

Budget 2016

Representation from the Money Advice Trust

MONEY
ADVICE TRUST



Introduction

The Money Advice Trust is a national charity helping people across the UK to tackle their debts and manage their money wisely.

The Trust runs National Debtline, offering free, independent and confidential advice on personal debt over the phone and online, and Business Debtline, the UK's only free dedicated debt advice service for the self-employed and small business owners. Through these practical self-help advice services and our Wiseradviser training programme for debt and money advisers, last year we helped more than 1.35 million people. Beyond our frontline activity, we work closely with Government, creditors and partners to improve the UK's money and debt environment.

Key recommendations for Budget 2016

Our recommendations for Budget 2016 are;

1. Enhance support for the self-employed and small business owners who are in debt or are struggling financially.
2. Launch a full review of the debt solutions available to people struggling with unmanageable debt in the UK, and deliver the promised review of a potential Breathing Space scheme.
3. Introduce more effective and fairer debt collection practices across the public sector, signposting as appropriate to free, independent, debt advice services.
4. Support the transition to Universal Credit by integrating free debt advice services such as National Debtline into *Universal Support*.
5. Work with industry and the advice sector to develop common, shared public information messages to help prepare households for future rises in interest rates.

1. Supporting the self-employed and small businesses

In 2014, the number of self-employed people in the UK rose to 4.6 million, its highest level since records began. Self-employment is now a significant feature of the UK job market, with more than 14% of the population self-employed¹.

The rise in the UK self-employed population mirrors a steady growth in small businesses, in particular non-employing businesses.² Many of the self-employed are set up as sole traders, where there is no legal distinction between them as an individual and the business. These sole traders have been at the forefront of UK business growth, with almost 200,000 starting up in 2014 alone.³

The welcome economic recovery presents opportunities for many self-employed individuals and micro-businesses to flourish. However, the situation for some of Britain's smallest businesses, now employing 33 percent of the population,⁴ is fragile. Our research, based on extended qualitative interviews of 104 Business Debtline clients and summarised in our report, *The Cost of Doing Business*, shows that many small businesses are struggling to cope with business and personal debts, incur a high personal cost in other areas of their lives and have a worrying lack of financial resilience in the form of savings and pensions.⁵

As part of Budget 2016 and with reference to the current BIS Review of Support for the Self-Employed, we would encourage Government to consider additional support needed in this area. This can be achieved through funding support services such as Business Debtline, and other advice providers that support small businesses. Business Debtline helps more than 40,000 small business owners a year, with many clients able to overcome their immediate problems and continue to trade. With additional funding, this service, the UK's only free, dedicated small-business advice service could help to support this vital part of the population even further.

2. Launch a full review of debt options and deliver the promised review of a potential Breathing Space scheme

We are currently engaging separately with the Treasury and Insolvency Service over the planned review of a potential Breathing Space scheme offering statutory protections from interest and charges for people seeking debt advice and committing to repay their debts through an affordable repayment scheme. We look forward to what we hope will be an announcement resulting from this work at Budget 2016.

More broadly, we believe a full review of the debt solutions available to people struggling with unmanageable debt is needed, given the patchwork nature of the insolvency options and other mechanisms that have evolved in the UK over time. We hosted a roundtable,

¹ Resolution Foundation, *Just the Job – or Working a Compromise*. May 2014.

² Note that while some of the self-employed will employ staff, many will work alone.

³ ONS, *Business Population statistics*. November 2014.

⁴ Dept. of Business Innovation and Skills, *Business population estimates*. 2014.

⁵ Money Advice Trust, *The Cost of Doing Business*, July 2015

chaired by Professor Sharon Collard, to explore these options last September, which George Langdon-Jones attended for the Treasury.

As part of Budget 2016, we would welcome consideration of how such a wider review of debt solutions could be delivered, to ensure that no-one who is struggling to cope with unmanageable debt is left without a mechanism by which they can return to financial health.

3. Introduce better and fairer debt collection practices across the public sector

In 2014, the Public Accounts Committee reported that £22.6 billion was owed to government, originating from many sources including unpaid fees, taxes, fines and loans, ineligible benefits or grants and debts unrecovered from court cases. Significant sums are also owed to local government and other public bodies including £2.8 billion owed in unpaid council tax.

We have experienced significant increases in callers to National Debtline since 2010 with government or state-collected debts including council tax, housing benefit overpayments, social fund loans, TV licenses and magistrates' courts fines⁶.

In line with the government's welcome aim of driving efficiency and value for money across the public sector, a full review of how government collects debt was carried out and a new cross-government approach launched. We fully support the government's aspiration to ensure fairer debt collection practices, and recognise the importance of recouping monies owed to the public sector. We know from our work helping private sector creditors to improve their practices, particularly with vulnerable customers, that there is significant benefit to be gained from collaboration in this area.

Our recent *Stop the Knock* research⁷ showed that there is significant scope for improvement by local authorities in their collection of debts. Local authorities in England and Wales instructed bailiffs to collect debts on 2.1 million occasions in 2014/15. The figures show overall bailiff use by local authorities has risen by 16 percent in the last two years, up from 1.8 million in the 2012 calendar year – and that debt collection practices are diverging across the country. Crucially, our research also found that those councils that use bailiffs the most for council tax were actually less successful, on average, in collecting council tax arrears from previous years. This reinforces the need for local government to learn from the private sector when it comes to improving its debt collection practices.

As part of Budget 2016, we would ask the Treasury to consider the increase in state collected debts that advice services are witnessing and ways of further improving public sector debt collection. This should include earlier intervention and signposting to free debt advice such as that provided⁷ by National Debtline and other debt charities, improving staff training across the public sector and utilising the Common Financial Statement⁸.

⁶ Money Advice Trust, *Stop The Knock: Local authorities and enforcement action*, September 2015

⁷ Money Advice Trust, *Stop The Knock: Local authorities and enforcement action*, September 2015

⁸ <http://www.moneyadvicetrust.org/training/Pages/Common-Financial-Statement.aspx>

4. Support the transition to Universal Credit by integrating free debt advice services into Universal Support

We believe Budget 2016 provides an opportunity to consider ways that the Government's welfare reform agenda can be strengthened by integrating free debt advice services into the Universal Credit rollout. The Money Advice Trust is well placed to help support the key targets of Universal Credit in a measurable way, including protecting the most vulnerable and enabling claimants to keep more of what they earn so that it always pays to get into work.

Many people eligible for Universal Credit may already have debt problems. We believe that integrating free debt advice, such as that provided by National Debtline, into *Universal Support* is essential if Government is to meet its goals of getting people into work whilst protecting the most vulnerable.

The Money Advice Service research "Indebted Lives", highlights that there are 8.1 million people over-indebted in the UK, however only 17% of those have sought debt advice, and 21% do not see themselves as being in debt.⁹ The same research sets out the impact of debt on peoples' physical and mental health and their overall quality of life. A significant element of these people will be eligible for Universal Credit making it essential that Government uses *Universal Support* as a mechanism to get people to the help they need.

By integrating free debt advice into *Universal Support*, the government would also be facilitating access to existing creditor forbearance schemes on outstanding debts. This would further the government's aim of getting people into work.

There is a strong foundation on which to build this potential work. The Department for Work and Pensions is already a member of The Trust's Partnership Board, and our President, Baroness Coussins, and CEO met Lord Freud last year to discuss the role that National Debtline could play in supporting the Universal Credit roll-out. We would be keen to progress these promising discussions.

5. Work with industry and the advice sector to help prepare households for future rises in interest rates

We welcomed the Chancellor's intervention in the ongoing debate over the impact of interest rate rises in January 2016, including warning the public to prepare for how rises in the base rate will affect their household finances. However, our research suggests that we face a significant challenge in getting this message across, especially to those in existing financial difficulty who are likely to be at the sharp end of interest rate rises when they do arrive.

In a recent survey, 38 percent of National Debtline clients were not aware of the possibility that interest rates may rise at some point over the next year. This is despite the significant impact that the rise and its knock-on effects may have on their finances. More than three quarters of those National Debtline callers who were aware that interest rates may rise were concerned about the impact this would have on their financial situation (76 percent). A similar number (77 percent) said they expected to have to cut back on their household spending to help cope with this impact.

⁹ Money Advice Service, Indebted Lives, 2013

Previous research by the Building Societies Association has found that over half (52%) of borrowers say they will struggle when interest rates rise, with one in ten believing that they would experience real financial problems, falling behind on a range of loan commitments.

While we acknowledge that predictions of interest rate rises have receded further into the future, and that when rises do arrive they are likely to be low and slow, we believe there remains a relatively narrow window to prepare households for a higher interest rate economy.

To that end, we would welcome an announcement in Budget 2016 on how the government, financial services industry and advice agencies such as National Debtline can work together to develop shared, common public information messages for households on what steps they should take to prepare for future interest rate rises.

For more information about this submission contact Jane Tully, Head of Insight and Engagement, at jane.tully@moneyadvice.org or 020 7653 9733.

Appendix

National Debtline

National Debtline offers free, independent and confidential advice to people in debt, by phone and online. Last year National Debtline helped more than 300,000 people tackle their debts and manage their money wisely. National Debtline offers practical self-help – empowering businesses to deal with their creditors and put solutions in place to resolve their financial difficulties.

After speaking to our expert advisers;

- ✓ 80% of callers feel more in control of their financial situation following our advice
- ✓ 91% of callers stated that the service met or exceeded their expectations
- ✓ 98% of callers were clear about the next steps they needed to take to deal with their situation.

Business Debtline

Business Debtline is the UK's only free debt advice service for the self-employed and small business owners. Last year Business Debtline helped more than 40,000 businesses to tackle their debts, by phone and online. Like its sister service National Debtline, Business Debtline offers practical self-help – empowering businesses to deal with their creditors and put solutions in place to resolve their financial difficulties.

After speaking to our expert advisers;

- ✓ 85% of callers were very satisfied with the service they received
- ✓ 79% of callers had debt that was stabilising or reducing
- ✓ 93% of callers feel more knowledgeable about financial matters overall.