BY BETTER ADMINISTRATION,

Collection would be improved in some Councils, if they had:
- more accurate property records
- better records of personal liability
- better benefit take-up which varies by +/-5% for similar authorities.

AND GREATER EFFICIENCY.

Nationally, collection of Council Tax and NNDR costs £500 million per annum.

Savings are possible; Council Tax administrative costs vary from £7 to £30 per account.

Some IT costs are too high; high IT expenditure does not reduce other administrative costs.

IN ADDITION, COMMUNITY CHARGE ARREARS ARE STILL SUBSTANTIAL.

Nationally, arrears at 1 April 1994 were £1.77 billion; 60% are comprised of debts greater than £250.

Arrears are still worth chasing. During 1993/94 £600 million was collected and £80 million was written off. Collection is costing over £100 million per year.

THE NEXT STEPS

Councils should compare their performance with the benchmarks in this report, taking corrective action where necessary. At the end of 1994, the Commission will publish a management handbook and support local audits aimed at promoting best practice.
1. In 1993/94, English Councils set out to collect £9.3 billion of Council Tax. Of this, the Government paid £2 billion, through Council Tax Benefit and Transitional Relief, leaving £7.3 billion to be collected from taxpayers themselves. As at March 31, 1994, Councils had collected 93 per cent of this amount. In Wales, Councils collected 94 per cent of the £270 million due from taxpayers. Overall, this performance was in line with budgeted expectations, although the position of individual authorities varied widely. Collection rates were higher than for Community Charge.

2. Performance in the collection of National Non-Domestic Rates (NNDR) was similar. By the 31 March 1994, English local authorities had collected 95 per cent of the £9.9 billion non-domestic rates that were due for 1993/94. Welsh authorities collected £387 million.

3. Substantial work on Community Charge is still required. During 1993/94 Councils collected £600 million but £1.77 billion is still outstanding. The pace of collection is slowing and further substantial write-offs will be necessary.

4. Council Tax has succeeded in restoring the credibility of local taxation and most Councils have cause for celebration. At the end of the first year, 75 per cent of Councils had collected at least 93 per cent of the money due from taxpayers. But while collection levels are generally acceptable, some Councils have significant problems. Fifty-two authorities had collected less than 90 per cent of the monies due from taxpayers (Table 1). Although all twelve Inner London Boroughs are in this group, poor performance is to be found in all types of Council, including some rural areas. It is sometimes argued that social deprivation inhibits collection, but the statistics suggest otherwise. Councils in areas of equal deprivation can have very different collection rates. There is, at best, only a weak link between an authority's collection rate and the extent of an area's deprivation, as measured by the Department of the Environment's (DoE's) index of local conditions (Exhibit 1). This is hardly surprising, because the incidence of Council Tax Benefit is higher in areas of economic deprivation.

Table 1
COUNCIL TAX COLLECTION RATES 1993/94

<table>
<thead>
<tr>
<th>No. of authorities</th>
<th>Local authority collection rates</th>
<th>Overall collection rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No. of authorities with collection rates below 90%</td>
<td>Lower quartile*** %</td>
</tr>
<tr>
<td>Inner London*</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>Outer London</td>
<td>20</td>
<td>6</td>
</tr>
<tr>
<td>Metropolitan and ‘big 9’ districts**</td>
<td>45</td>
<td>12</td>
</tr>
<tr>
<td>Other English shire districts*</td>
<td>287</td>
<td>19</td>
</tr>
<tr>
<td>All English local authorities*</td>
<td>364</td>
<td>49</td>
</tr>
<tr>
<td>Welsh authorities</td>
<td>37</td>
<td>3</td>
</tr>
</tbody>
</table>

* Excludes City of London and Isles of Solly.
** Big 9: Bristol, Derby, Hull, Leicester, Nottingham, Plymouth, Portsmouth, Southampton, Stoke.
*** A quartile is the dividing line between the lowest (or highest) quarter of values and the rest.

1 This was the first year that Government has issued information on NNDR collection rates against the sum due. Therefore, no comparisons with previous years are possible.
2 The Welsh Office has not calculated a comparable index and so some analyses have had to be confined to English data.

Now. The Good News
The First Year of Council Tax
5. Where collection levels are poor, the history of the Community Charge, poor management, and low expectations on the part of the Council are likely to have had a strong influence. Councils in difficulty should compare their performance with others, raise their expectations and enthuse their management. Problems to be addressed include:

H Poor benefit take-up: Councils should encourage people to claim their benefit entitlement, so that payees are not pressed for money which they should not pay and cannot easily afford;

H Delays in processing benefit applications: Government has advised Councils to delay action on 'arrears' if a bona-fide claim for benefit is outstanding. So, Councils should avoid backlogs as 'unpaid Tax' will appear as arrears until benefit has been awarded;

H Poor record keeping: Good records will ensure that unpaid money relates only to property, the address of which is correctly recorded. Similarly, the Council should have up-to-date records of occupiers so that it is not billing and chasing arrears from people who have moved some time ago;

H Slow administration: Quick billing and rapid enforcement action will improve cash flow and make it easier to trace debtors;

H Poor computer systems: Most computer systems have worked well but a few authorities have suffered because their first choice of software supplier withdrew from the market. A minority of users of in-house systems also had problems. Councils need to assess whether they suffer any of these problems. The following paragraphs provide further diagnostic information against which local comparisons can be made.

BENEFIT TAKE-UP

6. If taxpayers receive the benefit to which they are entitled, they will be better able to maintain their payments and the Council's collection record should improve. But the performance of authorities in encouraging the take-up of benefits cannot be judged by a simple statistic since take-up is affected by local circumstances. More deprived areas should have a higher level of take-up than prosperous areas. But at each level of deprivation, as measured by the DoE's index of local conditions, there is significant variation indicating that some Councils are more effective than others in facilitating benefit take-up (Exhibit 2, overleaf). Relatively poor performance should trigger local investigation of potential measures to improve take-up.

7. One of the causes of poor take-up is the time taken by some authorities to process benefit claims. Councils ought to exceed the performance achieved under the Community Charge, when only 71 per cent of claims were processed within 14 days. The Commission is monitoring current performance through a Citizen's Charter

3 DoE/Welsh Office Council Tax Practice Note No. 9.
4 There is a similar link between the take-up of benefit in Wales and the Welsh index of socio-economic conditions.
Exhibit 2
THE TAKE-UP OF COUNCIL TAX BENEFIT
In England, even for like authorities, take-up varies by +/–5%.

Source: Audit Commission analysis of DoE data; position as at year end; tax due is net of Transitional Relief

indicator. Poor benefit take-up may also be symptomatic of poor record keeping - another cause of poor collection rates. People will not claim benefit where bills have been incorrectly addressed.

RECORD QUALITY

8. If a Council has poor records of property and liable occupants, collection rates will be affected. The level of arrears depends more on the number who have paid nothing than those who have paid inadequate sums (Exhibit 3). There are two groups of accounts where nothing has been paid:

H Those where people have moved recently: Some non-payment from recent occupiers is inevitable. Councils will not have had time to establish liability, issue bills and take recovery action. As a result, Councils have yet to summons people for one-third of accounts where nothing has been paid. On average, this group owed about £150 per tax-payer - under 50 per cent of an average tax bill in England;

H Properties with a full year's liability: The other two-thirds have been summonsed and owe close to the average Council Tax bill in England – £290 compared to the national average of £315. This implies that virtually the full year's tax is due and yet nothing has so far been paid. Often the cause is poor records rather than refusal to pay.

9. It can take about six months from the date when an instalment is first missed, to the point where bailiffs either execute a liability order or are unsuccessful and return it to the authority. In 1993/94, statutory reminders were sent to one third of taxpayers; 28 per cent of these were subsequently summonsed and in 70 per cent of these cases a liability order was obtained; i.e. seven per cent of taxpayers received liability orders compared to 17 per cent under Community Charge. Early in the process, Councils should confirm that the property is correctly described and the debtor is resident. Leaving such checks until the committal stage - when a taxpayer must appear in court - is wasteful. So, it is inadvisable for authorities to pass all liability orders routinely to bailiffs. Even when

Now. The Good News
The First Year of Council Tax

6 After discounts, Transitional Relief and partial benefit and allowing for turnover of liable persons.
bailiffs are employed, problems of incorrect records may not be identified because the bailiff may just report that recovery was not possible. Consequently Councils with poor records may expend considerable energy pursuing ‘ghost’ payments and may be relying on ineffective checks to improve these records.

10. In addressing this problem, Councils should take particular action on accounts where nothing has been paid since Council Tax began. Councils should check if payments were made in previous years and cross-check with other records - the telephone directory, electoral roll, rent allowances, council house tenancy records and the valuation list. If these records do not agree with the Council Tax records, they should make further enquiries, including personal visits. But many Councils will first need to solve an even more pressing problem. Only 40 per cent of Councils in the Commission’s survey were able readily to identify the number of accounts where nothing had been paid. Such Councils need to develop management information from their available operational data.

QUALITY OF ADMINISTRATION

11. Late billing, correspondence backlogs and delays in enforcement procedures all affect collection rates. In the second year of the tax, a half of authorities still issued their demand notices too late to use 1st April as the first instalment date. Although there is some improvement – about a half of authorities had an earlier first instalment date in the second year than the first - many authorities are losing valuable interest on income as a result of delay.

INFORMATION TECHNOLOGY

12. A critical ingredient of good Council Tax collection is effective Information Technology. Council Tax was the third local taxation system to be introduced in as many years. Nonetheless, all authorities had computer systems which issued demand notices on time. In a few instances, recovery has been hampered by computing deficiencies. In such cases, there has either been a failure of in-house systems or the initial supplier withdrew from the market and the authority was slow in implementing a replacement. Most Councils now have competent systems but need to concentrate on obtaining better information from them:

Many Councils do not use payment history to inform their recovery process. Frequent late payers require firmer action than people who have never before missed a payment.

Intelligent use of available systems can remedy these problems.

VALUATION APPEALS

13. In addition to these problems, collection may be affected by the work of the Valuation Office, over which Councils have little influence. About one million households have appealed to the Valuation Office (VO) for a revision to their banding. Nationally, 55 per cent of these cases still have to be settled – 2.5 per cent of all properties. While the occupants are obliged to pay the original sum billed, pending the appeal's outcome, some appellants may be delaying payment. Councils should still pursue arrears while an appeal is outstanding. However, Councils cannot bill occupants of newly built properties until the VO has banded them.

Table 2

<table>
<thead>
<tr>
<th>NNDR COLLECTION FOR 1993/94</th>
<th>No. of authorities</th>
<th>% of national collection</th>
<th>Average collected per authority (£m)</th>
<th>Overall collection rate %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inner London*</td>
<td>13</td>
<td>21.8</td>
<td>163</td>
<td>95.3</td>
</tr>
<tr>
<td>Outer London</td>
<td>20</td>
<td>9.3</td>
<td>45</td>
<td>92.6</td>
</tr>
<tr>
<td>Metropolitan and ‘big 9’ districts</td>
<td>45</td>
<td>19.6</td>
<td>42</td>
<td>95.5</td>
</tr>
<tr>
<td>Other English shire districts**</td>
<td>288</td>
<td>45.2</td>
<td>15</td>
<td>93.4</td>
</tr>
<tr>
<td>Welsh authorities</td>
<td>37</td>
<td>4.1</td>
<td>10</td>
<td>***</td>
</tr>
</tbody>
</table>

* Includes the City of London
** Includes the Isles of Scilly
*** Data not available

Source: Audit Commission analysis of DoE and Welsh Office data

Now, The Good News
The First Year of Council Tax
with the largest debts are slowest at arrears recovery (Exhibit 6). Councils should target their effort on larger debts. Over 60 per cent of arrears are comprised of debts of £250 or more. Councils should link their five years of Council Tax and Community Charge recovery records so as to coordinate collection of arrears.

**COST OF COLLECTION**

17. The costs of collection should not be excessive in comparison to the yield. Council Tax and NNDR collection and the pursuit of Community Charge arrears involves a gross expenditure of about £700 million a year - more than refuse collection. Any efficiency savings
that can be achieved, without detriment to collection rates, will be of significant benefit. Administrative costs were expected to be high in the first year of the Council Tax, if only because of the overhang from Community Charge, but should be reviewed.

18. Many authorities are unable to separate out the costs of collecting Council Tax, NNDR, and Community Charge arrears. Where they can, staffing is the major cost of Council Tax collection, but IT and accommodation charges are also significant. All cost elements show considerable variation (Exhibit 7). Higher collection costs do not lead to high collection levels (Exhibit 8, overleaf); nor do high IT costs. There is no evidence to support the assertion that higher expenditure on IT improves collection rates or facilitates a reduction in total administrative cost (Exhibit 9, overleaf). Authorities with high IT costs should reexamine their systems.

19. Collection rates can be improved – and administrative costs reduced - if more use is made of Direct Debit. Plainly, the number of people having steady bank accounts which are suited to this method of payment varies from authority to authority. But many Councils can improve the take-up of this payment method, regardless of the social conditions in the authority. Even for the same level of deprivation, the proportion of accounts paid by this method varies by +/- 10 per cent (Exhibit 10, overleaf).

* * *

Exhibit 6
COMMUNITY CHARGE ARREARS
Authorities with the largest debts are slowest at recovery

Exhibit 7
COUNCIL TAX: COST OF COLLECTION
All cost elements show considerable variation

Source: Audit Commission analysis of survey data

Now, The Good News
The First Year of Council Tax
The results of the first year demonstrated much of the variation in collection rates and administrative costs is due to the management of revenues collection by the local authorities themselves rather than to external circumstances. The Commission is undertaking a special study of local authority revenues. It will be publishing a management handbook at the end of 1994 and its appointed auditors will be examining local performance during 1995. By this time the initial teething problems of the new tax's introduction will have settled down and comparisons of administrative costs and collection rates in the second year will be particularly informative.

21. In the meantime, no Council should be complacent about its performance. Many have poor collection levels; others have excessive collection costs; some have both. Every Council should answer a number of key questions, using the results from the first year's collection (Box A). Their answers will help to determine a local programme of corrective action. Performance should also be compared against the Action Plan which appeared in the Commission's first bulletin 7 (reproduced in Box B, overleaf).
Box A
LOCAL REVENUES: KEY QUESTIONS

COUNCIL TAX
1. Was at least 95% of the money due from taxpayers in 1993/94 collected by the year-end?
2. Is the value of benefit awarded as a percentage of the tax due less than might be expected given the area’s circumstances i.e. is it less than:
   \[ 18.6\% + (0.3 \times \text{index of local conditions}) \% \]
   e.g. if index of local conditions = -20
   then benefit awarded should be at least
   \[ 18.6\% + (0.3 \times -20)\% \]
   \[ = 18.6\% - 6\% = 12.6\% \]
3. Is benefit take-up low? If so, check for:
   - measures to encourage take-up
   - speed of processing compared to the statutory 14-day target
   - backlogs of correspondence.
4. What proportion of taxpayers have paid nothing? Does the Council know the statistic? Are liability orders on such accounts automatically sent to bailiffs?
   Good practice is first to check against other records.
5. Are summonses issued within 4-8 weeks of a missed payment? Are liability orders obtained within 6-12 weeks of a missed payment?
6. Is the IT system capable of analysing arrears to determine the most appropriate recovery action?

NNDR
1. Was at least 95% collected in 1993/94?

COMMUNITY CHARGE
1. What percentage of the liability outstanding at the start of 1993/94 was recovered during the year?
2. If less than 30%, what plans has the authority for targeting action against larger debts and for further write-offs?

COST OF COLLECTION
1. Is the gross annual administrative expenditure less than £15 per account?
2. Is annual IT expenditure less than £4 per account?
3. Is the Direct Debit take-up more than:
   \[ 27\% - (0.44 \times \text{index of local conditions}) \% \]

As well as national data, collected by the Department of the Environment, the Welsh Office and the Valuation Office Agency, this Bulletin draws upon a questionnaire completed at the end of March 1994 by 65 local authorities and upon field work with local authorities. The Commission is grateful to all who have helped but, as with all its reports, responsibility for the conclusions and recommendations lies with the Commission.

---

8 Applies to English authorities only. Councils will need to obtain their index by reference to the ‘Index of Local Conditions’, DoE, May 1994.
<table>
<thead>
<tr>
<th>Stage</th>
<th>Action</th>
<th>Timetable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Calculating the tax-base, establishing liability and ensuring records remain up to date</td>
<td>Take ‘reasonable steps’ to identify exempt properties and award discounts before issuing Demand Notices for 1994/95. Review records to identify people whose circumstances may have changed, including people who may now be entitled to discounts; contact people who currently receive discounts if the authority has no up-to-date information about them.</td>
<td>Complete before the tax is set for 1994/95, i.e. by the end of February 1994.</td>
</tr>
<tr>
<td>Setting tax levels</td>
<td>Compare actual collection rates for 1993/94 with those assumed when setting the tax.</td>
<td>Do so before setting Council Tax levels for 1994/95. Comply with statutory requirements and set the Council Tax between March 1 and March 10; reschedule council meetings if necessary.</td>
</tr>
<tr>
<td>Payment frequency</td>
<td>Encourage people to make annual lump sum payments, six-monthly payments or other early payments. If incentives are offered for early payment, ensure that their cost does not outweigh their advantages.</td>
<td>Decide on any incentives before setting Council Tax levels. Publicise arrangements when sending bills.</td>
</tr>
<tr>
<td>Awarding CTB</td>
<td>Clear any backlogs.</td>
<td>Clear outstanding backlogs as quickly as possible and certainly before bills are issued for 1994/95. As required by Regulations, invite repeat claims from people already receiving CTB, when their current periods of entitlement end. Process claims within 14 days, as required by regulations. Publicise CTB, including Second Adult Rebate, when issuing bills, reminders, etc.</td>
</tr>
<tr>
<td>Issuing Demand Notices</td>
<td>Encourage take up of CTB.</td>
<td>Issue bills by March 17.</td>
</tr>
<tr>
<td>Collection</td>
<td>Maximise cash flow by billing early and setting the earliest feasible dates for payment of first instalments. Consider staggering despatch to ensure that post rooms, enquiry staff, etc. are not overloaded.</td>
<td>Publicise when issuing bills and reminders.</td>
</tr>
<tr>
<td>Enforcement</td>
<td>Promote cashless methods of payment such as Direct Debit (but also provide methods which can be used readily by people who do not have bank or building society accounts).</td>
<td></td>
</tr>
<tr>
<td>Backlogs</td>
<td>Encourage people to make annual lump sum payments, six-monthly payments or other early payments. If incentives are offered for early payment, ensure that their cost does not outweigh their advantages.</td>
<td></td>
</tr>
<tr>
<td>Staffing</td>
<td>Take prompt action when arrears appear.</td>
<td>Send reminders one week after an instalment is missed.</td>
</tr>
<tr>
<td>Management information</td>
<td>Clear any backlogs of Council Tax correspondence.</td>
<td>Ensure this is done before bills are issued for 1994/95.</td>
</tr>
<tr>
<td>Monitoring and assessing levels as systems settle down, to ensure that arrangements are cost effective.</td>
<td>On-going.</td>
<td></td>
</tr>
<tr>
<td>Other taxes</td>
<td>Improve management information systems to monitor performance properly.</td>
<td>Begin review now; wherever feasible, introduce changes before the start of 1994/95.</td>
</tr>
<tr>
<td>Community Charge</td>
<td>Continue to pursue arrears wherever practicable and economic to do so. Ensure adequate provision for irrecoverable debts, and for any associated repayments of grant to Central Government.</td>
<td>On-going. When setting budgets and Council Tax levels for 1994/95.</td>
</tr>
<tr>
<td>NNDR</td>
<td>Maximise cash flow by billing early and setting the earliest feasible dates for payment of first instalments. Send reminder notices as soon as instalments are missed. Avoid delays in recovery when reminders are ignored.</td>
<td>Issue bills by March 17. Send reminders one week after an instalment is missed.</td>
</tr>
</tbody>
</table>