

WISE COUNCIL

Some local authorities are pledging to cut the use of bailiffs and collect debts more ethically. So how will it work?

AUTHOR – Heather Greig-Smith

BRISTOL City Council announced in July that it would be trialling ethical debt collection for unpaid council tax in a bid to end the use of bailiffs. It follows London's Hammersmith and Fulham in seeking an alternative to current practices.

Local authorities and other public sector bodies have come under heavy scrutiny for the way they collect debts from residents. Not subject to the Financial Conduct Authority (FCA) rules that apply to private sector firms, the gulf in behaviour between the two has widened as the private sector has evolved and the public sector has not.

The difference in practices has not escaped central government attention and pressure is mounting for change. Bristol's announcement follows a five-month local campaign and came hot on the heels of a Treasury Select Committee report on household finances.

WORST IN CLASS

The report called debt collection practices of public authorities 'worst in class'. It said: 'Debts are often pursued over-zealously, uncompromisingly, and with routine recourse to bailiffs. This approach risks driving the most financially vulnerable people into further difficulty. The public sector should raise its standards to the level of industry best practice'.

The local Bristol campaign against the use of bailiffs was co-ordinated by media co-operative the Bristol Cable. Co-founder Adam Cantwell-Corn said bailiffs are used by the council on average 50 times a day.

"Despite the scale of the council's use of bailiffs, they are woefully ineffective at actually recovering debts: bailiffs actually only collect 30 percent of the debts they are charged to recover, in part because they won't accept realistic repayment plans from people who just can't pay," he added.

Bristol City Council agrees that using bailiffs exacerbates the problems for those in financial difficulty. "The use of enforcement agents to collect unpaid bills is an imperfect system that puts a huge amount of, often unfair, pressure on those who have money struggles," said Councillor Craig Cheney, Cabinet Member for Finance and Governance.

He has first-hand experience of this. "As a child my family struggled with money problems that were never helped by the extra pressures put on us by the additional costs that come with enforcement action," he added.

ADVICE AND INFORMATION

Instead of rushing to enforcement, the council wants to signpost people to advice and information services early. "We are already someway along that journey and have seen our levels of debt collection rise while our use of enforcement agents has decreased," said Craig.

"Now we want to explore how we take those next steps to ensure the use of agents is kept as an absolute last resort in the recovery of council debt."

Hammersmith and Fulham Council led the charge last year when it entered a joint venture with private sector firm Intrum UK, creating H&F Ethical Collections. The joint venture aims to radically change collections processes and the council has pledged to end the use of bailiffs for council tax.

The partnership means the council is transferring its debts to Intrum's offices for collection, where a specially-formed team uses private sector techniques to engage with the borough's residents and work with them to set up arrangements to pay.

"Payment arrangements have to be affordable and sustainable," says Intrum's UK Managing Director Eddie Nott. "If someone doesn't have the money to pay they can't pay. No amount of bailiff action or charges will

AUTHOR – Heather Greig-Smith

change that. It just causes distress and is an inhumane way to treat people."

Applying too much pressure to those struggling to pay is also short-sighted financially. It is the council that pays the costs of temporary accommodation if a resident is made homeless. Poor debt management also increases demand on health, education and social services.

Ending the use of bailiffs doesn't mean collecting less money, says Eddie. "The private sector has learned that engaging with people in debt in a sensitive and supportive way works. You need to listen to people and never ask for more than they can afford."

COLLABORATIVE APPROACH

He adds that a collaborative approach costs less in the long run because people are able to stick to those arrangements. "It's about being sensible not soft," he says. "If someone who can afford to pay refuses to do so we will take legal action. But in those cases there are other, more humane legal ways to recover money, such as attachment of earnings or charging orders. Bailiffs should be the absolute last resort and many councils are not using them that way."

Many of Intrum's customers who have private sector debts have also experienced aggressive council collections. At a recent feedback group Eddie says one customer reported that she missed a £20 payment when her husband died. "Bailiffs came to the door and added £235 on top. I've paid it off now, but they would not budge," she said. Her husband's private sector debt was written off.

In evidence to the Treasury Select Committee, Matt Upon of Citizens Advice said there is a great deal the Government could learn in terms of forbearance from consumer creditors.

"Part of that has been because regulation has brought some of those firms in line but, partly, if you talk to banks, it is because many organisations have realised that incredibly aggressive collection methods are not effective in and of themselves at getting money in the door, because people do not respond well to some of those tactics," he said.

Jane Tully, Director of External Affairs at the Money Advice Trust, welcomed the committee's report, saying it rightly recognises the need to improve public sector debt collection practice. She acknowledged that practices vary by area.

"While overall use of bailiffs by councils in England and Wales is increasing, there are individual local authorities working hard to

improve practice," she said.

"Hammersmith and Fulham and now Bristol City Council are two local authorities that are leading the way in exploring more 'ethical' approaches. This shows other councils that there are alternative options."

ETHICAL APPROACH

H&F Ethical Collections is already in discussions with other councils keen to explore the possibilities for change. More pilots are expected to take place in the near future.

Local authorities and other public sector bodies will hope these new approaches can raise the levels of cash returned to their budgets. Many face huge pressure to ensure they can pay for services in an era of austerity. Northampton Council's recent financial crisis is seen by many as the tip of the iceberg.

A report by PwC in June found council leaders convinced a local government financial crisis is close, with three quarters (74 percent) of respondents expecting that some councils will get into serious financial crisis in the next year, up from 54 percent last year.

Jonathan House, Local Government and Health Leader at PwC, said there has been a significant step up in the challenge for local government leadership. "While local councils have done well against an ongoing course of challenges, the cliff edge for some is getting ever closer."

Private sector practices will need to help councils against this backdrop of public pressure and wider calls for a more humane approach.

Heather Greig-Smith is a freelance business journalist.