

# THE LONG-TERM IMPACT OF DEBT ADVICE ON LOW INCOME HOUSEHOLDS

A project funded by the Friends Provident Foundation

## *The Year 3 Report*

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## THE LONG-TERM IMPACT OF DEBT ADVICE ON LOW INCOME HOUSEHOLDS

### Context

**Over-indebtedness is an increasing problem** - total consumer credit lending to individuals stands at £221 billion and Citizen Advice Bureaux alone deal with 9,500 new debt problems every day.

It has been estimated that **the average cost per debt problem to the public is over £1,000, with more serious problems involving costs of many times this amount.**

**This report presents findings from year 3 of a six year study of the impact of debt advice on low income households**, based on in-depth interviews with 53 people who received debt advice in 2007 and have since been followed-up annually.

### Key findings

- **Interviewees reported major difficulties accessing advice services**, with advice for a large majority of interviewees having been a last resort - problems included limited opening hours, length of time spent queuing, length of time for an appointment to be available and lack of continuity in provision.
- **Since receiving advice there is an overall positive picture of declining total indebtedness** - only a very small minority of interviewees reported increasing indebtedness, although for a significant minority the position remains unclear.
- **There has been a very significant shift from people having real financial difficulties/fallen behind with some commitments, to being able to keep up with payments** - although still largely marked by either constant or occasional struggle to do so.
- **Interviewees' own assessment of change included strong emphasis on income and ability to make ends meet, and well-being.**
- **Three years after seeking advice, advice was still seen as having been helpful by a large majority of interviewees.**
- **Advice led to positive change for a large majority of interviewees.**
- **Even where indebtedness remained unresolved, interviewees reported advice enabling them to cope better and preventing further deterioration.**
- **A large majority of interviewees said advice had on-going positive impact, including lessons learned about financial management and ability to act for themselves.**
- **The positive impact of advice meant that the majority of interviewees were no longer engaged with an advice provider and were able to act for themselves – but some people do need on-going support.**

- **Interviewees reported many very negative experiences of dealing with creditors.**
- **Interviewees were largely negative about financial education as a separate activity to debt advice:** in talking about financial capability, themes of careful budgeting and rejecting credit use dominated – but lessons had clearly been learnt from seeking debt advice.
- **There is a depressingly familiar finding of low income holding back people’s ability to move beyond indebtedness** – insufficient income meant there remained no examples of interviewees having savings, and over half the sample had borrowed money between Years 2 and 3 of the research.
- The research includes people who sought telephone and face to face advice but is concerned with the overall impact of advice and does not compare impact by different providers or different services – but it is evident from the research that **advice seekers have very different needs and capabilities and there is no ‘one size fits all’ solution.**

### **Policy implications**

- *The provision of debt advice services* - the overall positive finding regarding the long-term impact of debt advice is important in relation to decisions about the provision and funding of services; but the impact of advice needs to be evaluated on more than a simple measure of indebtedness e.g. account needs to be taken of impact in relation to health issues and enabling people to cope better and avoid problems deteriorating.
- *Advice providers* - there are issues for providers e.g. the importance of the ‘someone to talk to’ element of advice, and continuity of provision – but also that some people have a negative experience of advice.
- *Creditors* - interviewees cannot be seen in terms of ‘can’t payers versus won’t payers’ and the willingness of creditors to accept affordable offers is critical; otherwise people can see contact with a creditor as pointless.
- *Preventing over-indebtedness: financial capability and credit use* - in developing messages around debt avoidance there are challenges in devising a financial capability equivalent of the ‘5 a day’ message of healthy eating campaigns.
- *Preventing over-indebtedness: low income* - low income is rooted in benefit rates and wage levels; without change it is inevitable that over-indebtedness will persist.
- *Understanding over-indebtedness* - there is a need for a much more sophisticated understanding of debt and how it affects and is experienced by different groups.
- *A Big Society approach* - tackling problems of over-indebtedness requires action by a range of actors including creditors, individuals, the third sector and Government; advice services play a critical role in ‘oiling the wheels’ of a positive Big Society approach.

## ***Executive Summary***

### **Chapter 1 - Introduction: the research and the policy context**

This report presents findings from Year 3 of a six year study of the impact of debt advice on low income households, based on in-depth interviews with 53 people who received debt advice in 2007 and have since been followed-up annually.

Issues relating to credit and debt are of immense contemporary importance, with credit and debt firmly established as integral elements of the socio-economic structure of the UK, and part of everyday life for the vast majority of citizens.

Over-indebtedness is an increasing problem - total consumer credit lending to individuals stands at £221 billion and Citizen Advice Bureaux alone deal with 9,500 new debt problems every day.

Media attention often focuses on so-called 'middle class debt', but the concern of this report is with the more long-standing problem of debt among low income households; over the last thirty years the UK has seen fundamental changes in levels of poverty and income inequality.

The onset of recession in 2008/09 has included rapid rises in unemployment and has intensified problems.

The causes of debt for the interviewees in this research are:

- low income (which includes both long-term experience of low income, and a change of circumstances leading to low income); and
- a broad heading of 'credit' which includes the behaviour of both interviewees and creditors – some interviewees talked in terms of using credit to 'live beyond their means' or 'going mad' with store cards, but at the same time were critical of creditors for 'throwing money' at them, increasing credit card limits and offering additional lending which interviewees had little likelihood of ever repaying.

One group of interviewees ascribed their financial difficulties to mental health problems, and the inter-connectedness of causes was critical for many interviewees.

Indebtedness can have profound impacts on individuals but it has been estimated that the average cost per debt problem to the public, and in lost economic output, is over £1,000, with more serious problems involving costs of many times this amount.

From 2004 to 2007 the Government published an annual report on tackling indebtedness, which included a wide range of policy measures.

A more generic policy response has been the 'financial capability' agenda and related Financial Inclusion initiative.

A key response to debt problems is the provision of advice services.

However, the evidence base regarding the impact of debt advice is small, and ambiguous.

This project is original in taking a longitudinal approach over a six year period, and placing emphasis on the experience of low income households.

In Year 1 of the research interviewees reported major difficulties accessing advice services, with advice for a large majority of interviewees having been a last resort - problems included limited opening hours, length of time spent queuing, length of time for an appointment to be available and lack of continuity in provision.

The research includes people who sought telephone and face to face advice but is concerned with the overall impact of advice and does not compare impact by different providers or different services – but it is evident from the research that advice seekers have very different needs and capabilities and there is no ‘one size fits all’ solution.

## **Chapter 2: Change in interviewees’ financial position since seeking advice**

There is an overall positive picture of declining total indebtedness – only a minority of interviewees were by Year 3 debt free, but the single largest group are those for whom debts are reducing through payment arrangements.

Only a very small minority of interviewees reported increasing indebtedness, but for a significant minority the position remained unclear.

There has been a very significant shift from people having real financial difficulties/fallen behind with some commitments, to being able to keep up with payments - although still largely marked by either constant or occasional struggle to do so.

A significant minority of interviewees continue to categorise themselves as having real financial difficulties/fallen behind with some commitments.

Only a very small minority of interviewees report being able to keep up with all bills and commitments without any difficulty.

Interviewees’ own assessment of change followed the overall finding of largely positive change, although with some neutrality and negativity, but was more multi-dimensional including a strong emphasis on themes of income and ability to make ends meet, and well-being.

## **Chapter 3: The long-term impact of debt advice**

Three years after seeking advice, advice was still seen as having been helpful by a large majority of interviewees.

Only a small minority of interviewees saw advice as having been unhelpful, and the main issue was service provision rather than the content of advice.

Three elements of advice were found most helpful: having someone to talk to; being given information and options; and being better able to deal with creditors.

Advice led to positive change for a large majority of interviewees.

Even where indebtedness remained unresolved, interviewees reported advice enabling them to cope better and preventing further deterioration.

A large majority of interviewees saw advice as having on-going impact – including lessons learned about financial management and ability to act for themselves - but there are limits to what advice can achieve.

## **Chapter 4 – Further themes: advice seeking behaviour; creditors; and financial capability and life on a low income**

There is evidence of a positive shift in attitudes to advice seeking.

The positive impact of advice meant that the majority of interviewees were no longer engaged with an advice provider and were able to act for themselves.

Other themes applied only to small numbers of interviewees but included: a need for on-going, long-term advice and support; interviewees having a less positive experience when returning to a provider for further advice; and continuing problems with access to services.

Negative experiences of creditors, ranging from a sense of creditors as unhelpful and difficult to deal with, through to descriptions of creditors as ‘aggressive’, ‘nasty’ and even ‘bullying’, remained evident.

Creditors asking for payment arrangements to be increased gave interviewees an on-going sense of being under pressure.

Difficulties in negotiating a payment arrangement led some interviewees to decide that trying to deal with a creditor was pointless.

The majority of interviewees reported feeling financially confident, and across the sample as a whole there was positive change since Year 1.

Interviewees were largely negative about financial education as a separate activity to debt advice: in talking about financial capability, themes of careful budgeting and rejecting credit use dominated – but lessons had clearly been learnt from seeking debt advice.

There is a depressingly familiar finding of low income holding back people’s ability to move beyond indebtedness – even when people had rejected credit use and were committed to careful budgeting, insufficient income meant they still faced a dilemma of how to meet basic and specific needs. There remained no examples of interviewees having savings, and over half the sample had borrowed money between Years 2 and 3 of the research.

## **Chapter 5 – Conclusions and policy implications**

*The provision of debt advice services* - the overall positive finding regarding the long-term impact of debt advice is important in relation to decisions about the provision and funding of services; but the impact of advice needs to be evaluated on more than a simple measure of indebtedness e.g. account needs to be taken of impact in relation to health issues and enabling people to cope better and avoid problems deteriorating.

*Advice providers* - there are issues for providers e.g. the importance of the ‘someone to talk to’ element of advice, and continuity of provision – but also that some people have a negative experience of advice.

*Creditors* - interviewees cannot be seen in terms of ‘can’t payers versus won’t payers’ and the willingness of creditors to accept affordable offers is critical; otherwise people can see contact with a creditor as pointless.

*Preventing over-indebtedness: financial capability and credit use* - in developing messages around debt avoidance there are challenges in devising a financial capability equivalent of the ‘5 a day’ message of healthy eating campaigns.

*Preventing over-indebtedness: low income* - low income is rooted in benefit rates and wage levels; without change it is inevitable that over-indebtedness will persist.

*Understanding over-indebtedness* - there is a need for a much more sophisticated understanding of debt and how it affects and is experienced by different groups.

*A Big Society approach* – tackling problems of over-indebtedness requires action by a range of actors including creditors, individuals, the third sector and Government; advice services play a critical role in ‘oiling the wheels’ of a positive Big Society approach.

## The full report

### Chapter 1 - Introduction: the research and the policy context

This report presents findings from Year 3 of a six year study of the impact of debt advice on low income households, based on in-depth interviews with 53 people who received debt advice in 2007 and have since been followed-up annually.

#### The policy context

At the time of writing this report, there is considerable policy uncertainty given the new Coalition Government and the prioritising of public spending cuts. However, this project is premised on four policy considerations: credit and debt in the UK; low income; the causes and consequences of indebtedness; and policy responses and the provision of debt advice services.

#### *Credit and debt in the UK*

Issues relating to credit and debt are of immense contemporary importance. Credit and debt are now firmly established as integral elements of the socio-economic structure of the UK, and part of everyday life for the vast majority of citizens. Levels of credit and indebtedness are staggering. According to Credit Action ([www.creditaction.org.uk/debt-statistics/2010/may-2010.html](http://www.creditaction.org.uk/debt-statistics/2010/may-2010.html) - website visited 7 June 2010):

- total UK personal debt at the end of March 2010 stood at £1,460bn - individuals owe more than what the whole country produces in a year;
- average household debt in the UK is £8,796 (excluding mortgages); this figure increases to **£18,252** if the average is based on the number of households who actually have some form of unsecured loan;
- the average owed by every UK adult is £30,258 (including mortgages). This is 131% of average earnings; and
- the average interest paid by each household on their total debt is approximately £2,692 each year - the average household will need to spend approximately 15% of net income purely to service the interest payments arising from this debt.

Credit can be used in many ways: to purchase a home through a mortgage; to smooth consumption; provide financial flexibility, and so on: but the concern of this report is when credit and debt become a problem of over-indebtedness which is unmanageable (it should be noted that there is no agreed definition of what constitutes over-indebtedness – definitional issues will be returned to in Chapters 2 and 5). According to Credit Action ([www.creditaction.org.uk/debt-statistics/2010/may-2010.html](http://www.creditaction.org.uk/debt-statistics/2010/may-2010.html) - website visited 7 June 2010):

- 90 people today will be declared insolvent or bankrupt. This is equivalent to 1 person every 3.69 minutes;
- Citizen Advice Bureaux deal with 9,500 new debt problems every day;
- 1,000 people seek formal debt rescheduling every working day;
- 2,000 County Court Judgements (CCJs) for debt were issued every day in the first 3 months of 2009; and
- 126 properties were repossessed each day during 2009.

#### *Low income*

Media attention often focuses on so-called 'middle class debt', but the concern of this report is with the more long-standing problem of debt among low income households (also see



Appendix A). Over the last thirty years the UK has seen fundamental changes in levels of poverty and income inequality. The most commonly used threshold of poverty is 60% of median household income. The most recent data (The Poverty Site - [www.poverty.org.uk/index.htmshow](http://www.poverty.org.uk/index.htmshow) - website visited 8 June 2010) show that:

- in 2007/08, 13½ million people in the UK were living in low income households (around 22% of the population);
- In 2007/08, 4 million children in the UK were living in low income households;
- low wages mean in-work poverty is a growing concern; among working-age adults in low income households, more than half now live in families where someone is in paid work;
- over the last decade, the poorest tenth of the population have, on average, seen a fall in their real incomes after deducting housing costs. The richest tenth of the population have seen much bigger proportional rises in their incomes than any other group; and
- the UK rate of low income is higher than all but four of the 27 EU countries.

The onset of recession in 2008/09 has included rapid rises in unemployment and has intensified problems.

#### *The causes and consequences of indebtedness*

The Year 1 report for this project found that the causes of debt for the interviewees in this research accorded with other studies (the Year 1 and 2 Reports are available at [www2.warwick.ac.uk/fac/soc/ier/research/current/debt](http://www2.warwick.ac.uk/fac/soc/ier/research/current/debt)). This can be summarised for this project as there being two particular causes of debt:

- low income (which included both long-term experience of low income, and a change of circumstances leading to low income); and
- a broad heading of 'credit' which included the behaviour of both interviewees and creditors – some interviewees talked in terms of using credit to 'live beyond their means' or 'going mad' with store cards, but at the same time were critical of creditors for 'throwing money' at them, increasing credit card limits and offering additional lending which interviewees had little likelihood of ever repaying.

One group of interviewees ascribed their financial difficulties to mental health problems, and the inter-connectedness of causes was critical for many interviewees. But as will be seen in this report, income is a vital factor. Other recent research (Dearden *et al.*, 2010) strongly suggests that living on a low income for a sustained period is likely to lead to over-indebtedness such that it becomes almost impossible to find a route out, regardless of motivation.

In terms of the consequences of indebtedness, there can be profound impacts on people e.g. having their home repossessed. A major issue identified in the Year 1 report of this project was the strength of the impact of debt on people's well-being, and how it becomes overwhelming for people, completely dominating their lives. In particular, interviewees talked in terms of 'worry', which was a spectrum that ran from 'losing sleep' through to depression and even talk of suicide.

But indebtedness has consequences beyond those for the individual. It has been estimated that the average cost per debt problem to the public, and in lost economic output of individuals, is over £1,000, with more serious problems involving costs of many times this amount (Pleasence *et al.*, 2007).

## *Policy responses and the provision of debt advice*

From 2004 to 2007 the Government published an annual report on tackling indebtedness, which included a wide range of policy measures. 2008 saw further responses to increasing indebtedness, particularly in relation to mortgage repossessions, with new schemes including the Mortgage Rescue Scheme and Homeowner Mortgage Support Scheme. April 2009 saw the introduction of the new Debt Relief Order.

A more generic policy response has been the 'financial capability' agenda. Financial capability encompasses "people's knowledge and skills to understand their own financial circumstances, along with the motivation to take action. Financially capable consumers plan ahead, find and use information, know when to seek advice and can understand and act on this advice, leading to greater participation in the financial services market" (HM Treasury, 2007). Key policy developments have included the promotion of financial education and generic financial advice (e.g. the 2008 Thoresen Review of generic financial advice and subsequent money guidance pilot projects). Financial capability will be returned to as a theme in Chapters 4 and 5 of this report.

A key response to debt problems is, however, the provision of advice services – for example as part of the Financial Inclusion initiative. Debt advice in this project refers to the free provision of advice for people with debts, by not for profit organisations. Research for the Friends Provident Foundation (Gillespie and Dobbie, 2009) estimated that there are approaching 1,500 organisations in the not for profit sector providing free to client independent debt advice, and advising 1.1 million clients per year. There are indications of growing demand for advice.

However, the evidence base regarding the impact of debt advice is small, and ambiguous. The most relevant research is a body of four studies undertaken by the Legal Services Research Centre (see Pleasence *et al.*, 2007). The overall finding was that money advice has a positive impact, but longitudinal elements of the research encountered considerable methodological difficulties; for example, a random control trial was halted after the first follow-up due to sample attrition. Another element of the research, a study of advice agency clients (the most directly comparable with this project), was able to contact only 35% of the original respondents after 12 months and did not progress further. The study did, however, find that some benefits of advice were *less* evident after one year than after six months. Ambiguity was also evident in a large scale survey in the United States, which found that money advice had only a modest impact (Collins *et al.*, 2008). An evaluation of pilot money advice outreach services funded through the Financial Inclusion Fund (Buck *et al.*, 2009) reported a range of positive outcomes for clients, but did not include a longitudinal element so could not assess long-term impacts. A report by the Public Accounts Committee published in April 2010<sup>1</sup> on helping over-indebted consumers was very critical of lack of knowledge regarding many aspects of the provision of debt advice.

### **About this project**

This project is original in taking a longitudinal approach over a six year period, and placing emphasis on the experience of low income households. In Year 1 there were 59 interviewees; in Year 2 56 were successfully contacted and re-interviewed; in Year 3 the number reduced to 53. Attrition, meaning loss of participants after each stage of interviews, is an issue faced in any longitudinal study. For a difficult to research population such as in this study there is a risk of attrition being a significant problem. The Year 1 report discussed how for many interviewees debt retains a strong sense of stigma, they still found it very hard to talk about debt, and many had experienced times when they had not opened letters or

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<sup>1</sup> Available at [www.publications.parliament.uk/pa/cm200910/cmselect/cmpubacc/475/475.pdf](http://www.publications.parliament.uk/pa/cm200910/cmselect/cmpubacc/475/475.pdf)

answered telephone calls – 11 of the 53 interviewees have moved house during the project thus far. While considerable effort was required to contact some interviewees, including using separate third party contact details provided by interviewees at Year 1, the attrition rate has been lower than anticipated.

Interviewees were involved via six not for profit advice providers: two Citizens Advice Bureaux, a national telephone helpline and three community-based independent advice providers. While there are a series of questions that can be asked about differential service delivery by providers, the differential impact of advice between providers, and so on, it must be made clear such issues do not form part of this project. Thus, the research includes people who sought telephone and face to face advice but is concerned with the overall impact of advice and does not compare impact by different providers or different services – but it is evident from the research that advice seekers have very different needs and capabilities and there is no ‘one size fits all’ solution.

It should also be noted that in Year 1 of the research interviewees reported major difficulties accessing advice services, with advice for a large majority of interviewees having been a last resort - problems included limited opening hours, length of time spent queuing, length of time for an appointment to be available and lack of continuity in provision (these points will be returned to in Chapter 4).

The research criteria were that interviewees must be on a low income and have a significant debt problem, with arrears with multiple basic household commitments (e.g. rent/mortgage, fuel, council tax etc) being taken as a good indication of meeting these criteria. Income is not static and it will be seen in Chapter 2 that some interviewees have seen their income increase. But at Year 3 only four of the 53 interviewees have close to an average household income and in these cases levels of debt repayment could still mean disposable income was problematic.

Interviews followed a ‘conversation with a purpose’ approach. This enabled interviewees to address issues in the order that suited them, and gave them space to identify key concerns. This is a challenging approach but one which provides very rich data.

Interviews were digitally recorded. Sound files were transcribed and documents then loaded onto Nvivo, a software package for managing qualitative data. Analysis was developed through coding each transcript, enabling themes to be identified. The analysis is therefore truly grounded in interviewees’ experience (for further details of the methodology see Appendices B and C).

### **The structure of this report**

Chapter 2 examines change in interviewees’ financial position since seeking advice.

Chapter 3 examines the long-term impact of debt advice.

Chapter 4 focuses on three points referred to in Chapters 2 and 3 which require further consideration: advice seeking behaviour; the relationship between interviewees and creditors; and financial capability, which links to issues around low income.

Chapter 5 draws together conclusions and discusses policy implications.

There are three appendices: facts about low income; the methodology and the sample; and the Year 3 topic guide.

## Chapter 2: Change in interviewees' financial position since seeking advice

This chapter examines:

- change in interviewees' total level of indebtedness;
- change in the degree to which interviewees are able to cope with bills and credit commitments; and
- interviewees' own assessment of change.

Key points in this chapter are:

- there is an overall positive picture of declining total indebtedness – only a minority of interviewees were by Year 3 debt free, but the single largest group are those for whom debts are reducing through payment arrangements;
- only a very small minority of interviewees reported increasing indebtedness, but for a significant minority the position remained unclear;
- there has been a very significant shift from people having real financial difficulties/fallen behind with some commitments, to being able to keep up with payments - although still largely marked by either constant or occasional struggle to do so;
- a significant minority of interviewees continue to categorise themselves as having real financial difficulties/fallen behind with some commitments;
- only a very small minority of interviewees report being able to keep up with all bills and commitments without any difficulty; and
- interviewees' own assessment of change followed the overall finding of largely positive change, although with some neutrality and negativity, but was more multi-dimensional including a strong emphasis on themes of income and ability to make ends meet, and well-being.

### Introduction

Before considering the impact of debt advice it is important first to establish what change there has been across the sample, and the nature of that change. The aim here is to capture change in relation to the individual interviewee. Despite the sample consisting of just 53 people it is marked by very considerable diversity. This diversity applies to characteristics including household composition, housing tenure, age, and gender; primary source of income i.e. all main benefits - Income Support (IS), Incapacity Benefit (IB) and Jobseeker's Allowance (JSA) and employment/self-employment. It also applies to total level of debt (which in Year 1 ranged from under £1,000 to over £100,000), and stage in the debt recovery process e.g. from interviewees whose homes have been repossessed, to people who had not actually fallen into arrears but recognised their position was unsustainable. Types of debt include priorities and non-priorities (this is an important distinction between debts, based on the sanctions available. Priorities include rent/mortgage and household bills, where non-payment can lead to possession action, disconnection of fuel supplies and so on. Non-priorities are essentially unsecured credit debts where lesser sanctions generally apply).

This research suggests that debt, certainly in relation to seeking advice, is perhaps best understood not as a quantifiable set of financial circumstances but as a point where a person recognises their financial position is unsustainable and they can no longer manage. Thus, no attempt is made to compare the different situations faced by interviewees e.g. a few hundred pounds of credit debt versus unmanageable mortgage arrears. What is important in this report is change as experienced and expressed by each individual interviewee; have things changed for that individual, and in what ways?

### **Change in total level of indebtedness**

Table 2.1 presents findings regarding change in interviewees' total level of indebtedness since seeking advice. Interviewees fall into three groups:

- debt free;
- debts reducing; and
- increasing indebtedness or position unclear.

Table 2.1 also records the approach taken by interviewees e.g. bankruptcy, payments direct to creditors etc (it should be noted that in this report the word 'creditors' is used to encompass all companies and organisations interviewees owe money i.e. credit companies, fuel providers, water companies, landlords, councils, government departments and agencies, and debt collection agencies). Table 2.1 records the main option pursued but it should be noted that in many cases there was a mix of factors and eventual outcomes were often achieved after people had tried various methods (e.g. bankruptcy pursued only after payment arrangements and/or an IVA failed). No attempt is made at quantifying reductions or increases in indebtedness. This is primarily because overall amount of debt was not the way in which interviewees talked about change. As will be seen below, **manageability** was a much more important issue for interviewees. Small reductions in indebtedness could be just as significant as much larger reductions, and it is the overall trajectory that is being captured here (in many cases interviewees also argued that the total level of debt was misleading because it included charges, interest and other additions which meant interviewees felt there was little relation between money they had spent and total debt claimed by a creditor).

From Table 2.1 it can be seen that:

- there is an overall positive picture of declining total indebtedness – only a minority of interviewees were by Year 3 debt free, but the single largest group are those for whom debts are reducing through payment arrangements;
- only a very small minority of interviewees reported increasing indebtedness; and
- for a significant minority the position remained unclear.

Table 2.1: Change in total level of indebtedness since seeking advice

	<b>Number of interviewees</b>
<b>Debt free</b>	<b>16</b>
Bankruptcy	6
Bankruptcy and sale of house	2
Sale of house	1
Debt Relief Order	1
Payments arrangements with creditors completed	2
Inheritance used to pay debts	1
Debts paid by partner	1
Debt written off by creditor	2
<b>Debts reducing</b>	<b>22</b>
Payment arrangements with creditors	19
Administration Order	1
IVA	1
Consolidation loan	1
<b>Increasing indebtedness or position unclear</b>	<b>15</b>
Increasing indebtedness	6
Position unclear	9
<b>Total</b>	<b>53</b>

The overall finding is therefore of positive change in relation to being debt free or debts reducing; some negative change with increased indebtedness; and some evidence of neutrality where the position is unclear.

More detailed points to note are as follows:

- some of the interviewees who were making agreed payments to creditors still had very high levels of debt with payments unlikely to clear arrears for many years. In some cases interviewees will be making repayments for the rest of their life; the position is manageable but they will never be debt free;
- for a significant minority of interviewees their level of indebtedness was unclear, despite indebtedness having been experienced for a number of years. The common theme among this group of interviewees was that some debts were being repaid but others were not;
- only 6 out of the 53 interviewees reported that their level of indebtedness had increased: in one case this was serious mortgage arrears and the interviewee faced losing her home; in the other cases increases primarily related to credit commitments and were for relatively small amounts i.e. total level of debt could be lower than for people making agreed payments;
- some indebtedness was effectively 'hidden'. The main example of this was fuel pre-payment meters, but another example was money owed to relatives or friends. Thus, people could describe themselves as debt-free or with debts reducing, when some elements of indebtedness remained or were not being repaid;
- within the debt free and debt reducing categories there were some examples of new credit agreements being entered into. These were being adhered to so were not seen as problematic (this point will be returned to in Chapter 4);

- there were a number of examples where after contact with a creditor the interviewee heard nothing further. Such debts were assumed to have been written off, but this was not necessarily the case. There were a number of examples of interviewees not hearing from a creditor for long periods and then receiving a demand for payment of several thousand pounds; and
- being debt free does not take account of financial loss in instances where people sold their home.

### **Change in ability to cope with bills and credit commitments**

A further means of capturing change is by a slightly broader categorisation of people's ability to cope with bills and credit commitments (this categorisation is taken from the Financial Service Authority's annual *Financial Risk Outlook* report). Figure 2.1 shows the number of interviewees in different categories in Years 1, 2 and 3. This is qualitative research so the Figure – and others in this report – are used to provide an overall illustration of findings from the sample, not a more generalisable statistical analysis.

From Figure 2.1 it can be seen that:

- there has been a very significant shift from people having real financial difficulties/fallen behind with some commitments, to being able to keep up with payments - although still largely marked by either constant or occasional struggle to do so;
- a significant minority of interviewees continue to categorise themselves as having real financial difficulties/fallen behind with some commitments; and
- only a very small minority of interviewees report being able to keep up with all bills and commitments without any difficulty.

Figure 2.1: Interviewees' ability to cope with bills and credit commitments – Years 1, 2 and 3

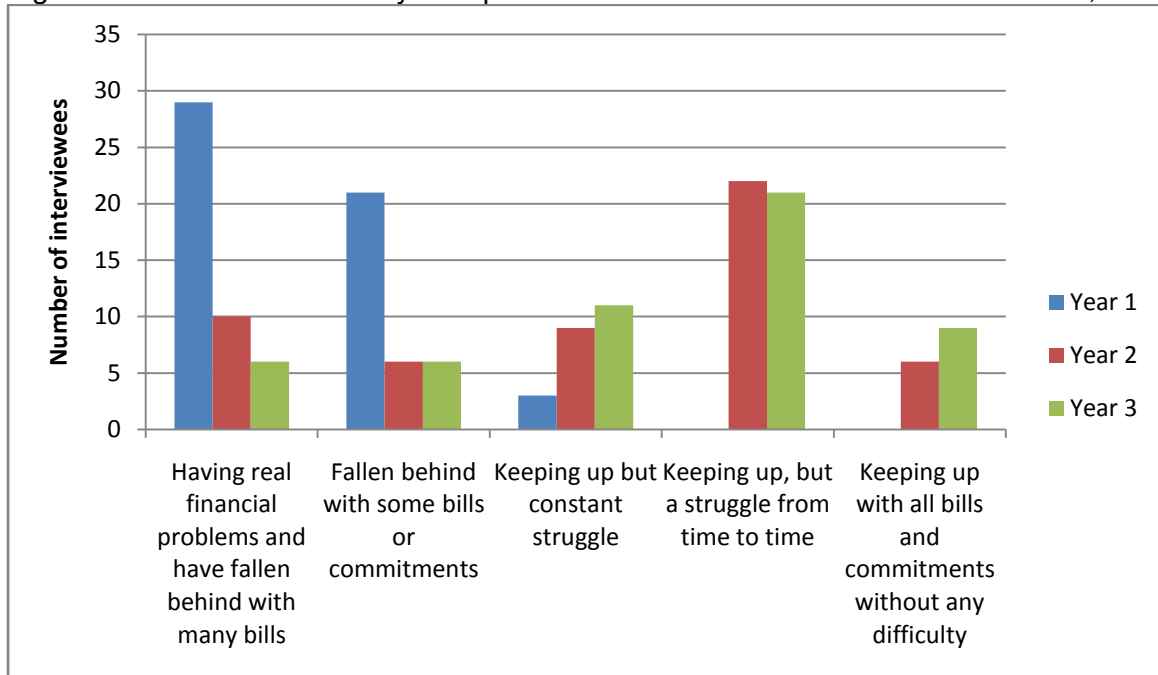
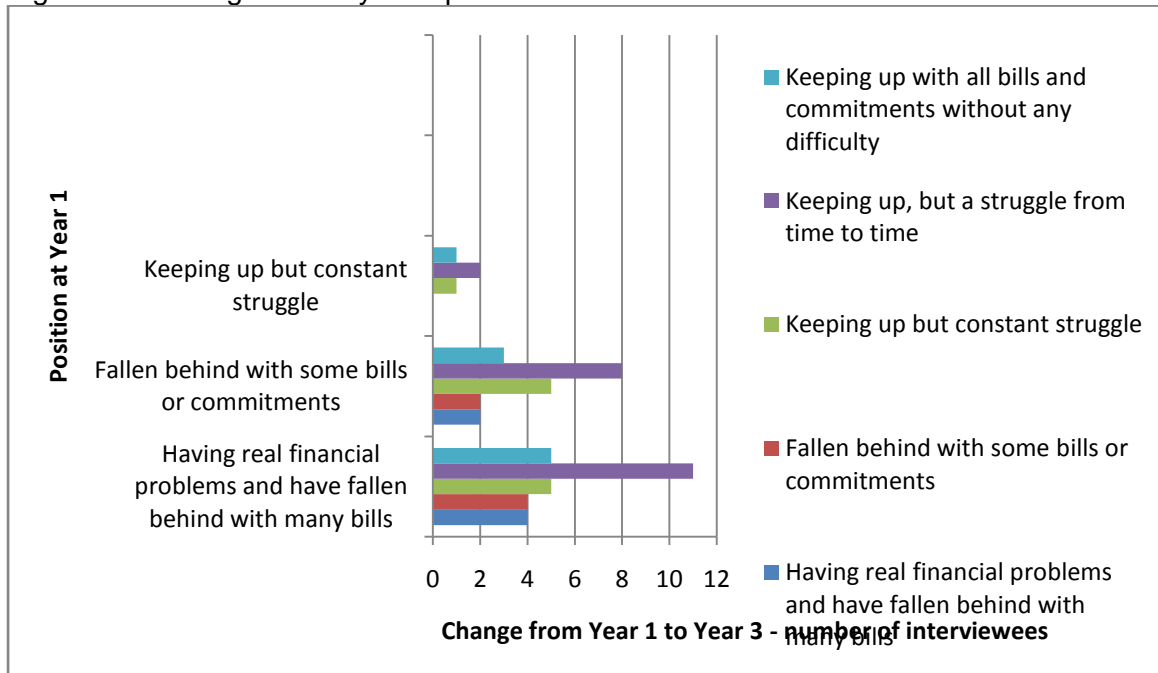


Figure 2.2 presents the same data but shows individual trajectories from the position reported in Year 1 to that reported in Year 3. From Figure 2.2 it is evident that the biggest shifts are from people in Year 1 reporting having real financial difficulties/fallen behind with some commitments, to by Year 3 keeping up with either constant or occasional struggle to do so. The very small minority of interviewees able to keep up with all bills and commitments without any difficulty is again evident, and this leads into interviewees' own assessment of change.

Figure 2.2: Change in ability to cope with bills and credit commitments from Year 1 to Year 3





## Interviewees' assessment of change – a multi-dimensional approach

Interviewees were asked to express their own assessment of change and in doing so fell into four groups:

- positive;
- cautious improvement;
- neutral; and
- negative.

Details of numbers are provided in Table 2.2.

Table 2.2: Interviewees' assessment of change since they received advice

Change since receiving advice	Number of interviewees
Positive	23
Cautious improvement	11
Neutral	12
Negative	7
Total	53

When interviewees talked about change what was evident was that they saw change in multi-dimensional terms, not solely in relation to indebtedness; this is important in understanding people's views about change but also in relation to the impact of debt advice as will be discussed in Chapter 3. It also explains why although the overall largely positive picture – but with some neutrality and negativity – remains the same, there are differences between interviewees' own assessment of change in Table 2.2 and level of indebtedness in Table 2.1 e.g. in Table 2.1 there are 38 people who report being debt free or debts reducing, but in Table 2.2 only 23 people reported positive change; in Table 2.1, 6 people reported increasing indebtedness but in Table 2.2, 7 reported negative change (and the interviewees in these two groups are not exactly the same).

To be clear, indebtedness was the central dimension but when interviewees talked about change other themes were raised. There were some overlaps between themes, but analysis leads to the following list of dimensions of change.

Key dimensions of change:

- indebtedness;
- income and ability to make ends meet (financially); and
- well-being (including ability to cope in a non-financial sense, and experience of non-financial problems - primarily mental and physical health).

Additional dimensions of change:

- attitudes to credit use, budgeting and going without;
- money management/financial organisation; and
- creditor attitudes and behaviour.

The key point is that each of these themes represents a dimension of change from positive through to negative. Thus, the difference between the four groups - positive, cautious improvement, neutral, negative - was not that a different factor, or set of factors was evident;

rather, interviewees reported differing trajectories but against these same dimensions. This will be explored further as follows.

### ***Dimensions of change***

*Indebtedness* - rather self-evidently, the positive dimension here was with people who reported being debt free or debts reducing. There was little distinction between those who were debt free and those whose level of debt was reducing; debt manageability appeared as important as being debt free. Those for whom the position was unclear or debts were increasing were more likely to report neutral or negative change.

*Income and ability to make ends meet* – positive change was associated with a general sense of being better able to manage financially. Being debt free or payments being manageable, meant increased available income. There were also examples of direct increases in income (the main forms of increased income were: becoming entitled to disability benefits, increased earnings - due to wage rises, increased hours, shift work, additional work - and miscellaneous benefit increases, for example due to turning 60 or becoming entitled to Housing Benefit). Conversely, a sense that it was increasingly difficult to make ends meet – whether due to price rises and/or lack of increased income – meant even those who were debt free could express caution as to positive change.

*Well-being* – in Year 1 interviewees talked about well-being in terms of ‘worry’, a spectrum that ran from ‘losing sleep’ through to depression and even talk of suicide. In Year 3 this continued to be a very strong theme but with the range now from interviewees expressing positive change in terms of an improved sense of well-being, through to well-being as still problematic particularly in terms of feeling unable to cope (in a non-financial sense) and experiencing non-financial problems (primarily mental and physical health).

*Attitudes to credit use, budgeting and going without* - positive change was expressed by many interviewees as being linked to rejecting credit use and adhering to very careful budgeting. For some interviewees this also meant an approach of going without in order to avoid debt.

*Money management/financial organisation* – for some interviewees money management was not a problem; their indebtedness was due to other reasons such as a change of circumstances. For those interviewees for whom money management was an issue, however, positive change was linked to improved financial organisation. Where this remained a problem, change was more cautious.

*Creditor attitudes and behaviour* – problems with creditors was a major theme expressed by interviewees. The spectrum on this point was marked by positive change linked to creditors accepting offers and desisting from behaviour that interviewees saw as unhelpful. Neutral and negative change was associated with conflict with creditors, creditors refusing to accept affordable offers of repayment, and pursuing interviewees in ways that interviewees described in very negative terms.

Themes of: income and ability to make ends meet; attitudes to credit use, budgeting and going without; and the relationship between interviewees and creditors, will be returned to in Chapter 4. But at this stage consideration focuses on dimensions of change in relation to interviewees’ trajectories.

## **Positive change**

For those interviewees who reported positive change, it was evident that:

- all were either debt free or their debts were reducing;
- most had experienced an increase in income;
- all felt better able to make ends meet;
- there were no problems with creditors;
- all felt able to cope (in a non-financial sense);
- all had rejected credit use and embraced very careful budgeting to a point of going without in some cases (again, this will be discussed further in Chapter 4); and
- all reported improved well-being.

The following quotations are from interviewees who reported positive change, and illustrate key dimensions of interviewees' expression of change.

### **Positive change**

*Improved indebtedness* - "I had credit cards to pay off and other things as well...But now it's completely different. I've got no debts at all. Things are fine financially" (Interview 28 – Man, IB and DLA, 40s).

*Improved well-being* - "We've got no worries now, it's just the rent and the bills obviously, normal stuff, but it's nice to have your wages and not have to sort of think, 'oh God it's all going on things that you owe'...Looking back on the stress levels...being in debt is really, really horrible. You can't sleep at night...It's not good. But now we're fine" (Interview 53 – Woman, clerical worker, 20s).

*Improved money management* - "I feel more organised, more in control of the situation. The bills and everything are under control. I know what I've got to pay when and everything" (Interview 31 - Man, self-employed, 50s).

*Improved ability to make ends meet* - "We were paying pretty well all of our money on the debts...but now we have money left at the end of each month which we didn't have before" (Interview 39 – Man, database administrator, 60s).

*Attitudes to credit, budgeting and going without* - "I know debt's no good anymore and if I haven't got [the money] then we go without. The money that I've got, that is what I have to live on; I don't go overboard anymore now...I don't go out just to spend like I did when I had all the credit cards and the bank loans, and that" (Interview 5 - Woman, IS, 50s).

*Creditors* – "I had phone calls [from creditors] constantly, evenings, weekends...letters through the door, day in, day out, and you was thinking, 'God, it's getting worse, where's it going to end?'...When all that stopped it's like this massive, massive weight lifts off you. You can't understand it unless you've been there" (Interview 22 – Woman, IB, 50s).

### **Cautious improvement and neutrality**

The difference between interviewees who reported more cautious improvement or even neutrality, as opposed to being positive, was (as already noted) not that a different factor, or set of factors was evident; rather, interviewees reported differing trajectories but against the same dimensions of change. Thus:

- interviewees who reported cautious improvement reported positive change across some dimensions but a problem still remained with at least one; and
- in the neutrality category some interviewees actually described change in terms of their position being both 'better and worse' i.e. there was improvement against some dimensions, but problems with others.

Two themes were particularly evident:

- a positive view of reduced indebtedness being tempered by difficulty making ends meet; and
- indebtedness remaining unclear but well-being and ability to cope in a non-financial sense having improved.

The following quotations illustrate these points.

#### *Cautious improvement*

*Caution due to ability to make ends meet* - "I'm sticking to them [agreed repayments]...but the budget is very tight, extremely tight and it is just so difficult for me to live on...I'm on the breadline" (Interview 24 – Man, IB, 60s).

*Improved well-being but indebtedness still unclear* - "The debts are still there and I'm not any better off [financially] but I feel better able to cope...I'm more careful now" (Interview 58 - Woman, IS, 50s).

#### *Neutrality*

*Making ends meet problematic* - "I would say [my financial position is] just the same, more or less, you know...I'm ok with the [debt] repayments but electricity, gas, everything has gone up...it is tighter...I have to be very, very careful how I spend my money" (Interview 51 - Man, care worker, 60s).

*'Better and worse'*: "We got better in one state [reduced indebtedness], but it's got worse in another because my wife ain't got that little morning job anymore" (Interview 27 – Man, IB, 40s).

*Indebtedness unclear but improved well-being* – "Things are probably the same. It's just that I don't feel intimidated anymore. I used to get really depressed and worried. I used to worry myself sick...But the problem is I just don't have enough money to pay me debts. Yes I'm in a terrible state, I am, but I just don't let it get me down" (Interview 38 - Woman, IS, 50s).

#### **Negative change**

With regard to negative change the same dimensions apply but with far greater evidence of problems continuing and even worsening, rather than progress being made. For interviewees reporting negative change it was evident that:

- all reported continued problems with indebtedness (either increasing indebtedness or position unclear);
- all felt unable to make ends meet;
- none had experienced an increase in income and most had experienced a decrease in income;
- problems with creditors were evident;
- most felt unable to cope (in a non-financial sense);

- 'attitudes' remained an issue for two interviewees in relation to continuing credit use; and
- almost all reported a serious non-financial problem (primarily mental but also physical health problems).

Chapter 3 will turn to the impact of debt advice.

### Chapter 3: The long-term impact of debt advice

This chapter examines:

- interviewees' reflections on the helpfulness of advice;
- key elements of debt advice;
- negative views of advice;
- the impact of advice on change; and
- the on-going impact of advice.

Key points in this chapter are:

- three years after seeking advice, advice was still seen as having been helpful by a large majority of interviewees;
- only a small minority of interviewees saw advice as having been unhelpful, and the main issue was service provision rather than the content of advice;
- three elements of advice were found most helpful: having someone to talk to; being given information and options; and being better able to deal with creditors;
- advice led to positive change for a large majority of interviewees;
- even where indebtedness remained unresolved, interviewees reported advice enabling them to cope better and preventing further deterioration; and
- a large majority of interviewees saw advice as having on-going impact – including lessons learned about financial management and ability to act for themselves - but there are limits to what advice can achieve.

#### Introduction

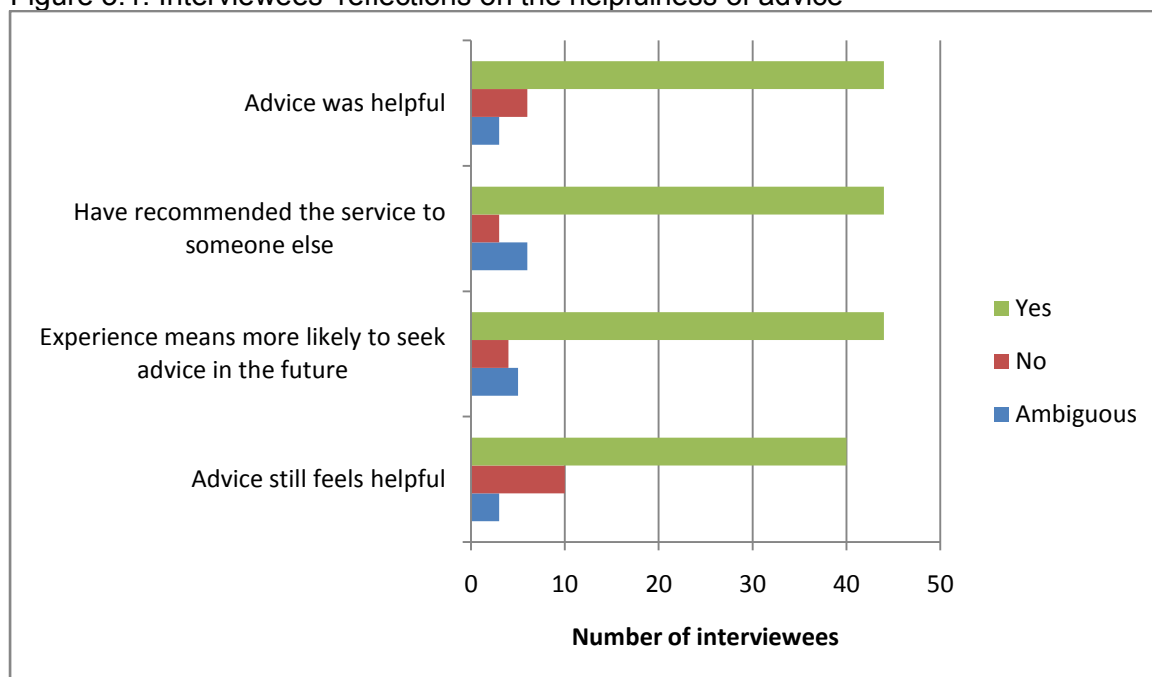
This chapter presents findings regarding the impact of debt advice. The advantage of a longitudinal approach is that it enables interviewees to reflect upon advice from a long-term perspective and taking account of intervening change. In Chapter 2 it was noted that the sample is very diverse in relation to indebtedness (e.g. a few hundred pounds of credit debt through to unmanageable mortgage arrears), and the same applies to the nature of engagement with advice. Interviewees had engaged with a variety of different advice providers, and had engaged to differing extents in terms of amount of contact and so on. In Chapter 2 no attempt was made to compare the different situations faced by interviewees in relation to their indebtedness, and in this chapter no attempt is made to compare the experience of interviewees based on the nature of their engagement with advice services. What is important is the impact of advice as experienced and expressed by each individual interviewee.

At Year 1 the overwhelming majority of interviewees were very positive about their experience of debt advice, and there were examples of advice having some very immediate impacts, for example relating to dealing with crises and avoiding recovery action. But have these positive views remained the same, and what has been the impact of advice over time?

## Interviewees' reflections on the helpfulness of advice

Three years after seeking advice, advice was still seen as having been helpful by a large majority of interviewees. This is demonstrated in Figure 3.1. As noted in Chapter 2, this is qualitative research so Figures are used to provide an overall illustration of findings from this sample, not a more generalisable statistical analysis.

Figure 3.1: Interviewees' reflections on the helpfulness of advice



The positive view of advice is reinforced in Figure 3.1 by the large majorities saying: they have recommended the service to someone else; their experience would make them more likely to seek advice in the future; and advice still feels helpful (the latter point will be returned to in more detail below, and further issues around advice seeking behaviour will be discussed in Chapter 4).

### *Reflecting on the helpfulness of advice*

“I wasn't sure what to expect but their help was brilliant because, you know, without them I wouldn't've known what to do and I'd still be in a bad position now...there's no way I could've done it otherwise...I can look back on how I was and I'm in a much better position now” (Interview 56 - Woman, Education Assistant, 20s).

“It was extremely helpful...I was just really totally off my trolley with the anxiety of it all...I didn't know what to do...It helped really significantly because I was drowning; I was totally drowning, you know...I would be in a very, very big mess now if it wasn't for their help” (Interview 24 – Man, IB, 60s).

## Key elements of debt advice

In terms of the elements of advice that interviewees found most helpful it is evident that:

- people's views have remained very consistent over the three years of the research; those aspects of advice that were immediately most helpful were those that

interviewees continued to value in the long-term. There was no evidence that in hindsight, and in the light of intervening change, other elements of advice were given greater prominence;

- interviewees identified a very large number of aspects of advice as helpful. This reflects the very considerable breadth of activities encompassed in the term 'debt advice' and the services undertaken by providers. Examples of what interviewees found helpful ranged from filling in forms to representation in court, and applications to charities to advice on finance for small businesses; and
- interviewees identified three key elements of advice: someone to talk to; information and options; and dealing with creditors. These will now be considered in turn.

### *Someone to talk to*

'Someone to talk to' was a theme raised in each year of the research and remained just as strong in Year 3 as in Year 1. It might be thought that the importance of this element of advice would diminish over time but this was not the case. At its simplest, this really did just mean someone listening to what the interviewee had to say. But there were other elements that were critical: advisers being understanding, non-judgemental and sympathetic were all vital. A related theme was that of 'reassurance'. Even before any information was provided or action taken, having someone to talk to gave interviewees a strong sense of reassurance. Some interviewees talked in terms of their debts being put into a broader perspective or it was the immediate assurance that there was an organisation available that could help, and ways forward. Other interviewees expressed this in phrases such as 'having someone on my side' or 'fighting my corner'. All of this points to the importance of a counselling element in service provision.

### *Information and options*

The second element of advice that interviewees found helpful can be described under a broad heading of being given information and options. In one way this linked with the theme of reassurance discussed in the previous section, in that practical information as opposed to the 'talking to someone' theme reassured people about their situation. The theme of the importance of options being explained was a recurring one. This was very important in meaning that people who approached an advice provider with a specific course of action in mind, often decided to pursue a different option in the light of the information they received. The provision of information as the basis for dealing with debts was also highlighted, both in general terms and to deal with specific situations. The accessibility of information was therefore also critical.

### *Better able to deal with creditors – addressing indebtedness*

Interviewees spoke strongly in terms of advice meaning they were better able to deal with creditors (as noted in Chapter 2, the word 'creditors' is used to encompass all companies and organisations interviewees owe money) – in effect meaning they were able to begin to address their indebtedness. For those interviewees who chose to act for themselves, this in some ways followed on from the reassurance and information themes discussed above i.e. people felt reassured about their situation and then had the information to act. This included practical elements such as being given example letters to use, or practical tips such as refusing to accept telephone calls and telling creditors only to send letters. This brought with it a sense of empowerment for interviewees and greater confidence in dealing with creditors.

Representation/advocacy (where undertaken by the advice provider) was welcomed by interviewees who felt unable to deal with the situation themselves. A strong theme that was



expressed by interviewees was of representation as relieving the pressure of having to deal directly with creditors.

### **Key elements of debt advice**

*Someone to talk to* – “I think talking to somebody and being able to be really very open and honest and admit the full extent of the kind of damage [indebtedness] is important. Because it was a bit of a big secret before. My family didn’t know, my friends didn’t know, so when I finally like opened up about it, it was such a relief to be able to say to someone, ‘oh my God, I’m in this much trouble’ and they don’t sort of treat you like a leper, they don’t judge you” (Interview 15 Woman, self-employed, 30s).

*Reassurance* – “they’re very good at reassuring you that there is light at the end of the tunnel...somebody that’s away from it all [i.e. impartial] that just listens...that’s amazingly helpful when you’re in the state you’re in with all those debts and you just don’t now what to do” (Interview 33 - Woman, admin. worker, 40s).

*Information* – “the information pack and all the leaflets they give you. It gives you the pointers you need. There was a template letter to send [to creditors]. Everything I wanted was in that pack. You know where you stand and you know the direction to take” (Interview 11 - Man, student nurse, 40s).

*Options* - “for them to give you the options that you’ve got, because you don’t think you’ve got any options when you’re in that sort of debt...that’s a massive, massive help” (Interview 22 – Woman, IB, 50s).

*Dealing with creditors* - “They were mega helpful...the advice, the strategies that they gave me to go to the companies and put in writing to say I can do this or I’ve got this much I can pay. It was great” (Interview 37 - Man, call centre worker, 20s).

*Representation/advocacy* – “The fact that they can call all these people [creditors], well they [creditors] seem to listen to them, they got the interest frozen which I couldn’t do. It takes the pressure off. Gives you a breathing space. That really helped” (Interview 48 - Woman, IS, 40s).

### **Negative views**

Interviewees did make some negative comments regarding advice, but the dominant theme related to access to service provision rather than advice itself. This was a strong theme in Year 1 of the project, in which interviewees raised issues around difficulties experienced in accessing services, particularly face to face providers. This included: limited opening hours; length of time spent queuing; length of time for an appointment to be available; and lack of continuity in relation to dealing with a specific adviser. In Year 3, these remained the key negatives expressed by interviewees.

As evident in Figure 3.1 above, a small number of interviewees did not see advice as having been helpful, or were at best ambiguous: however, the key issue here was again around service provision rather than advice itself. There were two examples of breakdown in communication between the interviewee and advice provider. The advice received by the two interviewees had been very limited. Not surprisingly, both interviewees said that advice had not helped at all.

Only two interviewees actually rejected the advice they were given. In the first instance this was because the interviewee did not want to give up her doorstep lender. She was the only

example in the research of someone who adopted a deliberate approach of ignoring, or “blinking”, creditors. In the second case, there was a rather individual set of circumstances in which the interviewee saw her indebtedness as attributable to problems with her children’s mental health. Her real complaint was about the failure of various agencies to provide the support she felt her children needed.

A theme that was raised by some interviewees in Year 3 in reflecting back on advice was that of having felt ‘overwhelmed’ by the amount of information with which they were provided. This led to a sense of having struggled to ‘take in’ the advice. There is a link here with the importance of the ‘someone to talk to’ theme, and the counselling element of service provision.

### **Negative views of advice**

*Service provision:* “the opening hours are very limited...the queues are immense and you wait for hours and hours. The people [clients] are all stressed and depressed. You can see the staff are totally overloaded themselves. It can be stressful just being there” (Interview 19 – Man, Pension Credit, 60s).

*Advice rejected:* “I went to [the advice provider] and they said they’d help to sort it [debts] out for me...but that would mean stopping my [doorstep lender]...but to be honest, I need that or else the kids would never get Christmas or birthday presents, and there’s other times I need it too” (Interview 52 – Woman, IS, 20s).

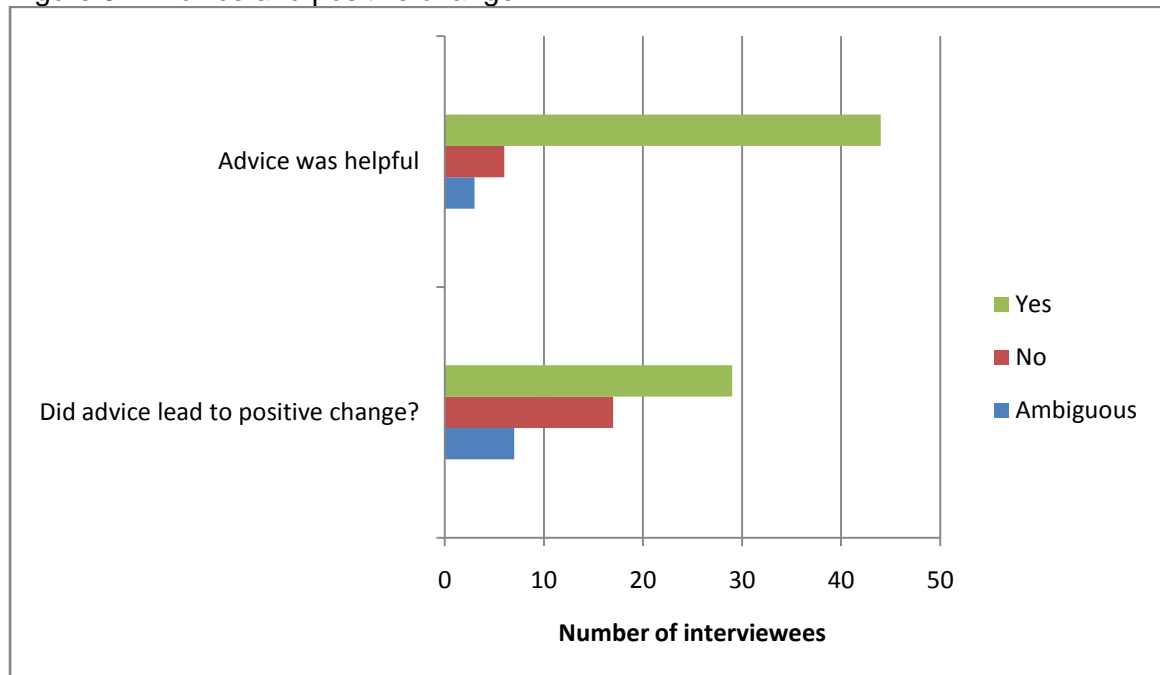
*Overwhelmed* – “The only [negative] thing is when you’re in that situation, when you’re in that much stress and depression and everything, being given loads of information, loads of figures, it is very, very difficult to take in. It was a bit overwhelming” (Interview 1 – Woman, pensioner, 60s).

Despite these negative points it has already been seen that a large majority of interviewees saw advice as having been helpful - but the key question is whether advice led to change, as will now be considered.

### **The impact of advice on change**

A large majority of interviewees said advice had led to positive change. Fewer interviewees said that advice led to change than said it was helpful, as demonstrated in Figure 3.2, but what is important is understanding the different ways in which advice impacted on change.

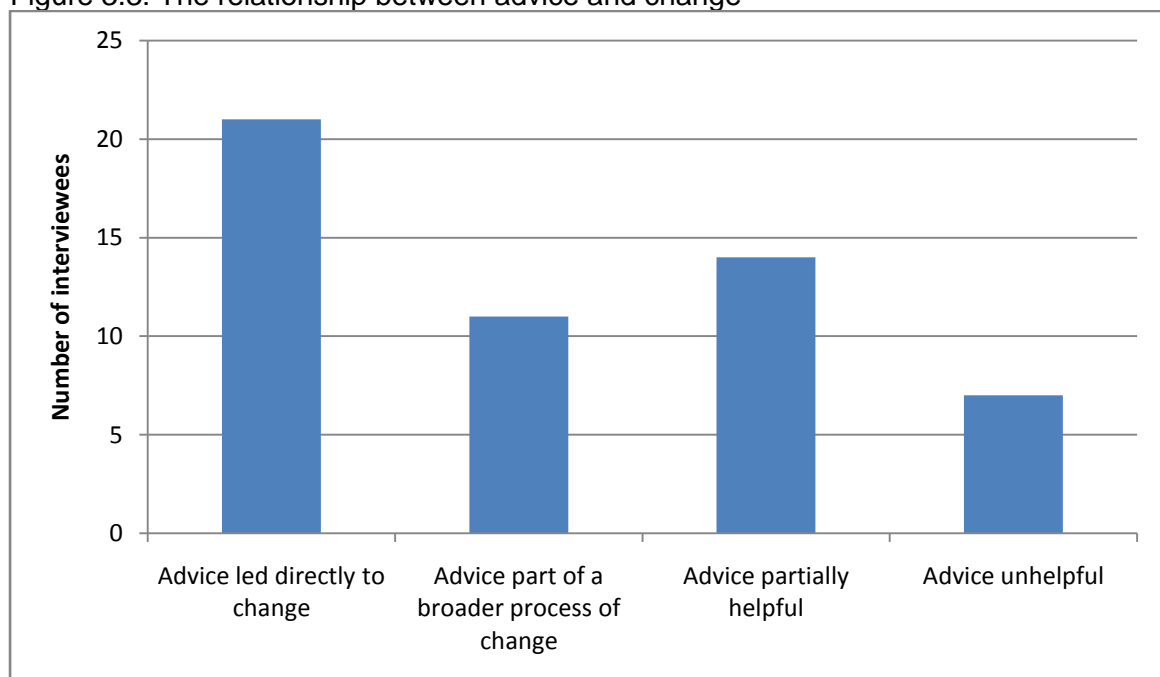
Figure 3.2: Advice and positive change



That a large majority of interviewees saw advice as having led to positive change is demonstrated in Figure 3.3. Here a more nuanced understanding is provided, based on asking interviewees about the relationship between advice and change. Responses fell into four main groupings:

- advice led directly to change;
- advice was part of a broader process of change;
- advice was partially helpful; and
- advice was unhelpful.

Figure 3.3: The relationship between advice and change



### *Advice led directly to positive change*

The first, and largest, group of interviewees were those who reported positive change and cited advice as a critical and direct factor in leading to that change. This included interviewees who were debt free and those who now had manageable repayments. This was the easiest group to analyse as they followed a neat pattern of seeking advice and then a resolution being reached directly as a result of advice.

However, even within this group there was one caveat. This was because the group also included a small number of interviewees for whom positive change focused more on their ability to cope in a non-financial sense. This they ascribed to advice and (as discussed in Chapter 2) points to understanding the impact of advice beyond a single dimension of reducing indebtedness. This point will be returned to below.

### *Advice as part of a broader process of change*

A second group of interviewees were positive about their experience of advice, saw advice as having been helpful and had experienced positive change; but they attributed positive change to factors other than advice. Within this group were interviewees who ascribed positive change to factors such as: a decision to sell their house separate to advice; their own efforts in dealing with creditors; support received subsequently from a social care provider; or the major reason that led to change (e.g. bankruptcy) coming subsequent to the advice.

For this group of interviewees advice was part of a broader process of change, but many emphasised how advice had been an important first step or a positive element in leading to change. Advice may not have been cited by this group of interviewees as the primary factor in leading to change, but advice remained an important element in a process of addressing indebtedness.

### *Advice partially helpful*

The third group of interviewees were those who were positive about advice i.e. they said it was helpful, but who had not experienced positive change (change was either neutral or negative); the key here was that advice had helped with some dimensions affecting change as discussed in Chapter 2, but some remained problematic. Across this group of interviewees, different factors applied - in some cases indebtedness remained unclear or had worsened; in others it was the struggle to make ends meet that was critical; for other interviewees well-being was the main problem.

So for interviewees in this group advice was seen positively in what it had provided - whether in resolving some debt problems, providing information, giving some reassurance and support, or helping people feel better able to cope in a non-financial sense – but they did not feel advice had led to definite positive change. A theme that was evident for this group was of advice providing support that enabled people to 'keep going' or prevented things getting even worse. Advice therefore may not have resolved problems, but it at least prevented matters reaching crisis level. Therefore even where indebtedness remained unresolved, interviewees reported advice enabling them to cope better and preventing further deterioration.

What this also points to is that there are limits to what advice can achieve. For example, in one case a man lost his home due to unmanageable mortgage arrears after he was made redundant. He saw advice as having been helpful in the support it provided, but the eventual outcome was still hugely negative.

### *Advice not helpful*

The final group of interviewees were those who said advice was not helpful and, therefore, not relevant to change. It is notable that none of this group reported wholly positive change, and those who reported cautious change had still taken steps to address their indebtedness (attributing this to: advice from a friend, responding to an IVA company and their own actions). While these interviewees minimised the usefulness of advice, it is arguable that advice seeking, and some of the key messages provided by advice, were still part of the process of addressing indebtedness. For example, an interviewee was referred to above who had rejected advice and was described as having a rather individual set of circumstances in which the interviewee saw her indebtedness as attributable to problems with her children's mental health. By Year 3 the interviewee was in fact adopting the approach to tackling her indebtedness discussed when she sought advice, even though she did not attribute this to the advice provider.

#### **The impact of advice on change**

##### *Advice led directly to positive change*

"Everything's sorted now [payments in place] and that's totally down to [the advice provider], 100%. It wouldn't have happened without them. Definitely" (Interview 29 – Woman, IS, 20s).

"From a scale of one to ten, I'd give it [the advice] ten. It was very important. It was 'cos of the advice that things improved" (Interview 31 - Man, self-employed, 50s).

##### *Advice as part of a broader process of change*

"It [the advice] put me on the right track. I'd put it that way. It was talking to my husband, the bank, getting ourselves organised that was most important. But I don't think I'd have reached that end that I got to without that first stepping stone [of seeking advice]" (Interview 35 - Woman, pensioner, 70s).

"The advice was a help and they gave us options. But it certainly wasn't the major turning point. The major turning point for us obviously was making the decision to go bankrupt, and [the advice provider] didn't really figure in the equation at all" (Interview 39 –Man, database administrator, 60s)

##### *Advice partially helpful*

"I did lose my house...but I think I was going through a bit of a mental meltdown or something like that and it's good to have some sort of support, you know? It helped in that aspect, it did help me to keep going and not completely give up" (Interview 26 - Man, JSA, 40s).

"My debts haven't changed but they [the advice provider] put my mind at rest that something horrendous was not going to happen tomorrow...That was a big thing off my mind. So that did make a big difference. Things would definitely have been worse if I hadn't done it [sought advice]" (Interview 55 - Woman, pensioner, 60s).

#### **The on-going impact of advice**

A final way of considering the impact of debt advice is by examining whether advice was seen as having been solely of value at the time it was received, addressing a specific problem, and perhaps feeling rather historic: or whether it was seen as having on-going

impact – the answer is that a very large majority of interviewees saw advice as still being helpful and having continuing impact (also see Figure 2.1).

For those who reported positive change, a general theme was of:

- advice having moved people forward, and therefore continuing to have an impact in promoting a positive trajectory.

But across the sample as a whole there was broader evidence of on-going impact in relation to:

- increased confidence and skills – meaning people felt better able to act for themselves;
- ‘lessons learned’ about credit and money management; and
- a general sense of reassurance.

These points are illustrated in the following quotations.

### **The on-going impact of advice**

#### *Continuing to have an impact in promoting a positive trajectory*

“If it wasn’t for [the advice provider] we wouldn’t be where we are today so it’s definitely still helpful” (Interview 6 - couple, pension and disability benefits, 60s).

#### *Increased confidence and skills*

“It’s helpful because you can think back and think, well, they said if you do this, or if you contact that person and explain the situation, then you can usually work out something without getting into more debt” (Interview 10 - Woman, IS, 40s).

#### *‘Lessons learned’ about credit and money management*

“I’m managing my money better now. I’ve got the managing skills now and that’s from when I got the advice. And I’m not using credit any more. I’ve learnt that for sure” (Interview 7 - Woman, IB, 30s).

#### *Reassurance*

“It still feels helpful today because what they say is reassuring. Yeah, it’s something you think back to, what they said, when you’re feeling down” (Interview 12 - Woman, call centre agent, 30s).

Chapter 4 will focus on three points referred to in this chapter and Chapter 2 but which require further consideration: advice seeking behaviour; the relationship between interviewees and creditors; and financial capability, which links to issues around low income.

## Chapter 4 – Further themes: advice seeking behaviour; creditors; and financial capability and life on a low income

This chapter examines:

- advice seeking behaviour;
- the relationship between interviewees and creditors; and
- financial capability and life on a low income.

Key points in this chapter are:

- there is evidence of a positive shift in attitudes to advice seeking;
- the positive impact of advice meant that the majority of interviewees were no longer engaged with an advice provider and were able to act for themselves;
- other themes applied only to small numbers of interviewees but included: a need for on-going, long-term advice and support; interviewees having a less positive experience when returning to a provider for further advice; and continuing problems with access to services;
- negative experiences of creditors, ranging from a sense of creditors as unhelpful and difficult to deal with, through to descriptions of creditors as ‘aggressive’, ‘nasty’ and even ‘bullying’, remained evident;
- creditors asking for payment arrangements to be increased gave interviewees an on-going sense of being under pressure;
- difficulties in negotiating a payment arrangement led some interviewees to decide that trying to deal with a creditor was pointless;
- the majority of interviewees reported feeling financially confident, and across the sample as a whole there was positive change since Year 1;
- interviewees were largely negative about financial education as a separate activity to debt advice: in talking about financial capability, themes of careful budgeting and rejecting credit use dominated – but lessons had clearly been learnt from seeking debt advice; and
- there is a depressingly familiar finding of low income holding back people’s ability to move beyond indebtedness – even when people had rejected credit use and were committed to careful budgeting, insufficient income meant they still faced a dilemma of how to meet basic and specific needs. There remained no examples of interviewees having savings, and over half the sample had borrowed money between Years 2 and 3 of the research.

### Introduction

This chapter focuses on three points that were referred to in Chapters 2 and 3 but require further consideration: advice seeking behaviour; the relationship between interviewees and creditors; and financial capability, which links to issues around low income.

## Advice seeking behaviour

As indicated in Chapter 3, there is evidence of a positive shift in attitudes to advice seeking. In Year 1 of the research it was found that advice seeking behaviour was marked by a number of difficulties. In particular there was: widespread ignorance of available services; nervousness about approaching an advice provider when people had little idea what to expect; and advice being seen as a last resort used only when other approaches had failed. In Chapter 3 of this report it was seen that for all but a small minority of interviewees the experience of advice was viewed very positively. This included large majorities saying they had recommended the service to someone else, and their experience meant they were more likely to seek advice in the future.

In terms of actual advice seeking behaviour as opposed to attitudes, by Year 3 the majority of interviewees were no longer engaged with an advice provider but this was primarily for positive reasons. The main reason for no longer engaging with an advice provider was that most interviewees who were debt free or their debts were reducing through agreed payments, had no further need for advice. Also, some people who still had problems with indebtedness were now confident in dealing with the situation themselves and also saw no need to seek advice. The positive impact of advice therefore meant that the majority of interviewees were no longer engaged with an advice provider and were able to act for themselves. On the down side, none of the interviewees who had a negative first experience of advice had sought further advice.

18 out of the 53 interviewees had sought advice between Years 2 and 3 of the research, and there was evidence of both positive and negative themes here. However, each theme applied only to a very small number of interviewees so caution is required as to the more general relevance of the following points.

On the positive side there were examples of:

- continuing engagement with an adviser, suggesting a need for on-going, long-term support;
- repeat engagement with an advice provider but to deal with new problems i.e. interviewees were positive about the service and now felt confident returning for further advice; and
- advice being used for on-going, if ad hoc, reassurance and support in dealing with long-term indebtedness; again, a demonstration of positive advice seeking behaviour.

More negative examples were:

- interviewees having a less positive experience when returning to a provider for further advice. There was a specific issue with face to face services where the original adviser had left the organisation and the interviewee's new experience was negative. This highlights the issue of continuity referred to in Chapter 3;
- interviewees feeling that advice was of diminishing value in that when facing long-term problems, advice could not provide any 'new' answers; and
- continuing problems with access to services i.e. interviewees feeling they would like advice but being put off by previous experience of length of time to queue and so on – advice therefore remained a last resort.

There were additional miscellaneous themes regarding advice seeking behaviour but, again, each applied only to very small numbers of interviewees. There were some examples of interviewees using for-profit services such as in relation to helping with bankruptcy or



companies offering to reclaim bank charges. In such cases interviewees were mainly reacting to telephone calls or letters from companies. There were a number of examples of interviewees obtaining advice from new sources e.g. a housing association rent officer; welfare rights services separate to the previous advice provider; a financial adviser at a college. A small number of interviewees with mental health problems were in Year 3 receiving support from social care services.

### **Advice seeking behaviour**

*Advice not needed* – “everything is still fine, I’m making the payments. If there was a problem I’d go back to them, but there hasn’t been so far” (Interview 13 - Woman, office worker, 20s).

*On-going support* - “I went to [the advice provider] because I was sent a letter by one of the creditors and I did panic, so I just went down and [the adviser] reassured me it was nothing to worry about” (Interview 26 – Man, JSA, 40s).

*Repeat engagement* - “it was the gas, they were asking for a silly amount. I tried talking to them but they weren’t having it. So I went to [the advice provider], and one ‘phone call [i.e. the advice provider telephoned the creditor] and it was sorted. Sorted that day. Brilliant” (Interview 29 - Woman, IS, 20s).

*Further engagement less positive* - “They were really good the first time but when I went back with this [a new demand from a creditor] the new bloke they’d got, he didn’t seem to know much...he wasn’t really helping out...so I gave up on him” (Interview 17 - Woman, security operative, 40s).

*Advice of diminishing value* – “I haven’t been back cos there’s not a lot else they can do...I’ve got to keep making the payments, it’s tough, but there’s no magic wand they can wave. The situation’s far from rosy, but more advice isn’t going to change it” (Interview 12 - Woman, call centre agent, 30s).

*Continuing problems with access to services* - “they are so busy. Queues, queues, queues...if I was in absolute dire straits I would go back, but I’ve managed to work my way through it without having to bother them recently” (Interview 55 - Woman, pensioner, 60s).

### **The relationship between interviewees and creditors**

Interviewees raised three main issues about creditors, the first being very strong views about the volume and nature of contact from creditors. In Year 1 it was found that some interviewees were very positive about creditors, or at least some of the creditors they dealt with, but the far stronger theme was of negative experiences ranging from a sense of creditors as unhelpful and difficult to deal with, through to descriptions of creditors as ‘aggressive’, ‘nasty’ and even ‘bullying’. There were particular issues around the volume of contact from creditors, the timing of telephone calls and intrusiveness. By Year 3 this remained a current issue only for a very small number of interviewees whose indebtedness remained problematic, but in talking about the experience of debt it was a point raised by the overwhelming majority of interviewees and about which very strong views were expressed.

The second theme was experience of creditors asking for payment arrangements to be increased, giving interviewees an on-going sense of being under pressure. While interviewees accepted the principle of creditors wanting to review their situation, there was a distinction drawn between creditors who would accept there had not been a change in circumstances and those who would automatically be seeking an increase in payments.

Even for those interviewees where debts were reducing through agreed payments, regular contact from creditors asking for payments to be increased when income had not changed was a source of frustration and added difficulty.

The third theme was of difficulties in negotiating a payment arrangement. For some interviewees who were debt free or their debts were reducing through agreed payments, this was raised in reflecting upon their experience of indebtedness. A particular issue was of frustration that creditors would not accept offers of payment made by the interviewee but subsequently accepted the same amount, or an even lower payment, when offered by the advice provider. This led to a theme of how difficulties could have been avoided if creditors had accepted offers when first made. For interviewees whose indebtedness was still problematic, this continued to be an issue. What was evident was a sense of conflict between interviewees and creditors, leading some interviewees to decide that trying to deal with a creditor was pointless. As noted in Chapters 2 and 3, there were several examples of interviewees repaying some debts but not others, and the willingness of creditors to accept arrangements appears critical.

Some further miscellaneous themes relating to creditors were raised by interviewees. These included: debts being passed to different companies meaning it was difficult to keep track of who payments had to be made to and the amount owed; charges being added to debts so they kept increasing; not hearing from a creditor so not knowing if a debt had been written off (as noted in Chapter 2); and offers from creditors to settle a debt for a greatly reduced lump sum being frustrating in that interviewees did not have resources to take advantage but also leading to further ambiguity as to the real level of indebtedness.

### **The relationship between interviewees and creditors**

*General views of creditors* - "Some are okay, you know, in fact the [mortgage provider] they were really helpful...but others...they treat you like a piece of dirt" (Interview 46 - Couple – Man, IB, 50s, Woman, carer, 40s).

*Negative views* – "They were horrible. They were absolute \*\*\*\*\*s. I know they've got their jobs to do and I know that they need to get the money back, but the letters that you get, constant 'phone calls...and the things they say to you, the threats they make...it's bullying tactics...it just adds so much pressure, it's horrible" (Interview 33 - Woman, admin. worker, 40s).

*Creditors asking for increased payments* – "Every now and again you get a letter saying you've got to 'phone us up, and I'll 'phone them up – the latest one was the one I'm paying £10 [a month] on. They said, 'we were hoping to increase it to £15 or £16'. I said, well, not being funny, but I can't commit to that. And then, all of a sudden, after, like, 20 minutes of being on the 'phone they're, like, 'okay, we'll accept £11' so I gave in to that...all that over £1 a month...that's what it's like" (Interview 56 - Woman, IS, 20s).

*Offers accepted from advice provider not interviewee* – "When I look back on it the daft thing is that what [the advice provider] offered was exactly the same as I'd been telling them [creditors] I could afford. With some of them [the advice provider] was offering less! But they [creditors] just wouldn't take me serious. It was all 'we want this amount and nothing else is acceptable'. Why couldn't they just have accepted the payments when I contacted them? It would have saved so much stress and problems" (Interview 6 - Couple, pension and disability benefits, 60s.).

*Creditor won't accept offer* – “It's like they're playing cat and mouse with you. I pay the one [that accepted an offer] but the others I've said 'just take me to court'. Their letters just go in the bin now” (Interview 41 - Woman, pension and disability benefits, 60s).

## **Financial capability and life on a low income**

As noted in Chapter 1, financial capability has been one element of policy responses to rising levels of credit and debt. For the purposes of this report what is of interest is whether in moving out of indebtedness, interviewees display the knowledge and skills to understand their own financial circumstances, plan ahead and show greater participation in the financial services market, as envisaged in the financial capability agenda.

### *Financial confidence*

At a general level the majority of interviewees reported feeling financially confident, and across the sample as a whole it was evident that there had been positive change since Year 1. However, examples of financial confidence were largely restricted to switching fuel suppliers or comparing telephone/television packages.

A significant number of those interviewees who reported feeling financially confident, however, also expressed a strong sense of financial caution. This was particularly expressed in terms of 'sticking with' current financial arrangements rather than seeking cheaper options e.g. preferring to retain fuel pre-payment meters rather than less expensive options. This was primarily due to budgeting issues as will be discussed below.

For a significant minority of interviewees the experience of debt left them feeling a complete lack of financial confidence.

### *Financial education*

Interviewees overwhelmingly saw financial education as irrelevant to their circumstances. One reason for this related to the causes of debt i.e. if debt was due to a change of circumstances such as relationship breakdown or job loss, financial capability was rather beside the point. A second theme expressed by interviewees was that their low income meant options were very limited. For example, several interviewees recognised that doorstep lenders or particular credit cards were very expensive, but they were the only options available to them. So while some interviewees talked about regret at not having 'shopped around' for better deals, this was countered by limited options being available. Only one person in the sample had engaged directly with financial education. This was through attending what the interviewee called an 'action group' organised by the advice provider. Her view of the helpfulness of the group was ambiguous.

The only more positive comments made were on the basis of a general expression of interest in knowing more about financial matters, but without a direct desire to engage at this point. Some interviewees said financial education might have been helpful when they were younger. A small number of interviewees expressed frustration at not understanding interest rates or problems such as relating to bank charges and how to deal with them. Some younger interviewees raised a theme that learning more might be helpful in the future if they reach a point of seeking to buy a home or think about a pension.

The key point here is that Interviewees were largely negative about financial education as a separate activity to debt advice: in talking about financial capability, themes of careful budgeting and rejecting credit use dominated – but as was seen in Chapter 3, it must be remembered that lessons had clearly been learnt from seeking debt advice.

### **Financial capability**

*Financial caution* - “shopping around for deals like for gas, it doesn’t appeal to me. It’s not something I’d do. I understand that I’m losing money because I’ve got a gas pre-pay meter, I understand that. But, at the end of the day, I know where I stand and that’s what’s important for me. I couldn’t have it quarterly because I’d get in a mess and I’d get back into debt. Some things are just best left alone” (Interview 29 – Woman, 20s, IS).

*Lack of options* - “I knew what I was getting into with [names of companies]. I know their APRs are very high. But beggars can’t be choosers. And I know how to read bank statements. The problem is it’s always a zero balance. I don’t need to know more about financial stuff – what I need is more money” (Interview 43 - Woman, IS, 40s).

### *Rejecting credit use*

When people talked about financial capability a key theme was of rejecting credit use. This was a very strong theme - ‘I’ve learnt my lesson’ was a recurring phrase. People engaged in very strong criticism of credit. Many argued for credit to be harder to obtain. In talking about financial education, a principal theme was that young people should be taught not to use credit. However, there is a caveat regarding credit use which will be discussed below.

### **Rejecting credit use**

“I don’t want credit ever again. No loans, no cards, no catalogues, nothing. If I want something I’ll put my money away and buy it. I’ve learnt that” (Interview 22 - Woman, IB, 50s).

“Banks and other places have lent money to people they must have known had no hope of paying it back. If the government are trying to force more strict regulation onto them, I would just say ‘bring it on’. At the end of the day I’m not going to be trying to get credit in future anyway. But I think it should be made harder for people to borrow money...I think you ought to be able to prove that you can make the repayments before you’re allowed to borrow it” (Interview 39 - Man, database administrator, 60s).

### *Low income*

What the above suggests is not the emergence of confident financial consumers, but financial cautiousness, which returns us to the issue of the reality of life on a low income and making ends meet.

In Chapter 2 it was noted that only a very small minority of interviewees reported being able to keep up with all bills and commitments without any difficulty. Unsurprisingly, the struggle to make ends meet on a low income was a dominant theme for many interviewees. There was a spectrum here from those who were positive about their situation, using phrases such as leading a ‘simple’ or ‘frugal’ life, but seeing this in positive terms. At the other end of the spectrum were people who saw their position as very negative and feeling they were going without. The most commonly cited examples of going without were holidays, socialising and new clothes, but ranged from the impossibility of affording driving lessons through to basic essentials such as heating and food as is illustrated in quotations below. However, across the sample it was the need for incredible discipline in budgeting that dominated.

A consequence of low income was that for the overwhelming majority of interviewees, trying to save money was a complete impossibility. At best, there were some examples of interviewees having small surpluses in bank accounts which were then used for specific

purposes, or putting aside very small amounts (maybe £5 per week) to use for birthdays or the like. Compared with Year 1 there was some evidence of a greater aspiration to start saving, but there remained no examples of interviewees having a separate savings account into which they made regular payments.

This leads to the caveat regarding credit use - over half of the sample had borrowed money between Years 2 and 3 of the research. There were four main sources of borrowing: relatives; credit (primarily doorstep lenders and catalogues); the Social Fund; and overdrafts. Money was borrowed for a number of reasons, with the main ones being: small sums from relatives to meet short term difficulties; Social Fund loans for Christmas expenses; catalogues and doorstep lenders for specific purposes e.g. a fridge or a child's school trip. The only examples of more substantive credit use were two interviewees in employment who needed a car for work purposes and used credit for car purchase and/or unexpected repairs.

There is, therefore, a depressingly familiar finding of low income holding back people's ability to move out of indebtedness. While some borrowing was undertaken by people who still had debt problems, this was also the case with some interviewees who were debt free or where debts were reducing through a payment arrangement. Even when people had rejected credit use and were committed to careful budgeting, insufficient income meant they still faced a dilemma of how to meet basic and specific needs. Without the ability to save, borrowing remained the only option.

#### **Low income**

*A frugal life* – “I don't feel I miss out...I don't buy my son a lot of new stuff. All his clothes are from a charity shop where my mom works...I don't buy loads of new toys and stuff...when I see some of my neighbours have got really new things and posh clothes for their kids and it's all designer stuff I think 'oh, God, I can't do that' but we get by ok. It's a frugal kind of life but I'm happy with that” (Interview 15 - Woman, self-employed, 30s).

*Budgeting* – “When I had a job you could go round the supermarket and just pick stuff off the shelves...but without a job you look at every single thing – ‘do I really need it? Could I get it cheaper at [a ‘pound shop’]? Is there anything reduced cos of the sell by date?’...it's like that with every single penny you spend” (Interview 30 - Woman, IS, 20s).

*Going without* - “I used to have a good life...holidays, clothes, a nice life. Now, there's days I struggle for money for the electric and I've had nights where I've sat in the dark...There's a couple of tins in the cupboard and that's it...It's not holidays I'm talking about missing, it's having something decent to eat and putting on the heater when it's cold” (Interview 3 - Man, IB, 30s).

Chapter 5 turns to conclusions and policy implications.

## Chapter 5 – Conclusions and policy implications

This chapter:

- draws together conclusions; and
- discusses policy implications.

### Introduction

Chapters 2 and 3 of this report examined change in interviewees' financial position since receiving advice, and the long-term impact of advice. Chapter 4 considered in more detail advice seeking behaviour, the relationship between interviewees and creditors, and financial capability and life on a low income.

The key findings are:

- **interviewees reported major difficulties accessing advice services**, with advice for a large majority of interviewees having been a last resort - problems included limited opening hours, length of time spent queuing, length of time for an appointment to be available and lack of continuity in provision;
- **since receiving advice there is an overall positive picture of declining total indebtedness** - only a very small minority of interviewees reported increasing indebtedness, although for a significant minority the position remains unclear;
- **there has been a very significant shift from people having real financial difficulties/fallen behind with some commitments, to being able to keep up with payments** - although still largely marked by either constant or occasional struggle to do so;
- **interviewees' own assessment of change included strong emphasis on income and ability to make ends meet, and well-being;**
- **three years after seeking advice, advice was still seen as having been helpful by a large majority of interviewees;**
- **advice led to positive change for a large majority of interviewees;**
- **even where indebtedness remained unresolved, interviewees reported advice enabling them to cope better and preventing further deterioration;**
- **a large majority of interviewees said advice had on-going positive impact, including lessons learned about financial management and ability to act for themselves;**
- **the positive impact of advice meant that the majority of interviewees were no longer engaged with an advice provider and were able to act for themselves – but some people do need on-going support;**
- **interviewees reported many very negative experiences of dealing with creditors;**

- **interviewees were largely negative about financial education as a separate activity to debt advice:** in talking about financial capability, themes of careful budgeting and rejecting credit use dominated – but lessons had clearly been learnt from seeking debt advice; and
- **there is a depressingly familiar finding of low income holding back people’s ability to move beyond indebtedness** – insufficient income meant there remained no examples of interviewees having savings, and over half the sample had borrowed money between Years 2 and 3 of the research.

The rest of this chapter will discuss policy implications.

## Policy implications

### *The provision of debt advice services*

The research presents an overall positive finding regarding the long-term impact of debt advice. This is an important finding in relation to decisions about the provision and funding of debt advice services. But the impact of debt advice needs to be evaluated on a broader basis than a simple measure of reducing indebtedness. As has been seen, ‘manageability’ appears as important as being debt free, and interviewees also saw key dimensions of change as being income and ability to make ends meet, and well-being. In some cases advice may not have resolved indebtedness but has made people feel better able to cope, or at the very least prevented problems getting worse.

### *Advice providers*

The research is about the impact of advice not service provision, but there are clearly issues for advice providers. The importance of the ‘someone to talk to’ element of advice; continuity of provision; and interviewees feeling overwhelmed by the amount of information provided, are some of the issues that emerge from the research. Problems with access to services is a major theme, combined with ignorance of services and advice being seen as a last resort. It has also been seen that some people have a negative experience of advice.

### *Creditors*

The research did not set out to investigate the relationship between interviewees and creditors, but this was a major issue raised by interviewees. What is evident in this research is that interviewees cannot be seen in terms of ‘can’t payers versus won’t payers’. A theme that has been seen where indebtedness continues to be unclear or a problem, is of interviewees paying some creditors but not others. The willingness of creditors to accept affordable offers and recognise a person’s overall financial position (including other debts) appears critical. A single minded concern with maximising payment to the individual creditor irrespective of the interviewee’s overall position, and pursuing people through high volume and negative contact, does not, on the evidence of the research here, appear necessarily successful and can lead people to see contact with a creditor as pointless.

### *Preventing over-indebtedness: financial capability and credit use*

In Chapter 4 it was seen that in talking about financial capability the dominant themes raised by interviewees were of careful budgeting and rejecting credit use. What the financial capability agenda does not appear to provide is a clear message. Perhaps we could think of the ‘5 a day’ message of healthy eating campaigns, and ask what is the equivalent message for financial capability?

### *Preventing over-indebtedness: low income*

A finding in Chapter 4 was that even when people had rejected credit use and were committed to careful budgeting, their low income meant they still faced a dilemma of how to meet basic and specific needs. Without the ability to save, borrowing remained the only option. Issues of low income were discussed in Chapter 1 and some further information is in Appendix A. This finding has already been described as depressingly familiar. The solution here lies in benefit rates and wage levels. Without change, it is inevitable that over-indebtedness will persist, with the role of advice providers, as seen in Chapter 3, being about helping people cope (managing their poverty even) rather than over-indebtedness being resolved and people moving forward to being confident financial consumers.

### *Understanding over-indebtedness*

A final point to make is that the research also raises issues as to how we understand concepts of credit, debt and over-indebtedness. It was noted in Chapter 1 that there is no agreed definition of over-indebtedness. In Chapter 2 it was seen that the research here suggests that debt, certainly in relation to seeking advice, is perhaps best understood not as a quantifiable set of financial circumstances but as a point where a person recognises their financial position is unsustainable and they can no longer manage. But the sample includes a very wide range of experience and seeing the experience of someone on a low income with a few hundred pounds of debt as comparable with someone on a higher income with large levels of credit debts, or an owner occupier who through job loss or relationship breakdown faces repossession, is not necessarily helpful. It was also noted above that interviewees cannot be seen in terms of 'can't payers versus won't payers'. There is a need for a much more sophisticated understanding of debt and how it affects and is experienced by different groups.

### *The Big Society*

The Big Society is a current policy theme and many of the issues raised in this report have resonance with such an approach. Tackling problems of over-indebtedness requires action by a range of actors including creditors, individuals, the third sector and Government. It has been seen that interviewees pass on information about advice services to others, but it was also evident that through community interviewees shared lessons they had learned through seeking advice. Advice services could therefore be seen as playing a critical role in 'oiling the wheels' of a positive Big Society approach.

So in addition to the key messages listed at the start of this chapter, policy implications can be summarised as follows.



## Policy implications

- *The provision of debt advice services* - the overall positive finding regarding the long-term impact of debt advice is important in relation to decisions about the provision and funding of services; but the impact of advice needs to be evaluated on more than a simple measure of indebtedness e.g. account needs to be taken of impact in relation to health issues and enabling people to cope better and avoid problems deteriorating.
- *Advice providers* - there are issues for providers e.g. the importance of the 'someone to talk to' element of advice, and continuity of provision – but also that some people have a negative experience of advice.
- *Creditors* - interviewees cannot be seen in terms of 'can't payers versus won't payers' and the willingness of creditors to accept affordable offers is critical; otherwise people can see contact with a creditor as pointless.
- *Preventing over-indebtedness: financial capability and credit use* - in developing messages around debt avoidance there are challenges in devising a financial capability equivalent of the '5 a day' message of healthy eating campaigns.
- *Preventing over-indebtedness: low income* - low income is rooted in benefit rates and wage levels; without change it is inevitable that over-indebtedness will persist.
- *Understanding over-indebtedness* - there is a need for a much more sophisticated understanding of debt and how it affects and is experienced by different groups.
- *A Big Society approach* – tackling problems of over-indebtedness requires action by a range of actors including creditors, individuals, the third sector and Government; advice services play a critical role in 'oiling the wheels' of a positive Big Society approach.

## Appendix A – Low income

This report uses ‘low income’ as a rather generic term, and does not seek to engage with debates regarding definitions of poverty nor measurement. But the following points provide some context.

### *Income-based Jobseeker's Allowance - maximum weekly rates*

Single people aged 16 - 24	£51.85
Single people aged 25 or over	£65.45
Couples and civil partnerships (both aged 18 or over)	£102.75
Lone parents (aged under 18)	£51.85
Lone parents (aged 18 or over)	£65.45

### *Incapacity Benefit (now replaced by Employment and Support Allowance for new claimants)*

	Weekly Amount	If over pensionable age
Short-term (lower rate)	£68.95	£87.75
Short-term (higher rate)	£81.60	£91.40
Long-term basic rate	£91.40	n/a

Research (Bradshaw *et al.*, 2008) into what level of income people think is needed to afford a socially acceptable standard of living in Britain today found that according to what people said, in order to maintain a minimum, socially acceptable quality of life in 2008:

- a single working-age adult needs a budget of £158 per week;
- a pensioner couple needs £201;
- a couple with two children needs £370; and
- a lone parent with one child needs £210.

Most people relying on basic out-of-work benefits do not reach this standard. A single person on Income Support gets less than half. Out-of-work families with children typically get two thirds. A single adult, working full time, needs to earn £6.88 an hour to reach this weekly standard, compared to the minimum wage of £5.80 (for workers aged 22 and over).

## Appendix B - The methodology and the sample

### *The methodology*

For Year 3, 53 in-depth interviews were conducted with people who have received debt advice. Interviewees were involved via six not for profit advice providers: two Citizens Advice Bureaux (29 interviewees), a national telephone helpline (16 interviewees) and three community-based independent advice providers (8 interviewees). The core of the research took place in one English sub-region, but the inclusion of the telephone helpline gave national coverage and interviews were conducted in all but one of the English regions.

Client confidentiality was a major concern for advice providers, and a variety of approaches were taken to meet the requirements of providers. One provider asks clients if they are willing to be contacted for research purposes so in this case I was given access to client contact details. With other agencies I either provided a general letter of introduction which agencies then sent to clients, or agencies contacted clients themselves.

### *The sample*

	Number of interviewees
<b><i>Household composition</i></b>	
Single no dependent children	19
Single with non-dependents	3
Lone parent (all women)	16
Couple (m/f) - no dependent children	5
Couple (m/f) - with dependent children	8
Couple (m/f) - with non dependents	2
<b><i>Interviewee gender</i></b>	
Female	34
Male	16
Couple (m/f)	3
<b><i>Housing tenure</i></b>	
Social housing	22
Private rented	9
Owner occupier	18
Shared ownership	2
Other	2
<b><i>Household income – principal source</i></b>	
Benefits	27
Pension	4
Employment/self-employment	21
Student bursary	1
JSA	2
IS	17
IB	8

<b>Age</b>	
20s	9
30s	6
40s	16
50s	14
60s	8
<b>Ethnic origin</b>	
White UK	48
Asian	2
African-Caribbean	3
<b>Type of debt at Year 1*</b>	
Priority debts only	4
Priority and credit debts	38
Credit debts only	11
<b>Level of debt</b>	
Under £5,000	13
£5,000-£10,000	12
£10,000-£20,000	14
£20,000-£30,000	3
Over £30,000	11

\*It was noted in the Year 1 report that credit debt can be used to 'hide' priority debt so the reality is more complex than this simplified breakdown might suggest.

## **Appendix C – the Year 3 topic guide**

### **Introduction**

As I said when we spoke on the 'phone this is very much the same format as when we met last year, and the year before.

The research is totally confidential - I am the only person who knows you are being interviewed and I will not tell anyone else. The interview will last about 45 minutes.

I would like you to tell me a bit about what has happened during the last year, your financial situation, and I have some questions about the advice you received.

Like last year I would like to tape record the interview. Afterwards it will be typed up but your name and address will not be included – you will simply be recorded as Interviewee number (e.g. 1).

Are you happy to go ahead? Is there anything you would like to ask before we start?

### **Theme 1 - Trajectory**

1. When we met last year you were [thinking about bankruptcy/negotiating repayments etc]; what's happened since then regarding your debts? [check if any new credit/debts]

2. Thinking back to when you had advice [in x], would you say your situation has improved/remained the same/worsened?

3. IF IMPROVED -

3a In what ways are things better (e.g. increased income; debts repaid; repayments reduced)

3b What are the reasons that things have improved?

3c Would you say there was a particularly important reason why things have improved?

3d Did the debt advice you receive help improve things? In what ways?

4. IF SITUATION WORSE -

4a In what ways are things worse (e.g. decreased income; debts increasing; new debts)

4b What are the reasons why things have got worse?

4c Would you say there was a particularly important reason why things have got worse?

4d Did the debt advice you receive not help improve things? Why not?

5. IF NO CHANGE -

5a Are you happy with your current position or would you like things to improve? Why/why not?

5b What are the reasons that things have not changed?

5c Would you say there was a particularly important reason things have not changed?

5d Did the debt advice you receive not change things? Why not?

6. Would you describe yourself now as:

keeping up with all bills and commitments without any difficulty

keeping up, but a struggle from time to time

keeping up but constant struggle

falling behind with some bills or commitments

having real financial problems and have fallen behind with many bills and/or credit commitments

[i.e. FSA's annual financial risk outlook categories].

7. In just a word or short phrase how would you describe your overall financial position? (e.g. struggling, surviving etc) Is that different to last year? Are there things you feel you miss out on? Are you ok with that, or does it feel hard/unfair?

### **Theme 2 - Further advice**

8. Since last year have you had any more debt advice? (If 'yes', complete this section; if 'no', go to question 14)

9. Was this in relation to the same situation as last year, or due to new problems?

10. If it was the same problem – what was the outcome?

11. If it was a new issue: how did you try to deal with the situation before seeking advice; what did you most want help with?

12. Was it the same provider – if different, what were the reasons for choosing a different provider, how did you find out about the different provider; has the experience of the new provider been different to the first one - how?

13. What was the outcome?

14. If advice has not been sought – why not?

- no need for advice
- using other strategies
- negative experience
- has used other/informal sources

### **Theme 3 - Reflections on debt advice**

15. Looking back on the advice you received [in x], was it helpful? In what ways?

- maximising income/claiming benefits
- budgeting
- representation/negotiation
- someone to talk to/share issues with, who would listen to problems
- information about procedures, etc
- filling in forms

- debts reducing

16. Was there anything that was not so helpful?

[if views expressed are different to years 1 and 2, probe why – what factors have led to these different views]

17. Are the things that you thought were helpful, still helpful now or were they only helpful at the time?

18. Why are those things still helpful/no longer helpful?

19. Would your experience with [advice provider] make you more likely to seek advice in future on this/another problem (any examples of seeking advice on other issues)

20. Have you recommended the service to someone else? What did you tell them about the service?

21. Would you say you have followed the advice you were give, or did you act differently?

22. [Extent of engagement with advice] Some people the advice they received was a very major part of dealing with their debt problem, others say it wasn't so important – what would you say?

23 [Interviewee's assessment of extent of debt problem] Some people say they had a very major debt problem, others say their debts were only minor – what would you say?

#### **Theme 4 - Further impacts**

24. Last year we talked about how debt had affected other aspects of your life [worry/health/relationships/etc]. Have those things improved/remained the same/worsened? In what ways? Why?

24a Has the advice you received helped or not with these things? [probe]

25. Last year we talked about how you manage your money. How do you manage your money now? Has that changed during the last year?

25a Has the advice you received changed the way you manage your money? [probe]

26. Last year we talked about how confident you feel in making financial decisions (e.g. knowledge about different sources/cost of credit, understanding financial statements, switching providers of phones/power)? How confident do you feel in making financial decisions now? Has that changed during the last year?

26a Has the advice you received changed your confidence about making financial decisions? [probe]

27. On that point, have you ever considered trying to find out more about ways of managing your money, or things like how to understand financial letters and statements, or information about different financial products? Would you be interested in finding out more about these kind of things? [i.e. financial education]

28. Could I just check, do you have any savings? What has enabled you to start saving during the last year? Do you have any plans to try to start saving? Why/why not?

29. What do you think would have happened if you had not contacted [money advice provider]? Would anything have been different?

30. What would you say about the way the companies/organisations you owe money, have acted?

31. Could you say how much of your debt you have repaid?

32. Is debt the only problem you have/had, or are there other problems you face/faced? Which is the most important problem?

33. In hindsight, would you have done anything differently regarding the debt problem you have faced?

**[Check biographical details have been covered]**

- current situation – employed/unemployed/retired/etc
- current occupation (if applicable)
- employment history
- experience of unemployment/claiming benefits
- other household members, partner, children etc
- housing tenure
- disability/ill-health
- ethnicity
- gender
- age

**Theme 5 - The next 12 months**

34. Do you think there are any particular issues or changes you might face in the coming year that might affect your financial circumstances (e.g. changing jobs, having children etc)?

**Conclusion**

Is there anything else you would like to say?

Is there anything you would like to ask me?

I will write a research report and I will use some quotes from the interviews I have done but there will be no reference to names or addresses and there is no way you can be identified.

I also need you to sign this slip to say you have received the cash 'thank you' (this does not affect your benefits). This slip does not include your address. All that happens is I send it to our finance office so they can see the money is accounted for. There is no way it can be linked to your address or what you have said.

[Discuss project continuation and whether willing to remain involved - check contact details plus stable address]

Thanks again for seeing me.



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