



#malgconf2019



## Conference 2019

### Break out 1a

### Cabinet Office: Tackling Problem Debt

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National Audit Office

# Tackling problem debt

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National Audit Office

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# Structure

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**4. Recommendations**

# The NAO

## Our role

The National Audit Office (NAO) **scrutinises public spending** for Parliament

We help to **hold government departments and other public bodies to account** for how they use public money or deliver public policy

Our work helps public service managers to **improve performance and service delivery**, nationally and locally

## Our VFM work

- Through our Value-for-Money (VfM) work, we report on the **economy**, **efficiency** and **effectiveness** with which public sector bodies use public money
- National Audit Act 1983 gives statutory access & reporting rights
- ~ 60 published outputs a year; most heard by the Committee of Public Accounts (PAC)
- We do not comment on the merits of policy objectives, but aim to conclude on whether value for money has been secured
- Our public audit perspective helps Parliament hold government to account and improve public services. It leads to **savings and other efficiency gains**: £741 million of agreed, audited savings in 2017-18

# Report overview

# Background

On 6 September 2018 we published our report on *Tackling problem debt*. The 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**
- Evidence on the effectiveness and coordination of government actions to **prevent problem debt** through improving people's financial capability and regulating consumer credit lending
- 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



# VFM 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.***

# Understanding the problem

## Based on available data and research, we estimated over £13 billion of personal debt owed to a range of public sector bodies

### 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 <sup>2</sup>	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
	<b>Subtotal: Government</b>	<b>13,682</b>	
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 <sup>1</sup>
Utilities and rent	Rent arrears to private landlords and housing associations	974	Citizens Advice estimates for 2016-17 <sup>1</sup>
	<b>Subtotal: Utilities and rent</b>	<b>4,374</b>	
	<b>Total</b>	<b>18,056</b>	

**People increasingly report problems with debts owed to government or utility providers, but HMT has limited insight into these areas.**

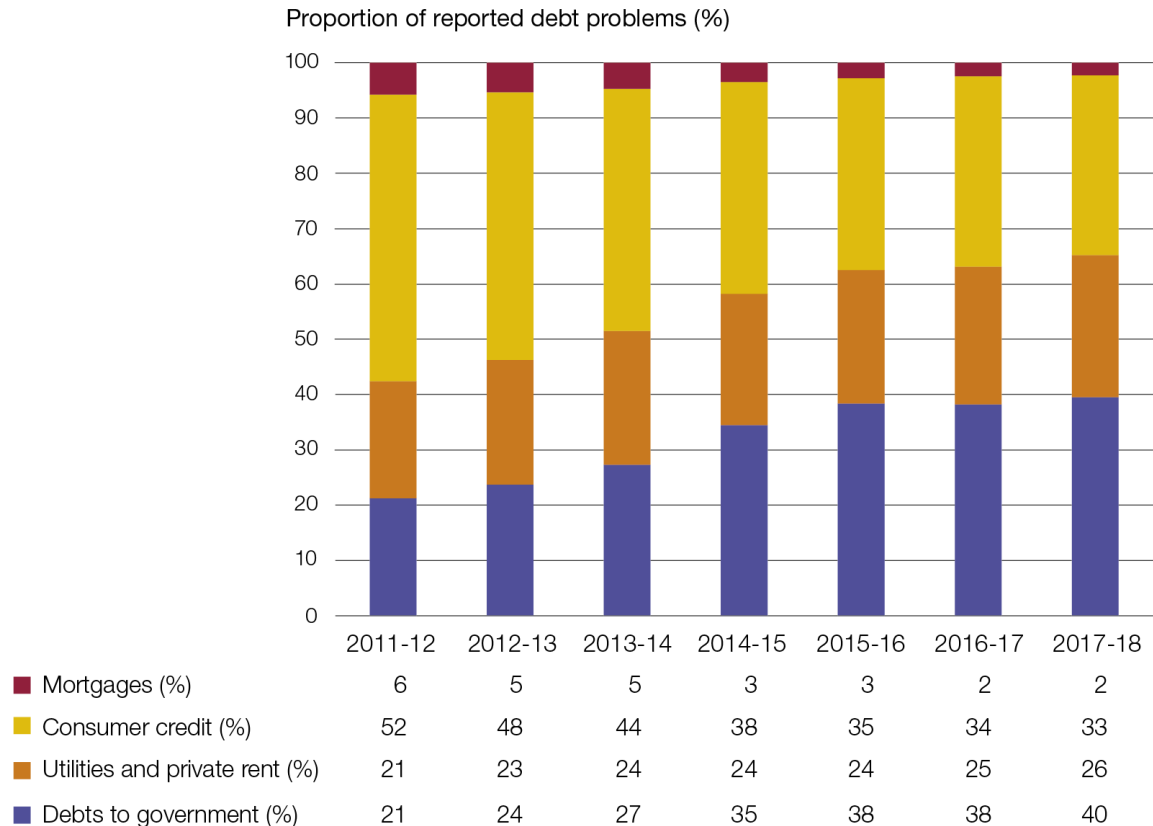
Government has less detailed insight into debts in other private and public sectors compared with consumer credit and mortgages, and it does not accurately know the overall level of outstanding personal debt.

Not all departments, agencies and regulators collect data on personal debts.

**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



**Note**

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

Source: National Audit Office analysis of Citizens Advice data

## 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 these costs is important for policymakers in considering the impact of policy design on over-indebtedness. We modelled national survey data to produce our own estimates.

### 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 <sup>1</sup>	Estimated number of people this translates to <sup>2</sup>	Estimated annual taxpayer costs identified <sup>3</sup>	Estimated annual cost to the overall UK economy <sup>4</sup>
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
<b>Total estimated financial impact in these areas</b>			<b>£248 million</b>	<b>£900 million</b>

# Managing problem debt

## 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**.

Those struggling with debts to government also considered that they are generally treated less fairly than by retail lenders

### 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



## Barriers to adoption of good practice in government:

### 1. A lack of data sharing

- The Committee of Public Accounts' 2014 report on managing debt owed to central government found that departments lacked the information necessary to target collection activities, and recommended **developing a single view of what each debtor owes to government as a whole**.
- 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**.
- 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.

## Barriers to adoption of good practice in government: 2. Short-term incentives and funding pressures

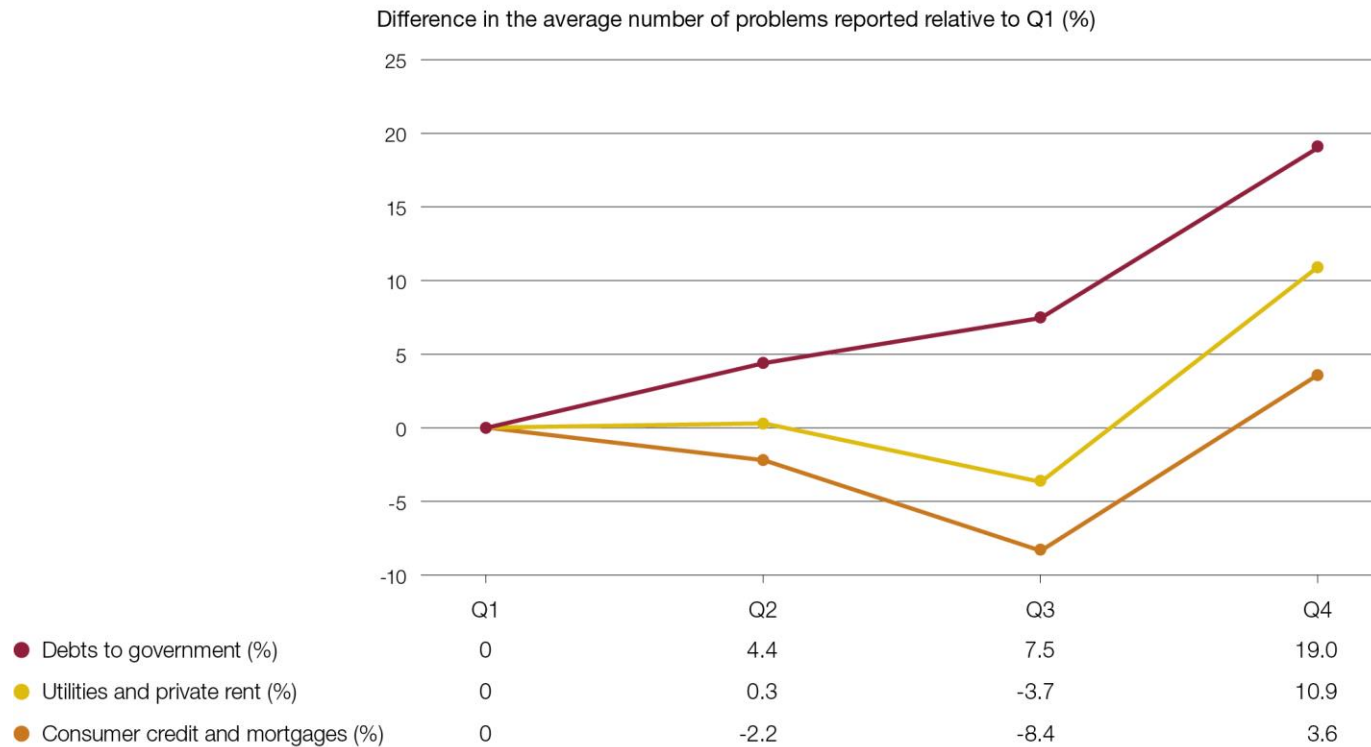
People report more problems with debts owed to government as the fiscal year progresses. This pattern is not observed with private sector debts.

Stakeholders we interviewed considered that this could be affected by short-term incentives (in-year collection targets and league tables) and local funding pressures creating a greater demand to pursue debts more quickly and aggressively.

**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



**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.

# Recommendations

Our report had 3 recommendations directly relating to improving debt management practices in government

**HMT should:**

- *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.*

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

- *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.*
- *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.*