targeting of resources and will help creditors with their approach to identifying and supporting customers who are at risk of becoming over-indebted. It will also bring greater consistency to creditor treatment of over-indebted customers.

We will also look to put in place an integrated data system, that promotes referrals, stops duplication and enhances the customer experience.

We will also develop and disseminate an evaluation framework based on desired and agreed customer outcomes which will enable us to measure the impact of particular interventions, and will provide an important reference for future commissioning of services.

We envisage using the data that we collect and the outcomes we measure to help us influence policy makers and creditors in order to ensure that the system remains robust and relevant over time.

9. Policy development and innovation for improved outcomes

Just as debt advice services have grown organically and without a plan, debt solutions have similarly arisen out of different pieces of legislation and innovation on the part of debt advisors and creditors.

The current solutions are as set out in brief in Annex A.

Not everyone will need to access a solution of course and there are other informal options such as taking out a consolidation loan and negotiating directly with individual creditors. The county court administration order is an additional formal option in England and Wales but this is almost never used. There are a number of challenges in the existing architecture:

- Debt management plans are very popular but offer no debt relief and are not binding – incentives for both free and fee charging providers exist to keep people in plans longer than may be ideal.
- Bankruptcy is expensive and stigmatising – many people on a low income with debts of more than £15,000, for whom it would be appropriate, cannot afford it.
- Customers who wish to repay but who do not have sufficient disposable income to be viable clients of debt management plan providers face huge administrative difficulties in making multiple small payments. These customers often will not have interest and charges frozen, which would be the norm in a debt management plan.

With a much enhanced data and evaluation framework, we will be in a position to work with debt advisors, creditors, regulators and the Government to develop, as appropriate, new solutions to over-indebtedness which meet the needs of all people with unmanageable debt. In doing this we will take into account the Insolvency Service's work on a debt management plan protocol to which we are already aligned.

Ultimately, debt advice can only be palliative and its impact perhaps only temporary without a coherent statutory and policy framework for debt advice outcomes which genuinely address the broadest range of needs.

Integration with money advice

Overall, our preventative remit will help people address the main causes of over-indebtedness by providing more general money advice in relevant areas (for example maximising income or promoting the benefits of saving and insurance).

Over the coming year we will align debt advice provision with the strategy of the wider Money Advice Service and build on the work already done to integrate our preventative services into existing debt advice provision both before a person's debt becomes unmanageable, and after someone has resolved their crisis debt issues.

This alignment is likely to include more triage, closer links between channels, and a more seamless experience overall for the customer, regardless of their point of entry.

Our ambition is that the advice we give leads to a positive change in customer behaviour towards the way they manage their borrowing and prepare for unexpected life events, leading, in time, to a significant decline in demand for debt advice.

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Annex A

Current debt advice solutions

United Kingdom

Debt management plan (DMP) – An informal repayment arrangement appropriate for an individual with non-priority credit debts and a reasonable amount of disposable income to put towards them. A single payment is made to a free or fee-charging provider who distributes the money to creditors. Fee chargers take a cut before distribution and free providers (CCCS, Payplan and Christians Against Poverty) receive a 'fair-share' contribution from most financial services creditors. If repayments are made creditors will usually freeze interest and charges but are under no obligation to do so.

Bankruptcy (also called sequestration in Scotland) – A formal, public mechanism administered by the courts whereby all debts are written off (with limited exceptions such as student loans and fines) in return for most assets being realised for the benefits of creditors. The process costs £700 in England and Wales, £467 in NI and £100 in Scotland and can be initiated by the debtor or the creditor. Bankruptcy comes with significant consequences in terms of access to financial services, being a company director and holding public office. It usually lasts a year but restrictions can be added in the event of non-cooperation or receiving a windfall.

Additionally in England, Wales and Northern Ireland

Debt Relief Order (DRO) – A formal, public debt forgiveness mechanism similar to bankruptcy administered via accredited debt advisors that is appropriate for people with debts of less than £15,000, disposable income of less than £50 a month after all expense are covered and assets worth no more than £300. It costs £90, which can be paid in instalments and usually lasts a year.

Individual Voluntary Arrangement (IVA) – A formal, public agreement administered by an insolvency practitioner suitable for an individual with secured and unsecured debts who has disposable income and wishes to preserve their home. Fees are deducted from regular payments, which are paid via the insolvency practitioner. The process needs to be agreed to by 75% of creditors by value and usually lasts five years with an expectation that equity will be released from a home if available. After five years any remaining debts are written off.

Additionally in Scotland

Debt Arrangement Scheme (DAS) – A formal, public debt repayment mechanism administered by the Accountant in Bankruptcy and accessed via an approved debt advisor. Has similar characteristics to a debt management plan and is suitable for people in the same situation. However it has legal basis and is binding on creditors who are unable to add interest and charges if repayments are kept to.

(Protected)Trust Deeds – Like an IVA, this is a legally binding public agreement between a debtor with some disposable income and their creditors. Any assets are passed to a trustee with the responsibility for paying creditors as much as possible of the debt owed to them. If a trust deed becomes protected creditors are unable to take further action including bankruptcy. Trust deeds usually last for up to three years after which point remaining debts are written off.

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