



Problem Debt

4 April 2006

Report to the City Council

Problem Debt



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Preface

By Councillor Carl Rice

Chair, Problem Debt Task and Finish
Overview & Scrutiny Committee



This report is the result of hard work by many people ranging from officers and members of the City Council, staff within the voluntary and community sector through to financial and utility companies in the private sector. The evidence gathering process reflected these three sectors and comprised sessions devoted to the City Council, voluntary sector and the private sector. The key question the review sought to answer was –

“What are the key factors leading to problem debt and what role should each sector have in minimizing the problem?”

A simple enough question, but as can be seen from the length of this report – there is no simple set of answers. It is such a huge problem with many origins and many nuances that decisions had to be taken at an early stage to limit the depth and breadth of our scrutiny. This was in no way a derogation of our responsibility, merely a reflection of the enormity of our task.

Another decision taken at the outset was a desire to move away from the headline grabbing cases of individuals paying huge rates of interest to illegal loan sharks. These do exist in Birmingham as we know from the work of the Government pilot scheme within the city's Illegal Money Lending Team. Whilst they highlight the problem they tend to distort attention away from the type of debt the vast majority of people suffer from, caused by factors such as family break up, unemployment and long term illness. Tough action against illegal moneylenders as recently taken by the City Council's Licensing Team is important, but so is the availability of free, quality and sustainable money advice for the thousands upon thousands of citizens struggling to cope with debt each and every day of their lives.

It will be noted from the recommendations that most relate to lobbying or influencing Central Government on a variety of issues relating to such things as the Benefit System, Data Protection Act and a national levy on the financial services industry to fund debt advice work. That is because as the Scrutiny process got underway, the Task and Finish Committee identified local changes which were within the control of the City Council and which could be easily implemented.

It was thought to be silly to wait several months until the Committee reported to the City Council before implementing such changes. Therefore where a consensus could be achieved between departments and agencies about changes, they were encouraged to be implemented as soon as possible.



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For example, it became apparent in the course of the evidence gathering, that there were opportunities for better joined up working between departments in various areas. The Committee heard evidence that it would be useful if the Debt Advice Team could make payment arrangements with debtors in respect of Council Tax arrears as is already the case with rent arrears. As a result, a pilot scheme has been established allowing staff from the Debt Advice Team to make payment arrangements in relation to the collection of Council Tax arrears. Similarly, in the course of the evidence presented on behalf of Severn Trent Water, it became clear that increased collaborative working with Severn Trent Water could potentially be mutually beneficial, and a liaison meeting has already been arranged to explore the best way to move this forward. The need for better communication and more joined up working between Council departments was a recurring theme and as a result of discussions in relation to the use of bailiffs, new channels of communication have been opened up, to allow Neighbourhood Office Managers to contact the bailiffs directly to resolve any issues arising. In this way much progress has already been made on improving the situation for people suffering from problem debt without unnecessary delay.

One of the most important recommendations is the establishment of a Debt and Money Advice Partnership Forum comprising representatives from all three sectors. Rather than produce a long list of specific recommendations the Committee felt that the creation of the Forum would be a catalyst for increased partnership working between the many departments of the City Council and outside agencies. Members of the Committee felt that this is likely to prove to be the most important achievement of their Scrutiny.

Finally, thanks to all those involved in the Scrutiny process – it was a joy to work with so many committed and skilled professionals within Birmingham. I am confident that this particular piece of Scrutiny work will lead to real and lasting improvements for the many thousands of Birmingham citizens reeling under the burden of Problem Debt.

Carl Rice



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1 Summary

- 1.1.1 Problem debt, or over-indebtedness, is a huge and complex area which has significant costs for individuals, creditors and society as a whole. These problems are strongly associated with social exclusion and financial exclusion, where banking practices and traditions exclude disadvantaged people from financial services such as access to loans.
- 1.1.2 The Government estimates that one in twelve households in the UK lack access to a bank account of any kind. "Unbanked" families are locked into a cycle of poverty and exclusion, or turn to high cost credit or illegal lenders, resulting in even greater financial strain and unmanageable debt. They are also likely to suffer from a lack of quality advice on how to improve their finances.
- 1.1.3 Personal debt in the UK is currently at its highest level ever at over £1.1 trillion and shows every sign of increasing. Nearly 50,000 people became bankrupt during 2005 which is a 32% increase over 2004 and trends are showing an increase in people under 30 opting for bankruptcy. Data from the Council of Mortgage Lenders shows a continued sharp rise in the number of home repossessions which increased by 70% compared with 2004.
- 1.1.4 There are many Government initiatives aimed at the control, alleviation and prevention of problem debt but the review group's ultimate purpose was to focus on what problem debt means for Birmingham as a city and for those who experience it either personally or through its impact on service efficiency.
- 1.1.5 The key question for the Committee in conducting the review to consider was what are the key factors leading to problem debt and what role should each sector have in minimizing the problem.
- 1.1.6 The Committee heard evidence from the City Council about measures that can be taken in tackling the problem of debt within the city. They also heard from Government Agencies including the Legal Services Commission about the development of the Community Legal Service, from the Department of Trade and Industry about the Consumer Credit Bill and from HM Treasury on financial inclusion. Evidence was presented by a private sector utility company, by the financial services industry and about the increasing importance of the money advice work carried out by the voluntary and community sector.



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- 1.1.7 Certain recurring themes emerged during the course of the evidence gathering which have been reflected in the recommendations made by the Committee. These are:
- The importance of improved partnership working with external partners and of a more co-ordinated approach to service provision within the City Council.
 - The value of early contact and intervention wherever possible in dealing with debt.
 - The preventative role of benefit maximisation in the debt advice process.
 - The role of good communications and information sharing, both amongst Council departments and with external partners.
 - The significant contribution of Credit Unions in providing a source of affordable credit to meet the needs of people in the poorest communities who have difficulty accessing mainstream borrowing facilities.
 - The positive impact of the work carried out by the Birmingham Illegal Money Lending Team and the need to continue, and where possible, extend this activity.
 - The importance of the availability of good quality, independent debt and money advice.
- 1.1.8 There has been increasing recognition, in both central and local government, of the importance of successful partnership working. For example, there are clear links between the work of this Committee and the anti-poverty project recently initiated by the Birmingham Strategic Partnership. The project aims to establish how best to take forward the Community Strategy Action on Reducing Poverty in order to bring about a reduction in poverty and an increase in opportunity in the areas of most deprivation within the city. The financial aspects of poverty clearly link with the work of this Committee.
- 1.1.9 The establishment of a Debt and Money Advice Partnership Forum comprising representatives from the public, private and voluntary and community sectors will facilitate increased partnership working and information sharing, both amongst departments within the City Council and between the Council and agencies such as the Birmingham Strategic Partnership and will enable the work in preventing and alleviating problem debt to continue on an ongoing basis.



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2 Summary of Recommendations

	Recommendation	Responsibility	Completion Date
R1	That an ongoing Debt and Money Advice Partnership Forum be established by the City Council including (but not limited to) representatives from: - the City Council – Legal Services, Resources (Revenues and Payments), Housing, Regulatory Services, Learning and Culture and The Community Services Division of Local Services; - the Citizens Advice Bureau; - Birmingham Settlement; - the Birmingham Community Banking Partnership; - the Legal Services Commission; - Registered Social Landlords and; - Private Sector Creditors in order to provide a forum to promote a more co-ordinated approach to the provision of money advice and debt counselling across the city.	Cabinet Member for Local Services and Community Safety	June 2006
R2	That progress with the Debt and Money Advice Partnership Forum should be reported to the Chair of the Local Services and Community Safety Overview and Scrutiny Committee every six months for the first year, with the frequency of reporting to be reviewed thereafter.	Cabinet Member for Local Services and Community Safety	December 2006
R3	That the establishment of a dedicated telephone helpline staffed by specialist advisors to deal with queries for specified debt advice agencies be considered and the feasibility be reported to the Chair of the Co-ordinating Overview and Scrutiny Committee.	The Deputy Leader	December 2006
R4	That, following a review of the pilot allowing Debt Advice staff to make payment arrangements in respect of the collection of Council Tax arrears, consideration should be given to extending the pilot to Neighbourhood Offices, with the outcome of the review to be reported to the Chair of the Local Services and Community Safety Overview and Scrutiny Committee.	Cabinet Member for Local Services and Community Safety	October 2006



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R5	That because of the importance of identifying all debtor households who are in receipt of means tested benefits, then in addition to exploring the possibility of utilizing the new Revenue and Benefits Integrated System, consideration be given to amending the current standard pre-bailiff letter to stress the importance of debtors informing the Council where they are in receipt of means tested benefit.	The Leader	October 2006
R6	That, deduction from benefits, and not bailiffs, should normally be used in dealing with households where it can be identified that household income is derived solely from means tested benefits.	The Leader	October 2006
R7	That the review of debt collection to be undertaken by Revenues in 2006/7 should include the Debt Advice Team and should also include appropriate consultation with other advice agencies.	The Leader	January 2007
R8	That the Government be lobbied to review housing benefit entitlement for younger people aged under 25 and in particular to abolish the single room rent for private sector tenants and to increase personal allowances to the levels which apply to other adults.	The Deputy Leader	October 2006
R9	That in view of increasing fuel costs, the Government be lobbied to ensure that uprating of benefit allowances this year reflect these additional costs in order to safeguard against a further rise in fuel poverty.	The Deputy Leader	October 2006
R10	That the Government be lobbied to change the law, to allow the Council Tax service to request additional data from taxpayers and to allow the secondary use of Council Tax and other data, to facilitate the sharing of information amongst departments in order to promote benefit take up throughout the city.	The Leader	October 2006
R11	That the Government be lobbied to introduce a statutory national levy on utilities, the financial services industry and others who profit from transactions which can leave people in debt, to be used to fund the provision of debt advice.	The Leader	October 2006
R12	That the Government be lobbied to fund a nationally recognised approved training scheme for debt advice caseworkers in order to address the shortage of trained advice workers.	The Leader	October 2006
R13	That the Government be lobbied to ensure that funding for the Birmingham Illegal Money Lending Team, currently provided by the Department for Trade and Industry, be continued and that consideration should be given to extending their remit to tackling malpractice among licensed moneylenders.	The Leader	October 2006



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R14	Progress towards achievement of these recommendations should be reported to a reconvened Problem Debt Scrutiny Members Panel and to the Chair of the Co-ordinating Overview and Scrutiny Committee.	The Leader	December 2006
	Subsequent progress reports will be scheduled by the Committee thereafter, until all recommendations are implemented.		



3 Background

3.1 Reasons for the Review

- 3.1.1 Problem debt or over-indebtedness is a huge and complex area. It is informed by a plethora of research and investigation, public information, media focus and the campaigning of specific service providers. There is a whole raft of government initiatives aimed at its control, alleviation and prevention. The Review Group's ultimate purpose is to focus on what problem debt means for Birmingham as a city and for those who experience it either personally or through its impact on service efficiency.
- 3.1.2 This will allow the Review Group to identify what interventions are within its power to provide or influence, and to achieve an effective impact on alleviating the misery and financial detriment that it causes. The goals are to enable people to either prevent it or manage it better in future.
- 3.1.3 **Indebtedness** - Most households/individuals of legal age in the UK are in debt. For the majority of the population personal debt is manageable – mortgage payments and other forms of secured debt or loans are met in accordance with agreed arrangements and regular payments on unsecured debts or loans are budgeted for and met without difficulty.
- 3.1.4 **Problem Debt or Over-indebtedness** - There is no generally accepted definition of problem debt or over-indebtedness and research on the subject employs a wide range of subjective and objective measures. The simplest idea is that a problem debt is one that has become a burden for the borrower.
- 3.1.5 Problem debt occurs when, for whatever reason, repayment arrangements break down and household income starts to lag behind debt. For roughly three million people in the UK, personal debt has become a heavy burden and although these three million are spread throughout society as a whole, the burden is borne disproportionately by low income families, lone parents and people in their twenties and thirties.



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- 3.1.6 In addition, it is estimated that up to twelve million people struggle to repay their credit commitments from time to time. Both groups are extremely vulnerable to fluctuations in the economy and it is commonly agreed that factors such as an upward change in interest rates and changes in economic status such as unemployment would create serious economic and social problems for these people and extend the net of those perceived to be struggling with debt.
- 3.1.7 **Financial Exclusion** - For some people, problem debt is exacerbated by financial exclusion. Financial exclusion occurs when banking practices and traditions exclude disadvantaged people from financial services such as access to loans. Even though the UK has one of the most diverse financial services sectors in the world, financial exclusion remains a reality for many people.
- 3.1.8 **Characteristics of the Excluded:**
- **Socially rented accommodation:** 60% of unbanked households live in socially rented accommodation
 - **Low income:** 65% have annual household income of less than £14,500
 - **Single headed households:** Half are single people living alone, a further fifth are lone parents
 - **Receiving benefits:** 40% are of working age but not available for work
 - **Geographically concentrated:** 25% are in 3% of postcodes with the highest concentration of exclusion
- 3.1.9 The Government estimates that one in twelve households in the UK lack access to a bank account of any kind. This means that for “unbanked” households simple transactions such as cashing cheques or paying bills are too costly and many every day services such as hiring videos and contract mobile telephones are unavailable.
- 3.1.10 **“Unbanked”** families are locked into a cycle of poverty and exclusion, or turn to high cost credit or even illegal lenders, resulting in greater financial strain and unmanageable debt. They are likely to also suffer from a lack of quality advice on how to improve their finances.



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3.1.11 **Sub-Prime Lending** – Prime lending refers to that side of the market aimed at the more credit-worthy and is usually the domain of the major banks, building societies and finance houses. Sub-prime lending is an emerging market targeting those who have poor credit records but who fall short of being totally beyond credit acceptance and risk. It is in the area of sub-prime lending where many people of poor credit status are considered to be particularly vulnerable to mortgage, loans and credit card deals that demand exorbitant rates of interest.

3.1.12 **Sources of Information** – Information on local debt and over-indebtedness appear difficult to obtain and compare at both national and local level. Other than monthly or quarterly statistical releases from specific government departments or agencies such as the Bank of England, there appears to be a dearth of information about over-indebtedness published and accessible at a central government point. There are however, various separately available statistics that can be described as “credit warning indicators”.

3.1.13 **Credit Warning Indicators**

- **Total Lending Outstanding** – published monthly by the Bank of England, this shows the level of outstanding debt to individuals. In April 2003 this figure surpassed the £1 trillion mark, and at November 2005 stood at £1.15 trillion. The £1 trillion mark is held to be a significant milestone and in itself has sparked a considerable degree of analysis and investigation into the issue generally.
- **Unsecured Debt** - for the average UK adult is estimated by Datamonitor to have exceeded £4,000 at the end of 2004. This appears to be a 45% increase from 2000.
- **Bankruptcies** - in 2004 rose to 35,898 being a 40% increase over the 2000 figures. 10,288 people went bankrupt in the first quarter of 2005 which was the highest figure for more than forty years. During the second quarter of 2005 the figure was 11,321 which is an increase of 27.5% on the same period in the previous year and a 7.8% increase on quarter one. The figures for the third and fourth quarters respectively were 12,177 and 13,501. This gives a total for 2005 of 47,287, which is a 32% increase in bankruptcies on 2004. A typical bankrupt owes around £50,000 and trends are showing a remarkable increase in people under 30 opting for bankruptcy.



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- **Mortgage Repossessions** – According to official figures, nearly 26,000 property repossession orders were granted in the first three months of 2005 - the highest number since 1985. In the second quarter over 28,000 were granted, in the third quarter almost 30,000 and in the fourth quarter over 31,000. These figures report how many orders for possession have been made, but since many of the orders will not have been enforced, these figures do not reflect the number of properties which have been taken into possession. Data from the Council of Mortgage Lenders showed a continued sharp rise in the number of home repossessions which rose to 10,250 in 2005, up by 70% from 2004. Repossessions incur social costs primarily related to mental health, family stability and relationship breakdown as well as re-housing costs (usually to be borne by social landlords).
- **Savings** – the Savings Ratio is described as the proportion of our disposable income we save. The less we save the less we can cope should bills begin to bite. Between 1990 and 1997 this fluctuated between 8% and 11.6%. Between 1998 and 2004 it fluctuated between 4.9% and 6.5% and is currently at 5.5%. It is worth noting that the bulk of the nation's household savings are contained within the wealthiest 10% of households.
- **Increased Take Up of Advice Agency Services** – advice agencies are reporting a recent upsurge of requests for assistance. The Consumer Credit Counselling Service, for example, has experienced a 50% increase in demand for debt advice between May 2004 and May 2005. Customer debt problems dealt with by Citizens Advice Bureaux have risen by nearly three-quarters over the last seven years.
- **Credit Card Debt** – in 1971 credit card debt was £71 million. It is now £56 billion.

3.1.14 **Student Debt** – Student Loans are an increasing credit warning indicator. 90% of students are estimated to have some form of unsecured debt. The average student loan is around £6,300 and the average unsecured debt of a student is around £6,500. Five years ago, student debt on leaving college was on average £4,000. Today, according to Barclays Annual Graduate Survey, it is over £13,000. Barclays Bank estimates that by 2010 it will be £33,000.



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- 3.1.15 **The Birmingham Perspective** - Student debt is a very wide-ranging subject and the Review Group was aware that it could potentially merit a separate review of its own. Significantly, it did not feature highly in the witness evidence to the Group, but there is obvious concern that its impact will grow in future. Given this increasing concern, it was decided to focus on the Birmingham perspective. Letters were sent, on behalf of the Committee, to the Vice-Chancellors and student unions/guilds of the three universities in Birmingham, namely Aston University, Birmingham University and the University of Central England in Birmingham expressing concern about the rising level of student debt and asking what action is being taken in the universities to prepare students for, and support them in dealing with, the consequences of increasing levels of debt.
- 3.1.16 **UCE Birmingham Students' Union** reply [See Appendix 2] expressed shared concern about the increasing level of student debt. The main observations can be summarised as follows:
- The most common problems relate to credit debt due to students finding the amount of the student loan inadequate and consequently having to seek money from elsewhere.
 - The problem of increasing levels of student loan debt tends to present itself once a student has finished studying.
 - Although advice is available from debt counsellors through the Students' Union, the more complicated cases are referred to National Debtline or Citizens Advice.
- 3.1.17 The replies from the **Vice-Chancellors of UCE and Birmingham Universities** [See Appendix 2] were to the effect that:
- A network of support services are available including specialists to advise students on financial management, including dealing with debt and directing students to the Access to Learning Fund which provides grants to students experiencing financial hardship or exceptional difficulties.
 - The new arrangements that come into place from September 2006 represent an improvement on the present arrangements for the payment of student fees, in that there is no obligation for fees to be paid up front, the loans are offered on generous terms, accumulating interest at zero percent in real terms, and students do not need to start repaying the loans until their income reaches a specified level.
 - The student support system in terms of grants and loans has also been enhanced from September 2006 in ways that are more favourable, in particular to students from low-income households.



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- 3.1.18 **Levels of Debt in Birmingham** - As previously mentioned, there is very little information available about debt and over-indebtedness at a local level. There is however, some statistical data collected by the Debt Advice Team which is recorded using a purpose built database and which has evolved as the service has developed.

The data clearly indicates a major increase in debt within the Birmingham area, with debt enquiries increasing.

• Total debts owed by clients 2004/05	£13,037,203
• Total debts projected for 2005/06	£20,320,880
• Average debt per individual 2004/05	£ 5,605
• Average projected debt per individual 2005/06	£ 8,332

This represents a 56% increase in debts owed by clients with the average debt per client having risen by £2,727 in 2005/06 compared to 2004/05.

3.2 The Committee and its Terms of Reference

- 3.2.1 The key question that the review was seeking to answer was -
“What are the key factors leading to problem debt and what role should each sector have in minimizing the problem?”
- 3.2.2 The review was undertaken by the Problem Debt Task and Finish Overview & Scrutiny Committee. Membership of the Committee comprised:
- Councillor Carl Rice (Chairman)
- Councillor Margaret Byrne
- Councillor Timothy Huxtable
- Councillor Fergus Robinson
- Councillor Anita Ward
- Councillor Mike Ward
- Councillor Robert Wright



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- 3.2.3 The officer team comprised Nick Partridge and Rose Kiely from Scrutiny as Link Officer and Lead Review Officer respectively, Ian James from Community Services, as expert witness with research and support provided by Ed Whitton from Governance and Partnership, David Collier from the Benefits Service and Sarah Sulley from Income Maximisation. Legal advice to the committee was provided by David Tatlow, Assistant Director of Legal Services. Phil Cooper was the Committee Manager.

3.3 Conduct of the Review

- 3.3.1 Meetings were held monthly beginning in August 2005 and each meeting focused on gathering evidence from a different sector.
- 3.3.2 **Setting the Scene** - At the August meeting a background paper aimed at setting the scene and giving an introduction to the issue of problem debt in Birmingham was presented by Ed Whitton, Senior Policy Officer, Governance and Partnership.
- 3.3.3 **Local Authority** - The September meeting focused on taking evidence from the Local Authority.
- Gail Adams, Assistant Director of Resources Revenues and Payments, presented a report which set out the collection policies, principles and processes for payment of council tax.
 - Jacqui Kennedy, Acting Senior Assistant Director in Regulatory Services gave a detailed presentation on a range of Trading Standards work which includes money advice, money lending, problem debt and consumer credit.
 - Celia Huxtable, Assistant Director (Housing Services) and Sue Milakovic, presented a report on behalf of the Director of Housing. This highlighted the strategy for rent collection which was introduced following a Best Value review and the introduction of the Tenant Support Service targeted to vulnerable tenants and commented on the effectiveness of different debt recovery methods. Many areas of good practice were highlighted which are summarised in Section 6.
 - Written evidence was produced by Chris Palmer on behalf of Tony Howell, Strategic Director, Learning and Culture focusing on the services provided by the Council and initiatives to promote learning in money management. The evidence also addressed whether there were any changes to Council Policy that would support the promotion of learning in responsible money management.
 - Written evidence was also presented on behalf of the Benefit Service.



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3.3.4 **Government Agencies** were the focus of the October meeting.

- Evidence was presented by Lesley Davies and Louise Winterburn, Community Legal Service Development Consultants from the Legal Services Commission, in relation to the development of the Community Legal Service.
- Aisling O'Brien from the Treasury Financial Inclusion Branch gave a presentation on financial inclusion, particularly describing the work of the Financial Inclusion Taskforce.
- Simon Writer, Assistant Director (Consumer Credit Bill) from the Department of Trade and Industry reported on the progress of the Consumer Credit Bill.

At a second October meeting

- Ian James, Head of Community Initiatives gave an overview of the work of the Neighbourhood Offices, voluntary advice agencies and highlighted the work of the Debt Advice Team, which is aimed at providing comprehensive support both to prevent debt problems and to help those who already have problems.
- Chris Gibbs, Head of Benefits, presented a report on the current performance of the Benefit Service, the issues it faces in the future and an assessment of the structure of the Housing and Council Tax Benefit system itself.
- Various Data Protection issues were discussed and Varun Shingari, a solicitor from Legal Services attended to address the meeting in relation to data protection issues.

3.3.5 **Voluntary and Community Sector** - The November meeting concentrated on gathering evidence on the role of the voluntary and community sectors.

- Evidence was presented by Chris Cox, Chief Executive of Birmingham Citizens Advice Bureau on the scale of the work, funding sources, obstructions to joint working with the Council, key problems with creditors, areas of good practice, suggestions for Council policy changes and legislative changes and suggestions for enhanced partnership working.
- Jackie Parker and Joan Sutherland-Tweed represented Ladywood Credit Union and gave a presentation on various aspects of the Credit Union and the services offered.
- Susan Spencer and Cheryl Daniels attended from Birmingham Settlement and Money Advice Services and gave evidence on the money advice and debt counselling services provided by Birmingham Settlement.



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3.3.6 **Private Sector Creditors and the Financial Services Industry** - The December meeting heard evidence from:

- Mike Bennett, Head of Credit Management at Severn Trent Water,
- Phil King, Managing Director of Bristol Finance and Credit Services Limited, who attended on behalf of the Consumer Credit Association and from
- Helen Zamorski, Revenue Support Manager, Cath Davies, Income Recovery Manager and Laura Weddell, Welfare Benefits Officer from Prime Focus.



4 Findings – The National Context

4.1 Government Action

There has been a huge amount of Government activity over recent years in terms of policy development, legislation and initiatives aimed at tackling over-indebtedness. The main broad strands of activity can be classified as follows:

- 4.2 **Ensuring a joined- up approach across Government**
- 4.3 **Promoting Financial Inclusion**
- 4.4 **Developing Financial Literacy of Consumers**
- 4.5 **Ensuring an Efficient Justice System**
- 4.6 **Dealing with Household Bills**
- 4.7 **Providing Advice**
- 4.8 **Ensuring Responsible Lending**

4.2 Ensuring a Joined-Up Approach

- 4.2.1 **A Ministerial Working Group** exists to facilitate an integrated approach to tackling over-indebtedness. It is jointly chaired by Ministers within the Departments of Trade and Industry (DTI) and Work and Pensions (DWP) and other Ministers represent the Departments of Constitutional Affairs (DCA), Education and Skills (DfES), the Office of the Deputy Prime Minister (ODPM) and HM Treasury. The Working Group is advised by relevant stakeholders and officers and is working across government to tackle the problems of over-indebtedness.
- 4.2.2 In 2004, the group published an **“Action Plan on Tackling Over-Indebtedness”**. This laid out the strategic priorities required to tackle over-indebtedness and is intended to apply across Government and devolved administrations. This report provides the baseline information on Government activity.



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- 4.2.3 The DTI is also funding two pilot projects in Birmingham and Glasgow to tackle and understand the problems of illegal lending [See Section 6.2 The Loan Shark Project]

4.3 Promoting Financial Inclusion

- 4.3.1 The Government's proposals in relation to tackling financial exclusion were set out in HM Treasury Document "**Promoting Financial Inclusion**" in December 2004.
- 4.3.2 **The Financial Inclusion Task Force** is the primary instrument set up to achieve outcomes. The Task Force has at its disposal £120 million Social Inclusion Fund to support initiatives that promote financial inclusion up to 2007/8.
- 4.3.3 Action is focused in three key areas:
- **Increasing access to banking** – the Government and banks share the goal of halving the number of adults in "unbanked" households.
 - **Increasing the availability of affordable credit** - HM Treasury is keen to develop the Credit Union movement and investigate other models of credit provision called Community Development Finance Institutions (CDFIs). The Social Inclusion Fund will be used to set up a £36 million "Growth Fund" for CDFIs [See Section 6.6.5] and Credit Unions [See Section 5.2].
 - **Extending the provision of face-to-face money advice** – the DTI is administering £45million of financial inclusion funding to increase the capacity of face-to-face advice provision and the Legal Services Commission is piloting mechanisms of debt advice "outreach" with financial inclusion funding.

4.4 Developing Financial Literacy of Consumers

- 4.4.1 **The Basic Skills Unit** within the DfES is leading the work in developing the financial capability and financial literacy of consumers.
- 4.4.2 **The "National Strategy for Financial Capability"** (May 2004) identified seven workstreams which reflect early priorities – schools, young adults, work, families, retirement, borrowing and advice.



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- 4.4.3 **The Skills for Life Strategy** was developed and promoted by the Basic Skills Unit (DfES) which seeks to improve the literacy, language and numeracy skills of 1.5 million adults by 2007. The strategy also promotes awareness raising amongst the staff of financial institutions and enables community development projects and advice agencies to develop training packages for residents and clients.
- 4.4.4 **Promoting Learning in Money Management** - DfES aims to integrate financial education into the national curriculum and has issued best practice, non-statutory guidance for schools to support teachers. This guidance sets out the opportunities for developing financial capability through Personal, Social and Health Education and Citizenship (PSHE), through work with maths and business studies, and through wider school activities such as work with businesses and the community.
- 4.4.5 **The DfES Guidance** for Key Stage 1 and 2 covers understanding of money and simple decision-making and the role of saving for future needs. At Key Stage 3 it covers understanding the uses of money, influences on behaviour, insurance, risk and social and moral dilemmas. At Key Stage 4 it includes practical money management and financial decision making, using financial tools, risks and returns of longer-term savings and investments, and the wider social, moral and ethical consequences of personal financial decisions. PSHE at Key Stage 4 also covers pensions and how pension schemes work.
- 4.4.6 **Financial Management** is included in the curriculum of all secondary schools (from September 2005) and financial capability is an integral part of enterprise education.
- 4.4.7 **Enterprise Education** is a key element of the non-statutory work-related 14-19 learning framework, aiming to encourage young people to be more enterprising. Enterprise education consists of enterprise capability, supported by financial capability and economic and business understanding. Enterprise capability is the ability to handle uncertainty and respond positively to change, to create and implement new ideas and ways of doing things, to make reasonable risk/reward assessments and act upon them in one's personal working life. It can be described as: innovation, risk-management, a "can-do" attitude and the drive to make ideas happen.



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- 4.4.8 **New Qualifications in Personal Finance** - Schools are currently being encouraged by the Qualifications and Curriculum Authority (QCA) to offer teenagers aged between 14 and 16 a new qualification aimed at improving levels of financial literacy among young people. These are the Institute of Financial Services Level 1 **Foundation Certificate in Personal Finance** (FCPF) and Level 2 **Intermediate Certificate in Personal Finance** (ICPF). Both of these new qualifications are accredited by the QCA and appear in the National Qualifications Framework. The qualifications aim to address the poor levels of financial capability in the UK at grass roots level, and equip students with a good understanding of basic money management in order to help them make confident and well informed decisions later in life. Essential topics such as debt, loans, credit cards and budgeting are covered. The courses were piloted from September 2005 and will be available to all UK schools and colleges from September 2006.
- 4.4.9 **The Take-up and Effectiveness of Financial Education in Schools** is influenced by the fact that it is a non-statutory subject. This means provision can depend on the outlook of individual schools, how highly staff prioritise financial education, and the confidence of teachers. It also means it is not part of the formal inspection process. Some people think accreditation would increase the profile of financial education. Others are worried that pupil take-up would reduce if they were free to choose whether or not to study the subject. The DfES White Paper indicates that the Government wants to improve the profile of financial education. QCA has been asked, as part of the wider review of GCSE mathematics, to consider including financial capability more explicitly in the mathematics curriculum. We do not have separate figures for Birmingham but according to research carried out by the Financial Services Authority:
- 69% of secondary schools nationally teach 5 out of 8 of the relevant topics in the DfES guidance on financial capability.
 - Less than half have a policy on personal finance education.
 - Over 40% of young people perceived school as providing a "poor or very poor" coverage of managing money, whereas only a quarter rated the coverage as "good or very good".
- 4.4.10 A recent report on financial education for the Department of Work and Pensions proposes that the Government should strengthen the guidelines, framework and incentives for enhancing take up of financial education through PSHE and seek opportunities to embed financial education in curriculum projects.



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4.5 Ensuring an Efficient Justice System

- 4.5.1 The Department of Constitutional Affairs has responsibility for the **Community Legal Service** (CLS) and the administration of the courts.
- 4.5.2 The department oversees the court procedure and administrative support under which debts are adjudged in the court and the mechanisms for their enforcement. This means the formal procedures for debt relief such as bankruptcy, Individual Voluntary Arrangements (IVAs) and Administration Orders (AOs) as well as overseeing the expansion of Alternative Dispute Resolution.
- 4.5.3 The Enterprise Act 2002 introduced changes to bankruptcy in that from 1st April 2004 most bankruptcy charges can be discharged within 12 months rather than 2-3 years.
- 4.5.4 The official insolvency statistics for individuals comprise bankruptcy orders and IVAs under the Insolvency Act 1986. A bankruptcy order is made when the Court is satisfied that there is no prospect of the debt being paid whereas IVAs enable debtors to come to an agreement with their creditors.
- 4.5.5 The CLS was established by the Access to Justice Act 1999. This describes the CLS not as a single body or organisation but in terms of its purpose: principally to promote the availability of legal services – information, advice and representation – in civil law.
- 4.5.6 **The Legal Services Commission** (LSC) is a commissioner of legal advice services, not a provider. It contracts with service providers that fulfil the requirements of its scheme. All contracted suppliers must hold the LSC Specialist Quality Mark before a contract can be awarded.
- 4.5.7 **Providers are Collectively Referred to As the Community Legal Service** (CLS) but this definition also encompasses the wider advice and information sector as potential referrers to the scheme. The LSC has the duty of developing and maintaining the CLS. However, the CLS potentially includes all those who fund, provide or facilitate civil legal and advice services.
- 4.5.8 Key stakeholders in the CLS therefore include Local Authorities and Central Government departments, the solicitor and advice sectors, as well of course as clients – those who actually receive the services. It is a central theme that all of these stakeholders working together can achieve better results than working in isolation.



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- 4.5.9 **The Core Objective** in promoting the availability of legal services through the CLS and in the LSC directly funding such help, is to protect and promote people's rights. In particular, the right to receive a fair hearing for example in mental health and public law children cases, to help resolve private law disputes such as family and clinical negligence cases and to address problems such as those relating to debt, welfare benefits and housing, which contribute to social exclusion, and thereby helping to combat it.
- 4.5.10 Many people that the CLS helps are poor (and so unable to pay privately for access to legal services), socially excluded and dependent on help provided by other government and Local Authority agencies.
- 4.5.11 These client groups and areas of law have been the focus in developing the CLS, and also form the primary focus of work with other CLS stakeholders.

4.6 Dealing with Household Bills

- 4.6.1 **Office of Communications (OFCOM)** require all telecoms providers to have debt management and disconnection procedures that are "proportionate and not unduly discriminatory".
- 4.6.2 **Office of Gas and Electricity Markets (OFGEM)** has developed good practice guidelines with suppliers on debt prevention and has issued Debt and Disconnection Guidelines in 2003. It has also enabled poorer customers with less than £100 debt to switch supplier, with the debt reassigned and has promoted and supported a three year Factor Four pilot through a credit union in Birmingham which involves the provision of money advice and help to reduce bills through energy efficiency measures.
- 4.6.3 **Customer Profiling and Segmentation** – The evidence presented on behalf of Severn Trent Water described how the external climate for utilities has become more difficult in recent years. Since 1999 when domestic disconnection was banned, Severn Trent Water has re-visited its processes. Due to the ban on domestic disconnection, the water industry is only left with the threat of court action. It has moved to a sophisticated approach to its customer base using research and benchmarking, and has found that customer profiling and segmentation is the key to many problems. They have used segmentation of customers into appropriate groups and tailored their recovery methods accordingly.



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- 4.6.4 **Can't Pay / Won't Pay** – The distinction is complex and there is no standard definition. Severn Trent Water and the Water Industry spend considerable sums every year on debt management and have a lot of data which shows that approximately 2% of customers fall into the “won't pay” category. The availability of this information allows them to tailor their recovery package accordingly. In general the problem is not with family units, but with single adults, both male and female and 51% of customers in debt are in tenanted accommodation.
- 4.6.5 **In Dealing With the “Can't Pay” Customers** the Water Industry:
- Make it clear that they will accept a spread of payments which can be as little as customers can afford and can be paid weekly.
 - Make customers aware that water charges can be deducted from some benefits, principally Income Support and Job Seekers Allowance, and that small amounts will be accepted.
 - Assist by making sure customers have clear and accurate bills, that the methods of payment are easily understood and by making payments as easy as possible.
 - Severn Trent have set up a charitable trust, into which they put approximately £3 million per annum, which works with the Citizens Advice Bureau who can refer some people directly to the trust. Extreme cases are referred directly by Severn Trent to the charitable trust.
- 4.6.6 **Potential Increased Partnership Working** – Until 1990 the Council had acted as an agent for Severn Trent through rent collection and a number of Local Authorities still did this for a commission. There still remain various areas where joint working would be beneficial, for example, in the area of void management to try to identify the re-occupation of properties and also in the area of customer segmentation. Severn Trent Water expressed an interest and willingness to work with the Council on a local model of partnership working, such as the **“Debt and Money Advice Partnership Forum”** [referred to in Section 6.5.20] to facilitate such work.
- 4.6.7 **National Levy to Fund Debt Advice** – The possibility of a national levy on utility companies and other bodies who profit from transactions which can leave people in debt, to contribute to the funding of debt advice services, was raised with both the representative from Severn Trent Water and with the representative from the Consumer Credit Association. A model along the lines of the Consumer Credit Counselling Service which is funded by creditors, could be used. This would increase the availability of free advice and prevent people from going to fee charging debt management agencies. It was noted that members



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of the Consumer Credit Association already contribute towards funding the Consumer Credit Counselling Service. It was cautioned that a voluntary agreement would be unlikely to work, as energy companies still have the option of disconnection open to them, but it was acknowledged that a small national levy to fund debt advice could be a possibility, but that in order to work, it would need to be a statutory levy, universally applied.

4.6.8 The following main points were made in the course of the evidence given on behalf of the **Consumer Credit Association**:

- **Niche Market** - Home credit provides financial facilities for a very specific market. Customers are traditionally blue-collar workers, unemployed, living in Local Authority rented accommodation or disabled.
- **Lending Practices** - Customers not only fill in an application form but are also visited in person. The business relationship is closely tailored to the individual's needs and provides a highly personalised and flexible product to enable customers to manage their finances when stressed.
- **Over-indebtedness** - In spite of the image that home credit is a huge cause of debt, National Debtline found that the sector did not warrant its own category for debt (a rate of 2.5% was required to warrant a category).
- **Recovery Practices** - The relationship with the customer is a strength and representatives know immediately of any change in circumstances, and if necessary the debt can be rescheduled and the term extended with no extra charges. Where rescheduling of payments fails, court action is taken where appropriate. Customers are also referred to the Consumer Credit Counselling Service where appropriate and are advised to avoid fee-charging services.

4.7 Providing Advice

4.7.1 **The Community Legal Service Direct Advice Line** has been available since July 2004. It provides specialist legal advice in debt, welfare benefits and education.



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- 4.7.2 **Eligibility** – As a general principle, government funded advice is provided via the Legal Services Commission which is limited by a means test covering income and capital (including property). In a similar way to the eligibility criteria which apply to residential care homes, whereby capital in excess of £16,000 will generally render a client ineligible for publicly funded care, the eligibility criteria for publicly funded debt advice is limited by a means test. Generally those on jobseekers allowance or income support are eligible. Otherwise capital over £8,000 or disposable income over £632 will generally render a client ineligible. This has led to inequity in the development of an almost two tier system where those on lower incomes will be helped but those on middle incomes or most homeowners will be ineligible for government funded advice.
- 4.7.3 **Availability of Trained Advice Workers to meet Demand** – In the course of the evidence which was presented to the Committee on behalf of the Legal Services Commission, concern was expressed that there were currently insufficient trained advice workers to meet either the current demand or the likely future demand for trained advice workers.
- 4.7.4 **Nationally Recognised Approved Training Scheme** – Training schemes do exist at the moment but there is no standardisation and no recognised qualification. It was suggested that the Government might fund an initiative to create a nationally recognised approved training scheme for caseworkers, with external accreditation which would provide a recognised qualification.
- The possibility of initially using Financial Inclusion Funding, which will only last for two years, for the training under such a scheme was raised.
 - Ongoing funding for such a training scheme could be provided by the National Levy to fund debt advice [referred to in Section 4.6.7] once the period covered by the Financial Inclusion Funding has expired.
- 4.7.5 **Ongoing Funding for Debt Advice** - The Money Advice Trust is currently working with trade associations and Government to develop a funding model for the debt advice sector. Government will be looking to all those who profit from transactions which can leave people in debt to play their role in funding debt advice.



4.8 Ensuring Responsible Lending

- 4.8.1 **The Consumer Credit Act 1974** (the CCA) is the main Act designed to regulate consumer credit in the UK. The Government has long recognised that the CCA is in need of reform. The CCA has been criticised for not providing sufficient protection for consumers, restricting rights of redress, and for failing to provide regulators with sufficient powers to tackle improper or unfair conduct of business in a burgeoning consumer credit industry.
- 4.8.2 The Government is seeking to address these failings through changes to both primary and secondary legislation. These legislative changes spring from a three-year review of the UK's consumer credit laws, which was characterised by extensive consultations and concluded with the publication of a DTI White Paper, ***"Fairer, Clear and Competitive – The Consumer Credit Market in the 21st Century"*** in December 2003.
- 4.8.3 Otherwise known as the **Consumer Credit White Paper**, this sets out the Government's vision to create an efficient, fair and free consumer credit market where consumers are empowered to make fully informed decisions and lenders are able to compete on a fair basis.
- 4.8.4 This Paper aims to:
- **Establish a transparent market** to enable consumers to make better informed decisions. This includes changing advertising regulations to make credit advertisements clearer, providing customers with clearer information before and after agreements are signed, raising awareness of early settlement charges and changing the law to prevent consumers from being penalised if they wish to repay early.
 - **Create a Fairer Framework** which will also stamp out irresponsible and unfair lending practices. This includes strengthening the credit licensing regime to target rogue practices and provide enforcers with adequate powers, and changing the law to end unfair selling practices (replacing the limited "extortionate" test with a wider "unfairness" test).
 - **Minimise Over-indebtedness** and improve financial inclusion by ensuring low-income consumers have access to affordable credit. This section includes the enforcement scheme to tackle illegal moneylenders – the Loan Shark Project [See Section 6.2]
- 4.8.5 **The Consumer Credit (Amendment) Bill** is currently progressing through Parliament and is expected to become law by the end of 2006.
- 4.8.6 The aims of the Bill, which seeks to reform (not replace) the CCA are:



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- **To enhance consumer rights and redress** by replacing the current “extortionate credit” test with a new broader “unfair relationships” test, based on unfairness to the consumer. The Bill will also introduce an **Alternative Dispute Resolution Service** (ADR) to enable borrowers to launch fast-track complaints against lenders. The ADR will come into force in April 2006 under the remit of the Financial Ombudsman Service. This will protect consumers from extortionate high cost loan and credit card deals and allow people to make a speedy complaint if a loan product has been mis-sold.
- **To strengthen the regulation of consumer credit business** by creating a more targeted credit licensing regime and equipping the Office of Fair Trading (OFT) with new powers to take action against rogue lenders, including financial penalties. The OFT will have powers to make more rigorous checks on people who apply for a consumer credit licence. They will have greater powers to take action against rogue companies and impose financial penalties and will have powers to fine banks and credit card companies up to £50,000.
- **To extend regulation to all types of consumer credit and hire agreements** by abolishing the financial limit (subject to limited exemptions) that currently restricts protection under the CCA to loans of £25,000 or less, to reflect the greater sums that people are borrowing.
- **To provide debtors with new post-contractual information.**

4.8.7 Following on from the White Paper of 2003, **Tackling Over-Indebtedness – Action Plan 2004** was produced which fulfils the commitment in the White Paper to draw up a strategy on over-indebtedness. As part of this strategy, two pilot schemes, sometimes referred to as “**The Loan Shark Projects**” were established in Birmingham and Glasgow. The pilot scheme in Birmingham has the aim of strengthening Birmingham’s Trading Standards powers to bring more prosecutions of illegal money lenders and providing support structures for their victims. A letter was sent to the Minister for Employment Relations and Consumer Affairs, Gerry Sutcliffe MP, about the Consumer Credit Bill and the reply received from the Minister expresses his appreciation for the work done by Birmingham Trading Standards on the Loan Shark Pilot Project. The letter is attached at Appendix 4. The Birmingham Loan Shark Project is described in more detail in Section 6.2.



5 Findings – The Voluntary and Community Sector

5.1 Money Advice Services

- 5.1.1 The trend in recent years for publicly funded legal advice in England and Wales across all categories has been downwards. The number of contracts in the private sector in debt and welfare benefits categories has also diminished. However, there has been a large increase in the numbers of not for profit organisations undertaking this work. Because of this, the work carried out by the voluntary and community sector in the area of money advice services is increasingly significant.
- 5.1.2 Money advice is currently delivered through a range of channels:
- **telephone advice**, as provided by National Debtline, set up by the Government to assist people in financial trouble or the Consumer Credit Counselling Service
 - **face-to-face advice**, as provided by Citizens Advice Bureaux, local authorities or other independent community advice groups
 - **“self-help” methods**, for example generic money advice materials provided by advice agencies
 - **non fee or fee-charging debt management companies**
 - **other financial professionals** such as bank managers or independent advisors.
- 5.1.3 Action is needed to address shortfalls in provision and the government is seeking to extend face-to-face money advice targeting areas of high financial exclusion and groups which traditional services find hard to reach. Further, whilst national provision through services such as **National Debtline** is proving to be effective, there is recent evidence (January 2006) that the service is being overwhelmed by record numbers of callers in the aftermath of Christmas. It is on course for its busiest month since its foundation in 1987. The CAB and the CCCS also report record numbers of call levels. The CCCS says it is receiving “several hundred” more calls a day than this time last year.



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- 5.1.4 Local service providers therefore have an important role to play in the provision of debt advice both to help to address shortfalls in provision and also because local knowledge and closeness of contact can often make a world of difference and allow the client to discuss issues on a face-to-face basis.

5.2 Credit Unions

- 5.2.1 **Credit Unions are Financial Co-operatives** owned and controlled by their members and regulated by the Financial Services Authority. They offer savings and good value loans to their members. Each Credit Union has a "common bond" of membership which determines who can join it. The common bond may be for people living or working in the same area, people working for the same employer or people who belong to the same association, such as a church or trade union. Regular saving by members creates a common pool of money which is used to provide low interest loans when members need them.
- 5.2.2 **Interest Rates** - They are restricted by law to providing loans at an interest rate of around 1% a month (around 12.7% per annum APR). Many operate in the poorest communities and can be vital in connecting people to mainstream financial opportunity.
- 5.2.3 The Government's financial inclusion strategy is seeking to extend credit union provision as a means of offering local people affordable credit. The need to allow credit unions to levy higher interest rates was raised and it is understood that the Government is considering recommending raising the statutory ceiling on credit union loan rates in order to guarantee their sustainability in the current lending market, whilst still offering poorer families a cheaper alternative.
- 5.2.4 Adequately supported, credit unions represent a means of providing affordable loans to meet the needs of people who have difficulty accessing mainstream borrowing facilities. They offer flexible savings schemes which pay a steady dividend, encourage savings as a way out of long term financial difficulty and provide additional services such as low cost insurance, funeral plans and help with money management.
- 5.2.5 **Ladywood Credit Union** has recognised the need to provide services in addition to providing affordable loans and has diversified to provide money management and debt advice services to assist clients in generating disposable income. The services offered include BACS/Direct payments, savings, loans, a bill payment scheme, contingency loans as well as money advice and debt counselling.



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5.2.6 The opportunity for Ladywood Credit Union to become self sustaining and to bring new services to more communities has also lead to the merger of inner city credit unions thereby creating "Circul-8", the Birmingham Inner Circle Community Credit Union as a community banking model for inner Birmingham [see 5.4.2 below].

5.2.7 **Birmingham Credit Union Development Agency (BCUDA)** was established in 1987 following an identified need for support by local credit unions. Research undertaken by the Economic Development Department indicated that many people living in inner-city areas were being excluded from traditional banking services. Many local branches of banks had closed and people had problems in both saving and borrowing money. Credit Unions were seen as a way of transforming the financial situation of many local people and BCUDA was established as a dedicated resource to support the establishment and development of credit unions in the City.

- BCUDA receives ongoing significant support (£155,000 in 2004/5) from the City Council via its economic development portfolio.
- It supports a network of 28 registered credit unions, most of which are community based.
- It is also an active contributor to the development of the Birmingham Community Banking Partnership.

5.2.8 **Birmingham Community Banking Partnership** has 28 credit unions, over 22,000 members and £20 million in assets and as such Birmingham represents the largest concentration of credit union activity in England and Wales. Birmingham credit unions have developed a fully integrated package to tackle social exclusion. This approach provides low-income households with the four key "Factor4" services:

- Money and Debt Advice.
- Bill Payment and debt repayment services.
- Energy advice and assistance to claim warm front and energy efficiency grants.
- Access to affordable credit from a credit union and a community Re-Investment trust.



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5.3 Face-to-face Money Advice

- 5.3.1 **The Citizens Advice Bureau** is the largest independent network of free advice centres in the UK and in 2004/05 it dealt with over 1.1 million debt related issues. There is an extensive network of Bureaux in Birmingham with six centres providing specialist money advice. Birmingham City Council provides up to £1.1 million in funding. The Citizens Advice Service helps people to resolve their money, legal and other problems by providing free confidential and impartial information and advice. Each Citizens Advice Bureau is a registered charity and the majority of advisors are trained volunteers.
- 5.3.2 **Birmingham Citizens Advice Bureau** is funded partly by the Legal Services Commission, by Primary Care Trusts and, as mentioned previously, also receives over £1.1 m in funding from Birmingham City Council. They deal with six LSC contracts covering over 6,600 hours of provision. They operate in over 50 GP surgeries, work with Mental Health Teams to support clients, with the County Court Welfare Scheme to stop house repossessions and work in partnership with Trading Standards in the Consumer Advice Centre. They have numerous community and Council links, for example through the Community Legal Services Partnership, and also work with local Members and District Officers. They are also connected, through their National Body, to most Government Departments but have very close links with the DTI, DCA, Department of Health and the ODPM.
- 5.3.3 Reference was made to the fact, that difficulties with communication can sometimes hinder efficient joint working with BCC. Contact Birmingham is extremely busy and even when the agency manages to get an answer, they often need additional information which is not available via the general number.
- 5.3.4 **Dedicated Telephone Helpline** - In order to improve communications a dedicated telephone helpline, staffed by specialist advisors to deal with queries for specified debt advice agencies such as Birmingham Citizens Advice Bureau and Birmingham Settlement, was suggested. This would improve communications and facilitate access to the additional information which these agencies need.
- 5.3.5 It was also suggested that court action for recovery of rent or council tax arrears should not be taken where there is a claim for housing benefit or council tax benefit outstanding. The Debt Advice Team and the Benefits Service confirmed that it is not current BCC policy to take legal action in such cases and that any such cases which were still coming through the system were likely to be largely historic. Evidence in support of this was presented by the Benefit Service to the effect that benefit recovery stop "flags" are posted to rent accounts and council tax accounts to prevent any recovery action while benefit is being determined.



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- 5.3.6 **Means Tested Benefits and the Use of Bailiffs** - The Council policy in relation to the use of bailiffs, which was introduced in January 2005, whereby bailiffs are used to recover Council Tax arrears even where the debtor is in receipt of means tested benefit i.e. either Job Seekers Allowance or Income Support, was discussed. The evidence presented by debt advice agencies about the use of bailiffs referred to problems caused by the use of bailiffs for some debtors and conflicted with the evidence presented by Revenues [See Section 6.5.23]. It was suggested that the possibility of using attachment of earnings or direct deductions from benefits or regular payments made through debt advice agencies could be preferable for many debtors. The Committee stressed the importance of early intervention wherever possible when dealing with problem debt and were strongly of the opinion that every effort should be made to identify individuals and households where the sole income is derived from means tested benefits and that deduction from benefit should normally be used in dealing with these households. In many cases, this would obviate the necessity for the use of bailiffs, which should only be used as a last resort.
- 5.3.7 **Birmingham Settlement and Money Advice Services** is a voluntary organisation, providing free specialist and general face-to-face money advice and debt counselling services covering the whole of Birmingham and reaching all sectors of the community. The Community Money Advice Centre offers a weekly drop in surgery on debt advice and a full casework service is available to advise on prioritising debts, representing clients in court and resolving benefit problems. Expert advice is also given over the 'phone via the National Debtline (which is funded by one of the major high street banks). The National Money Advice Training Unit trains staff from both private and public agencies with the aim of increasing the quality and accessibility of money advice services.
- 5.3.8 During the 1980s they developed the key principles for debt counselling and through their National Money Advice Training Unit have passed these on to advisors in public and private sector agencies, with the Settlement model being adopted as the "industry standard". They provide a vital service for people struggling with unmanageable debt for whom self help is not appropriate, for example people with poor numeracy and literacy skills, people who do not speak or write English and people with mental health problems or learning difficulties.
- 5.3.9 There are numerous other voluntary and community organisations throughout Birmingham providing debt advice and education to local people – some to specific black and ethnic minority communities. These include the Asian Resource Centre, the Women's Advice and Information Centre and the Afro-Caribbean Resource Centre.



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5.4 Recognising Good Practice

5.4.1 Many areas of good practice were highlighted in the evidence presented on behalf of the voluntary and community sector.

5.4.2 Partnership working

- **Ladywood Credit Union and Sure Start** - The partnership working arrangements operated by Ladywood Credit Union working in conjunction with Sure Start, whereby debt advice is offered during home visits by Sure Start workers with clients on the Sure Start programme, was acknowledged as a successful model of good practice.
- **"Circul-8" The Birmingham Inner City Credit Union** - There are currently proposals to change the structure of credit unions in the city, which will ultimately lead to fewer but larger credit unions being formed. The outcome of further mergers being considered is likely to be the formation of fewer larger credit unions which will give them greater potential to operate more like a business. Circul-8 is an example of the result of such a merger and provides a community banking model for inner Birmingham. It has given the opportunity to become self sustaining and to bring new services to more communities. "Circul-8" is an independent financial co-operative owned and managed by its members, of which Ladywood Credit Union is a member. It is owned and run by its members who elect the Board and committees every year at the AGM. Anyone living or working in the inner city or city centre can join.
- **Ladywood Credit Union** offers basic financial literacy programmes for schools with a pilot project being undertaken in junior schools as part of citizenship work in conjunction with the Connexions service.
- **Birmingham Settlement** also demonstrates good partnership working practice. They have key links with a wide range of other community organisations and receive referrals from all organisations who provide debt advice. They have a key link to and a good working relationship with the BCC Debt Advice Team and key links with government departments including the Learning and Skills Council and Primary Care Trusts.



5.5 Other Key Organisations

- 5.5.1 Other key elements in this sector include **Community Development Finance Institutions** (CDFIs) which also provide lending and investment facilities at competitive rates in disadvantaged communities. The first tranche in the UK are referred to as Community Reinvestment Trusts and the majority of activity is focused on small business loans, including social enterprises, but personal loans are also available.
- 5.5.2 Finally, there is a range of other organisations within this sector that can also contribute to promoting financial capability, advice and affordable credit. These may be residents' organisations representing communities or organisations representing or meeting the needs of specific community interest or client groups. These would include groups such as housing associations.
- 5.5.3 **Registered Social Landlords – Prime Focus** is a Registered Social Landlord (RSL) with 11,000 properties in total and as such is one of the largest RSLs in the Midlands.
- 5.5.4 **Profile of Tenants** - The profile of tenants in arrears presented on behalf of Prime Focus reinforced some of the evidence presented by Severn Trent Water, in terms of there being a large number of single people in debt.
- Approximately 85% of tenants were in receipt of full or partial Housing Benefit. Tenants often slipped into arrears when Housing Benefit was stopped or not renewed for whatever reason.
 - Prime Focus promote the use of direct debit as their preferred payment method. The option to pay by credit card is available to all customers but in practice few tenants pay by credit/debit card. The vast majority (85%) pay at Post Offices.
- 5.5.5 **Tenants in Debt** – Prime Focus is actively seeking to help tenants in debt by:
- The appointment of a new Welfare Benefit Officer to provide a comprehensive welfare benefit and debt advice service internally.
 - Offering a financial assessment when an offer of a property is made, so that the tenant can make an informed decision as to whether they can afford the property, or what kind of financial help they may need.



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- The Revenue Support Team now focuses primarily on financial issues during the six week “post-tenancy” visit. This monitoring means that any absence of payments is now picked up more quickly. Vulnerable tenants are referred to the Tenancy Support Team and assigned a Project Worker.
- Prime Focus continue to liaise with external debt advisory services, making referrals to agencies such as Shelter and CAB, as some tenants prefer not to discuss their problems with their landlord.

5.5.6 **Partnership Working** – Prime Focus works successfully with Birmingham City Council as a member of the Birmingham Social Housing Partnership, with the Community Advocacy Support and Advice Unit, with BMAG, with the Ladywood Neighbourhood Office and with the Debt Advice Team.

5.5.7 **Eviction Levels** – It was noted that eviction levels within the housing sector generally, and in relation to the figures presented by Prime Focus, appeared to be high. It was agreed that more work on customer profiling/segmentation within the industry to differentiate between the “can’t pay/won’t pay” tenants, would help in this respect. This is one area where participation in a **Debt and Money Advice Partnership Forum**, along the lines suggested in Section 6.5.20, would facilitate sharing of information and increased communication, to the benefit of the tenants involved.

5.5.8 **Communications and Information Sharing** – When asked how the relationship with the City Council could be further improved, communications and information sharing were mentioned as a possible area for improvement. Although all large RSLs have dedicated access to Council Benefits Service Officers as part of the liaison meetings, RSLs have agreed to eliminate the pressure on the Benefit Service by using a typed schedule which is forwarded to the Council fortnightly. The relationship with the City Council could be further improved by easier communications and the provision of a **dedicated telephone helpline**, as suggested by Birmingham CAB and supported by Birmingham Settlement, [See 5.3.4] would facilitate easier access to and sharing of information.

5.5.9 **Data Protection** – It was also acknowledged that there were data protection issues which hindered the sharing of information between Council departments, which need to be addressed. [See 6.5.24]



6 Findings – The Role of Birmingham City Council

6.1 Provision of Advice and Support

- 6.1.1 There are some very specific measures that a Local Authority can take in tackling the problem of debt within its communities.
- 6.1.2 In terms of advice and support the City Council needs to :
- support local communities against the operation of loan sharks by arranging for advice, promoting alternative forms of lending and pursuing appropriate enforcement;
 - actively assess the local needs for advice and to provide leadership in ensuring sufficient measures to address this need, especially where marginalised and vulnerable groups are involved;
 - support “holistic” advice and partnership working between appropriate agencies and specialist advice services for the benefit of customers;
 - ensure effective corporate debt recovery strategies are in place, which includes signposting to money advice services for people who owe arrears to the Council.

6.2 The Loan Shark Project

- 6.2.1 Trading Standards play a wide role in enforcing consumer credit legislation. In terms of criminal enforcement, the main role of Trading Standards relates to the Consumer Credit Licensing regime, which is one of providing information to the OFT about the fitness of traders within Birmingham to hold a consumer credit licence. The second main aspect of their role is to ensure that businesses that advertise the availability of goods or services, and certain financial services, do so in compliance with the Consumer Credit (Advertisements) Regulations 2004. This principally involves advising businesses on the complexities of, and compliance with, the law.



Problem Debt

- 6.2.2 **The Birmingham Illegal Money Lending Team** (IMLT - also sometimes referred to as **the Loan Shark Project**), is a two-year pilot supported through the DTI aimed at strengthening the ability of Birmingham's Trading Standards to bring more prosecutions of illegal moneylenders and provide support structures for their victims, has been previously referred to [See Section 4.8.7].
- 6.2.3 **Background** - The IMLT was established in September 2004 and it is one of only two in Great Britain, the other pilot area being Glasgow.
- 6.2.4 The remit of the team is to investigate illegal money lending activity and establish if a problem exists and, if so, bring justice to those persons carrying out this activity.
- 6.2.5 The pilot scheme is based in Birmingham but covers a geographical area of 14 local authorities including the West Midlands, Warwickshire, Shropshire, Herefordshire, Worcestershire, Stoke, Staffordshire and Telford.
- 6.2.6 **Loan Sharks** are people who lend money and charge extortionate rates of interest. They are not licensed as they should be, and sometimes use threats of violence to intimidate those who cannot make repayments on time. They prey on vulnerable people, single parents, people with addictions and people who cannot, or do not think they can get credit elsewhere.
- 6.2.7 The team works with other bodies such as the Police, voluntary agencies and debt advice agencies to provide support to those who need it. The team also investigates and prosecutes Loan Sharks.
- 6.2.8 **Aims** - The project aims to strengthen Birmingham's Trading Standards powers to bring more prosecutions of illegal money lenders and to provide support structures for their victims.
- 6.2.9 **Work to Date**
- 62 targets have been identified since the pilot was launched.
 - 9 defendants have already been reported for illegal money lending and associated criminal offences.
 - 6 investigations are prioritised and are being progressed to ensure efficient use of resources available.
 - 20 warrants have been executed in relation to investigations, both on-going and concluded.
 - To date there has been 1 successful prosecution where the defendant was sentenced to 3 years 9 months, an injunction and a Proceeds of Crime hearing.



Problem Debt

- 6.2.10 **The Loan Shark Team** consists of 8 operational officers and 1 administrative support officer who are employed by Birmingham City Council but who cover the West Midlands Region as a whole. Officers have been carefully selected for their skills and backgrounds – they are trained in covert observation and surveillance and criminal investigative techniques. Each officer is authorised for the purposes of the Consumer Credit Act and other Trading Standards legislation which means that they have the same powers as the Police, with the exception of powers of arrest. Officers have the power to enter premises and seize and detain evidence without Police presence. However, Trading Standards Officers usually prefer to have a uniformed Police Officer present to avoid a breach of the peace. The team have built strong ties with the Police and other enforcement agencies and will also be working with the Housing Department with the aim of relocating victims to other areas. The IMLT will also utilise the full powers of the anti-social behaviour legislation.
- 6.2.11 **Success of the Project** – The IMLT has had a clear impact on identifying cases of illegal money lending, instituting proceedings against illegal moneylenders, and securing prosecutions. A husband and wife team are currently facing jail after pleading guilty to unlicensed money lending in the latest successful case. Where illegal money lending activities have been curtailed and/or illegal moneylenders have been removed, the team has worked diligently to ensure that former victims receive appropriate debt or money advice and signposting to other sources of credit and agencies. This has had an impact on the quality of life of the victims and in some cases on the entire community in which the moneylender formerly operated. It is too early at this stage to determine whether these victims will revert to illegal money lenders again in the future or will benefit from the advice received, but anecdotal evidence suggests that there has been success in this area, with victims turning to credit unions as a replacement in the longer term. It is also too early to determine the long term impact of the team as a whole in terms of whether strong enforcement will act as a deterrent to other illegal money lenders.
- 6.2.12 The Illegal Money Lending Team's activities are fully funded by the DTI until September 2006. The DTI are currently in the process of bidding to secure further funding to extend the pilot scheme beyond this date. It is anticipated that the outcome of the DTI's application for further funding will be known by the end of this financial year.



Problem Debt

- 6.2.13 Illegal moneylenders invariably target low-income households and the most vulnerable members of society. This can mean that their activities have disproportionate implications for the more deprived areas of the City. The Committee wish to express their strong support for the important work being done by the Illegal Money Lending Team and their hope that the DTI will succeed in securing funding to enable the team to continue their work beyond September 2006.
- 6.2.14 **The City Council's Trading Standards** service also operates a telephone advice service and a face to face service from the Consumer Advice Centre in Corporation Street. Website information indicates that consumer advice was given to 32,000 callers in the 12 months up to 31st March 2003. This service constitutes another key plank in the City Council's dealing with debt strategy.

6.3 The City Council's Debt Advice Services

- 6.3.1 **The Local Services Directorate** currently provides assistance to residents experiencing financial problems through its Neighbourhood Offices, through its dedicated Debt Advice Team and through contracts with voluntary sector advice agencies. All these services are linked through the Community Initiatives Service in the Community Services Division. The overall aim is to provide comprehensive support both to prevent debt problems and to help those who already have problems.
- 6.3.2 **Neighbourhood Offices** - The City Council's 34 Neighbourhood Offices are often the first point of contact, especially for those with rent or council tax arrears or benefit overpayments. Neighbourhood Office Advisors are all trained in debt advice work and follow the traditional debt advice process. Offices work closely with the Housing Department and Council Tax in assisting residents to address arrears problems. Both of these are priority debts and as such, Neighbourhood Office advisors will make repayment arrangements for these debts in preference to any non-priority debt. Neighbourhood Offices are also a key link because they provide a customer services function on behalf of both Housing and Council Tax. The aim is to provide a holistic service which can often be helpful in avoiding debt problems. The work in relation to multiple or severe debt problems is often limited to what may be described as "emergency work", mainly because of the time and resources required to undertake a full debt casework service. Advisors will encourage clients to be referred to other agencies for in-depth debt advice. Clients may be signposted to specialist agencies such as Birmingham Settlement, Trading Standards or the Debt Advice Team.



Problem Debt

- 6.3.3 **The Debt Advice Team** is part of the Community Advice and Information Service which is made up of a number of teams whose primary objective is to maximize income for residents through the identification of any unclaimed benefit and in addition to ensure a full advice and casework service is available for those experiencing problems with debt. The Debt Advice Team works in close partnership with Neighbourhood Offices, who are experts in dealing with emergency debt issues, and many referrals come through the Neighbourhood Office System, in addition to referrals from the Housing Department. Referrals are simple in that one call can be made to the dedicated helpline where trained advisors accept the referral and arrange for an appointment.
- 6.3.4 **The Role of the Debt Advice Team** - The Debt Advice Team is primarily financed by Central Government through Supporting People funding. Supporting People services are intended to provide housing related support to vulnerable people to ensure that they are able to maintain their own homes. A major reason for people to struggle with their current accommodation is debt.
- 6.3.5 The majority of clients are Local Authority tenants actively referred from the Housing Department but, as described previously, referrals can be made from Neighbourhood Offices and other agencies such as the Citizens Advice Bureau.
- 6.3.6 Experienced, independent Debt Advisors assist these clients in the development of realistic and sensible debt repayment programmes. Effective debt advice aimed at sustainable financial management and promoting empowerment and responsibility for citizens starts from the point of establishing manageable repayment plans. This is sometimes at odds with services which have rigid amounts as the basis for their recovery strategies.
- 6.3.7 **Maximising Income** primarily through the identification of both in and out of work benefits, is a major step in the debt advice process. Advisors are trained to assess the situation, to provide benefit checks and hence maximise any available income and to check liability and negotiate with creditors on the client's behalf. Further to this, they empower and enable clients to take control of their own finances in the future. This is undertaken through the distribution of an exit pack detailing the steps that should be taken should a debt problem re-occur.
- 6.3.8 **Charitable Organisations** provide another avenue for maximising income through charitable grants. To date, Debt Advisors have managed to secure over £83,000 from the Severn Trent Charitable Trust towards payments of water bills and other items and have raised over £65,000 from other charities.
- 6.3.9 **Birmingham City Council's Neighbourhood Office** network provides services that link the Council's income collection responsibilities (particularly for rent and council tax) to expert advice on income maximisation and money advice.



Problem Debt

- 6.3.10 **The Housing Department Tenancy Support Team** provides support to new tenants in partnership with the Neighbourhood Advice and Information Service aimed at supporting new, vulnerable tenants, particularly those that would be at risk of losing their tenancies through problems with basic financial management.
- 6.3.11 **Payment Arrangements in Respect of Council Tax Arrears** - The Debt Advice Team noted that links with housing tenants in arrears tend to be more personalised and flexible than those in Council Tax recovery. While the numbers involved in Council Tax recovery make a similar approach difficult, we need to explore how we can move in this direction. It was suggested that it would be useful if the Debt Advice Team could automatically make realistic payment arrangements in respect of Council Tax arrears, as well as in respect of rent arrears, as they are currently able to do. The Committee were pleased to hear that subsequent to the issue being raised during the course of the evidence gathering, a pilot scheme has been put in place allowing Debt Advice staff to make repayment arrangements in respect of the collection of Council Tax arrears. The Committee welcome this development, but would like to see this taken a step further, by recommending that consideration should be given to extending the pilot scheme to staff in Neighbourhood Offices, to allow staff in Neighbourhood Offices to make payment arrangements in relation to the collection of Council Tax arrears, within clearly defined guidelines.

6.4 Partnership Working and Support for Voluntary Sector Advice Agencies

- 6.4.1 **The Community Initiatives Service** provides funding for voluntary advice services totalling £1.4 million per year. Most of this funding goes to generalist advice services and is not specifically for debt advice. Two of the agencies funded, however, do play a major role in debt advice provision – The Citizens Advice Bureau and Birmingham Settlement.
- 6.4.2 There is an extensive network of **Citizens Advice Bureaux** in Birmingham with six centres providing specialist money advice. Birmingham City Council provides up to £1.1 million in funding. [See 5.3.1]
- 6.4.3 **Birmingham Citizens Advice Bureau** is funded partly by the Legal Services Commission, by Primary Care Trusts and also receives over £1.1 m in funding from BCC. [See 5.3.2]



6.5 Effective Corporate Debt Recovery Strategies

6.5.1 **Council Tax Collection Policies** – Council tax is considered to be a “**priority debt**” for those with multiple debts, as the legislation provides for committal to prison in cases of wilful refusal or culpable neglect of payment. Evidence was presented to the Committee in relation to council tax collection policies and principles, which can be summarised as follows:

- That all relevant reliefs/exemptions/discounts are applied to the account before the bill is issued.
- That all those who are likely to be eligible for council tax benefit are strongly encouraged to apply.
- That the first expectation is that taxpayers will pay within the financial year.
- That if the taxpayer is unable to do this, they provide details of their income and expenditure so that a reasonable payment arrangement can be agreed.
- That if payment is not made voluntarily, the cheapest and most effective forms of collection are used. Attachment of earnings and deductions from income Support or Job Seekers Allowance are the cheapest and most effective collection powers.
- That the bailiffs work to a Code of Conduct which is monitored.
- Committal, Bankruptcy and Charging Orders are only possible if bailiff action has been taken first. These methods are used if there is no further alternative.
- Debts are only written off if there is no further collection method available. Reasons for write off are limited to when a taxpayer is deceased, has absconded or there are very exceptional circumstances.
- Staff are trained to deal with taxpayers as customers and are mindful of the city's anti-poverty strategy.

6.5.2 **Early Intervention** - The importance of early intervention and contact was again highlighted. Unfortunately all too often people ignore the reality of their situation, despite numerous notices issued by the city, and the fact was highlighted that many people only face up to the debt once a bailiff knocks at the door, by which time the debt has risen by the court costs and the bailiff's own charges. If debtors contact earlier, the debt is lower and a more affordable arrangement can be agreed.



Problem Debt

6.5.3 **Can't pay/Won't pay** - Differentiating between those who "won't pay" from those who "can't pay" was identified as a problem. The following were suggested as useful indicators:

- **Can't Pay** - Usually most "can't pays" will have some payment history, even if not regular contractual payments.
- Their accounts will show sporadic missed payments.
- They will juggle their debts so that they always pay one of their creditors, but not regularly.
- They will not realise the difference between priority and non-priority debts.
- They will usually be low paid and simply do not have enough income to meet regular outgoings – this is particularly seen amongst the single client group where there is no benefit entitlement.
- **Won't Pay** – Usually they will know the legal process and know how long they can avoid paying.
- Usually their money will be spent on other items which are probably non priority.
- They will usually only pay when faced with the last stage of the legal process, and usually in a lump sum.
- They will usually have a number of plausible reasons as to why they could not pay, which usually won't be their fault.

The distinction is important because there are softer collection methods which could be operated if the resources were available and it was possible to identify the people who were having difficulty paying e.g. home visiting or council tax "surgeries" in particular areas.

6.5.4 **The Benefit Service** presented evidence to the Committee and highlighted a number of structural issues built into the housing benefit system which impact on debt.



Problem Debt

- 6.5.5 **Housing Benefit System and Private Tenants** – Private tenants can be amongst the most vulnerable claimants in terms of security of tenure and poor conditions. There are a number of aspects of the housing benefit system through which they can be further disadvantaged, including the operation of **Restricted Rents**. For most private tenants the maximum level of rent used for housing benefit purposes is set by the Rent Officer Service, which is a Government body. In a large number of cases (approximately 56%) the rent is set below the contractual rent for the property. The average restriction nationally is £23 per week. Unless the claimant can persuade his or her landlord to accept a lower rent, the person is, by definition, immediately in debt. The difference has to be paid by the tenant and must come from their remaining benefit. This puts tenants under financial pressure because they are forced into either using other parts of their limited income to subsidise their rent or else falling into significant rent arrears. Individual tenants, often from vulnerable groups, are susceptible to becoming trapped in a Catch 22 situation between debt and homelessness. Whilst this issue has obvious ramifications for debt it also impacts on housing strategy and homelessness. The Committee raised the issue with Councillor Frank Coyne, as Chairman of the Housing and Urban Renewal Scrutiny Committee, which is currently looking at the problem of homelessness in the city, suggesting that this review may wish to consider the way the problem impacts on housing strategy and homelessness.
- 6.5.6 **Younger People** – In common with some other means tested benefits, people under 25 receive a lower allowance than others and often end up with lower benefit, even where they are renting a similar property to someone aged over 25. For single people who are private tenants there is a further difficulty as their maximum rent is restricted by something called the “single room rent”. People in this position have their housing benefit calculated on a rent, which would apply to someone renting a single room and sharing all other facilities, even where their standard of accommodation is better than this criteria.
- 6.5.7 **Review of Benefits to Reflect the Rising Cost of Utilities** – In the light of the fact that the cost of utilities is rising considerably above the general level of inflation, a review of the general level of benefits to reflect this rapidly rising cost of utilities would appear timely and appropriate.



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- 6.5.8 **The Local Housing Allowance (LHA)** is part of the Government's housing benefit reform agenda and was due to be implemented across the country from 2007 onwards. Approximately 17 Local Authorities are acting as pathfinders for the new scheme. The LHA currently only affects private sector tenants but plans had been drawn up to extend it to the social sector. Many Local Authorities, including Birmingham, have expressed reservations about proposals in the LHA and in particular, its feasibility beyond the private rented sector. The LHA would differ from the existing scheme in that payments of housing benefit will by and large revert to being paid direct to the claimant rather than, as happens in the majority of circumstances currently, direct to the landlord. In addition, rent levels will no longer be set in relation to the property being rented but will be based on an allowance relevant to the claimant's household size.

Further information on the future of the LHA has recently become available as part of the Government's Green Paper on Welfare Reform. It appears that the initial proposal to extend the scheme to the social sector has now been abandoned and further appraisal of the system is being undertaken before final decisions on roll out of the scheme are taken. This means that it is unlikely that this scheme will be introduced before 2008, if at all.

- 6.5.9 **Operation of Taper Reduction Rate** – The operation of taper relief determines the rate at which benefit is withdrawn. Like all means tested benefits, entitlement to housing benefit and council tax benefit involves an assessment of someone's "needs", (as expressed in allowances set by Government), against their resources. Where "needs" are greater than resources, maximum benefit is reduced on a sliding scale. For some means tested benefits, recent years has seen a reduction in the taper relief withdrawal rate. Under the Family Credit, for example the withdrawal rate was 70p in the pound; with the change to Working Families Tax Credit it was reduced to 55%; under the present day equivalent of working tax credit the taper has been further reduced to 37%. For housing benefit and council tax benefit the taper rates have remained at 65% and 20% respectively. In effect this means that people moving into work or off maximum benefit lose up to 85p in the pound in additional income.
- 6.5.10 **Housing Prevention and Enforcement Strategy** – Housing gave evidence about the changes which have been implemented in their rent collection service as a result of the introduction of the "Prevention and Enforcement Strategy" which was introduced in 2003 in order to prevent new rent arrears from accruing and to manage existing debt effectively.



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- The majority of rent teams now have two sub-teams of “prevention” and “enforcement” to ensure that as much support and advice as possible is given to tenants experiencing financial difficulty and that should this help be ignored, the enforcement team can take swift recovery action through the county court.
- The Prevention and Enforcement Strategy is based on recognised Best Practice and provides sound debt management and customer care. Best Practice is regularly shared throughout the Rent Income Excellence Network, which is part of the Housing Quality Network, and Housemark.

6.5.11 **Prevention/Early intervention** - The aim is to make early contact with tenants who fall into arrears, to make effective payment arrangements and proactively support tenants in keeping their homes and minimising their debts. To support the rent collection strategy of prevention and enforcement, the following steps are taken in respect of prevention:

- Advice is given at the start of a new tenancy regarding different methods of payment, where payments can be made, the importance of regular payments and eligibility to Housing Benefit, with support being given in making a claim.
- Four weeks after a new letting an officer conducts a welcome visit, which incorporates rent and arrears.
- All new rent accounts are closely monitored over the first twelve weeks to ensure any problems are dealt with and regular payment is established.
- Tenants are encouraged to advise Benefit Services promptly of changes to their income or family make up in order to avoid overpayments of Housing Benefit.
- Vulnerable tenants are referred to the Tenancy Support Officer, both at the beginning of a tenancy or during a tenancy.
- Tenants in financial difficulty are referred to the independent Debt Advice Service.
- Every effort is made to contact tenants who fall into arrears, to make a realistic payment arrangement.
- Regular liaison takes place with the Benefit Service on issues and specific cases to ensure that arrears due to Housing Benefit are minimised.
- Mentioning rent and arrears at every contact stage is encouraged.



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- Tenants are advised of their responsibilities should they wish to apply for Housing Benefit.
- 6.5.12 **Partnership Working** – Many partners are supporting the strategy, including the Benefit Service, the Debt Advice Service and the Tenancy Support Service.
- 6.5.13 New performance targets have been designed to drive the Prevention Strategy which are specifically to focus attention on the prevention of new debt and include making referrals to the Debt Advice Team and tracking new lettings to ensure that the rent account is clear at 12 weeks.
- 6.5.14 The results show that:-
- As a result of the new, more proactive, preventative approach to debt, the number of cases being entered into court has reduced since March 2002 because court and eviction actions are now used only as a last resort.
 - A higher percentage of cases taken to court actually result in an eviction because tenants who “won’t pay” rather than those who “can’t pay” are being taken to court and where necessary evicted.
- 6.5.15 **Rent Arrears Escalation Policy** – The main stages consist of two letters, a notice seeking possession, court and eviction and the policy is supported by visits, telephone calls, debt advice, tenancy support, repayment arrangements and “Arrears Direct” where the tenant is in receipt of income support.
- 6.5.16 **Can’t Pay/Won’t Pay** - Where all help and support has been refused by the tenant and they have demonstrated that they are a “won’t pay” rather than a “can’t pay”, then swift court action will be taken to ensure that arrears are not allowed to spiral out of control before a case appears in court.
- 6.5.17 **Analysis of Information from Northfield CBHO and Sparkbrook District** – The Committee were interested in looking further at the situation where tenants get into rent arrears and a court order is granted, to see whether there are any trends in relation to what happens to the arrears after the date of the court order. Information from two local housing offices was provided by Housing [See Appendix 3].

For a list of properties where a court order has been obtained against the tenant for arrears since 1st January 2005, the list specifies the date of the court order, the amount of rent arrears at the date of the court order and the amount of the current rent arrears or the rent arrears at the date of eviction (if applicable).



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- **Good practice** - From the figures, numerous examples of excellent practice can be seen on the first page, where the court order has been obtained when the arrears are in the region of £500 or less, and this is to be commended.
- **Lack of Debt Management** - However, the vast majority of the entries in the second half of the data show increasing balances from the date of the court order, which would raise questions about the management of these debts. Most of the balances are already over £1,000 before the court order is obtained, indeed some are over £3,000. These have then been allowed to increase further after the court order has been granted, with one being over £4,500. This would indicate problems for both the Council, in terms of recovery, and for the tenants in dealing with large amounts of rent arrears. Rather than make a recommendation on the need for greater consistency across all housing teams, it is hoped that one of the first tasks of the new Debt and Money Advice Partnership Forum, will be to address this important issue, because it remains the case that early intervention is the best way to tackle problem debt.

6.5.18 Effectiveness of Different Recovery Methods

- **The use of the Debt Advice Team** has contributed to the recovery of rent arrears. During the period from 1st April 2005 to 20th July 2005, 457 clients have signed up to the service with a rent debt and total repayment arrangements to the value of £27,500 per year have been made, in addition to the current rent being paid.
- **The Use of the Tenancy Support Officers** has also contributed to the recovery of rent arrears, but more importantly to the prevention of debt in the first instance. Since April 2003, 2,500 tenants have received tenancy support, with the current number receiving the service being 598. As many of these tenants will have been new tenants, the supporting role will include assisting in making relevant benefit applications and current rent payment arrangements which helps debt prevention.

6.5.19 Increased Joined-up and Partnership Working - It became clear in the course of the evidence presented of behalf of Revenues, the Benefit Service and Housing, that there are opportunities for a more co-ordinated approach to service provision and for a similar co-ordination of Council creditors.



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- 6.5.20 **Establishment of “Debt and Money Advice Partnership Forum”** - In order to facilitate this more co-ordinated approach, the possibility of establishing a local model of partnership working, which would both facilitate an increase in partnership working between different advice providers and also provide an opportunity for a more co-ordinated approach to service provision across the Council, was raised. The establishment by the City Council of an ongoing Debt and Money Advice Partnership Forum, in which the City Council would take a leading role, along the lines of the Community Safety Partnership, was suggested and supported by many contributors.

This could comprise representation including, but not limited to, the City Council, Legal Services, Revenues, Housing, Trading Standards, Learning & Culture and Local Services Debt Advice Services, the Citizens Advice Bureau, the Birmingham Community Banking Partnership, Birmingham Settlement, the Legal Services Commission, and also including private sector representatives.

It was suggested that Terms of Reference should be drawn up for the Partnership Forum and that progress should be reported to the Chair of the Overview and Scrutiny Committee for Local Services and Community Safety every six months for the first year, with the frequency of reporting to be reviewed after that.

- 6.5.21 **Sharing Information, improved communication, a shared vision and better understanding** would all be facilitated by the establishment of such a partnership forum, all of which could potentially be used to the benefit of the debtors involved.

For example, one of the issues repeatedly highlighted in the evidence given by Council departments, is the difficulty in differentiating between those who “can’t pay” and those who “won’t pay”. It was apparent from the evidence presented by Severn Trent Water that they have done a considerable amount of work, and have a wide range of data available in the area of customer profiling and segmentation, which could assist the City Council in differentiating between these two groups, which might enable softer collection methods to be targeted where appropriate.

The need for a consistent corporate definition of “can’t pay/won’t pay” was also highlighted.



Problem Debt

- 6.5.22 **Formal Referral Mechanism** - Enhanced working with partners could also facilitate the possibility of establishing a more formal referral mechanism to advice services for people contacting the Council. For example, in the course of the evidence presented by Revenues, reference was made to the fact that there are many people who contact the council tax office and clearly require further help with their debts. Staff advise that help can be obtained from the Citizens Advice Bureau or other money advice agencies. However, a more co-ordinated and formal referral process would help reduce the number of people who are unable to get help and re-present with problems at a later stage. A review of procedures could ensure that there are channels available so that, where appropriate, persons requiring debt advice can be referred to those voluntary sector organisations who are contracted by the Legal Services Commission to provide free legal advice.
- 6.5.23 **Use of Bailiffs** - Evidence about the effectiveness of different recovery methods was presented by Revenues and showed that, once a liability order has been granted, the use of bailiffs is the cheapest to the city, although there is a cost to the taxpayer. However, attachment of earnings and deduction from income support are used first, as they are more effective and less costly to the taxpayer. The possibility of establishing a type of “pre-bailiff” intervention to allow home visits or other contact from debt advice specialists was discussed. Revenues were satisfied that sufficient safeguards already exist in relation to the use of bailiffs. This conflicted with the evidence presented from advice providers [See 5.3.6], which referred to problems which can be caused by the use of bailiffs in some cases where debtors are in receipt of means tested benefits.
- 6.5.24 **Data Protection Act** – The Committee received evidence from a number of witnesses about the extent to which Data Protection restrictions prevent free flow of information and can hinder sensitive debt recovery and income maximisation.
- For example, during the evidence from Revenues, in a discussion on differentiating the “can’t pay” from the “won’t pay” debtors, it was accepted that there was scope for improving cross-departmental working, and the Data Protection Act was mentioned as an obstacle to cross-departmental working and sharing of information.
 - Comments were also made by the Benefit Service to the effect that benefit take-up activity was hampered by data protection requirements and reference was made to the information which could be obtained from the benefit and council tax systems for those aged over 60 and over, if it were possible to hold dates of birth.



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Restrictions on the ability of the Revenues Services to collect and to share Council Tax data was particularly emphasised. These restrictions are confirmed by advice from the Information Commissioner (August 2004), who recognises that such restrictions run counter to encouragement given more generally to public bodies to make more effective use of information. The Commissioner advises Local Authorities "To make their representations for a change in the law to the Government through the usual channels". Recommendation 10 is intended to take this forward.

While recognising the legal restrictions, the Committee has also heard evidence that there is greater potential flexibility than is currently applied. Services are often too willing to assume that there are data protection restrictions rather than explore the real options for sharing data in the interests of customers. The Committee's legal advice has supported the view that data protection requirements should not stand in the way of information sharing which is in the customer's interest.

6.6 Financial Services

6.6.1 In terms of financial services the City Council needs to:

- Provide leadership in supporting local communities in the city's most deprived neighbourhoods, and other vulnerable groups, to avoid using inappropriate financial services, work out what services they do want and make arrangements with financial institutions and others to deliver these.
- Support and raise the number and profile of local credit unions.
- Be satisfied that, with regard to its own banking arrangements, its banking partners actively seek to meet the needs of people who are financially excluded.

6.6.2 **Birmingham Credit Union Development Agency** (BCUDA) was established in 1987 following an identified need for support by local credit unions. [See 5.2.7 for more detail]

6.6.3 **Birmingham Community Banking Partnership** has 28 credit unions, over 22,000 members and £20 million in assets and as such Birmingham represents the largest concentration of credit union activity in England and Wales. [See 5.2.8 for more detail]



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6.6.4 **Community Development Credit Unions** – As a result of ongoing mergers and the development of five large common bond areas, everyone living or working in the city now potentially has access to a Community Development Credit Union (CDCU), providing affordable financial services and information and reducing dependence on predatory lenders. CDCUs represent a means of retaining money within neighbourhoods, which would otherwise be likely to flow out of the area in the form of high interest payments on loans to predatory lenders.

- **South East Birmingham Community Credit Union** is at the forefront of the Birmingham developments and was awarded the first CDCU funding nationally from the Adventure Capital Fund, Barclays Bank and the RBS NatWest. The development work in Birmingham has brought both Factor4 and the CDCU pilot services together as the first Birmingham Community Banking Partnership.

6.6.5 **Community Development Financial Institutions** - BCUDA plans to change its legal structure over the next few months which will enable it to provide additional services and enhance its ability to respond to problem debt. The aim of this restructuring is to establish a Community Development Financial Institution (CDFI) which will be capable of:

- Implementing micro-credit loan services which community development credit unions will deliver through their network, to offer micro-credit loans (under £5,000) to individuals.
- Establishing a loan guarantee fund to facilitate higher-risk “instant” loans for those in particular need who do not have a proven track-record of repayment.
- Offering a Self-employment Loan Fund for sole traders on low income.
- Developing a model of “interest free” loans in order to attract a wider Muslim membership to community development credit unions, based on a free system to cover costs and risk.
- Continuing to develop the Birmingham Community Banking Partnership (first national pathfinder project) involving Barclays, Npower, Severn Trent Trust Fund, SRB6, ERDF, Adventure Capital Fund, DTI and Birmingham Trading Standards.
- Facilitating employer partnerships for payroll deduction for Community Development Credit Unions, to extend affordable financial services to meet the needs of low and moderate income workers.



Problem Debt

- Extending the successful Factor4 partnership project, which provides bill payment and budgeting account services, money advice/debt advice, free energy advice and grant assistance for energy efficiency measures targeted at low income households and access to affordable credit for those vulnerable to high cost lenders.

6.7 Financial Education

6.7.1 In terms of Financial Education the City Council needs to:

- Support financial education in schools, in line with local needs and the Government's overall approach to improving financial capability.
- Offer enterprise in education activities in schools that include some financial education.
- Build financial education into adult and community education.

6.7.2 Birmingham Adult Education Service offers a range of numeracy courses, some of which are specifically related to financial issues. These include:

- Money Matters – courses which have been developed and disseminated around the city as an example of good practice.
- Financial Literacy Courses.
- Numeracy workshops to Trading Standards staff as part of basic skills in the workplace project.

6.7.3 Various Examples of Good Practice and Partnership Working in Birmingham in relation to financial education, emerged in the course of the evidence:

- **Ladywood Credit Union** offer basic financial literacy programmes for schools, with a pilot project being undertaken in junior schools, as part of citizenship work in conjunction with the Connexions service.
- **Birmingham Settlement** has developed an innovative financial literacy programme of advice and support for adults within disadvantaged communities. The Settlement currently works in partnership with 22 community-based organisations providing training and arms length support to establish new advice surgeries in the heart of the most disadvantaged communities in the city and were advocated as a model of good practice in the provision of fully rounded advice services in the heart of local communities.



Problem Debt

- The **Debt Advice Team** is starting to provide talks to vulnerable groups and schools on financial literacy and is working on producing draft Financial Literacy Packs to give to clients.
- **Baskerville School** in Birmingham was cited as an example of good practice in working with parents.
- **Kings Heath Boys School** was also cited as demonstrating good practice on aspects of financial education relation to cultural diversity.

6.8 Recognising Good Practice

In the course of the evidence numerous examples of initiatives relating to issues such as cost effectiveness, proactive preventative work and partnership working emerged, which the Committee wish to highlight.

6.8.1 Cost Effectiveness

- Traditional debt advice is often very open ended, thus limiting the number of referrals that can be taken on. The **Debt Advice Team** operate a system whereby each client is taken on for a period of approximately 13 weeks or 10 hours of intense debt advice. At the end of this period the client will have developed with the advisor, a sustainable debt repayment plan and will have been empowered to act on their own behalf in the future.
- There is however some flexibility built into the system to ensure that, if more time is required this will be allocated.
- This approach ensures that the team members can carry a high caseload, albeit over a shorter period.
- Since April 2005 payment arrangements have been made which represent an annual repayment income of approximately £655,000 and a consequent reduction in the overall level of arrears for the city and many Council tenants have seen recovery action suspended as a result of a more manageable debt repayment plan.



Problem Debt

6.8.2 Partnership Working

- **The Debt Advice Team and the Housing Department** work very closely in order to ensure that any tenant faced with possible repossession proceedings is offered debt advice and assistance. Should a repayment plan be developed and then the client defaults, the housing team will contact the relevant advisor before any proceedings are taken. Only those tenants who refuse the service or fail to co-operate should be subject to eviction. The latest Government Guidelines on best practice (ODPM 2004) outline this approach as the way forward in terms of best practice for both Local Authorities and Housing Associations.
- **The Debt Advice Team and Neighbourhood Offices** also work in close partnership and many referrals come through the Neighbourhood Office system, as previously described.
- **The Debt Advice Team and external organisations** work in partnership and the Debt Advice Team hold surgeries at the Irish Centre, Terence Higgins Trust, St Basils, HM Prison and City Save.
- There is also a close working relationship between the **IMLT** and the Debt Advice Team and IMLT and the Money Advice Team.
- **Trading Standards** participated in the Community Legal Service Partnership Initiative Bid, which is a three year project to deliver training on money and debt advice to people with mental health problems, the physically disabled, Asian women and refugees and asylum seekers.
- **The Benefit Service and Private Landlords** - The establishment of a Private Tenant Liaison Officer post to develop relationships with private landlords and also a private landlord forum and newsletter, which keeps landlords up to date with service developments and provides contact details for urgent enquiries.
- **The Benefit Service and Social Landlords** - Regular meetings with the Birmingham Social Housing Partnership, which is the umbrella body for major Registered Social Landlords within the city, and a quarterly User Forum involving representatives from Shelter, CAB and other Advice Agencies.



Problem Debt

- **Birmingham Citizens Advice Bureau** similarly have numerous community links, links with government departments, in particular with the Department of Trade and Industry, the Department for Constitutional Affairs, Department of Health and Office of the Deputy Prime Minister and Council links with Local Services, Social Care and Health, Housing and Trading Standards.
- Reference was also made to CAB involvement with other Local Authorities, in pilot projects under the auspices of the ODPM, to facilitate access to information held by Local Authorities.
- **Trading Standards** operate in partnership with the Citizens Advice Bureau to identify criminal and civil breaches and forward them to Trading Standards.
- **Trading Standards** are also developing partnerships with City Bailiffs and many other Money Advice providers.

6.8.3 Preventative and Proactive work

- Individual casework liaison between Housing staff and nominated Benefit staff to sort out Housing Benefit queries prior to arrears action progressing.
- Self-help pack produced by the Debt Advice Team.
- Successful schemes within the Benefit Service and Community Initiatives, to improve Council Tax benefit take-up, including adoption of a less bureaucratic three-page benefit application form recommended by the Pension Service.



7 Conclusions and Recommendations

7.1 Addressing Over-indebtedness

- 7.1.1 **Over-indebtedness** - A small but significant minority of the population continues to be severely affected by problem debt. This can take the form of difficulty meeting credit commitments or inability to pay household bills. These problems, which we call over-indebtedness, are strongly associated with social exclusion and unforeseen events such as redundancy, relationship breakdown and ill health. Over-indebtedness has significant costs for individuals, creditors and society as a whole.
- 7.1.2 **Addressing over-indebtedness** – Effectively addressing over-indebtedness means looking at both prevention and cure. It became clear from early in the evidence gathering process that certain themes were emerging from the evidence presented, which can be classified as either preventative measures or measures aimed at alleviating the problem once it has arisen.

7.2 Prevention - Partnership Working

- 7.2.1 **Improved Partnership Working** - In spite of the fact that the evidence presented showed numerous examples of good partnership working practices, many of which have been highlighted in the course of the report, there remain opportunities for the City Council to take a more co-ordinated approach to service provision. Numerous references were made to the desirability of improving internal communications and sharing and pooling corporate information held by various departments within the Council. The possibility was raised that this might be addressed within the Council's current Business Transformation proposals.
- 7.2.2 Reference was also made by representatives from the voluntary and community sector to how better communications between them and the City Council and how increased access to information and information sharing, would improve their relationship with the City Council, to the ultimate benefit of the debtors involved.



Problem Debt

- 7.2.3 **Debt and Money Advice Partnership Forum** - The establishment of a Debt and Money Advice Partnership Forum which would meet on a regular basis, possibly quarterly, and in which the City Council would take a leading role, received widespread support, both internally and externally, from representatives from all sectors.
- 7.2.4 It is envisaged that the Forum could include, but not be limited to, representatives from Council departments such as Revenues, Housing, Regulatory Services, the Community Services Division of Local Services, Learning and Culture and Legal Services and representatives from external agencies such as the Citizens Advice Bureau, Birmingham Settlement, Prime Focus and Severn Trent Water, all of which have expressed a willingness to work with the Council on such an initiative.
- 7.2.5 The establishment of such a forum would serve a dual purpose in that it would:
- provide an opportunity to bring together the various agencies working in the area of problem debt, in order to facilitate information sharing and an increase in partnership working between different advice providers and
 - it would also provide an opportunity for a more co-ordinated approach to service provision across the Council.
- 7.2.6 **Role of the Forum** - There were specific examples of where the operation of such of a partnership group, along the lines of the one described above, and the consequent improvement in communication and shared vision and understanding which would be promoted, could potentially used to the benefit of the debtors involved.
- **Differentiating between those who “can’t pay” and those who “won’t pay”** – The difficulty in differentiating between these two groups was an issue which was highlighted by various Council departments. However, it was apparent from the evidence presented by Severn Trent Water that they have expended considerable resources and have a wide range of data available in the area of customer profiling and segmentation which could potentially assist the City Council in differentiating between these groups. This in turn, might enable “softer” collection methods to be targeted where appropriate.



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- **Formal Referral Mechanism** – There are many people who contact the council tax office who clearly require further help with their debts. Staff advise that help can be obtained from the Citizens Advice Bureau or other money advice agencies but a more co-ordinated and formal referral process would help to reduce the number of people who are unable to get help and re-present with problems at a later stage. Enhanced working with partners through the Forum could facilitate the establishment of a more formal referral mechanism to advice services for people contacting the Council.
- **Reducing Level of Evictions** - It was noted from the figures presented by Prime Focus, that eviction levels appeared to be on the high side. It was agreed that more work on customer profiling and segmentation within the industry would help Registered Social Landlords to differentiate between the “can’t pay/won’t pay” tenants which would enable help to be targeted where appropriate. This would hopefully help to reduce the level of evictions. Participation in the Forum would enable this information to be shared more easily.
- **Void Management** - In dealing with void management increased partnership working would be helpful to try to identify the re-occupation of properties.

7.2.7 **Dedicated Telephone Helpline** - Specific reference was made, in particular by advice agencies such as Citizens Advice Bureau and Birmingham Settlement, to the fact that difficulties with communication can sometimes hinder joint working with the Council. Contact Birmingham is extremely busy and these advice agencies often need additional information which is not available via the general number. In order to improve communications and facilitate access to and sharing of information with external advice agencies, the Committee were of the view that the provision of a Dedicated Telephone Helpline, staffed by specialist advisors to deal with queries for specified debt agencies, was a feasible solution which should be given consideration.



Problem Debt

7.2.8 Payment Arrangements in Respect of Council Tax Arrears

– The Committee also heard evidence that it would be useful if the Debt Advice Team could automatically agree reasonable payment arrangements with debtors, in respect of Council Tax arrears, as well as in relation to rent arrears. Subsequent to this issue being raised with the Committee, a pilot scheme has been established allowing staff from the Debt Advice Team to make repayment arrangements in respect of the collection of Council Tax arrears. It is gratifying for the Committee to see that this improvement has already been implemented, as a direct result of the issue being highlighted as part of the review. However, the Committee would like to see this taken a step further by recommending that consideration should be given to extending this pilot scheme to Neighbourhood Offices, within clearly defined guidelines.

	Recommendation	Responsibility	Completion Date
R1	That an ongoing Debt and Money Advice Partnership Forum be established by the City Council including (but not limited to) representatives from: - the City Council – Legal Services, Resources (Revenues and Payments), Housing, Regulatory Services, Learning and Culture and The Community Services Division of Local Services; - the Citizens Advice Bureau; - Birmingham Settlement; - the Birmingham Community Banking Partnership; - the Legal Services Commission; - Registered Social Landlords and; - Private Sector Creditors in order to provide a forum to promote a more co-ordinated approach to the provision of money advice and debt counselling across the city.	Cabinet Member for Local Services and Community Safety	June 2006
R2	That progress with the Debt and Money Advice Partnership Forum should be reported to the Chair of the Local Services and Community Safety Overview and Scrutiny Committee every six months for the first year, with the frequency of reporting to be reviewed thereafter.	Cabinet Member for Local Services and Community Safety	December 2006
R3	That the establishment of a dedicated telephone helpline staffed by specialist advisors to deal with queries for specified debt advice agencies be considered and the feasibility be reported to the Chair of the Co-ordinating Overview and Scrutiny Committee.	The Deputy Leader	December 2006
R4	That, following a review of the pilot allowing Debt Advice staff to make payment arrangements in respect of the collection of Council Tax arrears, consideration should be given to extending the pilot to Neighbourhood Offices, with the outcome of the review to be reported to the Chair of the Local Services and Community Safety Overview and Scrutiny Committee.	Cabinet Member for Local Services and Community Safety	October 2006



Problem Debt

7.3 Prevention–Early Intervention

- 7.3.1 The importance of early intervention was another theme which kept recurring throughout the course of the review.
- 7.3.2 **Identification of Those in Receipt of Means Tested Benefit**
The difficulties which can be encountered in identifying individuals and households who are in receipt of means tested benefits were referred to in the evidence. People often assume that all City Council departments are aware of whether or not they are in receipt of benefits, and therefore fail to notify all appropriate Departments of the Council. It was suggested that consideration could be given to amending the current standard pre-bailiff letter which is sent out to debtors, to emphasise the importance of individuals notifying the Council where they are in receipt of means tested benefits. It was also suggested that we should at least explore the possibility of using the new Revenues and Benefits Integrated System, to see if there are any indicators existing on the system, which it might be possible to use, to facilitate early identification of potential vulnerable citizens. This would be an important first step in ensuring that the most appropriate collection method is used. Recommendation 5 forms the basis for taking these issues forward.
- 7.3.3 **Deduction from Benefit and the Use of Bailiffs** - The Committee heard evidence from different perspectives about the effectiveness of different recovery methods and specifically about the use of bailiffs. The evidence presented on behalf of Revenues was that, in relation to council tax arrears, attachment of earnings and deduction from income support are the most effective methods and least costly to the taxpayer. For this reason, these are used first in recovering council tax arrears. However, once a liability order has been granted, the use of bailiffs is the most cost effective method to the city, although there is a cost to the taxpayer. Revenues were satisfied that sufficient safeguards already exist about the use of bailiffs and stressed that the bailiffs work to a strict Code of Conduct.
- 7.3.4 However, the evidence from Revenues conflicted with evidence from advice workers, both City Council and the voluntary and community sector. They gave contrary evidence which referred to the problems which can be caused for some debtors by the use of bailiffs. The Committee were mindful throughout of the importance of early intervention wherever possible when dealing with problem debt and were strongly of the opinion that deduction from benefit should normally be used where people are in receipt of Job Seekers Allowance or Income Support. In many cases, this would obviate the necessity for the use of bailiffs, which should only be used as a last resort. This view is reflected in recommendation 6.



Problem Debt

- 7.3.5 In view of the fact that there was conflicting evidence and strongly conflicting views, the Committee felt that more time was required to assess the impact of the use of bailiffs. The two options considered were the status quo, allowing for bailiffs to be used at the discretion of the Revenues section, or a return to the previous policy where bailiffs were not used where the only source of income for the household was from means tested benefits. Progress towards the achievement of the recommendations will be reported to the reconvened Problem Debt Scrutiny Members Panel in December 2006, and the time can be used to collect more evidence and allow a fuller assessment of where the balance lies between these conflicting views. The Committee did feel that if the evidence was conclusive that the use of bailiffs was indiscriminate and not targeted appropriately, that the policy on the use of bailiffs in cases where the only household income was from means tested benefits, should be reconsidered. It is therefore in the interest of Revenues to ensure that the use of bailiffs is in accordance with the existing guidelines, otherwise the guidelines will need to be made mandatory.

	Recommendation	Responsibility	Completion Date
R5	That because of the importance of identifying all debtor households who are in receipt of means tested benefits, then in addition to exploring the possibility of utilizing the new Revenue and Benefits Integrated System, consideration be given to amending the current standard pre-bailiff letter to stress the importance of debtors informing the Council where they are in receipt of means tested benefit.	The Leader	October 2006
R6	That, deduction from benefits, and not bailiffs, should normally be used in dealing with households where it can be identified that household income is derived solely from means tested benefits.	The Leader	October 2006
R7	That the review of debt collection to be undertaken by Revenues in 2006/7 should include the Debt Advice Team and should also include appropriate consultation with other advice agencies.	The Leader	January 2007



Problem Debt

7.4 Prevention – Benefit Maximisation

- 7.4.1 Certain structural issues in the way the housing benefit system operates, which impact on problem debt, became apparent in the course of the evidence presented by the Benefit Service.
- 7.4.2 **Rent Restriction for Younger People** – In common with some other means tested benefits, people under 25 receive a lower allowance than others and often end up with lower benefit, even where they are renting a similar property to someone aged over 25. For single people who are private tenants there is a further difficulty as their maximum rent is restricted by something called the “single room rent”. Individuals in this position have their housing benefit calculated on a rent, which would apply to someone renting a single room and sharing all other facilities even where their standard of accommodation is better than this criteria. The Committee were of the view that this anomaly in relation to the way housing benefit is calculated for people under 25 needs to be addressed as it has the effect of pushing young people into debt.
- 7.4.3 **Review of Benefits to Reflect the Rising Cost of Utilities** – In the light of the fact that the cost of utilities is rising considerably above the general level of inflation, the Committee considered that a review of the general level of benefits to reflect this would appear to be timely.

	Recommendation	Responsibility	Completion Date
R8	That the Government be lobbied to review housing benefit entitlement for younger people aged under 25 and in particular to abolish the single room rent for private sector tenants and to increase personal allowances to the levels which apply to other adults.	The Deputy Leader	October 2006
R9	That in view of increasing fuel costs, the Government be lobbied to ensure that uprating of benefit allowances this year reflect these additional costs in order to safeguard against a further rise in fuel poverty.	The Deputy Leader	October 2006



7.5 Prevention – Improving Information Sharing - Data Protection

- 7.5.1 The extent to which different departments within the Council share information and the extent to which the Data Protection Act presents an obstacle to cross-departmental working, clearly emerged and an issue which needs to be addressed. A number of witnesses referred to the extent to which Data Protection restrictions prevent the free flow of information within the Council and can hinder sensitive debt recovery and income maximisation. For example, the Benefit Service made reference to the fact that benefit take-up activity is hampered by data protection requirements and the fact that benefit take-up for those aged 60 and over could be promoted, if it were possible to hold dates of birth.
- 7.5.2 However, the Committee also heard evidence that there is greater potential flexibility to make more effective use of information than is currently applied. Services appear to be often too willing to assume that there are data protection restrictions rather than exploring the options for data sharing in the interests of the customers.
- 7.5.3 The Committee's legal advice supported the view that data protection requirements should not stand in the way of information sharing which is in the best interest of the customer. However, greater clarity and flexibility in this area would facilitate sharing of information and better joined up working across the Council.

	Recommendation	Responsibility	Completion Date
R10	That the Government be lobbied to change the law, to allow the Council Tax service to request additional data from taxpayers and to allow the secondary use of Council Tax and other data, to facilitate the sharing of information amongst departments in order to promote benefit take up throughout the city.	The Leader	October 2006

7.6 Cure – Provision of Debt Advice

- 7.6.1 It became apparent in the course of the review that there are currently insufficient trained advice workers to meet either the current demand or the likely future demand for trained advice workers.



Problem Debt

- 7.6.2 **Nationally Recognised Approved Training Scheme** – Although training schemes exist at the moment there is no standardisation and no recognised qualification for advice workers. A Government initiative to create a nationally recognised, externally accredited, approved training scheme for caseworkers, which would provide a recognised qualification for caseworkers, would help to address the shortage.
- 7.6.3 This could be funded initially using Financial Inclusion Funding with subsequent, ongoing funding being supported by the Statutory National Levy to fund debt advice described below.
- 7.6.4 **Statutory National Levy to Fund Debt Advice** –The possibility of a small, statutory national levy on utility companies and other bodies who profit from transactions which can leave people in debt, to fund debt advice, was raised in the course of the review. The Consumer Credit Counselling Service, which is funded by creditors, was mentioned as a possible model.
- 7.6.5 The aim of the levy would be to increase the availability of free advice and to prevent people from going to fee charging debt management companies. It was accepted that a voluntary agreement would be unlikely to work and that any levy would need to be statutory.

	Recommendation	Responsibility	Completion Date
R11	That the Government be lobbied to introduce a statutory national levy on utilities, the financial services industry and others who profit from transactions which can leave people in debt, to be used to fund the provision of debt advice.	The Leader	October 2006
R12	That the Government be lobbied to fund a nationally recognised approved training scheme for debt advice caseworkers in order to address the shortage of trained advice workers.	The Leader	October 2006

7.7 Recognising Good Practice

- 7.7.1 The Committee were keen to ensure that examples of good practice, for example in areas such as partnership working and early intervention, emerging in the course of the review, should be highlighted. These have been highlighted throughout the report.
- 7.7.2 The Committee would like to particularly commend the work carried out to date by the **Birmingham Illegal Money Lending Team** (IMLT), also sometimes referred to as the **Loan Shark Project**.
- 7.7.3 The project has had a clear impact on identifying cases of illegal money lending, instituting proceedings against illegal money lenders and securing prosecutions.



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- 7.7.4 The cases dealt with so far have shown a direct link with anti-social behaviour and crime, with moneylenders resorting to intimidation and violence in order to secure payment. There is also anecdotal evidence which suggests that illegal moneylenders have an impact on the wider community in which they operate, with victims resorting to petty crime to enable them to meet payments. Reducing the activities of illegal moneylenders or removing them altogether may therefore help to reduce levels of other criminal activity within a community.
- 7.7.5 The IMLT also helps victims of illegal moneylenders with practical help and support through and in conjunction with the services of the Debt Advice Team and the National Debtline.
- 7.7.6 Links have been established with Credit Unions and their associations and where practicable these agencies are also called on to provide help and advice. Indeed, in Birmingham there is evidence that some victims of illegal moneylenders are now saving with credit unions as a result of actions taken against the moneylender concerned.
- 7.7.7 The findings to date indicate a significant need to continue and extend this activity. The DTI have submitted a bid to extend the pilot project in the Midlands and it is anticipated that the outcome of the DTI's application for further funding will be known by the end of this financial year.
- 7.7.8 Illegal moneylenders invariably target low-income households and the most vulnerable members of society. This can mean that their activities have disproportionate implications for the more deprived areas of the city. There is clearly a need for the service.

	Recommendation	Responsibility	Completion Date
R13	That the Government be lobbied to ensure that the funding for the Birmingham Illegal Money Lending Team, currently provided by the Department for Trade and Industry, be continued and that consideration should be given to extending their remit to tackling malpractice among licensed moneylenders.	The Leader	October 2006



Problem Debt

Appendix 1 Terms of Reference

Proposed Scrutiny Review: Problem Debt

1. Review Outline

Subject of review	Problem Debt
Overview and Scrutiny Committee	Task and Finish

1.1 Reasons for Conducting the Review

Reasons for conducting this review	To evaluate the scale of problem debt within the City and to explore the creation of lasting partnerships to ensure responsible lending and assist people with money problems to resolve them in a sustainable fashion.
Key question that the review is seeking to answer	What are the key factors leading to problem debt and what role should each sector have in minimizing the problem.
Objectives of review / Areas for investigation	1. To identify potential national legislative changes particularly in the areas of illegal and marginal credit arrangements 2. To explore the development of preventative strategies. 3. To share good practice on recovery and enforcement methods. 4. To review the availability and funding of debt advice services.
Outcomes expected from conducting this work	1. To recommend appropriate legislative changes to national government. 2. To ensure adequate debt advice and information provision and to make recommendations for funding options. 3. To produce best practice on collection, recovery and enforcement of debts. 4. To identify the benefits of establishing an ongoing partnership group on problem debt. 5. To identify partnership working opportunities across prevention, advice and collection agencies.



Problem Debt

2. Project Plan and Resourcing

2.1 Member Involvement

Lead Member	Carl Rice
Other Members involved	Margaret Byrne Anita Ward Tim Huxtable Mike Ward Robert Wright Fergus Robinson
Are all parties on the Overview and Scrutiny Committee involved?	Yes
Key Cabinet Members	Deputy Leader Cabinet Member for Local Services and Community Safety
Other Cabinet portfolios covered	Leader Social Care and Health Housing Education and Lifelong Learning

2.2 Officer and External Involvement

Link Officer	Nick Partridge
Lead Review Officer	Rose Kiely
Expert Witness	Ian James

2.3 Council Departments Expected to Contribute

Contact / Department	Objective	Contribution Expected
David Tatlow, Legal Services	1, 2,3	Legal Advice
Gail Adams, Revenues	3	Representing City Council as a creditor
Housing Department	3	Representing City Council as a creditor
Trading Standards	3	Advice on legal issues and activities to counter illegal lending and bad practices
Education Department	2	Information and advice on citizenship and education



Problem Debt

2.4 External Organisations Expected to Contribute

Contact / Organisation	Objective	Contribution Expected
Sue Wigley, Regional Director Midlands, Citizens Advice	1,2,3,4	Evidence/Discussion on scale of problem and explore possible solutions.
Community Banking Partnership	1,2,3	Evidence/Discussion on availability/funding of debt advice services.
Birmingham Settlement	1,2,3,4	Evidence/Discussion on availability/funding of debt advice services.
Fuel Boards Severn Trent Water	2,3 2,3	Evidence on scale of problem and good practice on recovery and enforcement.
Social Exclusion Unit	1,2,3 4	Evidence/Discussion on scale of problem and possible preventative strategies.
Legal Services Commission	2,4	Evidence/Discussion in relation to potential legislative/policy changes.
Private Sector Creditor (Name to be confirmed by Cllr Rice)	3	Evidence/Discussion on current recovery and enforcement methods.

2.5 Publicity and Awareness of the Review

Publicity activities to be undertaken

- Regular programme of Press Releases.
- Report conclusion early in the new year.

2.6 Time Frame for Core Phases of Review

Phase

Meetings and evidence gathering sessions

Time Required	Completion Date
5 Sessions	
▪ Setting the scene	10 August 2005
▪ Government Agencies	15 September 2005
▪ Local Authority	13 October 2005
▪ Voluntary and Community Sector	3 November 2005
▪ Private Sector Creditors	1 December 2005
▪ Review/Discussion of outline conclusions	11 January 2006



Problem Debt

Drafting the report	3 weeks	
Consideration of draft report by Committee		6 February 2006
8-Day Rule: Executive Comment		16 February 2006
Reporting to Committee		22 February 2006
Informal Meeting		1 March 2006
Reporting to the City Council		4 April 2006

2.7 Specific Costs Identified

Anticipated call on Scrutiny Budget

3. Signed Approval

Signed:

(By Chair on behalf of Overview and Scrutiny Committee)

Date Agreed:

(By Overview and Scrutiny Committee)

08 July 2005

Approved:

(Chairman, Co-ordinating Overview and Scrutiny Committee)

Date Approved:

(By Co-ordinating Overview and Scrutiny Committee)

08 July 2005



Problem Debt

Appendix 2 Student Debt

CR/RK/DG

LETTER TO VICE CHANCELLORS

25 November 2005

Dear

I am writing to you as Chairman of the Problem Debt Task and Finish Committee, established by the Overview and Scrutiny Co-ordinating Committee of Birmingham City Council earlier this year. I am leading a Scrutiny Review that is looking at the key factors contributing to the growth of problem debt and what role each sector could have in minimizing the problem. The review will seek to evaluate the scale of the problem within the City and explore the creation of lasting partnerships to ensure responsible lending and assist people with money problems to resolve them in a sustainable fashion.

The Committee has already met several times to examine key issues around problem debt. One of our first meetings focused on internal Birmingham City Council policy and procedures and the impact they have on problem debt and various measures that could be introduced to minimize the problem. The committee has also heard evidence from government agencies, from the voluntary and community sector and from the financial, utilities and social housing sectors.

One of the areas which has emerged from previous evidence gathering sessions, on which the Committee would like further information, is student debt. The Committee have previously heard evidence that student loans are an increasing credit warning indicator. Five years ago, student debt on leaving college was on average £4,000. Today it is £12,000. Barclays Bank estimates that by 2010 it will be £33,000. It would seem reasonable to anticipate that this trend will continue, particularly in the light of the fact that from September 2006, universities in England will be able to charge tuition fees of up to £3,000 per year to new students and that most universities have signalled that they intend to do so, and the fact that changes to the attendant system of student support have also been announced.

On behalf of the committee, I am writing to the Vice-Chancellors of the three universities in Birmingham to ask for information about what action is being taken in the universities, to prepare students for and supporting them in dealing with the consequences of increasing levels of debt.

For your information, I have enclosed a leaflet entitled "What is Scrutiny" which gives some background about Scrutiny and the work that it does, which you may find helpful.



Problem Debt

If you would like to discuss this any further please do not hesitate to contact either myself or Rose Kiely, Scrutiny Manager on 0121 303 1730.

I look forward to hearing from you

Yours sincerely,

COUNCILLOR CARL RICE
CHAIR – PROBLEM DEBT TASK & FINISH OVERVIEW & SCRUTINY
COMMITTEE

Enc



Problem Debt

CR/RK/DG

LETTER TO GUILD OF STUDENTS

25 November 2005

Dear

I am writing to you as Chairman of the Problem Debt Task and Finish Committee, established by the Overview and Scrutiny Co-ordinating Committee of Birmingham City Council earlier this year. I am leading a Scrutiny Review that is looking at the key factors contributing to the growth of problem debt and what role each sector could have in minimizing the problem. The review will seek to evaluate the scale of the problem within the City and explore the creation of lasting partnerships to ensure responsible lending and assist people with money problems to resolve them in a sustainable fashion.

The Committee has already met several times to examine key issues around problem debt. One of our first meetings focused on internal Birmingham City Council policy and procedures and the impact they have on problem debt and various measures that could be introduced to minimize the problem. The committee has also heard evidence from government agencies, from the voluntary and community sector and from the financial, utilities and social housing sectors.

One of the areas which has emerged from previous evidence gathering sessions, on which the Committee would like further information, is student debt. The Committee have previously heard evidence that student loans are an increasing credit warning indicator. Five years ago, student debt on leaving college was on average £4,000. Today it is £12,000. Barclays Bank estimates that by 2010 it will be £33,000. It would seem reasonable to anticipate that this trend will continue, particularly in the light of the fact that from September 2006, universities in England will be able to charge tuition fees of up to £3,000 per year to new students and that most universities have signalled that they intend to do so, and the fact that changes to the attendant system of student support have also been announced.

On behalf of the Committee, I am writing to the Guild of Students/Union of Students of the three universities in Birmingham to ask for information about what is being done by these organisations to prepare students for and supporting them in dealing with the consequences of increasing levels of debt.



Problem Debt

For your information, I have enclosed a leaflet entitled "What is Scrutiny" which gives some background about Scrutiny and the work that it does which you may find helpful.

If you would like to discuss this any further please do not hesitate to contact either myself or Rose Kiely, Scrutiny manager on 0121 303 1730.

I look forward to hearing from you

Yours sincerely,

**COUNCILLOR CARL RICE
CHAIR – PROBLEM DEBT TASK & FINISH OVERVIEW & SCRUTINY
COMMITTEE**

Enc



Problem Debt

LETTER FROM VICE-CHANCELLOR, BIRMINGHAM UNIVERSITY, PROFESSOR M J STERLING

8 December 2005

Councillor Carl Rice
Birmingham City Council
The Council House
Victoria Square
Birmingham
B1 1BB

Dear Councillor Rice

Thank you for your letter of 25 November.

We acknowledge that debt is a concern for current students and those thinking about entering higher education in the future. The way in which higher education will be funded in the next period will have an effect on the debt that students have accumulated by the time that they graduate as they continue to rely heavily on maintenance loans to meet their living costs while they are studying and take out tuition fee loans to meet the costs of their fees from 2006 onwards.

However, it is important to note that the debt that students accrue as a result of borrowing student loans for tuition and maintenance, while significant, is offered on generous terms. As students will repay their student loans through the PAYE system, the perception of this as potentially problematic debt will be reduced. Repayment will be managed more as a 'graduate tax'. This will mitigate the impact of such borrowing on problem debt. Students do not need to start repaying these loans until they have graduated and are earning at least £15,000 per annum. A student earning an average graduate starting salary of £18,000 per year will repay their loans at £51.9 per week. Any debt outstanding after 25 years will be written off.

Considerable support will be available to students from low-income households. The new arrangements see the return of non-repayable grants of up to £2,700 for the poorest students and most higher education institutions will be offering non-repayable bursaries to the poorest students. Students who accrue further debt than from the Student Loan Company are borrowing money in the form of overdrafts, credit and store cards and through credit agreements. We do see students who have significant financial problems caused by this additional borrowing and we do our best to help and advise these students as appropriate. However, we see no reason why current levels of borrowing from sources such as these should escalate, rather that they will augment that borrowing that is arranged on the more favourable interest and repayment terms of the Student Loan Company.



Problem Debt

The University, through its schools and colleges liaison staff, spends considerable time talking to students about going into higher education and the costs involved. We also give presentations on student finance to applicants, parents and teachers at our applicant visit days and open days. Our Personal Skills Award also includes an optional course on financial management.

Students at the University have access to a network of support. Staff in the Student Funding Office offer advice to students on managing their money and can direct them towards sources of support such as the Access to Learning Fund. The Access to Learning Fund is used to provide grants to students experiencing financial hardship or exceptional difficulties. Students in need of one-to-one financial advice or debt counselling can talk to trained staff in the Advice and Representation Centre in the Guild of Students or at the Student Support and Counselling Service.

I hope that this provides you with adequate reassurance.

Kind regards

Professor Michael Sterling
Vice Chancellor



Problem Debt

LETTER FROM VICE-CHANCELLOR, UNIVERSITY OF CENTRAL ENGLAND IN BIRMINGHAM: DR PETER KNIGHT

PC K/SJH

December 19, 2005

Councillor Carl Rice,
Problem Debt Task and Finish Committee
Birmingham City Council
Council House
Birmingham 1

Dear Carl

I am replying to your letter of 25th November 2005 in which you enquired about the work that the University was undertaking to minimise the problems associated with student debt, particularly in respect of the increase in fees for newly enrolled students from September 2006.

This University has a wide range of students studying on full time and part time courses at undergraduate and postgraduate level. We have a well-resourced Student Services Department which includes amongst its staff people specialising in advising students on financial management including dealing with debt. It is important to understand that the new arrangements that come into place from September 2006 are a significant and substantial improvement on the present arrangements for the payment of student fees. For students enrolling from September 2006 the maximum fee for which they can be liable is £3000 per year. However there is no obligation for any part of that fee to be paid up front. Higher education will be free at the point of delivery. It is not reasonable to regard the requirement on students to repay the fee as debt in the conventional sense. The fee will accumulate interest at zero percent in real terms and will be collected through the National Insurance system once the student's income reaches a particular level. This is very different from the problems that some students experience in paying either all or part of their fees under the present arrangements.

The student support system, in terms of grants and loans, has also been enhanced from September 2006 in ways that are more favourable to both full time and part time students. The new arrangements are more favourable to students and should actually reduce the amount of 'real' debt to which students are currently subjected. To this extent I do not think that the new fees should be regarded as increasing the problem of debt management. Indeed the manner in which those fees are subsequently recovered through a student's working life are substantially more attractive than the existing arrangement.

I hope this is helpful for the work of your Committee.

Dr. Peter C. Knight
Vice Chancellor

University of Central England in Birmingham
Dr Peter Knight CBE, Hon D.Sc, DUniv FRAS, Vice Chancellor
Perry Barr, Birmingham t: 0121 331 5555 f: 0121 356 5436: peterknight@uce.ac.uk
Perry Barr Birmingham B42 25U



Problem Debt

**LETTER FROM ADVICE & REPRESENTATION MANAGER, UCE BIRMINGHAM
STUDENTS' UNION: LIAM KING**

UCE BIRMINGHAM
**STUDENTS
UNION**

Councillor Carl Rice
Problem Debt Task & Finish Committee
Birmingham City Council
The Council House
Victoria Square
Birmingham
B1 1BB

20 December 2005

Dear Councillor Rice

Thank you for your letter dated 25 November.

UCE Birmingham Students' Union also shares your concern about the increasing level of student debt. At present we have an Advice Centre staffed by myself and two full time Student Advisors who provide information and advice on a range of issues including funding, money management and debt. We are all trained debt counsellors and are able to take on the more straightforward debt cases that come our way. We tend to refer the more complicated cases to organisations such as National Debtline or Citizens Advice who have specialist money advisors. Obviously the growing amount of student loan debt is an issue but this tends to present itself as a problem once a student has finished studying. More common are problems such as credit debt as a result of students finding the amount of student loan inadequate and having to seek money from elsewhere.

As far as preparing students for dealing with the consequences of debt we produce literature which provides information on additional sources of funding and budgeting advice. We also have information on our website aimed at prospective students which encourages them to think about money management prior to arriving at university.



Problem Debt

Most students will continue to struggle through university with the burden of a large debt and I think it is vital that expert advice and support is accessible to them while studying and when they have graduated. I can only see the demand for services such as National Debtline and Citizens Advice increasing in the near future. The Students' Union will continue to provide support to our members and would like to do more such as employing a specialist money advisor if we had the resources.

Yours sincerely

Liam King
Advice & Representation Manager

UCE Birmingham Students Union The Union Building Franchise Street
Birmingham B42 2SZ
Telephone 0121 331 6801 Facsimile 0121 331 6802
www.uceunion.com

The union of Students at UCE is registered in England company Registration No 3426225 Registered Office: Franchise
Street Birmingham B42 2SZ



Problem Debt

Appendix 3 Housing Data

DISTRICT	ACC	COURT NO	BAL @ DECISION COURT	LAST DATE	BALLAST BAL
NORTHFIELD CBHO14236 Balance		21/02/2005	£2,776.94 20111/2005	-	Last Account
NORTHFIELD CBHO Balance	875	02/02/2005	£2,356.16 20/11/2005	£5.21	Last Account
SPARKBROOK DISTRICT10025412 Balance		31/08/2005	£1,660.80 20/11/2005	-	Last Account
NORTHFIELD CBHO Balance	40807	02/02/2005	£2,819.38 20/11/2005	£692.28	Last Account
NORTHFIELD CBHO Balance	20389	05/04/2005	£1,920.59 20/11/2005	-C5.00	Last Account
NORTHFIELD CBHO Balance	16328	05/04/2005	£1,628.94 20/11/2005	£371.01	Last Account
NORTHFIELD CBHO Balance	23418	31/08/2005	£2,005.70 20/11/2005	£901.08	Last Account
SPARKBROOK DISTRICT67706 Balance		30/03/2005	£1,231.47 20/11/2005	£333.80	Last Account
SPARKBROOK DISTRICT 124508 Balance		19/01/2005	£890.51 20/11/2005	£0.00	Last Account
SPARKBROOK DISTRICT95024 Balance		25/07/2005	£1,161.88 20/11/2005	£280.13	Last Account
NORTHFIELD CBHO Balance	68491	07/02/2005	£1,471.72 20/11/2005	£667.56	Last Account
SPARKBROOK DISTRICT89291 Balance		26/08/2005	£800.31 20/11/2005	£36.71	Last Account
SPARKBROOK DISTRICT22007 Balance		03/05/2005	£1,028.00 20/11/2005	£419.05	Last Account
NORTHFIELD CBHO Balance	128349	06/06/2005	£2,277.79 20/11/2005	£1,708.88	Last Account
NORTHFIELD CBHO Balance	131904	06/06/2005	£2,704.52 20/11/2005	£2,277.10	Last Account
SPARKBROOK DISTRICT83980 Balance		07/02/2005	£433.46 20/11/2005	£18.36	Last Account
NORTHFIELD CBHO Balance	45044	19/09/2005	£1,974.31 20/11/2005	£1,596.19	Last Account
SPARKBROOK DISTRICT 81772 Balance		16/05/2005	£1,318.63 20/11/2005	£961.63	Last Account
SPARKBROOK DISTRICT100210 Balance		02/09/2005	£917.36 20/11/2005	£611.74	Last Account
NORTHFIELD CBHO Balance	72071	19/10/2005	£1,272.50 20/11/2005	£976.50	Last Account
SPARKBROOK DISTRICT93135 Balance		04/07/2005	£1,191.89 20/11/2005	£907.64	Last Account
SPARKBROOK DISTRICT1756 Balance		14/03/2005	£433.16 20/11/2005	£160.85	Last Account
NORTHFIELD CBHO Balance	710	05/04/2005	£610.77 20/11/2005	£351.73	Last Account
SPARKBROOK DISTRICT13400 Balance		07/02/2005	£794.62 20/11/2005	£536.82	Last Account
SPARKBROOK DISTRICT84659 Balance		19/01/2005	£463.35 20/11/2005	£240.63	Last Account
NORTHFIELD CBHO Balance	27480	04/05/2005	£1,589.19 20/11/2005	£1,378.44	Last Account
SPARKBROOK DISTRICT68577 Balance		20/04/2005	£1,088.30 20/11/2005	£886.70	Last Account
NORTHFIELD CBHO	76689	05/04/2005	£2,431.15 20/11/2005	£2,242.90	Last Account



Problem Debt

Balance							
DISTRICT	ACC	COURT NO	BAL @ DECISION COURT		LAST DATE	BAL LAST BAL	
NORTHFIELD CBHO Balance	136005	02/02/2005	£1,401.84	20/11/2005	£1,219.56	Last Account	
SPARKBROOK DISTRICT57051 Balance		25/07/2005	£1,391.28	20/11/2005	£1,248.38	Last Account	
SPARKBROOK DISTRICT48563 Balance		07/10/2005	£1,361.85	20/11/2005	£1,225.39	Last Account	
NORTHFIELD CBHO Balance	63251	06/06/2005	£859.98	20/11/2005	£734.28	Last Account	
SPARKBROOK DISTRICT85036 Balance		25/07/2005	£2,810.74	20/11/2005	£2,695.93	Last Account	
SPARKBROOK DISTRICT117577 Balance		16/05/2005	£658.02	20/11/2005	£577.32	Last Account	
SPARKBROOK DISTRICT108067 Balance		21/10/2005	£495.30	20/11/2005	£420.21	Last Account	
NORTHFIELD CBHU Balance	111784	21/02/2005	£2,058.15	20/11/2005	£1,986.15	Last Account	
SPARKBROOK DISTRICT99072 Balance		06/06/2005	£436.89	20/11/2005	£367.03	Last Account	
NORTHFIELD CBHO Balance	133822	02/02/2005	£4,592.88	20/11/2005	£4,526.68	Last Account	
NORTHFIELD CBHO Balance	40804	04/05/2005	£2,106.46	20/11/2005	£2,042.63	Last Account	
SPARKBROOK DISTRICT8096 Balance		18/01/2005	£246.02	20/11/2005	£185.40	Last Account	
NORTHFIELD CBHO Balance	20399	25/07/2005	£1,276.69	20/11/2005	£1,218.76	Last Account	
NORTHFIELD CBHO Balance	133483	19/09/2005	£2,985.00	20/11/2005	£2,939.30	Last Account	
NORTHFIELD CBHO Balance	93164	25/07/2005	£635.08	20/11/2005	£591.31	Last Account	
SPARKBROOK DISTRICT4390 Balance		02/09/2005	£514.00	20/11/2005	£471.42	Last Account	
SPARKBROOK DISTRICT126995 Balance		21/10/2005	£417.52	20/11/2005	£394.08	Last Account	
NORTHFIELD CBHO Balance	58220	05/09/2005	£1,390.12	20/11/2005	£1,367.20	Last Account	
NORTHFIELD CBHO Balance	50924	19/10/2005	£2,313.09	20/11/2005	£2,292.89	Last Account	
NORTHFIELD CBHO Balance	130275	19/10/2005	£1,188.21	20/11/2005	£1,176.81	Last Account	
SPARKBROOK DISTRICT99024 Balance		24/08/2005	£1,104.47	20/11/2005	£1,096.89	Last Account	
SPARKBROOK DISTRICT49137 Balance		19/01/2005	£545.70	20/11/2005	£539.10	Last Account	
SPARKBROOK DISTRICT 21891 Balance		30/09/2005	£873.61	20/11/2005	£873.61	Last Account	
SPARKBROOK DISTRICT 33283 Balance		14/11/2005	£1,066.77	20/11/2005	£1,066.77	Last Account	
SPARKBROOK DISTRICT 48622 Balance		22/11/2005	£819.44	20/11/2005	£819.44	Last Account	
SPARKBROOK DISTRICT 65468 Balance		22/11/2005	£1,746.64	20/11/2005	£1,746.64	Last Account	
SPARKBROOK DISTRICT 99103 Balance		14/11/2005	£891.92	20/11/2005	£891.92	Last Account	
SPARKBROOK DISTRICT 112859 Balance		22/11/2005	£916.80	20/11/2005	£916.80	Last Account	
SPARKBROOK DISTRICT 4421 Balance		28/07/2005	£1,453.44	20/11/2005	£1,457.48	Last Account	



Problem Debt

SPARKBROOK DISTRICT 57281 Balance		16/05/2005	£475.72 20/11/2005	£494.39 Last Account
DISTRICT	ACC	COURT NO	BAL @ DECISION COURT	LAST BAL DATE LAST BAL
NORTHFIELD CBHO Balance	106117	19/10/2005	£1,454.56 20/11/2005	£1,487.31 LastAccount
NORTHFIELD CBHO Balance	106270	06/06/2005	£1,006.67 20/11/2005	£1,042.20 Last Account
SPARKBROOK DISTRICT115810 Balance		14/11/2005	£978.46 20/11/2005	£1,032.80 Last Account
NORTI-IFIELD CBHO Balance	27565	19/10/2005	£2,218.55 20/11/2005	£2,274.10 LastAccount
NORTI-IFIELD CBI-IO Balance	106738	19/10/2005	£2,033.34 20/11/2005	£2,111.19 Last Account
SPARKBROOK DISTRICT 4435 Balance		21/10/2005	£993.51 20/11/2005	£1,077.31 Last Account
NORTHFIELD CBHO Eviction	31824	05/04/2005	£1,258.31 26/09/2005	£1,384.27 Balance at
NORTHFIELD CBHO Balance	120906	25/07/2005	£1,536.40 20/11/2005	£1,670.83 Last Account
SPARKBROOK DISTRICT 101589 Balance		25/08/2005	£1,288.78 20/11/2005	£1,470.76 Last Account
SPARKBROOK DISTRICT 38463 Balance		02/09/2005	£419.00 20/11/2005	£601.06 Last Account
SPARKBROOK DISTRICT 99040 Balance		04/11/2005	£1,917.59 20/11/2005	£2,101.67 Last Account
NORTHFIELD CBHO Balance	72073	04/03/2005	£1,516.77 20/11/2005	£1,719.80 Last Account
SPARKBROOK DISTRICT 67905 Balance		21/10/2005	£267.65 20/11/2005	£501.10 Last Account
NORTI-IFIELD CBHO Balance	106315	02/02/2005	£2,775.47 20/11/2005	£3,018.24 Last Account
NORTHFIELD CBHO Balance	60429	06/06/2005	£1,369.71 20/11/2005	£1,637.15 Last Account
SPARKBROOK DISTRICT 49232 Eviction		19/01/2005	£900.85 13/04/2005	£1,173.21 Balance at
SPARKBROOK DISTRICT 97910 Balance		02/09/2005	£761.49 20/11/2005	£1,034.73 Last Account
NORTHFIELD CBHO Balance	96557	04/05/2005	£2,109.56 20/11/2005	£2,402.61 Last Account
NORTHFIELD CBHO Balance	101304	25/07/2005	£1,054.26 20/11/2005	£1,426.11 LastAccount
SPARKBROOK DISTRICT 97283 Balance		07/10/2005	£297.62 20/11/2005	£729.31 Last Account
NORTHFIELD CBHO Balance	552	31/08/2005	£3,327.50 20/11/2005	£3,766.12 Last Account
SPARKBROOK DISTRICT 120743 Balance		24/01/2005	£1,810.24 20/11/2005	£2,261.08 LastAccount
NORTHFIELD CBHO Balance	27657	31/08/2005	£1,630.28 20/11/2005	£2,088.75 Last Account
NORTHFIELD CBHO Balance	109468	02/02/2005	£1,598.08 20/11/2005	£2,093.09 Last Account
NORTHFIELD CBHO Balance	58219	04/05/2005	£2,629.85 20/11/2005	£3,149.81 LastAccount
SPARKBROOK DISTRICT 35356 Balance		19/01/2005	£844.71 20/11/2005	£1,553.26 Last Account
NORTHFIELD CBHO Eviction	34822	31/08/2005	£2,258.39 21/11/2005	£2,981.15 Balance at
NORTHFIELD CBHO Balance	32338	06/06/2005	£1,618.97 20/11/2005	£2,349.31 LastAccount
NORTHFIELD CBHO Balance	27348	05/04/2005	£2,918.68 20/11/2005	£3,746.88 Last Account



Problem Debt

Balance					
NORTI-FIELDCBHO Balance	62761	05/04/2005	£3,103.01 20/11/2005	£3,938.35	LastAccount
DISTRICT	ACC	COURT NO	BAL @ DECISION COURT	LAST BAL DATE	LAST BAL
NORTHFIELD CBHO Balance	62791	05/04/2005	£979.12 20/11/2005	£1,938.75	LastAccount
NORTHFIELD CBHO Balance	131742	06/06/2005	£2,846.63 20/11/2005	£3,887.89	Last Account
SPARKBROOK DISTRICT Balance	96539	03/05/2005	£468.25 20/11/2005	£1,582.49	Last Account
SPARKBROOK DISTRICT Eviction	70249	17/01/2005	£1,490.04 21/06/2005	£2,737.88	Balance at
NORTHFIELD CBHO Balance	96646	04/05/2005	£1,930.68 20/11/2005	£3,497.45	Last Account



Appendix 4 Letter from Minister

dti

Gerry Sutcliffe MP
MINISTER FOR EMPLOYMENT
RELATIONS AND CONSUMER
AFFAIRS

14 February 2006

Councillor Carl Rice
Chairman
Task and Finish Overview and Scrutiny Committee on
Problem Debt
Birmingham City Council
The Council House
Victoria Square
Birmingham
B1 1BB

Your ref: JK/ADM/066ACZa

Thank you for your letter of 13 January regarding the Consumer Credit Bill.

The Government is keen to tackle debt issues by a variety of routes and the Consumer Credit Bill is only one way in which we are working to address these issues. The Government's over-indebtedness strategy outlines cross-government initiatives to work with other departments, local government, business and consumers to address the problems of personal debt and multiple credit commitments. Birmingham Trading Standards is, of course, involved in the loan sharks pilot and we appreciate all the work done by the Birmingham team to meet the objectives of the pilot. You raised two specific issues about the Bill that are of concern to you.

Automatic unenforceability - s.127 Consumer Credit Act

1974

Dear Councillor Rice,

Department of Trade and Industry LG52
1 Victoria Street, London, SW1 H OET

Direct Line +44 (0)207-215-5000 Fax +44 (0)207-215
5329

Minicom +44 (0)20 72156740 Enquiries +44 (0)20
7215 5000 www.dti.gov.uk
dti_correspondence@dti.gsi.gov.uk



Problem Debt

The decision to replace automatic unenforceability of non-compliant agreements in s.127 of the 1974 Act with the court's discretion did not arise out of industry pressure, but a need to ensure compliance of the legislation with the requirements of the Human Rights Act, as highlighted in the decision of the House of Lords in *Wilson & Ors v. Secretary of State for Trade & Industry* [2003] UKHL 40. Fairness cuts both ways, and the current operation of s.127 imposes an arbitrary sanction on businesses, without any right given to them to make a case.

The change to the Bill will not reduce or remove existing consumer protections, but will allow the court to make an enforcement order in relation to non-compliant agreements, if it is satisfied that one ought to be made. The lender would need to convince the court of the need to make an enforcement order. Obviously, bad practices or reckless lender behaviour are both issues that the court can take into account when considering whether to make an order.

Unfair relationships

The Government does not consider the unfair relationships test to be only solution of debt problems, but it will serve as a route for those in serious difficulties to address problems in the courts. The Government believes that the unfair relationships provisions will remove many of the impediments that have meant that the existing extortionate credit provisions are largely ineffective. The test currently serves to restrict the ability of consumers to go to court, and the unfair relationships test removes those impediments by allowing the court to consider the entire relationship between the creditor and debtor and to consider all relevant matters.

However, the points you make are important ones, and are issues that the Government believes are dealt with in other aspects of the Bill and its reform programme. It is therefore important to consider the test in context. Court is not the only option for consumers. If they have a dispute with lenders that has not been resolved they have access to the free service to be set up by the Bill and run by the Financial Ombudsman Service. This service will not have hearings and its decisions will be binding on lenders.

Furthermore, lenders are under more rigorous obligations in terms of advertising, pre-contract disclosure and agreements, so that consumers are better able to understand what they are signing up to. The Bill will impose new post-contract disclosure requirements on lenders, so that consumers will be aware of potential problems much earlier and also will have information about obtaining advice and resolving issues. We will be consulting on these information requirements as part of the implementation of the Bill.



Problem Debt

Informed consumers are better able to make choices and to address developing issues. The Government is also working to improve the provision of debt advice for consumers, through its face-to-face debt advice funding. The financial inclusion programme, which HM Treasury leads on, will also assist in providing consumers, particularly the most vulnerable, with affordable alternatives to existing credit sources.

Lenders will also be subject to a more robust licensing and enforcement regime, which will serve to better regulate lenders and to drive out rogues, and trading standards will also play a role in this.

Trading Standards powers

The Bill will allow OFT and Trading Standards to work together more effectively in relation to the enforcement of consumer credit laws. However, the issue of Trading Standards powers and consumer representative actions is something that is being considered by DTI in a wider context as part of the Consumer Strategy which can be found at

<http://www.dti.gov.uk/ccp/topics/consumerstrategy.htm#Chapter7>.

This will be one of several issues that we propose to consult on in 2006.

The Bill has nearly completed its passage through Parliament, and the Government believes that it best represents a balance between the interests of consumers and the regulation of lenders. I welcome your support of it in general terms and hope that this letter will deal with your specific concerns.

Gerry Sutcliffe
Minister for Employment Relations and Consumer Affairs