

Citizens Advice Scotland

Scottish Association of Citizens Advice Bureaux
www.cas.org.uk



WHAT'S THE FUTURE OF LOCAL TAXATION IN SCOTLAND?

Response from Citizens Advice Scotland

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Citizens Advice Scotland (CAS), our 61 member Citizen Advice Bureaux (CAB), the Citizen Advice consumer service, 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.

We are champions for both citizens and consumers and in 2013/14 the Citizens Advice Service in Scotland helped over **330,000 clients** in Scotland deal with **over one million issues** overall. In addition, the Scottish zone of our self-help website Adviceguide which provides information on rights receives approximately **4.2 million** unique page views annually.

Scottish Association of Citizens Advice Bureaux – Citizens Advice Scotland
(Scottish Charity SC016637)

The Citizens Advice Service

Citizens Advice Scotland and its CAB offices form Scotland's largest independent advice and advocacy network. Citizens Advice Scotland (CAS) is the umbrella organisation for Scotland's network of 82 Citizens Advice Bureau (CAB) offices. These bureaux deliver frontline advice services throughout over 200 service points across the country, from the city centres of Glasgow and Edinburgh to the Highlands, Islands and rural Borders communities.

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

In 2014/15, clients sought advice on over 29,000 new issues related to Council Tax and Council Tax arrears at citizens advice bureaux – 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 the now 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 this response, we use 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 shows 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 very 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 do not recommend a particular alternative to the current Council Tax system in this response. Instead, we use 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:

- Work in practice, not just in theory
- Be transparent and easy to understand
- Focus on the impact on low income households
- Prevent debts, rather than worsening them
- Collect arrears in a fair and proportionate fashion

Response to the consultation questions

All of the case studies used in this response are from clients who sought advice from a citizens advice bureau in 2015.

Q1 To what extent does the current system of council tax deliver a fair and effective system of local taxation in Scotland? Are there any features of the current system that you would like to see retained or changed?

In 2014/15, clients sought advice on over 29,000 new issues related to Council Tax and Council Tax arrears at citizens advice bureaux. 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.

The evidence from these advice enquiries tells us a lot about how households – particularly those on low incomes – experience the local taxation system in Scotland. The following paragraphs use this evidence to show the problems that currently exist in the design and administration of Council Tax and suggest what could be changed in any new system. This evidence is outlined under the following four headings:

- **Affordability**
- **Council Tax Reduction**
- **Collection and enforcement**
- **Water and sewerage**

Affordability

Council Tax rates are based on the value of property and take no account of a household's income or ability to pay. Those on low incomes therefore have relatively larger bills to pay than those on higher incomes. This is particularly a problem for those with low wages but whose income is at such a level that they don't qualify for Council Tax Reduction.

Whilst most taxes are generally collected by third parties (PAYE, VAT, etc.), Council Tax requires taxpayers to actively make payments. This means those who have difficulty managing their budgets, for whatever reason, may find it hard to keep up Council Tax payments. Clients on low incomes prioritise spending in other areas (e.g. rent/mortgage, food, energy or servicing other short term debts) that are perceived as a greater priority leading to Council Tax arrears.

Evidence from citizens advice bureaux (see Table 1) shows that households seeking advice on Council Tax arrears are likely to live in rented accommodation (78% of clients seeking advice on this issue), be single (70%), live in a single adult household (60%) and be between the ages of 35 and 59 (59%). This suggests that single adult households experience a greater impact from Council Tax than other groups. Adults living on their own are entitled to a 25% discount on their Council Tax bill, and are more likely to claim Council Tax Reduction, but their prevalence in bureau figures suggest single adults still struggle to pay Council Tax.

Table 1: Council Tax arrears issues

Demographic	% of all clients with arrears issues
Rented households	78%
Single (single/divorced/widowed)	70%
Single adult household	60%
35-59	59%
No caring responsibilities	55%
Female	54%
In employment	43%
Single parents	19%

Almost half of clients seeking advice on Council Tax arrears are in employment (and others are likely to have fallen into arrears after losing 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 Working and Child Tax Credits.

This group of clients is likely to be in debt because their income cannot meet their essential living costs, rather than because of consumer credit over borrowing. This view is supported by national statistics, which show that consumer debt issues are falling at the same time as priority debts (such as Council Tax and rent) and crisis issues (such as food parcels) continue to grow as areas of advice demand. The following cases show examples of where clients have fallen into arrears due to unpredictable working patterns.

An East of Scotland CAB reports of a young man who had fallen into rent and council tax arrears due to working on a zero hours contract. He was previously working 40 to 50 hours per week, but his zero hours contract now entails working less than eight hours per week. Due to the lack of work and pay, the client started to fall into debt and now owes over £900 in rent and £750 in Council Tax arrears.

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 is earning in excess of the amount to claim CTR and had accrued a deficit of over £250.

The following cases show an example of a client in low paid employment and a client paid the living wage, both of whom pay a significant proportion of their income on Council Tax payments. Neither client qualifies for a Council Tax Reduction.

A North of Scotland CAB reports of a client who earns £160 per week and although she gets partial housing benefit she doesn't qualify for council tax reduction. She needs a car as she can't get to work by public transport and can't afford to live nearer her work. She is expected to pay £16 per week council tax. The adviser stated that she is better off not paying and waiting for a wages arrestment as this would be £10 per week but she'd end up with a never payable debt.

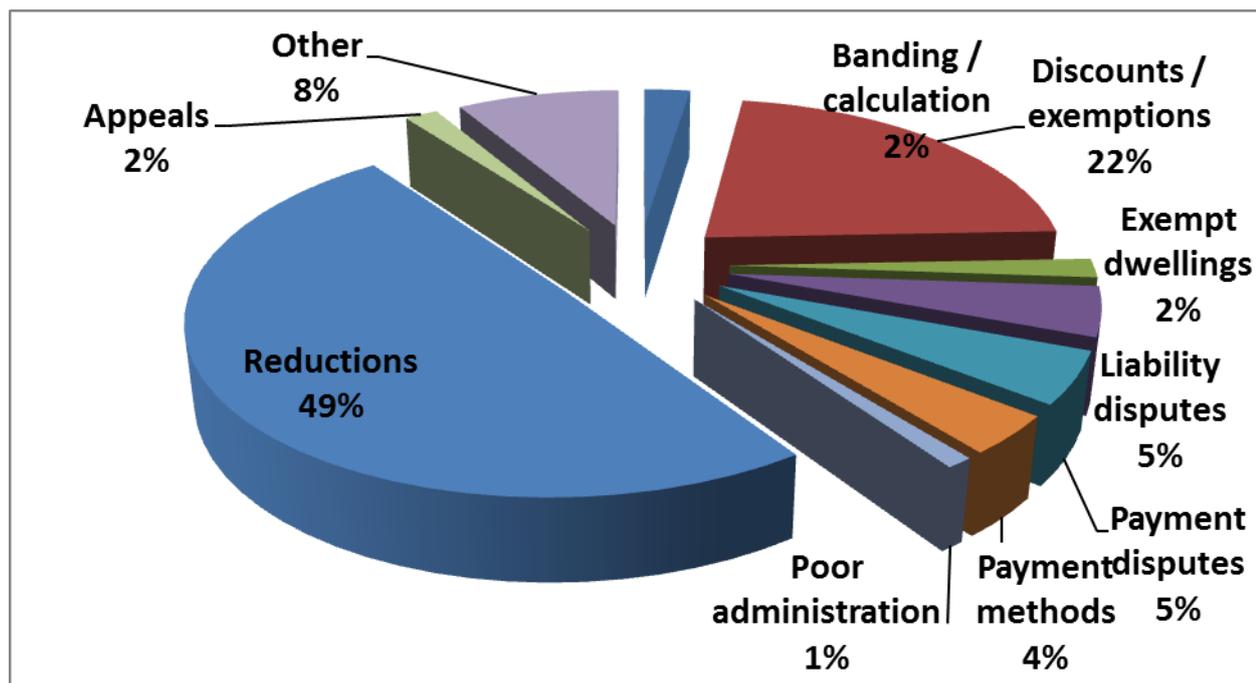
A North of Scotland CAB reports of a client earning the living wage working 30 hours per week. She doesn't qualify for working tax credit, housing benefit or council tax reduction. She earns £240 per week. Her council tax is £16 per week. By the time she has paid rent, council tax and car expenses she has less than £70 per week to live on. The adviser stated she is working 30 hours per week and ends up worse off than she would be on benefits.

The case studies above show examples of the people and households who struggle the most with Council Tax. They are just outside the criteria for support (sometimes going in and out of the criteria) and are likely to pay a higher proportion of their incomes towards Council Tax than those on the highest incomes. Once outside of Council Tax Reduction, the income and ability to pay of those on low incomes is not taken into account under Council Tax. Any new system should look to be fairer and more supportive of people in this position.

Council Tax Reduction

The introduction of Council Tax Reduction (CTR) in Scotland was relatively successful, with the funding commitment from the Scottish Government and the policy design ensuring that those entitled to support under Council Tax Benefit received the same support under CTR. Figure 1 shows that around half of advice enquiries regarding Council Tax at bureaux concern reductions (with a further fifth covering discount/exemptions).

Figure 1: Breakdown of Council Tax advice enquiries (non arrears)



However, the rules surrounding CTR are complex and difficult to understand, which may discourage some of those eligible from applying for support. Statistics from 2009/10, the last available indicators, showed that 29-36% of those eligible to claim Council Tax Benefit weren't claiming support.¹ This was the case for pensioners and couples with children who were particularly likely to not be in receipt of the support that they were entitled to.

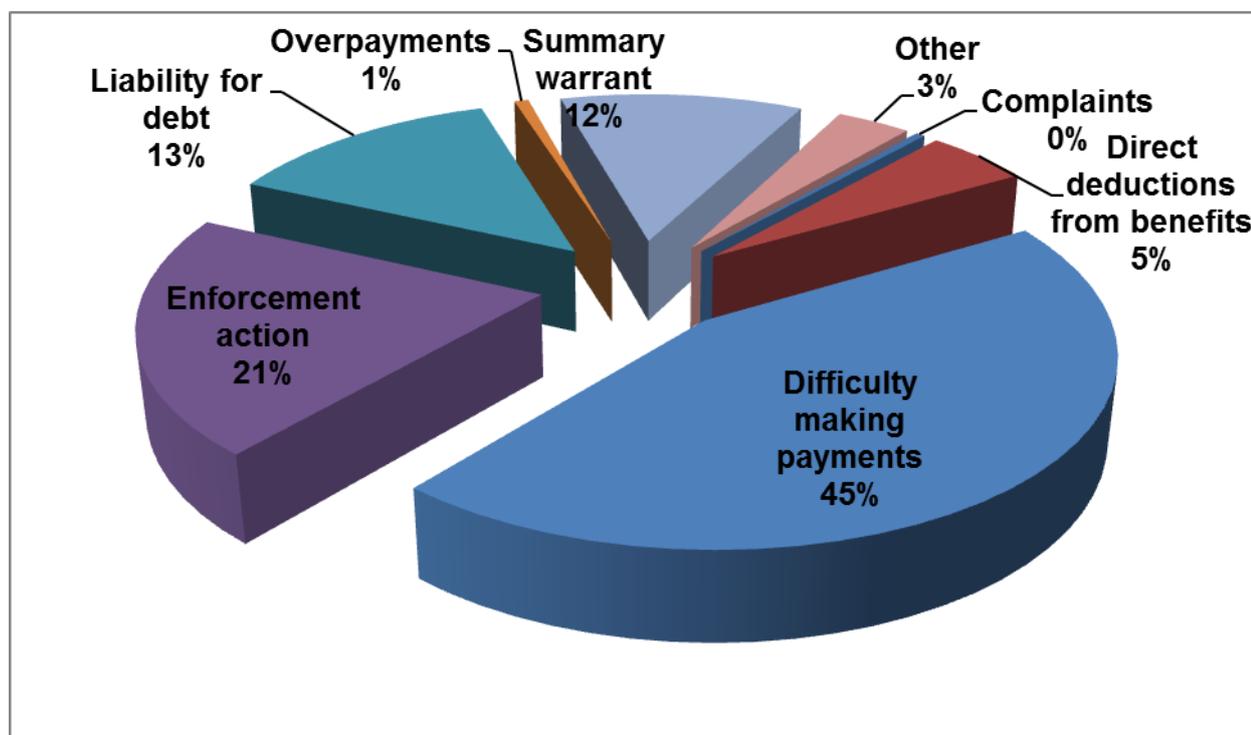
¹ Income-related benefits: estimates of take-up: financial year 2009/10
<https://www.gov.uk/government/statistics/income-related-benefits-estimates-of-take-up>

The introduction of CTR has created a further barrier, as claimants of DWP benefits can no longer apply for a reduction at the same time. The Council Tax Reduction generally works for households claiming, but the key for any new system is to ensure that those who are entitled to support are aware of and able to claim a reduction in their liability for local taxation.

Collection and enforcement

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 (see Figure 2 below). Our evidence suggests that enforcement and collection of arrears is often disproportionate and causes people to fall into worsening financial situations.

Figure 2: Breakdown of Council Tax arrears advice enquiries



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 give little to no consideration to how to protect the most vulnerable customers from unnecessary hardship when falling into debt. We have a number of concerns about 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).²

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.

A West of Scotland CAB reports of a client whose council tax debts were passed to sheriff officers who seemed to have predetermined that they were going to arrest the client's wages. They failed to cooperate with the bureau when the adviser made attempts to negotiate with them to come to an arrangement that would be suitable for the client. They continued to add charges of almost £60 for court action in spite of the client's attempts to come to a suitable arrangement with them. The sheriff officers said that the only way to stop the wage arrestment would be to pay the sum in full, which the client felt unable to do.

- **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 exercise little discretion when collecting arrears, often taking early drastic action when they could have positively engaged and supported the household to pay. Our evidence also suggests that the current system does not allow a 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.

² Scottish Diligence Statistics Report 2012-13, <http://wpd1.scotland.gov.uk/publications/scottish-diligence-statistics-report-2012-13>

An East of Scotland CAB reports of a client who had received a bundle of Council Tax demands going back ten years. They have always paid their council tax so she was shocked and went to the council for an explanation however she got a confused reply. Firstly, she was told it was due to an adjustment of an incorrectly applied 25% discount. Subsequently, she received an email from the local authority saying that this was not the case and that she should await a reissue of the bills. The client is not happy with this.

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 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.

Water and sewerage charges

Since 2002, household water and sewerage charges have been billed and collected by individual local authorities for Scottish Water, together with Council Tax. This arrangement creates a situation whereby the onus of managing the financial relationship with water customers is entirely on local authorities, rather than with the service provider.

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 many 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 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.

Council Tax arrears can currently be repaid through direct deductions from a person's benefit payments. From 2014, two local authorities in Scotland have trialled the Water Direct system which allows for direct deductions for water charges as well as council tax arrears. Used in the right way, this can help those claiming benefits to repay arrears. However, in a number of cases, Water Direct has been applied inappropriately, serving to double the amount of deductions taken from benefit payments and putting people in financial strife. Any new system for local taxation needs to consider the arrangements for water and sewerage charges and their impact on low income consumers.

An East of Scotland CAB reports of a client who is having deductions taken from his benefit payments totalling £11.25 per week to go towards council tax/water charges. This has left the client financially unable to manage on what is left. The client lives alone in council rented accommodation.

2. REFORM OF LOCAL TAXATION

Are there alternatives to the current system of council tax that you think would help to reform local taxation in Scotland? What are the main features of these, and why do you think they would deliver improvement? Do you have any examples of why this is the case?

Citizens Advice Scotland recognises that there are a number of alternative local tax systems that have been proposed, but do not advocate one over the others. Rather, we recommend that any alternative system meets the following key principles:

It must work

A significant proportion of the advice that citizens advice bureaux provide centres on the administration of a policy rather than the design of the policy itself. A system that looks good on paper doesn't always translate into good practice once it is in place. Any new system must be tested with stakeholders and citizens and proved to work, before it is agreed and rolled out.

Transparent and easy to understand

To be successful, an alternative system should be transparent, easy to understand and not discourage people from seeking support that they are entitled to. The new system should be well communicated in advance of its implementation so that people have an understanding of what the changes mean for their household, their rights and responsibilities in the new system, and how and when they can seek support if they need it. If water and sewerage charges are to remain linked to local taxation, this needs to be communicated in a much clearer fashion.

Focus on those with low incomes

The test of any new system should be its impact on the most vulnerable in society. This includes ensuring that all those who are currently eligible for Council Tax Reduction continue to receive this support, and evaluating whether there are additional groups, such as those with disabilities, who require additional support with paying their Council Tax.

The design of any new system should look at the situation of those in low paid work who are likely to struggle the most to pay their Council Tax. This group is likely to be the most affected by Council Tax as the regressive nature of the current system means that they will pay the highest proportion of their income towards it. Any new system should ensure that people in low paid work are at the very least not worse off due to any changes, and should actively look to make local taxation fairer and more affordable for this group.

Any new system should have a keen focus on the affordability of local taxation for those on low incomes, whether it is through the original charge or reductions or exemptions that would apply.

Collection of arrears must be fair and proportionate

Any new system must protect low income households from sudden demands and inappropriate enforcement activity, particularly where a person cannot pay due to a change in circumstance. The first step to enforcement must always be to support the claimant to pay and to find out why the arrears have occurred. In this way, the collection of council tax should aim at preventing debt, rather than maximising return after a person falls into arrears.

Progressive

As is well documented, Council Tax is the only direct tax that is deemed to be regressive, in that those on low incomes tend to pay a higher proportion of their income towards payments than those on the highest incomes. A new system should be progressive, with the amount paid better reflecting the ability of the citizen to pay, which would contribute towards reducing inequality in Scotland.

Work in a national framework

We do not take a position on whether any new system is implemented at a national or a local level. However, if a local level system is chosen, it should be implemented within a national framework which sets guidance and minimum standards. A good example of this approach has been the Scottish Welfare Fund, which has seen Local Authority schemes established that meet both local needs and national standards.

Generate income for local authorities

Any alternative system should ensure that local authorities have enough income to provide essential services, at the same time as being affordable for those on low incomes.

Accountability

Any system for local taxation should have a degree of accountability to ensure that those providing services are accountable to those who are paying for and in receipt of services.

It must work alongside benefit changes

In the context of significant changes to the social security system in Scotland and the UK – including the roll out of Universal Credit and Personal Independence Payment, and the devolution of various benefits to Scotland – any new system must be able to function alongside the changing benefit system.