

# Local Government Health Check Report 3: Personal Debt and Local Government

**FOR THE  
MANY**  
NOT THE  
FEW

**LABOUR  
COMMUNITIES &  
LOCAL GOVERNMENT**

# COUNCIL BUDGETS ARE BEING HEAVILY SQUEEZED - AND RESIDENTS ARE PAYING THE PRICE

## Summary

- The Government failed to provide any new funds in the Local Government Finance Settlement.
- This puts even more pressure on Councils to collect all the Council Tax they're owed - in 2016-17, councils collected 97.2% of what was owed, and recovered £627 million of arrears.
- The number of people jailed for not paying council tax fines is up over 60% - from 65 to 106 - over the past year.
- Costs associated with housing including mortgage and maintenance costs, rents, insurance and council tax are the most expensive outgoing, at £173.40 a week on average. Since recording began 60 years ago, the proportion of spending on housing has doubled to 18 per cent.
- On average people seeking support owe £832 in Council tax arrears, an increase of £157 since 2010.
- Pressures placed on local authorities are not only a result of the austerity agenda. Councils also face pressure from central government to collect their council tax "in-year" and are 'named and shamed' by central government on the basis of their collection rates.
- Labour in Government will develop a new model of debt recovery, and will sustainably fund local government.

# Council budgets are being heavily squeezed - placing greater pressure on them to collect Council Tax from those that are finding it difficult to pay

By 2019–20, the Local Government Association (LGA) predicts English councils will face a **£5.8 billion funding gap due to cuts in central government funding** and the rising costs of an ageing population.<sup>1</sup>

This puts even more pressure on them to collect all the Council Tax they're owed. In 2016–17, councils collected 97.2% of what was owed, and recovered £627 million in arrears.<sup>2</sup> **The number of people jailed for not paying council tax fines is up over 60%** - from 65 to 106 - over the past year (see below).<sup>3</sup>

Citizens Advice report that since 2013, the number of cases that they handle relating to council tax arrears has risen by 50% to around 217,000 each year, whilst the number of concerns relating to

other taxes has fallen or flatlined.<sup>2</sup>

This is supported by research from StepChange Debt Charity, who report a **372% rise in the number of people who have sought advice on council tax arrears, since 2010.**<sup>4</sup>

Council tax debt is associated with low income - a sample of 89,000 complex debt cases, those with council tax arrears had a total average household income from all sources of £960 per month in 2014/15, less than half the average monthly income for UK households of £2,456.<sup>5</sup>

In January, the Office for National Statistics (ONS) reported that household spending had returned to pre-crisis levels. Average weekly spending rose to £554.20 in the year to March 2017, the highest it has been since the year to March 2006, with costs associated with housing including council tax were the most expensive outgoing, at £173.40 a week on average.

Since recording began 60 years ago, the proportion of spending on housing has doubled to 18 per cent. In that time, food and clothes prices have fallen in relative terms and the proportion of spending on them has halved from 33 per cent to 16 per cent and 10 per cent to 5 per cent respectively.<sup>6</sup>

Stepchange have reported that their clients on average owe £832 in Council tax arrears, **an increase of £157 since 2010.**<sup>4</sup>

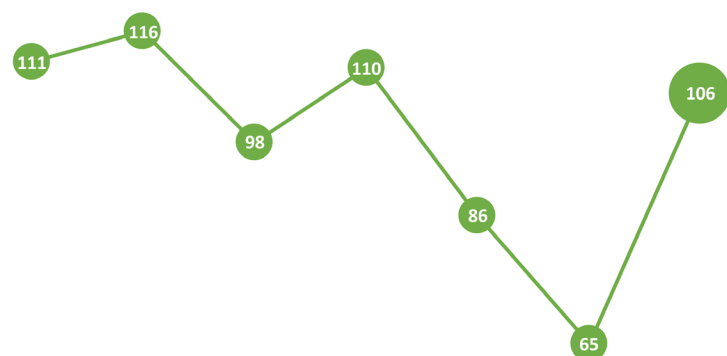
Although councils help people struggling financially, it is also vital that all councils help people avoid getting into problem debt. **The cost of this debt to society is estimated to be £8.3 billion** through the knock on effects to individuals and their families, the additional demand for services from local and national government, and impacts on productivity that affect the wider economy.<sup>7</sup>

Pressures placed on local authorities to recoup this debt are not due to central government cuts. **Councils also face pressure from central government to collect their council tax "in-year"**. Councils are 'named and shamed' by central government on the basis of their in-year collection rates. This puts pressure on local authorities to collect council tax arrears by reporting dates rather than at a pace which is sustainable for individual households' finances - and that may not neatly fit within the reporting period.

Improving the way that we do this can not only benefit residents, but can help Councils to save money. A 2014 analysis of 235,790 cases found that a steady, proportionate approach

to debt repayment yielded a higher recovery rate and created £175 million in savings for creditors.<sup>7</sup> By offering debt advice and realistic repayment plans, Councils are able to achieve better results than if they seek enforcement action. For example, in Citizens Advice help their council achieve a 70%+ success rate.<sup>2</sup>

With mental health often appearing as an exacerbating factor in many of these problems (2017 data shows that of Stepchange's clients with mental health problems, 61% seek help with benefits and tax credits and 32% are advised on council tax arrears, and Stepchange have also found that of those seeking support, 43% were suffering stress or mental ill health<sup>8</sup>), research shows that, **following advice, around 80% of clients report feeling happier and over 45% reported physical health improvements.** Improving council tax collection processes sits squarely within the preventative agenda.<sup>9</sup>



2010/11 2011/12 2012/13 2013/14 2014/15 2015/16 2016/17

Source: HMCTS management information

# A NEW MODEL OF DEBT RECOVERY UNDER A LABOUR GOVERNMENT

- Labour in Government will develop a new model of debt recovery, building on best practice examples from Labour councils.
- Labour will develop a balanced scorecard framework to support councils and their communities in their responsible debt collection. This could include collecting and publishing the breakage rates for council tax repayment plans and the percentage of council tax arrears cases in which enforcement agents have been instructed.
- All correspondence about council tax arrears should include contact details for free debt advice.
- Councils should ensure that they have a vulnerable persons policy in place to identify potentially vulnerable households and when considering action to collect debt, they should make best endeavours to establish whether households are potentially vulnerable, and determine the course of action accordingly.
- Councils must be able to evidence that they have sought to arrange an affordable repayment plan, before pursuing people through formal enforcement action.

- When people are in financial difficulty, they need a guarantee of protection from interest, charges and enforcement action whilst they are paying back their arrears at a rate that they can afford. Giving people a statutory right to affordable repayments and protection from enforcement is the most effective way to ensure that councils offer a proportionate, fair response. This can be delivered via debt advice, and affordable repayments can be calculated using an objective budget standard. An Extended Breathing Space Guarantee, would give struggling consumers this protection at no cost to the state.
- Fundamentally, Local government desperately needs sustainable forms of funding, no longer based on arbitrary cuts on the budget of the previous year, but actually based on need – on the cost of delivering current and future services for our communities.





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