Appendix 1

Economy Committee – 4 November 2014
Transcript of Item 4: Investigation into Personal Debt

Jenny Jones AM (Chair): That brings us to today's main item, our investigation into personal debt. Can I welcome the panellists? Caroline Siarkiewicz, Head of Debt Advice, the Money Advice Service; Ally Paget, Researcher at Demos; John Gathergood, Associate Professor of the Faculty of Social Sciences at the University of Nottingham - thank you for coming so far; Robbie de Santos, Senior Public Policy Advocate, StepChange; and Dr Pippa Lane, Senior Policy Researcher, Citizens Advice Bureau (CAB). Thank you very much for coming.

Can I ask first, what is the scale of the personal debt problem in London?

Caroline Siarkiewicz (Head of Debt Advice, Money Advice Service): We conduct an annual supply and demand for debt advice services across the whole of the UK. Our latest survey, which was conducted in 2013, showed that the need for debt advice in London was just under 77,000 individual people across the boroughs.

Jenny Jones AM (Chair): What does that mean?

Caroline Siarkiewicz (Head of Debt Advice, Money Advice Service): It means there are a lot of people down here who are struggling with debt. We define "over-indebtedness" in two ways. One is: are people three months behind, during the last six months, in their payments? It is a very hard measure. The other way of measuring over-indebtedness is by asking them how they feel about their debts. If they say that their debts are a heavy burden, then that would be a sign of over-indebtedness. There are those two sides to that.

Across London just under 77,000 people are either three months behind with their payments in the last six, so they are in arrears, or they are saying that their debts are a heavy burden.

Jenny Jones AM (Chair): Is that different from other parts of the UK?

Caroline Siarkiewicz (Head of Debt Advice, Money Advice Service): Yes, I mean one of the things that is perhaps significant about London, and not just that it is a relatively concentrated geographical area, is that there is a variance across all of the London boroughs. In three of the boroughs there is a high proportion of people who we would describe as "stretched families". The way we would characterise those stretched families is that they are typically 35 to 44 years old and they have got household incomes of less than £30,000. 84% of that group described themselves as being in debt, but only 18% of that group actually do anything about it and go and seek advice. One of the big issues that I think is important to come out today is actually the failure to engage with over-indebted people, and actually signpost them to help that is available across each of the London boroughs.

Jenny Jones AM (Chair): You would think there might be a lot of people who do not actually ask for it?

Caroline Siarkiewicz (Head of Debt Advice, Money Advice Service): A huge amount.

Jenny Jones AM (Chair): So you do not know about them; it is a hidden problem?

Caroline Siarkiewicz (Head of Debt Advice, Money Advice Service): I would not say it is a hidden problem, but actually the solutions seem to be hidden for those people in that they are not actually recognising that help is available for them. One of the things that lots of the research shows is that if people present for debt advice then within six months they will start to get their debts under control; where appropriate they will start to repay those debts, they will start to sleep at night and the stress of actually carrying all of those debts starts to dissipate and people can then engage back in the economy as well.

Jenny Jones AM (Chair): Which three boroughs were they?

Caroline Siarkiewicz (Head of Debt Advice, Money Advice Service): Hackney, Lambeth and Southwark.

Robbie de Santos (Senior Public Policy Advocate, StepChange): At StepChange 17% of our clients are Londoners, compared to 13% of the overall population of Britain so they are over-represented in terms of our client base by about a third. That is a good starting point to understand the scale of debt. What we see from our polling of Londoners is that they tend to be more concerned and worried about their finances than those elsewhere in the country. What we know is that 16% of Londoners use credit to last until payday over the last 12 months and 10% of Londoners fell behind on payday loans, which is about a quarter more than the rest of the country as well.

We have a similar approach to the Money Advice Service in terms of categorising problem debt, but we ask about six different factors: whether you are falling behind on your bills; whether you are falling behind on your credit commitments; whether you are using credit to pay either your bills or your credit commitments; whether you are making minimum repayments; or whether you are using credit routinely to last until payday. We find that 38% of Londoners in the last 12 months did one of those six characteristics, which again is about a fifth more than the population as a whole.

Gareth Bacon AM: Did I understand you [Caroline Siarkiewicz] correctly to say that you thought there were around about 76,000 people with problem debt in London? That is rather low.

Jenny Jones AM (Chair): I thought so too, yes.

Gareth Bacon AM: Out of a population of 8 million that is less than 1%. I am surprised by that. Does StepChange agree with that figure?

Robbie de Santos (Senior Public Policy Advocate, StepChange): It is a different figure than the one we would use. If you are looking at general financial difficulty, that 38% would apply. The figure we use for problem debt nationally is 2.9 million people, so 6% of the total population. I would imagine that is closer to about 7 or 8% who are showing multiple signs of financial difficulty over a given period of time.

Gareth Bacon AM: This would be then based on your measure, I suppose?

Robbie de Santos (Senior Public Policy Advocate, StepChange): Yes.

Gareth Bacon AM: In the case of both of you, how subjective is that? I heard what you said about whether people feel bad about it, whether they have missed three payments; that seems to be a reasonable measure. Maybe you have a different kind of measurement?

Robbie de Santos (Senior Public Policy Advocate, StepChange): Our six measures are all things you can directly report. Whether you have or have not fallen behind on bills, whether you have or have not fallen behind on credit commitments, whether you have or have not used credit to pay for either; these are things which people can measure. We think that if you are showing three or more of those over a period of a year then you are going to be in a really vulnerable position, vulnerable to shocks and changes in your circumstances.

Gareth Bacon AM: Thank you.

Caroline Siarkiewicz (Head of Debt Advice, Money Advice Service): Could I just add a little bit more? The Money Advice Service does not deliver debt advice, but it is the largest funder of face-to-face advice across the whole of the UK. In London we fund around 55% of all face-to-face delivery. That amounts to 16,000 people. There is availability in London of around 32,000 - 33,000 people who can access face-to-face advice. Even though you might comment that across London that number is relatively small, you will see the gap between the actual availability of advice services and the scale of need for those services.

Gareth Bacon AM: So 76,000 people would be those that you are aware of?

Caroline Siarkiewicz (Head of Debt Advice, Money Advice Service): Exactly.

Gareth Bacon AM: There could be a lot more than that you do not know about?

Caroline Siarkiewicz (Head of Debt Advice, Money Advice Service): Yes. The way that the research was done was 5,000 people who were over-indebted were questioned, then that was scaled up to provide a national mapping of that.

Andrew Dismore AM: You both said the truth is you do not actually know what the scale is because first of all there does not seem to be a settled definition of indebtedness. I presume therefore there is not a standardised definition? I like your idea of a number of factors that you can use to get a picture which is probably a little bit more, perhaps, scientific than a more general approach. From what you are saying you [Money Advice Service] have got a particular figure, you [StepChange] have got a different figure, the truth is we do not actually know; is that right?

Robbie de Santos (Senior Public Policy Advocate, StepChange): I think there are a number of different ways that you can define "problem debt". Some of them are very perception based, some are about the level of debt to income, and some are about how you service the commitments. I think it is fair to say that as a sector we do not use a standard definition, so I think that will be one of the things the Committee has to reconcile; what definition do you want to use? Which one do you think is the most pertinent for what you are trying to establish?

Andrew Dismore AM: Would it be helpful to have a standardised definition?

Robbie de Santos (Senior Public Policy Advocate, StepChange): I think there are a lot of dimensions to debt. Some of it is about how vulnerable you are to falling into debt. That is a different question to how much of a burden are your commitments. People could be perfectly able to manage their commitments, even though they might be heavy, but if something changes in their income they might then find those completely untenable. I think you do need to have a multi-dimensional approach which looks at both the risk of falling into difficulty, and what might happen in those circumstances if your income changes.

John Gathergood (Associate Professor, Faculty of Science, University of Nottingham): Maybe I can add a little clarity. I think what is going on is that you get narrow definitions of over-indebtedness that describe only quite severe financial difficulty; we could think of people on the brink of bankruptcy as being those with very severe difficulty. Then you get broader measures of over-indebtedness that could pick up people who are struggling to pay their utility bills. They are not behind on anything, they are not in an arrears process or a claims process with a firm, but on some broader definition you could think of them as being in a difficult financial situation.

I previously did some work with the Department for Business, Innovation and Skills (BIS) where we showed that if you come up with different measures you can really pick up a lot of very different people. Previously for BIS one of their indicators of being over-indebted was having three or more credit cards. Now, the Members might like to examine their wallets and you might find a lot of people who have got three credit cards, for various reasons, but are totally not over-indebted.

The definition is a big issue. The definition which Caroline [Siarkiewicz] referred to earlier is maybe towards the narrower end; the severe difficulties, three months in arrears, people reporting they have a big problem. Robbie [de Santos] is talking about a broader definition which will pick up people who are surviving financially, but they are vulnerable, their budgets are running very close to the wire.

There is no national accepted definition of what it means to be over-indebted. These different measures are picking up different people and are useful for different purposes.

Jenny Jones AM (Chair): Thank you, that is very useful. Is there a particular group that is more vulnerable and more likely to fall into debt?

Caroline Siarkiewicz (Head of Debt Advice, Money Advice Service): Part of the same research that we did segmented the over-indebted population on that narrower definition. The reason that we use that narrow definition is because those are the people that actually need the help now. They are the people who are even now fallen over the edge, not just those who are moving towards it.

We identified eight different segments; different characteristics, different types of people. As I mentioned earlier, in London there was a segment called "stretched families". Those, as I say, were very prevalent in those three London boroughs.

If you look at the over-indebted population across the whole of the UK, then more than half of them are on household incomes of less than £20,000. There is an issue around low incomes, and that actually is a predominant factor across the piece.

What we have found as well is that whilst there are lots of people struggling - and those will be beyond the narrow definition that I measured earlier - then what happens is that they will struggle and struggle. Quite often they will borrow to pay loans and so on. They will keep out of the three months behind for quite some time, but they are actually making their problems worse because they are not dealing with them at that point. What happens then is that they will fall over the edge into problem debt. I think one of the big issues is around, as I said earlier, engaging with people, signposting them to services that can help them. The sooner you can get people into debt advice then the better their chance of actually getting out of that will be.

Jenny Jones AM (Chair): Do you have any particular community groups that you feel are more likely to be over-indebted?

Robbie de Santos (Senior Public Policy Advocate, StepChange): There are a number of ways that you can look at it. Certainly housing tenure is a very big predictor of how people avoid falling into debt. I guess if you know about the different community groups that are less likely to be in different tenures then that can tell you something. We know that 32% of our London clients are private renters, where the census just had 24% of Londoners being private renters. They are over-represented by quite a significant factor there. Social renters, as you might imagine, are the most over-represented. 41% of our London clients are social renters compared to 23% according to the census, so over-represented by almost two times. We also see families with children, especially single parents, significantly over-represented.

There are a number of factors that we see consistently across these. If you have only got one income then you are just much more vulnerable to shocks and changes in your income. If you have got two incomes coming in then you are better able to insulate yourself against those shocks.

We also find that working-age households, those 25 to 39, are much more likely to fall into debt; those 40 to 59 as well. As you might imagine, pensioners, over 60s, are much less likely to fall into difficulty.

In terms of ethnicity, the data that we have is not robust enough to go into specific community groups. Our YouGov polling of Londoners finds that 34% of white British were showing one of those six signs of financial difficulty that I mentioned before. If you look at all other ethnicities, so anyone that is not white British, that increases to 58% which is quite a significant difference. You would need to probably work with organisations much more rooted in communities in London to find out a bit more.

Dr Pippa Lane (Senior Policy Researcher, CAB): Similarly on our data, it is quite difficult to get granular details on what our indebted clients look like. I would echo low income being the primary driver. Also there is a very strong link between mental health problems and debt problems that we see coming through the Bureaux.

John Gathergood (Associate Professor, Faculty of Science, University of Nottingham): Some of these studies are not going to pick up over-indebtedness which exists among either temporary migrant communities, or maybe medium-term immigrant communities. Individuals in these communities are probably going to be reluctant to respond to some of the survey methods that are being used. We know that among these community groups there are informal networks of lending and saving which go on, obviously on an unlicensed basis in the vast majority of cases. There will be cases of over-indebtedness there which are dealt with in some community context, involving different types of measures. That is probably not going to be picked up by many of these survey methods.

Caroline Siarkiewicz (Head of Debt Advice, Money Advice Service): There is just one other thing that is actually interesting as well if you look at the over-indebted population, that it is over-represented by women. Typically it would be 64% of the over-indebted population are women, 36% are male. I think there is an issue there that is worthy of note.

I would certainly support what was said about mental health. We find of the people who are helped through our projects that one in four have a mental health issue.

James Cleverly AM: Just a point of clarification, do you think that very stark gender differential is driven largely by the correlation between single parents? Obviously it tends to be women that have to shoulder the burden of child rearing.

Caroline Siarkiewicz (Head of Debt Advice, Money Advice Service): I think that you would probably think that, but our research cannot confirm whether or not that is the case.

James Cleverly AM: Thank you.

Fiona Twycross AM (Deputy Chair): I was going to make a similar point, but on the basis of women being over-represented in the category of people on low pay which is linked.

Caroline Siarkiewicz (Head of Debt Advice, Money Advice Service): Again, one of the things that research tends to do is give you a list of other research that you need to do! One of those is the link with mental health. Is it mental health issues that drive over-indebtedness, or is it actually being over-indebted that drives mental health? There is a lot of work to do there. Similarly on the gender, to get further down into the detail to understand just why there is an over-representation of women which could be both of those elements that you have mentioned.

Gareth Bacon AM: Any other measures? We have talked about gender, we have talked about mental health, we have talked about socio-economic levels. Is level of educational attainment, things like that, is that a measure that is routinely taken in this? It strikes me that people across the spectrum fall into debt, it is not just necessarily less well educated people. Certainly I have had a number of graduates who have worked for me in the past who found themselves up to their eyeballs in debt. They have got a wardrobe of shoes and nothing else, then they go to the pub and spend money on their credit card which is absurd to me.

Caroline Siarkiewicz (Head of Debt Advice, Money Advice Service): I think one of the things that came out a little bit earlier was that you will find that there are an awful lot of people who are just getting by. What tends to happen is that there is a life trigger, it might be the death of a partner, it might be the loss of a job, or it might be a reduction in hours. People are living and getting by, but actually an income shock is something that will then take them over the edge. That would apply across the piece. Whilst you might think that generally the lower paid perhaps are potentially in less secure employment, there are issues around different employment contracts now that would have an impact and perhaps make those more susceptible to the income shocks, equally someone on £100,000 can lose their job. Those income shocks apply across all social groups.

John Gathergood (Associate Professor, Faculty of Science, University of Nottingham): I think broadly we are only talking about maybe the drivers of debt now, and the groups that are affected by different drivers. You could characterise there as being two underlying drivers of problem debt.

On the one hand you have perpetual low income and poverty. People who just have a lack of income, struggling from week-to-week, month-to-month to meet essential expenditures, and they are using forms of credit to try to get by. Those people might be using home-collected credit, they might be using payday loans. They are kind of the poor end of the credit market in risk terms. Credit is used as a way of attempting to sustain some standard of living.

Then you can think higher up the income distribution. You have got individuals whose financial circumstance might look viable and sensible, but they then experience some kind of shock and they are not very well insured against that shock. That could be the loss of a job, or marital breakdown, or relationship breakdown. As a result of some shock, what looked like a reasonably decent financial position becomes a perilous one.

Then, of course, across the income distribution you have, to some extent, some cost of living issues and that is affecting everyone, and making everyone's budgets tight.

Gareth Bacon AM: What you have just described is people needing to make ends meet for essential reasons. How much of it is a problem to do with modern mind-sets, the instant gratification generation we have, "I must have a 48-inch flat screen television on my wall otherwise my life will not be worth living", that sort of mentality?

John Gathergood (Associate Professor, Faculty of Science, University of Nottingham): We get into the issue here of making judgements about why people are behaving in this kind of way. In the academic economics literature we have this notion that some people make decisions rationally, and some people suffer either impulsiveness or some kind of irrational behaviour. Maybe they are triggered by a cue, such as wanting to buy something expensive, or they get addicted to something like gambling, or they are part of this gratification culture. If you look at the patterns of borrowing behaviour on say credit cards, it is clearly the case that there is a large group of individuals out there who use credit cards, and similar forms of credit, to fund impulse related spending, or to fund what we call "instant gratification spending".

In the United States one broadly characterises maybe a third of credit card holders who seem to show patterns of expenditure which suggests that they are not really planning their budgets particularly well.

There is also the element that young people face very volatile income, sometimes uncertain job prospects. We have these continual increases in the cost of living. Therefore I am reluctant to make sweeping statements about debt problems on a wide-scale basis being caused by some kind of instant gratification culture.

Dr Pippa Lane (Senior Policy Researcher, CAB): Something that might help to see trends in the types of debt is that we have seen a really strong move away from consumer credit debt - credit cards, personal loans, that sort of debt - and a really steady increase in things like Council Tax arrears, water arrears, and gas and electricity arrears. That trend is becoming more and more marked in terms of the debt problems coming through the Bureaux, particularly markedly in London but nationally as well. We are seeing much more of that, unable to make ends meet, getting behind on the bills, and less of that splurging on the credit card, or frankly using the credit card to buy food and things like that. People are running out of those options and just getting behind. The problem as it is increasing is more in that lower income failing to have enough money to cover bills, rather than consumer credit which is still there but is a decreasing problem actually.

Gareth Bacon AM: I do not have trend data but the data provided by you Robbie [de Santos], by StepChange, shows 43% relates to catalogue store cards and credit card out of the total problem. It is still a sizeable problem.

Dr Pippa Lane (Senior Policy Researcher, CAB): I think we have a slightly different client base.

Robbie de Santos (Senior Public Policy Advocate, StepChange): Yes.

Dr Pippa Lane (Senior Policy Researcher, CAB): In terms of CAB's client base, in London 10.7% of our debt clients come in with credit card as the main debt, 14% come with Council Tax arrears as the main debt, fuel 5.9%, overdrafts 3.5%. It is those bills that we are seeing as the primary and increasing debt problems people are coming in with; which is possibly to do with the fact that we have a slightly different client base with people coming in face-to-face to Bureaux compared to using StepChange.

Caroline Siarkiewicz (Head of Debt Advice, Money Advice Service): I think the other thing just worth mentioning as well is that it is typically not a single debt, that people have a problem with, it is a multitude. People come with a basket of debt problems. It will typically be one that has perhaps tipped them over the edge to seek advice. I would certainly support what is said in terms of there is still a high prevalence of consumer credit debt, but actually what is happening is that it is falling, whereas some of the utilities costs and the general cost of living debts are increasing.

Ally Paget (Researcher, Demos): If I can just add as well, Demos carried out a piece of public polling last year of some 2,000 members of the public. This is slightly different from perhaps any of the samples that we have been talking about so far, because these are not people who are seeking support, it is a general representative sample of the public. Even within that sample, what we found was that people were reporting having gone into debt to fund a one-off purchase, 36% of people; to cover an unexpected expense, 34% of people; to cover a drop in income, 19%; and to afford a better general quality of life, 18%. Staggeringly, of that sample 23% of people reported that they had at some point gone into debt to afford the basic costs of everyday living.

Jenny Jones AM (Chair): That was nation-wide?

Ally Paget (Researcher, Demos): That was the UK, yes. I did try ahead of this to pick out anything particularly for London, the London portion of that sample statistics were very similar to that mentioned.

Robbie de Santos (Senior Public Policy Advocate, StepChange): I just thought it would be worth clarifying a bit more about who our client base is in relation to CAB. Our support is online and telephone based entirely. We see more of a low middle-income household; people who have very rarely interacted with the benefit system beforehand. They have been trundling along, scraping by, often being entitled to benefits because they are on a low to middle-income, tax credits, but when they fall into difficulty they do not tend to apply for benefits. They have this mind-set typically of, "We can manage it ourselves if I use credit. I have never been out of work before. I might be able to pick up my income again quite quickly." There is a real optimism that people have that is far too often misplaced and not in their best interests.

We are at risk of drawing a polarisation between consumer credit usage and people falling into arrears. What we tend to see is actually they are very related. What you will see is people do not want to fall behind on their essential bills, they know there are big consequences if they fall behind on their Council Tax or if they fall behind on their rent. The consequences are quite palpable. What we see people tend to do is using credit to keep up with those bills. If they are £200 short one month they might then dip into their overdraft to start covering the essential bills. If you are using credit to pay for things which you really, really must pay out of your debit part of your account, you are always going to be in more difficulty the next month if your income does not improve.

What we tend to see is that kind of spiral effect of people deciding not to fall behind on essential bills, using credit, exhausting their credit options, ending up then using a payday loan. We tend to see payday loans as really the credit-line of last resort among our clients. That is backed up by what the Financial Conduct Authority (FCA) saw as well. A significant proportion of people using payday loans are doing so because all of their options have run out.

In any of these circumstances credit is not the right solution but that is what people are doing. That is where we need to focus on interventions.

Stephen Knight AM: I want to ask whether there is an obvious age profile to debt levels? I would imagine that if you look at the effect of austerity, for instance, pensioners have been largely protected from cost-of-living rises. Younger people are obviously facing higher student debts these days, housing costs going up, and so on. Those in the middle are perhaps more stable. Is it very much younger people who are the people who are suffering from higher debts today?

Robbie de Santos (Senior Public Policy Advocate, StepChange): It is really the working age population that is most at risk. Actually we find that the 18 to 24 bracket are perhaps less at risk than you might imagine. I think that is because of this generation who are still living at home, and are fairly insulated from the shocks and changes. Those 18 to 24 year olds who are out in the workplace, who are living independently, are probably more likely to be working on a short-term or insecure contract, they are going to be significantly more likely. Age is really just a bracket for thinking about other vulnerabilities that people are exposed to, such as whether they rent privately and face moving costs.

Jenny Jones AM (Chair): Has this picture changed at all since the financial crisis started, since 2008? Has the overall level of indebtedness, and over-indebtedness, changed? Do you have a feel for that?

John Gathergood (Associate Professor, Faculty of Science, University of Nottingham): Yes, the overall level changed quite dramatically after the financial crisis. Certainly one way of gauging the level of indebtedness is to look at the number of individuals seeking debt advice. That rose very sharply in 2008/09, especially towards the latter part of 2008 when unemployment started to rise very quickly. There was a massive upswing in demand for debt advice, in reported levels of problem debt.

The composition of indebtedness has also changed over time. I think it has already been mentioned, you tend to see an increase in proportion of individuals citing basic costs of living as a cause of their debt issues. You tend to see a decline in the proportion of people citing, say, credit card debt. That is partly because the consumer credit market has shrunk somewhat since the start of the financial crisis, so there is less debt out there. There is this certain change in composition and level of problems over time. There are quite good resources for being able to track that.

Ally Paget (Researcher, Demos): Just coming back to age which we were speaking about just previously, again our public polling found that the increase in debt since the financial crisis has been largely concentrated in the younger age groups with over 65s much less likely to report that their debts have grown over the past six years.

Jenny Jones AM (Chair): I also wanted to ask you if it is possible to assess just how many people go to loan sharks? Is there any feel for that? As opposed to genuine organisations like Wonga?

Caroline Siarkiewicz (Head of Debt Advice, Money Advice Service): There was a big study in 2010, it is a little while ago now, but that said that 1 in 12 families in Britain's most deprived area were going to loan sharks.

John Gathergood (Associate Professor, Faculty of Science, University of Nottingham): Just maybe a point of clarification, you mentioned Wonga. Wonga is a licensed lender --

Jenny Jones AM (Chair): Yes, absolutely.

John Gathergood (Associate Professor, Faculty of Science, University of Nottingham): When we use the term "loan shark" maybe --

Jenny Jones AM (Chair): I did say, "As opposed to".

John Gathergood (Associate Professor, Faculty of Science, University of Nottingham): Right, sorry, I did not hear "as opposed to".

Jenny Jones AM (Chair): I did. I was very careful.

John Gathergood (Associate Professor, Faculty of Science, University of Nottingham): I was recently involved in some work for the FCA which was designed to gauge the impact of their price cap on illegal lending. As part of that I was involved in a large survey of 2,500 people in the UK about their use of loan sharks or, as it was also phrased in the survey, "a member of the community unrelated to you", so we can guess who that might be. That picked up that 2% of people mentioned that they had either borrowed from at the current time, or had previously borrowed from, somebody who they identified as a loan shark or member of the community unrelated to them.

The survey also asked, "Have you ever borrowed from a loan shark?" and then sought clarification with a question, "What do you mean by loan shark?" Most people mentioned the licensed lender. Some of them did mention the company that you alluded to a few moments ago. You have to filter out people who do not understand what "loan shark" means.

We could think maybe a maximum of a couple of percent of the population might ever have borrowed from a loan shark. If you look at figures from Citizens Advice Scotland recently, in their submission to the FCA consultation on high-cost, short-term credit, they mentioned that I think last year they saw 49 people in all of Scotland who said that they had a problem with a loan shark, so very few people. However, this is the kind of activity that you think is going to be unreported so we are trying to get at something which survey measures are going to be limited in picking up.

James Cleverly AM: I am no apologist for Wonga and firms like that, but I was always very uncomfortable with, I cannot remember who coined it, but the "legal loan shark" phrase that was kicked around because there is a massive difference between a licensed lender - whatever their business practice - and a loan shark. Do you think there is any danger when companies like Wonga, and there are other payday lenders available, are described as "legal loan sharks" that people do not actually see the distinction, they do not recognise there is a distinction between licensed payday lending firms and actual loan sharks, one of whom may break your legs and the other one?

John Gathergood (Associate Professor, Faculty of Science, University of Nottingham): It is not particularly helpful, not so much because people might mistake the community based lender on a housing estate for someone who is legitimate or illegitimate, but mainly because there are a group of online licensed lenders out there in the high-cost short-term credit market, and there are a group of unlicensed online lenders who have the auspices of being genuine licensed companies. They look like Wonga and QuickQuid and the big names but their websites are actually illegal. They often operate them from outside the UK.

When we use the term "loan shark" to describe legal activity going on online, it can muddy the waters in people's thinking between legal and illegal activity, both of which is happening online. It is not a particularly helpful term.

Jenny Jones AM (Chair): I think you said personal debt has gone down but the level of over-indebtedness has gone up, is that more or less what you said?

Robbie de Santos (Senior Public Policy Advocate, StepChange): What we are seeing is more people falling into debt, but the debts that they are falling into are lower than they were at the time of the financial crash. What we saw around 2008 to 2009 were huge credit card debts. We see now lots more people but with smaller debts, comprised of arrears and high-cost credit more.

Fiona Twycross AM (Deputy Chair): I was at an event yesterday, actually in this room, which talked quite a lot about illegal lending. One of the concerns that was raised by somebody to me was the fact that the bearing down on the companies such as Wonga, and the recent concerns about their credit checks, was that it would inevitably lead to more people going to illegal lenders. Is that a concern that panellists would share?

Caroline Siarkiewicz (Head of Debt Advice, Money Advice Service): This is the FCA work on regulation that is actually going to have an impact on high-cost short-term credit. We have been working with the FCA on what the implications for this might be. I think one of the things that is perhaps more likely to happen is that actually people who have gone to high-cost lenders, almost as a last resort to cope, may then actually be presenting for debt advice. We see that as a trigger that actually will probably push more people into the advice sector. There will inevitably be some who will continue to look - but I think the issue is that it will probably drive more people into advice.

Dr Pippa Lane (Senior Policy Researcher, CAB): We would support that. In addition, we have some early indications that it looks like people might turn to other forms of short-term high-cost credit, like logbook loans and guarantor loans. That is something we are keeping a watching brief on. Not that people necessarily turn to illegal lenders, but that they might turn to other forms of high-cost credit which is something that we know the FCA is looking at and that we will be looking at our data to see whether we see a spike in people using those alternative quite detrimental products instead.

Robbie de Santos (Senior Public Policy Advocate, StepChange): I think it is just an important thing to consider here. Credit is not the right thing for people when they are in these dire situations. Really, as Caroline [Siarkiewicz] suggested, this is our opportunity to get people to do the right thing, to seek advice to help people manage their bills rather than using credit to keep up with them. It is a good thing, in my mind and in StepChange's mind, if people cannot get credit.

Stephen Knight AM: Just on that point, I was going to ask whether the changes that have happened in the last couple of years to what was the crisis payment scheme that was devolved to local authorities - local authorities have pretty much sat on most of that money and not given it out. I wonder to what extent those changes have had an impact on people falling into personal debt, particularly the very low-income levels? Have you picked that up in your advice surgeries?

Dr Pippa Lane (Senior Policy Researcher, CAB): It is not something that I have direct evidence on. Certainly I would say a bigger impact is the localisation of Council Tax benefit because we are seeing major, major problems with Council Tax arrears. In terms of looking at what local authorities are doing, if I had to choose one, it would probably be that.

Yes, certainly a lot of these people that we are talking about should be getting a crisis loan to fund the boiler that needs to be repaired rather than going to a payday lender. I think that is certainly the case.

Ally Paget (Researcher, Demos): If I might add, I do not have any quantitative information on this, but I do have some insights from some qualitative research that we at Demos have been doing, in Wakefield in fact, with families in poverty in Wakefield. This relates to both points, the point about that absence of some former forms of support like crisis loans, and the point about how even though the overall personal debt bill has gone down there is more shopping around between different forms of debt. I think the two are related. That is because, in fact, a lot of the families we have spoken to in the course of our research are very canny in their budgeting. A lot of debt products, like payday loans, have become normalised and a normal part of budgeting. There are families who can give you "back of the envelope" calculations of their expenses for this week and their expenses over the next two weeks, which may look different because they know their car needs to be fixed or something like that. They are actually building into their calculations for their expenditure for the next couple of weeks, "Well, I will have to take out a payday loan next week to cover the car and that will take me this many weeks to pay back". They do mention, in that context, when they run through all the forms of support that might have been available to them previously that are not any more longer, like a crisis loan.

Gareth Bacon AM: We have talked about the various different types of debt that people get themselves into. Is it possible to categorise what the most common types are? What are the really big problems?

Dr Pippa Lane (Senior Policy Researcher, CAB): The number one debt that we see now for the first time in 2014 is Council Tax arrears. Every other year that we have been monitoring this prior to that it has been consumer credit. Consumer credit is still very big, but now overtaken by Council Tax arrears. If I run through the top ones I have got here - Council Tax arrears, credit cards, unsecured personal loans, fuel, overdrafts, telephone and broadband, and catalogues and mail order. Those are the top debt issues we see nationally.

The ones in London that are over the national average; fuel debts, rent arrears to local authorities, rent arrears to housing associations, rent arrears to private landlords. All rent arrears are higher across the different tenancies. Council tax arrears; unpaid parking and congestion charges; overpayment of tax credits; overpayment of Income Support, Job Seeker's Allowance (JSA), Employment and Support Allowance; overpayment of Housing Benefit.

Gareth Bacon AM: Overpayment?

Dr Pippa Lane (Senior Policy Researcher, CAB): In tax credits that is typically overpayment.

Gareth Bacon AM: Meaning the tax man has messed it up and they have paid you too much and you owe them money back?

Dr Pippa Lane (Senior Policy Researcher, CAB): Yes, that is typically with tax credits. In terms of Income Support, JSA and Employment and Support Allowance, that is only 1.1%, of people coming in London. That would be typically people who have perhaps not complied with the conditions of their benefit entitlement, for example, and they have continued to be paid and have arrears essentially.

Gareth Bacon AM: So Council Tax arrears a big problem in London?

Dr Pippa Lane (Senior Policy Researcher, CAB): It is the biggest problem in terms of individual debt in London.

Gareth Bacon AM: It is the biggest in London?

Dr Pippa Lane (Senior Policy Researcher, CAB): It is the biggest in London. It is the biggest nationally, it is 12.2% nationally. It is 13.9% in London.

Gareth Bacon AM: Are you able to break that down into what particular demographics have a problem with Council Tax arrears in London?

Dr Pippa Lane (Senior Policy Researcher, CAB): I can ask our data team. It was not particularly easy and because we do not hold the Money Advice Service contract in London our granular data is better in parts of the country where we are providing more debt advice. I can certainly ask what we can do, but I know they could not give me very much detail.

Gareth Bacon AM: Is there any analysis indicating what the catalyst has been to people falling into Council Tax arrears?

Dr Pippa Lane (Senior Policy Researcher, CAB): It is low-incomes primarily; people just not having enough money.

Gareth Bacon AM: Is there any breakdown by borough as well, that might be helpful?

Caroline Siarkiewicz (Head of Debt Advice, Money Advice Service): We might be able to help.

Dr Pippa Lane (Senior Policy Researcher, CAB): I would say we will not be the best source of that data.

Caroline Siarkiewicz (Head of Debt Advice, Money Advice Service): We might be able to get some information.

John Gathergood (Associate Professor, Faculty of Science, University of Nottingham): Just on this point of the causes, there is some evidence, as Ally [Paget] mentioned to you a few moments ago, people act strategically when it comes to their debts, even really low-income people. What they choose to default on is in part dependent upon the consequences of default. You will find that people are very, very reluctant to miss their mobile phone bill because they know they are going to get switched off very quickly. People are quite happy to miss the water bill, because essentially the water company cannot switch you off. Where you see people going into debt in part depends on how much intelligence there is around about the consequences of getting behind on that particular debt. If I say next week there is going to be no consequences to going into credit card debt and arrears and they cannot get the money back and they cannot take you to court, you will see low-income people soon learn this and will choose to default on that. It is partly about what the consequences are.

Robbie de Santos (Senior Public Policy Advocate, StepChange): I think that does not explain the rise in Council Tax arrears though. Actually the consequences of Council Tax arrears are the most severe. We find that councils are the most likely of all the different types of creditor to go for really tough enforcement options really quickly. Councils are most likely to send in the bailiffs within a few months of you falling into Council Tax arrears. We now see 35% of our London clients have Council Tax arrears, probably that bailiff interaction has been what has prompted them to take advice in the end.

John Gathergood (Associate Professor, Faculty of Science, University of Nottingham): I think the implication there is that if you see people going into arrears where it is very costly then this is indicative of quite genuine desperation and extreme hardship because they are not --

Jenny Jones AM (Chair): Sorry, is that greater than in the rest of the UK? Is that London --

Robbie de Santos (Senior Public Policy Advocate, StepChange): I think it is, yes, but I can double-check that.

Caroline Siarkiewicz (Head of Debt Advice, Money Advice Service): There was a Child Poverty Action Group survey actually done earlier this year on Council Tax, specifically in London. I have some figures here that might be interesting. They are saying on average the charge for people who are on benefits is now £151 per annum for their Council Tax, and that the claimants are apparently now liable for over £91.5 million Council Tax annually. One in four affected Londoners have been sent a court summons for non-payment; that is almost 120,000 people across London being issued a court summons.

Fiona Twycross AM (Deputy Chair): On the Council Tax arrears, obviously for a lot of people they are coming into paying Council Tax for the first time relatively recently, that could explain quite a large part of the increase. I was interested in the point you made about councils coming in quite rapidly and actually not having adapted effectively to the fact they have got people who do not really quite understand that they have got to pay and the consequences of not paying Council Tax, which you say are much more serious than other forms of debts.

Robbie de Santos (Senior Public Policy Advocate, StepChange): I think there has just been less pressure on councils compared to other forms of credit providers over the years on their collection practices. The focus on consumer credit providers has been much more intense. They are quite highly regulated. There are very strict procedures that they have to follow if people are in arrears, and things they can offer them. That just is not there with councils. What we tend to see is that councils think the best way to get the money is by this kind of "tough guy" approach; you know red letters, big warnings. If that leads to people then borrowing more money, borrowing money at a high-cost, getting into deeper difficulty, eventually those costs will end up with local authorities, possibly through homelessness, possibly through additional mental health support services. I think as anyone knows who works anywhere near a local authority, that picture of finance just is not joined up.

Dr Pippa Lane (Senior Policy Researcher, CAB): I just wanted to add that, yes, I think that is a huge part of it. In the low-income part of the population a lot of them are now liable for Council Tax for the first time. Those people who were already struggling to make ends meet now have this as an additional bill, whereas previously Council Tax was not one of their bills. I think that is probably certainly driving part of this spike, as well as the other arrears in gas and electricity that we are also seeing increasing.

Gareth Bacon AM: Dr Lane, you mentioned guarantor loans earlier on. Certainly it has been a relatively recent phenomenon and I have started to hear advertisements for guarantor loans on the radio and things like that and I had not before. Is this a relatively recent phenomenon? Is there any measure or statistic?

Dr Pippa Lane (Senior Policy Researcher, CAB): They have been around. We have not seen them as people having them because payday loans were more accessible. Guarantor loans and logbook loans are the two that we think might be the next thing. As I said, we are keeping a watching brief. We keep a code on what every debt problem is and what the primary debt problem is of every client coming through. We are able to see if these spike up. We will be checking if they are increasing. They are still not hugely prevalent. We are watching especially after the cap is announced this week to see whether we see a spike.

Gareth Bacon AM: Is that view shared by everyone else, that they are not terribly prevalent yet?

Robbie de Santos (Senior Public Policy Advocate, StepChange): Yes, I think it is too early to say in our data so far, but we are concerned about it as well.

Ally Paget (Researcher, Demos): They did not feature highly in our research.

Caroline Siarkiewicz (Head of Debt Advice, Money Advice Service): I agree.

Gareth Bacon AM: As we discussed earlier on, credit cards remain bit of a problem. The availability of cheap credit, the ease with which you can get a 0% transfer on one credit card to another, and max out both, and then do the same thing again with a third and fourth, etc, does get people, particularly younger people I think, into all sorts of trouble. Some of these people are, for want of a better expression, financially illiterate. They do not really think about the consequences, all they think about is meeting the minimum payment each month and if they miss it for a couple of months, you know, whatever. Should there be some measures put in around that, about limiting the availability of cheap credit and the background checks that credit companies take on people before they issue credit cards, particularly with regard to the amount of debt that that person already has, in order to safeguard people?

John Gathergood (Associate Professor, Faculty of Science, University of Nottingham): Obviously when one applies for credit what typically happens is that the creditor will purchase your credit file from a credit reference agency, and that credit file will contain a pretty up-to-date, pretty much complete, view of your financial situation. Credit providers will score the applicants on the basis of what is on their credit file and make a decision.

The things you mentioned, such as an individual's financial understanding, financial sophistication, does not show up in part of that lending decision. Some lenders will try to infer how sophisticated a consumer is by what they do on their website, whether the individual has looked at the terms and conditions; how long the individual has been on the website before they make the application, the general idea being that if someone has taken a bit longer and looked at the terms and conditions they are probably a bit more financially sophisticated. In general, that kind of layer of individual cognition and decision making ability and understanding is not something which lenders can pick up very easily, because it is not readily measurable and does not show up in the kind of data on which they typically make lending decisions.

Gareth Bacon AM: I am just wondering whether or not it is something I suppose really the government ought to be doing around this. Certainly in the earlier "noughties" young people with no assets were getting themselves up to their necks in really considerable debt. I think it was you, Robbie [de Santos], that mentioned earlier on that unless your income changes you have got no way of getting out of it. I referred to someone who was working for me, who broke down in tears at her desk. She was a 24-year old graduate who was £25,000 in debt, all on credit cards. She had a wardrobe full of shoes and no assets. It was because she had maxed out one credit card after another, after another. I remember thinking how incredible it was that someone like this was able to get that much credit that quickly, without anybody doing anything to stop it. I am just wondering whether or not there should be a role for government, whether it be regional government, national government, to limit the availability of cheap credit like that?

Ally Paget (Researcher, Demos): I think this is something that fits into a broader discussion of local banking that is going on at the moment. Another project that Demos is involved is looking at local banking and alternative finance. Certainly models internationally, in the United States in particular, there is a shared platform across which a lot of banks operate, where they have all got access to records about customers that are shared. That helps this to happen. I do not know if it is for credit cards in particular, but for certain kinds of loans one bank will be able to see the records held by another bank which will assist them to make a decision about this person's ability to pay. There are lessons to be learnt from that, I think, for the UK in terms of a broader alternative finance debate.

Andrew Dismore AM: I want to go back and talk about the drivers a little bit. We have had a headline discussion already on that issue. Have they actually changed very much? We talked about low-income, the one-off income shock, and the general cost of living issues. Have you see any trends that change the balance between those, or new problems coming through?

Dr Pippa Lane (Senior Policy Researcher, CAB): Yes, we used to see that the primary driver was a life event; it was a relationship breakdown or a job loss. We now see the primary driver as just cost of living, not being able to meet bills. That has become the dominant story, whereas previously it was the life event being the dominant driver for us.

John Gathergood (Associate Professor, Faculty of Science, University of Nottingham): That fits with what you see happening in the broader macro-economy. Financial crisis, big increase in the unemployment rate so that is unemployment shocks for a lot of individuals causing debt problems. We have seen that unemployment has come down quite rapidly, but we do not see a strong wage growth. For many people the prices which they pay are outstripping the growth in their wages so it becomes a cost of living issue. The types of people that identify themselves to Citizens Advice and similar are people with cost of living problems. Therefore that broader macro-economic picture translates into people's lives as different causes of these problems that change over time.

Robbie de Santos (Senior Public Policy Advocate, StepChange): I think it is fair to say that they are both of the same thing really. If you have got cost of living pressures then you are going to be less well insulated when a life event does happen. We still see life event accounting for about 60% of the cases that we see at StepChange. Within that you will have illness or accident that affects your ability to work, relationship breakdown, unemployment, reduced hours at work. What is quite interesting is the cost of living one peaked in about 2008 at about 22%, it kind of dipped until about 2012, and now it is back up at 21% in 2014. It has dipped and then it is back up almost where it was at the time of the recession. I think it is just as people are finding it harder and harder to get by.

Andrew Dismore AM: If we just look at the low-income thing, you have got two different types of low-income, I suppose. You have got people in work but not earning very much; zero-hours contracts, limited hours, poor hourly rate etc on the one hand. We know there are a lot more people in work, but we know from what the Treasury is saying they are not actually paying income tax because they are not earning very much, or very little income tax. On the other hand, you have got people who have been on benefits. Has Government policy affected that particular group, for example the benefit cap, particularly the impact in London? There was a point made early on about people having to pay Council Tax who did not have to before.

Robbie de Santos (Senior Public Policy Advocate, StepChange): We have definitely seen an increase in the number of people coming to us on benefits. As I said before, we tend to see a much more low middle-income, Resolution Foundation client group, but we are seeing a lot more people on much more low incomes and in the benefit system. I think most people that come to us have been in work at some point recently. Actually the problem that we see is the people who do not claim benefits when they probably should.

Andrew Dismore AM: That is what I was going to come next, was the half and half, which are the people who are in work but on benefits - particularly Housing Benefit for example - are they particularly showing through?

Robbie de Santos (Senior Public Policy Advocate, StepChange): I could not say for sure, but what I do know is that 60% of our clients who fell out of work or had an income shock did not after that event go and seek more benefits and try to find a sustainable way through it. What we see is that 60/40 split of those who are in the system and are able to get support, and that helps stop it from getting too deep, and people who do not apply for benefits and rely on credit when they face an income shock and then end up in really dire difficulty that could have been avoided.

Andrew Dismore AM: Looking at the cost of living issues, what particular cost of living issues have come through? Is it just general household bills, or are there particular bills that particularly hit people?

Robbie de Santos (Senior Public Policy Advocate, StepChange): At StepChange the big change that we have seen is at the beginning of the recession, mortgage arrears were the biggest disproportionate concern. Now it is rent arrears and that is both private renters and social renters. The benefit cap is likely to have had an impact on that.

Andrew Dismore AM: Is that particularly in London you are talking about there or more widely?

Robbie de Santos (Senior Public Policy Advocate, StepChange): Nationally and in London.

Andrew Dismore AM: Looking at those particular issues around drivers, you are talking about giving benefit advice and this is something that is strange to me. If somebody comes to you - and I do not think you have a typical client - what advice do you actually give them?

Robbie de Santos (Senior Public Policy Advocate, StepChange): we do something called 'income maximisation' and that is where you go through the process of checking what someone's benefit entitlement is and then showing them how to go to apply for that benefit entitlement themselves.

Quite shockingly, the average benefit uplift that people get once they have been through that process is about £100 a week. Those who are not claiming benefits beforehand who then are advised to claim benefits are missing out on approximately £400 a month on average in benefits. You think that if they had been claiming that £400 earlier on, could they have avoided a payday loan? Could they have avoided getting to the end of their overdraft? That is something that we now understand a bit more.

People simply do not understand or do not appreciate that they are eligible for benefits. They do not think they are for people like them. There is a stigma associated and there is a sense that, "I need this money right now and it might take two months to get the benefit. Hopefully, I will be back in work by that point". That is, unfortunately, too often too optimistic.

Andrew Dismore AM: If people do not qualify for benefits, what is the advice then?

Robbie de Santos (Senior Public Policy Advocate, StepChange): If they do not qualify for benefits, then presumably they have an income. What we will do as a charity is we will negotiate with all of their creditors how much they can afford to pay and then we will disburse that money to all of their creditors. It might be £2 a month, it might be £100 a month. They will pay it back slowly over time and all the interest and charges will be stopped.

Andrew Dismore AM: The creditors are prepared to do that?

Robbie de Santos (Senior Public Policy Advocate, StepChange): Yes.

Andrew Dismore AM: But not councils?

Robbie de Santos (Senior Public Policy Advocate, StepChange): On the whole, yes.

Andrew Dismore AM: Generally speaking, the credit card companies will be sympathetic. As long as you are not ringing up more debt and you are paying it off in terms of the agreement, it is fine. Gas and electricity, it is fine but --

Robbie de Santos (Senior Public Policy Advocate, StepChange): What our advisers will do is they will separate it into priority and non-priority debts. Priority debts are those which have the most consequences like bailiffs coming around or losing your home. The priority will then be to negotiate with the landlord or the Council Tax collections to try to settle those. Sometimes that is effective; sometimes it is not. Then the credit providers will generally accept a longer-term slower repayment because it actually costs them a lot of money to be enforcing debts. Eventually, they might sell them off for X pence in the pound to a debt collections agency and that is even grimmer.

Andrew Dismore AM: The basic message from this is that we have to get the councils to be a bit more sensible about how they manage their debt and their creditors?

Robbie de Santos (Senior Public Policy Advocate, StepChange): Absolutely.

Andrew Dismore AM: Do you see these drivers changing over the next few years?

Robbie de Santos (Senior Public Policy Advocate, StepChange): From all the economic predictions, it looks like that, first of all, the factors around austerity will continue no matter what Government we have nationally. It looks like incomes are not rising; there was a brief moment when they were looking like they were rising above inflation. That has now slowed down. We are seeing the numbers in temporary work, short-term contracts and part-time work through lack of choices tailing off and that is a good sign, but there are still relatively high numbers in all of these positions. As far as I can see, there is a significant amount of future peril on the economy side.

On people's personal finances, people are not saving. We know that 13 million people in the country do not have the savings to cope with a month's essential costs if their income dropped by a quarter. That is a significant number of people who are not building up savings and who will be tipped over the edge if any of these life-shocks come to fruition.

John Gathergood (Associate Professor, Faculty of Social Sciences, University of Nottingham): There are two big issues for the immediate future. One is what happens to interest rates. That is most relevant for individuals who are homeowners and may be further up the income distribution. Interest rates are exceptionally low and have been so for a few years now, but compared to their long-term historical average you would expect them to revert back to 3% or 4%. The implications for individuals with mortgages can be many hundreds of pounds a month on their mortgage bill, potentially. That is a big issue.

At the other end of the income distribution, say, there is this issue of Universal Credit and its introduction, which for various reasons could cause individuals to struggle more with their finances generally and specifically with problem debt. Universal Credit, even in its revised schedules, if and when it does come in on a more widespread basis, one could see as either creating or maybe just highlighting problems with finances for individuals who are benefit-dependent.

Andrew Dismore AM: We could get back to the mortgage arrears problem if interest rates going up?

John Gathergood (Associate Professor, Faculty of Social Sciences, University of Nottingham): It is quite possible, yes.

Andrew Dismore AM: We have seen various initiatives form the Government and the regulators to try to manage problem debt: a cap on interest rates on payday loans, rollovers, warnings of risk. Are these sufficient measures from the Government? Should it be doing more? If so, what?

John Gathergood (Associate Professor, Faculty of Social Sciences, University of Nottingham): Maybe I can speak to this point. Maybe just as a brief disclosure, I am advising the FCA on the cap on high-cost short-term credit. The policy statement is due to be published very soon. The final policy is pending consultation, but for the purposes of this Committee I need to talk from the consultation policy and not any revisions that have been made to it.

What we see going on in the FCA's world is that it is putting a cap on the cost of credit. It has eliminated some of the more adverse aspects of the market such as excessive continuous-payment-authority use and rollover use. It is creating an environment in which prices are limited and in which a lot of these excessive charges and people rolling up thousands of pounds in payday loan debt will not happen in the future, not with an enforceable, legal lending environment.

The Competition and Markets Authority (CMA) is also looking more generally at trying to improve competition and consumer search in the market because one thing which is definitely the case is that consumers do not do a good job of searching for the best products. There are initiatives afoot to try to improve the quality of consumer search, shopping around and choosing between products. The CMA is proposing the introduction of new price comparison websites and also the introduction of new information disclosures to try to make the true cost of credit more apparent to individuals. What I mean by an 'information disclosure' is that when someone applies for a loan, which they get typically online, that they will get some really clear statement of what it is actually going to cost them and what the contingent charges might be. There is evidence from the United

States that they are really quite powerful. If you put information right in front of people to say "Do you realise that if you miss this payday loan, you could be hit for a charge of £30 and the loan could double within three weeks?" that it does impact upon individuals' behaviour. Those kinds of disclosures that the CMA is proposing can really be quite powerful.

Andrew Dismore AM: Is there anything else that should be done?

Robbie de Santos (Senior Public Policy Advocate, StepChange): At the moment, we are talking about how you control and prevent people and existing problems getting worse. Where we need certainly the next Government to be looking is actually at how we prevent people from getting into debt in the first place. How do you deal with those external factors?

There is only so much you can do about the economy and the shape of the labour market, but certainly we need to be in a position where people - and especially those on low incomes - have much better savings. We have some research we will be publishing soon which shows that a little bit of savings can make a lot of difference if you are on a low income and you are trying to weather income shocks. It is really very significant stuff. The current savings policy of Individual Savings Accounts does not really do much for people on low incomes. The savings, especially if you do not pay much tax anyway, just are not really material. Actually, if you are on a low income, you need to have much better defaulting people into regular savings. We would like to see a new savings package.

The other big thing that we want to see is an entitlement to, or a guarantee of, support for people in moderate difficulty. At the moment, you have bankruptcy and individual voluntary arrangements for people in the most extreme difficulty, but if you are starting to fall behind in your arrears or on your credit cards there is no statutory route of protection from enforcement or interest and charges. We are in talks with all of the main political parties at the moment about this. There is a real appetite to do something here. Actually, there is a piece of legislation on the statute already that just needs to be implemented without any primary legislation that would guarantee this protection for people.

Andrew Dismore AM: What sort of protection would that be?

Robbie de Santos (Senior Public Policy Advocate, StepChange): On condition of seeking debt advice and if it was found that their payments were unaffordable to them, for a temporary period - say six months in renewable bits - they could get interest and charges frozen and an affordable payment rate, which would see them then not need to borrow further to keep up with their essential commitments. Something similar exists in Scotland called the Debt Arrangement Scheme Scotland and we are looking for the Government in this country - in England and Wales - to implement something similar here.

Andrew Dismore AM: What is the resistance to doing it? If you say it is already on the statute and needs an implementation date or a statutory instrument to implement it, what is the barrier to them doing it?

Robbie de Santos (Senior Public Policy Advocate, StepChange): It was brought in in 2008 on the statute and it was simply lost between the cracks as the Ministry of Justice (MoJ) and the Department for Constitutional Affairs were jiggled around. At the time, possibly the Insolvency Service was quite resistant to it. Now, there is support from different parts of Government for it and it is just a case of crossing the t's and dotting the i's to make sure that there are not any negative consequences or moral hazards involved.

Andrew Dismore AM: It is up to the MoJ to make its mind up?

Robbie de Santos (Senior Public Policy Advocate, StepChange): It is fair to say that people across Government are interested. This is something that, when you look at debt generally, there is not a single Minister or Department that is responsible for action on debt. It is very dissipated across all of the big Government Departments. Actually, it is then very hard to get leadership on it. You can see why; it is not a very popular issue to be doing something on. People do not want to admit their own debt and there are not many votes in it.

Really, how you can join up all the action that is needed to help people in debt is to focus political accountability in one place, even though the responsibility for those actions might be more spread out appropriately across different departments.

Andrew Dismore AM: You want us to recommend to the Government to get its finger out and you want us to get the councils to behave themselves?

Robbie de Santos (Senior Public Policy Advocate, StepChange): Absolutely.

Dr Onkar Sahota AM: Certainly. I just want to explore these drivers for indebtedness a bit more in terms of mental health, addiction and worklessness. Have you seen an increase in the number of people who are suffering from mental illnesses or on long-term disabilities going through indebtedness?

Dr Pippa Lane (Senior Policy Researcher, CAB): The link is longstanding and, as was mentioned earlier, we do not totally understand which drives which. Probably the answer is that they drive each other. If you have an existing mental health condition, you might be less capable of managing your finances and more likely to fall into debt. Likewise, if you for a life event or whatever other reason fall into debt, the pressures of living with debt may trigger a mental health condition. Probably the answer is both.

Dr Onkar Sahota AM: Has there been an increase?

Dr Pippa Lane (Senior Policy Researcher, CAB): I do not think we have seen it. We have seen an increase in debt and, with that, an increase in people with mental health issues, but that is just what we have already discussed.

Dr Onkar Sahota AM: Empirically, I work as a doctor and I see more and more people coming as they have been denied disability benefits and have been getting cut-down benefits. I am always writing letters of appeal for them to say, "This should be reinstated", or something. I get a perception that these people may be driven into indebtedness. Is there any data to back that up? That is my own empirical experience.

Dr Pippa Lane (Senior Policy Researcher, CAB): Separately, in terms of our welfare, the two big issues that people come to CAB with are problems with their benefits and debt and often both of those. We have talked a bit about the increases that we have seen in terms of debt and that move to Council Tax arrears and, in terms of what we have seen in our benefits advice, a big move around the Employment and Support Allowance and the problems with the Work Capability Assessment. Yes, we have also seen an enormous increase in terms of people coming to us with those problems. People very often have both - people have complex lives. However, I do not think we have done any analysis that specifically shows that the work capability assessment, for example, is driving the debt problems. I do not think we have evidence to say that that is the case.

Ally Paget (Researcher, Demos): One thing to mention in this regard is that, as maybe all of us have mentioned, people access debt advice very late. What our Demos research finds is that one of the triggers for people actually taking the plunge and accessing debt support and advice is that they start to see for themselves the impact on their mental and physical health. For a lot of people we have spoken to, that is a trigger for them accessing support and advice.

One thing that has been missing from the discussion so far when we have been talking about potential Government solutions is that all solutions at the moment are focused on products. What debt products are the most harmful? What features of debt products are the harmful features? In our report, which we published earlier this year, we argue strongly for an approach that moves away from a focus on the product to a focus on the person. Obviously, a focus on the product is important. It is important that we look at payday loans and at what we know are the big offenders. It is important, as Pippa [Lane] said, that we start to look at which offenders are rising up the ranks, like the guarantor loans and the logbook loans. However, equally, we need to be thinking a lot more about people.

A lot of the harm that debt causes cuts across all the different debt products. A lot of the harm that is associated with debt products we do not think of as being the problem ones: mortgages, arrears, credit cards, things that many more people have that are very much more common. Earlier we talked about the way in which debt advice providers prioritise debts. Quite understandably, they do so on the basis of legal consequences. Mortgages, rents, utility and Council Tax arrears and court fines are all priority debts, whereas benefit overpayments, credit debts and student loans are, on the other hand, a non-priority.

It is really important to understand that that is not how it seems to people who are in debt. People who are in debt are not as much concerned sometimes with legal consequences, the urgency of repayment and debt collection methods. They are more concerned with affordability, the risk of spiralling into further debt, their mental wellbeing, their general ability to cope and the social consequences. What the Government has to do, what policymakers have to do and what practitioners have to do is to really think about how they are going to balance those forms of harm that matter most to people who are in debt and the very real problem of the practical legal consequences. That is what I would say on the point about mental health.

Dr Onkar Sahota AM: How do we do this? Do you have any ideas on how we can do this in practice?

Ally Paget (Researcher, Demos): We looked in our research at various debt advice providers. The ones that we found were doing best were the ones that offered tailored advice which was tailored to people's individual circumstances, taking into account whether they had a history of mental health problems and taking into account what their social support structure looked like. They were the ones that took a whole-person approach which signposted not just to benefit advice and benefit maximisation but signposted also to social and emotional support. They were advisers that balanced their professional knowledge about legal consequences, etc, with the client's main concerns because, if you do not do that, clients are not going to necessarily comply with what you are telling them to prioritise. Finally, they worked with local partners to ensure a broader pool of support. Some of the most successful good practice we saw was where debt advice providers had sought funding from a wider range of sources like Clinical Commissioning Groups (CCGs) and where they had got the CCG to recognise the very real impact on mental and physical health.

James Cleverly AM: It is one of the things that, Robbie, you mentioned and it ties in with the points just made about how your initial response is income maximisation. It was very telling when you were saying there is actually quite a bit of statutory support which is going unclaimed or under-claimed. I know - not in this meeting - that we have had other discussions around the use of food banks and that kind of stuff. One of the things that keeps coming out is either actual failures or quite often perceived failures or inabilities to tap into that statutory support.

Is there something that could be done to simplify or demystify or just make less scary the prospect of tapping into statutory support?

Robbie de Santos (Senior Public Policy Advocate, StepChange): I absolutely agree. You have to separate the two things. You have the means-tested benefit system and then you have the peripheral local welfare assistance schemes, community care grants, food banks and charities.

There is a role for employers, actually, in making sure that the people who are getting laid off or falling into sick leave or anyone who is not used to interacting with the benefit system who comes in to face it. Employers are the principal people who can give that information and know that that life event is about to happen and can signpost people to what they should be doing. There is a role for employers in doing more there to help people make a smooth transition. That is what this is all about. It is all about adjusting incomes and managing expenses.

The other thing is about how you make sure that people turn to those more sustainable forms of support over credit when they are in a difficult place. We really have to understand the mind-set of people who are desperate for money and who have these bills coming in left, right and centre. They just want to pay them urgently. It has to be as simple as possible for them to access sustainable support.

There is a really interesting example from Australia where they have a scheme called Good Shepherd. All of these community grants and corporate social responsibility work from the mainstream banks are all pulled into one scheme, which is then available locally. It is not judgemental. It is not in the back of a council estate and you do not have to fill in seven or eight pink forms. It is a really mainstream, high street option for people to get affordable forms of support - grants, loans - in one place and that is what we should be looking at here. Every local authority has its own scheme, all the different credit unions and food banks. It is really complicated for people.

James Cleverly AM: I will be honest with a little personal declaration here. It really touched a nerve when you said someone gets made redundant and thinks, "I could sign on and I could go for this, or what I could do is just live on the bit of savings I have or live on the overdraft or on the credit card because I will pick up work in a month or two's time". It was exactly the situation I was in. I did not sign on and it did not occur to me to go to the Government for support.
However, I did get a P45. At some point, someone generates that P45 and someone knows that I am out of work. It would be very interesting if at that point, as a standard piece of correspondence that comes out with every single P45 circulated, there is a line saying, "It might seem fine at the moment but if at any point you do find yourself even in the slightest bit of financial difficulty, these are organisations that can help". Ally [Paget], it goes to the point that you were making; debt advice in almost all cases comes much too late in the process. For me, one of the really big wins is to find a way of pulling that debt advice much further upstream before people are getting into really severe debt.

Another point that struck me, though, was that there is a balance. We keep saying it. A lot of the comments were about the income or low income now being one of the drivers, and of course Charles Dickens in *David Copperfield* said:

> *"Annual income twenty pounds, annual expenditure nineteen nineteen six, result happiness.*
> *Annual income twenty pounds, annual expenditure twenty pounds ought and six, result misery."*

Basically, low income is itself not the problem. It is low income allied to expenditure greater than income. That is the problem. How much work is done assessing what statutory outgoings can be trimmed, curtailed or eradicated? What can government at various levels do to say, "We are going to take our foot off your throat in these circumstances"?

Caroline Siarkiewicz (Head of Debt Advice, Money Advice Service): If I take the last one first, it is around what work is done with people who are over-indebted in terms of trimming their costs. It is quite a lot. There is something called an Income and Expenditure Account and that is the main tool to actually go through with someone. There are guideline figures set for what the typical expenditure would be for the lowest income quintile. It is an austerity budget that people are going through and that gives an opportunity to question, help and provide advice and guidance to bring down costs where they can. That can include all sorts of things like switching utilities and so on. That is very much there.

We are working with the sector to look at that and to create a new one which will include a very small element of savings as well. We have all mentioned around here the importance of having savings. Even on a very low income, if you can save a pound or 50 pence and you do that regularly, you will gradually build up a buffer. That is a very important thing.

The other two points that I wanted to talk about were around information and help. You are absolutely right. We know empirically that debt advice works. It does not just work for the people who are in debt. It works for their creditors, too, because they get their money back. There is a vested interest about making that work. The point around government debt and local authority debt is one that is very well made. They are a little bit behind the curve with the credit industry in terms of catching up on how to get their money back best. Therefore, a recommendation in terms of that would be very helpful.

We know that people who are in debt do not really know what is available. They do not know about debt solutions. They do not know that there is help out there. Anything that we can do to encourage employers, health services, mental health services in particular and all of those community groups that can help people get to debt advice is a really important lever in doing that because people just do not know. There is some very important work that can be done there.

Finally, I just wanted to address the point that Ally [Paget] made around debt advice delivery and specifically in relation to how that is funded. The debt advice sector is predominantly charities, some big ones, some very small ones. There is a commercial element, but that is only part of the whole picture. The way that that is funded drives behaviour of delivery. One of the things about funders of debt advice is that they will tend to prescribe certain groups of the community that they want to help or a certain way that they want that debt advice delivered and that may actually have a negative impact on the advice delivery.

Particularly if you think about holistic advice, you will find that someone might want to fund the debt advice element and when that person presents for debt advice, what they really need help with is a range of other issues as well, but the funding stream only covers that small part of the intervention. Whilst it is obviously going to be very helpful, it is not going to be as helpful as it would be if you addressed all of the needs of those people.

One of the things that we did with our funding from 1 October 2014 was to say that we want to fund a holistic advice service. We will fund those advisory services to not just deliver debt advice but actually work with partners to deliver advice across all needs. You can fix a problem but what you actually want to do is fix the longer term and prevent people falling back into that situation again. Particularly in London where a lot of local authorities do fund debt advice services, there may be something that we could do with those local authorities to work together across the piece to make sure that we maximise the impact of all of the money going into debt advice - and there is quite a lot of money that goes into debt advice delivery – for the people and communities in these areas.

Stephen Knight AM: To pick up on a fact that was raised earlier about interest rates and how, if and when interest rates start rising, we could well see an awful lot of people suffering who have big debts, particularly mortgage debts.

I just wondered whether anybody has modelled the impact that we are likely to see on personal debt levels with interest rates hitting up to 5%? The Mayor's own Chief Economic Adviser [Dr Gerard Lyons] has said that he thinks interest rates should peak at 5% to 6% at the end of the economic cycle. Some of us have found that rather worrying. I do not know whether any work has been done to model what the impact of those kinds of interest rates would be.

John Gathergood (Associate Professor, Faculty of Social Sciences, University of Nottingham): When interest rates rise, the most relevant form of credit which is affected is indeed mortgage debt because you tend to find that, say, credit card debt generally and to some extent personal loans are less responsive to movements in the interest rate. Many mortgage contracts are directly tied to an interest rate and the pricing of fixed contracts is tied to interest rates as well.

There are studies out there which attempt to kind of simulate what would happen if interest rates rise and what proportion of mortgage-holders would or would not be able to pay their mortgages as a consequence. They all come with the conditional caveat that you do not know how people are going to adjust and what changes to their expenditure, changes to their lifestyles or changes to their work they might be able to undertake. There is YouGov data out there that suggests a two percentage point increase in the interest rate could lead to a 30% to 40% increase in the proportion of individuals who are reporting difficulties paying their mortgages.

Stephen Knight AM: It is presumably much worse in London because the mortgages are bigger in London?

John Gathergood (Associate Professor, Faculty of Social Sciences, University of Nottingham): I do not know. I have not seen a regional breakdown of that research. In London, mortgages are higher and incomes are generally higher, but the loan-to-income ratio is higher and the mortgage debt is the larger burden. Therefore, you would expect it to be worse in London.

I would expect that what one would see is the interest rate increases would not occur in isolation. Interest rates will rise when inflation is projected to rise and that may well be because of increasing demand in the economy and rising incomes. You should not really look at today's household budget and think, "Let us just put the interest rate up 4% or 5%". You should think about the macroeconomic scenario which results in interest rates going up and that is the kind of thing that the Bank of England would look at. So yes, there are studies out there on the impact but they come with big caveats, I would suggest.

Dr Pippa Lane (Senior Policy Researcher, CAB): As part of our money advice module that our advisers run through with people who have debt problems, there are questions about interest rate rises for people who hold mortgages and also about potential rent increases for private renters. Of course interest rate rises affect them, too, because landlords would have to up the rent if mortgages go up. In terms of current data on that, 19% of homeowners say that an increase in their mortgage repayment would force them into arrears and 42% say that they would need to reduce their spending and they do not have a buffer at all. For renters, 21% say that they would go into arrears, 33% say they would find somewhere cheaper to live and 44% say they would have to reduce their spending and they have no buffer.

Fiona Twycross AM (Deputy Chair): I was going to talk a bit about advice that is available and the sorts of advice services and support networks. If you have other examples of advice networks or the sort of support people can access that have not been covered, then please chip in. The main question is how we can tell if they are effective? How do we make sure that people have access to debt services? Obviously, you can have the perfect debt advice, but if you are not actually accessing it, then you are not getting help.

Ally Paget (Researcher, Demos): One thing is, as I alluded to earlier, involving a wider range of partners. I saw that the preliminary questions we were asked included, "What could the Mayor do about this?" The Mayor using his convening power to get health and housing sector agencies on board would be a good one.

As we know, there has been a massive rise in payday loans and that is often attributed to their visibility, their visibility not just in terms of advertising but on the high street as well. There is an argument about whether anything can be done to directly combat that and to outcompete payday loans on the high street by having maybe even a literal shop window for credit unions or for debt support and advice or maybe both combined because it is a good model. I wonder if there is room for that. That is another thing where I wonder if the Mayor could add value by pegging something like that to other initiatives like high street regeneration, for example.

John Gathergood (Associate Professor, Faculty of Social Sciences, University of Nottingham): Could I just maybe add a specific idea? Talking about the take-up of debt advice, the barriers are really on the consumer side. Debt advice is free. There are organisations here and others that will not charge you anything. If you phone them up, they will answer the phone straightaway and come in with a big battery of things to help you. Therefore, the problem really is take-up.

I have done work and Caroline [Siarkiewicz] in the Money Advice Service has done work; maybe one-in-five or one-in-six people with problem debt - by some definition that suggests there really is a problem - take up free debt advice. There are between four-fifths and five-sixths of people with problem debt who are not using this kind of advice.

One thing that I have suggested - and I read a report which was published yesterday by the think-tank ResPublica and this is part of the suggestion - is that actually when individuals get into problem debt, they get automatically referred by their creditor. If you get into problem debt and if you get behind on something, your credit card company is going to phone you up or your payday lender is going to phone you up, whoever they are, and they are going to start chasing you. What I suggest is a model where your credit card company phones you up to say, "You are behind with your debt. What is going on? When are you going to pay?" Then they actually refer you live on the telephone straight over to an organisation like a debt charity which is independent that can help you.

The research suggests that when people get into debt problems and they start getting contacted by their creditors, say, they start shutting down in terms of their communication with the outside world because they are worried that the next letter or the next phone call is going to be another chase for debt. If you just start sending letters to people or if an organisation like StepChange phones them up out of the blue, this person may well just not be answering the phone because they think it is the creditor. You have to go really early on in the process - the first phone call that comes in from the creditor, say - and it has to be a direct referral, getting right into people's face, if you like, with the advice offer.

In doing that, you might affront some people. The credit card company phones you up and says, "You are behind. Why have you not made your minimum payment this month? Would you like to be referred to StepChange?" Some people would say, "That is none of your business. I do not want to talk to a debt charity", but I think we can risk insulting a few people by telling them they need advice for the benefit of the vast majority out there who seem to just not be taking up these forms of advice.

Fiona Twycross AM (Deputy Chair): That ties in with James's [Cleverly AM] point about the P45 having something like that so that people have that in their minds at an earlier stage.

John Gathergood (Associate Professor, Faculty of Social Sciences, University of Nottingham): Yes.

Caroline Siarkiewicz (Head of Debt Advice, Money Advice Service): One of the things - and I think I said it earlier - is that we actually know that that debt advice works. People start to pay the money back, they start to feel better and so on and it is actually something that helps everyone. There is a standard way of evaluating how that works and that probably needs to be used across the piece more broadly.

Fiona Twycross AM (Deputy Chair): There is a standard way or is there not?

Caroline Siarkiewicz (Head of Debt Advice, Money Advice Service): There is an evaluation framework that was put together by the Money Advice Service with the sector. That is used in our funding projects. That could be used more broadly and we could make sure that all advice services are being measured and assessed in a consistent way.

The other thing that we need to bear in mind is that around 28% of people who need debt advice need it face-to-face. The rest want to access advice through lots of channels and they want to use those different channels at different times. Sometimes they want to sit in front of someone and talk it through, but at other points in that journey they want to access it by email or web chat or online tools or through the telephone. One of the things that the sector can do is to join up some of those services across the piece so that what we have is multichannel access points for people. John's [Gathergood] point about having almost a triage - that is how we would describe it - and people being referred straight over from their creditors right at a very early point has an awful lot of merit. What that would do is then enable the advice sector to take the appropriate clients from that position. It is not an easy place to get to, but there is a growing sense of agreement with that because the size of the problem is much bigger.

Everybody in the advice sector is just about getting by, looking for little bits of funding, losing lots of funding and so on, but they are just about getting by. If we are to address this huge problem of the number of people who need help and to bring more of those people into advice, then we need to do things a little bit differently. Probably that is what I would say.

Dr Pippa Lane (Senior Policy Researcher, CAB): I have a couple of other bits. I totally support early referral. We are a multichannel agency and we provide face-to-face, online and telephone advice. We are not always the best at joining those up because that is to do with funding and so forth, but we see that different clients want to access our services in different ways. We would support that.

There are a couple of other things I would add. On financial capability; the Mayor could do something in that space. For example, this week I was talking to payday loan customers who do not even understand that there is interest. For example, they take out a loan and they think they are going to take out £130 and pay £130 back. There is a huge amount of financial capability work that still needs to be done. That should remain a priority and anything that the Mayor can do in that area would be beneficial.

There are Council Tax support schemes, looking to spread good practice across the boroughs and looking at which boroughs are doing well, not just looking at collection practices which are very important but looking at Council Tax support. Perhaps the Mayor could do something about bringing boroughs together and look at making sure that best practice is being spread across the capital.

In terms of interesting types of delivery, we are involved in something called the Better Financial Health pilots, which are with some of the most difficult-to-help clients and which have intensive, face-to-face support. It is recognising that that is not what is appropriate for everybody, but there are some interesting pilots for some of the more difficult-to-reach groups out there that the Mayor could look at if he wants to support something small and targeted.

Fiona Twycross AM (Deputy Chair): Can I ask how often you review your advice channels to make debt support services more accessible, particularly to some of those hard-to-reach groups that you have mentioned?

Dr Pippa Lane (Senior Policy Researcher, CAB): We are to some degree constrained by what funding comes in. In terms of face-to-face, people go through a gateway at Citizens Advice and they are triaged and then referred to the appropriate support within the Bureaux, whether that is debt advice or whatever else.

We are seeing an increase in people accessing our other forms of support. In fact, by far, the biggest form of Citizens Advice support is our online offer. It is Adviceguide. In fact, one in five people in the UK has been to Adviceguide and it is a huge resource. It is where most people access our support in some way. We also have a telephone service. We are looking to improve the length of time people have to wait because it is not an immediate pickup at this stage, unfortunately. However, all three of those we see as important because, as recognised, different people will want to access advice in different ways.

Right now, online is a slightly separate thing, but in terms of telephone and face-to-face we cannot help everybody who comes to us. In terms of reviewing if they are appropriate or still needed, more people are trying to access those than we can currently support.

Fiona Twycross AM (Deputy Chair): Is there a funding issue from funding cuts? Obviously, CAB has had quite extensive funding cuts on a local level. Has that impacted on your ability to provide advice?

Dr Pippa Lane (Senior Policy Researcher, CAB): Absolutely, for most Bureaux, although the gateway is being effective and we are modernising our service and are continuing to modernise our service because we recognise we cannot just salami-cut and salami-cut. There are things like this gateway. A lot of people now come through the gateway. If it is something very minor that they need, the gateway assessor can actually help them with that on the spot and then that is somebody's problem solved and they do not have to take up our volunteer and paid-adviser time. People with more complicated problems will be signposted to an appointment with an adviser, so that is how Bureaux are currently dealing with the reduction in our funding that we have had. It is through just modernising the way we do that face-to-face service.

Andrew Dismore AM: Only one in five, as you say, go for advice and you want to make it an automatic referral system. Supposing that works and supposing you get double the number of people coming in, do you have the capacity to cope? Not you because you are not doing the advice. You just make the recommendation. They have to do the advice and they do not have the capacity to cope with those numbers of people.

Caroline Siarkiewicz (Head of Debt Advice, Money Advice Service): You would have to scale up. Just on that, it was not actually a referral that we piloted. We piloted a promotion campaign in three cities - Hull, Manchester and Birmingham - that were significantly over-indebted and that had a wide population. What we did there was we worked with StepChange, the CAB and the National Debtline - which is another national advice provider - to try to engage with people who were over-indebted but not getting that advice. Telephone capacity we can scale up relatively quickly; face-to-face obviously not quite so quickly. We had to do some scenario-planning and increase supply in those areas to make sure we could cope with that. There was a very short campaign and we are evaluating the results of that before the end of the year.

You are absolutely right. You cannot just turn the tap on and get more people into a sector that currently is working at capacity. You have to make sure that you can start to increase that capacity first of all. As I say, telephone is slightly easier to scale up. One of the things that works quite well in the advice sector and for those people who are competent and capable to do it is there are some nifty debt advice tools. There are online advice tools that people can be referred to that will take them through the advice process. StepChange actually runs one of those called Debt Remedy.

We have to bear in mind that we cannot just increase capacity in face-to-face sufficiently quickly enough to do all of this. We have to be careful and it has to be a measured approach. However, the point is absolutely right; we do need to get more people into advice earlier and work it through.

Andrew Dismore AM: Picking up on this capacity issue, when it comes down to funding, should we be looking at a layer beyond the Wongas of the world and the credit card companies for a levy towards --

Caroline Siarkiewicz (Head of Debt Advice, Money Advice Service): There is a levy.

Andrew Dismore AM: There is a levy?

Robbie de Santos (Senior Public Policy Advocate, StepChange): There is. Actually, it is via the FCA and a lot of that goes to the Money Advice Service and then goes to advice.

One of the things that we have called for is that the levy is currently calculated and there is not too much differentiation between the different kinds of lenders within it and there are different facets to the levy. However, we think for those lenders who do cause disproportionate harm relative to the amount that they lend or the amount of customers, you could look at an additional layer on some of those aspects of the levy that would take in some of the payday lenders and guarantor loans. We do see a hugely disproportionate amount of people with payday loans relative to the population.

Ally Paget (Researcher, Demos): I was just going to say that Demos has also recommended a 'polluter pays' model and that would be along those lines.

James Cleverly AM: It is quite interesting because there is a lot of language that has been kicked around. Ally, you used the phrase - and I know you were using it metaphorically - 'worst offenders' but there was an awful lot of it when we were talking about even the regulated lending market with words like 'offenders' and 'polluters'.

Here is an opportunity. From the good guys at one end of the spectrum to the baddest bad guys at the other end of the spectrum - I picked on you, Ally, and I have to come to you first - is there a spectrum of lenders from what we would regard as the best form of lending through to what we would jointly regard as the worst form of lending? What are the stops on that particular route from best to worst?

Ally Paget (Researcher, Demos): I am not sure I want to do any actual naming and --

James Cleverly AM: Sectors, then, rather than companies, say?

Ally Paget (Researcher, Demos): However, there are various perfectly legitimate factors that you can put into such a ranking. One of them John [Gathergood] touched on, which is the disclosure. How upfront is the disclosure about the contract that you are entering into? That is a good example. It may be more to do with disclosure than it is to do with the actual rates that are charged, in a way.

Apparently, there was a voluntary code of practice introduced by the industry more than two years ago and Citizens Advice looked at 261 cases between February 2011 and January 2014 which suggested that it was being regularly flouted. The average loan of £1,286, but some people had borrowed up to £19,000 and had paid back up to eight times the amount. Another simple index would be compliance with the actual codes of practice that already exist.

Having said that, I would return to what I said earlier, which was that this is not all about product. Product is one side of the story. I do think it is legitimate to talk about worst offenders and less bad forms of debt, but it is also very important to acknowledge that there can be severe consequences from any kind of debt, even the 'nicest' form.

John Gathergood (Associate Professor, Faculty of Social Sciences, University of Nottingham): Maybe I can jump in and be a bit more explicit.

James Cleverly AM: That was what I was going to push you on because I do not disagree with any of that but what I am very keen to do is get to whether it if is possible. If it is not possible, fine, but if it is possible to say, "If you have to take debt, the best form is like this and the worst form is like this and here is a sliding scale from one to the other", John, are you able to help us?

John Gathergood (Associate Professor, Faculty of Social Sciences, University of Nottingham): OK. To be a bit more explicit, it is about creditworthiness. The lenders that deal with the least creditworthy customers tend to deal with the worst. The most creditworthy products out there for most creditworthy people are like your Barclaycard or other prime credit card. The customers are savvy. The firms know this. The customers often switch and compete between firms. The way in which the firms deal with the customers is generally much better.

At the bottom end of the market where you have very poor creditworthy customers and the payday lending market, these people are often low-income and are not well educated, say, and are in financial distress. The lender holds a big information advantage over them and tends to exploit it. Although the upfront charge might be very clear, the contingent charges like the default fee and the default interest is very unclear.

A firm like Wonga got away with sending letters from a fake law firm to its customers for a couple of years to try to start a claims process. If Barclaycard tried to do this, the customers are just too savvy. They are going to be on Google looking up the name of the law firm. They will realise it is not there and they will call the *Daily Mail*. Wonga got away with this for two years and no one seemed to spot what they were doing because the customers they are dealing with, unfortunately, probably are not savvy and are not as financially intelligent and are not going to look up to see whether this is truly a firm or not. You tend to find that the firms that deal with the least creditworthy - and possibly most vulnerable - customers exploit the informational advantage they have over those customers.

James Cleverly AM: Basically, what you have done - and I suspected this would be the case and this is why I have pushed it - is you have absolutely reinforced the point that I have had in my mind throughout this conversation and the point that Ally [Paget] has made; if you do not really need the debt, you get the best debt.

John Gathergood (Associate Professor, Faculty of Social Sciences, University of Nottingham): Yes. The most creditworthy people get the best terms. The most creditworthy people are those probably least in need of debt for everyday needs.

James Cleverly AM: In terms of our question, then, our question is fundamentally flawed because it is not what products are the best, middle and worst, it is the product you can get. If you are holding all the aces, then the product you can get is probably the best product in the market. If you are not holding any of the aces, the only product you can get is almost certainly not the best product in the market.

Ally Paget (Researcher, Demos): It is like the prime mortgage market and the subprime mortgage market.

Robbie de Santos (Senior Public Policy Advocate, StepChange): Again, just to throw a little bit of caution on this, entering into an unauthorised overdraft at a typical high street bank can still see you paying more over a certain timeframe with a certain level of debt than you would with a payday loan. Again, it is about whether you have the aces. If you are falling into an unauthorised overdraft, you probably do not. You are probably in a difficult situation. It is just to understand that it can happen within mainstream products and it can happen to people who were able to get those mainstream products in the first place. It is all about, if you are having difficulty, how well you are treated and it is not very well in many high street cases as well.

Dr Pippa Lane (Senior Policy Researcher, CAB): I would add one other thing if we are looking at what is a good product and what is a bad product. We have talked about disclosure. We have talked about the information gap. I would say also that conducting proper affordability checks is a measure of what is a good product or a bad product. If that lender is properly looking at your credit file or if perhaps the bank that you have your transactional account with is looking at your transactions to see if you can afford this loan, credit card or product, that is the behaviour of a responsible lender. A lender who does not actually care about whether you can afford it or not has a business model where the money is not coming from the interest on your regular payments but is coming from default fees, for example, and they actually want you to default because that is where the money is made on a lot of these products. Looking at that would be a measure of a poor lender or a poor product.

Caroline Siarkiewicz (Head of Debt Advice, Money Advice Service): For me, there is obviously regulation around what debt collection activity firms and organisations can make, but there are also some voluntary codes. The Lending Code is one of those that applies to quite a lot of consumer credit firms, but it does not include the Government, utilities, housing associations and so on. They are not signed up to many of these things. One of the pieces of work that is really valuable is to construct a bit of a creditors' charter that would set out the guidelines and practice of what creditors should do, which would be balanced between their own needs and also the needs of the debtor as well in terms of how best they can get their money back in a fair and transparent way. That is something that can help.

James Cleverly AM: One of the things that I have often wondered - and perhaps you can enlighten me on this - is why the big-name creditors do not operate in the subprime market. What would be the impact? John [Gathergood], you mentioned Barclaycard, they deal with you in a certain way. They deal with all of their customers in a particular way because of the nature of their customers. What if Barclaycard did not habitually say, "Actually, your credit score does not tick the box for us and we are going to say no to you and put you in the hands of someone less nice"?

Dr Pippa Lane (Senior Policy Researcher, CAB): We are currently doing a project on this as we speak. We are doing a project with the high street banks about their lending to low-income consumers. The high street banks have a very different appetite for moving into this market, shall we say. Some of the banks think that basically there are so few of their customers in this sort of space who might otherwise using payday loans, for example, and who could be responsibly lent to that they, as a responsible lender, would not move into that market.

James Cleverly AM: Is 'responsible lending' a self-defining term?

Dr Pippa Lane (Senior Policy Researcher, CAB): They are people who would pass the affordability checks. We would support lenders carrying out stringent affordability checks because you should be lending only to people who you think can repay the loan. If you cannot responsibly lend to that person, we would say you should be signposting them to StepChange, to Citizens Advice or to other debt charities, that is one part.

The second part, which is where we think there might be more movement, is that one of the other major barriers is reputation. Some of the banks feel that they might get dragged through the *Daily Mail* for becoming Wongas or something like that. These loans are relatively expensive and would remain relatively expensive, but some people would consider them good value nonetheless. It might be a £40 charge for a £100 loan over two months; but some high street banks are afraid to move into that space because they do not want to be seen as payday lenders. They want to maintain their brands.

James Cleverly AM: This is one of the things that has been troubling me and this is one of the things that has troubled me for a long time about some of the language around high interest rates. For a very brief time, I worked in banking and the rules that we worked on were always quite simple: you can profitably lend money to anybody. If they can repay the loan at the right margin and at the right interest rate, you can make money off anybody. When a lot of the conversation has been around just the size of the interest rate and using that as a Trojan horse for an attack on a sector or whatever, it worries me. Actually, one of the points that you said is that if there is affordability and people can afford to repay the loan, there is no particular reason why you should not issue the loan at the appropriate rate to cover the risk and the margin. If they are not able to repay the loan, you should not lend money to them at all. It is a real binary choice. They can either repay or they cannot. If they cannot, do not lend. If they can, set the appropriate rate.

If we obsess about the rate - and you mentioned, unprompted, the reputational impact - if there are lenders at the better end of the spectrum that are just saying, "Actually, the reputational risk in lending to certain types of people is just unappealing", then are we not just creating a market for the less appealing lenders, Robbie?

Robbie de Santos (Senior Public Policy Advocate, StepChange): Yes. I suppose this comes to a bigger question, which is whether there are any products that are not going to keep people on low incomes perpetually in difficulty in repaying credit? Are there suitable products for them? I do not think there are, really, not to any great extent.

If you look at Bright House and other hire purchase providers, those payments are affordable for people within that very short time, "On a weekly basis, I can afford £7 to keep up with those things". However, paying that £7 to four times the cost of the goods over three years means you are never going to get on the front foot with your finances. There is a big question there, which is whether we can rely on the private sector risk appetite to provide credit where it could be sustainable for people on low incomes but is not currently because there are not suitable products there.

Personally, what people need is longer-term, medium-interest products. That is what the low-income population needs because they do still need --

James Cleverly AM: Who can profitably provide that?

Robbie de Santos (Senior Public Policy Advocate, StepChange): Exactly, and that is the point. The Government picks up the pieces when people --

James Cleverly AM: You are talking about a nationalised lending product?

Robbie de Santos (Senior Public Policy Advocate, StepChange): It is worth exploring, actually, because the consequences of keeping people who are on low incomes dependent on more expensive forms of credit mean their productivity is going to be lower because more of their money is getting soaked up in interest. More investigation needs to be done into it.

However, people on low incomes do still need to buy white goods, have repairs on their cars. If their only option at the moment is high-cost credit, then they are going to be spending more money on interest and less money on productive things.

James Cleverly AM: The reason that Barclays, Lloyds, etc, do not lend to low-income, high-risk borrowers at moderate rates is because it is unprofitable and the risk they are importing is not offset by the interest rate. Nationalising would not change that. We would regard that nationalised medium-rate lender as basically giving free money to people who are in financial difficulty.

Robbie de Santos (Senior Public Policy Advocate, StepChange): Or underwriting.

James Cleverly AM: Or underwriting. If that is the case, why not strip away the masquerade and just say, "If your boiler breaks, the Government will give you the money for a new boiler. We can either do it directly or you can take a loan, which ultimately we will then have to write off anyway if we underwrite it"? Is that not what would happen?

Robbie de Santos (Senior Public Policy Advocate, StepChange): Maybe we should pick this up separately.

Stephen Knight AM: That is effectively the crisis loan system which was abolished.

Fiona Twycross AM (Deputy Chair): I just wanted to ask how we can promote more affordable forms of debt, for example, credit unions. Just if you could comment a bit about the differences between credit unions that are quite well developed in the products they offer - like London Mutual, for example, which has its own payday loans at much cheaper rates and would replace the Bright House-end of the white goods market - and what more can be done to promote credit unions?

John Gathergood (Associate Professor, Faculty of Social Sciences, University of Nottingham): Credit unions have two big challenges. One is that they tend to be very localised and the idea of a national advertising campaign is often not relevant. The other is that there is a high attrition rate in credit unions and 25% of credit unions have failed within the first 18 months. It can be difficult for them to have big marketing capability and suchlike.

One very practical thing that the CMA is proposing is a price comparison website for high-cost credit. That is somewhere that a credit union can make its presence known. In particular, there are lot of comparison websites out there where your geographic location is a factor and you can search for things in your locality. The clearest example is eBay, where you put your postcode in and you will see people offering stuff for auction in your locality. If the CMA price comparison website allows you to put in where you are, then credit unions in your locality could come up prominently on that price comparison. They will come in very well on a price comparison because they are, indeed, much cheaper than payday lenders. If credit unions can get into that price comparison space, they can compete with big brands without having to have big marketing budgets.

Caroline Siarkiewicz (Head of Debt Advice, Money Advice Service): Credit unions are part of the answer. I do not think they are completely the answer. Just going back to the point we were talking about on the old Social Fund and the way that that was working and delivering, there is a need undoubtedly for people to be able to access credit. I do not think we have the mechanism completely right there yet, but I do definitely like John's [Gathergood] idea of this comparison website to get information to people who need it.

Stephen Knight AM: To what degree you think the Mayor's and boroughs' interventions in the area of personal debt have been successful or not and what more they could do. I guess the background to this is that the Mayor set up a London Debt Strategy Group in 2009 which lasted about 18 months and did a bit of work then, but there has not really been very much going on since about 2011. What ought the Mayor, the Greater London Authority and boroughs to be doing? Caroline, do you want to begin? Perhaps support for credit unions in London might be one part of the response.

Caroline Siarkiewicz (Head of Debt Advice, Money Advice Service): Yes, but it picks up on some of the points that we discussed earlier which were around engagement. Engagement is absolutely critical to getting people to access debt advice. Yes, we know there is the issue around capacity in the sector, but that is not a problem that is unsurmountable. It is a problem that can be looked at. There is definitely some work that can be done around those engagement strategies.

The other area for me is around the funding and delivery of debt advice as well. London boroughs quite often either fund, or deliver directly, advice services. It is about joining up those services and making sure that they are offering holistic services, not just focusing on the debt and actually making sure that the funding that is coming into the sector already is doing the best that it can for people.

There are some issues around potentially other funding to come through. We talked about creditors and creditors in the broadest sense - not just consumer credit organisations but more broadly people to whom debt is owed, which includes the Government, local government, housing associations and so on - and actually get them engaged in some of the work that some of the better consumer credit firms have been doing for a while around forbearance and actually transferring and promoting the debt advice services that are available.

I would see those three areas as particularly important and some things where the Mayor's Office could have a significant impact.

Ally Paget (Researcher, Demos): Just to briefly go over a couple of things I have mentioned already, I also do not think that credit unions are the number one answer and the be-all and end-all but they are an answer. It is about increasing visibility for credit unions. The Mayor and the Mayor's Office could use convening powers to get wider stakeholders involved, in particular health and housing, and possibly also link this sort of thing to wider agendas like high street regeneration. John [Gathergood] mentioned the local route for credit unions and that is somewhere where those two things possibly come together.

One thing that could really help people to access advice earlier on is a campaign to remove the stigma from talking about debt. We have talked quite a lot about the crossover with mental health and also about debt as almost analogous to mental health. The Time to Talk campaign, which aimed to remove stigma around mental health, is seen as having been very successful. I wonder if there is scope for something like that to do with debt.

Finally, there is data. As will be very clear, especially from the beginning of this discussion, policymakers and providers of advice and support, as well as providers of alternative finance, urgently need better data on problem personal debt, particularly at a regional level. One thing that could be particularly valuable is a benchmarking exercise for initiatives to start to measure their progress. Personally, I would advocate for a benchmarking exercise that takes account of very broad measures of success, not just reduced levels of total debt or reduced levels of high-cost credit being taken out, not just increased uptake of alternative debt products like those offered credit unions, but also reduced impacts of debt in terms of mental and physical health, etc, and the number of people accessing support earlier on. Those are just some ideas for what might be included in a very valuable benchmarking exercise.

Stephen Knight AM: I am struck that given a big cause of debt is low pay, nobody has mentioned the London Living Wage campaign. It is Living Wage Week this week. John, is this something the Mayor should be doing more on: tackling low pay?

John Gathergood (Associate Professor, Faculty of Social Sciences, University of Nottingham): Excellent. I agree. Also, at a local level, obviously a lot of debt policy comes from national policy but there are things which are effective at the local level and the CMA and the price comparison is one of those things.

There is another thing which we maybe have not mentioned so far, although it was alluded to when James [Cleverly AM] mentioned the P45 and the idea that some kind of advice or information might accompany that. There is a lot of evidence that in the retirement savings space that workplace-based interventions are very effective. That is commonly because in a workplace have a similar retirement saving vehicle situation. There is some evidence in the US that workplace-based interventions relating to people's finances more generally can be very effective. That is something which one can feasibly implement locally. There are certain types of workplaces, sectors and occupational groups where we think people with problem debt are more represented. The extent to which you can target information or maybe even some kind of event or activity within the workplace to assist people that fits into their normal routine, fits into their working day and does not involve them having to take time and effort to visit Citizens Advice or call someone up, and some signal from the employer that this is seen as being a good thing, can be an effective cue to engage individuals. It is something which can be done locally and in an effective way. There is some evidence from the US that H&R Block (US-based tax return preparation company) has used personal finance evaluations in the workplace and the take-up was very high.

Stephen Knight AM: That is interesting. I know from talking to people from credit unions that one of the things they are very keen on is getting workplace payroll deduction schemes for joining up to credit unions.

John Gathergood (Associate Professor, Faculty of Social Sciences, University of Nottingham): One has to be sensitive, especially about people within the workplace identifying themselves maybe as needing advice. You have to think of a vehicle where things can still be done anonymously or in a comfortable environment. However, they can be very effective interventions.

Robbie de Santos (Senior Public Policy Advocate, StepChange): First of all, the idea of workplace-based savings is really good and, again, a sectorial focus on low-income sectors like call centre workers and retail. I know that credit unions are really keen to move into this space as well and so there is something there about joining that up and, again the Mayor as convenor of that kind of effort.

I mentioned before the piecemeal local welfare and credit union schemes. There is another convening role for the Mayor in simplifying, maybe via a one stop shop or a portal, somewhere that anyone who wants to send anyone towards sustainable forms of credit can send them to very easily. Again, just bringing it together in one place is right up the Mayor's street.

Debt collection we touched on. As well as councils and housing associations, I would also stress the importance of private landlords. They are the hardest to reach. Again, the Mayor's media power and his ability to get the *Metro* or *Daily Mail* kind of press that landlords read is probably a key way of doing it. Also, the London Rental Standard could be a key way of engaging private landlords and, again, just lobbying national Government on some of the national points that we talked about.

Stephen Knight AM: No one has yet mentioned trade unions and whether they have a role in helping their members and low-paid workers to get debt advice.

Dr Pippa Lane (Senior Policy Researcher, CAB): Sure. I do not think we have done a particular call for trade unions but, again, it fits in quite nicely with a lot of these workplace things, particularly workplaces where unions are established and there is Unionlearn and all that sort of stuff going on. There is potentially a place there for some financial capability, signposting to debt advice and that sort of thing. I could see that there could be fruitful work done there.

I have kept banging on about it time and time again, but I am going to say it again: there is working with local authorities to look at collection practices and to look at Council Tax support schemes because that is really an open goal there.

Jenny Jones AM (Chair): Councils and the Local Government Association all have a role.

Dr Pippa Lane (Senior Policy Researcher, CAB): Yes.

Jenny Jones AM (Chair): Thank you. That rounds things off very nicely. I just wanted to ask Robbie one more thing. StepChange assessed the impact of problem debt on various social services and so on as £8 billion UK-wide. Did you get a figure for London?

Robbie de Santos (Senior Public Policy Advocate, StepChange): No, but I could quite easily come back to you with one for London.

Jenny Jones AM (Chair): That would be absolutely brilliant. We would like you to. Thank you so much to our guests. We have over-run a bit, but that is because you were so interesting!