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TACKLING  
OVER-INDEBTEDNESS

Action Plan 2004

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# Foreword

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**Credit has become an integral part of our daily lives. Borrowing from a credit institution or simply paying a bill after receipt of the good or service – for example in the case of gas or electricity – allows consumers flexibility in how they choose to access the marketplace and manage their finances. The UK's current economic stability, based on sound fundamentals, is bringing rising prosperity, record employment and low interest rates, all underpinning increased demand for credit.**

For many, credit is a lifeline that enables them to deal with the emergencies that arise, helping match irregular income against the regular demands and risks of modern life.

However, for a minority, credit or pressure in keeping up with household bills can lead to over-indebtedness. The individual costs of over-indebtedness can be substantial, including loss of the family home, depression and relationship breakdown. Debt is linked with both poverty and social exclusion. In addition, over-indebtedness imposes costs on creditors, Government and society as a whole.

We believe more can and must be done to reduce the cost and suffering associated with problem debt. Working with our partners in the credit industry, the voluntary sector and consumer groups, the Government seeks to minimise the number of people who become over-indebted and to improve the support and processes for those who have fallen into unsustainable debt.

This document sets out our action plan for 2004: it is part of an on-going process and we will review our approach and progress on an annual basis. Our aim is to get to a position where consumers have the capability and information they need to make informed decisions about borrowing and where lenders make responsible decisions about whether and how much credit to grant.

We want to ensure that where borrowers do get into difficulty, they seek help at the earliest possible opportunity. We want there to be easy access to free advice to help them out of debt, sympathetic treatment by creditors and legal support to resolve problems quickly and effectively.

We would like to express our thanks to the members of the Advisory Group on Over-indebtedness for their assistance in developing this strategy, and look forward to working with them in tackling the on-going challenge of over-indebtedness.

**The Ministerial Group on Over-indebtedness**

**Gerry Sutcliffe MP**

Department of Trade & Industry (Joint Chair)

**Chris Pond MP**

Department for Work & Pensions (Joint Chair)

**Lord Filkin**

Department for Constitutional Affairs

**Ivan Lewis MP**

Department for Education & Skills

**Lord Rooker**

Office of the Deputy Prime Minister

**Ruth Kelly MP**

HM Treasury

# Executive Summary

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## The objective

1. Credit is an integral part of our daily lives. It makes a vital contribution to the UK economy: driving economic activity by allowing consumers flexibility in how they choose to access the marketplace and manage their finances; and enabling resources to be put to their most efficient use. Economic stability based on sound fundamentals is bringing rising prosperity, record employment and low interest rates, all underpinning increased demand for credit. Manageable borrowing provides an immense benefit and, in the majority of cases, consumers are using credit successfully.

2. But for a minority of consumers credit leads to over-indebtedness. 7% of households have levels of credit use associated with over-indebtedness, 13% of households are in arrears on either consumer credit or household bill commitments, and approximately one in five say they experience financial difficulties. Over-indebtedness is linked with poverty and social and financial exclusion, as well as having a real impact on the health and well-being of individuals.

3. Overall, the maintenance of macro-economic stability with low inflation, low interest rates and high levels of employment is expected to ensure that, for most households, existing levels of debt are sustainable. Whereas naturally there are risks surrounding this prospect, the chances of an uncomfortably sharp retrenchment by households are judged to be low. However, there remains a minority who are suffering from over-indebtedness.

4. Our analysis shows that low income groups are most at risk of arrears: more than half of households who are over-indebted have incomes of less than £7,500 per year. Families with children and in particular lone parent families are most at risk of debt. Low income groups are more likely to be in arrears on household bills than on loans, but low income consumers with credit commitments are more likely to get into arrears than those without. Those in employment are less likely to get into arrears, as are families with savings. Families with savings are also more likely to clear their arrears if they do get into difficulties.

5. The top three reasons individuals give for financial difficulties are a sudden change in personal circumstances, low income and over-commitment. Those citing a sudden change in personal circumstances, which then may result in a loss of income, as the primary cause has increased since 1989 – despite recent falls in unemployment. However, fewer people are now citing low income or over-commitment.

6. We need to tackle problem debt to meet the Government’s commitment to social justice and prosperity for all. In order to minimise the costs of over-indebtedness, we seek to:

- minimise the number of consumers who become over-indebted; and
- improve the support and processes for those who have fallen into debt.

7. The costs of over-indebtedness do not just fall on individual borrowers but also affect financial institutions, other creditors, Government and society as a whole. Tackling these issues requires co-ordinated action right across Government and the independent regulators (Financial Services Authority (FSA), Office of Fair Trading (OFT), utility regulators). It needs close partnership with industry, consumer groups and the voluntary sector so that our efforts are targeted where they can be most effective.

8. The White Paper “Fair, Clear and Competitive: the Consumer Credit Market in the 21st Century”<sup>1</sup> was published in December 2003. It set out proposals for reforming the legislative framework governing the consumer credit market and outlined the Government’s approach to tackling over-indebtedness. This document fulfils the commitment in the White Paper to draw up a strategy on over-indebtedness.

### Strategic priorities

9. In order to select our strategic priorities, the Working Groups considered analysis of the scale, characteristics and causes of over-indebtedness. We looked to address both prevention and cure, and to consider action at each stage of the problem.

<sup>1</sup> DTI, December 2003, “Fair, Clear and Competitive: the Consumer Credit Market in the 21st Century” – available at <http://www.dti.gov.uk/ccp/topics1/pdf1/creditwp.pdf>

**10.** Thus, in the pursuit of our objective to tackle problem debt, and in addition to the Government's work on maintaining a strong macro-economic policy framework and tackling poverty and social exclusion, we identified the following strategic priorities, which apply across the UK Government and the devolved administrations:

- We want an increase in levels of financial capability and awareness, so that more individuals can take control of their finances, and participate actively and effectively in the credit market.
- We want to ensure that all people – and in particular those on low income – have access to affordable and reasonable credit.
- We want to see responsible lending principles respected by all and developed to protect the most vulnerable, through the new consumer credit framework and self-regulation by lenders.
- We want to encourage a savings culture to avoid over-indebtedness.
- We want to ensure that accumulating arrears are identified early, that steps are taken by creditors to help people without resorting to the courts.
- We want there to be sufficient, high quality, free debt advice and support available to people who face debt problems.
- For arrears disputes that can only be resolved by the court, we want the cases to be handled efficiently, speedily and effectively, and without making debts worse.

**11.** Finally, Government must lead by example, in particular through improvements in the administration of financial support to consumers on low income and playing an active role in pilot projects and dissemination of best practice.

### **Priority partnership actions**

**12.** The success of the following ten initiatives will be key to the achievement of the partnerships goals:

- The development of a national strategy for financial capability.

- An increase in the availability of affordable credit for those on low income, through increased activity in the credit union sector, review of the role of the Social Fund and/or the development of alternative models of affordable credit provision.
- The introduction of the 'stakeholder suite' of financial products to promote savings and asset accumulation.
- New legislation to strengthen the credit licensing regime and end unfair selling practices, and new regulations to improve consumer credit advertising and form and content of credit agreements.
- The pilot project on tackling illegal money lenders who prey on the most vulnerable in society.
- Improved data sharing to underpin responsible lending decisions through the use of adequate and appropriate credit checks, and the early identification of problems.
- In England and Wales, a step change in the availability of free debt advice, particularly for the most vulnerable, through greater co-ordination within the sector, improved and targeted sign-posting, and the development of sustainable funding.
- Action to ensure that wherever possible, debt problems and disputes are resolved without the stress and additional expense of court proceedings.
- The improvement of insolvency and court provisions, potentially including a non-court based 'No Income No Asset' insolvency scheme, an Enforcement Restriction Order, reform of Administration Orders and/or strengthening of repayment schemes.
- Improvement in the standard of housing benefit and council tax benefit administration.

## Implementation

**13.** This strategy is part of an on-going process. Co-ordinated action across Whitehall, the independent regulators, the devolved administrations, local government, lenders, voluntary organisations and consumer groups needs to continue to drive implementation, monitor and evaluate, and identify new actions. The Ministerial, Advisory and Officials Groups on Over-indebtedness will continue to carry out these roles.

**14.** We will report annually on progress. An annual survey of the overall levels of over-indebtedness in the UK has been commissioned and other over-indebtedness indicators will be monitored. The results will be made available through the annual report.

**15.** Success criteria for our strategic priorities are listed in this document. We will evaluate the success of policies by looking at these measures. In consultation with the Advisory Group, Government will develop a plan for evaluating the success of the strategy against its strategic objectives.

# Introduction

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## Developing our strategy

1. The Government is committed to social justice and prosperity for all. To meet this commitment, we need to tackle problem debt. Over-indebtedness can be caused by and contributes to poverty and social and financial exclusion. It has a real impact on the health and well-being of individuals. And it has costs for financial institutions, other creditors, Government and society as a whole. An effective programme therefore needs action from industry, the voluntary sector and consumers as well as from Government.

2. The Consumer Credit White Paper noted that tackling over-indebtedness is integral to the development of an effective, efficient and inclusive credit market and set out a range of measures aimed at doing so. It set as the aim of those measures:

- to minimise the number of consumers who become over-indebted; and
- to improve the support and processes for those who have fallen into debt.

3. In addition, the White Paper committed us to establishing new mechanisms, in particular a Ministerial Group and an external Advisory Group, to ensure co-ordinated action across Whitehall and working in partnership with the credit industry, the voluntary sector and others. The first task of the new Groups was to draw up a strategy based on clear principles and responsibilities in response to the issues outlined in the White Paper. This document is the result of that work. In it we present:

- an updated analysis of the situation and rationale for action;
- how we intend to deliver our strategic priorities; and
- an analysis of roles and responsibilities in the fight against over-indebtedness.

4. We then set out at Annex A the actions being taken to deliver the commitments in the White Paper and further policy actions to address strategic weaknesses identified through the Working Groups on Over-indebtedness.

5. Membership and terms of reference for the cross-departmental Ministerial Group, the Advisory Group and the Officials Group are set out in Annex B.

6. Our aim is to get to a position where consumers have the capability and information they need to make informed decisions about borrowing and budgeting, and where lenders make responsible decisions about whether and how much credit to grant. Access for consumers to a sufficient range of credit options is also important. We want to ensure that where borrowers do get into difficulty, they seek help at the earliest possible opportunity. We want there to be easy access to free advice to help them out of debt, sympathetic treatment by creditors and legal support to resolve problems quickly and effectively.

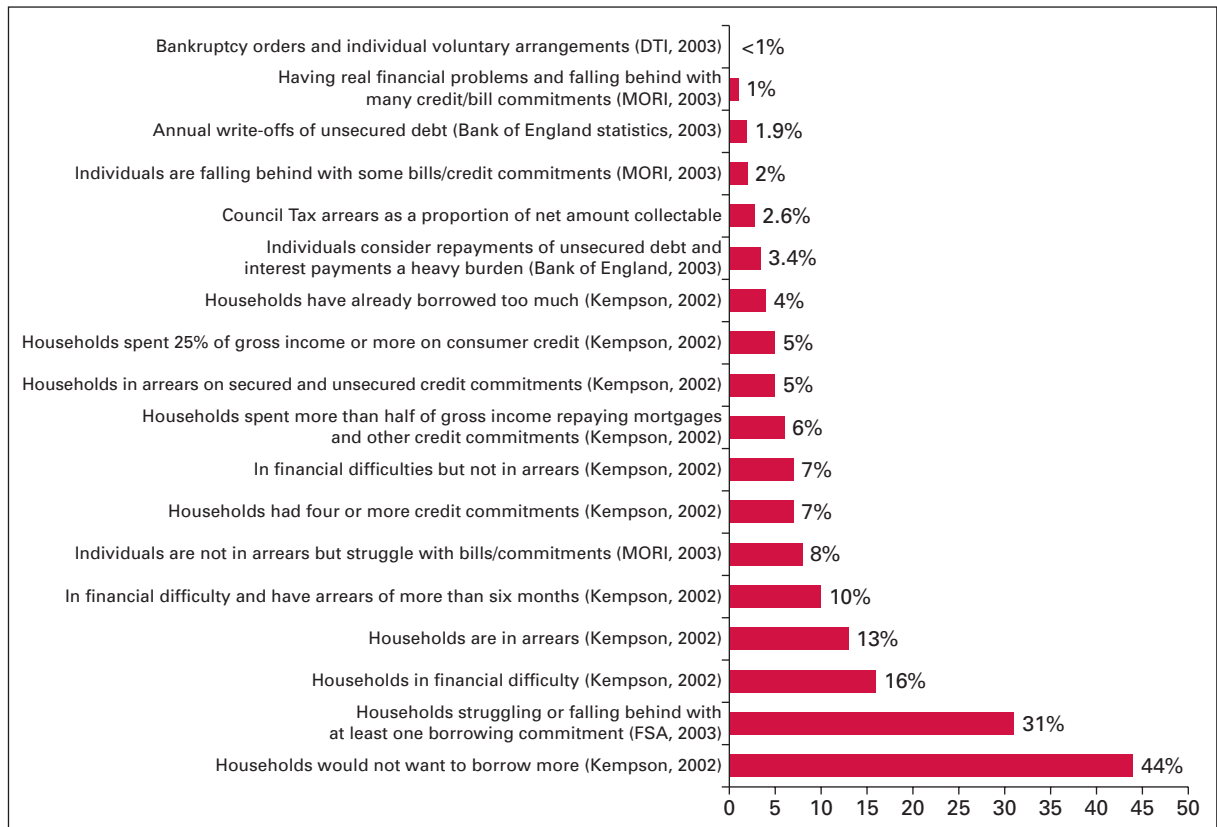
### **What is over-indebtedness?**

7. The term over-indebtedness is used to describe debt which has become a major burden for the borrower. Citizens Advice define problem debt as when an individual is “unable to pay their current credit repayments and other commitments without reducing other expenditure below normal minimum levels”<sup>2</sup>.

8. There is no generally accepted definition of over-indebtedness. Research on over-indebtedness has looked at a range of both subjective and objective measures. The Figure below shows the wide range of measures used to estimate the level of over-indebtedness.

<sup>2</sup> Citizens Advice, May 2003, “In too deep”

**Figure 1: Subjective and late payments measures**



Source: Oxera, 2004, "Are UK households over-indebted?"

**9.** Research commissioned by industry partners<sup>3</sup> proposed that over-indebtedness be defined as those households or individuals who are in arrears on a structural basis, or are at a significant risk of getting into arrears on a structural basis. This excludes those who have missed the odd payment and those who are able but unwilling to meet their commitments.

**10.** In the Consumer Credit White Paper, households most at risk of over-indebtedness were defined as those:

- having four or more credit commitments;
- spending 25% or more of their gross income on consumer credit repayments; and/or

<sup>3</sup> Oxera, April 2004, "Are UK households over-indebted?", report prepared for APACS, BBA, CCA and FLA

- spending 50% or more of their gross income repaying their mortgage and other credit commitments.

**11.** Over-indebtedness is a complex issue, not easily reduced to a single figure. For this reason, we will be using a basket of indicators which illustrate different facets of the problem to monitor levels of over-indebtedness. The basket will include indicators of current levels of over-indebtedness (e.g. arrears lasting for more than three months, subjective assessments of level of burden), the characteristics of those suffering from over-indebtedness (e.g. income as well as types of debt) and the number of individuals or households demonstrating typical risk factors (e.g. four or more credit commitments). We are developing these indicators to cover household bills as well as borrowing.

### Key principles

**12.** The costs of over-indebtedness fall mainly on creditors and their customers but it is also they who benefit when things go well. They are best placed to identify when things start to go wrong and in the first instance it is their responsibility to take action to address the problems. However, the impact of the problem on social exclusion, health, crime, child poverty, employment and other Government priorities, as well as the influence of failures in the credit market, make Government action appropriate. In developing our strategy, we know that to succeed, Government must work effectively in partnership with industry and the voluntary and community sector.

**13.** Over-indebtedness can affect anyone and we need to put measures in place which will help all those affected. But some groups are more likely to be affected than others and less likely to be able to recover quickly when they get into financial difficulty. Future Government action will make helping these most vulnerable groups a priority, whilst accepting that those who can afford to meet their obligations should do so. We will focus on those problems and solutions which particularly affect the most vulnerable. In addition, the strategy will acknowledge that different approaches are appropriate for different situations and it will respect national, regional and local differences.

**14.** Covering both prevention and cure, our approach is based on developing financial capability and clear information, leaving individuals free to make their own spending and borrowing decisions. All action should empower individuals as consumers, focus on providing options for low income consumers and promote individuals' legal rights. In particular, action should be based on a recognition of the need for choice of and access to as wide a range of credit options as possible.

**15.** At the heart of our strategy is a commitment to maximise:

- skills, information and advice to allow people to make sensible financial decisions;
- access for all to the financial products that are right for them; and
- support for people who find themselves in financial difficulty because of debt.

**16.** The Government recognises that this strategy is a step on the way to tackling over-indebtedness. Structures for driving implementation, monitoring, evaluating and modifying projects, and identifying new actions will be key to minimising the harm caused by over-indebtedness to people and businesses over the long-term. The structures that we will use are set out in the final chapter on implementing our strategy.

## The Current Situation

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**17.** The Consumer Credit White Paper provided an analysis of the extent and the causes of over-indebtedness. In developing this strategy, we have looked in more detail at the data and are able to include further information that was not available when the White Paper was published.

### The extent of the problem

**18.** The level of borrowing shows a continued rise with the ratio of personal borrowing to income doubling between 1995 and 2003<sup>4</sup>. The average level of outstanding consumer credit per household has increased from £2,088 in 1995 to £6,464 in 2003<sup>5</sup>. The key question is whether this increase reflects primarily a healthy expansion of the consumer credit market or an unhealthy growth in over-indebtedness.

**19.** Most households use credit responsibly, having only one or two credit commitments, owing modest amounts and paying less than an tenth of their gross income on credit repayments. Of those servicing credit commitments, the vast majority considered their debt to be “not a problem” (Figure 2).

**20.** However, there is a significant minority of those who are suffering from debt problems. In terms of arrears, the Household Survey (2002)<sup>6</sup> found that:

- 13% of households had fallen behind with payments on either borrowing or household bills;
- 7% of households were in arrears on payments of household bills, 4% of households had consumer credit arrears and 2% were in arrears on both; and
- 80% of those who had fallen behind with payments had been in arrears for more than 3 months.

<sup>4</sup>Tudela and Young, “The distribution of unsecured debt in the United Kingdom: survey evidence”, Bank of England Quarterly Bulletin, Winter 2003

<sup>5</sup>Average debt of debtors, 1995 data from BHPS, 2003 data from FSA

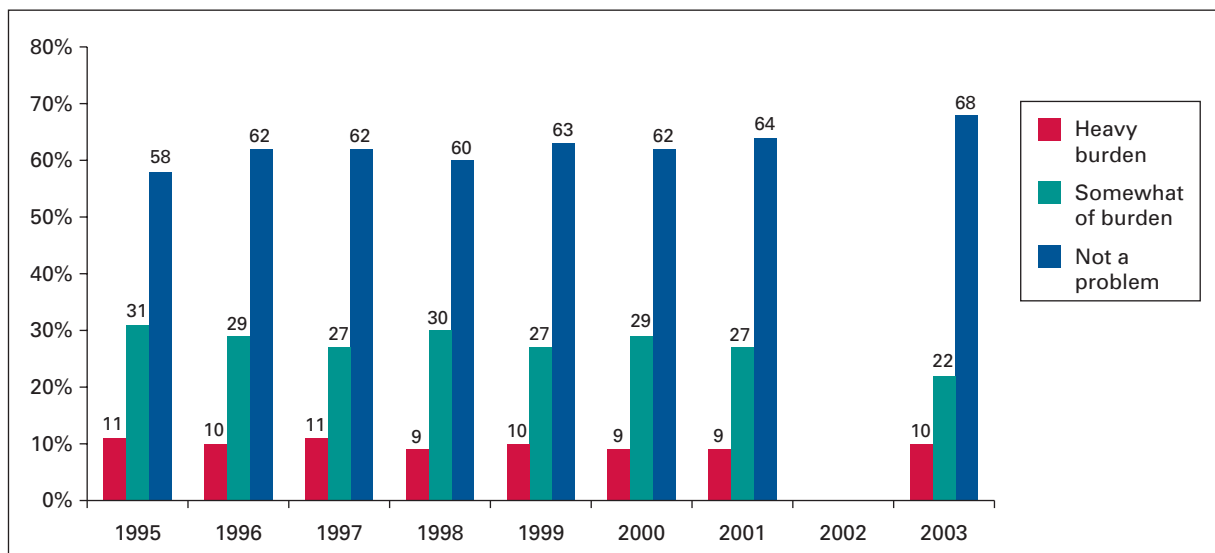
<sup>6</sup>Elaine Kempson, September 2002, “Over-indebtedness in Britain”, a report for the DTI

21. A minority of the population are heavy credit users and fall into the categories used in the Consumer Credit White Paper to indicate a high risk of debt problems:

- 7% have four or more credit commitments;
- 5% spend 25% or more of their gross income on consumer credit repayments; and
- 6% spend 50% or more of their gross income repaying their mortgage and other credit commitments.

22. Evidence from debt advisers suggests that the problem of over-indebtedness is increasing: Citizens Advice bureaux reported a 24% increase in the number of new debt enquiries between 1997 and 2002<sup>7</sup>. However, Bank of England research<sup>8</sup> indicates that the proportion of the population who are experiencing debt as a “heavy burden” has remained stable since 1995 (at around 10%) while there is a slight fall in the proportion who find their financial situation “somewhat of burden” (Figure 2).

**Figure 2: Trends in the burden of debt (% of individual debtors)**



Source: Bank of England, 2003 (BHPS, NMG research and Bank calculations)

<sup>7</sup> Op Cit 2

<sup>8</sup> Op Cit 4

23. Whatever the measure, over-indebtedness is a problem for a significant and enduring minority of the population, and often afflicts the most vulnerable, as discussed further below.

### Characteristics of over-indebtedness

24. Patterns of problem debt relate to levels of income, family type, employment status and local deprivation. Different groups typically suffer from different categories of debt. This section discusses these patterns in more detail. National differences in over-indebtedness have been considered in separate reports, such as “Credit Use in Wales”<sup>9</sup> and “Taking the Credit – Consumer Credit and Debt in Northern Ireland”<sup>10</sup>.

#### Level of income

25. Lower income groups are more likely to be in arrears than those who are better off<sup>11</sup>. The figure below shows that households earning less than £15,000 are around three times as likely to have arrears as those earning more than £35,000.

**Figure 3: Likelihood of arrears on consumer credit and household bills by level of income (% of families with children)**

Gross household income	In arrears now	Consumer Credit	Household Bills
Under £7,499	26	14	20
£7,500-£14,999	34	14	26
£15,000-£24,999	21	11	14
£25,000-£34,999	18	15	8
Over £35,000	11	5	6

Source: Household Survey (2002) quoted in Kempson, McKay and Willitts 2004  
Base: 408 families with children (unweighted)

26. In addition, data from the Bank of England’s 2003 survey provides evidence that the debt to income ratio for the lowest income group has increased since 2000.

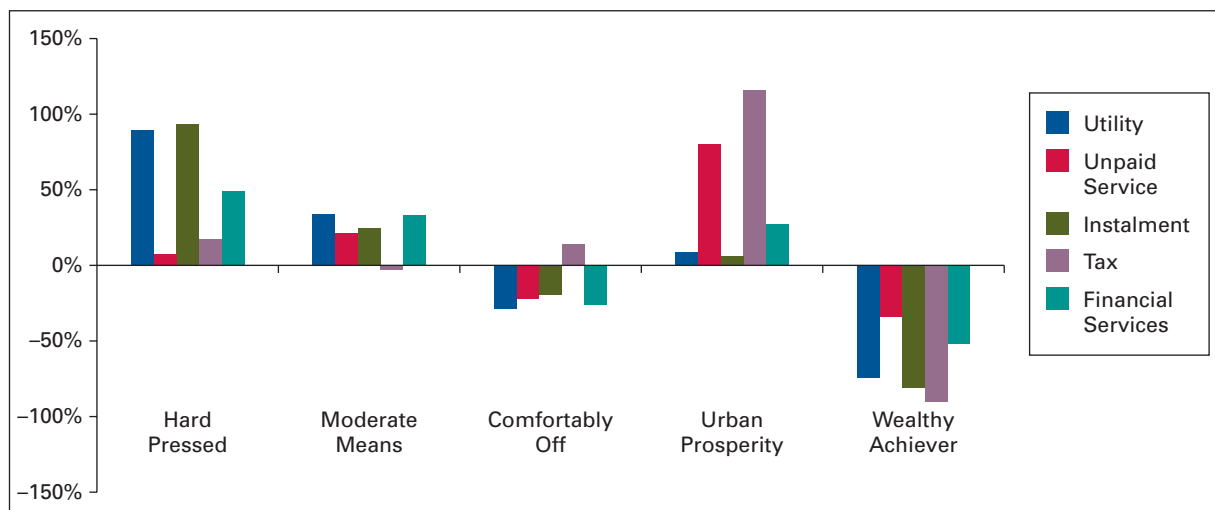
<sup>9</sup> Welsh Consumer Council, December 2003, “Credit Use in Wales”

<sup>10</sup> General Consumer Council of Northern Ireland, to be published shortly

<sup>11</sup> Kempson, McKay and Willitts, June 2004, “Characteristics of families in debt and the nature of indebtedness”, a report for DWP

27. Figure 3 also shows that arrears on household bills are more likely than credit arrears for those on lower incomes while the reverse is true for the better off. This is reflected in a study of court claims for civil debt which showed that less well-off socio-demographic groups are disproportionately represented in all types of debt brought to the courts, but particularly so for utility debts and instalments (Figure 4).

**Figure 4: Types of debt brought to court by demographic category (% difference from UK population)**



Source: DCA case analysis, Acorn Analysis

Note: the Y scale shows the distribution of each socio-demographic group indexed at zero. Where a bar is positive, the group is disproportionately susceptible to this type of debt, and where the bar is negative the group is under-represented in this type of debt.

28. In addition to being more likely to suffer from arrears, low income groups are often faced with a scarcity of loan products that are both affordable and appropriate. They therefore tend to use forms of credit which are more expensive than high street offerings. Mail order catalogues are most common among low income households, including lone parents (43% of whom used mail order catalogues) and social tenants (25%)<sup>12</sup>. 52% of individuals who have used home credit in the past 12 months have incomes less than £9,500<sup>13</sup>.

### Family Type

29. In mid 2002, around three in ten families with children had been in arrears during the previous 12 months, compared with two in ten of all households<sup>14</sup>. Lone parents were much more likely to be in arrears and were more likely to have two or more commitments.

<sup>12</sup> Op Cit 6

<sup>13</sup> Claire Whyley and Steve Brooker, NCC, June 2004, "Home Credit: an investigation into the UK home credit market". Home credit companies provide credit with a low weekly cost but typically 200% APR: Paul Jones, Liverpool John Moore University, 2001, "Access to credit on a low income".

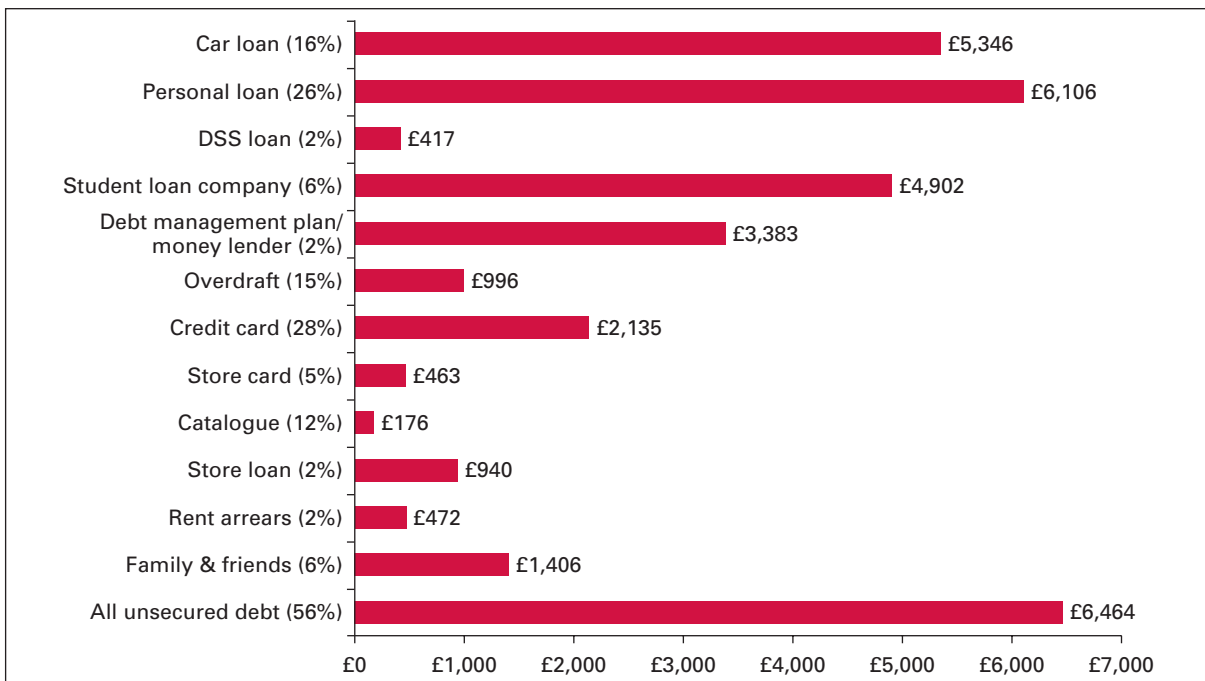
<sup>14</sup> Op Cit 9

**Figure 5: Extent of financial difficulties (%)**

	All households	All families	Lone parents	Two parents
In arrears in past 12 months	18	30	48	25
Financial difficulties now but not in arrears	7	9	14	8
In arrears now, of whom	13	22	36	17
– 1 commitment in arrears	7	12	11	12
– 2 commitments in arrears	3	5	19	2
– 3 commitments in arrears	3	2	6	3

Source: Household Survey (2002) quoted in Kempson, McKay and Willitts 2004  
Base: 1,647 households (unweighted)

**Figure 6: Distribution and average amounts outstanding for unsecured debt**



Source: FSA/ONS Omnibus Survey 2003<sup>15</sup>  
Note: Figures in brackets = per cent of GB families who have the product

<sup>15</sup> Steve Nuttall, Financial Services Authority, Spring 2004, "Household borrowing: impact of interest rate rises", CML Housing Finance

### *Types of borrowing and arrears*

**30.** The most popular forms of unsecured borrowing are credit cards and personal loans, with over a quarter of GB families having commitments on each (see Figure 6). Across the whole population, arrears on these types of borrowing are lower than arrears on household bills: 3% of households had arrears on credit card commitments at the time of the 2002 survey and only 1% had arrears on personal loans, whereas 9% had arrears on household bills (Figure 7).

**Figure 7: Types of arrears across all households**

	Arrears in past 12 months	Arrears now
<b>Any arrears at all</b>	<b>18</b>	<b>13</b>
<b>Any consumer credit arrears</b>	<b>10</b>	<b>6</b>
Overdraft	3	2
Credit card	4	3
Store card	1	1
Mail order	2	1
Hire purchase / credit sale	1	*
Loan	2	1
<b>Any household bill arrears</b>	<b>13</b>	<b>9</b>
Mortgage	1	*
Rent	2	1
Gas	4	3
Electricity	3	2
Water	4	3
Council tax	4	3
Other bills	4	2

Source: Household Survey (2002) quoted in Kempson 2002

Base: 1,647 households

Note: \* = less than one per cent

### *Employment*

**31.** As might be expected, the research reveals a clear link between worklessness and arrears (see Figure 8). Overall, people who are not working are twice as likely to be in arrears as those who are in work.

**Figure 8: Arrears by employment status (% of families with children)**

Economic activity status	In arrears now	Consumer credit	House-hold Bills
Full time	16	7	11
Not working	32	19	21

Source: Household Survey (2002) quoted in Kempson, McKay and Willitts 2004  
Base: 420 families with children (unweighted)

### Local deprivation

**32.** Evidence suggests that, while at regional level there is little pattern across the UK of over-indebtedness, some kinds of arrears are strongly linked to local deprivation. Analysing arrears by local deprivation rating<sup>16</sup> shows that in the most deprived areas of England, families with children were nearly four times as likely to be behind with household bills as in the least deprived areas. In contrast, levels of credit arrears were not influenced by the level of local deprivation.

**Figure 9: Arrears by level of local deprivation (% of families with children)**

	1 (most deprived)	2	3	4	5	Not known*
Any credit arrears	18	19	22	19	20	19
Behind with any household bills	23	16	10	11	6	19

Source: Families and Children Survey, 2002

\* including Scotland and Wales

Base: 7,359 families which children

### What causes over-indebtedness?

**33.** In considering the causes of over-indebtedness, we look at three sources of information: individuals' explanations for problem debt, new analysis of the risk factors associated with families on low incomes with arrears, and a review of economic theory. We conclude with a discussion of the macro-economic framework.

<sup>16</sup> The local deprivation rating is derived from a number of indicators which cover a range of domains (income, employment, health deprivation and disability, education skills and training, housing and geographical access to services) which are combined into a single deprivation score for each geographical area

### *Individuals' explanations*

**34.** There are usually a number of inter-related reasons why people experience over-indebtedness: nearly 60% of CAB clients felt that there was more than one cause for their debt problem<sup>17</sup>. In both a household survey and a survey of CAB clients (Figures 10 and 11 below), the top three reasons quoted by those suffering debt problems, were:

- sudden change in personal circumstances – resulting typically from job loss, relationship breakdown or illness;
- low income – the consequences of living for a long time on a low level of income; and
- over-commitment – in some cases related to money mismanagement.

**35.** Comparing the 2002 household survey with one conducted in 1989, fewer people are now citing low income as a cause (14% in 2002 as compared with 25% in 1989). There has also been a significant reduction in the numbers citing over-commitment as a reason for their financial difficulties probably due to lower interest rates.

<sup>17</sup> Op Cit 2

**Figure 10 – The reasons for financial difficulties (% of households, primary reason)**

	1989	2002
Loss of income	26	45
– redundancy	–	19
– relationship breakdown	–	5
– sickness or disability	–	7
– other loss of income	–	14
Other changes in circumstances	7	–
Insufficient (1989) / Low (2002) income	25	14
Over-commitment	24	10
Increased/unexpected expenses	10	12
Overlooked or withheld payment	12	8
Third party error	–	5
Debts left by former partner	–	4
Other reason	12	3

Bases: 1989: 220 households with 'problem debts' in past 12 months; 2002: 284 households in arrears or financial difficulty in past 12 months

Note: '-' indicates that measure was not offered as option in survey

Source: 1989 figures quoted in Berthoud and Kempson, 'Credit and Debt – the PSI Report' 1992; Kempson, 2002

**Figure 11 – Reasons for debt problems (CAB clients, top three reasons cited)**

	% of clients giving this reasons
Over-commitment	30
Job loss	26
Low income	23
Illness	21
Relationship breakdown	20
Money mismanagement, budgeting problems	13
Major necessary expenses	11
Benefit problems	10
Drop in income	9
Fault of others	6
Business related problems	5
Death in the family and death expenses	3
Alcohol and drug addiction	2

Source: Citizens Advice, May 2003, "In too deep"

**36.** While a high proportion of CAB clients reported a change of circumstances as a reason for debt, when the actual financial effects of these changes was ascertained, in a significant proportion of cases the amount of change was quite small, around 10% of annual income. This suggests that, for a proportion of CAB clients with debt problems, the level of commitments relative to income was such that a relatively small change turned previously manageable payments into problem debts.

### ***Factors linked with arrears in families***

**37.** New work has been carried out to consider potential causal factors leading to arrears and what factors act as protection against arrears among families with children<sup>18</sup>.

**38.** Three factors were significantly linked to a higher propensity to arrears:

- Drop in income – the situation was very dynamic: a third of families with arrears one year had cleared them the next, while a quarter of those who had been arrears-free had fallen into arrears by the following year.
- Household tenure – the risk of tenants being in rent arrears was nearly five times that for home-buyers being behind with mortgage repayments. This is accounted for by a combination of very different income levels and financial pressures; different regimes for identifying and chasing arrears; and the traditionally high priority given to mortgage repayments.
- Number of credit commitments – for those with consumer credit borrowing, the risk of arrears was between two and three times higher for these commitments than it was for household bills.

**39.** Other than retaining a job and restrained use of credit, only one factor emerged as a potential protection against arrears: having money in savings. Savings were also associated with families who were already in arrears managing to clear their arrears.

**40.** Financial assistance from family did not seem to protect families from arrears, quite possibly because they sought help too late. In addition, few families reported using payment protection insurance: many did not have such insurance and very few had tried to claim when they did have a policy.

<sup>18</sup> Op Cit 9. Multivariate analysis was used to isolate the significant factors

### ***Economic theory***

**41.** Credit markets can fail due to information problems between borrowers and lenders and due to the social costs associated with over-indebtedness, which can lead to an over-supply of credit.

**42.** Informational problems occur in many ways. A lender can only assess a customer's financial position on the basis of information that is available from the borrower and credit bureaux. Borrowers face uncertainty about future income and expenditure and therefore about the affordability of credit.

**43.** There are a number of costs imposed when a borrower is over-indebted beyond those felt directly by the borrower and lender, for example increases in stress levels and relationship breakdown<sup>19</sup> impose costs on society. The absence of these costs from individuals' decisions to enter the credit market means that the free market would have a tendency to create an over-supply of credit. It is however noted that lack of access to affordable credit is a contributory factor in problem debt.

### ***Macro-economic framework***

**44.** The ability for individuals to maintain repayments on credit or household bill commitments is strongly influenced by macro-economic factors such as inflation, interest rates and levels of employment.

**45.** Due to the Government's strong macro-economic policy framework, the UK weathered the recent global economic slowdown better than many of our major competitors and better than in past global downturns. That has been supported by consumer spending and the strongly developed consumer credit market. For example, unemployment rates are close to their lowest levels since the 1970s. Both inflation and interest rates are also low.

**46.** There are a number of factors which could impact on future progress:

- the level of interest rates;
- trends in fuel and water prices;
- changes in local authority funding influencing, for example, housing costs and the availability of debt advice;

<sup>19</sup> The costs of over-indebtedness were considered in detail in the Consumer Credit White Paper (Op Cit 1), Annex C

- the strength of the labour market and levels of unemployment;
- varying constraints on household budgets through changes in tax and utility bills;
- trends in house prices and their impact on, in particular, recent buyers with high loan-to-value ratios and those relying on equity release to fund their retirement; and
- in addition, households may begin to reach the limits of their ability to borrow relative to their income.

**47.** Overall, a small change in borrowing costs or household outgoings could have a significant impact on individuals with limited scope to mitigate against these risks.

**48.** Nonetheless, these risks need to be considered in the broader context of borrowing and consumer spending patterns. Although the ratio of household debt to income has climbed to historically high levels, this needs to be viewed alongside developments in household assets. The ratio of household debt to total net wealth is currently estimated to be no higher than it was in 1995. Moreover, more than three quarters of the increase in household mortgage debt since early 2000 has been matched by the build-up of household holdings of money and deposits.

**49.** Currently, interest payments account for just over 7% of household disposable income on average, significantly below early 1990s levels. Widespread household defaults have in the past occurred only in the face of a significant rise in both interest rates and unemployment. Overall, therefore, maintaining macro-economic stability with low inflation, low interest rates and high levels of employment is expected to ensure that, for most households, existing levels of debt are sustainable. However, there remains a minority who will suffer from over-indebtedness: it is for this group that a strategic response is needed.

### **What does this mean for the over-indebtedness strategy?**

**50.** This analysis shows that over-indebtedness is a significant problem for a core minority of people. Low income groups are most likely to be in arrears, with families with children and particularly lone parents most at risk. Arrears are higher for the unemployed and those who live in deprived areas. Household bill arrears are more common than arrears on consumer credit commitments.

**51.** Over-indebtedness is often the result of a change of circumstances, for example job loss or family breakdown. Low income and over-commitment are also often cited as reasons, but less frequently than in 1989. Factors which seem to protect against problem debt are employment, savings and the restrained use of credit. Families with savings are also more likely to clear their arrears if they do get into difficulties.

**52.** While we are looking to minimise the costs of over-indebtedness suffered by all groups of society, the analysis shows that government action must address the problems and meet the needs of these most vulnerable groups: including families with children on low incomes, those on income-related benefits and the unemployed.

**53.** To tackle over-indebtedness effectively, we need action that will prevent problems happening in the future and actions that solve existing debt problems. In addition to maintaining the Government's strong macro-economic framework and work to tackle poverty and social exclusion, the policies and services which will tackle these issues are:

- developing financial capability and supporting informed decisions by:
  - giving people the skills they need to manage money and navigate the credit market – this needs to be in place both in schools and for adults;
  - giving people the information they need to make informed choices about credit use – from both the industry and independent advisers – including generic financial advice and making credit agreements more transparent;
- ensuring all people – and in particular those on low incomes – can access affordable and reasonable credit;
- promoting responsible lending – both through the creation of a fairer legislative framework and supporting voluntary action by the lenders;
- encouraging people to save to avoid future debt;
- ensuring that accumulating arrears are identified early, that steps are taken by creditors to help people without resorting to the courts;
- ensuring that there is sufficient, high quality advice available to people once arrears have started to accumulate; and

- resolving arrears disputes that can only be resolved by the courts efficiently, speedily and effectively, and without making debts worse.

**54.** In addition, we need to make sure we identify where government systems can help and ensure that they do not exacerbate problem debt. For example, by building on improvements in the administration of housing and council tax benefits.

**55.** At all times the work programme must recognise the links to social exclusion and address the needs of vulnerable groups. Assessment of the relative effectiveness of different interventions on excluded and vulnerable groups will be a key part of the evaluation approach for the strategy.

# Delivering our Strategic Priorities

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## Strategic objectives

**56.** In order to minimise the costs of over-indebtedness to individuals, businesses, the Government and society as a whole, we aim in partnership with industry, the voluntary sector and other stakeholders to:

- minimise the number of consumers who become over-indebted; and
- improve the support and processes for those who have fallen into debt.

**57.** As set out in the introduction, our aim is to get to a position where consumers have the capability and information they need to make informed decisions about borrowing and where lenders make responsible decisions about whether and how much credit to grant. We want individuals to be able to maintain payments on basic household bills in order to escape the cycle of poverty, stress and social exclusion. We want to ensure that where individuals get into difficulty, they seek help at the earliest possible opportunity. We want there to be easy access to free advice to help them out of debt, sympathetic treatment by creditors and legal support and systems to resolve problems quickly, fairly and effectively.

**58.** In addition to maintaining the Government's strong macro-economic policy framework, the partners have identified the following strategic priorities and actions.

## Poverty and social exclusion

**59.** Over-indebtedness can be caused by and contribute to poverty and social exclusion. 57% of over-indebted households have annual incomes of less than £7,500 a year<sup>20</sup> and families with children, in particular lone parent families, are more likely to suffer from arrears. The Government's response to tackling poverty and social exclusion is set out in "Opportunity for All"<sup>21</sup> and underlies

<sup>20</sup> Op Cit 6

<sup>21</sup> Details of the Government's Opportunity For All programme can be found at <http://www.dwp.gov.uk/ofa/index.asp>

our approach for tackling over-indebtedness among these vulnerable groups. The four key elements of the strategy are:

- ensuring that work is possible – through the maintenance of a stable macro-economy, delivery of active labour market policies, and the promotion of the improvement of skills;
- providing financial security and inclusion – primarily by ensuring that work pays, and by promoting financial security in retirement;
- breaking cycles of deprivation – through preventative strategies such as early years intervention and the provision of good quality education; and
- improving public services for all.

### Financial capability and information

**60.** A significant proportion of consumers do not consider themselves financially literate<sup>22</sup>. Many cite money mismanagement and the related issue of over-commitment as the causes of their over-indebtedness. And informational problems are inherent in the credit market.

**61.** An increase in levels of financial literacy and awareness is needed so that more individuals can take control of their finances, and participate actively and effectively in the credit market. In addition, the legislative framework needs to ensure that consumers get the information they need to make informed decisions about financial products.

#### **Partnership action includes:**

- FSA is leading in bringing together a national strategy for financial capability, focusing on seven priority areas: schools, young adults, work, families, retirement, borrowing and advice<sup>23</sup>.
- The Adult Basic Skills Strategy Unit are working with the Basic Skills Agency, the FSA and others to improve the financial literacy skills of adults as part of Skills for Life, the national strategy to improve adult literacy, language and numeracy.

<sup>22</sup> Lifelong Learning, 1999, "A Fresh Start: Improving numeracy and literacy"

<sup>23</sup> FSA, 2004, "Building financial capability in the UK"; FSA, 2003, "Towards a national strategy for financial capability"

- New regulations on consumer credit advertising will come into force in October 2004. They will ensure that advertising of credit products is clear, fair and not misleading and that APRs are calculated on a consistent basis so that consumers can compare the costs of different credit products.
- From May 2005, lenders will be required to give prospective borrowers pre-contract information about credit products to help them make more informed decisions about borrowing. There will also be new rules on the form and content of credit agreements, to make these clearer and easier for consumers to understand.

**Success criteria for the financial capability strategy include<sup>24</sup>:**

- more people review their financial situation regularly;
- people are more discriminating when shopping for financial services, and fewer people buy unsuitable financial services and products; and
- the financial services industry designs products that more closely meet people's needs; and products are promoted and sold in a fashion that is more suited to people's needs.

**Success criteria for the creation of a fair and transparent consumer credit marketplace will include<sup>25</sup>:**

- whether credit advertisements are clear, fair and not misleading;
- whether enforcement authorities are more successful in enforcing compliance with advertising regulations; and
- whether consumers have a better understanding of the terms and conditions of their credit agreements, including APR, default charges and early settlement costs.

<sup>24</sup> See FSA 2004 (Op Cit 21) for discussion of outcomes

<sup>25</sup> See the Consumer Credit White Paper (Op Cit 1), Annex A for discussion of success criteria

### Access to affordable credit

**62.** The Government recognises that problem debt hits those on the lowest incomes hardest: it is these groups who often have the fewest options available to them and the options that do exist are often high cost. We want to ensure that the most vulnerable consumers have access to affordable forms of credit.

#### Partnership action includes:

- The Government is working with the credit union movement to ensure the framework in which they operate has the flexibility to allow credit unions to focus on tackling issues of financial exclusion including affordable credit and support for the most vulnerable.
- In addition, from May 2004, many Credit Union customers were able to receive benefit payments directly into their Credit Union accounts.
- We recognise that there are a range of other alternative models of affordable credit provision. The Government is working to explore how these models could help to ensure affordable alternatives to high cost credit provision are available to those on the lowest incomes.
- We are also looking to see what further improvements can be made to enhance the ability of the Social Fund to help those on low incomes manage their finances.

#### Success criteria:

- increased and improved access to affordable sources of credit for those on low incomes (measures under development as part of the review of financial inclusion).

### Encouraging people to save

**63.** Access to assets provides individuals with security, opportunity and independence in life. Savings act as a cushion for people to fall back on if something unexpected happens, and having even a small amount of money saved makes it less likely that people will go into debt.

**Partnership action includes:**

- Budget 2003 introduced a new Child Trust Fund (CTF). This is a ground breaking initiative which will strengthen financial education, promote positive attitudes to saving and ensure assets for all children, regardless of family background. All children receive £250, children from poorer families receive £500, and more payments will be made by the Government when children reach age 7. Government is working closely with the financial services industry and voluntary sector to deliver the product. The first accounts will be available in 2005.
- Individual Savings Accounts (ISAs) were introduced in 1999. Over 15 million people have an ISA, with over £130 billion subscribed, supported by over £1.6bn in tax relief for savers. ISAs have increased take-up of savings products compared to TESSAs, or PEPs for both the low-income, and the young.
- As well as ISAs, the Government is looking at new ways to support savings with pilots for the Saving Gateway, where the Government matches savings of low-income families (up to a limit of £375). These are being run in conjunction with the private sector, other Government departments and community organisations. Initial indicators from the interim evaluation are positive. Pilots will end in February 2005 and will be used to inform future developments.
- The Government will also be introducing the ‘stakeholder suite’ of simple, low-cost, risk-controlled saving and investment products in April 2005. The ‘stakeholder suite’ will include<sup>16</sup>:
  - a deposit account – in the form of a rebranded CAT-mark cash-ISA;
  - a medium term investment product, with a smoothed investment option; and
  - a modified stakeholder pension.

**Success criteria:**

- The success of the policies will be assessed in relation to the Government’s objective of encouraging appropriate savings and investments to promote growth, security and economic opportunity for all. The Saving Gateway is being independently evaluated and HM Treasury and the Inland Revenue are putting together a detailed evaluation plan for the Child Trust Fund.

<sup>26</sup> Full details of the suite can be found at: <http://www.hm-treasury.gov.uk/stakeholder>

## Household bills

**64.** A higher proportion of households are in arrears on household bills than credit commitments: in particular, those on low incomes are twice as likely to be behind on household bills than consumer credit. Utility companies are working with regulators and social landlords are working with Government to minimise arrears while ensuring that vulnerable consumers have access to vital services.

### Partnership action includes:

- Government, OFGEM, energywatch and energy suppliers are working to tackle fuel poverty<sup>27</sup> and have developed good practice guidelines on 'debt prevention' and 'debt and disconnection'.
- A cross-Government group has been established to review the way in which lower-income households are helped with their water and sewerage charges.
- A cross-departmental working group has been established to look into possessions and evictions, following CAB/Shelter concerns that social landlords were using possession action as a tool to recover rent arrears. Research commissioned from Glasgow University will be used to inform good practice guidance (Spring 2005).
- The Office of the Deputy Prime Minister (ODPM) is currently consulting on proposals to amend the current Best Value Performance Indicators on levels of rent and arrears collected. The current indicator may have produced 'perverse' incentives to local authorities to initiate possession proceedings as a way of improving performance in the indicator. The new PI would be in force in April 2005.

### Success criteria include:

- reduction of debt to utility companies and of complaints in relation to utility provider debt collection practices; and
- increased compliance with best practice guidance by social landlords in the use of possession actions.

<sup>27</sup> DTI, November 2001, "The UK Fuel Poverty Strategy" and subsequent annual reports

<sup>28</sup> For those with consumer credit borrowing (56% of GB families according to FSA/ONS Omnibus Survey 2003), the risk of arrears was between two and three times higher for these commitments than it was for household bills

<sup>29</sup> Op Cit 6

## Responsible lending

65. While fewer households have arrears on consumer credit commitments than household bills, the risk of consumer credit arrears is higher<sup>28</sup>. The current regulatory provisions targeting 'extortionate credit bargaining' has failed to address unfair practices in the credit market, some lending practices have been found to be associated with households in financial difficulties<sup>29</sup> and informational problems are inherent in the credit market.

66. Working in partnership with industry, Government plans to introduce new legislation to create a fair, clear and competitive consumer credit market.

67. All reputable credit providers are committed to responsible lending. The sector is working to ensure that adequate and appropriate credit assessment is carried out so that individuals do not become over-extended, that marketing and account management practices do not trigger or exacerbate over-indebtedness, and that individuals are dealt with sympathetically and supportively when problems arise.

### Partnership action includes:

- Lenders, credit reference agencies and Government are working to increase the data available for making credit decisions and monitoring credit behaviour. For example, Experian has developed a Consumer Indebtedness Index and DCA is developing proposals to expand the scope and accessibility of data held within the justice system.
- The industry's Banking Code is currently under review with a view to increasing its effectiveness (revised Code expected early in 2005). In addition, OFT has invited trade associations within the credit sector to apply for approval under its Consumer Code Approval Scheme.
- APACS has issued new guidance which includes best practice recommendations on appropriate use of credit card cheques, credit checks to be carried out before increasing credit limits, and the use of 'health warnings' on card statements to highlight the risks associated with repeatedly paying the minimum repayment only.

- Government is proposing to introduce legislation which will strengthen the credit licensing regime, end unfair selling practices and improve consumer redress. We are working to ensure that the unfair credit test covers the entire credit market and is effective for all consumers including the most vulnerable. The Bill will be introduced when Parliamentary time permits.
- Government is concerned that the cost of some credit is unreasonably high. Research into the ways that interest rate controls have worked in other countries has been commissioned by DTI. A draft report was discussed with stakeholders in April and an announcement on policy will be made shortly. The Government will continue to monitor the impact of policy in this area and the cost of credit.
- A Department of Trade and Industry (DTI) funded pilot will crack down on illegal moneylenders who prey on the most vulnerable in society. The two-year pilot project run by local Trading Standards Offices is establishing multi-disciplinary teams in Birmingham and Glasgow.

### **Success criteria include:**

- fewer complaints to the OFT in relation to lending practices, both those governed by legislation or self-regulation;
- increase in the number of credit sector trade association with approval under the OFT Consumer Code Approval Scheme;
- whether the new licensing regime has led to improved compliance in those sectors of the credit market which have given cause for concern; and
- an increase in prosecutions of illegal money lenders in the pilot areas.

### **Providing advice**

**68.** We want more people in need of help, in particular those from the most vulnerable groups, to receive timely telephone or face-to-face support and thus resolve their debt problems. The debt advice sector currently provides high quality advice to thousands each year; the following actions are aimed at expanding and co-ordinating service to meet demand.

**69.** Government (in particular, local government which funds the majority of current provision) is working in partnership with both the financial services sector and with voluntary and community bodies to “achieve a step change in the availability of free debt advice for those who need it” (Budget 2004).

**Partnership action includes:**

- The sector is developing a new national telephone debt advice gateway: proof of concept tests are underway and a pilot is planned to start in September. The gateway will ensure those seeking advice are routed to the organisation best-placed to deal with their situation and needs.
- The Community Legal Service Direct Advice Line will be available in England and Wales from July 2004. This advice line will provide specialist legal advice in debt, welfare benefits and education.
- Citizens Advice and Advice UK will be leading work in England and Wales looking at ways of increasing access to face-to-face advice in areas of the country where there is significant under-provision.
- The Money Advice Trust is working with trade associations and Government to develop a funding model for the debt advice sector. Government will be looking to all those who profit from transactions which can leave people in debt to play their role in funding debt advice.
- DCA is commissioning research to evaluate the value of providing early effective advice in debt and related areas, and is co-ordinating work to improve sign-posting of debt advice from Government services.

**Success criteria include:**

- an increase in awareness and use of debt advice amongst the over-indebted;
- an increase in the number of consumers helped by the formal referral service and new telephone gateway;
- consumer satisfaction with the new gateway to telephone debt advice; and
- ensuring access for vulnerable consumers to debt advice services.

## The justice system and debt

**70.** The Government aims to ensure that where possible, debt problems and disputes can be resolved without the stress and additional expense of court proceedings (to borrowers, lenders and society as a whole). The courts should only be used in the last resort to resolve genuine legal disputes and enforce judgments against those who won't pay. When it is needed, we aim to ensure that the court provides an efficient, speedy and effective service. The economy, and in particular a fair and efficient credit market, must be underpinned by effective systems for enforcing the payment of debts.

**71.** We aim to reform the legal system according to a concept of 'Proportionate Dispute Resolution', so that resolution paths are tailored to the needs of individual users, especially where the most vulnerable are involved.

### **Partnership action includes:**

- Research shows that the great majority of those taken to court are unable rather than unwilling to pay their debts<sup>30</sup>. DCA is currently seeking views on pre-litigation guidelines for creditors and debtors with a view to encouraging the resolution, wherever possible, of debt problems pre-court.
- The DCA consultation paper on provision for the over-indebted will be published shortly<sup>31</sup>. It includes consideration of whether there is a need for a non-court based 'No Income No Asset' debt relief scheme; an Enforcement Restriction Order; reform of Administration Orders; and strengthening of repayment schemes.
- Along with existing work to improve the administrative processes of the courts, DCA will be consulting on proposals on options for further streamlining court processes to make them faster, more accessible, more efficient, and to incentivise the appropriate use of the courts.
- DCA is working to implement the White Paper "Effective Enforcement" in order to improve methods for recovery for civil debt and to provide a single regulatory regime for warrant enforcement officers.

<sup>30</sup> Dominy and Kempson, 2003, "Can't Pay or Won't Pay: a review of creditor and debtor approaches to non-payment of bills", a report for DCA

<sup>31</sup> DCA, "Proposals for providing better assistance for the over-indebted and those in multiple debt", to be published shortly

- The Insolvency Service will publish information about alternatives to bankruptcy (including the Fast Track Voluntary Arrangement introduced by the Enterprise Act 2002). The Service will also introduce secondary legislation and work with other government departments on removing unnecessary restrictions resulting from bankruptcy.

**Success criteria include:**

- a reduction in the number of inappropriate claims that go to court;
- an increase in the efficiency of the debt resolution process both in and out of court;
- an increase in the effectiveness of enforcement; and
- an improvement in individuals' experiences of resolving debt problems.

**Government systems and support**

72. Government must lead by example, in particular through improvements in the administration of financial support to consumers on low income and playing an active role in pilot projects and dissemination of best practice at both a national and local level.

**Examples of Government action:**

- The Department for Work and Pensions (DWP) is working with local authorities to drive up the standard of housing benefit and council tax benefit administration through: additional investment in a £200m Performance Standards Fund to help local authorities meet Performance Standards; quarterly monitoring of the poorest performers; and inspection and help teams.
- Policy on tax credit overpayment recovery is currently under consideration by HM Treasury and Inland Revenue officials.
- Jobcentre Plus will be spending £3 million in 2004-05 and a further £3 million in 2005-06 to buy in additional advice on debt to help some of its most vulnerable customers return to work.

- The Scottish Executive provides £3m per annum via Local Authorities, to increase and support the provision of money advice services in Scotland. This will rise to £5m in 2005-06. The Executive is also funding money advice services for some of the most vulnerable groups of people in society.
- The Debt Redemption and Money Advice (DRAMA) scheme is a partnership between the Wales Co-operative Centre, Coalfields Regeneration Trust (CRT), money advisers and Credit Unions within the CRT's area in South Wales. A package of support measures is provided including money advice, money management training and instant Credit Union loans to 'buy out' existing debt or cover urgent bill payments.

### Partnership action plan

**73.** The full Partnership Action plan is presented at Annex A. The table sets out the commitments we made in the Consumer Credit White Paper and further policy actions to address strategic weaknesses identified through the Working Groups on Over-indebtedness. Details are given of the action being taken towards meeting the commitments, future milestones and lead responsibilities.

## Role and Responsibilities

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**74.** The strategy set out in this paper is designed to support the delivery of the Government's commitment to social justice and prosperity for all. Many of the actions that we have identified relate to specific central Government targets. However, there is an important role for local government, the industry and consumers and for the voluntary and community sector.

### **The role of central government**

**75.** A number of Government departments have an interest in work on over-indebtedness:

- DTI is responsible for the consumer credit (regulatory) framework, and also has an objective to create strong and competitive markets through the promotion of consumer access to quality information, advice and redress. The Insolvency Service is an Executive Agency of the DTI that has policy responsibility for insolvency matters in England and Wales and some limited insolvency matters in Scotland. The Insolvency Service also administers the affairs of all compulsory insolvencies in England & Wales. In addition, DTI leads on employment legislation including the minimum wage and works with OFGEM on tackling fuel poverty. DTI and DWP jointly provide secretariat for the Over-indebtedness Working Groups.
- DWP's interest in tackling debt relates both to its lead responsibility in tackling social exclusion and to the impact problem debt can have on worklessness. DWP aims to improve access and accessibility to its services, which include the social fund, benefits and employment skills. It also has a role in analysing and tackling poverty.
- HM Treasury has an overarching aim to create economic opportunities for all, and is responsible for the financial services industry. The Treasury leads on financial inclusion.
- DCA is responsible for the advice services provided by the LSC and has an objective aimed at increasing the advice and assistance given to people to improve their knowledge of their rights and responsibilities. It also provides the court procedures and administrative support under which debts are

adjudged in the courts, and the mechanisms for their enforcement after judgement, and has a key objective of ensuring that only appropriate cases are resolved through the courts; but where cases do come to court, that they should be dealt with efficiently, speedily and effectively.

- The Legal Services Commission (an Executive non-departmental public body accountable to DCA) is responsible for the Community Legal Service – the national framework for all legal advice and information services.
- The Department for Education and Skills (DfES) launched the “Skills for Life” strategy in 2001, which aims to help 1.5 million adults improve their literacy, language and numeracy skills by 2007. Through the Strategy they have funded a Financial Literacy Project. Alongside developing teaching and learning resources and trialling innovative methods of delivery, the project has aimed to help develop local partnerships between tutors and the advice sector. In addition, the Department have piloted the Community Finance and Learning Initiative to test a range of approaches to providing a more integrated response to financial exclusion including support and education.
- ODPM has overarching responsibility for the Social Exclusion Unit which retains a watching brief on financial as well as social exclusion. ODPM also bears responsibility for local government which plays a crucial role in the provision of local services to minimise over-indebtedness.

**76.** In addition to the interest of Government departments, the independent regulators – the FSA, OFT and the utility regulators – have interests in consumer education, compliance with the regulatory framework and best practice among utility suppliers. Roles and responsibilities across central government are summarised in Annex D.

**77.** Devolved administrations are also focussing on problem debt. The Scottish Executive addresses the problem of over-indebtedness as part of its wider objective to tackle financial exclusion in Scotland. The Welsh Assembly lead for their nation on the devolved issues of financial inclusion, basic skills (literacy and numeracy) and financial education. Northern Ireland’s Department of Enterprise, Trade and Investment is responsible for the regulation of credit unions registered in NI and is leading on development of NI’s social economy.

## The role of local government

**78.** The achievement of many local government objectives are also affected by levels of over-indebtedness. Many of the services provided through Local Authorities play a fundamental part in preventing or tackling over-indebtedness, including:

- regeneration of local areas and supporting the development of local financial services;
- funding of advice provision including income maximisation;
- Trading Standards; and
- lifelong learning, parental support and support to schools.

**79.** In addition, Local Strategic Partnerships in England can play an important role in tackling the issue of financial exclusion when developing their Community Strategy.

## Industry

**80.** All reputable credit providers are committed to responsible lending and tackling over-indebtedness. The role of lenders is fundamental to minimising problem debt: in a fast moving market where wide availability of credit benefits the many, self-regulation and voluntary action play an important role in minimising the problems of over-indebtedness suffered by the few.

**81.** The role of industry and examples of industry action include:

- ensuring that credit advertising and contractual information is clear, fair and not misleading, and supporting the development of national financial capability;
- lending only to those they judge able to repay, and developing credit checking techniques to identify vulnerable groups and those at high risk of default (e.g. the Consumer Indebtedness Index);
- identifying arrears early and treating debtors sympathetically;
- supporting the provision of free debt advice (e.g. industry funding for National Debtline), referring those in need to advice providers and working

with advisors to resolve problems;

- taking action to address lending practices identified as being associated with problem debt (e.g. APACS best practice guidance on handling credit card cheques, credit limit increases and repeated minimum repayments on credit cards);
- wherever possible, resolving debt problems pre-court and using resolution paths best suited to individual needs;
- promoting best practice throughout the industry through the use of codes of practice (e.g. the Banking Code); and
- inputting into the development and implementation of solutions (e.g. through involvement in the Over-indebtedness Advisory Group and the FSA Working Groups on Financial Capability).

## Consumers

**82.** Just as we expect industry to act responsibly in making decisions about lending and recovering debt, we expect consumers to take responsibility for their actions. People should only borrow if they are able to repay what they owe and it is for people using services to make sure that they can pay their bills. When consumers get into difficulties with borrowing or household bills, they should tell their creditors straight away. The Government believes that in most cases, consumers and the industry can work in partnership to avoid problems developing into over-indebtedness.

**83.** However, as set out in earlier chapters, for some consumers this approach to debt and problem bills cannot readily address their difficulties at the current time. Some people do not have enough understanding of financial matters to make informed decisions about whether they are going to be able to pay back what they owe. Others are unable to access the credit and other financial products that they need to manage their money. And, when people run into problems with several creditors, independent advice may always be necessary to sort those problems out. This strategy sets out our approach to support individuals in becoming empowered consumers: to have at least a basic level financial capability, to escape poverty and to save, to engage in a fair, clear and transparent market, and to have access to fair and effective means of resolving disputes.

## The voluntary and community sector

**84.** The voluntary and community sector have an important role to play in the provision of debt advice. While economies of provision mean that national provision of advice (such as, for example, the National Debtline) is most cost-effective, local knowledge and closeness of contact can make a real difference. In particular when advising the most vulnerable, the best delivery of support and services may be at a local level through local government, voluntary and community organisation.

**85.** At a strategic level, the partners are working together through the Advisory Group on Over-indebtedness. At a project level, the respective roles of government (both central and local), industry, voluntary sector and individuals will depend on the nature of the issue being tackled and the proposed policy intervention.

## Implementing our Strategy

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**86.** This strategy is part of an on-going process. Co-ordinated action across Whitehall, local government, lenders, voluntary organisations and consumer groups needs to continue to drive implementation, monitor and evaluate, and identify new actions. The Ministerial, Advisory and Officials Groups on Over-indebtedness will continue to carry out these roles: the Advisory and Officials Groups will meet quarterly and the Ministerial Group will meet biannually.

**87.** Implementation, co-ordination with devolved administrations and local government, and regulatory impact assessments of individual policy areas are the responsibility of individual policy leads. We will work with representatives of the devolved administrations and local government through the Advisory and Officials Groups to ensure joined-up action.

**88.** We will report annually on what has been achieved. Monitoring of individual policy areas is the responsibility of the individual policy leads. However, there will be a regular exercise to monitor the overall levels of over-indebtedness, using both an annual survey commissioned by the DTI and a number of other data sources. The survey will report on a number of indicators of over-indebtedness and will include a breakdown of those affected by and the products most commonly associated with problem debt.

**89.** Evaluation of individual policy areas is the responsibility of the policy leads. Success criteria for each strategic priority are detailed in the Strategic Priorities section of this strategy. We can evaluate the success of policies by looking at these measures. Evaluating the impact of the strategy as a whole against the strategic objectives is a more complex task. Government will develop a plan for this evaluation based on extensive discussion with evaluation experts and drawing on the results of policy evaluations. This plan will be developed and implemented in consultation with the Advisory Group.

# Annex A

## Tackling Over-indebtedness – Action Plan 2004

Action	Update	Milestones	Lead Organisation
<b>Financial capability and information</b>			
National Strategy for Financial Capability.	Report published in May 2004: "Building financial capability in the UK". Seven workstreams have been identified as early priorities: Schools, Young adults, Work, Families, Retirement, Borrowing and Advice. Michael Coogan, Director General of the Council of Mortgage Lenders is chairing the Borrowing Working Group looking at consumer understanding of issues related to borrowing. The other priorities will include, where relevant, education, information and general advice about borrowing.	The Working Group for each priority aims to present the Steering Group with proposals for action in September 2004.	FSA
Skills for Life – Financial Literacy Project.	DfES has funded the Basic Skills Agency (BSA) to develop a programme of support for financial literacy and basic skills. The funding has allowed the BSA to develop resources and pilots in several areas including: <ul style="list-style-type: none"> <li>the Adult Financial Capability Framework, developed with the FSA, which outlines the skills needed to be financially capable;</li> <li>awareness raising amongst financial institutions to train counter staff to recognise customers with basic skills needs and help them access financial services;</li> </ul>	The Adult Basic Skills Strategy Unit is continuing the Financial Literacy Project during 2004-05 and the project will focus on ensuring financial literacy is mainstreamed and sustainable, building on the development of materials and training, in addition to further work with key partners such as the FSA, in support of the Financial Capability work.	Adult Basic Skills Strategy Unit/Basic Skills Agency, DfES

Action	Update	Milestones	Lead Organisation
New statutory instruments on consumer credit advertising, form and content of agreements, on-line agreements, early settlement.	<ul style="list-style-type: none"> <li>community development projects which have tested effective ways of engaging people and delivering financial literacy in a community setting; and work with Citizens Advice to develop materials to ensure individual bureaux are able to support their clients, many of whom have debt/ financial problems and poor basic skills.</li> </ul> <p>Consultation was completed on 15 March 2004: DTI received over 110 written responses including from the credit industry, consumer bodies and regulators. A stakeholder day was held on 1 April 2004. In response to consultation, changes of a technical nature were made to existing policy on advertising and form and content.</p> <p>All statutory instruments were laid before Parliament on 9 June 2004 along with publication of the government response to consultation.</p>	<p>Implementation dates for secondary legislation:</p> <ul style="list-style-type: none"> <li>consumer credit advertising and standardisation of APR calculations: 31 October 2004 with a transitional period of up to one year;</li> <li>form and content of agreements: 31 May 2005;</li> <li>early settlement: 31 May 2005 for new loans; 31 May 2007 for existing loans less than 10 years old; 31 May 2010 for existing loans older than 10 years.</li> </ul> <p>A two-year review of the legislation is proposed to gauge effectiveness.</p>	DTI
<b>Access to affordable credit</b>			
Policy development on access to affordable credit.	A Government announcement on promoting financial inclusion was set out in Budget 2004; it included commitment to work with the financial services industry and voluntary sector bodies to achieve "a significant increase in the availability of affordable credit for those on the lowest income".	The Government will work with the financial services industry to bring forward specific proposals in summer 2004.	HM Treasury

Action	Update	Milestones	Lead Organisation
Development of the credit union movement.	HM Treasury met with representatives of the credit union movement in January 2004 to discuss the Credit Union future role and framework.	Credit Union movement representatives to advise on timetable for further discussions.	HM Treasury
Exploring other models of credit provision.	Policy development underway in HMT. To be informed by research commissioned by the Joseph Rowntree Foundation and undertaken by Professor Elaine Kempson on access to affordable credit.	Update to be included in affordable credit proposals in the summer.	HM Treasury
Social Fund – role and administration.	The DWP is working to improve Social Fund administration, guidance and training. It is also looking to see what further improvements can be made to enhance the ability of the Social Fund to help those on low incomes manage their finances.	The programme of improvement on Social Fund performance and administration is reported annually in the DWP Secretary of State for Work and Pensions' report on the Social Fund.	DWP
Northern Ireland – review of policy on credit unions and industrial and provident societies.	A consultation paper on initial proposals for the modernisation of the Credit Unions and Industrial and Provident Societies sectors was issued in May 2004.	The consultation period will run until 20 August 2004. A second consultation paper containing final proposals including proposed legislation, should follow by the end of 2004.	NI Department of Enterprise Trade and Investment (DETI)
<b>Encouraging people to save</b>			
Child Trust Fund (CTF).	Budget 2003 introduced a new CTF. All children receive £250, children from poorer families receive £500, and more payments will be made by the Government when children reach age 7. Government is working closely with the financial services industry and voluntary sector to deliver the product.	The first accounts will be available in 2005.	HM Treasury

Action	Update	Milestones	Lead Organisation
Savings Gateway.	As well as ISAs, the Government is looking at new ways to support savings with pilots for the Saving Gateway, where the Government matches savings of low-income families (up to a limit of £375). These are being run in conjunction with the private sector, other Government departments and community organisations. Initial indicators from the interim evaluation are positive.	Pilots will end in February 2005 and will be used to inform future developments.	HM Treasury
'Stakeholder Suite'.	The Government will be introducing a 'stakeholder suite' of simple, low-cost, risk-controlled saving and investment products in April 2005. The 'stakeholder suite' will include: <ul style="list-style-type: none"> <li>• a deposit account – along the lines of a re-branded CAT-mark cash-ISA;</li> <li>• a medium term investment product, with a smoothed investment option; and</li> <li>• a modified Stakeholder Pension.</li> </ul>	'Stakeholder suite' to be introduced in April 2005.	HM Treasury
<b>Household bills</b>			
Office of Communications (OFCOM) – promoting best practice in the telecoms industry.	All telecoms providers are required to have debt management and disconnection procedures that are proportionate and not unduly discriminatory. Such procedures should give due warning beforehand of any consequent service interruption or disconnection. Most telecoms operators have adopted best practice debt management measures in their codes of practice on disconnection procedures.	OFCOM is reviewing whether additional measures are needed as part of its review of the telecoms Universal Service Obligation which commences in Summer 2004.	OFCOM DTI

Action	Update	Milestones	Lead Organisation
<p>Office of Gas and Electricity Markets (OFGEM) – promoting best practice in energy markets.</p>	<p>OFGEM and energywatch have developed, with suppliers, good practice guidelines on debt prevention, and issued Debt and Disconnection guidelines in 2003.</p> <p>Some poorer customers may have been unable to switch because of debt. In February, OFGEM put in place new arrangements that allow those with debts of less than £100 to switch supplier, with the debt being assigned.</p> <p>OFGEM has helped promote the Factor Four pilot which involves the provision of money advice and help to reduce bills through energy efficiency measures. The service will operate from a credit union in Birmingham. This is a three year pilot and OFGEM is funding the evaluation which will be undertaken by the charity National Energy Action.</p> <p>In April 2004, OFGEM issued a consultation paper on behalf of gas and electricity suppliers. This set out arrangements designed to avoid the disconnection for debt of vulnerable customers, as well as guidance on the application of the Data Protection Act to suppliers wishing to advise social services departments about vulnerable customers.</p>	<p>The consultation period has now closed. OFGEM and the industry will now consider what improvements may be made to the proposals in the light of responses.</p>	<p>OFGEM DTI</p>

Action	Update	Milestones	Lead Organisation
Office of the Water Regulator (OFWAT) – promoting best practice in the water industry.	<p>A joint WaterVoice/OFWAT research report “Paying for Water” was published in September 2003. OFWAT and WaterVoice have stated that they will use the findings to work with water companies to ensure that their debt management and recovery approaches are tailored to collect debt and outstanding revenue more effectively.</p> <p>A DEFRA led cross-Government steering group was established in March 2004 to review the way in which lower income households are helped with their water and sewerage charges. This group involves OFWAT, HM Treasury, DWP, DTI and the Welsh Assembly Government.</p>	The water industry regulator OFWAT, together with Water UK, WaterVoice and DEFRA have commissioned and are currently carrying out research into debt through the UKWIR research project.	OFWAT DEFRA
Cross-departmental Working Group looking into possessions and evictions.	The Cross-departmental Working Group was set up following reports by Citizens Advice Bureaux and Shelter which showed evidence that social landlords were using possession action as a tool for recovery of rent arrears. ODPM hope to produce some form of good practice guidance in Spring 2005. However, because there is no provision in housing legislation to make a Statutory Code of Conduct and because of the new freedoms and flexibilities introduced by the Local Government Act 2003, this will only be a good practice guide. The findings from the Glasgow research (below) will be fed into this guidance.	ODPM hope to produce some form of good practice guidance in Spring 2005.	ODPM

Action	Update	Milestones	Lead Organisation
Research into possession action and evictions carried out by social landlords.	Due to concerns that social landlords were using possession action as a tool to recover rent arrears, ODPM has commissioned Glasgow University to undertake research into possession action and evictions carried out by social landlords. The report will include some good practice examples on dealing with the recovery of rent arrears.	The final report is due in September 2004.	ODPM
Best Value Performance Indicators on levels of rent collected.	The Best Value Performance Indicators are being consulted on and considered at the present time. ODPM have proposed to amend the current indicator on the levels of rent collected, because it is believed that these may have produced 'perverse' incentives to local authorities to initiate possession proceedings as a way of improving performance in the indicator of rent and arrears collected. The proposed amendments are designed to counter this.	The new Performance Indicators would be in force in April 2005.	ODPM
<b>Responsible lending</b>			
Data sharing and the identification of over-commitment.	The Government continues to encourage credit reference agencies and lenders to consider jointly whether any changes to data sharing could assist in more effective identification of over-commitment, especially on credit card limits, usage, and repayment behaviour.		Credit Reference Agencies and lenders

Action	Update	Milestones	Lead Organisation
	Credit reference agencies and lenders discussing sharing of positive data. Also discussing the keeping of data on student loans with the Student Loan Company (SLC) and companies with the sold student debt (from the SLC).	The industry is to agree ways forward on further data sharing on accounts for which consent is held. Discussions are underway with the Information Commission, trade associations, lenders, credit reference agencies to formulate a way forward on historic data for which consent to share is not currently held.	
	Experian have developed a Consumer Indebtedness Index to assist with identification of over-commitment. The Index was promoted to live use by lenders with effect from June 2004.	Further tools under development.	Experian
Expansion of the Register of County Court Judgments.	DCA has proposed expansion of the Register of County Court Judgments to improve access, to factor in new data to inform on debt matters and to give debtors information about creditors. Limited consultation is underway on expanding the scope of the Register. Further consultation will be undertaken on specific additional information to be included and easier access.	Further consultation by way of the proposed DCA Consultation Paper which will be published in Autumn 2004.	DCA
Review of the Banking Code.	The second independent review of the Banking Code is underway. The final round table with stakeholders took place on 22 June.	Professor Elaine Kempson will be submitting her draft report to the project sponsors in mid-July 2004. The final report and response from the code subscribers will be published in September 2004 with the new code coming into force in March 2005.	Banking Code Standards Board

Action	Update	Milestones	Lead Organisation
Development of industry consumer codes of practice.	OFT is encouraging trade associations to develop consumer codes of practice and these must include provisions to protect vulnerable consumers. OFT has invited trade associations within the credit sector to apply for OFT approval under the Consumer Code Approval Scheme. The credit sector was one of the seven priority sectors first invited to apply. It is one of the core criteria of the OFT code approval scheme that codes shall require additional effort/help to be provided to vulnerable consumers as appropriate to the sector.	Discussions are continuing with applicants.	OFT
Consumer Credit (Amendment) Bill.	Government is proposing to introduce legislation which will strengthen the credit licensing regime, end unfair lending practices and improve consumer redress. The process of drafting the Bill has begun. If time permits, draft clauses will be shared with stakeholders before the Bill is introduced.	The Bill will be introduced when Parliamentary time permits.	DTI
Monitoring the effect of the changes to the consumer credit regulatory framework.	OFT will monitor the effect of the updates to the regulatory framework announced in the Consumer Credit White Paper, with the view to advising the DTI Secretary of State on the need for further changes. It will have particular regard to the position of vulnerable consumers. As set out in the White Paper, the OFT will take a risk-based approach. Interest will be focused on areas of concern identified through consultation with consumer bodies, research indicating consumer detriment or receipt of complaints.	To be taken forward once new regulatory framework in place.	OFT

Action	Update	Milestones	Lead Organisation
Addressing the high cost of some credit	<p>Research into the ways that interest rate controls have worked in other countries has been undertaken by Policis on behalf of the DTI. A draft report was discussed with stakeholders in April 2004 and an announcement on the policy in respect of interest rate controls will be made shortly.</p> <p>The Government will continue to monitor the impact of policy in this area and the cost of credit.</p>	The research will be published shortly.	DTI
OFT research on consumers' problems with credit.	<p>OFT continues to undertake or commission research to establish the nature and extent of consumers' problems with credit and what needs to be done to address them. Such work informs OFT's enforcement activities and consumer education strategy.</p> <p>Relevant recent publications:</p> <ul style="list-style-type: none"> <li>• Research into credit card use (March 2004): sought to establish consumers' understanding of the key financial terms and conditions of credit card agreements, explore how consumers make choices about cards and investigate how understanding and choice might be improved through the clearer provision and presentation of information.</li> <li>• Report on debt consolidation (March 2004): concludes that better financial awareness among consumers and clear, accurate and relevant information from credit providers are required to make the use of debt consolidation fairer and more transparent.</li> </ul>		OFT

Action	Update	Milestones	Lead Organisation
National Consumer Council (NCC) super complaint on the home collected credit market.	The OFT is currently considering the NCC's concerns, detailed in its super-complaint submission, about the home collected (or doorstep) credit market.	The OFT will announce within 90 days of receipt of the complaint (by 10 September 2004 at the latest) what action, if any, it proposes to take in relation to the NCC's concerns.	OFT
EU Consumer Credit Directive	At EU level, DTI continues to seek the inclusion of UK priorities in forthcoming Consumer Credit Directive, including requirements for creditors to lend responsibly.	The European Commission is to adopt modified proposal in July/ September 2004.	DTI
Illegal money lending pilots.	The DTI is funding a two-year pilot to form special teams to deal with cases of illegal money lending and commission research to take place alongside the project. The Birmingham and Glasgow teams are now in place. Recruitment is completed, equipment has been purchased and the Birmingham team is operational.	Glasgow launch expected August 2004.	DTI
Research on the extent of illegal money lending.	DTI plans to commission research to ascertain the extent of illegal money lending in the UK. Proposals are currently being developed.	Publish by Autumn 2006	DTI

Action	Update	Milestones	Lead Organisation
<b>Providing advice</b>			
Developing new debt advice gateway and formal referral agreements.	The advice sector Round Table, bringing together representatives of advice providers, the credit industry and government, is developing the new debt advice gateway and formal referral agreements. A project team and steering committee are in place. The first pass design of the decision process which will be used to direct callers to the most appropriate advice provider has been worked up and is currently being tested in National Debtline, CCCS and Payplan using existing call flows.	The project team expect to commence proof of concept testing in September 2004 for both telephone and face-to-face referrals.	Advice Providers DTI
	From February 2004, LSC trialled a national telephone debt advice line, joining together a number of regional and local services to provide national coverage in debt legal advice.	The Community Legal Service Direct Advice Line will be launched in July 2004 providing debt, welfare benefits and education legal advice.	LSC
Sign-posting debt advice from Government services.	<p>DCA is co-ordinating work to improve sign-posting of debt advice from Government services. Discussed at DCA stakeholder seminars in July 2004.</p> <p>LSC is to capture best practice in sign-posting debt advice, with a view to expanding this going forward in line with capacity increases.</p> <p>DWP have produced a debt signposting leaflet for offices to issue to customers which was accompanied by guidance to staff on identifying and signposting to advice sources those customers who require it.</p>	To be included in DCA consultation Autumn 2004.	<p>DCA</p> <p>LSC</p> <p>DWP</p>

Action	Update	Milestones	Lead Organisation
	<p>Jobcentre Plus is updating guidance for Personal Advisers to emphasise the importance of referring customers with debt problems to debt advice provision.</p> <p>FSA/Basic Skills Agency are arranging nine seminars for basic skills tutors and providers and advice workers around the country.</p>		<p>DWP Jobcentre Plus</p> <p>FSA/Basic Skills Agency</p>
<p>Increasing debt advice access and service to vulnerable groups.</p>	<p>The design of the new gateway is in part driven by the aim to better serve vulnerable groups. Government has worked together with the Advice Sector to develop best practice (identifying vulnerable groups) and to sign-post from trigger points in public service.</p>		<p>National Debtline DTI</p>
<p>Increasing debt advice access and service to vulnerable groups.</p>	<p>From April 2004 the Scottish Executive is funding 10 money advice projects specifically to investigate how these services can address and meet the needs of the most vulnerable groups of people in society. These groups include black and minority ethnic communities, young people, lone parents, people with mental ill health and those with learning disabilities.</p>		<p>Scottish Executive</p>

Action	Update	Milestones	Lead Organisation
Widening and deepening the funding base for debt advice.	Government, advice sector and creditors are working to secure contributions on a longer-term basis from a wider range of interested parties. Meetings have been held with the majority of trade associations representing potential funders and a tailored 'case for support' produced for that sector. The advice sector has developed a list of potential funders and the size of contribution to request (June 2004). The funding model is currently being refined to take account of potential income expected to arise from the gateway, following which direct approaches to funders both existing and potential will be made.	Funding model to be refined by July 2004. Approaches to funders to commence August 2004.	Advice sector Creditors DTI/DWP/ DCA
Addressing the shortfall in face-to-face advice, identifying and developing funding opportunities, and growing capacity.	<p>Citizens Advice and Advice UK are leading work looking at areas of the country where there is significant under-provision of face-to-face delivery capacity and what might be done to address this. Citizens Advice are currently working on an initial approach paper. They will also be looking at the risks to existing funding and what needs to be done to ensure no reduction.</p> <p>The Social Exclusion Unit (SEU) published a debt fact pack in April 2004. It was targeted at local fundholders to show how action on debt can help their objectives.</p> <p>LSC is funding a Debt Specialist Support Service which will build the capacity of all CLS advice organizations to deal with debt related problems. This started in June 2004 and has funding for 3 years.</p>	Citizens Advice and Advice UK will discuss proposals shortly with DCA/DWP/DTI and industry funders.	Advice Sector  SEU  LSC

Action	Update	Milestones	Lead Organisation
Research into the impact of debt advice.	DCA has commissioned research into the impact of debt advice on clients' financial positions, and a range of social outcomes and costs.	Initial analysis in summer 2005.	DCA
Northern Ireland – Advice and Information Strategy.	The Department for Social Development is developing a ten-year Advice and Information Strategy for Northern Ireland. The strategy will focus on welfare benefits, housing and associated issues such as employment and health.	The strategy will be published for consultation in early summer 2004.	Northern Ireland Department for Social Development (DSD)
<b>The justice system and debt</b>			
Assisting debtors temporarily unable to meet their commitments.	The DCA consultation paper "Proposals for providing better assistance to the over-indebted and those in multiple debt" will be published shortly.	Responses to be collated in Autumn 2004.	DCA
Non court-based resolution of debt problems.	DCA consultation paper "Proposals for providing better assistance to the over-indebted and those in multiple debt" includes consideration of whether there is a need for a non court-based system of providing debt relief for the socially excluded.	Depending on the results of the current DCA consultation, the Insolvency Service will consult on the scheme itself towards to end of 2004.	Insolvency Service DCA
Encourage better use of the time order provisions.	The Consumer Credit Bill will bring forward the point at which the borrower can apply for a time order and introduce a new procedure which should result in more proposals for time to pay being agreed amicably between lender and borrower without the need for intervention by the court.	The Bill will be introduced when Parliamentary time permits.	DTI

Action	Update	Milestones	Lead Organisation
Streamlining court processes and incentivising appropriate use.	DCA is developing proposals on options for further streamlining court processes to make them faster, more accessible, more efficient and to incentivise the appropriate use of the courts. Stakeholder seminars are being held in July 2004.	DCA consultation document to be published in Autumn 2004.	DCA
Approved codes of practice for debt collection.	The OFT is encouraging the credit industry to develop approved codes of practice for debt collection. OFT has invited trade associations within the credit sector to apply for OFT approval under the Consumer Code Approval Scheme.	Discussions underway with applicants.	OFT
Compliance review of OFT Guidance on Debt Collection.	The current OFT guidance on debt collection, on business practices regarded as unfair for businesses that hold a consumer credit debt collection licence, was published in November 2002. OFT announced it will be conducting a compliance review in relation to this guidance towards the end of 2004.	Winter 2004	OFT
Review of personal bankruptcy legislation in Scotland.	The Scottish Executive is currently consulting on proposals for the reform of personal bankruptcy law in Scotland: "Modernising bankruptcy and diligence in Scotland – draft bill and consultation" was published in June 2004.	The deadline for comments on the consultation is 30 September 2004.	Scottish Executive

Action	Update	Milestones	Lead Organisation
<b>Government systems and support</b>			
Improvements in Housing Benefit and Council Tax Benefit administration.	DWP is working with local authorities to drive up the standard of HB/CTB administration through additional investment (£200m Performance Standards Fund to help local authorities meet the HB/CTB Performance Standards), quarterly monitoring of the poorest performers, inspection and help teams. To date more than 250 authorities have benefited from additional investment of around £50 million to help pay for new permanent staff, new IT, and a range of other service improvements.	The Service Delivery Agreement for improving performance from April 2003 is by the end of March 2006 to: <ul style="list-style-type: none"> <li>• reduce the average processing time for new claims across all local authorities by 10% (from 55 days to 50 days); and</li> <li>• reduce the average processing time for new claims in the 60 (15%) worst performing local authorities by 33% (from 99 days to 65 days).</li> </ul>	DWP
Improvements in Housing Benefit and Council Tax Benefit administration.	Pilots are in place in 9 local authority areas of a radical reform of Housing Benefit, called the Local Housing Allowance. This encourages personal responsibility by giving tenants the responsibility to budget. This is coupled with safeguards for vulnerable tenants, and investment in money/debt advice in the pathfinder areas. The impact on arrears, access to bank accounts, homelessness etc is all being monitored in a comprehensive independent evaluation, before the scheme is rolled out nationally. All 9 pathfinders have successfully implemented the Local Housing Allowance.	The evaluation will run over two years with interim findings due in 2005.	DWP
Tax credit overpayment recovery.	Policy on tax credit overpayment recovery is currently under consideration by HM Treasury and Inland Revenue officials.		HM Treasury Inland Revenue

**Annex B**

<b>Action</b>	<b>Update</b>	<b>Milestones</b>	<b>Lead Organisation</b>
<b>Implementation, monitoring and evaluation</b>			
Formation of Ministerial Group, Officials Group and Advisory Group.	All three Groups formed. Jointly chaired by DTI/DWP.	Officials and Advisory Groups to meet quarterly and Ministerial Group to meet biannually to drive implementation and monitor progress.	DTI/DWP (joint secretariat)
Monitoring indicators.	DTI is developing a basket of indicators to monitor extent of over-indebtedness in UK and the profile of the over-indebted to inform work. The basket of monitoring indicators is being developed in partnership with the Working Groups.	The monitoring indicators will be considered by the Working Groups and will be included in the annual report on progress.	DTI
Strategy evaluation.	DTI economists are developing an evaluation strategy in consultation with the Working Groups.	The approach will be set out in the annual report.	DTI

## Annex B

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### Working Groups on Over-indebtedness: memberships and terms of reference

#### Ministerial Group on Over-indebtedness

##### *Terms of Reference*

To oversee the development and implementation of the Government's policies on over-indebtedness, with special regard to its relationship with poverty and social exclusion. The Group's remit covers individual but not business debt.

##### *Membership*

Gerry Sutcliffe	DTI	Parliamentary Under-Secretary of State for Employment Relations, Competition and Consumers (Joint Chair)
Chris Pond	DWP	Parliamentary Under-Secretary of State – Commons (Joint Chair)
Lord Filkin	DCA	Parliamentary Under Secretary of State
Ruth Kelly	HMT	Financial Secretary
Ivan Lewis	DfES	Parliamentary Under-Secretary of State for Skills and Vocational Education
Lord Rooker	ODPM	Minister for Regeneration and Regional Development

A representative of Number 10 also attends.

## Advisory Group on Over-indebtedness

### *Terms of Reference*

The Government, voluntary sector and credit industry, working in partnership, seek to:

- Minimise the number of consumers who become over-indebted
- Improve the support and processes for those who have fallen into debt;

With special regard to the relationship between over-indebtedness, poverty and social exclusion. The Group's remit covers individual but not business debt.

In support of these aims, the Advisory Group on Over-indebtedness will:

- Advise on development of Government strategy and policy on over-indebtedness
- Develop specific actions and where appropriate champion implementation by the sectors they represent
- Monitor and comment on trends in over-indebtedness and their impact
- Monitor progress on measures taken to tackle over-indebtedness by commenting on annual monitoring statistics.

**Membership**

APACS  
British Bankers Association  
Church Action on Poverty  
Citizens Advice  
Consumer Credit Association  
Council of Mortgage Lenders  
Department of Trade and Industry (Joint Chair)  
Department of Work and Pensions (Joint Chair)  
Experian  
Finance and Leasing Association  
General Consumer Council for Northern Ireland  
Joseph Rowntree Foundation  
Local Government Association  
Money Advice Scotland  
Money Advice Trust  
National Consumer Council  
Office of Fair Trading  
Personal Finance Research Centre

## Officials Group on Over-indebtedness

### *Terms of Reference*

The Government, voluntary sector and credit industry, working in partnership, seek to:

- Minimise the number of consumers who become over-indebted
- Improve the support and processes for those who have fallen into debt

With special regard to the relationship between over-indebtedness, poverty and social exclusion. The Group's remit covers individual but not business debt.

In support of these aims, the Officials Group on Over-indebtedness will:

- Develop and monitor implementation of the Government's over indebtedness strategy by recommending action to the Ministerial Group
- Monitor progress of the over-indebtedness strategy and develop further initiatives as appropriate
- Identify gaps in provision and need and suggest methods of allocating resource to cover them
- Identify opportunities for cross-departmental funding where common objectives are served by a project
- Ensure joined-up approach across departments and prevent duplication of work
- Identify best practice models and disseminate information to relevant parties.

### ***Membership***

Department for Education and Skills  
Department for Constitutional Affairs  
Department of Culture, Media and Sport  
Department of Health  
Department of the Environment, Food and Rural Affairs  
Department of the First Minister and Deputy First Minister, Northern Ireland  
Department of Trade and Industry (Joint Chair)  
Department for Work and Pensions (Joint Chair)  
HM Treasury  
Home Office  
Insolvency Service  
Legal Services Commission  
Local Authorities Co-ordinators of Regulatory Services  
Local Government Association  
Office of Fair Trading  
Office of the Deputy Prime Minister  
Scottish Executive  
Social Exclusion Unit  
Welsh Assembly Government

Papers are also sent for information to the Bank of England and the Financial Services Authority.

# Annex C

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## Update on Over-indebtedness Research

Since the publication of the Consumer Credit White Paper in December 2003 some additional research related to over-indebtedness has emerged. This annex briefly summarises the research findings.

### 1. Bank of England Quarterly Bulletin, December 2003

The Bank of England commissioned a survey from NMG to find out more about unsecured borrowing and how much of a burden it is to households. Around 10% of borrowers said that their unsecured debt was a heavy burden to their households. The average amount of money borrowed by debtors has increased but the additional borrowing has been concentrated amongst those with household incomes above £17,500.

Whilst average debt levels have risen, the proportion of people who consider their debt not to be a burden has increased. The average unsecured debt to income ratio of debtors rose from 12% in 1995 to 24% in 2003. From 1995 to 2000 the largest increase was in the lowest income group. However, since 2000, there has been a sharp fall in unsecured debt in the lowest income group.

### 2. FSA Financial Risk Outlook 2004

The FSA's central scenario sees interest rates rising to 4.75% by the end of 2004. The FSA commissioned a survey to ascertain the impact of higher interest rates on mortgage holders. A 1% increase in interest rates (specifically the impact this would have on housing costs for those with mortgages) would lead to 7% more households with mortgages struggling with at least one form of borrowing, although there would be little impact on the number of households falling behind with payments.

Furthermore, not all the coping mechanisms that respondents reported for dealing with changing circumstances are viable. Half of the population has unsecured debts and amongst those that have these unsecured debts, families owe an average of £6,500. The FSA believe the content of adverts is not helping to improve consumer understanding – in some cases it is encouraging vulnerable groups to see further borrowing as a solution to financial difficulties.

### **3. "Are UK Households over-indebted?", Oxera**

Oxera were commissioned by the Association for Payment Clearing Services (APACS), British Bankers' Association (BBA), Consumer Credit Association (CCA) and Finance and Leasing Association (FLA) to undertake a study of UK consumer debt, providing an assessment of the debt situation based on existing reports and data.

The report suggests over-indebtedness should be defined as "those households or individuals who are in arrears on a structural basis, or are at a significant risk of getting into arrears on a structural basis." The report suggests a more thorough understanding of households' financial positions is required and states that there is not currently a publicly available source of the required data to really understand the problem.

Oxera's analysis of the available evidence leads them to conclude there are three preferred indicators of over-indebtedness:

- debt-service: income ratios;
- the number of households in arrears; and
- subjective measures of borrowing too much.

### **4. "Characteristics of Families in Debt and the Nature of Indebtedness", Kempson et al**

This report looks at those households in "financial difficulty" meaning those with arrears on consumer credit commitments and/or those who are behind with household bill payments. It is new analysis of existing data and finds that all else being equal, young, poor, lone parent and large families witnessed higher rates of arrears. Three main factors appear to increase the likelihood of falling into arrears, these are changes in income, use of consumer credit and being a tenant. The authors find that the levels of arrears in families have fallen over time thanks to above inflation increases in income support, working families tax credit and the minimum wage.

### **5. "The Effect of Credit on Spending Decisions: The Role of the Credit Limit and Credibility"**

This experimental study reinforces previous findings that consumers cannot correctly value their future incomes. Credit is a means by which consumers can smooth their consumption over their lifetimes, but to do this they need some idea of their lifetime income. Some consumers therefore use information such as the credit limit as a signal of their future earnings potential and their propensity to spend rises with their credit limit.

This is really a problem for naïve or inexperienced users of credit, but by the time users become experienced they may well have amassed considerable debts. The authors suggest there are a number of policy responses to their findings:

- credit limits should reflect future earnings potential;
- there is a need to control “seemingly indiscriminate” increases in credit limits; and
- consumers need to have information about the procedures that are used to determine their credit limits.

#### **6. “Use of Credit and Arrears on Debt Among Low Income Families in the UK”, Fiscal Studies**

This study analyses data from the Families and Children Survey (FACS). It finds evidence of significant arrears amongst some families but finds that these are not persistent when exploiting the panel element of the data. The authors believe the source of arrears is low incomes and economic inactivity rather than excess lending.

#### **7. “Household Debt: Can We Really Afford This?”, Barclays Capital**

Economists at Barclays Capital looked at the impact of rising interest rates on “free income”, in other words disposable income after essential bills/food expenditure. They found that a rise in interest rates to 5% (widely seen as the likely rate by the end of 2004) would reduce a typical household’s “free income” by 4.7%. Comparing this with reductions in “free income” in the late 1980s the economists believe this is not a big problem.

#### **8. The Credit Card Myth, research by MORI Market Dynamics**

MORI Market Dynamics looked at trends in the credit card market and concluded that the financial position of most people is sustainable with all but major increases in interest rates and falls in house prices. They believe that more than half of the £50bn owed on credit cards is not “true” debt, and that generally those who have credit cards are in regular employment with financial assets to back them. Only 5% of card users are actually “spiraling debtors”.

## Full References

1. Tudela M and Young G, December 2003, "The Distribution of Unsecured Debt in the United Kingdom: Survey Evidence" Bank of England Quarterly Bulletin.
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3. Oxera, April 2004, "Are UK Households Over-indebted?". Report prepared by Oxera for APACS, BBA, CCA and FLA.
4. Kempson E, McKay S and Willitts M, 2004, "Characteristics of Families in Debt and the Nature of Indebtedness", Personal Finance Research Centre and DWP.
5. Soman D and Cheema A, 2002, "The Effect of Credit on Spending Decisions: The Role of the Credit Limit and Credibility", Marketing Science 21(1) pp32-53.
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8. MORI Market Dynamics, June 2004, "The Credit Card Myth".

# Annex D

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## Over-indebtedness Policy – Summary of Government Roles and Responsibilities

Dept	Policy	Activities	Comments
<b>Policy framework</b>			
<b>All departments</b>	Policy Framework and Co-ordination	Ministerial Group informed by Advisory Group and Officials Group	Formation of these Groups to develop partnership action plan, ensure cross-government working and implementation of work to tackle over-indebtedness. Joint secretariat for these groups provided by DTI/DWP
<b>DTI</b>	Policy Framework	DTI, December 2003, "Fair, Clear and Competitive The Consumer Credit Market in the 21st Century White Paper"	The White Paper sets out a framework for a modern credit market that will benefit the most vulnerable. Includes an initial analysis of over-indebtedness in the UK and sets out the Government's strategic objectives
<b>DWP</b>	Policy Framework	DWP, September 2003, "Opportunity for all" and DWP, July 2003, "National Action Plan on social inclusion"	These documents set out the Government's overall strategy for tackling poverty and social exclusion
<b>DCA</b>	Policy Framework	Proportionate approach to resolving problem debts	DCA aim to ensure that where possible, debt problems and disputes can be resolved without the stress and additional expense of court proceedings. The courts should only be used in the last resort to resolve genuine legal disputes and enforce judgments against those who won't pay

Dept	Policy	Activities	Comments
<b>Advice</b>			
<b>DTI, Scottish Executive</b>	Debt Advice	National Debtline jointly funded by DTI, Scottish Executive and industry	Offers all consumers free and easy access to debt advice. Also gives consumers access to a Debt Management Programme to help manage repayment of their debts
<b>DTI</b>	Consumer Advice	Consumer Support Networks (CSNs)	CSNs provide a framework for local consumer advice agencies to plan and deliver services for local consumers. The Department has appointed LACORS (Local Authorities Coordinators of Regulatory Services) to administer the scheme on its behalf
<b>DTI</b>	Consumer Advice	Block grant to Citizens Advice and Citizens Advice Scotland – the umbrella organisations for local Citizens Advice Bureaux in England & Wales and Scotland respectively	DTI is also supporting the roll-out of Citizens Advice's e-government project ("Citizens Connect") following a £20m grant from HM Treasury's Capital Modernisation Fund, that will provide the infrastructure necessary to deliver those services that are relevant to CAB clients as well as providing an electronic case recording system. The roll-out of Citizens Connect should be completed by Autumn 2004
<b>DCA/LSC</b>	Debt Advice and Legal Issues	Provision of debt and legal advice services	The LSC provides leaflets and a website ( <a href="http://www.justask.org.uk">www.justask.org.uk</a> ) that assist people to access advice and information about debt problems. The LSC also funds the Community Legal Service Direct Advice Lines in debt, welfare benefits and education. The LSC is also responsible for funding debt legal advice and representation for clients eligible for public funding.

Dept	Policy	Activities	Comments
Scottish Executive	Debt Advice	Provision of face-to-face money and debt advice	Scottish Executive funding distributed via local authorities to increase the provision of money and debt advice services to both voluntary and statutory sector agencies. SE funding supports ten 2-year projects to increase the accessibility of these services for vulnerable groups including lone parents, minority ethnic communities, young people, and those living with mental ill health or learning disabilities
Scottish Executive	Debt Advice	MATRICES – Central support organisation for money advice sector	The Scottish Executive funds Money Advice Scotland and Citizens Advice Scotland to operate MATRICES, a central support organisation to improve both the quality and quantity of money advice in Scotland
<b>Education</b>			
HMT	Financial Education and Literacy	Supports the Personal Finance Education Group (PFEG)	Promotes the teaching of financial literacy skills in schools (financed by the financial services industry)
DfES	Financial Education and Literacy for Children	Financial Capability Skills	Introducing Financial Capability Skills into Personal, Social and Health Education and Citizenship Curriculum
DfES	Financial Education for Adults	Skills for Life programme which has a PSA target of improving the literacy, language and numeracy skills of 1.5m adults by 2007. Funding of Basic Skills Agency	Consideration of those individuals not in the position to benefit from advice and guidance simply because they do not have the necessary skills to take advantage of it

Dept	Policy	Activities	Comments
OFT	Consumer Education	Have conducted or been involved in debt awareness campaigns aimed at improving consumer understanding of credit issues and highlighting the dangers of over-indebtedness	<p>November 2003 – the OFT ran a campaign called: “In debt? Help yourself out” – this focused on encouraging those in debt to ask for advice from organisations such as CABs and giving advice on how to help themselves out of debt.</p> <p>Autumn 2004 – a campaign about how to manage, use and understand credit and credit cards is proposed</p>
OFT	Consumer Education	Produces a range of information aimed at consumers including in relation to credit and debt	<p>The OFT produces a series of leaflets called “Keep debt under control”. These leaflets are:</p> <ul style="list-style-type: none"> <li>• <b>“Think...before you borrow”</b> – A brief guide on how to take control of your spending and avoid getting into debt;</li> <li>• <b>“Home budget planner”</b> – Easy to use home budget planner;</li> <li>• <b>“What type of plastic?”</b> – Explains the differences between the types of card available, and lists points to remember when using cards;</li> <li>• <b>“Top ten credit tips”</b> – Ten things to remember if you use a card to buy goods or services; and</li> <li>• <b>“In debt? Help yourself out!”</b> – A pocket guide with useful tips to help yourself get out of debt.</li> </ul>
Scottish Executive	Financial Education	Financial education for pupils of school age and through other strategies for adults	The Scottish Centre For Financial Education supports the delivery of financial education to pupils of school age

Dept	Policy	Activities	Comments
<b>Government Delivery of Services</b>			
<b>DCA</b>	Service Provision	Legal Services Commission's Methods of Delivery Pilot	Aims to identify alternative and innovative ways of delivering publicly funded legal services to achieve greater public access and improve quality. Currently ongoing
<b>DCA/LSC</b>	Service Provision	Legal Services Commission National Telephone Service	Building on findings of the Methods of Delivery telephone advice pilot, this service aims to improve access to CLS funded debt, benefits and education advice across England and Wales. Will facilitate links between CLS telephone services and DTI funded debt advice. Experimental national debt service started in February 2004 with a full service coming on stream in July 2004
<b>DCA</b>	Service Provision	Legal Services Commission's Housing Possession Court Duty Scheme Pilot	Provision of in-court advice and representation for people whose homes are at risk. 13 pilot schemes ran for one year each commencing between January and March 2003 with the aim of investigating the most effective way of funding and implementing such schemes for LSC. The pilots ended in March 2004. An evaluation of the schemes is currently being undertaken and will help inform decisions on future plans and funding
<b>DCA</b>	Service Provision – Online	Money Claim Online	Online, fully transactional government service. Provides for issue of fixed amount money claims, judgements and warrant of executions. All can be completed online unless the case becomes defended
<b>DWP</b>	Government Loans	Social Fund	Provides help to people on low incomes who need help to pay for a variety of intermittent expenses

Dept	Policy	Activities	Comments
<b>Financial Inclusion</b>			
<b>HMT</b>	Promotion of financial inclusion	Financial inclusion and access to affordable credit	Follow up to HM Treasury Policy Action Team 14 (PAT14) report. Currently developing a strategy for next steps
<b>Scottish Executive</b>	Promoting financial inclusion	Ensuring appropriate financial services and products and choices are available to those currently excluded	Working with banks, Credit Unions, local authorities, social landlords and community banking initiatives
<b>ODPM (Social Exclusion Unit)</b>	Combating Social Exclusion	Financial Inclusion issues	Maintains a watching brief on financial inclusion issues following production of PAT14 on access to financial services
<b>Welsh Assembly Government</b>	Social Justice	Financial Inclusion  Ministerial review of Over-indebtedness in Wales	Working with and funding Credit Unions to provide access to affordable credit  Review will consider the scale and nature of over-indebtedness in Wales; will include an audit of existing public sector policies and programmes and those beyond the public sector which impact on over-indebtedness, including the free money advice sector. An outcome of the review, which will be carried out between May and October 2004, will be a report that sets out a long term strategic direction for the Assembly Government, and recommendations for further action

Dept	Policy	Activities	Comments
<b>Legislation</b>			
<b>Scottish Executive</b>	Debt Arrangement and Attachment (Scotland) Act 2002	The Act creates a national statutory debt arrangement scheme (for civil debt)	The Act will allow people to repay multiple debts by instalments in a managed way without threat of enforcement action. It creates new enforcement procedures and ensures that information and advice are provided to debtors as part of the process
<b>DTI</b>	Consumer Credit Bill	Updating the Consumer Credit Act 1974	Aims include strengthening measures to keep loan sharks out of the credit market, reforming the extortionate credit provisions to introduce a test based on 'unfair credit transactions' and introducing an Alternative Dispute Resolution mechanism. The Bill will be introduced when Parliamentary time permits
<b>DTI</b>	European Consumer Credit Directive	DTI working to ensure UK priorities are taken into account when the Directive goes before Parliament	UK and other member states have found existing 1987 Directive inadequate to regulate the EU credit market of the 21st Century. For UK to take full advantage of its place at heart of EU credit market the government must secure a Directive to tackle barriers to a single market in consumer credit and ensure an adequate level of consumer protection
<b>DCMS</b>	Gambling Bill	Bill being developed to modernise the gambling industry	Bill will have provisions for making gambling debts legally enforceable for the first time

Dept	Policy	Activities	Comments
<b>Enforcement</b>			
<b>INSS</b>	Enforcement	The Insolvency Service – has policy responsibility for insolvency law and practice, including amendments to the personal insolvency provisions brought about by the Enterprise Act 2002	The Insolvency Service is working with the DCA to further review individual insolvency law
<b>DTI</b>	Enforcing consumer protection through Trading Standards	Investigating consumer complaints, and enforcement of legislation	Since June 2001, total number of Stop Now Orders and Enforcement Orders issued is 12 and total number of formal undertakings is 34
<b>DCA</b>	Enforcement of civil court judgements	Regulation of civil warrant enforcement agents	Currently awaiting a legislative slot for the licensing and training of bailiffs to enable them to become enforcement agents with the aim of ensuring a well trained and strictly licensed industry that balances the need for effective enforcement of judgment debts with the needs of genuinely disadvantaged debtors
<b>DCA</b>	Enforcement of civil court judgements	Improvement court based enforcement methods	Currently awaiting a legislative slot to improve access to information and streamline court based enforcement methods to ensure that enforcement is more correctly targeted and the most appropriate enforcement methods are used

Dept	Policy	Activities	Comments
DCA	Debt Recovery	Enforcement of Fines	<p>DCA has established a Criminal Enforcement Programme to manage and co-ordinate a number of streams of work required to improve the performance of the 42 Magistrates' Courts Committees (MCCs) in the enforcement of financial penalties (mainly fines)</p> <p>The Programme's fundamental objective is to drive up and sustain performance in enforcement. It is made up of four main projects: Courts Act 2003 Pilots – to test a new enforcement framework designed to improve the payment rate from defaulters who avoid payment while supporting those who genuinely cannot pay; Targeted Intervention; Improvement Initiatives; and Business Redesign</p>
DCA	Debt Recovery	Enforcement of Fines	<p>Delivery of the Enforcement Programme is a major DCA priority in contributing to the Government's objectives of improving confidence in the Criminal Justice System and reducing re-offending</p>
DWP	Debt Recovery	Third party deduction from benefits	<p>Third party deductions from benefits to help vulnerable individuals deal with a debt –deductions are only made where a failure to do so would place a vulnerable individual at risk. They are only made to prevent evictions, imprisonment or to maintain essential supplies (e.g. heating and water)</p>

Dept	Policy	Activities	Comments
<b>Monitoring and Forecasting</b>			
<b>HMT</b>	Monitoring and forecasting	Advice, analysis and briefing on economic developments and issues relating to the household sector	Analysis of debt is focused on the household sector in aggregate – in the context of maintaining macro-economic stability and prospects for the economy
<b>DTI</b>	Monitoring	Monitoring of level and profile of over-indebtedness	DTI is developing a monitoring approach, as promised in the Consumer Credit White Paper



