

TACKLING LOCAL AUTHORITY DEBT: A POLITICIAN'S VIEW

31/10/2014

Equifax commissioned research among 119 UK MPs to gain an insight into politicians' perceptions of the impact of public sector debt on services in their own constituencies and what measures they felt, if any, were appropriate to addressing the issue.

Executive summary

Analysis by the Chartered Institute of Public Finance and Accountancy* (CIPFA) reveals that council spending has been cut by almost a third since 2010, as a result of reductions in government funding. This has increased pressure on public services and heightened the impact of public sector debts that remain unrecovered. In addition, data from the Department for Communities and Local Government* shows that English council spending will drop in all regions over the 2014/15 financial year. What are the likely consequences for frontline services of this continued pressure on budgets, and what areas of local government can be improved to bridge the funding gap?

*<http://www.localgov.co.uk/Council-spending-cut-by-almost-30-since-2010-data-reveals/36901>

Equifax commissioned research among 119 UK MPs to gain an insight into politicians' perceptions of the impact of public sector debt on services in their own constituencies and what measures they felt, if any, were appropriate to addressing the issue. The research was carried out between 22 June and 22 July 2014 online and by postal questionnaire. The results were then weighted to ensure that they are representative of the party political make-up of the House of Commons.

The results of the research suggest that most MPs are fairly regularly approached by constituents on issues surrounding debts they owe to public services. A third of MP's acknowledge that public sector debt directly impacts frontline services and is likely to cause increases in local taxes. Politicians across all parties believe that focusing on 'won't pays' is a vital component in improving collections performance. Furthermore, by segmenting debtors and adopting a different approach for each individual, local authorities can better identify those facing financial hardship in order to ensure they are treated fairly.

This whitepaper provides insight into the issues faced by local authorities when tackling rising debt levels and ultimately looking to reduce it, and highlights some of the solutions MPs regard as the best way to move forward.

“Last year over 90,000 people came to Citizens Advice looking for help with council tax arrears”

Gillian Guy, Citizens Advice Chief Executive

Why don't people pay local taxes and rent?

The Equifax research

The Equifax research asked MPs to consider the reasons why people don't pay public sector charges or debts. The results show that financial pressures, combined with a perception that payment for public services is easier to delay than other debts, go to the heart of why people get into arrears on their local taxes and rent.

Nearly two thirds of MPs said that they have been asked for help from constituents with concerns about debts they owe to their local authority. 63% think people are more likely to delay payments on public services, compared to other debts such as credit cards and loans. Almost half (49%) of politicians think that public sector debt is inevitable due to the fact that people still feel under financial pressure resulting from economic conditions.

A rise in council tax debt

Citizens Advice data reveals that council tax arrears are now the biggest debt problem reported to the charity. One in five people* reporting debt problems to Citizens Advice have fallen behind with their council tax, overtaking credit card debt and unsecured personal loans for the first time.

Gillian Guy, Citizens Advice Chief Executive, said: “For some households council tax bills can be the tipping point that plunges them into debt. Last year over 90,000 people came to Citizens Advice looking for help with council tax arrears as they struggle in the face of low incomes, rising prices and reduced financial support.”

*http://www.citizensadvice.org.uk/index/pressoffice/press_index/press_office-newpage-20140526.htm Donec blandit feugiat ligula.

The perceived impact of public sector debt

With councils facing rising debt, and householder incomes still pinched, Equifax asked MPs what the real impact of public sector debt is and who it affects. More than a third (35%) believes that frontline services are directly affected by unpaid public sector debt, agreeing that it would result in a reduction in services such as healthcare and education. Almost double, (64%) of MPs say late payments undermine frontline services; arguing that this is unfair on those individuals that pay their bills on time. In addition, 11% would expect to see councils increase local taxes in order to make up the funding deficit as a result of unpaid debt. This means that those individuals who pay their bills on time would pay more and those already in debt would see their debt increase.

61% of politicians think local authorities could do more to collect a debt before it's referred to bailiffs.

- More than a third (35%) of MPs said a reduction in services, such as education and healthcare would be the impact of unpaid public sector debt.
- Nearly double that (64%) believe late payment is unfair because it undermines frontline services and is unfair on individuals who pay their bills on time.
- 11% said they would expect there to be an increase in local taxes to address the deficit.

Are current debt recovery activities working?

It's clear that some councils are facing a tough future if they don't take control of public sector debt. But are current recovery methods failing local authorities or do they just need a shift in focus?

The Equifax research shows that there is strong support for the current processes being used by local authorities to collect outstanding debts. 50% of MPs agree that the current system works well in their constituency. However, they also see room for improvement when it comes to speeding up collection activity. 35% believe action to recover outstanding debts is too slow, which incurs additional costs for the local authority.

When it comes to taking legal action, 61% of politicians think local authorities could do more to collect a debt before it's referred to bailiffs. With this in mind, councils need to have a better understanding of an individual's financial circumstances in order to separate the people who can't pay, from those who won't pay. This is crucial in helping local authorities use their limited resources most efficiently to collect the debt they are likely to recover and to ensure they treat people fairly.

- 50% of MPs think the current process of collecting outstanding debt in their constituency works well with the majority of debts collected.
- But 35% believe action is probably not taken quickly enough to recover outstanding debts therefore incurring additional costs for the local authority.
- 61% believe local authorities could be doing more to collect a debt before it's referred to bailiffs.

81% of MPs agree that there need to be better ways to distinguish between 'can't pays' and 'won't pays',

Tackling the problem

When asked about the best approach to tackling public sector debt, MPs advocate obtaining improved insight into an individual's financial circumstances, combined with stronger deterrents against late payment. 81% of MPs agree that there need to be better ways to distinguish between 'can't pays' and 'won't pays', with 88% supporting greater focus on agreeing with the debtor a suitable repayment arrangement. Whilst the vast majority believe in a fairer approach for those who 'can't pay', 37% believe there needs to be tougher penalties and prosecutions, with 21% advocating more on the spot fines for individuals who have not paid their debts.

When looking at ways to speed up the recovery of outstanding debt, a key factor that local authorities need to consider is their internal processes and how data analysis could improve this. Typically, local authorities will either start to chase their debtors via reminder letters or will engage the services of debt collection agencies. By first using credit reference agencies (CRAs), local authorities may be able to review their files against the data held by the CRAs and better analyse the potential for recovery. Data analysis using the information obtained from the CRAs can prove very effective, and can save local authorities time and resources to get the majority of the outstanding debts recovered.

In order to support the tougher, yet fairer approach to debt collection, 85% of MPs believe there needs to be better data sharing between government departments.

- 81% of MPs think there needs to be better ways to distinguish between 'can't pays' and 'won't pays'.
- 88% of MPs agree that more focus is needed on agreeing a suitable repayment arrangement.
- 85% of MPs believe there needs to be better data sharing between government departments.
- 37% believe there needs to be tougher penalties and prosecutions and 21% advocate more on the spot fines.

MPs agree that better data sharing between government agencies and departments can help improve collections activities.

The Equifax Perspective

The Equifax research shows that politicians clearly advocate better understanding individuals' financial circumstances, as a way to improve debt recovery. With access to this information, MPs believe that local government departments can be more efficient and effective when it comes to recovering debts. In addition, councils will be able to focus their activities on those who can afford to pay. This will help to ensure that those facing financial difficulties are treated fairly. MPs agree that better data sharing between government agencies and departments can help improve collections activities.

The newly launched investigative solution, Equifax Public Sector Gateway, gives local authorities access to detailed information so that they can more accurately separate the 'won't pays' from the 'can't pays' and implement the most effective debt recovery strategies.

Therefore, MPs can be confident that when their local authority accesses information on their constituents' financial circumstances it should help them to look after those facing financial difficulty whilst tackling the persistent 'won't pays'. This will help local authorities to prioritise and cost-effectively manage their debt collection strategies, which could help to address the funding gap caused by budget cuts.

Equifax Public Sector Gateway also enables local authorities to trace people who are in debt but have moved address. Tracing these debtors can give local authorities confidence that their communications are reaching the right people. Containing reports that are built specifically for the public sector, Equifax Public Sector Gateway ensures local authorities only access the data relevant for the purpose of tracing debt.