

Action needed to prevent a council tax enforcement ‘cliff-edge’ following coronavirus

21st May 2020

Summary

- Over 2 million people say they have fallen behind on council tax bills due to coronavirus.¹ 2.2 million households were behind on their bills going into the crisis,² owing an estimated £3 billion.³
- Councils are facing a significant financial shortfall as a result of the outbreak, including lost council tax income.
- Existing regulations force councils to use heavy-handed and ineffective debt collection methods, like bailiffs, to recover lost income. Bailiff visits are temporarily paused on public health grounds but are due to start again soon.
- **The Ministry for Housing, Communities and Local Government should introduce a mandatory Council Tax pre-action protocol**, in response to the coronavirus outbreak. This would require councils to take certain steps before seeking a liability order for bailiff enforcement action, including negotiating an affordable repayment plan.
- **This should be accompanied by changes to regulations to give councils more flexibility in how they collect debts, and further funding for the Hardship Fund to help councils write off the debts of very vulnerable residents.**

What’s the problem?

The Government’s measures to protect people’s finances during the ongoing crisis have been a lifeline, but households are still experiencing financial difficulty. Millions have missed a bill already and will accrue unmanageable debt over the course of the crisis.

An estimated 2 million people have missed a council tax payment already, owing to coronavirus.⁴ People in the ‘shielded’ group are 4 times as likely to fall behind on a household bill compared to those not at increased risk from the virus.⁵

Households who miss a monthly council tax bill face severe consequences, including demands to pay the annual bill upfront, and the threat of bailiffs. In 2018/19, 1.4 million council tax debts were passed to bailiffs.⁶ Missed bills also have consequences for councils, who need council tax income to pay for vital services.

1 Citizens Advice, May 2020. ‘Near the cliff-edge: how to protect households facing debt due to Covid-19’.

2 Citizens Advice, April 2019. ‘The Costs of Collection: The high price of council tax debt collection’.

3 Ministry of Housing, Communities & Local Government. ‘Collection rates and receipts of council tax and non-domestic rates in England 2018-19’.

4 Citizens Advice, May 2020. ‘Near the cliff-edge: how to protect households facing debt due to Covid-19’.

5 Citizens Advice, May 2020. Ibid.

6 Money Advice Trust, September 2019. ‘An update on local authority debt collection practices in England and Wales’.

Marie's story*

Marie is 76 and usually pays her council tax via Paypoint at the Post Office. However, she is currently shielding due to her age and health issues, which include managing a chronic lung condition (COPD). Her council contacted her regarding council tax arrears of just £13 and are threatening her with a liability order. She rang Citizens Advice for help and is upset at being threatened with being 'taken to court' at a time when she is scared to leave her home because of the pandemic and the lockdown. When liability orders begin to be issued again she will likely face enforcement action.

*Name changed

As arrears mount for households and councils, and public health restrictions ease, millions of households unable to pay due to the coronavirus crisis face a wave of new liability orders. Outdated Council Tax collection regulations exacerbate this problem, leaving households struggling with debt facing the prospect of harsh enforcement methods and deeper financial hardship.

While it is right that councils recover arrears from those who can pay, with the impact of coronavirus likely to be felt for many months to come, it is essential that councils collect arrears in a sustainable way. This is not only right for individuals, but for the economy too: affordable repayment plans will give people confidence, spread the cost of the lockdown, and help the recovery.

What change do we need?

The existing regulations on local authorities fail to achieve effective debt recovery and actively discourage good practice debt collection. For example, people are asked to pay their entire annual bill if they miss one monthly payment, and there are no consistent rules applied to encourage affordable payments and prevent bailiff enforcement.

The Government should now help councils respond to the increase in council tax arrears caused by the coronavirus crisis by introducing a statutory 'pre-action protocol' for councils to follow before beginning to enforce council tax debt. This would embed good practice amongst local authorities and ensure consistent debt collection standards.

Enacting the proposed protocol would require only a simple statutory instrument. By doing so, the Government would be helping to prevent unmanageable debt, and help councils collect arrears more effectively.

Research by the Money and Pensions Service has shown how councils who pursue more holistic debt recovery strategies achieve more effective results. Our own experience as frontline debt agencies suggests that when creditors take household circumstances into account, clients recover from problem debt more quickly and creditors achieve higher collection rates.

What should the protocol include?

The proposed Council Tax pre-action protocol would require councils to take certain steps before seeking a liability order for bailiff enforcement action, as outlined in the box below.

Our proposal for a Council Tax pre-action protocol

Proactive contact

- Adopt a manual review of cases where an individual's arrears have built up during the coronavirus outbreak
- Make demonstrable efforts to contact individuals who have fallen behind through a variety of methods (email, phone, text)

Affordability and proportionality

- Attempt to set up an affordable repayment plan using the Standard Financial Statement (SFS) - an agreed approach to assess ability to pay
- Provide advice on income maximisation to residents, helping them identify unclaimed benefits – including Council Tax Support - and other sources of income which would help them repay arrears and reduce likelihood of them falling behind again
- Signpost residents for money and debt advice where needed

Discretionary write-off

- Consider writing off parts of people's council tax bills using Section 13a relief powers where there's no realistic prospect that the individual will be able to repay in full.

Alongside the new protocol, **the Government should help councils avoid court enforcement of council tax arrears by:**

- Encouraging councils to collect debts over more than 1 year by changing collection rate targets
- Stopping people becoming liable for their entire annual bill when they fall behind on instalments
- Urgently consulting on replacing the costly and ineffective liability order process with a more effective consumer safeguard so councils have more power to collect debt flexibly

The Government should also provide more funding to councils to reduce council tax arrears accrued as a result of coronavirus. While the existing £500 million Hardship Fund is welcome, more is needed to prevent people falling into council tax debt. Additional funding will be needed to expand Council Tax Support schemes given the rise in unemployment and claims for Universal Credit, and to enable councils to provide discretionary help beyond Council Tax Support for those who need it.

For more information or to discuss our proposals further, please contact any of the following:

- Abby Jitendra, abby.jitendra@citizensadvice.org.uk
- Mark Haslam, mark.haslam@stepchange.org
- Grace Brownfield, grace.brownfield@moneyadvicetrust.org