Consultation response: DCLG Improving efficiency of council tax collection

Response by the Money Advice Trust
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Introduction

About the Money Advice Trust

The Money Advice Trust is a charity founded in 1991 to help people across the UK tackle their debts and manage their money wisely.

The Trust’s main activities are giving advice, supporting advisers and improving the UK’s money and debt environment.

We help approximately 1 million people per annum through our direct advice services and by supporting advisers through training, tools and information. We give advice to around 200,000 people every year through National Debtline and around 40,000 businesses through Business Debtline. We support advisers by providing training through Wiseradviser, innovation and infrastructure grants.

We use the intelligence and insight gained from these activities to improve the UK’s money and debt environment by contributing to policy developments and public debate around these issues.

Public disclosure

Please note that we consent to public disclosure of this response.

Introductory comment

We welcome the opportunity to comment on the Department for Communities and Local Government proposals for the collection of council tax.

We have commented below on the specific issues put forward in the consultation paper. We have also taken the opportunity to raise issues concerning council tax collection from a debt advice perspective – including recommendations on decreasing the use of enforcement agents to collect council tax arrears by improving debt collection practices, which our research shows would contribute to the aim of improving the efficiency of council tax collection.
Responses to individual questions

Question 1: Currently following a liability order, HMRC can share employment data on a council taxpayer in arrears where the taxpayer is receiving a reduction through the Local Council Tax Support Scheme. Do you agree that it would be beneficial to extend that approach so that it covers all council taxpayers?

We believe that it is reasonable for DCLG to extend data sharing with HMRC in relation to employment data if this will assist people in arrears with their council tax to pay the arrears back easily through attachment of earnings orders. The important aspect of this proposal is that the extended data sharing with HMRC should bear no extra costs for the person in arrears with their council tax. We note that the paper proposes that no additional charges will accrue for the person concerned who has already had to bear the additional costs of the liability order.

If an attachment of earnings order is an appropriate method for the person to pay back the arrears in instalments, we would suggest that this method of recovery is much to be preferred over the use of further enforcement measures such as the use of enforcement officers which adds additional fees to the debt as well as causes a great deal of stress to the person struggling to pay.

However, an attachment of earnings order may put a client’s job at risk. We suggest that it should be an additional requirement for all local authorities to inform the person concerned that it intends to apply for an order. Currently this is only a good practice measure. It is surely to nobody’s advantage in this situation for anyone to lose their job as this will clearly affect their ability to pay back the council tax, and have many undesirable repercussions for the individual, their families and their finances.

We have concerns that although the deduction levels have the advantage of simplicity, the level of attachment of earning order deductions is not negotiable and there is no possibility of variation of the amount in extenuating circumstances. This contrasts with attachment of earnings orders in the county court where there is a protected earnings limit. In addition such orders can be suspended in the court on application where there is good reason. We
would suggest that DCLG allows for a mechanism to suspend or reduce payments on an order via application.

We note that in the paper there is a proposal for a council tax information letter for local authorities. It is not clear to us whether this is a letter in a prescribed form for local authorities to send to people in council tax arrears. If so, we would make a plea for this letter to include sources of free, independent debt advice for those affected to contact for advice.1

**Question 2: Are there other legislative or data barriers to efficient council tax collection that, if addressed, would reduce the burden on council taxpayers? Where possible, please supply evidence of the reduction.**

**Improving debt collection practices**

We believe there is a role for legislation in improving the efficiency of council tax collection in the case of residents in arrears, by encouraging improvements in debt collection practices and specifically, a reduction in the use of enforcements agents to collect council tax debts.

Our recent Stop the Knock research2 found that local authorities in England and Wales instructed enforcement agents/bailiffs to collect debts on 2.1 million occasions last year. The figure shows overall bailiff use by local authorities has risen 16 percent in the last two years, despite wide variations across different councils and repeated calls from the debt advice sector, housing charities and others for debt collection practices to improve.

The findings are based on Freedom of Information requests to all 375 local authorities in England and Wales, and show the readiness with which councils instruct private bailiffs to collect unpaid debts – despite the serious negative impact this can have on individuals and in financial difficulty.

Crucially, our research also found that councils that use enforcement agents the most in 2014/15 had less success, on average, in collecting council tax arrears.

To examine the effectiveness of this method of debt collection, we compared the use of bailiffs for council tax arrears by lower-tier authorities with data on the amounts of arrears.

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from previous years collected during 2014/15, as submitted by local authorities to DCLG and the Welsh Government. This comparison was possible for 328 lower-tier authorities in England and Wales who responded to our FOI with council tax bailiff use figures.

The analysis shows no correlation between higher bailiff use and higher collection rates for council tax arrears (see Figure 1). In fact, the heaviest users of bailiffs for council tax collection had less success, on average, in collecting arrears from previous years.

The top tenth of authorities by bailiff use had an average collection rate of 22.4%, compared to 31.2% for the bottom tenth – calling into question the effectiveness of this debt collection method in protecting the council taxpayers’ interest (see Figure 2).

Figure 1: Use of bailiffs to collect council tax arrears vs Council tax arrears collection rate 2014-15
We therefore believe that the efficiency of council tax collection – in the case of those residents who fall into arrears – could be improved by encouraging local authorities to explore all possible alternatives before turning to enforcement agents only as a last resort.

Specifically, we would like to see existing good practice guidance placed on a statutory footing, to provide a stronger impetus on councils to offer sustainable repayment plans to people in arrears, and avoid worsening their financial situation – and therefore their ability to meet their council tax commitments – through enforcement action.

This could be achieved by amending Part 1 of the Local Government Finance Administration Act to require new secondary legislation under the Council Tax (Administration and Enforcement) Regulations 1992 to ensure council tax arrears letters include contact details for free debt advice; to require Councils to seek to arrange an affordable repayment plan, based on an objective budget standard, before pursuing people through formal enforcement action; and to require Councils to have adequate procedures in place to identify potentially vulnerable households (including those with children).
Support for local council tax support schemes

We also believe that support for local council tax support schemes should be considered as part of DCLG’s work on improving the efficiency of council tax collection. Reductions in support available to those residents who need it is having a negative impact on their long-term financial health, and therefore on their ability to keep up with future council tax bills.

Local Government Association research suggests that £1 billion of funding will have been removed from council tax benefit in the three years to 2015/16. The burden of the £1 billion funding gap in 2015/16 is shared between local authority budgets, council tax support recipients, and council taxpayers generally.

We recommend that government review the 100 per cent subsidy for local Council Tax Support schemes in the coming years in order to reduce the financial pressures on councils and enable them to support their poorest local residents – and examine the impact that a change in policy in this area would have on the efficiency of council tax collection in the longer term.

Question 3: Are there any data collection or sharing issues that the Government could usefully clarify or address?

On data collection, we believe that there should be a statutory duty on local authorities to report to DCLG on council tax debt collection methods as part of their QRC4 return, including the number of proportion of council tax debts passed to enforcement agents, alongside the current reporting of council tax collection rates. This added transparency and public scrutiny would further disincentivise local authorities from resorting to enforcement action too readily, instead encouraging earlier intervention via other methods. This should include all local authorities, including authorities now using in-house enforcement agents.

We are not familiar with the issues that data sharing might raise in this context so have no comments to make in response to this aspect of the question.
For more information on our response, please contact:

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