

Spring 2006



Out of the red

Debt advice in the Citizens Advice service



The Citizens Advice service helps people resolve their money, legal and other problems by providing information and advice, and by influencing policymakers. The Citizens Advice service is the largest provider of free money advice in the UK.

Citizens Advice Bureaux, all independent charities are funded by local authorities, trusts, donations and partnership funding. The Legal Services Commission funds over half of all bureaux to provide legal advice – with most of this funding for debt advice.

- For information on how you can support the Citizens Advice service rachel.groves@citizensadvice.org.uk, 020 7833 7130 www.citizensadvice.org.uk/supportus
- Citizens Advice Specialist Support service runs short training courses for advisers and solicitors in welfare benefits, consumer and employment law. www.citizensadvice.org.uk/advisertraining
- Subscribe to AdviserNet – the Citizens Advice information system on CD. www.citizensadvice.org.uk/advisernet

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Citizens Advice debt advice at a glance

- Citizens Advice Bureaux dealt with 1,128,000 debt enquiries during 2004/05. This represents 21 per cent of all CAB client problems for 2004/05.
- In the last decade the number of consumer credit debt problems dealt with by bureaux has increased 118 per cent.
- CAB clients have an average of £13,000 of debt when they come to a bureau, nearly 17.5 times their monthly income.

Breakdown of debt enquiries dealt with by Citizens Advice Bureaux during 2004/05

| | |
|--------------------------|------------------|
| Benefit debts | 37,000 |
| Consumer debts | 800,000 |
| Employment debts | 13,000 |
| Housing debts | 107,000 |
| Legal debts | 22,000 |
| Relationship debts | 11,000 |
| Tax debts | 61,000 |
| Utilities debt | 76,000 |
| Total debt issues | 1,128,000 |

* Figures rounded to nearest thousand

- On average it would take CAB clients 77 years to pay back their debts in full.
- 34 per cent of those who had used a CAB said they were better off as a result.
- There are over 17,000 advisers in the Citizens Advice service providing debt advice. Most CAB advisers are trained volunteers.

Introduction



Almost every day we read about the growing indebtedness of UK households and the growth in personal bankruptcy. The positive work done to help those who have lost control of their debts and the actions of regulators, government departments, parliamentarians, trade associations and financial services companies to improve policy and practice, receive less attention.

This publication, produced thanks to support from Barclays, is a contribution to balancing the picture. It shows how Citizens Advice and its partners in the public, private

and voluntary sectors are making a major contribution to addressing problems at source or helping those adversely affected. *Out of the red* demystifies the money advice process and highlights:

- innovative approaches to deliver debt advice to people in rural areas
- how the Finance and Leasing Association helped its members train their staff to deal better with customers who might have mental health problems
- how people with mental health problems are helped by Hastings and Rother CAB thanks to The Big Lottery
- the training provided to money advisers through financial support from Barclays
- how GPs in almost eight hundred surgeries can refer patients to an on-site CAB adviser
- how serving prisoners receive help so that money problems don't get worse while they serve their sentences, thanks

to a partnership between the Citizens Advice Offender Support service and the Legal Services Commission

- how many people on low incomes in Liskeard in Cornwall are able to borrow from a credit union, thanks to the European Development Fund, the local council and the local CAB.

These are just a few of the many positive and successful initiatives and services which are making a difference. The scale of the problem is large and growing – so too are the responses to it. They are not yet sufficient in scale to turn the tide – that is where you can help.



David Harker
Chief Executive
Citizens Advice

- The 208 bureaux with Legal Services Commission funding delivered 239,326 hours of debt advice during 2004/05.
- As part of a partnership with Money Advice Trust, Citizens Advice receives around £700,000 a year towards the cost of training and supporting money advisers.

Debt advice benefits the client by:

- an overall reduction in the amount they have to repay on credit agreements
- ability to purchase the essentials such as food, clothing and transport
- reducing the threat of home loss/retaining their home
- a reduction in stress and improvement in health
- an average of £3,271 per year, based on an increase in benefits or other income and a reduction of debts.

Debt advice benefits the community because:

- council tax and rent payments are resumed, increasing revenue
- costs of court action and/or imprisonment are reduced
- outstanding rent accounts for local authority and housing association tenants are reduced saving on potential rehousing costs.

Dealing with debt

Never before has the level of debt been so high. Consumers now owe more than one trillion pounds on cards, mortgages and loans. Although the value of people's assets has also increased, an estimated six million families are struggling to keep up with credit commitments, and bankruptcies have risen by over 30 per cent in a year.

The money advice process which bureaux provide was developed over 30 years ago. It aims to preserve a client's home, fuel supplies and liberty; make clients aware of their rights and responsibilities and help them make informed choices about how they deal with their multiple debt problem.

"People often come to see us about a specific debt but in many cases they're likely to have a number of other debts or problems," says John Kruse, Money Adviser at Walthamstow CAB and Redbridge CAB. "It's important to establish a relationship built on trust, so that the client

feels able to give us as much information as possible." Principles of confidentiality and a non-judgemental approach are essential.

Each situation is different, but the money advice process remains the same. Emergencies, such as bailiffs' warrants or threats of disconnection of fuel supply are dealt with first. The adviser then checks whether the client is legally liable for each debt. They will look at all possible ways of increasing current income and will often help clients in dealings with the local authority and

In the last decade, the number of consumer debt problems dealt with by bureaux has increased by 118 per cent.





John Kruse, money adviser in East London.

Department for Work and Pensions.

The next stage is to draw up a financial statement. This enables the adviser to negotiate with creditors and assist clients with budgeting. It shows what income the client is receiving, their essential expenditure and whether there is any available income to repay their debts.

Many CAB advisers now use the Common Financial Statement (CFS), a joint initiative of the Money Advice Trust and the British Bankers' Association. Creditors will accept offers made using the CFS so long as expenditure is within pre-defined amounts. Bureaux can use CASE, the Citizens Advice service's electronic case recording system which stores clients' information securely, to compile financial statements and write letters to creditors.

The adviser will discuss all possible options for dealing with the client's debt problem including negotiation with creditors or bankruptcy.

"Most people we see are on very low incomes and can only spare a few pounds a month," says John Kruse, "Increasingly, bankruptcy is becoming the only option to get out of debt." Advice is given in such a manner as to empower and enable clients to deal with the situation themselves, at least in the longer term.

Negotiations with creditors will depend on whether the debt is considered to be a priority or non-priority debt. Priority debts are those where the ultimate sanction for non-payment is eviction, disconnection, or imprisonment. Negotiations with priority creditors depend on what level of payment it is realistic for them to accept. Where the client can make payments towards non-priority debts, it will be divided pro-rata according to the amount owed each creditor. Where there is no available income, advisers can ask for a payment break, offer token payments or advise the client to petition for bankruptcy.

The adviser will then write to all non-priority creditors with a copy of the financial statement, advising them of the client's situation and making an offer of repayment or advising them of the strategy for dealing with the client's debts. They will also ask for interest or charges on the account to be frozen so that any repayments will reduce the debt.

If there is a county court claim or judgment, the adviser will assist with form filling and may, if necessary, represent the client at court hearings.

"Debt was the first and last thing I thought of every day. The CAB put my mind at rest."

CAB advisers:

- interview clients face-to-face in bureaux, in community venues, at court, at home and by phone, to find out what the problems are and help to prioritise them
- help clients draw up a budget, including advising them on ways of increasing their income and reducing their expenditure
- advise clients on the best ways of dealing with their debts, including bankruptcy, individual voluntary arrangements and negotiating with their creditors
- help clients to negotiate with creditors
- help with form filling, for example, to claim for social security benefits, and challenge benefit decisions if necessary
- help clients fill in court forms, and represent clients court hearings for debt and at tribunals
- collect evidence about their clients' problems to campaign to improve services.

To find out more about training as a CAB adviser call 0845 264 264.

Working together

Many of the innovative projects and initiatives in local bureaux would not be possible without support.

Building bridges

People in rural areas often find it hard to access advice and yet debt inquiries in these areas are rising faster than anywhere else. "People borrow less but often have far less disposable income with which to pay back a debt, because incomes are lower and they have higher expenditure, particularly on transport," says Gerard Crofton-Martin, National Rural Development Officer. A Rural Regeneration Project, funded by Barclays following the foot and mouth outbreak, meant that outreach workers and full-time debt advisers could be recruited.

Goole CAB has been running a Rural Advice Project for the past five years. There are three outreach workers working a rota system. "For rural clients in debt, the transport system makes it very difficult for them to access advice and that's where going out to health or community centres in the



villages can really help," says Manager Celia Evans. A new project, Building Bridges, in East Riding allows clients to access CAB advice through a video link to the bureau (pictured bottom right).

Into the picture

People with mental health problems face discrimination in many areas of their lives. CAB clients with these problems are often vulnerable to high pressure sales techniques and poor lending practices, resulting in major money

problems. All too often, creditors respond with heavy-handed debt collection tactics instead of offering fair and sympathetic treatment. After the publication of *Out of the picture*, a Citizens Advice evidence report on mental health and social exclusion, the Finance and Leasing Association (FLA), the trade association for many major finance and consumer credit lenders, took action. "We realised there were things we could do to address some of the issues," says Karen Bennell, policy analyst. The result is a pack containing a short video film, guidelines for staff and a training course. "It's a tricky subject that needs to be handled carefully. We need to respond appropriately, for instance, by ensuring there is a considered and well-managed referral process dealing with the person on a one-to-one basis, giving direct

CASEFILE

When a couple visited their local CAB they were desperate for help. Mr Habib had started with small overdrafts and loans, which had been consolidated over time. When no further credit was available to him, his wife was lent £25,000 by a bank to "ease the financial burden". The CAB challenged the bank over irresponsible lending, and the complaint was upheld. The result was £74,000 of debt being written off.

CASEFILE

When Brenda's marriage broke down she faced debts of almost £15,000. With the threat of homelessness hanging over her, she took advice from her local CAB. An adviser went through her problems meticulously, discussed reasonable monthly payments with her creditors and also helped deal with the emotional and personal impact of the debt. "It was like someone had taken the burden off me," she says, "When I went into the interview I was in despair, I walked out with hope."

telephone numbers, managing the account individually and carrying out agreed actions," says Karen.

Thanks to funding from the Big Lottery Fund, Hastings and Rother CAB launched its mental health project in spring 2005. "We were conscious that clients were being shunted around and that there was a tendency to think that a mentally ill client needed a mental health case worker, whereas mostly they just need a bit more time and skill," says manager Chris Finney.

The project takes referrals only from health professionals and is targeted at clients who are eligible for help under the Legal Advice scheme. Initial visits are via outreach with the aim of persuading clients to come to the bureau as part of their recovery. Feedback so far is positive, with clients feeling less stressed and more in control of their lives.

The Money Advice Trust (MAT) is a charity formed to increase the quality and availability of money advice in the UK, through expansion of the National Debtline and Business

Accessing advice via video link enables clients in rural areas to get debt advice.

Debtline and working in partnership with money advice agencies like Citizens Advice Bureaux.

MAT has been successful in securing funding from the Government and the private sector to work in partnership with Citizens Advice to deliver training and second-tier specialist support to money advisers. The Citizens Advice service is also a key partner in MAT initiatives such as the 'Debt Advice Helpline' which will create an additional telephone access point for free, impartial money advice.

Training is essential to support quality advice. MAT and its partners are developing a new



Training money advisers

strategy to deliver money advice training including e-learning, face-to-face courses, website support and learning assignments, via MAT's Wiseradviser brand. "We are working with our partners to ensure the new training strategy provides an accessible range of training materials to support advisers to develop their skills and knowledge", says Ian Witcombe, Deputy Director at MAT. "We want to make it exciting and relevant. Working with Citizens Advice on this means that there is no duplication and we make the best use of our resources."

Predatory lending

Selby CAB was aware that people in council houses in the area were receiving mail shots asking them whether they had



East Riding Borough Council

considered buying their home and offering attractive terms, which later turned out to have hidden extra charges. In some cases, people on low incomes were facing repayments of £600 or more and several very quickly found themselves threatened with repossession.

“The lenders frequently made things more difficult by not supplying an address or telephone number so that the client couldn’t contact them,” says Manager Jackie Fielding. Selby CAB contacted the local council who published an article in the tenants’ newsletter, alerting people to the risks and the bureau itself helped several clients to avoid losing their home.

Burton-on-Trent CAB became concerned when more and more clients came in owing large amounts of money to a major high street bank. “They had one thing in common – they seemed to be the result of consolidations.” says Manager Suman Antcliffe. “Many of our clients haven’t cottoned on to the fact that banks have changed – you need to shop



Suman Antcliffe

around for the best deal.” Publicity through a television programme brought the topic nationwide attention and uncovered cases in other areas.

Prescribing advice

It’s not only people in rural areas who have difficulty accessing financial advice, which is why CAB advisers can now be found in nearly 800 GP surgeries in England and Wales. “Some people don’t like the idea of going to a bureau but are likely to agree if their doctor suggests they see the CAB in their own surgery, to sort out their debts,” says Marolyn Burgess

of Citizens Advice National Development Team. “Providing early advice is good for the individual and the community. By reducing the Primary Care Trust’s prescribing budget, it’s also good for the health economy too.”

“Providing early advice is good for the individual and the community.”

Stoke CAB is piloting a project, recruiting and training volunteers specifically to mentor vulnerable debtors. “There’s a major debt collection problem in Stoke,” says Specialist Services Manager Claire Blades. The industries that used to provide employment and security have gone and work is in less reliable sectors such as call centres. “People are hired and fired at will and the benefit system is not flexible enough to deal with this,” says Claire.

Citizens Advice Offender Support is a vital service for people in prison and on probation. The project has a contract with the Legal Services Commission (LSC) with CAB specialist caseworkers providing support in debt, welfare and benefit. “There is often no one to deal with debt problems while offenders are in prison, so when they come out they can be faced with a host of problems,” says regional manager, Tina Thompson. “Providing support when they come out of prison is usually too late so we need to be there earlier.” Research

Hidden charge repayment schemes increase repossessions



John Birdsall



Community training

has shown that clients helped in this way are far less likely to re-offend and there is a hope that the service, can be rolled out nationwide.

Early warnings

A project at Cynon Valley CAB trains people in the community to pick up the signs of money problems at an early stage. "We wanted to catch people when they are first short of money and miss a payment – at the key point when the crisis occurs but before it gets out of hand," says manager Margaret Sheppard. A half-day training for workers such as health visitors and playgroup supervisors makes them aware of what to look out for. "Debts at this stage are rarely huge and when we reviewed the project a high proportion were able to deal with their debt themselves."

Credit Union

It took Hilary Warren four years, but the Credit Union she set up within Liskeard CAB, with funding from the

local council and European Regional Development Fund, has been running successfully for three years. The largest amount they can lend is £10,000 but most people want small loans for items such as school clothes, a new fridge or washing machine. "When one of our local schools organised a trip to the Isles of Scilly it cost £80 a head, a lot of money for some families but several were able to send their children by taking out a Credit Union loan," says Hilary.

"By working with us, housing associations were saving money by not going to court."

Preventative action

A partnership with local housing associations gives Norwich CAB a chance to help clients on the verge of repossession. "At that point, clients will be at least eight weeks in arrears and in exchange the housing association gives us a month's grace to set up arrangements," says Andy Cobb, Debtline Manager. The majority of tenants are eligible for legal assistance, so will get passed to the Community Legal Service funded money advisers who deal with three quarters of the clients. "Within a year of this partnership, we were able to demonstrate that by working with us rather than taking court action, arrears were not just levelling off, they were actually dipping and housing associations were saving money by not going to court."

People who have more than one debt to Gloucester City Council can apply to join a

scheme, which prevents recovery action by any other means, provided a reasonable offer of repayment is made. The local CAB helps people to apply for the scheme, present robust financial information, and ensures that repayments are sustainable and practical. There is also the power to remit or write-off a debt if people have made a real effort but failed through no fault of their own.

"The scheme is working very well, in tandem with an Eviction Appeal Panel, which is a priority for the council to avoid homelessness," says John Eden, Manager Gloucester CAB.



One third of all CAB advice is delivered in health settings

The policy picture

Over the last five years Citizens Advice has been lobbying government and the credit industry to tackle the wide range of problems experienced by CAB debt clients.

A better deal for borrowers

Since 1999 campaigning by Citizens Advice has put credit and debt problems in the public eye. We have argued for more responsible marketing and lending, better protection for people taking out credit and more investment to improve consumer understanding of the subject.

CAB evidence on extortionate credit agreements and unacceptable debt collection practices helped to shape new consumer credit law. These overdue changes will provide protection against unscrupulous lending and collection practices.

In 2005, Citizens Advice made a super-complaint to the Office of Fair Trading showing how consumers pay over the odds for payment protection insurance that they often do not want, cannot afford and cannot claim on. As a result the OFT are conducting a thorough investigation which should lead to better and cheaper payment protection.

Enforcement and debt collection

CAB clients report stress and hardship caused by harsh debt collection and enforcement practices. A Citizens Advice report argued that a radical



Presenting the Citizens Advice super-complaint on PPI at the OFT

“Financial inclusion is a key element of current government thinking.”

overhaul of outdated bailiff law was urgently needed. Although the government agreed with this, legislation is yet to reach parliament and we continue to campaign on this pressing issue.

The Office of Fair Trading credit licensing system ensures that anyone lending or collecting consumer credit behaves fairly and responsibly. CAB evidence has prompted the OFT to issue guidance on debt collection and debt management that has been successful in tackling problems in these areas.

We have taken an active part in recent reviews of credit

industry codes of practice. As a result the Banking Code now has improved guidance on how banks should treat people in financial difficulties.

Following publication of a CAB evidence report on mental health the Finance and Leasing Association revised their code of practice to ensure that people with mental health problems are treated fairly.

Growing CAB evidence on possession action for rent arrears by social landlords was presented in *Possession action – the last resort?* This report led to a number of policy reforms including a Housing Corporation regulatory circular, best practice guidance from ODPM and a requirement for social landlords to record and report eviction levels. A rent arrears pre-action protocol is also in preparation.

CAB clients are often excluded from debt relief remedies such as bankruptcy because they cannot afford the fees. In 2002 Citizens Advice lobbied for exemption from bankruptcy fees for people on means tested benefits. This led to a government proposal for a cheaper and more accessible bankruptcy procedure for people on low incomes. We are now working with the Insolvency Service on the detail.

Corridors of power

We have worked hard to raise awareness of money issues with MP's and Peers. We organise the All Party Group on debt and

personal finance and arrange fringe meetings at party conferences on debt and credit issues. We have also provided oral and written evidence to select committees including the Treasury Select Committee inquiries on credit cards, automated teller machines (ATM) and financial inclusion.

Financial inclusion

Financial inclusion is a key element of current government thinking including targets to improve access to banking for people on low incomes. CAB surveys showing poor access to basic bank accounts inspired the Banking Code Standards Board, who ensure that banks comply with the Banking Code, to carry out further research. This led to improvements to the Code.

However a CAB evidence report, *Banking benefits*, found that the banks need to do more to make financial inclusion a reality. Peter Kelly, Head of Financial Inclusion with Barclays says "Financial inclusion is important. We have introduced a flexible process for identification and display cash card leaflets in our branches. However, making financial inclusion a reality needs to involve joint working."

Being charged for using an ATM is an issue that affects everyone. Fee charging cash machines have a disproportionate impact on people whose benefits are paid directly into their bank accounts. Research by Citizens Advice was quoted in a Parliamentary debate, after

which the Government resolved to take the matter further.

Coming challenges

Citizens Advice believes that we have made a major contribution to creating a better and fairer credit market. However there is much work still to be done. It remains to be seen how new legislation and policies work in practice to protect consumers. Equally new debt problems might arise as a result of price increases for fuel, water and council tax or changing economic conditions. Citizens Advice will continue to make the case for fairness and justice no matter what the future brings.

In a Citizens Advice survey 40% of respondents said they had not been warned about being charged for using a cash machine.



Last word



We talk to Gerry Sutcliffe MP, Parliamentary Under Secretary of State for Employment Relations and Consumer Affairs.

1. How do you think the Consumer Credit Bill will help people coming to the CAB service for advice on unmanageable debt problems?

The Bill will improve consumer rights and redress. Consumers will benefit from more information about their credit accounts, throughout the life of the loan, and will have easier access to time orders, a court based remedy to allow people to repay over a longer time. Consumers will have a free means of resolving disputes through the Financial Ombudsman Service, whose decisions will bind lenders. The Bill will provide consumers with easier routes through the court process, replacing the current extortionate credit test with one based on the concept of unfairness.

2. What more could the credit industry do to address problems of over indebtedness?

The credit industry has been an active partner in the development and delivery of the Action Plan on Tackling Over-indebtedness. Self-regulatory action to promote best practice has a crucial role to play: for example proposals to develop the Banking Code, initiatives to widen the coverage of codes of practice to more players, and proposals for increased data sharing. The industry's engagement in reviews is particularly valuable, e.g. the current credit card cheques consultation and forthcoming consultation on data sharing. Finally, whilst small in number, there are still too many cases of harassment by creditors and debt collection agencies and refusal to negotiate with advice organisations. I welcome the OFT review of their Debt Collection Guidance and look to the industry to stamp out these practices.

3. How do you think the advice sector can get the best use out of the funds made available by the government for face-to-face money advice?

The aim of the face-to-face debt advice project is to deliver a step-change in the provision of free-to-client, independent debt advice targeted in areas of high financial exclusion. Three factors will help us maximise the impact of this

money. First, taking a strategic approach on a regional level and targeting activity where it is most needed. Second, engaging in partnership working to access the strengths of different organisations. Third, promoting guided choice: if an individual can be appropriately supported through telephone advice, guide them in that direction and reserve the face-to-face provision for those in greatest need. We need to prove that this level of investment is justified to present a strong case in the 2007 Government Spending Review.

4. What's the next step for the government's over indebtedness review?

We have achieved a great deal in the past five years: establishing a co-ordinated approach across partner organisations, agreeing strategic priorities, and establishing working groups which track developments, monitoring policy progress and ensuring we respond to changes. We now need to deliver the activities set out in the latest Annual Report, while keeping an eye on the developing situation. Delivery is the key: in the debt advice sector this means achieving a step-change in both face-to-face and telephone debt advice provision; taking the debt advice helpline from pilot to full operation; identifying and mainstreaming best practice in outreach provision; and pulling together the research on the impact of debt advice to make a compelling case for future funding.