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Dear Convener

Thank you for your letter of 2 March. I am glad the Committee recognized that these regulations were introduced very much to help those facing difficulties due to the cost crisis.

I can of course confirm that we will keep these thresholds, and all those in the bankruptcy and diligence processes, under review on a regular basis. In this instance, the break with our normal three year cycle was justified by the rapid and unexpected rise in inflation and the resultant pressure on households budgets. I am sure we all hope to see inflation return to the levels to which we have become accustomed – but we will stand ready to take action if they do not.

In considering earnings arrestments, it is of course important to think not only about those who might have such arrestments imposed upon them, but also about those who use this diligence to enforce payments which are due. The Diligence Statistics make clear that the majority of earnings arrestments are sought by local authorities to pursue council tax debts – and from recent discussions with IRRV, it seems likely that earnings arrestments are the most effective tool local government has to collect council tax from non-payers.

30 Councils replied to a recent IRRV survey on the subject, reporting that together they collected some £27.5m of unpaid council tax from over 35,000 successful earnings arrestments in 2021-22 – or an average (mean) of around £800 per arrestment. As you know, deductions are made on a sliding scale – so that it would be wrong to assume that raising the minimum threshold to £1000 a month as suggested by Mr McIntosh would reduce collections per arrestment by £65 a month or £780 a year (that is, £1000 *minus* the new proposed threshold - £655.83 – *multiplied* by 0.19 as specified by Table B of the new regulations). The minimum payment under the new regulations is just £15 a month for those earning just over the lower threshold. We don't have the data to properly assess the impact of an increase of this level, which would require the details of each and every arrestment. But this oversimplified and potentially misleading calculation is enough to suggest that increasing the threshold too far would have a significant impact on local

government collection rates and ultimately bad debt write-offs. At this stage, therefore, I would not foresee the forthcoming Bankruptcy and Diligence Bill taking further action on this front.

The right way forward here seems to be to make sure that diligence is only undertaken against those who choose not to pay their debts – and that those in genuine financial difficulty get the support they need and are not subject to unnecessary action. It is of course not in creditors' interest to take action against those who simply cannot afford to pay – this is just increasing costs with no hope of any return. We are already considering what more can be done where people have problem debt to public bodies, but I would welcome the Committee's suggestions on what more we can do to embed a fairer collections approach across the public sector. I look forward to discussing this further with you during the passage of the Bill.

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