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## The Council Tax Collection Coalition submission to the Housing, Communities and Local Government Committee's inquiry into the Funding and Sustainability of Local Government Finance

This submission comes from the Council Tax Collection Coalition, a group of organisations seeking to improve council tax collection practices for both residents and councils, and to highlight the urgent need for reform.

### Background:

Council tax costs have risen significantly in recent years, while the financial assistance available to help low-income households with this bill has fallen since the localisation of council tax support in 2013.<sup>1</sup>

This context, coupled with enduring cost of living challenges, has led to a situation where **council tax arrears in England and Wales have now reached £6.2 billion – rising by £528 million in the last year alone.**<sup>2</sup> Council tax is an increasingly vital component of the local government funding system, accounting for 60% of councils' core spending power 2021/22, up from 40% in 2009/10.<sup>3</sup>

However, recent research by our respective organisations has highlighted several pressing concerns about current council tax debt collection rules and practices. The existing system compounds personal and financial difficulty, which has implications not just for residents and their wellbeing, but also for the long term sustainability of the current financial regime. Without reform, we believe this system will fundamentally undermine efforts to balance local government finances.

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<sup>1</sup> Rose M. *Council Tax Support? A benefit determined by postcode not need*. Citizens Advice. 2024.

<sup>2</sup> Money Advice Trust. *Council tax arrears levels in England hit £6bn*. 2024

<sup>3</sup> Haves E. *Local government finances: Impact on communities*. House of Lords Library. 2024

## Is the local government finance system fit for purpose? If not, what needs to change?

### The current council tax system is not fit for purpose

Councils have weathered central government budget cuts of 40% over the last 10 years. As such, local authorities are increasingly reliant on council tax to balance budgets.<sup>4</sup> This has, in turn, led to increasing pressure on council tax collections departments to keep collections rates high. It's important to keep this in context. Council tax remains a highly successfully collected tax, with an average collection rate of nearly 96% in 2023.<sup>5</sup>

The critical issue with relying on council tax to balance cuts in central government funding, is that council tax is regressive in nature. Analysis by the Institute for Fiscal Studies found that the council tax burden is five times greater for those in the lowest income decile when compared with the highest.<sup>6</sup>

Further, since the scrapping of the centrally funded Council Tax Benefit in 2013, and the introduction of localised Council Tax Support instead, local authorities are now responsible for providing support to eligible residents. Since then, the level of council tax debt has more than doubled.<sup>7</sup>

Most council's offer less generous schemes than were offered under council tax benefit: the majority of schemes have a minimum payment that all working-age residents must pay, and some schemes might limit support depending on council tax banding. As a result, residents face a postcode lottery, with the same household receiving substantially different entitlements depending on where they live. Poorly advertised schemes also mean that Council Tax Support is chronically underclaimed. Take up of Council Tax Support is just 62%, meaning 2.7 million people are missing out on £2.8bn worth of support.<sup>8</sup>

**The combination of these factors means those in arrears are overwhelmingly poorer residents.** Research from the Centre for Social Justice finds that almost half (47%) of households in arrears are in relative poverty. 85% are in the five lowest income deciles.<sup>9</sup>

In turn, this means that debt collection for council tax now primarily affects vulnerable groups, including people with mental health problems and single parents.

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<sup>4</sup> Ibid.

<sup>5</sup> Gov.uk. *Collection rates for Council Tax and non-domestic rates in England, 2023 to 2024 (revised)*. 2024

<sup>6</sup> Adam S et al. *Revaluation and reform: bringing council tax in England into the 21st century*. Institute for Fiscal Studies. 2020

<sup>7</sup> Rose M. Council Tax Support? A benefit determined by postcode not need. Citizens Advice. 2024.

<sup>8</sup> Ibid.

<sup>9</sup> Centre for Social Justice. *Still Collecting Dust: Ensuring fairness in council tax collection*. 2024.

### *The current council tax collection regime is counterproductive*

Council tax collection currently relies heavily on automated systems, expensive court processes and enforcement action (the use of bailiffs).

**The current standard of engagement from councils pushes struggling residents away from support and negatively impacts wellbeing.** Over four in five (85%) StepChange debt advice clients said the communications they received from their council about their arrears made them feel scared, anxious or depressed.<sup>10</sup> Research from the Money and Mental Health Policy Institute suggests this approach to communications is likely to drive people further away from the engagement that many debt collections professionals claim is essential for solving debts at an early stage.<sup>11</sup>

**The existing regulatory regime encourages councils to revoke a resident's ability to pay their council tax bill in instalments within three weeks of a single missed payment, and make them liable for the annual bill.** Research for the Money and Mental Health Policy Institute found that 91% of people in arrears can't afford an unexpected bill of £1,000, even through borrowing in a way they considered affordable. Given the average annual council tax bill is over £1,600, reforming this should be a priority for councils.<sup>12</sup> Research from Policy in Practice found that requiring full payment of council tax after a single missed payment pushes 53% of all households into an income shortfall.<sup>13</sup>

**Liability orders add significant extra costs onto existing debt, further exacerbating a resident's arrears.** Liability orders are highly automated court processes required for local authorities to pass a debt onto more severe debt collection activity, such as enforcement action. A recent investigation by The i newspaper found that 3m liability orders were raised between 2023 and 2024.<sup>14</sup> Using the rough average cost of a liability order, at £86,<sup>15</sup> this may be taking as much as £258m away from residents, that could otherwise be put towards their council tax arrears.

**Councils are reliant on enforcement action to collect on debts.** A recent FOI by the Money Advice Trust and the Centre for Social Justice found that 2.7 million debts were referred to bailiffs by councils in England and Wales in 2022/23.<sup>16</sup> Enforcement activity can add more than £420 in fees to a resident's council tax arrears, and research from Citizens Advice shows that the use of enforcement agents isn't cost effective, and costs residents

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<sup>10</sup> StepChange. *Looking through the keyhole: StepChange debt advice clients' experiences of the council tax debt collection journey*. 2024

<sup>11</sup> Murray T, Smith F. *In the public interest? The psychological toll of local and national government debt collection practices*. 2024

<sup>12</sup> Ibid.

<sup>13</sup> Charlesworth Z. *Council tax debt collection and low-income Londoners*. Policy in Practice. 2020.

<sup>14</sup> Robson S. *The council tax debt crisis pushing the poorest parts of England over the edge*. The i Paper. 2024

<sup>15</sup> Centre for Social Justice. *Still Collecting Dust: Ensuring fairness in council tax collection*. 2024.

<sup>16</sup> Money Advice Trust. *Stop the Knock*. 2024

£196m in 2018/19. Again, these fees are funds that otherwise could have gone towards residents' council tax arrears.<sup>17</sup>

Further, the use of bailiffs is highly distressing. A survey from StepChange finds that of clients who had experienced enforcement action, 95% said the experience had a negative impact on their mental health and wellbeing.<sup>18</sup>

Through a combination of psychological harm and rapid financial pressure, council tax collection serves mainly to further entrench the debt people are in, and ensure they continue to struggle to make ends meet. Long-term, we believe this will drive more people in arrears away from work, away from support, and ultimately drive down the local authority tax base.

### **Recommendations:**

**We are calling for the Select Committee to recommend the following changes to the current system of debt collection, for the benefit of both residents and councils' funding and sustainability:**

1. Change section 23(3) of the Council Tax Regulations 1992 to allow longer than 7 days before council tax debt escalates. This is a relatively straightforward change, and can be done at a low cost to both government and councils. For those in financial difficulty, this would provide more time and opportunity for them to engage before being faced with further bills and fees.
2. Implement a cap on liability order fees to ensure councils aren't trying to balance budgets through this disguised fine. The Welsh Government currently has a cap for liability order fees, which has led to no significant negative impact on collections rates.
3. Work with the Ministry of Justice to give statutory underpinning of the Enforcement Conduct Board to ensure effective regulation of enforcement activity and the bailiff industry.
4. Exempt people receiving council tax support from bailiff action, to protect people on low incomes from action that isn't appropriate for their circumstances.

**We are also calling for the Select Committee to recommend the following changes to the current system of council tax support:**

1. Automate the council tax support claims process to better integrate the universal credit system through improved data sharing with the DWP.
2. Central government needs to reset the funding arrangement so that it flexes with demand and increase the financial assistance provided to local authorities, so that they can once again provide 100% support to households most in need.

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<sup>17</sup> Citizens Advice. *Council tax debt collection isn't efficient or effective*. 2019

<sup>18</sup> StepChange. *Looking through the keyhole: StepChange debt advice clients' experiences of the council tax debt collection journey*. 2024

Local authorities face acute financial challenges. The risk of bankruptcy is a very real threat for many. However, the books should not be balanced on the backs of poorer, more vulnerable residents. As our collective research has shown, the current council tax regime and its collection practices are important factors undermining the long term sustainability of local authority finances.

Further, we know that struggling councils are more likely to rely on more aggressive local government debt collection.<sup>19</sup> We are concerned this creates a vicious cycle. Insufficient funding for local authorities is hindering the delivery of both public services and harm-reducing approaches to debt collection. Urgent action is vital.

**Does the funding system allow and incentivise local authorities to make sensible long-term choices about their finances and budgets, to better serve their residents?**

The pressures of in-year collection rates and budgetary constraints have contributed to a climate where council tax arrears are quickly and severely escalated.<sup>20</sup> This can have harmful outcomes, not only for residents, but ultimately for councils who struggle to sustainably recoup certain debts and support their communities under this system.

As we have set out in the previous answer, there should be a greater recognition from central government of the positive impacts of compassionate debt collection practices from local authorities – such as affordable forbearance or writing off unpayable council tax – on residents' wider financial positions and wellbeing.

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<sup>19</sup> Centre for Social Justice. *Still Collecting Dust: Ensuring fairness in council tax collection*. 2024.

<sup>20</sup> Charlesworth Z. *Council tax debt collection and low-income Londoners*. Policy in Practice. 2020.