



Fair and Effective Approach to Debt Management in Local Government

Gareth Evans – The Financial Inclusion Centre

Local Government Debt Recovery Event: 29th November 2022

Fair and Effective Approach to Debt Management in Local Government

- Background – why debt collections?
- Debt landscape
- Building a business case
- Maturity Index - key themes:
 - Organisational Culture
 - Data and technology
 - Identifying Vulnerability
 - Assessing Affordability
 - Supporting residents
- Where next?

Financial Inclusion Centre:

- Independent / not-for-profit research and consultancy firm.
- Variety research and evaluations on:
 - personal finance and financial exclusion / credit and savings / debt / financial capability.
- Work with variety of clients:
 - government / councils / social housing / financial services providers / charities

LGA Reshaping Financial Support programme:

- Working with 7 Councils:

Barking & Dagenham

ROYAL borough of
GREENWICH

Leeds
CITY COUNCIL

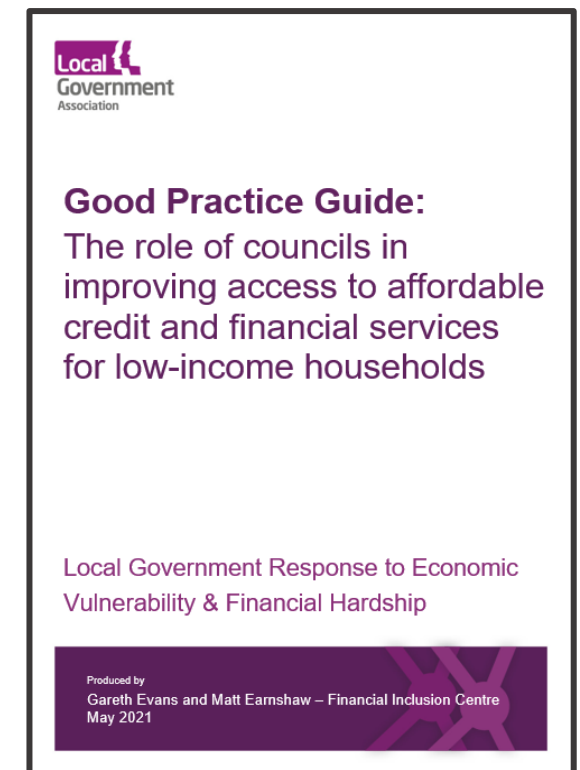
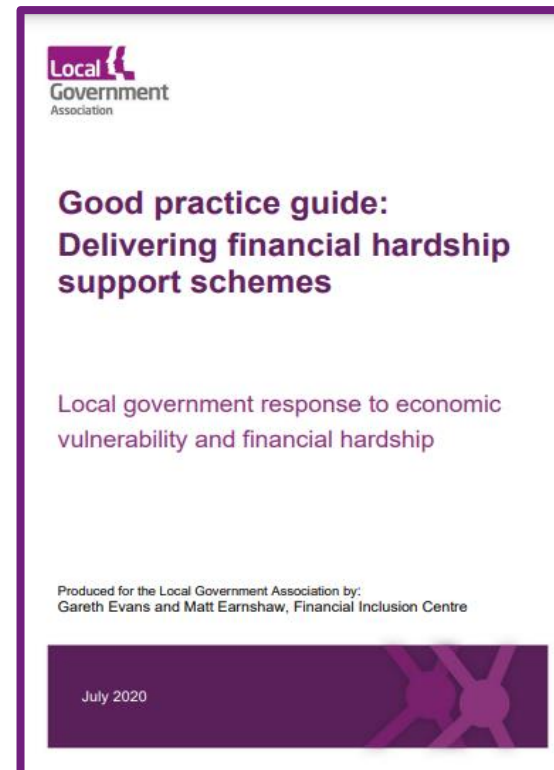
Brighton & Hove
City Council

Newcastle
City Council

TOWER HAMLETS

BRISTOL
CITY COUNCIL

- Programme of Action Learning, consultancy and direct funding – to: *‘build on existing good practice and accelerate further development, coordination and innovation in preventative support delivered to improve the financial circumstances of low-income households.’*



Why debt collections?

- Identified as a priority theme within LGA Reshaping Financial Support programme.
- Financial impact of Covid and now Cost-of-Living - escalation of debt to Councils .
- So much information / research and resources – help Councils to navigate.
- Increasing recognition of benefits of more supportive and tailored approaches to debt collection.

The debt landscape

NEWS

Edinburgh Council owed £11m in rent arrears as more tenants fall into debt

The council says getting the courts involved for repayments is a "last resort" and directed those struggling to its advice and support services.

By **Donald Tur** By **Phil Corrigan**
Democracy Reporter
06:00, 17 OCT 2022
17:11, 3 AUG 2022



Money > News Money
BILL WOE Council
millions of hous
and it could cos

Council tenants owe £2.17m in rent arrears as cost of living bites

Stoke-on-Trent City Council is seeing an increasing number of tenants fall behind on their rents

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More le needing



The number of Edinburgh Council tenants in debt rose by 2,000 during the pandemic. (Image: iPrivacy)

The debt landscape

27%

UK adults (14.2m) with low levels of financial resilience

8.5m

UK adults over-indebted

29%

New StepChange clients with council tax arrears

21%

Of those over-indebted who have accessed debt advice to deal with their problem debt

35%

Of those over-indebted who don't want to face dealing with their problem debt

31%

Of those over-indebted who say they have a lack of awareness that free support services exist or whom to contact

<https://www.fca.org.uk/publications/research/financial-lives-2020-survey-impact-coronavirus>

Evidencing need in your area

Financial hardship & economic vulnerability dashboard

Pulls together a suite of indicators in one [document](#) - providing an overview of financial hardship and economic vulnerability at local authority geographies, including:

- Deprivation/poverty
- Employment/labour market
- Housing need
- Financial vulnerability
 - Financial confidence
 - Credit need & demand
 - Food/fuel poverty
 - Insolvencies
 - Over-indebtedness

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Change comparison group: All English single...

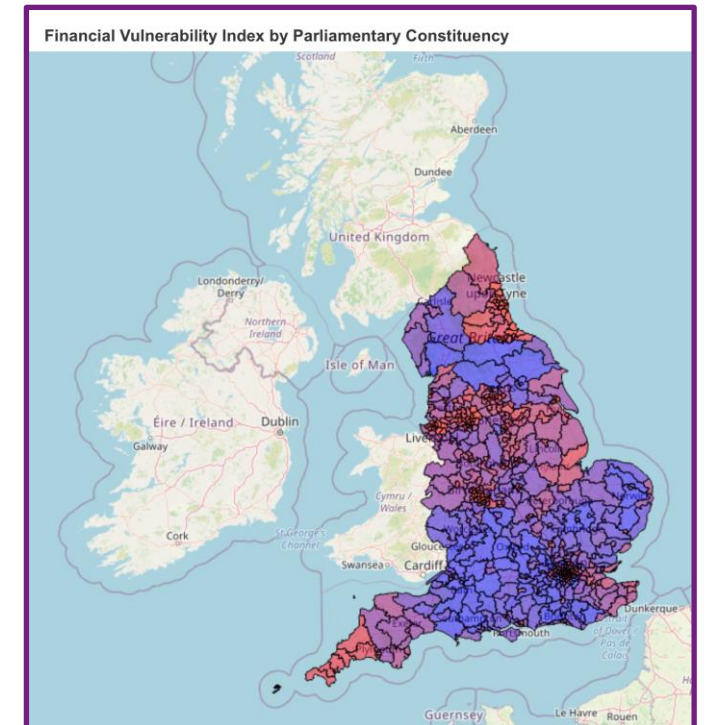
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Local Government Association

Financial hardship and economic vulnerability



Written by LGA Research from Local Government Association



Building a business case

- Need to establish clear and compelling business case for councils to take a fair and more supportive approach towards debt management that is focused on:
 - ensuring that those who can pay but choose not to - are incentivised to repay, and
 - the impact of debt recovery is reduced for those who are unable to pay - vulnerable and/or in financial hardship.

Building a business case

Increasing household income – support to ensure households are receiving full entitlement and access discretionary funds / charitable grants means more money to pay debts

- 8 million households missing £16 billion in means tested benefits (Example – three quarters of loan applications with community lender found average £4,000 per year in unclaimed benefits)

Building a business case

Positive impact on collection rates

- 10% increase in annual amount collected by debt collection agencies due to better practices.

Reduced debt collection and enforcement costs – better practices and more sustainable arrangements mean less actions, broken arrangements and litigation.

- £82m saved for creditors due to support provided by StepChange to 10,000 over-indebted clients

Resource savings – via lower interventions

Building a business

Positive impact on local households

- When people get help from their creditors (e.g. affordable payment plans, stopping interest/charges/enforcement) = greater chance of getting back onto a steady financial footing and improving wellbeing
 - 60% have more stable finances;
 - 79% reduced anxiety; and
 - 74% sleeping more easily
- Intimidating letters, phone calls or doorstep visits lead to:
 - 15% increase in probability of debts becoming harder to manager;
 - 22% increase in the probability of anxiety or depression levels rising

Building a business case

Reduction in the social costs of problem debt

- The social costs of problem debt are high and wide-ranging – estimated £8.3bn total cost.
- The biggest costs associated with problem debt are housing and employment costs

Reputational gains - Ethical approaches to revenue collection build reputation as supportive progressive council and establish loyalty with residents.

Maturity Index

Financial Inclusion Centre helping develop and test the concept of a self-assessment tool related to debt management practices to help councils to:

- Assess how advanced their organisation is in terms of 4 key themes.
- Compare internally within the council and externally with other councils.
- Tool to identify/support improvements to service provision, alongside case studies, training, peer-learning/support and other tools/resources.

1. Organisational culture

- I. Commitment across the organisation to delivering a fair and supportive approach
- II. Senior management and political leadership buy-in and understanding.
- III. Clear and explicit policies and/or strategies are in place
- IV. Impacts and outcomes are regularly measured.
- V. Practices are regularly reviewed against relevant publications and external guidelines

2. Data and technology

- I. Single View of Debt – prioritising / targeting proactive interventions
- II. Adoption of technology to improve processes and outcomes
 - open banking,
 - automation and prioritising workload

3. Identifying financial vulnerability

- I. Formal vulnerability policy/document in place and used consistently across the council – Debt Management Vulnerability Toolkit (Fairness Commission)
- II. Communicating/engaging with vulnerable residents during collection activity
- III. Using data to effectively identify/target vulnerable residents.
- IV. Formal training for frontline staff to help them identify vulnerability 'red flags'
- V. Effective referrals to other relevant support providers
- VI. Supporting the wellbeing of staff engaging with vulnerable residents

4. Assessing affordability

- I. Robust process to measure resident affordability during collection/recovery.
- II. Adopting the Standard Financial Statement (SFS) to help assess affordability
- III. Ensuring that your affordability measure is used consistently across council.
- IV. Supporting resident via affordability statements to build financial resilience.
- V. Building relationships with local agencies to consistently use affordability measures

5. Supporting residents

- I. Increasing the scale of money/debt advice partnerships.
- II. Offering referrals to a trusted debt advice partner/s via 'warm transfer'.
- III. Comprehensive multi-channel support offer
- IV. Embedding important support within your collection/recovery communications / processes (e.g BD Money).
- V. Using data to identify/target residents with financial difficulties or problem debts.
- VI. Using triggers or 'red flags' to stimulate preventative support services. (e.g. Coordination of discretionary funds and Access to financial services (credit))

Where next?

- Testing the concept - produced an Excel version and sent to a number of councils to complete.
- Undertaken feedback sessions to capture thoughts on what works and improvements – refinement.
- DLUC funding secured to digitalise assessment platform and develop resources/support programme in 2023.

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Discussion topic 1:

**What are the challenges facing
Council collection teams? – current /
future?**