

# Controlling Citizen Debt

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## ways local authorities can help reduce citizen debt

**In this white paper, we explore the impact citizen debt is having on both the public sector and citizens. We also explore how the Covid-19 pandemic has exacerbated the problem of debt in the UK, and how local authorities can prepare for a post Covid-19 world.**

### Current situation

There is no doubt that the Covid-19 pandemic has impacted everyone, in all parts of the world. The closure of businesses and reductions in income for others is likely to increase unemployment and cause widespread loss of income.

A significant amount of debt was already owed by citizens to Government in the UK before the pandemic.

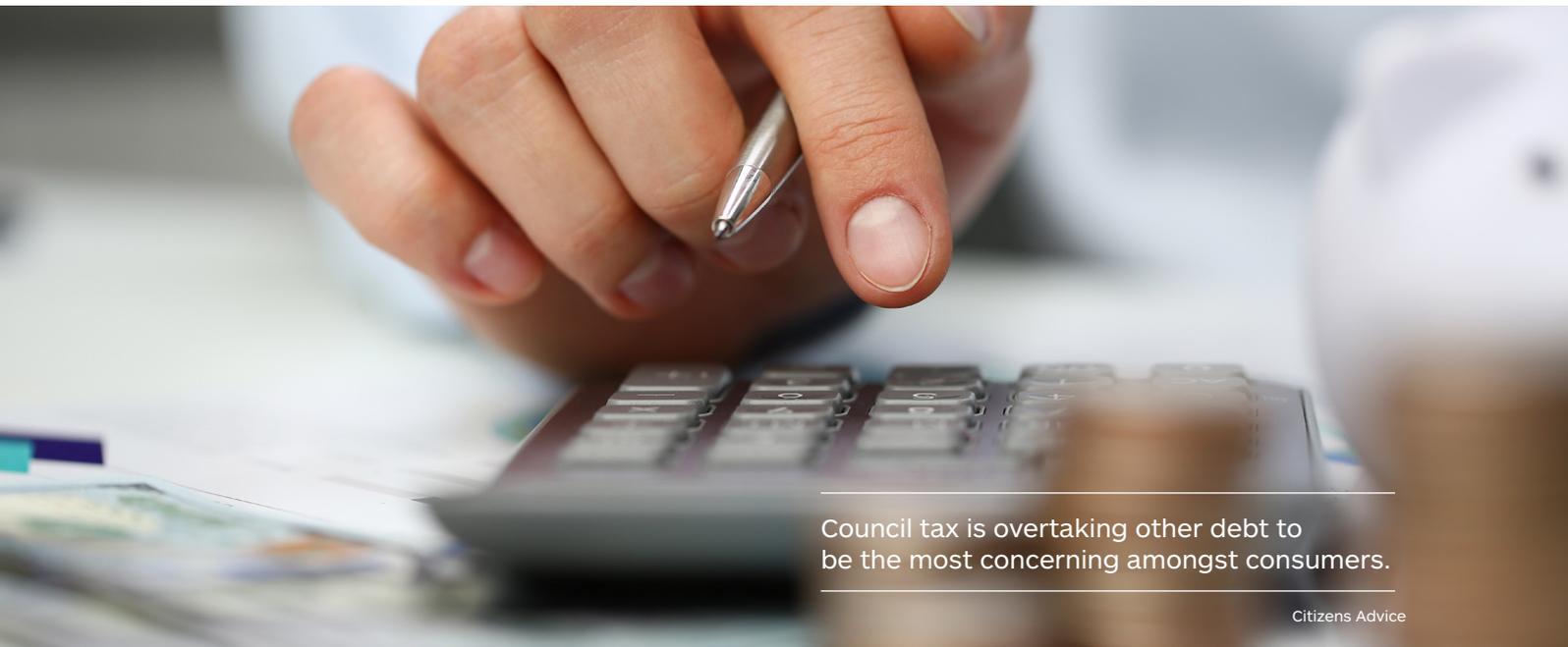
Schemes such as CBILS, BBLS and the job retention scheme (furloughing) have gone some way to protect jobs, revenue and income, but people will still fall into debt, or experience an increase in money owed.

Local authorities are facing significant challenges too. Existing financial pressure flowing from austerity and reductions in funding have been exacerbated by the demands of the crisis. A BBC investigation recently found that around 150 local authorities have forecast a combined budget shortfall of over £3bn.

Helping citizens to manage their debt and controlling the levels of debts owed to local authorities will be ever more important as we emerge from the crisis.

## Citizen debt warnings from charities

There was already a significant level of debt owed by citizens to Government, with over 9 million people in “problem debt”, at the start of the pandemic.



Council tax is overtaking other debt to be the most concerning amongst consumers.

Citizens Advice

Debts including council tax arrears, parking fines and tax credit/universal credit overpayment debts amount to over £13.5bn. This amount is expected to rise as a consequence of the pandemic.

Charities such as Step Change and Citizens Advice have given warnings in recent years about the spiralling Government debt owed by consumers, and the impact it's having on society.

Council tax debt was the single most common debt for the 635,000 new clients who contacted Step Change in 2019. Citizens Advice received 474,500 approaches relating to Government debt in the last financial year, compared to 221,300 relating to credit cards and loans.

With the economy predicted to contract by around 10-15% in 2020-21, how many more people will be in council tax arrears in the coming months, especially as mortgage payment holidays and furlough schemes come to an end?

When there's a sudden loss of income, just one missed monthly payment can easily escalate. Currently, a two-week delay in paying a single monthly council tax payment leads to debtors becoming immediately liable for the entire annual bill, which would be £1,750 for the average Band D home.

Once in debt, it is extremely hard for citizens facing reduced incomes to recover their position so the focus must be on prevention, before recovery of debt.

Local authorities can prepare for the additional support needed to handle a dramatic increase in citizen debt across the UK as a result of austerity, Brexit and the Covid-19 pandemic.

Plans can be formed to increase resources flexibly, to meet peaks in demand from citizens. Equally important is to have an approach to the management of overdue payments and early debt, that prevents debt accruing and escalating.

The first step to take is to fully understand citizens' needs.

# Understanding your citizens' needs

After initial support measures such as grants, payment freezes and mortgage payment holiday periods have expired, citizens are likely to fall broadly into 4 groups:



## Uncertain

Many employees now face an increased risk of redundancy. Many self-employed people and small business owners face uncertainty around what business and income they can expect over the next 6-12 months.

Business owners may be seeking to recover their business from a period of no work or limited trading.

All of these citizens are facing uncertainty and will have needs beyond payment holidays.

They will need further support to reduce payment commitments until their incomes are more stable.

## Curtailed

Some people will have faced lower levels of income through furlough or pay cuts.

They may have requested payment holidays during this period. They need to sustain full payments following the payment holiday and uplifts in future payments, as a result. They may want to, and be able to, make over-payments to re-balance their increased instalments over time.

Others may want to increase the term of their payments rather than have higher payments over the same term.

## Troubled

Other citizens are likely to have experienced an unexpected redundancy, perhaps after a period of furlough.

They may have found new employment, but at a lower income level. Or they may still be seeking new roles.

They will have suffered a significant impact financially and will be at risk of not being able to meet payments in the short-term as well as longer-term.

They are likely to seek urgent support to manage existing debt, or to avoid falling into future debt.

## Fortuitous

Some people will have been more fortuitously impacted by the crisis and may actually have some surplus income available to make over-payments if their spending has reduced.

They may still be impacted by general economic uncertainty despite having had a more fortuitous experience.

They may wish to plan to avoid future risks, perhaps by saving more and through less discretionary spending.

They may also want to repay money owed more quickly than planned.

# Treating citizens fairly

While not all impacts will have been financial, local authorities will need to be acutely aware of the additional stresses and strains on people across all groups. The possible mental health impact and economic challenges on individuals is likely to be significant.

Anyone involved in supporting citizens in managing their finances must now do so with a focus on “good customer outcomes” and a need to “treat customers fairly”.

The financial services sector has transformed its practices to better serve people, especially those who are most vulnerable.

We are starting to see the grass roots of debt reform, with MPs calling for change in the way that debt is collected by Government organisations.

The new Government Functional Standard for Debt (GovS 014:Debt), which is being trialled in 2020, sets out new principles for the management of debt.

## The aims of the standard are:

- A more consistent approach
- Improvements in capability
- Minimise losses to the Exchequer
- Ensure efficient and effective spending of taxpayers' money
- Minimising stress on debtors

This landmark document sets out guidance for fair debt collection practices across Government, including the need for Government departments to:

- show consideration of the need for forbearance in cases of vulnerability and hardship
- use relevant sources of data and information to make informed decisions about a debtor's individual circumstances, taking into account an individual's ability to pay
- use a toolset which facilitates assessment of income versus expenditure, including in work and out of work considerations, along with the ability to take irregular income into account

The Financial Services sector already embraces these principles and follows strict guidelines on managing debt.

Treating Customers Fairly, forbearance and “good customer outcomes” are ingrained in the regulatory and supervisory approach, adopted by the industry.

Crucially, Open Banking innovation has enabled quick and accurate affordability assessments, while vulnerable customer specialists are on hand to support people in hardship.

The Financial Conduct Authority rules have succeeded in creating a far better experience for both borrowers and lenders.



## Facilitating good outcomes

Our research showed that the newest generation into society, Generation Z, doesn't only want to use digital services.

We found that they want to experience the security that a personal touch and one-to-one professional advice can provide, but they want it to be accessible at a time and place that suits them.

So, while organisations are committed to providing digital access to all their services, citizens have more complex needs.

Local authorities need to consider the human element alongside the undoubted benefits of digital transformation and offer a multi-channel approach that gives citizens a choice.

That choice will be determined by their age, lifestyle, location, mobility, knowledge, and the service they require, as well as a host of other factors.

Local authorities preparing to deal with significant increases in debt in society in the months and years to come will need to adapt, and quickly.

A "one size fits all" approach will not work. With such a variety of different needs amongst citizens in the UK, services will need to be tailored to their financial situation and their preferred channels, to deliver the best outcomes for the citizen and the local authority.

When things get tough, and resilience is tested, it's essential that organisational culture holds firm.

Local authorities should be socially aware, and adopt an ethically conscious approach to vulnerable customers and those who may be finding it harder to pay.

When dealing with peaks in demand, organisations can't afford to let standards drop.

## 3 Ways to reduce citizen debt

Here are three ways local authorities can help reduce citizen debt, with good outcomes for both citizens and the public purse:

# 1

## Forbearance, Affordability and Empathy

**The introduction of open banking tools has enabled the use of data for speedy and accurate income and affordability assessments.**

It's now easier than ever to quickly and fairly assess a customer's financial position at a single point in time, as well as at future points in time as that position changes.

This innovation allows for flexible decision-making, adapting support for the customer as their financial position evolves.

We've talked about the challenges of a one size fits all approach for all citizens and the same is true when assessing an individual's affordability.

As a customer's situation changes, for better or worse, local authorities should be able to adapt their approach to enable the fair treatment of that customer, and quickly make adjustments to payments.

Specialist trained agents should be available to support customers who have complex needs; people who can provide support with empathy and understanding, working towards the best outcome for the customer.

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# 2

## Multi-channel – including Self-Service

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**As above, it's critical that local authorities get a good viewpoint of their citizen needs and a solid understanding of how those needs differ across multiple user segments.**

With multiple generations in play at any one time, all with varying digital capabilities, local authorities should take a multi-channel approach to ensure services are within the reach of all citizens.

While some will prefer a face to face approach, some will prefer to self-serve, at a time and place that suits them.

A multi-channel approach not only provides improved levels of engagement and satisfaction, if done well it can also bring improved revenues.

The simpler and more wide-reaching a collections service is, the more likely it is to have high usage levels, because of the ease of use.

Self-service is a cost-effective way of arranging and collecting payments via digital and IVR channels. Such tools allow for a 24/7 service from wherever the citizen chooses.

They may be travelling, working shifts or unable to visit an office. They may also be embarrassed to discuss their financial position with a person, face to face or even over the phone.

Online self-service income and expenditure assessments, setting up of payments and making queries helps to remove some of those barriers for the most vulnerable in our society.

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# 3

## Payment Plans

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**Payment plans offer a fair and simple solution to payment arrears.**

When people miss one or more monthly or weekly payments, an arrangement is made to spread the cost of the default over the course of the fees period or loan, rather than having to pay double, triple or more in a single month.

Such an approach often prevents the spiralling of debt, into a much bigger problem.

This simple and flexible arrangement can be set up as a Direct Debit, and is based on a careful assessment of affordability.

Target provides the software to enable such payment plans through a portal, which is ably supported by a team of technicians to ensure smooth and continuous running of the system.

This not only provides a fair and affordable route out of arrears for citizens, it also enables the local authority to recover some revenue owed, without compromising the good customer outcome.

# Summary

As we ease out of lockdown measures and begin the recovery from the Covid-19 pandemic, the economic toll will be made clear. Local authorities, as well as the wider Government, will be paying close attention to how the UK bounces back, and what (if any) measures are required to boost employment and spending.

Treating citizens fairly in such unprecedented circumstances is key. Understanding their needs, and adapting revenue collection to match their affordability is a pragmatic as well as an ethical approach to take.

Setting out fair and affordable payment plans for things like council tax arrears, credit overpayment arrears and fines will help to collect much needed revenue for services, while supporting citizens at a particularly difficult time.

Now is the time for flexible and fair support for people who are finding it harder to pay, to prevent debt and manage its escalation through the global crisis and beyond.

For further information:

visit [www.targetgroup.com](http://www.targetgroup.com) or email [marketing@targetgroup.com](mailto:marketing@targetgroup.com)



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Richard brings over 20 years of client services and business development experience, with a deep understanding of public sector clients.

Previously Managing Director, EMEA at Williams Lea Tag, he spent over a decade leading critical public sector relationships before successfully establishing and leading a dedicated public sector business development team.