Local Government and Communities Committee

Consideration of the Council Tax (Substitution of Proportion) (Scotland) Order 2016

Submission from Citizens Advice Scotland

Citizens Advice Scotland (CAS), our 61 member Citizen Advice Bureaux (CAB), the Citizen Advice consumer helpline, and the Extra Help Unit, form Scotland’s largest independent advice network. Advice provided by our service is free, independent, confidential, impartial and available to everyone. Our self-help website Adviceguide provides information on rights and helps people solve their problems.

In 2014/15, the Citizens Advice Service network helped over 323,000 clients in Scotland alone and dealt with over one million advice issues. With support from the network clients had financial gains of over £124 million and the Scottish zone of our self-help website Adviceguide received approximately 4 million unique page views.

Summary

“Council tax isn’t the only problem, but it is often the straw that breaks the camel’s back so to speak. Also, it is the one that it is in the power of the Scottish Government. It’s really important to look at a fairer system.” Money Advice Worker, East Sutherland CAB

The Scottish Government’s proposed reforms represent a tentative first step in making local taxation fairer and more progressive. We welcome the increased support for families under Council Tax Reduction and the protection for low income households from higher charges. However, more can be done to make local taxation affordable for low to mid income households.

The proposed reforms need to form part of a much wider programme of change that considers basic affordability, support for those on low incomes, collection and enforcement of debt in the system, and how water charges are collected. In particular, CAS would welcome a wider review of Council Tax Reduction (and other support) to ensure that it supports key groups that evidence shows are struggling with Council Tax payments, such as single adult households and workers being paid low and/or variable incomes. We also believe that improvements should be made to the system of collection and enforcement of Council Tax in Scotland.

Finally, it is important to look at local taxation in the context of other related Scottish Government policies. In a Fairer Scotland, where we work to end child poverty and to create a social security system that supports people in their time of need, it is essential to have a system of local taxation that supports these aims.
Introduction

CAS welcomes the opportunity to respond to the Committee’s call for evidence on the Council Tax Order laid by the Scottish Government. In 2014/15, clients sought advice on over 29,000 new issues related to Council Tax and Council Tax arrears at a citizens advice bureau in Scotland – a 4% increase on the previous year. This represents over 100 advice issues per working day, or around one Council Tax issue for every 10 clients that seek advice at a citizens advice bureau. After years of consumer debt dominating debt advice figures, Council Tax arrears is now the most common debt that clients seek advice on.

However, our figures may underplay the impact of Council Tax on people’s finances and budgeting. It is likely that for many clients who seek advice on other issues, paying their Council Tax may have left them in a financially precarious position. The impact of Council Tax on low income households is likely to be felt more keenly than is suggested by the figures recorded.

In our response to the Commission on Local Tax Reform in 2015, we used the evidence of Scotland’s citizens advice bureaux to show the aspects of local taxation that need to be improved in any new proposed system. In particular, our evidence showed that:

- The current system is very prescriptive, failing to take enough account of affordability or ability to pay outside of those who claim Council Tax Reduction
- An increasing number of workers in low paid, part-time, and unpredictable employment find Council Tax difficult to pay and receive little or no support through Council Tax reduction. Any new system should look to support this group
- Our evidence suggests that enforcement and collection of Council Tax arrears is often disproportionate and causes people to fall into worsening financial situations
- Water and sewerage charges are poorly communicated, leaving many on full Council Tax Reductions receiving an unexpected bill.

We did not recommend a particular alternative to the current Council Tax system in our response to the Commission. Instead, we used our evidence on what doesn’t work well in the current system to outline principles that an alternative system should adhere to. Any new system must:

1. Work in practice, not just in theory
2. Be transparent and easy to understand
3. Focus on the impact on low income households
4. Prevent debts, rather than worsening them
5. Collect arrears in a fair and proportionate fashion
1. Overall, do you support the principles of the Government’s plans to reform Council Tax?

Following the work of the Commission on Local Tax Reform in 2015 and with general political consensus that change is needed on Council Tax, this session of parliament represents a singular opportunity to make local taxation more affordable and progressive. The Scottish Government’s reforms represent a tentative first step in doing so. Whilst we welcome the increased support for families under Council Tax Reduction, more can be done to make local taxation affordable for low to mid income households. The proposed reforms should form part of a much wider programme of change that considers basic affordability, support for those on low incomes, collection and enforcement of debt in the system, and how water charges are collected.

2. To what extent will the Government’s proposed reforms make the system of Council Tax fairer?

Whilst the Government’s proposed reforms will make the current system of Council Tax less regressive and therefore more ‘fair’, we believe that true fairness in the system should concentrate on the affordability of local taxation for those least able to afford it. Knowing that higher income households are contributing more towards taxation does little to alleviate the situation of a low income household that is struggling to make their own payments.

The Commission concluded that local tax ‘needs substantial reform’ because ‘some people are paying more than they should’. It is therefore a concern that the Government’s proposed reforms do not address the basic affordability of Council Tax for those on low to mid incomes. The struggle to afford Council Tax is borne out in evidence: council tax arrears is the most common debt issue advised on in bureaux, while Freedom of Information requests in August 2016 showed that over £1bn is owed in Council Tax arrears in Scotland.

This suggests an affordability crisis under current Council Tax arrangements which is not sufficiently addressed by the Government’s proposed reforms. Further reform – looking at the affordability of taxation and availability of support for low to mid income households – must be prioritised. Whilst there are other factors that will contribute towards difficulties in paying Council Tax – such as benefit cuts and delays, and low income work – the arrangements for local taxation need to play a role in supporting people in these situations to pay when they can and to be supported when they cannot.

We recognise and generally support the Government’s aims of improving education through the raising of additional funding from higher income households. However, we recognise the concerns of others that this may leave a democratic deficit, where
locally elected members are unable to influence the spending of additional revenue on local priorities.

3. To what extent will the changes be straightforward for local authorities to implement?

Whilst we cannot comment on how the reforms will work in an operational sense, we are concerned that there is too little detail on how the reforms will work in practice and that local authorities appear not to have been fully consulted in the formulation of the reforms. The implementation of reforms – particularly on an issue as important as taxation – can be as important as the policy intent of the changes themselves, so it is essential that the Government ensures that the reforms are practical and straightforward to implement.

4. Do you support the Government’s planned changes to Council Tax reductions?

We welcome the proposal to increase the child premium by 25%, which will benefit 77,000 households in Scotland. This will make a difference to families that may be experiencing financial difficulties. We also support the principle that low income households living in higher rate properties are protected from the increase being levied on these properties. This will help to ensure that low income households in higher value areas are not penalised through unaffordable bills.

However, the reforms may be seen as tinkering around the edges of a scheme that needs a more detailed review. Whilst the introduction of Council Tax Reduction (CTR) was successful in Scotland, with the funding commitment from the Scottish Government helping to ensure continued entitlement following transition from Council Tax Benefit, we believe that reforms to Council Tax should include a wider review of the eligibility of Council Tax Reduction (and other available reductions) to ensure that support reaches those most in need.

Evidence from citizens advice bureaux provides insight into the client groups that are most likely to seek advice on Council Tax arrears. Our data show that more two-thirds of clients seeking advice live in a single adult household (68%), with women and those living in rented accommodation much more likely to seek advice. Our data also shows that this is a relatively young client group, with more than half under the age 44 (55%). Around half of clients with Council Tax arrears are in employment.

The data suggests that:

- **Single adult households** struggle with Council Tax payments, and that therefore the single person discount (25%) should be reviewed
- **Young people in low paid employment** also struggle, particularly when they are just outside of the eligibility for Council Tax Reduction (or go in and out of
eligibility due to variable employment). Bureau advisers, supported by case evidence, have told us that there are a growing number of clients who are struggling to pay Council Tax due to low pay and/or unpredictable employment. Many of these clients are likely to have been affected by benefit reforms, particularly the narrowing of the criteria for tax credits.

A North of Scotland CAB reports of a client who has developed council tax arrears due to the unpredictability of her zero hours contract. The client was told that she would get 26 hours each week, but has never been given anything like this amount of work. The client has been claiming Council Tax Reduction, but upon submitting her most recent payslips it was discovered that she was earning in excess of the amount to claim CTR and had accrued a deficit of over £250.

We would therefore welcome a review of the support provided to single adult households and those in low paid employment, and reform undertaken if it is clear that further support is needed.

CAS would also welcome consideration of water and sewerage charges in the current system. The arrangements for Council Tax and Water/Sewerage charges are similar, but differ in important ways. Households that are entitled to full Council Tax Reduction are entitled to only a 25% reduction in their water and sewerage charges. This leaves an average bill of around £250 each year (around £5 per week) for those with full Council Tax Reduction.

Citizens advice bureaux regularly report advising clients who receive a demand for a year's worth of water charges, which they thought that they were exempt from as they claimed full Council Tax Reduction. There were 446 new issues relating to only water and sewerage charges at bureaux last year, although all council tax arrears cases will also contain an element of water debt. Clearer messaging should be developed to ensure that all Council Tax Reduction recipients are aware that they remain liable for water charges, while any new system should consider whether those assessed as unable to contribute towards Council Tax should also receive a similar reduction in water and sewerage charges.

A North of Scotland CAB reports of a client who was unaware that she needed to pay water and sewerage charges while she was receiving council tax reduction. The client has found it difficult to work out what support she should be entitled to after moving between full time and part time work. The client has received a final demand from the local authority for £549, representing two years of water charges. The client has no consumer debts, is married with three young children, and is finding it difficult to cope financially.
It is also important to note that water and sewerage arrears are collected in the same way as Council Tax arrears. This means that those with full Council Tax Reduction, who will be on a very low income, who have not realised that they need to pay water charges will be subject to the same collection procedures as somebody with a much higher income. Any consideration of reductions and support in the Council Tax system therefore must consider water and sewerage charges.

5. Please add any other comments on any aspect of the proposed reforms.

We believe that collection and enforcement of Council Tax should be looked at under any proposed reforms of local taxation, as evidence from bureaux suggests that the current system penalises those who cannot pay, and can in some instances make a client’s situation worse.

In 2014/15, bureaux in Scotland advised on over 14,000 new Council Tax arrears issues, which made Council Tax arrears the most common type of debt that clients sought advice on. At least a third of these issues related to the way in which enforcement action was taken, rather than just the client struggling to pay the arrears. Our evidence suggests that enforcement and collection of arrears is often disproportionate and can cause people to fall into worsening financial situations. Significant effort has been made in recent years to increase collection rates, with successful outcomes in this regard. However, the tools and approaches implemented to achieve this progress can give little consideration to how to protect the most vulnerable consumers from unnecessary hardship when falling into debt.

We have a number of concerns regarding the enforcement and collection of arrears in the Council Tax system, including:

- **The current legal framework grants local authorities different powers for debt recovery than ordinary creditors**, including the right to pursue debt for up to 20 years or to obtain a summary warrant without debtors being able to present their case in court. This places those with Council Tax arrears in a different situation and gives them less protection than those in debt to ‘ordinary creditors’, including utility providers (who are required to take a number of steps before they can apply for a summary warrant).

- **Sheriff Officers can issue a Charge for Payment** which allows for arrestment of wages, bank accounts and sequestration without application to the courts. This gives clients and their representatives no opportunity to challenge the legitimacy of the claim that they owe the money in front of an independent party. With most other debts the emphasis is on the creditor to prove liability. In 2012/13, the last figures available, there were 255,000
charges for payment served for council tax arrears in Scotland (almost 700 per day).\(^1\)

A West of Scotland CAB reports of a client with council tax arrears who was struggling to come to a repayment agreement with sheriff officers. The bureau undertook a full common financial statement and made an offer of £70 per month for the client to clear her arrears. The sheriff officers stated that they would not accept the offer and were looking for £389 per month as they want the arrears cleared before the end of the financial year. They stated that the client could make a voluntary payment of £70/month but they could still arrest her wages and her bank account.

- **Local authorities are too quick to pursue arrears using formal legal methods.** Once a taxpayer misses a payment the account is in default and full payment of the annual bill is demanded. If payment isn't made, the Local Authority can begin collection activity. Once an account is passed to collection, a 10% surcharge is added to the outstanding total. Evidence from bureau suggests that local authorities can exercise little discretion when collecting arrears, often taking early formal action when they could have positively engaged and supported the household to pay. Our evidence also suggests that the current system allows little distinction between ‘can’t pay’ and ‘won’t pay’ taxpayers, with collection following the same process for both.

A North of Scotland CAB reports of a client who was sent a demand notice threatening court action for non-payment of Council Tax within a week of the original notice being issued. The client is already making repayments towards arrears and is going to seek to make another agreement on repayments.

- **Most other debts are Statute Barred after six years (if the creditor loses contact with the debtor no court action can be raised after six years) however debtors can be pursued for Council Tax arrears for up to 20 years.** This can have several negative consequences. Clients who believe that they have resolved their financial difficulties can be pursued for a debt of which they may not have been aware, leading to financial problems. Clients can also have difficulty disputing debts as they may have lost records of payments from 20 years ago. Around 13% of Council Tax issues at bureaux involve a dispute about whether the client is liable for the arrears.

Citizens Advice Direct reports of a client who has received a letter from Sheriff Officers saying that as he was the executor of his late father’s will, he owed them over £4,000 for six different council tax periods between 1994 and 2000. He was told

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to contact the Sheriff Officers within seven days with a payment plan. Paying this debt will be extremely difficult for this family as the client is currently unemployed. The client does not think his parents were in debt in this period, but has no way of knowing whether payments were made. The client’s father died seven years ago and the local authority made no claim on the estate at that point.

Ultimately, the process of enforcing and collecting Council Tax can have the effect of putting households into a much worse financial situation.

An East of Scotland CAB reports of a client whose family fell into financial difficulties after her husband’s wages were arrested for council tax arrears. The client lives with her partner and three children in social rented accommodation. The client’s husband’s wages have been arrested for the last nine months, during which time the family have fallen into rent arrears, utility debt and are now behind on this year’s Council Tax payments. The client states that she and her partner sometimes go without food so that the children can eat.

The absence of a Scotland-wide debt recovery framework means that there is little scrutiny of how local authorities develop and implement their debt recovery policy to safeguard consumers’ interests. Any new system of local taxation must take a different approach to collection, striking a better balance between maximising revenues and supporting/protecting customers who are struggling to pay.