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Dear Ms. Cottrell

Money Advice Service and the coordination and provision of debt advice

This is the Financial Services Consumer Panel's response to the HMT consultation on the Money Advice Service's role in coordinating and providing debt advice.

The Panel believes it is essential that people should have access to a free-to-client, independent debt advice service. This is especially true in the current economic climate which has increased pressure on household finances. As a Money Advice Trust and University of Nottingham report highlights, in 2009 the number of individuals seeking debt advice from a free agency increased by 28% year-on-year to 1.6 million, a record high.[1] However, the same report also found that of the five million individuals that report arrears on credit products, only one-in-six seek debt advice from any source. This demonstrates the significant potential demand for debt advice, which is likely to grow as the economic uncertainty persists.

The increase in consumer need for debt advice comes at a time of acute pressure on public spending. Cuts will be made to legal aid, local authority budgets and the Financial Inclusion Fund which has supported face-to-face debt advice since 2004. We can therefore understand the motivation for transferring responsibility for the co-ordination of debt advice to the Money Advice Service. However, we are concerned that the Money Advice Service is not, in fact, *'well equipped to meet the challenge of delivering debt advice'*, nor do we believe that Government funding for free-to-client debt advice should be withdrawn.

The Panel is concerned that funding for debt advice is being reduced as part of the transition to a Money Advice Service led solution. We believe the Government should continue to subsidise this service. Any reduction in debt advice funding will hit key services which people rely on, such as the face-to-face debt advice projects funded through the Financial Inclusion Fund.

[1] John Gathergood on behalf of the Money Advice Trust and the University of Nottingham, *Demand, capacity and need for debt advice in the United Kingdom,* 2010

If the Government elects to proceed with plans to require the Money Advice Service to assume responsibility to deliver debt advice, we agree that it is appropriate to amend the Money Advice Service's statutory objectives. We believe an express provision should be incorporated into FSMA that requires the Money Advice Service to keep under review the need for debt advice in the UK and use its best endeavours to ensure that the need is met by direct provisions or by co-ordinating and encouraging provision by others. We would be disappointed if the Money Advice Service was only given the power, not the duty, to coordinate and provide debt advice.

Given the tight budgetary constraints, it is important that the Money Advice Service works constructively with existing debt advice providers within the sector, and their co-ordinating bodies, to ensure that current provision is neither undermined nor duplicated. We also consider it important that the Money Advice Service works closely with the sector when developing its channel strategy for the delivery of debt advice, to ensure that plans to extend the reach of debt advice through remote channels takes into account the need of some consumers for face-to-face debt advice.

The Money Advice Service, as an independent organisation responsible for delivering generic financial advice, is still in its infancy. We believe significant progress has been made towards delivering a free nationwide advice service, but this service has so far only reached a small proportion of the intended audience. We are concerned that the Money Advice Service has no prior experience of working with people in a crisis as a result of unmanageable debt and is unfamiliar with the sector. While the Money Advice Service might be able to provide such a service in the longer-term, we believe that transferring responsibility while they have yet to establish their brand and at a time when demand for debt advice is likely to increase, could result in a contraction in the availability of debt of advice, which would be detrimental for significant numbers of people and potentially damaging to the economy.

Yours sincerely,

Adam Phillips
Chairman