

## Debt Recovery Procedures and Support for Low Income Households

<b>Final Decision-Maker</b>	Policy and Resources Committee
<b>Lead Head of Service</b>	Chief Executive
<b>Lead Officers and Report Authors</b>	Director of Mid-Kent Services – Stephen McGinnes  Head of Housing and Communities – John Littlemore
<b>Classification</b>	Public
<b>Wards affected</b>	All

### Executive Summary

Adoption of a comprehensive Debt Recovery Procedure document is proposed to improve access to information and transparency for residents, businesses and their advisors.

Information about debt owed to the council and recent national research by the Institute for Fiscal Studies and the Local Government Association is summarised. A key issue is council tax debt which has an impact both for the council's revenue position and in some cases is reflective of financial difficulty for residents. The report suggests that it would be timely to review the priority being given by the Council to financial inclusion and that resources are allocated to enable piloting of data analysis and a case management approach to address reducing indebtedness and risks around council tax debt and homelessness. This would be consistent with the objectives in the Strategic Plan.

### Purpose of Report

To agree the Debt Recovery procedure document attached at Appendix 1 and to consider actions that the council can take to address and mitigate debt owed by low income households in financial difficulty

**This report makes the following recommendations to this Committee:**

1. That the Policy and Resources Committee agree the Debt Recovery Procedure document set out in Appendix 1 for publication noting that, subject to this agreement, it will be updated appropriately by officers when needed
2. That the findings of the Institute for Fiscal Studies report concerning the impact of changes from Council Tax Benefit to Council Tax Support be considered in Maidstone Borough Council's review of the current Council Tax Support scheme. Proposals for changes to the scheme will be presented to the Policy and Resources Committee in June 2020.
3. The council should demonstrate its commitment to delivering the good practice in council tax debt recovery by adopting and signing the Citizens Advice Bureau/Local Authority protocol at Appendix 2
4. Supports a pilot piece of work be conducted as part of the council's commitment to an inclusive economy/financial inclusion described in section 2.32

**Timetable**

<b><i>Meeting</i></b>	<b><i>Date</i></b>
Policy and Resources Committee	12 February 2020

## Debt Recovery Procedures and Support for Low Income Households

### 1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
<b>Impact on Corporate Priorities</b>	Accepting the recommendations will materially improve the Council's ability to achieve Homes and Communities objectives.	Chief Executive
<b>Cross Cutting Objectives</b>	The report recommendation(s) supports the achievement the cross-cutting objective of reducing deprivation.	Chief Executive
<b>Risk Management</b>	Already covered in the risk section of the report.	Chief Executive
<b>Financial</b>	A Debt Recovery Strategy provides greater clarity about the Council's procedures and should therefore assist with recovery of amounts due to the Council. It is proposed that funding for the pilot study described in this report will be met from external grants so will have no net effect on the Council's revenue budget.	Section 151 Officer & Director of Finance & Business Improvement
<b>Staffing</b>	There will be staffing implications, and these are set out in section 2.32 We will need access to extra expertise to deliver the recommendations, as set out in section 2.32.	Chief Executive
<b>Legal</b>	The legal basis for the collection and recovery of Council Tax is governed by and contained within the Council Tax (Administration and Enforcement) Regulations 1992. The legal basis for the collection and recovery of Business Rates is governed by and contained within the Non-Domestic Rating (Collection and Enforcement) (Local Lists) Regulations 1989 and the legal basis for the recovery of Housing Benefit Overpayments is governed by and contained within the Housing Benefit Regulations 2006 as amended.	Legal Team

<b>Privacy and Data Protection</b>	We recognise the recommendations may impact personal information the Council processes and will review requirements for data privacy impact assessment as actions are implemented.	Policy & Information Manager
<b>Equalities</b>	The options provided to members may have varying impacts on different communities within Maidstone and we will review requirements for an equalities impact assessment as actions are implemented.	Policy & Information Manager
<b>Public Health</b>	In accepting the recommendations, the Council would be fulfilling the requirements of the Health Inequalities Plan	Public Health Officer
<b>Crime and Disorder</b>	Studies have demonstrated a link between social inequality and crime. Reducing the risk of social inequality through tackling indebtedness will therefore contribute to reducing crime.	Head of Housing & Community Services
<b>Procurement</b>	Due to the specialist nature of the service outlined in paragraph 2.32, we cannot follow the financial procedure rules to obtain three quotations, and we will therefore be seeking a waiver.	Head of Housing and Community Services

## **2. INTRODUCTION AND BACKGROUND**

2.1 The purpose of this report is to present a document which sets out in one place the procedures that the council applies to recover debt. The report goes on to consider the amount of debt owed to the council and identifies some specific issues and consequent potential pieces of work relating to council tax debt and support for low-income households in financial difficulty.

### Debt recovery procedures

2.2 The council has a direct financial relationship with our residents - collecting payments for services including green waste collection, various penalty payments e.g. parking and litter penalty change notices, council tax, administering some benefits and other discretionary payments and, for some residents, being their landlord

– including when people are in temporary accommodation as well as being tenants in our rented homes. Maidstone borough council is also the collection authority for business rates including the additional levy arising from the designation of the town centre as a Business Improvement District.

- 2.3 Most residents and businesses pay their bills in full and on-time using a variety of methods and increasingly via direct debit or electronic bank transfers.
- 2.4 Procedures for the recovery of unpaid bills, overpayments or penalty payments of various types are usually defined in legislation or otherwise by financial management national standard operating practices. This leaves little room for discretion in terms of the steps in processes to be followed. For some debts there is discretion in recovery of additional charges arising from the debt recovery process for others there is not escalating costs for unpaid penalties. There is some choice about the way in which debt recovery correspondence is presented and the council can set the expectations of behaviours of our debt recovery enforcement staff. Appendix 1 sets out procedures that the public can expect the council to follow when recovering debts from them. The Committee is requested to adopt the document and, subject to this, the information will be published and regularly reviewed to ensure that it stays up to date.

#### Debt owed to Maidstone Borough Council

- 2.5 Some debt owed to the council can be the consequence of council policy and can be an indicator of the likelihood of support needs or risk that demand will be created for other council services.
- 2.6 The table below sets out a snapshot of the type of debts owed to MBC as at 31 March 2019.

	Gross £000	Bad debt provision £000	Net £000
Council Tax	1,050	-654	396
Business Rates	1,603	-916	687
Local authorities	6,533		6,533
Central government	5,883		5,883
Housing Benefit overpayments	3,184	-1,315	1,869
Developers - S 106	1,057		1,057
Parking Fines	914	-635	279
Council Tax costs	760	-499	261
Cobtree Trust	284		284
Residential rent receivable	118	-62	56
Other organisations and individuals	2,534	-184	2,350
	<u>23,919</u>	<u>-4,265</u>	<u>19,654</u>

2.7 The trend in overall debtor levels over the past few years has been as follows:

	14/15	15/16	16/17	17/18	18/19
	£000	£000	£000	£000	£000
Council Tax	782	826	881	948	1,050
Business Rates	1,429	1,300	1,636	1,358	1,603
Other	9,666	14,283	17,035	15,695	21,266
Bad debt provision	-3,313	-3,474	-3,761	-3,710	-4,265
Total debtors	8,564	12,935	15,791	14,291	19,654

2.8 Analysis of council tax debt shows us that

- This debt has risen by 34% in the period 2014/15 to 2018/19
- Total council tax payable for 2019/20 is £116.4m; this is distributed as follows – KCC,70.98%, MBC 14.23%, Kent Police 10.55% and Kent Fire and Rescue Service 4.25%.
- Total accumulated arrears for all years in January 2020 reached £5.5m of which the MBC share is £782,000; The equivalent amount at 31<sup>st</sup> March 2019 was £1,050k. The council continues to recover debts from previous years.
- Council tax itself has risen by 18% over the same period
- The overall council tax collection rate in 2018/19 was 97.8%; the collection rate from households with council tax support was 83%
- Demographic analysis of council tax summons cases indicates that households most affected include single people and lone parents, around 42% live in households with income of less than £20k, 52% live in rented accommodation and 62% are employed or self employed

#### Debt as an indicator of other needs and service interventions

2.9 As part of the Council's strategy to prevent homelessness, the Housing Service is piloting a project with Ernst Young and Xantura based on a predictive analytics model.

2.10 The model takes data from various internal and external sources including council tax debt and rent arrears and identifies households whose characteristics indicates a high likelihood that they will become homeless in the future. This enables our staff to make contact with these households at a much earlier point before they become threatened with homelessness, in order to provide the necessary support to avoid the situation occurring.

2.11 Kent County Council has recently conducted a piece of work concerning children living in poverty with the objective of identifying interventions to mitigate the impacts. Five priorities have been identified

Priority 1 – Maximising Household Income to support effective household budgeting

Priority 2 – Promoting Healthier Lifestyles through access to good nutrition, physical exercise and appropriate primary care

Priority 3 – Supporting Social Mobility to mitigate the long-term causes of poverty by helping the most vulnerable learners and their families to improve their life chances

Priority 4 – Supporting Schools and Early Years to Poverty Proof Education

Priority 5 – Supporting Housing Initiatives for low income families and vulnerable young people

This has been expanded into a multi-agency approach through the Kent 0-25 Health and Well-being Board. This provides an opportunity to deliver a more joined up approach to maximise household income and housing initiatives for low income families. For health and well-being reasons MBC is also working with the KCC public health observatory on a pilot project around housing and health.

#### Council tax support and debt

2.12 In January 2019 the Institute for Fiscal Studies published their analysis of the impact of change from council tax benefit (CTB) to the council tax support (CTS) system in 2013. In April 2013, CTB, which provided help for low-income households with their council tax, was abolished. In its place, local authorities in England were charged with designing their own CTS schemes for those of working age – though we were obliged to provide a centrally determined (and largely protected) level of support for pensioners. With reduced funding made available by central government, most councils chose CTS schemes that were less generous than the CTB system they were replacing, with some low-income households having to pay council tax for the first time and others seeing their tax liabilities increase. This was the case for MBC.

- 2.13 The most widespread and important change to CTS schemes has been the introduction of minimum council tax payments, requiring all households to pay at least a certain proportion of their gross council tax bill. This is the first time since community charge that many of the lowest-income households have been required to pay a local tax.
- 2.14 Nationally there have been consequences for household incomes and work incentives. There are now 1.4 million households who must pay some council tax who would not have had to pay it if the pre-2013 system had been maintained. A further 1.6 million households are billed for more than they otherwise would have been. Unsurprisingly, the bulk of the “savings” has come from low-income households, who received most support to start with. The biggest percentage cuts to support have been felt by working claimants with children.
- 2.15 Cuts to council tax support have led to sizeable increases at a national level in the amount of council tax going uncollected. As noted above council tax owed by Maidstone residents has increased over this period and in 2018/19 exceeded £5.4m.
- 2.16 Nationally there has been an increase in the number of people contacting Citizens Advice for advice or help relating to council tax or CTS, primarily driven by more enquiries relating to council tax debt. Locally 15% of the issues raised with the CAB relate to debt, with council tax arrears being the most frequent issue raised by clients.
- 2.17 There are also impacts of scheme choices at the household level. Reducing a household’s CTS entitlement significantly increases the probability that it reports being in arrears on its council tax. The IFS found no significant effect on the arrears rates of those already paying council tax being required to pay more; and among households that would not previously have had to pay any council tax, the increase in the probability of arrears is almost as big for those given a small bill as for those given a large one. These findings suggest that the relatively low collection rate of the additional council tax liabilities is driven by the difficulty of collecting tax from those who would not have had to pay it in the absence of cuts to CTS.
- 2.18 The position in Maidstone appears to support this trend and further work has been commissioned to help evaluate the impact of the current scheme and help inform proposed changes for the 2021/22 scheme.



2.19 It is recommended that the findings of the IFS report concerning the impact of changes from CTB to CTS be considered in MBC's review of the current CTS scheme. Proposals for changes to the scheme will be presented to the Policy and Resources Committee in June 2020.

Debt recovery from and support for low income households in financial difficulty

2.20 Council tax arrears is the most common debt issue that the CAB helps people with. Nationally this issue has risen by a third in the last three years - at a time when other debt issues have been falling. In Maidstone council tax is the most common debt issue raised by clients.

2.21 In 2017 the Citizens Advice Bureau and the Local Government Association produced an updated protocol setting out good practice for preventing people from getting into debt in the first place and collection of council tax arrears. The protocol covers partnership working between the council, advice services and enforcement agents, actions to improve the information supplied to council tax payers about the billing process, how to get support and debt advice and to promote engagement on arrangements for recovery if a council tax bill is not paid i.e. when the local authority's recovery process comes into play. While MBC strives to make early contact with a debtor in practice the first point of engagement by a debtor often only occurs when an enforcement agent visits their home. The protocol sets out how greater effort should be made at or before the Tribunal Courts and Enforcement Act's compliance stage, including debt and money advice referrals and to assess whether vulnerability or hardship applies, to avoid escalating a debt.

In summary the protocol asks that councils:

- work with enforcement and advice agencies to help people pay their council tax bills while accessing debt advice;
- ensure all communication with residents about Council Tax is clear;
- use the Standard Financial Statement when calculating repayment plans;
- offer flexible payment arrangements to residents;
- do not use enforcement agents where a resident receives Council Tax Support;
- publish their policy on residents in vulnerable circumstances.

2.22 MBC has carried out a self-assessment against the benchmarks of good practice contained in the protocol and discussed this with the local Citizens' Advice Bureau. It is recommended that the council should demonstrate its commitment to delivering the good practice by signing the protocol – attached at Appendix 2.

## Reshaping Financial Support for low income households in financial difficulty

- 2.23 Why should MBC consider actions to support these households? The council has a key role to play in the social, environmental and economic well-being of the borough and its communities as recognised through the Local Government Act 2000. In formulating our Strategic Plan adopted in December 2018 the member workshops and analysis commenced with exploring how to facilitate good inclusive growth in our borough. The borough council has a statutory duty to prevent homelessness and an important community leadership role and amongst other things is committed to greater social mobility, reducing deprivation plus creating and sustaining a strong sense of community. The impacts of financial difficulty for low income households – in work or not – can result in a high cost for the health and well-being of the household especially for children living in poverty and for the council.
- 2.24 As noted at the beginning of this report the council also has direct financial relationships with our residents and this in turn provides us with an opportunity to identify households in financial difficulty and potentially to provide them with support, and to manage the nature of that relationship in a way that supports financial inclusion.
- 2.25 The Local Government Association states that the financial pressures on lower-income households have increased considerably in recent years. A combination of depressed real wage growth, the Government's programme of welfare reforms, and longer-term changes in the labour market (including more flexible working patterns and low-paid self-employment) is creating serious financial problems, including a growth in over-indebtedness.
- 2.26 Research commissioned by the Money Advice Service indicates that over eight million people (around 15 per cent of the total UK population) are currently over-indebted. The debt advice charity StepChange estimates that nearly four million people on lower incomes resorted to using high-cost credit to meet day-to-day living costs in 2017. A recent National Audit Office (NAO) report on problem debt identified that people increasingly report problems with debts owed to government or utility providers, compared with retail lending. In response the LGA has published a report "Reshaping Financial Support" which outlines how councils can help to support low income households in financial difficulty.
- 2.27 The position in Maidstone is that 21% of Maidstone residents earn below the living wage and 14% of Maidstone's children are considered to be in poverty, this average hides that there are wards within the borough where over 20% of children are living in poverty reaching its worst at 30% in Park Wood ward.

- 2.28 In the wards of Park Wood, Shepway South and Shepway North residents are more likely to be in receipt of Disability Living Allowance, Pension Credit and score on the low-income range of the Index of Multiple Deprivation. There is a direct correlation between these factors and children living in poverty.
- 2.29 8.8% of Maidstone residents are considered 'fuel poor' rising to 12.7% at its worst in High Street Ward.
- 2.30 Since 2016 Maidstone foodbank has seen a sharp increase of 58% in the number of boxes distributed to households, with the largest increase being in the large boxes. The key reasons provided by people using the services are:
- Benefit changes
  - Benefit sanctions
  - Delayed benefits
  - No money left after having paid bills
  - No recourse to public funds
  - Homelessness
- 2.30 Unless our support is effective, there is a risk that arrears will increase, and that a rise in over-indebtedness more generally will compound the vulnerabilities of many low-income households and create further pressure on statutory services including for housing advice and support to prevent homelessness and activity to help residents find suitable and sustainable accommodation if they are already homeless. The county council has a wide range of public health, mental health and social services responsibilities in respect of vulnerable children and adults. There is now a substantial body of evidence that debt problems impact negatively on the mental health and wellbeing of both children and adults, making it more difficult for them to participate and progress in education, training and work. It is therefore suggested that working with KCC to address debt and build financial resilience amongst vulnerable groups needs to be part of our councils' wider work to promote independent living and help people move out of poverty. We have a good foundation to build on including experience of working together on multi-agency support through the 'Troubled Families' programme and now the Local Children's Partnership Group and in local partnerships with health, job centres, police and the voluntary and community sector.
- 2.29 However, the resources available to MBC to help address the causes of financial problems of low-income residents are now severely constrained. Our Strategic Plan key activities for 2019-2024 recognise this. Various issues are identified above that suggest it would be timely to review the position. So, what is MBC current doing and what more could we consider doing in the light of current experience?

2.30 The LGA report identifies the following areas for attention in the light of work with six core councils;

- **The provision of direct financial support** – examples include housing benefit, council tax support/reduction, discretionary housing payment and “in-kind” assistance of financial value e.g. packages for families moving into new temporary or permanent accommodation, the Kent Support and Assistance scheme and budgeting loans and advances (e.g. provided by the DWP) and some councils are considering the creation of a single discretionary fund to simplify the process for households making multiple applications; the LGA recognises the need for more rigorous evaluation of how local financial support is reducing demand for higher cost statutory interventions
- **The provision of wider advice and support** – examples include commissioning of the CAB to provide debt and money management advice. There is a need to use data to better understand needs for advice and support and therefore design and target it more effectively. MBC is gaining experience of this approach through working with EY Xantura building a model to identify households at risk of homelessness before they present to the council ie the council is looking to resolve people’s problems earlier. Potentially there is also scope to involve financial technology companies in providing digital solutions to help improve the financial health outcomes for low income households
- **Changing debt collection strategies to help people in financial difficulty and taking a more holistic approach to helping people in financial difficulties** – while adopting the CAB protocol would demonstrate commitment to good practice in debt recovery there is further action that could be considered to help people in financial difficulty including identifying people with low level payment difficulties and targeting them with support, more personalised rent and council tax payment schedules to help low income households cope better with financial pinch points e.g. Christmas and school holidays.
- **Co-ordinating activity within a wider financial inclusion strategy** seeking to address poor financial health of lower income households by working in partnership with credit unions and other not-for profit lenders to develop the provision of more affordable and appropriate credit and savings products and with other public sector organisations e.g. KCC and DWP and the private sector to improve access to financial products, build financial resilience, providing support to support people into sustainable employment to achieve financial security – learning from experience in Birmingham, Leeds and Newcastle. KCC has recently produced a report containing actions to mitigate the impacts of child poverty and is now working with other partners to achieve a more joined up approach. The DWP

hosts a Complex Needs Forum which brings partners together to tackle issues including some of the symptoms of financial stress including lack of food and warmth.

- 2.31 MBC already provides some direct financial support, commissions some debt management support and, with respect to homelessness has recently introduced some predictive analytics as described above although resources to intervene and provide support are limited. Whilst there is good work and support being provided for low income households in financial difficulty this is a little disjointed and suffers from an absence both of a systematic joined up approach with organisations providing support e.g. KCC, DWP, housing associations and the voluntary sector (making the system fragmented for households needing support) and towards learning from experience elsewhere and a lack of analytics to assist with effectively focussing support and evaluating impact.
- 2.32 It is therefore recommended that a modest investment is made in 2020/21 to pilot a data led approach to identifying low income households in financial difficulty and proactively intervening to provide support e.g. maximising income, and through this to both reduce risks around indebtedness and through this potentially reduce demand for council services or incurring debt with the council. Officers have identified a provider for data analytics at a cost of £18-20k per annum which can be funded from welfare reform grant funding. It is proposed to invest flexible homelessness grant to create capacity for case work and complement that already being undertaken in the Housing and Communities Team. Officers have also initiated dialogue with the CAB and KCC to encourage a joined-up approach.

---

### **3. AVAILABLE OPTIONS**

- 3.1 Option 1 – agree to adopt and publish a comprehensive debt recovery procedure document, include consideration of the IFS report on council tax support in reviewing the Maidstone scheme in 2020, sign the CAB protocol to demonstrate good practice in council tax debt recovery and take further actions to address financial support for low income households in financial difficulty
- 3.2 Option 2 – agree to adopt and publish a comprehensive debt recovery procedure document only i.e. for current arrangements with respect to objectives for the MBC council tax support scheme to remain and no additional actions for support of low-income households in financial difficulty to be considered

### 3.3 Option 3 – do nothing

---

## **4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS**

- 4.1 Option 1 is preferred. Publication of a comprehensive debt recovery procedure would improve access to information and transparency for residents, businesses and their advisors. There are likely to be significant benefits for both low income households and the council from a comprehensive approach to financial inclusion. Investment of a modest amount of funding to bring about improvements would enable a thorough consideration of actions and their potential impacts and would be consistent with the cross-cutting objectives set out in the recently adopted Strategic Plan.
- 

## **5. RISK**

- 5.1 The risks associated with this proposal, including the risks if the Council does not act as recommended, have been considered in line with the Council's Risk Management Framework. We are satisfied that the risks associated with the actions recommended are within the Council's risk appetite and will be managed as per the Policy. Adoption of a financial inclusion strategy has the potential to further mitigate risks associated with homelessness which are significant.

## **6. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK**

- 6.1 This report has not been the subject of consultation and the topics covered have not been the subject of discussion at any of the council's committee's in the recent past. Subject to whether the recommendation concerning financial inclusion is agreed, councillors will be invited to contribute from their own knowledge and experience as the strategy is developed.
- 

## **7. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION**

- 7.1 The Debt Recovery Procedure will be published. The MBC council tax support (CTS) review will include consideration of the evaluation of changes to the council tax system conducted by the IFS and proposals for the future CTS structure in Maidstone will be made to the Policy and Resources Committee in June 2020 and to Full Council in December 2020. Officers will act according to whether

development of a financial inclusion strategy is agreed by the committee.

---

## **8. REPORT APPENDICES**

Appendix 1 - Maidstone Borough Council Debt Recovery Procedures

Appendix 2 - Citizens Advice Bureau/Local Authority Protocol

---

## **9. BACKGROUND PAPERS**

Reshaping Financial Support – How councils can help to support low income households in financial difficulty -

<https://www.local.gov.uk/reshaping-financial-support-how-local-authorities-can-help-support-low-income-households-financial>

The Impacts of localised Council Tax Support Schemes

<https://www.ifs.org.uk/uploads/publications/comms/R153.pdf>