



National Audit Office

**REPORT BY THE
COMPTROLLER AND
AUDITOR GENERAL**

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Business, Innovation and Skills

Helping over-indebted consumers

Summary

1 UK consumers had some £1,459 billion of outstanding debt as at November 2009, and personal borrowing represented 160 per cent of household annual pre-tax income. Most consumers manage successfully to service outstanding debt but some cannot, especially at times of economic difficulty, and become over-indebted. Bank of England research in 2008 found that some 11 per cent of the UK population reported difficulty in keeping up with their bills and credit commitments. Over-indebtedness means that an individual is no longer able to service their debts.

2 Apart from the personal cost of over-indebtedness, there is also a cost in public expenditure, such as on social housing and legal costs. Accordingly, the Department for Business, Innovation and Skills (BIS) supports debt advice services for consumers in England and Wales who have problems with debt¹ – for example, providing advice on budgeting and on options for dealing with intractable debt. The support provided by BIS covers both:

- free face-to-face advice delivered exclusively through a project working with third sector providers, such as Citizens Advice, and delivered through 16 national and regional sub-projects; and
- National Debtline, a telephone advice line funded by government and the private sector.

BIS is providing £143 million for both these services between April 2004 and March 2011, £130 million of which is exclusively for face-to-face advice and £13 million for National Debtline. Of the total, £129 million is funded from HM Treasury and ring-fenced for these services.

3 BIS's face-to-face advice project is designed to contribute to the aims of a larger cross-Government strategy for tackling over-indebtedness. The strategy was launched in 2004 and is sponsored by BIS, the Department for Work and Pensions (DWP), and, from 2005, the Ministry of Justice (MoJ). The strategy involves public², private and third sectors. It aims to minimise the number of consumers who become over-indebted, and improve the support and processes for those who have fallen into debt. The 2004 strategy includes 51 different interventions ranging from access to affordable credit to providing advice (Appendix 2 lists all 51 interventions). BIS shares the secretariat function for the strategy with DWP and MoJ, and is also responsible for monitoring the levels and profile of over-indebtedness and developing the approach to strategy evaluation.

¹ The Scottish Government and the Northern Ireland Executive are responsible for debt advice in Scotland and Northern Ireland. General debt advice is provided also by other government departments such as the Ministry of Justice and Communities and Local Government, and by Local Authorities.

² The strategy is also supported by HM Treasury, the Department of Communities and Local Government, and the Department for Children, Schools and Families.

4 This study examines BIS's discharge of its duties in relation to the provision of its debt advice and the over-indebtedness strategy.

5 We have evaluated value for money as:

For the face-to-face debt advice project

- The extent to which BIS works effectively with advice providers to deliver high quality face-to-face debt advice cost effectively.

For the over-indebtedness strategy

- Whether the face-to-face debt advice provided by BIS is effectively coordinated with other forms and sources of advice to provide the right mix of advice in supporting the aims of the over-indebtedness strategy and adapting to changing circumstances.
- Whether the oversight arrangements for coordinating and measuring the success of the over-indebtedness strategy are sufficient to ensure its aims are being met.

More details of our methodology are given at www.nao.org.uk

Key findings

Delivery of the face-to-face debt advice project

6 We found that those who have received BIS funded debt advice say it has helped, and BIS's own evaluation of quality of service found it met the expectations of users. Our survey found that BIS funded advice is well regarded, with 81 per cent of recipients saying that it had improved their debt situation and 95 per cent following the advice given.

7 BIS is getting what it is paying for. Since it began operation in April 2006, BIS's face-to-face debt advice project has delivered help to some 270,000 people to the end of September 2009, more than the planned 261,000, at a cost of £311 per person, against a planned £330 per person.

8 Following the economic downturn, capacity has not kept pace with demand. Providers reported to us a 28 per cent increase between July 2008 and July 2009 in the number of clients contacting them, two of the 39 individual advice agencies who responded to this question in our survey said they were not taking new clients onto their waiting list, six had waiting times of four weeks, and one had a waiting time of six weeks.

9 Benchmarking of the face-to-face sub-projects suggests there is scope for cost efficiencies in providing face-to-face advice. BIS examines levels of activity and overall spend in each of the 16 projects and has put in place consistent monitoring requirements across these, but does not examine in detail variations in the cost of delivery between providers, which range from £201 to £377 per person. We found that since 2008 many providers had responded to increased demand by increasing the amount of advice given within existing budgets, but that there was scope for efficiency improvements to be applied more widely and consistently.

The over-indebtedness strategy

Provision of debt advice to support the strategy

10 BIS has not assessed how private sector advice provision could contribute to the achievement of the strategy's aims. Our research shows that there is a large private sector, with some 56,000 companies permitted to provide debt advice. The majority of respondents in our survey who had received private sector advice said that it had helped them improve their financial situation – for example, 59 per cent of those receiving advice from a bank – although it was less well regarded than free advice. Funding for the face-to-face debt advice project is guaranteed only until March 2011. If funding for the project is not available beyond 2011, the role of the private sector in providing debt advice to consumers will become increasingly important. BIS has not yet engaged with private sector providers on what role they might play in the future.

11 More consumers could be helped overall by ensuring a better match between consumer needs and delivery channels. Different advice channels are appropriate to different consumers. For example, those needing support with contacting creditors or accompanying to court will need face-to-face rather than telephone advice. However, our survey of consumers who had received BIS funded face to face advice found that 25 per cent of those who expressed a preference would have preferred telephone or internet advice. Around a third of those receiving advice were unaware of National Debtline; awareness of other telephone services was even lower. Telephone advice from National Debtline costs around £51 per person compared with an average of £265 for face-to-face advice, and internet advice costs even less. Moving consumers whose debt issues could be addressed through telephone advice onto this cheaper delivery channel would allow more consumers to be helped overall.

12 In designing interventions, BIS does not currently make best use of its available data to understand the behaviour and attitudes of the over-indebted. A deeper understanding of over-indebted consumers' attitudes towards debt advice, such as which delivery channels they prefer or barriers to seeking advice, would help BIS and the other departments involved in the strategy to design services to maximise the support that BIS's debt advice makes to meeting the strategy's aims.

Oversight of the over-indebtedness strategy

13 There is no clear accountability for achieving the overall objectives of the strategy and no programme management function to coordinate its delivery.

The strategy is made up of 51 different projects and a number of funding streams, so effective oversight and coordination is essential to coordinate interventions and respond to changing circumstances. The original strategy envisaged three working groups to oversee delivery, but one of these groups never met and the last to meet did so in April 2008. The diffuse responsibilities and lack of oversight have contributed to the strategy's difficulties in responding to increased demand, the growing role of the private sector and in matching customer needs with the channels used to deliver advice. In October 2008, BIS led efforts to reconvene a coordination function across departments, but this has so far focused on the delivery of individual interventions in isolation rather than programme management.

14 Evaluation of the effectiveness of the strategy is weak so an overall judgement on its success is not possible. In the absence of programme management, and with no single department having overall responsibility for the strategy, the programme has not been evaluated as a whole. There has not been a published progress report since 2007.

Conclusion on value for money

15 BIS's face-to-face advice project is delivering good value for money. Since the project came into operation in 2006 it has supported the delivery of face to face debt advice to 270,000 people. The project is helping more people than planned, at slightly less than the planned cost per person, and the advice given is well regarded by those that have received it. There are opportunities to apply efficiency improvements more widely in order to meet the growing demand for advice and further increase value for money.

16 As regards the wider over-indebtedness strategy, arrangements to control the risks that its complex delivery structure presents are not adequate: there is a lack of effective engagement between the bodies overseeing the strategy; the choice of delivery methods for debt advice is not being managed to achieve best value, or with a full understanding of users' needs; the role of private sector providers in meeting the strategy's aims has not been assessed; and there is no mechanism to evaluate the overall success of the programme. It therefore cannot currently demonstrate value for money; and value for money cannot be delivered until the strategy's separate strands are brought together in a coherent programme management framework with effective governance, performance management and evaluation.

Recommendations

- a** **Benchmarking of the 16 face-to-face sub-projects shows that there is a range of costs per client.** BIS should:
- analyse the variations in the grant paid to different sub-projects to assess the extent to which variations reflect differences in efficiency rather than variations in the proportion of producers' costs being covered by the grant or other factors;
 - where differences are due to efficiency, promote these practices to the less efficient providers; and
 - in planning support beyond the end of the current funding period in 2011, work with sub-projects to develop contract arrangements that can cope with changing demand and provide stronger mechanisms to encourage efficiencies. The National Audit Office's Third Sector Decision Support Tool provides useful advice for this purpose.
- b** **On average, debt advice over the telephone costs about a fifth as much as face-to-face advice, and is preferred by 25 per cent of those users of BIS funded debt advice services who expressed a preference in our survey.** The internet costs even less. BIS has not evaluated the relative effectiveness of these different channels of advice, and funding is currently provided by the Treasury's Financial Inclusion Fund specifically for the provision of face-to-face advice. BIS should:
- seek Treasury agreement to allow flexibility in the funding of the alternative advice channels, depending on consumer needs;
 - raise the awareness amongst those seeking advice, of the telephone and internet advice available so that consumers who would prefer these channels are aware of them and can use them;
 - evaluate the relative effectiveness of telephone and internet advice so that a balanced comparison of the cost effectiveness of the different channels can be made; and
 - in the light of such a comparison, consider a more radical transfer of resources into the most cost-effective channels, so as to maximise the impact of its support for over-indebted consumers.

- c** It is now five years since the development of the over-indebtedness strategy. The economic situation is very different and the programme management arrangements established at the outset have fallen largely into disuse. BIS should work with the other key Departments contributing to the strategy to establish a more effective programme management framework for updating the strategy and developing plans for providing debt advice in the future. This should include;
- a clear statement of what the strategy is intended to achieve, how each intervention contributes to the aims of the strategy, and how they relate to each other;
 - a performance measurement framework that measures the success of the interventions in terms of the aims of the strategy as a whole. The National Audit Office guidance 'Choosing the right FABRIC – a framework for performance information' provides useful advice for this purpose;
 - a clear allocation of responsibility for achievement of the aims of the strategy, for example, by the designation of a senior responsible owner for the strategy, and the establishment of a board of senior officials from departments to coordinate its delivery; and
 - an assessment of how support will be provided beyond March 2011, the end of the current funding period. This will need to include an assessment of consumer needs and demand, the scale and effectiveness of the different types of debt advice provider across the landscape, and the contribution that each can make to meeting the aims of the strategy. In view of the growing role of the private sector as a provider of advice, the assessment should involve increased engagement with the private sector, and cover the actions needed to ensure a consistent level of service for the consumer, for example, through regulation or codes of practice. The need for such engagement will be particularly urgent if funding decisions beyond 2011 require increased reliance on the private sector.