



Council Tax in the Cost-of-Living Crisis

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Background

Portrayals of the financial health of the nation often fluctuate. In September, the Office for National Statistics revised growth figures, adding nearly two per cent to the size of the UK economy.¹ This revealed a post-pandemic recovery stronger than initially expected. The Chancellor said this “shows that once again those determined to talk down the British economy have been proved wrong”. In November, the Financial Times reports² we are a ‘stagnation nation’.

The fact is “average real-terms pay in Britain fell at among the fastest rates for more than two decades at the end of 2022”.³ And, “household debt in the UK [is] now [exceeding] £2 trillion for the very first time”⁴, with unsecured debt at a record high of more than £400bn.

Unsecured debt figures do not include arrears on household bills or debts owed to government. Citizens’ Advice has estimated these ‘hidden’ debts at £22 billion. They now support nearly 40,000 people every month with debt advice, with numbers rising.⁵

JRF’s recent analysis of UK household debt finds the following (as of May 2023):

- Nearly six million low-income families (5.7m) had unsecured debt (personal loans from banks and credit unions, credit cards, overdraft facilities, payday lenders and licensed doorstep loans).
- In total, these debts are around £14.2 billion; approximately £2,500 on average per family.
- The annualised cost of paying interest on this debt is around £3.9 billion, or around £680 per household on average.
- The same total and mix of loans would have cost around £210 million less in interest payments just 18 months previously.⁶

¹ [UK economy bounced back from Covid, ONS revisions reveal | Financial Times \(ft.com\)](#)

² [‘Stagnation nation: UK economy flatlines \(ft.com\)](#)

³ [Real-terms UK pay fell at fastest rates for 20 years at end of 2022 | UK cost of living crisis | The Guardian](#)

⁴ [Household debt tops £2 trillion for the first time as new data shows that less than half of UK consumers can correctly answer basic financial questions \(pwc.co.uk\)](#)

⁵ [Debt time bomb: countdown to a household debt disaster | by Aiden Greenall | Sep, 2023 | We are Citizens Advice](#)

⁶ [FACT SHEET: Dangerous new phase for families in debt - UK’s economic insecurity by numbers | JRF](#)

We, along with Debt Justice (formerly the Jubilee Debt Campaign), have previously estimated that problem debt costs the national and local governments £9.7 billion per year in extra health, social care, employment, and housing support.⁷ Citizens Advice and the Financial Times⁸ have both warned of a household debt ticking timebomb waiting to explode unless something radical is done.

Local authorities are at risk as well. Many councils in England face the possibility of effective bankruptcy.⁹ Since councils cannot actually go bankrupt in the way companies or individuals can, councils issue a 'section 114 notice' [which](#) "indicates that the council's forecast income is insufficient to meet its forecast expenditure for the next year."

At the time of writing Birmingham is the latest in a string of councils to issue this notice, doing so "as the council anticipated a gap of £87 million between income and expenditure for the (current) 2023/24 financial year." Nottingham City Council is the most recent to consider this option.¹⁰

A House of Commons Library report¹¹ notes:

"Local authorities in England have seen considerable reductions in the grants they receive from the Government since 2010. The National Audit Office estimated in 2018 that local authorities' spending power had fallen by 29% in real terms between 2010/11 and 2017/18. The Institute for Government estimates the fall in spending power as 31% between 2009/10 and 2021/22."

Once a section 114 notice is issued then councils can continue to provide statutory services but may not plan additional or non-essential expenditure. Councils must also meet within 21 days to pass an amended budget to reduce spending:¹²

"Most importantly, in the shorter term, councils must show they can continue to fund essential or statutory services. They must then address which services, or jobs, are to be casualties."

Government can also intervene in how the council is run, for example by appointing commissioners to direct future budget decisions.

This all poses a particular threat to non-statutory services and discretionary schemes which councils may have been funding or directly delivering to support people on lower incomes.

⁷ [A-Fresh-Start-After-Covid19-web.pdf \(jubileedebt.org.uk\)](#)

⁸ [How can we defuse the household debt time bomb? | Financial Times \(ft.com\)](#)

⁹ [What happens if a council goes bankrupt? \(parliament.uk\)](#)

¹⁰ [Nottingham City Council considering effective bankruptcy - BBC News](#)

¹¹ [What happens if a council goes bankrupt? \(parliament.uk\)](#)

¹² [Councils on notice: does a section 114 mean bankruptcy for local government? - LGiU](#)

The recent context of the GFC and the problem of Council Tax

A significant driver of personal indebtedness is government. At the national level, the Trussell Trust has previously reported the collection of debt owed to the Department for Work and Pensions (DWP) pushes people into using food banks.¹³ At the local level, figures from the Department for Levelling Up, Housing and Communities show that, in England, Council Tax arrears have increased to £5.5 billion¹⁴ from £3.2 billion in 2018/19.¹⁵ More than three million people have been taken to court for Council Tax debt over the past two years.¹⁶

As Council Tax arrears became a bigger problem for a growing number of people, advice charities have noted that local authorities are often the most aggressive debt collectors. Whilst the private sector has been subject to regularly updated rules on collections, overseen by market regulators, the way in which councils enforce debts has not caught up. The use of bailiffs became the one big immediate problem with these practices. Bailiff fees add an average of £310 additional debt for people with Council Tax arrears.¹⁷

We have previously [reported Joseph Spooner's research into the links](#) between the Global Financial Crisis (GFC), austerity economics, and increased Council Tax debt. Following the GFC, local government cuts were an important element of the 2010 Coalition Government's plans for fiscal consolidation and deficit reduction. Central funding to local authorities was reduced by almost half (in real terms) over the period from 2010-11 to 2017-18.¹⁸ The Welfare Reform Act 2012 also made cuts to social welfare benefits. These included, the abolition of Council Tax Benefit, which was replaced by a requirement for local authorities to put in place localised support schemes, while at the same time facing an effective 10% reduction in central funding during the first year of the new system.

This resulted in a postcode lottery of support. Areas where central government grants made up the largest proportion of budgets had to cut service spending most severely.¹⁹ Predictably, every local authority reduced the support provided to low-income households compared to the

¹³ [Four things that we learnt from working alongside people with experience of being in debt to government – and how to fix the system - The Trussell Trust](#)

¹⁴ [Collection rates for Council Tax and non-domestic rates in England, 2022 to 2023 - GOV.UK \(www.gov.uk\)](#)

¹⁵ [1.3 million households behind on council tax.pdf \(citizensadvice.org.uk\)](#)

¹⁶ [‘It keeps you up at night’: More than three million taken to court unable to pay their council tax \(inews.co.uk\)](#)

¹⁷ [The Costs of Collection: The high price of council tax debt collection - Citizens Advice](#)

¹⁸ [Financial sustainability of local authorities - National Audit Office \(NAO\) report](#), cited in [Microsoft Word - Local Austerity Creditor LSERO.docx](#)

¹⁹ [depths of the cuts: the uneven geography of local government austerity | Cambridge Journal of Regions, Economy and Society | Oxford Academic \(oup.com\)](#)

prior regime. Large numbers of households became liable to pay Council Tax for the first time.²⁰ It was estimated that there was an average 24% drop in support for 3.6 million households in England who had previously been eligible for assistance from Council Tax Benefit²¹

Enforcement regulations mean a person missing a single instalment can quickly become liable to pay the full Council Tax for the year, and even where an arrangement to pay is entered into, local authorities often seek this 'liability order' to ensure that they can quickly enforce this if payments break down. Following the 'liability order', enforcement options including passing the case to bailiffs. And if those are unsuccessful, threats of imprisonment can be made.²²

Efforts to improve collection practices

Over time Ministers reported that collections practices for government debt improved. HMRC put 'Time To Pay' measures in place; the Cabinet Office established a Fairness Group looking at government debt-management policies. A Statutory 'Breathing Space' arrangement – primarily designed to help people with consumer credit debts find time to seek debt advice - would also temporarily stop (for up to 30 days) the enforcement of utility bills and Council Tax debts whilst advice was sought.

Toolkits and good practice guides have also been developed with the aim of improving collections practices. This includes a toolkit created by *Citizens Advice and the Local Government Association*²³ which focuses on enforcement agencies working with the debt advice sector. It is split into three parts: 1) partnership working, to foster effective partnerships between local authorities, enforcement agencies, and advice agencies; 2) information, to improve the information supplied to Council Tax payers about the billing process, how to get support, and debt advice; 3) recovery, making every effort to ensure local authorities make contact with a debtor before the Tribunal Courts and Enforcement Act's compliance stage, including through debt and money advice referrals, so as to avoid escalating a debt.

The toolkit advocates making use of the Standard Financial Statement when calculating repayment plans, to ensure all personal debts and commitments are accounted for before sending out demands and fines. It also calls for flexible payment arrangements.

²⁰ [Microsoft Word - Local Austere Creditor LSERO.docx](#)

²¹ [The impacts of localised council tax support schemes | Institute for Fiscal Studies \(ifs.org.uk\)](#) cited in [Microsoft Word - Local Austere Creditor LSERO.docx](#)

²² *ibid*

²³ [Citizens Advice Council Tax Protocol 2017.pdf](#)

Money Advice Trust initiated a Stop the Knock campaign²⁴, emphasising the problems caused by sending bailiffs to collect government debt. They would set out six steps for local authorities to consider when “improving their debt collection practices and reducing the use of bailiffs.” Those steps are:

- Make a clear public commitment to reduce the use of bailiffs over time
- Review signposting to free debt advice, including phone/online channels
- Adopt the Standard Financial Statement to objectively assess affordability
- Put in place a formal policy covering residents in vulnerable circumstances
- Exempt Council Tax Support recipients from bailiff action (England only)
- Sign the Council Tax Protocol and review current practice against the Money and Pensions Service ‘Supportive Council Tax Recovery’ Toolkit.

Further recommendations for central government included introducing independent bailiff regulation, setting good practice guidance for Council Tax collection, and re-introducing Council Tax support schemes.²⁵

A report published by *Policy in Practice* highlighted other good practice in collections. It details what some might call “ethical debt collection” policies by councils like Hammersmith and Fulham. The main findings of the report²⁶ are:

- Boroughs with higher levels of relative deprivation tended to report lower Council Tax collection rates.
- Boroughs with higher maximum award levels for their Council Tax Reduction Schemes tended to report higher Council Tax collection rates.

The report also found that requiring immediate full payment of Council Tax after a single missed instalment – which is the policy for many councils – led to more than half (53%) of all households experiencing an income shortfall. Also, adding “recovery and enforcement fees to this financial burden raised the percentage of households in financial shortfall to 83%.”

Overall, the report found “no clear trend association between council tax collection rates and the use of court summonses or bailiffs”. So, not only do such measures become distressing for residents, but there is no evidence that they deliver better collection rates for councils.

²⁴ [Stop The Knock | Money Advice Trust | Local authority debt collection research](#)

²⁵ [Money-Advice-Trust-Stop-The-Knock-2019-report-September-2019.pdf \(stoptheknock.org\)](#)

²⁶ [Council-Tax-debt-collection-and-low-income-Londoners GLA pub.pdf \(policyinpractice.co.uk\)](#)

Progress in stopping bailiffs and setting fair and ethical collections practices

Several councils have taken steps to put ethical collections into practice. This has often been because of local action involving community groups, and the work of dedicated councillors. In Sheffield Council, for example, Councillor Sophie Wilson (independent) brought forward a motion regarding an ethical debt collection policy and an end to bailiff use.²⁷ Her motion included this detail:

“...being visited by bailiffs is a distressing experience which can be devastating for people’s mental health, and notes that over 50% of people in debt have mental health problems and people in debt are 8 times more likely to think about suicide.”

The motion ends by requesting the council’s Strategy and Resources Policy Committee to consider adding the development of an ethical debt collections policy to its Work Programme, and that this should include features like:

- Payment Flexibility
- Greater discretionary support
- Identifying Vulnerable households and data sharing between departments
- Establishing whether or not residents can afford repayments
- Ensuring everyone in debt is given free local debt advice
- Removing in year collections targets
- Having an irrecoverable debt policy which mitigates for that fact that a percentage of debt will not be recovered
- Ending Bailiff use
- Starting open communication with Hammersmith and Fulham Council to get feedback on how their policy is having a positive effect on the council’s finances and the wellbeing of their residents.

The reasoning for these demands comes from evidence “that stricter collection policies, including bailiff use, do not increase collection rates” and “in April 2018, Hammersmith & Fulham London Borough Council announced an end to bailiff action, and they have subsequently seen a rise in Council Tax collection rates”.

The motion also points out that Southwark London Borough Council (LBC), Newham LBC, and Bristol City Council have also recently implemented more ethical debt collection policies. We

²⁷ [Agenda item - Notice of Motion Regarding "Moving Towards An Ethical Debt Collection Policy and Ending The Use Of Bailiffs" - Given By Councillor Sophie Wilson and to be Seconded by The Lord Mayor \(Councillor Sioned-Mair Richards\) | Sheffield City Council](#)

also know that after a missed payment, Chichester District Council automatically enrolls residents in a monthly re-payment plan rather than make the debtor liable for the entire annual bill.

Getting to the root cause: Council Tax inequality

While these initiatives are welcome, we need much more. Most councils still use bailiffs. Harsh penalties and intimidating threats are still part of most recovery procedures. Courts are still involved. And while rarely ending up this way, people can be jailed for not paying their municipal taxes. That needs to come to an end.

Any debate concerning Council Tax, and any question about who should pay what, ultimately comes down to a question of local government financing and inequality. Those areas under greatest financial pressure have lost most in terms of government funding and have also seen a huge rise in demand for, and in the cost of, their services.

We urgently need to find a fairer way to tax wealth as a means of funding local government, as well as address the unfairness of many Council Tax schemes and their harsh collection methods.

Fairer wealth taxation

Government has multiple opportunities to return fairness into the tax system and properly fund services and schemes. We call for a wealth tax which progressively taxes property, investments, rents and inheritances to at least the same amount as income (and potentially more).

The current system has resulted in the least-wealthy third of households gaining less than £1,000 per adult, on average, from rising house prices this century, whilst the wealthiest 10 per cent have gained an average of £174,000. The Resolution Foundation has estimated these currently untapped capital gains at around £3 trillion. Based on a variety of models (in 2021), this could raise between £4 and £11 billion a year.²⁸

Extending to taxing income from investments, rent, and inheritance would also introduce more fairness and revenue into the system. The Wealth Tax Commission, at the London School of Economics, has previously estimated that a one-off wealth tax - payable on all individual wealth above £500,000 and charged at 1% a year for five years - could raise £260 billion; at a threshold of £2 million it would raise £80 billion.²⁹ A proportionate and progressive tax system would

²⁸ [Home-county.pdf \(resolutionfoundation.org\)](https://www.resolutionfoundation.org/publications/2021/04/home-county.pdf)

²⁹ [lse.ac.uk/International-Inequalities/Assets/Documents/OLDWealthTaxCommission-Final-reportold.pdf](https://www.lse.ac.uk/International-Inequalities/Assets/Documents/OLDWealthTaxCommission-Final-reportold.pdf)

enable better funding of local government and public services, reducing arrears and the costs associated with problem debts.

Using this money to rebalance the wealth divide in this country would provide an opportunity for councils to be properly funded and enable them to reinstate the 100% support for low-income households that was previously provided by Council Tax Benefit.

Council Tax revaluation and reform

But even if a wealth tax were not introduced, changes could be made to help local authorities make Council Tax fairer.

Council Tax property bands are still based on valuations conducted in 1991. Property prices have changed significantly since. One estimate shows that the average house in London has increased by a factor of six since 1995. Despite the most valuable houses in Band H being worth at least eight times more in financial value than properties in Band A, they are only taxed three times as much.³⁰ The IFS has pointed out that making Council Tax *proportionate* to the value of properties today would reduce bills by the equivalent of 0.5–0.9% of household income, on average, for households in the bottom half of the income distribution, whilst increasing average bills by 0.7% of household income for those in the top 10%.³¹

However, we believe that more is needed, and that Councils should have the freedom to set different levels of increase for different bands of properties. This would, for example, enable them to freeze Council Tax increases for Bands A and B and recoup greater tax revenues from properties in higher bands (where collection activities are also likely to be less costly).

A cost-benefit analysis (CBA) for local government collections

We also call for an end to the extensive use of liability orders and bailiffs. Debt collection procedures need to focus on determining affordability prior to starting enforcement action, and there is a need to reassess whether Council Tax Support schemes are generous enough. There is a notable absence of cost-benefit analyses examining the relationship between Council Tax Support schemes and collection rates. But it is likely that poorly designed Council Tax Support simply leads to higher debt collection costs, as more money is sought from those least able to pay. The existing evidence indicates that as more people become liable, so too do the numbers

³⁰ [Revaluation and reform: bringing council tax in England into the 21st century | Institute for Fiscal Studies \(ifs.org.uk\)](#)

³¹ *ibid*

of people struggling with payment. Councils may simply be throwing money away by trying to enforce taxes which are simply unaffordable for many.

Adding flexibility into the Council Tax payment system

Providing people with greater flexibility in their payments could also help. CfRC's FlexMyRent initiative, which is being trialled with Southern Housing may show the way. This provides social housing tenants with the opportunity to set out how they wish to pay their rent over the course of the year – allowing them to pay less during those months when money is tight, and more when things are slightly easier. Of those on the FlexMyRent scheme, 90% are maintaining payments in accordance with their plans. These are submitted on-line and reviewed by Income Officers who can also use the information provided to identify people in need of additional support at an early stage. Allowing residents to personalise their payments in ways that suit their cashflow, rather than being penalised by failing to meet payment schedules outside of their control could help with Council Tax collection too.

Increasing the funding envelope for debt advice

Nevertheless, debt problems are on the increase, and there is a lack of capacity in the sector to deal with the demand. Early in the New Year, we expect the Money and Pensions Service to consult on a new commissioning strategy for the sector. But there will be a need to dramatically increase the overall funding envelope if this is to meet need. We have estimated that to get debt advice to everyone who needs it (based on the current cost per session) would cost around £1.4 billion.³² This compares to a current budget for debt advice of just £76 million. One option for raising the required revenue is to broaden the pool of service providers paying into the debt advice levy: across the energy sector, water, telecoms firms, and beyond. But a more fundamental first step is to introduce transparency into the setting of the MaPS budget. This should be based on an objective assessment of the need for advice; and the realistic costs of providing services to meet that. And Parliament should be involved more closely in the setting of the levy in full knowledge of both.

Joining the dots

Debt problems, including those exacerbated by Council Tax enforcement, are linked to poor health outcomes, and there is a need for the commissioning of services to take account of this. For example, CfRC are the leading the delivery of Financial Shield pilot³³ in parts of Lambeth and Southwark. Participating GP Practices, including through their Social Prescribing teams,

³² [Why are debt advisers holding protests? \(responsible-credit.org.uk\)](https://responsible-credit.org.uk/why-are-debt-advisers-holding-protests/)

³³ [IUHH-MLTC-FlagshipReport-min.pdf \(urbanhealth.org.uk\)](https://urbanhealth.org.uk/IUHH-MLTC-FlagshipReport-min.pdf)

can identify people with both financial and health difficulties and refer these for advice about benefits, as well as secure a 'localised breathing space' from the local council and participating housing associations. This places enforcement of rent and Council Tax on hold until incomes have been maximised, without the prior need to seek regulated debt advice as is the case with the statutory 'breathing space' scheme. With considerable levels of benefits underclaimed, this makes sense: rather than rush to enforcement, take the time to ensure that residents are getting everything they are entitled to. Moving forwards evaluation is aimed at informing a joint commissioning approach through England's Integrated Care Partnerships, which bring together health agencies and local authorities in area-based partnerships to reduce health inequalities. It is to be hoped that the forthcoming MaPS strategy will recognise the importance of these partnerships and draw learning from innovative local projects, such as Financial Shield, so that these can influence the shape of its own commissioning strategy.