

Consultation Response



Department for Communities and Local Government

Independent review of local council tax support schemes

Comments from StepChange Debt Charity

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We are an independent charity dedicated to overcoming problem debt. Our advice and solutions are effective, tailored and importantly, free. Foundation for Credit Counselling. Wade House, Merrion Centre, Leeds LS2 8NG. Company No 2757055. Charity No 1016630. www.stepchange.org

Background

StepChange Debt Charity is the largest specialist provider of free, independent debt advice operating across the UK. In 2015 more than half a million people contacted our free helpline or online debt remedy tool for advice, support and solutions to serious debt problems

There has been a significant growth in the number and proportion of people in problem debt coming to us for help with council tax arrears. In 2010, 10% of our clients had arrears on their council tax bills in 2010. By 2014 this had risen to 28 of our clients.

The proportion of clients in council tax arrears started increasing quickly in 2011 and 2012, but a significant leap happened following April 2013, when changes to council tax support were introduced. In Q1 of 2013 21% of our clients had council tax arrears, but this rose to 26% across the remaining three quarters of 2013.

We believe that council tax arrears rose both as part of pressure on low income households in the years during and following the financial crisis, but also as a result of changes in the support available to help this particular group of people cope with the cost of council tax bills.

We welcome this review of council tax support. This review is timely as it is now almost three years since the changes to council tax support were introduced. The two prior reviews – by the National Audit Office and the Institute for Fiscal Studies - were both high level and conducted shortly after the schemes were introduced, and so did not explore the full impact of these changes.

We believe the growing number of people falling into arrears is relevant to the review of council tax support because council tax arrears are closely associated with poor collection practices that can exacerbate people's financial difficulty beyond not being able to afford the bills themselves.

We believe these consequences make it necessary for the Department of Communities and Local Government to consider council tax arrears collections practice together with council tax support, and to make sure that the framework for arrears collection councils are aware of the impact of collections practice on their efforts to improve council tax support.

Council tax arrears collections

Councils are considered some of the most unhelpful creditors by people in financial difficulty. In research with the Children's Society, we found that 32% of parents who sought help from their council found this 'not helpful at all', compared to 28% of those seeking help from consumer creditors, and 20% seeking help from mortgage lenders.¹

¹ StepChange Debt Charity and the Children's Society, 2014. The Debt Trap.

We surveyed more than 1,000 StepChange Debt Charity clients with council tax arrears who came to use for advice in 2014 to understand their experiences of council tax collections.²

Link to changes in council tax support

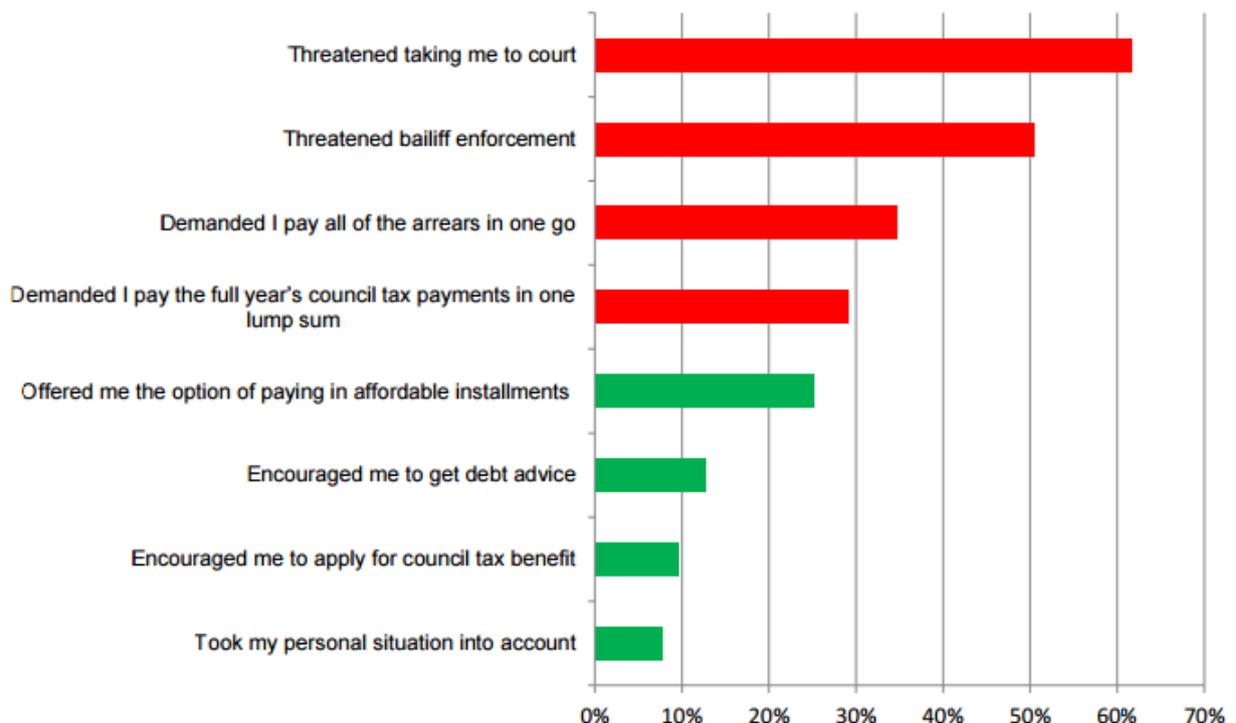
A significant proportion of our clients with council tax arrears had seen changes in the support available to them in the twelve months prior to falling behind on their council tax bills: 18% had seen their council tax benefit reduce and 26% became liable for council tax.

Engaging with councils

After falling behind on their bills, the vast majority (86%) of people engaged with their council to get help with their arrears. 26% proactively got in touch with the council before the council wrote to them, 41% got in touch with the council after receiving the first letter, and one 19% 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 threatening or demanding approach than a supportive one. In total, 65% of people who contacted their council received a tough demand or threat of enforcement – being threatened with bailiff enforcement, threatened with court action, or having a demand for the full arrears or the full bill to be paid in one go.

Clients' experience of supportive and demanding approaches from councils



² Council tax findings are based on a survey of 1,087 clients who had council tax debts who came to us for advice in 2014. The fieldwork for the survey was conducted in February 2015

The impact of council collection practices

'Tough' approaches in response to arrears prompt further financial difficulty. Where people experience a tough threat from their council early on in the process, they are likely to fall into greater difficulty.

	Large payment demanded or enforcement threatened	No large payment demanded or enforcement threatened
Borrowed money from friends and family to pay the bill	24%	12%
Used existing credit lines to pay the bill	11%	3%
Took out a payday loan to pay the bill	14%	4%
Fell behind on another bills to pay them	47%	32%
Used savings to pay the bill	3%	1%
Agreed to a repayment plan I could afford	13%	38%
Agreed to a repayment plan I couldn't afford	49%	36%
Didn't take any action because I knew I couldn't afford to pay	16%	8%
Sought debt advice	43%	37%
Applied for council tax benefit and received it	5%	11%
Applied for council tax benefit and didn't receive it	16%	7%

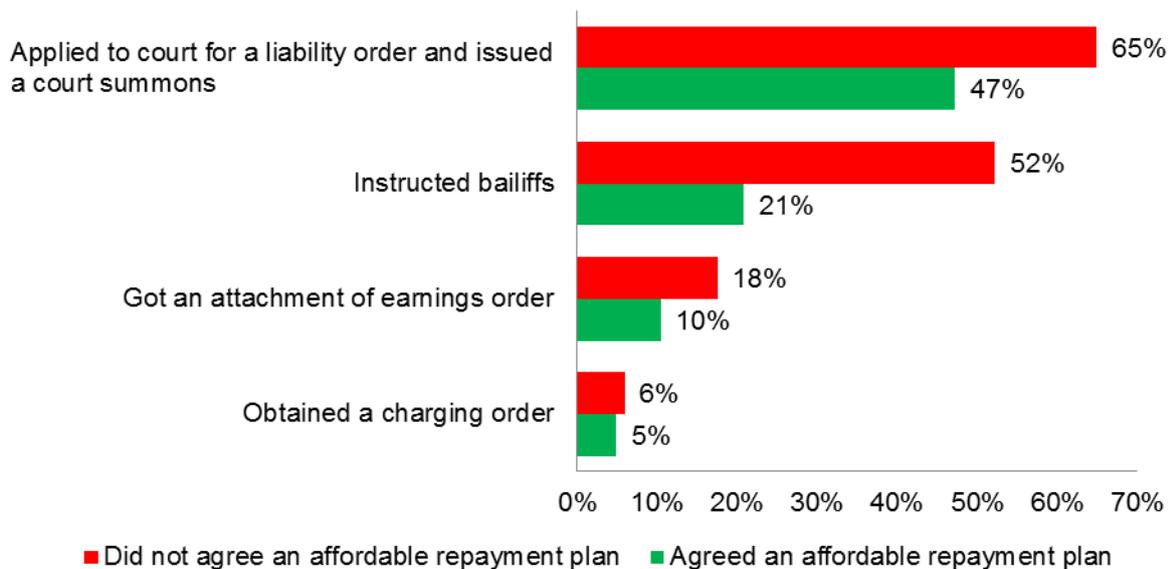
It can be seen that people who received a tough demand or threat from their council were:

- More than three times as likely to take out a payday loan
- Almost three times as likely to borrow more money using existing credit lines
- Twice as likely to borrow money from friends and family
- Almost 50% more likely to fall behind on other bills to pay the council tax demand.
- More than twice as likely to find that they are ineligible for council tax benefit.

There is a major contrast in how tough pressure affects client outcomes. Half of those who faced a tough demand or threat from the council agreed to a repayment plan they could not afford, compared to just a third of those who did not face a tough demand from their council.

Conversely, those 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, has a huge impact on protecting people from the consequences of further enforcement.

Impact of affordable repayment plans on enforcement action



Source: StepChange Debt Charity client survey, 2015. Sample: 1,087 clients with council tax arrears who came to the charity for advice in 2014. Fieldwork conducted February 2015.

While a significant number of clients with affordable repayment plans still found that their council applied to the court for a liability order, a significantly lower proportion faced more severe enforcement options. A significantly higher proportion who were not able to agree an affordable repayment plan with their council, faced bailiff enforcement action.

The impact of bailiff action

In total, 49% of our clients with council tax arrears experienced bailiff collections of their council tax debt.

Bailiff collection practice often contravenes Ministry of Justice guidance:

- In 12% of cases bailiffs visited the home outside 'reasonable hours' of 6am – 9pm.
- In 17% of cases bailiffs continued action despite clients agreeing a repayment plan
- In 3% of cases, bailiffs entered the home when only children were in.
- In 5% of cases people said that enforcement agents contacted their friends and family about their debts.

Given these practices, it is unsurprising that enforcement agent action has a significant impact on the mental health of those who experience it:

- 93% of said it increased their level of stress/anxiety;
- 63% said it put their family under strain.

The pressure of enforcement agent action also made it harder for people to work, to apply for new jobs and put their family finances back on sustainable footing:

- 50% said it affected their concentration at work;
- 39% said it affected their ability to focus on getting a new/better paid job.

Fees are high: 87% of those who faced bailiff enforcement action said they were charged at least £75 for being sent a letter about the bailiff enforcement, 58% said they were charged at least £235 for a visit from the bailiffs, and 15% said they were charged a further £110 for their goods to be sold – paying £420 in total.

Conclusions

Reductions in support for council tax payments are pushing people into council tax arrears. Many authorities' approach to the collection of council tax arrears is tipping people into further financial difficulty – falling behind on other bills, borrowing money – not just to pay unaffordable lump sums, but to pay for bailiffs' fees too.

We know that problem debt costs £8.3 billion in external costs, such as lost productivity, lost jobs, increased reliance on benefits, housing, social care and mental health support. We estimate that around £2 billion of these costs are shouldered by local authorities.

We would like to see an approach to council tax arrears that is consistently seeking an affordable, sustainable repayment of the debts, where people at risk are identified early and encouraged to engage as early as possible.

Councils should be willing to negotiate a steady repayment plan, based on an objective calculation of what households are able to afford, with charges and enforcement action paused whilst people repay their debts.

This is now established practice in the financial services sector and our clients were much more likely to find that their consumer credit lenders offered support and flexibility when they contacted them for help.

Our recommendation to the review is to implement a 'breathing space' scheme, drawing on the Debt Arrangement Scheme run by the Scottish Government. This would be a statutory scheme, where local authorities and other creditors would be required to provide forbearance (e.g. freezing enforcement action, interest and charges) to people who have sought debt advice and are keeping to an agreed debt resolution plan.

We believe that a “breathing space” scheme would be an effective way of ensuring people in need of affordable repayments of their debt could easily organize that support. It would also provide an impetus for people to seek debt advice and address other financial difficulties.

A similar recommendation was made by the Work and Pensions Select Committee in the report of their Inquiry into The Local Welfare Safety Net (12 January 2016), and in the Farnish Review of the Money Advice Service (20 March 2015). The Coalition Government pledged in response to the Farnish Review to consult on the case for introducing such a scheme, but has yet to publish the Terms of Reference.

In addition, ***we would like to see a much stronger steer from central government to local government about how they should collect arrears.*** There is very extensive guidance on arrears collection provided by government, but very little has any statutory backing. So while councils are encouraged – on paper at least – to offer people a range of options, and consider any vulnerability their resident has in their approach, this guidance is not being implemented in practice. Councils also have competing objectives - DCLG collect and publish collection rates for council tax in year, which incentivizes councils to collect arrears faster than might be affordable.

Instead, DCLG should examine whether any of the guidance to councils should be made statutory, and whether they can collect different data on council tax collection that acknowledges the importance of affordable, sustainable repayment, such as measuring council tax collection rates over a longer period, and the proportion of cases which are referred to bailiff enforcement agents.