TACKLING THE PERSONAL DEBT CRISIS IN THE NORTH EAST

A short report of a policy and practice event on 27th June, 2014

This brief report summarises the key points, discussion and actions from a policy and practice event held in Norton, Stockton-on-Tees on 27th June 2014

Tackling the Personal Debt Crisis in the North East

This is a short report of an event held on 27th June, 2014 at the Education Centre, Norton, Stockton-on-Tees on tackling the personal debt crisis in North East England. The event brought together nearly 100 policy-makers, practitioners and community members. It was co-organised by the Centre for Social Justice and Community Action, Durham University and Thrive Teesside. The event was funded by Durham University, the Northern Rock Foundation and Stockton-on-Tees Borough Council, and chaired by Baroness Maeve Sherlock.

The aim was to bring together people from different organisations and backgrounds (including local authorities, advice agencies, credit unions, community development finance institutions, housing providers and people with experience of debt) to discuss strategies for tackling debt and poverty in the NE, share existing good practice and consider what further action can be taken through working together. After an opening plenary, there was a practice workshop on money mentoring and a policy roundtable to consider local and national strategies.

Two briefing papers were launched at the event, which can be found at:
www.dur.ac.uk/beacon/socialjustice/researchprojects/debt_on_teesside/

- *Building financially resilient communities: The need for local action, Policy briefing*
- *Money mentoring: Working with low income households experiencing problematic debt, Practice briefing*

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Programme

13.00	**Welcome and introduction**, Sarah Banks (Durham University) and Tracey Herrington (Thrive Teesside)
13.05	**Opening plenary**, chaired by Baroness Maeve Sherlock, OBE *Tackling the high-cost credit problem: the importance of local leadership*, Damon Gibbons, Centre for Responsible Credit
13.30	*The view from Teesside*: responses from Alex Cunningham, MP; James Wharton, MP; and Ian Bartlett, Stockton and District Advice and Information Service
13.45	**Discussion**
14.00	**A. Policy roundtable** OR **B. Practice workshop** ***Option A. Policy roundtable*** - chaired by Baroness Sherlock, with further input from Damon Gibbons, to consider policy options locally and nationally for government and third sector organisations. Issues for discussion may include: local banking plans; corporate debt recovery policies; employer-initiated wage-advances and savings plans; oversight of benefit decisions to mitigate the impacts of welfare reform; comprehensive regulation of high-cost credit markets; expanding lower-cost alternatives; reviewing the advice system. ***Option B. Practice workshop*** - facilitated by Tracey Herrington, Thrive Teesside, with Richard Wistow, Durham University, to explore the principles and practice of setting up money mentoring schemes, including discussion and group work on sharing good practice of money mentoring schemes in the community, benefits and challenges, the organisation and content of money mentoring sessions, and the role of the mentor.
15.30	**Plenary**, feedback from groups and discussion of ways forward—what can we do in the NE? Sarah Banks (Durham University) and Greg Brown (Thrive Teesside)
16.00	**Close**

1. Welcome and introduction, Sarah Banks (Durham University) and Tracey Herrington (Thrive Teesside)

Sarah Banks and Tracey Herrington welcomed participants and explained the purpose of the event. The day was a follow-on from the Northern Rock Foundation-funded *Debt on Teesside* action research project carried out by Durham University's Centre for Social Justice and Community Action and Thrive Teesside during 2011-13. Since the project ended, there have been developments in the field of high-cost credit, including: new Financial Conduct Authority regulations; legislation to introduce a cap on the charges for high-cost, short-term credit; bans by several NE local authorities on payday loan advertising; and the further expansion of credit unions. Yet still more action is needed to stop the growth of predatory lending and provide support and viable alternatives for people who find themselves locked into a spiral of unmanageable debt. In particular, issues to be explored include: the latest thinking on viable low-cost alternatives to payday loans; new roles for local authorities, third sector organisations and the banking sector in tackling the high-cost credit problem; and the place of community-based money mentoring and how it works. This event will provide an opportunity to take stock of issues in the North East and examine the potential for further developments in national and local policy and practice.

2. Opening plenary

The opening plenary was chaired by Baroness Maeve Sherlock.

Tackling the high-cost credit problem: the importance of local leadership, Damon Gibbons, Centre for Responsible Credit (CfRC)

When we think of high-cost credit we immediately think of payday loans. Payday lenders have had a lot of attention with, for example, the lack of affordability assessments. People are caught in a trap of taking on loans to pay off previous borrowing commitments, with the interest escalating very rapidly. But the debt trap is not just about payday lenders. The financial services industry operates to a model where the poorest, with the most financial difficulties, pay the most and those that have more money, and less financial difficulties, pay less. For example, in the home credit market people are encouraged to take out high-cost loans to pay off existing loans.

Credit markets have expanded alongside inequalities. The expansion of these markets runs in parallel with the reduction in welfare and is linked to a shift from secure to insecure employment. Short-term employment is one of the reasons underpinning why people are turning to credit. This is a long term economic trend. More recently, higher energy costs and problems in the housing market have added additional pressures.

There are good reasons why we need to do something about the problems of debt in low-income households, as it is having a dramatic impact on the people of the North East, on their health and wellbeing. There needs to be a response that addresses debt as much as there needs to be a response to tackling problems in the labour market and the impact of welfare reform. The challenge is to provide alternatives to high-cost credit, to help people deal with all these problems. These alternatives come from local communities as much as policy makers. Firstly, payday lenders are not divorced from the rest of the financial market. Banks fund payday lenders. We should question the practice of banks when they fund practices that have such a damaging impact on vulnerable communities, not least because the banks have been supported by tax payers. To influence the practice of banks, locally and nationally, we need to identify and use the levers that are available to us. For banks, money is often the key lever. Local audits of statutory, voluntary and charitable organisations to identify where there money is kept can help to facilitate conversations with banks about how they might support Credit Unions.

The CfRC framework looks at the likelihood of why people use credit. For example, families are more likely to need credit due to the cost of providing for children, and the lack of flexible working options around school times or the cost of care for children when not at school. Families are also more likely to be subject to income shocks, for example, with women returning to work at a lower salary. Service provision needs to be integrated across the range of issues and prepared to offer co-located services (see recent CfRC JRF report). In addition, government departments need to be called to account on how welfare reform is being implemented. For example, the recent Stockton report showed a significant increase in the number of people being sanctioned. A number of local authorities are now helping people who have been sanctioned. We need a reassertion of civic local leadership to hold to account those that are responsible for these policies and practices.

The view from Teesside: responses from Alex Cunningham, MP; James Wharton, MP; and Ian Bartlett, Stockton and District Advice and Information Service

James Wharton, MP, Conservative, Stockton South

There are broad and challenging issues within the economy. There has been a fourfold increase in payday loans as the economy worsened. It is a complex issue and the financial context needs to be recognised moving forward, including the national deficit. There are currently fairly strict regulations on advertising, but this can be looked at more. That is just one piece of the puzzle. We must ensure people have the tools they need to make decisions, whilst acknowledging that some people have no choice. The cap on interest is currently being looked into, but if a cap is set too aggressively then lenders will move out and this will lead people to illegal moneylenders. This is a deep and complex policy area.

Alex Cunningham, MP, Labour, Stockton North

We need to be able to support people better and more flexibly. The Tees Credit Union has expanded its capacity with the support of the NRF and we need to look at what alternatives we can provide to high-cost credit. How can we tackle the banks more directly on this? How can we get more investment into Stockton and stop finance moving from the North to the South of the country?

Ian Bartlett, Stockton and District Advice and Information Service

Ian Bartlett commented that the issue is not just about payday loans. It is about access to credit and it goes across people's lives, for example, fuel debts. In 2013/14 the CAB in the north east handled 186, 631 new enquiries about debt issues, this is the single largest category of work, amounting to 45% of all CAB work in the year. Ian provided the following breakdown of the debt enquiries the CAB had worked on in 2013/14:

Type of debt	Number of enquiries
Unsecured Personal loan debts	25,281
Credit / store cards	20,372
Council tax / community charge	17,234
Mortgage / rent arrears	16,054
Fuel Debts	8,095
Water Supply	5,402
Benefit overpayments	5,294
Payday loans	4, 429

The statistics that the Citizens Advice Bureau (CAB) and other agencies have provides evidence of a huge number of debts, but this is the tip of the iceberg. The CABs in the North East have 717 new debt enquiries every day, but this is just those that go to the CAB. People seek help from family, or other agencies. There are also people that don't go anywhere and they need to seek help, the sooner the better. Evidence is very important, as evidence changes policy. MPs are interested in stories on the ground. Any agency that finds a debt story should make it known.

Discussion

A question was directed to James Wharton about whether he still thought that payday loan company Wonga provided the ideal solution for some people. He responded that there are challenges in getting the policy mix right, and Wonga may gain more customers from recent publicity about its dubious practices. Another question was asked about the rising use of sanctions in relation to welfare benefit claimants, and the impact of sanctions in forcing people into debt. James Wharton responded that sanctions need to be administered in the right way, rather than using a 'tick-box' practice. Alex Cunningham noted that it was easier to respond to this question as an opposition MP whilst underlining that he sees a lot of people in very difficult circumstances. The considerable tightening up of the sanctions system has contributed to this significantly and the changes are driving people into debt. Ian Bartlett commented that there is emerging evidence that sanctions are impacting on people's ability to pay the bills and agencies should be encouraged to collect evidence of the impact of social policy changes. Debt occurs with change and agencies need to help people deal with change better and manage their budgets, rather than just responding to crises.

3. Practice workshop

About 30 people attended the practice workshop facilitated by Tracey Herrington. We report here some of key points raised. The information in the practice briefing was summarised, including the principles and practice of setting up money mentoring schemes. Participants worked in groups on the following themes: role playing the mentor/mentee relationship; good practice in organisations; developing services and applying the guiding principles of money mentoring; and reaching out to those not accessing services.

Whilst money mentoring is insufficient on its own to tackle the root causes of debt through high-cost credit, low income and inequalities, this approach empowers people to take steps to solve their own problems. Money mentoring goes beyond advice giving to supporting and developing people, using a guided and person-centred approach.

a) The mentor/mentee relationship

There was a discussion of whether advice workers were the right people to provide money mentoring? Would advice workers be able to keep themselves from returning to advice-giving and problem-solving rather than enabling and supporting people to come to decisions?

The importance of building rapport and gaining trust were identified through having the resources to meet people where they were most comfortable, at their home or in a community location. The 'hooks' to start working with people were raised: where would the person like to be in 10 years' time? What are their priority debts?

A good mentor has the time to sit and get to know people and to maintain relationships. They don't jump in to giving advice, as one day they will not be there, and the person needs the tools and confidence to do things themselves. Equally important is not giving up at the first hurdle. Time needs to be invested at the start to get people on board.

b) Existing organisation good practice

West View Advice and Resource Centre is providing early morning and late night sessions for people working full time. These sessions are always fully booked up, illustrating the importance of offering services to meet a variety of needs and how services can be tweaked to meet needs.

A new locality-based JSA scheme in Gateshead has a case worker who goes out to meet clients, providing tips on money, how to save, and how to find work. They also check that the benefits people are accessing are correct and that they are getting what they are entitled to. They will also refer on to a debt service if this is need.

Another example was provided of a Family Wise Scheme that works with a range of issues. Through a one-to-one interview people will be referred to debt workers if any issues come out. A mentoring scheme was being developed for carers' support. They are already doing the work and have the networks. This was seen as an area of potential future development.

c) Developing services and applying the guiding principles of money mentoring

Organisations providing temporary agency workers have been targeted by Credit Unions to encourage their employees to set up savings whilst they are in work in order to build their resilience to debt when they are next out of work.

Effective signposting is important. A food bank had started a mentoring scheme: they tackle the primary need of food and then signpost to next set of help.

More work can be done to establish local networks.

d) Reaching out to those not accessing services

There is a need to go out and knock on doors. The doorstep lenders do this, and they do it well. They build up relationships quickly. We need to do this: get out in the community, leaflet, get small numbers on board and then it will grow.

4. Policy roundtable

Over 60 people attended the policy roundtable, chaired by Baroness Sherlock, with additional input from Damon Gibbons. Some of the key points raised, along with recommendations for action (in italics), are reported here.

a) What locally-based community finance institutions do we need?

The offer from credit unions (CUs) across the region is very variable. They cannot meet all needs, especially for high-risk customers, as they are legally restricted to a maximum APR of 42.6%. Community development finance institutions (CDFIs) are more flexible in that they can charge higher interest rates. It was noted that some CDFIs (although not Five Lamps based in Stockton) are now classed as high-cost credit providers (e.g. Moneyline, which charges 100% interest). ***It was suggested that there is a need for CUs and CDFIs to work together in partnership to offer a more integrated and standardised range of products and services.***

Some headway is being made in the NE in this regard. With the support of FINCAN (the North East's financial inclusion and capability network), Northern Money (a brand that unites CUs and CDFIs in the NE and Cumbria) is working initially with 7 to 8 CUs to introduce an automated system with a standard offer, single entry point and wide coverage. Within this system, people who are not eligible/suitable for CU loans would then be referred on to a CDFI. This integrated CU project is ambitious and it was suggested that there is a need to work with local authorities in the region to find further funding to support this venture. ***A well-resourced credit union development plan is needed, involving the Association of NE Councils*.**

Local authorities could also consider offering rent-free/low-cost premises to CUs on the local high streets, to enable them to gain visibility and compete directly with the high-cost providers. Redcar and Cleveland Borough Council has already done this. They see the provision of CU services as part of a strategy to tackle poverty, ill health and crime in the borough.

Questions were also raised concerning the institutional division between CUs and CDFIs. This is largely a product of their different regulatory regimes, but it would in many ways make more sense to provide both types of services within a single organisation – which could both take deposits and raise finance for lending from investors. For example, Salford Council is exploring setting up a public interest bank for the people and organisations of Salford, and in 2012 the Cambridge Local Government Pension Fund and Trinity College, University of Cambridge, created the Cambridge and Counties Bank to provide finance to SMEs. This became profitable within just one year of opening. ***The model of community banks is therefore worth exploring*.**

The idea that CUs are for everyone (not just poor people) is important to get across. CUs need low-risk customers to borrow (as well as save). ***The provision of a wider range of CU products (including mortgages, as, for example, in Glasgow) is a way forward.***

b) What advice/support/education is needed for people facing severe debt?

While it is a good plan to expand access to low-cost credit, we need to realise that taking on more credit (even low-cost) is not the solution for many people who are already heavily indebted. The only reason for an already over-indebted person to take on a low-cost loan should be to replace the high-cost loans. Many people seeking debt advice are already with debt collection agencies. These have purchased the debts from the original lender for as little as 5p in the pound. The original lender will also have defrayed any bad debts sold on in this way against their tax liability. ***Advice agencies need to consider how they can ensure that people in debt, whose debts have been written down, benefit from this fact.***

The impact of sanctions on people claiming welfare benefits is causing severe hardship in many cases. It was noted that when local Jobcentre Plus managers are asked to comment on sanctions policy (e.g. at Council scrutiny meetings) they often do not feel senior enough to do so. Ways therefore need to be found of raising these shortcomings with the Department of Work and Pensions in order to ensure that local authorities are provided with the requested information, and it may be that local MPs could assist in this respect. ***It is vital that local authorities and local partnerships monitor what is happening in their areas regarding the impact of benefit sanctions and seek to challenge some of the decisions made.***

c) Local authorities can use leverage with banks to demand better local services

Local authorities are large customers of banking services. They can seek to use this leverage with banks to the advantage of residents. It was reported that Durham County Council is looking to review its financial services providers through its corporate procurement procedures. Suggestions were made about demanding no-charge cash machines and bank branches in areas that are currently poorly served. ***Local authorities can lever in support from banks to expand affordable services in low-income neighbourhoods. There is much to be learnt from the USA in this respect, and it would be useful to conduct more research into this.***

d) Mitigating the impact of debt on children

Recent research from the Children's Society shows the profound impact on children of living in severely indebted households, impeding their physical and mental health, education and overall development. ***Creditors should operate with a different set of standards for households with children, and local authorities should consider debt as a safeguarding issue (due to the emotional and physical damage it can cause). There are also actions that schools can take, and it would be useful if a briefing paper for schools was produced.***

e) The need for secure work on a living wage

Many people are in vicious cycles of debt because of lack of work, poorly-paid and insecure jobs. There are likely to be advantages to public bodies in terms of paying the living wage, particularly in respect of productivity. However, a case also needs to be made to the financial sector for them to question the business plans of firms seeking investment where these are currently reliant on paying employees low wages. ***Support can be given to living wage campaigns and the removal of zero hours contracts.***

f) Housing

Nationally, the expansion of mortgage credit, combined with low levels of house building, has led to significant price increases. These have fed through into higher rents, where homes have been bought up by buy-to-let landlords. This process is likely to be pushed further forwards if interest rate rises increase the number of mortgage repossessions. Alternatives to mortgage borrowing are limited, as social house building programmes are limited and there is a lack of security in the private rented sector. There are proposals, for example from Shelter, to address problems in the private rented sector by providing greater security of tenure and forms of rent control. The North East has an over-supply of social housing, but this is often low quality and of the wrong type to meet current needs. ***Local housing strategies need to be developed, which take account of underlying national issues and policy recommendations, but which tailor policy measures to specific local conditions. Greater flexibility in housing policy may therefore be needed at a regional level, and this could be something for future inclusion in any new City Deal agreements.***

g) Ideology and culture

There was discussion of the dominance of free market economic thinking at macro-level, alongside the high value placed on consumer goods at a community and household level. There was also a tendency to see debt as an individual problem (financial mismanagement). ***The personal debt crisis is a societal problem, and we need to generate collective solutions, such as helping communities to establish food co-operatives or entering into collective agreements with energy suppliers.***

5. Closing plenary

Sarah Banks (Durham University) and Greg Brown (Thrive Teesside) took feedback from the two groups. There was a discussion of ways forward, in particular what we can do in the NE. The key points from the practice workshop and policy roundtable (listed above) were noted. Specific emphasis was given to:

- The potential of money mentoring to support people through a learning journey, which may take time, but can be very effective in enabling people to take control of their finances.
- The potential for local authorities to leverage banks to provide better services for deprived communities, e.g. placing ATMs in under-served areas or not charging the local credit union for cheques.

List of registered participants

First Name	Surname	Organisation
Shona	Alexander	Newcastle CAB
Louise	Baldock	Stockton South
Sarah	Banks	Durham University
Claire	Barnett	Coast & Country Housing
Ian	Bartlett	Stockton and District Advice and Information Service
Sarah	Batty	Thirteen Housing Group
Alison	Baxter	Fincan
Ruth	Bell	Newcastle University
Deborah	Berridge	Thirteen Group
Heather	Black	Together Middlesbrough
Linda	Bland	Citizens Advice
Gemma	Bone	Newcastle University
Julia	Bracknall	Carers Together
Elaine	Bradley	livin Housing
Greg	Brown	Thrive Teesside
Janine	Browne	Stockton and District Advice and Information Service
Jonathan	Caldwell	Thrive Teesside
Simon	Callaghan	Habinteg Housing Association
Kathleen	Carter	Thrive Teesside
Julia	Cherrett	Stockton Borough Council
Fiona	Christian	Monkey
Helen	Clarke	Payplan
Alex	Cunningham	House of Commons
Beth	Danby	North Star Housing Group
John	Daniels	Middlesbrough CAB
Julie	Danks	Stockton Borough Council Director of Resources
Mark	Davies	Teesside Univertsity
Phil	Dennis	SBC
Thomas	Doughty	Gateshead CAB
Terry	Doyle	Lifeline Project
Alan	Duffy	
Valerie	Evens	West View Advice & Resource Centre Ltd
Emma	Frew	ShARP
Rebecca	Garrett	Stockton and District Advice and Information Service
Damon	Gibbons	Centre for Responsible Credit
Emma	Gordon	CAB Financial Inclusion Lead SDAIS
Catherine	Green	Thirteen Group
Edd	Harford	Carers Together
Tracy	Harvey	Middlesbrough Council
Kath	Heathcote	Five Lamps
Gavin	Hennessey	Northern Money

Sara	Herrington	North Star Housing Group
Tracey	Herrington	Thrive Teesside
Paul	Hiller	Financial Inclusion & Capability North East (FINCAN)
John	Hird	Five Lamps
Tom	Hodgson	THRIVE
David	Horrocks	Thirteen Group/Tristar Homes
Denise	Irving	Citizens Advice Sunderland
Anitha	Ishengoma	The University of Iringa
Michael	Janes	E-Strands Ltd
Chris	Kirby	
Keith	Lamb	ANEC
Susan	Latheron	Northumbrian CAB (Berwick)
Victoria	Mackay-Parkin	Gentoo Group Ltd/ FINCAN Ltd/ Bridges Community Bank
Peter	MacLellan	County Durham foodbank
Sihle	Mapanda	2 Way Tenancy Solutions CIC
Claire	Marsh	The Royal British Legion
John	McCoy	Five Lamps
Sandra	Mcdonald	City of sunderland council
Ian	Mcgreal	Carers Together
Jo	McNally	Middlesbrough Council
Stuart	Myers	Redcar and Cleveland Council
Andrew	Orton	Durham University
Mike	Oyston	Redcar and Cleveland Council
Deepak	Patrai	Darlington Borough Council
Diane	Patterson	Tees Credit Union Ltd
Shealagh	Pearce	Durham County COuncil
Richard	Poundford	Stockton Economic Development
Satty	Rai	Northern Housing Consortium
Lesley	Richardson	Prince Bishops Community Bank
Karl	Rickerby	
Steven	Robinson	livin Housing
Andy	Robinson	ANEC
Charles	Rooney	Middlesbrough Council
Julie	Sedgwick	Thirteen Group
Maeve	Sherlock	House of Lords
Alan	Shield	Durham Money Advice Centre
Andrew	Simblett	Sunderland City Council Welfare Rights Financial Inclusion Unit
Brian	Tanner	County Durham Economic Partnership
Natasha	Telfer	Darlington Borough Council
Penny	Thompson	Hartlepool Borough Council
Debra	Tindle	The Gateshead Housing Company
David	Tinmouth	Durham County Council
Brenda	Turnbull	Moneywise Community Banking
Bill	Waller	Habinteg

Richard	Walton	Northern Rock Foundation
James	Wharton	House of Commons
Susan	White	Citizens Advice Sunderland
Richard	Wistow	Durham University
Margaret	Wrigglesworth	Hartlepool Borough Council
Karen	Young	Grant Thornton