

# Tackling debt and managing money – Money Matters Oxfordshire 28 September 2010

Sharon Collard, Director

Personal Finance Research Centre

[www.pfrc.bris.ac.uk](http://www.pfrc.bris.ac.uk)



# Coalition Government plans

- Personal responsibility
  - ‘We’ve all borrowed too much’ (Osborne)
  - Spend less, save more, use credit wisely
- Nudge people in right direction (Hoban)
- Emphasis on problem prevention
  
- Consumer Financial Education Body (CFEB) role in co-ordinating, funding debt advice (at least Financial Inclusion Fund – FIF)?

# Preventing money problems: information and guidance

- CFEB National Financial Advice Service
  - Estimated £50m per year
  - Funded by industry levy
- Positive findings from evaluation of pilot
  - People with budgeting, debt or social security enquiries most inclined to act on information provided
  - Positive (if modest) impact on users' financial capability
    - Particularly face-to-face users
    - Particularly related to making ends meet and choosing products

# Preventing money problems: improving financial capability

- CFEB Financial Capability Strategy
  - Funded by fees raised from Financial Services Authority (FSA)-regulated firms
  - Schools, Further Education (FE)/Higher Education(HE), NEETs (people Not in Education, Employment or Training, usually refers to people aged 16-25), workplace
- Corporate Social Responsibility (CSR)-funded financial capability e.g. Barclays Money Skills
- Growing body of evidence around impact
  - 4 in 10 new parents took action as result of Parent's Guide to Money; increased knowledge and confidence
  - Financial capability strong predictor of psychological wellbeing (Taylor et al, 2009)

# But things go wrong...

- 10% of all British households in arrears
  - Credit/store cards 4% (15% of those with cards)
  - Household bills 6%
- Some groups more likely to default
  - Young households
  - Less-qualified and lower socio-economic classes
  - Unemployed; looking after home; sick
  - Households in London
  - Single (under SPA); lone parents
  - Social renters

Source: Wealth and Assets Survey

# And more people are struggling...

- Often or always experience difficulties:
  - 2007 10%
  - 2008 13%
  - 2009 18%
- Expect future financial position to get worse:
  - 2007 6%
  - 2008 36%
  - 2009 13%

Source: Genworth Index of Financial Vulnerability 2009

# Picking up the pieces: debt advice

Spending review questions:

- Does Government need to fund debt advice?
- Does debt advice provide substantial economic value?
- Can debt advice be targeted to those most in need?
- How can debt advice be provided at lower cost?
- How can debt advice be provided more effectively?

# Does Government need to fund?

- £165 million per year (grant-funded, free to client)
- Most funding comes from govt sources
  - Finance and credit industry provides around 3%
- Systemic problems in govt agencies create/exacerbate people's financial difficulties
- Other funding piecemeal, project-specific

# Other funding models

- Statutory levy on credit industry? Through CFEB?
  - What about other creditors? Utility companies?
- Social Impact Bonds?
- Debtor pays some/all of the direct cost?
  - At least 375,000 people paying for Debt Management Plans (DMPs)
  - Not appropriate for many low-income debtors
  - Concerns about quality especially small operators
- Money Advice and Budgeting Service (Ireland)

# Does debt advice provide substantial economic value?

- Average cost of debt problems over £1,000
- Evidence of social and economic benefits
  - Increased total and disposable income
  - Avoids eviction or having to sell home
  - Improved health and well-being
  - Avoids legal action
  - Positive impacts on regional economy

# Can debt advice be targeted to those most in need?

- Govt-funded advice already highly targeted
  - Financial Inclusion Fund face-to-face advice
  - Legal Services Commission (LSC) contracts
  - Means-test access to all government-funded advice?
- Options exist for people on higher incomes
  - National Debtline
  - Free debt management services (CCCS – Consumer Credit Counselling Service, PayPlan)
  - Fee-charging debt management companies

# How can debt advice be provided at lower cost and more effectively?

- Streamlining admin
  - But requirements funder-driven?
- More telephone advice
  - Not appropriate for all and would it be more efficient?
- Earlier/better identification of self-helpers?
  - Triage systems already used, require skilled advisers
- More assisted self-help e.g. CASHFlow?
- Community Legal Advice Centres (CLACs) and Community Legal Advice Networks (CLANs) ?
- Linking up debt advice, Money Guidance and financial capability?

# Summing up

- Focus on linking up prevention, information and advice
- Few alternatives to govt funding for debt advice
  - At least in short to medium term
  - But less funding inevitable
  - Other mechanisms?
- Robust evidence of social and economic impact
  - Based on current levels/quality of service
- Potential to reduce costs and increase effectiveness by addressing systemic issues