

# WIDE OF THE MARK?

ASSESSING THE DELIVERY AND VALUE OF FREE-TO-CLIENT DEBT ADVICE.



A CREDIT SERVICES ASSOCIATION REPORT

APRIL 2022

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## A. EXECUTIVE SUMMARY

- i. Financial difficulty can afflict anyone and navigating the challenges that it presents can be difficult for many reasons. Consistent and high-quality debt advice serves an important role in helping people to do so and, often, also dealing with related issues such as poverty and inequality. Financial health can contribute to physical wellbeing, financial rehabilitation, participation in wider society, economic contribution – so debt advice clearly has value.
- ii. Current economic conditions strongly suggest that there will be an increase in the number of individuals and businesses facing much tighter financial conditions. The continuing effects of COVID are continuing to be felt and the rapid escalation in the costs of living will have a profound impact. The rise in energy costs will certainly add to the challenges faced by households, though perhaps the receding winter might delay those effects until later in 2022.
- iii. The debt collection and debt purchase markets deal with many thousands of customers every day, seeking engagement and a sustainable resolution for problem debts. As a sector, we understand the value in high-quality, efficient and effective free-to-client advice which is why the sector contributes many millions of pounds of voluntary contributions on top of the quite significant compulsory levy-based ones. Ultimately, high quality advice is an investment on behalf of customers and, in some way, an indirect cost to those customers. As such it is important to consider the extent to which that investment represents value for money.

**..we understand the value in high-quality, efficient and effective free-to-client advice** which is why the **sector contributes many millions of pounds of voluntary contributions** on top of the quite significant compulsory levy-based ones.

**FINDINGS:**

- a. Lack of reliable data:** While the scale of the financial guidance levy is a known quantity and the Money and Pensions Service does track the number of advice sessions the funding it manages, there is no wholly reliable data for the overall level of funding that free-to-client advice receives or what it achieves with it. Without sight of this, it is impossible for the Money and Pensions Service to credibly determine what level of funding is required or to determine levels of genuine performance.
  
- b. Diminishing returns:** In simple terms, more funding has not delivered proportionately more advice given. In the past decade, levy-based funding has quadrupled and, although levy-funded sessions have grown at almost the same rate until 2019, this is not reflected in the estimated global figure, despite increases in those funds. Moreover, even in the levy-funded sessions, there is no pattern of accelerating output that would indicate improvements in efficiency. Simply applying more money to increase the amount of advice is therefore clearly not an effective approach in itself.

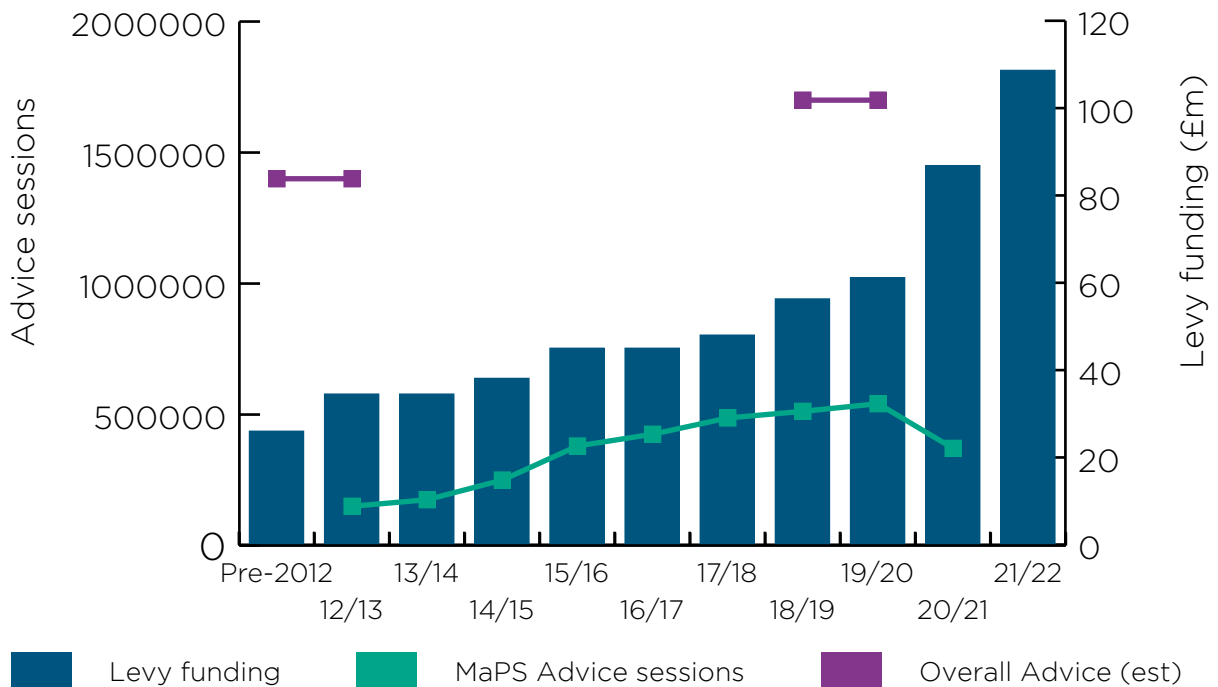


Fig 5: Levy funded debt advice against MaPS advice sessions with estimated total debt advice for reference.

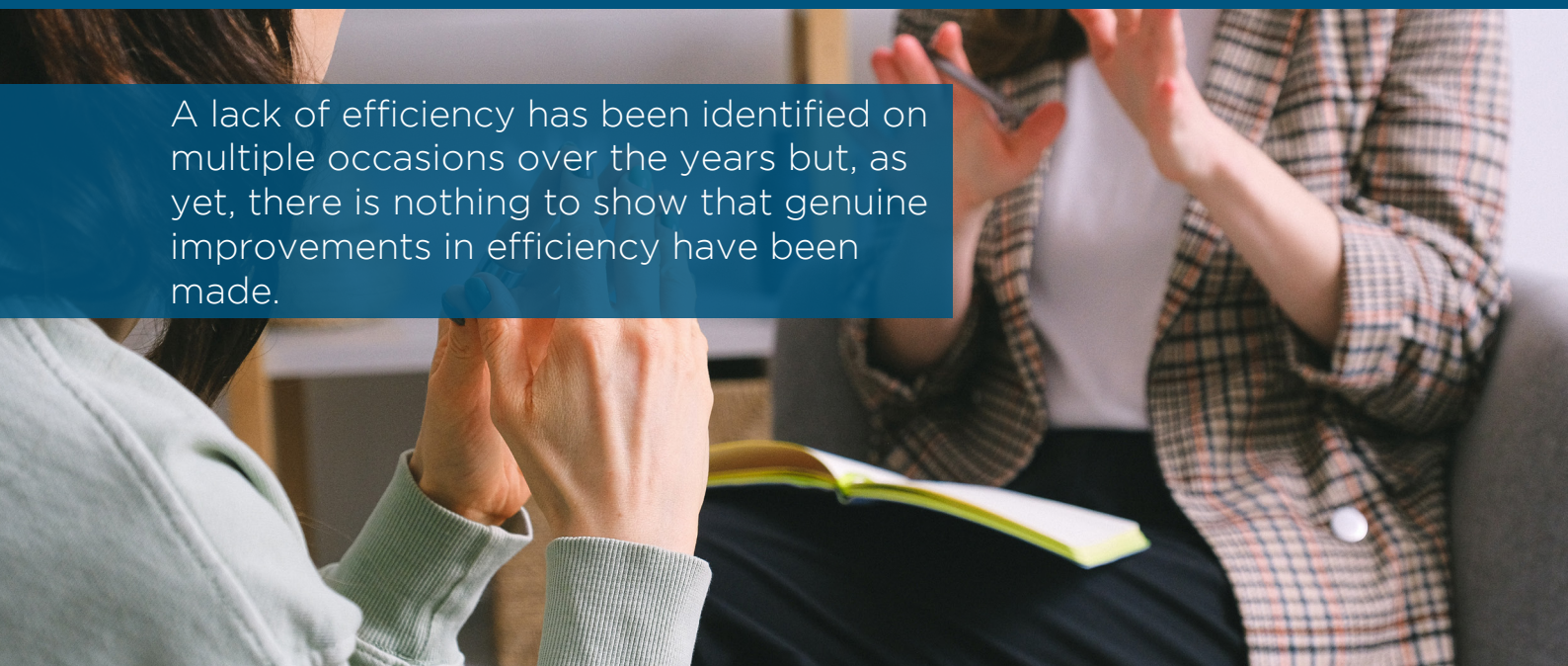
- c. Transparency and accountability:** In real terms, there is no way to credibly determine capacity or performance within the free-to-client sector. Moreover, without a reliable source for this information, demands for greater compulsory levy funding lack any vestige of accountability since there is no way to gauge genuine need, value for money or to challenge unreasonable demands.
- d. Efficiency:** A lack of efficiency has been identified on multiple occasions over the years but, as yet, there is nothing to show that genuine improvements in efficiency have been made.
- e. Consistency of standards:** In principle, any organisation providing regulated debt counselling or adjusting is expected to meet the same regulatory standards. However, many of the same issues of quality, consistency and efficiency in behaviour continue to be raised by creditors.
- f. Advice given or outcomes:** In general, the focus is on the binary question of whether advice has been given, or not, rather than whether the advice was right in the circumstances or whether the customer ultimately experienced the right outcome. Anecdotal evidence suggests that massaging results of advice takes place<sup>1</sup> and ultimately, the question of whether value for money is achieved rests squarely on whether the customer experiences the right outcome as a direct result of the advice given.
- g. Sources of funding:** Sources of and contributors to debt advice funding are drawn insufficiently broadly. If there is a genuine expectation that that demand will increase significantly then it will be critical to both broaden the pool of contributions and genuinely achieve a measure of greater efficiency.

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<sup>1</sup> See, for example, Ryan Davey (2020): [Financialised Welfare and Its Vulnerabilities: Advice, Consumer Credit, and Church-Based Charity in the UK](#), Ethnos, DOI: 10.1080/00141844.2019.1687545 - 'Tensions on the Frontline', paragraph 2.

- vi.** The key challenge for the Money and Pensions Service, and by extension policy makers and funders, is that unless some of the underlying and well-documented problems are honestly tackled little progress will ultimately be made:
- Why is more money always needed when previous increases seem to have a declining effect?
  - What precisely is the money that has already been provided been spent on?
  - Where is the evidence of greater efficiencies being achieved?
  - Where is the evidence of the quality of debt advice across the board?
  - Where is the evidence of outcomes actually experienced by the customer and whether they were the right ones, not just whether they got advice or not?

These are difficult questions to put, but we have a responsibility to future customers of debt advice to ensure that high quality support is available, subject to scrutiny and delivering best value.



A lack of efficiency has been identified on multiple occasions over the years but, as yet, there is nothing to show that genuine improvements in efficiency have been made.

## B. RECOMMENDATIONS

- i. **Broaden contributions:** ensure that contributions are drawn from a wider cross section of organisations whose customers and service users require advice, to ensure that it is genuinely equitable. Doing so should widen and deepen the pool of contributions while simultaneously redressing current disproportionality.
- ii. Consider whether the current patchwork of providers is capable of delivering consistent, high-quality advice across the population as a whole, and whether there are overlaps and lacunae in provision that mean resources are not focused effectively. If they are not, **consideration should be given to whether more direct control should be assumed for delivery in each of the four national areas** to ensure national and local needs are met.
- iii. MaPS should continue pushing forward with putting in place mechanisms to ensure that it has **full visibility of both the standard of advice and that value for money is genuinely being achieved**. Where it is not, or funds are diverted to non-advice activities, MaPS should take steps to recover the relevant proportion of any contract which is not adequately performed or where funds have been utilised for other purposes.
- iv. To the extent that any of the existing compulsory funding framework continues, it should be made genuinely transparent and accountable to all those expected to pay. As such, any proposed demand for **funding should be consulted on with MaPS and DWP requiring robust evidence** both of the necessity and fairness of any proposal, having regard to the interests of all parties. It should no longer be possible to agree funding demands behind closed doors or without genuine opportunity for those expected to pay to consider and, where appropriate, challenge unreasonable proposals.
- v. **Providers should be held to the same standard irrespective of whether they charge a fee or not.** The efforts that MaPS has made to improve the consistency and quality of funded advice should continue. However, while the Financial Conduct Authority has done much to improve the standard of commercial providers, it must also ensure that it takes steps to do so in relation to non-commercial providers as the potential consequences of poor, inconsistent or inadequate advice are no less harmful by virtue of having been caused by non-commercial providers.
- vi. **Greater accountability:** Those receiving levy funds should demonstrate as a matter of course that quality, consistency and efficiency in advice is being achieved, not merely claim that this is the case.

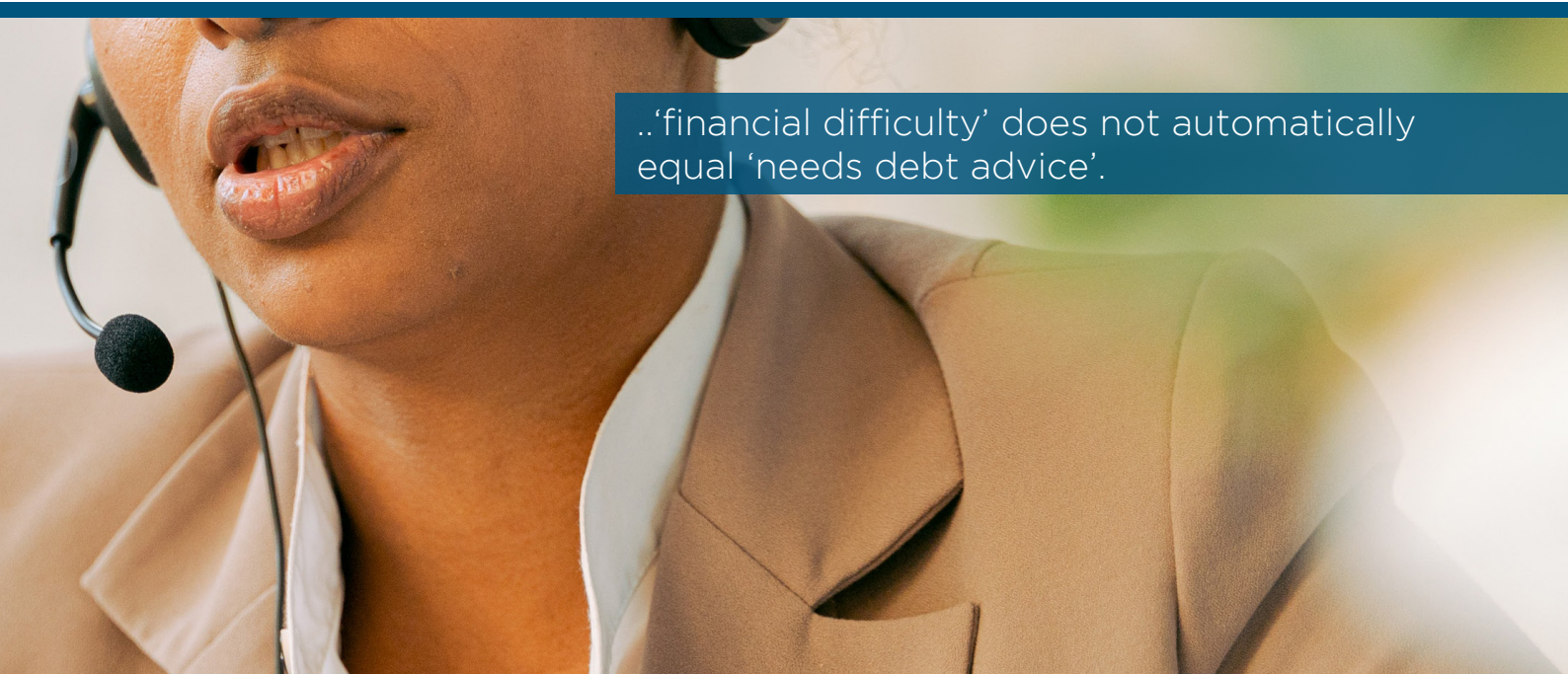
# 1. INTRODUCTION

- 1.1** A consensus rightly exists that those in need of help and support facing financial difficulty should be aided – and that debt advice, supported by state and industry funding, is quite rightly a necessary part of the services that ought to be facilitated. Yet for a long time, the quality of debt advice provision and questions about whether the right people are getting the right advice in the right way have been left unaddressed. With much of the debt advice sector provision facilitated via charitable and non-profit organisations, it is understandable that policy-makers are less transactional and more supportive of the efforts of the sector. Yet it would be a disservice to those in greatest need to never question whether advice provision is appropriate, even if provided for by well-intentioned organisations. We all have a duty to the customer to ensure that good value for money is achieved and that quality advice appropriately tailored to needs is fulfilled. This report asks some of these difficult questions, and does not seek to undermine or minimise the dedication or benevolence of those who provide advice. As a sector seeking engagement with many thousands of customers each day in order to resolve problem debts – and which provides both statutory and many millions of pounds of voluntary contributions to the advice sector – we welcome and applaud the work undertaken and will continue to do so. Yet it is also our responsibility to review existing provision and ask whether more and better can be delivered for the investment currently made.
- 1.2** Phrases such as ‘people needing debt advice’ or ‘those who could benefit from debt advice’ frequently appear both in the press and in policy statements. They are often accompanied by eye-popping claims of how many people that this is true for.
- 1.3** Indeed, the latest announcement<sup>2</sup> by the Money and Pensions Service (MaPS) claims that its research shows that some 8.5 million people show the characteristics of strongly needing regulated debt advice. That is certainly an eye-popping claim. According to 2020 figures from the Office for National Statistics, the UK had a population of some 67 million<sup>3</sup> and an adult population of some 53.5 million. If MaPS’ claim is correct, then between a sixth and a fifth of the adult population of the UK needs ‘*full debt advice from a regulated provider*’ now based on MaPS’ criteria for need.
- 1.4** Against a backdrop of steep increases in the cost of living, the lingering effects of the pandemic, dislocations in trade and rising global tensions all adding to cost, it would not be wholly surprising. But is it really the case?

<sup>2</sup> [‘Who needs debt advice in 2022?’](#) – Paul Das, Money and Pensions Service [23 February 2022]

<sup>3</sup> [Population estimates for the UK, England and Wales, Scotland and Northern Ireland: mid 2020](#) – Office for National Statistics [25 June 2021]

- 1.5** It is a question worth asking as these and claims by many other organisations are often underpinned not by data but rather extrapolations based on surveys. Being based on a survey does not necessarily undermine a claim made, but much more attention needs to be paid to the way questions have been asked and the skill with which the responses are analysed.
- 1.6** It might be true that 8.5 million people can be described as being in severe financial difficulty, but whether they require ‘full debt advice from a regulated provider’ is a rather different question. The need, benefit and relevance of debt advice to an individual’s situation depends very much on that individual’s circumstances and their willingness to engage with them. Put more simply: ‘financial difficulty’ does **not** automatically equal ‘needs debt advice’.
- 1.7** Understanding that truth is an important one. MaPS has an unenviable set of functions in relation to debt advice and which are not entirely complementary, though undoubtedly lawmakers framing the functions did not appreciate that. It is also without the benefit of reliable ‘hard data’ to manage those functions in a truly robust way. In effect, MaPS must guess at the potential scale of demand and then guess at the level of capacity available to meet that need.



..‘financial difficulty’ does not automatically equal ‘needs debt advice’.

- 1.8** Even that task is more complex than it might at first appear. Debt advice is a simple concept but is delivered in a huge variety of ways, contexts and extents. It often does not exist in isolation but can be linked to the provision of other services for which MaPS is not responsible and does not fund. Advice also varies significantly in quality and consistency – another key consideration for MaPS amongst other parts of the regulatory framework.
- 1.9** Likewise, the funding structure is not as straightforward as might be thought. MaPS only distributes levy funding for some of the advice that is given. The funding pool itself is much wider and larger than simply what is contributed via the levy. There is a fundamental lack of clarity as to how far MaPS does, or is able to, ensure that its activities do not overlap or duplicate what is already funded elsewhere.
- 1.10** And it becomes more complex still when it is remembered that debt advice is a devolved matter, meaning that since 2019 Scotland, Wales and Northern Ireland have been able to adopt different strategies. MaPS remains responsible for debt advice provision in England but it is often the case that, at least in terms of data, it is not always clear where something relates to the UK as a whole or simply to England.
- 1.11** The underlying problem is that debt advice is not a single homogenous market where providers are offering the same, or substantively the same product or with the same quality and consistency. It is fragmented, has no single point of entry and is inconsistently regulated. Concerns regarding efficiency and effectiveness have been persistently raised as an issue by both those funding and impartial evaluations of the debt advice sector.
- 1.12** Funding arrangements are less than clear, meaning that developing a credible understanding of what is being delivered is inordinately complex. Substantial amounts of funding are contributed from a variety of sources and have risen quickly over time, but what is less clear is whether those increases have delivered a measurable impact equivalent to the contributions made.
- 1.13** If they do not, then this begs the question: is the current approach to the provision of free to client debt advice actually fit for purpose? Does it genuinely represent value for money for either those accessing the services, or for those currently funding them? And if not, what could the current approach be replaced by?

## 2. THE LANDSCAPE

- 2.1** In June 2020, the Government announced<sup>4</sup> a £37.8 million package of additional funding to bolster debt advice provision in light of the economic impact of Coronavirus. The announcement brought the MaPS budget for levy-funded debt advice to some £102 million for the year 2020/2021. With this, the Government was responding to the expectation that demand for debt advice would increase by some 60% over the following 12 – 18 months. Proportionate increases were also made to funding to the Devolved Authorities to bolster their responses to increase incidence of financial difficulty.
- 2.2** On its website, MaPS describes itself as '*the largest single funder of debt advice in England*'<sup>5</sup>. While MaPS is unquestionably the largest single distributor of funding in England, most of the funding itself actually comes from the financial services industry. Moreover, MaPS is only responsible for a portion of the total funding that is committed to free-to-client debt advice provision, not the whole. The overall total, while difficult to quantify in absolute terms, is considerably larger.
- 2.3** In broad terms, there are three main sources of funding directed to supporting free-to-client debt advice provision: a levy on financial services firms; contributions under the 'Fairshare scheme' by creditors receiving payments; and donatives. So how much funding for free-to-client debt advice provision is there overall and what does it actually deliver?

While MaPS is unquestionably the largest single distributor of funding in England, **most of the funding itself actually comes from the financial services industry.**

**2.4** In 2019, the Credit Services Association undertook an exercise to estimate the amount of funding available to not-for-profit debt advice organisations<sup>6</sup> and what that funding had achieved. A conservative estimate for the 2018/2019 year found that in addition to the £56.3million funds available in the formal levy, there appeared to be a further £55.7million in ‘Fairshare’ payments and somewhere in the region of another £60million in donations, grants, and the like.

### Debt Advice Funding (c. £172m)

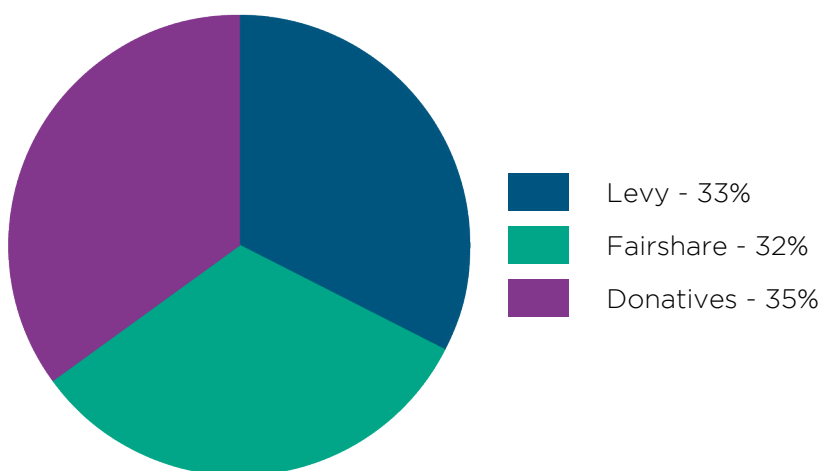


Fig 1: 2018/2019 Estimated proportions of funding for free-to-client debt advice.

**2.5** With the exception of the Financial Guidance Levy<sup>7</sup>, which is a known quantity, the amounts relating to ‘fairshare’ and donatives are conservative estimates drawn from annual accounts and similar publications from those making the payments or receiving them.

**2.6** Having determined the scale of funding, the next question to be asked is what those funds achieved. Again, only the information from MaPS is potentially reliable in contributing to an understanding of what has been delivered. The annual report<sup>8</sup> for the 2019/2020 year stated that 541,479 sessions had been delivered in England against a cost of some £61.145 million. Various advice organisations produce their own tallies of advice given but it is unclear how much of that is accounted for in the MaPS totals. What is less clear is what the wider funding pot achieved as a whole, something that is further complicated by debt advice provision now being split on a national level.

**2.7** What we can see is that there is an apparently large amount of funding already available for the provision of debt advice, even if the total is obscured, but a fundamental lack of clarity as to what that is achieving.

<sup>6</sup> See the blog [‘The money merry-go-round of debt advice’](#) – Credit Services Association [March 2019]

<sup>7</sup> And Devolved Authorities levy

<sup>8</sup> [Money and Pensions Service - Annual Report and Accounts for the year ended 31 March 2020](#) – [Accessed 28 February 2022]

## WHAT DO WE MEAN BY 'DEBT ADVICE'?

- 2.8** It might seem an obvious point, but here 'debt advice' means precisely that. An individual's financial and personal life might be a complex network of interactions and interdependencies stretching far beyond a debt, but debt advice is purely advising on the liquidation of debts or negotiation with creditors on behalf of the debtor to that end<sup>9</sup>. At its simplest, a person can have their financial position assessed and be presented with options for resolving their indebtedness.
- 2.9** Life can often be more complex than this and many providers have developed services that also include additional advice services that are intended to complement the provision of debt advice. For example, a person's financial difficulty might be linked to providing assistance with issues such as benefits or housing which might have a bearing on the extent to which a person can recover their financial position – or which might have contributed to financial difficulty in the first instance. The actual scope of any debt advice given, and any additional advice services, is typically determined by the advice provider's business model.
- 2.10** It is worth keeping in mind that there are often very good reasons why there might be differences in how debt advice is offered depending on location. Local conditions might give rise to very different needs both in terms of service, but also nature and drivers of indebtedness, delivery mechanism, accessibility and even linked services. For example, the drivers for debt in a rural location might be very different to an urban one. Or the loss of a large local employer might drive a spike in financial difficulty along with a need to seek alternative employment or retrain. However, crucially while such services may well be incredibly beneficial to aid support and recovery from financial difficulty, they are not debt advice and therefore fall outside of the scope of this paper.

## WHAT DOES THE MARKET FOR DEBT ADVICE LOOK LIKE?

- 2.11** Realistically it is difficult to speak of or define a ‘market’ due to the significant variety of business models, geographical coverage and different contexts in which advice might be given. A person might obtain debt advice while receiving professional legal or accounting advice from a suitably qualified professional. The same is broadly true where the person has approached a qualified insolvency practitioner with a view to accessing a formal debt solution such as an Individual Voluntary Arrangement or bankruptcy. In all these cases, debt advice is either incidental to the primary service being provided or a preliminary step to that primary service. There might be no charge for the advice itself but, typically, there will be a cost for the wider service, and this would be paid by the individual concerned.
- 2.12** There are also commercial debt managers which will provide advice services, with or without charge to the individual, but will normally at least apply a fee for subsequent services such as managing payments to creditors or helping an individual access formal insolvency options depending on the options that the debt manager chooses to offer. While there have been concerns with commercial debt advice in the past, it is worth keeping in mind that those which are currently in the market have undergone several years of intense regulatory scrutiny by the Financial Conduct Authority (FCA)<sup>10</sup> which has the ability to penalise or remove substandard firms from the market.
- 2.13** Finally, there are the providers that might be regarded as ‘non-commercial’ in as much as they do not normally charge a fee to the individual but are funded in some other way. Typically, these providers are also authorised directly or indirectly by the FCA<sup>11</sup> and expected to meet all of the same standards and many – but not all – of the same regulatory requirements that apply to commercial providers. Funding is often from creditors owed money either via direct mechanisms, such as Fairshare<sup>12</sup>, through grants or donations, or indirectly via the compulsory levy. This group is also significant by the limited extent to which it is affected by competitive and regulatory drivers.

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<sup>10</sup> Prior to 2014, the provision of debt advice was regulated by the Office of Fair Trading which also undertook a long running programme of compliance monitoring and enforcement over a period of years.

<sup>11</sup> Some, such as local authorities, do not require authorisation by the FCA.

<sup>12</sup> A funding system where a creditor receiving a payment voluntarily remits a percentage of each payment to the adviser which contributes to the costs of providing advice and of operating the payment arrangement.

## THE FINANCIAL CRISIS AND THE GENESIS OF THE LEVY

- 2.14** The events of 2007/08 left the government of the day with the twin challenges of strained public revenues and a large tranche of the population facing a greater or lesser degree of financial difficulty, exacerbated by low financial resilience. To borrow an analogy from various commentators over the years, many people and businesses had spent while the sun shone but had not provided for a rainy day and so were unprepared when a storm came. Guidance was therefore important in assisting individual recovery.
- 2.15** In 2010, the government announced that it was ending the funding for debt advice that had come via the Financial Inclusion Fund. This promptly created something of an uproar as this funding had supported the provision of a not inconsiderable amount of face-to-face debt advice. Between 2006 and 2011, some £130 million in funding had been made available via the fund and the natural concern was that funding was being withdrawn at a time when advice services were most likely to be needed.
- 2.16** Its loss, coupled with a contemporaneous paring back of funding from local authorities who faced their own financial challenges - another key source of debt advice funding - led policymakers to consider scope to raise funds from alternative sources. Given the culpability of some financial services firms for a worsening of unsustainable borrowing or financial circumstances, naturally the Government looked to financial services firms to fill the gap created by withdrawing the funding available from the Financial Inclusion Fund. The result: a compulsory levy on financial services firms based on the (then) Financial Services Authority's fee blocks.
- 2.17** It was, and still is, entirely reasonable that financial services firms should contribute to the provision of debt advice. However, the arguments underpinning that contribution and why it was not cast more widely to other types of creditor were to some degree far more questionable.
- 2.18** A key weakness in the logic of the model was that it essentially assigned blame based on particular types and levels of debt<sup>13</sup>. The nature of lending meant that naturally it would be vastly over-represented using that approach, irrespective of whether it was a driver, or the driver, or not for financial difficulty and irrespective of the level of arrears present at any point in time. Put another way, rather than attempting to find an equitable solution which would be enormously complicated, policymakers opted for a simple but not entirely fair one that was easy to implement and where objections could easily be brushed aside.

**2.19** Another key deficiency in the model's design is that it did not attempt to find balance in the competing interests of both creditor and debtor. Although the principle is an alluring one, the fallacy of 'polluter pays' missed the additional point that a person with an outstanding loan of, say, £5,000 had already had the benefit of that money but just had to pay. While there is a tendency to think of every creditor as an enormous global banking institution with vast resources and for which such sums are trifling, they are the exception rather than rule.

**2.20** Troublingly, in its departmental review of the Money and Pensions Service (MaPS), the Department of Work and Pensions wrote of funding for MaPS:

*There is an underlying principle regarding the funding of MaPS of 'the polluter pays'; the organisations whose financial relationships with their customers give rise to the need for MaPS' services in the first place, are the ones who should pay for its activities. In the realm of debt advice in particular, there are organisations such as utilities and local government, that also benefit from MaPS' services but who are currently excluded from contributing levy payments within the current legislative framework.<sup>14</sup>*

**2.21** This statement presents a distorted picture of the rationale for the current structure and its weaknesses. While true that the narrowness of the current contributors to the levy is rooted in the current legislative framework, that was a matter of choice for the government at the time of its creation and governments since. Similarly, it is not usually the financial relationships that give rise to the need for MaPS services but individual circumstances. 'Need' for money or debt advice is usually driven by a lack of financial capability or a lack of financial resilience linked to a sudden change in circumstances, respectively. Although it may not be popular to say so, the creditor is not always the cause of financial difficulty - yet this reality is not reflected adequately in the core driving principles of existing debt advice provision.

## OTHER CONSIDERATIONS

- 2.22** As already alluded to, compulsory levy-based funding is not the only source of funding or benefit for free-to-client debt advice, nor is it the only financial benefit that such organisations providing it have.
- 2.23** For example, the current regulatory structure provides a degree of protection for losses that customers may experience should a firm managing their debts (and holding client monies as a result) fail or use those monies improperly<sup>15</sup>. The debt management fund is currently set at £20 million and whilst fee charging FCA authorised firms contribute, other non-fee charging firms including some of the largest debt advice providers presenting the largest risks, do not. The difference is contributed by firms engaged in lending activities.<sup>16</sup>
- 2.24** The FCA's policy approach may be somewhat counter-intuitive – creditors insuring customers' money, which the creditors may be owed, against misconduct or failure by not-for-profits advising said customers – but the salient point here is that there is a significant financial benefit to not-for-profit debt advisers that hold client monies in not having to contribute to the protection of their own customers under the Financial Services Compensation Scheme.

## WHAT ARE MAPS' FUNCTIONS?

- 2.25** Created by the Financial Guidance and Claims Act 2018 (FGCA 2018) from three existing bodies, including the Money Advice Service, it is specifically tasked with providing '*members of the public in England, free and impartial information and advice on debt*' (Section 3(5)). Providing advice in Scotland, Northern Ireland and Wales is the province of the devolved governments.
- 2.26** MaPS also has two further relevant obligations in connection with the provision of debt advice in England. Section 9 requires it to set standards<sup>17</sup> to be met by those providing advice on its behalf and Section 10 requires it to monitor both its own performance against those standards and that of any third-party delivery partner acting on its behalf.
- 2.27** As should be clear, this standard setting function sits apart from the FCA's duties in relation to authorised businesses engaging in regulated activities. The FCA's rulebook relates to the relationship between consumer and firm. MaPS, by contrast, can set standards in this space but is governing the relationship between itself and the consumer, even where delivered by a third party. The nearest regulatory analogy would be the FCA's rules on

<sup>15</sup> Provided that the firm was FCA authorised and the firm held client monies. See the Financial Services Compensation Scheme [website](#) for further conditions.

<sup>16</sup> See Chapter 7 of FCA [CP17/36](#) - Financial Conduct Authority [2017]

<sup>17</sup> [Money and Pensions Service Standards](#) [January 2021]

outsourcing. It is open to MaPS to go further than the regulatory minima or elaborate where necessary, but the key point is that this is not the same as, or a substitute for, regulatory oversight. In the main, however, the standards largely reflect the sort of requirements that the FCA already applies as a condition of remaining authorised.

**2.28** It is clear that the approach adopted in relation to standards and monitoring is not wholly popular, with more than a few contentious views. The group 'We Are Debt Advisers' described the existing quality assurance framework, due to be withdrawn from March 2022, as '*over-bureaucratic*' and which was '*adding to the stress for front-line advisers, and has already caused many to quit the profession*'<sup>18</sup>. Whether or not this is the case is not something that cannot be commented upon here. As an observation though, extensive requirements to record and to be able to evidence decision-making and consumer interactions in detail is a feature of financial services regulation more generally, so as a general proposition it would not be out of place for there to be similar expectations for debt advice provision.

**2.29** Interestingly, albeit as an aside, free-to-client debt advice providers will need to think carefully about how the FCA's Consumer Duty proposals will apply here. It is clear that what the FCA proposes will require a significant shift in how firms evaluate their impact on consumers. In the context of debt advice, that will obviously require providers to focus much more on the outcome that the customer experiences, not merely whether rules have been followed. This will be a quantum shift in the debt advice sector where, for the first time, there will be a much keener focus on what outcome the customer actually experienced or chose, not simply whether advice was properly given.

**2.30** Nevertheless, MaPS differs in one key respect from its previous incarnation as the Money Advice Service. It is now constituted as an Arms Length Body of DWP and subject to the requirements of Managing Public Money. In essence, it now has to ensure – and be able to evidence for itself – that it has spent the money wisely and effectively in the context of its statutory functions. So, it has considerably less flexibility than previously. Its obligation is not to support particular providers or particular channels, but rather to use its expertise to determine and procure such advice via such channels and subject to such controls as it considers necessary, expedient and appropriate to the performance of its duties.

**2.31** It is worth noting that MaPS is empowered to take steps that are *‘incidental or conducive to the exercise of its functions’* but it is unlikely that this extends to subsidising particular parts of a market or individual organisations unless there is a materially relevant reason for doing so.

## SUMMARY

**2.32** It is practically difficult to speak of a ‘market’ for debt advice simply because of the wide variety of ways in which it can arise or be given. As a result, it is impossible to quantify how much free-to-client debt advice is actually given **as a whole** from all sources in a given year, or what the demand actually is in real terms and the extent to which it is served.

**2.33** Nevertheless, it can be said that the level of funding that not-for-profits receive as a whole is far larger than simply what is raised for MaPS as formal levy, it is merely that there is considerably less visibility as to scale or what funding achieves in real terms. What can be said with absolute certainty is that the majority of that funding comes from a single, narrow source – financial services – and that does have implications for the wider public that are conspicuously absent from any debate, not least impact on cost and interest for customers generally.

**2.34** Similarly, we can say that MaPS has taken steps to try to effectively measure the ‘bang for the buck’ that it is getting from the way funds are allocated. There are, however, some potential concerns regarding how effective those measures are based on the experiences of creditors and on claims made in academic research, but this is considered later. Moreover, we can say with certainty that the effect of the FCA’s Consumer Duty proposals will radically alter the landscape for debt advice and may actually assist MaPS in making that evaluation in future by forcing the focus to move from whether the advice was given properly or not, to whether the customer ultimately achieves the right outcome.

## 3. HOW MUCH ADVICE FROM HOW MUCH FUNDING

- 3.1** As the previous section suggested, it is simply not possible to state with any absolute assurance how much debt advice is provided at any given time, how much it cost and who paid for it. The hugely diverse mix of routes to advice, providers, services and business models make such assessments enormously complex and contain a strong element of speculation.
- 3.2** Indeed, only specific funded programmes with clear reporting requirements appear to be capable of providing that level of granularity. For example, in response to written questions<sup>19</sup> relating to debt advice sessions funded by the Financial Inclusion Fund, it was possible to state that in the five-year funding period some 351,767 face to face advice sessions had been provided.
- 3.3** By contrast, in his Independent Review of Debt Advice Funding<sup>20</sup> in 2018, Peter Wyman referred to a Money Advice Service (now reconstituted as MaPS) supply and need survey that suggested there was at that time sufficient capacity in the free-to-client sector for ‘*about*’ 1.1 million advice sessions (paragraph 23). In other words, the body that had had responsibility for coordinating and providing for debt advice, for several years by that point, had no clear perspective as to what demand or capacity actually existed. This is not a criticism of the Money Advice Service but simply a logical consequence of a fragmented ‘market’.
- 3.4** In fact, in 2017 the supply of free-to-client debt advice from three organisations alone appear to have accounted for some 1.143million sessions delivered according to their own claims indicating that total delivery had already exceeded the estimate Peter Wyman was working to.
- 3.5** Travelling further back to the Parliamentary debates of 2011 on the need to replace the Financial Inclusion Fund monies, Sir Nicholas Dakin<sup>21</sup> referred to Citizens Advice alone providing 580,000 advice sessions, and stated: ‘*In addition, 1.4 million people—one in every 33 UK adults—received advice from charities such as National Debtline*’. It is unclear where these figures may have been obtained but it illustrates both that only centrally funded and monitored debt advice programmes are likely to have reliable reporting and that there is considerable uncertainty as to how much advice is being provided.

<sup>19</sup> [Written answers - Debt: advisory services](#) - Ed Davey MP replying to Tristan Hunt MP - Column 1097W, Hansard [15 September 2010]

<sup>20</sup> [Independent Review of the Funding of Debt Advice in England, Wales, Scotland and Northern Ireland](#) - Peter Wyman [2018]

<sup>21</sup> Parliamentary debate: [Independent Debt Advice](#) - 10:16 am, Column 14WH, Hansard [8 February 2011]

- 3.6** Interestingly, Stepchange Debt Charity (then the Consumer Credit Counselling Service) claimed that it helped some 350,000 people in 2011.<sup>22</sup> Data from the Money Advice Trust, which operates National Debtline, suggests that it took some 250,000 calls in 2011 indicating strong demand for its services even if all of these calls might not necessarily have resulted in advice<sup>23</sup>. While not conclusive, taken together with the 580,000 claimed in relation to Citizens Advice, it suggests that the figures quoted in Parliament in 2011 might be reasonably realistic once other sources of free advice are considered.
- 3.7** It does, however, raise an interesting question: if funding had sharply risen by 2018, how was the level of overall sectoral performance lower by comparison to 2011? The picture becomes murkier still when the results of the FCA's Financial Lives Survey<sup>24</sup> are considered. It estimated that some 3.3% of adults had sought debt advice between the end of February and October 2020, equating to some 1.7 million adults, of which about two thirds were seeking advice for the first time<sup>25</sup>. However, in the 12 months to February 2020 that percentage was still 3.1% (circa 1.6 million) and crucially in the 12 months to February 2017, that percentage was 2.7% or 1.4 million adults.
- 3.8** Again, this is not a criticism of MaPS. There are no simple and reliable ways of tracking demand and provision of debt advice in a fragmented market (and there is an inevitable difficulty of a UK focused FCA survey when debt advice is a devolved matter). Nevertheless, at the time Peter Wyman was concluding that more funding<sup>26</sup> was required on the basis of an assumed capacity of 1.1 million, about 1.4 million consumers appear to have already decided they needed and been provided with advice from within the existing capacity. It may be that some of this difference is advice from commercial sources, but it does call into question some of the core factual aspects of the policy debate.

<sup>22</sup> [CCCS Statistical Yearbook 2011](#) - Consumer Credit Counselling Service [2011]

<sup>23</sup> A Decade in Debt - Money Advice Trust [September 2018]

<sup>24</sup> [Financial Lives 2020 Survey: the impact of Coronavirus](#) - Financial Conduct Authority [11 February 2021]

<sup>25</sup> See figure 4.24, page 105 - Ibid

<sup>26</sup> The recommendation was that there was a temporary increase of £10 million per year for 2018/2019 and 2019/2020. This temporary increase would now appear to be, in effect, permanent.

## LEVY FUNDING

**3.9** If the growth of free-to-client debt advice provision has been fairly slow over almost a decade, how then does this compare with changes in the debt advice levy? The following graph gives a sense of how the debt advice levy has changed over time. For convenience, the devolved authorities levy (first collected in the 2019/2020 year) and the 'one off' of £14.2 million in Coronavirus support (2020/2021)<sup>27</sup> are included in the appropriate year.

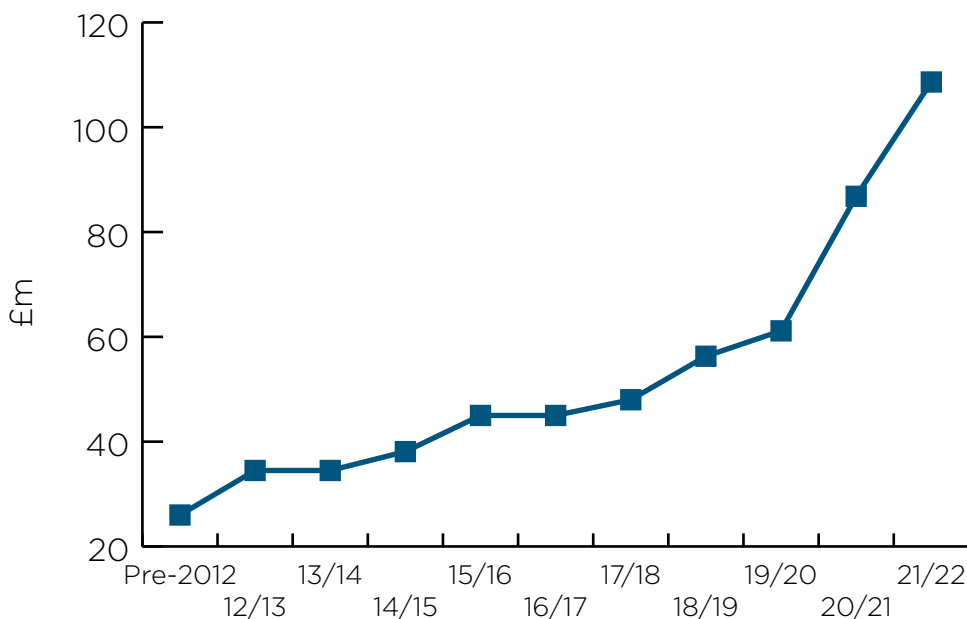


Fig 2: Levy funding for debt advice.

**3.10** Put simply, the amount of funding from the compulsory levy alone has cumulatively increased by 252% between the first year of the levy and the 2020/2021 year. But does this represent value for money?

**3.11** This is an extremely difficult question to answer given that MaPS funds face-to-face, telephone and digital advice provision which have very different cost profiles. In 2012/2013, MaPS expected to achieve 150,000 advice sessions<sup>28</sup> at a cost of about £32.43 million (94% of debt advice levy), or an average cost of £216.20 per session disregarding variations in channel costs. In its annual report and accounts for the period ending 31 March 2019<sup>29</sup>, MaPS expected to exceed its target of 530,000 for the full financial year. Assuming that 94% of the debt advice levy was applied again, that would equate to about £100 per session on average.

<sup>27</sup> The further £20 million pledged by Government in 2020 is not included in this total and it is unclear whether that contribution was ultimately made.

<sup>28</sup> [2012/2013 Debt Advice Business Plan](#) - Money Advice Service [2012]

<sup>29</sup> [The Money Advice Service: Annual Report and Accounts 2018/19](#) - Money Advice Service [2019]

**3.12** As noted though, different channels have very different cost profiles. In 2012, the focus was heavily on face-to-face but over time MaPS has pivoted away presumably to maximise impact using other, less costly, channels and attitudinal changes in customers themselves. Peter Wyman’s report presented an average cost per channel based on the information that had been furnished to the review<sup>30</sup>:

<b>Channel</b>	<b>Average cost</b>
Face-to-face	£160
Telephone	£70
Online	£9

Fig 3: Estimated advice cost per channel [per Wyman, 2018].

The report also recommended both that MaPS should pivot to less costly options, recognising the changing pattern of consumer engagement generally, and that there was a wider need for the free-to-client sector to improve efficiency, by a factor of 20%<sup>31</sup>.

**3.13** On the face of it, the number of debt advice sessions funded solely by the levy has increased by some 353% between 2012 and 2019, which is surely to MaPS’ credit. However, this increased effectiveness in levy fund usage does not appear to be reflected necessarily in wider free-to-client sessions. If there were 1.4 million in 2011 and only 1.7 million in 2020 this suggests that the increase is a far more modest 17% or so. Allowing for a high degree of uncertainty as to the accuracy of those figures in an holistic sense, it does at least hint that there are wider challenges in the provision of free-to-client advice.

## HOW MUCH FREE TO CLIENT ADVICE IS ACTUALLY BEING PROVIDED THEN?

**3.14** In a sense, capacity is one of the key challenges that face MaPS in identifying either need or channel requirements. The capacity for free-to-client advice in 2017 was estimated as being about 1.1million. In fact, in 2017, three organisations alone accounted – according to their own statements – for some 1.143 million clients advised.

StepChange <sup>32</sup>	619,946
Citizens Advice <sup>33</sup>	184,000
National Debtline <sup>34</sup>	340,000
<b>Total</b>	<b>1,143,946</b>

Fig 4: Advice given by three of the largest free-to-client providers - 2017.

There are, of course, a great many free-to-client providers, both large and small, so the number of advice sessions was undoubtedly larger.

**3.15** It also needs to be remembered that some organisations are not reporting UK-wide. Citizens Advice Scotland, for example, indicated that its bureaux gave some 195,517 pieces of advice on debt in 2016/2017<sup>35</sup>. It is unclear whether these were all new advice sessions or simply the number of pieces of advice, but the scale nevertheless illustrates that capacity in the free-to-client sector comfortably exceeded the estimated 1.1 million considered by Peter Wyman. The point is less that the figure might well significantly underplay capacity (or more relevantly actual delivery) but rather that it illustrates the lack of reliable data: how much capacity is there and what is it delivering for what cost?

**3.16** Therein lies the overarching difficulty, in particular for MaPS in its role of developing a credible strategy for UK financial wellbeing. In 2018, there was not merely £56.3 million in funding for debt advice. The best estimates that could be made were that the actual level of contribution to free-to-client advice was about 3 times that – or about £180 million. Tripling the effect of the levy in the 2018/19 year should have achieved something of the order of 1.5 million free-to-client debt advice sessions – close to the FCA’s survey-based projection though that survey might also include advice provided by commercial or other professional providers.

<sup>32</sup> [Stepchange 2017 Statistics Yearbook](#), page 3 ‘new contacts’ – Stepchange [2018]

<sup>33</sup> [For example, this statement made in a press release](#) – Citizens Advice [January 2018]

<sup>34</sup> [Making a difference: Our Impact in 2017](#), pages 6 & 7 – Money Advice Trust [2018]

<sup>35</sup> [Citizens advice service in Scotland, Statistics 2016/2017](#) – Citizens Advice Scotland [July, 2017]

## INCREASED LEVY FUNDING DOES NOT INCREASE ADVICE SESSIONS

**3.17** What begins to emerge is a pattern of increasing funding having a decreasing effect on the amount of advice given **as a whole**. The following figure shows the steady increase in both levels of levy-based funding and advice sessions funded by MaPS. However, it also shows that the overall level of advice given has risen as a much slower rate despite additional funding still being available from elective contributions.

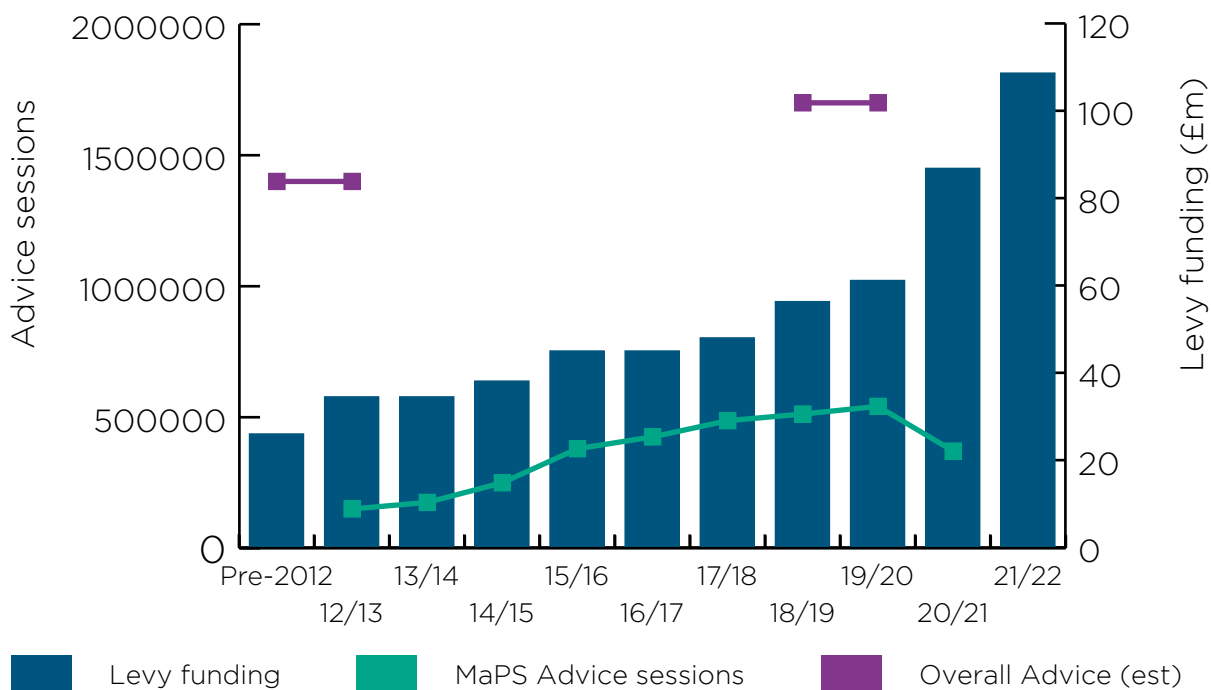


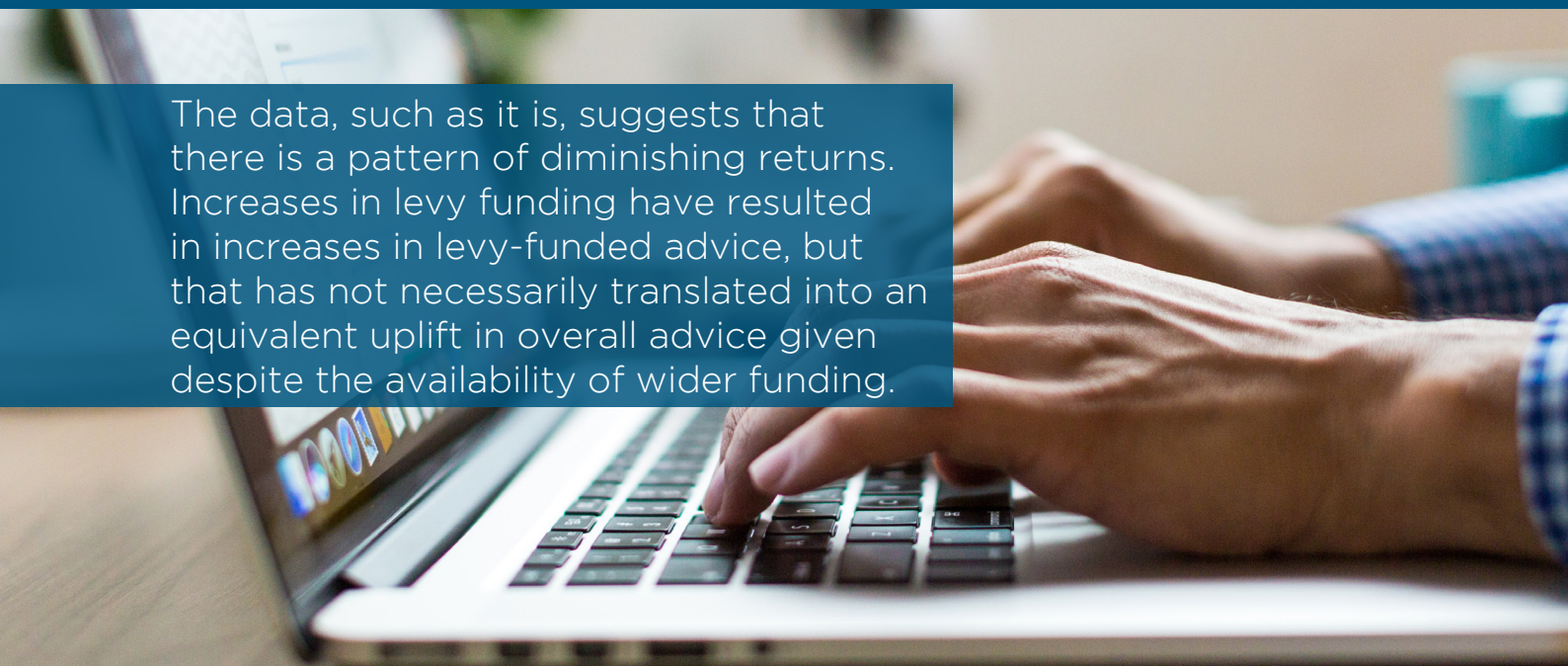
Fig 5: Levy funded debt advice against MaPS advice sessions with estimated total debt advice for reference.

**3.18** There are undeniable uncertainties in the accuracy and extent of the data so the above figure should be treated as illustrative. But the broad-brush themes are fairly obvious. As funding has increased, so too have MaPS funded debt advice sessions – to a point. The overall level of increase appears, however, to be considerably slower despite that benefiting from considerable elective funding.

**3.19** The data, such as it is, suggests that there is a pattern of diminishing returns. Increases in levy funding have resulted in increases in levy-funded advice, but that has not necessarily translated into an equivalent uplift in overall advice given despite the availability of wider funding. In other words, proportionately less may be being achieved with more resource. Equally, even for those figures that are largely reliable, mainly those of MaPS, there is a clear indication that more money does not automatically result in more advice given.

**3.20** It is worth also commenting briefly on the apparent downturn in advice sessions in the 2020/2021 year. The support measures put in place by the government and by creditors generally are likely to have contributed to a lessening of drivers to seek advice in the first place. However, it also underlines the point made earlier: that being deemed to 'need' debt advice does not necessarily correlate to demand. Those in debt might take a different view as to what they 'need' or want.

**3.21** So what conclusions can be drawn so far? On the face of the information, very few. We know the size of the levy and roughly what that achieved based on monitoring that MaPS has undertaken. We also know that the overall level of levy contribution to free-to-client advice was, in 2018, about three times that from wider sources. But beyond that, data is fragmented and potentially duplicative. We are told that some providers have had to turn away potential customers because of lack of capacity in the past, but is that because they lack capacity or that the system does? Both? Or neither? 'Need' is even less certain as that requires a largely subjective view: a paternalistic 'we have determined that you require debt advice because you fit such and such a profile'.



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## 4. A CHANGING WORLD

- 4.1** The current MaPS funding principle - that the polluter pays - is increasingly difficult to sustain. Much as there are those seeking to make claims about widespread irresponsible lending, the actual evidence to support these claims is elusive in all but the extreme minority of instances.
- 4.2** In 2016, the FCA published Occasional Paper 20<sup>36</sup> and there is a telling passage in chapter 6:

*Lenders have strong business incentives to accurately assess credit risk – the likelihood of an individual not repaying debts – as lending to individuals who do not repay loans is typically unprofitable. Lenders have clearly observable outcome data on arrears and defaults to be able to construct highly accurate credit scoring and profitability models for this purpose.*

The paper does note further on that there were some small parts of the consumer credit sector where this did not hold true, but generally speaking the analysis is sound for lending activities. Lending to people who are unlikely to or do not repay is unprofitable. Since these are commercial entities where making a profit is something of a *raison d'être*, it doesn't take a huge amount of effort to realise that many of the claims that irresponsible lending was rampant (then or since) were, politely put, so much marsh gas.

- 4.3** The same is broadly true of most types of business. There is little incentive to do business where there is a likelihood of not being paid. While the public rhetoric invariably claims otherwise, pursuing a debt is not likely to be profitable in and of itself. The costs of pursuing a debt, whether directly or via the agency of a third party, are typically limited to recovering only the actual and necessary costs of pursuing that debt lest those costs be deemed an unfair penalty and incur a regulatory or civil response. No industry is perfect, of course, and there will always be mistakes, things that could be done better and outliers that do not conform to acceptable standards, but that is a rather different thing to claiming widespread 'pollution'.

## EXAMINING THE CONCEPT OF 'POLLUTER PAYS':

- 4.4** The concept of pollution implies an avoidable harm disturbing a natural ecosystem for which someone or something can be blamed as the cause. There is a very simple reason why in most summaries of financial position, financial services debts are proportionately larger in financial statements – they are the only things where you receive the benefit of the transaction from the outset, and have time to pay. You receive £5,000 which you can spend on whatever you will and repay what is borrowed, plus the cost of borrowing, over 10 years. You might spend exactly the same amount on utilities over that 10 year period, but what you owe is what you have already had the benefit of. Fairly straightforward, it might be thought.
- 4.5** The reality is that the value of outstanding debt in someone's financial position does not appear to have much in the way of a link to establishing the polluter. An individual is unlikely to be permitted to generate thousands of pounds in unpaid Council Tax or gas and electricity debts without the utility company or the local authority beginning the process of recovery.
- 4.6** In fact, as should have been obvious from some of the evidence seen and quoted in Peter Wyman's report, the nature of problems that individuals are presenting with does not reflect the mythology of financial services being the universal polluter. Page 11 of the report quotes data from Citizens Advice and illustrates that as far back as 2013-2014, household and government debts had overtaken financial debts as points of concern. Stepchange's statistics<sup>37</sup> tells a similar story – unemployment drove financial difficulty, and arrears on essential household bills was a particular problem.
- 4.7** For the most part the main drivers of financial difficulty appear to be a sudden change in circumstances (ill-health, relationship breakdown, job loss or income reduction) coupled with a lack of financial resilience. We can add to that other factors such as persistently low financial knowledge and skills coupled with weak personal planning/budgeting. What can make matters far worse is in delaying seeking help in the first place. In 2018, Payplan commented in a blog<sup>38</sup> that nearly 30% of their clients at the time waited 3 or 4 years before seeking help. It is far from uncommon to find statements that clients have waited more than a year to seek advice which dovetails with the experience of creditors themselves.

**4.8** That reluctance to engage early with creditors or collectors appears to have many causes, not least fear of the unknown and personal embarrassment. It also appears, though further detailed research is required, that commentary in the media and statements claiming evidence of harm also contribute to a reluctance to engage early. That is to say, the organisations criticising creditors almost as a matter of routine, would appear to be actively – if presumably unintentionally – risking the interests of those they are ostensibly speaking on behalf of or reporting to.

**4.9** There are three key takeaways on this point:

- First, public perception of being in debt is quite clearly tinged by embarrassment but it is harmed further by entrenched hostility towards creditors, often with little evidence to substantiate it, which puts any relationship with any creditor on an adversarial footing before it even begins. A firm can become the enemy not by having done something wrong but simply by virtue of being owed money that cannot be paid, it would appear. This narrative actively dissuades customers from engaging early.
- Second, early engagement with financial difficulty will not resolve all problems, but it will help address much of it **before** financial difficulty spirals out of control. A person who waits between one and four years to seek help, even help from firms it deals with, is harming their own position. Resolving, or at least addressing, financial difficulty early also has the added benefit of making the debt advice element more straightforward to consider and advise on, and it also enables advice providers to focus more on those with the greatest need for support.
- Third, the ‘principle’ of polluter pays is a misplaced attempt to lend legitimacy to an iniquitous approach to obtaining funding. If it were in any way accurate, contributions would be drawn far more widely, including from Government itself.

**4.10** The concept of ‘polluter pays’ unfortunately obscures the rather more relevant considerations. Far more needs to be done to encourage earlier engagement with firms rather than dissuading it. While a start has been made on financial education, it is reasonable to expect that it will take many years for the work that MaPS and others are doing in this space to bear fruit. In the meantime, there are arguably two generations which are not sufficiently engaged with their financial lives to be routinely thinking ahead and planning for potential problems. And when problems do come,

the current policy approach of offering debt relief as a bribe to seek help is clearly neither appropriate or effective. There must be at least some measure of personal responsibility in the architecture.

## WHAT ABOUT 'FAIRSHARE' AS A FUNDING MODEL, THEN?

- 4.11** Imported from the United States, Stepchange Debt Charity describes fair share as: *'a funding model.....whereby creditors make a donation to our charity. With [fair share] creditors who receive a payment from one of their customers on a Stepchange debt management plan pay a percentage-based contribution for our service, based on the payments they receive.'*<sup>39</sup> Funding received in this way enables advice to be provided free of charge to the individual in financial difficulty as it is subsidised by the contributions linked to repayments under the debt management plan.
- 4.12** 'Fairshare' is, however, something of a misnomer. Fairshare is an elective contribution linked to receiving a payment, but not all creditor types that 'benefit' from the resulting debt advice, or the sustainable repayment arrangements agreed as a result, will necessarily be receiving a payment. A local authority might benefit as a result of council tax payments being made more reliably without necessarily having to pursue outstanding arrears. With the costs associated with payment distribution being generally quite low, it follows that much of the contribution is funding other aspects such as debt advice or other activities such as lobbying.
- 4.13** In fact, as with the compulsory levies, Fairshare costs disproportionately fall on the same small cross section of types of creditor. The nature of debts is such that a financial services creditor is more likely to be repaid over time and therefore more likely to be asked to make a contribution. Such payments are largely elective in the sense that contributions are, to a point, by choice<sup>40</sup>, but there is little fairness in the funding model itself. The cost of debt advice is recovered from those receiving agreed payments, not those which 'benefit' from the advice which is arguably a far wider pool.
- 4.14** If Fairshare is not exactly the most 'fair' and transparent of models, it is also burdened with a significant weakness: income is inextricably linked to the repayment plans being in payment. If the customer does not, or is not able to, make the repayments agreed there is no consequential income under Fairshare. As became apparent in 2021, despite the obviousness of the latent risk when this happens at scale the effect on an unprepared organisation can be substantial<sup>41</sup>.

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<sup>39</sup> [About Us: how we are funded](#) - Stepchange Debt Charity website [accessed 29 November 2021]

<sup>40</sup> A debt purchaser may, however, be bound to continue contributions that the original creditor has chosen to make as part of the debt sale.

<sup>41</sup> [Exceptional times, exceptional measures, and the future](#) - Phil Andrew, Stepchange Debt Charity [22 April 2021]

## **BUT FINANCIAL SERVICES FIRMS BENEFIT FROM DEBT ADVICE!**

- 4.15** Certainly, they do, but probably not in the way that might be expected and not in the amounts claimed. Past attempts to assign a value in debt advice have been hampered by serious shortages in data, the limitations of modelling and a failure to account for the changing nature of the market. Their conclusions make for eye-catching headlines, but are difficult to translate into the real world.
- 4.16** In simple terms, the benefit to a creditor cannot be measured by the level of receipts following debt advice. Many firms, in a large range of economic sectors, have invested heavily in better working with those in debt to achieve sustainable payment arrangements. By necessity, that means understanding the customer's financial position and taking a reasonable view. So, to the extent that there is a financial benefit, it is limited to the difference between what debt advice achieves and what the firms could have achieved themselves.
- 4.17** If debt advice determines that a customer can afford £100 but that the firm had already agreed to £99, then the 'benefit' of advice is the difference between the two less the additional costs of dealing with the adviser, not the receipt itself. And it needs to be remembered there are often ongoing regulatory costs which would swallow a proportion of whatever figure is agreed as sustainable. The difficulty with the monetised 'value' to the creditor is that it cannot capture all of the variables and so ultimately overestimates the benefit, quite substantially, especially when it is remembered that customers falling behind on agreements are, to borrow from Occasional Paper 20, unprofitable.



Many firms, in a large range of economic sectors, have invested heavily in better working with those in debt to achieve sustainable payment arrangements. By necessity, that means understanding the customer's financial position and taking a reasonable view.

- 4.18** Costs of non-payment, too, are not uniform across creditors and in some sectors have been steadily increasing. Firm size and the sector that it is active in will strongly influence what costs are borne as a result of non-payment. The behaviour of debt advisers can also increase costs significantly, whether as a result of routinely demanding information when it adds no value to the debtor's situation or simply because of the advice approach taken.
- 4.19** Against a backdrop of rising costs linked to the consequences of an unpaid debt whether regulatory or otherwise, many sectors have been significantly improving the way in which they engage with those in financial difficulty and over a period of many years. Forbearance is widespread and engagement with standardised approaches to understanding financial situations is becoming so. It certainly is not a perfect world and there are, and always will be, firm failures, but the cumulative effect is that, on a purely monetised basis, the value of debt advice to the creditor is on a declining trajectory.
- 4.20** That is not, however, the same as saying that debt advice has no value. It plainly does. But do creditors benefit to the scale suggested in reports such as the Money Advice Service's *'Economic Impact of Debt Advice'*<sup>42</sup>? As already noted, the point is not that you are getting back what you are already owed. The true test is whether what you are being repaid that which you would otherwise not receive less the additional costs incurred as a result of non-payment in the first place and taking into consideration the fixed 'regulatory' costs and the declining relative value of the debt due to the passage of time. And on those criteria, the monetised value of debt advice provision for creditors is less clear.

## THE TROUBLE WITH MODELLING TODAY

- 4.21** Much of the literature surrounding the ‘value’ of debt advice in the creditor context is based on limited data and theoretical modelling. In fact, much of the modelling is a refinement of earlier modelling which in turn goes in ever recurring circles.
- 4.22** The key weakness in modelling is the lack of data. However, it is also arguable that there are additional weaknesses in as much as the modelling focuses primarily on recovery but less so on the declining value of the debt in real terms. Additionally, it is not entirely clear whether the modelling is grounded in a full appreciation of the overall costs and how these have increased over the last decade. There is an element of building houses at least partly on sand with the same underlying approach being undertaken by Europe Economics (2018)<sup>43</sup>, which builds on Clifford et al (2014)<sup>44</sup>, which in turn builds on Wells et al (2010)<sup>45</sup>, and so on. What was very openly presented as an ‘Aunt Sally’ in 2010 has changed little since then.
- 4.23** Wells et al make a number of points which are as relevant now as they were a decade ago. However, there are also important caveats to the modelling which are as relevant now as they were then: *‘The case for debt advice in terms of improved creditor outcomes cannot be proven based on existing research.’*<sup>46</sup> It is difficult to see that subsequent models have necessarily managed to address that problem or convert the ‘Aunt Sally’ into something more substantive. The Europe Economics paper contains, at page 74, the telling sentence: *‘There are a few past attempts at estimating the benefits to creditors of debt advice.’* This is still the case, and those that have been attempted all have the same weaknesses: data and an incomplete cost profile skewing the projected benefits to the creditor and conflating right to be repaid with ‘benefit’. At the end of the day, they are all estimates.

<sup>43</sup> [Economic Impact of Debt Advice](#), Chapter 5 in particular – Money Advice Service/Europe Economics [2018]

<sup>44</sup> [Social Impact Evaluation of certain projects using Social Return on Investment](#), pages 71 following – Clifford J., Ward K., Coran R., Ross C.: Stepchange Debt Charity [2018]

<sup>45</sup> [The Impact of Independent Debt Advice Services on the UK Credit Industry](#) – Wells J., Leston J., Gostelow M.: Friends Provident Foundation [2010]

<sup>46</sup> *Ibid*, page 69.

## A DECADE OF CHANGE

- 4.24** The other challenge to assumptions about benefit is that the world has changed significantly in the intervening decade. Many sectors have invested considerable time and resource in moving towards greater collaboration with those who owe them money. Long before the advent of the Financial Conduct Authority, changes in the various consumer credit markets were already focused on better arrears engagement to secure better outcomes: of having fewer conversations which were longer but better, instead of many rapid short ‘when can you give me the money’ conversations; of having staff with the necessary life experience and empathy; of having the right sort of forbearance strategy and options in place; and so on. Other sectors have followed suit to varying degrees and with varying success.
- 4.25** That is not to suggest for an instant that every firm is the same, or even that every sector in the economy has the same approaches to handling arrears or non-payment. The quality and consistency of engagement can be highly variable. But the underlying point is simple: as creditors continually improve – and it will be an ongoing and open-ended process – the extent to which debt advice is a direct ‘benefit’ to those firms will continue to decline. As it does, government and policy makers will find it increasingly difficult to justify drawing on creditors to fund it. Moreover, a stagnant debt advice sector and poorly judged Government intervention, present key challenges not least because they impact both the value and benefit of debt advice and more fundamentally affect the wider economy.

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## 5. THE FUTURE?

- 5.1** There are obvious and fundamental flaws in the existing approach to the provision of debt advice. The cost is escalating relentlessly but actual delivery appears to be persistently lagging. Indeed, while reliable data might be difficult to come by it nevertheless appears that while funding overall has increased significantly – largely as a result of the rapid increases demanded via the levy – the overall number of advice sessions appears to be growing at a far more subdued pace.
- 5.2** And this should profoundly worry both MaPS and Government policymakers. If genuine inroads were being made into improving efficiency and flexibility in advice provision, then the pace of delivery would be increasing at a higher rate. The independent Wyman Review recommended ‘one-off’ increases of £10 million in two successive years to facilitate an increase of 50% in capacity and improve quality by the end of the second year<sup>47</sup>. Not only has this not been achieved, but the temporary increase has also become a permanent fixture.
- 5.3** It is less than clear whether the extra £14.2 million of ‘one off’ levy-based funding announced in 2020 will also become another permanent fixture but not only did the projected demand not materialise<sup>48</sup> as expected but more than half of that funding – £7.5 million – was actually allocated not to debt advice provision but to shoring up the finances of some debt advice providers when a huge range of businesses were having to access borrowing to achieve the same aim.
- 5.4** All of this exposes not so much a problem with MaPS itself, but rather the more intractable problem of trying to operate within an existing market that has grown organically over many years and is accustomed to operating with minimal oversight, little accountability, frequent duplication and overlap and with persistent and deep-seated failings.
- 5.5** It is important to recognise that MaPS has no role in supporting or subsidising particular markets or providers in England<sup>49</sup>. Its functions are focused firmly on the consumer being able to access advice and guidance, and in ensuring that the advice given on its behalf is of high quality. How it achieves that is a matter for it, with due regard for the principles of managing public money.

<sup>47</sup> [Independent Review of the Funding of Debt Advice in England, Wales, Scotland and Northern Ireland](#) - Recommendation 4 – Peter Wyman [2018]

<sup>48</sup> Additional demand **may** crystallise at a later date but as at the time of writing, there is little indication almost 12 months later that it has done so.

<sup>49</sup> Since 2019, debt advice provision has been a devolved matter.

**5.6** Scotland, Wales and Northern Ireland are in a subtly different position to MaPS and England as debt advice has been a devolved matter since 2019, although there is a measure of complication in that regulatory oversight is still UK-wide and lies with the FCA. Nevertheless, it follows that each of the three nations had much greater flexibility in how they developed national approaches to debt advice provision in terms of structure and funding arrangements. The preliminary report produced by the Improvement Service in Scotland gives an excellent insight into some of the complexities that required consideration<sup>50</sup>. However, as England already has a statutory body responsible for debt advice provision in MaPS the options for change are somewhat different.

**5.7** There are six broad challenges with the existing position:

- i. The current approach has become increasingly costly, but performance has consistently failed to keep pace. Value for money is not being achieved.
- ii. Without fundamental reform to broaden contributors or to change the nature of funding entirely, there is a natural limit on the level of funding that it will be able to call upon in any event. Politicians certainly could keep trying to levy against financial services alone, but ultimately that will become self-defeating as costs will simply feed back into the customer base as a whole making financial products more expensive and will result in a decline in additional elective funding. Doing so will eventually also become increasingly difficult to defend in the face of impartial review.
- iii. MaPS will continue to struggle to apply consistently high standards to those delivering debt advice on its behalf while the FCA continues to adopt a 'light touch' approach to free-to-client providers. While the provision of debt advice that is free to the client might have a social benefit, that does not mean that consumers should experience a lower standard by using them.
- iv. While debt advice provision is a devolved matter, regulation is not. 'Light touch' regulation will inevitably mean that, over time, quality in debt advice provision will be primarily determined by the funding landscape and the degree of control that national approaches have.

- v. The focus has tended to be on whether the advice has been provided rather than whether the consumer ultimately achieved the right outcome. This is a key weakness as it denies insight into whether debt advice, and investment in debt advice, is delivering meaningful benefit either to the individual or to society as a whole.
- vi. The debt advice function exists largely in isolation, but debt does not. Frequently it is the case that there are wider issues (housing, local authority issues, economic abuse and so on) that require support in parallel.

## **CONSUMER DUTY**

**5.8** MaPS cannot do anything to change the FCA's approach to regulation, though the FCA's approach to the Consumer Duty may, presumably unintentionally, achieve that. If introduced as consulted upon, the Consumer Duty will partly address the fourth issue by requiring authorised organisations – including providers used by MaPS – to focus on outcomes holistically, not simply whether the rules were followed. As there is a proposed requirement to monitor, this will also help with MaPS monitoring not only whether the advice was given but whether there was an appropriate outcome at the end of the process.

**5.9** That in turn will enable MaPS to more easily monitor not only whether the advice was given, and given properly, but what that advice actually achieved in terms of outcome. Since the FCA's proposal is that firms should monitor outcomes and be able to evidence that they are doing so and learning from their monitoring, there would be no additional administrative burden in MaPS requiring its delivery partners to share that evidence and insight.

## A SINGLE PROVIDER FOR ENGLAND OR MARKET REFORM?

- 5.10** As the Improvement Service paper notes, levy-based funding for Scotland is relatively small and the same is likely to be true of Northern Ireland and Wales. It is also important to keep in mind that approaches to social policy are different, as are local issues. In Scotland, for example, local authorities play a much larger role in investing in money and debt advice than central levy-based funding. Services tend to be more closely aligned to local needs and priorities and therefore linked more closely with a wider array of complementary services.
- 5.11** The differences in approach, issues, population and the different structural landscapes give Scotland, Wales and Northern Ireland the flexibility to design their systems from scratch. England, however, already has a statutory provider in the form of MaPS and a much larger population, and consequently a proportionately larger demand for debt advice. This naturally limits the options for change.
- 5.12** MaPS has attempted to operate within the existing market thus far which is logical enough, but it has insufficient weight to achieve meaningful structural reform. The hostility that it has faced regarding monitoring arrangements (merited or not) and the persistence of problems that creditor stakeholders continue to see in terms of efficiency and consistency mean that the existing approach does not work.

**5.13** There are two possible options for improvement.

- i. Continue to attempt to reform and improve a sector that may be less inclined to address longstanding weaknesses and where increased funding appears to have shown diminishing returns.

While such an approach would be the simplest to implement in principle, MaPS would still have the challenges of attempting to oversee the performance of third-party providers. Similarly, MaPS would still be susceptible to external political pressure organised by those who disagreed with its approach. Finally, without improved regulatory oversight by the FCA, of what is an inherently high-risk activity, its own efforts to impose best or even 'better' practice are unlikely to be successful.

- ii. In the alternative, rather than subcontracting and then facing the difficulty of attempting to monitor impact and effectiveness of funding and quality and consistency of delivery, MaPS could consider entering the market **as a provider**. That is to say that rather than paying others to deliver debt advice, it could do so itself.

In principle, there is no bar on MaPS being able to take this approach. True, time will be required to recruit and train advisers and to create the administrative and logistical framework to support that. However, doing so would create a more streamlined point of access to debt advice and enable far better control of quality and consistency of outputs.

It would also enable far more effective monitoring and evaluation meaning that MaPS would have much clearer visibility of not only whether the right advice was given in an appropriate way but also to monitor what the actual outcomes of advice were. As this exercise has shown, reliable data about the benefits, effectiveness, efficiency and impact of debt advice is fragmentary and unreliable in the main.

Better data would also enable MaPS to more effectively plan and deliver future services rather than relying on variable quality insight from third parties. Greater efficiency, genuinely achieved, would also make existing funding stretch further.

- 5.14** The potential benefits also extend to enabling more seamless alignment with wider social policy or complementary support services at a national level.
- 5.15** It would, however, be necessary to consider carefully how such an approach could be integrated with more intractable or sensitive personal situations, or local issues with particular need profiles. In those cases, a national provider would be wise to defer to local or specialist knowledge so there would need to be careful thought applied to referral or partnership strategies – and the funding to support that. However, a centralised provider with practical delivery experience and setting clear and workable standards should be better able to do so.

MaPS would have much **clearer visibility of not only whether the right advice was given in an appropriate way** but also to **monitor what the actual outcomes of advice were.**

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## ABOUT THE CSA

The Credit Services Association (CSA) is the only National Trade Association in the UK for organisations active in the debt collection and debt purchase industry. The Association, which has a history dating back to 1906, has over 300 member companies which represent 90% of the industry, and employ approximately 11,000 people. At any one time its members hold up to £67 billion for collection, returning nearly £4 billion in collections to the UK economy per annum. As the voice of the collections industry, our vision is to build confidence in debt collection by making the entire process clear, easy to understand and less stressful for all those involved.







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Financial difficulty can afflict anyone, and navigating the challenges that it presents can be difficult for many reasons. Therefore, consistent and high-quality debt advice serves an important role in helping people to do so and, often, also dealing with related issues such as poverty and inequality.