Independent Review of the Funding of Debt Advice in England, Wales, Scotland and Northern Ireland

Peter Wyman

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Letter to Andy Briscoe, Chair of the Debt Advice Steering Group

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Mr Andy Briscoe
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25 January 2018

Dear Andy

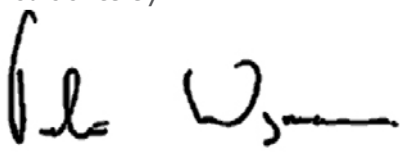
Independent Review of the Funding of Debt Advice in England, Wales, Scotland and Northern Ireland

Last summer, in your capacity as Chair of the Debt Advice Steering Group, you invited me to conduct an independent review of the funding of debt advice in each of the four nations of the United Kingdom. I am now pleased to submit my report at the conclusion of my review.

My recommendations should be viewed as a package which, if adopted in their entirety, will, I hope, lead to a more efficient debt advice sector, one that will be adequately funded thereby allowing a sufficient supply of high-quality advice such that all those who seek help are able to obtain it, using a delivery channel that is acceptable to them. My recommendations do not require either primary or secondary legislation and can, therefore, be implemented at once. However, I do recommend that progress is kept under review and should it become apparent that my proposed changes, if adopted, are not being implemented with sufficient vigour then you, government and regulators should consider alternative ways forward. It is also possible that demand for debt advice will increase in future years by more, or less, than is currently anticipated and therefore the quantum of the FCA Debt Advice Levy will need to be reviewed periodically.

In conducting my review I have been welcomed by a large number of funders, advice organisations, regulators and other interested parties and their willingness to share their experience has been invaluable. I have also received great support from your staff at the Money Advice Service. I am grateful to everyone concerned.

Yours sincerely



Peter Wyman CBE DL

Foreword

I was commissioned to undertake this review by the Chair of the Debt Advice Steering Group (DASG), which is convened by the Money Advice Service and brings together senior leaders involved in the funding and delivery of debt advice from the private, voluntary and public sectors.

I began working on the review in August 2017 once the terms of reference (which are stated in Appendix 1) were agreed. I then took five sources of input to my review:

- I began by meeting with members of the Debt Advice Steering Group and other parties from interested sectors, to have mostly one-on-one conversations about what people considered to be the key facts, issues and their proposed ways forward. Conversations led to many helpful further introductions, and I estimate that I spoke to in excess of 50 organisations or individuals in this way, in addition to attending conferences, parliamentary and other meetings. Debt solutions, debt advice and other related matters are not uniform across the United Kingdom, so I took soundings from all four countries. From these conversations I began to form my own view of how this complex picture fitted together, where the gaps are, and the beginnings of some ways forward.
- I invited Rosemary Radcliffe CBE, formerly Chief Economist at PWC and Neil Lerner, a former senior partner at KPMG, to advise me on aspects of the review; their input has been invaluable.
- The Money Advice Service published, on my behalf, a call for evidence. The call for evidence period began on 7 September and closed on 8 December 2017. I want to thank the 42 contributors who submitted their often very considerable evidence and views by the closing date. I have derived great benefit from the range and depth of information made available to me through this call, which has helped me to shape and prioritise the evidence and recommendations that form the heart of this review.
- I commissioned an independent economics consultancy, London Economics, to look into the causes of demand for debt advice, levels of current and likely future demand, and macro-economic factors that affect the need for debt advice. This provided a rich set of data and is published in full as an annex to my review.
- I was also fortunate to be able to work with some graduate students from the University of Melbourne who were set an intensive practical research exercise looking at how debt advice is organised and funded in Denmark, the Netherlands, Australia and the United States. Although this was a very narrow set of geographies it served as a helpful cross-check to our deliberations, which would otherwise have had a very parochial focus. From this work I drew two main conclusions: the need for debt advice is broadly similar, yet none of the countries reviewed had developed a delivery or funding model that should obviously reshape our thinking in the UK.

The central task given to me in my terms of reference was to make recommendations that will provide an effective and transparent framework for the funding of debt advice. This I do. However, the major providers of debt advice all told me that demand for advice outstrips their ability to provide it, that the need for advice exceeds the current demand for it, and the economic outlook suggests that this situation will deteriorate still further in the coming years. Again, hard data are hard to come by, but a reasonable estimate of the total cost of debt advice provided in 2016/17 is in the region of £200m. I do not believe that it is sustainable or appropriate for the gap between demand and supply to be met simply by increasing the funding in a linear fashion. Therefore, I make recommendations to improve the efficiency of supply by reducing duplication and encouraging wherever possible greater use of technology and the lowest cost delivery channel.

There is a limited amount of hard evidence and a great deal of anecdotal evidence to suggest that the quality of advice given is variable and that, while undoubtedly much of it is excellent, some is indifferent, and a small amount is positively damaging. The latter two are unacceptable. Those who seek advice deserve it to be good and equally funders should not be expected to pay for poor advice. I therefore make recommendations for greater quality assurance of organisations which provide advice, and I recommend approved training schemes for advisers themselves.

During the period of my review it has become clear to me that current practices can sometimes frustrate successful outcomes for debtors in default no matter how good the advice. This can be very damaging both for the individuals concerned and indeed for creditors. I therefore make some recommendations to improve the situation.

Local authorities are an important source of both debt advice and funding for others to deliver it. It is not possible in a review such as this to conclude with certainty the future levels of local authority spending. We know that local authority budgets have been under considerable pressure in recent years and during this review I have been told that cuts to debt advice have been made over this period. However, I understand that the position has now largely stabilised. If it transpires that this assumption is wrong, and that further reductions in local authority spending on debt advice occur, increased funding from other sources will need to be found. In this context it is important to recognise that the outturn in each of the four nations might be different.

My recommendations need to be regarded as a package to be implemented as a whole. The DASG comprises senior leaders involved in the funding and delivery of debt advice from the private, voluntary and public sectors. I hope the widest possible range of participants from each sector, and not just the smaller group on the DASG, will step up to their responsibilities in considering how to take forward the recommendations in this report.

A couple of notes about language are in order.

For brevity and consistency throughout, I often use the word 'debtor' to signify a person who seeks, or would do well to seek, debt advice. In the responses to my call for evidence, I noted a considerable range of alternative expressions, such as: client, consumer, advice recipient, or over-indebted person. I do not undervalue the use of any of these expressions, because they reflect admirable tactics in an ongoing campaign to humanise and destigmatise people who find their debts too difficult to manage. Much of the formal language that surrounds debt processes is intimidating,[1] and in some places evocative of the archaic horrors of debtors' prisons. The journey of removing stigma from people who need to seek debt advice is still far from complete. I have more to say about this in the specifics that follow.

I also need to digress on the use of the word 'free'. As we all know, nothing in life is free, because somebody pays for it somewhere. But 'free' will be a necessary shorthand in the pages that follow and refers to the following three types of advice. The first is where creditors pay for it through the Fair Share arrangement, the second is where levy-payers pay for it through an involuntary arrangement, and the third is where other organisations pay for it through voluntary donations. In each case the debtor pays nothing and, in this sense, advice is free to an over-indebted person who will not have to find money to receive it, at a time when money troubles are at the heart of their problem. The value of this to the consumer is self-evident, the value to our society and to our economy are both at the root of this review.

Finally, I would like to acknowledge the enormous cooperation I have received from many people and organisations across the sectors and across the four nations. I should like to thank them all and particularly Rosemary Radcliffe and Neil Lerner for their wisdom and advice, Patrice Muller and Sophie Hedges of London Economics for their analysis and Sheila Wheeler, Craig Simmons, Jonathan Hollow and their team at the Money Advice Service for their considerable support for this work.

However, as all good authors say, the opinions, conclusions and recommendations in this report are mine and mine alone.

1 I am thinking in particular of words such as *bailiff, bankrupt, delinquency*.

A note about future developments

At the time of publishing this review, there are three important developments in train that could change the debt advice landscape significantly across the UK:

- Parliament is debating the **Financial Claims and Guidance Bill**, which would replace the Money Advice Service (MAS), Pension Wise and The Pensions Advisory Service with a single financial guidance body, perhaps as soon as autumn 2018. According to the current draft of the bill, the new body would have a strategic responsibility for debt advice across the UK but, unlike MAS, it would no longer fund debt advice outside England.
- The UK Government has been consulting on a **statutory debt respite scheme or 'breathing space'** for people who seek debt advice (a period during which creditors cannot take certain kinds of action, and so allows debtors to get their affairs in order) and the Financial Claims and Guidance Bill provides statutory authority for this. There is already an arrangement of this kind in Scotland.
- Similarly, the UK Government is considering whether a statutory Debt Management Plan should be introduced alongside 'breathing space'.

It did not make sense to me to write my review as if all these future developments are already facts, because they are currently the subject of consultation and debate that could change them. So to informed readers, I plead a little indulgence and mental name-swapping when I suggest that MAS should undertake responsibilities that in future would be carried out by the single financial guidance body (or others), or when I make recommendations that do not assume the existence of a 'breathing space' outside Scotland.

I have, however, debated carefully with informed observers, and I am confident that the architecture of my recommendations is as suitable to be carried out under the new arrangements (as currently understood) as it would be under the existing ones. I expect that my recommendations can and will be implemented under new arrangements. They should be read and interpreted accordingly.

List of recommendations

Recommendation 1

Face-to-face advice should continue to be widely available, but the free-to-client providers should commit, as a whole, to shifting 15% of face-to-face demand to telephone advice, and 20% of telephone demand to webchat-assisted advice, over the next two financial years, with a further and corresponding channel shift over the following three financial years.

Recommendation 2

Free-to-client providers should commit to 20% efficiency savings over the next two financial years, achieved by greater use of technology and greater sector collaboration.

Recommendation 3

MAS should continue to be funded solely by the FCA levy, under the new arrangements proposed in the FCA's consultation document CP 17/38.

Recommendation 4

The financial services levy for debt advice should be temporarily increased by £10m per year for 2018/19 and 2019/20. This should facilitate:

- a sector-wide goal of increasing debt advice supply from free-to-client providers by 50% by the end of the second year;
- improving quality; and
- enabling innovation.

Recommendation 5

Fair Share should be continued, but made truly fair in that all who benefit from it should pay. A contribution should therefore be made pro rata by all who receive payments from a Debt Management Plan within the Fair Share model. That contribution should be the full amount requested by the debt advice organisation (not-for-profit or commercial) requesting it.

To this end:

- UK Finance should agree with its members a Code of Conduct that sets a clear expectation that all its members will make Fair Share contributions pro rata to debts repaid.
- The UK Finance Code of Conduct should require credit institutions selling debts to make it a contractual requirement on sale that the purchaser should contribute to Fair Share in the same proportion as the original creditor.
- The Credit Services Association, the Finance and Leasing Association, the Consumer Credit Trade Association, the National Housing Federation (for housing associations), the Telecoms Industry Association, Energy UK, and Water UK, should set out and agree comparable codes of conduct setting clear expectations of paying Fair Share contributions pro rata to debts repaid.
- All the above codes of conduct should oblige creditors to agree to a Debt Management Plan, provided that creditors accounting for 75% or more of value of the debts are in favour of the plan. The authorised debt agency recommending the plan should collate the consensus view.

Recommendation 6

The Insolvency Service should be funded so that it is able to pass the full fee it collects from each Debt Relief Order (currently £90) back to the adviser (who currently receives only £10 from the fee). Equivalent arrangements should be made for Northern Ireland and Scotland.

Recommendation 7

The UK Government should consider how best to deliver a one-off awareness campaign targeted at intermediaries to encourage them to refer people to free debt advice through the MAS Debt Advice Locator tool. This campaign should reach, for example, health workers, teachers, social workers, prison and probation officers and counsellors. The decision on the campaign should be made after a decision has been made by the Government on 'breathing space' as per its consultation of 24 October 2017. If 'breathing space' goes ahead, the campaign should use the launch as an opportunity to make referral partners aware of the importance of free debt advice to take advantage of the breathing space.

Recommendation 8

If the UK Government introduces 'breathing space', only authorised (or exempt) advisers should be able to make the application on behalf of the person requiring it.

Recommendation 9

The Ministry of Justice should ensure prisoners can access free debt advice and act on it if they need to.

Recommendation 10

Employer organisations including the CBI, the IoD and the Federation of Small Businesses should bring the availability of free debt advice to the attention of their members. Large employers should be encouraged to consider the benefits from providing debt advice within employee assistance programmes. Smaller employers without a dedicated employee assistance programme should signpost employees to the MAS Debt Advice Locator tool.

Recommendation 11

MAS should rebrand and upgrade its Debt Advice Locator tool. The tool should allow consumers to choose the most appropriate delivery channel and to select from a comprehensive list of authorised and exempt advisers, including commercial providers. The tool should be maximally optimised to draw search engine traffic.

Recommendation 12

All the codes of conduct introduced in response to my other recommendations should commit creditors to do more to draw free debt advice to the attention of all consumers. Where problem debt arises they should commit to using bailiffs or taking legal action only after a debtor has been made aware of the availability of authorised or exempt free advice; the codes of conduct should give creditors a specific responsibility to check that this has been done.

Recommendation 13

All these codes of conduct should commit creditors that, when a person is identified as having trouble with debt, they should signpost that person to the MAS Debt Advice Locator tool.

Recommendation 14

The Local Government Association and the National Housing Federation (in respect of housing associations) should develop codes of conduct which commit their respective members to alerting users of their services to the availability of free debt advice, and to using bailiffs or taking legal action only after a debtor has been offered authorised or exempt free advice. The codes of conduct should include a specific responsibility to ensure this has happened.

Recommendation 15

The quality assurance processes of organisations that offer debt advice should be monitored and transparently reported.

To this end:

- All organisations that offer authorised debt advice, including commercial providers and charities alike, should have a quality assurance process authorised by the FCA, and annually report headline data from this process to the FCA. The headline results should then be publicly available.
- MAS should develop a quality management process (to be authorised by the FCA), enhanced by inexpensive software, that can be used by smaller debt advice organisations to fulfil the obligations set out in this recommendation.

Recommendation 16

All authorised debt advisers should have a debt advice qualification before they can offer debt advice unassisted, and should be required each year to undergo proportionate continuing professional development that includes updating for changes in law and reviewing the latest evidence of effective practice. The requirement for, and syllabus of, the debt advice qualification, and the requirement for continuing professional development, should be set out by the FCA. There should be a phased transition for existing advisers, where they have a window of three years to obtain an approved qualification to enable them to continue to work in the sector.

Recommendation 17

All organisations that offer exempt debt advice should adhere to a code of conduct (see recommendation 5 above) that commits them to using an authorised quality management process, and accreditation of advisers using one of the authorised schemes.

Recommendation 18

MAS should focus its debt advice activities and expenditure on:

- Providing coordination, infrastructure and training that will increase capacity and quality in the debt advice sector.
- Enabling targeted innovation that benefits the not-for-profit providers, especially:
  - the use of technology to import customer spending and income data into the debt advice process;
  - developing digitally assisted services for debt clients; and
  - in the medium term, using machine learning to improve referrals and provide automated or semi-automated advice to debtors.
- Contributing to the provision of debt advice for people who are unlikely to be viable clients of Fair Share or commercial providers. This funding should be directed, through good procurement practice, to any authorised provider.

Recommendation 19

The not-for-profit debt advice providers across the UK should commit to reducing duplicated effort and increasing mutually complementary specialisation and cross-referral. They should use the MAS Debt Advice Steering Group, and the Debt Advice Operational Group, as forums and means to achieve their commitments, but should not rely on MAS solely to propose, deliver or fund change.

Recommendation 20

The UK Government should appoint a 'Debt Advice Tsar' for England (independent of government, MAS, or the FCA) as a coordinator across these recommendations, on a five-year time-limited term. I also recommend that the devolved governments should consider making similar appointments. This highly senior and influential person should be able to challenge government and industry to ensure that these recommendations are implemented, should be able to advise on regulatory measures where they are not, and should be expected to continue to challenge the sector where appropriate. The Debt Advice Tsar should report annually on progress.

Chapter 1
The debt advice context

The scale and impact of over-indebtedness

1 Personal debt has a positive role to play in our economy. It smooths consumption over an individual's lifetime (people borrow now on the expectation that they will repay from future income), funds personal life investments (for example, a university education or a home), and helps people meet unplanned expenditures.

2 However, when a person is unable to pay their debts as they fall due (whether because they borrowed too much in the first place or were unexpectedly hit by one of life's events) their over-indebtedness has very serious impacts at a personal level, and these multiply at a social and economic level, affecting us all.

3 When people find they can't repay their debts and are having to choose between everyday bills and an ever-increasing burden of debt, they react in a wide variety of ways. However, there is plenty of evidence to suggest that the more extreme the situation, the more likely it is to lead to high levels of stress, mental health problems, relationship breakdown, sickness, time off work, or a combination of any of these.

4 A **study by Europe Economics for the Money Advice Service** looking at the aggregate economic effects of these problems, identified significant costs to private business and the Exchequer. The areas considered were limited to categories where other research had quantified the impacts, which were: reduced mental and physical wellbeing impacting health and social services; reduced productivity at work impacting employers; and the significant costs to creditors. This research estimated the social gain that could be achieved by mitigating these impacts through debt advice to be in the range of £445–£960m per annum, including creditor benefits.

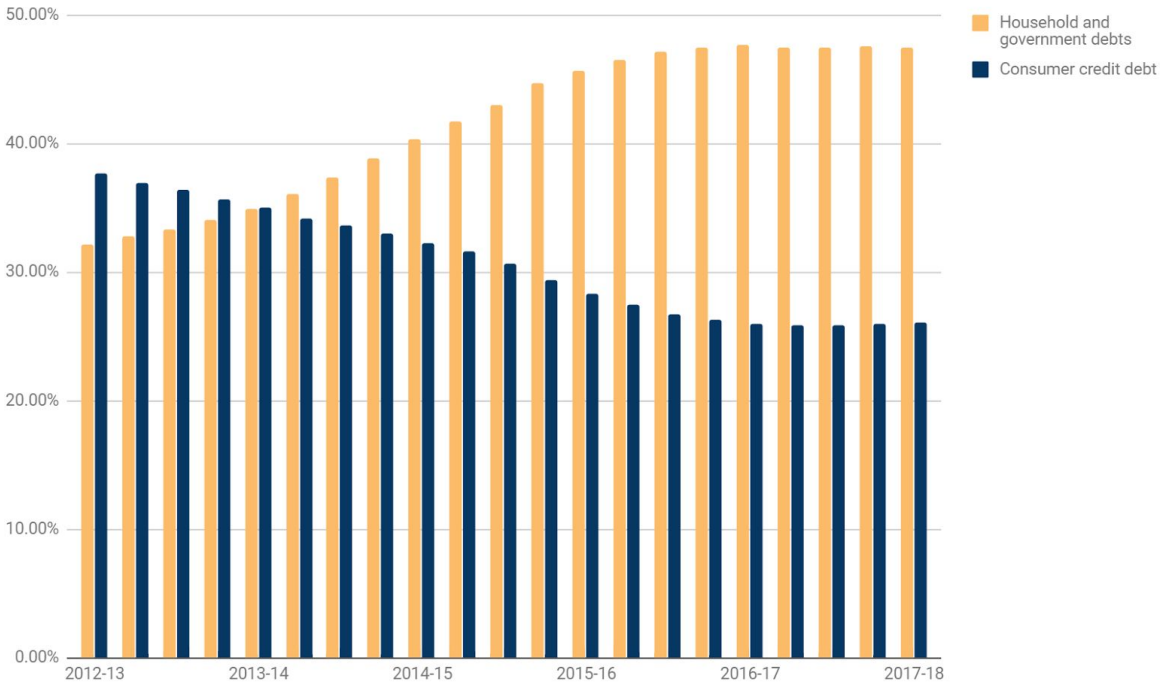
5 Step Change Debt Advice Charity used a wider methodology, looking at the costs of additional welfare benefits, moving and eviction costs, lost productivity and demand for care, support and other state services that people rely on as a result of problems linked to their debt. Using this wider methodology, it estimated the social costs of over-indebtedness at £8.3bn. This is an enormous number, and indeed I am aware of even higher estimates.

6 When I first embarked on this review I was disturbed to discover just how many people are struggling with debt right now. The best estimates I have been able to find are that there are some 3 million households who are unable to pay their debts as they become due, and a further 5 million households who are paying their debts but who say they are constantly anxious about their ability to continue to do so.[2]

7 It is sometimes argued that only the profligate or financially illiterate get into problem debt. While this is undoubtedly true of some, many others who are both numerate and responsible fall into difficulties as a result of one of life's events – for example death or illness of a family member, involuntary reduction in the amount of work available, or redundancy. Increasingly, debtors are simply not earning enough to pay for even the basic necessities of food, clothing and a roof over their head.

8 A graph supplied by Citizens Advice shows this very clearly. In the last five years the composition of the debts of people who present to them has changed dramatically. As consumer credit debts have fallen, so debts associated with the essential costs of living, or servicing creditors who have legal priority, have risen.

2 See Appendix 2



Source: Citizens Advice submission to this review

9 Of great concern is that many people delay seeking debt advice while instead attempting to self-manage for a period of months or years. Christians Against Poverty (CAP) found that 33% of clients had waited over three years before seeking help, 51% had waited more than two years and 66% had waited over a year. Social attitudes creating a climate of shame or embarrassment are a significant factor. CAP stated that the most common reasons that cause people to delay seeking debt advice are these:

- 63% thought they could sort it out themselves
- 49% were embarrassed or ashamed
- 43% thought no-one could help
- 27% were fearful.

10 During this period of delay, the debts and prospects for debtors inevitably worsen. To continue the story set out so well by CAP:

Often people take the step to seek help when their situation reaches crisis point and is perceived to be completely unmanageable. Typical triggers are enforcement agents knocking on the door or an eviction notice. It is at this stage, where the situation has reached a new low, that people begin to look externally to resolve their situation.

By the time clients do seek help from CAP, they have ten debts on average. The total amount of debt owed at this point equates to 97% of the average household income. Of particular note is the recent growth in the level of arrears for priority debts, such as rent and Council Tax, which have more severe consequences for non-payment. In 2016 the average total debt when seeking help equated to £14,298. This included £9,716 in secondary debts and £4,582 in priority debts.

11 It is worth noting that a number of respondents cited benefits over-payments (which then could not be repaid) as a growing problem within priority debts. Most of this evidence was anecdotal, but the Wiser£money Partnership (working in Devon, Somerset, Dorset and the West of England) stated that 7.5% of all the debts they advised on arose from benefits over-payments. I do not intend to venture into the complexities of the benefits system but I invite DWP to take note of this worrying situation.

Debt advice across the UK

12 It is distressing to learn that 43% of people who delayed seeking advice thought that 'no-one could help', even though there is a wide variety of help available across the UK for people who are struggling with their debts. When I looked at what is available in four other territories across the world it was clear that provision in the UK compares favourably. It is diverse, fairly resilient, widespread, and gains stability from a funding arrangement – the financial services debt advice levy – imposed by law on credit providers.

13 However, the landscape is certainly complex. The schematic on the next page identifies the broad 'value chain' – what I understand to be the main sources of funding, the main delivery channels, and the main solutions that are available to people either formally or informally as a result of the advice they receive. But it is notable that almost every link in the chain requires an asterisk outlining caveats, exceptions, or regional variations. It is not at all surprising that people need hand-holding to find the right way through the system to meet their particular needs, and some may find it especially intimidating.

14 Two recent developments in parts of this landscape merit some explanation.

15 The first is how much the commercial provider part of the landscape has changed recently. One Advice Group summarised some of the key changes in their submission to me:

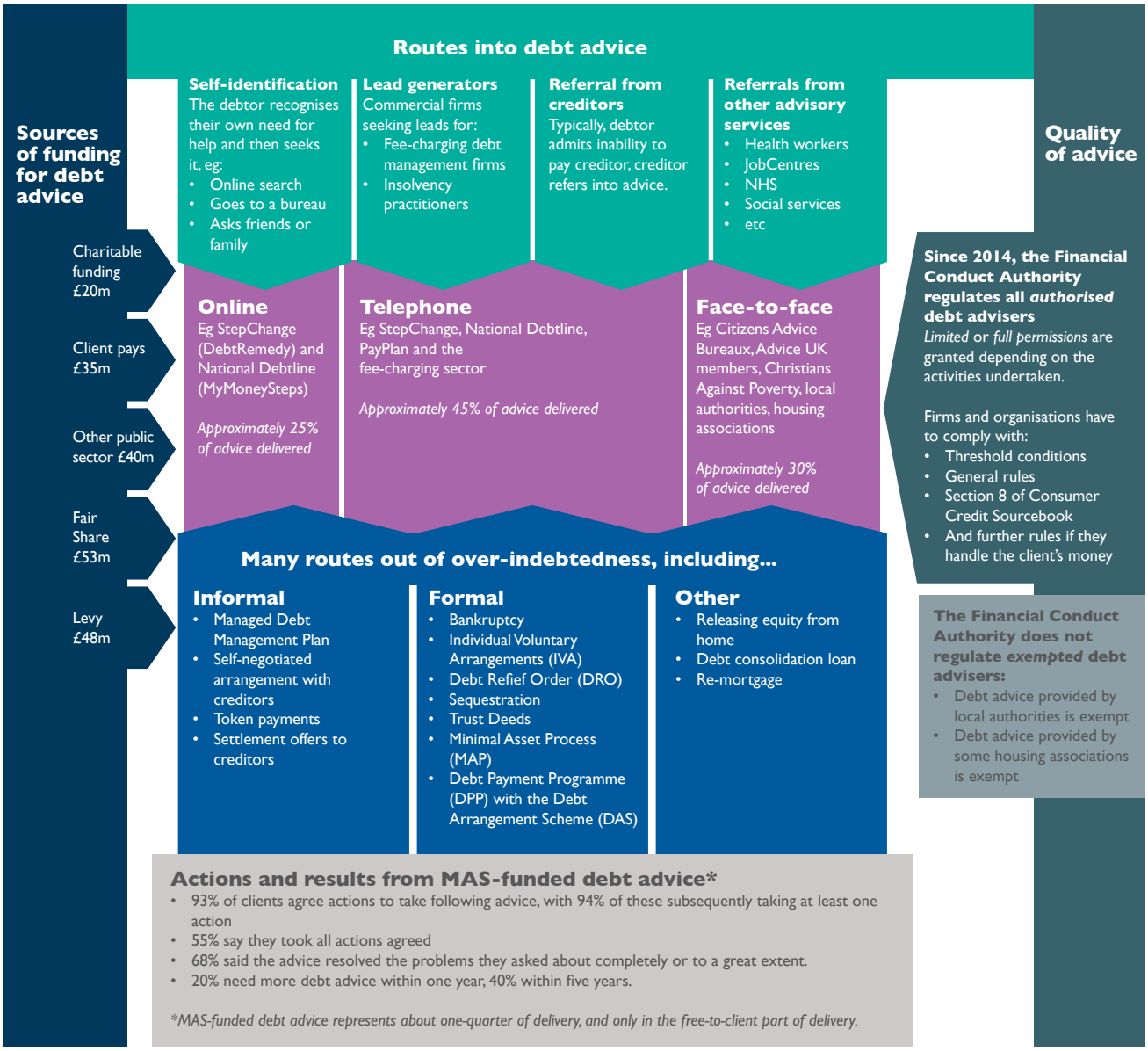
Despite the indicators suggesting that there will be an increasing demand for debt advice, the supply of advice has been reduced. The enhanced cost of meeting regulatory requirements in the sector has undoubtedly impacted the supply of debt advice across the sector (for both commercial and free to consumer debt advice providers). In the commercial sector, a large number of firms have exited the market as a result of these additional costs and for those that remain, there has been a reduction in marketing activity and advisory capacity to ensure they have a long term sustainable business model. Prior to the recent FCA intervention [in the commercial debt advice market] there were c.350 providers of which only 19 went on to receive full authorisation from the FCA. The sector has therefore seen a significant consolidation and a reduction in competition since April 2014. Many providers no longer have economies of scale, the sector has reduced bandwidth and has high barriers to entry.

16 The second development concerns the Fair Share funding model. The model originated in the USA and came to the UK in 1993 when the Consumer Credit Counselling Service (now StepChange Debt Charity) introduced the Debt Management Plan (DMP). By 1996, a sizable majority of mainstream consumer credit firms had signed up to the voluntarily contribution made under Fair Share.

17 Typically, the model operates by the consumer making one single monthly payment to the debt management agency, who distribute 100% of the payment proportionately to the creditors included in the DMP. The debt management agency then asks the creditor for a percentage of the amount paid. As this is a voluntary contribution, some creditors pay the full amount, others pay a reduced rate and some pay none. Overall, Fair Share providers get significantly less in Fair Share payments than they request from creditors.

18 For the majority of its operation, Fair Share has generated a surplus. However, in more recent times the make-up of debt has changed markedly, with a much greater proportion now made up of debts to creditors who do not typically contribute to Fair Share. Disposable incomes have also tended to reduce, which also reduces the amount of debt repaid through a Debt Management Plan and therefore Fair Share contributions

19 Some respondents to the call for evidence highlighted a criticism of the model in that, potentially, it may bias recommendations towards an unsuitable Debt Management Plan in order to generate income for the advice agency when other debt relief options might be a more appropriate solution. However, I have seen no evidence of this happening in practice during my review and I believe my recommendations on quality assurance and accreditation will adequately mitigate this potential risk.



This schematic, based on data supplied by MAS, is designed to give an impression of the UK-wide debt advice landscape. Funding and percentage figures are approximate; I have found no definitive single picture of funding.

Chapter 2
How much debt advice is needed and how much will it cost?

How much debt advice is needed?

20 Of the 8 million people or more struggling with their debt, only about 1.1 million receive advice. This is partly because the providers are unable to cope with the demand for help but also because many people do not face up to the situation they are in, while others are embarrassed to admit they have a problem and are therefore reluctant to seek advice.

21 Despite my best efforts, from the evidence I have seen, I have been unable fully to disentangle the impact of these and other confounding factors in assessing the 'real' need. Accordingly, I have concentrated on supply and demand rather than need as the key determining factors in assessing how much debt advice will be needed in the next few years.

22 This was a central question for my review (looking both at the current situation and into the future), and I admit to finding no compelling factual answer despite the many submissions sent to me.

23 The Money Advice Service (MAS) states that:

- 8.3m people are over-indebted, on the basis that they either identify with the statement that they find their debts a heavy burden, or have missed three or more bill payments within the last six months.
- 20.5% of these people are likely to seek advice, on the basis that 20.5% of over-indebted people sought advice in the last 12 months. This would amount to a current demand for debt advice that could serve 1.7m people.
- The latest MAS supply and need survey states that there is free debt advice to support around 1.1m people per year.
- This would lead to a gap between supply and demand that means, simply to meet current demand, there should be a rise in free debt advice to support approximately 0.6m more people.

24 These figures (explained further in Appendix 2) are probably the most reliable headline view but unfortunately unknowns still persist that MAS and my other respondents cannot answer with precision, and these unknowns greatly complicate the picture of supply, demand, and need.

Issues with defining current supply and need

25 The gap between the over-indebted (8.3m) and those who access help (1.1m) is very large: 7.2m over-indebted people. We can assume that some of those 7.2m people do not need advice while many others are delaying seeking advice, hoping to sort out their own problems. Indeed, some will. But considerable unknowns remain:

- It would be highly desirable for many of them to seek advice earlier, but given the strong sense of shame and various practical difficulties that prevent many from seeking help, it is uncertain **how many people could be successfully encouraged to seek advice**. The best estimates I have seen range between 2m and 4m people in total who 'should' seek debt advice, but from what I have read in submissions I am sceptical that a demand of 4m could realistically be stimulated even if the supply were there. PayPlan put it very well: 'we believe that the biggest driver of demand is an attitudinal one rather than an economic one and therefore, sadly, hard to predict or plan for. The link between need and demand is relatively weak.'
- But if that demand could be stimulated, **how many people coming forward would need the services of an authorised debt adviser?** By contrast, how many would benefit from broader but less technical support on how to budget, save, switch utilities and plan ahead? This latter kind of help is broadly referred to by MAS as 'money guidance', or help to improve their 'financial capability', as opposed to debt advice. Although it overlaps considerably with the issues and skillsets needed to deliver authorised debt advice, it will have different delivery methods and costs, and will aim for some different outcomes from pure debt advice.

- Of those who do need an authorised debt adviser but are not currently receiving advice, **are their needs similar to people within the 1.1m who currently access free debt advice?** There is an argument to be made that people who present to debt advice earlier have more options. They therefore may be somewhat easier (and quicker) to help. This introduces further uncertainty into cost parameters.

- **How many of these people would be willing to pay for advice?** There is a not insignificant fee-charging debt advice sector. It is possible that the need for free advice is not as strong among the 7.2m people as it is among the 1.1m people already accessing it.

- **Which channels would these people want to use for help?** There is reason to believe we might find their preferred channels would have a different profile from the 1.1m people already accessing free advice, which in turn would impact cost.

26 Submissions included widespread anecdotal evidence that need does not always find a way to present as demand, and efforts to reach out to debtors and draw them in to advice services were challenging and always required constant support from third-party referrers. Community Advice and Law Service, Leicester gave an account that is emblematic of the need and the difficulties:

We have had experience of [debt advice outreach services] being placed in a probation service and a local authority – both of these asked us to go into their offices. The probation service was slow to take off, but then worked really well as the adviser worked very closely with the team of offender managers; however, following major changes to the funding of the service, and change in personnel – demand dropped significantly and we withdrew the adviser. This was very disappointing as the advice is needed. We were also in a local authority office – with a similar problem – referrals initially, which dropped off and we withdrew – the problem here was internal staff changes and the lack of ongoing promotion within customer service team to direct people for advice.

27 However, I do not want to give the impression that there is no current mismatch between the supply of debt advice and demand for it. On the contrary, it is very clear that there is a shortfall of supply.

28 In the submissions sent to me there was considerable anecdotal evidence, from every free provider, that they have more demand than they can meet. Bristol City Council was one of a handful of organisations willing to make a numerical prediction about future demand: they foresaw a rise of 39% in debt advice clients presenting between now and 2020 although they stressed that the categories of people they advise might not represent the population as a whole. Other respondents gave a broad range of between 25% and 40% of current unmet demand but it is likely these numbers overstate the unsatisfied demand since many who fail to obtain advice at the first time of asking will receive it subsequently.

29 It is also worth noting that some respondents were fairly well set against trying to encourage earlier engagement with debt advice, but only because they felt they would be overwhelmed by demand they could not meet.

Issues with projecting future demand

30 I was asked to model future demand over the next five years. If understanding the present is difficult, it is simple compared to predicting the future! I have had two sources to consider: the work carried out by London Economics, and the evidence given in the wider submissions.

31 The London Economics report is given in full at Annex 3. It looks at trends up to the third quarter of 2017, the latest period for which data are available. At that time, out of the total debt of households of £1,784.6 billion, by far the greater part, 76%, was secured on dwellings (i.e. mortgages). Of the remainder, no less than 57% was accounted for by student loans, with the rest made up of other consumer credit (short and other long-term loans) and other household debt (mainly accounts payable).

32 The report notes that, when we look at the period since the second quarter of 2008 (the last quarter before the 2008 financial crisis became acute), we do not find a consistent pattern in the evolution of indebtedness. Up to the second quarter of 2014 household debt increased by only 2.2% in total, with mortgage debt being overwhelmingly the key factor.

33 But between 2014 Q2 and 2017 Q2 growth in total household debt accelerated to 12.4%, with mortgage debt accounting for 50% of the increase and consumer credit for 42%. Thus consumer credit increased by almost 30% in the 3 years to 2017 Q2. Also notable is the relationship between household debt and household disposable income. The report quotes the continuous increase in the ratio of household debt to disposable income, from 92% in 1997, when the increase began, until 2008 Q2, when it stood at 149%. This period was followed by a moderate decline until 2015 Q4, but since then growth resumed, albeit at a moderate pace. It is notable that, whilst most categories of household debt have followed broadly the same pattern, the recent upturn in the growth in the debt to income ratio apparently reflects, in particular, increases in car finance and student loans.

34 Against this background, London Economics has estimated that, from 2017 Q4 to 2021 Q1, total household debt could increase by £276 billion (14.9%) to £2,006 billion. Of this, secured household debt is projected to increase by £144 billion (10.7%) to £1,495 billion; and unsecured household debt is projected to increase by £123 billion (28%) to £565 billion. They point out that this prediction for total household debt is slightly lower than the forecast recently published by the Office for Budget Responsibility.

35 London Economics note that there are no hidden signals in current household data to suggest that there is a bow-wave of new demand for debt advice beginning to build up.

36 The work done by London Economics provides a useful background but it is clear that, in this important area of economic analysis, the relationships between all the different factors affecting debt, including the influence of macroeconomic developments and, indeed, public policy itself, are only imperfectly understood and are very likely changing over time. What we can say, however, is that debt levels are significant and, in the view of some commentators, may well increase rapidly in the near future. The need for debt advice must, therefore, be seen in this context.

37 London Economics were careful to emphasise to me that absence of evidence is not evidence of absence. I see obvious factors at play[3] that, if they were to materialise, could create pressures on many more people and households, such that their current levels of unsecured debt will become increasingly unmanageable, with knock-on effects for debt advice:

- It is an uncontroversial fact that, even with recent increases, interest rates have been at historic lows for a decade. Further rises may not have been factored in by a whole generation of younger mortgage-payers or other borrowers, as they have never experienced them.

3 Some of these factors, and still others including motor finance, were the subject of a **warning note to lenders** from the Prudential Regulation Authority in July 2017. The key summary statement from the PRA was, 'Overall, the PRA judges that the resilience of consumer credit portfolios is reducing, due to the combination of continued growth, lower pricing, falling average risk-weights (for firms using internal-ratings based models), and some increased lending into higher-risk segments.'

- The UK will leave the European Union on 29 March 2019 and the macroeconomic, exchange rate and inflationary impacts of that decision are the subject of fevered debate. In some scenarios being debated, lower earners are very hard hit. In others, the economy improves.
- Similarly, there is ample controversy about the impact on households of the switch to Universal Credit, which is expected to gather pace over the same timescale.
- Less visibly, financial technologies are undergoing rapid change. Use of cash is falling, payment is becoming more friction-free, and data mining is allowing financial services companies to target consumers ever more precisely. The advent of Open Banking will, over time, accelerate the pace of this change and widen the range of opportunities available. These technologies have considerable upsides: for example, they can assist consumers to manage their spending and saving in a personalised way. However, the extent to which they will also speed up the path from mild to serious financial difficulty, if at all, is an unknown.
- And at the policy level, if a statutory Debt Management Plan is brought into being in England, Wales, and Northern Ireland, this could significantly increase the number of people attracted to seeking advice.

38 The submissions I received echoed and amplified these points many times. Brexit, Universal Credit, interest rates, the rising household appetite for debt were mentioned again and again as factors that providers see as the risks of a gathering storm. Money Advice Scotland summarised it thus:

Consumer credit borrowing is increasing rapidly and has returned to pre-crisis peak levels. The long-anticipated increase in interest rates may also stretch just-getting-by households to breaking point. Historically low levels of savings means that households are not equipped to deal with unexpected costs. This is not because households do not want to save, or do not know how to save, but rather as a result of the prolonged erosion of disposable incomes.

39 A number of organisations stated that because demand would always outstrip supply, the only predictions they were willing to make were about how much they could increase their capacity.

My conclusions about how much debt advice is needed

40 From the evidence I have seen:

- estimates of the number of people seeking advice that the debt advice organisations cannot help because they lack capacity vary from 25% to 40% of the demand that currently presents;
- estimates of the number of people who would benefit from debt advice but do not seek it – when compared to the number that do access debt advice (1.1m people) – vary from +54% (+0.65m people = 1.75m in total) to +360% (+2.9m people = 4m in total);
- based simply on the anticipated increase in the population, and assuming the same proportion of the population have problem debt and then seek advice, MAS has calculated that demand for advice in 5 years' time is likely to be just over 2m people; and
- there is a general consensus that future economic factors will increase demand, perhaps very significantly, but nobody knows by how much because of the uncertainty surrounding economic variables in the next five years.

41 My judgement, and it has to be just a judgement, is that the amount of free debt advice available needs to rise by 50% within two years of publishing this review, which would allow approximately 1.65m people to receive advice. In the following three years further increases are likely to be required, although if earnings rise faster than inflation over this period numbers may flatten out. From the parameters above it will be seen that for the next two years I am taking a fairly conservative view of the evidence presented once I bring together what is clearly an existing gap with any prognosis of future higher demand. However, to go further would require more evidence than was available to me in relation to the 'unknowns' delved into in paragraph 25 above.

42 I am also conscious of the practical constraints on the sector to recruit and train additional advisers at scale and pace and therefore calls for additional supply have to be balanced with the ability for it to be provided. I do however consider the increased supply I am proposing can be achieved. As will be seen below, I recommend investing in delivery methods that are less location-dependent and less labour-intensive and therefore more quickly scalable. Furthermore, these could be more flexibly increased in future years should demand rise steeply.

How much will the debt advice that is needed cost?

43 While recognising that the supply of debt advice should be increased I do not believe that the gap between supply and demand can (or should) be met simply by a linear increase in funding. Therefore I make recommendations to improve the efficiency of supply by reducing duplication and encouraging, wherever possible, the lowest cost delivery channel. In this section I set out the broad outlines of my thinking about the funding that will be needed.

44 At the strategic level, channel preference and channel mix are the central issues to be addressed. Different organisations have provided different costings for their own offerings and it is tempting to suggest that everything should be calculated on the basis of the lowest cost providers for each channel. However, I have resisted this temptation and have instead used the average of the costs most recently provided to MAS: £160 for face-to-face advice, £70 for telephone advice and £9 for online advice. The different costs of the different delivery channels are considerable: it is 18 times more expensive to provide face-to-face advice than to do so online. There is no doubt that some people will only be able to cope with and respond to advice if it is provided face-to-face, either because of their personal needs or because of the nature of their problems, and therefore face-to-face must always be part of the mix. However, clearly the amount of face-to-face provision that has to be provided is a critical factor and the more that can be provided effectively in other ways, the greater the number of people who can be advised for the same total cost.

45 'Online' in the context of debt advice does not yet mean fully automated machine provision, without any human 'behind' the digital interface. By and large, it means webchat, with a human rather than a chatbot at the other end of the interface. This is typically operated along the same lines as a telephone contact centre but the advantage of webchat is the ability of advisers to serve multiple debtors at once, which massively brings down the individual cost to serve. Even greater savings will become possible as technology develops, as I discuss in Chapter 5.

46 The responses to my call for evidence revealed some strong fault lines in the provider sector. There were passionate advocates of face-to-face as the most effective and credible approach. There were equally powerful voices raised in favour of using old and new technologies to help more people, at lower cost, for more hours of the day and at weekends.

47 Clearly, much depends on the person being assisted. We can imagine that a person with multiple and complex problems, low confidence and a pile of unopened bills and bank statements will be much harder, if not impossible, to serve through webchat or telephone. By contrast, a busy working person who uses the internet every day may actively prefer to access webchat at night when their partner and children are sleeping. No doubt there will be many grades of need and appetite in between.

48 Until recently, channels were more or less mutually exclusive because of the difficulty of sharing customer data between the different operators, and the irritation and difficulty caused to debtors by having to repeat embarrassing and complex information. Some providers anticipate a move to a two- or three-channel blended model in which customer data is equally accessible on all channels. This in turn means that a debtor who begins on one channel can migrate to another at appropriate times. I expect this blended model to be a significant factor over the next five years, and when I refer to channel shift I mean both a complete move from one channel to another, and a partial move to a blended provision.

49 The annual MAS survey of the over-indebted population looks at channel preference, but also asks people to rank channels by order of preference and state which channels they would never consider using for debt advice. This reveals the following:

First choice channel	% who would use other channels	% who would never use other channels (or don't know)
Face-to-face	77%	**23%**
Telephone	91%	**9%**
Online	79%	**21%**

Source: MAS submission to my review

50 Given the remarkably low percentages in the last column, it would appear that there is considerable scope to move people away from their first-choice channels to a lower cost channel. Encouragingly, this reflects what providers report is actually happening on the ground.

51 Some debtors may well prefer the degree of anonymity provided by telephone or webchat. There is a growing body of experience that shows some people find it easier to discuss problems they find embarrassing if they can do so without being physically present. For example, there may be an analogy here with the

embarrassment associated with sexual health. A **recent study in South London** found that people are twice as likely to get tested for sexually transmitted infections if they have the option of using an internet-based service.

52 At the same time, many of the responses to the review recognised that there were considerable inefficiencies in the provision of advice, both through duplication of investment and by the way in which information is obtained from the people seeking help. A combination of more effective collaboration and a greater use of technology to obtain information should bring about a further significant saving, which in turn can be used to increase capacity. I make recommendations on these points in chapter 5.

Recommendation 1

Face-to-face advice should continue to be widely available, but the free-to-client providers should commit, as a whole, to shifting 15% of face-to-face demand to telephone advice, and 20% of telephone demand to webchat-assisted advice, over the next two financial years, with a further and corresponding channel shift over the following three financial years.

Recommendation 2

Free-to-client providers should commit to 20% efficiency savings over the next two financial years, achieved by greater use of technology and greater sector collaboration.

53 Implementing these recommendations would mean that from Year 2 onwards 550,000 more people would be able to receive advice each year. Although the percentage of advice provided face to face would decrease (from 30% to 25.5%) and similarly the percentage receiving advice by telephone would fall (from 45% to 40.5%) an extra 90,000 people per year would receive face-to-face advice,[4] an extra 174,000 people would receive telephone advice, and an additional 276,000 people a year would receive advice through webchat. In each year of the two-year transition period there would be an additional cost of no more than £11m: by year three 1.65m people would receive advice at the same cost as currently incurred providing advice to 1.1m people. See the table below which sets this out.

	Now		Year 3	
Face-to-face	Proportion	30%	Proportion	25.5%
	Cost	£53m	Cost	£57.2m
	People served	330,000	People served	421,000
Telephone	Proportion	45%	Proportion	40.5%
	Cost	£70m	Cost	£59.5m
	People served	495,000	People served	668,000
Online	Proportion	25%	Proportion	34%
	Cost	£2m	Cost	£4m
	People served	275,000	People served	561,000
Totals	People served	1,100,000	People served	1,650,000

4 This may seem paradoxical given my recommendation to shift away from face-to-face advice, but because the number of people served as a whole would be higher, face-to-face provision can still grow (and this is very welcome) – but not by much as it would if no channel shift were attempted.

Chapter 3
How should debt advice be funded, and by whom?

54 There is mixed provision of funding for debt advice, including that paid for by the consumer, that paid for by creditors (Fair Share), that paid for by levy, and that paid for by a mixture of public and private funders on a wholly voluntary basis. The terms of reference of my review require me to consider the merits of all of these. The central question for my review was to find an effective, reasonable and transparent framework for the funding of debt advice, both now and in the future; and it is this that I try to address in this chapter.

55 When I started this review I encountered four broad schools of thought in relation to funding this type of free debt advice.

56 The first looks at the significant economic and social benefits provided by debt advice, the benefits which I refer to in the opening paragraphs of chapter 1. In essence, these are a gain in productivity in the economy and costs to public services that are mitigated because debt advice averts social or health crisis support further down the line. This school of thought would argue that debt advice should be paid out of general taxation.

57 The second argues that it is right that the burden of paying for free debt advice should fall on those organisations whose business is to make a profit by lending. According to this school of thought, this creates a clear contrast with all the other organisations and businesses that do not seek to profit from lending money but who find themselves becoming unintended creditors.

58 The third school of thought is that everyone who is owed money benefits from debtors being well advised and therefore funding for free debt advice should come from the widest possible pool of creditors who are seeking repayment from debtors. It brings into scope not just banks and other financial services firms, but telecoms providers, utility companies, local councils, HMRC and many others. This school of thought says that because debt advice either increases the likelihood of repayment (or brings to an end futile attempts to collect in the case of insolvency), it is in every creditor's interest to fund free advice. This would lead to a widening of the financial services levy to include levies on other sectors.

59 The fourth, which has been a little less prominent in the discussions during the review process, recalls the voluntary sector origin of debt advice. Much free-at-the-point-of-use debt advice is delivered by charities, which receive donations from private individuals, foundations, and corporate entities. This final school of thought would argue that charitable funding should fund free debt advice.

60 I am most persuaded by the second of these schools of thought as the primary source of funding, although my recommendations do make inroads into the first and third, and I certainly would not wish to do anything to reduce the charitable aspects of the funding since I firmly believe the whole concept of charity is a bedrock of a civilised society. Of course, these funding sources are not mutually exclusive, and indeed the current system draws on most of them. This diversity of funding makes the current system more complex, but it also makes it more resilient.

61 However, I do not think the current system is perfect, so I propose some important changes to tighten it, but I have concluded it would not benefit from fundamental disruption.

The financial services levy for debt advice

62 The second school of thought, as I have styled it, is one that argues that it is fair for those who seek to make a profit from providing credit to finance the lion's share of free debt advice. Credit, and therefore debt, is their core business. The financial services levy for debt advice is one of the two main sources for the funding of free debt advice (together with Fair Share for those debtors for whom a Debt Management Plan is appropriate). In its **consultation paper 17/38**, the FCA proposes a revised methodology for calculating the levy which aligns the levy more closely with firms' lending activities. I support the direction of travel proposed by the FCA, because it applies the principle at the heart of the levy more effectively.

Recommendation 3

MAS should continue to be funded solely by the FCA levy, under the new arrangements proposed in the FCA's consultation document CP 17/38.

63 Even if my recommendations for channel shift, efficiency and collaboration are all accepted there will be an inevitable time-lag before the additional capacity is created. Advisers will have to engineer processes to encourage people seeking advice to select the most appropriate channel. They will also have to take steps to ensure both the infrastructure and staff are sufficient to provide advice in these channels. Technology will need to be developed and introduced to bring about the efficiencies I envisage being achieved. I therefore anticipate a build-up over a two-year transitional period where gradually more and more people are directed to a lower-cost channel while greater and greater capacity is created in these channels.

64 However, since it is clear that demand for advice already exceeds the available supply, there is a need to try to increase this supply at once, using the existing infrastructure and ways of working. Over this transitional period the volume of advice provided will increase while the costs of providing it fall.

65 I am therefore recommending that – in order to increase the supply of debt advice from its current level as quickly as possible – the levy should have an additional transitional element to finance the increase in provision during the transitional period while the channel shift and efficiency savings referred to above are achieved. The additional costs in each of the two transitional years referred to above should be met by a combination of an additional £10m in the FCA Levy,[5] a £2m increase in Fair Share (a very conservative view of the contribution it could make to increasing frontline debt advice, funding, given it would be spread over a much wider pool of contributors) and £2.2m from the Insolvency Service Fees (see recommendation 6 below). So if commitments are made to adopt the most critical of my recommendations by the end of financial year 2017/18, I would advocate the levy increase to take effect for the financial years 2018/19 and 2019/20.

66 Thereafter the levy and the Fair Share contribution rates should be reviewed and may be reduced, retained at these levels or even increased if demand for debt advice increases still further. At the same time, as is set out in chapters 4 and 5 below, it is right that MAS coordinates the sector at a strategic level, seeks to improve quality, and supports innovation; these are the subjects of further recommendations. In order to achieve these objectives MAS will need to be able to fund both direct delivery and enabling functions at an increased level.

67 However, as stated above, once the channel shift and efficiency savings have been realised, and once new arrangements relating to quality have been put in place, it may well be that the levy can be returned to the present level, although if demand grows even faster than currently expected some increase may continue to be required.

68 In any event, the recommended increase should be for a period of two years only; any increase above the current levy after then should be justified in the light of the prevailing circumstances. This is not to rule out the possibility, or even probability, that some increase will need to be maintained. However, the data simply are not robust enough to enable any proper consideration of what would be appropriate at that time.

Recommendation 4

The financial services levy for debt advice should be temporarily increased by £10m per year for 2018/19 and 2019/20. This should facilitate:

- a sector-wide goal of increasing debt advice supply from free-to-client providers by 50% by the end of the second year;
- improving quality; and
- enabling innovation.

5 If inflation remains at a low level there will be no need to adjust the £10m uplift in the levy for year two but should inflation rise sharply it will be necessary to increase the levy to take inflation into account.

A wider levy versus Fair Share

69 Some respondents to my call for evidence argued that a much wider range of creditors should be required to contribute to an expanded levy funding mechanism, so that it would take in (for example) local authorities, utilities, water companies, and telecoms operators.

70 While I have some sympathy for this view, I believe the first call for funding for advice should be to those who set out to make a profit from lending, as distinct from those who simply find themselves unintentional creditors.

71 However, I do think that, to the extent that debt advice assists organisations in recovering debts, they should pay for it. This is not universally the case now.

72 The Fair Share model is designed to make this happen, but regrettably it is not universally adhered to.

73 Under Fair Share, the debt advice organisation (which may be a private sector provider, such as PayPlan, or a charitable organisation, such as StepChange) proposes, on behalf of the debtor, a Debt Management Plan (DMP) that gives a more generous timeframe to repay the debts owed, and therefore a lower monthly repayment. The debtor then makes a regular payment to the organisation managing their DMP. This regular payment is remitted in full to the creditors; nothing is withheld to pay for administration. Instead, the organisation managing the plan invites creditors to contribute a percentage of the amount they have received. This percentage varies according to the organisation managing the plan.

74 This system is completely voluntary. It has been supported by the banks (who it is important to remember are also major contributors to the financial services levy). However, there are many other creditors, from a variety of sectors, who receive the benefit of debts being repaid to them through a Debt Management Plan but who pay less than the requested percentage. Indeed, some pay nothing at all.

75 The argument has also been made to me during my review that those who contribute to Fair Share are also in the main large contributors to the FCA levy and are therefore paying twice for the same thing. While I have some sympathy with this view I should also like to take this opportunity to make a different point. Fair Share funders receive a direct benefit from having a Debt Management Plan set up and administered by the adviser whereas any benefit they receive from the levy has no direct correlation to any payment made.

76 As a consequence of some paying less or nothing, the Fair Share percentage has to rise for those who are willing to pay, which is unfair. The higher percentage is then more unattractive to pay – a vicious circle.

77 My recommendations to break this circle are fundamentally important. I believe that if the cost of Fair Share were widely and evenly spread, the percentage charged for each pound of debt repaid would fall, and still the debt charities using it would be able to serve more people because their income could rise.

78 To get all to pay their Fair Share could be achieved by legislation and regulation, but I believe it need not be, and in fact a voluntary route has particular advantages. I propose that the recommendation be achieved through a series of codes of conduct. There are many trade associations and similar bodies who could be asked to participate in this way; I have listed those who I believe represent the largest volume of creditors by value likely to be included in a Debt Management Plan.

79 It is also important that Debt Management Plans become easier for the debt advice organisation to administer. I propose that if creditors equalling 75% or more of the value of the debts gathered up in the plan can sign up to it, all should be obliged to follow it. This is not intended to end the current practice of priority debts being paid in full (and as soon as reasonably possible) rather than being included in the Debt Management Plan pro rata, but it will I hope end the situation by which a single creditor can refuse to participate in a plan that is in the wider interests of a debtor and the other creditors.

Recommendation 5

Fair Share should be continued, but made truly fair in that all who benefit from it should pay. A contribution should therefore be made pro rata by all who receive payments from a Debt Management Plan within the Fair Share model. That contribution should be the full amount requested by the debt advice organisation (not-for-profit or commercial) requesting it.

To this end:

- UK Finance should agree with its members a Code of Conduct that sets a clear expectation that all its members will make Fair Share contributions pro rata to debts repaid.
- The UK Finance Code of Conduct should require credit institutions selling debts to make it a contractual requirement on sale that the purchaser should contribute to Fair Share in the same proportion as the original creditor.
- The Credit Services Association, the Finance and Leasing Association, the Consumer Credit Trade Association, the National Housing Federation (for housing associations), the Telecoms Industry Association, Energy UK, and Water UK, should set out and agree comparable codes of conduct setting clear expectations of paying Fair Share contributions pro rata to debts repaid.
- All the above codes of conduct should oblige creditors to agree to a Debt Management Plan, provided that creditors accounting for 75% or more of value of the debts are in favour of the plan. The authorised debt agency recommending the plan should collate the consensus view.

Charitable and other voluntary funding

80 Although most debt advice is funded through the financial services debt advice levy, Fair Share and private client fees, there are significant voluntary contributions. Some of these come from private individuals, some come from corporates. Some of the corporate donations are large.

81 At the same time there are other funders of free debt advice. This is because they perceive it to be in the public interest to do so, as it complements their statutory functions.

82 Many of my conversations and respondents emphasised the value of this voluntary funding of debt advice, and warned me against doing anything that would inadvertently damage or discourage it. I agree. Voluntary funding connects debt advice with local donors and local communities; it makes the sector as a whole more resilient; and it complements the spirit of volunteer debt advisers. These aims are all well worth supporting.

83 There are a couple of other points worth making about voluntary funding. To get the first out of the way, I could not see any way in which voluntary funding could become the predominant source of funding for the debt advice sector; nor did anyone seriously propose it.

84 The second is that some organisations who do not pay Fair Share point to the voluntary donations they do make. I do not see one as a substitute for the other. When a Debt Management Plan works, it helps businesses to recover income. Fair Share recognises this and seeks to provide recompense to the debt advice organisation managing the plan. Businesses truly inclined to the spirit of charitable giving will no doubt continue to give, even as they adhere to Fair Share – just as many generous banks have while being required to pay a levy since 2012.

General taxation

85 Having responded to the last three of the four schools of thought I outlined above in this chapter, I now return to the first: the one that advocates funding from general taxation. I do not propose to recommend wholesale changes, but I do make one recommendation that would call on the Exchequer.

86 If advice concludes that a Debt Management Plan is the best course of action a Fair Share contribution may be received, and this covers the cost of organising and administrating the plan and the advice that led to it. But if the advice concludes that a Debt Relief Order (DRO) is the best solution for the debtor, the debtor is required to pay the Insolvency Service a fee of £90, who in turn pay the adviser just £10. I am told that the average cost incurred in giving the advice and assisting with obtaining the DRO is £300. A payment to the adviser of an amount equivalent to the full £90 would go part way to alleviating the burden placed on the adviser's other sources of oncome. However, I recognise that for the Insolvency Service itself to be in a position to do this it would need to be funded itself by its sponsoring Department (BEIS).

87 Fees from debt relief orders in England and Wales total in the order of £2,230,000 per annum and £45,000 in Northern Ireland. Minimal Asset Process, the equivalent solution in Scotland would cost £170,000 per year. If an amount equivalent to these fees were paid to debt advisers for administering debt relief orders or the equivalent, the need for the debt advisers to use charitable or other funds to cover such costs could be substantially removed. This would increase by the same amount funds available for providing advice.

88 The funding could be raised through general taxation and reimbursed by the Insolvency Service to debt advice organisations. I am certain this would be the most administratively efficient route, as payments are made by the same route already. A less fair and efficient route, but still preferable to the current situation, would be for the MAS levy to be raised by a further additional amount and for those organisations to be reimbursed by MAS. However, this would be even less efficient when the single financial guidance body comes into existence, as it will have no remit to make payments towards debt advice other than in England.

Recommendation 6

The Insolvency Service should be funded so that it is able to pass the full fee it collects from each Debt Relief Order (currently £90) back to the adviser (who currently receives only £10 from the fee). Equivalent arrangements should be made for Northern Ireland and Scotland.

Chapter 4
Reviewing current arrangements: customer experience

89 Having tackled need, demand, costs and funding, this chapter and the next one focus on effectiveness. In this chapter I look at effectiveness as it focuses on the individual debtor's experience: starting with access, moving on to the quality of the advice process, and then considering results and outcomes. In the next chapter I set out a more challenging vision for how organisations in the sector could change and work together more effectively, to the benefit of debtors, as new technologies and channel shift enable them to do so.

Finding and getting access to debt advice

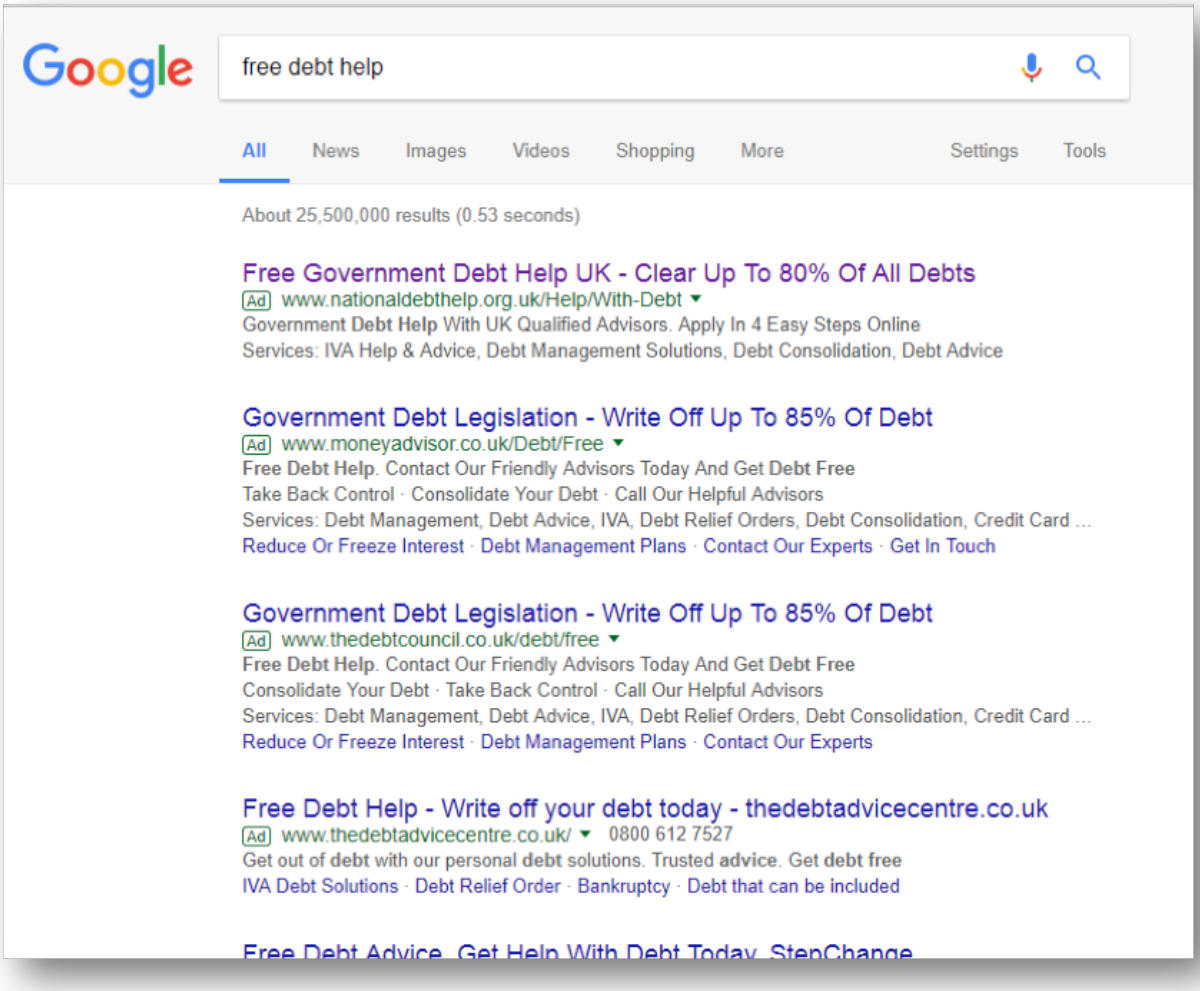
90 There is a vast body of knowledge and debate about engaging people with their debt problems before their problems become more entrenched, and at the same time reducing the period of anxiety and stress. I do not propose to rehearse the debate here. Suffice to say there is some good work being done, but there are obviously very considerable barriers in the form of consumer attitudes to overcome as well as, in some cases, difficulty in accessing advice. The recommendations that I have placed here do not pretend to be in any way a comprehensive solution to the problems, but I believe they would make helpful and significant inroads into the issue.

91 One solution that was mentioned to me by some, and one I did briefly entertain, was of a high-profile, very broad consumer awareness campaign to alert people to the existence of free debt advice. However, any such campaign would need to be run constantly in order to reach successive cohorts of people with problem debt and is thus prohibitively expensive.

92 I am very comfortable with a mixed economy in which some consumers choose to pay for debt advice, and indeed see no reason why those whose income comfortably exceeds their outgoings but who have problem debt should not pay for debt advice in the same way as they pay for other professional advice. However, I do not want any consumer to pay because they are unaware that free debt advice is available from the charity sector.

93 One of the pieces of worrying evidence on this matter is the finding from the FCA's Financial Lives Survey that, of the people who sought debt advice that they then had to pay for, 45% did so because they did not know that free services existed. London Economics caution that the sample size for this finding is small but the finding does echo the figure quoted in paragraph 9 above: of all of Christians Against Poverty's debtors, fully 45% did not seek advice earlier because they did not know anyone could help.

94 A further piece of evidence that was mentioned by many respondents is the fact that when debtors search on Google or other search engines, the results that appear at the top of the results refer almost entirely to the commercial advice providers. A variety of commercial providers and their lead generators are known to 'crowd out' charitable advice by paying heavily for keywords associated with debt help. Each keyword-click can cost not just pence, but tens of pounds, which means that debt advice charities cannot afford to compete with them. Worse, I am told that some lead generators subtly suggest, through the wording of their search results or domain names, that they are national governmental or charitable organisations. This is a confusing situation for the stressed advice seeker, and masks the availability of free debt advice from charitable providers.



A Google search on 4 January 2018 for 'free debt help' revealed these results. Note that StepChange is almost, but not quite, pushed below the edge of the screen on a normal laptop.

95 However, a multi-channel, ongoing mass media consumer awareness campaign at a level that could credibly reach everyone who could benefit from it would easily cost between £50m and £100m per year. The history of MAS spending significant but much smaller sums to get people to engage with the Money Advice Service does not offer an encouraging precedent. Given the challenges of early engagement I could only make such a recommendation if the prospects of success were vastly greater.

96 I do, however, see a role for a campaign that is much more limited in scope. Doctors, nurses, social workers, teachers, priests, youth workers and many more are important intermediaries who can refer people to free debt advice and reaching these intermediaries has a longer lasting impact than targeting debtors themselves since they will be talking to successive cohorts of people with problem debt. Many already do know where to refer people and do so, but I am confident more could. The introduction of 'breathing space', if and when it happens, would provide a perfect focus for such a campaign.

Recommendation 7

The UK Government should consider how best to deliver a one-off awareness campaign targeted at intermediaries to encourage them to refer people to free debt advice through the MAS Debt Advice Locator tool. This campaign should reach, for example, health workers, teachers, social workers, prison and probation officers and counsellors. The decision on the campaign should be made after a decision has been made by the Government on 'breathing space' as per its consultation of 24 October 2017. If 'breathing space' goes ahead, the campaign should use the launch as an opportunity to make referral partners aware of the importance of free debt advice to take advantage of the breathing space.

97 I do not venture much into the debate about 'breathing space' because that is currently the subject of consultation by HM Treasury. However, I see risks if 'breathing space' can be accessed without an adviser as intermediary; and advantages if the adviser is the gateway to 'breathing space'. One of the advantages that comes to the fore in this context is that once it is known that 'breathing space' can only be accessed through an adviser, it will make free debt advice more attractive and very likely more talked-about. This can only be a good thing.

Recommendation 8

If the UK Government introduces 'breathing space', only authorised (or exempt) advisers should be able to make the application on behalf of the person requiring it.

98 I will make a small digression from my main argument to draw attention to the particular needs of people in prison. They are a special category in that they are probably the only group of people denied access to both their basic financial data and to debt advice (although some advice is available to a limited number of prisoners). Yet prisoners and their families have problem debt just as much, if not more than, the general population. They may have had debt issues before going into prison; they may incur further debt while they are in prison, and their families may incur debt while they are serving their sentence, particularly if the offender was the main breadwinner. There have been some recent moves to allow prisoners access to computers for limited, specific purposes such as training and I would encourage the Ministry of Justice and the prison authorities to extend this to online or telephone debt advice.

Recommendation 9

The Ministry of Justice should ensure prisoners can access free debt advice and act on it if they need to.

99 I am also encouraged by the growing number of employee assistance programmes that are alert to the dangers of over-indebtedness and the benefits of free debt advice and even the provision of low-cost temporary finance. I believe there would be great benefit if this trend could be accelerated and I would encourage employer organisations to do as much as possible to promote the benefits of such schemes, which include less time lost through stress-related illness, a major consequence of over-indebtedness.

Recommendation 10

Employer organisations including the CBI, the IoD and the Federation of Small Businesses should bring the availability of free debt advice to the attention of their members. Large employers should be encouraged to consider the benefits from providing debt advice within employee assistance programmes. Smaller employers without a dedicated employee assistance programme should signpost employees to the MAS Debt Advice Locator tool.

100 The Debt Advice Locator tool mentioned in the recommendation above is good, but I believe its design is looking dated and it is too limited in scope. It currently only includes providers who have MAS accreditation. I believe it should provide a link to all authorised or exempt providers, including for-profit businesses, provided the tool clearly signals the difference between advice that is free at the point of use and advice that is paid for, and the difference between charitable and for-profit providers. As part of the redesign of the tool the opportunity should be taken to encourage people to use the most cost-efficient channel with which they are comfortable. MAS have told me that some providers who are eligible to be listed on the tool have asked not to be because they cannot cope with demand. That should continue to be their right if they so choose but the default aim of the tool should be comprehensiveness. MAS should also consider whether the tool would benefit from being rebranded and relaunched.

Recommendation 11

MAS should rebrand and upgrade its Debt Advice Locator tool. The tool should allow consumers to choose the most appropriate delivery channel and to select from a comprehensive list of authorised and exempt advisers, including commercial providers. The tool should be maximally optimised to draw search engine traffic.

101 I see the codes of conduct introduced at recommendation 5 above as a powerful way of alerting more debtors to the benefits of free debt advice. I go further, and I believe that nobody should expect to see a bailiff or be issued with legal proceedings before the creditor that might send one has checked that they have had the opportunity to access free debt advice.

Recommendation 12

All the codes of conduct introduced in response to my other recommendations should commit creditors to do more to draw free debt advice to the attention of all consumers. Where problem debt arises they should commit to using bailiffs or taking legal action only after a debtor has been made aware of the availability of authorised or exempt free advice; the codes of conduct should give creditors a specific responsibility to check that this has been done.

Recommendation 13

All these codes of conduct should commit creditors that, when a person is identified as having trouble with debt, they should signpost that person to the MAS Debt Advice Locator tool.

Recommendation 14

The Local Government Association and the National Housing Federation (in respect of housing associations) should develop codes of conduct which commit their respective members to alerting users of their services to the availability of free debt advice, and to using bailiffs or taking legal action only after a debtor has been offered authorised or exempt free advice. The codes of conduct should include a specific responsibility to ensure this has happened.

Quality of debt advice

102 There is a limited amount of hard evidence and a great deal of anecdotal evidence to suggest that the quality of advice given is variable and that, while undoubtedly much of it is excellent, some is indifferent, and a small amount is positively damaging. The latter two are unacceptable. Those who seek advice deserve it to be good quality and equally funders should not be expected to pay for poor advice. I have been provided with some hard evidence from various sources. Limited though this evidence is, it is compelling. Unfortunately, it has been provided to me in confidence and cannot be reproduced here.

103 However, no one I have spoken to during the review has claimed that quality is universally high, and the **MAS Consultation Business Plan for 2018/19** sets a target for 2018/19 of 70% of cases in its peer review scheme to be ranked in the top two grades of a four-point scale, which I understand to equate to 'good' or 'very good'. This implies that at present the quality of more than 30% of debt advice within the peer review is less than good.

104 The FCA are currently conducting a thematic review, which I anticipate will cast further light onto this subject, and its findings will be in the public domain. I therefore make recommendations for greater quality assurance of organisations which provide advice, and approved training schemes for advisers themselves.

105 These recommendations are intended to ensure that voluntary sector and commercial providers are answerable to the same standards. During my review I have encountered debates about whether MAS, in its debt advice commissioning, should limit itself only to funding services in the voluntary sector, or should be open to procuring services from commercial sector providers. This is an opportune moment to state that I see no reason in principle why MAS should limit itself to voluntary sector service providers; when commissioning debt advice that is free at the point of use it should use its own practical and commercial judgements to decide what will give the best value for levy-payers and debtors alike.

Recommendation 15

The quality assurance processes of organisations that offer debt advice should be monitored and transparently reported.

To this end:

- All organisations that offer authorised debt advice, including commercial providers and charities alike, should have a quality assurance process authorised by the FCA, and annually report headline data from this process to the FCA. The headline results should then be publicly available.
- MAS should develop a quality management process (to be authorised by the FCA), enhanced by inexpensive software, that can be used by smaller debt advice organisations to fulfil the obligations set out in this recommendation.

Recommendation 16

All authorised debt advisers should have a debt advice qualification before they can offer debt advice unassisted, and should be required each year to undergo proportionate continuing professional development that includes updating for changes in law and reviewing the latest evidence of effective practice. The requirement for, and syllabus of, the debt advice qualification, and the requirement for continuing professional development, should be set out by the FCA. There should be a phased transition for existing advisers, where they have a window of three years to obtain an approved qualification to enable them to continue to work in the sector.

Recommendation 17

All organisations that offer exempt debt advice should adhere to a code of conduct (see recommendation 5 above) that commits them to using an authorised quality management process, and accreditation of advisers using one of the authorised schemes.

Measuring the results of debt advice

106 The quality recommendations above are about getting the inputs right: ensuring that debtors are treated as individuals, given the right range of options, records are kept, and advisers continually hunt out best practice. Of course, all these could be put in place to the highest standard and payment could always be linked solely to inputs, not results.

107 However, in my call for evidence, I asked whether debt advice funding could or should be more closely linked to outcomes, without proposing any particular model for doing so. I asked this question for two reasons: first because of the broader concerns about quality, and secondly because a fundamental re-appraisal of a funding model is an opportunity to incentivise what are regarded as really good results.

108 I was surprised at the vehemence of the response, and the sheer antipathy provoked by the word 'outcomes' itself (which is why I have switched to 'results' in the title above!). These were some of the arguments made in relation to linking payment to outcomes:

- you shouldn't measure just one outcome;
- some outcomes for very vulnerable clients are very expensive to achieve;
- there is no typical client, and therefore no standardisation of outcomes is possible; or
- the measurement of outcomes is merely a burdensome cost that detracts from the money available to deliver services.

109 I do not find these arguments very persuasive because I think they are responding to an 'Aunt Sally' version of payment by outcomes that no serious organisation would propose (e.g. only paying against a single outcome, never varying payment by complexity of client need), or they are unresponsive to widely accepted thinking about how you manage continuous improvement.

110 However, I did find much more persuasive the following arguments:

- outcomes we value may be achieved long after the client has ceased contact with a debt advice organisation, and so maintaining or regaining contact can be unreliable, or too costly;
- there is no simple view of cause and effect, because some of the most desirable outcomes will have contributing factors from other agencies' work; and
- the search for holistic outcomes may reflect a lack of clarity about the purpose and scope of debt advice.

111 The responses to my call for evidence clearly caught the tailwinds of respondents responding to the consultation on MAS's **A Strategic Approach to Debt Commissioning, 2018-2023**, which had set out some tentative thoughts about moving over time to payment by results. MAS's final published version of the strategy states:

We will consider how payment models best fit as part of a wider approach looking at how MAS can best support funded services to deliver the critical inputs and desired outcomes referred to above. The complexities of a simple payment by results model was highlighted at consultation and will not be pursued, instead any new payment model will take into account a basket of quality, productivity, client outcome, operational and supply chain measures

112 This seems to me to be a sensible approach, and given that the call for evidence did not reveal any compelling good practice linking funding to results, I am unable to make any specific recommendations that go further than this. However, I would encourage MAS and the sector to continue to challenge its own thinking about:

- the end purpose of debt advice;
- results that can be inexpensively measured that are good proxies for longer-term results; and
- ways in which results or proxies that have been measured can then feed back into a continuous improvement loop at the start of the process.

113 As a final aside on this matter, I quote Money Advice Scotland, themselves in turn quoting a long-term study by the University of Warwick into the lives of over-indebted people living with debt, after advice:[6]

A clear message from participants was that debt advice must focus not only on ways to become debt-free, but also on ways to live with debt – the manageability of debt was as important to their assessment as being debt-free. Fundamentally, this meant that participants sought advice on how to manage the process of being in debt and stop debt becoming all-consuming.

114 Meanwhile, there needs to be a continued focus on the quality of inputs (i.e. advice) as set out above.

6 Atfield, G., Lindley, R. And Orton, M. (2016) *Living with debt after advice. A longitudinal study of people on low incomes*, York: Friends Provident Foundation

Chapter 5
Reviewing current arrangements: a more coordinated and collaborative voluntary debt advice sector

115 In the previous chapter I looked at effectiveness as it focused on the individual debtor's experience. In this chapter I set out a more challenging vision for how organisations in the voluntary sector could change and work together more effectively, as new technologies and channel shift enable them to do so.

116 My key interest in raising these matters is to improve the amount of high-quality debt advice that can be delivered per unit of funding, with the result that voluntary sector providers can deliver ever better services to advice seekers.

117 In relation to the inter-linked issues of delivery efficiency, channel shift and innovation, a number of submissions urged me to set out a clear view as to whether the voluntary sector providers of free debt advice should compete or collaborate.

118 After deliberation and discussion, my view is that debtors should have a choice of channel and providers, but that the underlying offer from the voluntary sector should be much more consistent and similar as between providers. I do not think the sector is large enough, or funding secure enough, to allow duplication in innovation. I have therefore come down in favour of both specialisation and collaboration as the principles to guide the sector.

119 A number of respondents urged me in this direction, and this extract from Nationwide's submission is a good summary of the expectations and hopes especially from financial services firms:

Knowing that our funding was supporting the development of a robust, future proof, shared infrastructure enabling the free advice sector to shed duplication and therefore wasted spend on individual CRMs and other such systems, would mean we could be confident that our funding was going further to deliver services to those who need them most. The central infrastructure of most value to all involved would include – a single central Standard Financial Statement, with access owned and controlled by the client and not the creditor or advice provider; a hub for the secure and smooth transition of clients between advice organisations, and from creditors into advice providers (where close industry engagement isn't present for any reason); a central portal through which feedback to creditors could be provided, and breathing space could be coordinated (both the current CONC mandated version and the coming Debt Respite Scheme, as amended in the Financial Claims and Guidance Bill).

120 My vision of the voluntary sector in five years' time is one that is much more efficient and consistent, which in turn will enable a significantly greater volume of advice, so all can access high-quality advice using the most appropriate channel, or channels, for the individual and their needs.

Technological innovation

121 Several emerging technologies came to the fore in debates and discussions during my review. From these discussions, and from my knowledge and experience in other sectors, it is clear there will be great opportunities for the debt advice sector. Not all these technologies are yet mature enough to begin reaping benefits today, but it is widely expected that they will mature during the next five years, perhaps far sooner, to a degree where they will be able to bring huge benefits to the debt advice sector. During that period, it will be important to drive innovation so that the voluntary sector providers of debt advice are not held back from realising the resultant gains, gains that should multiply the value of funding they receive.

Open Banking

122 Open Banking launched on 13 January 2018, so it is here now. Among other opportunities, it allows authorised third parties, with the consent of the bank account holder, to be given access to their bank account to extract information and/or to initiate payments.

123 Open Banking requires customer permission, which in turn requires customers to be aware of it and trust its benefits. I don't think it's unreasonable to describe it as an immature technology just weeks after its launch; the Application Programming Interfaces (APIs) are all in place, but the service will only mature with widespread customer take-up.

124 For debt advice, there will be very obvious efficiency savings inherent in Open Banking. All debt advice rests on first having an analysis of the debtor's debts, income and outgoings. Since 2016, hundreds of organisations have signed up to using the Standard Financial Statement (SFS), which enables debtors and creditors alike to share a common format, language and bank of expenditure expectations when they look at plans for debt management.

125 The process of filling in the SFS, based on what the debtor knows and tells the adviser, can be very laborious. I witnessed this myself when observing debt advice offered over the telephone. With one of the calls I listened to, I had to drop out after just over an hour, but at that point the adviser was still patiently extracting and completing financial data with the caller's help. This was, in effect, the administration step – a significant step – before the real 'advice' could begin.

126 Open Banking could extract large amounts of data from a client's bank accounts in seconds. The data would still require discussion and categorisation, but I am confident the time savings would still be enormous as a proportion of the client-adviser interaction time.

127 StepChange told me that it costs £120,000 per year for every minute added to their average call time so this gives some clue as to the scale of savings that may be realisable when multiplied across the sector.

Speech analytics

128 Speech analytics makes use of the remarkable technologies now becoming ubiquitous in our phones and homes through (for example) Siri and Alexa, but puts them to use in a call centre context. The call recording is transcribed into text, and then textual and other analysis is carried out automatically to look at multiple dimensions of the call. Voice stress analysis can use technology to analyse emotional stress and estimate whether it is resolved.[7] Textual analysis can look at whether certain keywords were used: for example, how many of the formal debt advice solution options were mentioned to the client during the call?

129 If the voluntary sector is to improve the consistency of its practice, and the consistency of record-taking, this technology obviously has considerable promise. I do not doubt that it also requires laborious tuning to make sure that the results it provides do give reliable quality assurance.

Machine learning

130 Machine learning is already in widespread use. While many express concern about the concept most of us enjoy the benefits of it on an almost daily basis.

131 Machines are improving their ability to spot and analyse patterns, and then make recommendations or predictions, at a rate that can be only be described as astounding. We simply cannot say how far or how fast this will develop over the next five years. However, my own expectation is that enormous strides will be taken during this time.

132 I believe I can safely say that today, the idea of putting a debtor in touch with a machine, with no human interface with the debtor and no human assistance behind it, then requiring the machine to advise the client on which debt solution is best for their needs, and finally executing the transactions required, is ahead of its time. But perhaps not for long. I have not been introduced to any technology that credibly matches all aspects of this feat yet. However, much of the know-how exists today and progress is likely to be rapid over the next five years.

133 It is highly probable that webchat-assisted debt advice will be able to depend less on human advisers during certain stages of the interaction, and that follow-up reviews during the life of a Debt Management Plan may be possible through automated interactions. And even before these opportunities come about, I am hopeful that machine learning may be able to spot early signs of personal over-indebtedness through an individual's spending data.

134 One thing that is quite certain about machine learning is that it depends on accessing very large volumes of data for the learning to take place. There is therefore an interlinked chain of dependencies that runs from Open Banking data, through speech analytics collecting the data from many human-client interactions, if at the end of this machine learning is going to be possible in the domain of debt advice. However, the building blocks exist already. Of course, the privacy and data protection implications of gathering and using it require very careful thought and management. However, the opportunities are immense and, as other applications in other industries are developed and become commonplace, so consumer trust will rapidly grow.

7 Indeed, a highly creative use of voice stress analysis is to look at the emotional timbre of a caller's voice before they speak to an advisor, and prioritise high-stress calls in the telephone queue. This is not new, as a New York Times article from 2011 demonstrates.

The role of MAS in innovation

135 The technologies I have mentioned above are at varying degrees of maturity and therefore trialling and developing them will involve some form of risk. I do not think that the voluntary debt advice sector is sufficiently well funded to sustain multiple centres of innovation and development. I therefore think that the MAS debt advice levy funding should be the main source of a coordinated programme of innovation.

136 This does not mean that I think MAS should necessarily 'in-source' the innovation. That would be risky too, if it were the sole route chosen. I am heartened by MAS's approach to innovation in, say, the **'What Works Fund' to measure improvements in financial capability** (in which 409 organisations bid into a £7m funding pot, and a very diverse range of projects was funded as a result) or MAS's co-sponsorship of a **Fintech for All award drawing on the networks and expertise of Tech City** (in which 85 fintech organisations entered a competition and MAS is sponsoring the evaluation of the impact on consumers of the two winning fintech apps). These kinds of open, partnership-based approaches drive towards publishing evidence everyone else can use. These seem to me to be healthy ways to mitigate innovation risks.

137 While the main beneficiaries of these developments should be the not-for-profit providers, MAS should also be prepared to make them available to the commercial sector, at a commercial price.

Recommendation 18

MAS should focus its debt advice activities and expenditure on:

- Providing coordination, infrastructure and training that will increase capacity and quality in the debt advice sector.
- Enabling targeted innovation that benefits the not-for-profit providers, especially:
  - the use of technology to import customer spending and income data into the debt advice process;
  - developing digitally assisted services for debt clients; and
  - in the medium term, using machine learning to improve referrals and provide automated or semi-automated advice to debtors.
- Contributing to the provision of debt advice for people who are unlikely to be viable clients of Fair Share or commercial providers. This funding should be directed, through good procurement practice, to any authorised provider.

Methods and styles of collaboration

138 The **Standard Financial Statement** mentioned above is an excellent example of MAS driving and funding coordinated approaches in the sector that improve efficiency and customer experience. Before the SFS came into being, debt advice organisations had broadly similar but sufficiently different ways of recording, and looking at, income and expenditure. Creditors would therefore receive proposals for debt management in numerous different formats that they had to understand and use differently. The SFS gives a mirror-image view that the creditor on one side, and the debt advice agency and debtor on the other, can both use and agree on.

139 MAS tell me that the SFS has taken years of discussion and implementation and that there have been vocal and compelling leaders in the sector without whose voices it could never have been achieved. I commend this kind of collaboration. I don't know where the original impetus came from for the SFS but if it came from MAS, I would like to see more such ideas also coming from the sector in the future, and if it came from the sector, I'd like to see more of these ideas coming from MAS as well.

140 At the same time, the long gestation period for the SFS demonstrates that innovation has not happened with sufficient pace. The sector cannot afford for this lethargic approach to continue if sufficient capacity is to be developed to meet existing and growing demand.

141 The plans to devolve funding of debt advice to Northern Ireland, Scotland and Wales as a result of the move to the single financial guidance body will make widespread voluntary collaboration even more important in the future than it is now. At present, with MAS holding funding for debt advice commissioning across the UK, the propensity for coordination arises naturally from the act of planning and distributing funding. This will change.

Recommendation 19

The not-for-profit debt advice providers across the UK should commit to reducing duplicated effort and increasing mutually complementary specialisation and cross-referral. They should use the MAS Debt Advice Steering Group, and the Debt Advice Operational Group, as forums and means to achieve their commitments, but should not rely on MAS solely to propose, deliver or fund change.

The role of government in coordinating and challenging the sector

142 Government has given MAS a statutory duty to improve the quality, availability and consistency of debt advice across the UK and I expect the single financial guidance body to have a broadly similar set of duties.

143 However, when I look at the roadmap for implementing my recommendations I foresee three difficulties with this structural arrangement and I make a short-term proposal that I believe will rectify them.

144 The first is that many of my recommendations about codes of conduct ask for some substantial changes to be made by departments, sectors and trade bodies that are well outside MAS's normal working relationships, such as the utility companies. While my various conversations with many of the bodies concerned lead me to be hopeful, if the proposed codes of conduct are not adopted and applied, I recommend that regulation or legislation should be considered.

145 The second difficulty is that MAS is both a funder and a coordinator. A coordinator needs to take a neutral view. A funder has a vested interest in the frontline organisations they fund and an obligation to ensure value for money from the work it commissions. I believe that a regular independent view on this dichotomy would be healthy.

146 The third difficulty is the flipside of the second, and alluded in paragraph 141 above: the remit for the single financial guidance body will not extend to debt advice funding in the devolved administrations, but it will, as I understand it, continue to include strategic coordination. Without funding, additional help may be needed to propel collaboration.

147 Given these three difficulties (which I don't think are fatal structural flaws, but need some form of counterbalance) I recommend that the UK Government appoint an independent, senior person to help drive these recommendations forward and challenge both MAS and the broader sector; colloquially this person would be a 'Debt Advice Tsar' although they would be given a more formal title. This person would not be closely tied to any particular government department. On the assumption that the current Financial Claims and Guidance Bill is enacted, and funding for Scotland, Wales and Northern Ireland is passed to the devolved governments, the Debt Advice Tsar's remit should be limited to England. However, it would be highly beneficial if the concept had the solid support of the devolved administration governments, who may in addition wish to consider similar appointments. I recommend that their term should be time-limited to the five years following this review.

Recommendation 20

The UK Government should appoint a 'Debt Advice Tsar' for England (independent of government, MAS, or the FCA) as a coordinator across these recommendations, on a five-year time-limited term. I also recommend that the devolved governments should consider making similar appointments. This highly senior and influential person should be able to challenge government and industry to ensure that these recommendations are implemented, should be able to advise on regulatory measures where they are not, and should be expected to continue to challenge the sector where appropriate. The Debt Advice Tsar should report annually on progress.

Chapter 6
Implications for the devolved administrations

148 I have tried in the chapters above to avoid a fault common in documents of this kind, which is to write as if policies and practice are uniform across the UK, and devolution a distraction.

149 Debt advice needs vary between the four countries of the UK (and indeed between the regions of England). According to **MAS's statistics**, the proportion of over-indebted people in Wales is just shy of 2% higher (17.7% of the adult population) than the UK average (15.9% of the adult population). This is a substantial proportional difference. There are also cultural, employment and connectivity differences across and within the four nations, which impact not just on the need for debt advice but for the manner in which it is delivered.

150 Debt advice legislation and policy differs across the UK as well, most markedly in Scotland where there is already a statutory Debt Management Plan and a statutory 'breathing space', as well as a subtly different range and nomenclature of options for debt solutions. For example, if a person in Scotland cannot secure an appointment with a debt adviser (known as 'money advisers' in Scotland) due to low or no availability, this means that access to bankruptcy is precluded because there is a requirement for prior compulsory debt advice. I am also told that the 'leakage' of explanatory material on the internet that sets out the options available to debtors in England but is then accessed by those in Scotland (and vice versa) is an ongoing source of confusion.

151 Nonetheless, in the evidence I have seen from Wales, Scotland and Northern Ireland the same fundamental messages have come through:

- Demand outstrips supply.
- Local authority funding is falling.
- Need is likely to rise because of anticipated economic and social challenges and, with it, pent-up demand.
- There is widespread support for the use of the financial services levy to complement Fair Share mechanisms and other sources of funding. Equally there is a passion for using debt advice funding to deliver services that are rooted in local communities, tailored and relevant.
- There are concerns about quality.
- There are widely differing views about channel preference and channel effectiveness.
- A strong case has been made for careful tailoring of access channel arrangements in the most sparsely populated areas, and lack of access to broadband in the most rural areas has been a consistently repeated concern. This case was not limited to respondents from the three devolved countries but was certainly very keenly articulated by them.
- There is some innovative practice but there is a hunger for it to be more widely shared.

152 Based on these inputs I believe my recommendations are relevant across the four nations of the UK, and I have tailored them to the responsibilities and delivery channels as far as I am aware of them in the three devolved nations. Errors and omissions are my own, and in any such case I hope that the devolved governments will pursue the spirit of the recommendation rather than trip up on the letter.

Chapter 7
Conclusions

153 The debt advice sector provides a great community service and all those who support the sector, in whatever capacity, deserve very heartfelt thanks.

154 However, it is clear that demand for advice exceeds the current supply, and that need for advice exceeds demand (albeit in both cases the exact quantification can only be roughly estimated) while the general consensus is that problem debt is likely to increase, and with it demand for debt advice.

155 At the same time, with some honourable exceptions, the sector has found it challenging to innovate, and innovation lies at the heart of what is needed to expand capacity.

156 The basic funding models are not broken and therefore do not need replacing. However, there are some areas where the funding mechanisms can be improved. I have therefore made a number of recommendations which, if adopted will, I believe, allow for a 50% increase in debt advice capacity without requiring (beyond a transition period) a prolonged increase in the current level of the financial services debt advice levy.

157 I fully recognise that the channel shift and efficiency savings I am asking free-to-client charities to commit to delivering cannot be achieved overnight. I therefore propose that they be introduced over a two-year period. I have modelled the amount of extra advice that channel shift and efficiency would buy over two years if achieved in the proportions of 30% after six months, 60% after 12 months, and 90%–100% by the time 24 months have elapsed. As these build up, I expect the free-to-client charities to be able to offer 70,000 more people debt advice six months after the channel shift and efficiencies begin to be delivered, and 483,000 per year by the time they are complete.

158 It would be possible to recommend that this is the only means of serving more people but I also recommend ways that additional sources of funds can help more people access advice sooner. They are:

- a permanent, additional £2.25m of funding annually, coming from the Insolvency Service and its devolved equivalents as more equitable payments to providers for insolvency solutions provided;
- a permanent, additional £2m of Fair Share funding annually, which can serve new clients with debt advice (I see this is an extremely conservative view of what Fair Share can bring, given that the overall revenue of Fair Share providers is around £53m annually and I am making recommendations that significantly widen their base of contributors); and
- a temporary, additional £7m of annual levy funding, which is the proportion of additional funding I think MAS should dedicate to direct delivery (as opposed to quality and innovation), during the two year period of £10m levy uplift set out in recommendation 4.

159 Over the two-year implementation period these would bring an additional £11m of funding into the free-to-client part of the sector to deliver more debt advice. I have calculated that this can close the gap between the 650,000 people that need to be served and the number of additional people that will be served by gradually delivering efficiency and channel shift during the same period. At the end of the two-year period the permanent additional funding and the channel shift and efficiencies should enable 650,000 more people per year than currently to be served with debt advice.

160 It may be that capacity needs to increase by more than this amount in the future if problem debt continues to grow, or if a greater proportion of those with debt problems seek advice. If this happens it will be necessary to review whether the measures adopted by the sector have produced sufficient cost reductions to enable supply to expand without further funding or whether some increase in the levy is required. However, these are not judgements that I can make at this time.

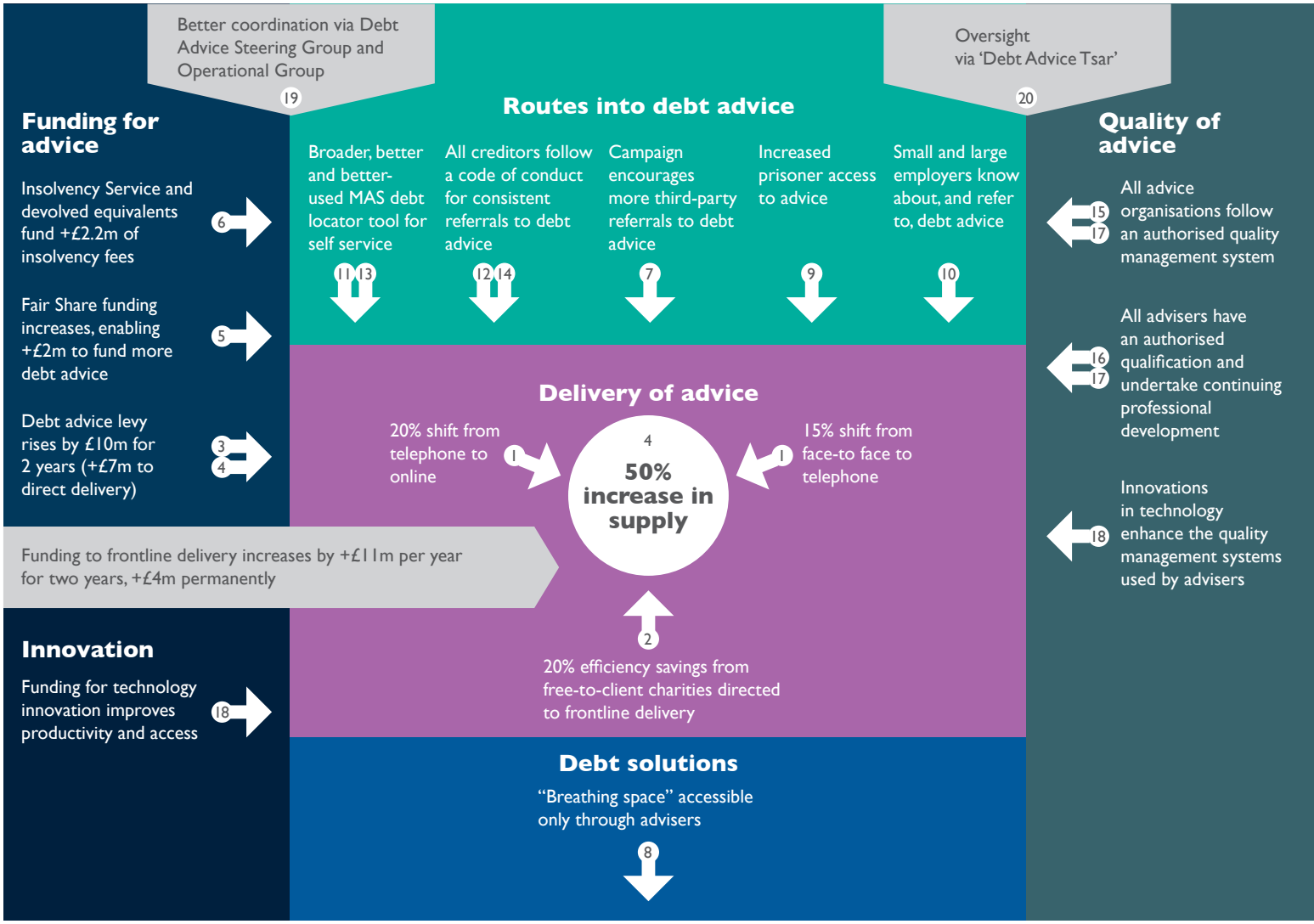
161 As mentioned in the Foreword, local authorities are an important source of both the provision and funding of debt advice. Their willingness and ability to maintain their current levels of support in the coming years is vital. If this does not transpire, alternative support will have to be found.

162 In order to stimulate innovation, and in order to adopt it at pace, the Money Advice Service (or its successor body) needs a clear and accepted leadership role to bring about greater collaboration and pooled investment (achieved by the Money Advice Service using part of the debt advice levy for this purpose). At the same time the debt advice organisations need to redouble efforts to achieve efficiency savings. It is for each provider to determine how it will achieve the necessary efficiency savings, but I hope some of what is in this report will be a useful guide to them. I also hope that my unambiguous view that inefficiency and low levels of collaboration must not be masked by an increased levy, will send a strong message to the sector to move with the times.

163 Having said that the debt advice sector provides a most valuable service, it has also become clear that the quality of the advice given is not uniformly high. This is not a situation which can be allowed to continue. I have therefore made recommendations to provide greater quality assurance. If adopted these recommendations will both drive out poor quality but also professionalise advisers, which I believe will encourage more good people into the sector.

164 Taken together I believe my recommendations will address many of the issues currently being faced by the debt advice sector. However, the world does not stand still, and in order to make sure the recommendations are being implemented with vigour, and that nothing further is required as a result of changed circumstances, my final recommendation is for the UK Government, to appoint a 'Debt Advice Tsar' for England, and for the devolved administrations to consider a similar arrangement.

165 The diagram below summarises what I think will be the impact of my recommendations, after two years, on the different parts of the debt advice landscape set out in chapter 1. The numbers in circles refer to the relevant recommendations.



Appendix I
Terms of Reference

How much debt advice is needed and how much will it cost?

In answering this question, the Review will consider current and likely future cost to serve the current demand and modelled future demand over the next five years, based on optimistic, neutral and pessimistic scenarios. The Review will have regard to the variety of clients' needs when experiencing debt problems and how they can be served in terms of advice (ranging from 'self-serving' to fully supported advocacy and support) and through to resolution of problem debt.

How should debt advice be funded and by whom?

The Review may wish to examine how the activities of organisations result in or enable people to fall into problem debt and to what extent those organisations should fund debt advice. This should consider the extent to which organisations have discretion over the clients they serve and the ability to 'price' non-payment into their business/ operating models.

Equally, the Review may wish to examine the beneficiaries of debt advice including individuals, organisations and broader societal impact and to what extent those groups should fund debt advice. For clarity, it is expected both public and private bodies will be in scope of this question as well as the ability and willingness of the end-user to pay for debt advice.

What are the benefits of the current way in which debt advice funding is collected and distributed and would recipients of advice benefit from different arrangements? If so, what is the model that should be pursued?

Having considered client need, the Review will examine the most appropriate funding system to serve those needs, also taking into account differing landscapes in the devolved nations of the UK.

In answering this question, the Review may wish to have regard to the incentives on lenders and others who are owed money to improve lending and collection practices, and the incentives on advice and solution providers to improve efficiency, effectiveness and client outcomes.

If a new model is proposed, what would be the best transition?

In the event of a new system being proposed, the Review will also set out recommendations for an effective transition to the new arrangements.

Appendix 2
Supply and demand – summary of MAS approach

The following submission was supplied by MAS to set out how it reaches a view of need, supply and demand for debt advice across the UK. See chapter 2 for my comments on, and use of, this material. As an aside, and as a small contribution towards the efficiency savings I am asking the sector to achieve, I observe that it may be more efficient for the FCA to consider gathering the data needed for supply analysis through its own annual regulatory reporting procedures, as it currently has to be acquired through a separate survey, which creates an extra cost for MAS and providers alike.

The over-indebted population

MAS begins by identifying the size of the over-indebted population – this is done by conducting a large-scale survey to generate an understanding of the characteristics of people that are over-indebted. MAS considers a person over-indebted if they have missed three or more payments on bills or credit commitments in the last six months or feel that their debts are a heavy burden.

Data from the survey are enriched with further demographic and lifestyle data from a proprietary database and a statistical model is built to predict how likely a person is to be over-indebted when they are taken from the general population as a whole. This model is then applied to the entire UK adult population and individual probabilities are combined across geographical areas to build a local and national view.Last summer MAS surveyed around 20,000 people to serve as the basis of for the above modelling, undertaken on its behalf by CACI. The results were published on the MAS website in September.

This survey estimated that 8.3m people were over-indebted at the time the survey was done.

Likelihood to seek advice and channel preferences

That survey also enabled MAS to understand the likelihood that an individual will consult an advice organisation about their debts. Secondary analysis, as yet unpublished, indicates that 20.5% of over-indebted people are likely to seek advice in a given year. This is in line with recent trends.

Finally, the survey enabled MAS to form a view on channel preferences amongst the over-indebted population.

First choice channel	% who would use other channels	% who would never use other channels (or don't know)
Face-to-face	77%	**23%**
Telephone	91%	**9%**
Online	79%	**21%**

Combining data on the size of the over-indebted population, the likelihood that a member of that population will seek advice, and their preferences across channels enables a view to be reached on the overall demand for debt advice in the UK.

This leads MAS to conclude that around 1.7m people needed (were likely to present as demand for) debt advice when the data from the different perspectives of need and channel preference are combined.

Supply

To understand what changes may be required in funding however requires a complementary understanding of supply. MAS build its understanding in this area by conducting a survey aimed at all debt advice providers in the UK.

It is able to build this sample of the whole through using an extract of the FCA register, provided to it by the FCA on an annual basis. MAS uses the contact details in the extract to send all regulated debt advice providers a supply survey. MAS supplements the extract data by using its own channels to identify exempt debt advice providers, who are also sent the survey.

MAS estimated that, including its own 2017/18 supply, around 1.1m people can be served with debt advice across the UK.

The gap

When compared to the need, this leads MAS to conclude that there is a gap of around 600,000–650,000 people not served by debt advice at the time when the survey data were combined.

Appendix 3
Recommendations listed by body

Annex I
List of respondents to my call for evidence

I am very grateful to all the organisations and people who responded to my call for evidence:

Anonymous

Advice NI (Northern Ireland)

Auriga Services

Barclays

Bristol Council

Building Societies Association

Capitalise Partnership (Toynbee Hall)

Charted Institute of Credit Management

Christians Against Poverty

Citizens Advice (England and Wales National)

Citizens Advice NI (Northern Ireland)

Citizens Advice – Sutton

Citizens Advice Scotland

Community Advice and Law Service

Consumer Finance Association

Credit Services Association

Department for Communities (Northern Ireland)

Energy UK

Finance & Leasing Association

Gregory Pennington Ltd (Think Money Group)

Improvement Service

Institute of Money Advisers

Leeds City Council

Local Government Association

Link Housing Association

Money Advice Service

Money Advice Scotland

Money Advice Trust

National Advice Network Wales

Nationwide

NIACRO (Northern Ireland)

One Advice Group

PayPlan

RBS

Shelter

StepChange Debt Charity

Sunderland City Council

Talking Money

UK Finance

Water UK

Welsh Government

Wiser£money Partnership

Annex 2
Summary of learnings from four other jurisdictions

The following research report was prepared for the Money Advice Service by Yixin Ding (Olivia), Bryan Poh, Ed Furey and Jacky Chen from the Melbourne Business School in the University of Melbourne as part of their degrees. The report was prepared as an additional submission to the Peter Wyman Review from the Money Advice Service, which was pleased to take up an offer from the University of Melbourne to collaborate on a practical business research project during a student 'practicum' in London in November/December 2017.

The report is the result of a combination of desk research, and where possible interviews with people in the countries investigated. Not all data is recent, and the report does not claim to be comprehensive[1]. It was designed to give a broad-brush impression of the system and value chain in the countries examined, with some indicative figures to give scale, in order to give Peter Wyman and his review team colleagues points of comparison in contrast to the way that debt advice is organised and funded in the UK.

Australia
Overview of debt advice Market

There are an exceptionally high number of people in Australia that are experiencing symptoms of high financial stress.[2]

In October 2016, ACOSS (Australian Council of Social Services) released a report that outlined Australia's growing problem of poverty. In the report it was emphasized that an estimated 2.9 million people or 13.3% of the 2016 population were living below the internationally accepted poverty line.[3]

Measures have been put in place in Australia to assist and support the growing number of people experiencing high financial stress. Financial Counselling Australia is Australia's peak body for financial counselling in Australia. Financial Counselling Australia's role is to support the financial counselling profession by providing a voice in national debates. Financial Counselling Australia also advocate on behalf of the clients of financial counsellors for a fairer marketplace that will prevent financial problems in the first place. Financial Counselling Australia is a federated body and its members are each State and Territory financial counsellling association in Australia.

There are 85 organisations in Australia funded by the Department of Social Services (the federal government body responsible for national policies and programs that deliver a fair society for all Australians) to deliver financial counselling, including financial counselling for problem gamblers and the administration of a National Debt Helpline. Furthermore, there is an estimated 100 services funded by the state and territory governments. These organisations deliver financial counselling that must meet relevant legal and regulatory requirements. In Australia the funding from state and federal governments is delivered to the various organisations via a tender budget process, the next round will be in June of 2018.[4]

Regulation

The Australians Securities and Investments Commission (ASIC) are Australia's corporate, markets and financial services regulator. ASIC oversee some of the work that financial counselors in Australia provide due to the fact that it may involve providing advice about credit or financial product advice.

Advice about credit

An example of this is advice that would see a person remain in a credit contract, such as a credit card. Organisations providing credit advice would normally need a credit licence, under the National Consumer Credit Protection Act 2009. This licensing scheme is administered by ASIC.

1 All reasonable care and skill has been taken in the preparation of this report, however, neither the authors, nor the University of Melbourne, make any warranty whatsoever as to the accuracy or completeness of the information herein. No part of this report is intended as advice, whether legal or professional.

2 See: Australian Bureau of Statistics (ABS) 2017, Labour force, Australia, January 2017, Cat. No. 6202.0, ABS, Canberra.

3 See: ACOSS & SPRC UNSW 2016, Poverty in Australia 2016, Poverty and inequality in Australia, Australian Council of Social Service & Social Policy Research Centre, UNSW, Sydney.

4 See: *Australian Securities and Investments Commission NFLS Annual Highlights Report 2016–17*

Advice about financial products

An example of this advice in financial counselling would be for a person to obtain a no fee, basic bank account. Another example would be to change superannuation funds. Organisations providing advice about financial products will normally need an Australian Financial Service Licence, under the Corporations Act 2001. This licensing scheme is also administered by ASIC.

According to Fiona Guthrie, the CEO of Financial Counselling Australia, no set of agreed quality standards exist. This is a limitation for the Australian debt advice market, as an agreed quality framework does not regulate each organization around the country.[5]

Funding

Financial counselling is bundled with other policy tools under the Commonwealth Financial Counseling (CFC) service strategy within the Australian Government's Financial Management Program (FMP). Commonwealth and State and Territory governments jointly fund the financial counselling programmes in Australia.

State Government Funding:

Funding from various State Governments for financial counselling tallied $26 million AUD last financial year. This total has not been finalized as the West Australian state government recently injected an undisclosed amount of money into the commissioning of debt advice and financial counselling to various organizations in the state of West Australia. Funding from state governments is stable in some states and in others it very much depends on which side of politics is in power.[6]

Federal Government (Department of Social Services)

$11.9 million AUD was reserved for generalist face-to-face financial counselling and the commissioning of free debt advice to Australians that are experiencing high financial stress.

$6.2 million AUD was reserved for face-to-face and telephone financial counselling and the commissioning of debt advice to Australians that are experiencing high financial stress as a direct result of gambling. This portion of funding is reserved for specialist gambling financial counselling.

$2.5 million AUD is reserved for the management and upgrade of the National Debt Helpline that is administrated by Financial Counselling Australia and is for people experiencing high financial stress that require immediate advice over the phone.

$13.5 million AUD is reserved for 'income management'. This is mainly reserved for the Northern Territory, remote aboriginal communities and some designated disadvantaged areas in Australia. Income management is where social security payments are accessed by a 'basics card' or a 'cashless welfare card. This funding is intended to provide additional support services. The funding is not entirely for the commissioning of debt advice and financial counselling, but is used for 'financial capability workers'. Financial capability workers help with budgeting and basic money management.[7]

Self-funding, philanthropic and industry funding

There are some financial counselling agencies and organisations in Australia that employ financial counsellors from their own fundraising efforts, primarily through seeking donations. Furthermore, direct industry funding is an avenue that is not widespread however avenues for industry injections of funding are becoming more available. For example the energy provider AGL funds a financial counselling position in each of the states of Victoria, New South Wales and Queensland however exact figures have not been disclosed.

In December 2017, Financial Counselling Australia launched the Financial Counselling Foundation, a charitable trust designed as a vehicle to accept voluntary donations from industry. The UK equivalent of this foundation is the Money Advice Trust.[8] The financial counselling foundation will be trialled for 2 years after a donation of $250,000 AUD from the ANZ bank. This donation was a consequence of continued financial industry mistakes and the funding has been reserved purely for financial counselling casework such as face-to-face and telephone counselling.[9]

5 This represents direct information from an interview with Fiona Guthrie, CEO of financial Counselling Australia
6 See: *Pre Budget Submission to the Federal Government* Financial Counselling Australia, 2016
7 See: *Australian Securities and Investments Commission NFLS Annual Highlights Report 2016–17*
8 See: http://www.moneyadvicetrust.org/
9 This represents direct information from an interview with Fiona Guthrie, CEO of financial Counselling Australia

Delivery

Government bodies, not-for-profit community organizations and charities deliver financial counselling services to those experiencing high financial stress in Australia. There are two main delivery methods of financial counselling in Australia; services are provided face-to-face and via telephone (including the national debt helpline). There are also options to email for advice and use online self-help tools, however these delivery methods are not widely used.[10]

In 2016-2017, it is estimated that financial counsellors provided face-to-face support to approximately 120,000 clients around Australia. The National Debt Helpline received approximately 160,000 calls, an increase of 11% on the previous year. According to Fiona Guthrie, the CEO of Financial Counselling Australia, two thirds of the 160,000 calls to the National Debt Helpline are unique, meaning one third are repeat callers. Each of the telephone operators has the capacity to service approximately 60 calls a day whereas they are receiving 120 calls per day. The NDH is currently experiencing a problem where demand for the service is grossly outweighing the supply.[11]

The National Debt Helpline was launched in 2016 after the Financial Counselling Australia renamed their financial counselling phone service and supporting website. The majority of visitors to both the website and the hotline are aged between 25-34. This age bracket has historically been underrepresented in receiving face-to-face counselling.[12]

An internet instant messaging service is not currently a method used in Australia, however advancements in technology will see it introduced in the states of South Australia and Victoria dependent on state and federal government funding. Internet instant messaging was trialled in the state of Tasmania, however was deemed that it was too expensive and that the funds could be used in a more effective manner.[13]

Strengths and weaknesses

The main strength of the Australian model of funding and delivery of debt advice is the continued support from both State and Federal governments. The funding figure from both state and federal governments is upwards of $60 million AUD in 2016-2017. Although this amount does not meet the current demand for debt advice the action from government shows that there is strong support to address the problem. There is a genuine business case for government action in funding and delivering financial counselling to the population experiencing high financial stress. A research report published by the Australian Workplace Innovation and Social Research Centre titled 'Paying it Forward: Cost benefit analysis of the Wyatt Trust funded financial counselling services', found that for every $1 AUD invested in financial counselling provides a $5 return for the government.[14]

According to the Australian Government Productivity commission 'financial counselling clients often report improvements in health. The average cost of a general hospital admission in Australia is $5,205 per day'.[15]

Agreeing with the business case for government, Fiona Guthrie CEO of Financial Counselling Australia, on the 24th March 2014 said that 'the return on investment for government in terms of avoided costs, such as in health or housing or the breakdown of relationships would be significant.'[16]

One of the main weaknesses of the Australian model of debt advice and financial counselling is that the demand for debt advice and financial counselling exceeds the supply. ACOSS estimated that 2.9 million people or 13.3% of the 2016 population was living below the internationally accepted poverty line. In Australia there are only 800 financial counsellors with only 100 being of full-time equivalent status.

Financial Counselling Australia have been urging the Federal Government to consider the lead taken by the UK by imposing a standardized industry levy on financial services providers in order to fund debt advice and financial counselling. The banks need to accept that their services can occasionally cause an individual or household to experience financial difficulty.[17]

10 See: *Australian Securities and Investments Commission NFLS Annual Highlights Report 2016–17*
11 This represents direct information from an interview with Fiona Guthrie, CEO of financial Counselling Australia
12 See: *Australian Securities and Investments Commission NFLS Annual Highlights Report 2016–17*
13 This represents direct information from an interview with Fiona Guthrie, CEO of Financial Counselling Australia
14 See: *Paying it forward: Cost benefit analysis of The Wyatt Trust funded financial counselling services*
15 See: http://www.pc.gov.au/__data/assets/pdf_file/0003/132339/rogs-2014-volumee-chapter10.pdf
16 See: https://www.financialcounsellingaustralia.org.au/Corporate/News/Economic-Evidence-About-the-Benefits-of-Financial
17 See: *The Stressed Household Finance Landscape Report 2015*

Denmark

Overview of the debt advice market

Denmark, one of the OECD countries, has one of the highest levels of household debt globally.[18] Compared to the UK and the other countries in this report, Denmark is still rather in its early stages of its debt advice market. There is a lack of regulation and government involvement in the debt advice market. An important characteristic of the Danish debt advice market is that majority of debt advisers are volunteers. This has a heavy influence in terms of the strength and weakness of the Danish debt advice model.

A report from KORA (Danish Institute for Local and Regional Government Research[19]) divided the debt advice market into four main sectors.[20] This includes the voluntary sector, public sector, social housing sector and private sector. Each sector focuses on channeling debt advice to a particular demography of people.

The voluntary sector consists of voluntary organisations that offer free voluntary counselling to specific target group of individuals. The public sector includes government bodies and local municipals. Social housing sector includes housing associations. The private sector refers to independent players in the market who provide debt advice for a fee.

While organisations are divided into four sectors, they do not necessary operate independently from one another. Various organisations collaborate with one another from time to time in order to provide debt advice to a target group of people. For example, YMCA and Vesterbro Settlement are currently collaborating with Finance Denmark to provide voluntary debt advisers from banks for a range of debt counselling centres.

Interestingly, majority of debt advisers in the Danish Debt Advice Market are volunteers. Moreover, the KORA report also indicated that 14% of the 547 volunteers interviewed are students. Volunteers are usually recruited on the basis that they have a background relevant to debt counselling.

In addition, there is no formal definition of 'over-indebtedness' across all 4 sectors.[21] It generally refers to individuals that are behind on bills and individuals who have debt greater than their income can support.

Regulation

The primary organisations involved in the regulation of the Danish debt market include the Danish FSA/Finanstilsynet and the Danish Consumer Ombudsman. The Danish FSA regulates the security markets in Denmark and also draws up financial legislation.[22] Whereas the Danish Consumer Ombudsman ensures that organisations comply with the Danish Marketing Practice Act. This includes debt collection companies and debt collection in general.[23]

The current Danish debt advice market lacks regulation in terms of the provision of debt advice. Anders Skriver-Møller, a political consultant at Social Legal Aid indicated that there are no common requirements across the industry regarding the qualification of advisers and no formal framework governing the quality of advice.

However, organisations are trying to overcome this issue via various measures. For instance, Social Legal Aid has their own code of conduct that governs the practice standards of debt advisers in their organisations.[24] Organisations are selective when recruiting volunteers by only selecting applicants with a relevant background for debt advisery. On top of that, organisations usually provide relevant training for volunteers, for example, new recruits are required to job shadow a senior volunteer for a period of time before working independently.

Ultimately, the lack of a formal code of conduct across the industry results in variation of the quality or type of debt advice that can be obtained from one organisation to the next.

Funding

Funding in Denmark can be obtained through three main sources: Satspuljemidlerne (Rate Adjustment Pool), private funds and commercial debt advice.

The primary source of funding is Satspuljemidlerne, which is known as the Rate Adjustment Pool. The Danish government allocates cash into be injected into the Rate Adjustment Pool annually. However, the Rate Adjustment Pool does not purely serve the Debt Advice Market. Rather the existing government decides on the distribution of funds from the Rate Adjustment Pool to various projects or to provide for social welfare.

18 See: Research Denmark: *Danish Households are Resilient*
19 KORA and SFI has recently merged to form VIVE, The Danish Centre of Applied Social Science.
20 See: Gratis økonomi- og gældsrådgivning I Danmark
21 See: https://www.mabs.ie/downloads/reports_submissions/part_1_synthesis_of_findings_en.pdf
22 See: https://www.finanstilsynet.dk/en/Om-os/Finanstilsynets-opgaver
23 See: https://www.consumerombudsman.dk/about-us/
24 See: http://www.socialeretshjaelp.dk/media/03_-_Etiske_regler_for_god_g%C3%A6ldsr%C3%A5dgivningsski.pdf

Since 2008, the Danish government has decided to allocate several million Danish Krona (DKK) for the development of debt counselling across Denmark. In 2016, the total amount of funds in the Rate Adjustment Pool was £71.85 million ($607m DKK) and the existing government has decided to allocate £2.57 million ($21.7m DKK) to fund for debt advice counselling. This represents 3.57% of the total cash pool.

Total Fund Allocated from 2008 to 2016:[25]

2008- 2011	2012-2015	2016
£0.47m/yr (4m DKK/yr)	£1.18m/yr (10m DKK/yr)	£2.57m (21.7m DKK)

The secondary source of funding includes private funds. These private funds are from organisations such as the Maersk fund or funding from local municipalities. Depending on the financial status of the local municipality, debt advice organisations may obtain a grant from the local municpality. For example, the Copenhagen Municipality.

On the other hand, debt advisers from the private sector may obtain revenue through fees charged for the provision of debt advice.

Distribution of Funds from Satspuljemidlerne to Organisations[26]

Currently, there are 3 ministries involved in the distribution of funding from the Rate Adjustment Pool to the various organisations. Namely, the Ministry for Economics Affairs and the Interior, Ministry of Immigration and Integration and the Ministry of Employment.

Each of the ministries has a different goal and purpose. The Ministry for Economics Affairs and the Interior (SIM) provides funding to support organisations that provide voluntary debt counselling. The Ministry of Immigration and Integration (UIBM) aims to aid people who face threat of eviction. While the Ministry of Employment (BM) strives to meet the needs and demands for financial advice and debt counselling to the public. Consequently, this influences the distribution of funds to the various organisations. For instance, Housing Associations that provide debt counselling would be eligible to approach UIBM to apply for a grant.

Delivery

Debt advice is distributed through three main channels, namely face-to-face, telephone advice and online chat counselling. Forbrugerrådet Tænk reported providing 2162 instances of advice across all three channels (1050 via face-to-face, 803 via telephone, 309 via email) in 2016. However depending on the organisation, debt advice may be provided via other means. For instance, Social Legal Aid organises prison visits as a means to distribute debt advice.[27]

Both free and commercial debt advice are available, with the vast majority of services being free debt advice. Currently, there is no readily available data detailing the cost of funding each channel or the cost of providing debt advice. However, various statistics has been disclosed by organisations detailing the distribution of debt advice. For example, the KORA 2016 report[28] stated that 20 organisations (across all 4 sectors) received a total of 7745 requests for debt advice in 2015.

Strengths and weaknesses

Both the strengths and weaknesses of the current funding and delivery of debt advice in Denmark stem from the use of volunteers to distribute debt advice.

Firstly, the strengths of the current system. According to Anders Skriver-Møller, of Social Legal Aid in Denmark, volunteers are seen to be highly motivated and passionate when distributing debt advice. In addition the absence of remuneration reduces the possibility of any conflict of interest. As a consequence clients are more comfortable approaching debt advisers. Also the distribution of funds through various ministries allows for greater transparency in the system. This is due to each ministry having a distinct purpose and objective, thus providing a clearer framework for the distribution of funds from the Rate Adjustment pool.

In terms of weaknesses, the report from KORA has indicated that the absence of remuneration has resulted in shorter opening hours for debt advice services and longer waiting times. Moreover, potential volunteers are mainly centered in or near metropolitan areas.[29] As a result, most debt advice centers are located in metropolitan areas, placing people who live in rural areas at a disadvantage. Another significant issue with the voluntary system is continuity.[30] As debt advisers are not bound by contract, their commitment to the provision of debt advice can be inconsistent time to time. Hence, clients are forced to change from one debt adviser to another. The lack of regulation in the current Danish debt advice market also poses an issue. There is a lack of a clear framework governing the quality of advice and the expectation and requirements of volunteers. Over-reliance of the provision of funds from the Danish government results in uncertainty in regard to funding as well

25 See: https://www.modst.dk/oekonomi/bevillingslove/satspuljen/
26 See: Gratis økonomi- og gældsrådgivning I Danmark
27 See: Årsrapport 2016
28 See: Gratis økonomi- og gældsrådgivning I Danmark
29 This represents direct information from Anders
30 See: Rapport: Evaluering Af Den Frivillige Gældsrådgivning

Distribution of Satspuljemidlerne for Debt Advisery

Group	Ministry	Amount received from Satspuljemidlerne	Period	Number of Recipients
Advice to people who face threat of eviction	UIBM	£ 0.903m (10.0m DKK)	2016-2017	3
Voluntary debt advice	SIM	£ 1.961m (21.7m DKK)	2016-2018	11
Debt counselling to citizens on public housing	BM	£ 1.445m (16.0m DKK)	2015-2018	6
Advice to people who face threat of eviction	UIBM	£ 3.613m (40.0m DKK)	2012-2015	13
Establishment of voluntary debt counselling	SIM	£ 3.613m (40.0m DKK)	2012-2015	11
Establishment of voluntary debt counselling	SIM	£ 1.446m (16.0m DKK)	2009-2012	5

Source: Gratis økonomi- og gældsrådgivning i Danmark

Receipients of Funding from 2009 to mid 2011

Project/Organisations	Funding Received	Number of Volunteers	Number of Advice Recipients (2009 – mid 2011)
Forbrugerrådets (Consumer Council)	£0.63m (5.3 DKK)	104	1705
Settlementets	£0.37m (3.1m DKK)	20	315
Den Sociale Retshælps (Social Legal Aid)	£0.35m(2.8m DKK)	70	1500
KFUM's sociale arbejdes	£0.33m (2.8m DKK)	50	203
Frelsens Hærs	£0.059m (0.5 DKK)	3-4	281

Source: Evaluering Af Den Frivillige Gældsrådgivning

Netherlands

The incurrence of debt is widespread in the Netherlands, and the level of household debt is high by international comparison. Around 1 to 1.5 million households had risky or problematic debt in 2015, which is over 15% of all households in the Netherlands. Among these households, around 200,000, or 2.5% of all households, are in debt relief programs with amicable debt counselling or in a statutory debt restructuring scheme (WSNP). [31] It can be expected that the demand for debt counselling will increase while the supply will remain limited. Compared to the UK system, the system in the Netherlands is quite different. Instead of centralised operation, individual municipalities take on the responsibility for the delivery and funding of debt counselling.

Number of Registrations:

2016	2015	2014	2013
89,300	90,400	92,000	89,000

Average Debt (in euros):

2016	2015	2014	2013
40,300	42,900	38,5000	837,700

The number of people who have turned to an NVVK member with a request for help remains relatively stable every year. In 2016, 89,300 people reported a request for help, which amounts to 0.53% of population. The average debt per caller amounted to £35,720 (€40,300) in 2016.[32]

Regulation

The Dutch model is very decentralised. National level legislation regulates the industry while local councils have been legally responsible for debt counselling since July 2012. Due to the policy freedom given to municipalities, there is much variation at the local in the implementation of the services.

The key actors in providing debt counselling in the Netherlands are municipal banks. They are funded by and accountable to the respective local councils. The Volkskredietbank is a social bank and a debt-solving agency. It also acts as the representative of these municipal credit banks.

In the Netherlands, the NVVK is the umbrella organisation for institutions that are active in providing financial assistance. The NVVK has almost 100 members providing services in over 370 municipalities. However, the NVVK itself does not offer help to private individuals.[33]

In the Netherlands, around 50% to 75% of all debt counselling organizations follow NVVK Debt Rescheduling Code of Conduct,[34] which is a code outlining good practices for voluntary debt settlement.

Channels and Forms

In the Netherlands, face-to-face, telephone or online advices are all available. The services are usually free or charge a minimal fee. Financial support from the state is also available in many cases.

Solution

In the Netherlands, voluntary debt settlement consists of two phases, that is the stabilisation phase and debt settlement phase. The debt counsellor will first try to find a solution with creditors. If all the creditors agree with the proposal, then voluntary debt settlement is put in place. There are two solutions following the voluntary debt settlement. They are debt mediation and debt restructuring, both of which are a debt cancellation solution.

If the creditors do not agree with the proposal, a judge will be asked to preside over a legal process with three statutory mechanisms: compulsory/ provisional order, moratorium or legal process.[35]

Funding

In the Netherlands, the municipality does not receive separate funds from the state for debt counselling. They must therefore use the the municipal funds or other resources. In 2006, the government earmarked £22.16 (€25 million) to assist people with their debts. In 2009, £57.58 (€65 million) of £310.23 (€350 million) during the full cabinet period was reserved to combat poverty and debt relief assistance.[36] Also, a study from 2012 quoted an estimate of funds of £354,515 (€400,000) per municipality, implying a total of £147.14 (€166 million).[37]

31 See: http://digitaal.scp.nl/armoedeinkaart2016/financiele_problemen/
32 See: http://jaarverslag2016.nvvk.eu/cijfers/index.html
33 See: https://www.nvvk.eu/
34 London Economics *Study on means to protect consumers in financial difficulty: Personal bankruptcy, datio in solutum of mortgages, and restrictions on debt collection abusive practices* December 2012
35 See : https://www.nvvk.eu/minnelijke-schuldhulpverlening
36 Ministry of Social Affairs and Employment 2009
37 CIVIC Consulting - the Over-Indebtedness of European Households: Updated Mapping of the Situation, Nature and Causes, Effects and Initiatives

The main sources of funding are as follows.[38]

Municipal Fund

The municipality is free to determine which portion of the municipal fund to be used for debt counselling. Therefore, it is not earmarked.

Specific Allowance

Municipalities also receive funding through a specific and earmarked benefit. In 2009, the government released additional funds to combat the credit crisis. Municipalities received £97 million (€110 million) of this, spread over 2009-2011, for debt assistance. Municipalities could also apply for a subsidy for assistance. In 2009, this involved £13.23 (€15 million).[39]

Participation Budget

Funding of debt assistance is also possible from the participation budget if the debt assistance is used as participation instrument.

Private Resources

Outside the municipality, there are other parties that could contribute to the costs of debt counselling. For example, a housing corporation, energy company or employer would benefit quickly from paying attention to customers or employees with financial problems.

Contribution from Customer

Municipalities may request a personal contribution from the debtor for certain components of debt counselling.

Quality

Research available shows that debt advice has a positive impact. A cost-benefit calculation from 2011 basd on the data from three debt advice projects suggests that each euro spent on debt counselling yields between £1.15 (€1.3) and £2.57 (€2.9) in social benefits.[40]

Other research presented an overview of the costs and the main benefits of municipal debt assistance in the five research municipalities. The benefits in the five municipalities are £28.7 (€32.60) per person on average while the average cost per person is £12.35 (€14.05).[41] This is more than twice as much as the funds that municipalities spent on debt counselling in 2010.

In addition, the difference between the municipality with the lowest and highest expenditure is over £3.53 (€4).[42] This difference is partially explained by differences in the efficiency of the implementation.

Strengths and weaknesses

The key strength of the current funding and delivery model in the Netherlands is its main characteristic of decentralisation. Local municipalities develop local solutions with a lot of policy freedom. Each municipality is free to determine which part of the munipal fund and its own resources it uses for debt counselling. This allows the municipality to take into account their specific conditions, such as the existing demand, supply and cost, while making decisions. However, decentralisation can also be a weakness. There may be problems if people move to another municipality as each municipality serves their residents independently.

In addition, the approach is holistic. It addresses protection, prevention as well as crisis intervention. It is comprehensive, including both financial situation and psychological help to change people's behaviour.

However, according to a survey, lenders commonly complain that in most cases they get a low percentage of money back and the process is long. Another common complaint from consumers is in regard to the low level of allowance.[43] Moreover, there is a need to discuss the role played by mediators and trustees, including ensuring an appropriate balance between control and privacy since all of the debtor's mail is redirected to the trustee.

for Alleviating its Impact

38 Schuldhulppverlening – Strategische keuzes voor gemeenten

39 Schuldhulppverlening – Strategische keuzes voor gemeenten

40 Kruis, G. , Jungmann, N., and Blommesteijn, M. *Social Economic Benefit of Volunteer Projects Within Debt Aid*, Social Force and Regioplan, Amsterdam: 2011.

41 Hogeschool Utrecht – Schuldhulpverlening Loont!: 2011

42 See Verkenning regievoering schuldhulpverlening- Verkenning in opdracht van Divosa

43 London Economics - Study on means to protect consumers in financial difficulty: Personal bankruptcy, datio in solutum of mortgages, and restrictions on debt collection abusive practices: December 2012

United States

In the 1950s in the US, non-profit credit counselling agencies started to offer debt counselling services to consumers to help them negotiate and manage their debt obligations. In 2013 and 2014, these non-profit credit counselling agencies served 1.5 million and 2 million customers respectively. Even during a recession, there were still almost four million customers served in a year.[44] During these two years, the proportion of population served was 0.04% and 0.06% respectively. The main source of funding is the 'Fair Share' from creditors. However, the high reliance on the Fair Share model is a restraint and has some consequences. The US funding and delivery system is quite different from the UK system. The debt advice industry in US tends to be more commercial with numerous existing debt advisery organisations in the market.

Regulation

On the national level, there are two standard setting body agencies. The National Foundation for Credit Counselling, which is US's largest and oldest non-profit financial counselling organisation. The Financial Counselling Association of America is a member-supported national association, representing financial counselling companies.

All debt advice providers nationwide are governed by the Fair Debt Collection Practices Act in US. This act governs the approaches on how debt is collected and provides an avenue for people with debts to dispute debt issues.

Delivery

In the US, according to the Federal Trade Commission, many universities, military bases, credit unions, housing authorities and US community center offer debt advice. It can be face-to-face, online or via telephone.

In terms of the forms, they provide a mixture of free and fee paying services. Credit counselling tends to be free while Debt Management Plan tends to be fee charging.

Funding

In the US, Debt Management Plans are a major source of funding for agencies. A portion of payments received from Debt Management Plan is returned to the credit counselling agency to cover the costs. This is commonly referred to as the Fair Share model.

Most US services rely heavily on funding from Debt Management Plans. Although each agency's exact funding source will differ, a rough estimate is that they are funded one-third through Fair Share, one third through philanthropic foundations or industry and one third through government.[45] For instance, the NFCC and its members received $22.9 million in housing grants from the Departent of Housing and Urban Development and through Neighborworks America.[46]

Strengths and weaknesses

One of the strengths of the funding system in US is that it is relatively resilient. Even if corporates or creditors cut back funding, debt advice providers would still be able to continue providing services.

Also, there is a cap set by the regulation on the amount providers can charge, which provides cutomers certain level of protection. In addition, the existence of a standard-setting body can also ensure quality of the services.

Nonetheless limitations exist, with the main one being that there is high dependence on the Fair Share model since people are gaining profits from these Debt Management Plans. As a result, there can be moral hazard and agency issues, thus limiting the options available for clients. Moreover, US agencies are not generally involved in broader consumer advocacy that aims to address unfair marketplace practices.

Another issue is the sustainability of the model. Over time, creditors have reduced the proportion of funds they return to agencies under 'Fair Share'. There is an estimate that in the past these contributions had been 15% of each repayment, but are only 3% or even 1.5%.[47]

44 See Stephen Roll and Stephanie Moulton - *Impact of Credit Counseling on Consumer Outcomes: Evidence from a National Demonstration Program*
45 See Fiona Guthrie - *How debt advice services in Australia can be the best in the world:* January 2016
46 See: https://nfcc.org/wp-content/uploads/2016/12/About-the-NFCC-2016.pdf
47 See Fiona Guthrie - How debt advice services in Australia can be the best in the world: January 2016

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Annex 3
Statistical Background Information for the Debt Advice Funding Review

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Key Findings

The present report provides background statistical information on indebtedness in the United Kingdom for the Debt Advice Funding Review. The main information sources are the Bank of England, the Bank for International Settlements, the Financial Conduct Authority (FCA), as well as the Office for Budget Responsibility and the Office for National Statistics (ONS) (in terms of macro debt and debt-related data), together with the Bank of England/NMG survey, the YouGov Debt Tracker survey, the FCA survey Understanding the financial lives of UK adults, and the ONS Wealth and Assets survey (for micro data).

ONS data show that, in the United Kingdom, total household financial liabilities (i.e. debt) stood at £1,784.6 billion at the end of the third quarter of 2017. Debt secured on dwellings (i.e. mortgages) accounted for 76% of this debt. In contrast, consumer credit (short-term and long-term loans, including student loans) accounted for a much lower total of 20% of total household debt, while other household debt (i.e. mainly accounts payable) accounted for only 4%.

The evolution of total household debt in the period following the 2008 financial crisis shows two distinct phases: the ratio of total household debt to gross household disposable income fell from an all-time peak of 157% in the second quarter of 2008 to 131% in the fourth quarter of 2015, and has rebounded slightly in recent years, to 137% in the third quarter of 2017.1 This rebound is mainly due to a pick-up in growth of consumer credit.

Looking ahead, total household debt is projected to increase by £276 billion (14.9%) to £2,006 billion, and consumer credit is expected to grow somewhat more rapidly than secured credit.

Credit card debt, personal loans, overdrafts and student loans are the most common type of unsecured debt held by individuals or households in the United Kingdom.

Unsecured debt is the debt type which causes most concern for debt holders, with one survey (the Bank of England/NMG survey) reporting that 36% of survey respondents were "somewhat concerned" about their unsecured debt, and 17% indicated that they were "very concerned".

Although a relatively high proportion of UK individuals/ households are concerned about their unsecured debt, the various surveys mentioned above show that only 8% to 11% of survey respondents indicate that they are struggling to keep up with their credit commitments and bills. This proportion rises to 15% among individuals with an annual income of less than £15,000.

Only 2% to 3% of survey respondents are falling behind on their credit commitments and bills. However, this proportion is much higher among low-income individuals. One survey (the FCA survey) shows that 19% of survey respondents in the less than £15,000 income group are in that situation, along with 9% in the income group of £15,000 to less than £30,000.

Even though a relatively large proportion of UK individuals/ households are concerned about their debt level, the various surveys consistently show that only 3% to 4% of survey respondents sought debt advice. Unsurprisingly, a higher proportion of individuals who reported that their financial commitments are a heavy burden, sought debt advice, but even so, the percentage of advice seekers in this category is still only 59%.

Moreover, the FCA survey shows that only 4% of all survey respondents sought debt advice - even among those income groups which include a high proportion of survey respondents falling behind on bills and credit commitments, namely 11% in the less than £15,000 income group, 9% in the income group of £15,000 to less than £30,000 and 6% in the income group of £30,000 to less than £50,000.

Overall, it is reasonable to conclude from the statistics presented in the study that, in light of the debt issues faced by individuals/ households, the proportion of those seeking debt advice is low and that a considerably larger number of individuals/households would also benefit from receiving debt advice. In other words, the latent demand for debt advice is considerably greater than the actual demand manifested by individuals/households.

1 The figures for the ratio of total household debt to gross household disposable income are four-quarter moving averages of the ratio based on data on total household debt and gross household disposable income which are not seasonally adjusted.

Introduction

The present report provides background statistical information on indebtedness in the United Kingdom for the Debt Advice Funding Review.

First, it provides an overview of household debt at the macro level, focusing on current levels of household debt, recent trends, and the likely evolution of such debt over the coming years. The first chapter also provides a comparison with other advanced economies.

The second chapter drills down to the types of debt held by UK individuals and households, using a number of micro data sources.

The third chapter reviews the extent to which debt levels are perceived by indebted UK individuals and households as being problematic and the extent to which individuals are falling behind on their bill payments and credit commitments. This chapter also relies on micro data.

The fourth chapter looks at potential outcomes of severe debt problems. It presents, among other facts, information on arrears, Country Court Judgements and insolvencies.

The fifth chapter briefly reviews the supply of debt advice by some of the major providers of free debt advice.

The sixth chapter reviews the extent to which debtors with debt problems seek advice and presents information on the socio-economic characteristics of clients of some of the major providers of free debt advice.

Finally, the details of the model used to project UK household debt levels are provided in the Annex.

1 Total household debt - a macro perspective

As background information for the Debt Funding Review, this chapter reviews developments in total household debt in the United Kingdom, using data from the Office for National Statistics (ONS).[2] . An analysis of more granular debt data, based on surveys, is provided in subsequent chapters.

The debt data refer to **total debt owed by households** as reported in the sectoral accounts in the national accounts data. This debt includes the following:

- Short-term loans issued by monetary financial institutions from the UK and the rest of the world;
- Long-term loans secured on dwellings;
- Other long-term loans;[3]
- Financial derivatives and employee stock options; and,
- Other accounts payable.

The ONS debt figures are consistent with those published by the Bank of England but in addition include loans to households from monetary financial institutions from outside the UK and household debt owed to individuals and organisations other than financial institutions[4].

1.1 Level of household debt in the third quarter of 2017 and developments since the 2008 financial crisis

1.1.1 The current level of household debt

At the end of the third quarter of 2017, **total financial liabilities (i.e. debt) of households stood at £1,784.6 billion.**[5]

At £1,347.4 billion, debt secured on dwellings (i.e. mortgages) is by far the largest type of household debt, accounting for 76% of total household debt at the end the third quarter of 2017 (Figure 1).

In contrast, consumer credit (short-term and long-term loans, including student loans) totalled £365.5 billion at the end of the third quarter of 2017, accounting for 20% of total household debt, while other household debt (which includes mainly accounts payable) stood at £71.6 billion or 4% of total household debt.

Within the total of household debt, student loan debt amounted to £110.5 billion or 5.7% of total debt (56.9% of long-term household debt other than mortgages).[6]

2 The debt data are from taken from table 6.2.6 Income and Capital Accounts: Households. ESA 2010 Sector S.14 in the United Kingdom Economic Accounts (UKEA) (i.e. the national accounts). The data were downloaded on 8 January 2018.

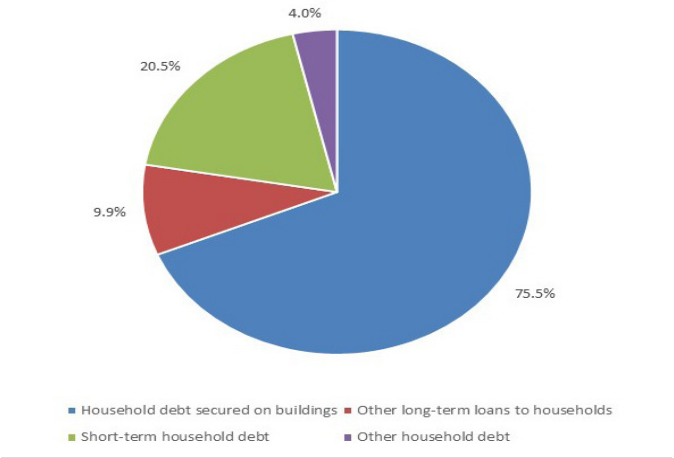
3 According to information provided by the ONS, the category "other long-term loans" includes, among other forms of debt, car finance and credit card debt.

4 According to ESA2010, the category "other accounts payable" relates to "financial assets and liabilities created as counterparts to transactions where there is a timing difference between these transactions and the corresponding payments". The ONS informed the project team that, *"therefore, any timing lag between activity being recorded elsewhere in the National Accounts and the payment for this activity is recorded here. In practice in the UK, a number of timing adjustments are made, these include:*
   - *Life assurance premiums and balances*
   - *Trade credits*
   - *Tax owed, including VAT, council tax, PAYE and NICs*
   - *Donations to charity sector promised but not made".*

5 This figure is not seasonally adjusted.

6 The student loan debt figure refers to 2017 Q1, the most recent quarter for which the Student Loan Company has published information on outstanding student loans.

Figure 1 **Composition of household debt as of 2017 Q3**



Notes: Data are not seasonally adjusted. The data are taken from table 6.2.11 of the sectoral accounts for "Households and Non-profit institutions serving households (NPISH) sectors" in the National Accounts. The data in the figure refer to households only.
Source: ONS

1.1.2 Developments in household debt from 2008 Q2 to 2017 Q2

From 2008 Q2[7], the last quarter before the 2008 financial crisis became acute, to 2017 Q2, total household debt increased by 14.8%, about half the increase (in %) of household disposable income (Figure 2).

While mortgage debt grew at about the same rate as total household debt from 2008 Q2 to 2017 Q2, consumer credit grew almost twice as fast as total debt, with a marked decline in household debt related to accounts payable.

Figure 2 **Increase in debt and household gross disposable income since 2008 Q2**

Notes: Data are not seasonally adjusted. The data are taken from table 6.2.11 of the sectoral accounts for "Households and Non-profit institutions serving households (NPISH) sectors" in the National Accounts. The data in the figure refer to households only. Other credit to households includes short term loans issued by monetary financial institutions issued from the UK and the rest of the world and other long-term loans. Accounts payables also includes a small amount of derivatives liabilities.
Source: ONS

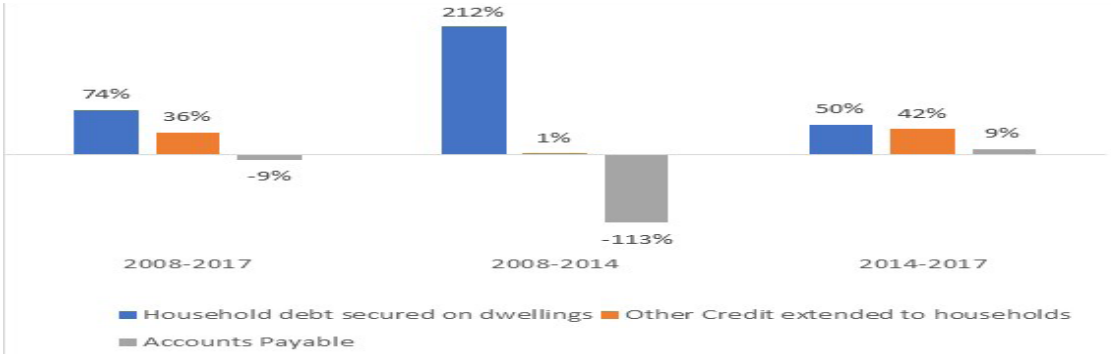
The dynamics of the increase of total household debt since 2008 Q2 are very different (Figure 3).

Mortgage debt accounted for % 212of the total increase in household debt from 2008 Q2 to 2014 Q2, a period during which total household debt increased by only 2.2%.

In contrast, in the subsequent period of 2014 Q2 to 2017 Q2, growth in total household debt accelerated to 12.4% with mortgage debt accounting for 50% of the increase in total household debt and consumer credit accounting for 42%. The latter type of debt increased by almost 30% in the 3 years to 2017 Q2.

7 2018 Q2 refers to the second quarter of 2018, 2018 Q3 to the third quarter, etc.

Figure 3 **Dynamics of increase in household debt since 2008 Q2 – contribution (in %) of each type of household debt to increase in total household debt**

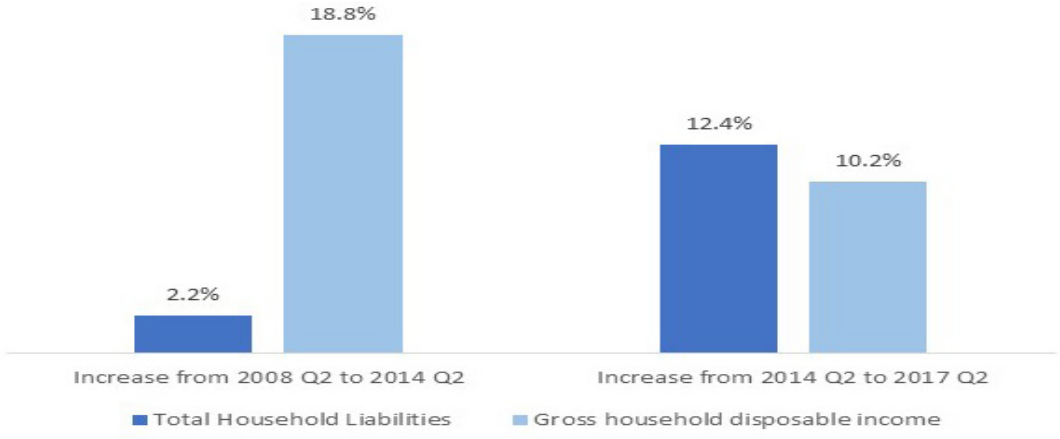


Notes: Data are not seasonally adjusted. The data are taken from table 6.2.11 of the sectoral accounts for "Households and Non-profit institutions serving households (NPISH) sectors" in the National Accounts. The data in the figure refer to households only. Other credit to households includes short-term loans issued by monetary financial institutions from the UK and the rest of the world and other long-term loans. Accounts payable also includes a small amount of derivatives liabilities.

Source: ONS

While total household debt grew much less rapidly than gross household disposable income over the period 2008 Q2 to 2017 Q2, this slower growth in household debt compared to gross household disposable income is only observed over the period 2008 Q2 to 2014 Q2 (Figure 4). Since then, total debt has grown slightly faster than gross household disposable income.

Figure 4 **Growth in household debt and gross household disposable income – 2008 Q2 to 2014 Q2 and 2014 Q2 to 2017 Q2**



Notes: Data are not seasonally adjusted. The data are taken from table 6.2.11 of the sectoral accounts for "Households and Non-profit institutions serving households (NPISH) sectors" in the National Accounts. The data in the figure refer to households only. Other credit to households includes short-term loans issued by monetary financial institutions from the UK and the rest of the world and other long-term loans. Accounts payable also includes a small amount of derivatives liabilities.

Source: ONS

1.2 Long-term trends in household debt

The slower growth of household debt than gross household disposable income over the period 2008 Q2 to 2014 Q2 is highly atypical of the patterns observed since 1997, the first year during which debt ratio started to rise after several years of being broadly stable. In fact, total household debt (as % of gross household disposable income) increased steadily from 92% in 1997 Q4 to 157% by 2008 Q1[8] (Table 1 and Figure 5).

This continuous increase in the ratio of household debt to gross household disposable income was followed by a moderate decline until 2015 Q4. Thereafter, the previous growth trend resumed, but at a moderate pace and, by 2017 Q2, this ratio was still 20 percentage points lower than in the peak year of 2008 and was broadly equal to its 2005 level.

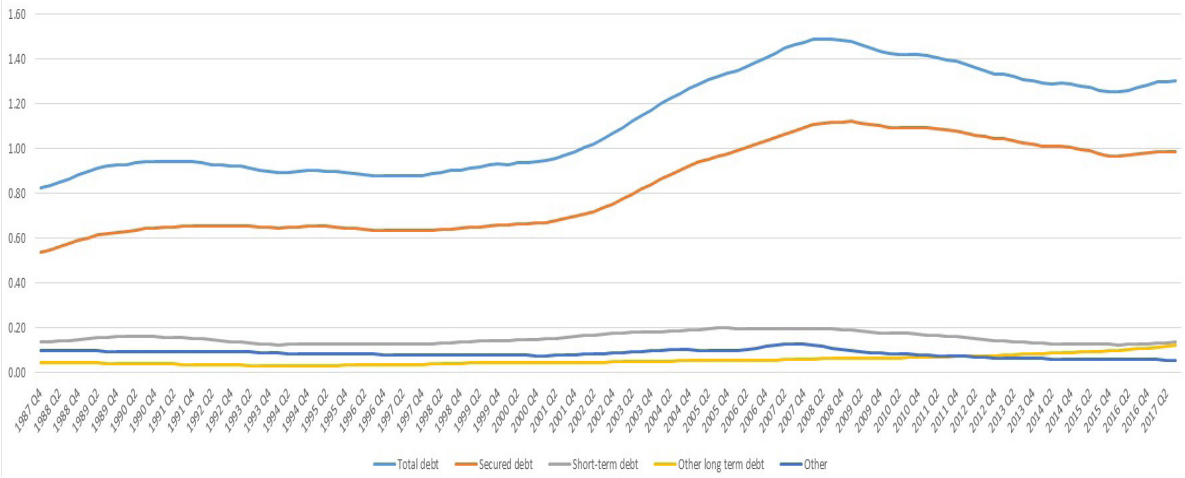
All household debt categories (except 'other debt') follow broadly the same pattern.[9] In contrast, the 'other debt' category increases almost steadily over the whole period.

Table 1 **Ratio of household debt to gross household disposable income**

Debt category	1987Q4	Peak	Trough	2017Q3
Total	92%	157% (2008 Q1)	131% (2015 Q4)	137%
Secured debt	66%	118% (2008 Q2)	102% (2015 Q3)	104%
Short-term debt	13%	21% (2005 Q1)	13% (2015 Q3)	14%
Other long-term debt	4%	--	--	12%
Other debt	8%	14% (2007 Q3)	6% (2014 Q3)	7%

Source: ONS

Figure 5 **Ratio of household debt to gross household disposable income – 1987 Q4 to 2017 Q3**



Note: 4-quarter moving average of not seasonally adjusted data. The data are taken from tables 6.2.5 and 6.2.11 of the sectoral accounts for "Households and Non-profit institutions serving households (NPISH) sectors" in the National Accounts. The data in the figure refer to households only.

Source: ONS

1.3 Comparison of UK household debt levels with debt levels in selected countries

The Bank for International Settlements (BIS) data on credit extended to the household sector can be used to compare, on a similar basis, the indebtedness of UK households with household indebtedness in other countries.

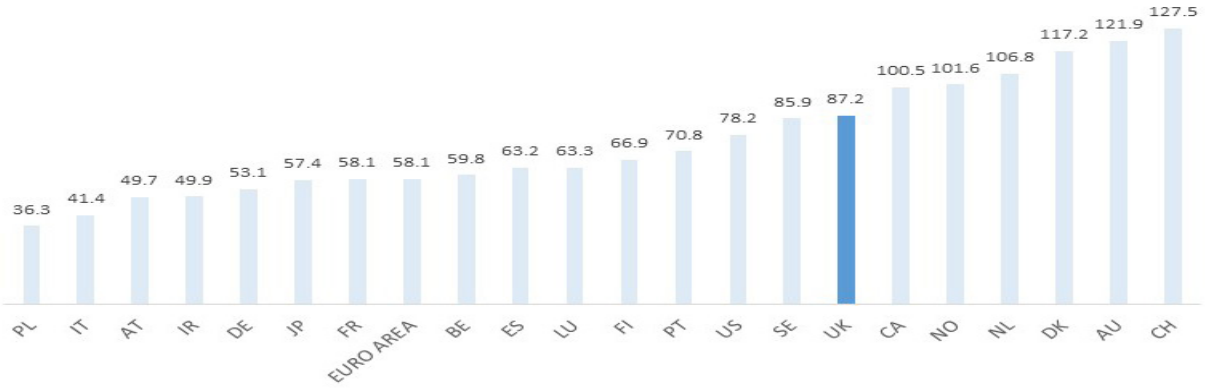
8 The analysis in this sub-section uses a 4-quarter moving average of the debt data which are not seasonally adjusted.

9 The recent more marked uptick in the growth of long-term loans reflects increases in car finance and student loans.

While the debt data differ somewhat from those published by the ONS[10], they show that the level of UK household debt (as a percentage of GDP) at 87.2% is higher than in the majority of countries for which the BIS publishes such debt data but markedly lower than in Australia, Canada, Denmark, Netherlands, Norway and Switzerland (Figure 6).

Figure 6 **Household credit debt (as a % of GDP) in selected advanced economies – June 2017**

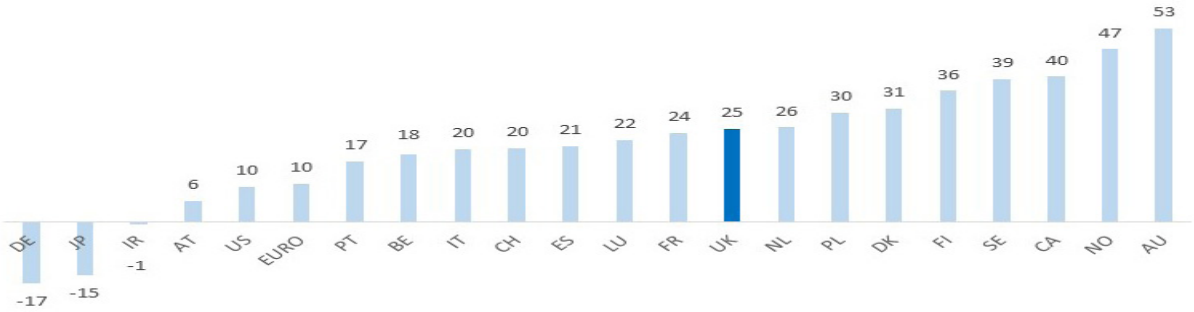
ss



Source: BIS Long series on total credit to non-financial sectors

The increase of 25 percentage points in the ratio of credit (as a percentage of GDP) extended to UK households since March 2000 is about average among the advanced economies for which BIS data are available (Figure 7).

Figure 7 **Change (in percentage points) in household credit debt (as a % of GDP) in selected advanced economies from March 2000 to June 2017**



Note: March 2002 to June 2017 for Ireland and Luxembourg

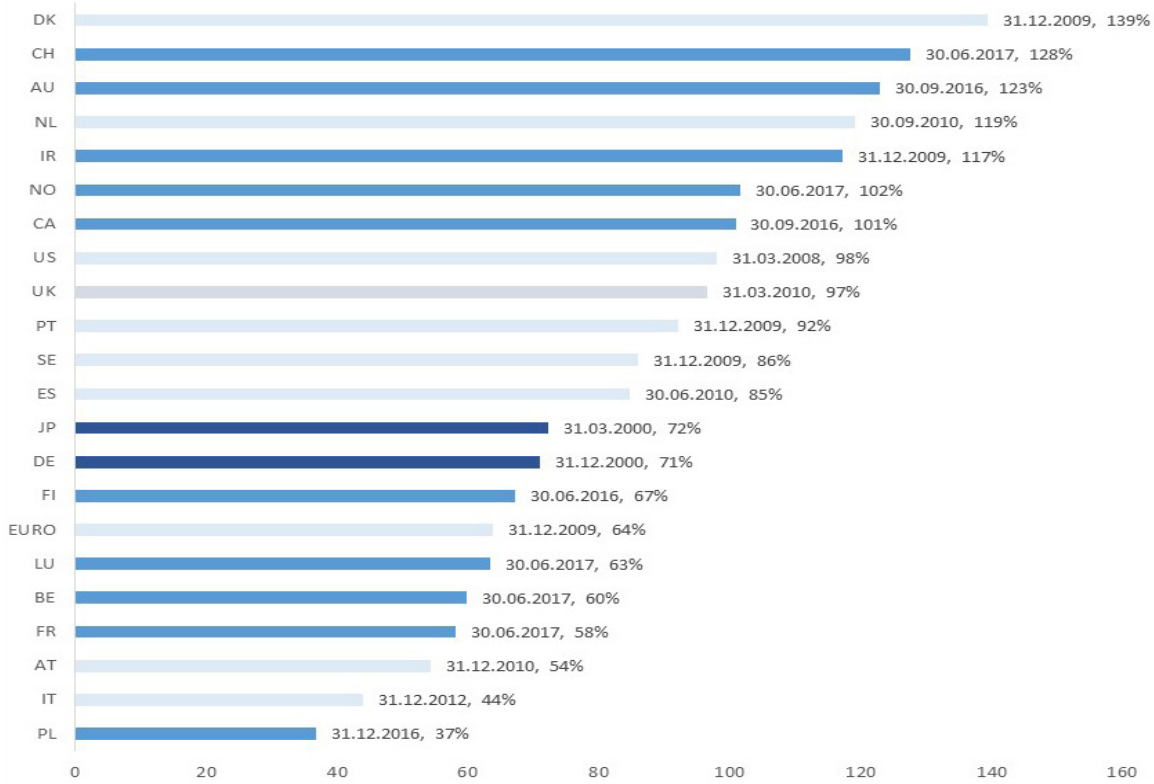
Source: BIS Long series on total credit to non-financial sectors

The timing of the peak in the level (and the level itself) of credit debt to households (as a percentage of GDP) varies markedly among the advanced economies for which BIS publishes household debt data.

The peak occurred during or just after the financial crisis in only 9 (including the UK) of the 21 countries (excluding the euro-zone) and was reached only very recently in 10 countries (Figure 8). In sharp contrast, in two countries (Germany and Japan), the level of household credit debt as a percentage of GDP has declined more or less steadily since March 2000.

10 The BIS data include only credit debt and reflect credit extended to households and non-profit institutions serving households.

Figure 8 **Date and level of peak of credit to households as a percentage of GDP over the period March 2000 to June 2017**



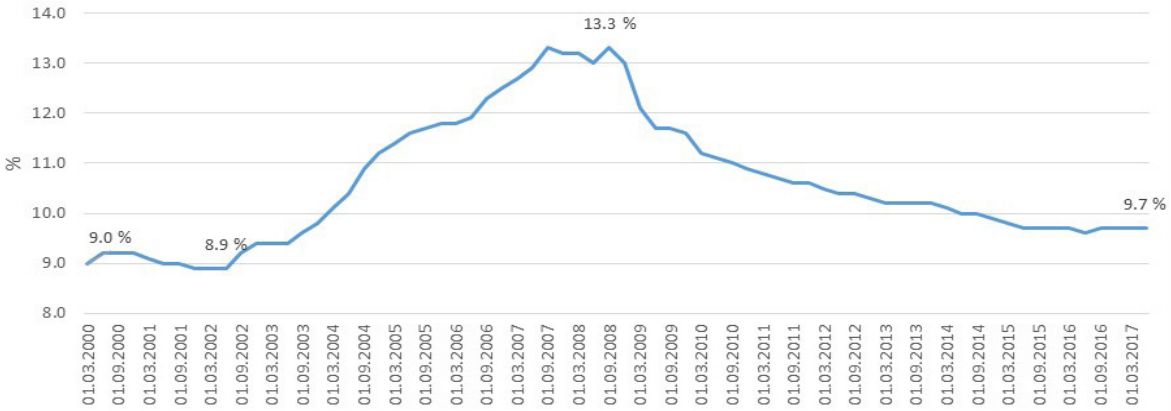
Note: March 2002 to June 2017 for Ireland and Luxembourg. The date of the peak is shown first and the level of the peak is shown next.

Source: BIS Long series on total credit to non-financial sectors

BIS also publishes the debt service ratio (DSR), i.e. the share of income used to service debt, for various non-financial entities, including households. The evolution over time of the DSR reflects the combined effects of developments in the level of interest rates, debt levels and income levels.

In the case of the UK, the DSR has grown more or less steadily from about 9% in the early 2000s to more than 13% in September 2009, reflecting both rising debt levels and, for a large part of the period, rising interest rates (Figure 9). In recent years, the DSR has fell to slightly under 10%, reflecting very low interest rates and slower growth in the overall level of household credit debt than in household income. Obviously, a likely rebound in interest rates combined with the recent stronger growth in household credit will push the DSR back up over the coming years.

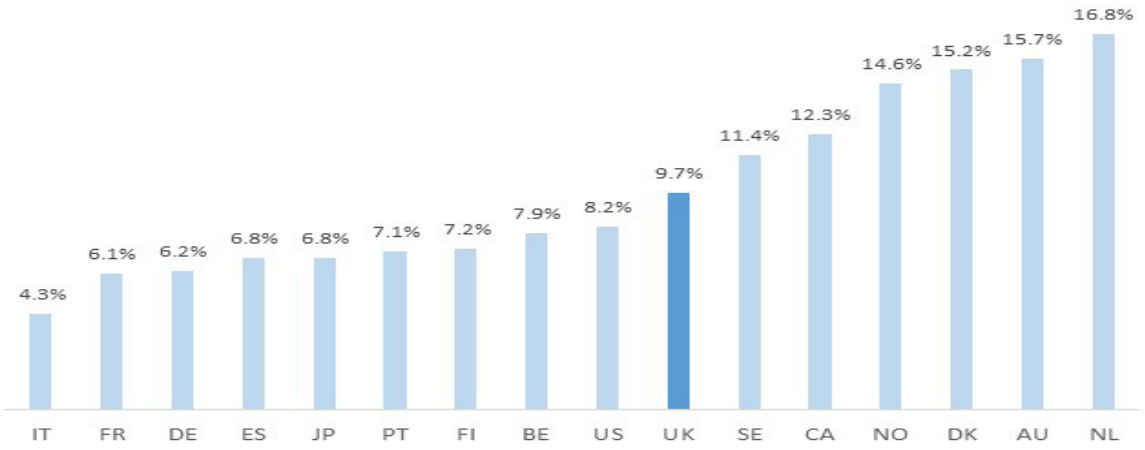
Figure 9 **UK household credit debt service ratio (in %)**



Source: BIS debt service ratios statistics

At 9.7%, the DSR of UK households is approximately in the middle of the household DSRs of various advanced economies (Figure 10), and is considerably lower than in Australia, Denmark and the Netherlands, where households have to pay more than 15% of their income in interest on their credit debt.

Figure 10 **DSR (in % of income) in June 2017 in selected advanced economies**



Source: BIS debt service ratios statistics

1.4 The outlook for household debt

So far, the discussion has focused on past trends and developments in household debt. At issue for the funding of debt advice, however, is the extent to which the recently observed trends in household debt will continue or not.

The present section presents a forecast of household debt which was generated using a model specifically developed for the present analysis and compares this forecast to the November 2017 household debt forecast of the Office for Budget Responsibility (OBR).

The forecasts for total, secured and other household debt (as shown in the ONS data) build on the forecasts generated for total and secured credit extended to households (shown in the Bank of England data).[11]

11 The bridge equations used to generate forecasts of the ONS debt data using the forecasts of the Bank of England debt data simply relate the annual growth rate (Q4 to Q4) in the ONS debt data to the annual growth rate (Q4 to Q4) in the Bank of England data. These estimated bridge equations are shown in Annex 2.

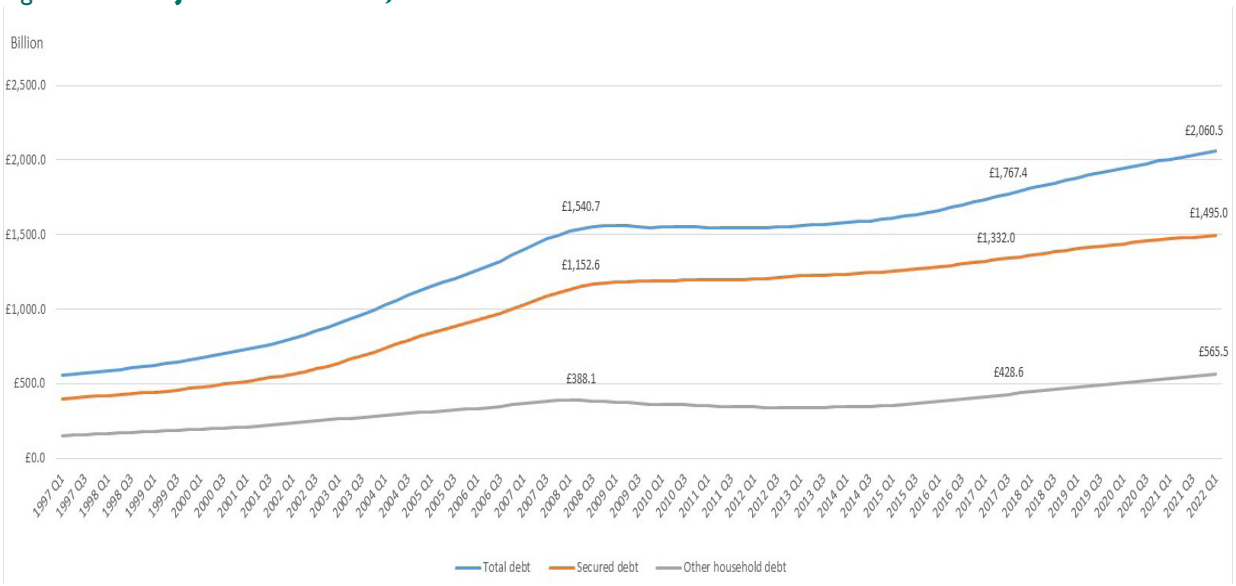
Overall, from 2017 Q4 to 2021 Q1:

- total household debt (ONS measure) is projected to increase by £276 billion (14.9%) to £2,006 billion (Figure 11);
- secured household debt (ONS measure) is projected to increase by £144 billion (10.7%) to £1,495 billion; and,
- unsecured household debt (ONS measure) is projected to increase by £123 billion (28%) to £565 billion.

The above forecast for total household debt is slightly lower than the forecast recently published by the Office for Budget Responsibility (Figure 12).

The forecasts of the Bank of England (BoE) debt measures were generated with an estimated model which builds on a previous model developed by London Economics in 2012 for the Money Advice Service.[12] The model and the data used to estimate the model, the estimation results and the forecasts generated by the model are reported in Annex 1.

Figure 11 **Projections of total, secured and unsecured debt**



Note: ONS debt measures

Source: London Economics

Figure 12 **Comparison of household debt forecasts present report and OBR– cumulative increase in total household debt from 2017 Q4 to 2021 Q4**

Source: London Economics for "Report", Office for Budget Responsibility Economic and Fiscal Outlook, November 2017

12 See London Economics (2012) *Funding debt advice in the UK – A proposed model. Report to the Money Advice Service.*

2 Household debt – a micro perspective

While the previous chapter provided information about the general trends in household debt (in absolute terms and in relation to gross disposable income), the present chapter focuses on the type of debt held by individuals or households, using a range of surveys providing such information at the micro level. These surveys include:

- The **biannual Bank of England/NMG survey.** The most recently available survey is from December 2017. It was run from 6–26 September 2017;[13]
- The **YouGov Debt Tracker survey.** The latest survey is from August 2016 and the focus is on individuals;
- The **FCA survey *Understanding the financial lives of UK adults*** which was released in October 2017 and was run from mid-December 2016 to early April 2017. Again, the focus is on individuals; and,
- The **ONS Wealth and Assets** survey.

The first section provides information on the proportion of households / individuals who have debt.

The second section provides more granular details on the non-mortgage debt held by households.

The third section presents information on debt-to-income ratios.

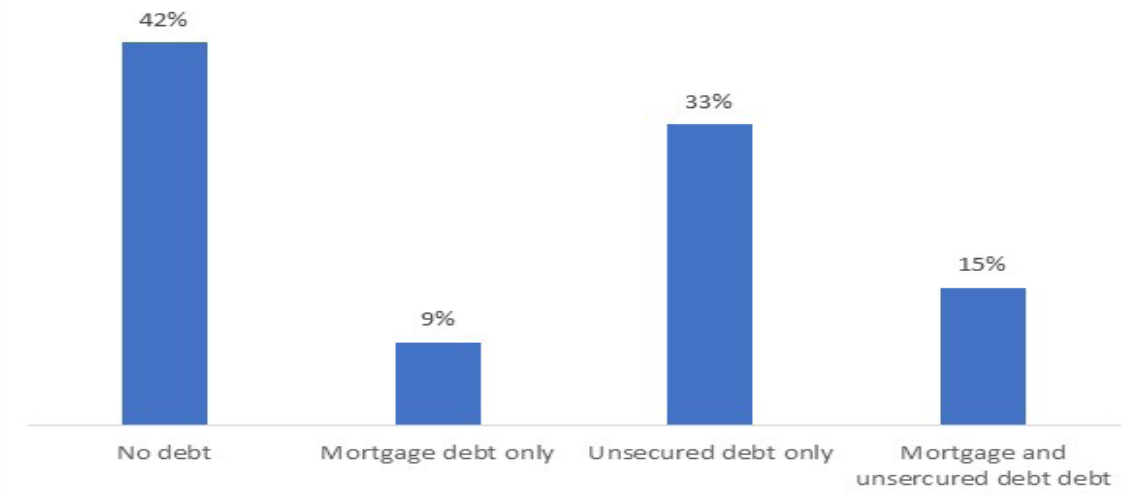
Finally, the fourth section reviews how the debt levels of individuals have evolved over time and the types of debt involved.

2.1 Proportion of households / individuals who have debt and the types of debt they hold

While the figures differ to some extent across surveys, the general picture emerging from the surveys from which comprehensive data are available, is broadly the same. A large proportion of the UK population has no debt and many more individuals or households have consumer credit debts than have mortgage debts.

According to the Bank of England/NMG 2017 survey, a majority of survey respondents with debt have unsecured debt only, while less than a quarter have mortgage debt (Figure 13). Forty two percent of survey respondents have no debts at all.

Figure 13 **Proportion of survey respondents (households) with debts in 2017 Bank of England/ NMG survey**

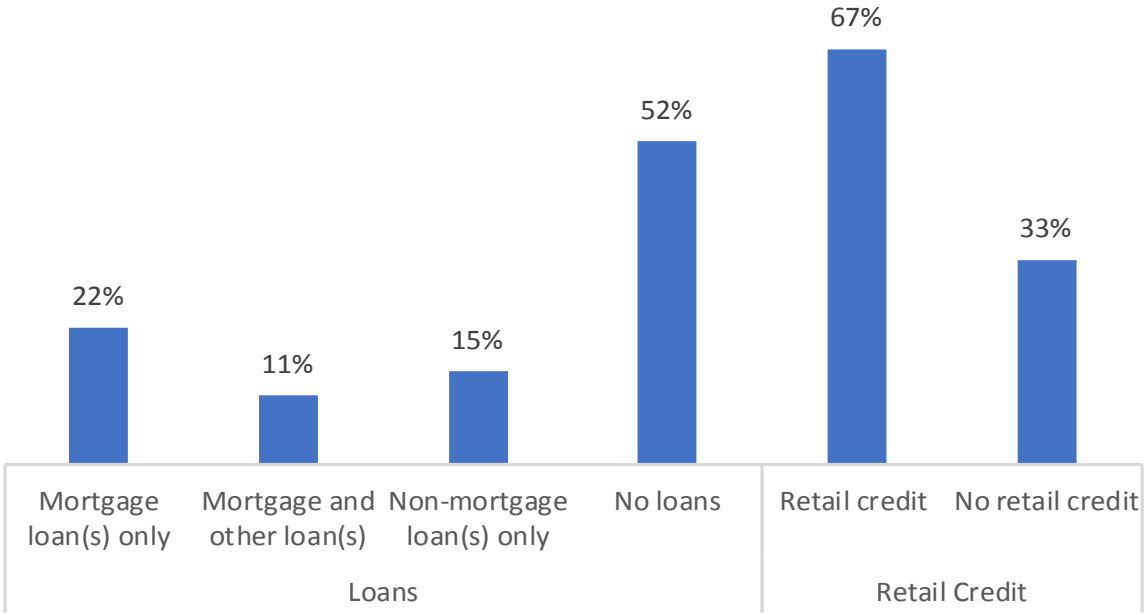


Source: Bank of England/NMG Survey 2017

13 The micro data can be downloaded from the Bank of England website at http://www.bankofengland.co.uk/publications/Pages/quarterlybulletin/2016/q4/a3.aspx.

The FCA survey *Understanding the financial lives of UK adults also shows that a third of UK adult individuals have mortgage debt and slightly more than 50% have no loan debt at all (Figure 14). However, two thirds have some form of credit debt.*[14]

Figure 14 **Proportion of survey respondents with loans and credit debt in FCA survey**



Notes: Other loans include student loans and loans from lenders and from family and friends. Retail credit includes the following: credit card, store card, hire purchase, catalogue credit.

Source: FCA Financial Lives Survey 2017

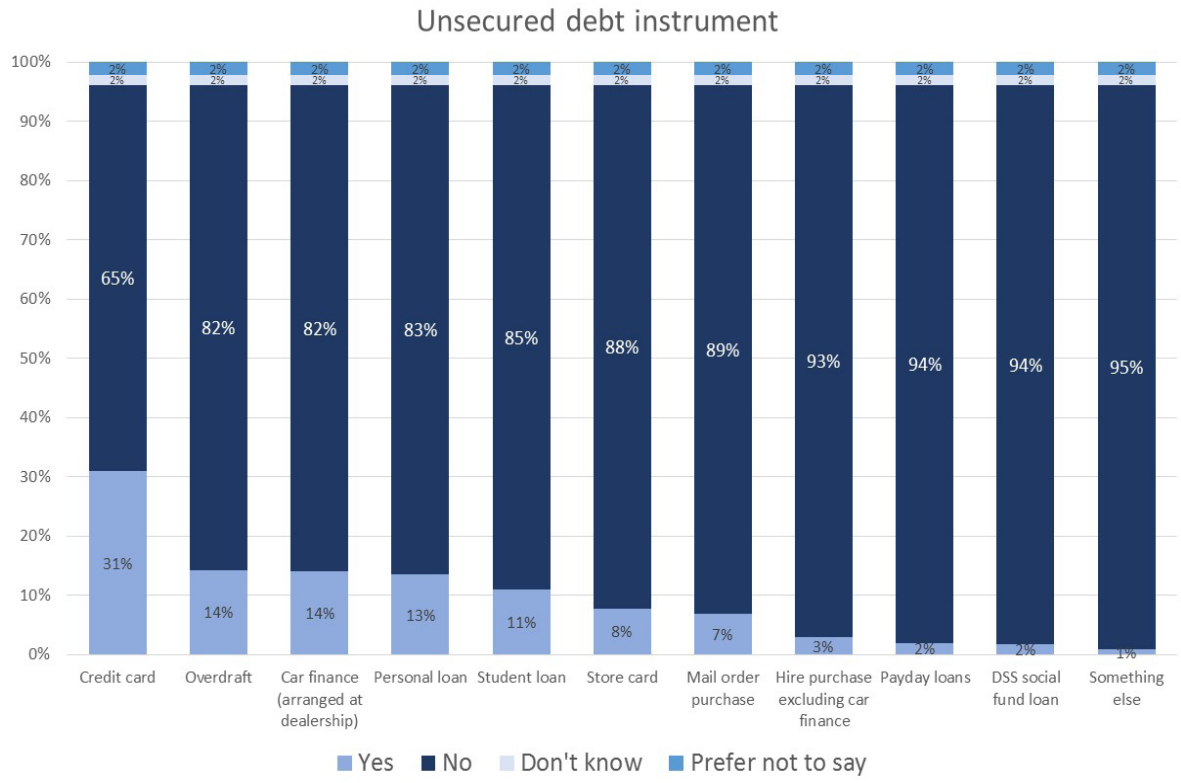
2.2 Details of non-mortgage debt held by households

By far the most common unsecured debt owed by households in the BoE/NMG survey is credit card debt (31% of respondents), while the next four most common debts are overdrafts (14%), car finance arranged at the dealership (14%), personal loans (13%) and student loans (11%) (Figure 15).

Of note is the fact that payday loans are held by only 2% of survey respondents.

14 In the absence of micro data from the FCA survey, it is not possible to determine the proportion of households which have no debt at all.

Figure 15 **Type of unsecured debt – BoE/NMG survey**



Source: Bank of England/NMG Survey 2017

The FCA survey provides additional information on who has overdraft debts. The figures differ from those reported in the BoE survey because the latter considers overdrafts only when the respondent was surveyed, whereas the FCA survey takes into account any overdraft during the 12 months preceding the survey interview. The key point to note is that, except for respondents with very low or very high incomes, about 30% to 32% of respondents were in an overdraft situation at least once during the 12 months of interest (Figure 16). Also noteworthy is the fact that almost a quarter of individuals with incomes of less than £15,000 had at least one overdraft during the 12-month period preceding the survey.

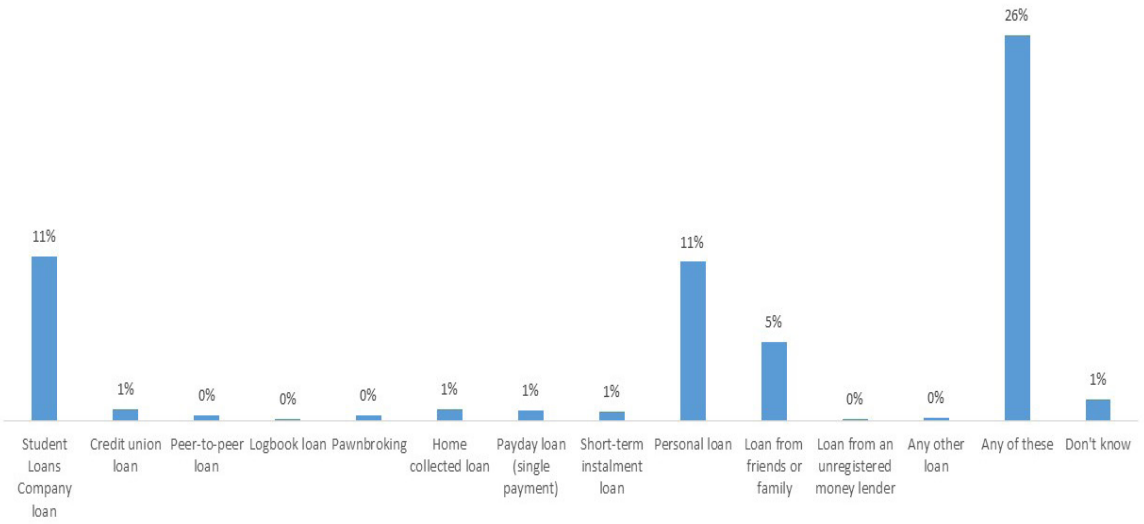
Figure 16 **Proportion of individuals in the UK overdrawn on their current account(s) in the previous 12 months – FCA Financial Lives survey**

Note: 12 months refers to the 12-month period preceding the survey response date

Source: FCA Financial Lives Survey 2017

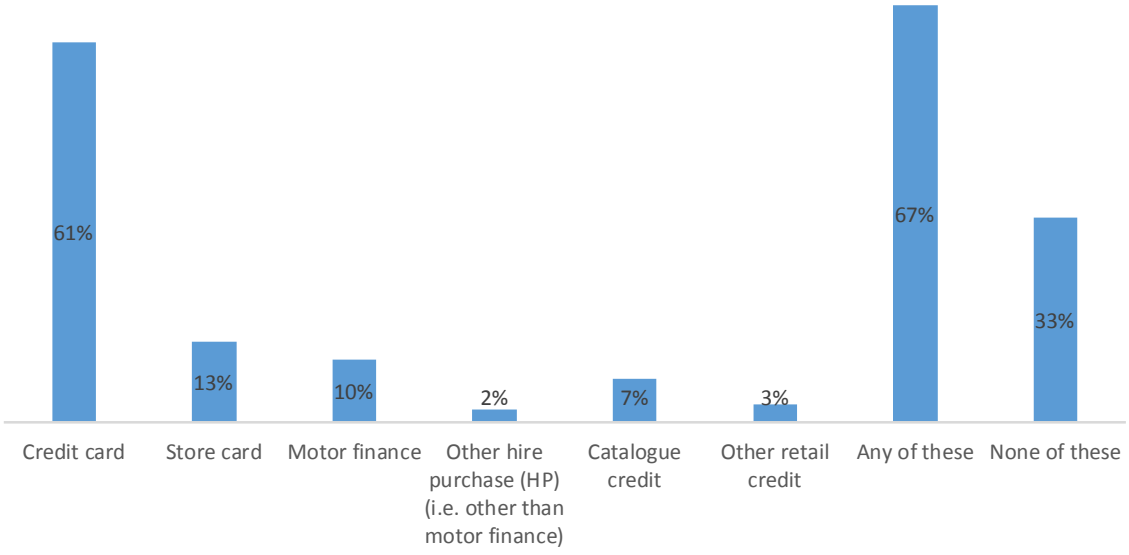
Personal loans and student loans are the most common type of loans in the FCA survey (Figure 17) and, as in the case of the BoE/NMG survey, credit card debt is the most common non-loan credit debt, although the incidence of such debt is much higher (Figure 18).

Figure 17 **Proportion of individuals in the UK with different types of loans except mortgage loans – FCA Financial Lives survey**



Source: FCA Financial Lives Survey 2017

Figure 18 **Proportion of individuals in the UK with different types of credit except loans – FCA Financial Lives survey**



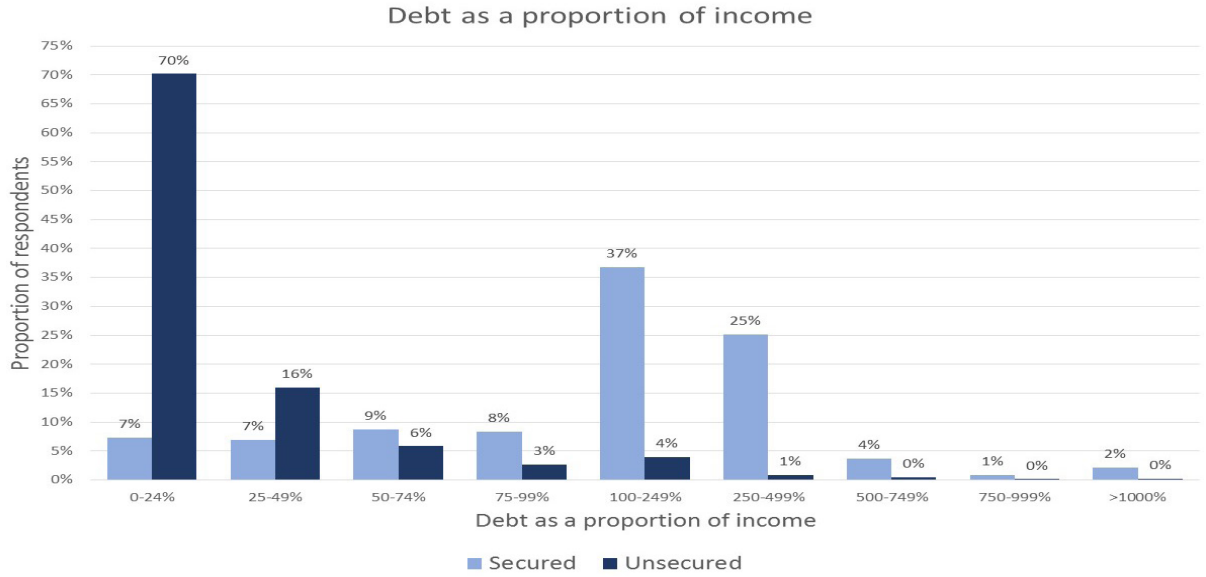
Source: FCA Financial Lives Survey 2017

2.3 Debt as a proportion of income

In the BoE/NMG survey a very significant majority (70%) of those with unsecured debt have debt which is equal to no more than 24% of their income (Figure 19).

In the case of secured debt, 37% of respondents carry a debt which is equal to 100% to 249% of their income, followed by 22% of respondents with a debt-to-income ratio of 250-499%.

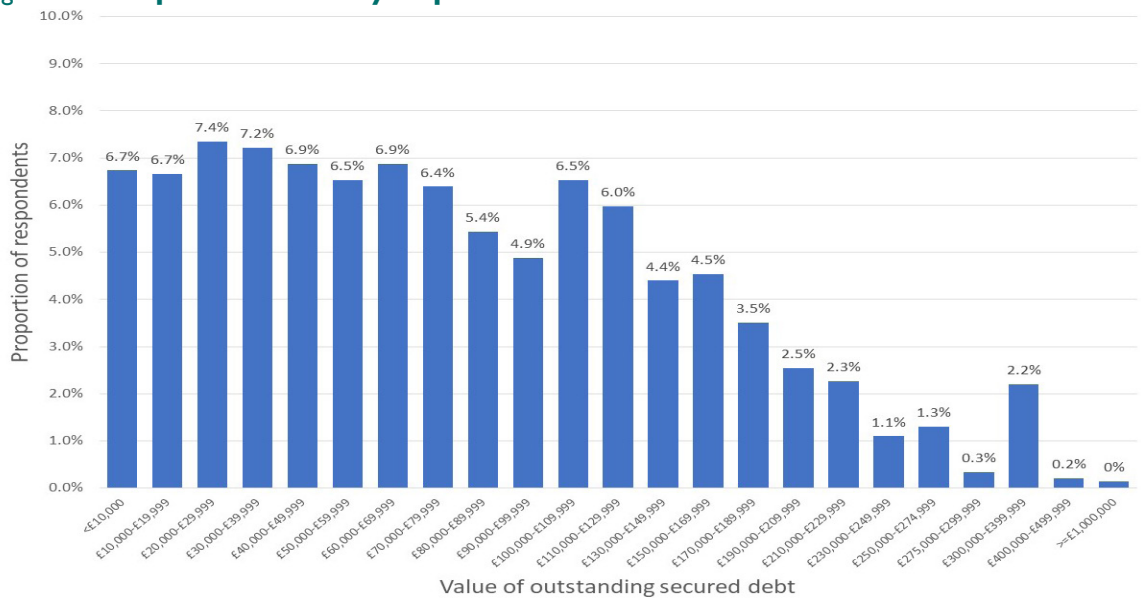
Figure 19 **Debt as a proportion of income in the BoE/NMG survey**



Source: Bank of England/NMG Survey 2017

The distribution of survey respondents by value of the remaining mortgage is broadly equal up to an outstanding mortgage value of £130,000, (Figure 20) and very few respondents have more than £200,000 outstanding.

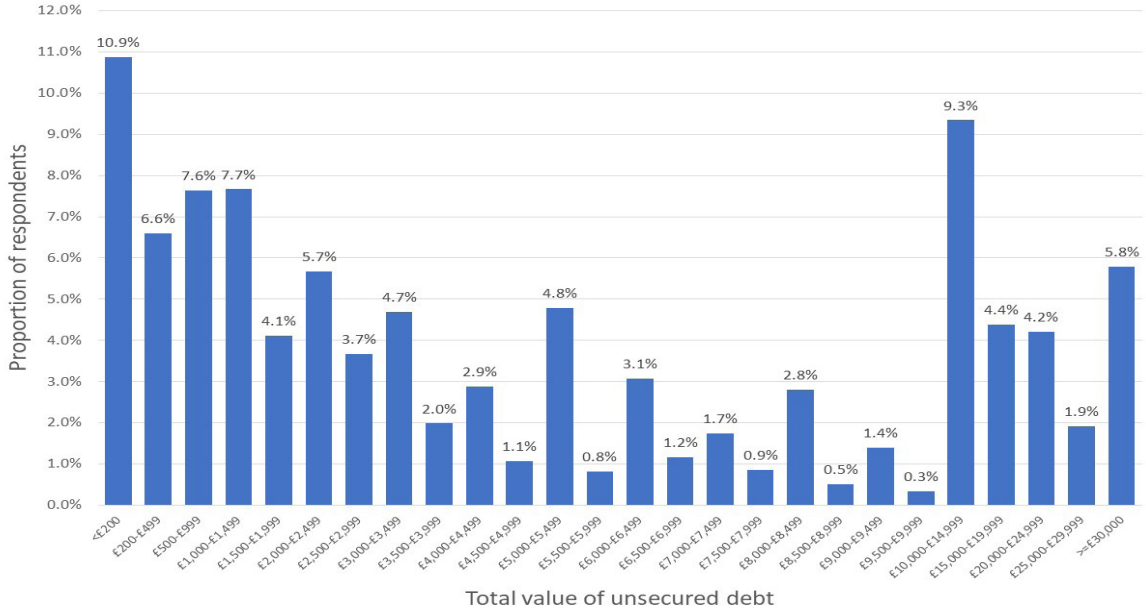
Figure 20 **Proportion of survey respondents with secured debt**



Source: Bank of England/NMG Survey 2017

In contrast, the level of unsecured debt appears to cluster at both ends of the distribution of debt levels, i.e. either less than £3,000 or more than £10,000 (Figure 21). A relative majority of respondents (10.9%) have less than £200 of unsecured debts, followed by 9.3% who carry a debt of £10,000 to £14,999.

Figure 21 **Proportion of survey respondents with different levels of unsecured debt**

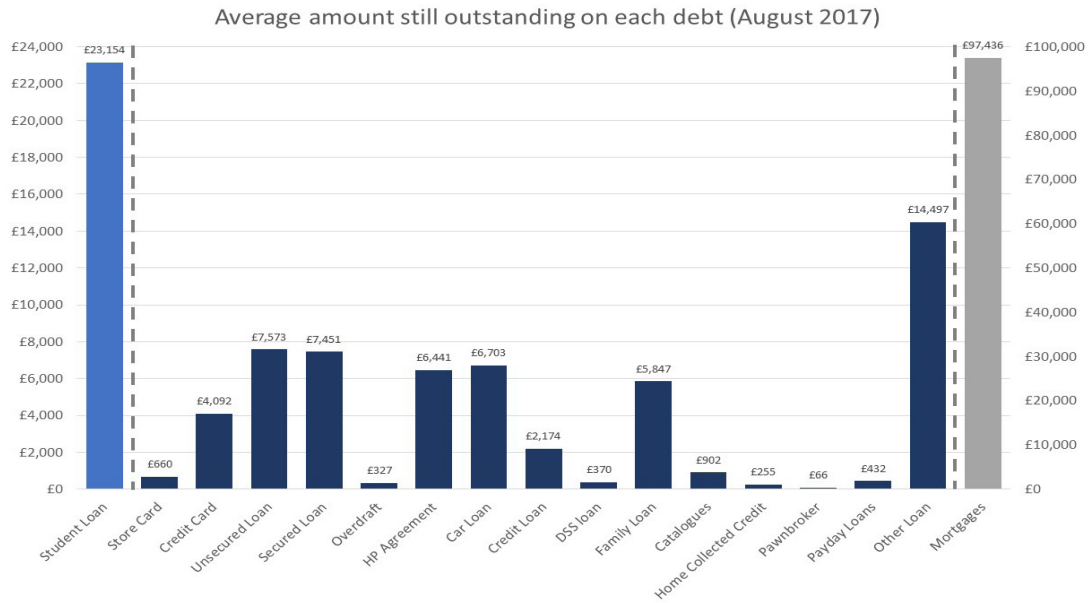


Notes: Unsecured debt includes student debt

Source: Bank of England/NMG Survey 2017

The YouGov survey provides more granular information on the type and amount of debt owed by individuals. Setting aside mortgage debt and student loan debt, a few debt instruments show sizeable average debt levels, namely "other" loans (£14,497), personal loans (unsecured: £7,573, and secured: £7,451), car loans (£6,703), HP agreements (£6,441), family loans (£5,847) and credit card (£4,092) (Figure 22).

Figure 22 **Average amount still outstanding on each debt (YouGov Debt Tracker)**

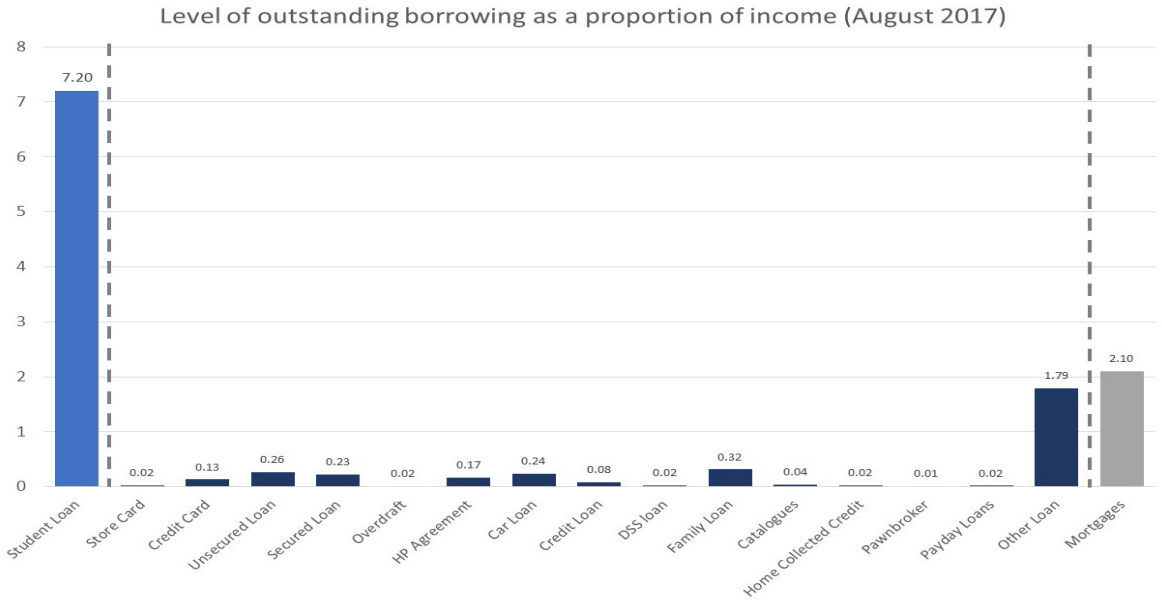


Note: Observations have been weighted to be representative of the population.

Source: YouGov Debt Tracker August 2017

Although the value of the large debt items listed above (other than mortgages and student loans) is typically lower than the income of the survey respondents, in a number of cases these items still amount to more than 20% of income (Figure 23).

Figure 23 **Levels of outstanding borrowing as a proportion of household income**

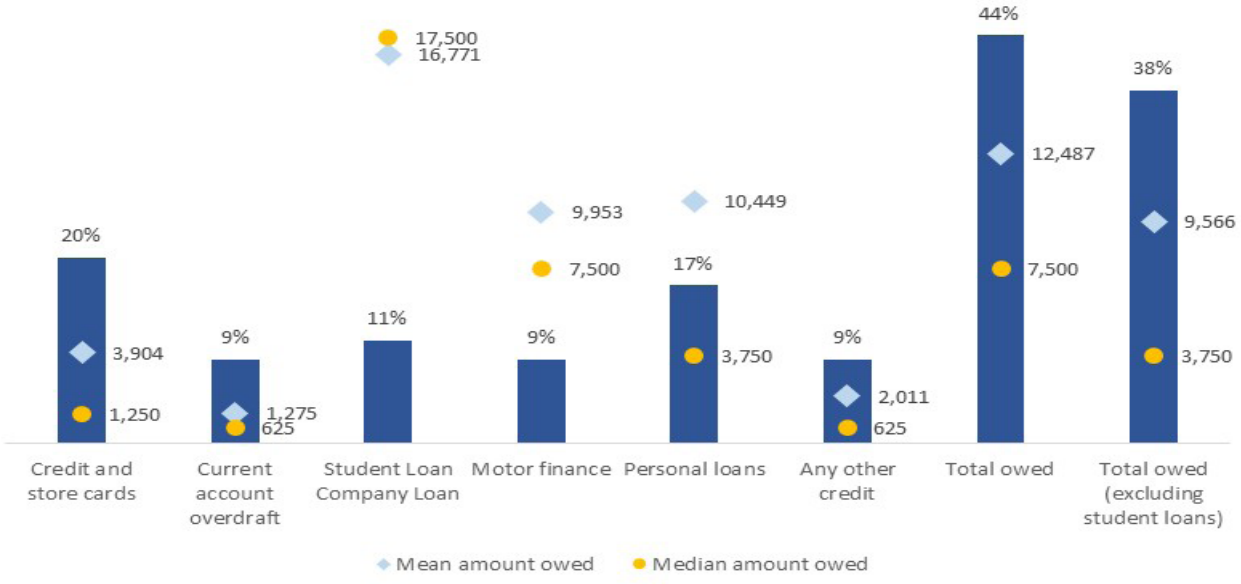


Note: Observations have been weighted to be representative of the population.

Source: YouGov Debt Tracker August 2017

The FCA survey also provides information on the debt burden of various debt instruments. In light of the survey's very large size, it is possible to gain a very broad overview of the distribution of debt levels across individuals for the various debt instruments. In particular, an average debt level which is much higher than the median level in the figure below indicates that some individuals have very high debt levels. This is particularly the case for personal loans, credit and store card debts (Figure 24).

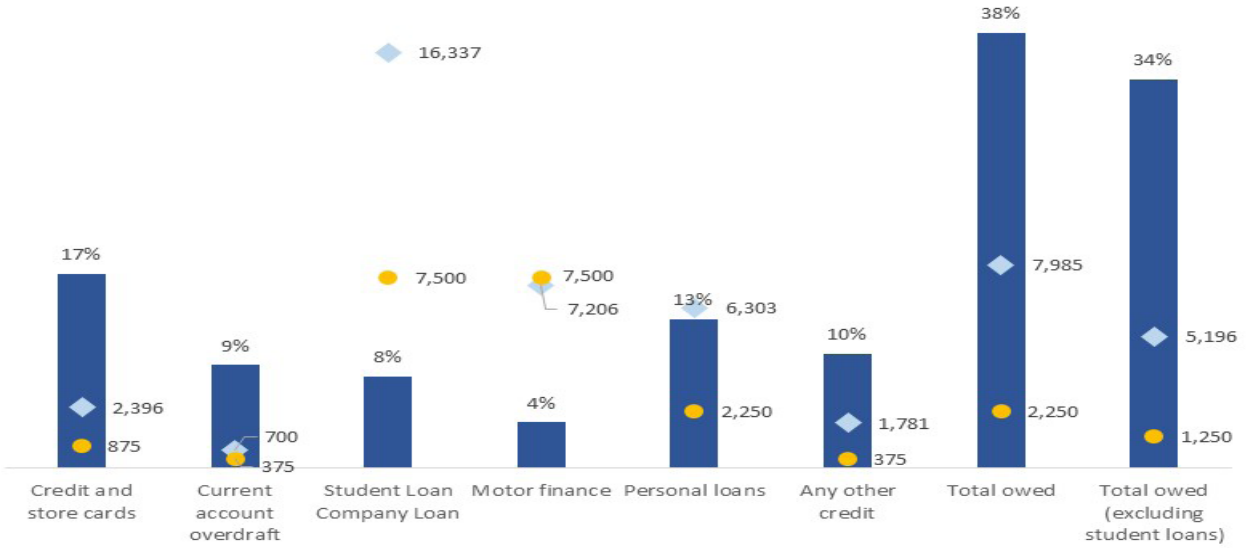
Figure 24 **Percentage of individuals in the UK with different types of non-mortgage debt and average and median debt level**



Source: FCA Financial Lives Survey 2017

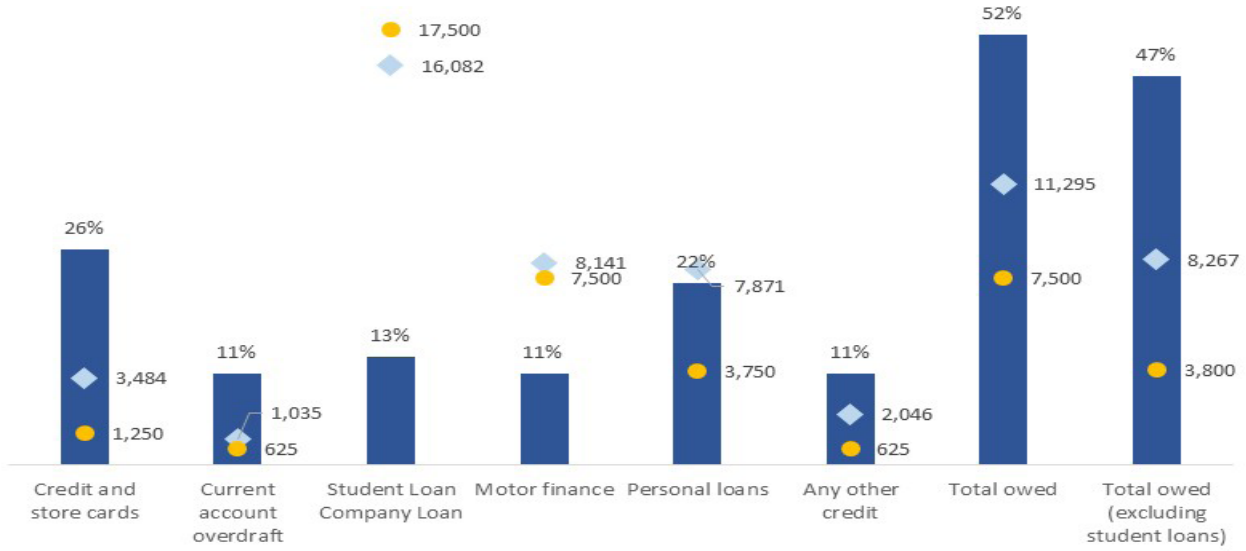
Such differences are observed even among the lower income groups (Figure 25 and Figure 26).

Figure 25 **Percentage of individuals in the UK with income less than 15K and with different types of non-mortgage debt and average and median debt level**



Source: FCA Financial Lives Survey 2017

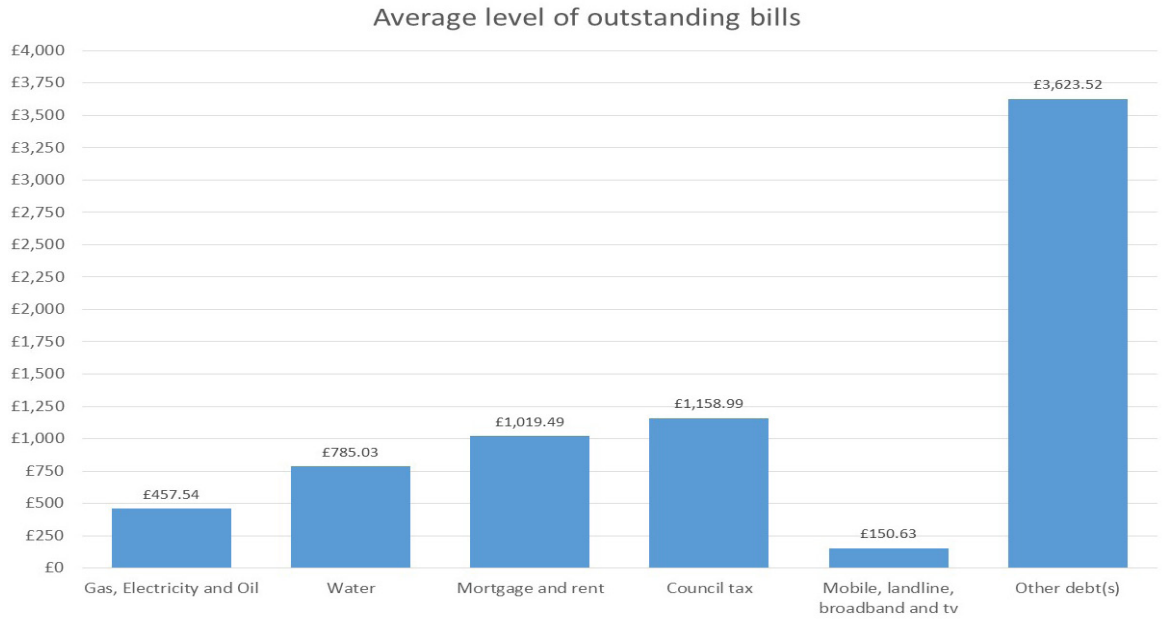
Figure 26 **Percentage of individuals in the UK with income of 15K to less than 30K and with different types of non-mortgage debt and average and median debt level**



Source: FCA Financial Lives Survey 2017

In terms of non-credit debt, i.e. debts to utilities and government, the YouGov data show that, in August 2017, the average amount owed ranged from £150 for mobile, landline, broadband and TV bills to £1,159 for council taxes (Figure 27).

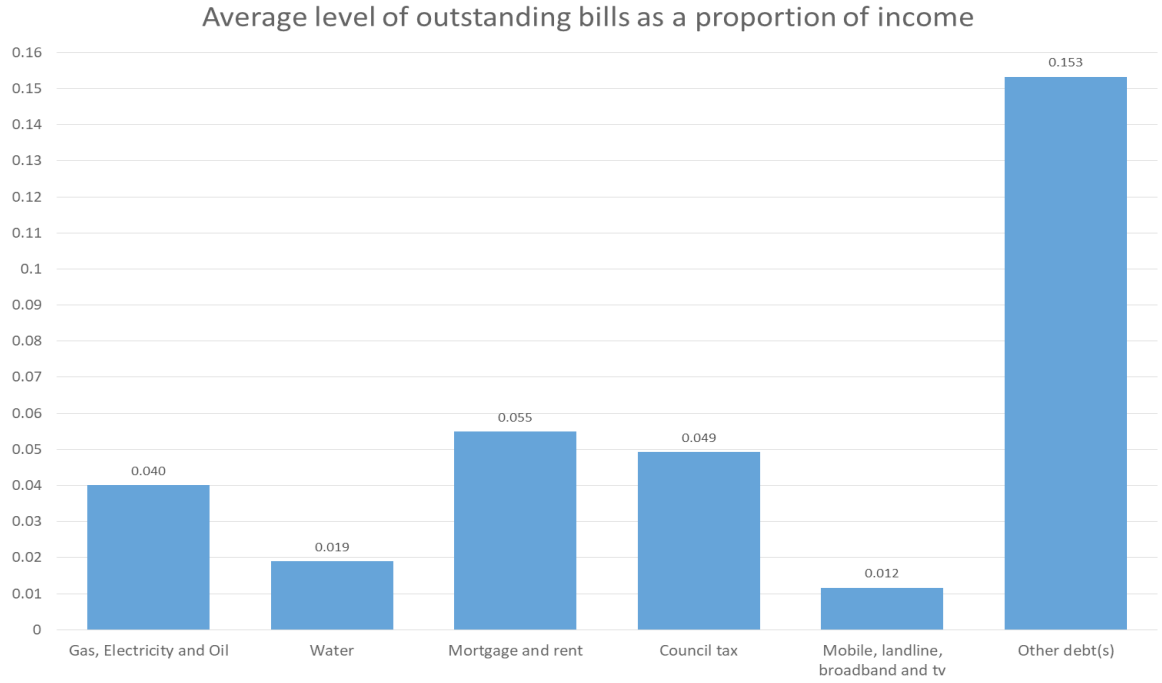
Figure 27 **Average level of outstanding bills**



Note: Observations have been weighted to be representative of the population. Question is only asked for bills for which the respondent has reported that they are more than three months behind. Some categories have been aggregated, in which case outstanding bills have been summed. Where amounts were given in bands, the midpoint of the band has been used.
Source: YouGov Debt Tracker August 2017

In relationship to income, such debts ranged from 1.2% of income for mobile, landline, broadband and TV bills to 5.5% for rent and mortgage (Figure 28).

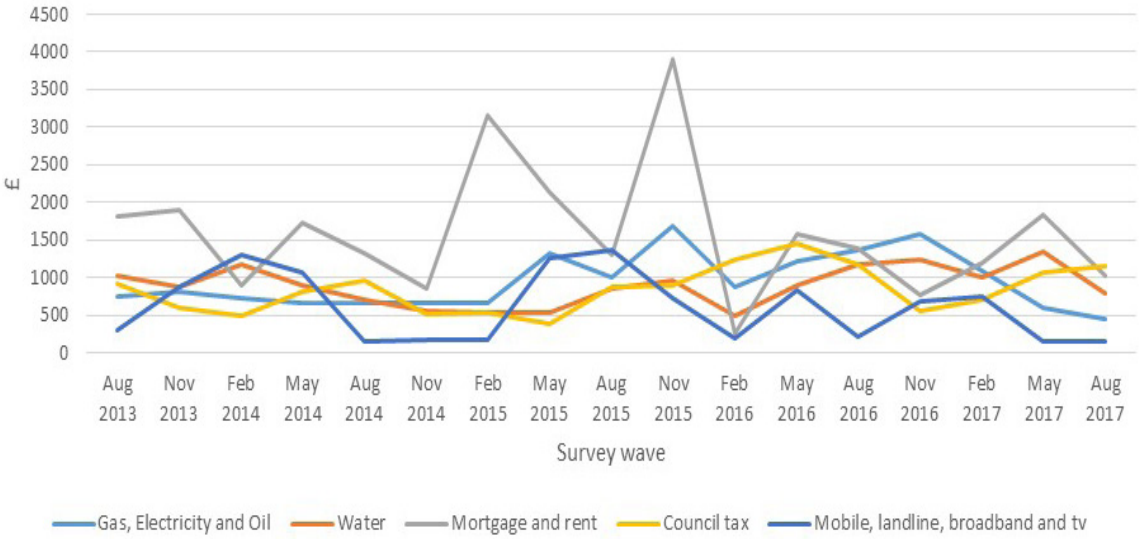
Figure 28 **Average level of outstanding bills as a proportion of household income**



Note: Observations have been weighted to be representative of the population. Question is only asked for bills for which the respondent has reported that they are more than three months behind. Income is not populated for all respondents so sample size here differs from Figure 25. Some categories have been aggregated, in which case outstanding bills have been summed. Where amounts were given in bands, the midpoint of the band has been used.
Source: YouGov Debt Tracker August 2017

The average debt for mobile, landline, broadband and TV bills is always the lowest in the different survey waves, while the average debt for mortgage and rent is often but not always the largest (Figure 29).

Figure 29 **Evolution over time of average level of outstanding bills as a proportion of household income**



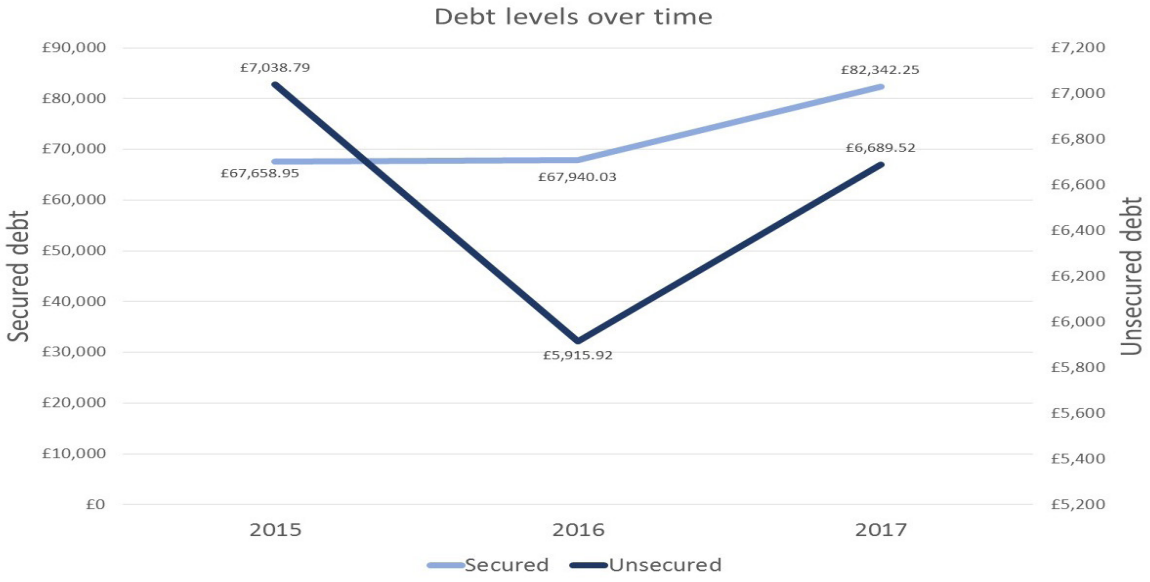
Note: Observations have been weighted to be representative of the population. Question is only asked for bills for which the respondent has reported that they are more than three months behind. Income is not populated for all respondents so sample size here differs from Figure 27. Some categories have been aggregated, in which case outstanding bills have been summed. Where amounts were given in bands, the midpoint of the band has been used.

Source: YouGov Debt Tracker August 2017

2.4 How have debt levels evolved over time?

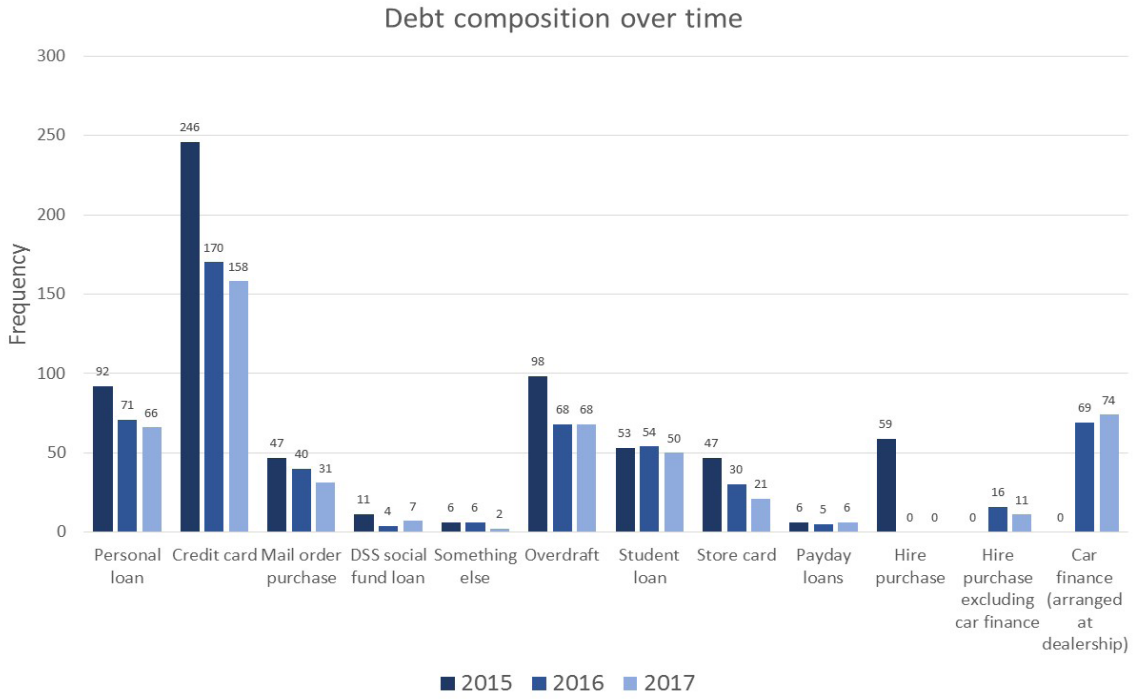
The BoE/NMG survey allows the tracking of debt levels of a relatively large number of individuals in recent years. Overall, average secured debt trended upward, from £67,659 in 2015 to £82,342 in 2017. In contrast, average unsecured debt fell in 2016 and rebounded almost completely in 2017 (Figure 30). Within unsecured debt, the mix of debt types has changed relatively little over the last three years (Figure 31).

Figure 30 **Average debt levels over time**



Source: Bank of England/NMG Survey 2015-2017

Figure 31 **Evolution of types of debt held by individuals (same individuals)**

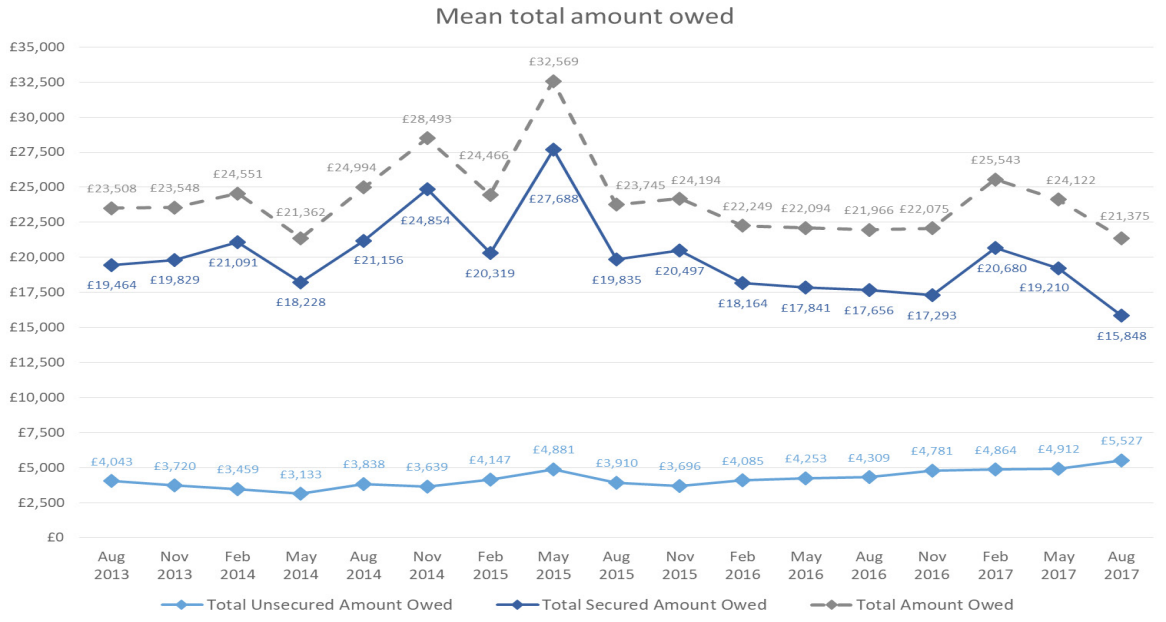


Note: "Hire purchase" was separated in 2016 into "Hire purchase excluding car finance" and "Car finance (arranged at dealership)".

Source: Bank of England/NMG Survey 2015-2017

Although they do not track the same individuals over time, the different waves of the YouGov survey show that the average debt level (both secured and unsecured debt) has changed relatively little in recent years (Figure 32).

Figure 32 **Average amount of secured and unsecured debt owed**



Note: Observations have been weighted to be representative of the population.

Source: YouGov Debt Tracker 2013-2017

3 Personal debt problems

This chapter reviews the extent to which individuals or households are facing debt problems.

The first section discusses how concerns about debt varies by type of debt, debt level and income level.

The second section provides information on reported difficulties in keeping up with bills and credit commitments, and also on household financial fragility.

The third section presents data on the Incidence of households/individuals being behind with bill payments.

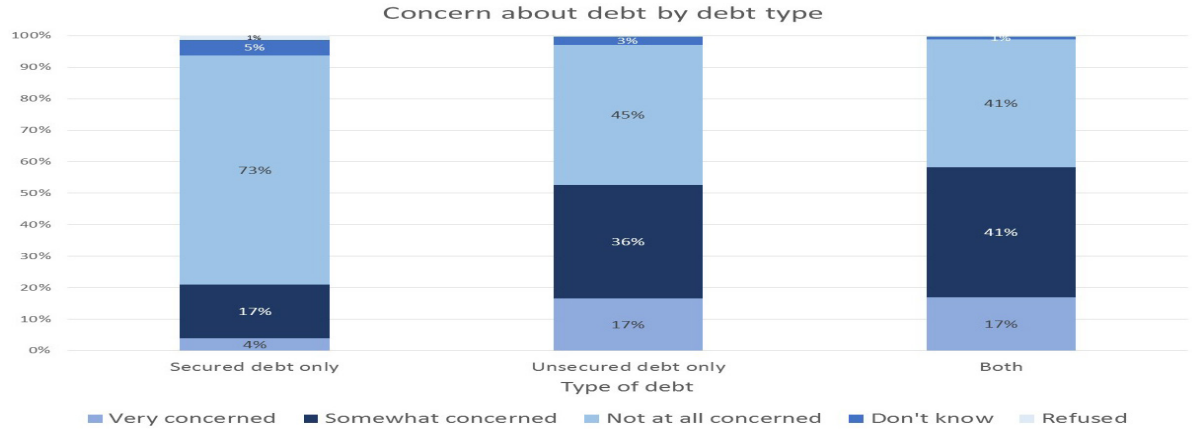
Finally, the fourth section focuses briefly on over-indebtedness in the United Kingdom.

3.1 Concerns about debt

High debt levels are a typical cause for concern among holders of such debt. In order to shed some light on the extent to which concerns about debt do indeed exist, this section reviews some of the key findings of the BoE/NMG 2017 survey which asked survey respondents to report their level of concern about their debt. The key points to note are that the **self-reported levels of concern about the debt varies markedly** by:

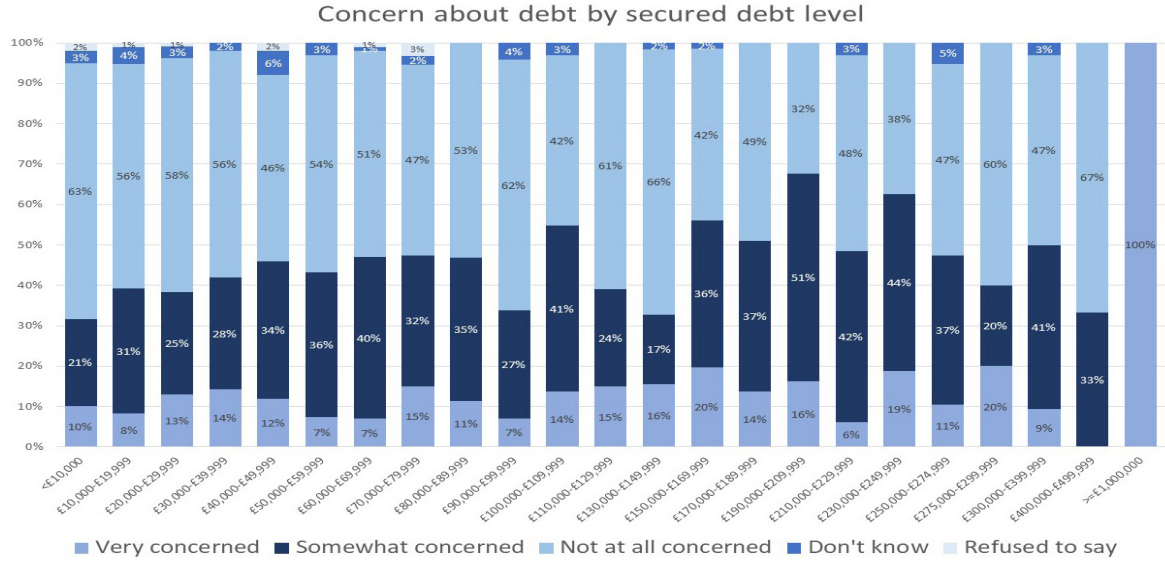
- **Type of debt – unsecured debt is more often a cause for concern (Figure 33):**
  - Of all individuals holding only secured debt, 73% reported in the latest BoE/NMG survey that they are "not at all concerned" and only 4% said that they were "very concerned" and 17% reported being "somewhat concerned".
  - In contrast, among the individuals holding purely unsecured debt, only 45% said they were "not concerned at all", 36% said that they were "somewhat concerned" and 17% were "very concerned".
  - The level of concern expressed by individuals holding both types of debt is similar to that of individuals with only unsecured debt – 17% are "very concerned", 41% are "somewhat concerned" and 41% are "not concerned at all".
- **Level of debt**
  - Among individuals holding secured debt, the share of "very concerned" increases broadly, but not systematically, with the level of the secured debt, while the share of "somewhat concerned" individuals does not show a clear correlation with the level of such debt (Figure 34).
  - The same patterns are broadly observed among individuals holding only secured debt (Figure 35).
  - Similarly, the share of "very concerned" among holders of unsecured debt increases broadly, but not systematically, with the debt level, while the share of individuals who are "somewhat concerned" does not show a clear correlation with the level of such debt (Figure 36).
- **Income level**
  - As income level rises, more respondents report generally that they are "not at all concerned" (Figure 38). This is particularly the case among holders of secured debt (Figure 39). In contrast, the picture is more mixed in the case of holders of unsecured debt (Figure 40).

Figure 33 **Concern about debt by debt type**



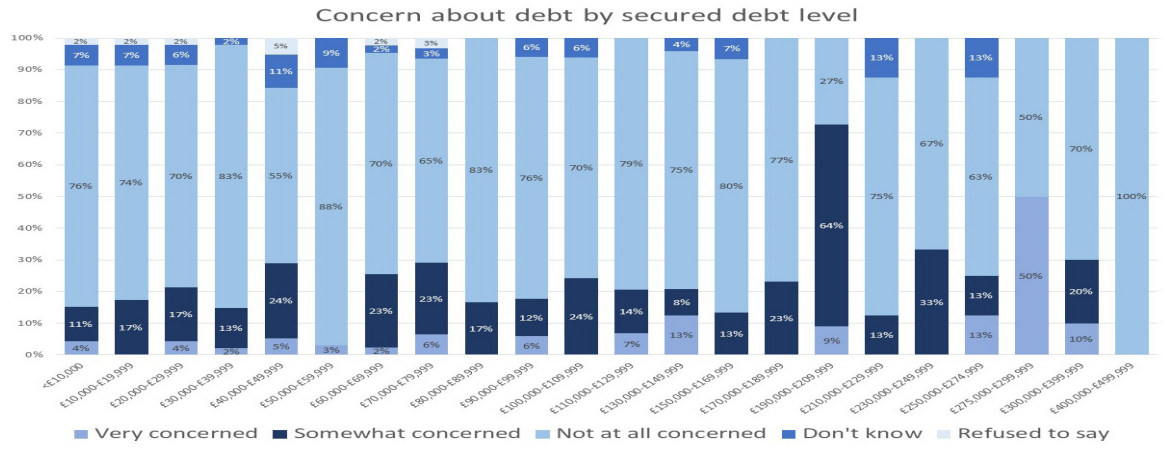
Source: Bank of England/NMG Survey 2017

Figure 34 **Concerns about debt by secured debt level**



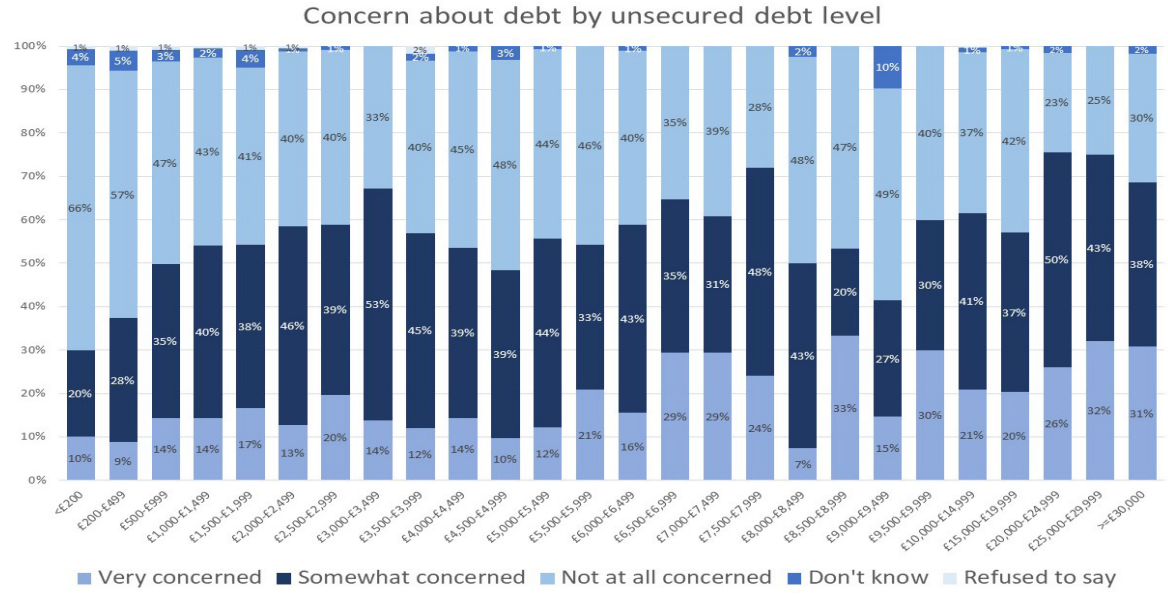
Source: Bank of England/NMG Survey 2017

Figure 35 **Concerns about debt by debt level among households with only secured debt**



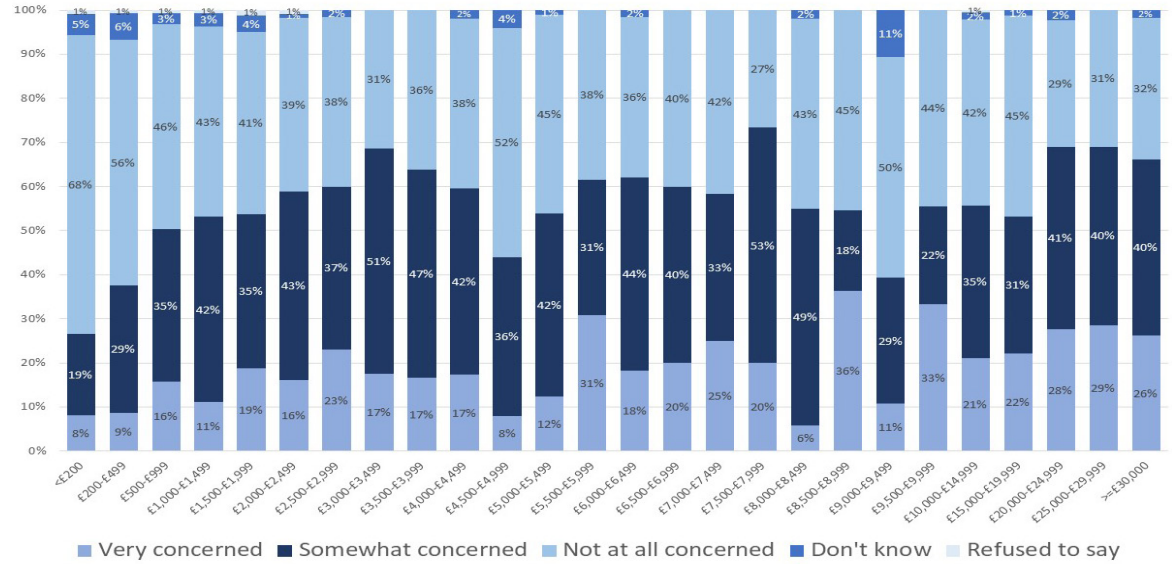
Source: Bank of England/NMG 2017

Figure 36 **Concerns about debt by unsecured debt level**



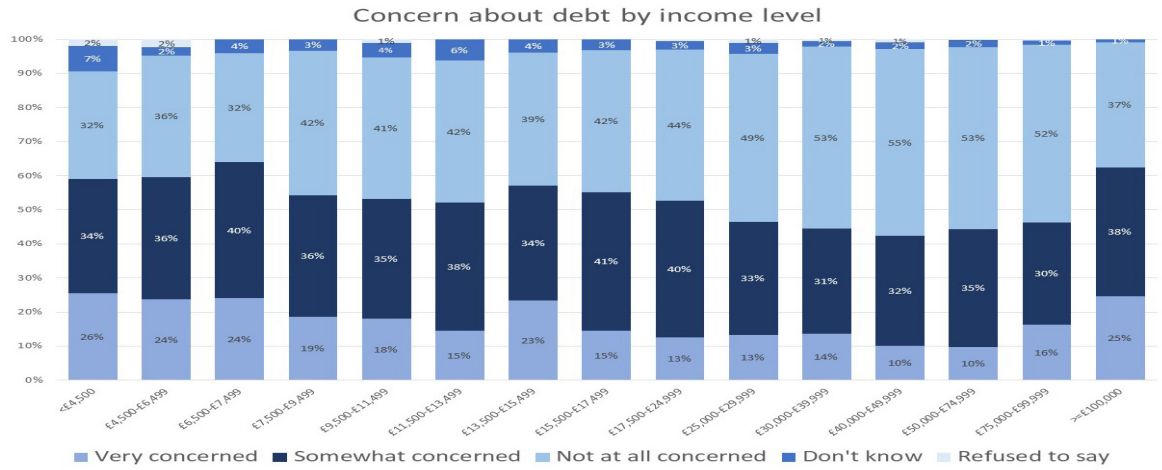
Source: Bank of England/NMG 2017

Figure 37 **Concerns about debt by debt level among households having only unsecured debt**



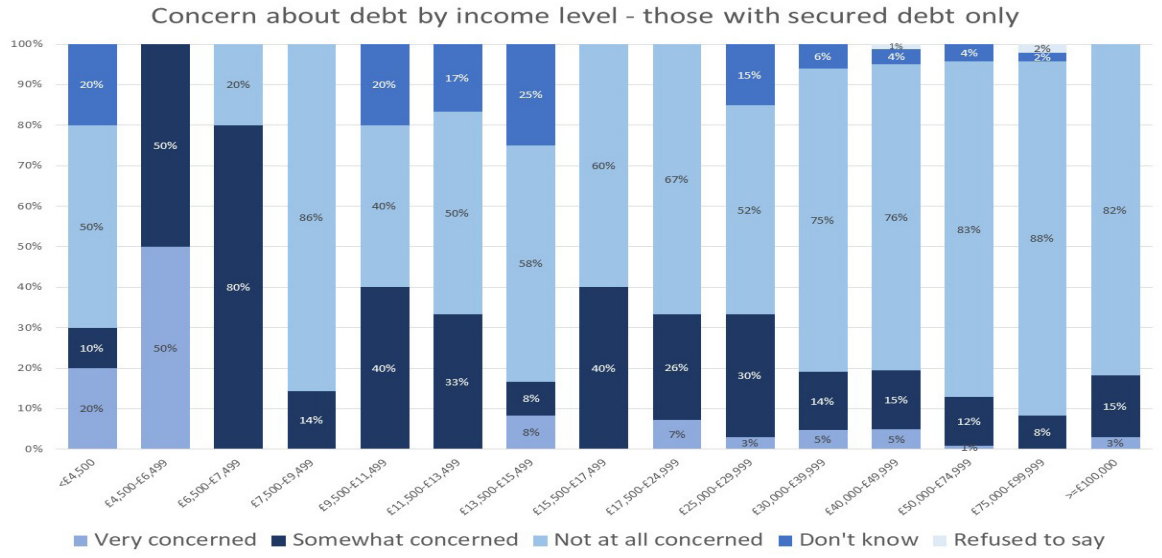
Source: Bank of England/NMG Survey 2017

Figure 38 **Concerns about debt by income band**



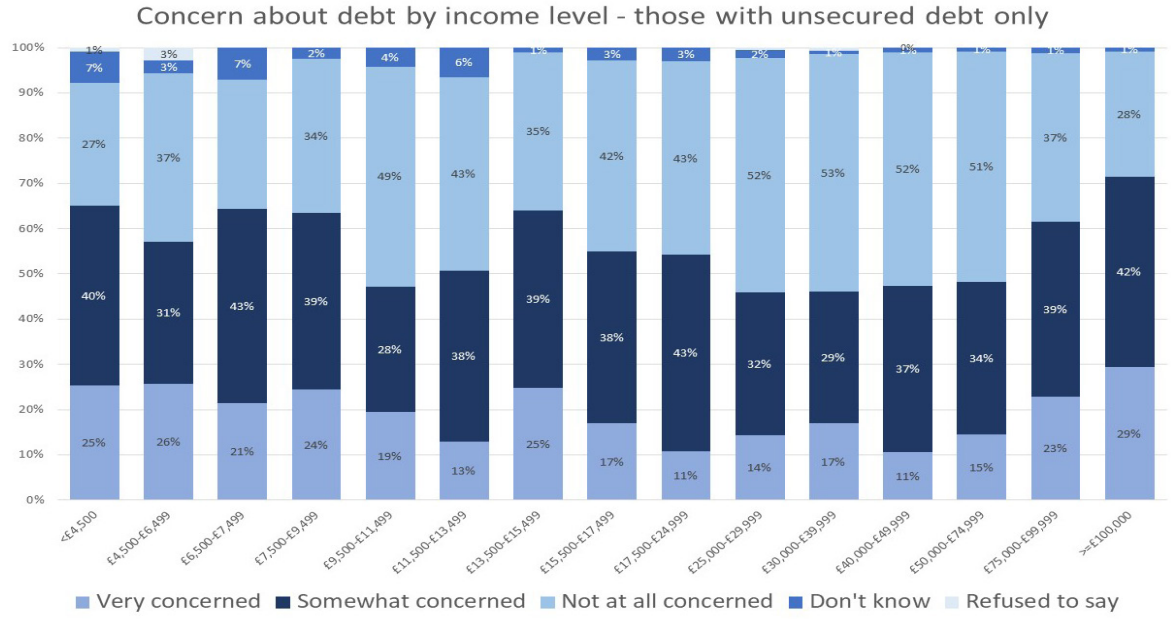
Source: Bank of England/NMG Survey 2017

Figure 39 **Concerns about debt by income level (secured debt only)**



Source: Bank of England/NMG Survey 2017

Figure 40 **Concerns about debt by income level (unsecured debt only)**



Source: Bank of England/NMG Survey 2017

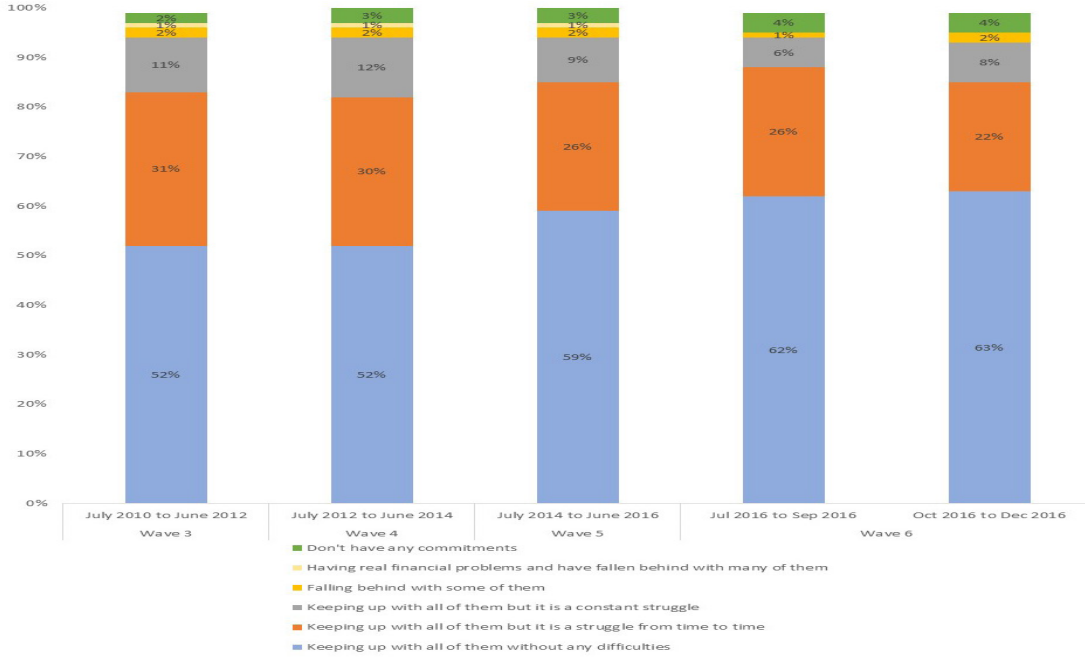
3.2 Difficulties in keeping up with bills and credit commitments, burden of such commitments and financial fragility

3.2.1 Difficulties in keeping up with bills and credit commitments

Various surveys provide information on the extent to which individuals and households struggle or fail to meet their financial commitments.

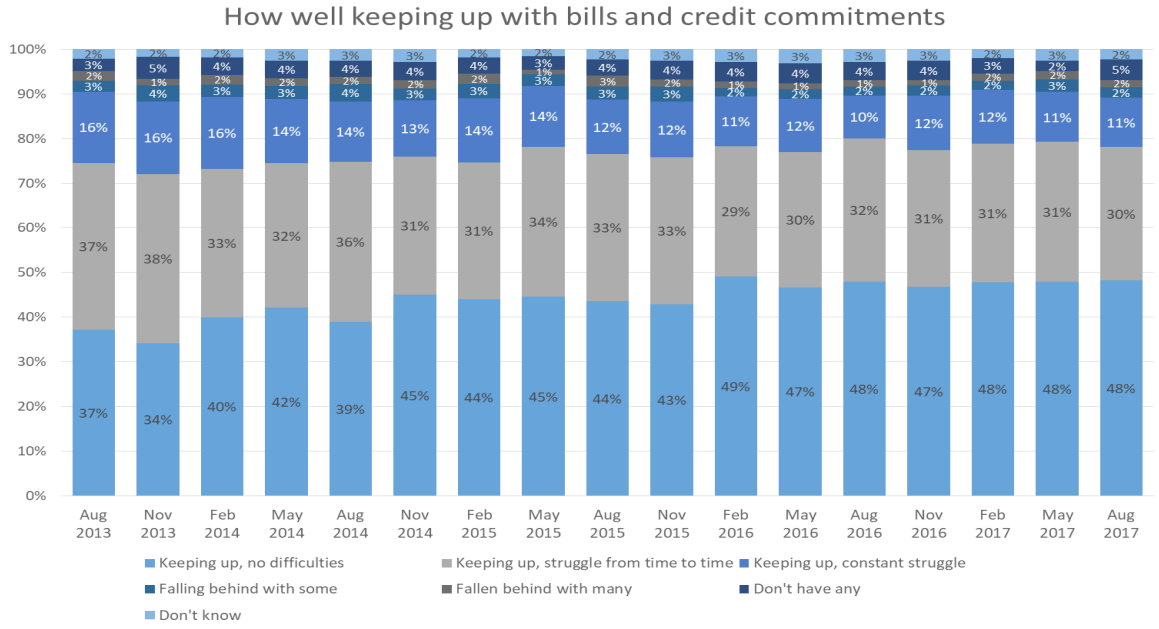
- The ONS Wealth and Assets survey shows **only a small proportion of individuals** are a) **experiencing real financial problems and falling behind on many financial commitments** or b) **are falling behind with some of their financial commitments.** This proportion is in the order of 1% to 3%, a figure which has **not changed markedly since 2010.** (Figure 41).
- In contrast, the proportion of individuals reporting that they are keeping up but struggling with their financial commitments has fallen more or less steadily since June 2010 and stood at 8% at the end of 2016 (Figure 41).
- A broadly similar picture emerges from the YouGov Debt Tracker survey, although the incidence of falling behind is slightly higher. In the 2017 survey, 2% of individuals reported falling behind on many bill and credit commitments and this proportion has fluctuated in the narrow range of 1% to 3% since August 2013 (Figure 42 and Figure 43). Moreover, the proportion of individuals who have fallen behind on some commitments stood at 2% in 2017, also fluctuating in a very narrow range of 2% to 4%.

Figure 41 **How difficult is it to keep up with bills and credit commitments?**



Source: ONS Wealth and Assets Survey

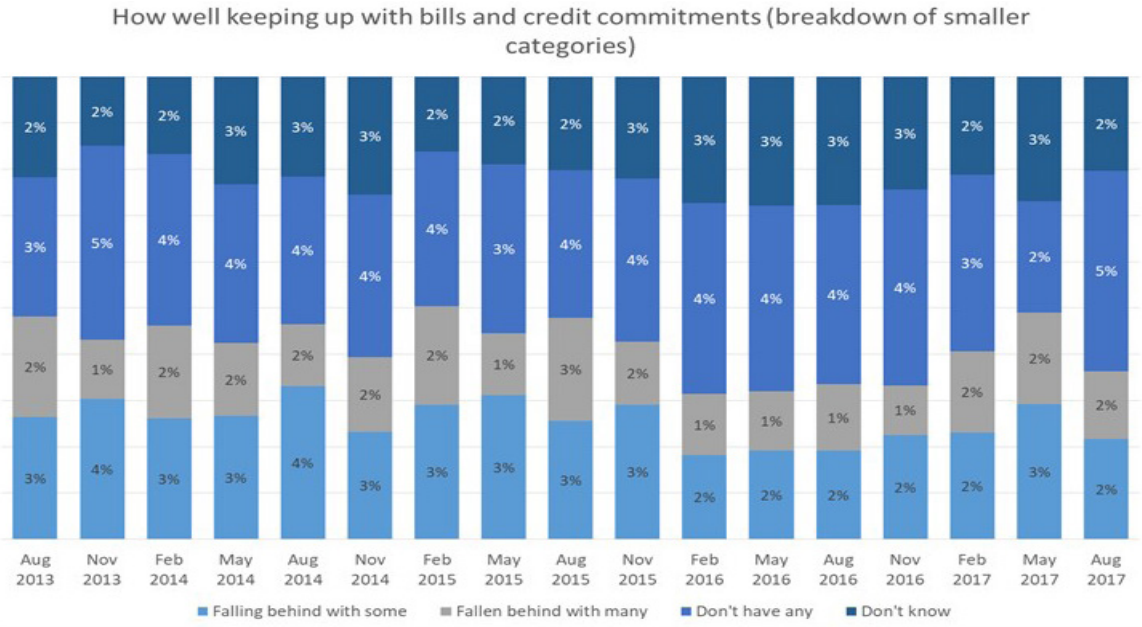
Figure 42 **How well individuals feel they are keeping up with bills and credit commitments**



Note: Observations have been weighted to be representative of the population.

Source: YouGov Debt Tracker 2013-2017

Figure 43 **How well individuals feel that they are keeping up with bills and credit commitments (breakdown of smaller categories from Figure 42)**



Note: Observations have been weighted to be representative of the population. Columns do not sum to 100%. Categories "Keeping up, no difficulties", "Keeping up, struggle from time to time" and "Keeping up, constant struggle" omitted. Full breakdown shown in Figure 42).

Source: YouGov Debt Tracker 2013-2017

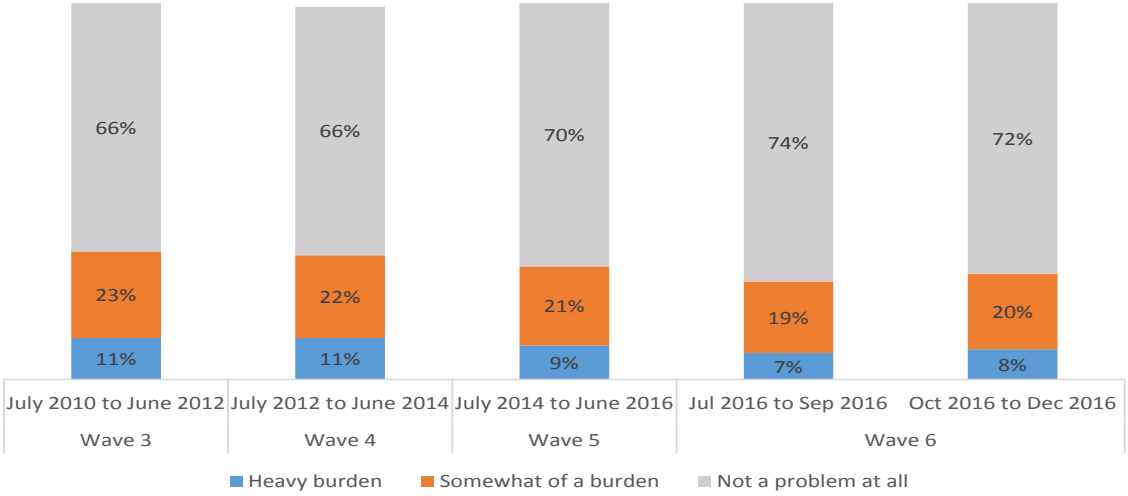
3.2.2 Burden of keeping up with bills and credit commitments

A somewhat different perspective on the financial burden faced by households is provided by the answers to questions in various surveys on the burden of keeping up with financial commitments. The proportion of survey participants reporting that such a burden is heavy, is higher than the proportion of survey respondents reporting that they are behind with all or some of their commitments. This difference reflects the fact some survey respondents are keeping up with their commitments although they are a heavy burden.

- According to the ONS Wealth and Assets survey, 8% of survey respondents noted in 2016 that keeping up with their financial commitments is a heavy burden. The proportion of such individuals has fallen somewhat, but not steadily, from 11% since 2010 (Figure 44).
- The YouGov Debt Tracker shows a broadly similar picture. In August 2017, 11% of survey respondents indicated that keeping up with their financial commitments is a heavy burden and this share has fluctuated in the range of 7% to 11% since 2013 (Figure 45). However, the proportion of such respondents does not vary systematically with the level of unsecured debt (Figure 46).
- Not surprisingly, the proportion of individuals who find that keeping up with their financial commitments is a heavy burden declines steadily with income levels, falling in 2017 from 15% of survey respondents with an income of less than £15,000, to 3% of survey respondents with an income of between £100,000 and £249,999 (Figure 47).15
- Setting aside the 18-24 age group, the proportion of survey respondents reporting that keeping up with their financial commitments is a heavy burden declines with age, from 16% in the 25 -34 age group to 3% among those who are 65 or older.

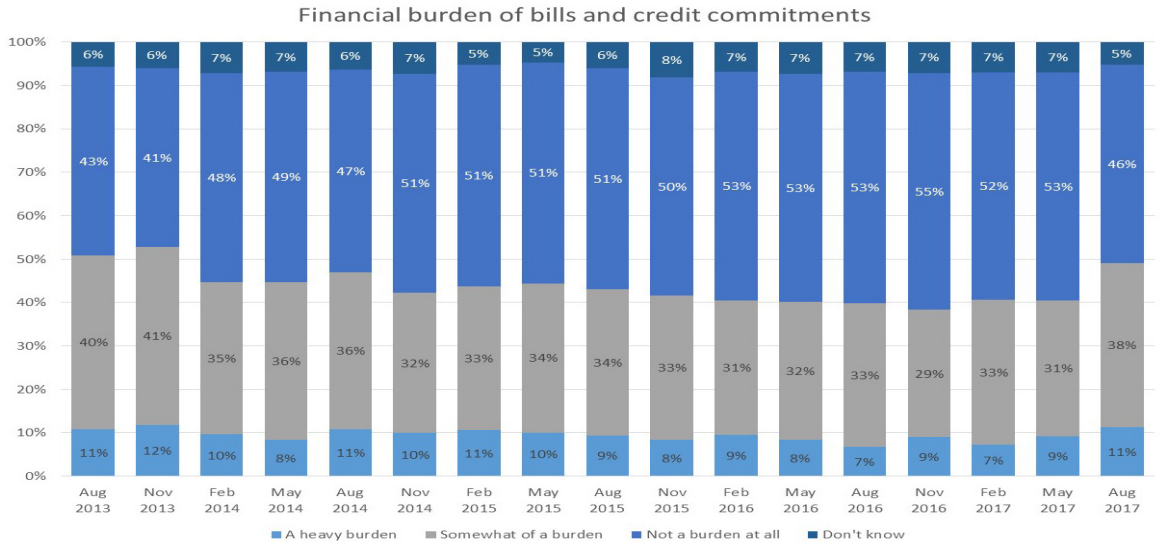
15 The proportion increases to 6% for the group of survey respondents with incomes of £250,000 and above. However, as the number of such individuals in the survey is very small, this figure may not be representative of the true situation.

Figure 44 **Burden of keeping up with bills and credit repayments and interest payments**



Source: ONS Wealth and Assets Survey

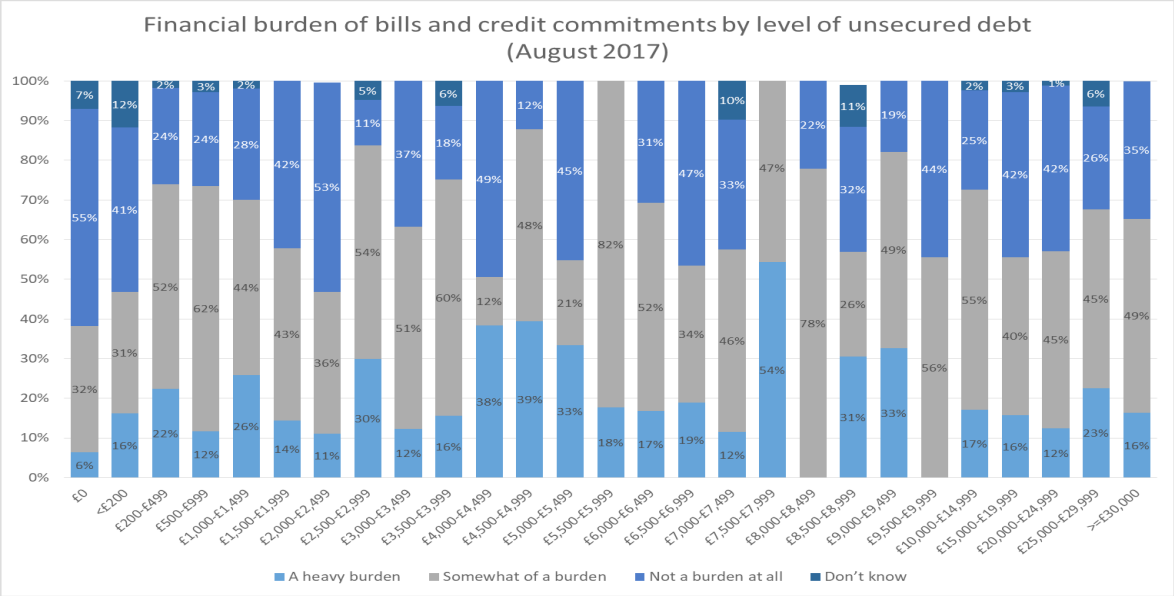
Figure 45 **Financial burden of bills and credit commitments**



Note: Observations have been weighted to be representative of the population.

Source: YouGov Debt Tracker 2013-2017

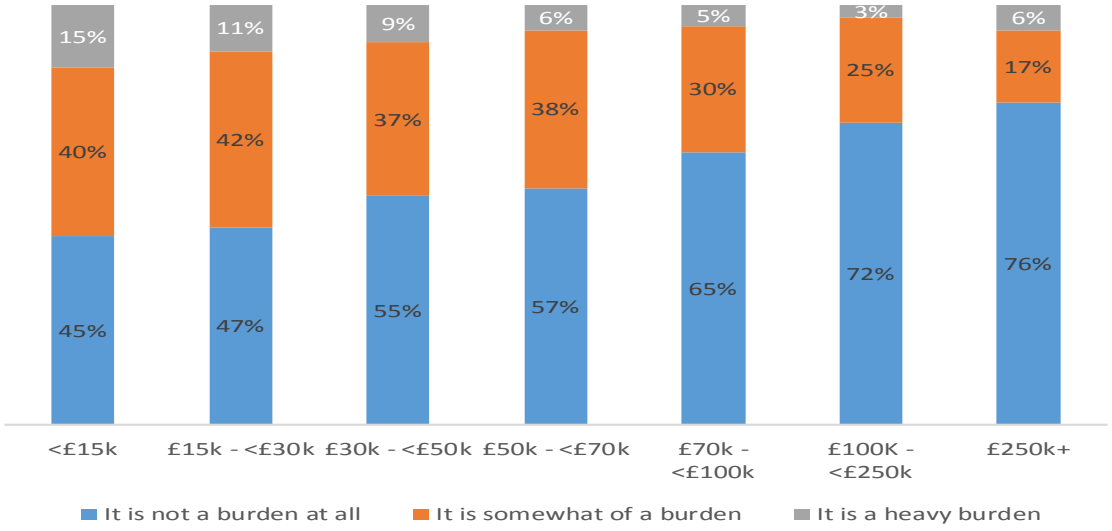
Figure 46 **Financial burden of bills and credit commitments by level of unsecured debt**



Note: Observations have been weighted to be representative of the population.

Source: YouGov Debt Tracker September 2017

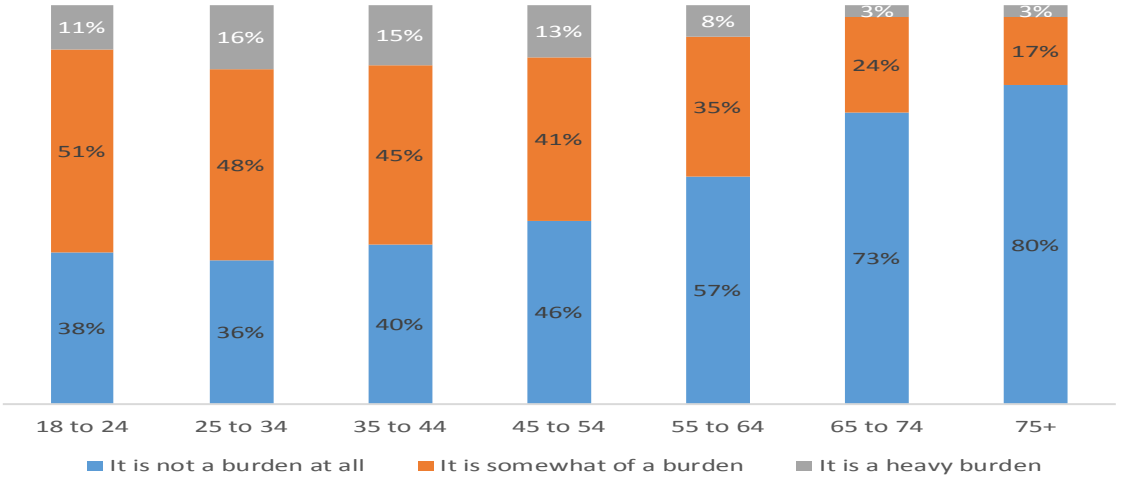
Figure 47 **Extent to which survey respondents in different income classes felt that keeping up with their bills and credit commitments is a burden**



Notes: Excludes the answers "Don't know" and "Prefer not to say"

Source: FCA Financial Lives Survey 2017

Figure 48 **Extent to which survey respondents in different age groups felt that keeping up with their bills and credit commitments is a burden**



Notes: Excludes the answers "Don't know" and "Prefer not to say"

Source: FCA Financial Lives Survey 2017

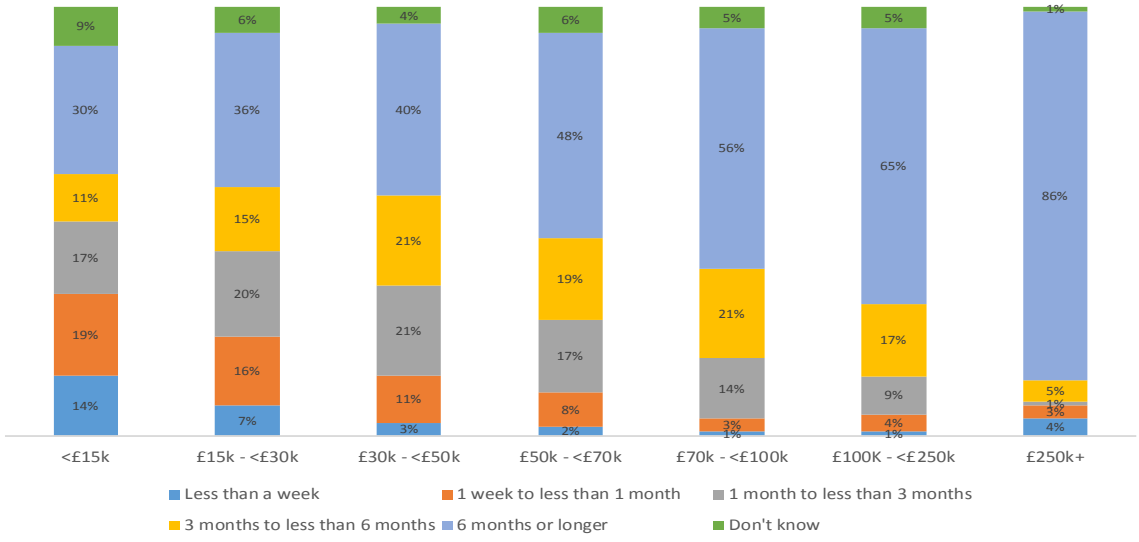
3.2.3 Financial fragility

The extent to which households or individuals are resilient to unexpected events which can result in financial burdens is shown in the figure below (Figure 49). Among households with incomes of less than £15,000, 14% would be able to get by for only 1 week without borrowing and 19% for one month.

The proportion of households which would get by without borrowing for only 1 week falls sharply with income, dropping to 7% in the income range of £15,000 to less than £30,000 and 3% or less for higher income levels.

In contrast, the proportion of households which would be able to get by without borrowing for only 1 month declines less markedly, to 16% in the income range of £15,000 to less than £30,000 and, eventually, 9% or less at income levels of £100,000 or more.

Figure 49 **Financial fragility - length of time households could continue to cover living expenses, without having to borrow any money or ask for help from friends or family**



Source: FCA Financial Lives Survey 2017

3.3 Incidence of being behind with credit commitments and bill payments

This section provides more granular information on the incidence and nature of the credit commitments and bills on which individuals and households fall behind.

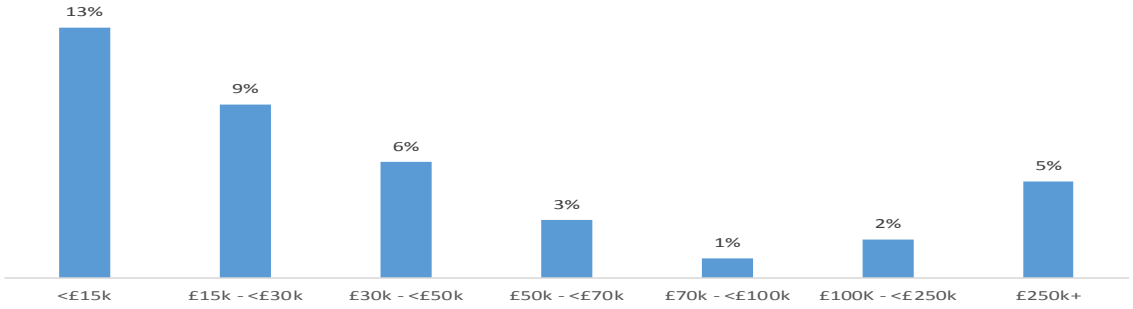
The results of the 2017 FCA Financial Lives Survey shows that late or non-payment of credit commitments or bills is more prevalent among lower income groups: 19% in the income group of less than £15,000, 9% in the income group of £15,000 to £30,000 (Figure 50). This proportion is 6% or less for higher income groups.

Among those who, in the 6 months preceding the survey, had fallen behind or missed a payment for 3 or more months, the most common bills and credit commitments were utility bills (40%), credit and store card bills (38%) and Council taxes (35%) (Figure 51).

A similar picture is provided by the results of the YouGov Debt Tracker survey. Furthermore, this survey shows that, among the utility bills, the most common bills on which households are behind are gas, electricity and water bills. Only a much smaller proportion is behind on TV/landline/internet and, to a somewhat lesser extent, mobile bills (Figure 52 and Figure 53).

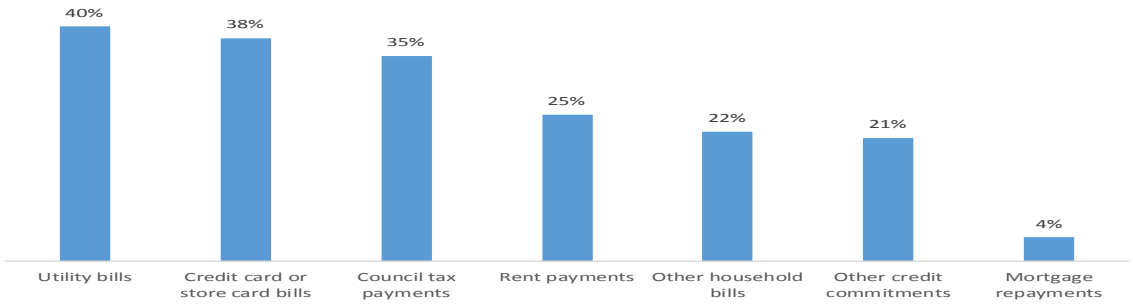
The majority of those who are behind, are behind with one or two bill or credit commitments (Figure 54).

Figure 50 **Proportion of survey respondents (by income group) who in the previous 6 months have fallen behind on, or missed, any payments for credit commitments or domestic bills for any 3 or more months**



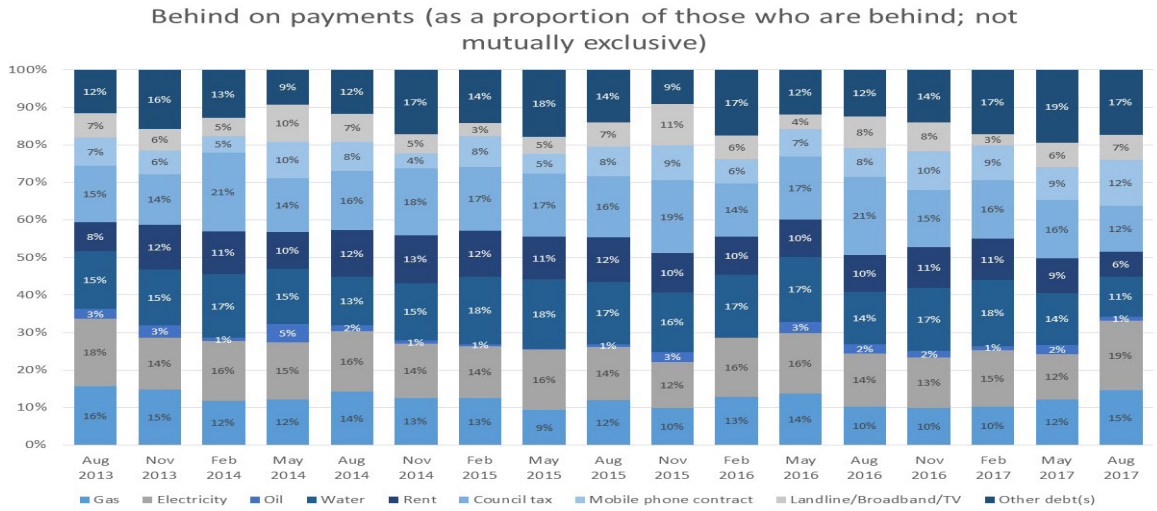
Source: FCA Financial Lives Survey 2017

Figure 51 **Proportion of survey respondents (by debt type) among survey respondents who in the previous 6 months have fallen behind on, or missed, any payments for credit commitments or domestic bills for any 3 or more months**



Source: FCA Financial Lives Survey 2017

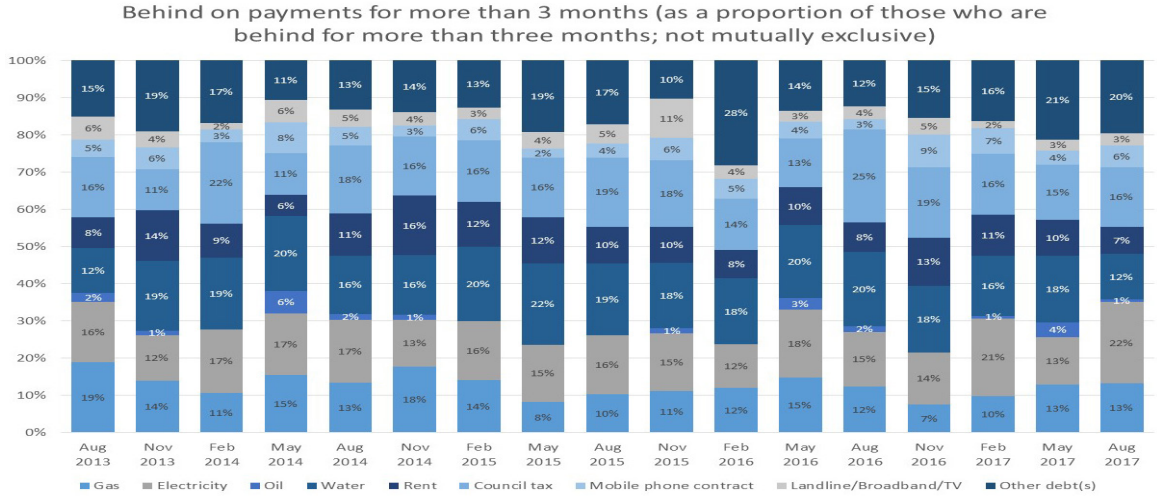
Figure 52 **Proportion of survey respondents behind on bill payments**



Note: Observations have been weighted to be representative of the population.

Source: YouGov Debt Tracker 2013-2017

Figure 53 **Proportion of survey respondents behind on bill payments for more than three months**



Note: Observations have been weighted to be representative of the population.

Source: YouGov Debt Tracker 2013-2017

Figure 54 **Number of different payments that individuals are behind on (August 2017)**

How many different payments behind on	Number	Percentage
0	1916	94%
1	68	3%
2	35	2%
3	16	1%
4	6	0%
5	4	0%
6	3	0%
7	1	0%

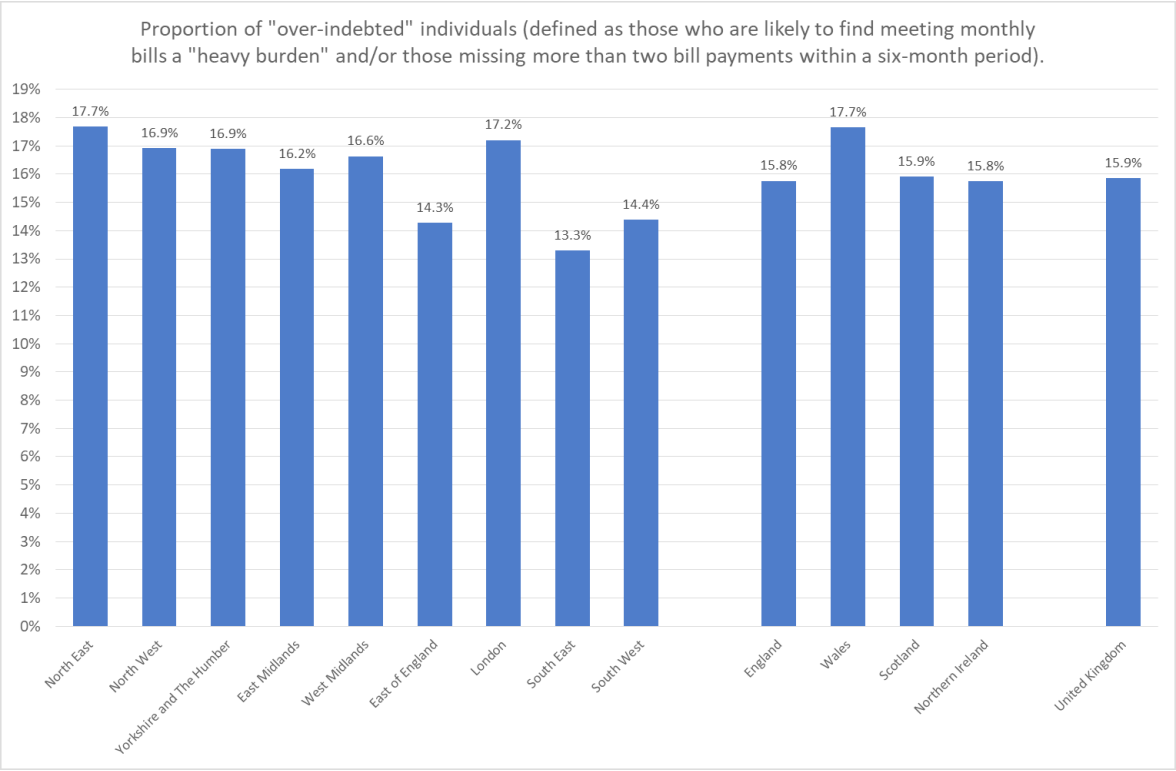
Note: Observations have been weighted to be representative of the population

Source: YouGov Debt Tracker August 2017

3.4 Over-indebtedness

While there exists no universally accepted measure of "over-indebtedness", one such measure can be derived be combining information on the incidence of individuals finding that meeting financial commitments is a heavy burden with that of individuals who are behind on their bill and credit payments. The Money Advice Service has recently released such "over-indebtedness" information which shows that, in 2017, the proportion of individuals who are over-indebted stood at 15.9% in the UK and ranged from 13.3% in the South East of England to 17% in the North East of England and Wales (Figure 55).

Figure 55 **Over-indebtedness by region**



Source: Money Advice Service 2017

4 Outcomes of severe debt problems

Over-indebtedness, if not addressed in time by the debtor, can result in various outcomes ranging from building up debt arrears, various informal and formal arrangements with creditors, arranged by the debtor, often with the assistance of a debt advisor, court judgements, or formal insolvency proceedings.

This section reviews recent developments in these various outcomes. However, before doing so, it highlights the findings (from the 2017 Financial Lives Survey) regarding the credit products which have created the most serious problems among individuals who have taken out a consumer product, and the impact of such problems.

Credit cards are by far the most problematic credit product for individuals, followed by catalogue credit, motor hire purchase and personal loans (Figure 56).

For 34% of individuals, credit product problems have resulted in a financial cost (Figure 57).

Arrears

In the case of secured debt, arrears peaked in late 2008/early 2009 and then fell sharply until late 2010. Thereafter they continued to trend down slowly and showed a very small pick-up in early 2017 (Figure 58). Repossessions show a similar trend, except that they started trending up marginally from mid-2015 onwards (Figure 58).

The information on the arrears of StepChange clients provides a broadly similar picture. The average amount of arears of StepChange clients declined markedly from 2012 to 2013 and has changed relatively little since then (Figure 59). However, the number of StepChange clients with arrears trended up slightly from 2013 onwards, after a marked increase in 2013, and the median arrears have also shown an upward trend since 2014.

County Court Judgements

The number of consumer County Court Judgements fell almost steadily from 2008 to 2012. Thereafter, the number has been rising sharply, with 818,185 cases in 2016 compared to 447,190 cases in 2012. However, the average value of such judgements has fallen steadily since 2007, standing at £1,665 in 2016 compared to £3,606 in 2007 (Figure 60).

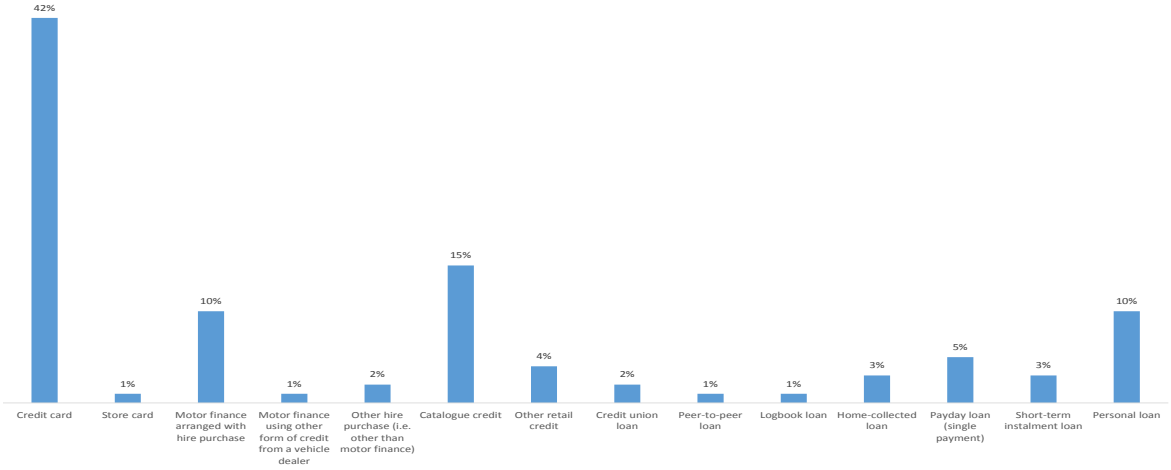
Insolvencies

The number of insolvencies in England and Wales has trended down from 2009 onwards to about mid-2015, after showing a sharp increase from mid-2007 to early 2009. This overall insolvency pattern in England and Wales reflects two opposing trends, namely a trend decline in personal bankruptcies from early 2009 onwards and a small trend increase in individual voluntary arrangements (IVAs) (Figure 61). The number of bankruptcies in England and Wales is now lower than in the early years of personal insolvency reforms, which came into force on 1 April 2004. In contrast, the number of IVAs increased sharply after 1 April 2004 and reached its peak in 2017 Q2 after declining temporarily in 2014.

In Scotland, the number of individual insolvencies shows a trend decline from late 2008 onwards until mid-2015. Thereafter, this trend reversed and shows a moderate trend increase (Figure 63).

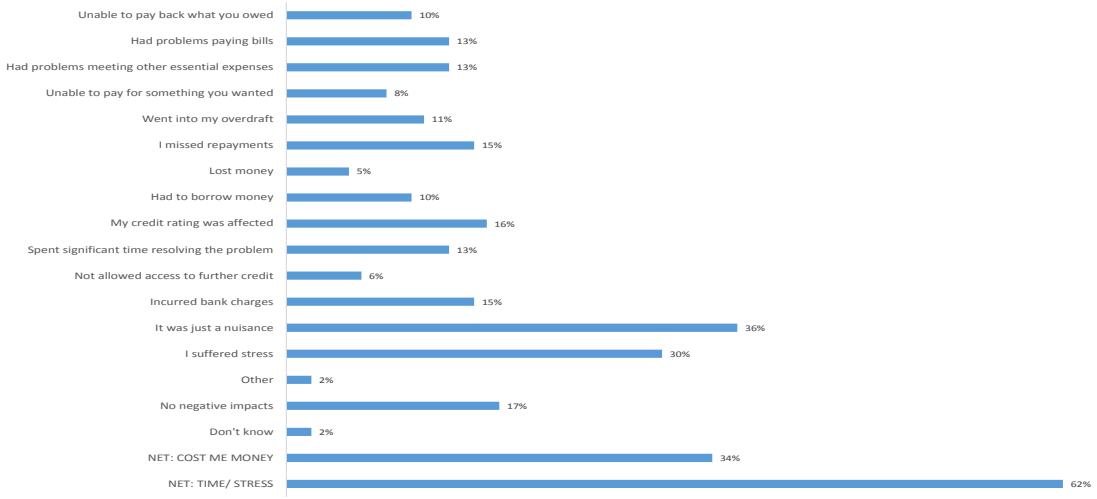
In contrast, in Northern Ireland, the number of individual insolvencies shows a trend increase from 2008 to 2014, followed by a trend decline through 2014, 2015 and part of 2016, and a marked rebound in 2017 (Figure 64).

Figure 56 **Credit product which created the most serious problem for UK individuals who have taken out consumer credit products in the last 12 months / 3 years**



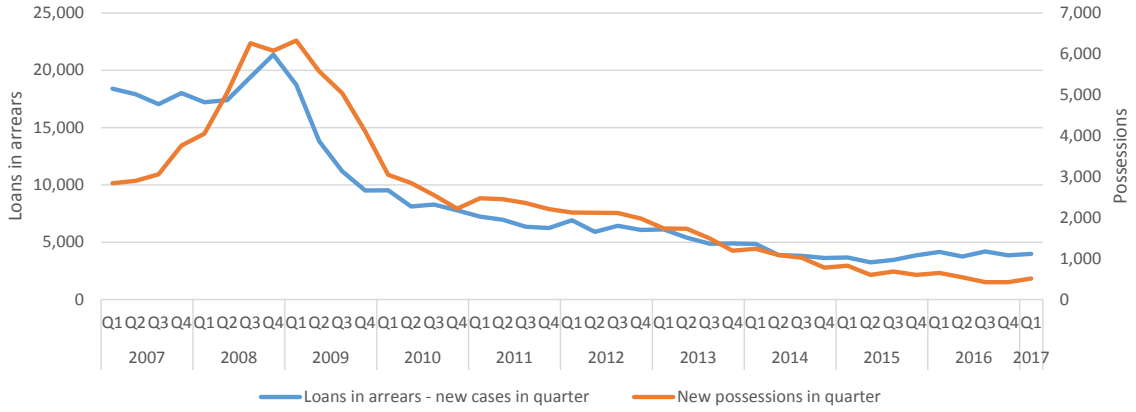
Source: FCA Financial Lives Survey 2017

Figure 57 **Impact of the most serious problem for UK individuals who have taken out consumer credit products in the last 12 months / 3 years**



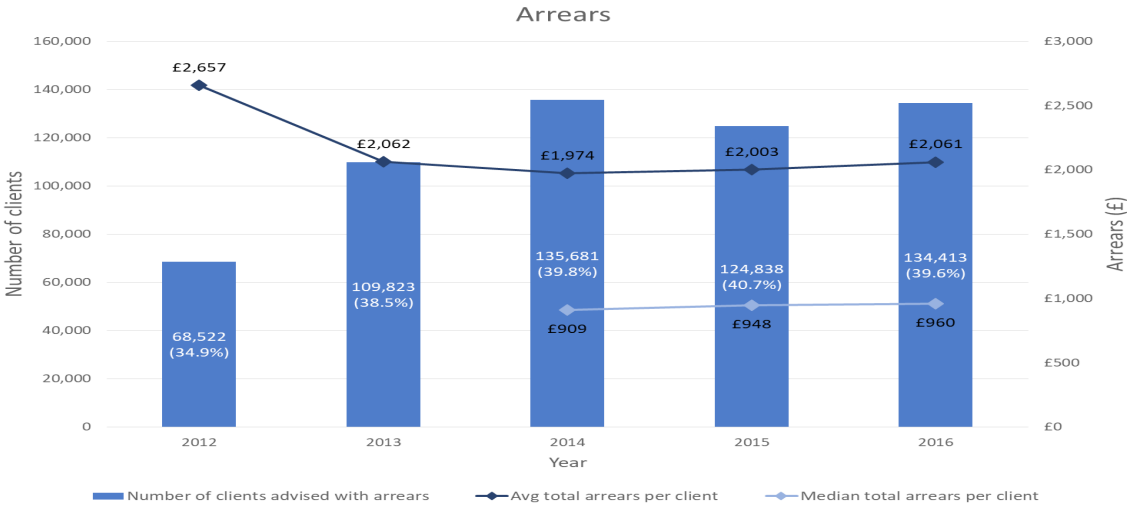
Source: FCA Financial Lives Survey 2017

Figure 58 Arrears on secured loans and possessions – new cases



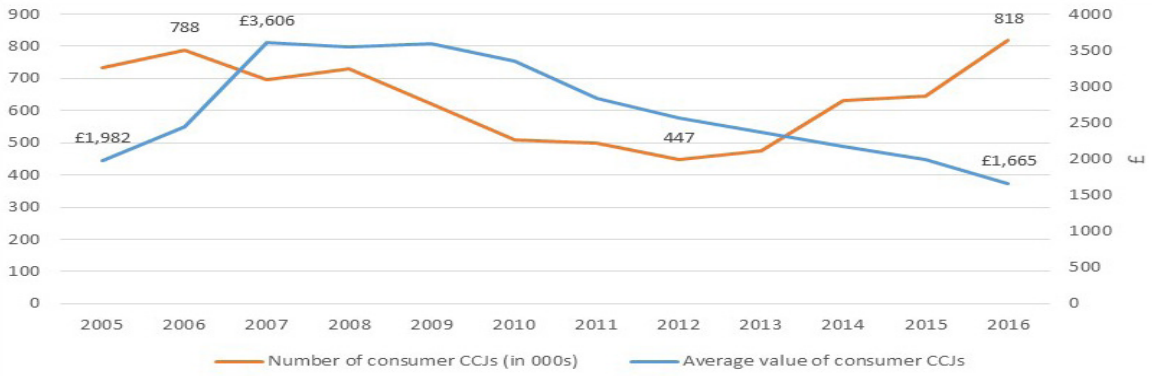
Source: Bank of England/FCA Mortgage Lending Statistics

Figure 59 Mean and median arrears of StepChange clients



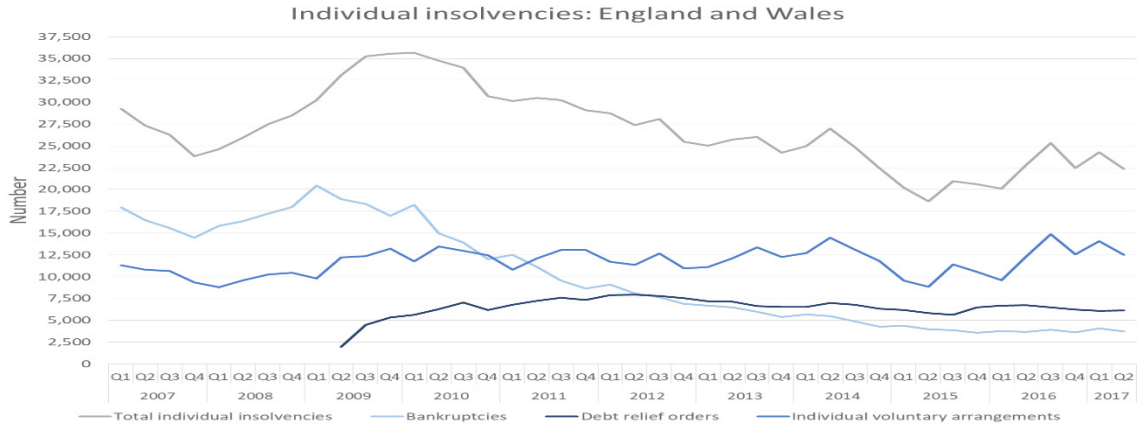
Source: StepChange

Figure 60 Number and average value of County Court Judgements



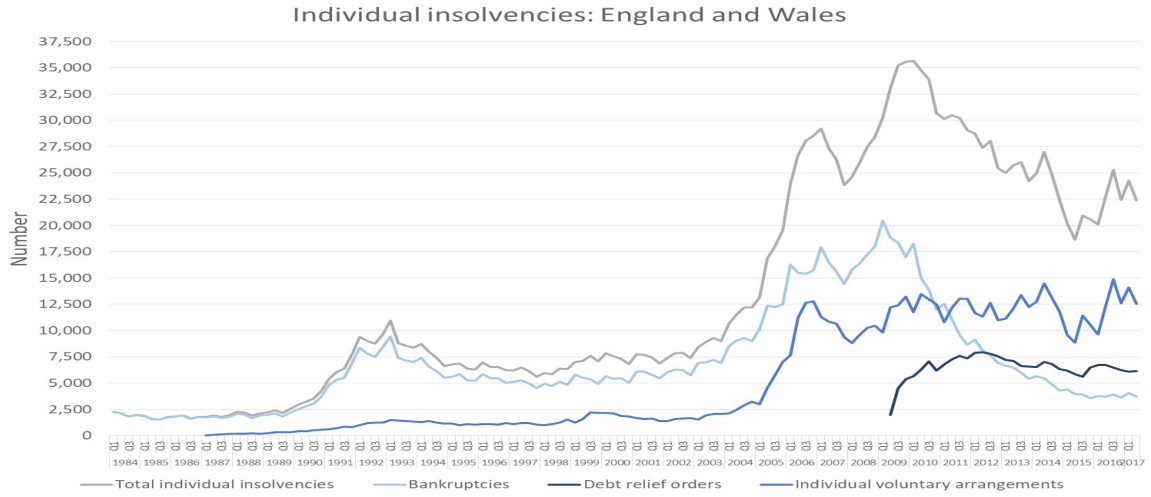
Source: Registry Trust Limited

Figure 61 **Individual insolvencies in England and Wales**



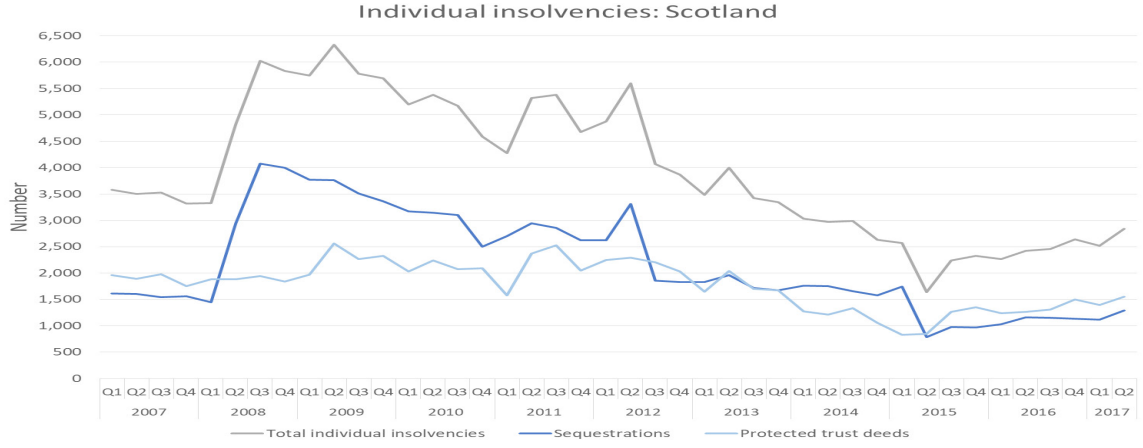
Source: The Insolvency Service

Figure 62 **Individual insolvencies in England and Wales – a longer term perspective**



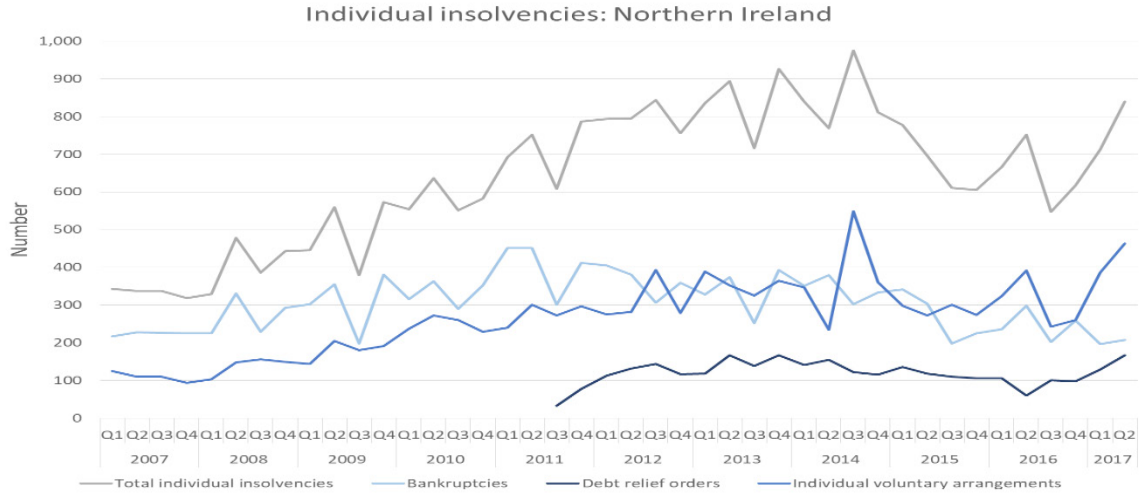
Source: The Insolvency Service

Figure 63 **Individual insolvencies in Scotland**



Source: The Insolvency Service

Figure 64 **Individual insolvencies in Northern Ireland**



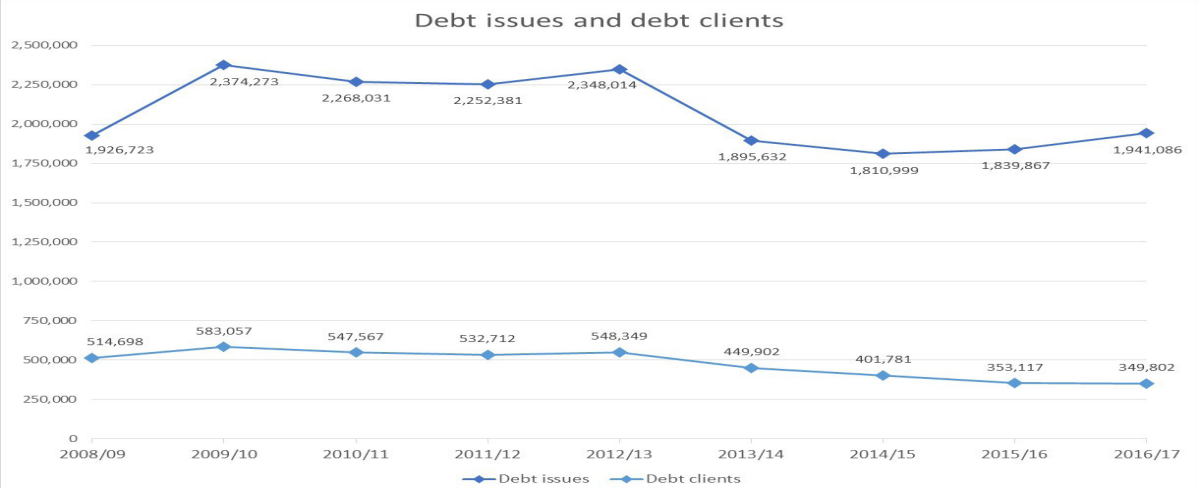
Source: The Insolvency Service

5 Supply of debt advice

Three providers of free debt advice – Citizens Advice, PayPlan, and StepChange – have provided detailed information on their debt advice activities to this review of trends. The resulting picture of the evolution of their advice client base is mixed.

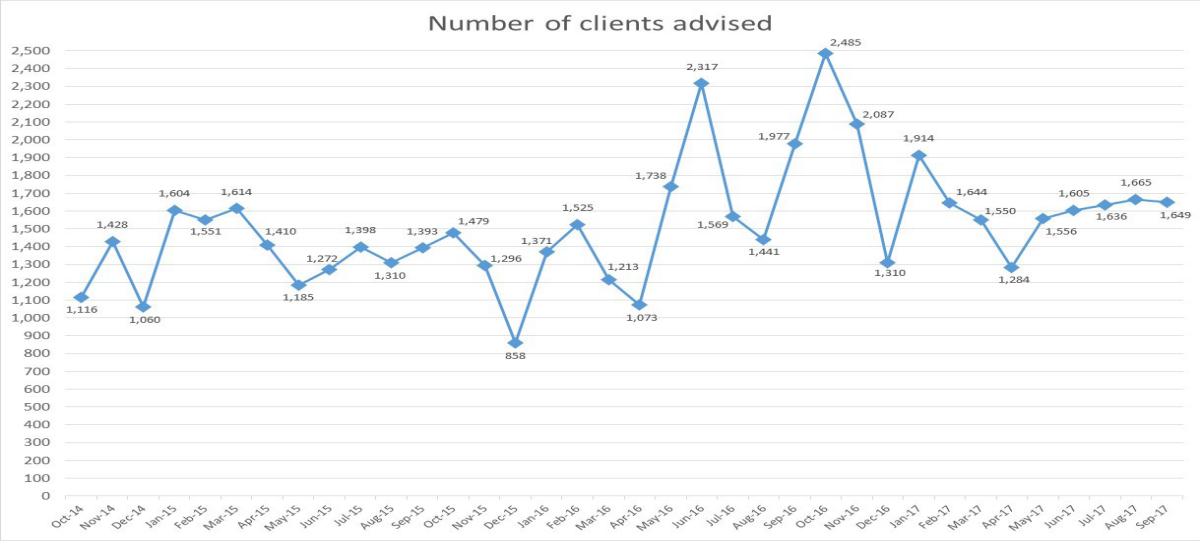
- The number of StepChange clients shows a sharp increase from 2012 to 2014. This increase is then followed by a period in which the client base is broadly stable (Figure 67).
- In contrast, the client base of PayPlan has changed little between 2014 and 2017 (although significant but temporary increases occurred in 2016) (Figure 66).
- According to Citizens Advice, the decline shown in Figure 65 in the number of clients seen or the number of debt issues dealt with has been caused by the challenging funding environment over the period covered by the chart

Figure 65 **Demand for Citizens Advice debt advice services**



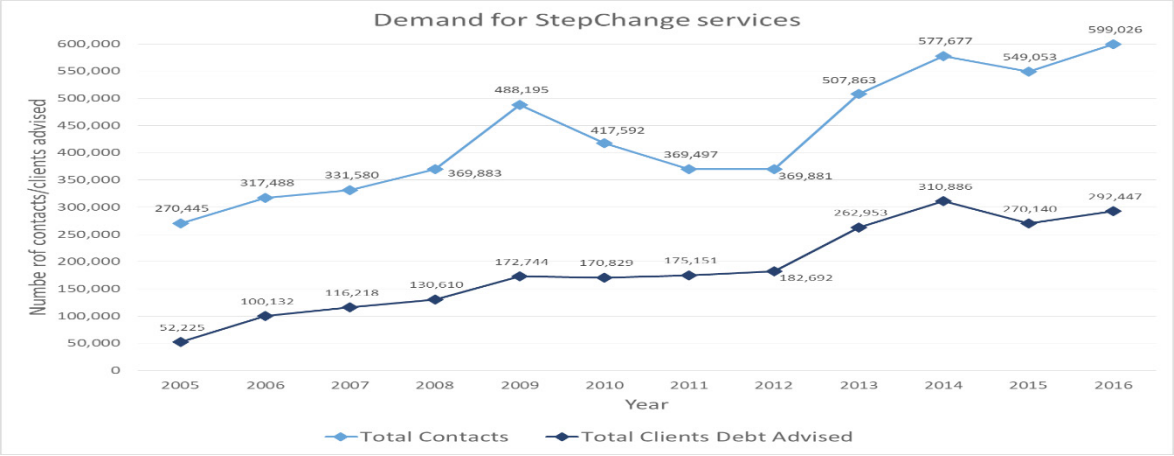
Source: Citizens Advice

Figure 66 **Demand for PayPlan debt advice services**



Source: PayPlan

Figure 67 **Demand for StepChange debt advice services**

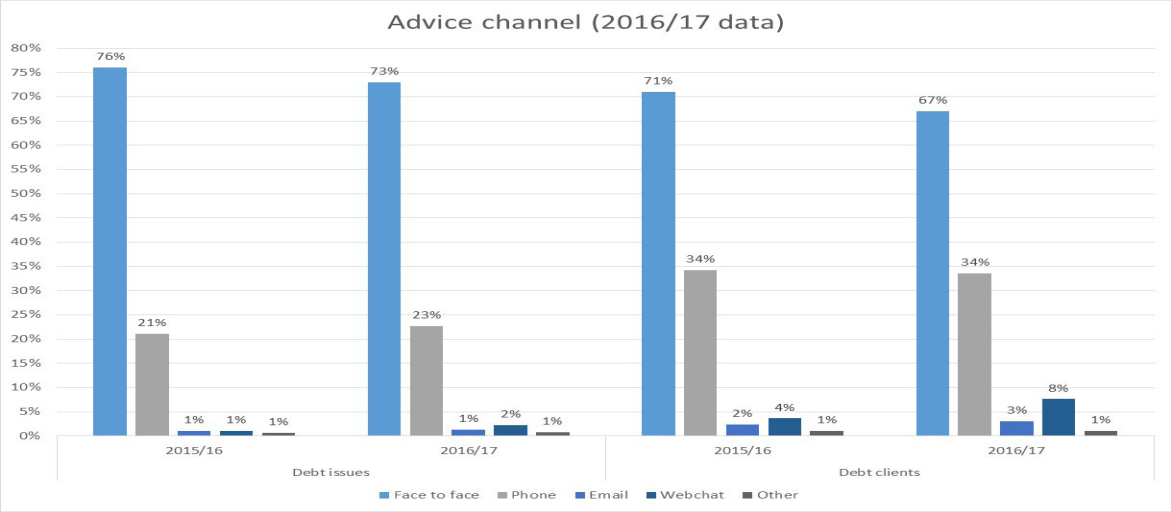


Source: StepChange

The relative importance of the various debt advice delivery channels (face-to-face, telephone, web, e-mail, etc.) used by the three organisations also varies markedly.

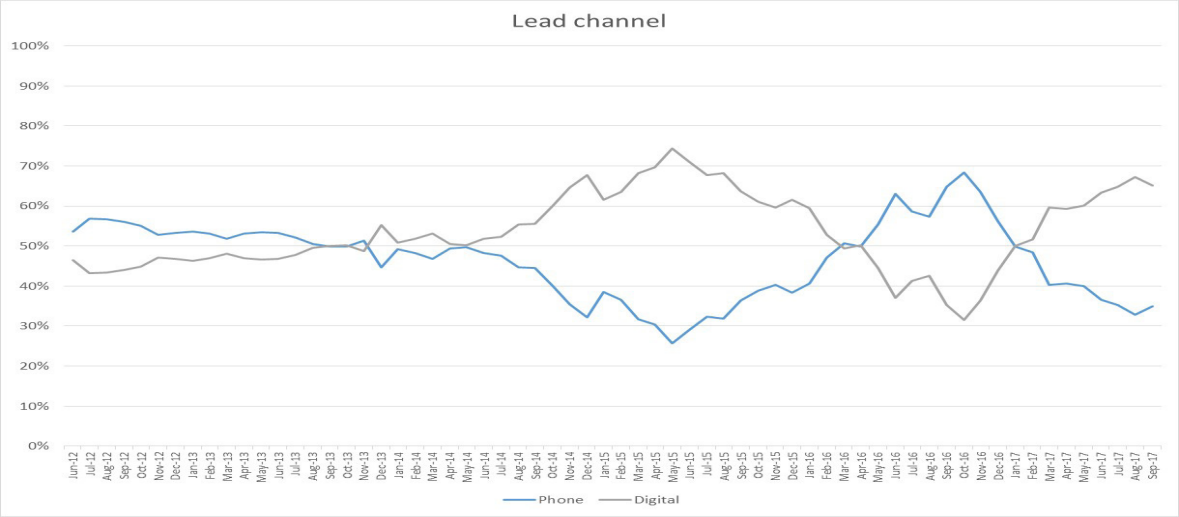
- In the case of Citizens Advice, the most important channel is still by far the face-to-face channel. The change in its relative importance over time reflects Citizens Advice's building capacity in webchat and telephone advice, combined with a minority of clients shifting channels, rather than a decline in the importance of face-to-face advice (Figure 68).
- In contrast, for both PayPlan and StepChange, the digital channel is by now the most important channel (Figure 69 and Figure 70), and the telephone channel has declined in relative importance even though a considerable number of clients are still served through this second channel.

Figure 68 **Citizens Advice: channels used for providing debt advice**



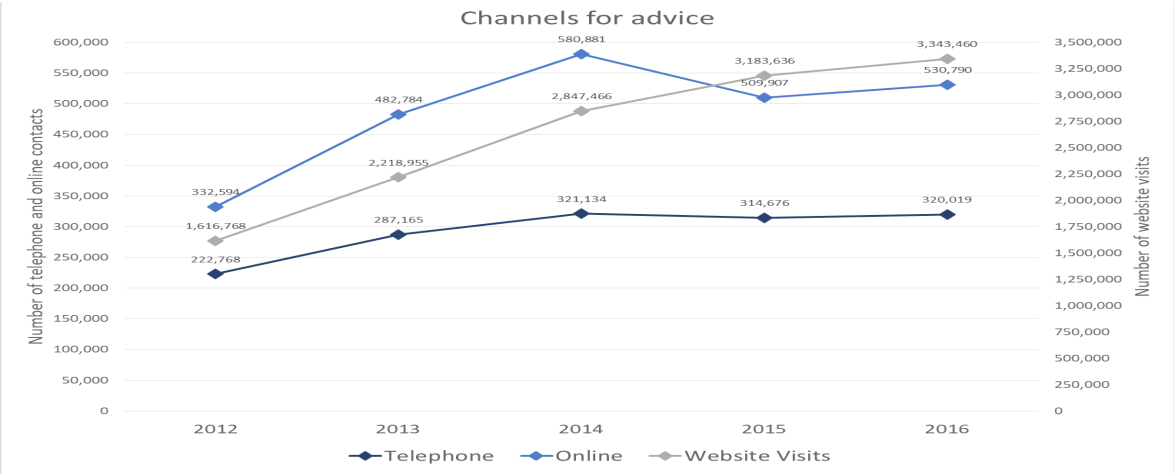
Source: Citizens Advice

Figure 69 **PayPlan: channels used for providing debt advice**



Source: PayPlan

Figure 70 **StepChange: channels used for providing debt advice**



Source: StepChange

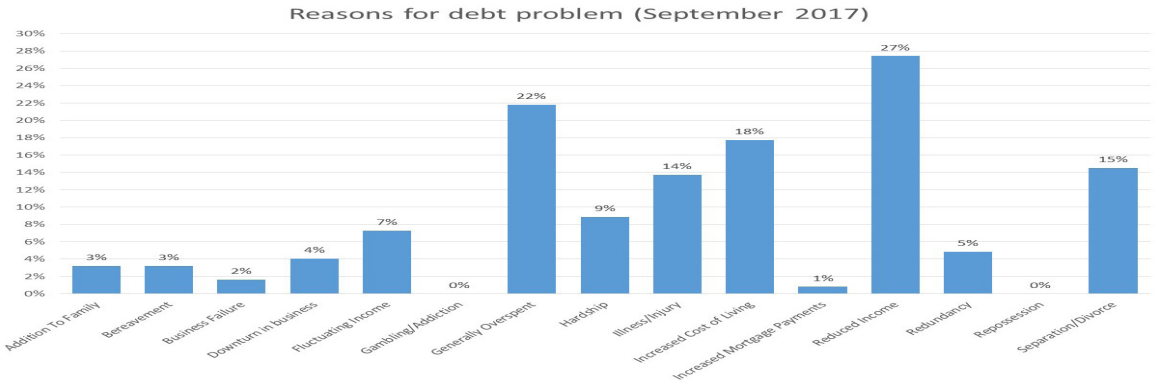
6 Demand for debt advice

This chapter first reviews the reasons why households/individuals have debt problems and what they do when facing such problems. Next, it examines the extent to which households / individuals seek debt advice. A third section focuses on the actions taken as a result of the debt advice. The final section provides information on the socio-economic characteristics of the clients of Citizens Advice, PayPlan and StepChange.

6.1 Reasons for having debt problems

Among PayPlan clients, the most common sources of debt problems, besides general overspending (22%), are events over which they have relatively little or no control, such as reduced income (27%), increased cost of living (18%), separation/ divorce (15%), illness/injury (14%) (Figure 71).

Figure 71 **Reasons given by PayPlan clients for having debt problems**

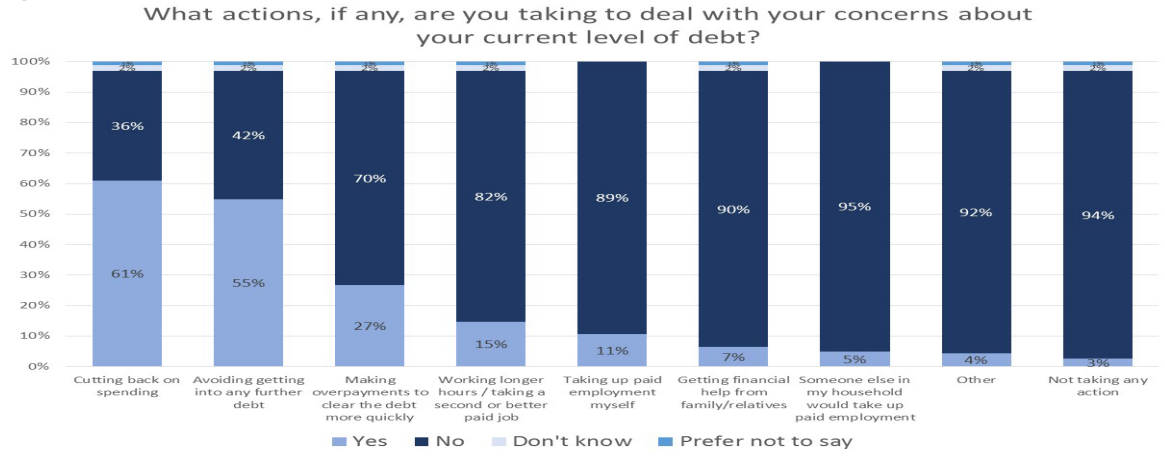


Source: PayPlan

6.2 What do individuals do when confronted with debt problems

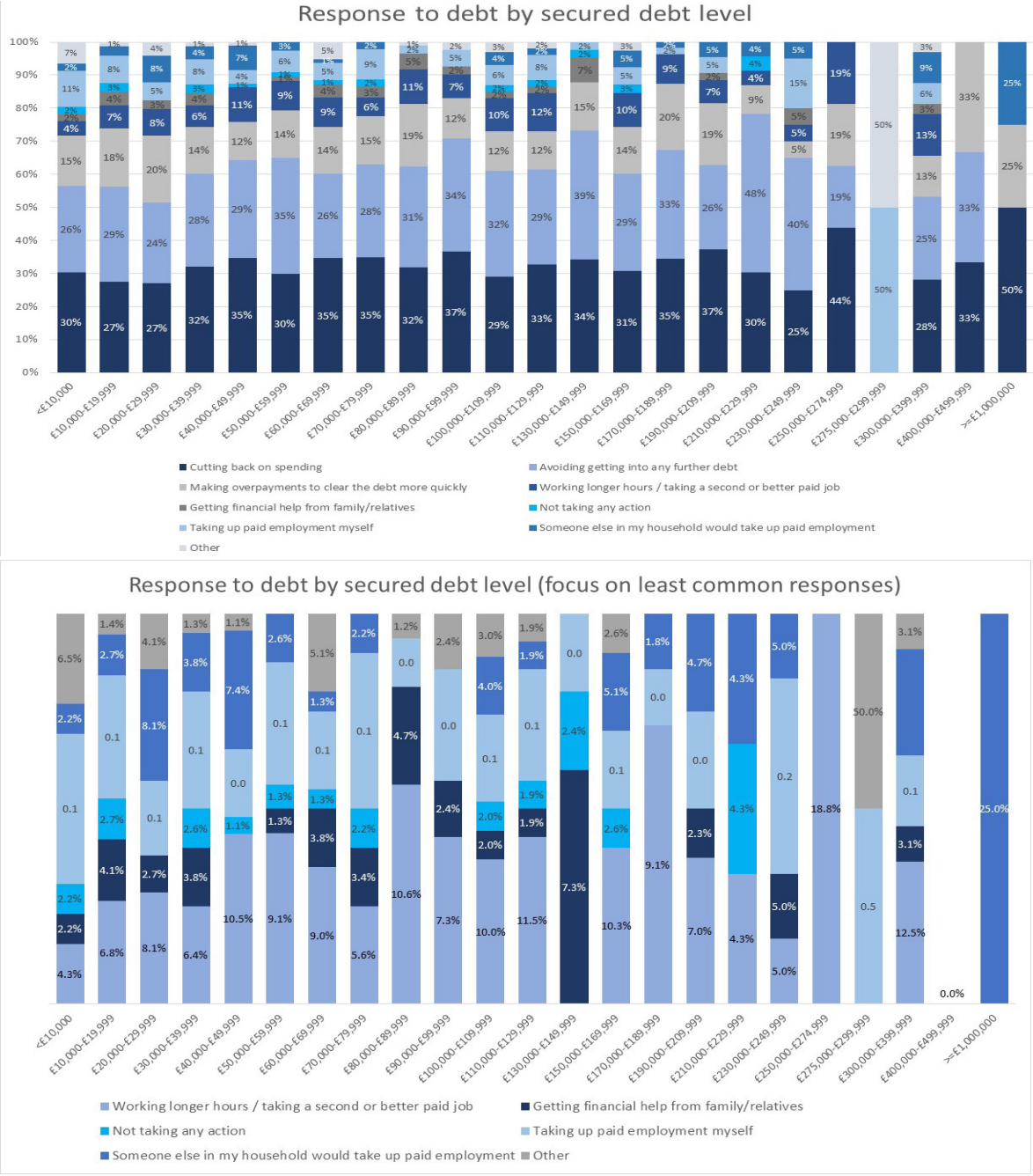
The most common response to concerns about debt is to cut back on spending (61%), followed by avoiding further debt (55%) (Figure 72). Very few respondents in the BoE/NMG survey report taking no action (3%). In general, as the secured debt level rises, more respondents report cutting back on spending and avoiding further debt (Figure 73). In contrast, there is relatively little variation in the response to debt by unsecured debt level (Figure 74).

Figure 72 **Response to debt`**



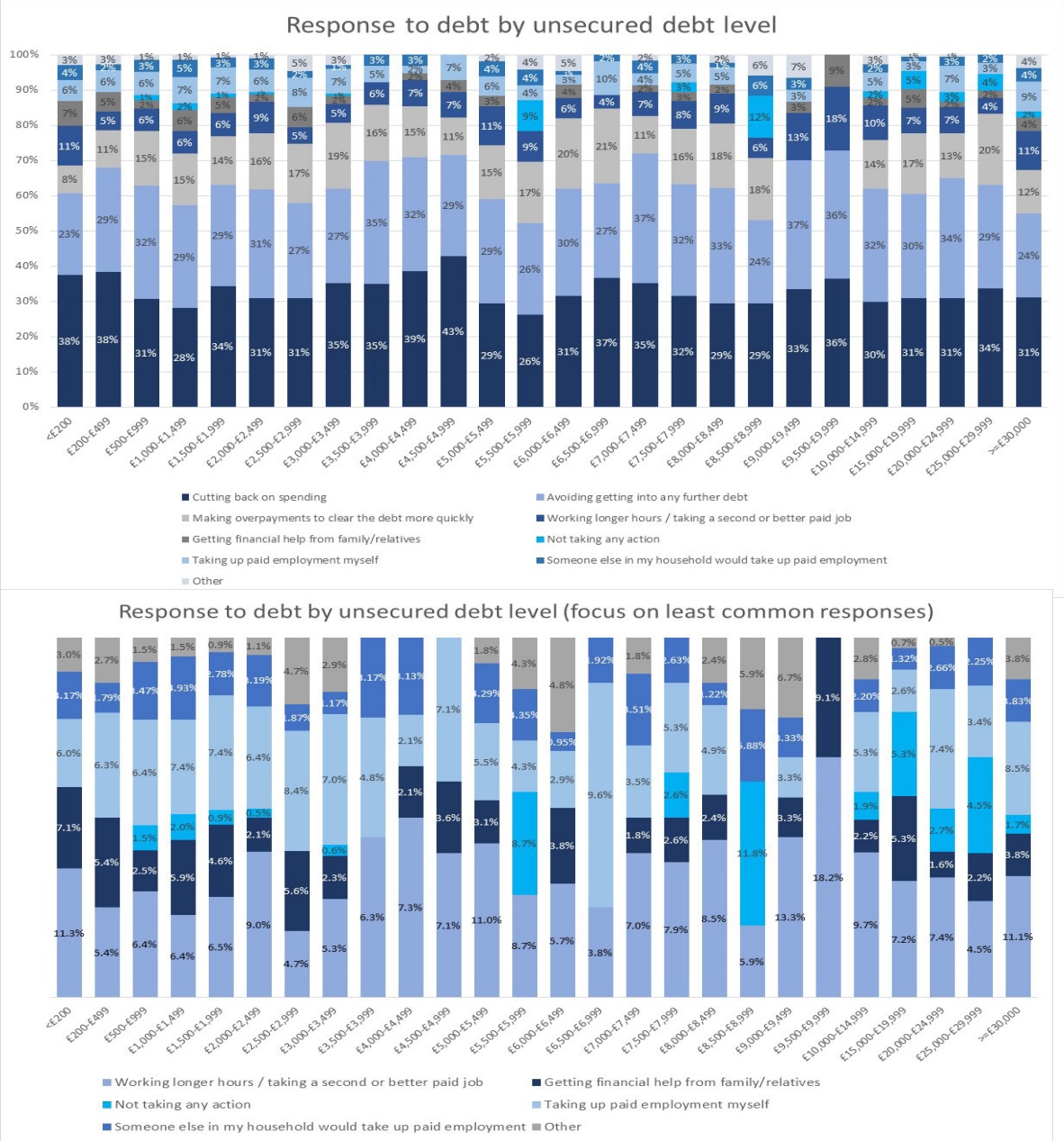
Source: Bank of England/NMG Survey 2017

Figure 73 **Response to debt by secured debt level**



Source: Bank of England/NMG Survey 2017

Figure 74 **Response to debt by unsecured debt level**



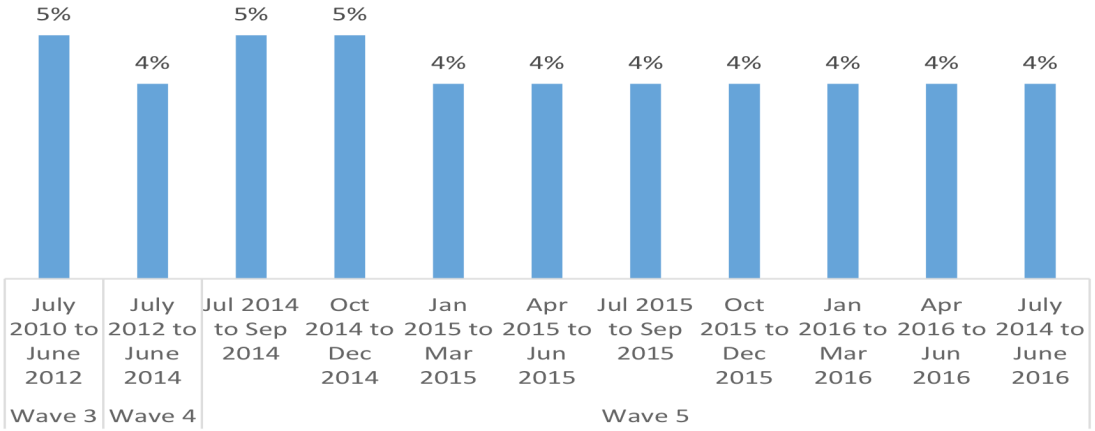
Source: Bank of England/NMG Survey 2017

6.3 Seeking debt advice

As was shown in chapter 3, approximately 7% to 11% of respondents to various surveys indicated that keeping up with bills and credit repayments is a heavy burden (Figure 44 and Figure 45), and 2% to 4% are falling behind on all or some of their financial commitments. A much higher proportion of survey respondents (17%), with only unsecured debt, or a combination of unsecured and secured debt, reported being very concerned about their debt levels (Figure 33).

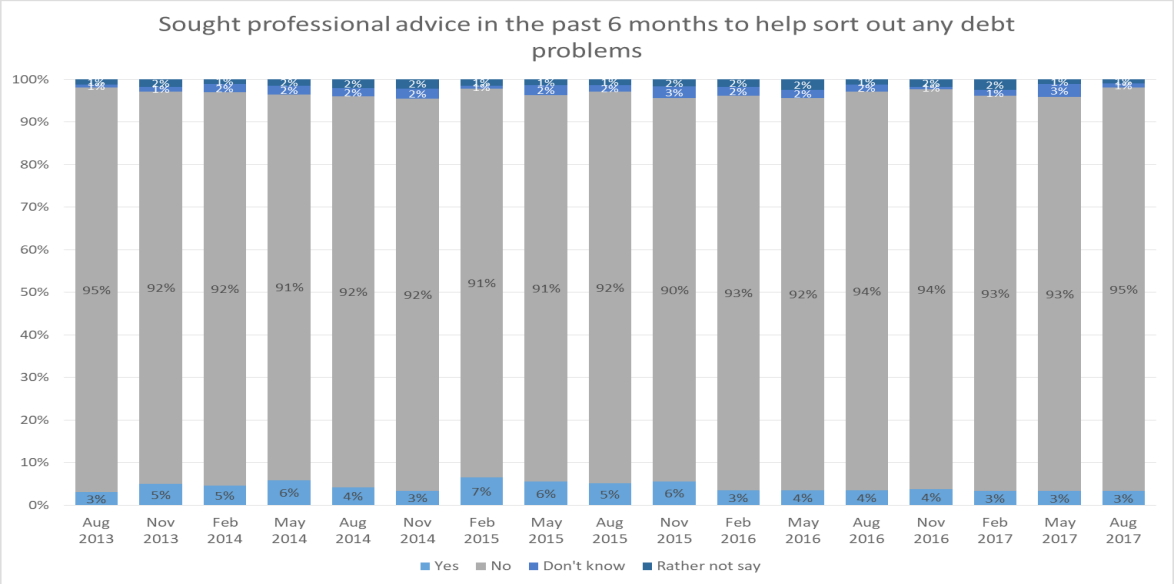
Nonetheless, in recent years, only 3% to 4% of survey respondents sought debt advice (Figure 75 and Figure 76).

Figure 75 **Proportion of survey respondents who sought debt advice**



Source: ONS Wealth and Assets Survey

Figure 76 **Proportion of survey respondents who sought professional advice in the previous six months**

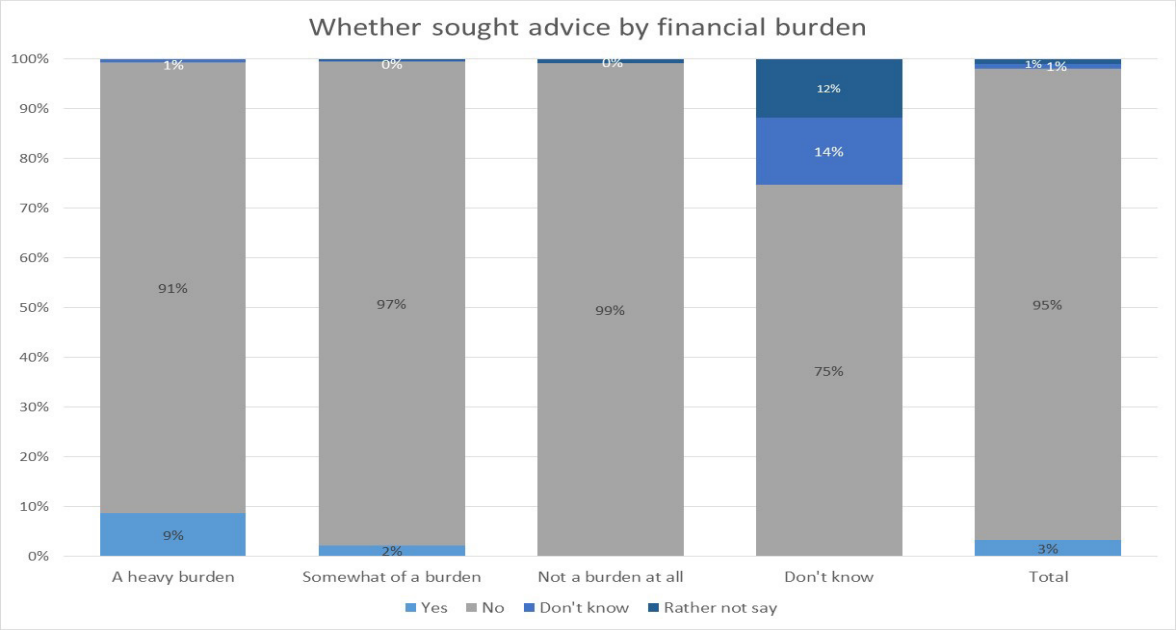


Note: Observations have been weighted to be representative of the population.

Source: YouGov Debt Tracker 2013-2017

Unsurprisingly, a higher proportion of individuals who reported that their financial commitments are a heavy burden, are seeking debt advice (Figure 77), but even so, the percentage of advice seekers in this category is still only 59% (Figure 78).

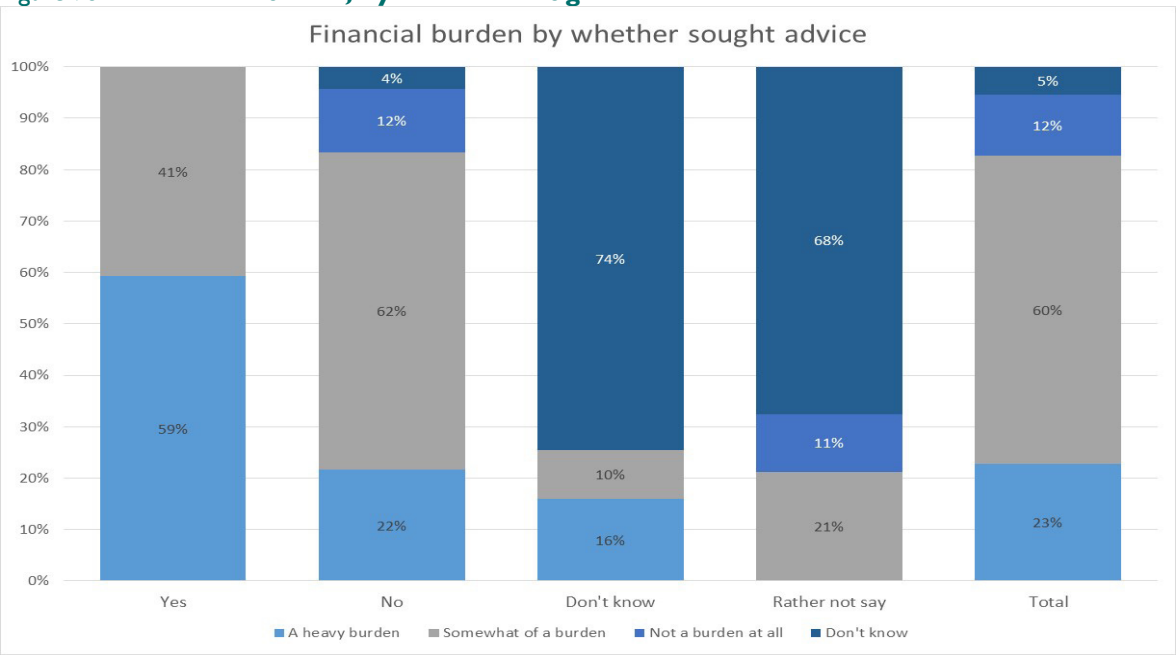
Figure 77 **Whether sought advice, by financial burden**



Note: Observations have been weighted to be representative of the population.

Source: YouGov Debt Tracker August 2017

Figure 78 **Financial burden, by whether sought advice**

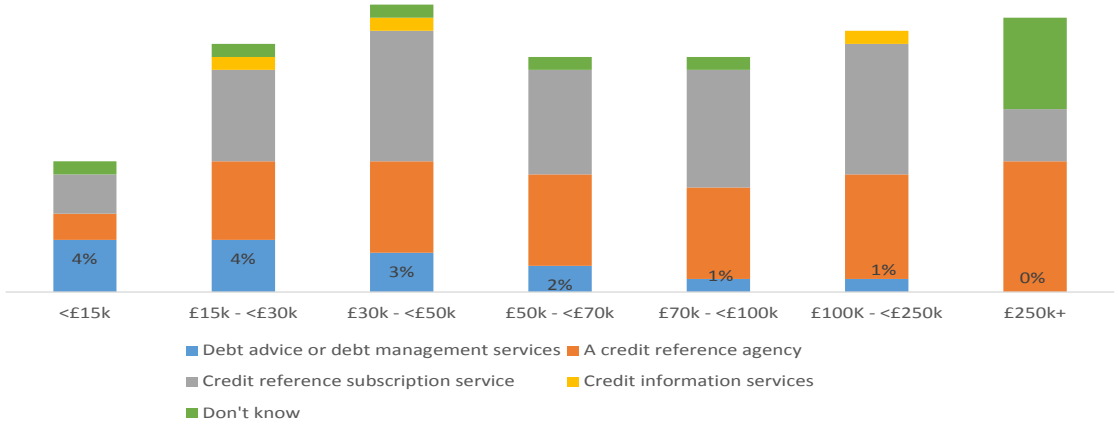


Note: Observations have been weighted to be representative of the population.

Source: YouGov Debt Tracker August 2017

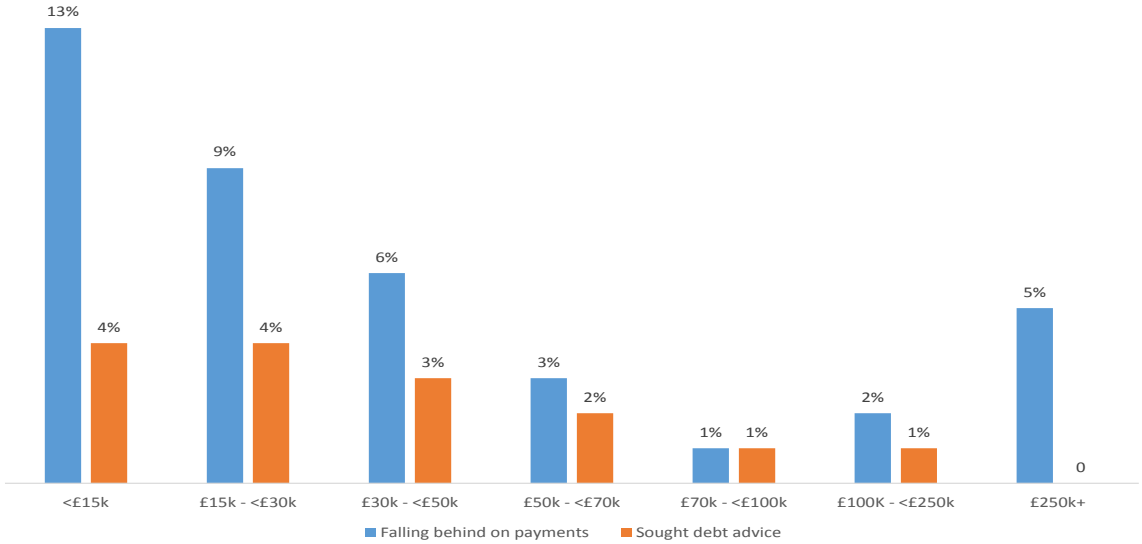
Furthermore, the 2017 FCA Financial Lives Survey shows that only 4% of respondents sought debt advice, even among income groups with a high proportion of survey respondents falling behind on bills and credit commitments (11% in the income group of less than £15,000, 9% in the income group of £15,000 to less than £30,000 and 6% in the income group of £30,000 to less than £50,000) (Figure 79 and Figure 80).

Figure 79 **Proportion of UK adults who used one or several credit-related services**



Source: FCA Financial Lives Survey 2017

Figure 80 **Proportion of UK adults falling behind with payments and seeking debt advice by income group**

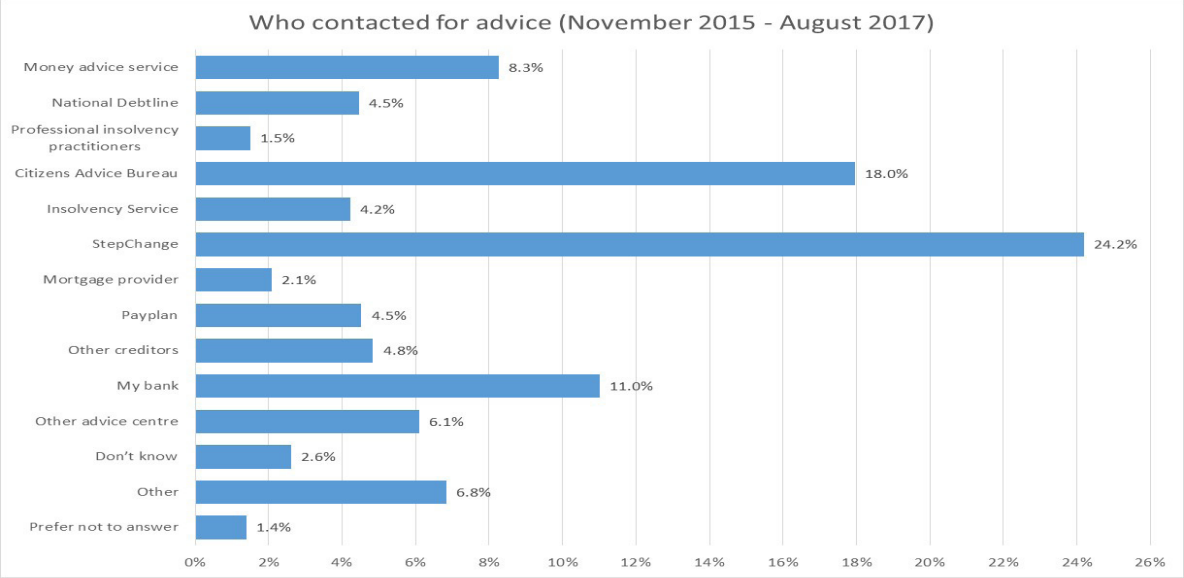


Source: FCA Financial Lives Survey 2017

Overall, one can reasonably conclude from the statistics presented above that, in light of the debt issues faced by individuals/households, the proportion of individuals seeking debt advice is low and that a considerably larger number of individuals/households would also benefit from receiving debt advice. In other words, the latent demand for debt advice is considerable larger than the actual demand manifested by individuals/households.

StepChange and Citizens Advice are the most commonly contacted debt advice providers by individuals/households seeking debt advice (Figure 81). Some of these individuals/households contacted commercial debt advice providers, mainly because they were unaware of the existence of the free advice services (Figure 82).

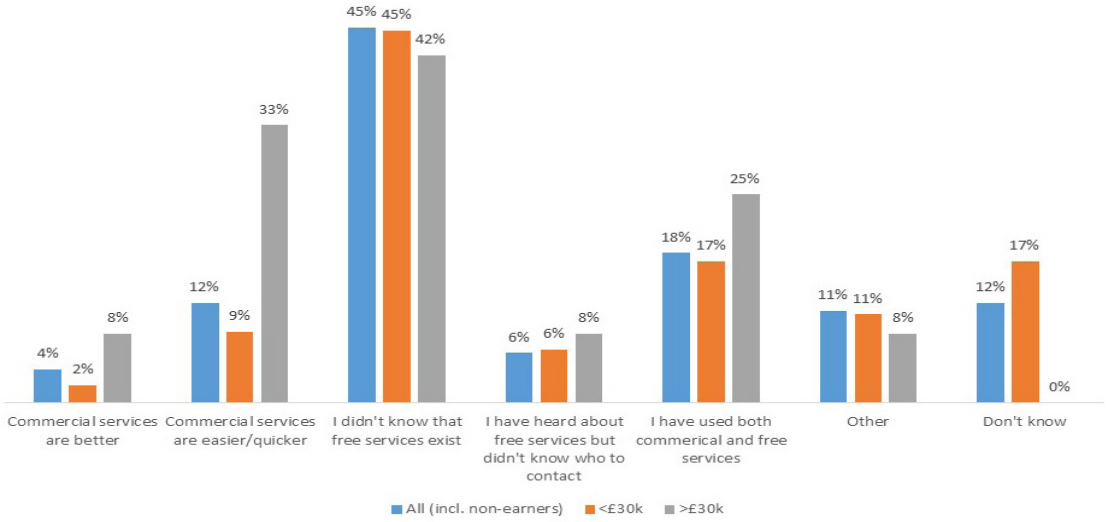
Figure 81 **Who has been contacted for advice (of those who have contacted someone)**



Note: Observations have been weighted to be representative of the population.

Source: YouGov Debt Tracker August 2017

Figure 82 **Reasons for seeking debt advice from a commercial provider**



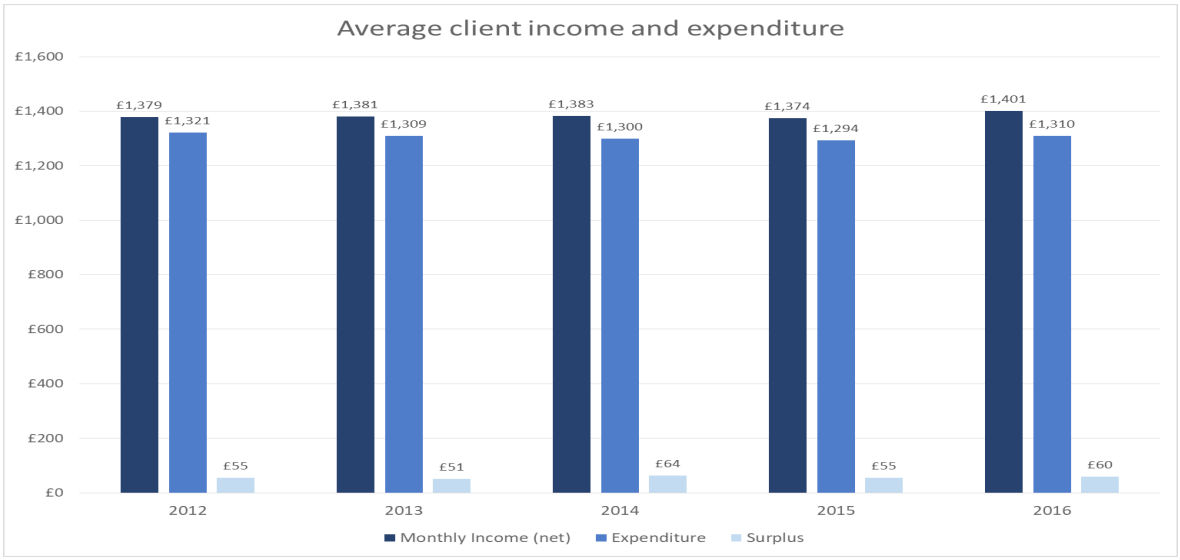
(As the number of individuals in this group is very small, the percentages shown in the figure should be used with caution)

Source: FCA Financial Lives Survey 2017

6.4 Level and types of debts held by debt advice clients of Citizens Advice, PayPlan and StepChange

Typically, the clients of StepChange have low incomes (average monthly income of £1,400 or less) (Figure 83) and their debts exceed their monthly income (Figure 83 and Figure 85).

Figure 83 **StepChange: average client income and expenditure**

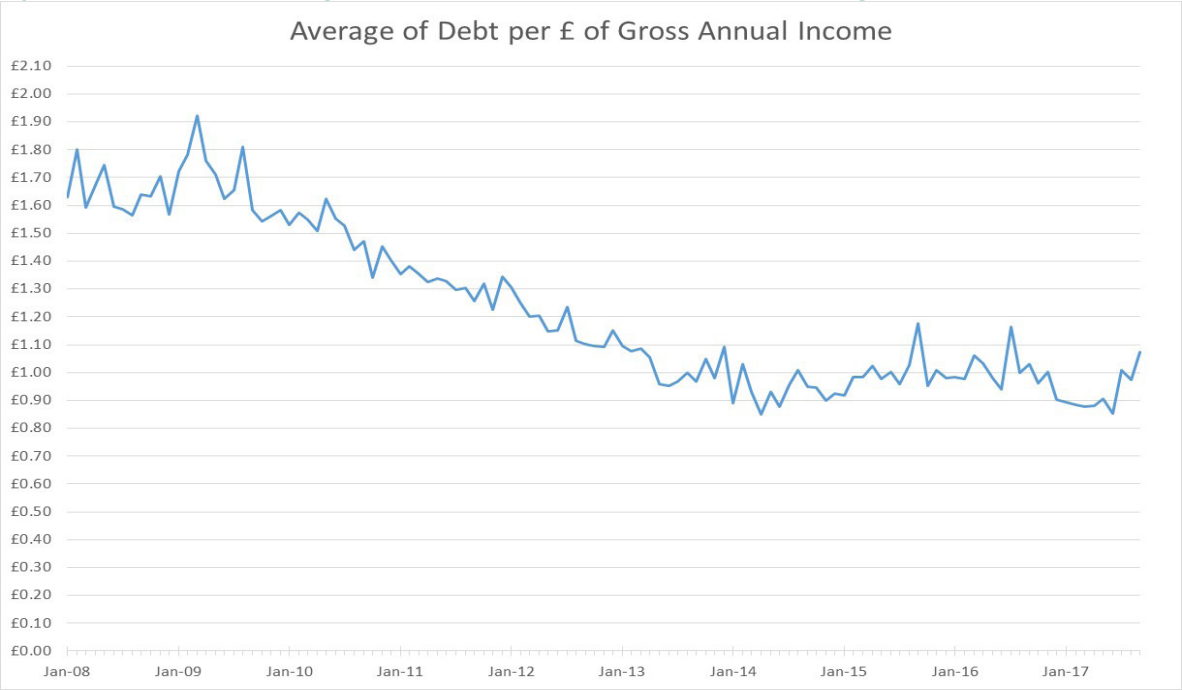


Source: StepChange

Figure 84 **PayPlan: average unsecured debt of PayPlan clients (£)**

Source: PayPlan

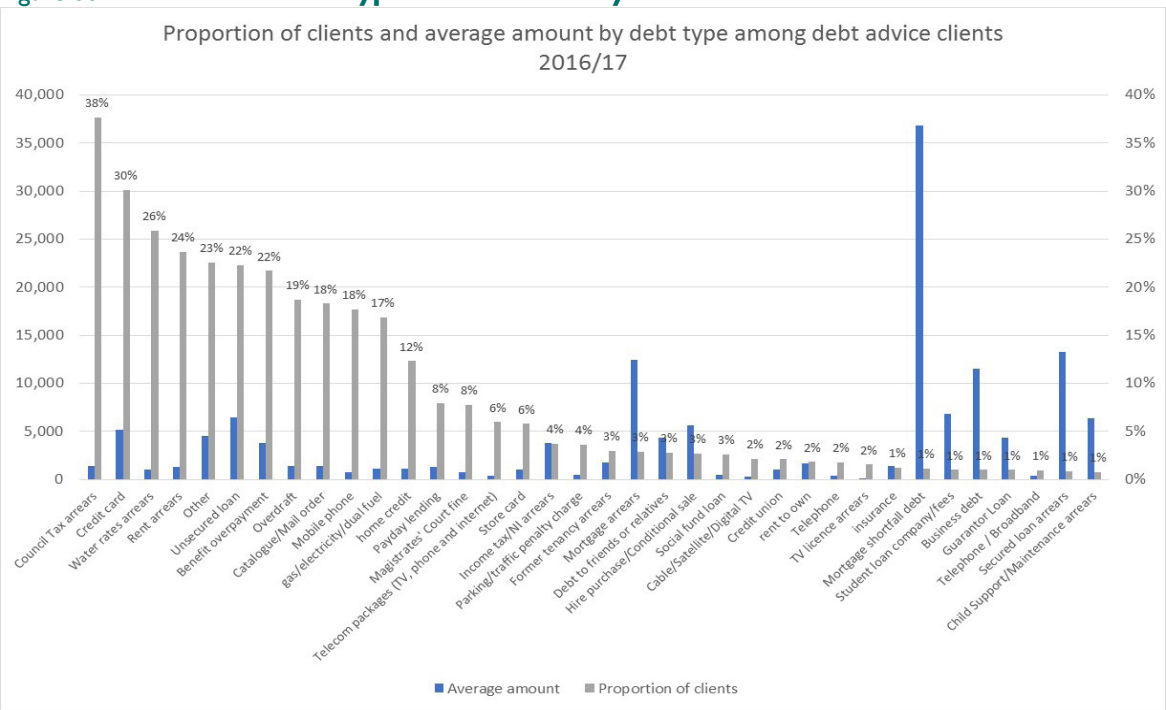
Figure 85 **PayPlan: average debt to income ratio of clients seeking debt advice**



Source: PayPlan

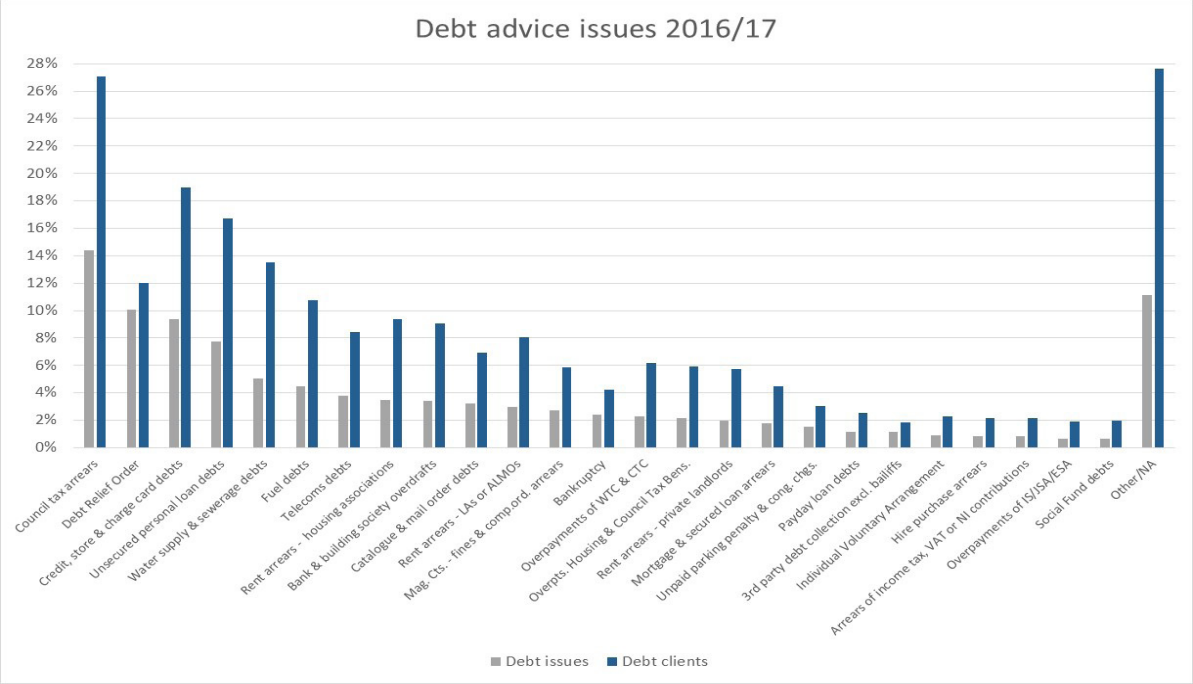
The most common types of debt held by Citizens Advice clients are council tax arrears (38%), credit card debt (30%), water bills (26%), rent arrears (24%), unsecured loans (22%), overpayments of benefits (22%), overdrafts (19%), catalogue and mail order debt (18%), mobile phone bills (18%) and gas/electricity/dual fuel bills (17%) (Figure 86). However, the average value of these debts is much lower than that of secured/mortgage debt. These debts are also broadly those which are addressed by the debt advice provided by Citizens Advice (Figure 87).

Figure 86 **Citizens Advice: type of debts held by clients of Citizens Advice**



Source: Citizens Advice

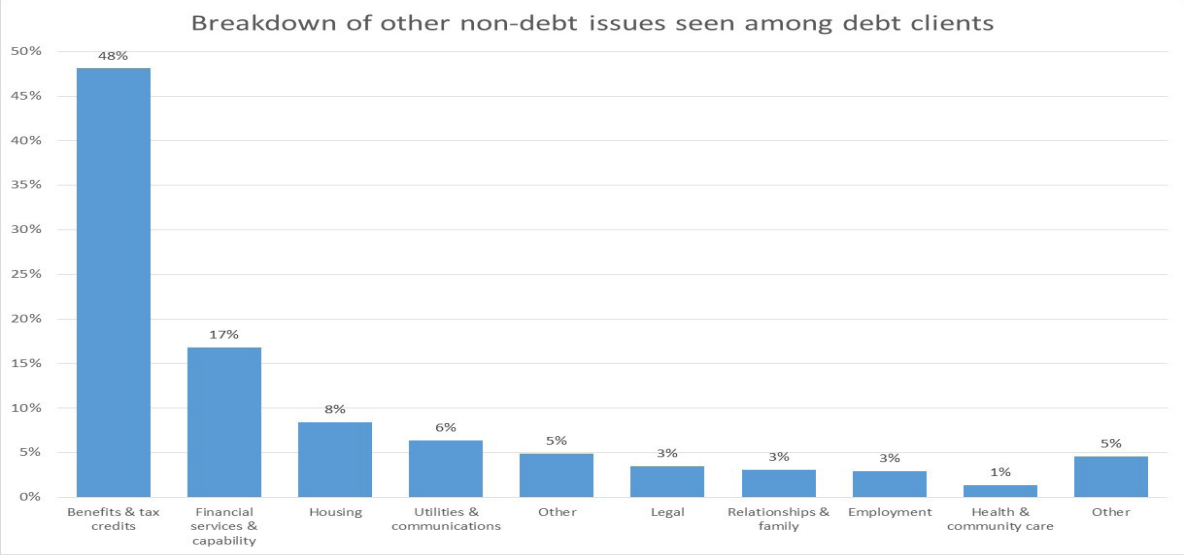
Figure 87 **Citizens Advice: Debt issues addressed**



Source: Citizens Advice

Very often, the debt problem is not the only issue experienced by debt advice seekers. By far the most common additional issue relates to benefits and tax credits (45% of all debt advice clients of Citizens Advice) (Figure 88). According to Citizens Advice, this figure highlights how Citizens Advice leverages resources and expertise from outside the debt sector to solve the wide range of problems that those with a debt issue have.

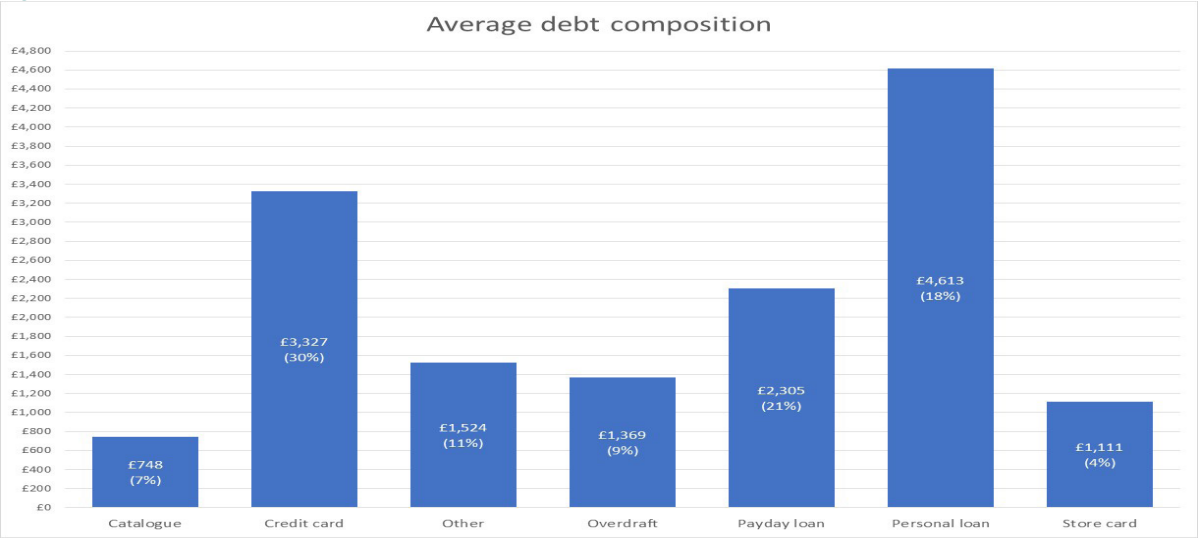
Figure 88 **Citizens Advice: non-debt issues faced by debt advice seekers**



Source: Citizens Advice

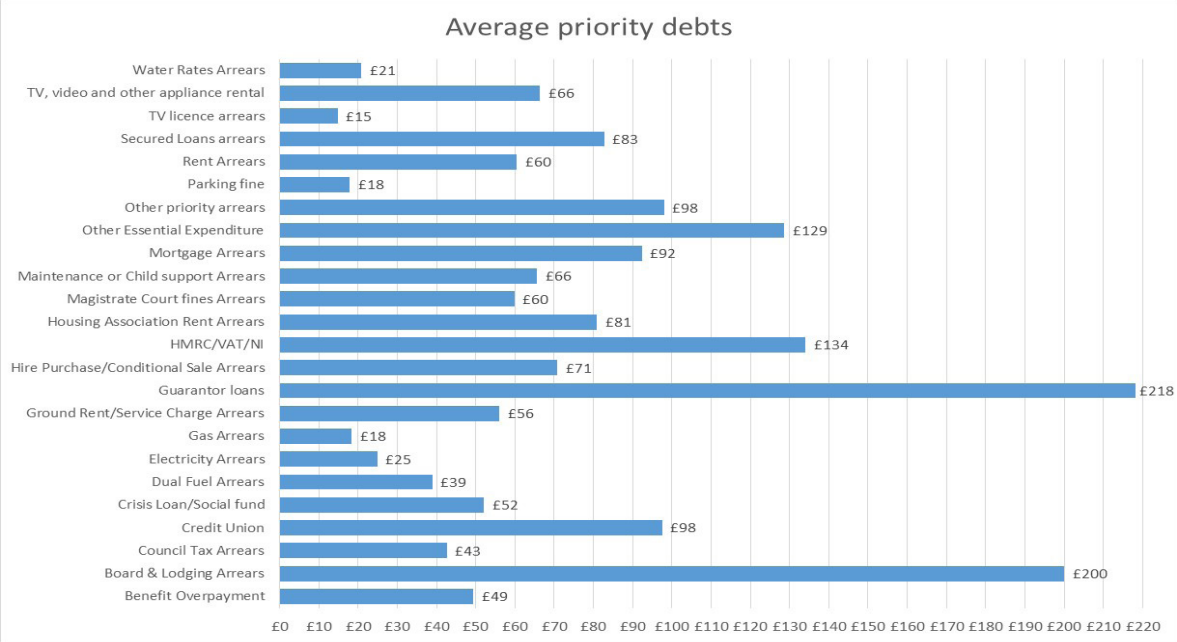
In the case of PayPlan, credit card debt is the most common type of debt (30%), although the average credit card debt is lower than the average personal loan debt which is held by 18% of clients (Figure 89). Among the priority debts of PayPlan clients, the average debts related to guarantor loans and board and lodging arrears are by far the highest (Figure 90).

Figure 89 **PayPlan: type of debt held by advice seekers**



Source: PayPlan

Figure 90 **PayPlan: Average priority debt of PayPlan clients**



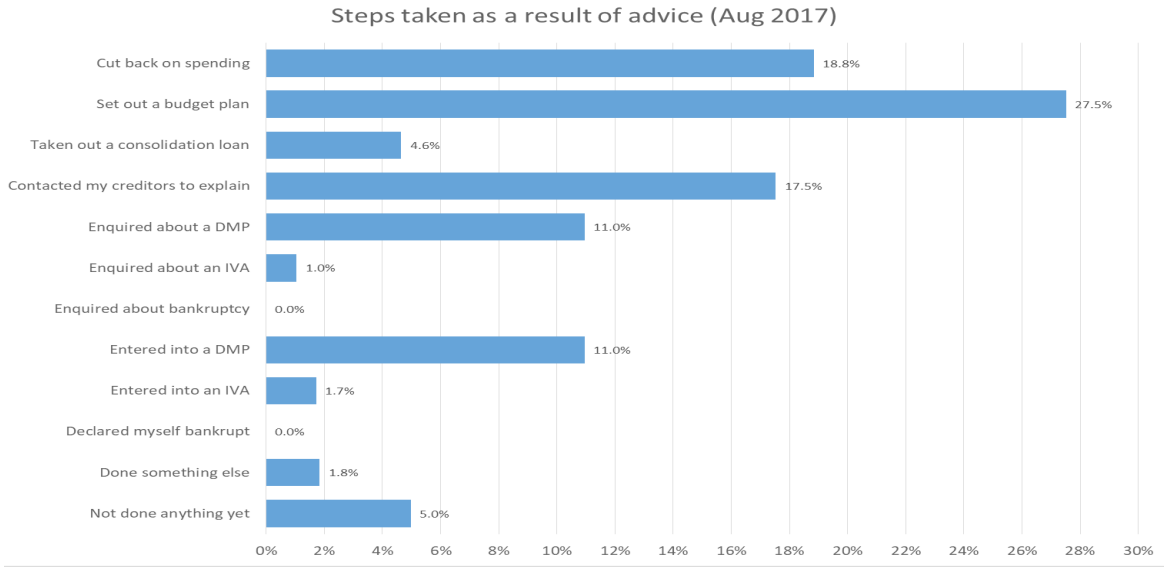
Source: PayPlan

6.5 Actions taken as a result of debt advice

Following (or as a result of) the debt advice, 28% of those who received debt advice developed a budget plan, 19% reduced their spending and 18% contacted their creditors to explain the situation.

Only 11% entered a debt management plan (DMP) and 1.7% went into an IVA. Less than 0.5% declared bankruptcy (Figure 91). In recent years, between 3% and 4.5% of UK individuals were in a DMP and 1.1% were in an IVA (Figure 92).

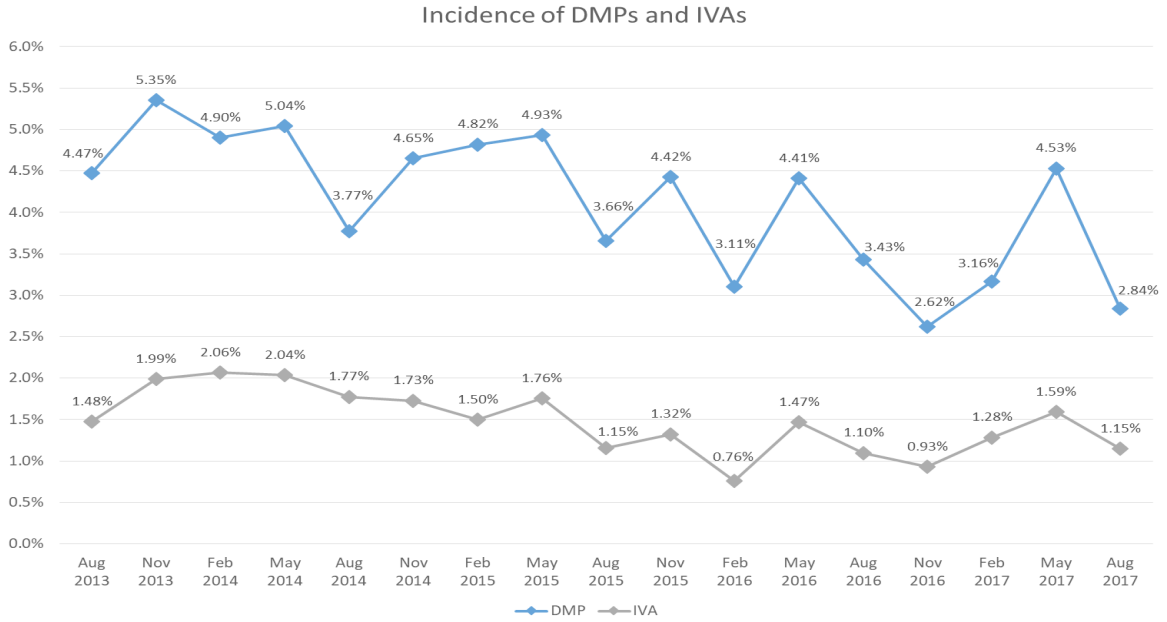
Figure 91 Steps taken as a result of advice (of those who have received debt advice)



Note: Observations have been weighted to be representative of the population.

Source: YouGov Debt Tracker August 2017

Figure 92 Incidence of DMPs and IVAs



Note: Observations have been weighted to be representative of the population.

Source: YouGov Debt Tracker

6.6 Socio-economic characteristics of individuals seeking debt advice

The distribution of individuals seeking debt advice from PayPlan across approximated social grades is very similar to the distribution in the underlying population (Figure 93):[16]

- 29% of debt advice seekers are in social grade DE versus 26% in the UK population;
- 22% are in social grade C2 versus 21% in the UK population;
- 30% in social grade C1 versus 31% in the UK population; and,
- 19% in social grade AB versus 22% in the UK population.

The vast majority of debt advice seekers are in the 25 to 54-59 age bracket (Figure 94 and Figure 95). Relatively few young and elderly people are seeking debt advice – the shares of both age groups are considerably higher in the UK population than in the client base of both PayPlan and StepChange.[17]

Moreover, in terms of gender distribution of debt advice seekers, females are over-represented in the client base of StepChange (Figure 96), as they account for only 52% of the UK population, but account for a share of 59% of advice-seekers.

Most debt advice seekers served by Citizens Advice are:

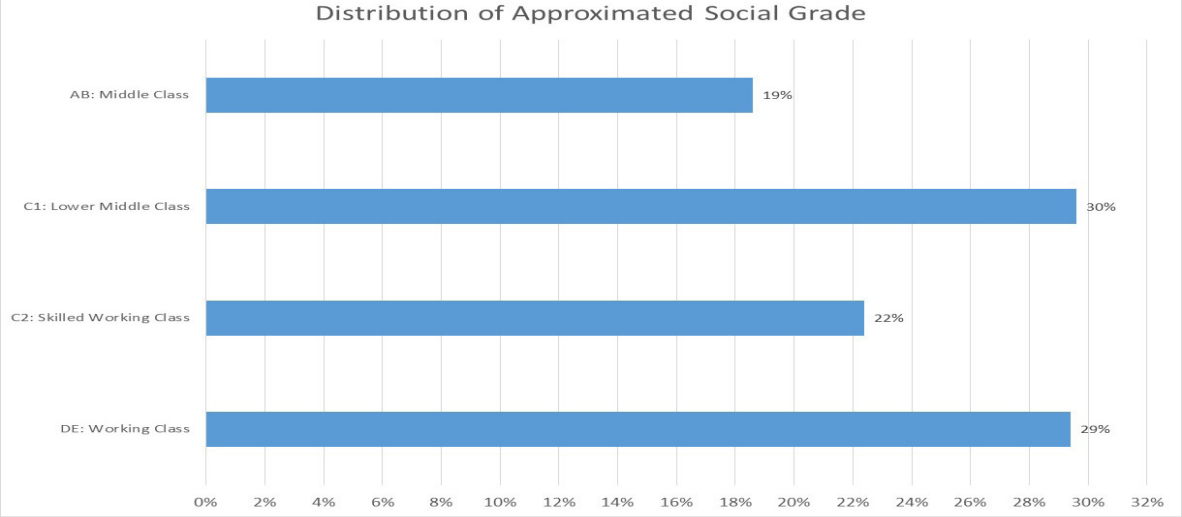
- single persons (40% of total client base of Citizens Advice), or single persons with children (23%) (Figure 97);
- are tenants: private tenants (35% of total client base of Citizen Advice), social tenants other than Council tenants (24%) or Council tenants (20%) (Figure 98);
- have less than £1,000 in monthly income (61%) – (36% do not even have £600 in monthly income) (Figure 99); and
- have health issues (about 40%) (Figure 100).

While the PayPlan debt-advice client base shows somewhat different figures regarding the health status of the clients, it highlights that a number of clients suffer from more than one vulnerability (Figure 101).

In the case of PayPlan, most of the debt-advice clients are in full-time employment (73%) or part-time employment (21%) (Figure 103).

In contrast, slightly less than a third of StepChange debt-advice clients are unemployed (Figure 104). Moreover, debt-advice seekers who are in full-time employment also account for slightly less than a third of debt-advice seekers, and debt-advice clients in part-time employment account for less than a fifth of all debt-advice clients.

Figure 93 **PayPlan: Distribution of debt-advice seekers by approximated social grade**

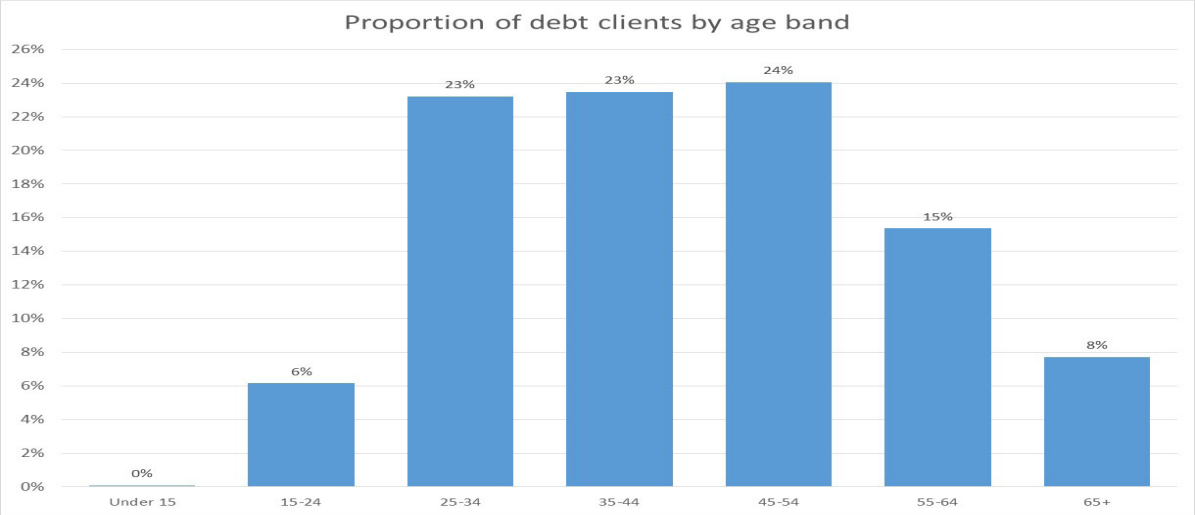


Source: PayPlan

16 Distribution across approximated social grades of Household Reference Persons (HRP) aged 16 to 64 in 2011 Census.

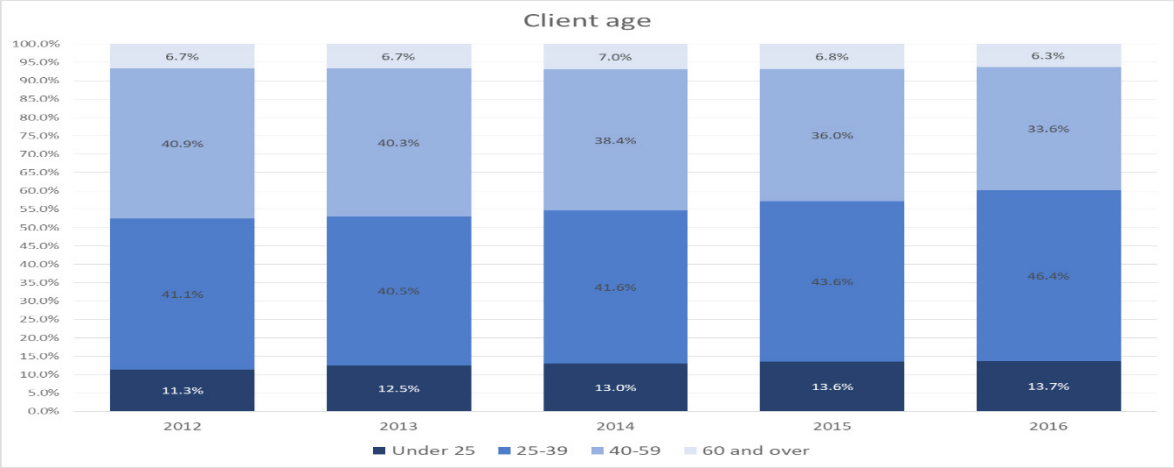
17 In 2015, the age group of less than 25 years accounted for 29% of the UK population and the age group 15 to 24 for 11%. Moreover, the group of 65+ accounted for 18% of the UK population and the age group 60+ for 23% of the UK population.

Figure 94 **Citizens Advice clients: distribution by age band**



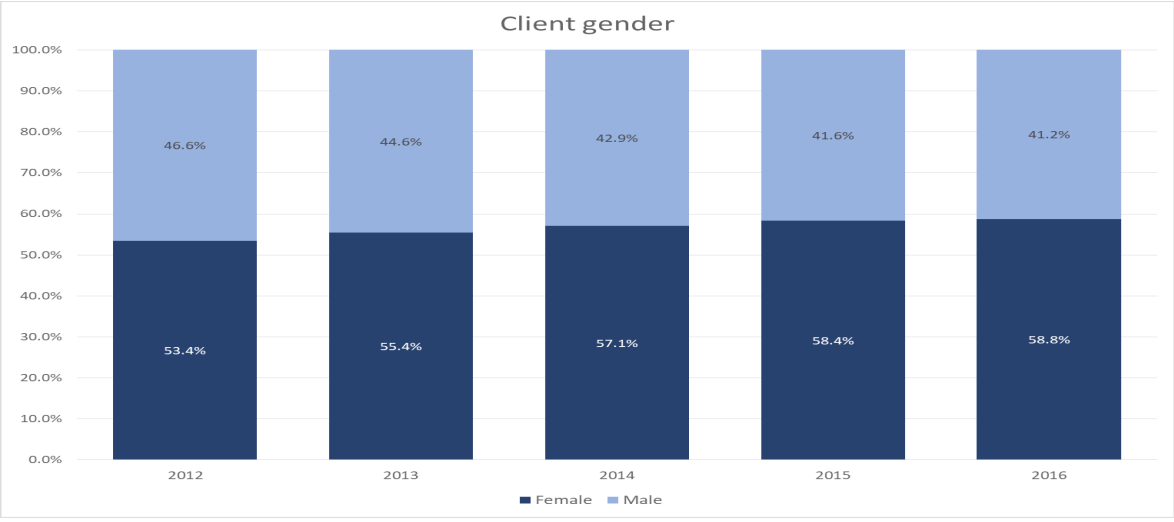
Source: Citizens Advice

Figure 95 **StepChange clients: distribution by age band**



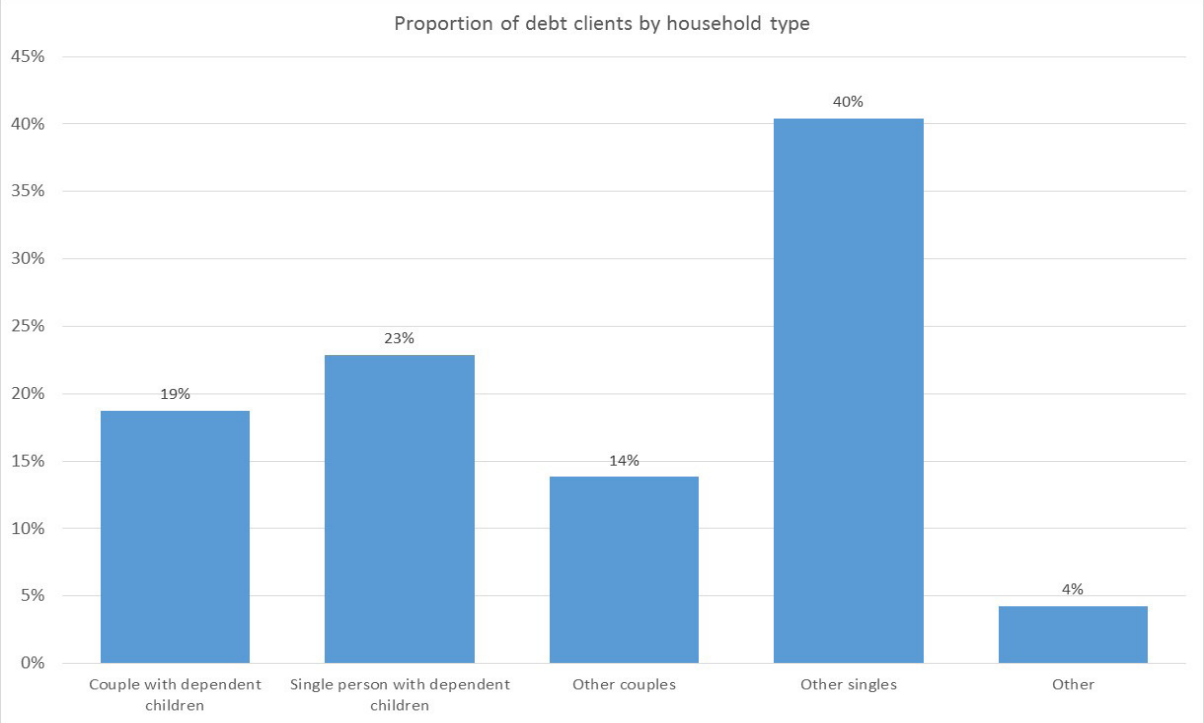
Source: StepChange

Figure 96 **StepChange: breakdown of clients by gender**



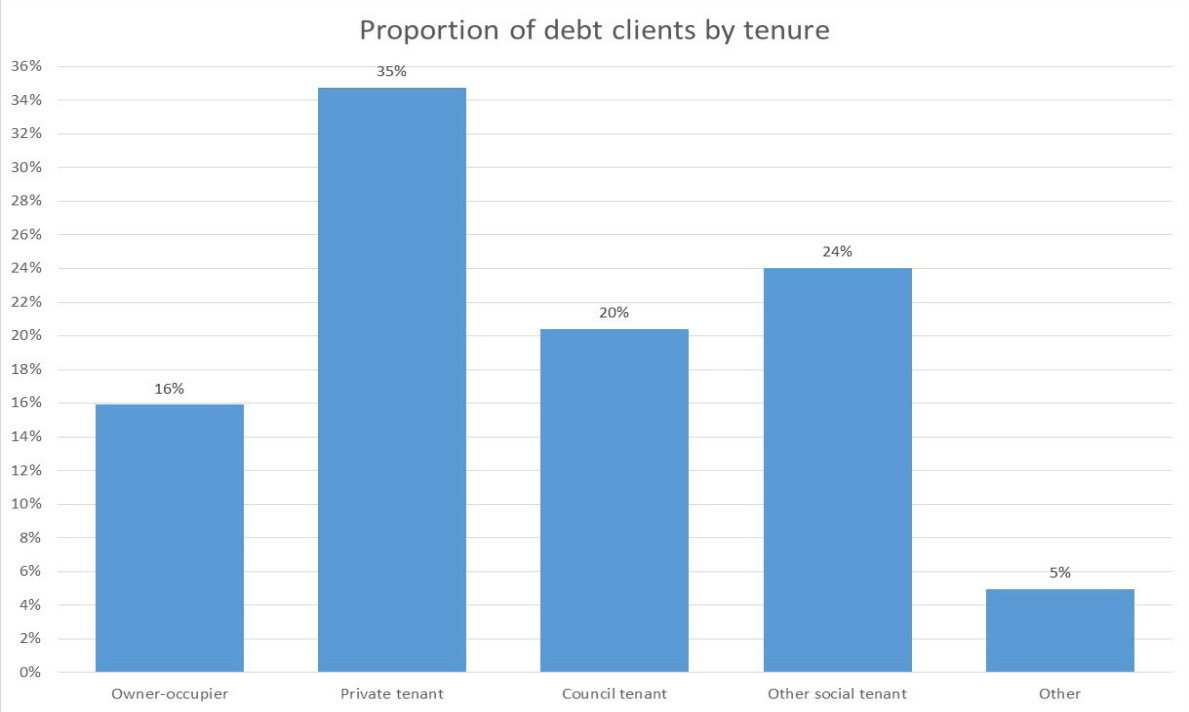
Source: StepChange

Figure 97 **Citizens Advice: breakdown of clients by household type**



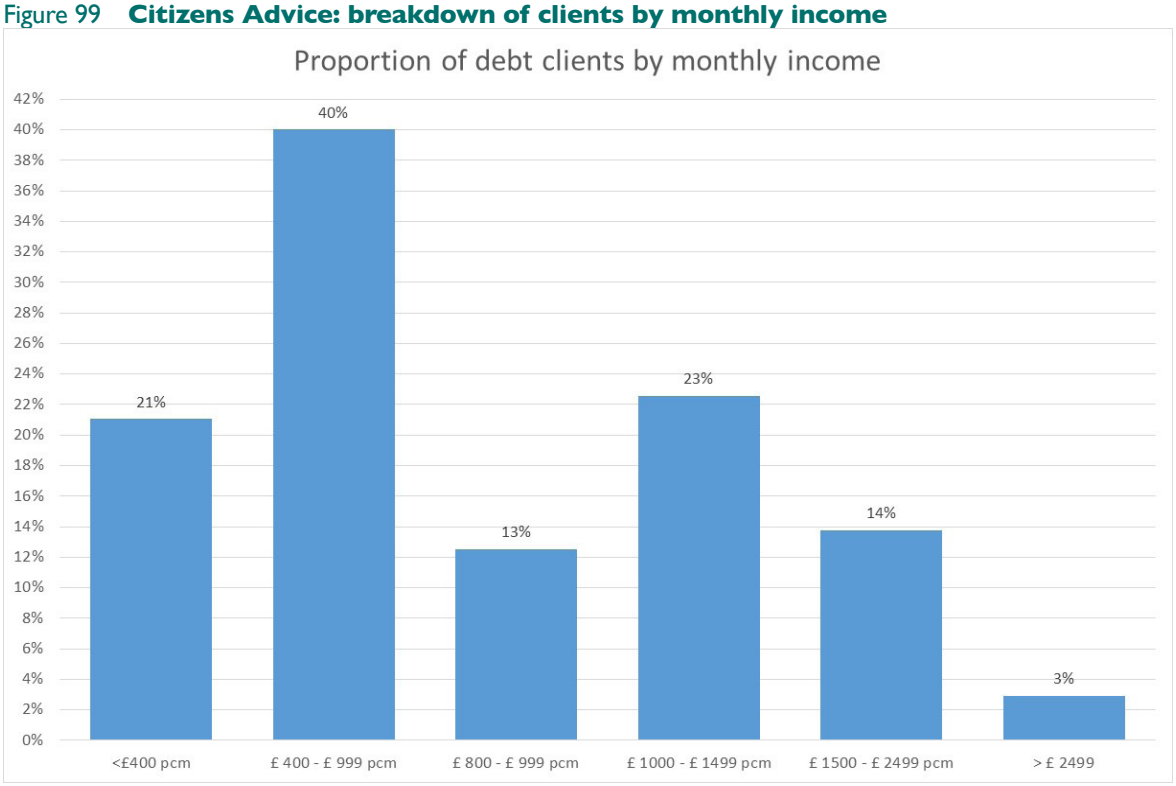
Source: Citizens Advice

Figure 98 **Citizens Advice: breakdown of clients by tenure**



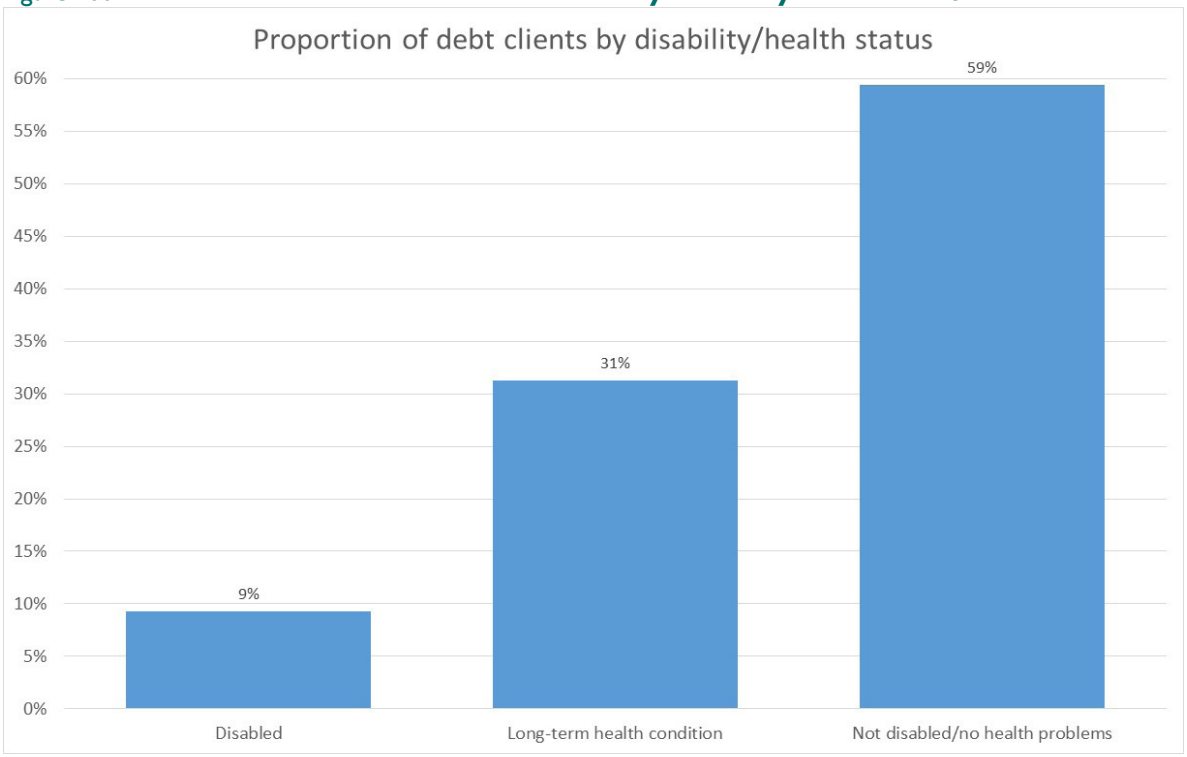
Source: Citizens Advice

Figure 99 **Citizens Advice: breakdown of clients by monthly income**



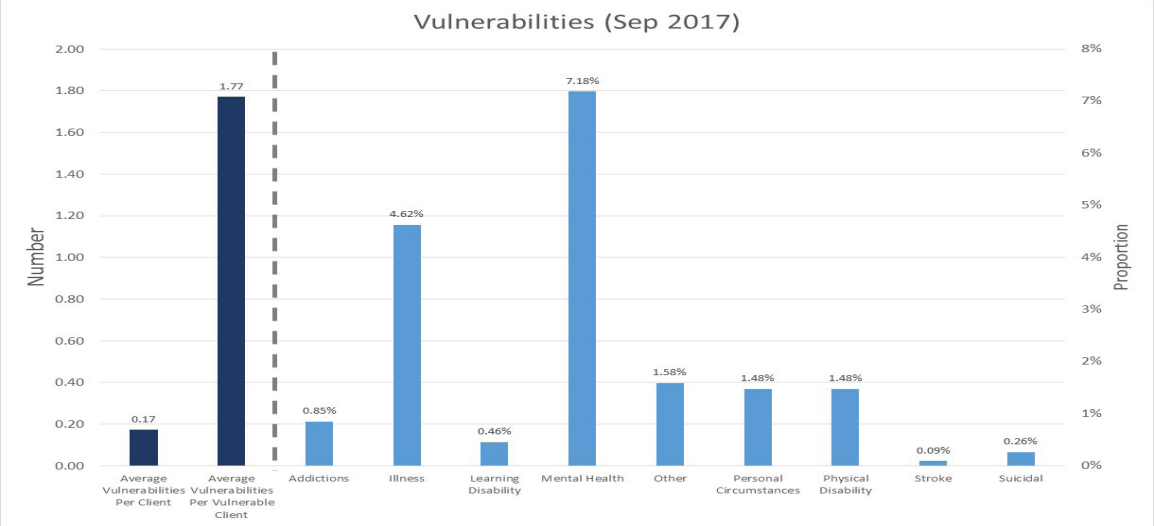
Source: Citizens Advice

Figure 100 **Citizens Advice: breakdown of clients by disability/health status**



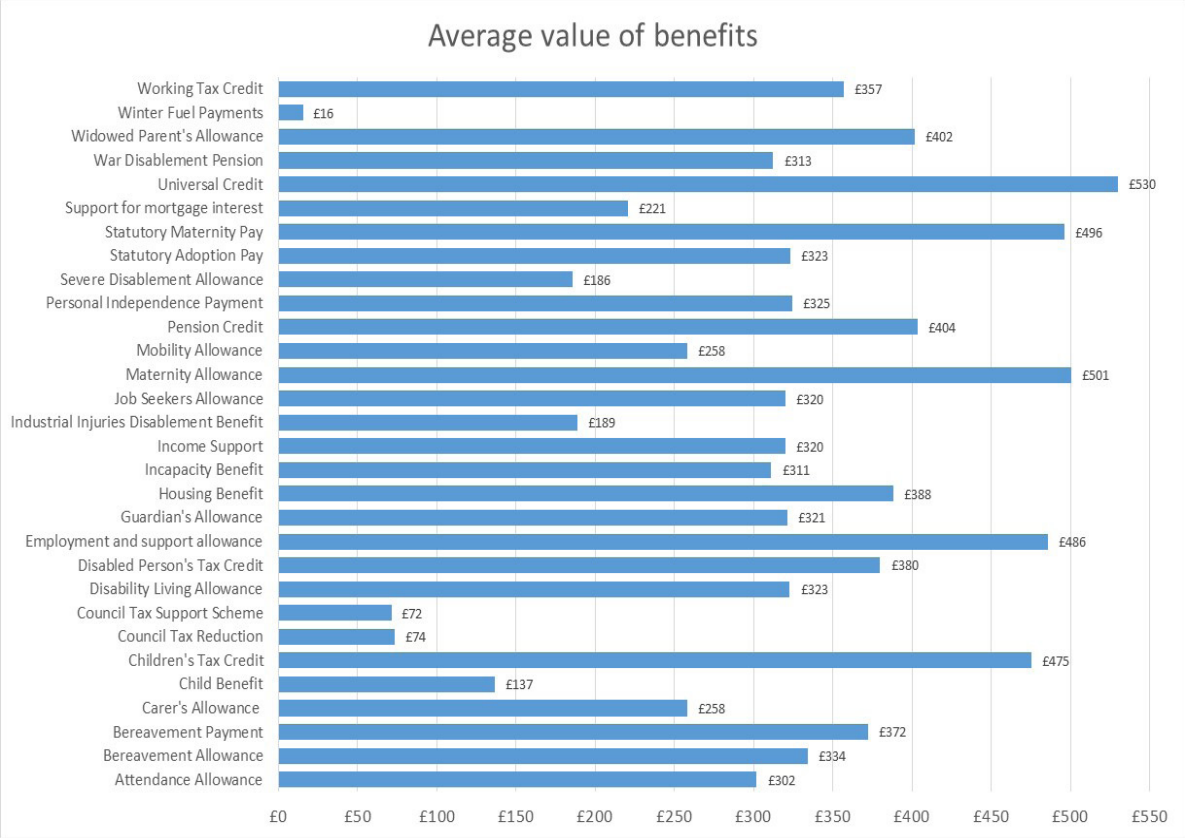
Source: Citizens Advice

Figure 101 **PayPlan: breakdown of clients by vulnerability**



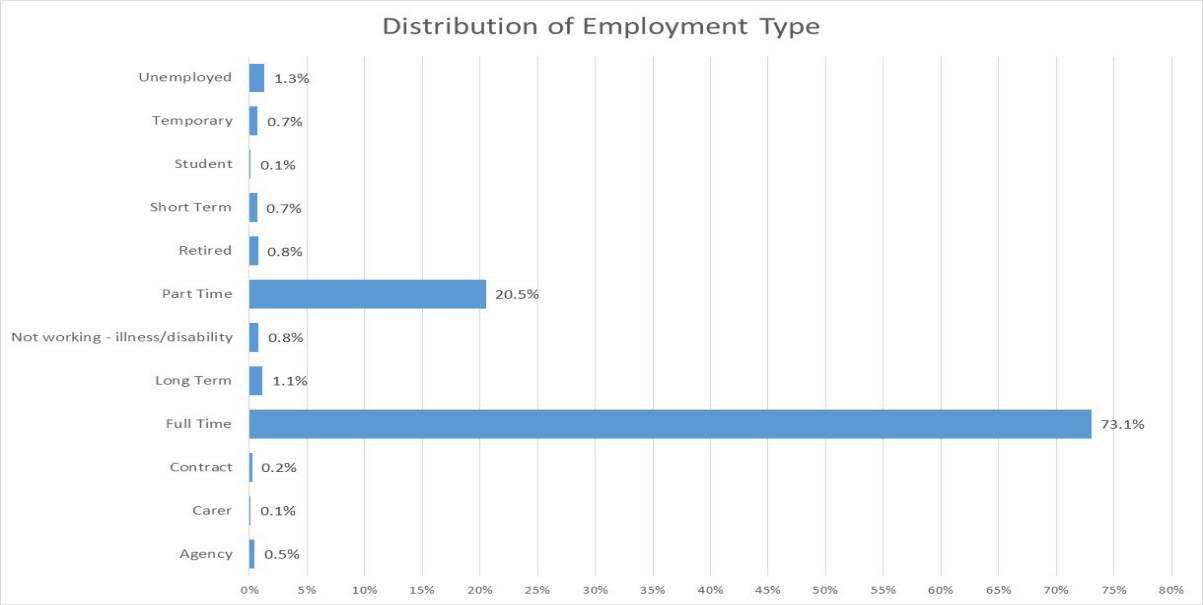
Source: PayPlan

Figure 102 **PayPlan: average benefits received by PayPlan clients**



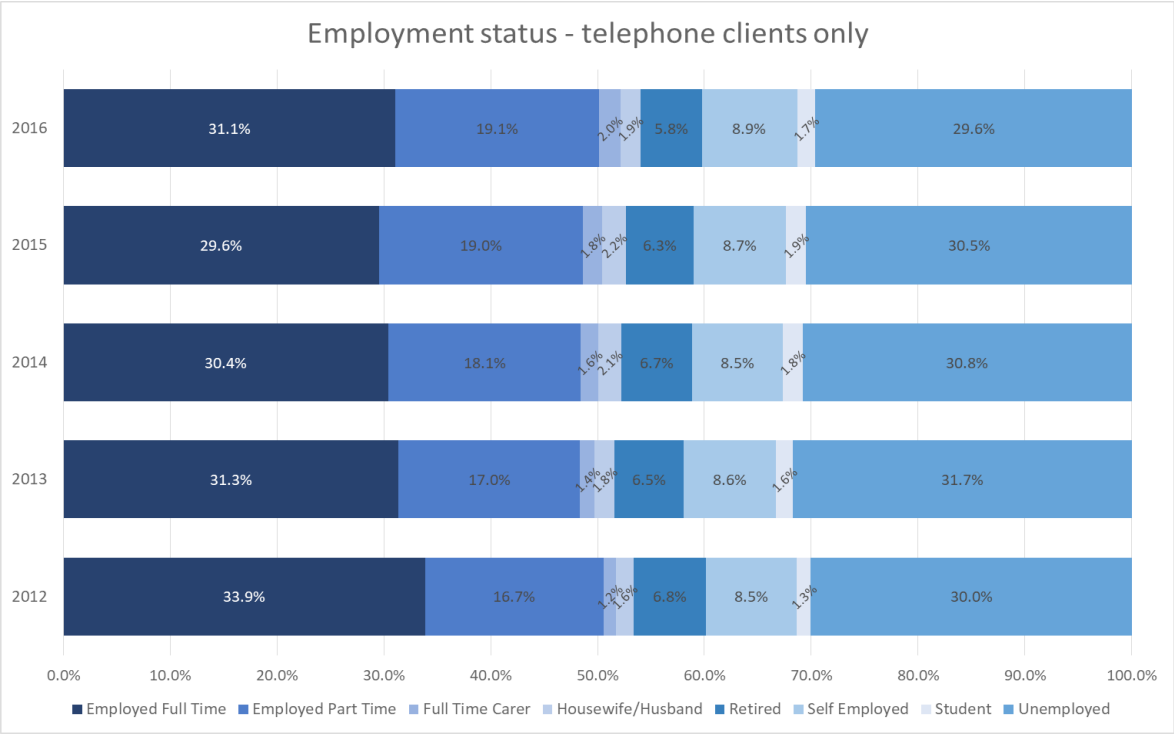
Source: PayPlan

Figure 103 **PayPlan: client employment status**



Source: PayPlan

Figure 104 **StepChange: client employment status**



Source: StepChange

Annex 1 **Development and estimation of household debt forecasting model**

A1.1 **Introduction and objectives**

The objective of this section is to develop and estimate models to separately track total household debt and its two components, secured and unsecured debt. This work updates the estimated household debt models in the 2011 London Economics study for the Money Advice Service.[18]

The stock of UK household debt has seen significant increases. This can be explained by a number of developments—rising real estate prices, increasing inequality, stagnating real wages, the financial liberalisation of the economy that relaxed financial constraints for a large portion of households, financial innovations in the credit market, underlying social forces, and demographic shifts.

A1.2 **Models of household debt**

Household debt can be broken up into two main components: mortgage/secured debt and non-secured (often linked to credit cards) debt.

Mortgage debt is linked to demand for housing assets and therefore is likely to be impacted by house prices and interest rates as well as consumer confidence and overall macroeconomic conditions.[19]

Credit card / non-secured debt is linked to conditions for credit which are partly determined by credit card companies, partly influenced by interest rates and partly affected by consumer confidence or income shortfalls.

Factors likely to be relevant in explaining the behaviour of household borrowing therefore include:

- stable macroeconomic environment, particularly low inflation, low interest rates
  - moderate inflation rates, accompanied by low nominal interest rates, push mortgage rates downward, making credit more attractive and spurring households to take on more debt
  - consumer confidence mirrors optimism about future incomes and thus greater willingness to borrow
- increasing house prices drive households to make larger borrowing efforts, and thus to apply for larger loans; banks are more relaxed about providing funding backed by appreciating collateral
  - Rising home values can also lead households to engage in more "mortgage equity withdrawal"
- high debt levels were encouraged and incentivised by the loosening of lending standards, financial deregulation and financial market innovations
- increased longevity motivates households to hold debt for longer periods and makes banks more willing to lend to individuals later in their lives
- student debt

Observed debt levels are the result of both demand and supply of credit.

The supply of credit is governed by the lender's cost for financing the loan. This financing cost is affected by access to (possibly international) capital markets and by regulation. The interest rate on associated mortgage-backed securities is a big component of this cost.

18 London Economics (2012) Funding debt advice in the UK – A proposed model.

19 An additional theory of household debt is the Life-Cycle Hypothesis. Alternative explanations for excessive increases in household indebtedness include such factors as demographic change, asset price rises, inequality, financial innovation, peer behaviour, and financial liberalisation.
Under the life-cycle model, it is optimal for younger individuals to borrow and attain a higher level of consumption than one allowed by their income. Younger households would expect their productivity and earnings to increase in the future. This increased income in middle age would allow the household to pay off early life debts and accumulate savings for retirement.
Total debt accumulation in the economy under this model is therefore dependent on the demographics of the population, particularly the eative shares of the various age groups in a country.

During a crisis, for example, the supply of credit is likely to decline as a result of banks experiencing reduced or more costly access to capital. In some cases, a mortgage cap may be introduced, limiting the size of a mortgage in relation to the value of the home.

From the households' perspective, the capacity to borrow and service the associated debts depend on economic conditions and loan costs.

Housing demand is a function of households' financial situation. The main contributing factors are employment, income, wealth, and the cost of borrowing. Macro variables, such as disposable income, wealth, unemployment, employment, GDP and consumption are therefore possible variables that capture important aspects of the demand for housing.

In addition, demand is affected by how households expect these factors to evolve in the future. A measure of household confidence should therefore also be included as it summarises households' expectations for the economy and their own finances.

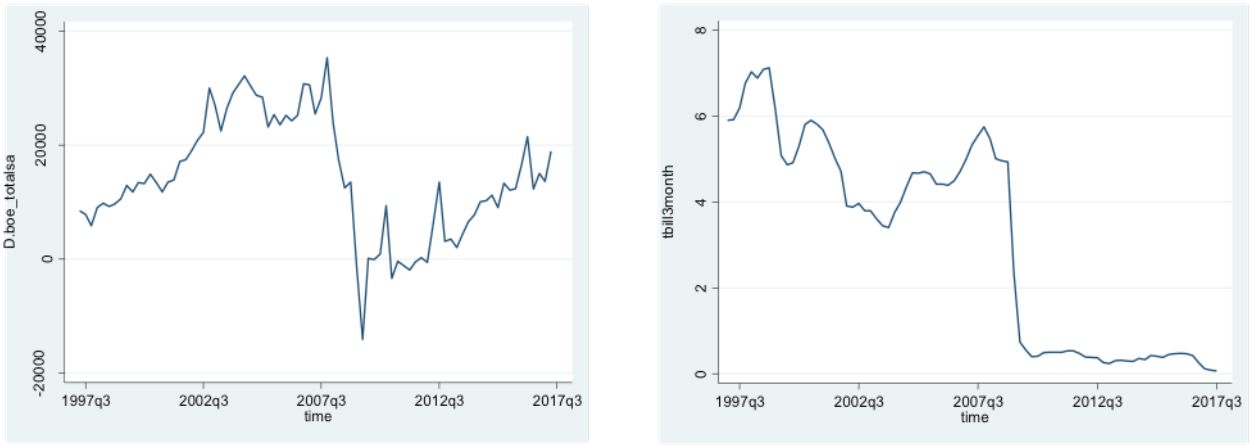
Housing supply is important in the longer run. An index of construction, if available, could be an additional explanatory variable.

A1.3 The impact of the 2008 financial crisis on credit markets

It is important to take into account the fact that our time series sample includes a period of significant financial markets turmoil. The typical relationship between interest rates and credit can be seen to have temporarily broken down over a few quarters, during which both central bank rates and borrowing simultaneously saw large decreases.

The graphs below depict this.

Figure 105 **Total household debt (first differences) and Treasury Bill 3-month yield**



Source: BoE

As the figures illustrate, during a few quarters of 2007, the series (of first differences) of household debt saw significant drops, while T-Bill yields were contemporaneously seeing large drops as well. It is not the case that the fall in borrowing was associated with the drop in interest rates in causal terms. Instead the decline in borrowing was a result of tightening credit market conditions, which the central banks attempted to alleviate by significantly lowering interest rates.

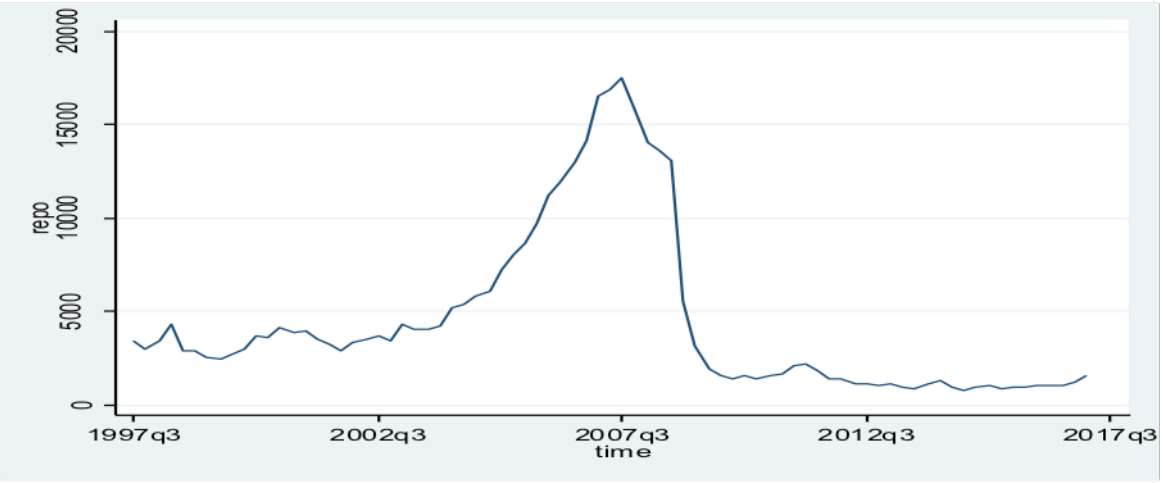
Furthermore, after this period, central bank rates, here represented by the Bank of England Treasury Bill 3-month yield, remained close to zero for a record number of quarters, while credit levels recuperated from the drops which had occurred during the financial crisis.

This combination of trends implies a relationship between central bank rates and borrowing levels that would be unhelpful for forecasting. For this reason, the T-bill rate will be omitted from our household debt model.

During this period, banks faced costs of supplying credit that are not fully represented by the BoE's T-bill rate. This is illustrated, for example, by the evolution of the repo rate[20] in the chart below.

20 The repo rate is the rate at which the Bank of England lends money to UK commercial banks in the event of any shortfall of funds.

Figure 106 **Interest payable on repos by UK monetary and financial institutions**

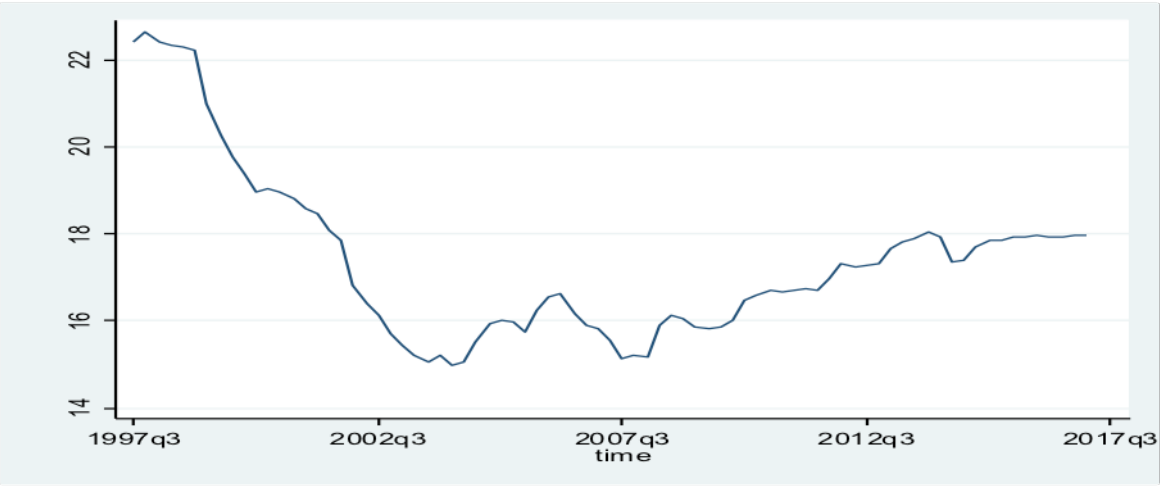


Source: BoE; series identifier GFQTGEI

Quarterly total of monetary financial institutions' sterling and all foreign currency interest payable on repos and reverse repos to residents and non-residents (in sterling millions), not seasonally adjusted series: GFQTGEI.

Despite these drawbacks, it is desirable to include an interest rate variable within the set of explanatory variables for household debt, since interest is an important element of the cost of borrowing and therefore must be expected to affect equilibrium levels of household borrowing. One such candidate interest rate is the average interest charged on credit card debt. The BoE tracks and publishes this time series and, as the graph below illustrates, the behaviour of this rate is quite different from the T-bill's. For our purposes, this is a better time series to reflect credit market conditions.

Figure 107 **Average interest on credit card debt**



Source: BoE

In addition, in order to capture the period when the typical relationship between borrowing and central bank interest rates broke down, our model introduces a dummy which takes value 1 over the quarters most affected by unusual credit market conditions. This includes the years 2008 to 2011.

A1.4 Data sources

Household debt - BoE versus ONS data

As already noted in Chapter 1, the Bank of England, in its Bankstats database, Table A5.2, provides data on the liabilities of households (and housing associations serving households) to all lenders. All lenders include, in addition to MFIs, non-bank, non-building society UK credit grantors, specialist mortgage lenders, retailers, central and local government, public corporations, insurance companies and pension funds.

This data underestimates personal debt in that it does not include securitised loans, loan transfers, debt to non-lenders (e.g. councils, utilities, family, friends, etc.), and debt to non-UK based lenders. It overestimates personal debt in that it includes liabilities of housing associations.

The ONS produces a household balance sheet with household debt information that differs in a number of ways from the BoE data: it reflects debt owed by households and non-profit institutions. ONS data has an advantage over BoE data in that it includes debt owed to non-UK lenders. The ONS does not provide these time series in seasonally adjusted terms.

Table 2 **Variables for the econometric models**

Variable	Source	Latest available data point
Total outstanding net lending to individuals (VTXC)	Bank of England	2017 Q2
Outstanding secured net lending to individuals (VTXK)	Bank of England	2017 Q2
Outstanding non-secured net lending to individuals (VZRI)	Bank of England	2017 Q2
Average interest rate on credit card debt[21] (IUMCCTL)	Bank of England	2017 Q2
Gross Domestic Product (ABMI)	ONS	2017 Q2
Private sector investment in dwellings (DFEA)	ONS	2017 Q1
Employment level (thousands aged 16+) (MGRZ)	ONS	2017 Q2
Unemployment rate (% aged 16+) (MGSX)	ONS	2017 Q2
Average earnings per employee[22]	ONS	2017 Q1
CPI level (2005=100) (D7DT)	ONS	2017 Q2
Nominal house prices (DCLG)	ONS	2017 Q2
Treasury Bills 3-month yield (interest rate) (AJRP)	ONS	2017 Q2
Household population (thousands aged 16+) (MGSL)	ONS	2017 Q2

Note: latest available data correct as of 15 October 2017

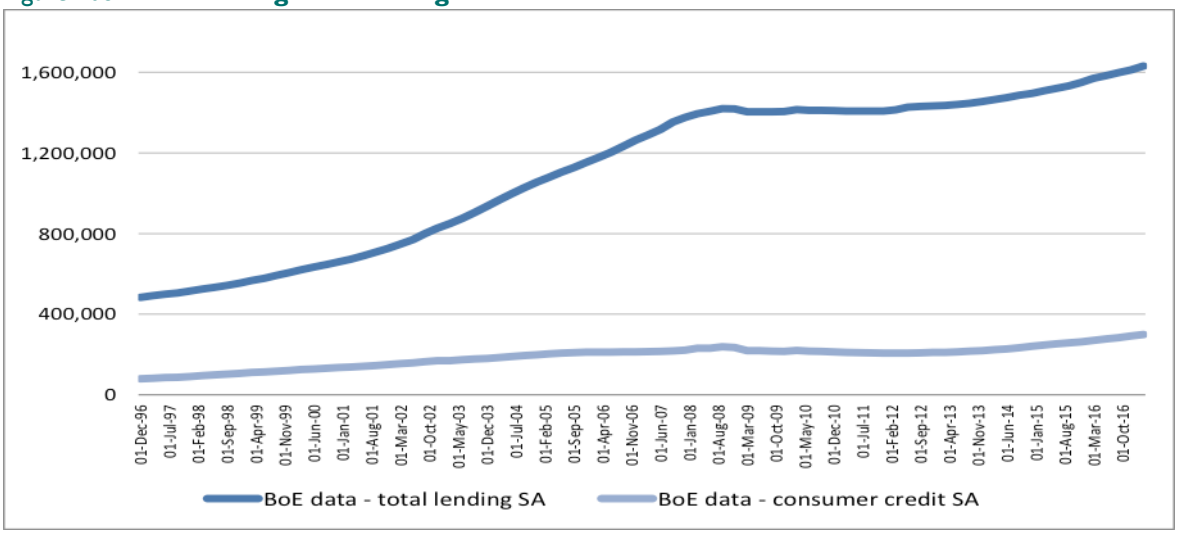
Source: BoE and ONS

21 Monthly interest rate of UK monetary financial institutions (excl. Central Bank) sterling credit card lending to households (in percent), not seasonally adjusted: IUMCCTL.

22 Average earnings per employee = (Total compensation of employees – Employers social contributions) / (Number employed – Number self-employed). ONS identifiers: Total compensation of employees: DTWM. Employers' social contributions: ROYK. Number employed: MGRZ. Number self-employed: MGRQ.

A1.5 Description of the data

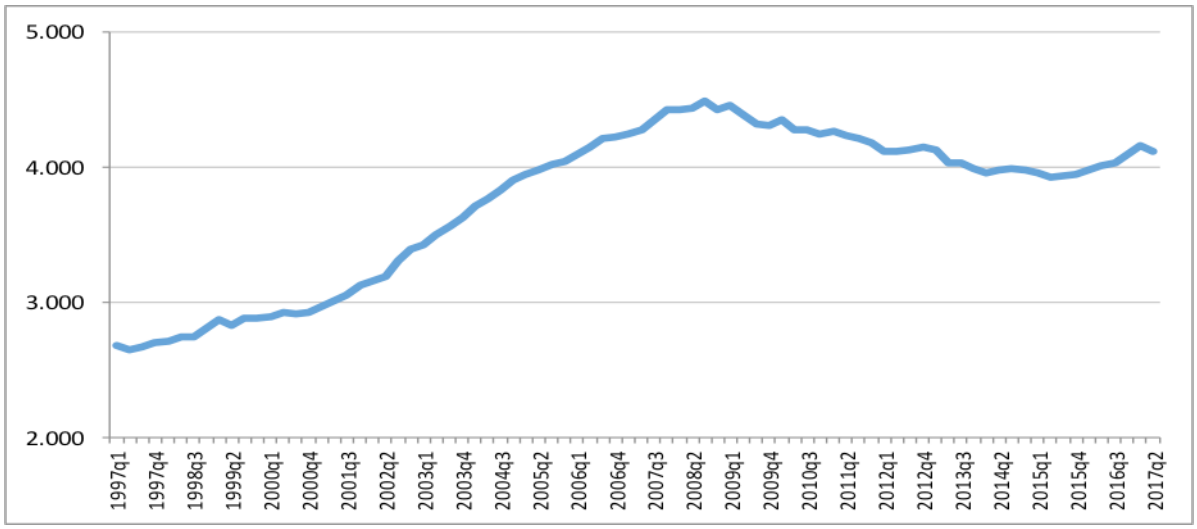
Figure 108 **Bank of England lending data**



Notes: Quarterly amounts outstanding of total sterling net lending to individuals (BoE's LPQVTXC) and net consumer credit lending to individuals (BoE's LPQVZRI) (in sterling millions); "SA" stands for "seasonally adjusted".

Source: BoE

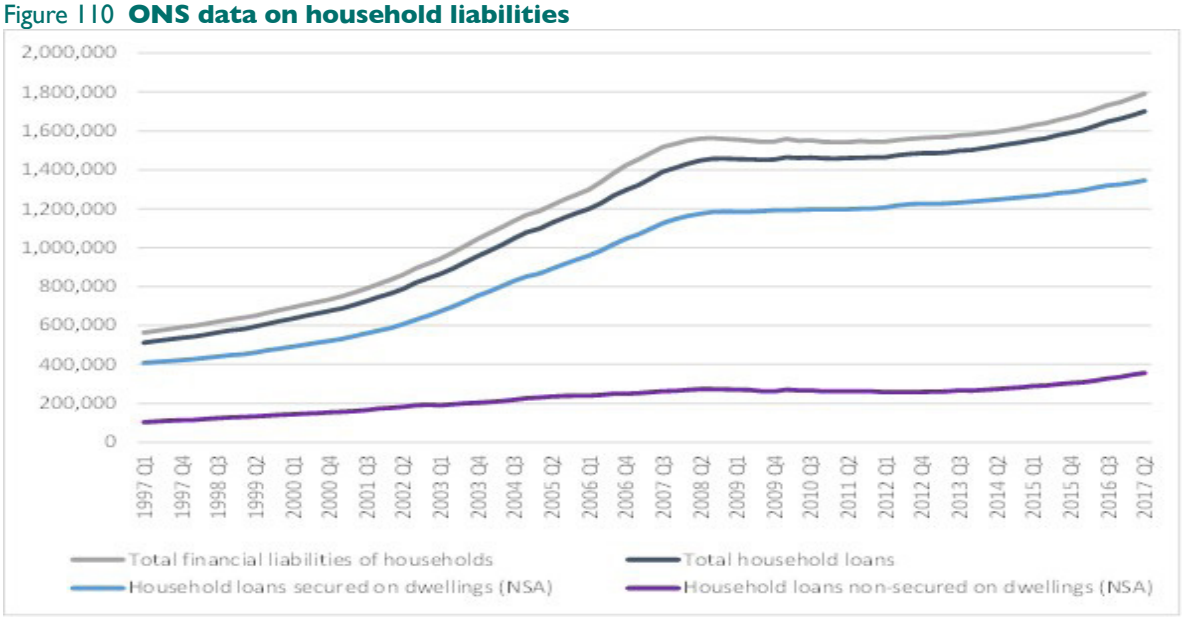
Figure 109 **Total household borrowing to total available household resources**



Note: ratio of loans to total available household resources

Source: BoE and ONS

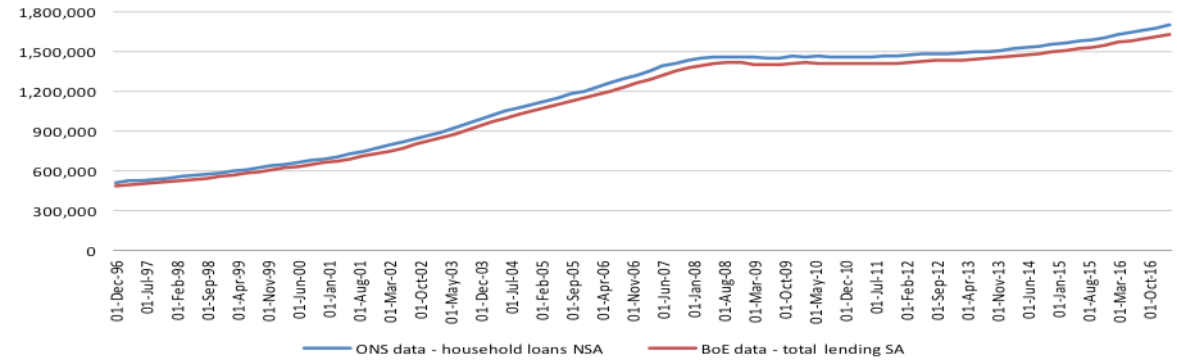
Figure 110 **ONS data on household liabilities**



Notes: ONS data series references: Households (S.14): Total financial liabilities (AF.L): Liability: Current price: £m: NSA Households (S.14): Loans (AF.4): Liability: Current price: £m: NSA Households (S.14): Loans secured on dwellings (AF.422): Liability: Current price: £m: NSA Households (S.14): Loans non-secured on dwellings (AF.422): Liability: Current price: £m: NSA; "NSA" stands for "non-seasonally adjusted".

Source: ONS

Figure 111 **ONS versus BoE household debt series (in £)**

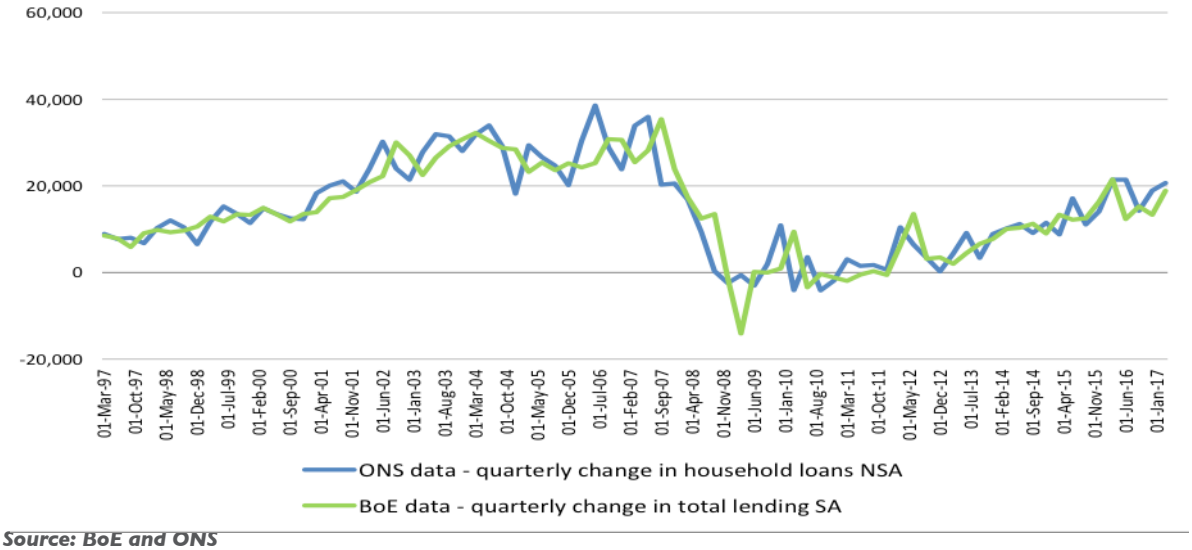


Source: BoE and ONS

Given the slightly different definitions, the series are not quite identical even though they clearly follow the same path.

The difference between the two series is greater when we look at quarterly changes (first differences), in the graph below. The fact that the ONS data is not seasonally adjusted is a drawback for the purpose of our modelling given that seasonal variation is not helpful for the objective of a 5-year outlook forecasting model.

Figure 112 **ONS versus BoE household borrowing data (in £) – quarterly change**



Source: BoE and ONS

A1.6 Econometric methodology

Rather than aiming to explain the total stock of outstanding debt, the model aims to predict the change in outstanding debt over each quarter. A general-to-specific approach was used to obtain a parsimonious long-run equilibrium model. The initial full model regresses the change in total outstanding debt over each quarter on a wide set of explanatory variables, namely:

Table 3 **Variables considered for econometric modelling of household debt**

Economic variable to be measured	Alternative time series considered
Aggregate income	GDP, chained volume measures, seasonally adjusted; adjusted household gross disposable income, seasonally adjusted
Individual income	Average earnings per employee, seasonally adjusted; total employee compensation over number of employees; wages
Interest rates / cost of credit / credit markets conditions	Band of England bank rate, average interest on credit card borrowing; Interest rate on personal loans, MFIs interest payments on repos, T-Bill 3-month yield, UK gilt; price of gold in £; 'restrictions' dummy variable
Prices and inflation	CPI and CPI change (i.e. inflation); Nominal house price index; Retail price index (RPI) for mortgage payments
Employment/ unemployment	Employment level among 16 and over; employment level seasonally adjusted; unemployment rate, seasonally adjusted
Population	Quarterly change in population between 16 and 64 years old, quarterly number of births (smoothed series based on yearly data)
Expenditure on housing assets	Gross fixed capital formation – dwellings, seasonally adjusted
Consumer confidence	CCI

Source: BoE and ONS

In the general-to-specific approach, the least significant variables in the fuller versions of the model are progressively dropped and the model is then re-estimated. This is repeated until all remaining variables are significant at the 5% level.

Table 2 reports the results for the final model of total household debt, where all the explanatory variables are significant. The final model, which serves as our long-run equilibrium model, has intuitive results in terms of coefficients' signs.

A1.6.1 Tests for stationarity

A series of unit root tests were performed on the model variables. In a time series context, it is important to take into account the possibility of spurious results. Variables with similar trends will show a statistical association even if they are not economically linked.

Results from the KPSS (Kwiatkowski–Phillips–Schmidt–Shin) tests for trend and level stationarity of both the dependent and explanatory variables reject the null hypothesis of stationarity in the generality of cases – i.e. all the variables are either trend or level non-stationary up to at least three lags.

One of the ways in which this problem can be tackled is by changing the variables into 'first differences'. This is what we do in relation to those variables which exhibit the stronger trends.

In addition, in the next subsections, where models of total, secured and non-secured household debt are developed, the variables in the long-run equilibrium equations are tested for co-integration.

The lack of stationarity also implies that we need to be cautious in interpreting the R-squared as well as the adjusted R-squared of any regressions of these variables. Very high R-squared may be driven by common trends and not signify a high level of economically significant relationship between the variables in question.

A1.7 Estimation results and diagnosis

In this section, we report on the results of the econometric analysis and on the statistical properties of the estimated models.

A1.7.1 Total debt

The final model was reached after selecting from a more general model the subset of those variables which were statistically significant in their contribution to explaining the variation of the dependent variable.

Table 4 **Total household debt: final model**

			N. obs	=	81
			F (6 ,74)	=	123.88
			Prob > F	=	0.00
			R-squared	=	0.910
Total HH debt (first differences)			Adj. R-squared	=	0.902
	Coef.	t	P>|t|	[95 % C. I.]	
Avg. earnings per employee	-16017.36	-8.17	0.00	-19925.74	-12108.98
Nominal house prices	545.87	6.84	0.00	386.83	704.91
Unemployment rate	-2301.48	-4.40	0.00	-3342.79	-1260.17
Consumer confidence	634.68	2.14	0.04	44.50	1224.86
Interest rate on card debt	-1854.49	-6.75	0.00	-2401.89	-1307.10
Credit market restrictions	-9022.96	-6.79	0.00	-11669.42	-6376.50
Constant term	47600.52	1.59	0.12	-12084.98	107286.00

Augmented Dickey-Fuller test for unit root

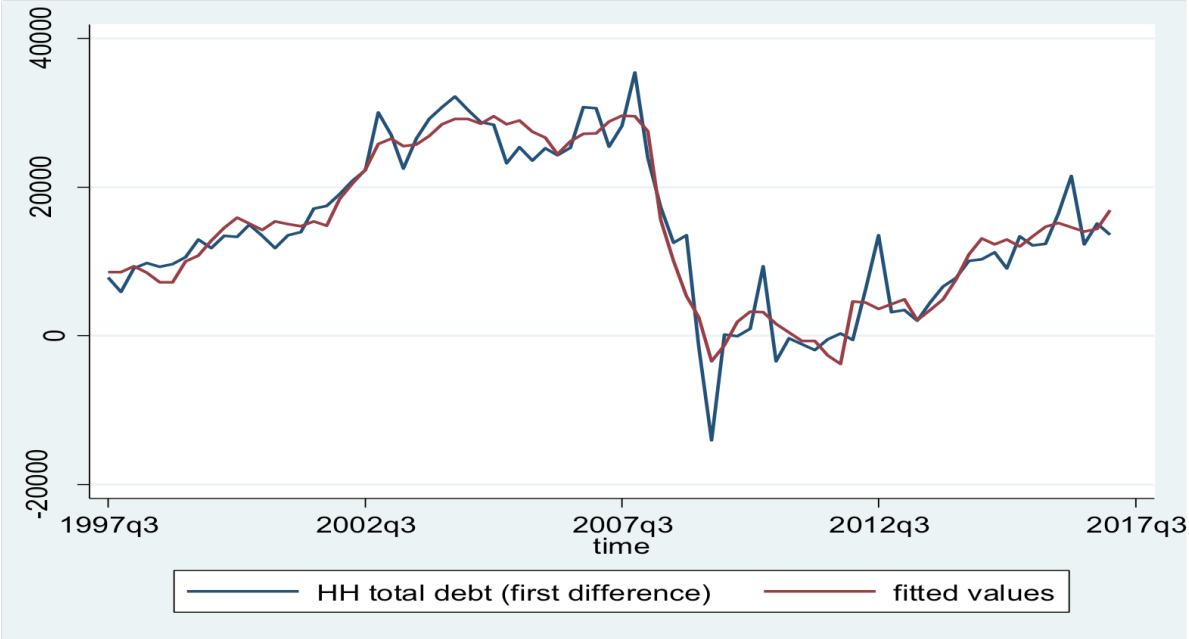
Test Statistic	1% Critical Value	5% Critical Value
-5.112	-2.609	-1.950

The coefficients are estimated with a good level of precision and the respective signs have a reasonable interpretation within the context of the model. As expected, total household debt increases react negatively to higher earnings, to interest rate, and to credit market restrictions. They react positively to house prices and consumer confidence. Unemployment, by possibly making both borrowers and lenders more cautious, is found to have a negative effect on total debt increases.

The model has a reasonably high adjusted R-square which is in part due to common trends in the data as the unit roots analysis above indicated.

The graph below provides a visual depiction of the model fit to the data.

Figure 113 **Total household debt model: in-sample predicted values**

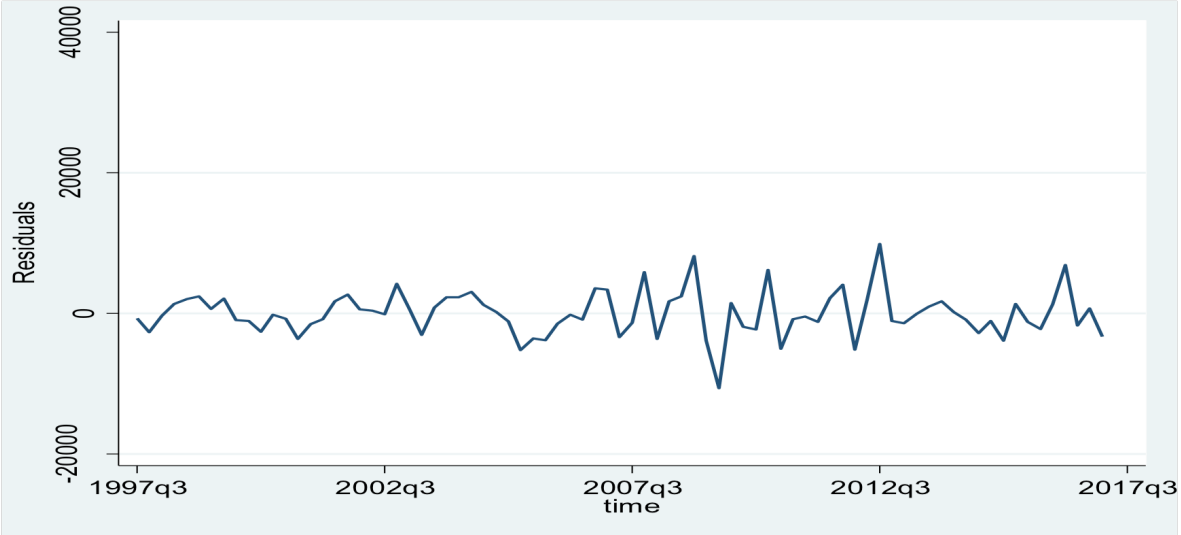


Source: LE calculations based on ONS and BoE data

This is visually an acceptable level of fit, although some of the higher frequency variations are not precisely captured by the predicted values of the model. For the purpose of forecasting, it is however more important that the model captures the lower frequency trends of household debt.

The augmented Dickey-Fuller test rejects the null hypothesis of the model residuals having a unit root. The behaviour of the residuals is depicted below.

Figure 114 **Total household debt model: residuals**



Source: LE calculations based on ONS and BoE data

A1.7.2 **Secured debt**

In the regression for secured household debt, only a subset of the variables used in the larger model were significant. However, the model also shows a) a good level of fit, b) the expected signs for the coefficients of the explanatory variables, and c) no unit roots in the residuals.

Table 5 **Secured household debt: final model**

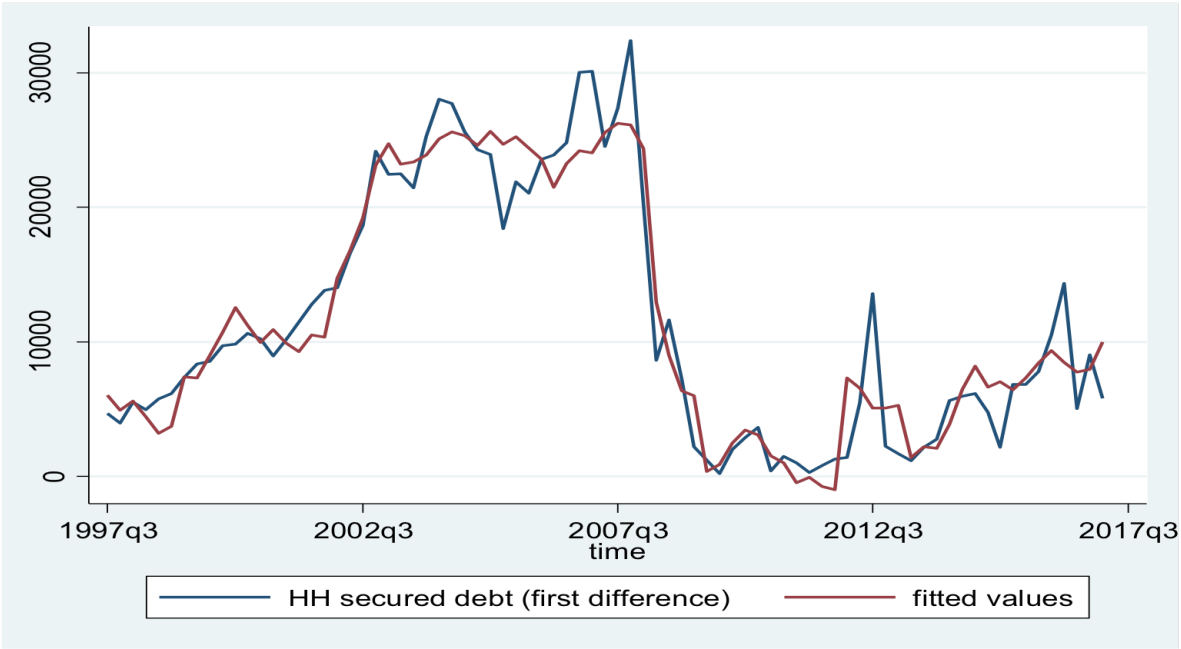
			N. obs	=	83
			F (4 ,78)	=	212.95
			Prob > F	=	0.00
			R-squared	=	0.916
			Adj. R-squared	=	0.912
Secured HH debt (first differences)	Coef.	t	P>|t|	[95 % C. I.]	
Interest rate on card debt	-2405.53	-11.17	0.00	-2834.09	-1976.98
Nominal house prices	620.54	11.98	0.00	517.45	723.64
Avg. earnings per employee	-18681.95	-14.83	0.00	-21190.12	-16173.77
Credit market restrictions	-9211.75	-10.62	0.00	-10938.34	-7485.17
Constant term	113803.70	26.42	0.00	105229.20	122378.10

Augmented Dickey-Fuller test for unit root

Test Statistic	1% Critical Value	5% Critical Value
-5.728	-2.609	-1.950

The graph below provides a visual depiction of the model fit to the data.

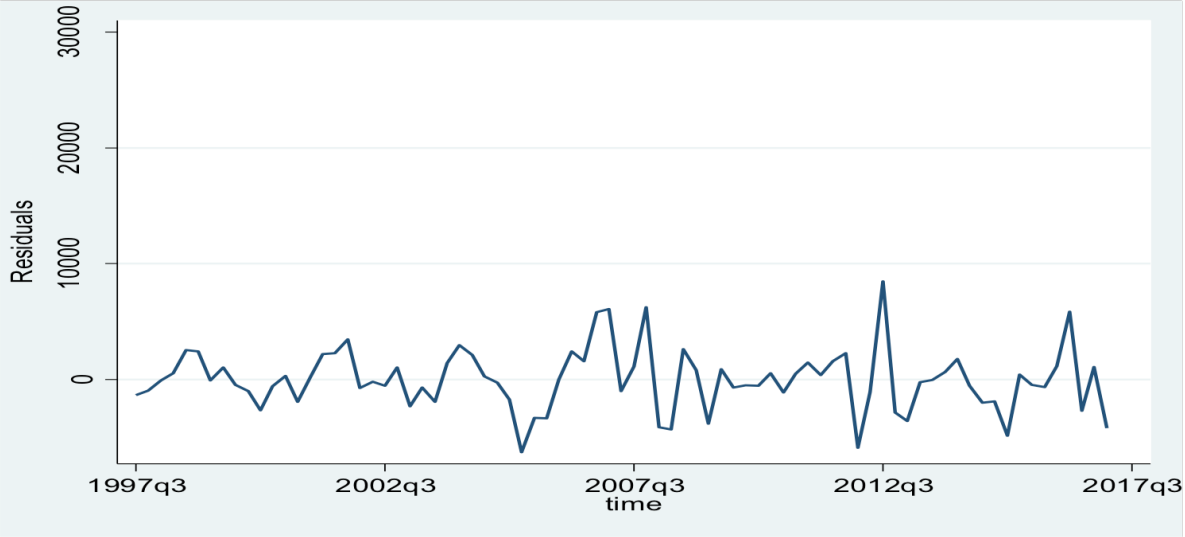
Figure 115 **Secured household debt model: in-sample predicted values**



Source: LE calculations based on ONS and BoE data

The augmented Dickey-Fuller test rejects the null hypothesis of the model residuals having a unit root. The behaviour of the residuals is depicted below.

Figure 116 **Secured household debt model: residuals**

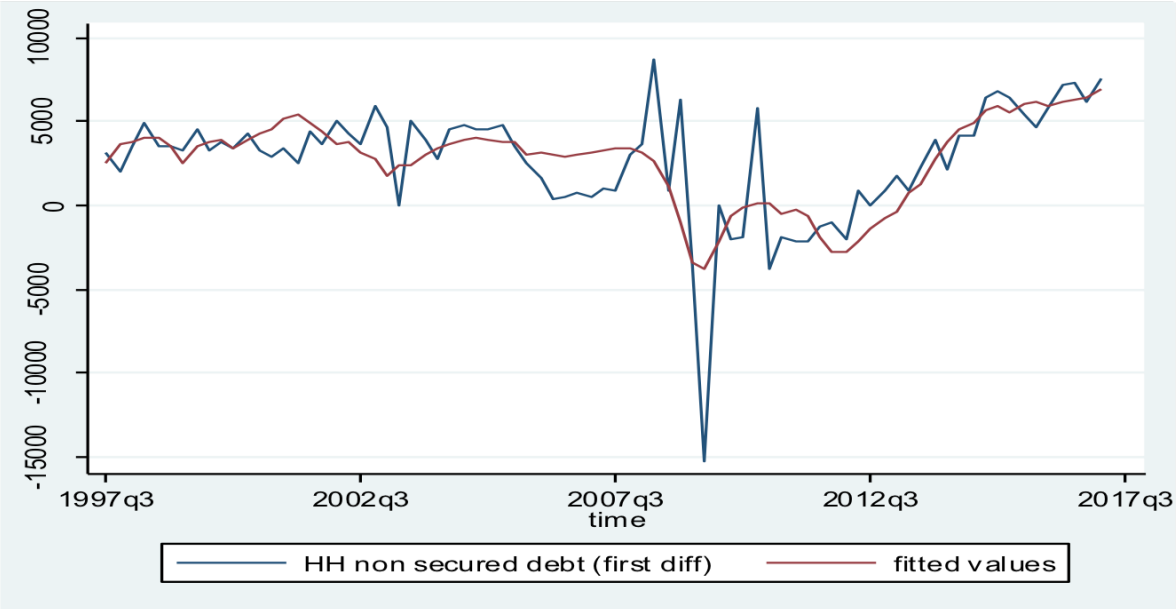


Source: LE calculations based on ONS and BoE data

A1.7.3 Non-secured debt

We considered two approaches for the forecasting of unsecured debt. First, we looked at the predictive power of the time series constructed as the difference between the predicted total debt and the predicted secured debt. The graph below shows how closely this series fits the actual time series of household non-secured debt.

Figure 117 **Non-secured household debt model: in-sample predicted values by the difference between total and secured household debt**



Source: LE calculations based on ONS and BoE data

An alternative approach was to independently estimate a model of non-secured debt.

The level of fit that was possible with the explanatory variables available was considerably lower than that obtained for both total and secured debt. Clearly, there are some omitted factors which would be important in explaining the low frequency movement of non-secured borrowing by households.

Table 6 **Non-secured household debt: final model**

			N. obs	=	81
			F (4 ,76)	=	31.51
			Prob > F	=	0
			R-squared	=	0.620
			Adj. R-squared	=	0.604
Non-secured HH debt (first differences)	Coef.	t	P>|t|	[95 % C. I.]	
Consumer confidence	412.02	2.24	0.03	45.79	778.26
Consumer price index	480.85	6.29	0.00	328.58	633.12
Unemployment rate	-2300.53	-10.07	0.00	-2755.74	-1845.32
Avg. earnings per employee	-4617.90	805.97	0.00	-6223.13	-3012.67
Constant term	-37394.53	-2.01	0.05	-74399.44	-389.6098

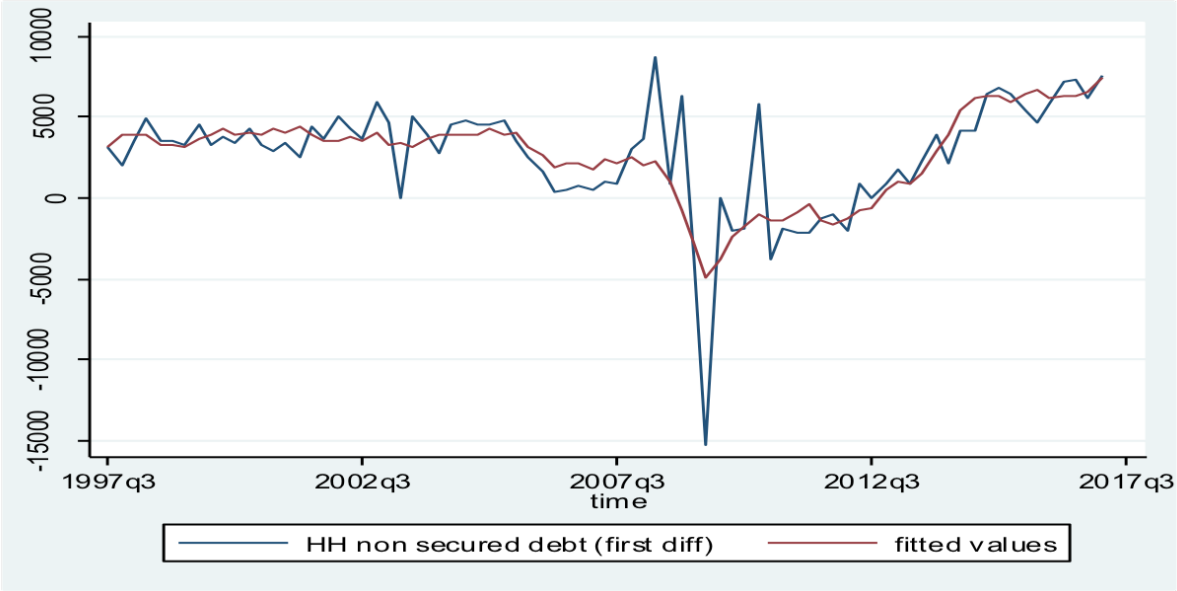
Augmented Dickey-Fuller test for unit root Number of obs = 78

Test Statistic	1% Critical Value	5% Critical Value
-5.311	-2.609	-1.950

The augmented Dickey-Fuller test rejects the null hypothesis of the model residuals having a unit root.

This approach improves the fit slightly, compared to the time series constructed as the difference between total and secured debt, as the graph below illustrates.

Figure 118 **Non-secured household debt model: in-sample predicted values**



Source: LE calculations based on ONS and BoE data

It is interesting that the fit still captures the lower frequency movement of non-secured debt changes remarkably well, although it performs rather poorly on the higher frequency movements of the series. However, for a medium-term forecast, this may not be an overly concerning feature.

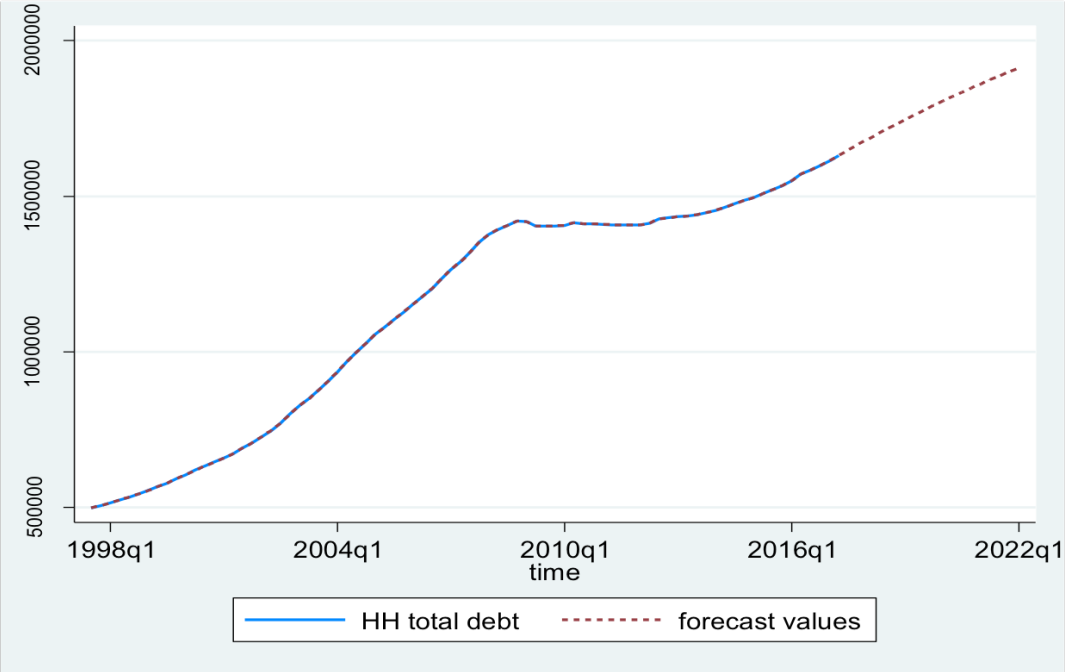
Having achieved reasonably good levels of fit for both total and secured debt, we next use these models to construct forecasts of household debt approximately 4 years into the future.

A1.8 Central scenario forecast

The main scenario is based on OBR forecasts of quarterly macroeconomic time series up to the first quarter of 2022.

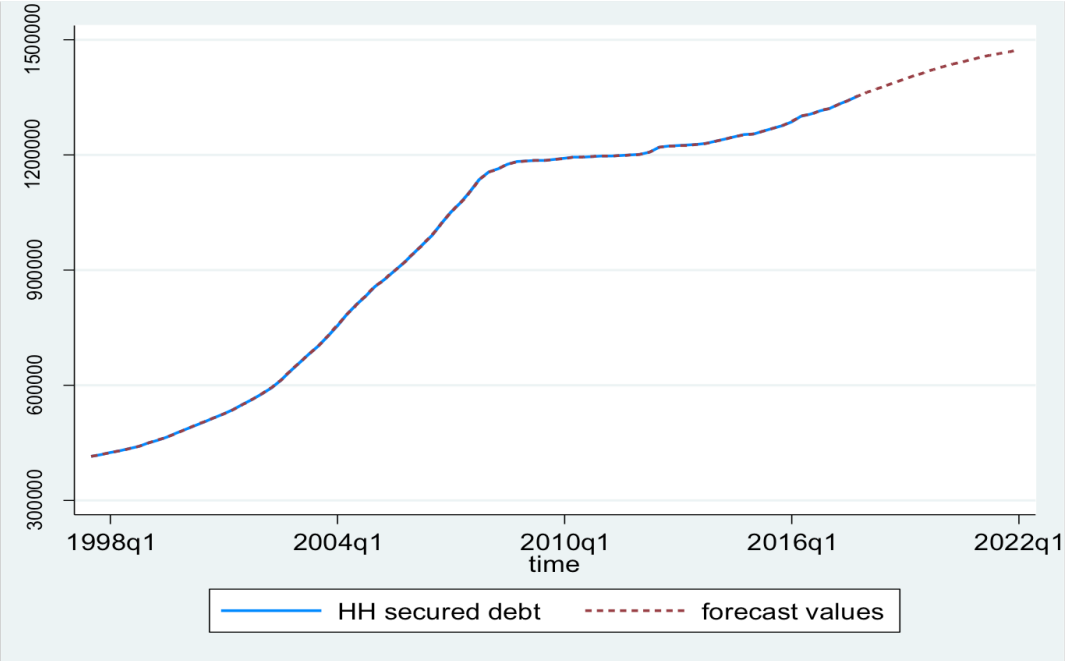
The first graph shows the forecast of total household debt; the second shows secured debt, and the final table shows the values of the forecasted series.

Figure 119 **Total household debt: data and forecast**



Source: LE calculations based on ONS and BoE data

Figure 120 **Secured household debt: data and forecast**



Source: LE calculations based on ONS and BoE data

A1.8.1 Comparison with OBR's model forecasts

The table below summarises the central forecasts from the model developed here and compares them to the forecast provided by the OBR.

Table 7 **Central forecast values for total, secured and non-secured household debt in £**

Quarter	HH Total Debt OBR forecast - £	HH Total Debt LE forecast - £	HH Secured Debt LE forecast - £	HH Non-Secured Debt - £
2017Q3		1,648,876	1,343,180	305,696
2017Q4		1,665,657	1,353,737	311,920
2018Q1	1,732,876	1,682,316	1,363,429	318,887
2018Q2		1,698,438	1,372,472	325,966
2018Q3		1,714,483	1,381,379	333,104
2018Q4		1,730,406	1,390,118	340,288
2019Q1	1,818,876	1,746,412	1,398,905	347,507
2019Q2		1,761,777	1,407,189	354,588
2019Q3		1,776,746	1,414,960	361,786
2019Q4		1,791,559	1,422,523	369,036
2020Q1	1,906,876	1,806,177	1,429,811	376,366
2020Q2		1,820,401	1,436,612	383,789
2020Q3		1,834,049	1,442,691	391,358
2020Q4		1,847,943	1,449,024	398,919
2021Q1	2,000,876	1,861,248	1,454,622	406,626
2021Q2		1,874,350	1,459,688	414,662
2021Q3		1,887,427	1,464,670	422,757
2021Q4		1,900,196	1,469,261	430,935
2022Q1	2,099,876	1,912,409	1,473,151	439,258

Note: OBR forecast values were each reduced by 222,124 so that the starting level in the 3rd quarter of 2017 would match.

Source: LE calculations based on ONS and BoE data; OBR forecast taken from: Office for Budget Responsibility, Economic and fiscal outlook, March 2017, Table 3.4 page 66

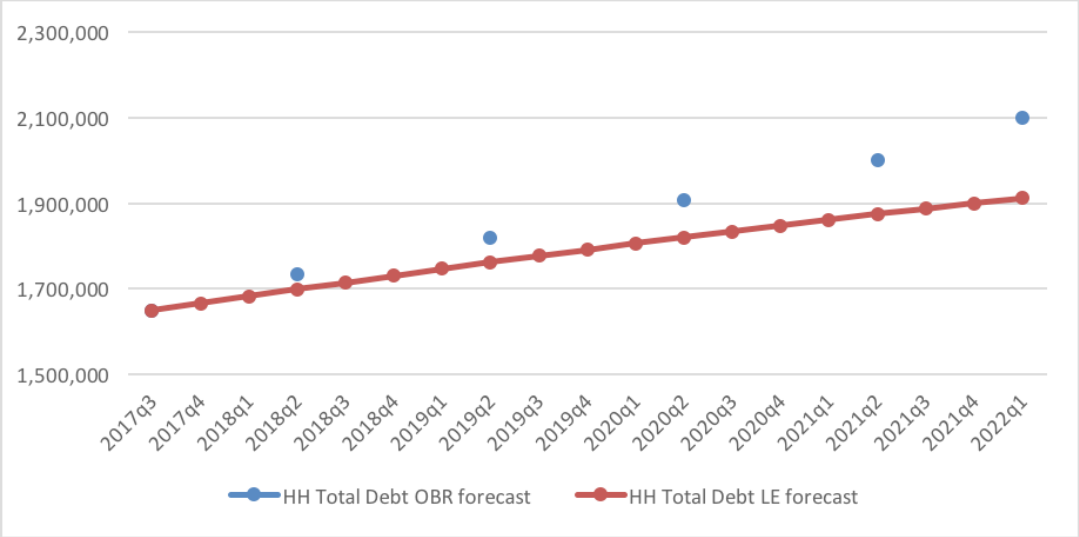
The OBR used to forecast equilibrium mortgage debt based on a model of mortgage demand and supply. Mortgage credit demand was expressed as a function of mortgage rates, house prices, disposable income and loan-to-value ratios. Mortgage credit supply was assumed to be affected by rationing. This model was found to result in systematic overestimation of mortgage debt.

In its more recent approach, the OBR looks at mortgage debt at the level of its constituent parts. In a given time period, these are:

- borrowing for house purchases, which is equal to the product of average transacted house prices, the number of property transactions and the average loan-to-overall-value (LTOV) ratio. The LTOV is a whole economy equivalent of an individual loan-to-value ratio, including the effect of cash buyers that adds to the value of house purchases but not to mortgage debt. The OBR have assumed that this ratio remains flat over the forecast period, broadly consistent with its recent trend (alternatively, easing credit conditions would have been consistent with this ratio rising).

- net repayments made on mortgages and write-offs. The OBR have assumed a repayment rate of 2.0%, in line with the average rate between 2011 and 2016, and a write-off rate of 0.005% a quarter, based on historical trends.

Figure 121 **Central forecast values for total household debt; OBR forecast and LE model forecast**



Source: LE calculations based on ONS and BoE data and OBR publication: Office for Budget Responsibility, Economic and fiscal outlook, March 2017, Table 3.4 page 66

Our model's central forecast for total household debt lies just under 10% below that of the OBR, at the end of five-year forecast period. The two forecasts are difficult to compare in more detail, since the respective methodologies are quite different. We provide further comment on the possible weaknesses of our forecasts in the next sub-section.

A1.9 Limitations of the analysis

In terms of how well these forecasts are likely to perform, the above analysis has three main limitations to take into account:

1. It is dependent on the economic forecasts for variables such earnings, house prices, unemployment, consumer confidence, interest rates on card debt and credit market conditions. ONS forecasts were used where available, and for variables that the ONS does not forecast we have assumed a stable forecast. If these expectations turn out to be incorrect, it is inevitable that the central forecast will behave poorly.

2. The time series sample on which the forecasts were based include the period of significant financial crisis and credit market imbalances. This caused additional difficulties in modelling the relationships of interest. In a number of quarters in our sample the expected relationships between borrowing and interest rates broke down. While this was circumvented by relying on alternative interest rates and a dummy variable covering the respective period, it is likely that in a more stable environment the estimation of the relationships of interest would have been more robust.

3. The presence of non-stationarity in the modelled variables, and the inability to fully correct for this, may be partly responsible for the apparently strong fit of the modelled relationships. However, the statistical properties of the model residuals provide a good level of comfort in this regard.

Annex 2 **Bridge equations used to generate forecasts of ONS debt data using forecasts of Bank of England debt data**

Table 8 **Bridge equation estimation results**

Estimated equation: annual growth rate ONS debt $_{Q4/Q4}$ = constant + annual growth rate BoE debt$_{Q4/Q4}$ 1997 Q4 to 2016 Q4			
		Explanatory variable	
		Annual growth rate in secured debt – BoE data	Annual growth rate in secured debt – BoE data
Dependent variable			
Annual growth rate in total debt – ONS data	Estimated coefficient	0.981***	
		(0.0634)	
Annual growth rate in secured debt – ONS data	Estimated coefficient		0.985***
			(0.0301)
Estimated constant		-0.00199	0.000819
		(0.00493)	(0.00237)
Observations		20	20
R^2		0.930	0.984

Notes: Standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1

Source: London Economics

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