Consultation Response

StepChange Debt Charity

StepChange Debt Charity Response to the Public Financial Guidance Review: Consultation on a Single Body

February 2017

StepChange Debt Charity London Office
6th Floor, Lynton House, 7-12 Tavistock Square, London WC1H 9LT
Contact: Francis McGee
Tel: 0207 391 4591
Email: francis.mcgee@stepchange.org

Introduction

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

Summary

This paper draws on our response to the previous Government consultation (March 2016). Many of our points then were about the scope and execution of the new body's debt advice role, rather than about the issue of whether one body is better than two. So by and large our arguments stand. Our response to the earlier consultation is attached for ease of reference.

Our response to MAS's draft 2017-18 Business Plan also makes relevant points and is also attached.

The key points in this response are:

- Financial difficulty is an important form of vulnerability and ought to be explicitly recognised in the new body's role and remit;
- We supported the clarity in the previous consultation around the role of the new body with regard to debt advice:
    - It should commission services to fill gaps rather than provide services itself
    - Other activities (e.g. research) should primarily support its commissioning role
- We would prefer a more focused co-ordination role in debt advice, and support the Government's view that debt advice quality should be a matter for FCA. We accept that this requires others to adjust their work programmes to make smooth transitions and ensure continuity;
- We continue to believe that the primary remit of the new single financial guidance body (FGB) in relation to debt should be to ensure sufficiency of free debt advice to meet need, and welcome the words to this effect in the current consultation. Its over-riding duty should be to the public interest;
- We support a focus for financial capability initiatives around groups that show particular financial vulnerabilities. One such focus should be minimising the proportion of the 8-9 million people in moderate financial difficulty whose circumstances deteriorate such that they need debt advice. Preventing problem debt (rather than helping people out of it):
    - avoids the personal costs in terms of mental and physical health, employment and family breakdown;
    - avoids the whole-economy costs, which we estimate to be £8.3 billion;
    - reduces the long term cost and complexity of providing adequate debt advice
- A focus on the vulnerable must recognise that debt can affect anyone, so the FGB needs to be able to react to changing conditions (as seen after the financial crisis) which could see the vulnerable population grow and change rapidly;
- A strategic role for the new body is right as a generalisation, but the statutory duties, powers and "have regard to"s need to give the body and its stakeholders reasonable clarity on what it will do and how it will do it. Lack of clarity on the "how" led to many of the early strategic decisions that cost MAS support from stakeholders and levy-funders. The new body's remits for pensions, money guidance, financial capability

and debt advice should be defined separately, reflecting the different operating contexts and priority consumer groups;
- We would oppose diluting the ring fence around what each levy can be used for. If the concern is to facilitate innovative services that address combinations of needs, this can be achieved at the commissioning stage and via strong internal governance. For example, a modest "innovation challenge fund" drawn from the various levies would allow the body to seed new ideas in a transparent and accountable way;
- If the Government wants a greater focus and profile for work protecting people from scams, that work should not be funded by cannibalising funding currently ring-fenced for debt advice, financial capability or pensions guidance;
- A single financial guidance body, backed by well-constructed legislation, can be a major plank in Government strategies on social justice and supporting families who are "just about managing". But other policy tools – social, economic, regulatory – are required for a comprehensive strategy to tackle problem debt.

Answers to Questions

Q1. Do people with protected characteristics under the Equalities Act 2010, or any consumers in vulnerable circumstances, have particular needs for public financial guidance or difficulty finding and obtaining that guidance?

People with protected characteristics are likely to have particular needs for public financial guidance, as are those in vulnerable circumstances.

The Government should recognise that financial difficulties are a form of vulnerability. There are overlaps between the population in and at risk of financial difficulty and other forms of vulnerability:
- 75% of our clients (all of whom are financially vulnerable) self-identify as being particularly vulnerable, by virtue of mental health problems, serious illness, difficulty with the English language etc.
- People with low and unstable incomes are more likely to suffer income shocks and more likely to have lower resilience in coping with such shocks (eg they tend to have lower savings). In total, 6.5 million people used credit to cope after an income shock in the last year, and they were twenty times more likely to fall into severe problem debt than those who were able to adjust their finances without credit.
- Our research shows that:
  - 1.26 million people work part time because they can't get a full time job;
  - 565,000 work a temporary job because they can't get a permanent job;
  - 790,000 people work a zero hour contract as their main job.

  This is worrying, because people in insecure work are twice as likely to face an income shock as those with a permanent job.
- 2.4 million children live in families with problem debt. These are more than twice as likely to be unhappy at school and be bullied. Over a quarter (28%) of parents with

problem debts say they believe their financial situation makes it harder for their children to participate in educational activities.

Q2. Do you agree that these areas capture what the broad role of the SFGB should cover?

The five identified areas appear broadly sensible, though we are cautious about the area of financial scams.

As we argued in the previous consultation, a statutory body must focus on addressing the "advice gap" in debt advice, complementing and supporting the provision of appropriately regulated debt advice and ensuring the most effective and efficient use of any levy funding it controls. We therefore welcome the confirmation that providing "readily available debt advice remains a government priority" and strongly support the clear objective that the "SFGB must continue to fund debt advice to help ensure supply meets demand". We urge Government to reflect this objective in the new body's statutory remit.

The body should meet this duty by commissioning services via a transparent process, rather than by providing services, and should only fund free debt advice. We believe no one in financial difficulty should have to pay for help, and we believe that the free sector has the innovative potential to meet demand, if provided with sufficient resources. We believe the FGB should aim to commission services to fill gaps in provision over and above what is funded by other means (the consultation says the FGB should "complement the services provided by other organisations" – this is a similar point, but it is services that matter, not organisations). This will help reassure levy-paying funders that the system overall is rational, efficient and non-duplicative. Our response to the MAS Business Plan includes more thinking on how future commissioning might work.

Financial scams are already the subject of multiple initiatives by FCA, ICO, OFCOM, Trading Standards and others who have relevant statutory duties. While a single body with accountability for certain anti-scam activities might have advantages, it is a lesson of past transfers of responsibilities that adequate resources are not always reallocated with the work. The Government needs to set out what it intends the FGB to do around scams and how it will fit with other bodies. Does the Government want the new body to subsume other activity, co-ordinate it, fund it, or fill gaps? The other functions of the proposed body are covered by existing levies. The scope and funding of work on scams needs to be clear, and we would oppose moves to fund it out of those existing levies.

Q3. Do you agree that the FGB's financial capability initiatives should focus on 'the squeezed' and 'struggling'?

We support the financial capability strategy, and the focus in MAS's draft Business Plan on the segments described as "struggling" and "squeezed". There are many segmentation models which describe particular groups who exhibit certain vulnerabilities and who stand to benefit from improvements in financial capability and resilience. None of these models is definitively correct, and each adds to overall understanding. Terminology like "just about managing" represents another such model, and there is only partial overlap between MAS's segments and the group usually referred to as "just about managing". We need greater clarity about who the Government mean by this group before it is used to define the focus of statutory services.

To illustrate this partial overlap, MAS's research (and our own) identifies a population of around 8-9 million people who are "over-indebted" or "in moderate financial difficulty". We also identify a smaller group, around 2.6 million, in severe difficulty. This latter group are those who we think would most benefit from debt advice immediately. This group are "not managing", having fallen into financial crisis. Importantly, the larger group includes people in MAS's "struggling" and "squeezed" segments who are, in diverse ways, "not managing well" and who without help will fall into more serious difficulty in the future. It also includes some who are "just about managing" but who are vulnerable to shocks and rapid escalation of their debts.

One useful focus of financial capability work, and interventions around budgeting, saving and boosting financial resilience, is to identify segments in the larger population who:

- can be helped to manage better, or in MAS's terms, become more "cushioned";
- can be helped to avoid severe difficulties and be moved from "not managing well" to "managing".

With finite resources, this focus feels right. But debt can happen to anyone, especially in times of economic instability. This means that the population included in any vulnerability focus can grow and change rapidly in response to changing conditions. The FGB will need to be able to respond to this.

Financial education and capability cannot on their own overcome underlying vulnerabilities to debt that require social, regulatory and economic policy responses. Secure, adequate incomes, measures to encourage low income people to save, improved credit options for the 7.4 million who currently use mainstream and high cost credit products to cover day to day costs, and stronger regulation of credit providers to ensure their products and practices treat vulnerable people fairly, are all part of a comprehensive strategy. Much of this is beyond the remit of the new body, and means its creation will not be "job done". However, designing and prioritising interventions for particular groups at earlier stages of financial distress could help reduce short term demand for scarce and increasingly costly debt advice, as well as delivering a return in terms of avoiding the wider economic costs of problem debt.

Q4. Do you agree that the SFGB should have a strategic role, working with the financial services and pensions industry and third sector organisations of the guidance sector?

Yes, but this broad statement isn't enough to give the body coherence and direction.
One reason behind the consensus that MAS should be replaced is that its statutory remit offers too little direction about how it should prioritise and operate. If the new body is to succeed, it needs its role and operating model set out clearly in statute. In the last consultation, we argued:

- that the body should have an over-riding duty to the public interest, ie to the users and beneficiaries of the services it enables. This point is important for free debt advice, as the sector must serve, and be seen to serve, the public interest, not (for example) the interests of creditors, individual providers, or commercial counterparts;
- that the body should be given clear presumptions about how it should operate. One benefit of the previous "two-body" proposal was that it separated a predominantly commissioning and funding organisation (on money guidance and debt advice) from a predominantly providing organisation (on pensions guidance);

- that the model of commissioning services to fill identified gaps was right for debt advice;
- a more focused role in co-ordinating the debt advice sector, and a modernised and more explicit relationship with regulation now the sector is covered by FCA. This includes no role in debt advice quality.

The current consultation suggests the Government continues to hold the view that certain services should be commissioned and others provided, and indeed hints at preferences for channels of delivery (phone for pensions, a mixed strategy for debt, including face-to-face and digital, and a mixed strategy for financial capability and money guidance). The presumptions about provision and commissioning seem broadly right, and should be suitably expressed in statute. It might not be appropriate to lay down delivery channels in law, leaving the FGB flexibility to respond to change. But it is important that the new body should be under an obligation to develop its approach in consultation with stakeholders (via panels and advisory groups, and via public consultation) and refresh it regularly.

The body does not need to have the same remit for each element of it role. The case for a single body is that several roles will be more effectively carried out without having to work across institutional boundaries. That is sensible, but the legislation must recognise that the roles are discrete, are likely to have different user groups, will be judged by different defined outcomes/client benefits, and operate in different market environments. We look forward to the opportunity to comment on draft legislation, but our initial thinking is that the new body's roles and responsibilities in pensions, money guidance and debt need to be separately defined.

The consultation also suggests the FGB should be primarily focused on groups that exhibit particular characteristics or needs. Again, these priorities ought to be suitably positioned in statute, maybe as "have regard to"s, to provide a framework for the new body to discuss its priorities and decisions. An overly prescriptive statute would be undesirable, but accountability and oversight requires a set of principles against which decisions can be judged. The principles set out in the consultation provide a useful starting point:

"Consumer-focused": the body should have a primary, over-riding duty to the people who use the services it enables. Any focus on particular groups can be broadly directed in primary or secondary legislation, and the body itself should then consult on how it will interpret its brief, including the outcomes that the services it will provide and commission will achieve. Again, the groups the body should have most regard to will be different for debt advice (those in severe difficulty) money guidance and financial capability (those vulnerable to the consequences of low financial resilience) financial education, and pensions.

"Value for money" and "sustainability" could also be good "have regard to"s in the legislation, and should guide how the outcomes are to be achieved. Others might include "the boundaries of, and standards enshrined in, FCA regulation", "the needs of different parts of the UK as identified by devolved administrations".

The legislation should give the FGB an outcomes-focus, in line with a welcome theme in the consultation. Outcomes will be different for different parts of the remit, and this also argues against trying to create an undifferentiated statutory framework.

We continue to support a narrower focus on debt advice co-ordination, and no role on debt advice quality. This requires other bodies to begin work on alternative arrangements to achieve what is needed in the public interest. There is a view in the sector that the co-ordination role has, in the past, been primarily driven by creditor concerns.

Finally, legislation should require the FGB to have structures to ensure

- good governance over resources allocated to each aspect of its role;
- practitioner and funder input;
- public consultation on plans and decisions;
- transparency and accountability (eg an Annual Report to parliament, NAO audit).

Q5. How might the SFGB develop its understanding of what works and usefully contribute to sector wide research?

Building on our response to a similar question in the last consultation, we:

- support the discipline of research and evaluation;
- strongly support the "what works" approach;
- support the pooling of evidence and research that MAS have spearheaded;
- appreciate that the body will need to undertake research to identify needs and gaps in provision.

Research is of course another call on scarce resources. As with its other activities, the research undertaken by the SFGB needs to be:

- guided and prioritised by a clear statutory mission;
- consulted on with stakeholders to ensure alignment and avoid duplication and overlap with other work in the sector;
- overseen by suitable governance arrangements;
- published, enabling data and results to be used by others.

We would expect the FGB to focus on what it needs to do to prioritise the commissioning and provision of services and to evaluate them.

Q6. In what ways could the SFGB co-ordinate and add value to the provision of financial education?

We urge the Government and the FGB to consider:

- that financial education is never likely to be sufficient to tackle problem debt. Problem debt is a common result of complex and varied vulnerabilities that cannot be wholly prevented by education or by initiatives aimed at changing consumer behaviour;
- Education is a long term tool, and is not a substitute for providing adequate debt advice in the short term, or for social, economic and regulatory policy measures to address the underlying vulnerabilities;
- For those that receive debt advice, the budgeting and money management process has educational benefit.

Our response to MAS's draft Business Plan talks in more detail about how financial education and capability work fits in the short, medium and long term fight against problem debt.

Q7. Are there other delivery channels that the SFGB should consider that would be effective for delivering to consumers?

We support the multi-channel approach sketched out in the consultation, with a significant digital component. StepChange Debt Charity has shown that debt advice can be efficiently and effectively delivered through digital channels. Over 50% of our first time debt advice is delivered through our online tool Debt Remedy.

Consumers move between channels at different points in their journey, preferring different channels for products or topics they find more complicated, or where anonymity or privacy are important to them. The best future services will not be tied to one channel in particular, but work with these consumer preferences to maintain engagement and continuously improve efficiency and effectiveness. A framework that thinks about telephone, digital and face-to-face channels as static and separate is becoming outdated. The proposed "sustainability" principle, coupled with a responsive commissioning strategy, should enable the SFGB to support innovative delivery.

Q8. How should the SFGB ensure that it engages consumers at the right time for them?

Broad consensus – including the MAS draft Business Plan – holds that "the right time" to engage with consumers is the time when they are most likely to do something – or do something differently – in response to the information or advice they have received.

The right time will therefore be different for different individuals and families, and for different topics and issues. The FGB can build understanding of how different consumers access and use money guidance. Some families need little advice, or only need advice on one aspect of financial capability. Others need more intensive or wide-ranging advice. Additionally, people with particular vulnerabilities at particular times might have particular needs, and a greater or lesser propensity to seek and follow advice. The FGB has to understand this spectrum and work with providers to get advice to the right people at the right time.

On debt advice, a framework for thinking about the right time is:

- help needs to be available at time of crisis;
- people need to be psychologically and practically prepared for the advice process, which can be challenging and which needs to be detailed. This will help scarce expert debt advice resources go further.

In the section on engaging consumers, the consultation says "the Government believes it is important that the SFGB has a well-optimised website". This requires careful execution. It makes sense where the FGB will be a provider of services. Where its role is to commission/fund/signpost to other services, it would be unhelpful if the FGB competed in search optimisation with front-line provider organisations (and perverse for it to compete up the price of pay per click marketing). Consumers, particularly those facing a crisis, need to find their way to appropriate information and advice services as quickly as possible. This principle should guide the FGB's optimisation strategy.

Q9. Do you agree that the SFGB should be able to exercise some flexibility in the way funding is directed?

We have concerns about any permeability of the current ring-fence around debt advice funding, and would oppose the allocation of debt advice levy money for other purposes.

This is because:

- funding for debt advice is insufficient already, and there is clarity and accountability in the system which requires MAS to construct budgets for debt advice and other functions separately;
- the levies are – and will continue to be – paid by different constituencies. The biggest concern we hear about the level of levies is that firms can't see how their funds are used. Too much flexibility would risk further opacity.

Nonetheless we understand the Government's desire to ensure that hypothecation of funds doesn't obstruct service development and innovation. This can be achieved at the commissioning stage: services with debt and other outcomes can be commissioned together with contributions from separate budgets. This could be supplemented by an "innovation challenge fund" to seed the development of new ideas that transcend the different parts of the remit.

We do not agree that amounts charged to the levies should remain in line with current levels. The quantum of levy should be driven by the requirement for debt advice, solutions and infrastructure. In the short run, debt advice will remain inadequate to meet need, and we think the levy should be part of a package to expand provision, alongside improved efficiency and innovation in the sector and more imaginative use of existing levy to invest in debt solutions and infrastructure. In the long run, we agree with the Government's aim should be to reduce the requirement for levy funding. However this depends on a wider package of measures to tackle the root causes of problem debt. Efficiency of debt advice provision will not achieve this reduction alone.

Q10. Would these proposals have any impact on the delivery of public financial guidance in Scotland, Wales or Northern Ireland?

We welcome a stronger voice for Devolved Administrations in the design and provision of financial guidance services in their territories. This is increasingly important as more and more related policy is devolved. For instance, the new body will have to be particularly alert to the changing devolution landscape in Scotland. The Scottish Government has new powers over consumer advice and advocacy powers. We believe the legislation should give the FGB a duty to consult Devolved Administrations and have regard to devolved policies.

The new body needs to have closer engagement with providers across Scotland, Wales and Northern Ireland, which will also be key to understanding gaps and differences in need. For instance, it needs to understand the differences in debt advice and other guidance needs of the public, and local variation in provision. There is increased pressure, notably in Scotland, on the provision of free debt advice by Local Authorities with many Local Authorities removing that provision. This is increasing pressure on other providers.

Government needs to take care that the transition from MAS to the new FGB does not create new gaps in the provision of free debt advice, with increased doubt over current project funding agreements. For example, the Scottish sector needs assurances that these existing projects will continue to receive support through this period of transition to prevent more gaps from opening up.

In addition, as legislation (a Consent Motion) will have to be passed in the Scottish Parliament for the new body to have any effect in Scotland, there is concern within the sector that the Scottish Government will instead look to have a portion of the levy monies paid direct to them, resulting in the loss of ring-fenced funding and less well co-ordinated service provision in Scotland.

Q11. Do you have any other comments about the proposed delivery model and consumer offer?

No.