Can’t pay or won’t pay?
Perspective spoke to Melanie Hosker, Head of Public Sector Services at Equifax, about the burden of council tax debts on local budgets and how councils are striving to locate and identify debtors who can, but simply won’t, pay, whilst still ensuring they treat everyone fairly.

Analysis by the Chartered Institute of Public Finance and Accountancy (CIPFA) has revealed 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. Data from the Department for Communities and Local Government also shows that English council spending will drop in all regions over the 2014/15 financial year.

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In addition, the Citizens Advice Bureau has stated that council tax arrears have become the most common debt case its advisors are handling. More than 27,000 people approached the charity in the first quarter of 2014, an increase of 17% on the same period last year. Money Advice Trust figures also show that more people are falling into debt because they cannot afford basic household bills, such as energy, water and council tax. The charity said it helped 150,000 people with household bill debts last year – up 140% since 2007.

These figures present a challenging case for local authorities, particularly in light of the new Taking Control of Goods regulations.

Revenue collections teams want to have exhausted all other opportunities to recover outstanding debts before issuing a notice of enforcement, but that must be done without undermining the provision of the correct support to vulnerable debtors.

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, if any, they felt were appropriate to addressing the issue. The research was carried out between 22 June and 22 July 2014 both online and by postal questionnaire.

The results of the research suggest that most MPs are approached fairly regularly by constituents on issues surrounding the debts they owe to public services. A third of MPs acknowledge that public sector debt directly impacts frontline services and is likely to cause increases in local taxes.

To this end, 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.

Our 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.

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In order to do this effectively they have to know, understand and be able to identify the ‘won’t pays’ from the ‘can’t pays’.

Local authorities need to be able to understand whether a debtor can afford to repay outstanding monies, and, if so, by how much each month. With this insight, they can then apply the correct repayment plan. However, even before they reach that point, they need to be able to find the debtors.

Tracking down debtors who don’t want to be found

At Southampton City Council, tracking down debtors has been one of its biggest challenges. “A major issue we face is tracking down individuals who are trying to evade repaying their debt by moving and not providing a forward address,” explained Michael Gould, Senior Debtors Officer at Southampton City Council. “By integrating Equifax insight into our collections process, including information on linked addresses, we have been able to identify the debtor and their current address more efficiently, as well as extract key information about their current financial status such as their current credit activity.”

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“Having found our debtors, however, we still have an important duty of care to the vulnerable. It is vital, therefore, that we are able to separate the ‘won’t pays’ from the ‘can’t pays’. There is no point chasing an individual if they are bankrupt, have CCJs or have a number of unsettled debts… plus that doesn’t demonstrate the ‘treating people fairly’ philosophy we have as an authority.”

By being able to analyse accurate data through Equifax Public Sector Gateway on people’s current debt levels, from mortgage payments to payday loans, local authorities are able to establish a realistic repayment plan, whilst prioritising support for vulnerable debtors. A recovery score per individual also gives revenue teams an efficient way to assess the likelihood of recovery so that the right level of collections resource can be allocated to each debtor.

Implementing the right collections strategy from the outset, with informed insight into debtors, can have a fundamental impact on a council’s costs. In particular, by speeding up the process of assessing debtors, the likelihood of recovering debts improves, and fewer cases reach the ‘notice of enforcement’ stage.

“We are also able to save time and collections resource by monitoring the financial status of individuals on an ongoing basis,” added Michael Gould. “This ensures that each individual is treated fairly. When they are contacted about outstanding debts, we know their current circumstances. It also enables the authority to be more cost-efficient in its collections activity, applying the most appropriate and effective strategies to different types of debtors.”

For more information on the work we are doing with the public sector, or about Equifax Public Sector Gateway, please contact Melanie, Head of Public Sector Services at melanie.hosker@equifax.com or on 07766 247744.

¹ ‘Council spending cut by almost 30 since 2010 data reveals’, http://www.localgov.co.uk/