

Report for: Cabinet, 9 February 2021

Title: **Ethical Debt Reduction policy**

Report authorised by : Andy Briggs, AD for Customer Services & Libraries

Lead Officer: Jean Taylor, Head of Policy

Ward(s) affected: All

**Report for Key/
Non Key Decision:** Key Decision

1. Describe the issue under consideration

- 1.1 This report sets out the Council's Ethical Debt Reduction Policy, our approach to debt owed to the council.
- 1.2 The policy sits within the Council's strategic work to support residents in new ways in light of the impact of Covid-19 and reduce inequality in the borough; deliver on our Borough Plan objectives; and, a recommendation from the Fairness Commission.

2. Cabinet Member Introduction

- 2.1 Local councils are in a unique position of being both a provider of support and a creditor.
- 2.2 Prior to 2013, councils were able to strike a balance between these two roles as our lowest income residents were entitled to Council Tax Benefits. However, the reforms of the 2010 – 2015 Coalition Government upset this balance and saw nearly 2 million low income residents forced to pay council tax regardless of their ability to pay.
- 2.3 We know many in our community are struggling with debt and as an administration, we will do what we can to support our lowest income families.
- 2.4 In May 2021, The Debt Respite Scheme legislation will come into force. This legislation will make it a legal requirement for creditors to give a 'breathing space' to those who are in arrears. Our policy both prepares us for this, ensures we are able to offer residents direct support and guidance, and ensures that we always act in an ethical, appropriate and compassionate way.

3. Recommendations

3.1. It is recommended that Cabinet:

- a) Approve the Ethical Debt Reduction Policy, at Appendix 1, which sets out the approach to debt owed to the Council.

4. Reasons for decision

- 4.1. Problematic debt profoundly impacts on both the day-to-day lives and long term life chances of residents struggling with it. It was a significant issue before Covid-19, but the impact of the pandemic has been to push many more of our residents into unmanageable and problem debt.
- 4.2 The case is clear that Haringey residents are facing increasing challenges to meet household financial pressures, and that more needs to be done to help local people to meet these challenges.
- 4.3 The Council has a legal and fiduciary duty to collect debt and raise funds for vital public services, while supporting residents and encouraging an open dialogue about debt and financial resilience. the Council wants all practice around debt collection to be ethical, meaning we will act appropriately, proportionally and with compassion.
- 4.4 This policy sets out the principles that will underpin the Council's ethical approach to reducing the debt it is owed. It should be read in conjunction with the wider Haringey Tackling Debt Strategy, which sets out the Council's proposed system wide approach to reducing debt and promoting financial security in the borough.

5. Alternative options considered

5.1 Do Nothing

The Council would not take steps to implement an Ethical Debt Reduction Policy. This would curtail the possibility of achieving our objective of reducing debt amongst Haringey residents. This may also have a negative consequence on the public purse, with high-levels of debt likely to lead to lower Council revenues and higher use of public services. It would mean that the Council would not implement Fairness Commission recommendation referenced at para 4.

5.2 Adopt an ethical debt reduction policy based on different principles and ways of working

The issues outlined in this paper might be addressed through a policy based on different principles and ways or working, but the proposed approach set out in this paper is based on evidence of what works and good practice from elsewhere.

6. Background information

- 6.1 Unmanageable or ‘problem’ debt is where people are unable to pay their debts or other household bills. Being in debt has a profound and long-lasting impact: it can, and does, ruin lives.
- 6.2 The issue of problem debt pre-existed Covid-19: in 2017, for example, over 4,000 Haringey residents were referred to the StepChange debt charity, with problematic debt including essential bills and council tax arrears.
- 6.3 We have already seen how the impacts of the pandemic have affected Haringey residents in the short term: they are reflected in the sharp rise in claims for Universal Credit and in the increase in the Borough’s unemployment rate; in requests for assistance with emergency food and fuel; and, in the increase in domestic abuse.
- 6.4 Levels of severe and very high debt amongst low-income households in the Borough have been increasing since the beginning of the COVID-19 crisis.
- The proportion of households in severe debt increased from 3.4% (1,306 households) as of November 2019 to 4.6% (1,762 households) in November 2020.
 - There are similar patterns for households in very high debt severity – with numbers increasing from 283 households to 349 in the same period.
 - In the latest data refresh Haringey’s data showed that there were 672 households identified as ‘in crisis’ and 4,312 households ‘at risk’ .
- 6.5 Financial and debt issues are among the top reasons residents contact the council’s Connected Communities support. Over the last two years around 20% contacted us to find out about financial and debt support, with a further 20% to find out about making a benefit claim. An additional 15% contacted us about employment.
- 6.8 Haringey residents are facing increasing challenges to meet household financial pressures, and that more needs to be done to help local people to meet these challenges.
- 6.9 Evidence shows that good debt collection practice both benefits individuals and boosts collection rates¹. This is reflected in the Council’s adoption of the this policy, which is underpinned by common best practice, including timely assessments of vulnerabilities, affordable repayment plans, and signposting or referring people to debt advice².

POLICY SUMMARY

- 6.10 Our Ethical Debt Reduction Policy sets out the Council’s approach to balancing its legal duty to collect debt and raise funds for vital public services, while supporting residents, encouraging an open dialogue about debt and financial resilience. It sets out our commitment to ensuring that all practice around debt collection is ethical, meaning we recognise the challenge and will act

¹ NAO (2018) Tackling Problem Debt

Accessed 16 December at: <https://www.nao.org.uk/wp-content/uploads/2018/09/Tackling-problem-debt-Summary.pdf>

² As above.

proportionality and with compassion, and the principles that will underpin the council's approach to doing this.

6.11 The policy should be read in conjunction with the wider Haringey Tackling Debt Strategy, which sets out our proposed system wide approach to reducing debt and promoting financial security in the borough.

6.12 The Council has listened to local and national organisations and, feedback from our residents and learnt from existing cases. That learning has informed the commitments in this policy, most importantly, we will:

- Review our Discretionary Housing Payments (DHP) delivery.
- Implement a pre-action process.
- Establish a Local Welfare Assistance Scheme and Fund.
- Cease the use of bailiffs for Council Tax for people on very low-income, vulnerable, or facing mental health concerns.

6.13 This policy also prepares the Council for the Debt Respite Scheme (Breathing Space Moratorium and Mental Health Crisis Moratorium) (England and Wales) Regulations 2020, which is expected to come into force in May 2021. This legislation will allow the Council to give someone with problematic debt the right to legal protections from creditor action to give them time to find advice and an appropriate debt solution.

6.14 In line with the approach taken by the Haringey Tackling Debt Strategy, the policy will also follow these four ('4S') principles:

- Support: including reforming our communications, benefits maximisation, a helpline for those struggling to pay, the introduction of a Local Welfare Assistance Scheme and Local Welfare Assistance Fund ('the Haringey Support Fund').
- Safeguarding: including ensuring that we recognise safeguarding risk as part of our collection process (our 'pre-action process').
- Triage: including implementing a triage system that enables us to identify vulnerable people, ceasing use of Bailiffs for Council Tax for vulnerable and low income people, and developing our collaboration across the system, particularly for complex cases.
- Systems: including reforming the way we use data to identify people in need, introducing an 'apply once' process for accessing council-led benefits and support, making tools available to residents to help with budgeting and income maximisation, preventing overpayment, and reviewing the support we provide via Discretionary Housing Payments and Council Tax Reductions.

6.15 This report seeks approval from Cabinet to implement this approach.

LINK TO WIDER CONTEXT

6.16 This report should be considered in conjunction with:

- the Cabinet report outlining our Haringey Strategy for Tackling Debt.

- the Cabinet report outlining our proposed approach to reintroducing a Local Welfare Assistance Scheme (LWAS) (The Haringey Support Fund). This scheme will play an important role in delivering our overall debt strategy by supporting residents faced with short-term financial shocks. This will support the prevent pillar of our debt strategy.

7. Contribution to strategic outcomes

- 7.1. The proposal to reduce debt supports our overall Council strategic objective to reduce inequality in the borough.
- 7.2. These proposals will also support the delivery of the following Haringey Borough Plan strategic outcomes and objectives:

Outcome 20: We will be a council that uses its resources in a sustainable way to prioritise the needs of the most vulnerable residents.

Objective 20d: We will use our resources to redistribute the financial burden on our residents [including by introducing an ethical debt charter].

- 7.3. The Haringey Fairness Commission also recommended in its 2019 report that the Council should introduce an ethical approach to debt and debt collection. Our Ethical Debt Reduction Policy will enable us to action this recommendation.
- 7.4. Finally, the Recovery and Renewal report which went to Cabinet in December 2020 sets out our commitment to supporting residents and communities in light of the impact of Covid-19. There are a range of levers that the council will employ to do this - taking action to address problematic debt is one of these.

8. Statutory Officers comments (Chief Finance Officer (including procurement), Assistant Director of Corporate Governance, Equalities)

8.1 Finance

Fees, charges and local taxation comprise the majority of income in the Council's annual revenue budget, which fund expenditure on the various services the Council provides to residents. This report sets out the Haringey ethical debt reduction policy.

The policy notes the creation of two additional posts which are funded via an improvement in the bad debt provision forecast to be required by the Council.

This report also notes the creation of a local welfare assistance scheme which has been allowed for within the Council's budget and Medium Term Financial Strategy.

Procurement

Strategic Procurement notes the contents of this report and confirms there are no procurement implications.

Legal

The Head of Legal and Governance (Monitoring Officer) has been consulted in the preparation of this report and comments as follows.

There is a statutory duty to recover local taxes such as Council Tax and Non Domestic Rates under the Local Government Finance Acts of 1988 and 1992. There is also fiduciary duty to Council Tax payers to recover fees and charges owed to the Council in order to balance the Council's budget and fund the provision of services.

The Council is able to agree and implement the Ethical Debt Reduction Policy. In implementing the policy, the Council's processes must comply with any relevant legislation, including the Debt Respite Scheme (Breathing Space Moratorium and Mental Health Crisis Moratorium) (England and Wales) Regulations 2020, when they come into force and any Pre-action processes including the Pre-action Process for Debt Claims in the County Court.

In sharing data between teams and for the "apply once" process, any data sharing must be in accordance with the General Data Protection Regulations (GDPR).

Equality

The Council has a Public Sector Equality Duty under the Equality Act (2010) to have due regard to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited under the Act
- Advance equality of opportunity between people who share protected characteristics and people who do not
- Foster good relations between people who share those characteristics and people who do not.

The three parts of the duty apply to the following protected characteristics: age, disability, gender reassignment, pregnancy/maternity, race, religion/faith, sex and sexual orientation. The first part of the duty applies to marriage and civil partnership status only.

The proposed decision is to approve the Council's Debt Reduction Policy. The objective of the proposed decision is to help relieve problem debt in the borough, which profoundly impacts both the day-to-day lives and long term life chances of residents struggling with it. The Debt Policy sets out the Council's approach to debt owed to the Council.

This will affect residents in Haringey with a low income across the Borough, among whom many with protected characteristics – including race and disability – are overrepresented.

This will lead to reduced debt for the groups as described above. It will help to address the disproportionate economic impact of Covid-19 on groups with protected characteristics.

The proposed decision therefore represents a measure to address a known economic inequality that disproportionately affects the groups described above, and advance equality of opportunity by meeting the needs of the groups described above.

The Council will take steps to collect demographic data on service users in order to identify any inequalities in service provision that may arise and to inform future equalities analysis.

9. Use of Appendices

Appendix 1 – Ethical Debt Reduction Policy.

10. Local Government (Access to Information) Act 1985

The evidence which underpins the Ethical Debt Reduction Policy is fully referenced in the main document (Appendix 1).