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Twelve months later: does advice help?

The impact of debt advice – advice agency clients study

**Kim Williams, Ministry of Justice Research Unit
& Anna Sansom, BMG Research**

Debt and debt advice have, in recent years, become high priorities for Government, with a number of initiatives being launched to tackle the problem of over-indebtedness. A cross-Government strategy was established in July 2004 - 'Tackling Over-indebtedness: Action Plan 2004'.¹ This Action Plan set out a number of measures, which included widening the funding base for debt advice and looking at addressing the shortfall in face-to-face advice. Additionally, the Treasury established the Financial Inclusion Fund in 2004, a large proportion of which was earmarked for funding debt advice.

Debt is a key area for the Ministry of Justice (MoJ). It has departmental responsibility for the administration of the courts, with debt cases representing the largest source of volume of cases through the civil courts. It is also responsible for the Community Legal Service (CLS), through which the MoJ funds Legally Aided debt advice. New Government initiatives and the funds spent on debt advice make it necessary to examine whether the money spent has an impact.

While the impact of debt problems on individuals has been well researched, there is little empirical evidence on the impact of advice. This summary details the findings of one of four studies conducted as part of the Impact of Debt Advice Research Project (IDARP),² which set out to address this. Three studies of the IDARP were conducted by the Legal Services Research Centre. This fourth study, led by the Ministry of Justice Research Unit, was a longitudinal study of Not for Profit advice agency debt clients.

Key Points

- Results indicate an overall improvement in respondents' financial situations. Levels of debt had fallen on average by £7,585 twelve months after receiving advice, and most respondents estimated that they owed less. Respondents reported finding it easier to pay the amount they owed than they did previously and more knowledgeable about financial matters overall.
- Respondents reported positive changes in terms of their health and wellbeing. Most rated it easier to carry on living a normal life whilst experiencing their current debt problems, and reported spending less of their time worrying than previously. Ratings of general health improved, and most of those experiencing improvements linked these to the advice they had received for their debt problems.
- Advice helped respondents stop getting further into debt. Respondents also stated that advice had helped them to avoid legal action, action by bailiffs and enabled them to pay off debts at a more manageable rate. However, some respondents were not as positive about these outcomes when they were interviewed 12 months after receiving advice as they were after 6 months. For example, the percentages of respondents reporting that they avoided legal action decreased (from 74% to 54%). Similarly, fewer reported that they had avoided action by bailiffs, or a County Court Judgement (CCJ). This suggests that there may be a case for continued, and perhaps pro-active, intervention for some clients.

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Methods

This study was conducted in three main stages. People seeking debt advice from Not for Profit advice agencies (such as Citizens Advice Bureaux, Law Centres and other independent advice organisations) were interviewed by their advisers using a structured paper questionnaire. This questionnaire covered their current financial situation and how their debt problems may have affected them personally. This included how areas of their lives such as their health and personal relationships may have been affected. These respondents were re-interviewed over the telephone after six and twelve months to find out how their situations and emotional outlook may have changed.

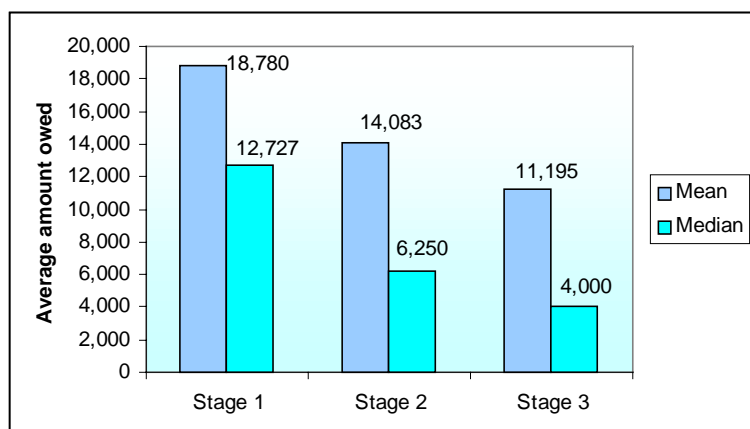
176 respondents participated in the first stage of data collection. In Stage 2, 91 people were re-interviewed, and in Stage 3 we spoke to 61 people. The results are presented for each wave using the data from only the 61 Stage 3 respondents, to ensure figures are comparable.

In interpreting the results, it should be noted that they are based on the small sample recruited to each stage of this study. They are not meant to be representative of all debt advice clients, or indeed of impact from all debt advice agencies. Additionally, those participating in all three stages of the study are likely to be those who had the better experiences of debt advice or whose situations were relatively stable, as they were contactable twelve months after the first interview. However, as part of the IDARP, this study adds to the previously limited evidence base on the impact of advice. Furthermore it is the first attempt, as far as we are aware, of a longitudinal study of advice clients. Therefore the results provide valuable indicators of the problems experienced by the participants, and of the patterns of change

Impact on financial situation

Across the three stages of the study, respondents were asked to estimate the approximate total amount of money they owe.³ Twelve months after receiving advice the average (mean) amount owed by respondents had fallen by £7,584.71 (see Figure 1).

**Figure 1: Average amount owed
Stage 3 (61) respondents**



Advice enabled respondents to gain a better understanding of the extent of their debt problems. At Stage 1, a fifth (20%) of respondents stated at the beginning of the study that they did not know how much they owed. However, at Stage 2, only 5 per cent stated that they did not know how much they owed. At the final interview all but one respondent were aware of how much they owed. One of the first steps that advice agencies take is to prepare a financial statement which details exactly what individuals owe and to whom. Respondents' increased awareness of the amount they owed is an important intermediate outcome of debt advice.

A notable proportion of respondents said that they found it less difficult to pay their creditors what they owed. Almost a third of all respondents in both Stages 2 and 3 said that it was a lot less difficult after receiving advice.

Respondents were asked about the outcomes of the advice they had been given. The results indicate that money advice had some very positive effects. Above anything else, respondents reported that the advice they received helped stop them getting further into debt – 89 per cent of respondents in both stages said this. The positive outcomes reported by respondents also included enabling them to pay off their debts at a more manageable rate, helping them to avoid legal action or further legal action, or action by bailiffs.

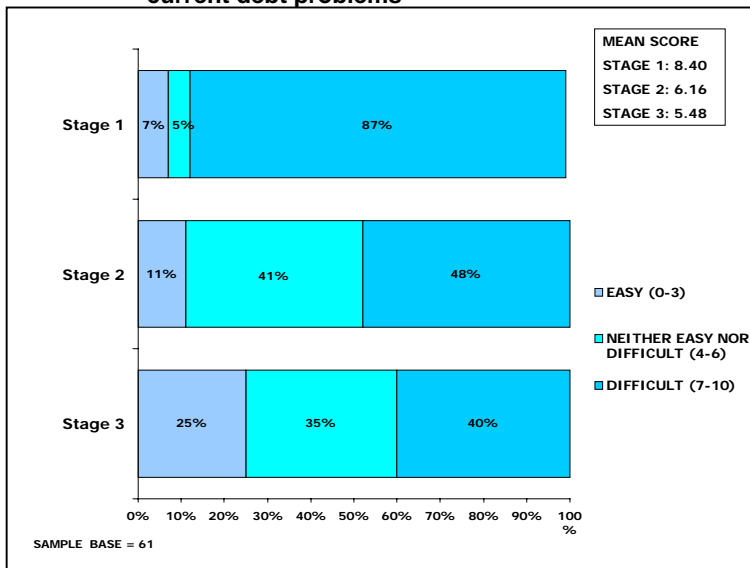
There was some indication however that respondents were not as positive at Stage 3 as at Stage 2. For example, fewer people stated that advice helped them avoid legal action (54% cf. 74%). Fewer also said that advice had helped them avoid action by bailiffs (41% cf. 74%) or prevented a possession order being made against them (34% cf. 67%). The results therefore indicate that there may be the need for continued or periodic support for some clients.

Impact on health and well-being

Following advice, respondents found it easier to carry on living normally while experiencing their current debt problems. They were asked in each stage of the study to rate on a ten point scale (where 0 meant very easy and 10 meant very difficult) how easy or difficult it is for them to carry on living normally while experiencing their current debt problems. Whereas the majority (87%) of respondents found it difficult to live normally at the initial interview, this had reduced to 40% after 12 months (see Figure 2).

The amount of time respondents reported worrying about their debt problems also decreased. In Stage 1, 89% of respondents reported worrying all or most of their time, and this had decreased to 31% at Stage 3. Perhaps as a result of this, around two thirds of respondents at Stage 3 reported that their health had improved a little or a lot. Most of those who had experienced an improvement attributed this improvement to the advice they received.

Figure 2: Rating of how easy or difficult respondents found it to carry on living normally while experiencing current debt problems



Additionally, mean ratings of general health improved. In each stage respondents were asked to rate their general health on a scale of 1 to 100 (where 1 is the worst and 100 is the best). The mean ratings increased from 47 to 66, and stabilised at 67 by Stage 3. This would suggest that improvements in general health can occur relatively soon after receiving advice, and it is encouraging that these higher ratings were sustained.

Turning to the impact of advice on relationships, at Stage 1 relatively high proportions of respondents stated that one or more of their personal relationships had been negatively affected by their money worries. For example, nearly half stated that money worries had affected their relationship with a partner, husband or wife. There were some improvements after 12 months, as around a third stated that this relationship had improved since receiving advice. 88% of these believed it was related to the advice they received. A quarter of respondents believed that relationships with friends and children had also improved.

Outlook

Following advice, most respondents reported feeling more in control of their finances and more knowledgeable about financial matters overall. When asked how they would describe their current debt problem, after 12 months over a third (36%) felt that their problems had been completely sorted out, and 6 in 10 felt that they had been partly sorted out. Very few felt that their problems had got worse.

Respondents were also asked whether they could see a time in the future when all their money worries would be completely sorted out. Clearing debt can take many years, especially for those on low incomes. However, most respondents (57%) could see a time in the future when all their money worries would be completely resolved.

When asked what they would do if they experienced further money problems in the future, most respondents (71%) said they would go back to the advice agency. Very few (3%) said they would handle the problem themselves, despite the fact that most respondents felt more knowledgeable about financial matters overall. While this is positive in that it indicates that people perceived the advice to be valuable, it indicates that the long-term 'empowerment' of advice clients may not always be possible, or even what the client wants. Rather, some clients need the guidance and direction that a specialist adviser is able to provide, to give them confidence to take action themselves.

Conclusion and implications

In the twelve months between first and final interviews, most respondents were able to report that their problems had been resolved. There were a few respondents who reported that there had been no change to their problems, or their problems had become worse. It is likely that this group would be more prolific among the respondents who dropped out of the second and third stages of the study, as we were not able to contact them – which indicates they could have been leading more unstable lives. Nevertheless, it is encouraging that most of the Stage 3 participants felt that their problems were resolved, or at least on the way to being so. The positive changes experienced by respondents in terms of health and wellbeing supports previous research on the impact of debt problems. It also supports initiatives taken by some advice organisations to try to link in with Primary Care Trusts to establish 'outreach' debt services.

The results suggest, however, that the support of a specialist adviser is likely to be needed over the life of a debt problem. Respondents generally believed that the advice they received helped them stop getting further into debt, and enabled them to pay off their debts at a more manageable rate. A number of respondents also stated that the advice they received helped them avoid legal action and action by bailiffs. However, the number reporting some of these positive effects of advice decreased between Stage 2 and Stage 3. Further investigation is required to establish the extent of the problem and the impact that continued, and perhaps pro-active, intervention has on the impact of advice. Consideration of the groups for whom this may be necessary is also needed - the demographic profile of those participating in this study indicates that they are particularly vulnerable, and therefore may be more in need of continued contact with a specialist. However, the results suggest that those in particular trouble, or who are less able to cope, may benefit from continued or periodic advice to keep them on the right track.

¹ DTI (2004) *Tackling over-indebtedness: Action Plan 2004*.

² See Pleasence, P., Buck, A., Balmer, N.J. and Williams, K. (2007) *A Helping Hand: The Impact of Debt Advice on People's Lives*, London, Legal Services Commission, LSRC Research Paper No. 15.

³ Defined in this study as all money owed, excluding mortgage but including mortgage arrears.

Copies of this summary and the full report are available from:

Ministry of Justice
Research Unit
Selborne House
54 Victoria Street
London SW1E 6QW

Tel: 020 7210 8520

Fax: 020 7210 0693

E-mail: research@justice.gsi.gov.uk

<http://www.justice.gov.uk/publications/research.htm>