

## **Charging For Advice:**

*Nick Pearson, AdviceUK*

1. Start off by saying that I'm speaking as an individual rather than an employee of AdviceUK, so some of what I'm going to say is not Auk policy. The other thing to say is that I a going to focus on debt advice which perhaps provides more opportunities for charging than other areas of advice because many debtors are not poor, indeed many have high incomes.

2. Since the early 1990's we have seen the growth of fee charging debt management companies to meet the unmet demand debt advice. DMC's deal with those clients who are either unaware of, or do not want to visit, the free advice sector for whatever reason. The profile of clients of fee charging companies is that they:

have higher income than the typical advice centre client;

are almost always working;

80% are homeowners and

they have substantially higher debts than clients of the free sector.

Added to that they tend to have only non priority debts; they could afford to, and would be willing to, pay a fee advice and the growth of DMC proves that point.

It should be noted that the current prohibition on charging is not absolute. It has long been accepted that clients being helped under a legal aid certificate may have to pay contributions to the Legal Services Commission. The sector has taken the view that because it is the LSC that collects contributions, the principle of free advice is not breached, but it is a moot point whether this distinction is meaningful for clients.

There would appear to be no barrier under charity law to charging for advice (but see 2.4 above). However, we may need to take expert advice on this. It is likely that agencies that are charities would need to set up separate trading arms if they were to

3. I think there is a role for charging certain clients a modest fee for a quality debt advice service. Not only would it allow us to provide a service for more people but it would help remove some of the reliance we have on grant funding from

unpredictable organisations such as local councils, the lottery and other grants and trusts – it would allow agencies to have more control over their own destiny.

I have seen too many good advice centres close because of the whims and prejudices of local councillors, and other funders who refuse to approve a grant application. You can run the best advice service in the world but if priorities of funders change, you may face severe cuts or total closure. Generating income would help give more us more independence.

4. I do not see any moral or philosophical reasons against charging certain clients for a quality service – you expect to pay a plumber or a car mechanic regardless of income so why not debt advice? Also worth saying that nfp sector doesn't have monopoly on wanting to provide a quality, ethical service. DMA experience. It is certainly a taboo within the advice sector but I have spoken to a number of well run and well respected organisations recently who are considering the possibility – like any taboo there are likely to be some who are prepared to break it.

5. Lets be clear there is not intrinsic incompatibility between being a charity and charging for services. Relate make a charge, £150 I think from memory and very poor value when all you get is a lecture on what a shit you are.

The RSPCA also charge for taking one of their animals for rehoming. . Some 8 years ago AdviceUK commissioned the first ever research into fee charging debt management companies, “fee or free,” and one of the key findings was that clients didn't mind paying for good advice and indeed they thought the quality of free advice was going to be inferior to advice that is paid for.

6. The situation as far as debt advice is concerned is that demand for face to face and telephone advice exceeds supply. Many advice centres focus their scarce resources on helping clients who need face to face advice and in effect the service is closed to clients who cannot spend the time to queue up and or who do not want to wait, in some cases for several months, for an appointment.

7. The LSC contracts have also had the effect that those who are too wealthy to access the service are in effect driven into the hands of fee charging companies, IVA practitioners and refinancing, not that I'm complaining too much as my partner is a Director of a debt management/IVA/refinance company!

8. AdviceUK is just beginning a pilot between 6 of our members and Payplan, a for profit debt management company. Where clients have more than £150 a month available income to repay their non priority creditors, the advice centres

will refer them to Payplan who will then negotiate with their creditors. Payplan do not charge the debtor but receive a “fair share contribution” from the creditors.

During the pilot, the advice centres will receive a percentage of that fair share contribution for the referral. In cases where the client is found to be suitable for an IVA, Payplan will pay the advice centre £500 when the IVA has been approved at the creditors meeting. I am currently looking at a similar deal in relation to a share of procurement fee from a national IFA where refinancing is the clients preferred and best option.

9. We are also working with one of our members to examine the possibility of obtaining seedcorn funding to allow the advice centre to employ its own Insolvency Practitioner which would allow the advice centre to generate income from IVA's (perhaps £1500 a case) whilst at the same time providing a service free to clients.

10. The pilots I have noted will not actually cost the client in real terms but this leads me onto an idea which would allow advice centres to actually charge a fee for the service., but first an anecdote; About 20 years ago I was just buying a new house and needed additional income. I decided to set up my own debt management company, insured and licensed by the OFT. I placed an advert in the “Ham and High” and charged £100 for the first appointment and £50 for subsequent calls. I was inundated with clients but not like those I saw working at an advice centre in the East End – these clients were well able to pay for the service and well able to deal with their debts and what's more didn't actually need negotiation and letters written on their behalf – good self-help material was sufficient in conjunction with clear and impartial debt advice.

11. So what could advice agencies do? I think the way to start this is to ask existing debt advisers if they would be willing to provide the service as self employed people. My experience is that it tends to be that clients want appointments in the evenings and at weekends and so it may be that advice centres would have to recruit debt advisers from other local advice centres to staff the service. Advice centres would need to target local advertising at clients who could afford to pay and provide a service that was client focused rather than adviser focused eg weekend opening, home visits, evening work. Clearly where the adviser felt that the client should receive a free service, they could direct them to local advice providers.

12. In return for the fee, let's say £200 per case, the adviser would receive say £50 with the remainder being banked by the advice centre; just 100 clients a year would produce £15,000 for the advice centre.

*Nick Pearson*

*AdviceUK*