

Wrong Side of the Tax: Council tax debt collection needs to change

Council tax is important. It's the largest property tax in England, and the revenue it raises accounts for 32% of local government funding.¹ But for households, it is also a growing source of debt.

As of March 2019, the overall level of council tax arrears stood at £3.2bn - 7% more than the year before.² Last year we helped 83,000 people in England with council tax arrears. It is the most common debt we see, impacting more than 1 in 4 of all those we help with a debt problem.³

Our latest research finds that many people in council tax arrears can't afford to pay it. They are often struggling with multiple debts, and don't have the money to cover essential living costs.

But the debt collection process doesn't account for this. Centrally-set regulations push councils to use inefficient and ineffective methods that push people into spirals of debt and don't recover much money for councils.

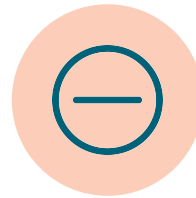
Government should amend these regulations to make the system work better for people in debt and for councils.

**citizens
advice**

People we help with council tax debts don't have enough money

The clients we help with council tax arrears are more likely than our general debt clients to have multiple debts and be in a negative budget.

Having a negative budget means having £0 or less after living costs (eg. food and utilities). This is a growing problem for our clients.



42% of clients with council tax arrears have a negative budget.⁴



On average, a client with council tax debt had just **£7** left at the end of the month to pay off debts.⁵

People with negative budgets are often unable to afford their current council tax bills, which adds to any existing arrears that they have. This makes it harder for them to get on top of the debt. As one adviser said:

"People who are juggling their budgets will choose to miss their Council Tax payments rather than miss out on food or payment of fuel bills."

The people we see with council tax arrears are already struggling to afford basic essentials like food, rent and fuel. This causes them to fall behind on their council tax bill. They have even less money available for debt repayments, and so can't catch up.



More than 1 in 4 of our debt clients have council tax arrears



9 in 10 clients with council tax arrears have at least one other debt.



People we help with council tax debt have £7 a month left after living costs



Over the last 5 years bailiffs collected just 30% of the debt they were sent by councils

Having other debts makes it harder to repay council tax arrears

Sam is disabled and has been living alone since his partner passed away in 2017. The same year he started repaying £20 a month for a benefit overpayment.

In 2018 he was made redundant. Sam fell into council tax arrears for the first time.

Sam fell into more difficulties in 2019 when he was transferred to Universal Credit. Sam had to borrow from friends during the 5 week wait before his first payment to cover basic living costs. He couldn't afford to meet his debt payments.

Sam's council tax debt was referred to bailiffs. He began receiving threatening and confusing letters. But as he didn't know what his income would be under Universal Credit, he wasn't able to set up a repayment plan.

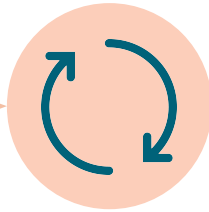
People with council tax arrears struggle with other debts

Not being able to afford essentials also means many of the people we help with council tax arrears have complex debt problems.

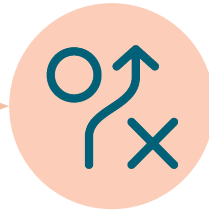
9 in 10 clients with council tax arrears have at least one other debt. The most common types of debt are with water, fuel and credit card providers.⁶ As council tax debts mount, these other financial difficulties don't go away.



People with multiple debts are likely to be struggling with expenses across all essential service providers.



Needing to repay these other debts means people fall further behind on their council tax payments.



They have no way of affording all these expenses as well as their council tax bill.

Complex financial problems makes it hard for people to stop their debts from escalating

This wider financial context of people with council tax debt is often not taken into account as part of the collections process. One adviser told us that *"people tend to ignore demands because they simply cannot afford to pay"*.

The process itself can also make people's problems worse. People in debt are often left scared and confused by communications about their council tax. One adviser told us that one of the biggest issues they see is *"[incomprehensible] formal letters and warnings and council tax statements...they just ignore them through fear"*.

This leaves people in situations where they can't pay their council tax debts and find it hard to engage with their council to stop them from mounting.

Having multiple debts and a negative budget puts people with council tax arrears in an impossible position

These people don't have the money to pay off their debts, but if they don't, the collections process means their debts continue to grow.

This is reflected in what advisers see.

According to advisers, the 3 most common problems they see are:

People being unable to pay the entire annual bill after becoming liable.



"[local authorities require a] liability order before long term payment plan agreed. This increases the debt and increases the threat of bailiff action"

People having difficulties setting up affordable repayment plans



"[the council requires] that any arrears are repaid in the same year as they arise, this places the client in an impossible position and they may turn away from the problem altogether since it seems so hopeless"

People struggling to pay bailiff fees.



"The bailiffs terrify clients...Some end up paying bailiffs at hugely inflated amounts they can't afford, leading to rent arrears and other arrears, not to mention poverty, hunger and increased mental health problems"

Collection causes debts to spiral out of control

Jodie is a single mother to a 6-year-old with ADHD. She fell into council tax arrears in 2016 due to high childcare costs when her son started nursery. Jodie was also in rent arrears and was repaying a £7000 benefit overpayment.



"it's hard to keep up with everything and to pay everything and you know, still live and buy things"

In 2017, Jodie received court summons for the council tax arrears. She wasn't able to pay and found the summons frightening and confusing, so didn't attend. She kept receiving court summons every month, which added more fees.



"when you get letters through your door that say 'court' you do get scared and worried and think [what] is going on"

In 2019, bailiffs were made to put recovery on hold while Citizens Advice helped Jodie to manage her debts. But later that year the bailiffs began recontacting and threatening her.



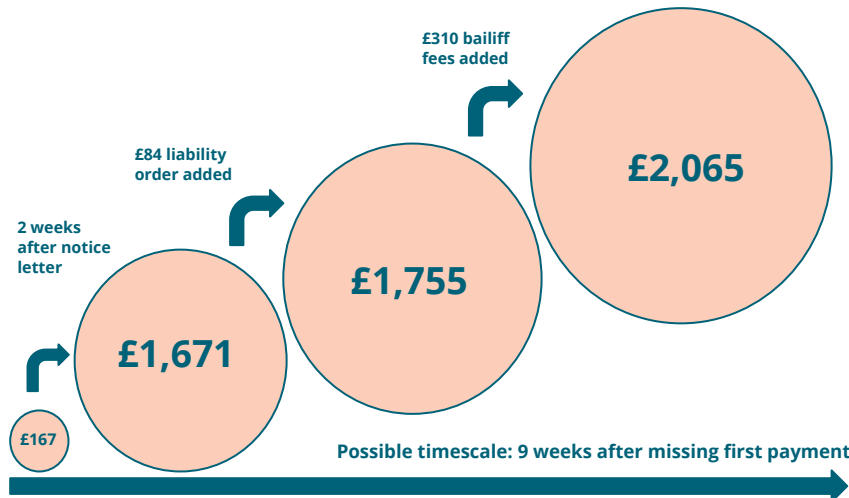
"I don't understand why the council have to take you to court or use bailiffs and then there's more money added on to your debt."

Jodie wasn't put on a payment plan until 3 years after her first missed payment. In this time her debt grew from £404 to over £2000 because of court orders and bailiff fees.

Collection practices make these problems worse

The main reason the collections process often doesn't take people's wider circumstances into account is because centrally-set regulations push councils to pursue aggressive collections practices.

For instance, 2 weeks after missing a payment, people become liable for their entire annual bill. People will then often face court costs and bailiff fees meaning missing a single payment of £167 can escalate to a debt of over £2,065 in just over 2 months.⁷



Source: Citizens Advice, *The Costs of Collection*

These regulations were designed to encourage people to pay early on. But they don't account for people on low incomes or in serious financial difficulty, who are struggling with multiple debts and having to prioritise essentials like food and rent.

This leaves people with mounting debts they have no way of paying.

Regulations push councils towards courts and bailiffs.

In 2018/19:



Councils issued nearly **2.3 million** liability orders. But many people in debt aren't able to repay these and aren't being offered suitable repayment plans.⁸



Councils used bailiffs to collect council tax over **1.4 million** times. This adds extra fees on top of the debt, as well as adding to stress and mental health problems.⁹

Anna's story

Anna has multiple mental health conditions and a learning difficulty.

She was hospitalized in 2017 after a suicide attempt. During this time she received a council tax bill. She didn't pay it as she was in hospital.

Months later, Anna started getting distressing letters and visits from bailiffs. This made her mental health worse and added more fees onto her debt.

Anna's housing management contacted the council. The council put Anna on a repayment plan and acknowledged she should have been exempt.

But bailiffs kept pursuing Anna for the next 2 years. Citizens Advice contacted the bailiffs to let them know that Anna was on a payment plan with the council. Almost all of her remaining debt is now from bailiffs.

Collections don't work for councils either

Regulations encourage councils to pursue people via the courts and bailiffs. Using such tactics against people who can't afford to pay can exacerbate mental health problems and cause distress. It's also inefficient and ineffective.

Since 2014 the total value of debts referred to bailiffs by councils has been steadily increasing. But the value of council tax debts actually collected by bailiffs has remained the same.

On average, bailiffs only collected **30%** off the debts they were sent during this period. This means bailiffs failed to collect **over £790 million** last year alone.¹⁰



For every £1 referred to bailiffs, councils receive just **27p** in return.¹¹



Bailiffs cost **53p** for every **£1** they recover.¹²



Last year, bailiffs failed to collect an average of **£2.5 million per council**.¹³

Last year bailiffs cost councils and households a total of **£196 million**.¹⁴ But councils have limited options to recover debts other than court orders and bailiffs.

Having to rely on bailiffs to recover debts causes knock-on costs and is often not effective for recovering the money councils are owed.

Cash-strapped councils need to be given more flexibility to collect debts in ways that work for people in debt and for public finances.

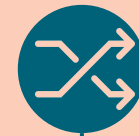
The collections process needs to be improved in 3 ways:

The current approach to the collections process isn't working for people with council tax arrears, or for councils.

The current regulations push people further into debt and make their financial problems worse.

Regulations also limit local councils' power to take a more effective and flexible approach to collecting council tax arrears for instance by using third party deductions.

The Department for Housing, Communities and Local Government should use secondary legislation to amend the Council Tax (Administration and Enforcement) regulations to:



Give councils more flexibility by stopping people becoming liable for their annual bill when they miss one payment



Make it easier for councils to improve collection by giving them more powers to collect debt in a fair way without getting a liability order first



Improve practice across the country by clearly setting out steps that councils should take before using the court process.

This would make it easier for councils to do the right thing, and collect more of the money they need to run vital local services.

References

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2. Ministry of Housing, Communities & Local Government, [Collection rates and receipts of council tax and non-domestic rates in England 2018-19](#), accessed: February 2020.
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4. Citizens Advice, Money Advice Recording Tool, November 2018 - November 2019
5. Citizens Advice, Money Advice Recording Tool, November 2018 - November 2019
6. Citizens Advice, Money Advice Recording Tool data, November 2018 - November 2019. Council tax arrears, credit card debts, and unsecured personal loan debts make up 29%, 23% and 20% of debt clients respectively.
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8. Citizens Advice, [Council tax debt collection isn't efficient or effective](#), December 2019.
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