

# Council Tax A Growing Problem

A research report  
prepared by  
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# Executive Summary

## Council Tax – A Growing Problem

Council Tax arrears are one of the fastest growing debt problems that StepChange Debt Charity Scotland has seen in the last five years.

In 2010, 18% of StepChange Debt Charity Scotland clients who were liable to pay Council Tax had arrears on their Council Tax bills. By the end of 2015 this had doubled to 36%.

The average value of Council Tax arrears for our Scottish clients has increased too, from £1,130 in 2010 to £1,615 by end of 2015, an increase of £485 or 43%.

This is part of a wider pattern recorded by the charity in recent years. The charity's Scottish clients' consumer credit debts, while still high, have decreased significantly since the financial crash. The average unsecured debt has fallen from £17,575 in 2010 to £12,263 in 2015; a fall of 30%. This is only part of the story, however.

We are advising a much greater proportion of clients with arrears on their essential bills, like rent, energy and Council Tax. If people are struggling to pay their essential bills, it is a sign of just how difficult day-to-day living has become for many Scottish households. Many take out additional credit – often high cost credit – to keep up and spiral very quickly into problem debt.

This report examines the data behind those Scottish clients who seek our help with their Council Tax arrears in order to get a clearer picture of the extent of the problem in Scotland.

The report finds that Scottish clients with Council Tax arrears are more likely to work part-time compared to those without Council Tax arrears. Furthermore, while there was a negligible difference between the incomes of those with and without arrears, there was a significant difference between their total outgoings. The level of outgoings for those with Council Tax arrears was £162 per month higher than those without and clients with arrears are, on average, £19 short of meeting their essential costs month-by-month.

The difficulties caused by these arrears impact on other areas of our clients' budgets. Over a quarter of our clients with Council Tax arrears used credit to pay their bill, more than half were behind on their credit card payments and overdraft, while four-in-ten were behind on loan payments.

The mounting pressure of arrears is often associated with other issues in our clients' lives. More than one third of our clients are suffering from stress or poor mental health. Many are also struggling with their financial issues while ill or physically disabled and some had recently experienced a traumatic life event, such as a family bereavement.

To compound the situation, our research shows that the approach taken by councils and their enforcement agents has a significant bearing on our clients' mental health and finances. Almost 70% of clients reported that their interactions caused them to have increased stress and anxiety levels, and half said that it had impacted on their concentration at work.

Our research indicates that Local Authorities were more likely to take a demanding approach than a supporting one to those in Council Tax arrears. Only 7% of clients reported that their Local Authority recommended seeking debt advice when they contacted them to explain that they were in financial

difficulty. More than two-thirds of clients who contacted their Local Authority received a tough demand or threat of enforcement action.

Our evidence suggests that Local Authorities could be better informed about the wider, longer term costs of tough enforcement action over sustainable, affordable payments. Councils should be made to take a balanced, proportionate approach to arrears collection, as well as actively promoting free debt advice for indebted constituents.

# Background

Council Tax is the system of local taxation used to part fund services provided by local authorities. Introduced in 1993, the rate of tax payable is based on the value of residential property and raises around £1.9 billion (representing 95.2% of total billed in 2014) every year across Scotland. Across Scotland today, total local authority revenue is around £16.5 billion<sup>1</sup>, therefore, Council Tax revenue contributes only 12% of that funding – most council expenditure is funded by national taxation.

Although responsibility for setting Council Tax levels rests with local authorities in Scotland, the Scottish Government has worked with authorities to freeze Council Tax since 2007. There are penalties imposed should a local authority break the council tax freeze which outweigh any gains made.

In Scotland, water and sewage charges are billed by local authorities on the same invoice as Council Tax, on behalf of Scottish Water. Local authorities are required by statute to collect Scottish Water charges. Scottish Water also pays around £18 million per year the local authorities to cover the administration cost. This may offer convenience and efficiency for water billing and collection, but it risks obscuring the accountability of for the different charges, and creating confusion for some customers by bringing together unrelated bills.

The amount of Council Tax that households pay depends on what local authority area the property is, and a banding system (A to H) which is based on the value of the property in 1991. The different bands are worked out from the Band D rate. The Band A rate is usually around half the Band D rate and Band H is approximately double the Band D rate.

For example, the City of Edinburgh Council 2015-16<sup>2</sup> Council Tax for Band D is £1,586.33, which is made up of £1,169 Council Tax, £193.14 water and £224.19 sewage charges.

The household water and water waste (sewage) charges are determined by Scottish Water. They vary by band in a similar way to council tax; however, the charge applied to each band is the same irrespective of where the property is. Household water and sewage charges in 2015 range from £278.22 for a Band A property to £834.66 for a Band H property

For example, the City of Glasgow<sup>3</sup> Council Tax 2015-16 Council Tax for Band D is £1,630.33, which is made up of £1,213 Council Tax, £193.14 water and £224.19 sewage.

Special provisions exist for single person households, disabled people and students as well as some other groups, which may allow people in those groups a discount on their Council Tax.

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<sup>1</sup> <http://localtaxcommission.scot/html-version-of-just-change-a-new-approach-to-local-taxation/03-taxation-and-funding-for-public-services/>

<sup>2</sup> [http://www.edinburgh.gov.uk/info/20005/council\\_tax/620/council\\_tax\\_bands\\_and\\_charges](http://www.edinburgh.gov.uk/info/20005/council_tax/620/council_tax_bands_and_charges)

<sup>3</sup> <https://www.glasgow.gov.uk/index.aspx?articleid=17021>

People with low incomes may be eligible for help through Council Tax Reduction, which is administered by local authorities.

Council Tax Benefit was abolished by the UK Government on 31 March 2013 as part of its welfare reform programme. Since then, responsibility for assisting those who need help with their Council Tax in Scotland sits with the Scottish Government. As the Scottish Government cannot operate a benefit system, support is available through Council Tax Reductions administered by Scottish Local Authorities for their area. Assistance will only apply to the Council Tax element of the bill. , Vulnerable households in receipt of 100% Council Tax Reductions will not get 100% relief on their water charges that are billed alongside them. They can only receive a maximum reduction of up to 25% . Local Authorities calculate, on behalf of Scottish Water, the water and sewage reduction.

The Scottish Government has given a commitment to consulting with others to develop options for a replacement local tax system. The Commission on Local Tax Reform in its report<sup>4</sup> argue that the current system of Council Tax must end, with any replacement designed to be fairer, more progressive and locally empowering. The report also sets out a range of different systems of local taxation, and considers the potential impact and administration of these.

The report, however, does not advocate any single alternative to the present system, highlighting that “there is no one ideal local tax”. It is unlikely for any change to the Council Tax system before 2018-19 at the earliest. Nor, crucially, does it deal with the issues of administration and collection, which are the root cause of so much problem debt in Scotland. Any replacement or amended system of local taxation must be accompanied by measures to improve support for those in financial difficulty.

## Impact

Falling behind on essential bills can see people lose essential services, risk losing their home or facing court enforcement. All of these consequences can lead to serious long term negative effects on families’ finances and children’s chances at school. They can increase people’s reliance on other support services and act as a drag on the economy. Problem debt costs the Scottish economy around 750 million pounds per year. Problem debt does not just effect individuals and their families but also has a knock on effect on NHS Scotland, on demands for services from local and national government, and on workplace productivity that affect the wider economy.

Council Tax arrears are particularly worrying. Not only has the proportion of our clients with Council Tax arrears nearly doubled, but councils rank as among the most unhelpful types of creditor when people are in difficulty. Our previous UK research found that a third (32%) of parents struggling with their finances said their council was ‘not helpful at all’, compared to a 28% average for all consumer creditors, and 20% for mortgage lenders.<sup>5</sup>

<sup>4</sup> <http://localtaxcommission.scot/download-our-final-report/>

<sup>5</sup> StepChange Debt Charity and the Children’s Society, 2014. The Debt Trap. Total survey sample: 2000+. Surveyed families all contained a child aged 10-17. The survey was commissioned by The Children’s Society and administered by Research Now in February 2014.

Some councils help people struggling financially but it is vital that all councils help people in difficulty avoid the perils of long term indebtedness.

# Who has Council Tax and why?

Our clients in Scotland with Council Tax arrears have much in common with other people in problem debt, but differ quite starkly in other ways<sup>6</sup>.

The average value of Council Tax arrears across all our Scottish clients in 2015 was £1,615. Arrears in Council Tax was more prominent in urban areas. For example, clients from the City of Edinburgh who contacted the charity during 2015, on average, had the highest amount of Council Tax arrears (£1,809) amongst Scotland's major cities. Clients from the City of Glasgow had on average the second highest amount of Council Tax arrears, at £1,780.

## Demographics

Based on a survey of Scottish<sup>7</sup> clients with Council Tax arrears who contacted the charity during 2015, they are more likely to:

- Be families with children. 56% of our clients with Council Tax arrears have children at home, compared to 44% who don't have children.
- Be women. 55% of our clients are women.
- Be single parent families. 26% of households with Council Tax arrears are single parent families,
- Rent their home. 65% of our clients who rented their home had arrears in Council Tax.

## Income and outgoings

Scottish clients with Council Tax arrears are more likely to work part time. While similar levels of those with and without Council Tax arrears are in work, 19% of those with Council Tax arrears work part time, compared to 17% who do not have Council Tax arrears.

Their household income (£1,224 a month) is about the same as those who don't have Council Tax arrears (£1,220 a month). But people with Council Tax arrears face significantly higher outgoings (£1,243) than those who don't have Council Tax arrears (£1,081). This means that people with Council Tax arrears are, on average, £19 short of meeting essential costs each month while those that don't have Council Tax arrears have £139 each month after they have paid their essential outgoings.

This might be driven by the fact that clients with Council Tax arrears are more likely to have children and rent from a private landlord – factors which have a significant impact on a household's basic costs.

## Other debts

People with Council Tax arrears are significantly more likely to be behind on other household bills. They are three times more likely to be behind on their electricity and gas bills than those who

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<sup>6</sup> StepChange Debt Charity client survey, 2015. Sample: 1,000 clients with council tax arrears who came to the charity for advice in 2014. Fieldwork conducted February 2015

<sup>7</sup> StepChange Debt Charity client survey, 2015. Sample: 300 clients with council tax arrears who came to the charity for advice in 2015.

aren't behind on their Council Tax, and around four times as likely to be behind on their rent. Overall, over half of our clients who have Council Tax arrears have arrears on utility bills or other essential housing costs.

Many people with Council Tax arrears report struggling to keep up with their credit commitments too:

- 63% were behind on credit card repayments
- 40% were behind on their loan payments
- 15% of those with mortgages were in arrears on their mortgage payments; and
- 51% were struggling with their overdraft.

People falling behind on their Council Tax faced serious financial problems – many were already behind on other key bills and juggling credit commitments and bills to make ends meet at the time they fell behind with their Council Tax payments.

### **External factors**

Like most of our clients who fall into problem debt, income shocks are the main factor that tipped people with Council Tax arrears into problem debt. Many of our Scottish clients with Council Tax arrears were facing reductions in the support available to them. In the twelve months prior to falling behind on their Council Tax bills:

- 13% had seen their Council Tax benefit reduce;
- 20% became newly liable for Council Tax;
- 5% had experienced benefit sanctions;
- 12% had seen reductions in another benefit payment; and
- 12% had been turned down for a welfare loan.

The pressure of the income shock which caused them to fall into arrears often came at the same time as people were facing other adverse personal circumstances:

- 38% were suffering stress or mental ill health;
- 21% were ill or physically disabled;
- 11% had recently experienced bereavement; and
- 7% were caring for an adult friend or relative.

In many ways, our clients who fall into arrears on their Council Tax are a picture of 'the new insecure' – renting, working part time, and struggling to make ends meet. This forms a backdrop to a mixture of adverse personal circumstances, life events, changes in employment and reductions in welfare support that makes it hard for people to cope with their essential costs.

# How Councils collect Council Tax – and why it matters

Any creditor dealing with a customer who is facing temporary financial difficulty has a range of options for responding to people's circumstances. Different sectors have different regulations governing what conduct is permissible.

At StepChange Debt Charity we find that the most sustainable method for repaying debts is a steady affordable repayment plan, based on an objective calculation of what households are able to afford, with interest, charges and enforcement action paused whilst people repay their debts.

Councils are not able to levy charges or interest for late payments, but they have more significant formal enforcement tools at their disposal. Normally the annual Council Tax is paid over 10 months (April to January); however when a client falls two months into arrears the full amount of the current year's Council Tax bill becomes immediately due. However, this is not new and, therefore, not the reason why arrears of Council Tax debt are shooting up. Councils will also add a 10 percent surcharge to this bill to cover their debt enforcement process costs. Councils will normally apply through the Scottish courts for a summary warrant and appoint sheriff officers to seek repayment of the debt. Where the sheriff officers are unable to come to an arrangement with the client they will, on behalf of the council, issue the client with a Charge for Payment (which gives the client 21 days to pay the outstanding debt plus any sheriff officer fees). If the debt remains unpaid the sheriff officers can use the Charge to arrest clients' wages<sup>8</sup> or monies in their bank account<sup>9</sup>. Alternatively they will consider petitioning for the client's bankruptcy.

In 2012/13, the most recent figures available, there were 255,000 Charges for Payment served for Council Tax arrears in Scotland (almost 700 per day)<sup>10</sup>.

StepChange Debt Charity's research finds that the approach creditors take has a significant bearing on clients' mental health, their finances, and their consequent actions. The pressure of any enforcement action taken by creditors unsurprisingly has a significant impact on the mental health of those who experience it. It also makes it harder for people to work, to apply for new jobs and put their family finances back on a sustainable footing:

- 69% said that increased their stress and anxiety levels;
- 50% said it affected their concentration at work;
- 39% said it affected their ability to focus on getting a new/better paid job

Where people get help – via affordable payment plans, stopping interest, charges and enforcement – from their creditors, they have a greater chance of getting back onto a steady financial footing:

- 79% said that their anxiety reduced;
- 74% are able to sleep more easily;

<sup>8</sup> Your employer can be instructed to make deductions from your wages and pay it to a sheriff officer on behalf of the creditor. This is known as arrestment of earnings

<sup>9</sup> Your bank can be instructed to freeze funds in your bank accounts and to release those funds to your creditor after 14 weeks. This is known as arrestment.

<sup>10</sup> Scottish Diligence Statistics Report 2012-13, <http://wpd1.scotland.gov.uk/publications/scottish-diligence-statistics-report-2012-13>

- 60% said it stabilised their finances;
- 47% said it led to family relationships improving;

Where people find that their creditors will not stop enforcement action or stop adding charges and interest to the debt, their debt problems worsen. 6 in 10 people (61%) who continued to face collections action and interest and charges borrowed more money as a result, getting deeper into debt.

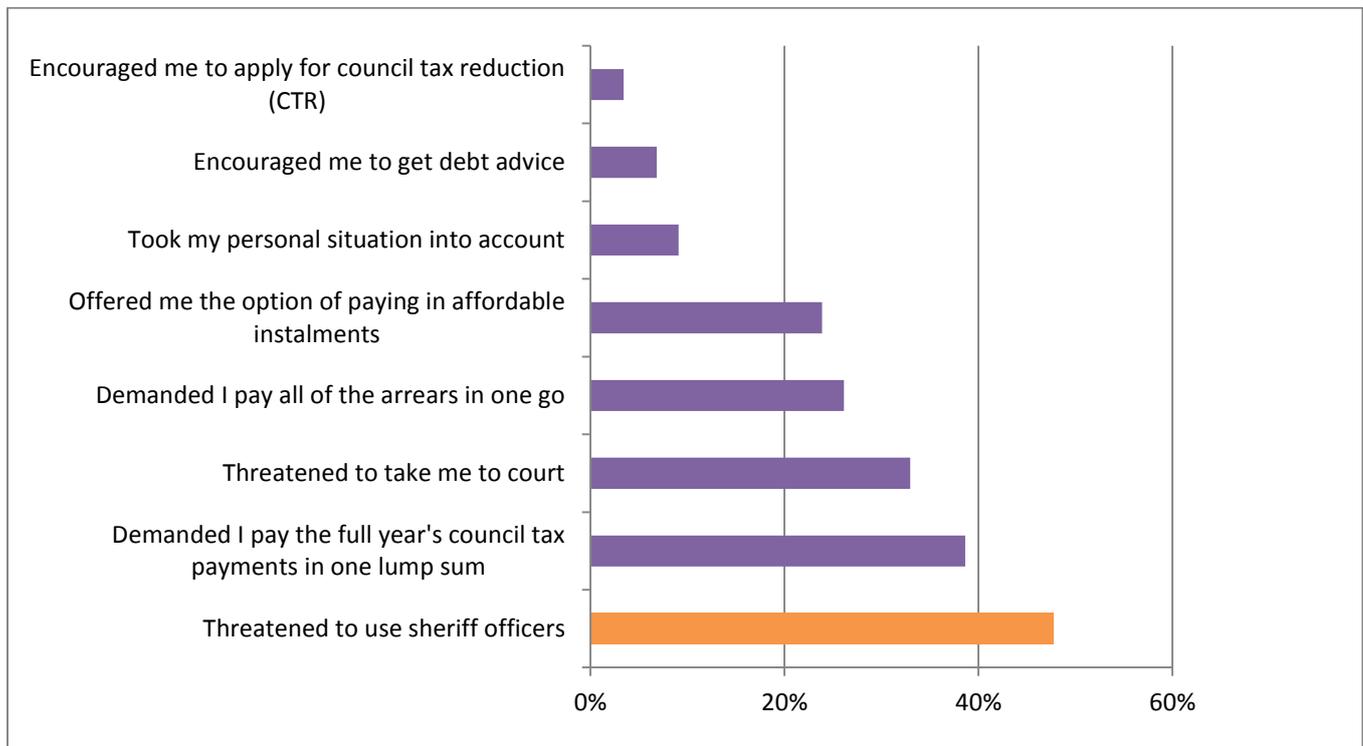
# How do Councils respond to people with Council Tax arrears?

The vast majority (82%) of our surveyed Scottish clients<sup>11</sup> with Council Tax arrears engaged with their council to get help with their arrears at some point.

A fifth of clients (20%) proactively got in touch with the council before the council wrote to them, four in ten (41%) got in touch with the council after receiving the first letter, and one in five (21%) got in touch with the council after receiving the second letter from the council.

On the whole, people found that councils were more likely to take a demanding approach than a supportive one. Less than 7% of our clients said that the councils advised them to seek debt advice when they contacted them to explain that they were in financial difficulty. The majority of councils referred clients to their in-house 'Debt Recovery Service' rather than an independent external advice agency.

In total, 67% of people who contacted their council received a tough demand or threat of enforcement – being threatened with sheriff officers, threatened with court action, or having a demand for the full arrears or the full bill to be paid in one go.



When councils take a tough approach – demanding large, often unaffordable payments or threatening enforcement action - it can result in a significantly higher proportion of people falling into deeper difficulty.

<sup>11</sup> StepChange Debt Charity client survey, 2015. Sample: 300 clients with council tax arrears who received advice in 2015.

<b>Actions taken by StepChange Debt Charity clients after falling into Council Tax arrears</b>	
Borrowed money from friends and family to pay the bill	12%
Used existing credit lines to pay the bill	6%
Took out a payday loan to pay the bill	8%
Fell behind on another bills to pay them	27%
Used savings to pay the bill	1%
Agreed to a repayment plan I could afford	22%
Agreed to a repayment plan I couldn't afford	49%
Didn't take any action because I knew I couldn't afford to pay	18%
Sought debt advice	11%
Applied for Council Tax reduction (CRT)	7%

It can be seen that people who received a tough demand or threat from their council were more likely to agree to a repayment plan that they couldn't afford.

*Mrs B from Inverness-shire said "I agreed to the repayment plan even though I knew that I couldn't really afford it. I just thought that I would have to use money from somewhere else. It just made things worse."*

Over a quarter of the Scottish clients surveyed said that they borrowed more money using existing credit lines, took out a payday loan or borrowed from friends and family to pay their Council Tax bill. However, this is normally only a very short-term solution as credit lines become harder to access. Over a quarter of our clients said that they would fall behind on other bills to try to pay their Council Tax demand.

Tough pressure prompts some people to seek debt advice, which helps to deal with their money worries. In Scotland, money advisors can submit a moratorium to the Accountant in Bankruptcy to stop any court enforcement action for a period of six weeks whilst the client seeks money advice. This process is only available to those clients whose circumstances enable them to apply for a debt payment programme under the Debt Arrangement Scheme, a Trust Deed or Bankruptcy. Clients who don't seek money advice or whose circumstances fall outside the moratorium criteria will normally only be able to stop any enforcement action if they can pay their bill or agree a repayment plan directly with their council. With Councils less likely to agree repayment plans, and less likely to refer people to money and debt advisers, this leaves a gap in the support for struggling families. In addition, with increased pressures on local authority budgets, the provision of free 'in house' debt advice services are likely to be under greater pressure.

Only 11% of our Scottish clients sought debt advice within three months of missing their Council Tax payment. Across the UK, more than half of our clients will wait more than a year before

seeking advice<sup>12</sup>. During this time people are more likely to accumulate bigger debts especially if the consequence of threatening enforcement action has been to increase unaffordable borrowing or lead to people falling behind on other bills.

Those clients who experienced more supportive action from their council were almost three times as likely to agree to a repayment plan they could afford. Agreeing to an affordable repayment plan, in turn stops any enforcement action being taken by the Local Authority for the Council Tax debt. In addition, where the affordable repayment plan incorporates other debts it has a huge impact on protecting people from the consequences of further enforcement.

While some clients were able to agree affordable repayment plans, one in five clients had money deducted from their bank account and over a third had a wage arrestment.

Over half of our clients who experienced enforcement action said that it put additional strain on them and their family, and affected their work. Nearly three quarters of our clients said that they fell behind on other bills and they had used credit to keep up or borrowed money from friends and family.

Many councils also appear not to take into account signs that particular households are potentially vulnerable. The Financial Conduct Authority's recent research on vulnerability has identified that people with vulnerable characteristics are disproportionately adversely affected by, and find it harder to challenge, poor practice.

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<sup>12</sup> Based on a 2014 StepChange Debt Charity client survey, where 52.54% of clients answered "Over a year" to the question "How long were you struggling with

# Towards more responsible Council Tax arrears collection

As Scottish household water and water waste (sewerage) charges are added on to Council Tax bills, collection of these water charges adds a complicating factor in the understanding of Council Tax debts. This is especially the true where a client is entitled to a full Council Tax Reduction. Many clients believe that they do not have to pay anything. However, that is not the case. The maximum relief from water charges still leaves a liability of 75% of the water and sewage bill.

For example, the City of Edinburgh Council client with a Band D Council Tax bill who is entitled to full Council Tax Reduction would still have to pay £313.00 in water and sewage charges to cover their 2015-16 bill.

This leads to the situation where relief is given in respect of Council Tax, but clients accrue arrears for their water and sewage charges.

Even though clients receive an amended Council Tax bill (showing both Council Tax and water charges on the same bill) that details the deductions that the client is entitled to and the amount that remains to be paid, many clients are confused.

Whilst we acknowledge the administrative efficiency of the dual billing, the lack of transparency of the bill needs to be addressed.

Water and sewage charges are poorly communicated with many of our clients not understanding whether they are eligible for a deduction, leaving many on full Council Tax Reductions receiving an unexpected bill. Therefore

- **We would support the recommendation of the Commission on Local Tax Reform in its report to separate Council Tax and water charges**

*At Chapter 9.18 it says “we conclude that as an immediate step the separate nature of these charges, even if they remain on one bill, needs to be made clearer to households in order to help prevent them from falling into debt. While not part of the system of local taxation itself, we would also welcome a further consideration of the system of reductions in relation to water and sewerage charges.*

The Water Industry Commission for Scotland (WICS) is a non-departmental public body with statutory responsibilities whose mission is to manage an effective regulatory framework which encourages the Scottish water industry to provide a high-quality service and value for money to customers. WICS has a statutory duty to promote the interests of customers. They set the prices for water and sewerage services and review performance. According to them, “*Scottish Water is outperforming our determination, and average household charges in Scotland continue to be less than the average household bill in England and Wales*”<sup>13</sup>.

On the whole, our clients found that councils were more likely to take a demanding approach than a supportive one. People in problem debt get stressed and worried about falling into arrears and

<sup>13</sup> [http://www.watercommission.co.uk/view\\_Price%20Setting.aspx](http://www.watercommission.co.uk/view_Price%20Setting.aspx)

need support and information to help them get back on track. Evidence from our survey of clients with Council Tax arrears showed that less than 7% of them said that the councils advised them to seek debt advice when they contacted them to explain that they were in financial difficulty.

We would recommend that:

- **WICS and Scottish Water should have a vulnerable client policy which provides relief to those eligible for Council Tax Reduction.**
- **Encourage Local Authorities to signpost their customers to alternative independent advice sources.**

The current Council Tax system is very prescriptive, failing to take enough account of affordability or ability to pay outside of those who claim Council Tax Reduction.

StepChange Debt Charity defines responsible debt collection as situations where creditors collect debts at an affordable rate for the individual household, based on an objective budgetary standard. Many of our Scottish clients with Council Tax arrears, however, are not able to afford their essential living costs and therefore cannot pay their Council Tax bill.

Therefore, the current system does not allow a distinction between 'can't pay' and 'won't pay' taxpayers, with collection following the same process for both.

The current legal framework allows local authorities different powers for debt recovery than other creditors, including the right to pursue debt for up to 20 years or to obtain a summary warrant without clients being able to present their case in court. Late payment of Council Tax initially means the loss of entitlement to pay in instalments, but continuing non-payment results in the council obtaining a summary warrant from a Sheriff Court and the taxpayer automatically incurring a penalty of 10% of the debt. Clients with Council Tax arrears have less protection than those in debt to other creditors.

Our evidence suggests that enforcement and collection of Council Tax arrears is very often disproportionate and causes people to fall into worsening financial situations. Many people do not understand the collection process or the potential impact of falling into arrears with their Council Tax bill. Information about Council Tax and collection processes provided by councils to their customers, both online and in their correspondence, can vary greatly. At a time when many councils are facing major cuts to their budgets, enforcement of non-payment of Council Tax may be escalated which could be detrimental to the mental health and financial situation of many.

It is clear that there is significant room for improvement in the current system. Local Authorities must take a flexible and considered approach to arrears collection. We identify three recommendations to help improve the existing system:

- **Councils must be better informed about the wider, longer term costs of tough enforcement over sustainable, affordable repayments;**

- **Councils should review their current guidance and information provided to customers to ensure that it takes a balanced, proportionate approach to arrears collection, with a view to having enforceable guidance that is consistent across all Scottish councils or ultimately statute;**
- **People could have better, easier to enforce rights to protection from disproportionate enforcement activity whilst they attempt to repay their debts at an affordable rate.**

In addition for those clients who are paying an agreed affordable amount, creditors should pause enforcement action. This is what we aim to negotiate with each of our clients' creditors when they come to us for advice.

Some councils are very supportive of this approach. StepChange Debt Charity works with a number of councils across the country who actively promote debt advice, knowing that it can lead to more sustainable outcomes for local residents facing financial difficulties. We are keen to work with others on the impact of policies and procedures on clients with problem debt and how the charity can help their clients. We will continue to support and work with these local authorities to help clients toward more responsible Council Tax collection.