



MANCHESTER
CITY COUNCIL

Out of work and out of money

A study of financial inclusion and worklessness in Manchester:
how to improve support for people with money problems to
obtain and sustain employment

Damon Gibbons, May 2010

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Executive Summary

The Centre for Responsible Credit (CfRC) and Centre for Economic & Social Inclusion (Inclusion) were jointly commissioned in February 2010 by Manchester City Council, acting on behalf of the wider Manchester City Strategy Partnership, to conduct research into the impact of debt and money issues on job seekers' ability to find and sustain employment.

The study comprised a review of the strategic context and prior literature concerning welfare to work, debt advice and financial inclusion provision. Additionally, the study included primary research, involving 45 Jobseekers Allowance claimants in the Greater Manchester area, to determine how money and debt problems:

- affect their ability to undertake job search/secure a job and how they influence the employment choices residents make;
- impact on their health and how this in turn affects their job seeking behaviour or ability to sustain employment.

In shaping the recommendations from the study we were asked to outline the key features of a high quality financial inclusion service for job seekers. We were also asked to provide an overview of the range of nationally funded initiatives that welfare to work providers can tap into in order to provide a financial inclusion service to their clients and we have published a Debt and Financial Inclusion Resource Guide alongside this report.

Strategic Context and Prior Literature

Levels of personal indebtedness have increased significantly in the past 10 years, reaching a record high of 154 per cent of aggregated household pre-tax income in the first quarter of 2008. The onset of the credit crisis later that year tipped the economy into recession and, alongside the consequent increase in unemployment, we have witnessed a surge in mortgage repossessions and insolvencies.

Unemployment has long been recognised as one of the main triggers of debt problems, with people unable to maintain contractual payments on their credit commitments due to the drop in income that results. Reviewing the literature we find that the relationship between unemployment and debt problems is multi-faceted. The extent of debt problems is in part determined by the degree of credit use prior to the loss of work but living on a low income for lengthy periods can itself give rise to debt problems, and the long term unemployed in particular are likely to face an additional 'poverty premium' caused by their exclusion from mainstream and affordable financial services.

Government has responded to both the growing problem of over-indebtedness and financial exclusion by:

- increasing funding for debt advice services;
- providing more help for people at risk of repossession;
- securing 'breathing space' agreements with the financial services industry and promoting responsible debt recovery;
- implementing a long term financial capability programme;
- expanding access to more affordable credit;
- taking action to address problems of high cost credit and illegal lending;
- improving access to banking, savings, and insurance products.

Further details of these initiatives are provided in Appendix 1 to this report.

The Department for Work and Pensions has given a commitment to improve some of the links between these initiatives and welfare to work services and local partnerships are being encouraged to take a joined up approach. All upper tier authorities in England are subject to a statutory duty to undertake worklessness assessments that can be used to identify barriers to employment (including the extent of debt and financial problems), and Work and Skills Plans are intended to identify ways in which synergies in funding streams and service delivery can be achieved. Local authorities also need to deliver child poverty needs assessments and, together with their partners, develop child poverty strategies, and the Audit Commission has indicated that it will consider how well local strategic partnerships have responded to the economic downturn as part of its Comprehensive Area Assessment.

Nevertheless the question remains as to how best to join up services to address financial problems where these pose a barrier to employment. Reviewing the existing literature we identified that money problems impact on job seeking behaviour in four ways, by:

- distracting people from job search;
- constraining job search activity;
- creating disincentives to work, and
- reducing the chances of people sustaining their employment.

Primary Research Findings

We explored these issues further in our focus groups with 43 unemployed people and also undertook a further 2 telephone interviews with recently redundant claimants.

Participants in the study were predominantly male (80 per cent), single (71 per cent) and White (93 per cent) and the median age group was 35-44. Just over half of the participants were long term unemployed and had been out of work for over 12 months, and 69 per cent had debt problems, including arrears with household bills as well as credit commitments.

Although the sample sizes for different household types was small, we found some evidence to suggest that having a partner who is in employment or having dependent children may increase the likelihood of debt problems and that debt problems were especially likely where both of these factors were present. In some cases participants with partners in employment indicated that they had found it easier to continue to obtain credit following the loss of a job and had been tempted to use this to maintain living standards while they were optimistic of a quick return to work.

Therefore, couple households where one partner was still working reported a higher incidence of credit debts than other household types, although 55 per cent of all participants had credit debts, primarily obtained through credit cards and bank overdrafts. Housing debt was much less common, with just under a quarter of participants reporting mortgage or rent arrears. Long term unemployed people had a higher incidence of utility debt, council tax arrears, and were also more likely to borrow from family and friends and the Social Fund. The only instances of high cost credit debt was also found among this group.

We found that the amount of debt also varied significantly according to the time period of unemployment. The mean level of debt for the 69 per cent of participants with debt problems was just over £6,200. However, this was skewed by the inclusion of four 'heavy' debtors who owed in excess of £12,500. The largest amount of debt reported was £30,000 and the second largest £26,000 and in three cases participants had either been made insolvent or were going through insolvency procedures at the time of the study.

However, the majority of participants had much lower debt levels, with 62 per cent owing less than £3,500 and 87 per cent of long term unemployed debtors owing less than £500.

We found that although the level of debts was often quite small, the impact of debt and financial problems associated with living on a low income nevertheless constituted a significant barrier to work for the following reasons:

Money problems distracted people from job search

- Living on a low income meant that people often had less time available to seek work because it took them much longer to perform other household tasks. In particular, an inability to pay for transport costs and the need to 'shop around' for cheap food and other basic items meant that much time and energy was being expended on just getting by.
- Financial problems had also affected the health of some participants, including contributing to anxiety, a loss of confidence, and in some cases depression and physical ill health.
- In some cases persistent harassment from creditors also distracted people from job search, and it could take considerable time to access debt advice services and comply with regular requests for updates on their financial position. This included instances where people had taken out payment protection insurance against unemployment but were being contacted by both the creditor and insurer for the same information.

Money problems also constrained job search activity

- Financial planning was more difficult and people often struggled to meet the additional costs associated with job search including phone calls, interview costs, and transport costs to attend training.
- A bad credit rating could also limit the employment opportunities on offer. We found that some recruitment processes included credit checks and there was a widespread perception among unemployed people that there was little point in applying for jobs in the financial services sector, or for some security and retail jobs.

Debt problems, and how they are sometimes dealt with, can create disincentives to work

- We found evidence that some people in debt were anxious about the impact of a return to work on their repayment agreements. This was particularly the case where they had negotiated token payment levels and feared that a return to work would mean a substantial rise in repayment levels. The perception that higher repayments would be required following a return to work led people to rule out very low paid work as an option.
- Insolvency procedures, particularly Debt Relief Orders, also appear to create disincentives to work, particularly in the first 12 months after application as only a small level of disposable income significantly reduces the insolvency protection provided to the debtor and means that they will have to pay back a considerably greater proportion of their outstanding debt.

Debt problems may impact on the chances of people sustaining work

We found some evidence that debt problems may impact on the chances of people sustaining work which supports the findings of previous studies.

- Some participants had found it difficult to make their debt repayments while in work and this had led them to think about giving up their jobs.
- For others, debt problems led to them working longer hours with possible health impacts, and dealing with debt problems could also cause people to take time off work.

Not all unemployed people experience these problems equally. We found that the impacts differ for the newly unemployed and long term unemployed groups. In particular:

- More recently unemployed people face greater distractions from job search because of the need to gain access to advice to help them deal with immediate debt problems that arise when a job is lost, and because they receive regular demands for payment from creditors. This group may also be less able to meet the additional costs connected with job search as much of the support with interview costs and other discretionary financial help is only available to longer term unemployed people.
- Longer term unemployed people often incur higher costs for basic services and have exhausted prior savings. They therefore have to spend more time managing their income carefully and have less money for transport costs. Basic household chores take longer leaving them less time available for job search. This group is also more likely to experience health problems and may have more difficulty in the transition back to work because they have problems obtaining bank accounts and lack any affordable credit options to cover additional work related expenditure during this period.

Use of financial services

The focus groups were also used to seek information about the use of financial services and how this had changed with the loss of employment. We found that:

- savings were used up quickly and accounts closed
- people often incurred bank charges, causing them to close their accounts and use Post Office Card Accounts in their place
- people had problems maintaining insurance payments, including for home contents.

The closure of bank accounts then affected the transition back to work as some of the participants found it difficult to obtain another account for the receipt of wages, and the absence of savings meant that it was difficult to cover additional work related expenses pending receipt of first wages. Many participants had to borrow from family and friends as a result but where this was not possible it caused real difficulties, including benefit fraud in one case. These problems were exacerbated by delays in the administration of benefit payments designed to help with the transition to work and the low level of financial support available, and the experience often put people off using agencies to find employment as this often meant a constant movement in and out of work and financial disruption.

Conclusions and Recommendations

The study provides clear evidence that money problems impede unemployed people in their efforts to find work. The very low level of benefits gives rise to a wide range of problems that impact on the ability of unemployed people to maintain a focus on, and pursue job seeking activities. We also find some evidence to support the findings from prior studies that debt problems may affect the ability of people to sustain their employment.

Reducing benefit levels has sometimes been justified on the grounds that this increases the incentive for people to find work. However, the evidence from this study suggests that reducing benefit levels is counterproductive and creates additional barriers for many people to return to work. As a result, we consider that more should be done to reduce the financial burdens associated with unemployment and to address the impacts of money and debt problems on job seeking behaviour.

We consider that a high quality service would need to respond to the findings from this study in three main ways, by:

- introducing systematic screening for, and providing rapid assistance with, debt problems;
- improving partnership working to provide tailored packages of support to assist the return to work;
- improving in-work support to help people sustain employment.

A number of actions could be taken at the local level in each of these respects and we set out further details of the key features of a high quality local service in the table on the following page.

However, these actions also need to be encouraged, facilitated, and supported by action at the national level. Indeed, some issues identified in this report can only be addressed at that level, including lender practices, insolvency rules, and the use of credit scoring in recruitment processes. We therefore also provide a detailed set of 12 recommendations to be taken forward by national and local government and its agencies, the financial services industry, including credit unions and Community Development Financial Institutions, welfare to work providers, and debt advice agencies.

Key features of a high quality service to address money problems in welfare to work settings

Systematic screening for, and rapid assistance with, money and debt problems	Improved partnership working to provide tailored support packages to assist the return to work	Better in-work support
<p>Welfare to work services should screen claimants for debt problems:</p> <ul style="list-style-type: none"> • on day one of a claim a basic screening should take place by Jobcentre Plus and, where problems are identified, Jobcentre Plus should signpost people to sources of assistance; • at later stages in a claim Jobcentre Plus Support Contractors and flexible New Deal providers should check for both money and debt problems and enter into formal partnerships with debt advice agencies to refer people with the greatest problems for assistance within a rapid (contractually agreed) time period. <p>Where formal agreements have been entered into then these should provide for the sharing of information about the extent of money and debt problems and the steps being taken to address these should be incorporated within an individual's back to work plan.</p>	<p>Welfare to work providers, debt advice agencies, and providers of financial education services should design money management sessions suitable for delivery in welfare to work settings. These could, for example, cover:</p> <ul style="list-style-type: none"> • how to maximise income and reduce expenditure, for example, by giving advice on energy efficiency grants and other entitlements; • dealing with debts, including advice on negotiating with creditors; • managing the transition to employment, including help with drawing up an in-work budget and debt repayment plan supported by a "better off" calculation. <p>Formal partnerships should also be put in place between welfare to work services and financial services providers, including credit unions and CDFIs, to ensure that people have access to banking facilities and affordable credit, with rapid access to bank accounts guaranteed when someone obtains a new job.</p> <p>Work and Skills Plans should be used to set out how local partners will reduce the financial burdens on the unemployed and improve levels of support (see Recommendation 2).</p>	<p>In-work support programmes organised by welfare to work providers need to follow through on known money and debt issues by tracking progress on debt repayment agreements and providing support where necessary.</p> <p>Employers, particularly those signed up to Local Employment Partnerships and the National Employment Partnership, should be encouraged to:</p> <ul style="list-style-type: none"> • provide information about debt advice services; • encourage savings (for example, providing information on the Savings Gateway and offering salary deduction services into credit union accounts); • participate in financial education programmes; • work with trade unions to ensure that financial problems are recognised within health and safety policies as potential contributors to staff absenteeism and ill health.

Recommendation 1: A clear process to screen Jobseekers Allowance (JSA) claimants for money and debt problems, and direct them to sources of assistance, should be put in place:

- Department for Work and Pensions (DWP) and Jobcentre Plus should incorporate a screening question for debt problems into the JSA claims process and should provide information to claimants about sources of advice and assistance from day one of a claim
- Jobcentre Plus should publish regular statistics, broken down to local authority level, on the number of unemployed people identified as having debt problems as a result of its screening process
- Jobcentre Plus Support contractors should also screen for debt problems and should discuss money and debt problems as part of any back to work plan. Jobcentre Plus support contractors should be responsible for ensuring that people have access to an account capable of receiving wages;
- Where debt problems are identified, this information should be recorded and included in any referral documentation provided to flexible New Deal providers to enable them to tailor their provision quickly and effectively
- Welfare to work providers should enter into formal partnership agreements with debt advice services to ensure that people with the greatest problems have rapid access to advice and assistance.

Recommendation 2: Local partnerships should ensure their plans reduce the financial burdens on unemployed people and provide them with access to advice:

- Local authorities, together with their wider employment partnerships, should review the availability of debt advice as part of their local economic assessment and set out how they will ensure that unemployed people have access to advice services in their Work and Skills Plans;
- Work and Skills Plans should also set out how local partnerships will reduce the financial burdens on the unemployed, for example, by ensuring help is given with transport costs and job search related expenditures, and how they will provide access to small sum affordable credit to cover work-related costs during the transition to employment;
- DWP should continue to support the expansion of third sector lending and should ensure that its future commissioning of these services links with local partnership proposals as set out in their Work and Skills Plans.

Recommendation 3: The administration of unemployment insurance policies should be improved:

- DWP, Jobcentre Plus, and representatives from the debt advice agencies and financial services industry should convene a task and finish group to develop proposals to improve the administration of unemployment insurance policies by reducing the need for claimants to respond to multiple requests for the same information.

Recommendation 4: Greater protection against debt recovery should be provided for people that have recently lost their jobs, or have just started work and need time to renegotiate repayment levels:

- The Department for Business, Innovation and Skills (BIS) and the Office of Fair Trading should work with the financial services industry to ensure that all creditor association codes of practice commit their members to accepting 'token payments' and suspending interest and other charges once they have been notified of the loss of employment or other significant income shocks;
- BIS should work with the financial services industry and debt advice agencies to extend its 'breathing space' agreement to cover all lenders, not just those subscribing to the Lending Code. It should also seek an agreement for all lenders to apply a 30 day 'breathing space' prior to renegotiating repayment levels where people move back into work;
- The Office of Fair Trading should set out a clear strategy to stop the harassment of unemployed debtors. It should work with Jobcentre Plus and welfare to work providers to raise awareness of its Debt Recovery Guidance among unemployed people and should develop a simple and effective mechanism through which unemployed people can report instances of harassment. It should report regularly on the action taken as a result.

Recommendation 5: DWP, BIS and the Insolvency Service should establish a joint working group to review the rules for all forms of insolvency to ensure that these procedures do not create disincentives to work.

Recommendation 6: DWP and the Insolvency Service should undertake research into the impact of debt and different insolvency procedures on future employment opportunities and prospects.

Recommendation 7: DWP, BIS, credit reference agencies, and employer and trade union representatives should develop guidelines concerning the use of credit reports in recruitment processes.

Recommendation 8: New partnerships should be formed to tailor financial education materials and financial services for unemployed people:

- Welfare to work providers and debt advice agencies, with support from the new Consumer Financial Education Body and the Financial Services Authority, should enter into formal partnerships with financial services providers, including credit unions and Community Development Finance Institutions as well as the private sector, to:
 - develop tailored financial education sessions and materials that are relevant to unemployed people and can be delivered in welfare to work settings;
 - deliver rapid access to bank accounts for people returning to work;
 - provide small sum, affordable credit for people moving into employment to cover the transition period;
 - provide deferred payment products to replace existing small sum debts where these constitute a disproportionate barrier to employment. Welfare to work providers should ensure that access to these products is contingent on the claimant following their back to work plan.

Recommendation 9: Best practice on dealing with money problems should be shared as part of existing learning networks:

- The National Worklessness Learning Forum (NWLf), supported by Improvement and Development Agency for local government (IDeA), should develop a user-friendly guide to showcase and promote effective practice on this issue as part of their wider remit to identify and share best practice responses to the barriers that prevent people moving back into work and that maximise local authorities' resources and assets;
- The NWLF should also explore whether debt advice and money management have been built into Future Jobs Fund support packages;
- The IDeA worklessness community of practice should be used to gather case studies and share learning.

Recommendation 10: The Social Fund needs to be more responsive and repayments deferred where these are impacting on the ability of people to undertake job search:

- DWP should provide access to the Social Fund's Budgeting Loans from day one of a claim for JSA;
- DWP should also ensure that financial health checks are conducted for repeat budgeting loan and crisis loan claimants and should facilitate referrals to welfare to work providers and debt advice for further help where problems are identified;
- Where welfare to work providers report that recovery of a Social Fund loan is impacting on the ability of a claimant to undertake effective job search, repayments should be deferred.

Recommendation 11: Efforts should be made to ensure that people moving into work are better off even after debt repayments are taken into account:

- Jobcentre Plus should take account of outstanding debts and the likely level of repayments required of someone moving into work when conducting "better off" calculations (BOCs)
- A basic calculator should be developed, using agreed Money Advice Trust/British Bankers Association 'trigger figures', in order to help Jobcentre Plus provide this information to claimants as part of their BOC;
- All claimants should be provided with a guarantee of assistance with creditor negotiations to ensure that they are at least £30 per week better off in work after taking debt repayments into account.

Recommendation 12: In-work support should be improved

DWP and Jobcentre Plus should lead a programme of work with employers to:

- ensure that information about debt and money problems is made available in workplaces;
- promote credit unions and the Savings Gateway to employees;
- build actions to identify and address debt and financial problems into health and safety policies.

Fit for Work Service Pilots should also be encouraged to test out ways of delivering advice and assistance on debt and financial matters in the workplace and evaluate the impact of these on job retention rates.

1. Introduction

The Centre for Responsible Credit (CfRC) and Centre for Economic & Social Inclusion (Inclusion) were jointly commissioned in February 2010 by Manchester City Council, acting on behalf of the wider Manchester City Strategy Partnership, to conduct research into the impact of debt and money issues on job seekers' ability to find and sustain employment.

The study comprised a review of the strategic context and prior literature concerning welfare to work, debt advice and financial inclusion provision and primary research with users of welfare to work services in the Greater Manchester area to determine how money and debt problems:

- affect their ability to undertake job search/secure a job and how they influence the employment choices residents make;
- impact on their health; how this in turn affected their job seeking behaviour or ability to sustain employment.

The study was also concerned to see if the impacts of money and debt problems on the long-term unemployed differed from the effects on the newly unemployed: people who have lost work, often for the first time in many years, as a result of the recent recession; and to look at the implications of any differences for service provision.

In shaping the recommendations from the study we were asked to outline the key features of a high quality financial inclusion service for job seekers, drawing on the currently funded mainstream offer but also identifying gaps, capacity issues and policies which may constrain its delivery or effectiveness.

Finally, as part of the study we were also asked to provide an overview of the range of nationally funded initiatives that welfare to work providers can tap into in order to provide a financial inclusion service to their clients. We were asked to present this as a user-friendly guide to encourage welfare to work services to make these links. The final Resource Guide has been published alongside this report.

Structure of this report

The report is structured as follows:

Chapter two contains the review of the strategic context and relevant prior literature.

Chapter three details the methodology used for the primary research phase and sets out the main findings.

Chapter four draws out the conclusions, identifies the suggested key features of high quality service provision and makes recommendations for future policy and practice.

2. Strategic Context and Literature Review

Strategic Context

Levels of personal indebtedness in the UK have increased significantly in the past 10 years, reaching a record high of 154 per cent of aggregated household pre-tax income in the first quarter of 2008 (Department for Business, Innovation and Skills, 2010, p.12). The onset of the credit crisis later in the same year tipped the economy into recession and, alongside the consequent increase in unemployment, we have witnessed a surge in mortgage repossessions and insolvencies¹.

That unemployment is a major cause of debt problems is by no means a revelation. In 1992 a report for the Policy Studies Institute (Berthoud and Kempson, 1990, cited in Kempson, 2002 p.27) identified loss of income through unemployment as having a sustained effect on the household budget, causing greater levels of arrears on credit and bill repayments for up to three years after the loss of work. More recent research into the effects of the 1990's recession indicates that the long-term impact of unemployment on household finances may be even worse. The Government's Social Exclusion Taskforce reports (2010, p.5) that 40 per cent of people who lost their jobs in the 1990's reported financial difficulties for between one to two years, while 24 per cent reported financial difficulties for between three and six years.

The relationship between unemployment and debt problems is multi-faceted. In a review of the drivers of over-indebtedness Disney *et. al* (2008, p.55) note that it is the combination of both having had a high number of financial commitments prior to becoming unemployed and the loss of employment which increases the probability of debt problems.

Therefore, it is therefore not surprising that a period of significant growth in levels of personal credit use followed by rising unemployment has led to a high level of debt problems. This increase in demand has now resulted in increased waiting times for advice services despite additional government investment in its provision (National Audit Office, 2010).

As a consequence current public policy responses are concerned both with ensuring more responsible levels of lending and borrowing moving forwards (Pain, 2009; Office of Fair Trading, 2010) and with providing 'real help now' (HM Government, 2009) for households in financial difficulties.

However, not all financial problems result from individuals having had access to large amounts of credit while in employment and their subsequent loss of work. Other changes of circumstance leading to reduced incomes or increased expenditures, such as relationship breakdown, health problems or increased fuel and food prices, have an impact and there is also evidence that long-term worklessness is itself a cause of debt problems. Living on a low income has been found to increase the likelihood of arrears on both credit repayments and household bills (Kempson, 2002) with high risk groups including younger people, families and people living in social and private rented accommodation (National Audit Office, 2010, p.11). Single parents in particular are affected (see for example, Harris *et. al*, 2009).

These high risk groups are also more likely to be financially excluded (HM Treasury, 2004, p.9), and face an additional poverty premium caused by:

- higher charges for credit, and basic financial transactions: failure to pay by Direct Debit can result in higher charges for utilities for example;
- limited or no access to certain products or services: contract mobile telephones and internet purchases require a bank account for regular Direct Debits or online payments for example;
- lack of security in holding and storing money: operating solely on a cash budget leaves people more vulnerable to loss or theft.

The Government's response has therefore included measures designed to address problems of over-indebtedness arising both from the loss of employment and longer term financial exclusion². Reviewing the Government's recent policy announcements, we find that there are seven key features to this response:

- more funding for debt advice services;
- more help for people at risk of home repossession;
- securing 'breathing space' for people in debt and supporting the negotiation of realistic repayment plans;
- implementing a long-term financial capability programme;
- expanding access to more affordable credit³;
- action to address problems of high-cost credit⁴ and unlicensed lending;
- improving access to banking, savings, and insurance products.

We provide further details of the actions taken by the Government in each of these areas in Appendix 1. However, all of these initiatives need to be viewed in the context of the Government's wider strategy to tackle poverty and social exclusion. This places a critical emphasis on active labour market policy and programmes to move people back into employment and to make work pay (Department for Work and Pensions (DWP), 2008, p.19):

'Full employment is at the heart of the UK strategy to ensure an inclusive, cohesive and prosperous society with fairness and social justice. Work is good for people of all ages, their families and society, and vital in the fight against child poverty. Not only are people who work better off financially, they are better off in terms of their health and well-being, their self-esteem and their independence.'

The Government's 2004 Over-indebtedness Action Plan, and its subsequent annual progress reports through to 2007, explicitly recognised the importance of welfare to work policy in helping to tackle over-indebtedness among vulnerable groups (see Department of Trade & Industry and DWP, 2004, pp.27 – 28; 2005, p.32; 2006, p.46; and 2007, p.41).

The 2005 Annual Progress Report is particularly notable for not only recognising that work will often be a way out of poverty and debt, but also for its observation that debt problems can themselves form a barrier to employment (p.32):

'Over-indebtedness is both caused by, and contributes to, poverty and social and financial exclusion. People will almost always be financially better off in a job than in receipt of benefit. But for many, there is a concern that return to work may lead to instability of income which could impact on credit arrangements and possibly the risk of greater indebtedness.'

However, it should be noted that no specific action was taken in response to this concern and it does not appear as an issue in either of the subsequent 2006 or 2007 reports. There is also much less emphasis on tackling worklessness as an issue in the Treasury led Financial Inclusion strategies and action plans, although the initial strategy in 2004 referenced the fact that the lack of a bank account can create a barrier to employment where employees are expected to have an account in order to receive payment of wages (HM Treasury, 2004, p.2)⁶.

More recently, the DWP white paper, Building Britain's Recovery, published in December 2009, re-establishes the links between over-indebtedness and welfare to work policy by recognising that 'debt can have an impact on people's plans for a return to work' (p.84). Unfortunately this relationship is only sketched out:

- echoing the 2005 Tackling Over-indebtedness Annual Report it identifies that creditors may pursue people for increased debt repayments if they return to work and this may reduce or eliminate the financial gains of working;
- it also considers that debt problems can affect the self confidence of people out of work and their ability to plan ahead.

This white paper does however commit (p.85) the Department to improving the links between advice on the financial benefits of employment, other sources of money guidance and debt advice as well as emphasising its role in expanding access to sources of affordable credit such as credit unions and Community Development Financial Institutions (CDFIs).

These commitments are in line with the wider objectives of the Department's welfare to work strategy (DWP, 2008a), which stresses the need for more personalised and responsive services and for more effective partnership working between the public, private and third sectors. The Department's Commissioning Strategy (DWP, 2008b) is of particular importance as is its devolution agenda, which was set out in its joint response with the Department for Communities and Local Government to Cllr Houghton's Tackling Worklessness Review (Department for Communities and Local Government & DWP, 2009). Taken together these provide for increased flexibility in the provision of welfare to work services and encourage local partnerships to add value to the core national offer of support to help move people back into, and to sustain employment.

An effective response to over-indebtedness, financial exclusion and worklessness therefore requires links between these agendas to be made on the ground and for more effective partnership working by a range of agencies including:

- Jobcentre Plus;
- DWP contracted providers;
- local authorities;
- debt advice agencies;
- providers of financial capability programmes;
- financial services providers including credit unions and CDFIs;
- Illegal Moneylending Units established to tackle unlicensed loan sharks.

Following the Houghton review the Government has now set out the mechanisms that will be used to drive forward action on worklessness. The can also now be used to develop stronger links with services addressing debt and financial exclusion. All upper-tier local authorities in England now have a statutory duty to assess the economic conditions in their area and to undertake worklessness assessments, which (Social Exclusion Task Force, 2010, p.8):

'...can be used to explicitly identify and address social barriers to employment (such as mental health, family and relationship breakdown and debt).'

Further to this, the Task Force encourages (pp.9-10) local authorities to develop integrated local Work and Skills plans, which can be used to identify synergies in funding streams and service delivery and realise potential efficiencies through the better alignment of resources (see also DWP & Department for Communities and Local Government, 2010).

A number of other drivers to join up services including debt, financial inclusion, and employment provision as part of broader local strategies also exist:

- from April 2011 local authorities will be subject to a new duty to work with local partners to consider the need to tackle socio-economic inequalities;
- the recent Child Poverty Act 2010 places local authorities under a duty (from 25 May 2010) to provide a child poverty needs assessment and develop, with partners, a local child poverty strategy;
- the Comprehensive Area Assessment framework for Local Strategic Partnerships indicates that although the agreed Local Area Agreement and Sustainable Community Strategies form the starting point for an area assessment, the Audit Commission (2009, p.13) will also consider whether or not these have been reviewed to reflect 'significant changes in circumstances, such as the economic downturn'.

Literature Review

The fact that unemployment and worklessness is a major cause of financial problems and that financial problems can themselves act as a barrier to employment provides a clear driver for local partnerships to join up service provision. However, the question arises as to how this can best be done. To address this question we began with a review of the existing literature in order to identify prior knowledge and to help inform the focus for our own primary research activities.

Following a desk-based search of academic databases and online publications we identified two main categories of literature of relevance to this study⁷. These were:

- a small number of directly relevant studies that examined the relationship between financial problems and job seeking behaviour as their starting point;
- a wider literature concerning the general impacts of living on a low income, or the budgeting, coping strategies, and attitudes to money management of low income households. This yielded further insights into how the agendas of financial problems and worklessness may interact, including through their common association with mental health problems.

The following sections provide an overview of the main studies, their methodologies and key findings. The subsequent synthesis was used to develop an overarching framework that guided the primary research and enabled us to formulate our recommendations for policy and practice presented in the final chapter.

Directly Relevant Studies

We identified four recent studies of direct relevance to this project (Harries & Woodfield, 2002; Ambrose & Cunningham 2004; Carpenter, 2006; Gillespie & Dobbie, 2007). These studies had all been conducted with the specific intention of determining (at least as part of their overall objectives) how financial problems impact on job seeking behaviour or had examined money problems as one of several factors affecting the transition to employment. As a result, from this literature a significant number of issues for consideration and further examination were identified.

Harries & Woodfield (2002) undertook an evaluation of the DWP Job Grant⁸: paid to people moving off benefit and into employment, by monitoring income and expenditure diaries and conducting in-depth interviews with people who had recently returned to work. Seventy-three diaries were assessed and 67 depth interviews conducted. Focus groups were also held with Jobcentre Plus staff responsible for the administration of Job Grant. The research identified five critical factors (p.31) affecting the success of transitions to employment:

- the nature of existing debt and repayment schedules;
- household cycles for bill repayments;
- the ability to access financial support such as credit and loans or assistance from family and friends to bridge the gap until earnings were received;
- existing confidence or nervousness around household budgeting;
- the extent to which new unexpected expenditure related to the move into employment upset existing household budgeting.

The authors note (p.3) that the 'uncertain and, potentially, turbulent financial implications of a return to work were continually expressed as a concern by those who participated in the study'. This was particularly the case for those with dependent children but the difficulties of managing a change in financial routine, for example the shift from fortnightly benefit payment cycles to a four-weekly wage cycle, was also a more general problem (pp.69 -70).

The study also identified that many respondents had anxieties about the implications of employment on debt repayment levels (p.68) because 'those who had payment protection insurance against unemployment had to restart payments during the transition' and those without such insurances faced increased creditor action for recovery of their debt (p.69):

'... arrears that were brought to the transition included Council Tax arrears, rent or mortgage arrears, water rates arrears and arrears in payments of telephone and energy bills. Seeing all the money from a new job being used for 'paying off yesterday's bills' could be disheartening (Male, 40, rural area, 1 year JSA, Job Grant). One man's bank kept all of his first three weeks' wages in lieu of mortgage arrears, leaving him with no income at all until he arranged for his wages to be paid into a new bank account (Male, 48, urban area, 13 months' JSA, Job Grant).'

Where people experienced financial problems after a move back into employment this (p.73) undermined their initial positive feelings of finding a job. This was particularly true for people with large debts 'on which a sufficient repayment dent could not be made in the first weeks at work to give a significant morale boost.'⁸

However, this study was focused on those people that had made the transition to employment so it does not indicate how far these factors form a disincentive to seek work, nor does it shed light on whether or not financial problems constrain people on benefits from undertaking job search activities and achieving a return to work in the first instance.

In contrast **Ambrose & Cunningham (2004)** set out to determine the degree to which debt problems constitute a barrier to employment in its widest sense. Their quantitative survey of 109 unemployed people in Brighton and Hastings found (p.43) that debt was the fifth most frequently mentioned impediment to employment, being cited in 38 per cent of cases. This was followed by 25 semi-structured interviews which were used to obtain further information about:

- the 'trigger events' that led to debt problems;
- the ease of getting into debt;
- advice seeking behaviour and access;
- impacts of debt problems on health and relationships;
- employment issues, including barriers to employment.

Ambrose & Cunningham also included interviews with Citizens Advice debt advisers as part of the study.

Key findings included the observation that a significant part of the problem was 'the amount of emotional energy' devoted to dealing with debt problems and that respondents thinking of a return to work were affected by a fear that increased creditor repayments would make it financially unviable (p.43):

'I think this does stop me looking for work...it's always on my mind, even with all these court things, if I got a job, then they're gonna take it out of my wages and things like that, and I can't really afford for that to happen if I've got to pay housing and council tax, and look after my son, it's quite scary.'

Echoing the findings of Harries & Woodfield, Ambrose & Cunningham found that the combination of expecting to have to change financial habits, deal with creditor demands and cover additional work related costs is important in some cases. Similarly, moving in and out of work led people to fear that they would lose priority for support within the welfare to work system (Ambrose & Cunningham, 2004, p.43):

'It's a no win situation... if you go back to full-time work again you fall into a less-helped category and take on more responsibility, and it's this big support thing of going back to work, sorting things out, changing your routine, contacting your debtors, paying and maintaining your bills, incurring costs to do with work, travel etc.'

The study also indicated that job search activities may be constrained by a lack of money and financial problems: some participants highlighted that difficulties arose from having insufficient funds to buy clothes for interviews and pay travel costs to attend.

Ambrose & Cunningham also reported that the options for dealing with debt problems were extremely limited for many people. Advice workers effectively presented three options:

- offer only token payments to creditors pending a return to employment;
- use insolvency procedures to get debts written off;
- simply 'wait and see' what action creditors took.

All of these options had pros and cons. For example, (p.51) people putting in place agreements to make only token payments meant they could face significant increases in debt repayments once they moved back into employment. Alternatively petitioning for bankruptcy (p.52) would have severe consequences for future access to credit and could create a disincentive to work during the first year in order to obtain an early discharge. As one debt adviser highlighted:

'...if you have some money at the beginning of the bankruptcy period you'll be expected to make an income payments order for three years. [However] If during the first year...you don't actually have any money to give the official receiver [then] you're going to be discharged at the end of the first year and everything is written off and finished.'

As regards the 'wait and see' option, Ambrose & Cunningham reported (p.52) that this was only likely to be adopted by people who were relatively assertive and who could deal with the stress or guilt of not repaying their debts, and withstand the debt recovery and court action that would inevitably result.

Finally, the study also points to a range of adverse impacts of debt problems on health, including mental health, personal relationships, and social life – all of which are also reported in the wider literature on pages 32 to 36.

It should be noted however that there have been significant changes to both the welfare to work system and to the options for dealing with debts since the publication of Ambrose & Cunningham's report. In particular, the DWP Commissioning Strategy has given welfare to work providers much greater flexibility to meet individual needs and to personalise services. For example, by meeting additional costs for interviews and other job related expenditures, the reported constraints on job search activity may have been reduced, at least for those who have been out of work long enough to be referred to this provision.

In addition, a new form of insolvency, the Debt Relief Order, was introduced in April

2009 which allows people with debts of less than £15,000, no substantial assets and little or no income, to write-off their debt through what is in effect a simplified bankruptcy procedure. Access to this form of insolvency could therefore make it more likely for long-term unemployed people to write off their debts and so reduce the likelihood of a return to work requiring an increase in debt repayments.

We considered both of the above issues further in our focus groups and report on the findings in Chapter Three.

Carpenter (2006) researches the characteristics of repeat JSA claimants and undertook a quantitative phone survey of 2,725 claimants to determine their attitudes to work and the barriers they faced. The survey sample was weighted towards those with more frequent benefit claims and complex work histories, and included a section on financial problems.

The findings highlight the importance of money and debt as a welfare to work issue with one in eight repeat claimants reporting that they had experienced money problems in the past year which (p.3) 'made it difficult for them to find or keep work'.

Additionally, the degree of financial problems was high. The majority of claimants found it hard to manage on benefits: 48 per cent of all claimants reported that they had debt problems at least some of the time, with 10 per cent reporting problem debts 'almost all of the time'

The survey also found that debt or money problems were linked with other barriers to work, notably health/disability, and literacy/numeracy problems.

However, while Carpenter's work confirms the importance of money and debt problems as a barrier to employment for a significant proportion of repeat claimants, it does not tell us how these issues interact nor provide any insight into the way in which services need to respond.

Gillespie & Dobbie (2007) conducted an evaluation of the *Money Really Matters* project in Edinburgh. *Money Really Matters* was designed to address financial problems of benefit claimants during the transition to work by providing short financial literacy courses and one to one sessions providing welfare rights and debt advice. The pilot project was funded by the Scottish Executive as part of its 2004 commitment to support financial inclusion activities. The service was coordinated by Edinburgh Capital City Partnership and located with West Edinburgh Action (WEA)⁹⁰. The project launched in May 2005 and continued through to early 2007 by which time it had assisted 340 people.

A variety of methods were used in the evaluation including short phone surveys

with 48 project participants, and 16 further in-depth interviews. A review of project monitoring and financial information was also conducted, and focus groups held with stakeholders including staff.

The evaluation reports that:

- the delivery of "better off" calculations (BOCs) were particularly well received and helped inform the decision as to whether or not to apply for jobs;
- debt advice helped reduce stress and had a positive impact on health, particularly mental health;
- while financial capability courses were not valued by all people (roughly one quarter found them of no relevance), they did help the vast majority of participants to increase their confidence and enabled many of them to move forward without the need for additional one-to-one advice;
- the *Money Really Matters* project received most of its referrals internally from other parts of the WEA. This was encouraged by the inclusion of a financial health check as part of the core welfare to work provision in the organisation. In contrast, referrals from external agencies, including Jobcentre Plus, remained low throughout the lifetime of the project.

Overall the authors conclude (Executive Summary, p.iv) that the delivery of short financial capability courses and provision of one-to-one debt advice as part of a broader employability

'...helped build confidence and reduced the barriers to work. Some interviewees thought more carefully about borrowing and how to approach their financial arrangements. For others, advice had positive effects on money management, decisions to apply for jobs, confidence and health.'

However, Gillespie & Dobbie also note in their recommendations that there is a need for:

'Flexibility in the design and delivery of [financial literacy] sessions...ensuring that sessions meet the needs of specific groups of trainees and can respond effectively to access needs such as poor literacy and numeracy.'

The evaluation of the *Money Really Matters* project therefore provides an indication of how services could be designed to address some of the problems identified by Harries & Woodfield and the provision of BOCs may also be able to reduce the fear that future employment would not cover the costs of increased debt repayments reported by Ambrose & Cunningham.

More recent developments will, however, also need to be taken into account when considering the design of services. In the December 2009 White Paper *Building Britain's Recovery*, the DWP committed to a nationwide guarantee to all claimants that they will be better-off by at least £40 per week if they move into work. Claimants must be out of work for six months (or more) to be eligible and they can be on any benefit, not just JSA. The guarantee is planned to be delivered in one region from October 2010 and then rolled out nationally from January 2011. The guarantee will only be paid if claimants will be less than £40 better-off in work, and will cover the difference. Whether or not, and how much, to pay will be determined following a BOC performed by Jobcentre Plus following a claim for the guarantee by a person starting work.

Gillespie & Dobbie's research indicates that there may well be a case for BOCs to be provided both before and after moving into employment and for the staff undertaking these to take into account the likely impact of debt repayments. While the guarantee would not extend to covering these payments additional support to help people negotiate new debt repayment plans or consolidate existing borrowing with a loan from a credit union or CDFI could be provided at the same time. This would indicate the need for stronger links between money advice services and Jobcentre Plus, something which was unfortunately not achieved by the *Money Really Matters* project.

The Wider Literature

A much wider literature concerning the budgeting and coping strategies of people on low incomes was also identified (see for example, Kempson *et. al* 1994; Dowler & Calvert, 1995; Kempson 1996; Whyley *et. al* 1997; McKendrick *et. al*, 2003; Gibbons & Singler, 2008; Harris *et. al*, 2009; Ben-Galim & Lanning, 2010; Fitch *et. al*, 2010; Ray *et. al*, 2010; Gloster *et. al* 2010). Although not specifically seeking to examine the way that money problems impact on job seeking behaviour, the literature nevertheless contained some valuable insights into the possible relationship between the two.

Many of the studies confirm that people on low incomes spend considerable time and energy attempting to juggle household bills and other financial commitments (see for example, Kempson, 1996). A randomised survey of 200 lone-parent households in Greater London conducted for the Joseph Rowntree Foundation (Dowler & Calvert, 1995, pg. 3) found that there were also impacts on diets, with potential long-term consequences for physical health:

'Those who were poorer regularly went without particular foods or even meals. A fifth of the sample said they had regularly to 'make do' with whatever was in the cupboard, fridge or freezer before they collected their benefit.'

More recently Gibbons & Singler (2008, pp.35-26), in a review of the literature concerning the coping strategies of fuel poor households, note that it is a combination of low income, the level of household need (for example the presence of children or ill or disabled household members) and attitude to debt which is important in determining whether or not debt problems arise. Whether debt is present, or other coping strategies to deal with low income (in this case fuel rationing or cutting back on food) are adopted in its place, these are all likely to limit welfare in some way: either by impacting on physical health, mental health, relationships within the household and more generally, constraining social opportunities.

In a study of low income families in Scotland, comprising of 18 focus groups with 99 individuals, McKendrick *et. al* (2003, p.42) indicate that this context reduces the capacity of people to pursue strategies that could, in the longer term, help them to escape poverty:

'The primary focus of adults within low income family households is managing their current condition, rather than escaping low income. This seems to reflect the intensity and difficulty of this challenge, rather than any lack of ambition on their part.'

It would be wrong, however, to assume that all low income households manage their money in the same way (see for example, Whyley *et. al* 1997, p.7) and are therefore subject to the same level of pressure. Indeed, where households are able to manage their finances successfully this can increase self-esteem and confidence (McKendrick *et. al*, 2003, p.10).

Nevertheless, it is clear that having little money to live on could limit the opportunities for individuals to address work issues and that it increases the likelihood of, or exacerbates, pre-existing health problems over time. Disney & Bridges (2008, pp.4-5) point out that these health problems then 'feed back' as barriers to work in their own right.

Mental Health and Debt

We now have a much better appreciation of the relationship between debt and mental health following the publication of a recent systematic literature review of this issue earlier this year (Fitch *et. al*, 2010). This identified evidence of a 'moderate association' between debt and mental health problems, including common problems of anxiety and depression. While it found that there was no conclusive evidence of a causal relationship between the two, and highlighted the need for further longitudinal research, it also noted that:

- the more debts people have the more likely they may be to have a mental disorder;
- an individual's attitude to their debt problems is important: the extent to which they worry about debt can have more of an impact on their mental health than the level of the debt itself;
- debt can induce feelings of uncertainty;
- people with debt and mental health problems often do not seek help for their financial problems.

The review provided clear policy recommendations concerning the ways in which debt and mental health services need to link together, which also has implications for the interaction between welfare to work, debt advice and mental health provision. In particular, the review recommended (p.19) that 'co-ordinated debt care pathways' between local health and advice services be established and that (p.4):

'...health and social care professionals...should receive basic 'debt first aid' training: knowing how to talk with patients about debt; knowing how to refer to, and support, debt advisers; but without being expected to become 'debt experts' themselves.'

This requirement for better integration of services is also reflected in the recent DWP review of employment support for people with mental health conditions (Perkins *et. al*, 2009). In particular, this found (p.31) that people with mental health conditions had significant fears that getting a job and moving off benefits would threaten their financial security and that there was a need for (p.25):

'...employment systems and health and social services to work together, sharing common goals to enable more people with a mental health condition to access employment and sharing expertise to ensure coordinated and flexible support is tailored to the individual.'

This is reinforced by evidence that the frequent experience of moving in and out of employment is a cause of problem debt, which then interacts with mental health to create a significant barrier to future work (Ben-Galim & Lanning, 2010, p.12)

'Household costs mount up during transition periods between work and unemployment. One of our research participants, a single mother in Nottingham, had found a job that paid relatively well. But it only lasted for a month, three times a year. The gaps in pay while she waited to receive backdated wages and benefit payments had resulted in considerable debt. She was in arrears on all household bills and owed money to family and friends. On top of her current electricity usage, she was paying off her electricity arrears through a meter. She was suffering from depression and said she felt like she was always 'playing catch-up' in a vicious circle of debt'

The wider literature also supports the findings of Harries & Woodfield (2002) that a move into employment may not result in people feeling better off. For example, Save the Children (2008, p.2) report that even when a lone parent family appears to be financially better off in work, extra expenses including work clothing, travel costs and childcare payments can rapidly build up and challenge their financial stability.

In their study of the Income Support regime for lone parents, Gloster *et. al* (2010, pp.69 -70) identify that most of the lone parents with debts in their research were able to manage these. However, this was often only as a result of receiving debt advice and establishing affordable repayments. Therefore, some reported that the prospect of a return to work scared them as they were uncertain of their ability to maintain payments on the due dates during the transition period.

Problems are also reported for other groups of people moving in and out of work on a frequent basis. For example, Ray *et. al* (2010, p.16) find that the need to repay debts incurred from previous periods in employment can reduce the sense of financial well-being of a return to work.

There may, therefore, also be a wider problem of a lack of support available to people who are in work. Support may be needed not only to ensure that people are better off in work but because debt problems in work could affect the chances of sustaining employment. Turley & White (2007, p.28) identify that having debt problems tends to impact on working practices in one of two ways. Either people work longer hours, in which case this could become 'physically and emotionally draining', or it causes people to take time off work 'due to depression which had been compounded by their debts'. This supports the Social Exclusion Unit's (2004, p.33) statement that:

'...debt can cause stress or ill health, which in turn can lead to people taking time off work or job loss'.

As a consequence in-work support may also be important for people moving into employment particularly the low paid with prior debt problems. Identifying financial problems and providing information on sources of support may also need to form part of the wider health and safety at work agenda.

There is some evidence that the need for in-work support on financial issues is now being included in the design of service provision. For example, a specification for debt management support services to be provided to employers recently procured as part of the Sheffield Employability Programme seeks the provision of advice and support to employers to help them improve the financial capabilities of their workforce, reduce absence and improve retention. Suggested options in the specification for potential providers to consider include:

- as part of their overall employment package, work with employers to support and encourage them to invest in credit unions on behalf of new employees;
- provision of financial management awareness sessions on employers premises, to demonstrate good financial management skills and encourage use of the credit unions and other forms of affordable finance to manage expenditure;
- support the regional redundancy programme to advise employers who are making redundancies on financial support packages;
- provision of a financial capability service for employers to access for supporting groups of employees and helping individuals retain employment by assisting with the removal of financial difficulties;
- provision of access for employees to debt advice to prevent people leaving employment due to stress and mental ill health caused by personal debt or to avoid repayment of debt.

It is also important to note that a possible need for debt advice is identified (HM Government, 2009, p.6) in the specification for the Government's Fit for Work Service pilots. These are currently testing ways to reduce the amount of time that people spend off work through sickness and the number of people losing their employment as a result of ill health. The specification allows providers to deliver wider forms of social support, including debt advice, alongside health interventions in order to achieve this.

Synthesis of Findings

While the existing literature provides significant evidence that debt and money problems constitute a barrier to people obtaining and sustaining employment, none of the existing studies provides an overarching framework to underpin further study of this issue. Therefore, we took the step of developing such a framework to guide our further research in this area.

Based on the evidence contained in the literature review, we find that debt and financial exclusion can impact on employment in four main ways, by:

- distracting from job search;
- constraining job search activity;
- creating disincentives to work;
- reducing the chances of sustaining employment.

Table 1, below, provides further details of each of these.

Table 1: Impacts of money problems on job seeking behaviour

Impact	Rationale
Distraction from job search	<ul style="list-style-type: none"> • Considerable day-to-day effort and mental energy is required to manage tight budgets; • Debt problems are associated with mental health problems which themselves create an additional barrier to employment.
Constraint on job search activity	<ul style="list-style-type: none"> • Job search can involve additional expenditure which people in financial difficulties are less able to cover in the early periods of unemployment when less support is available.
Disincentives to work	<ul style="list-style-type: none"> • Dealing with debts through bankruptcy may create a disincentive not to work for 12 months in order to achieve an earlier discharge; • Some people are uncertain about, and/or lack confidence in managing, the new financial arrangements that would be required if work is obtained • People may not believe that they would be better off in work because moving into work can increase levels of indebtedness and/or they may be fearful of having to increase repayments on existing debts.
Reducing the chances of sustaining employment	<ul style="list-style-type: none"> • Debt problems, particularly among low paid workers, can cause stress or ill health, which in turn can lead to people taking time off work or job loss.

Notes to Section 2

- ¹ Mortgage repossessions rose to a 15 year high of 46,000 in 2009 (Council of Mortgage Lenders) and personal insolvencies are at record levels in England and Wales (Insolvency Service, 2010)
- ² A Tackling Over-indebtedness Action Plan was put in place in 2004 and updated by Annual Progress Reports through to 2007. A Financial Inclusion Strategy was adopted in 2004, which was subsequently updated in 2006. A current Financial Inclusion Action Plan introduced in 2007 covered the period 2008–2011
- ³ It should be noted that the Government has never defined the term 'affordable' (for example, in terms of a debt to income or debt repayments to income ratio, nor as a specific level of APR). It is instead used as a general term covering forms of social or community lending including through the Social Fund, credit union and Community Development Finance Institutions (CDFIs) rather than the cost to the borrower. The Budget 2010 indicated that Government intends to consult over the implementation of a community levy on banks to support the further expansion of credit union and CDFI lending, and the Department for Business, Innovation and Skills has also now set out proposals for an expansion of these forms of lending through the Post Office network.
- ⁴ The term high-cost credit is not defined. The Office of Fair Trading (OFT) High-Cost Credit Review uses 50 per cent APR as a general indicator of high cost but because of the increased reliance of lenders on behavioural pricing techniques (for example, offering low rates but maintaining high default charges) a more flexible approach is required. High-cost markets included within the OFT review include home credit or door to door money lending, pawnbroking, pay day lending and rent to own.
- ⁵ The definition of over-indebtedness has been subject to some debate over the years, but we consider the best definition to be that adopted by the German Federal Ministry (following Haas, 2006) which defines it as 'when a household's income, in spite of a reduction in the living standard, is insufficient to discharge all payment obligations over a longer period of time'. The concept of over-indebtedness is therefore linked to the affordability of credit repayments and the ability to pay off debts within a reasonable period. We consider that a household is over-indebted if the impact of making repayments capable of clearing the debt within a reasonable period (whether they are currently being made or not) would make it impossible for the household to maintain an acceptable minimum living standard.
- ⁶ This problem subsequently formed part of the driver behind Government and the major retail banks' 'shared goal' to halve the number of adults without access to a bank account. See the following link for details of current progress: http://www.hm-treasury.gov.uk/financial_inclusion_bankaccounts.htm.
- ⁷ We also identified a paper evaluating the provision of debt advice services in outreach settings, including through employment related venues such as Jobcentre Plus, which has relevance to how services could be organised. We report on this in chapter five.
- ⁸ The Job Grant was introduced in April 2001 and is a grant of £100 for clients who have made a continuous claim for any one (or any combination of) Income Support (IS), Jobseeker's Allowance (JSA), Incapacity Benefit (IB) and Severe Disablement Allowance (SDA) for 52 weeks or more. They must also be moving into work of at least 16 hours per week that they expect to last for at least five weeks. Job Grant is not available to anyone receiving Lone Parent Run-on or to anyone aged under 25 at the time of starting work.
- ⁹ However, it should also be noted that for people who are able to manage these processes and make in-roads into debt repayments, often those where 'there was a lesser debt or a number of smaller debts' then this led to people 'feeling more satisfied by the financial rewards of being in work'.
- ¹⁰ WEA is a provider of employment, training, educational services, money advice and self employment support in the south-west Edinburgh area.

3. Primary Research

Research Aims and Objectives

Taking the framework set out in Chapter Two as our starting point the study included primary research to look in greater detail at precisely how money problems impacted on job seeking behaviour. We were also concerned with how the use of financial services changed when people became unemployed and how exclusion from mainstream financial services, particularly among the long-term unemployed, could affect their ability to move back into, and sustain, employment. Finally, the study also sought to capture the views of unemployed people as to how services, including access to debt advice and financial education, could be improved and provided in ways that met their needs.

Methodology

In view of the fact that we were looking to obtain details of how money problems impacted on job seeking, and because we wanted to explore the experiences and gather the views of unemployed people, we chose to use a focus group approach. The focus group approach enables people to respond dynamically to the views of others in a similar position to themselves and so potentially identify additional issues for consideration.

We used a facilitator who had experience of delivering sessions on money issues and financial education to financially excluded groups. The Topic Guide¹¹ was developed jointly with the facilitator, who was also briefed on the overall aims of the project and the findings from the literature review.

Participants in the study were recruited through welfare to work services in Greater Manchester, contacts were provided to us by Manchester City Strategy. Providers identified people who were already due to attend their premises to participate in other activities in the period 12–19 March 2010 and the provider recruited them to the focus groups on our behalf. We offered a small incentive for people to participate in the form of a £10 shopping voucher.

We did not ask the welfare to work providers to undertake any screening questions prior to recruiting people to the group, nor did we ask that they identify people they knew to have financial problems. However, the welfare to work providers we used were delivering the Jobcentre Plus Support Contract or Flexible New Deal so we knew that recruits were likely to have been unemployed for more than three months. In the case of the groups established by the Flexible New Deal provider, the period of unemployment would tend to be more than 12 months.

Therefore, we sought to ensure the inclusion of some newly redundant people in the study and recruited these separately through Jobcentre Plus in Manchester. A letter was sent on our behalf to approximately 50 newly redundant Jobseekers Allowance (JSA) claimants asking that they contact us to participate in a phone interview. The response rate to this was low giving rise to just two phone interviews.

Group sessions and phone interviews were recorded. It was explained that group members must respect the confidentiality of others and they were assured that participants in the study would not be identified within the final report. Recordings would also be erased once the study had been completed. All recordings were then professionally transcribed.

Participants in the focus groups were also asked to complete a short two page questionnaire to provide demographic information enabling us to collect details of their outstanding debts, including types of debt and approximate debt levels.

Responses from the focus groups and information from the questionnaires were then matched for each participant. Responses were coded and analysed using the framework set out in Chapter Two. Additional codes were created for responses that fell outside of the framework, for example, in respect of use of financial services and views concerning possible service improvements.

Analysis and Findings

The remainder of this chapter is structured in three parts.

Section one presents a socio-economic analysis of the participants in the study and examines the variations in the incidence of debt problems, debt types and levels of debt by household composition and length of time out of work.

Section two then presents our findings of how debt and money problems more generally affect job seeking behaviour and how these impact on the ability of participants to find and sustain employment.

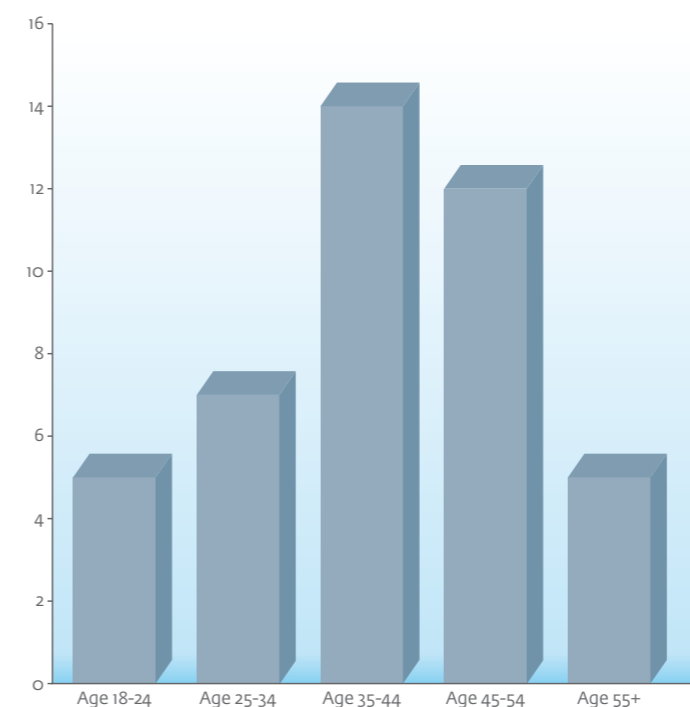
Finally, in **section three** we report how people have changed their use of financial services in response to their money problems, their use of advice services, and their views on possible sources of assistance including financial education and better off calculations (BOCs).

Section 1: About the participants

Age and Household Composition

A total of 45 individuals participated in the study. Forty-three of these took part in the focus groups and, in order to obtain the views of more recently redundant individuals, we also conducted two additional semi-structured telephone interviews. Participants were predominantly male (80 per cent), single (71 per cent), and white (93 per cent) and the median age group was 35–44. The full age distribution is set out in Figure 1 below¹².

Figure 1 : Age Distribution



N=43

Nearly three quarters (73 per cent) of all participants were single, which includes two lone parents. Of the remainder, 12¹³ people were members of couple households, of which seven had partners in work. A total of nine households, including the two lone parents, had dependent children and four of these had no one in work.

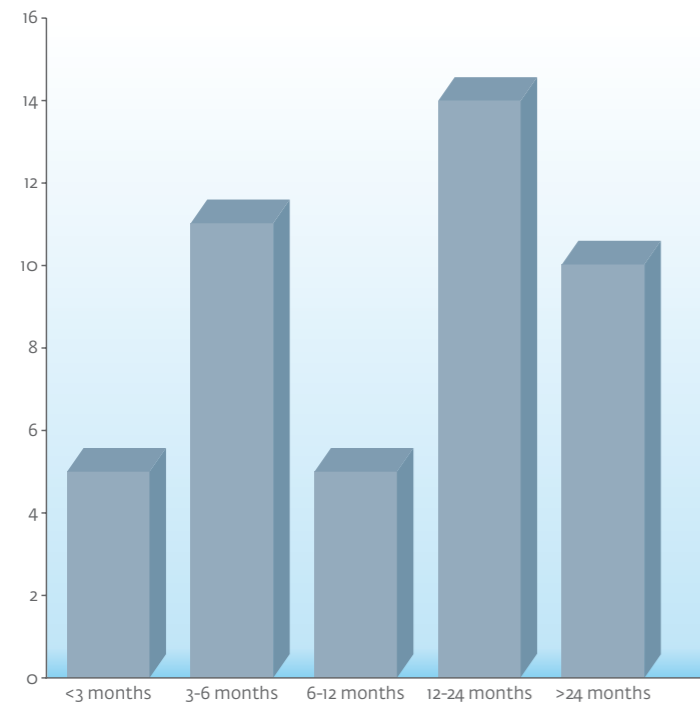
Work history

Just over half (53 per cent) of all the participants were long-term unemployed, and had been out of work for over 12 months. Twenty two per cent of the total had been out of work for over two years. The longest single period of unemployment was reported as eight years. Nine long-term unemployed people (37 per cent of this sub-group) also disclosed that they had a history of health problems, including alcoholism and mental health. These problems had affected their ability to obtain work.

However, nearly half (47 per cent) of participants had been out of work for less than a year, with 36 per cent newly unemployed and out of work for less than six months and 11 per cent of all participants were out of work for less than three months.

We examined whether or not there were differences in the nature of financial problems experienced by these two subgroups, for example, in respect of the incidence of debt, which we report on page 43.

Figure 2: Length of time since last worked



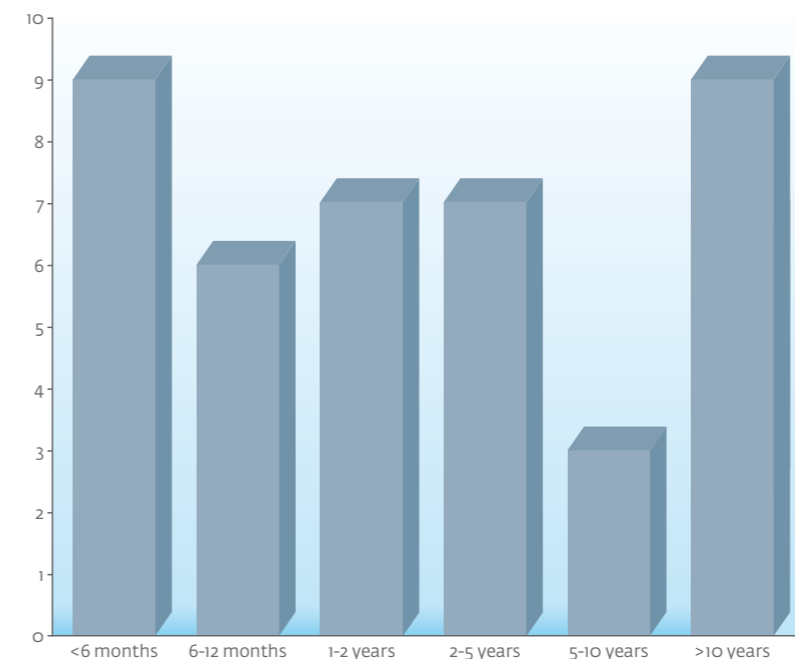
N=45

The majority of participants had lengthy and steady employment histories. Sixty three per cent had worked in their last job for over a year, and 21 per cent maintained their jobs for in excess of a decade, with some recently redundant workers having been employed for more than 30 years. However, 36 per cent of participants had been employed in their last job for less than a year, with 21 per cent employed for less than six months.

As would be expected, the length of the last job was closely related to the age of the participant, although this was not always the case; there were examples of young workers holding down employment for over two years or more, and of some older workers struggling to find steady work and using agencies, which (as we report on page 63) could itself contribute to financial problems.

Participants also reported a wide range of previous occupations and types of employment. A small number of participants had experience of working in the public sector, including jobs as teaching assistants, caretakers, postal workers and kitchen porters. However, in the main, participants had been working in the private sector. Here the range of occupations was diverse with some undertaking skilled and semi-skilled occupations in engineering, manufacturing and construction industries. A variety of jobs had been held including, in a small number of cases, roles at management and supervisory levels in retail, distribution and financial services. Those with longer work histories tended to have more specialised skills, while those who were younger and had experience of moving in and out of work on a frequent basis, had more often been undertaking low skilled and low paid work such as warehouse pickers and packers, and cleaning jobs.

Figure 3 : Length of last job



N=41

Incidence of debt problems

Sixty nine per cent of all participants reported that they had debt problems at the time of the study. Debt problems included arrears with household bills as well as repayment difficulties on outstanding credit agreements, and borrowing from family and friends to help 'make ends meet'.

Although the sample sizes for different household subgroups were small, there was some evidence to suggest that having a partner who is in employment or having dependent children may increase the likelihood of debt problems and that debt problems could be especially likely where both of these factors are present. This hypothesis is supported by statements made by participants from these household types in the focus groups who identified that because their partners were in employment they had been able to continue to access credit after being made unemployed. Credit had often been used to cover household expenditures during the initial period prior to receiving benefits and to maintain living standards, particularly in order to cater for the needs of children, at least for an initial period of unemployment when participants were often optimistic of finding new work.

'The bank tries to lend me money every day even though I told them I was out of work, because we've had quite a good record and my wife is usually very good with money. I borrowed from them [after being made unemployed] because at that time I was promised a job but it didn't materialise... It was to pay the bills, because when I signed on, my money wasn't coming through.'

(Male, aged 60, unemployed for six months)

'While my wife has got a job, even though we don't have much money, all these banks were asking 'Do you want to borrow this? Do you want to borrow that? Do you want to borrow the other?' They kept sending us credit cards... I've got a daughter who is 15 now, and a son who is 20, and they're the ones who want all the things. They want nice clothes, you know what I mean, all her mates and everybody else has got them, so you're pressured all the time, aren't you?'

(Male, aged 47, unemployed for 12 months)

In contrast, other household types had mainly incurred credit debts while in employment, with the loss of a job triggering payment difficulties. Single participants and people in couples where neither partner was working also reported that they had problems accessing credit since being made unemployed and had effectively written off mainstream credit sources as an option.

'You look stupid, when you go and ask for money and you've got no job, so you don't even go there at all...The reality is when you're out of a job, you don't get anything. You may have been respected before but when you go in now you don't even know what to say to them. You can't ask for a loan, because you're going to be turned down. They do a credit check anyway, and it's not going to get you anything, so you don't go there.'

(Male, aged 46, unemployed for 16 months)

However, we also found that the length of time since last working had an influence on the likelihood of arrears on household bills and on borrowing from other sources, including the Social Fund and from family and friends, which we report below.

Types of debt problems

As reported previously, credit debts were particularly likely to be found in couple households where one partner was still working. Eighty five per cent of these households reported credit debts compared to 55 per cent of the participants as a whole. In general, the majority of this credit had been obtained while people were in employment and payment problems had started following the loss of a job.

Of those with credit debts, 38 per cent had borrowed on credit cards, and the same proportion had borrowed on bank overdraft facilities. Twenty six per cent of participants with credit debts had outstanding personal loans and 15 per cent had hire purchase debts, primarily for car loans.

Housing debts were much less common. Just under one quarter (24 per cent) reported either mortgage or rent arrears, with 81 per cent of all instances of housing debt reported by long-term unemployed single renters. In contrast it was couple households, whether one partner was working or not, who accounted for mortgage arrears.

There was a slightly higher incidence of utility debt (28 per cent of all participants) and this was particularly concentrated among the long-term unemployed. This group constituted 53 per cent of all participants but accounted for 61 per cent of all instances of this type of debt. This concentration was also true for Council Tax arrears which were reported by only 20 per cent of the total but by 66 per cent of the long-term unemployed and for debts to family and friends (24 per cent of total but 81 per cent of instances reported by the people out of work for more than 12 months).

Finally, borrowing from the Social Fund was concentrated among those out of work for more than 12 months. Although only three participants had outstanding loans from this source at the time of the study, a further four people – all of whom were long term unemployed – had prior experience of taking out social fund loans. The long term unemployed also reported the only two instances of borrowing from high-cost money lenders.

'I went through so many crisis loans it's unbelievable. I had a loan and it catches up on you and they take it out of your money. So then you run out of money two weeks later, so you've got to get another crisis loan to make up for the crisis loan that they've took off you. So, I've got about six or seven crisis loans now.'

(Male, aged 42, unemployed for 12 months)

'I took out a loan from Provident for Christmas, about £200, and I've not got money to pay it right now, because it was quite expensive...It is expensive, and I'm struggling, to be honest. I've not got a penny left out of my benefit when I get it.'

(Male, aged 31, unemployed for 12 months)

Debt levels

Twenty-nine participants reported debts, and the debtor subgroup together owed a total of approximately £180,000 making a mean debt of just over £6,200. However, there was a considerable range with a small group (4 people) of 'heavy' debtors who owed more than £12,500. The largest amount of debt reported was £30,000 and the second largest £26,000.

In three cases the combination of extremely high debt levels and unemployment had forced people into insolvency:

'It just gets worse, doesn't it? I'm filing for bankruptcy next week. I owe £30,000. Credit cards, bank loans, that sort of thing... I was left high and dry as far as my employment was concerned. I was unfairly dismissed, as far as I was concerned anyway, after 12 years.'

(Male, aged 50, unemployed for 12 months)

'We're going through this Individual Voluntary Arrangement...all my redundancy money has gone now because I'm out of work, and not earning anything. We'd been using the VISA card and trying to pay it back when my partner gets paid... But it's a temptation to spend more than you can really afford. She has debts as well as me. I've had a loan and mortgage...you just can't pay these things once you lose your job.'

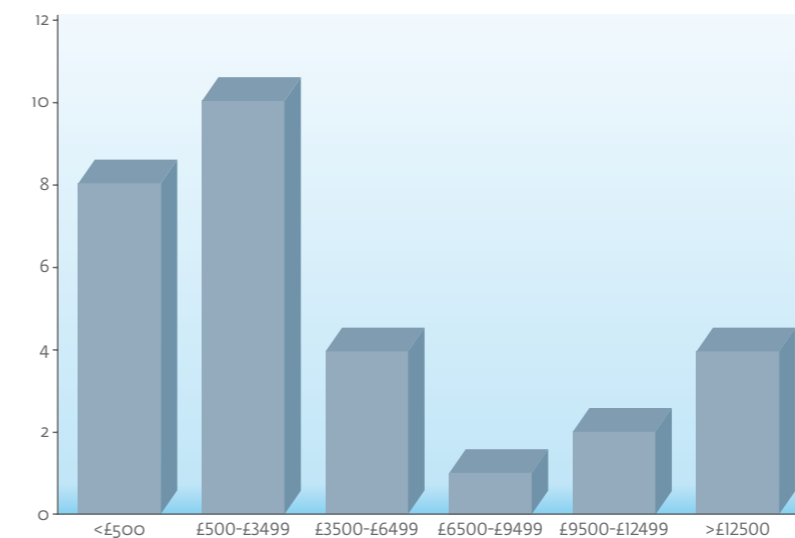
(Male, aged 37, unemployed for five months)

'I'm behind with all my bills and I can't see any end to it until I get employment again...I had credit as well. I've had to go through a bankruptcy because there was no way I could afford to pay it back on what I'm getting now...I had a bank loan, a catalogue and a Visa as well. I could afford to pay it back when I was working, but when I stopped working there wasn't a chance.'

(Female, aged 46, unemployed for over two years)

However the majority of participants had much lower debt levels, with 62 per cent of those with debts owing less than £3,500. The long-term unemployed were particularly likely to owe small amounts. Eighty seven per cent of participants with debts who were unemployed for over 12 months owed less than £500, and this group also accounted for over 60 per cent of debtor participants owing less than £3,500.

Figure 4: Distribution of debt levels



N=29

Section 2: The Impact of Money Problems

Following the framework set out in Chapter Two, we designed our guide for the focus groups to seek participant views on the ways in which their money problems:

- distracted them from job search;
- constrained their ability to undertake job search;
- create disincentives to work;
- reduced their chances of sustaining employment.

We report on these in turn.

Ways in which money problems distract from job search

All participants in the study reported that they had money problems as a consequence of being out of work. As reported above, 29 people had outstanding debts, but the more general difficulty of living on a low income was reported by everyone in the study.

For newly unemployed people the adjustment from receiving a wage to claiming benefits was often difficult with any redundancy payments and prior savings used to make up the difference between living costs and the level of benefit payments.

'Well, I've got bills going out each month for about £1,000, and I'm getting £240. So work it out. It's all coming out of redundancy and savings, and then I'm knackered.'

(Male, aged 43, unemployed for six months)

'I've never borrowed money from anyone but got made redundant in November after working there for 12 years. I get my Jobseekers' Allowance and rent and Council Tax paid, but I'm having to use my redundancy money to pay for other bills. I'm having to be much more careful about my use of the electricity and gas to try to save money.'

(Male, aged 37, unemployed for three months)

'...you've gone from earning a decent wage down to £65 a week, and then out of that £65 a week, they expect you to pay for your prescriptions, your dentist charges, and what have you, and you just can't. How are you supposed to survive on £65 a week? It's impossible.'

(Male, aged 37, unemployed for five months)

Many participants moving from paid work onto benefits also incurred additional bank charges as a result of unpaid Direct Debit payments and their inability to stay within agreed overdraft limits during this initial period. We report on this further in section 3 of this chapter.

However, it was those people that had been out of work for longer periods where the daily struggle of living on inadequate incomes had the greatest impacts on their ability to look for work. Prior literature indicates that the very fact of living on a low income appears to distract from job search. The focus groups were used to shed more light on the ways in which this occurs. We found that participants:

- have less time available to seek work than may be commonly understood because basic tasks take much longer to perform. An inability to pay for transport costs and the need to 'shop around' both result in considerable time and energy being expended;
- living on a low income for lengthy periods affects health, including increased levels of anxiety, contributing to depression, as well as affecting levels of self confidence. As a result, a lack of money contributes to the demotivation of long-term unemployed people.

We also found that both of these problems appear to be exacerbated when people had to deal with a high level of creditor demands. Dealing with creditors could both take up considerable time and also had impacts on mental health and confidence levels.

Firstly, the amount of time that people had available to look for work was reduced as a direct result of a lack of income. For example, participants took much longer than would otherwise be the case to undertake essential tasks such as shopping. This was due to a combination of lack of money to pay for transport costs to and from the shops and also the need to shop in a variety of different places to get the cheapest goods.

'I get my money and every week I'm going to about half a dozen different supermarkets, trying to get bargains out of every shop... So your shopping takes much more time to do, because you've got to go round all the different ones.'

(Male, aged 47, unemployed for 12 months)

'I have to walk everywhere now so it takes an age to get anything sorted out in town. I can't even afford the blinking bus.'

(Female, aged 46, unemployed for 12 months)

Secondly, many people cited their struggle to live on benefits as a cause of anxiety and depression or, at the very least, as having affected their self confidence.

'It's all anxiety, isn't it? Where's the money going to come in from; how are you going to pay the bills and all that... So, you're just worrying about money all the time... how you're going to survive and that.'

(Male, aged 37, unemployed for five months)

'I'm depressed all the time really... You've got to deal with it, haven't you? No frills, and buying cheaper things but it's depressing. You get into a bit of a slump. Daytime TV.'

(Male, aged 50, unemployed for 12 months)

'I remember taking our son to the supermarket and he got, you know, the cheap lemonade and he said, 'Oh look Mum, 18 pence, it's a bargain!' and my husband was so disappointed with me. He said, 'Look what you've turned us in to'.... You get so depressed and you lose all your self confidence. You just can't be bothered getting out of bed in the morning, can you really?'

(Female, aged 37, unemployed for two months)

'I've been close to cracking up a few times. It's been that bad... Three years of scratching about, bumming off the Social. We get the same crap food every week... cheaper bacon, cheaper cheese, whatever. I've got no car, so I walk it. I walk it everywhere. There's no life. If I could get a decent job I would.'

(Male aged 32, unemployed for three years)

Many of the participants also commented that a lack of money meant they had little social life, which contributed to their feelings of depression and affected their personal relationships.

'I attend a church but when I go I can't really afford to give my offerings. I can't really afford to keep up with the choir and I can't afford to go out because I have debts, and when you've got debts, it's like a great, big cloud over your head... I went for an interview the day before yesterday, which is good whether I get it or not, because I used to have this mindset of 'what's the point?'

(Female, aged 32, unemployed for two years)

'I've borrowed money from my mum. I owe her a small fortune now and can't afford to pay her back and she's panicking because she's got a mortgage and I can't give her the £300 a month any more, and it's just constant, 24 hour rowing now... I couldn't even afford to buy her flowers for Mother's Day.'

(Female, aged 35, unemployed for two months)

'The second week before my money comes in again, it's three days where I don't have gas or any hot water... I go missing when there's birthdays in the family because I can't afford presents for anyone and I'm too embarrassed...'

(Male, aged 60, unemployed for nine months)

In a small number of cases people also reported that they had become physically ill, identifying poor diets and cold homes as contributory factors.

'One time [a previous period of unemployment], all I could afford to live on was beans on toast and I ended up in hospital because I was ill. I was undernourished, I wasn't eating.'

(Female, aged 37, unemployed for two months)

'I've now started using two thirds less gas than I did last year. It's slippers, another jumper, a dressing gown... I should have had the gas on over the winter but I didn't. And although I'm diabetic I can't afford to eat properly so it made me really ill.'

(Female, aged 46, unemployed for 12 months)

We also found that being chased by creditors appears to exacerbate these problems – taking up considerable time for people to get advice, and keep creditors up to date, while also affecting self-esteem and confidence levels.

In some cases creditors were contacting people despite being told that claims had been made against unemployment insurance policies.

'The day before yesterday, they phoned me four times and sent me about six texts... and I had to ring them up and turn around and say, 'Look, leave me alone, the insurance is sorting this out'. I feel like I'm doing the insurance's job, but they turned around and said I have to keep going to the Jobcentre to get this form to prove that I'm unemployed. So, why can't they contact the Jobcentre, or the Jobcentre keep sending regular reports saying, 'yes she signed on today'? Why am I the one who has to keep running around all over the place?'

(Female, aged 35, unemployed for two months)

In other cases, payment demands were still being made despite people making contact with their creditors with the help of debt advice agencies.

'It's scary when letters come through the door, saying we're going to take you to court, we're going to do this, we're going to take this off you, and we're going to come and knock on your door, and we're going to take all the stuff out of your house. It's not my house, it's my mum's... I went to Citizens Advice and they told me they can't take my mum's stuff. That helped, knowing that, but back when we first got the letters you feel like going to live in a tent somewhere where no one can find you... Citizens Advice sent them all letters explaining that I've got no money, and I can't afford any money, and I don't own anything, and I can't sell anything. Six weeks later they sent me another letter threatening court action!'

(Male, aged 27, unemployed for nine years)

Although participants who had sought advice about their debts generally felt better about their situation and more able to focus on getting work, some also noted that it was often a long time before help could be obtained either because agencies were busy or the service was restricted.

'They were being very abrupt and nasty and callous... they have calmed down a lot [since I've had help from Citizens Advice]. I think if you develop a way to forget about your debts, and focus on something more positive, then you'll be all right, but if you're in a rut, and you can't see anything else but your debt, of course it will affect everything. It will affect the way you look at everything...because they make you feel almost like you're a criminal.'

(Female, aged 32, unemployed for two years)

'We're supposed to be dealing with getting a job, aren't we? And, obviously we have debts that we've got to sort out as well, and that takes time. The CAB [Citizens Advice Bureau] was really helpful but you sometimes can't get in to see them, they're busy and you can't get an appointment for weeks...'

(Male, aged 48, unemployed for eight months)

'They [Citizens Advice] are hardly open. They seem to be open for maybe three hours a day, and they're shut at lunchtime, and you know...with the amount of people you think are in debt, you'd think they'd be open more regularly, don't you? Like, nine to five or nine till six, or eight till six, but they seem to only open for about four hours a day.'

(Male, aged 39, unemployed for 10 months)

Even where advice had been obtained and creditors informed about the loss of employment many were insisting on regular reviews, which involved more time to be spent at the advice centre.

'I had a creditor for an overdraft, and they phoned me up to renegotiate how much I'm paying and I told them the circumstances were the same as before. He said, 'Well, I'm only allowed to accept £40 a week payment'. I said, 'Well, you accepted a pound a week payment before'... He says, 'Well, I can't do anything about it, you've got to get some more letters done by Citizens Advice confirming it all'. It's a charitable organisation and they are overstretched as it is. I'm going to be wasting mine and their time asking them to send another letter saying 'This is still his situation; he still can't afford anything else.'

(Male, aged 27, unemployed for 12 months)

Ways in which money problems constrain job search

We found that money problems constrain the abilities of people to undertake job search activity in two main ways:

- Financial planning is more difficult and people with money problems struggle to meet the additional costs associated with job search, including:
 - making phone calls;
 - travelling to interviews or to training;
 - buying smart clothing for interview.
- A bad credit rating can limit the range of job opportunities that are available.

Financial planning and meeting additional costs

Participants in the study reported a variety of ways in which money problems impacted on their ability to meet the additional costs associated with job search, with many of the long-term unemployed in particular noting that they 'don't have the money to look for work properly'.

Three specific types of cost were identified.

Firstly, some people who were long term unemployed or had debt problems reported that they often ran out of credit on their mobile phones, leaving them unable to make telephone inquiries or respond to messages about possible job openings.

'You can't phone anybody up because you've no credit.'

(Male, 28, unemployed for over two years)

'How are you supposed to look for work when you can't even afford to top up your mobile?'

(Female, aged 35, unemployed for two months)

Secondly, and more widely reported by participants including the recently unemployed, many people lacked the ability to meet additional transport costs, particularly to attend interviews but also to attend training.

'I'm on a training course. I do a mentoring training course every Wednesday. I'm OK to get there this week, because I got my money yesterday, but next week, when I have to drive up there, that's just when I'm usually running short of money and so you know, the money situation does get in the way at times. You think great I've got a job interview, and you have to get there, but then it's like I've only got 40 quid here to last me for the rest of the week, can I afford to go?'

(Male, aged 24, unemployed for 12 months)

'You just feel worthless, don't you? Go for interview over here, but no bus fare refunded. Know what I mean? That's four and half quid for a day saver. Who's going to pay me that back, you know what I mean? You just can't afford do it.'

(Male, aged 37, unemployed for five months)

Third, the longer term unemployed also struggled to afford to buy decent clothes to attend interviews.

'I can't turn up to an interview looking like this. My boots are six months old, I need shoes, pants, shirt, a tie. I can't even afford new socks, never mind shoes.'

(Male, 27, unemployed for eight years)

While these additional costs constrained the ability of people to undertake specific types of job search activity, there was also a sense that **having little money, and particularly having to make debt repayments out of very little income, made it generally more difficult to plan a way back into employment.**

'You can't plan anything because the money's already taken isn't it? So there's no way I can think beyond today...If I wasn't in debt, and I was earning more money, I'd be able to do my driving licence, get a car, look further afield. Get my hair cut more often. Simple little things that make all the difference.'

(Male, aged 20, unemployed for five months)

Bad credit ratings are limiting the number of job opportunities for some people

We also found that some jobs were not open to applications for people with bad credit ratings. Respondents reported that this problem particularly applied to the financial services sector and to jobs in security or those with cash or credit card handling responsibilities. A bad credit rating also made it more difficult to start up in self-employment. However, the practice of employers using credit searches as part of their recruitment process may be expanding more generally¹⁴ and the perception of being rejected because of a credit check was sometimes enough to put people off applying.

'The amount of jobs I've applied for...and you see it on the adverts, they don't accept you if you have a county court judgment or been made bankrupt. They're mainly security jobs.'

(Male, aged 56, unemployed for three months)

'I couldn't go for a bank job, not with my credit, because you can't pass their checks then no go. Insurance companies as well, I think they do a check on you. I'm not quite sure why. Some places, if you're dealing with cash or credit cards, they do a check there, because you're handling people's details...'

(Male, aged 23, unemployed for 18 months)

'I used to work for [a major retailer] and if you had a mortgage and you were behind on it, just one payment, they wouldn't take you on, because then you're susceptible to bribery. That was the reason, so it would affect me. I know there's no point in going looking for jobs in that, because it's a definite no.'

(Male, aged 60, unemployed for nine months)

Debt problems, and how they are dealt with, can create disincentives to work

We found some evidence that people in debt were anxious about the impact of a return to work on the level of their repayments to creditors. This was particularly the case for people that had established token payment arrangements, either directly themselves or with the help of advice agencies, and who considered that a return to work would require a significant increase in the level of repayments. In two cases the perception that a job would not be worth taking because of debt repayments had stopped people from looking for work.

'There's no point having a job because I'd be in a worse off position...I'd be worse off working because of my debts...'

(Male, aged 19, unemployed for four months)

This attitude was rare and other participants did not indicate that having debts had stopped them looking for work entirely, although many of them did take the need for increased debt repayments into account when considering whether or not taking a particular job would make them better off. In effect, having debt problems and believing that repayments would need to be increased raised the level of wages that people were looking for before they would return to work.

'If you've got a loan they'll want it paid off in a certain time. So, if you're behind in your payments, you're going to have to catch up. ...so you have to think about how much they'll be wanting when you decide whether to take a job or not. They offered me a job and it was only about 16 hours, and looking at it I thought, that won't even pay my loan.'

(Female, aged 37, unemployed for two months)

Participants in the study therefore felt that helping people to assess whether or not they would be better off in work was important and that these assessments should try to take account of personal circumstances including debt problems and the need to make repayments.

You could have an assessment of needs...they should look at a person individually and see what they can do. I think a proper assessment would ask, 'What are your outgoings? What are your debts?'

(Male, aged 42, unemployed for 18 months)

While the above findings relate to people that had frozen payments or put in place very low payment arrangements with their creditors while unemployed, we also found that participants who had been through insolvency procedures reported that these could create a disincentive to work. One participant observed that a Debt Relief Order obtained with the help of Citizens Advice created a major disincentive to work for an initial 12 month period.

'It costs £90 and you basically list all of your creditors and they can't touch you. But if you get a job within 12 months of agreeing it then you've lost [the £90 fee] basically, because if you've got more than £50 disposable income at the end of the month, then you have to pay all the debts back. It doesn't matter what you've done. I mean, you might have gone 11½ months not working and only had £50 disposable income and now your creditors can come back for their money. If you get a job and you fail to declare it, there's a fine on top of it as well.'

(Male, aged 27, unemployed for 12 months)

Debt problems may impact on the chances of sustaining employment

The debt problems that people experienced were not limited to periods of unemployment and many of the participants also talked about how hard they had found it to make debt repayments when they had been in work. Some of the respondents indicated that this had made them feel like giving up the job, or in one case encouraging his partner who was in work to do so, but they were aware that this could have consequences for the payment of benefits.

'I tried giving up...[but]...if you walk into an employer and say I can't afford to live on this wage, and then you walk into that job centre there, they'll say, oh you've quit your job, you're not entitled to nothing. Even though you're losing loads of cash, the debt lists growing bigger.'

(Male, aged 39, unemployed for four months)

For others, debt problems led them to work longer hours and in one case had caused someone to take time off work to sort out arrangements for an old crisis loan.

'I've had money problems while working, yes, definitely, with bills and stuff...There was nothing I could do at the time, nothing at all. I just had to stick it out. It seemed that every time I got some money in my hand, another bill came in. I worked more hours which helped with the money but I was really tired at the end of it.'

(Male, aged 31, unemployed for 12 months)

'Yes, I did [take time off work] at one time. I mean, the crisis loan. It was on my first week and basically I took a morning off just to give them a ring.'

(Male, aged 42, unemployed for 12 months)

Section 3: Use of financial services and views on advice and assistance

The focus groups were also used to seek information about the use of financial services and participants were asked how this had changed since they had been out of work. They reported that:

- Savings were used up quickly and savings accounts closed;
- Some bank accounts were closed and Post Office Current Accounts used in their place;
- They had problems maintaining insurance payments, including car and home contents.

Details of these problems are set out in the Box, below.

Use of Financial Services

Savings

As would be expected with all of the participants struggling to make ends meet on the money that they received in benefits, they reported that they had little in the way of savings. Newly unemployed participants indicated that they were running down their savings and any redundancy pay that they may have received, while longer term unemployed participants reported that all of their savings had now been spent.

'I've had to move a lot of money out of my savings account into a current account, so I don't go overdrawn'

(Male, aged 39, unemployed for nine months)

'Yes. I mean, I no longer have any savings accounts. It's just whatever comes in, in terms of benefits. It's the current account just about covers the essential outgoings and no more. So, obviously things have changed radically, as you would expect.'

(Male, aged 45, unemployed for two months)

'Well, I did have a savings account once, but I wasn't using it, because I cleared the account, obviously, you know.'

(Male, aged 48, unemployed for eight months)

Bank Accounts

Most participants reported that they still had bank accounts, although there was often no money in them.

'It's empty at the moment, no savings. Well, you use it for paying your bills and things like that, that's basically all. It comes in and goes out, you know?'

(Male, aged 52, unemployed for 12 months)

However, some participants had found themselves being charged for exceeding their authorised overdraft limits and because of bounced direct debits.

'[My partner] can get charged £15 per day and then a £15 monthly charge on top of that, so by the time it's come to his attention, because the bank takes maybe three days, three or four days to send out a letter, he's then sort of, like, £60 in debt over a measly £2.'

(Female, aged 37, unemployed for two months)

'They've just stung me for 5p, I've had to pay 60-odd quid for that.'

(Male, aged 37, unemployed for four months)

This led them to either leave their bank accounts dormant or close them and use Post Office Card Accounts instead. However, participants also understood that they would not be able to pay wages into these accounts if they were successful in getting work.

'I had a previous bank account with an overdraft. I applied for the most basic account you could, you know what I mean; that all you can do is have money paid in and you can take money out and that's it; you can't have overdrafts, you can't have this, that and the other, and... they wouldn't touch me with a barge pole. The only account you can get with... while you're on benefits and stuff like that, basically, is one through the Post Office, but if you get a job, you can't keep that account and start paying your wages in.'

(Male, aged 27, unemployed for 12 months)

Some people also highlighted that, having found work, they then had difficulties opening bank accounts, particularly with the ID requirements imposed by some banks.

'At [building society], if you're registered to vote, you can have a bank account with them, but all the others... I even took a medical card and because it had a different address on it, they wouldn't accept it...'

(Male, aged 46, unemployed for five months)

'You can only get one if you've got a certain status, and I've not actually applied for one last year, since I've been unemployed, but you know, because I would like maybe to get the Internet at home or stuff like that, but to get around that, I get one of those prepaid cards every week, so there's ways and means around it, but a bank account is subject to status.'

(Male, aged 42, unemployed for 18 months)

Insurance

Participants were often simply unable to maintain car insurance payments or pay for home contents insurance. However, some participants prioritised keeping their vehicles on the road as they saw this as opening up job opportunities. Where this was done they reported that they had to make further cut backs in other areas of their household budgets, including food.

'Insurance, how do you pay insurance when you don't have a job?'

(Male, aged 46, unemployed for 16 months)

'I'm still paying my car insurance. I need food but I need to also get about, and I want to get out of this cycle, and I want to be able to travel places, and do things, and keep myself employable, and if you can drive, if you can do these kinds of things, it makes you more employable. You can go further.'

(Female, aged 32, unemployed for two years)

We also asked participants about the types of problems they experienced during the transition to employment and how services could be designed to provide them with help with their money problems.

Problems experienced in the transition to employment

People reported the transition to work as being very difficult due to the gap between coming off benefits and receiving their first wages, and the need to cover additional work-related expenditure.

'If you're starting a job you've got to get uniforms or you've got to get clothes. You've got to have money for bus fares. You know, you have to buy extra things that you wouldn't normally, if you weren't working, new shoes or whatever.'

(Female, aged 32, unemployed for two years)

Most participants identified the need to obtain credit, often from family and friends, to cover this period.

Once you get a job you can go to your mum or your dad, or a relative, or mate, and say, 'Lend us £20 because I need to get food, I'll have the money at the end of the month'. Once you get a job it's a bit easier, isn't it?

(Male, aged 37, unemployed for 12 months)

However, for others, borrowing money from family and friends was not seen as an option. On one occasion this led to someone continuing to sign on for benefit despite having started work, committing fraud.

'I ended up signing on and then I got paid and then I was done for fraud...If you get a job at the beginning of the month, then you've got a whole month with no money... what are you expected to do?'

(Male, aged 42, unemployed for 18 months)

Although some participants identified that Housing Benefit run-ons and Back to Work Bonuses were available they felt that more support during this period was required. Often this was because payments designed to help during the transition period were delayed.

'I think it would be useful if Social Security could provide some sort of a bridging loan to cover that period where there's no money coming in. And you could always repay in instalments once you're working.'

(Male, aged 45, unemployed for three months)

'I was going from unemployment to working, I went to the dole when I got my job, and I asked them if there was any money that I could get to see me through the first few weeks, and I got told by two people in the Job Centre, 'No, there's absolutely nothing at all. You have to sort it out yourself'. I started work, borrowed some money to see me through, and then the next thing, I got a letter through off the Social, 'you can apply for some money from the Social Fund', but by the time I got that letter, then they said, 'Oh, it's too late now anyway.'

(Male, aged 23, unemployed for 12 months)

There was also dissatisfaction with the level of payments, which did not take account of the additional work-related costs that people were being faced with.

'If I needed some money it would be from the Social for that first week. They won't give you a big amount. I did ask if they could sort my rent out for me for that week as well, just so that I'm going to be on better terms on my first wage, and they wouldn't do that. They just give me, I think it was about £30, because they said, 'Well, that's what your benefit would have been each day until your pay day.'

(Male, aged 42, unemployed for 12 months)

Finally, a number of participants also identified that the problems associated with moving on and off benefits created a disincentive for them to take on agency work, as this often led to movements in and out of work on a regular basis.

'I went to an agency, but it was only giving me, like, one and two days here and there. So, I'd had to sign off because it was more than 16 hours work per week, but I was only earning about £105 a week. Now, you get £65 a week for being on the dole. So I was going to work for two days, in theory, for £20 a day, so it just disheartens you, and there's no more work for you, and the inconvenience of signing on, signing off, signing back on again, it just like, messes everything up.'

(Male, aged 39, unemployed for five months)

Improving Services

Participants were asked how services could be improved to help them with their money problems and, as part of this, we specifically requested their views on the potential role that money management courses could play within welfare to work provision.

Views on the value of money management courses were divided. Roughly half of the participants stated that they would find these useful, or they may be useful for some people; others felt that they 'had no money to manage' and that the courses would not tell them anything they did not already know.

I don't know if you can [teach better money management]. If they're on meagre money and just living on that, how can you budget any more?

(Male, aged 37, unemployed for four months)

I don't think that could help actually; I think the bottom line is there's just simply not enough money to go around.'

(Female, aged 37, unemployed for two months)

However, there was a greater level of support for sessions concerning how to deal with debt problems and participants also indicated that discussing debts in group settings, as they had been doing during the focus groups, could be helpful to break down the stigma that many people feel about being in debt.

'Yes, I would, personally. I wouldn't do that [the money management course] but the debt advice one, yes that would be helpful...'

(Male, aged 42, unemployed for 12 months)

'And you're hearing everyone else's situation, it's similar to yourself, so the good thing is, you know you're not the only one, everyone's in the same boat.'

(Male, aged 44, unemployed for 12 months)

Indeed, this last point is supported by the fact that the focus group sessions had themselves provided some opportunities for mutual learning about how to deal with creditors or concerning welfare rights entitlements. For example, one group saw an exchange of information between two participants concerning the action that someone needed to take to prevent a possible eviction culminating with the recommendation of a specialist solicitor.

However, participants also identified the need for individual sessions in order to go into problems in more depth and ensure that people got accurate advice.

'I think it would be good if there was some advice for us about how to tackle debt, perhaps with drop-in sessions with a counsellor or somebody like that, because [another participant] was talking about the possibility of getting out a loan to pay off some of his debts. Well, I'm no counsellor, but I would be a little bit suspicious about whether that's wise or not.'

(Male, aged 55, unemployed for four months)

Many participants also felt that existing services needed to work together more effectively, including access to information about services available in welfare to work settings that could help with financial problems.

'There are lots of organisations that can help people in financial difficulties, there's lots of organisations out there who can help but it's making those organisations come to people that need them...you might be able to get an adviser, whether it's in the Council or whatever organisation he's working for, to come in and have a bit of a chat. Or, even just leave a few leaflets around, just to educate people and make their services known to people.'

(Male, aged 23, unemployed for 12 months)

Others felt that Jobcentre Plus could do more by screening new claimants for debt problems and providing assistance from day one of a claim for JSA.

'You know when a person comes out of work you have to make a telephone call to set up your appointment and then you have to sign on. At that point, why can't there be an adviser there as well? So, once you've signed on, they have, say, ten minutes with you or whatever and you go through if you've any outstanding loans and things, and then, from the off, they can say, we can do it this way. So, you're not like, say, two or three months down the line getting all these letters coming at you. At least it's being, like, looked at straight away.'

(Male, aged 37, unemployed for five months)

However, while advice on debt problems was generally welcomed some longer term unemployed participants were clear that the only real way to help them with debt problems was to have 'repayments frozen' until they got back in work.

'My suggestion is for people who are out of jobs, they should be exempted, they shouldn't have any letters or phone calls from lenders to say they have to pay their money. They should be exempted from paying any money until they get back to work.'

(Male, aged 46, unemployed for 16 months)

Notes to Section 3

¹¹ A copy of the Topic Guide is available separately.

¹² Not all participants provided information in response to every question. The number of participants is presented beneath each figure.

¹³ One person did not disclose this information.

¹⁴ For example, Experian markets a background checking service to help employers make recruitment decisions which includes a check on 'financial stability' of the applicant and which highlights bankruptcy or other adverse data (see <http://www.experian.co.uk/background-checking/adverse-financial-data.html>)

4. Conclusions and Recommendations

The study provides clear evidence that money problems impede unemployed people in their efforts to find work. The very low level of benefits received by participants gave rise to a wide range of problems which impacted on their ability to maintain a focus on, and pursue, job seeking activities. We also found some evidence to support the findings from prior studies that debt problems may affect the ability of people to sustain work.

Reducing benefit levels has sometimes been justified on the grounds that it increases the incentive to find work. The evidence from this study indicates that this may be counter-productive, and that the very low level of benefits paid to the unemployed is creating an additional barrier for many of them to move back into work. As a result, we consider that more must now be done to reduce the financial burdens associated with unemployment and to address the impacts of money and debt problems on job seeking behaviour.

The remainder of this chapter sets out:

- our conclusions concerning the ways in which money problems impact on the ability of unemployed people to find and sustain work;
- the key features of a high quality welfare to work service seeking to address these problems;
- recommendations which, if adopted, would help to deliver the required improvements in support.

Conclusions

We find that financial problems constitute a barrier to work in four ways:

- distracting people from job search;
- constraining job search;
- creating disincentives to work;
- reducing the chances of employment being sustained.

The specific ways in which these impacts occur are presented on the following page.

How Money Problems and Debts Constitute a Barrier to Work

The daily struggle of living on a low income distracts people from job search by:

- increasing travel times and the time required to undertake household chores;
- contributing to feelings of depression, anxiety and loss of self confidence;
- for those with debts, requiring additional time to deal with creditor demands, seek advice and comply with requests for information about their financial position on a regular basis

Having money problems constrains certain job search activities by:

- making it difficult to find extra money to attend interviews either due to transport costs or clothing needs;
- affecting the ability of people to make plans to return to work, for example, limiting the ability to maintain a car to widen job search;
- limiting options for employment: some employers use credit scoring to reject applicants for certain types of job.

Debt problems, and how they are sometimes dealt with, create disincentives to work:

- increasing the level of wages that people feel they need to earn before they are better off in work;
- where insolvency procedures are used to deal with debt these create a clear financial disincentive for people to return to work for 12 months.

Debt problems can reduce the chances of work being sustained because:

- some struggle to obtain credit during the transition period back to work and cannot cover additional work related expenditures;
- some do not feel better off in work once debt repayments are taken into account;
- debt problems can encourage people to take on too many additional hours of work in order to increase their income: this can have longer term health consequences;
- some may have to take time off work to deal with debt problems or their productivity at work may be affected.

Not all unemployed people experience these problems equally. We found that the impacts differ between newly unemployed and longer term unemployed groups. Reviewing the findings from the study we consider that:

More recently unemployed people:

- face significant distractions to job search because they:
 - often have an urgent need to access advice to help them deal with their new debt problems and on the range of entitlements available to them;
 - may have to deal with administration problems associated with their unemployment insurance policies;
 - receive regular demands for payment from creditors, particularly if unemployment has resulted in default on payments, because they have no savings or redundancy payments to draw upon
- may also be disadvantaged in meeting additional costs connected with job search compared with the longer term unemployed. For example, it may be harder for people to obtain help with travel costs to interviews during the initial three months of a claim for Jobseekers Allowance. Flexible New Deal providers may also cover a wide range of additional transition to work costs, but this tailored provision is only made available to the long term unemployed. Therefore, there may be a case for bringing access to these types of assistance forwards for people with financial problems who have not yet reached 12 months unemployment.

Longer term unemployed people:

- have greater problems living on low incomes as they have no savings or redundancy payments left to fall back on and often incur higher costs when paying bills because of the closure of previously held bank accounts. This causes them to spend more time on basic household tasks and reduces the time available for them to actively seek work;
- may have a greater need for access to health, particularly mental health, service provisions due to the effects of living on a low income for longer periods of time;
- may have greater problems returning to work because of the impact of long-term unemployment on their use of financial services. Specifically they often:
 - have problems obtaining bank accounts;
 - lack affordable credit options to cover additional work related expenditure during the transition to employment.

However, we also found that:

- the relatively low level of debt observed among the long-term unemployed has a bearing on the type of intervention that is required;
- the policies and practices of financial services providers sometimes exacerbated the difficulties that unemployed people experience.

Low levels of debt reported by many long-term unemployed

We found that even a relatively low level of debt could have an adverse impact on the job seeking behaviour of long-term unemployed people. Just over one quarter (27 per cent) of all debtors in the study owed less than £500 and 87 per cent of these were long-term unemployed. With the provision of face-to-face debt costing between £201 and £377 per person, and with demand for advice sessions outstripping supply (National Audit Office, 2010), it may be more cost effective, and quicker, to consider how small grants or loans with deferred payment arrangements could be used instead of debt advice to mitigate some of the impacts of debt problems for this group pending a return to work.

Policies and practices of financial services providers

We found that the impacts were often compounded by the way in which some banks and lenders respond to a loss of employment:

- high default charges for very small indiscretions in the management of bank accounts only lead to a further deterioration in the financial position of unemployed people. This activity limits the resources available to them for job search. Where charges could not be paid back, we found that this encouraged people to cease using their bank account, resulting in losing the ability to pay by direct debit for utilities. This subsequently leads to an increase in the cost of bills. Where there were outstanding debts on a current account people often felt the need to find another account for wages to be paid once they found work. This therefore became an additional task to be completed during what is already a difficult transitional period;
- lender efforts to chase up credit repayments only seem to make it harder for people to get back into employment, either because it requires time for people to deal with constant enquiries, take advice about these, or in some cases because it contributes to feelings of depression and anxiety;
- the administration of unemployment insurance policies was reported as poor in some cases with multiple requests from creditor, insurer, and Jobcentre Plus for the same information. Again, this increased the time required for people to sort out their financial problems and also often led to frustration with 'the system' as a whole.

In these ways the policies and practices of some financial services providers impose significant additional costs on both the State and on welfare to work providers. We therefore make recommendations later in this chapter concerning ways in which financial services and welfare to work providers can work more effectively together. We consider that improved partnership working may well reduce the extent of these externalities. However, depending on the extent of these, we also consider that there may be an economic case for the Government to place stricter limits on the debt recovery activities of creditors where someone has been made unemployed.

Key features of a high quality service

How should welfare to work services respond to the issues identified in this report? In light of our findings we consider that a high quality service would need to respond in three main ways:

- by introducing systematic screening for, and providing rapid assistance with, debt problems;
- by improving partnership working to provide tailored support packages to assist the return to work;
- by improving in-work support to help people sustain employment.

A number of actions could be taken at the local level in each of these respects. Table 2, on the following page, presents further suggestions for these, for example, by encouraging welfare to work services and financial services providers to develop formal partnerships and offer a 'rapid guarantee' of a bank account to people returning to work, or by encouraging employers signing up to Local Employment Partnerships to offer greater levels of in-work support.

These actions need to be encouraged, facilitated and supported by action at national level. Indeed, some of the impacts identified in the study, for example, the disincentives to take a job that are created by insolvency rules and the use of credit scoring in recruitment processes, can only be addressed at that level. We therefore conclude the study with a complete set of recommendations of relevance to national and local government and its agencies, the financial services industry, including credit unions and Community Development Financial Institutions (CDFIs), welfare to work providers and debt advice agencies.

Table 2: Key features of a high quality service to address money problems in welfare to work settings

Systematic screening for, and rapid assistance with, money and debt problems	Improved partnership working to provide tailored support packages to assist the return to work	Better in-work support
<p>Welfare to work services should screen claimants for debt problems:</p> <ul style="list-style-type: none"> • at day one of a claim a basic screening should take place by Jobcentre Plus and, where problems are identified, Jobcentre Plus should signpost people to sources of assistance; • at later stages in a claim Jobcentre Plus Support Contractors and flexible New Deal providers should check for both money and debt problems and enter into formal partnerships with debt advice agencies to refer people with the greatest problems for assistance within a rapid (contractually agreed) time period. <p>Where formal agreements have been entered into then these should provide for the sharing of information about the extent of money and debt problems and the steps being taken to address these should be incorporated within an individual's back to work plan.</p>	<p>Welfare to work providers, debt advice agencies, and providers of financial education services should design money management sessions suitable for delivery in welfare to work settings. These could, for example, cover:</p> <ul style="list-style-type: none"> • how to maximise income and reduce expenditure, for example, by giving advice on energy efficiency grants and other entitlements; • dealing with debts, including advice on negotiating with creditors; • managing the transition to employment, including help with drawing up an in-work budget and debt repayment plan supported by a "better off" calculation. <p>Formal partnerships should also be put in place between welfare to work services and financial services providers, including credit unions and CDFIs, to ensure that people have access to banking facilities and affordable credit, with rapid access to bank accounts guaranteed when someone obtains a new job.</p> <p>Work and Skills Plans should be used to set out the arrangements that will be used to reduce the financial burdens on the unemployed and improve levels of support (see Recommendation 2).</p>	<p>In-work support programmes organised by welfare to work providers need to follow through on known money and debt issues by tracking progress on debt repayment agreements and providing support where necessary.</p> <p>Employers, particularly those signed up to Local Employment Partnerships and the National Employment Partnership, should be encouraged to:</p> <ul style="list-style-type: none"> • provide information about debt advice services; • encourage savings (for example, providing information on the Savings Gateway and offering salary deduction services into credit union accounts); • participate in financial education programmes; • work with trade unions to ensure that financial problems are recognised within health and safety policies as potential contributors to staff absenteeism and ill health.

Recommendations

Recommendation 1: A clear process to screen Jobseekers Allowance (JSA) claimants for money and debt problems, and direct them to sources of assistance, should be put in place:

- Department for Work and Pensions (DWP) and Jobcentre Plus should incorporate a screening question for debt problems into the JSA claims process and should provide information to claimants about sources of advice and assistance from day one of a claim;
- Jobcentre Plus should publish regular statistics, broken down to local authority level, on the number of unemployed people identified as having debt problems as a result of its screening process;
- Jobcentre Plus Support contractors should also screen for debt problems and should discuss money and debt problems as part of any back to work plan. Jobcentre Plus support contractors should be responsible for ensuring that people have access to an account capable of receiving wages;
- Where debt problems are identified, this information should be recorded and included in any referral documentation provided to flexible New Deal providers to enable them to tailor their provision quickly and effectively;
- Welfare to work providers should enter into formal partnership agreements with debt advice services to ensure that people with the greatest problems have rapid access to advice and assistance.

Recommendation 2: Local partnerships should ensure their plans reduce the financial burdens on unemployed people and provide them with access to advice:

- Local authorities, together with their wider employment partnerships, should review the availability of debt advice as part of their local economic assessment and set out how they will ensure that unemployed people have access to advice services in their Work and Skills Plans;
- Work and Skills Plans should also set out how local partnerships will reduce the financial burdens on the unemployed, for example, by ensuring help is given with transport costs and job search related expenditures, and how they will provide access to small sum affordable credit to cover work-related costs during the transition to employment;
- DWP should continue to support the expansion of third sector lending and should ensure that its future commissioning of these services links with local partnership proposals as set out in their Work and Skills Plans.

Recommendation 3: The administration of unemployment insurance policies should be improved:

- DWP, Jobcentre Plus, and representatives from the debt advice agencies and financial services industry should convene a task and finish group to develop proposals to improve the administration of unemployment insurance policies by reducing the need for claimants to respond to multiple requests for the same information.

Recommendation 4: Greater protection against debt recovery should be provided for people that have recently lost their jobs, or have just started work and need time to renegotiate repayment levels:

- The Department for Business, Innovation and Skills (BIS) and the Office of Fair Trading should work with the financial services industry to ensure that all creditor association codes of practice commit their members to accepting 'token payments' and suspending interest and other charges once they have been notified of the loss of employment or other significant income shocks;
- BIS should work with the financial services industry and debt advice agencies to extend its 'breathing space' agreement to cover all lenders, not just those subscribing to the Lending Code. It should also seek an agreement for all lenders to apply a 30 day 'breathing space' prior to renegotiating repayment levels where people move back into work;
- The Office of Fair Trading should set out a clear strategy to stop the harassment of unemployed debtors. It should work with Jobcentre Plus and welfare to work providers to raise awareness of its Debt Recovery Guidance among unemployed people and should develop a simple and effective mechanism through which unemployed people can report instances of harassment. It should report regularly on the action taken as a result.

Recommendation 5: DWP, BIS and the Insolvency Service should establish a joint working group to review the rules for all forms of insolvency to ensure that these procedures do not create disincentives to work.

Recommendation 6: DWP and the Insolvency Service should undertake research into the impact of debt and different insolvency procedures on future employment opportunities and prospects.

Recommendation 7: DWP, BIS, credit reference agencies, and employer and trades union representatives should develop guidelines concerning the use of credit reports in recruitment processes.

Recommendation 8: New partnerships should be formed to tailor financial education materials and financial services for unemployed people:

- Welfare to work providers and debt advice agencies, with support from the new Consumer Financial Education Body and the Financial Services Authority, should enter into formal partnerships with financial services providers, including credit unions and Community Development Finance Institutions as well as the private sector, to:
 - develop tailored financial education sessions and materials that are relevant to unemployed people and can be delivered in welfare to work settings;
 - deliver rapid access to bank accounts for people returning to work;
 - provide small sum, affordable credit for people moving into employment to cover the transition period;
 - provide deferred payment products to replace existing small sum debts where these constitute a disproportionate barrier to employment. Welfare to work providers should ensure that access to these products is contingent on the claimant following their back to work plan.

Recommendation 9: Best practice on dealing with money problems should be shared as part of existing learning networks:

- The National Worklessness Learning Forum (NWLF), supported by Improvement and Development Agency for local government (IDeA), should develop a user-friendly guide to showcase and promote effective practice on this issue as part of their wider remit to identify and share best practice responses to the barriers that prevent people moving back into work and that maximise local authorities' resources and assets;
- The NWLF should also explore whether debt advice and money management have been built into Future Jobs Fund support packages;
- The IDeA worklessness community of practice should be used to gather case studies and share learning.
- Recommendation 10: The Social Fund needs to be more responsive and repayments deferred where these are impacting on the ability of people to undertake job search:
 - DWP should provide access to the Social Fund's Budgeting Loans from day one of a claim for JSA;
 - DWP should also ensure that financial health checks are conducted for repeat budgeting loan and crisis loan claimants and should facilitate referrals to welfare to work providers and debt advice for further help where problems are identified;
 - Where welfare to work providers report that recovery of a Social Fund loan is impacting on the ability of a claimant to undertake effective job search, repayments should be deferred.

Recommendation 11: Efforts should be made to ensure that people moving into work are better off even after debt repayments are taken into account:

- Jobcentre Plus should take account of outstanding debts and the likely level of repayments required of someone moving into work when conducting "better off" calculations (BOCs);
- a basic calculator should be developed, using agreed Money Advice Trust/British Bankers Association 'trigger figures', in order to help Jobcentre Plus provide this information to claimants as part of their BOC;
- All claimants should be provided with a guarantee of assistance with creditor negotiations to ensure that they are at least £30 per week better off in work after taking debt repayments into account.

Recommendation 12: In-work support should be improved

DWP and Jobcentre Plus should lead a programme of work with employers to:

- ensure that information about debt and money problems is made available in workplaces;
- promote credit unions and the Savings Gateway to employees;
- build actions to identify and address debt and financial problems into health and safety policies.

Fit for Work Service Pilots should also be encouraged to test out ways of delivering advice and assistance on debt and financial matters in the workplace and evaluate the impact of these on job retention rates.

Appendix 1: Key Elements of the Government's Response to Over-indebtedness and Financial Exclusion

Funding for debt advice services

- The Department for Business, Innovation and Skills (BIS), has committed over £130m in England and Wales for free face-to-face advice, targeted at financially excluded groups between 2006 and 2011¹⁵;
- In the November 2009 Pre-Budget Report, the Chancellor announced an additional £10m to support longer opening hours at over 330 Citizens Advice Bureaus and a further £5.85m to increase staffing levels of the National Debtline by 50 per cent
- BIS has also supported the development of a new self-help debt advice toolkit which has been available from the Money Advice Trust since January 2010.

More help for people at risk of home repossession

- In autumn 2008, the Government put in place a pre-action protocol for mortgage lenders to follow prior to starting repossession proceedings coupled with a £285 million mortgage rescue scheme to be administered by local authorities. In November 2009, the Department for Communities and Local Government tightened the rules so that mortgage lenders must inform councils when repossession action is started against residents in their local area, and extended a drive to improve take-up of the mortgage rescue scheme into 36 'hotspot' areas;
- In April 2009, the Department for Work and Pensions also reduced the waiting time before unemployed claimants became eligible for support with mortgage payments from 30 weeks to 13 weeks and raised the limit on house values covered by the scheme to £175,000;
- The Government has also worked with lenders to introduce the Homeowners Mortgage Support Scheme which allows people who suffer a temporary drop in income to defer some of their mortgage interest for up to two years¹⁶;
- From July 2009, a £20m Repossession Prevention Fund was also established to provide small, interest free, loans to help homeowners and tenants to avoid repossession. Eligibility for the fund is determined by local authorities but recipients must be willing to work with debt advice services to address the underlying problems that have given rise to the risk of repossession.

Securing a 'breathing space' for people in debt and supporting realistic repayment plans

- Following a summit between the Government and credit card lenders in November 2008, the industry agreed to provide a minimum of 30 days 'breathing space' for any customer that notifies them they are working with a free debt advice agency to agree a repayment plan. During this time the credit card company will suspend its collection activity. If discussions remain ongoing after 30 days, there is an option of extending this by an extra 30 days to ensure an agreement can be finalised;
- In 2009 this breathing space was incorporated into the Lending Code, which is subscribed to by banks, building societies and credit card lenders. This extended the agreement to cover the unsecured personal loans and current account debts of mainstream bank and building society lenders. Utility companies have also made a commitment to provide a 'breathing space'. However, not all lenders are covered by the Lending Code;
- The Government has also recently completed a regulatory review of the credit and store card market. On 15 March 2010 it announced details of a further agreement with credit card companies to provide additional protection for consumers who are 'at risk of financial difficulties'. The agreement included banning increases in credit limits and interest rates, and a commitment that card companies will continue to work with debt advice agencies to provide greater support to consumers at risk of financial problems to help improve their situation;
- 15 March 2010 also saw the Ministry of Justice, British Bankers Association and Consumer Credit Counselling Services announce that debtors who have suffered an unexpected income shock (eg. redundancy or short time working) would be able to provide only 'token payments' towards their debts;
- The Office of Fair Trading also published its 'Irresponsible Lending' guidance for the credit industry in March 2010. This includes a chapter on the handling of default and arrears that encourages creditors to act with forbearance and to consider suspending further interest and other charges and deferring payments or accepting only 'token payments';
- Other proposed measures in this area, however, have not yet been delivered:
 - the Tribunals, Courts and Enforcement Act 2007 contains provisions to introduce Enforcement Restriction Orders which would allow county courts to order a suspension of repayments and recovery action on debts for up to 12 months where a debtor has experienced a sudden drop in income. However, due to the need to change county court IT systems, these orders cannot be implemented until 2011 at the earliest;
 - the Ministry of Justice was consulted on proposals to strengthen debt management plans, including options to develop best practice guidelines and/or to provide statutory regulation for these. The consultation closed in December 2009 and is awaiting a response.

A long term financial capability programme

- The Financial Services Authority (FSA) has developed a national strategy for financial capability and in 2006 it set out a £100m programme aiming to deliver support to 10 million people by 2011;
- In 2007, HM Treasury set out a long-term ambition for all adults to have access to impartial advice about money, and for every child to receive a planned programme of financial education in schools;
- In 2008, the FSA and the Treasury published a joint action plan for financial capability which set out how financial capability programmes would be delivered through a mix of online resources, targeted information guides, and face-to-face sessions with groups of young people, employees, parents, and through wider basic skills provision;
- In November 2009, the Government announced the UK-wide roll-out of a money guidance service delivered under the MoneyMadcLEAR brand. The service provides telephone advice and is also available online where it includes step-by-step guides, interactive tools and impartial product comparison tables. In addition, the money guidance service will provide face to face money guidance sessions. These are currently available in
 - North West and North East England;
 - Greater London (primarily inner London);
 - South Wales (Merthyr Tydfil and Blaenau Gwent);
 - Scotland (primarily the Glasgow area);
 - Northern Ireland.

Full national coverage is expected by the end of 2010.

- This work is now being taken forwards by the new Consumer Financial Education body, established by the Financial Services Act 2010, as part of its remit to:
 - promote awareness of the benefits of financial planning;
 - promote awareness of the financial advantages and disadvantages in relation to the supply of particular kinds of goods or services;
 - promote awareness of the benefits and risks associated with different kinds of financial dealing;
 - publish educational materials or carry out other educational activities;
 - provide information and advice to members of the public.

Expanding access to affordable credit

- Initiatives have been taken to help improve the availability of affordable credit to lower income groups. These have included the Department for Work and Pensions (DWP) enabling the direct payment of benefits into credit union accounts and a recent Legislative Reform Order (LRO) to allow credit unions to widen membership more easily, including the provision of corporate membership and allowing interest to be paid on deposits. The LRO changes are expected to come into effect in August 2010;
- DWP has also contributed almost £100m to a Growth Fund for credit unions and CDFIs over the period 2006–2011 with delivery targeted on the most deprived areas;
- In the Budget 2009, DWP also announced an additional £270m over two years to meet additional demand for interest-free loans for people in financial difficulty through the Social Fund;
- In March 2010, the Department published a new Green Paper to consult on the next steps in Social Fund reform including proposals to provide access to the Fund from day one of a claim for Jobseekers Allowance (JSA) and consideration of how to ensure that repeat users of the Fund are provided with access to advice and assistance with financial problems;
- In Budget 2010, the Government set out its proposals to expand access to affordable credit through the Post Office Network and to consult on a possible community levy on banks to support third sector lending in the future.

Action to address problems of high cost and illegal lending

- Since 2004, the Department for Business, Innovation and Skills has led delivery of specialist enforcement teams, and organised regionally to clamp down on unlicensed credit lenders. As at January 2010 the teams have:
 - identified over 800 illegal lenders;
 - shut down loan books of more than £30m;
 - helped over 10,000 victims;
 - taken forwards 100 successful prosecutions resulting in prison sentences of more than 54 years.

Funding for the teams is committed until March 2011.

- The Office of Fair Trading is currently reviewing the operation of high cost legal credit markets and levels and barriers to effective price competition. The final report is expected shortly.

Improving access to banking, savings and insurance

- In 2004, the Government and the banking industry entered into a shared commitment to halve the number of unbanked adults and in 2009, the Financial Inclusion Taskforce reported that this had been met;
- To reduce the number of unbanked adults further, the Budget 2010 indicated that the Government is considering imposing a 'universal service obligation' on banks which would provide everyone with a right to a basic bank account;
- The Government has also indicated that it will reform the Post Office Card Account in order that this can be used to take receipt of wages as well as benefits;
- Children living in the UK, for whom Child Benefit is being received and who were born on or after 1 September 2002, are entitled to a Child Trust Fund account which is automatically credited with £250 by the Government and a further £250 for children in low income households. Further payments are made into the account when the child reaches the age of seven and additional annual payments are made into the account for children who are entitled to Disability Living Allowance. Money in the account cannot be withdrawn until the child reaches the age of 18;
- Budget 2010 announced the national roll-out of the Savings Gateway from July 2010. This is a matched savings scheme for adults with low incomes. People can save up to £25 per month and after two years the Government will make a payment of 50p for every pound held in the account;
- In March 2007, HM Treasury expanded the remit of the Financial Inclusion Taskforce to cover access to home contents insurance products. An Insurance Working Group has been established and this has mapped access to insurance products, including those provided by social landlords. Work is ongoing to encourage more social landlords to provide home contents insurance products as part of their services to tenants.

Notes to Appendix 1

¹⁵ This follows previous efforts to expand access to debt advice through 'money advice outreach pilots' in 2004. A number of these involved the provision of services through 'employment-related venues'. However funding to mainstream these pilots, with the exception of a fund to support advice to prisoners and their families, was not made available beyond 2007 (Buck et. al, 2009).

¹⁶ The Homeowners Mortgage Support scheme has not been taken up by all lenders although most have either done so or have put 'comparable arrangements' in place

Appendix 2: Focus Group Discussion Guide

Introduction of researcher and aims

Confidentiality/interview recording

Introductions and backgrounds

Can you start by just telling me your name and a little bit about yourselves?
For example, how long have you been out of work, what your last job was and how long you were employed for?

Prompt: *Check for people moving in and out of employment on a frequent basis.
What sort of wage levels were people earning when in employment?
How did they manage financially?*

Can you also tell me about any money problems that you have had as a result of being out of work?

Prompt: *Do people have any debts?
When did you get into problems repaying these?
Do people have other money problems – paying bills, making ends meet?*

Did any of you take out credit when you were employed?

Prompt: *Overdraft/credit cards/loans/payday loans*

What was this used for? Were the repayments ok when you were in work or did you find it was a struggle to make the repayments?

Have any of you borrowed money since you have been out of work?

Prompt: *Have people been able to get credit and what have they used this for?
Have people tried to get credit but been turned down?
What about borrowing from family or friends?*

Double check: When would you say your money problems started – when you were in work, when you became unemployed, or afterwards?

And what about your use of things like bank accounts, insurance, or savings accounts. How have these changed from when you were employed to now?

How many of you have got a bank account now?

How many of you use it?

Prompt: *If have a bank account but are not using it now, what are the reasons for this? Has the way in which you use bank accounts or generally manage your money changed since you have been out of work (e.g. was paying bills by direct debit but now using cash/pre-payment meters)?*

Dealing with your money problems

Can you tell me what pressure having money problems puts you under?

Prompt: *Has it affected anyone's health in any way? Has anyone ever felt depressed or anxious about money?*

Prompt: *How do people cope with not having much money? Do they cut back on things and how does this affect them? For those who owe money, how does being in debt affect you on a day-to-day basis?*

Are people chasing you for payments at the moment? How often do you get contacted and asked about repayments?

Would you say that being in debt affects your ability to get on with other things that you need to do, focus on other tasks?

What sort of things? Has it affected the way you look for work in any way?

Can you give examples of the ways it gets in the way of looking for work?

Have you tried, or maybe even managed, to sort things out with the people you owe money to? What worked and what didn't work so well?

Does the way that you have dealt with, or are thinking of dealing with, your debts affect the way you are now looking for work in any way? For example, if you've been made bankrupt does that stop you getting certain types of jobs? What about having county court judgments against you, do you think employers are bothered about those?

Prompt: *If yes, has anyone been told by an employer that having debt problems would prevent them from getting a job?*

What ways do you think employment and debt advice services could work together to help people sort out debts once they are out of work?

In a perfect world, when you lost your last job what would have happened to help you sort out your money problems?

Transition to work

Thinking back to when you started your last job, how did you manage coming off benefits and starting work – that period until you got your first wages?

Prompt: *What problems with money did you have? Did you have to borrow any money during this period – if so, from whom, how much, what for?*

Do you think that more could be done to help people in this period?

What about sorting out a bank account and arranging for your wages to be paid into it? Does that cause any problems?

There are quite a lot of money management courses and sources of help with budgeting advice available these days, do you think that it would be helpful to provide these as part of the support for people preparing to work?

What sorts of things should a course like that cover?

Prompt: *Opening and running a bank account? Sorting out a budget? Negotiating with creditors?*

What do you think will happen to the arrangements you've made with the people you owe money to if you get a job?

Does that put you off looking for work in any way?

What about the earnings you need to feel better off in work? Do you think about how much you will have to pay back to your creditors when looking at jobs and deciding whether it's worth applying?

Prompt: *Have you ever turned down a job because you thought it wouldn't be worth it because of money problems or debts?*

Have any of you had any help to work out what you'd need to earn to be better off in work?

Prompt: *If yes, did that help make things clearer? What about debt repayments, did it take account of those?*

Would that be helpful to people? To have someone sit down and work out how much better off in work you could be, and help negotiate with people you owe money to so you know you'll be better off if you take the job?

In work

What about when you have been in work? Have any of you started a job, but found that you are not better off because of debt repayments, or had a lot of money problems in work?

How did that make you feel about doing the job?

Prompt: *Did people take time off from work to sort out their money problems? Did it affect their health? What about socialising with work-mates? Did having money problems make that difficult?*

What did you do about it?

Prompt: *Did people try to work extra hours to earn more money? How did that work out for them?*

Have money problems or debts ever caused someone to give up or lose a job?

Prompt: *Can you tell us about this?*

What services do you think should be made available to people in work to help them budget and not get into debt so much?

End and thank

Collect Questionnaires

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