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Debt and Arrears in Scotland

**Policy and Practice
Development: Executive
Summary**

This research was completed by Mandy Littlewood (Iota Social Research) and Anna Evans (Indigo House Group). It was conducted in the Spring and Summer 2023, and the report was published in October 2023

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The research

The Robertson Trust commissioned research to:

- Provide a better understanding of why and how practice in relation to debt recovery differs (and is evolving), exploring good practice and lesson learning.
- Consider the impact of public sector debt on organisations and individuals.
- Explore policy and practice solutions, looking at policy areas/over-arching strategies that can help alleviate public sector debt and arrears.
- Examine the roles and relationships between the Scottish Government, local government and the third sector.
- Identify opportunities and barriers for future policies and practice on public sector debt and arrears.

An initial [evidence review](#) fed into follow-up [qualitative research on policy and practice development](#), reported separately. Representatives from across all local authorities, the third sector and national stakeholders were invited to participate in on-line focus groups and one-to-one telephone interviews. Overall, 15 people from 12 local authorities took part – 7 local authority finance representatives and 8 local authority welfare rights/debt advice representatives. Respondents came from a range of smaller and larger local authorities across rural and urban settings. A total of 17 third sector representatives took part – 9 with a policy/strategic focus and 8 front-line third sector representatives. Two interviews were also undertaken with national stakeholders with an interest in this policy area.

The impact of public sector debt and arrears

Although debts for council tax are significant and increasing in Scotland, with more use of summary warrants, there has also been a reduction in recipients getting a Council Tax Reduction. There is an increasing level of public sector debt and arrears, affecting some of the lowest income households in the country, with more than half of low-income families in Scotland on Universal Credit with at least one deduction from their monthly income covering [debts to public bodies](#).

The impacts of public sector debt are significant, affecting many aspects of people's lives, including their financial circumstances and mental health and wellbeing over long periods.

Policy and practice on debt and arrears

Although there is a re-stated commitment to partnership working across central and local government, the current very significant gaps in local government budgets are an important context to policy on public sector debt and arrears, in relation to council tax and other local authority debt.

Key issues under consideration in the recent [policy consultation](#) exploring the extent to which the current range of statutory solutions meet the needs of the economy relate to specific processes around: mental health and statutory moratorium; better information provision and more streamlined debt advice processes; minimum debt thresholds for bankruptcy; detail on financial tools for income and expenditure; and technical issues around exemptions and administrative processes.

The Scottish Parliamentary Inquiry into [low income and debt](#) made a wide range of recommendations relating to public sector debt, calling for the Scottish Government to work in partnership with public bodies to develop a debt management strategy covering all public bodies within devolved competence in Scotland.

Rather than [making active policy responses](#) to the enquiry's recommendations, the Scottish Government highlighted its work enabling income maximisation, as well as the provisions of funding to address hardship, including the Scottish Child Payment. They encouraged councils to have in place clear processes to resolve disputes on council tax liability and to share good practice on debt assistance and collection.

Recent guidance on [collaborative council tax collection](#) and [school meal debt](#) is welcomed, although it is not statutory guidance and local authorities may choose how far to take the guidance on board.

Good practice and lesson learning

There is considerable variation in practice, with the need for better communication and a more compassionate approach to debt/arrears collection identified and implemented. Some of the good practice approaches highlighted in the evidence review included:

- People-centred approaches based on customer segmentation, including income and expenditure assessments, tailoring realistic and affordable repayment plans and developing advance payment plans to 'cushion' against the future.

- Communication is central – with examples of how to encourage positive engagement.
- There is also evidence of good practice in the move from enforcement to support, with greater emphasis on offering support services, with greater flexibility to build trust.
- This often relies on proactive, collaborative approaches and using data insights to identify vulnerable customers, better target support and enable the use of flexible enforcement approaches.

Evidence of costs and benefits

The costs of debt collection are significant. Advice Scotland estimated that in 2018-19 (pre-pandemic) Scotland's local authorities increased the number of times they instructed Sheriff Officers to recover council tax debts by over 15%, adding, up to £30 million in Sheriff Officer fees to those in debt.

There is evidence of variation in the use of Debt Arrangement Schemes, with more than half of service users not using a statutory debt solution. More investment in money advice services may help more people to access DAS schemes, which provide affordable debt repayment options.

Significant financial gains are identified from debt advice services – of around £11 per £1 in funding. However, the financial gains achieved (reported by the Improvement Service) have reduced and the proportion of clients accessing statutory debt solutions accessed has also reduced. This points to the need to encourage people to access services at an early stage, so they are more able to access statutory debt solutions.

There are clearly substantial costs of debt collection against substantial benefits of debt advice, but better intelligence of the costs, benefits and outcomes of different approaches is needed.

Preventing debt and arrears

Income maximisation, and benefit uptake in particular, is a critical part of prevention activity but there is a longer-term need to reform the social security system and council tax to prevent those on low incomes from falling into debt.

The Scottish Child Payment and other Social Security Scotland provisions have been major achievements of the Scottish Government but are potentially undermined by deductions from Universal Credit (UC). The drivers of public sector debt mean that some of the solutions identified by participants in the research were inevitably longer-term measures, including increasing levels of UC, encouraging benefit uptake, including through more automation or automatic benefit receipt and reforms to council tax to be fairer and less regressive.

Delivering good practice

There is clear evidence of significant progress in policy and practice development, despite challenging financial circumstances for local authorities and the third sector. A separate [good practice framework](#) provides more in-depth examples that the evidence review and the qualitative research captured.

Early intervention

Where budgets are constrained, being able to effectively target resources is important. There are a host of interesting initiatives underway on early intervention to help avoid people falling into debt, identify people at risk and those who are 'just about managing'. This includes building information sharing, structures, and relationships to enable effective practice.

Engaging people in seeking help

Engaging customers is a challenge, with some providers using incentives to improve engagement, simplifying messaging and offering a wider range of communication methods and others opting for more assertive outreach approaches. The third sector would also like to see more supportive approaches and messaging to encourage vulnerable customers to engage.

Effective and fair enforcement

There are varying approaches to debt recovery across local authorities. Good practice is evidenced with some local authorities having different approaches for more vulnerable customers and using data and intelligence to identify those at greater risk, who need a different approach and more support. There are very mixed views on what mitigation action is needed (e.g. limits on eviction, a moratorium on debt recovery).

Many local authorities do not have coherent practices for debt recovery, with corporate debt policies under development in some areas. However, it is not always clear how well the policy transfers into practice.

Addressing barriers and enabling progress

Building relationships

There are clearly significant differences in practice across local authorities in relation to enforcement and in the quality and efficacy of relationships between the local authority and the third sector. Local authority finance representatives want to be consulted about policy and enabled to govern (with possibly some greater clarity of guidance) while third sector representatives want to see greater policy intervention from the Scottish Government.

The voluntary guidance on [Collaborative Council Tax Collection](#) highlights the positive impact of strong relationships, which our research has also shown. Effective policy and practice is supported by good relationships - between the local authority and the third sector, within local authorities and between local and national government and other actors.

At an operational level, there is also a need to build trust. Where relationships work well, these have developed over the long-term. Relationships need to be nurtured and need support from senior staff, with structures and networks for operational staff.

Some of the best progress has been made in local authorities where there has been a strong strategic focus on poverty reduction, with senior management support and political support. Transformation depends on converting strategic objectives into operational change – for example, co-locating services that need to work better together, opportunities to network across the local authority and third sector to share practice, share data and building strong referral routes.

Targeting (and increasing) funding

Significant budget cuts in local authorities have a knock-on effect on third sector capacity, with organisations not able to deliver the services they would want to and the ‘volunteer’ model of provision under extreme pressure.

Good quality advice takes time and is adequately funded. It is person-centred and offered in a range of formats to suit people's needs, including telephone support and face-to-face provision for more vulnerable people with more complex needs.

Challenging values and attitudes

There are also some barriers that need more 'transformative' change – to tackle the ideas that *'that's not my job'* or *'they are all chancers'*. Those working with people in debt say they come across 'judgemental' people working in the public sector.

Debt is still very stigmatising and awareness raising is important: to ensure that people in debt seek help at an early stage and to encourage those working with people in debt to understand vulnerability.

Enabling changing policy and practice

Changing practice has worked well where local authorities have joined up services, with active referral for early debt advice, more robust approaches to identifying and reaching out to more vulnerable clients, and flexible and innovative approaches. Re-structuring services can reduce physical barriers and enable the development of closer relationships between departments or across sectors in shared spaces.

There is now more openness to sharing best practice and learning and looking to others for examples. There have been innovative, person-centred approaches and the third sector in particular would like to see more of this. At the national level, school meal debt is held up as an example of innovation in cross-sector working but there is perceived to be less appetite for developments on other public sector debt.



The Robertson Trust
Robertson House
152 Bath Street
Glasgow
G2 4TB