National Audit Office

Report
by the Comptroller
and Auditor General

Cross-government, HM Treasury

Tackling problem debt

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Cross-government, HM Treasury

Tackling problem debt

Report by the Comptroller and Auditor General

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Sir Amyas Morse KCB
Comptroller and Auditor General
National Audit Office

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The aim of this report is to evaluate and conclude on HM Treasury's overall approach to over-indebtedness, and how well it brings together government's and other stakeholders' various activities and interventions to meet its objectives.

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Contents

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Key facts

8.3m

estimated number of over-indebted people in the UK

40%

proportion of reported debt problems in 2017-18 relating to debts owed to government, up from 21% in 2011-12

£248m

our estimate of the minimum annual cost to the public purse of the direct impact of problem debt on a person's likelihood to experience anxiety or depression or be in state-subsidised housing

£15 billion	total outstanding mortgage arrears in 2018
£18 billion	our estimate of personal debt owed to government, utility companies, landlords and housing associations; a minimum figure based on available data and research
4 in 10	estimated proportion of people in the UK who cannot manage their money well day to day
5,000	approximate number of consumer credit lenders regulated by the Financial Conduct Authority
600,000	estimated number of people who need debt advice but are unable to access it

Summary

1 Over-indebtedness, or problem debt, is when someone becomes unable to pay their debts or other household bills. Debt problems are detrimental to people's wellbeing, and can lead to higher use of public services such as mental health services and state-subsidised housing, with resulting costs to the public purse. Over-indebtedness also results in costs to the wider economy, for example through lost productivity or increased crime.

2 The Money Advice Service (MAS) estimates that 8.3 million people in the UK are over-indebted, and that 22% of UK adults have less than £100 in savings, making them highly vulnerable to a financial shock such as job loss or large unexpected bills. The ratio of unsecured debt to household income has been increasing since 2014.

3 HM Treasury (HMT) has overall policy responsibility for personal debt, and has high-level objectives in two areas:

- **Preventing problem debt from occurring**. HMT aims to help people manage their money by improving their financial capability, and coordinates government's work to ensure people can access useful and affordable financial services. The Financial Conduct Authority (FCA) regulates retail lending (including consumer credit and mortgages), and MAS coordinates the UK's financial capability strategy, which covers a large number of other bodies. HMT has oversight of both organisations.
- **Minimising the impact of problem debt**, by providing support to those who become over-indebted. MAS commissions free debt advice from the third sector. The FCA regulates debt collection among retail lenders and debt collection agencies, as well as debt advice organisations.

4 Other parts of government also play a significant role in meeting HMT's objectives, and their policies and interventions are interrelated. This makes delivering HMT's policy objectives challenging, requiring a coordinated approach to ensure that the actions or policies of one part of government do not negatively affect the work of another. In particular:

- the Department for Work & Pensions shares some responsibilities for financial capability and financial inclusion with HMT. It will be the lead sponsor of a new financial guidance body from January 2019;
- government policy decisions can impact on people's financial and debt situation, for example where they affect benefits or the affordability of utilities; and
- government itself is a significant source of personal debt, such as benefit overpayments or council tax arrears, and therefore has an important role in managing the impact of over-indebtedness. The Cabinet Office leads the government's work to improve debt management practices in government.

Scope of this report

5 We have previously reported on specific areas relating to personal debt, but have not examined government's overall approach or how the interdependencies between policy and delivery areas are managed. For example, previous reports have looked at regulating consumer credit, helping consumers to manage their money, or managing debt owed to central government. Public bodies have taken positive steps in response to recommendations in these areas.

6 This report aims to evaluate and conclude on HMT's overall approach to over-indebtedness, and how well it brings together government's and other stakeholders' various activities and interventions to meet its objectives. In particular, the report examines:

- whether HMT has appropriate mechanisms to identify the scale and nature of the problem it is seeking to address and organise government's response (Part Two);
- evidence on the effectiveness and coordination of government actions to prevent problem debt through improving people's financial capability and regulating consumer credit lending (Part Three); and
- the extent to which government as a whole adopts best practice in managing its own debtors, and supports over-indebted people more generally through debt advice and other protections (Part Four).

7 We considered personal debt within three broad categories: consumer credit and mortgages; utilities and private rent arrears; and debts to government (such as council tax arrears or benefit overpayments). This is because, while people can struggle with debts to multiple organisations at the same time, government oversight and intervention differs between the three categories.

Key findings

Identifying the problem and coordinating the approach to over-indebtedness

8 **HMT relies on many organisations to meet its objectives on problem debt, but there are weaknesses in its accountability arrangements for ensuring there is an effective and coherent approach**. HMT works closely with many organisations across government and the private and third sectors that have interconnected responsibilities. It exerts influence through a range of formal and informal relationships, including sitting on a number of boards and groups covering issues such as financial capability and debt advice. However, it does not have any formal mechanism or forum to bring issues together in a coherent way, ensure common understanding of priorities, or collectively hold delivery partners to account. It has also not articulated overall spending commitments, detailed aims or the outcomes it is seeking to achieve, or what data it will use to assess performance. The government previously had a formal over-indebtedness strategy, but HMT did not continue this when it took on policy responsibility in 2013 (paragraphs 2.3 and 2.4).

9 **People increasingly report problems with debts owed to government or utility providers, but HMT has limited insight into these areas**. Government needs to understand the scale and nature of problem debt to determine a sufficient and targeted response. It has detailed data on debts owed to retail lenders, such as mortgage arrears of around £15 billion in 2018. But it does not have complete data on all debts owed to government and utility providers (we estimate debts from arrears and overpayments to be at least £18 billion), where people are increasingly struggling. For example, the proportion of problems reported to Citizens Advice relating to government debts increased from 21% to 40% between 2011-12 and 2017-18, while for consumer credit it reduced from 52% to 33%. Of the four largest central government creditors we requested personal debt data from, two collect the data while the other two cannot disaggregate personal debt from overall debt data (paragraphs 2.5 to 2.9).

10 **Government has no estimate of the extent to which problem debt leads to increased use of public services, or the resulting cost to the taxpayer**. Understanding the impact of problem debt is important for policymakers across government, in considering the impact of policy design on over-indebtedness and the relationship between actions in one part of government and costs occurring elsewhere. Estimating the impact on and cost to public services of problem debt is complex, and government has not done this. Our modelling indicates that the direct effect of problem debt on an individual's likelihood to experience anxiety or depression or to be in state-subsidised housing results in an additional cost to the taxpayer of at least £248 million a year, and to the economy as a whole of around £900 million a year. We were unable to model other effects, including on employment and benefits, because of gaps in the data available (paragraphs 2.10 to 2.12).

Preventing over-indebtedness

11 MAS has improved coordination of interventions to raise individuals' financial capability, but its strategy does not involve all relevant parts of government and MAS does not yet know the strategy's impact.

- Financial capability – the ability of people to manage their money and handle periods of financial difficulty – in the UK is low. MAS estimates that 4 in 10 people in the UK cannot manage their money well day to day, while the Organisation for Economic Cooperation and Development (OECD) has found the UK to score below average in financial capability compared with other OECD countries (paragraph 3.5).
- MAS is responsible for improving financial capability, and recognises that to meet its aims it needs significant and long-term buy-in from other public and private bodies that also have responsibilities in this area. Since 2015, MAS has led a long-term strategy to bring together such organisations, in order to coordinate activities and build an understanding of which interventions are most effective. While this has improved coordination, participation in the strategy is optional. For example, the Department for Education, which is responsible for financial education in schools, is not involved at all, though both it and MAS recognised this as a gap they intend to address. MAS and two pensions guidance services will be replaced by a single financial guidance body from January 2019, which presents potential for a more robust approach, as it will have statutory responsibility to coordinate financial capability activities. However, it will not have additional formal powers to do so (paragraphs 3.4, 3.6, 3.7, 3.9 and 3.10).
- MAS does not yet know what impact its financial capability strategy is having. It has made good progress in identifying which individual interventions are most effective, and is now starting to evaluate the overall impact of the strategy so far (paragraph 3.8).

12 The FCA has taken action to improve responsible lending, but recognises that it has more to do to tackle persistent and unsustainable consumer credit debt. Affordability is a particular concern in unsecured consumer credit, where debt levels can escalate quickly due to high interest rates. The FCA has regulated consumer credit since 2014, for which it is accountable both to HMT and directly to Parliament. It seeks to ensure that firms lend money to individuals responsibly, to protect consumers from unaffordable credit, and that firms treat customers fairly. There are around 5,000 consumer credit lenders, and the FCA requires them to meet certain lending standards. The FCA has also taken action in specific areas of particularly high detriment, such as introducing a price cap on short-term high-cost credit. Fees and charges on a typical payday loan reduced from more than £100 to around £60, which the FCA estimates saves borrowers £150 million per year. However, the FCA recognises it has more to do on high-cost credit. Its 2018-19 business plan prioritises action to address issues in rent-to-own, home-collected credit, catalogue credit and unarranged overdraft fees (paragraphs 3.12 to 3.15).

Managing problem debt

13 **Evidence shows that good debt collection practice both benefits individuals and boosts collection rates.** Common best practice principles include timely assessments of vulnerabilities, affordable repayment plans, and signposting or referring people to debt advice. Research in 2014 estimated that tailored debt advice, support and affordable repayments saved creditors £82 million in a year from 110,000 over-indebted clients, an average saving of £750 per person. Lenders and debt collection agencies we interviewed also reported benefits from following best practice. By comparison, our modelling, based on a survey of debt advice clients, estimates that intimidating actions and additional charges were 15%–29% more likely to make debts harder to manage and increase levels of anxiety or depression (paragraphs 4.3 to 4.5).

14 **Government lags behind the retail lending sector in following good debt management practice.** Departments, agencies and local authorities are responsible for their own approaches to debt management. We found examples of good practice, but it is not adopted consistently. For example, established best practice in how to assess the affordability of repayments, promoted by MAS, is used by only 19% of local authorities and is not used as standard by government departments. Research in 2016 found that government bodies' debt management standards are considered by debt advisers to be frequently worse than other types of creditor. Debt advice clients' perceptions of whether they are treated fairly also lag behind retail lenders (paragraphs 4.6 to 4.8). We identified two particular areas that stakeholders highlighted as affecting the adoption of good practice:

- **A lack of data-sharing.** Because of IT systems and legal barriers to data-sharing, government cannot identify individuals who owe money to different departments, and in one department different debts within the same department. This risks poor value for money as there is nothing to prevent debt teams competing for repayments from the same person. The Cabinet Office is leading a pilot to identify a segment of debtors who owe money to more than one government organisation through the Digital Economy Act 2017, to support the case for more data-sharing to prevent debt (paragraphs 4.10 to 4.12).

- **Short-term incentives and funding pressures.** Our analysis of debt charity data found that people report more problems with debts owed to government as the fiscal year progresses, a pattern not observed with private sector debts. A number of stakeholders we interviewed considered that this could be affected by performance metrics (for example, in-year collection targets and league tables) and funding pressures at a local level creating incentives to pursue debts more quickly and aggressively than is best practice (paragraphs 4.13 and 4.14).

15 **The Cabinet Office's work to improve debt management across government is constrained by a lack of powers and gaps in participation at senior and local levels**. The Cabinet Office is responsible for promoting good debt management practice across central government. It created a forum in 2016 to examine government's practices and make recommendations to improve them, and in 2017 developed fairness principles aligned with established best practice. Group members consider that it has improved coordination of approaches. However, it does not monitor whether its recommendations are adopted. Furthermore, the group has no executive powers, direct involvement from senior officials (who provide oversight through a separate cross-government group) or representation from local government (paragraphs 4.15 to 4.18).

16 **HMT is developing proposals to strengthen statutory protections for those struggling with problem debts**. It is developing a proposed new scheme that would allow individuals with unmanageable debt to enter statutory protections from action by creditors and access a statutory debt repayment plan. Success will depend on the extent to which the new protections are used and the impact they have on outcomes, which HMT recognises it will need to consider when designing the scheme (paragraphs 4.22 and 4.23).

17 **There is a shortfall in the amount of debt advice available to support over-indebted people**. MAS spends £48 million a year on directly commissioning debt advice, funded by a levy on financial services firms. Other organisations and individuals voluntarily provide an estimated £148 million of further funding directly to debt advice bodies. MAS commissioned an independent review which published in 2018 and found that 600,000 over-indebted individuals were unable to access advice, and that capacity would need to increase by 50% within two years to satisfy demand (paragraphs 4.20 and 4.21).

Conclusion on value for money

18 HMT is taking a thoughtful and well-intentioned approach to excessive indebtedness. It recognises that this has significant damaging effects in terms of public and economic costs, as well as on individuals, although these are not quantified. The effort to provide support across multiple government actors has become more coherent in recent years.

19 However, the problem has not stood still. Utility providers and the public sector have emerged as major components of debt problems. The information available in these areas is, disappointingly, much less coherent or transparent than commercial debt information. There are also crucial areas, such as debt collection, where public oversight lacks impact. While recognising the positives, we conclude that HMT cannot promote improvement in the management of excessive debt as effectively as possible across a wide network without fixing the weak links. This leads us to assess that there is further to go before value for money is secured.

Recommendations

20 HMT should:

a Develop an accountability mechanism to ensure that government's policies on personal debt and related areas are delivered effectively and coherently. It could learn from examples such as the Department for Business, Energy & Industrial Strategy's Consumer Protection Partnership, which has improved coordination in a policy area facing similar challenges.

b Work with other parts of government to improve the quality and availability of data on the scale, nature and impact of personal problem debt.

c Set clear aims and performance measures for its policies, including the impact of the new statutory protections it is currently developing. It should consider how to measure the influence that government interventions have had on outcomes for over-indebted people.

d Work with Cabinet Office and others in government to examine fully whether government bodies have incentives to prioritise in-year debt collection over better collection overall, and consider how best to correct for any perverse incentives where appropriate.

21 Departments, led and supported by Cabinet Office, should:

e Ensure the Cabinet Office's cross-government work on debt management has the mandate and levers to prompt better practices in central and local government.

f Continue to explore how to improve data-sharing within government, to help tailor debt management approaches to debtors' circumstances, and avoid different parts of government competing with each other.

Part One

Problem debt

1.1 Over-indebtedness, or problem debt, is when someone becomes unable to pay their debts or other household bills. It can be detrimental to people's wellbeing, for example requiring them to move house or leading to mental health problems (**Case study 1**). Where these effects involve the use of government services, such as state-subsidised housing or healthcare, they present a potentially significant cost to the taxpayer. They also result in costs to the wider economy, such as lost productivity or increased crime.

Case study 1

Impact of problem debt

Problem debt has a significant impact on the individual

After re-mortgaging her house, Lisa could not keep up with repayments and fell into arrears. She faced having her house repossessed, and felt hopeless and desperate about her situation. This led to depression, which in turn led her to become both bulimic and suicidal. Due to her illness, she started to neglect her children. She ensured they wore clean clothes and were fed, but was not capable of anything else.

Source: Legal Services Research Centre, *Assessing the Impact of Advice for People with Debt Problems*, 2007

1.2 The Money Advice Service (MAS) estimated in 2017 that 8.3 million people in the UK are over-indebted, and its latest data indicate that 22% of UK adults have less than £100 in savings, making them highly vulnerable to a financial shock such as job loss or large unexpected bills. The ratio of unsecured debt to household income has been increasing since 2014.

1.3 HM Treasury (HMT) has overall policy responsibility for personal debt, and has high-level objectives in two areas:

- **Preventing problem debt from occurring**. HMT aims to help people manage their money by improving their financial capability, and coordinates government's work to ensure people can access useful and affordable financial services. The Financial Conduct Authority (FCA) regulates retail lending (including consumer credit and mortgages), and MAS coordinates the UK's financial capability strategy, which covers a large number of other bodies. HMT has oversight of both organisations.
- **Minimising the impact of problem debt**, by providing support to those who become over-indebted. MAS commissions free debt advice from the third sector. The FCA regulates debt collection among retail lenders and debt collection agencies, as well as debt advice organisations.

1.4 Other parts of government also play a significant role in meeting HMT's objectives, and their policies and interventions are interrelated (**Figure 1** on pages 14 and 15). This makes delivering HMT's policy objectives challenging, requiring a coordinated approach to ensure that the actions or policies of one part of government do not negatively affect the work of another. In particular:

- the Department for Work & Pensions shares some responsibilities for financial capability and financial inclusion with HMT. It will be the lead sponsor of a new financial guidance body from January 2019;
- government policy decisions can impact on people's financial and debt situation, for example where they affect benefits or the affordability of utilities; and
- government itself is a significant source of personal debt, such as benefit overpayments or council tax arrears, and therefore has an important role in managing the impact of over-indebtedness. The Cabinet Office leads the government's work to improve debt management practices in government.

Figure 1
Roles and responsibilities for over-indebtedness

Activities related to problem debt are spread across government

HM Treasury – Overall policy responsibility for personal indebtedness. Lead responsibility in government for financial capability and financial inclusion. Also responsible for wider financial services policy, including financial services regulation and financial stability.

Consumer credit and mortgages	Utilities and private rent arrears	Debts to government

Department for Work & Pensions – Joint lead (with HM Treasury) of the Financial Inclusion Policy Forum. Will sponsor new single financial guidance body from autumn 2018. Provides personal budgeting support as part of Universal Credit.

Money Advice Service – provides publicly-funded financial guidance and coordinates the cross-government financial capability strategy. It will be replaced along with two pensions guidance bodies by a new **single financial guidance body**, which will be established in autumn 2018 and is expected to begin its new role in January 2019.

Local authorities – some local authorities run initiatives to promote and improve financial capability in their areas.

Financial Conduct Authority – regulates the UK's financial services industry, including consumer credit markets. Among other things, it requires firms to lend responsibly to minimise problem debt.

Sector regulators – set expectations on regulated sectors to consider affordability for customers and, where appropriate, offer discounts or other support.

Department for Education – financial literacy education became part of the national curriculum for the first time in September 2014.

Department for Digital, Culture, Media & Sport – £55 million of funding from dormant accounts for financial inclusion initiatives, to increase the use of fair, affordable and appropriate financial products and services for those on lower incomes.

- Overall policy responsibility
- Organisations with a role in preventing people becoming over-indebted
- Organisations with a role in responding when people become over-indebted

Figure 1 *continued*
Roles and responsibilities for over-indebtedness

Consumer credit and mortgages

Financial Conduct Authority – supervises standards around fair treatment of consumer credit and mortgage customers, and the collection and purchase of consumer credit debts.

Utilities and private rent arrears

Sector regulators – set expectations on suppliers to take reasonable steps to ascertain a customer's ability to repay debts and take this into account in repayment plans.

Debts to government

Creditor departments, agencies and local authorities – collect arrears from individuals and have their own debt collection policies.

Cabinet Office – coordinates improvements to debt management practices in central government.

Ministry of Housing, Communities & Local Government – publishes guidance to local government on collecting council tax arrears.

Money Advice Service – Commissions debt advice and support to those struggling with problem debt, from debt charities including Citizens Advice, StepChange and the Money Advice Trust.

Insolvency Service – Supports those in financial distress, tackles financial wrongdoing and aims to maximise returns to creditors in cases of insolvency and bankruptcy.

Ombudsman services – Organisations that can resolve debt-related disputes between consumers and businesses, such as the Financial Ombudsman Service.

Ministry of Justice – Responsible for minimum standards for bailiffs and enforcement agents involved in taking goods from people who owe others money. Also sets out considerations for local councils as creditors.

- Overall policy responsibility
- Organisations with a role in preventing people becoming over-indebted
- Organisations with a role in responding when people become over-indebted

Note

1 Not all of the organisations in this chart are in scope of our report, but they are included here as part of the overall landscape.

Source: National Audit Office literature review and interviews with public bodies and other stakeholders

Scope of this report

1.5 We have previously reported on specific areas relating to personal debt, but have not examined government's overall approach or how the interdependencies between policy and delivery areas are managed. Previous reports have looked at regulating consumer credit,[1] helping consumers to manage their money,[2] managing debt owed to central government[3] and vulnerable consumers in regulated industries.[4] Public bodies have taken positive steps in response to recommendations in these areas, including developing a new regulatory regime for consumer credit markets, and introducing a common definition of debt and principles for debt management across government.

1.6 This report aims to evaluate and conclude on HMT's overall approach to over-indebtedness, and how well it brings together government's and other stakeholders' various activities and interventions to meet its objectives. In particular, the report examines:

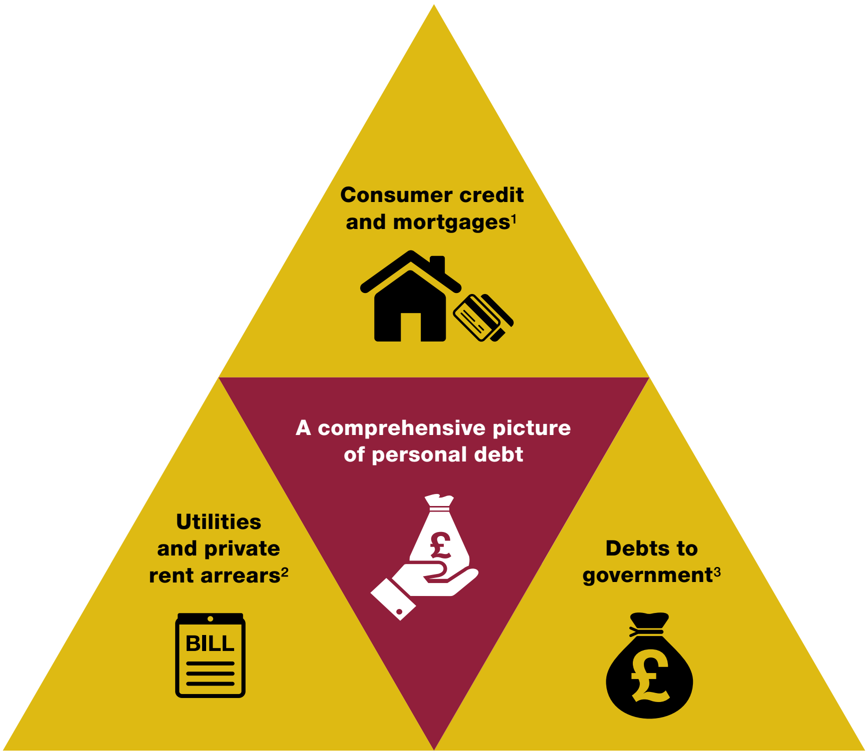
- whether HMT has appropriate mechanisms to identify the scale and nature of the problem it is seeking to address and organise government's response (Part Two);
- evidence on the effectiveness and coordination of government actions to prevent problem debt through improving people's financial capability and regulating consumer credit lending (Part Three); and
- the extent to which government as a whole adopts best practice in managing its own debtors, and supports over-indebted people more generally through debt advice and other protections (Part Four).

1.7 We considered personal debt within three broad categories: consumer credit and mortgages; utilities and private rent arrears; and debts to government (**Figure 2**). This is because, while people can struggle with debts to multiple organisations at the same time, government oversight and intervention differs between the three categories.

1 Comptroller and Auditor General, *Office of Fair Trading: regulating consumer credit*, Session 2012-13, HC 685, National Audit Office, December 2012.
2 Comptroller and Auditor General, *Helping consumers to manage their money*, Session 2013-14, HC 879, National Audit Office, December 2013.
3 Comptroller and Auditor General, *Managing debt owed to central government*, Session 2013-14, HC 967, National Audit Office, February 2014.
4 Comptroller and Auditor General, *Vulnerable consumers in regulated industries*, Session 2016-17, HC 1061, National Audit Office, March 2017.

Figure 2
Types of personal debt

We considered personal debt within three broad categories



Notes

1 For example: mortgages; credit cards; overdrafts; personal loans; car finance.

2 For example: arrears on utility bills or rent to private landlords and housing associations.

3 For example: arrears on council tax, income tax or rent to local authorities; benefit overpayments.

Source: National Audit Office analysis

Part Two

Identifying the problem and coordinating the approach to over-indebtedness

2.1 HM Treasury (HMT) relies on many other bodies to meet its objectives on problem debt. To ensure that the various organisations target their work and policy development effectively, HMT and others in government need a shared understanding of where problems are occurring and how to coordinate their respective interventions effectively.

2.2 This part examines:

- the accountability arrangements for ensuring a coordinated approach to over-indebtedness; and
- the information that government has on the scale and nature of problem debt across the economy, and the impact on public services of people becoming over-indebted.

Accountability for problem debt

2.3 HMT recognises that government needs a coordinated approach to tackling problem debt. It has identified, and works closely with, the key partner organisations across government and the private and third sectors that are necessary to deliver its objectives or that have related responsibilities. It exerts influence through a range of formal and informal relationships, including sitting on a number of boards and groups that cover issues such as financial capability and debt advice.

2.4 However, there are weaknesses in HMT's overall accountability arrangements for ensuring that interventions are delivered effectively and coherently across government to meet its objectives. We reviewed HMT's approach against the key features of accountability frameworks set out in our 2016 report on accountability, and found weaknesses in three of the four areas (**Figure 3**). While HMT has clearly articulated its overall policy aims and assigned responsibilities, it does not have any formal mechanism or forum to bring issues together in a coherent way, ensure common understanding of priorities, or collectively hold delivery partners to account. It has also not articulated overall spending commitments, detailed aims or the outcomes it is seeking to achieve, or what data it will use to assess performance. The government previously had a formal over-indebtedness strategy, but HMT did not continue this when it took on policy responsibility in 2013.

Figure 3
Four key features of accountability

We found weaknesses in three of the four areas

HM Treasury's arrangements – Essentials of accountability

A clear expression of spending commitments and objectives

HM Treasury (HMT) has set high-level objectives to provide financial guidance, support those facing debt problems, and coordinate cross-government work on financial inclusion. However, it has not articulated detailed aims and the outcomes it is seeking to achieve. It has also not articulated overall spending commitments.

A mechanism or forum to hold to account

HMT works with its partners through a range of formal and informal relationships, and multiple boards and other groups covering aspects such as financial capability or debt advice. It does not have any formal mechanism or forum to bring the issues together in a coherent way, ensure common understanding of priorities, and collectively hold delivery partners to account. The government previously had a formal over-indebtedness strategy, but HMT did not continue this when it took on policy responsibility in 2013.

Clear roles and someone to hold to account

HMT has clearly articulated its overall policy responsibility for problem debt, and its lead responsibility in government for financial capability and financial inclusion. We found this to be consistent with the understanding of other departments, agencies and regulators.

Robust performance and cost data

HMT monitors indicators of over-indebtedness, and some specific areas such as debt advice. However, it does not have data to assess the effectiveness of government's interventions, and does not know how much government spends on those interventions. It therefore cannot know what actions represent good value for money, or whether value could be improved by, for example, putting more resource into particularly effective areas.

Identified areas of weakness

No identified areas of weakness

Note

1 The four features are taken from our report on accountability: Comptroller and Auditor General, *Accountability to Parliament for taxpayers' money*, Session 2015-16, HC 849, National Audit Office, February 2016.

Source: National Audit Office analysis

Understanding the scale and impact of the problem

Identifying the scale and nature of problem debt

2.5 HMT needs data on the scale and nature of problem debt to understand where there are risks. For example, it needs to understand whether over-indebtedness poses risks to public finances or the likely demands on government-funded debt advice, to ensure that interventions are appropriately targeted. We examined the availability and quality of data on debts in different sectors, and on the overall scale of the problem. The Money Advice Service (MAS), debt charities and others produce good data and analysis on the people struggling with problem debt, and the issues they are reporting. HMT has limited scope to influence decisions on what data to collect on debts in different sectors, as these are the responsibility of different departments and regulators.

2.6 Government has good insight into retail lending, as public bodies regularly produce detailed data and analysis on consumer credit and mortgages to inform their monitoring of financial stability risks. Examples include the Bank of England's monthly statistics on lending to individuals, and the Financial Conduct Authority's (FCA's) survey of consumer experiences of financial services.

2.7 However, people increasingly report problems with debts owed to government or utility providers compared with retail lending. For example, the proportion of problems reported to Citizens Advice relating to government debts such as council tax or benefits increased from 21% to 40% between 2011-12 and 2017-18, while for utilities and rent it increased from 21% to 26% (**Figure 4**). The proportion of problems related to consumer credit reduced from 52% to 33% over the same period. The other largest debt charities, StepChange and the Money Advice Trust, also reported increasing proportions of clients with debts to government and utility providers.

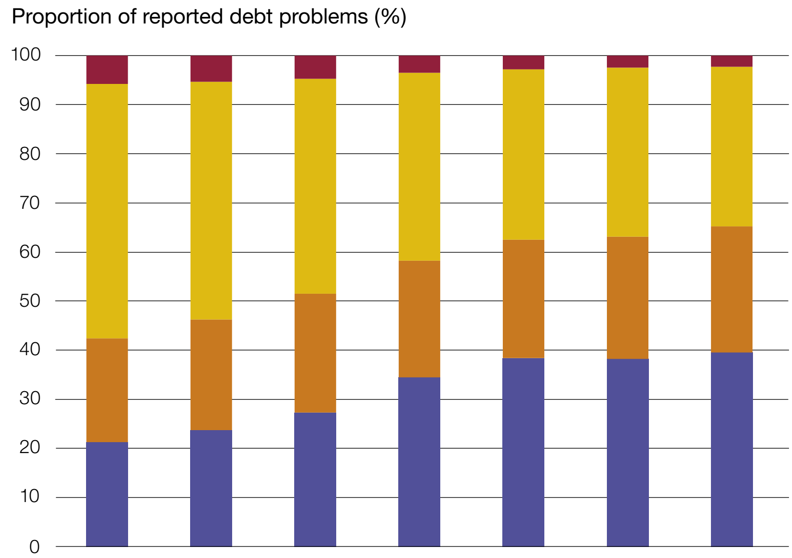
2.8 Government has less detailed insight into debts in other private and public sectors compared with consumer credit and mortgages, and it does not accurately know the overall level of outstanding personal debt. Not all departments, agencies and regulators collect data on personal debts. Of the four largest central government creditors we requested personal debt data from, two collect the data while the other two cannot disaggregate all personal debts from overall debt data (**Figure 5** on page 22).

2.9 Based on available data and research, we estimate that there is at least £18 billion of personal debt owed across a range of public and private sectors other than retail lending (**Figure 6** on page 23). This figure is not comprehensive as it only covers the main sectors for which data or estimates are available. By way of comparison, there was a balance of £15 billion of mortgage arrears in 2018, while in the consumer credit sector £2–3 billion has been written off each year since 2013-14.

Figure 4

Proportion of debt problems reported to Citizens Advice by debt type since 2011

Problems increasingly relate to debts owed to government or utility providers



	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Mortgages (%)	6	5	5	3	3	2	2
Consumer credit (%)	52	48	44	38	35	34	33
Utilities and private rent (%)	21	23	24	24	24	25	26
Debts to government (%)	21	24	27	35	38	38	40

Note

1 Amounts do not all total to 100% due to rounding.

Source: National Audit Office analysis of Citizens Advice data

Figure 5

Debt data and analysis in different sectors

Government has less detailed insight into personal debts in other sectors compared with retail lending

Consumer credit and mortgages

The Financial Conduct Authority and Bank of England publish regular in-depth data and analysis on retail lending. Below are particular examples.

Bank of England:

- Financial Stability Reports on the UK financial system, including analysis of risks posed by mortgage and consumer credit debts.
- Monthly statistics on lending to individuals, including breakdowns by type of lender and product. This includes credit cards, overdrafts and personal loans.
- Research papers investigating the impact of distressed personal debt on the UK economy.

Financial Conduct Authority:

- The Financial Lives survey, which examines consumer experiences of financial products and services.
- Market studies, for example on credit cards, with analysis of consumers in potential problem debt.
- Research papers, for example exploring the prevalence of financial distress and how this is related to consumer credit use.

Utilities and private rent arrears

Departments and regulators do not collect or publish data on a consistent basis, reflecting the different ways that these data are or would be used.

We found the following:

- Energy sector: Personal debt data published every year as part of Ofgem's Vulnerable Consumers in the Energy Market reports.
- Water sector: Personal debt data only published occasionally by Ofwat.
- Telecoms sectors: No financial data on debts published. Ofcom publishes survey data on affordability, including estimates of numbers of people in arrears.
- Private rent: No data on arrears owed to private landlords or housing associations. National survey data estimates numbers of people in rent arrears.

Debts to government

Some departments maintain detailed debt data, but do not always publish it. Others are unable to separate out debts owed by individuals from debts owed by organisations.

We found the following:

- The Ministry of Housing, Communities & Local Government publishes detailed financial data from local authorities every year, including council tax and rent arrears, although this does not cover the number of people owing money.
- The Department for Work & Pensions maintains personal data relating to benefit overpayments, advances and Social Fund loans, and publishes amounts in its annual accounts.
- The Legal Aid Agency maintains, but does not publish, detailed data on personal debts owed to it.
- HM Revenue & Customs maintains debt data on tax credits and self-assessed income tax, both held by individuals, and publishes amounts in its annual accounts. It does not have data on other personal debts owed to it, because it does not disaggregate its data between individuals and organisations.
- HM Courts & Tribunals Service does not have data on personal debts owed to it, because it does not disaggregate its data between individuals and organisations.

Source: National Audit Office review of published material and other information provided by Cabinet Office and Citizens Advice

Figure 6
Estimates of debts owed to government and utility providers

At least £18 billion of personal debt is owed to government and utility providers

Debt type	Debt	Estimated total (£m)		Source
Government	Benefit overpayments and advances	2,589		DWP 2017-18 accounts
Government	Social Fund loans	577		DWP 2017-18 accounts
Government	Tax Credit overpayments[2]	7,158		HMRC and DWP 2017-18 accounts
Government	Council tax arrears	3,022		2017-18 data published by MHCLG
Government	Rent arrears to local authorities	336		2016-17 data published by MHCLG
	Subtotal: Government		**13,682**	
Utilities and rent	Energy arrears	1,065		2017 data published by Ofgem
Utilities and rent	Water arrears	2,200		Ofwat's 2014-15 affordability report
Utilities and rent	Telecoms and pay tv arrears	135		Citizens Advice estimates for 2016-17[1]
Utilities and rent	Rent arrears to private landlords and housing associations	974		Citizens Advice estimates for 2016-17[1]
	Subtotal: Utilities and rent		**4,374**	
	Total		**18,056**	

Notes

1 Citizens Advice's estimates are taken from its 2018 publication Hidden Debts (pages 23 to 26), and are based on survey data of the estimated number of people or households in debt multiplied by estimated average debts. As estimates, they are subject to a high level of uncertainty, but are included here for illustrative purposes.

2 HMRC also holds data on debts arising from self-assessed income taxes. These are held by individuals, but a large proportion will relate to business and trading activity, and so we have not included them in the above figures.

3 DWP is the Department for Work & Pensions; HMRC is HM Revenue & Customs; MHCLG is the Ministry of Housing, Communities & Local Government.

4 Not all lines in the table cover the whole of the UK. Some cover only England, England and Wales, or Great Britain, depending on the remit of the relevant departments and regulators.

Source: National Audit Office analysis

Understanding the impact of over-indebtedness on public services

2.10 Problem debt presents a cost to the taxpayer through the additional support and public services required by over-indebted individuals. The cost and impacts are affected by a range of factors, such as economic conditions or access to benefits or other finance, and occur across a range of public services from health to housing. Policy decisions in one part of government, for example on benefit payments, can therefore affect costs in another. Understanding these interactions and costs is important for policymakers across government in considering the impact of policy design on over-indebtedness.

2.11 HMT has no estimate of the cost or impact of over-indebtedness on the public purse or the wider economy.[5] Estimating the impact on public services and the economy is complex, and there are gaps in the data. However, we used national survey data to model the effect that being in problem debt has on various outcomes for people, including mental health, state-subsidised housing, employment and benefits. Where we were able to identify a direct impact, we used published research and administrative data to estimate the cost (for example, the propensity of people with mental health problems to seek treatment, and the average cost of that treatment). Our methodological approach to modelling the causal effect of problem debt is briefly set out in Appendix Two.

2.12 Our modelling estimates that the direct effect of problem debt on an individual's likelihood to experience anxiety or depression or be in state-subsidised housing results in an additional cost to the taxpayer of at least £248 million a year (**Figure 7**). Considering wider costs to the economy as a whole, the estimate increases to around £900 million. Our modelling also indicated that the effect, and therefore the cost, is increasing over time. We were unable to model other effects due to gaps in the data available.

5 MAS has estimated the economic benefits of debt advice, in the form of costs to the economy that would have been incurred without this advice (Europe Economics, *The Economic Impact of Debt Advice*, 2018), but there is no estimate of the residual costs actually incurred.

Figure 7
Modelling the effects of problem debt

Problem debt increases the likelihood of mental health problems and use of state-subsidised housing

Modelled effect of being in problem debt	Increased likelihood[1]	Estimated number of people this translates to[2]	Estimated annual taxpayer costs identified[3]	Estimated annual cost to the overall UK economy[4]
Model 1: More likely to experience anxiety or depression	7.76%	81,000	£24 million Cost to health services, based on estimate that 39% of those with common mental health disorders seek treatment	£900 million Based on academic estimates of the economic costs of anxiety and depression, including use of various public services, informal care, and lost employment
Model 2: More likely to move into, or remain in, state-subsidised housing	2.85%	23,000	£224 million Comprises cost of maintaining and administering state-subsidised housing (£83 million) and opportunity cost from not charging market rates to private renters (£141 million)	N/A State-subsidised housing is considered economically beneficial by addressing other problems
Total estimated financial impact in these areas			**£248 million**	**£900 million**

Notes

1 Our results give confidence over the direction and overall scale of the modelled effects, but the exact numbers are uncertain. The modelled likelihoods are statistically significant with a high level of precision (99% confidence at ±2%). However, there are additional uncertainties, in particular arising from the fact that survey respondents often under-report on issues such as debt, potential inaccuracies in extrapolating to the full population, and biases in how we control for un-measured factors. These uncertainties cannot be quantified, but they are all expected to bias our estimate lower, which is in keeping with our conservative approach to estimating the effects.

2 Rounded estimates based on the 2017 UK working-age population.

3 There are likely to also be other taxpayer costs not calculated. For example, costs of treating mental health disorders can include social care services as well as health services. The full cost of state-subsidised housing will also include construction costs and some private rents paid for by local authorities, but no data were available to produce an estimate of these.

4 Costs to the overall economy will include direct costs to the taxpayer as well as wider costs.

5 In addition to these identified effects, our modelling also indicated a direct correlation between problem debt and employment and benefits that is dynamic and varies over time, but the longitudinal survey data are not collected frequently enough to be able to analyse the true nature of this correlation, or establish causation. We did not attempt to model other effects.

6 Our methodological approach to producing these estimates and establishing the causal effect of problem debt, including all data sources used, is set out in Appendix Two.

Source: National Audit Office modelling and analysis

Part Three

Preventing over-indebtedness

3.1 HM Treasury's (HMT's) objectives for preventing over-indebtedness fall into two categories: helping people to manage their own finances by improving their financial capability, and ensuring responsible lending that considers what consumers can afford.

3.2 This part examines:

- the Money Advice Service's (MAS's) performance in raising financial capability; and
- the Financial Conduct Authority's (FCA's) progress in improving responsible lending to consumers.

Improving financial capability

3.3 Financial capability – the ability of people to make financial decisions and manage their money – reduces the incidence and level of over-indebtedness.[6] Research has also found that people struggling with basic numeracy are less likely to save money and more likely to fall behind with their bills.[7]

3.4 HMT has overall policy responsibility for improving financial capability, and works through MAS, which has set aims to improve access to guidance, widen and improve financial education and ensure that more people budget and save. Various other parts of government also undertake activities to meet these aims (**Figure 8**). There are also many non-government organisations that work to improve financial capability, including local and national charities that support specific sections of the population such as young people or pensioners, and private firms that offer budgeting and other support to their customers.

3.5 Indicators of financial capability in the UK are low. MAS monitors financial capability based on various measures, and estimates that 4 in 10 people do not meet the thresholds for managing their money well day to day. Since 2005, it has tracked indicators of financial capability, last reporting in 2015. Of the five indicators measured consistently over that time period, four deteriorated, particularly in relation to financial skills and knowledge, while one has slightly improved (**Figure 9**). The Organisation for Economic Cooperation and Development (OECD) measures financial capability internationally. In a recent study, it found that UK scores were below average, compared with other OECD countries, primarily due to lower financial knowledge (**Figure 10** on page 28).

6 Europe Economics, *The Economic Impact of Improved Financial Capability*, November 2016.
7 Money Advice Service, *Numeracy and financial capability – exploring the link*, 2017.

Figure 8
Key government activities for improving people's financial capability

Various parts of government undertake activities to improve financial capability

Public body	Role
Money Advice Service	Responsibility for enabling people to manage their money and make better financial decisions.
HM Treasury	Overall policy responsibility for financial capability.
Department for Work & Pensions	Offers budgeting support as part of Universal Credit, therefore covering a key demographic at risk of over-indebtedness.
Local authorities	Some local authorities run initiatives to promote and improve financial capability in their areas.
Department for Education	Since 2014, financial literacy education has been part of the National Curriculum in England (a devolved policy area and therefore the responsibility of the devolved administrations in the rest of the UK).

Source: National Audit Office

Figure 9
Money Advice Service indicators of financial capability in the UK

Four indicators of financial capability have deteriorated since 2005

Survey respondents report that they:	2005 (%)	2015 (%)
Know their current account balance to within at least £50	56	59
Keep up with commitments without difficulty	65	59
Can correctly read the balance on their bank statement	91	78
Understand the impact of inflation on the value of money	79	60
Prioritise providing for their future rather than spending for today	60	49

Notes

1 The Money Advice Service also uses other indicators, but does not have direct comparators between 2005 and 2015.

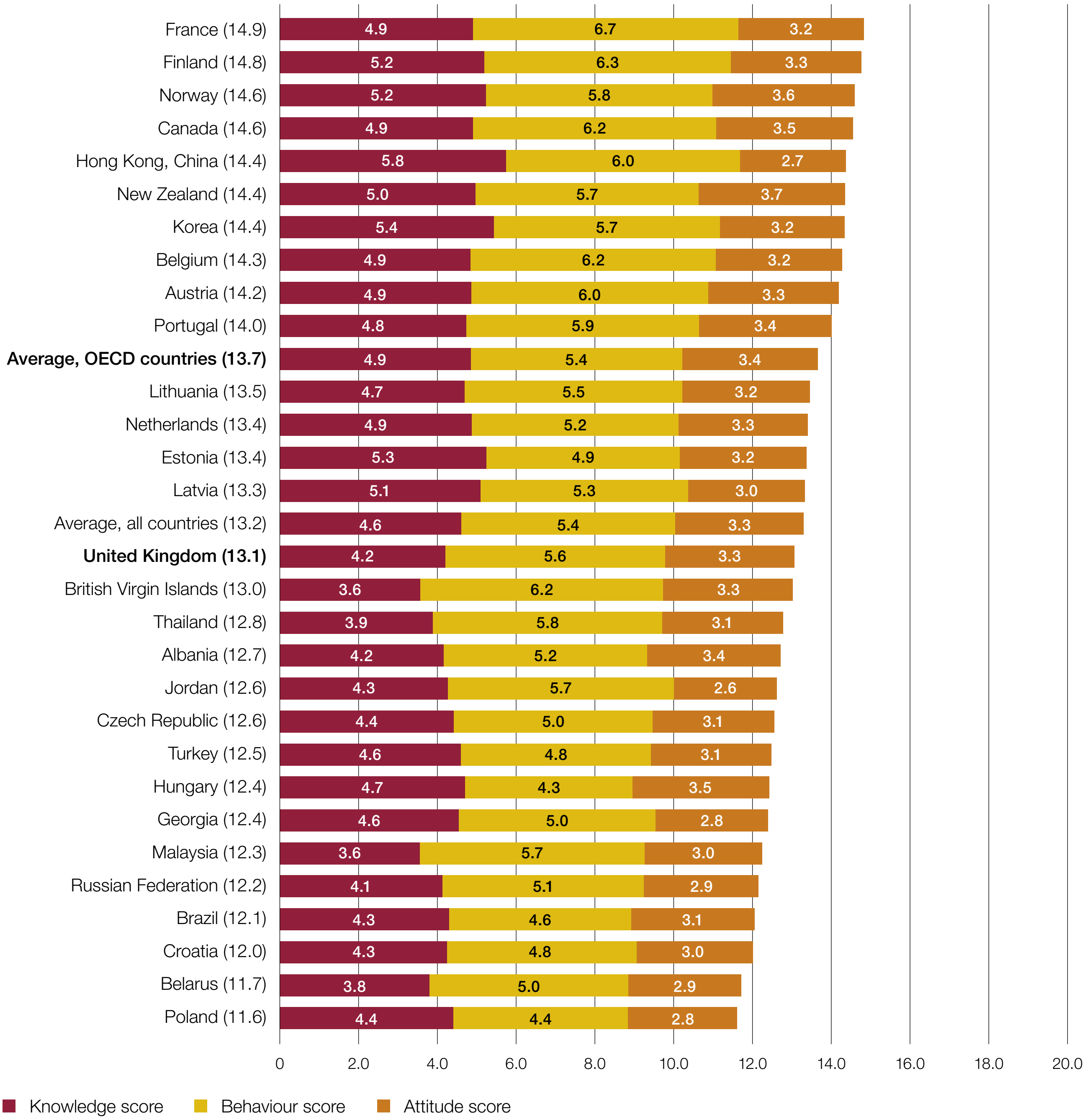
2 The 2005 survey was conducted by the former Financial Services Authority and involved face-to-face interviews with 5,328 people. The 2015 MAS survey was conducted with 3,461 people, mostly online (74%). Both surveys aim to be representative of the UK population.

3 Changes do not necessarily signify changes in financial capability alone, and may reflect increased awareness of financial matters.

Source: Money Advice Service and Financial Services Authority publications

Figure 10
International comparison of financial knowledge, attitudes and behaviours

The UK has low levels of financial knowledge when compared internationally



Note

1 In total, 30 countries and economies, including 17 Organisation for Economic Cooperation and Development (OECD) countries, participated in the survey. The average scores for all countries and OECD countries involved are not weighted, but are a simple mean average of the scores for the relevant countries.

Source: Organisation for Economic Cooperation and Development, *OECD/INFE International Survey of Adult Financial Literacy Competencies*, October 2016

3.6 Since 2015, MAS has led a long-term financial capability strategy to bring together different interested parties, and to improve understanding of what types of intervention work and roll these out across the UK. MAS recognises that to achieve the strategy's aims, it will need long-term and significant buy-in from relevant parts of government and the private and voluntary sectors.

3.7 While the financial capability strategy has improved coordination, government organisations' participation is optional. For example, the Department for Education (DfE) is not represented on the strategy board, or its steering groups for children and young people or young adults. Both DfE and MAS recognised this as a gap they intend to address.

3.8 MAS does not yet know what impact its financial capability strategy is having. It has made good progress in evaluating evidence on the effectiveness of 58 individual interventions made by various organisations, and is in the process of making these evaluations available to help others understand what works. To date, MAS has not evaluated the progress of the overall strategy in terms of the impact it is having, although in 2017 its board published a progress report and it has now appointed an independent evaluator.

The new single financial guidance body

3.9 The Financial Guidance and Claims Act 2018 introduces a new single financial guidance body, which will replace MAS and two pensions guidance services with a single provider of impartial financial guidance and debt advice. The new body will have more formal statutory responsibilities to coordinate financial capability activities across government. The Department for Work & Pensions will sponsor the new body, and use a formal memorandum of understanding with HMT to oversee how the body supports the two departments' objectives in a joined-up way. The departments will establish the new body in autumn 2018, and expect it to begin its new role from January 2019.

3.10 The government intends for the changes to prompt a more robust approach to improving financial capability in the UK, through increased partnership working and better public awareness over time. However, the new body will not have additional powers to coordinate financial capability activities across government, or to influence the government organisations responsible for some of the underlying factors relating to problem debt.

Ensuring affordable services and responsible lending

3.11 Many people, including the poorest in society, will struggle to afford services regardless of how well they manage their money. Government therefore seeks to prevent people getting over-indebted by ensuring that service providers consider what their customers can afford. For example, sector regulators in areas such as water, energy or financial services set rules, principles or other expectations on how the companies they regulate deal with affordability for customers struggling to pay. We examined this in our report on vulnerable consumers.[8]

8 Comptroller and Auditor General, *Vulnerable consumers in regulated industries*, Session 2016-17, HC 1061, National Audit Office, March 2017.

Responsible lending in consumer credit

3.12 Affordability is a particular concern in unsecured consumer credit, where debt levels can escalate quickly due to high interest rates. We therefore reviewed evidence on responsible lending in the consumer credit sector. HMT is responsible for financial services policy, including regulation. The FCA has regulated consumer credit since 2014, for which it is accountable both to HMT and directly to Parliament. It aims to oversee a sustainable credit market that gives consumers access to the services they need, while protecting them from harmful practices. Within this, it has focused on protecting vulnerable consumers from excessive charges and unaffordable debts where bad practice can be particularly harmful (**Case study 2**). Regulated firms are required to treat their customers fairly, including ensuring that credit is lent to people responsibly.

Case study 2
Impact of irresponsible lending

Irresponsible lending can contribute to problem debt

Temi has debts of £22,000 and suffers from significant mental health breakdowns. During these periods, he knows he is vulnerable to taking on extra debt. Knowing that he could not afford further credit, he asked his home credit provider not to lend to him again. However, during Temi's most recent breakdown his home credit lender allowed him to take out another loan. He is now facing bankruptcy.

Source: Citizens Advice, *Doorway to debt: protecting consumers in the home credit market*, 2018

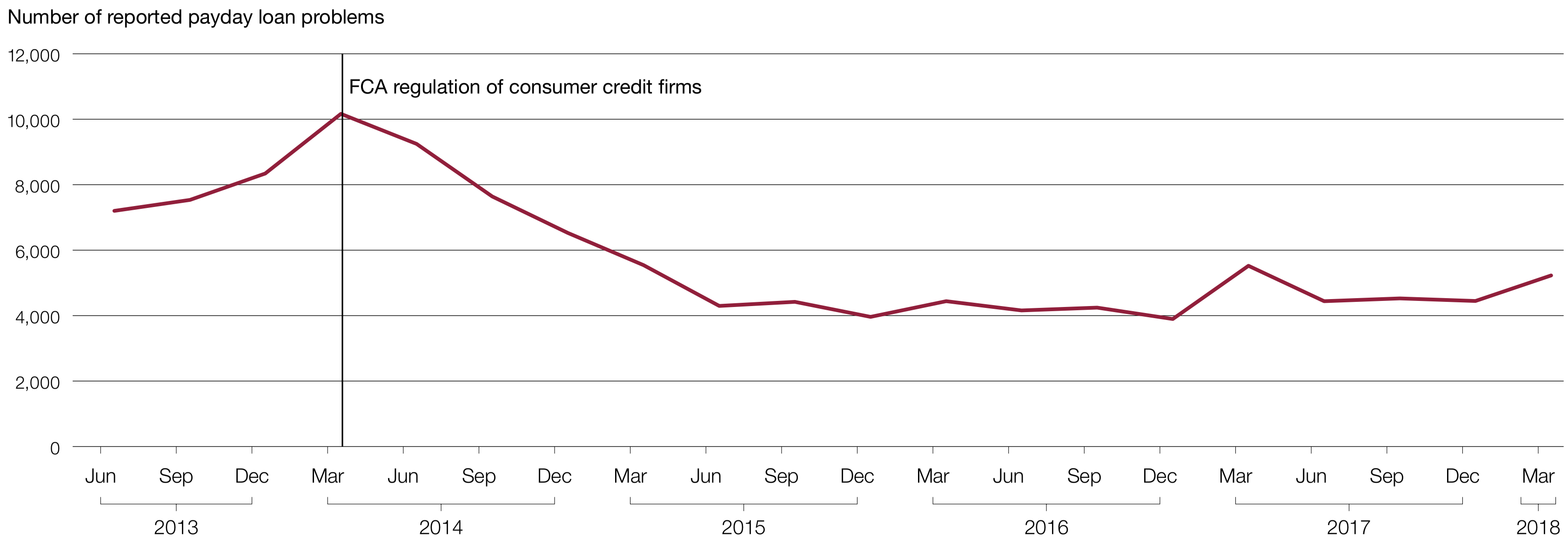
3.13 Since 2014, the FCA has authorised 43,000 firms with permissions to operate in the consumer credit sector, some of which have since left the market or had their permissions revoked. There are now around 38,000 firms with permissions, around 5,000 of which are lenders while the rest include credit brokers, debt advisers and debt purchasers. The FCA's regulatory approach since 2014 has required lenders to be more rigorous in conducting affordability checks, and debt charities reported to us that lending standards within the consumer credit industry have improved.

3.14 As part of its work on consumer credit, the FCA has taken specific action in areas of particularly high detriment, such as short-term high-cost credit (including payday loans). The number of problems with payday loans reported to Citizens Advice quickly fell after the FCA began regulating the sector in 2014, reducing by 61% by the start of 2016 (**Figure 11**). StepChange Debt Charity saw a similar but smaller drop in the same period. The FCA also introduced a price cap on short-term high-cost credit in 2015, which required that no borrower would pay back more than twice what they borrowed, alongside other restrictions. In reviewing the price cap's impact, the FCA found that fees and charges on a typical payday loan reduced from more than £100 to around £60, which the FCA estimates saves borrowers £150 million per year.

Figure 11

Consumer problems with payday loans reported to Citizens Advice

Citizens Advice has seen a decline in the number of reported problems with payday loans



National Audit Office analysis of Citizens Advice data

3.15 The FCA recognises that it has more to do to tackle persistent and unsustainable debt, and it plans further action to improve responsible lending. In particular, the FCA has done the following:

- Introduced new rules and guidance to take effect from September 2018 to help customers in persistent credit card debt to repay over a reasonable period, if they can afford to. Firms are also required to intervene earlier to identify customers at risk of financial difficulties. The changes were in response to concerns about the scale and nature of problem credit card debt and firms' lack of incentives to reduce this detriment.
- Introduced changes to its rules and guidance on assessing creditworthiness in consumer credit to clarify its expectations. The changes include a new definition of affordability risk, requiring firms to assess the risk of customers being unable to make repayments, including whether repayments could have a significantly adverse effect on their financial situation.
- Set out its intention to address high-cost credit as a priority in its 2018-19 business plan. It has prioritised action to address issues in rent-to-own, home-collected credit, catalogue credit and unarranged overdraft fees, none of which are covered by its price cap on short-term high-cost credit.

Part Four

Managing problem debt

4.1 HM Treasury (HMT) aims to minimise the impact of over-indebtedness. The government's performance, as well as that of retail lenders, in managing personal debts is important in achieving this aim. Cabinet Office leads a cross-government strategy to improve debt management practices in government, and the Financial Conduct Authority (FCA) regulates debt collection among retail lenders and debt collection agencies. The debt management practices that over-indebted people experience can affect their financial position and their ability to repay their debts over time (**Case study 3**).

Case study 3
Impact of poor debt management

Poor debt collection practices can contribute to problem debt

Kate has a weekly council tax bill of £2.66, and accumulated a £27 debt when she got behind on payments. Her council automatically issued a court summons and liability order, and passed the debt to bailiffs. This resulted in £390 of fees being added to the bill in just two months, multiplying the original debt by 15 times to a total of £417. Even if Kate's payments were doubled to clear the arrears – something she would struggle to afford given her weekly income of £73 – it would take 78 weeks for her to clear the original nine-week debt, all while facing the prospect of bailiff action.

Source: Citizens Advice, *Catching up: improving council tax arrears collection*, 2016

4.2 This part examines evidence on:

- the benefits of good debt management practice;
- current debt management practices in government compared with retail lenders;
- Cabinet Office work to promote good practice; and
- debt advice and other HMT initiatives to support over-indebted people.

The benefits of good debt management practice

4.3 We found that definitions of good practice in debt management are broadly aligned across the public, private and third sectors, meaning there is a common understanding of what good looks like. We identified the common key principles (**Figure 12** overleaf).

Figure 12

Good debt management practice

We identified the common key features of good practice

Good practice	Why this is considered good practice
Assessment of financial and other vulnerabilities	To identify vulnerable debtors and provide an objective understanding of their financial situation and personal circumstances.
Affordable repayment plans that account for assessed vulnerabilities	To ensure that creditors consider what the debtor can afford, as well as other relevant personal circumstances, when calculating amounts and timings of repayments.
Signposting or referring to debt advice where appropriate	To provide over-indebted people with the opportunity to engage with appropriate support, expertise and advice to help them through their difficult situation.
Helpful, professional communications respectful to those in financial difficulty	To help ensure that debtors clearly and promptly understand the nature of their debt as well as the repayment process.

Source: National Audit Office analysis

4.4 Evidence shows that adopting good practice both benefits individuals and boosts collection rates:

- Research in 2014 estimated that support provided by StepChange Debt Charity, including affordable repayments and advice tailored to individuals' circumstances, saved creditors £82 million in one year from around 110,000 over-indebted clients (in the form of higher collection rates and reduced costs).[9] This is an average saving of £750 per person.

- The Credit Services Association (CSA), which represents around 90% of debt collection agencies, told us that new regulatory approaches introduced by the FCA contributed to better collection practices emphasising treating customers fairly and assessing affordability. Amounts collected by its members increased by 10% from £2.0 billion in 2016 to £2.2 billion in 2017, despite being from a smaller overall pot of debt. The CSA attributes this in part, although not exclusively, to improved collection practices.

- Other lenders and debt collection agencies we interviewed reported that by better understanding what their over-indebted customers can afford, they have benefited from greater retention of customers, increased collections over time and reduced operating costs.

9 J Clifford, K Ward, R Coram, C Ross, *StepChange Debt Charity: Social Impact Evaluation of certain projects using Social Return on Investment*, 2014.

4.5 There is also evidence that aggressive debt collection, such as inappropriate use of enforcement action, can be ineffective and harmful in situations where the debtor is struggling to pay:

- We analysed StepChange survey data from 2018 to model the effects of specific debt collection practices on debt advice clients. Our modelling estimates in particular that intimidating letters, phone calls or doorstep visits lead to a 15% increase in the probability of debt problems becoming harder to manage, and a 22% increase in the probability of anxiety or depression levels rising. Similarly, added charges (for example, penalties or bailiff fees) increase the probability of debt problems becoming harder to manage by 29%, and the probability of anxiety or depression levels rising by 15%. Our methodological approach, including limitations and confidence intervals, is briefly set out in Appendix Two.
- Research by the FCA found that firms that focused on securing payment as quickly as possible, often at the expense of considering the customer's circumstances, exacerbated the customer's financial and emotional distress.
- Research undertaken by the Money Advice Trust debt charity found no correlation between a local council's use of bailiffs and its collection rate of prior years' arrears.

Current debt management practices in government

4.6 Departments, agencies and local authorities are responsible for their own debt management practices. We found specific examples of good debt management approaches. For example, Hammersmith and Fulham Council reported to us that it stopped using bailiffs for council tax collection in April 2018, except as a last resort. HM Revenue & Customs (HMRC) and the Department for Work & Pensions (DWP) have processes for identifying and supporting vulnerable customers.

4.7 However, good debt management practice is not adopted consistently across government. We found the following shortcomings:

- Government bodies do not consistently use established best practice in assessing the affordability of repayments. The Standard Financial Statement was launched by the Money Advice Service (MAS) in March 2017, and is a template used to assess someone's financial situation and design an affordable repayment plan. Only 19% of local authorities use the statement or its predecessor.[10] It is also not used as standard by government departments, which generally adopt their own processes (such as DWP's Repayment Negotiation Framework, which considers affordability for debtors who state that repayments will cause them hardship).

10 Money Advice Trust, *Stop the knock*, 2017.

- Citizens Advice research in 2016 found that government bodies' debt management standards are considered by debt advisers to be frequently worse than other types of creditor.[11] Central government creditors, in particular, ranked poorly in communicating with debtors, providing dispute resolution services and granting extra time to pay. The Treasury Select Committee also concluded in 2018 that government could make a significant difference to the burden of problem debt by bringing government debt collection practices into line with industry best practice.[12]
- The Money Advice Trust found that total bailiff referrals by local authorities in England and Wales increased by 14% between 2014-15 and 2016-17.[13] It also assessed English local authorities against five good practice criteria, and our analysis found that 74% of local authorities met fewer than three of these criteria, and only two local authorities met all five.

4.8 Those struggling with debts to government also consider that they are generally treated less fairly than by retail lenders. A 2018 survey of StepChange debt advice clients found that 35% of those behind on payments to local authorities felt they were treated unfairly, and 27%–29% for government departments. These compare with 32% for payday lenders, and 19%–24% for other retail lenders (**Figure 13**).

Figure 13

Debt advice clients' perceptions of whether they are treated fairly

Perceptions of government creditors are more negative than most retail lenders

Type of organisation	Proportion who say they were treated unfairly (%)
Bailiff	52
Local authority	35
Payday lender or short-term lender	32
Department for Work & Pensions	29
HM Revenue & Customs	27
Utilities company	25
Debt collection agency	24
Catalogue lender	24
Fee-charging debt management firm	23
High street bank	22
Credit card company	21
Mobile phone company	19
Store card lender	19

Note

1 These proportions are of debt advice clients who responded to the survey, rather than all debtors

Source: StepChange Debt Charity 2018 survey of 723 individuals

11 Citizens Advice, *The state of debt collection*, 2016.

12 HC Treasury Select Committee, *Household finances: income, saving and debt*, Nineteenth Report of Session 2017–19, HC 565, July 2018

13 See footnote 10.

Factors affecting the adoption of good practice

4.9 Our review and interviews with different stakeholders in and out of government found two common challenges in particular affecting the adoption of good practice in government. These were:

- a lack of good data to target collection activities; and
- short-term incentives that may promote bad collection practices in government.

Data-sharing problems

4.10 Good quality information allows creditors to tailor collection activities to individuals' circumstances, including financial difficulty, and therefore make the best use of their resources. The Committee of Public Accounts' 2014 report on managing debt owed to central government found that departments lacked the information nessecary to target collection activities, and recommended developing a single view of what each debtor owes to government as a whole.[14]

4.11 We found that government's approach to debt management is still constrained by a lack of robust, joined-up information. There are legal barriers to sharing personal data between organisations. Furthermore, not all departments can disaggregate all debts owed by individuals from debts owed by organisations, and HMRC is unable to provide a single debtor view of the amount owed to different parts of the department due to its IT systems. HMRC and DWP have access to tax and welfare data that could be used to understand a debtor's financial position. However, this alone does not provide a full picture, and they do not use it routinely or share it with other parts of government due to data-sharing constraints.

4.12 The Cabinet Office developed data-sharing legislation through the Digital Economy Act 2017, which includes new powers that allow specified public authorities to pilot data-sharing for specific purposes and with appropriate safeguards. The Cabinet Office is leading a pilot to identify a segment of debtors who owe debt to more than one government body. It aims to complete this and other data-sharing pilots by 2020, to support the case for better data-sharing to prevent debt or coordinate collection practices.

Funding pressures and short-term incentives

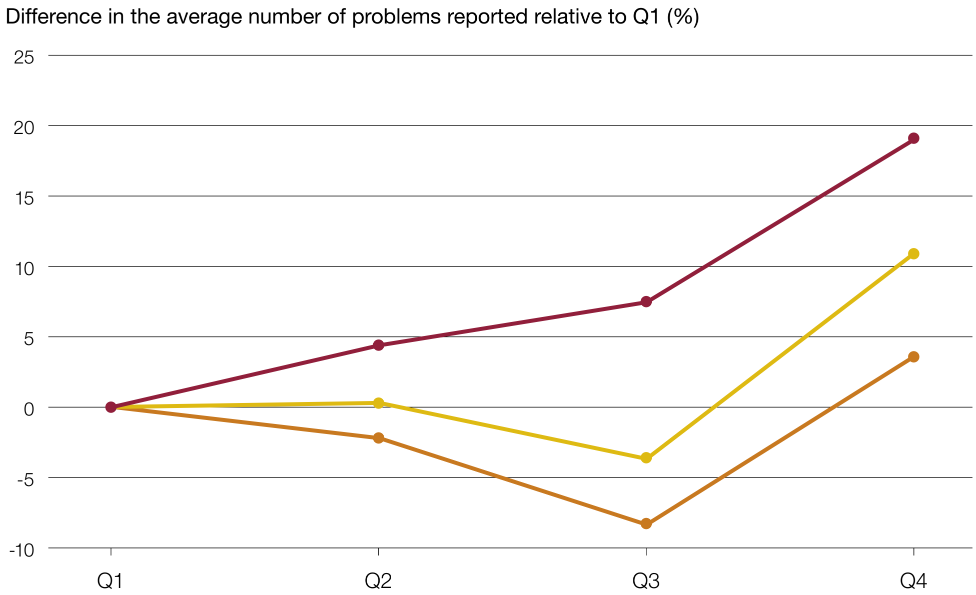
4.13 We analysed seasonal patterns in debt problems reported to Citizens Advice, and found that people report more problems with debts owed to government as the fiscal year progresses (**Figure 14** overleaf). This pattern is not observed with private sector debts, where the number drops in the third quarter (October–December) and peaks in the fourth quarter (January–March). Citizens Advice attributes the private sector pattern primarily to its local bureaus' reduced opening hours in the holiday period, leading to people seeking help in the new year instead.

14 HC Committee of Public Accounts, *Managing debt owed to central government*, Seventh Report of Session 2014-15, HC 555, July 2014.

Figure 14

Seasonality of people reporting problems to Citizens Advice by debt type

More problems are reported about government debts throughout the fiscal year (1 April to 31 March), which does not happen for private sector debts



	Q1	Q2	Q3	Q4
Debts to government (%)	0	4.4	7.5	19.0
Utilities and private rent (%)	0	0.3	-3.7	10.9
Consumer credit and mortgages (%)	0	-2.2	-8.4	3.6

Notes

1 This chart shows the percentage difference in the number of problems with each debt type reported to Citizens Advice in each quarter of the fiscal year relative to quarter 1 (April – June) levels, averaged over the four years to March 2018. More details are provided in Appendix Two.

2 Analysing central and local government separately also finds similar trends for both.

Source: National Audit Office analysis of Citizens Advice data

4.14 A number of stakeholders we interviewed considered that this could be affected by short-term incentives and local funding pressures creating a greater demand to pursue debts more quickly and aggressively than is best practice.[15] These included the following:

- performance metrics, such as in-year collection rate targets, scorecards and league tables, which prioritise amounts collected within the financial year; and
- funding reductions at a local level, which increase pressure to use enforcement action to collect debts more quickly and protect essential local services. We reported in 2018 that there had been a 49.1% real-terms reduction in government funding for local authorities since 2010-11, alongside a growth in demand for key services.[16]

15 It may also be affected by other factors, such as key points in the annual cycle for income and council taxes.

16 Comptroller and Auditor General, *Financial sustainability of local authorities*, Session 2017–2019, HC 834, March 2018.

Cabinet Office work to promote good practice in government

4.15 The Cabinet Office aims to promote good debt management practice across central government. It seeks to raise awareness of the impact of debt management practices on people in hardship, and to balance affordability with maximising collection rates. In 2016, it established a cross-government debt management strategy setting out a vision, aims and principles for debt teams in government, including providing access to private sector debt management services through the Debt Market Integrator.

4.16 This strategy is supported by the Fairness Group, a forum to examine government's debt management practices and make recommendations on how to improve them. Membership is open to debt management teams across government, as well as external parties such as debt advice bodies and debt collection agency representatives. Group members we spoke to considered that it had made progress in improving cross-government coordination in debt management. They highlighted the opportunity for different parts of the public, private and third sectors to learn from each other and work collaboratively on shared issues, such as raising awareness of debt advice and other support.

4.17 In 2017, the group developed fairness principles for debt management broadly aligned with established good practice. The Ministry of Housing, Communities & Local Government (MHCLG) has separately published good practice guidance to local councils on collecting council tax arrears. While both departments engage with relevant public bodies regarding collection activity, neither assesses performance against their best practice principles.

4.18 The impact of the Cabinet Office's cross-government strategy, including the Fairness Group, is constrained by a lack of powers and gaps in its membership:

- The group does not have executive powers to make decisions for government, and its recommendations need to be accepted and adopted individually by departments. Some group members reported that the group's aims had originally been bolder but were softened by departments. Senior officials are not directly involved in the group, but provide oversight through the cross-government Finance Leadership Group that has a sub-group focused on debt.
- Although the group is open to all parts of the public sector, it has no representation from local government, and the wider strategy does not cover local government at all.

4.19 Public bodies also need to balance financial returns and fair treatment of customers with additional legal and policy considerations. For example, DWP can deduct repayments directly from wages without a court order, although its policy is to only use this as a last resort. Government also takes firmer action on debts resulting from illegal behaviour, such as court fines or benefit overpayments due to fraud, or where debtors are avoiding repayment.

Debt advice and other support for over-indebted people

4.20 MAS commissions free, independent debt advice to help people who have problem debt. Debt advisers provide support and recommend practical solutions based on an individual's circumstances to help improve their financial situation. MAS spends £48 million a year on directly commissioning debt advice, funded by a levy on financial services firms. An estimated £148 million of further funding is voluntarily provided directly to debt advice bodies by other organisations (such as charities or creditors) and individuals. MAS estimates that debt advice saves the UK economy £445 million to £960 million a year.

4.21 MAS commissioned an independent review of debt advice funding which published in 2018, highlighting the importance of debt advice but finding a number of challenges.[17] In particular, there is a shortfall in the current level of provision, with an estimated 600,000 over-indebted individuals unable to access advice. To satisfy future demand, the review recommended that the amount of free debt advice available needs to rise by 50% within two years. MAS chairs a debt advice steering group, which has set out five key areas of work to address the challenges raised in the report.

4.22 Following manifesto commitments in the 2017 election, HMT announced the Breathing Space scheme and Statutory Repayment Plan for people who have problem debt:

- The government's manifesto committed to breathing space providing eligible over-indebted individuals with statutory protection from interest, charges and enforcement action for a proposed six weeks, to give them time to seek advice and identify an appropriate solution.
- The Statutory Repayment Plan will provide people who have problem debt with statutory protections to enter an affordable repayment plan and clear their debts over time. This could follow an initial breathing space period, and would provide greater protection than voluntary arrangements that currently exist but still result in most or all of the debt being repaid, unlike debt relief such as bankruptcy.

4.23 Success will depend on the extent to which the new protections are used and the impact they have on outcomes, which HMT recognises it will need to consider when designing the scheme. Significant take-up may also cause further strain on the capacity of the debt advice sector. HMT is currently developing the proposals, and plans to complete the relevant regulations in 2019. Although stakeholders broadly support the proposals, HMT may struggle to maintain the support of all stakeholders as it works through the details of the scheme.

17 Peter Wyman, *Independent Review of the Funding of Debt Advice in England, Wales, Scotland and Northern Ireland*, Money Advice Service, 2018.

Appendix One

Our audit approach

1 The aim of this report is to evaluate and conclude on HM Treasury's (HMT's) overall approach to over-indebtedness, and how well it brings together government's and other stakeholders' various activities and interventions to meet its objectives. The report examines:

- whether HMT has appropriate mechanisms to identify the scale and nature of the problem it is seeking to address and organise government's response;
- evidence on the effectiveness and coordination of government actions to prevent problem debt through improving people's financial capability and regulating consumer credit lending; and
- the extent to which government as a whole adopts best practice in managing its own debtors, and supports over-indebted people more generally through debt advice and other protections.

2 We have previously reported on specific areas relating to personal debt, such as regulating consumer credit and managing debt owed to central government, but have not examined government's overall approach or how the interdependencies between policy and delivery areas are managed. This report does not provide a detailed audit of the government's response to each of the specific factors that impact on personal over-indebtedness. Instead, in order to evaluate the government's overall response to over-indebtedness, we have used evidence from the various areas to examine what is working, where possible gaps might occur, and the implications for the government's overall approach.

3 We considered personal indebtedness within three broad categories: consumer credit and mortgages, utilities and private rent arrears, and debts to government (such as council tax arrears or benefit overpayments). People can be over-indebted to multiple organisations, and government's oversight and intervention differs between the three areas.

4 Our audit approach is summarised in **Figure 15** overleaf. Our evidence base is described in Appendix Two.

Figure 15
Our audit approach

The objective of government

HM Treasury (HMT) has set high-level objectives on personal debt relating to the provision of financial guidance, support for those facing debt problems, and coordination of cross-government work to ensure people can access useful and affordable financial services. More generally, it aims to minimise the number of people in problem debt. The Cabinet Office leads the government's work to improve debt management practices in government.

How this will be achieved

HMT works with a range of other departments, agencies and regulators across government, as well as the private and third sectors, to achieve its objectives. Interventions include improving people's financial capability, regulating lending and affordability of other services, and supporting people who are over-indebted.

Our study

The study examined government's overall approach to tackling over-indebtedness, and how well its various activities and interventions fit together to form a coherent response.

Our evaluative criteria

Government has mechanisms in place to provide a coordinated understanding of, and response to, problem debt.

Government actions to improve financial capability and responsible lending to consumers are effective and well-coordinated.

Good debt management practices are adopted by government and effective support is provided to over-indebted people.

Our evidence
(see Appendix Two for details)

- Interviews with government departments, agencies and regulators.
- Review of HMT documentation and management information.
- Assessment of HMT's arrangements against established good practice.
- Review of published and unpublished data and estimates of levels of debt in different sectors.
- Analysis of debt charity data on problem debt to understand recent trends.
- Analysis of Office for National Statistics survey data to model the effects of problem debt.

- Review of published material and data relating to financial capability and responsible lending.
- Interviews with the Money Advice Service (MAS) and Financial Conduct Authority (FCA).
- Review of information from MAS and the FCA.
- Consultation with stakeholder groups, including debt charities.
- Analysis of publicly available data relating to financial capability and outcomes in the consumer credit market.

- Review of publicly available material and research on debt advice and debt management practices.
- Interviews with government debt management teams.
- Review of documentation from government departments and their debt policy teams.
- Interviews with sector regulators.
- Interviews with non-government creditors and stakeholders.
- Analysis of debt charity data to model the impact of debt management practices on individuals and the factors affecting debt management in government.

Our conclusions

HMT is taking a thoughtful and well-intentioned approach to excessive indebtedness. It recognises that this has significant damaging effects in terms of public and economic costs, as well as on individuals, although these are not quantified. The effort to provide support across multiple government actors has become more coherent in recent years.

However, the problem has not stood still. Utility providers and the public sector have emerged as major components of debt problems. The information available in these areas is, disappointingly, much less coherent or transparent than commercial debt information. There are also crucial areas, such as debt collection, where public oversight lacks impact. While recognising the positives, we conclude that HMT cannot promote improvement in the management of excessive debt as effectively as possible across a wide network without fixing the weak links. This leads us to assess that there is further to go before value for money is secured.

Appendix Two

Our evidence base

1 We reached our independent conclusions on the value for money of government's overall approach to tackling over-indebtedness by analysing evidence collected between January and July 2018.

2 In designing and carrying out our study, we took account of previous National Audit Office (NAO) reports related to personal debt. In particular, we looked at regulating consumer credit (2012), helping consumers to manage their money (2013), managing debt owed to central government (2014) and the broader issue of vulnerable consumers in regulated industries (2017). We drew on this work to create and apply an analytical framework with evaluative criteria, which considered how government coordinates the various activities it undertakes to prevent and respond to problem debt into a coherent response and whether its overall approach to tackling over-indebtedness is optimal. Our audit approach is outlined in Appendix One.

3 We conducted semi-structured interviews with departments, regulators and other stakeholders to gather perspectives, experiences and evidence across all of our study areas. We interviewed representatives from the following organisations:

- **Government departments, regulators and agencies** that undertake activities to prevent problem debt from occurring and minimise its impact: HM Treasury (HMT); Department for Work & Pensions (DWP); Cabinet Office; Department for Education; Ministry of Housing, Communities & Local Government; the Money Advice Service (MAS); the Financial Conduct Authority (FCA); Ofwat; and Ofgem.
- **Creditors and debt collection organisations** in both public and private sectors: HM Revenue and Customs (HMRC); DWP; Hammersmith and Fulham Council; Newcastle City Council; the Credit Services Association; Barclays Bank; and Intrum.
- **Other organisations, debt charities and research providers:** Citizens Advice; StepChange Debt Charity; the Money Advice Trust; the Essential Services Access Network; The Money Charity; the House of Commons Library; the Welsh Government; and the Financial Services Consumer Panel Working Group B.

4 To assess whether government has mechanisms in place to provide a coordinated understanding of, and response to, problem debt we did the following:

- Interviewed representatives from HMT and other government departments, agencies and regulators to understand the government's overall aims and objectives with respect to problem debt, how different activities across government are coordinated between organisations, and how performance is measured against these aims.
- Reviewed HMT documentation and management information, including information that describes HMT's role and objectives in this area, trends in consumer credit and problem debt, information on current priority projects, and descriptions of how HMT works with different stakeholder groups.
- Assessed HMT's accountability arrangements for effective policy delivery on over-indebtedness against established good practice, as set out in the NAO's 2016 report on accountability.
- Reviewed published material and data on levels of debt in different sectors, as well as information provided to us by Cabinet Office and Citizens Advice. We gathered together existing information and analysis on levels of debt across three broad areas – consumer credit and mortgages; utilities and private rent arrears; and debts owed to government.
- Examined the changing profile of problem debt in the UK. We analysed data on the number of debt problems reported to Citizens Advice since 2011, broken down by different debt types (mortgages, consumer credit, utilities and private rent arrears and debts to government). This analysis was supplemented with information on trends in the number of individuals presenting themselves to Citizens Advice, broken down by different debt types, noting that these data are from a specific debt charity which can introduce potential biases. We also engaged with StepChange and the Money Advice Trust to confirm if trends observed in the Citizens Advice data were consistent with their experiences. These debt charities, as well as other stakeholders we spoke with, affirmed the general assertion that debts to government represent a greater proportion of peoples' problematic debts.

- Analysed Office for National Statistics (ONS) survey data – in particular the Wealth and Assets Survey and UK Household Longitudinal Survey data – to model the impact of problem debt. This study provides the first estimate of the cost of problem debt to the public purse. In summary, our methodological approach consisted of the following:
  - We used the two ONS surveys, both of which are longitudinal surveys with a large number of consistent respondents across multiple time periods, to produce an econometric panel data model that allows us to estimate the effect of being in problem debt on an individual's likelihood to become unemployed, increase their benefit uptake, suffer from anxiety or depression, or be in state-subsidised housing. This was extrapolated to the UK working-age population using 2017 ONS data.
  - On anxiety and depression, we calculated a financial cost using the NHS's estimate that 39.4% of people with common mental health disorders seek treatment, and the average cost of that treatment.[18,19] To estimate the overall cost to the UK economy, we used estimates of the economic cost of anxiety and depression from research conducted in 2008 by the King's Fund, uprated to 2018 prices with CPI inflation.[20]
  - On state-subsidised housing, we calculated a financial cost using the average cost of maintaining and administering social housing, and the opportunity cost of social housing (the difference between average private rent and average social rent in 2017).[21,22]
  - Our modelling also indicated a direct correlation between problem debt and employment and benefits that is dynamic and varies over time, but the longitudinal survey data are not collected frequently enough to be able to analyse the true nature of this correlation, or establish causation.

18 NHS Digital, *Adult Psychiatric Morbidity Survey*, 2016.
19 NHS England, *Five Year Forward View for Mental Health*, 2016.
20 King's Fund, *Paying the price: The cost of mental health care in England to 2026, 2008*.
21 Homes and Communities Agency, *Delivering better value for money: understanding differences in operating costs*, 2016.
22 HomeLet, *HomeLet Rental Index*, 2017.

5 To examine evidence on the effectiveness and coordination of government actions to prevent or reduce problem debt we did the following:

- Reviewed published material relating to government activities to prevent and minimise problem debt, in particular the areas of improving financial capability and responsible lending in the consumer credit market. We gathered and examined information relating to the roles and responsibilities of different government organisations, recent and proposed interventions and activities, and evaluations of the impact of these actions.

- Interviewed representatives from MAS and the FCA to understand how MAS's work on financial capability and the FCA's work to regulate consumer credit helps prevent over-indebtedness. In particular, we discussed how both organisations coordinate with other parts of government on their understanding of problem debt and activities to prevent it, and on future areas of risks and possible initiatives to minimise these.

- Examined unpublished business management information provided by MAS and the FCA to understand the activities each organisation has taken to prevent and reduce problem debt and the progress they have made to date. This included relevant FCA team strategies and work plans, information relating to the governance of the UK Financial Capability Strategy, and board meeting minutes.

- Interviewed stakeholder organisations with a particular interest in financial capability and consumer credit lending. In particular, we spoke with representatives from the Financial Services Consumer Panel, StepChange, the Money Advice Trust and Citizens Advice to get their views on responsible lending in the consumer credit market. We also consulted with The Money Charity, in relation to financial capability in the UK.

- Examined existing research published by MAS, the FCA and the Organisation for Economic Cooperation and Development (OECD) to provide context on the current level of financial capability in the UK. In particular, MAS's research to estimate the number of over-indebted people, the number of people with less than £100 in savings, and the proportion of people who cannot manage their money well day to day. All three estimates use survey data and have attempted to make their samples representative of the UK population.

- Analysed available data and evidence on consumer detriment and outcomes in the consumer credit market, including Citizens Advice data on the number of consumer problems with payday loans between 2013 and 2018, Financial Ombudsman consumer credit complaints data, and the FCA's review of the price cap on short-term high-cost credit. The FCA's finding that fees and charges on a typical payday loan reduced from more than £100 to around £60 relates to Credit Reference Agency data for the first four months of 2015.

6 To assess whether good debt management practices are adopted by government and over-indebted people are appropriately supported, we did the following:

- Reviewed publicly available material and research on debt collection practices and how they are applied by different creditors and the impact of poor debt collection practices on individuals, including research undertaken by Baker Tilly, the FCA, Money Advice Trust and Citizens Advice. We also reviewed publicly available information on the commissioning and funding of debt advice, including potential future demand, in particular Peter Wyman's independent review of the funding of debt advice.
- Identified research commissioned by StepChange Debt Charity and undertaken by Baker Tilly to estimate creditor gains realised from the provision of tailored debt advice, support and affordable repayments. For individuals on comparable debt management arrangements, the research estimated and compared repayment rates for individuals that received help from StepChange, and those that did not. The research found that StepChange interventions in the form of providing tailored debt advice, support and assistance in establishing affordable repayments increased repayment rates. This, in conjunction with estimated reductions in costs associated with pursuing outstanding debt, was used to develop an estimated creditor gains figure.
- Interviewed a range of government and non-government representatives, including:
  - Officials from HMT and MAS, as well as other stakeholders including debt advice charities, to understand the current state of debt advice in the UK, future plans and new forms of support being consulted on by HMT.
  - Officials working in government debt teams to understand their approach to personal debt collection, as well as representatives from local government. We also spoke with officials in the Cabinet Office regarding its work to coordinate improvements to debt management practices in government, including observing a meeting of the Cabinet Office's Fairness Group in May 2018.
  - Non-government creditors and other stakeholders to understand retail lending debt collection practices and how these compare with government approaches.
  - Sector regulators to understand the prevalence of problem debt in each sector and the rules, principles or other expectations on how the companies they regulate deal with affordability for customers struggling to pay.

- Reviewed unpublished documentation provided by government departments and their debt policy teams, including the Cabinet Office, to describe government's approach to debt collection. This included information on recovery policies for different types of debt, examples of debt notification letters, an explanation of the recovery strategies departments can deploy, the Cross-Government Debt Management Strategy and meeting minutes from the Fairness Group. We also examined unpublished data provided to us from the Credit Services Association to examine the impact of regulation on the debt collection and debt purchase industry.
- Analysed debt charity data, to understand the impact of poor debt management practices on individuals and the factors affecting government's debt collection approach:
  - Analysed data from Citizens Advice on the number of problems reported to Citizens Advice in relation to government debts, consumer credit and mortgage debts and utilities and private rent debts. Seasonal variations in the number of reported problems split by these categories were then compared to assess and identify notable pattern differences. While reported findings are calculated using data over the four years to March 2018, and in terms of percentage differences in the number of clients reporting problems relative to the first quarter of the financial year, our findings were tested using a variety of analytical approaches. We analysed the Citizens Advice data over four-year and seven-year periods using seasonal decomposition modelling and looked at the proportion of clients reporting problems in each quarter of the financial year. The vast majority of these methods of analysis yielded consistent results. We also used these methods to look at seasonal patterns in local and central government debt problems indicating that, while the observed pattern of seasonality is stronger for local government, the general pattern was also observed for central government debt problems. In the end, reported findings were based on four-year data as outlier movements in earlier years limited the accuracy of some of our analysis methods and Citizens Advice were able to provide detailed data on government debts over a four-year period allowing additional testing. Noting that our results could be biased by factors specific to Citizens Advice, we undertook similar analysis on the number of people presenting themselves to StepChange in terms of consumer credit and government debt problems. While full replication of analysis was not possible due to data availability, the analysis yielded results consistent with our analysis of Citizens Advice data. Overall, we note that the use of data from debt charities does introduce biases as people reporting to debt charities may not be representative of all indebted individuals. Furthermore, there may be other factors influencing the seasonal patterns observed, which we have not controlled for in our analysis. As such, we are not using this analysis to infer causality, but rather to emphasise that this analysis in conjunction with testimony from multiple stakeholders is evidence of potential influences of in-year collection incentives on government debt collection practices, which should be investigated further.

- Provided input into the design of StepChange's 2018 creditor conduct survey, to allow collection of data on debt collection practices experienced by debt advice clients, types of organisations using these practices and the resulting impacts on the individuals' well-being and ability to manage their debts. StepChange administered the survey online and provided us with anonymised responses as well as some relevant demographics information to assist our analysis. Overall 1,029 individuals attempted the survey with StepChange, of whom 723 completed the survey. We filtered out 10 individuals as they did not provide valid responses to the relevant questions, meaning our analysis is based on a population of 713 of these individuals. We undertook regression analysis on these data to estimate the impact of intimidation actions and added charges on survey respondent's abilities to manage their debts, as well as their levels of anxiety or depression. Our modelling estimates that, on average, for our sample, intimidation actions increased the probability of debt burdens becoming harder to manage by 15% [8%, 23%] and increased the probability of anxiety or depression levels rising by 22% [15%, 29%]. Similarly, the addition of charges to existing debts increased the probability of debt burdens becoming harder to manage by 29% [21%, 36%] and increased the probability of anxiety or depression levels rising by 15% [7%, 23%].[23] These estimates were statistically significant at the $p < 0.01$ level. We note that the survey population, the point in time nature of the data, availability of control variables and model assumptions does introduce limitations to our analysis. As such, we have not extrapolated our findings to the wider indebted population.

- Utilised summarised data relating to another section of the StepChange 2018 creditor conduct survey to gauge debt advice clients' perceptions of whether they are treated unfairly by different types of organisation. Overall, the survey was completed by 723 individuals. The number of responses to each specific organisation type included in our analysis ranged from 60 to 626.

- Analysed the Money Advice Trust's 2017 'Stop the Knock' data to assess the adoption of five good debt collection practices specified in the data by English local authorities. The five practices considered are: signposting to free debt advice; adoption of the Standard Financial Statement or Common Financial Statement; existence of a vulnerability policy; exemption of council tax support recipients from bailiff action; and the adoption of the council tax protocol. The Money Advice Trust sourced its data from freedom of information requests made to the relevant local authorities. For the purposes of our analysis, if data were not available for any practice, or 'not applicable'/'awaiting info' was indicated for any practice, the local authority was excluded from our analysis. Furthermore, a response of 'Considering' to adoption of council tax protocol was treated as 'No'. In the end, our analysis was based on a sample of 303 English local authorities.

23 Values in square brackets represent 95% confidence intervals.

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