EACH COUNCIL SHOULD REVIEW ITS PERFORMANCE

H How much cash is in?
H How effectively is it chasing the rest?
H Does it have all the management information it needs?

AND DECIDE HOW TO IMPROVE NEXT YEAR
H Can it make its records more accurate?
H Can it issue accurate bills by 17 March or earlier?
H How will it clear any backlogs?

AND FOLLOW AN ACTION PLAN (See Page 6)
MAXIMISING NET CASH FLOW

6. Councils must establish the correct tax base, collect as much as possible of the money due, get money in quickly and obtain maximum cost effectiveness in collection.

7. This Bulletin does not cover the cost effectiveness of collection. It is too soon to draw lessons, as the Council Tax is still in its first year; in addition, collecting outstanding Community Charge still affects workloads. The Commission will address this issue in subsequent publications.

THE COLLECTION PROCESS

8. The collection process has nine interdependent stages that are repeated year after year, except for the setting up of a property data-base (Exhibit 1). Performance at each stage largely depends on the previous stage and has an impact on the stages which follow. The sooner each stage is tackled, the better will be the results.

Exhibit 1
THE COLLECTION PROCESS
There are nine interdependent stages

ESTABLISHING LIABILITY

9. In many cases, Community Charge Registers have been used to help identify who is liable for the Council Tax, to identify dwellings which are exempt and to award discounts. So errors in Community Charge records can infect the Council Tax. Authorities must take
'reasonable steps' to identify exempt properties and to award discounts before issuing bills for 1994/95. The action taken will depend on local circumstances, such as the extent to which Community Charge records were used in 1993/94 and the mobility of the local population. But, at a minimum, authorities should normally contact people currently receiving discounts and should identify people whose circumstances have changed and who may now be entitled to discounts - for example, by comparing Council Tax records with other sources such as the Electoral Register.

SETTING TAX LEVELS

10. Most authorities expect Council Tax to be easier to collect than Community Charge. About 40% of councils have estimated collection rates of 98% or more when setting tax levels for 1993/94; few have estimated collection rates of under 95%. These figures are generally higher than those estimated for 1992/93, even though many authorities did not achieve their budgeted Community Charge collection rates in that year. All councils should review their 1993/94 collection rates before setting Council Tax levels for 1994/95.

11. Before setting the tax they should also make adequate provision for irrecoverable Community Charge. Over £2 billion of Community Charge has not yet been collected. Authorities have made bad debt provision to cover £1.6 billion of these arrears. The final sanction, when people do not pay, is to seek committal to prison; though committal may have a deterrent effect, the number of debtors is so large that committal is not always realistic.

12. Government provided a £140 per head grant in 1991/92 to reduce Community Charge. Authorities have to refund grant when they write off debts from that year. If the Community Charge for 1991/92, collected by the end of March 1994, is below the sum originally budgeted for collection, authorities will have to refund grant even if they expect eventually to recover some of the remaining arrears. Some English authorities will have to make significant refunds. Council Tax levels should take account of this.

DECIDING PAYMENT FREQUENCIES

13. To help improve cash flow, councils should encourage more people to pay their Council Tax in an early lump sum, rather than via the monthly scheme. Few councils offer incentives, to encourage early lump-sum payment. Reductions in the amount due of above 2% are likely to outweigh the cash flow advantages of early payment; administration costs, and any savings on the costs of collection, should be considered when deciding whether to offer reductions. However, if councils achieve high levels of early lump-sum payments they must not be complacent. Evidence suggests that this does not necessarily improve overall collection levels (Exhibit 2); some authorities with high lump-sum take up have performed less well in collecting from other people.

Exhibit 2
HOW COLLECTION RATES VARY WITH USE OF ANNUAL OR SIX-MONTHLY PAYMENTS
High take-up of annual and six-monthly payments does not necessarily improve overall collection levels

ADMINISTERING TRANSITIONAL REDUCTIONS AND COUNCIL TAX BENEFIT

14. Transitional Reductions will continue, in England, until at least the end of 1994/95. There are no Transitional Reductions in Wales. The calculation involves comparisons of Community Charge and Council Tax liabilities for the same address. Here too, errors in Community Charge records can infect the Council Tax.

15. Authorities should encourage the take-up of Council Tax Benefit to help alleviate poverty and reduce the need to spend money chasing unpaid tax. Typically authorities have made awards to about 20% of their tax-payers but, in some areas, more than 33% of taxpayers qualify. The Government expected Second Adult Rebate to make up about 2% of benefit awards. Take-up has been less, ranging from 2% to less than 0.1% of the number of benefit cases in different authorities.
16. Backlogs of CCB claims were a serious problem in Community Charge administration. The problem has not gone away and CTB backlogs are high in some authorities. At the end of July, one authority had a backlog of nearly thirty thousand claims. Two others had backlogs of over ten thousand each. Regulations set a target for clearing claims within 14 days; most of the authorities surveyed by the Commission expected to take far longer to clear their outstanding claims.

ISSUING DEMAND NOTICES AND SETTING PAYMENT DATES

17. To maximise cash flow, authorities must send annual bills by 17 March, so that first instalments become due on the earliest date permitted by Regulations, 1 April. Less than a quarter of authorities in the Commission's sample achieved this in 1993/94 (Exhibit 3). Councils may, however, need to stagger the issue to avoid overloading post rooms, switchboards and enquiry desks.

Exhibit 3
WHEN AUTHORITIES BEGAN TO ISSUE BILLS
Under a quarter of authorities issued bills by March 17th

18. Many councils are collecting Council Tax quicker than Community Charge; for example, by 30 September 1993 English authorities had collected 54% of budgeted Council Tax, against 50% of budgeted Community Charge by the same date in 1992. The real improvement is greater, as most councils budgeted to collect more of the total Council Tax demanded than of Community Charge. Welsh authorities had collected 58% of budgeted Council Tax by the end of September.

19. But there is room for improvement. By the end of September 1993, some councils had collected up to twice as much as others (Exhibit 4). One metropolitan district already had arrears of over £10 million. In a few authorities, over a third of tax payers were in arrears and over a fifth had yet to make their first payment. Nationally, over a million people had not begun to pay.

Exhibit 4
COUNCIL TAX COLLECTION RATES (AT 30/9/93)
Some councils have collected up to twice as much as others

20. The prosperity of an authority's residents influences its collection rate. But this should not be used to justify poor performance. Some authorities in deprived areas have better collection rates than others in wealthier areas (Exhibit 5).

Exhibit 5
COLLECTION RATES (AT 30/9/93) AND DEPRIVATION
Some authorities perform better than other councils in wealthier areas

Source: Audit Commission analysis of survey and DOE data. Authorities above the linear regression line are doing better than expected, those below worse. The Z-score is a measure of relative deprivation based upon six other indices
21. Many authorities promote cashless payment, especially Direct Debit, as this reduces collection costs. Use of Direct Debit and of Standing Orders is highest in more prosperous areas but the percentage of tax payers using these methods differs even for authorities with similar levels of deprivation. Some authorities could do more to encourage cashless payment.

ENFORCEMENT

22. Prompt action is necessary in tackling arrears. For example, collection levels usually increase immediately after reminder notices are sent. But most councils surveyed by the Commission delayed issuing reminders until some instalments were more than a month late; a few delayed by over two months (Exhibit 6). Two authorities had sent no reminders at all by the end of September 1993. Metropolitan and highly urbanised authorities in the Commission's sample tended to act more quickly than other types of authority. Difficulties with computer software have sometimes contributed to delays.

Exhibit 6
ISSUING REMINDER NOTICES
Most councils delayed issuing reminders until some instalments were over a month late

Delay in issuing reminders (days) once first instalments had been overdue for a week

Source: Audit Commission survey

23. Authorities should not be precipitate and should give people the opportunity to pay their arrears, but court action will sometimes be necessary. Here too there have been delays. Some authorities had not applied for any summonses by the end of September; others did not begin court action until more than two months after they could have done so.

IMPROVING ADMINISTRATION

24. Councils must also deal with backlogs in Council Tax correspondence. About 60% of authorities expected to take more than two weeks to clear correspondence received by the end of July; almost 10% estimated that they would take over two months. Some councils need to improve weak management information and accounting systems. For example, some have been unable to identify the number of tax payers who had made no payments by a particular date. Others could not provide more fundamental information such as the total debit, or the amount of CTB credited to taxpayers' accounts.

ACTION PLAN

25. Just because councils are doing better than they did with Community Charge collection, they should not assume they are doing well. The Action Plan overleaf sets out ways in which councils should tackle major issues. The Annex beginning on page 7 contains questions and data which will help focus reviews.

WHAT OTHERS CAN DO

26. Others can help. The Valuation Office and Valuation Tribunals should clear appeals as quickly as possible. The Valuation Office should also deal speedily with new bandings. Government should consider whether asking authorities to repay the £140 grant will reduce authorities' commitment to recovering Community Charge arrears.

This Bulletin draws upon information collected as part of a continuing Audit Commission study into Value for Money in authorities' collection of local taxes, including:
- analyses of data collected by the Department of the Environment and the Welsh Office, by the Chartered Institute of Public Finance and Accountancy (CIPFA) and by the Valuation Office;
- a questionnaire completed, at the end of July 1993, by 58 authorities, and a second questionnaire completed, at the end of September 1993, by 55 authorities. A smaller than expected proportion of responses was received from London authorities. This may distort the analyses for London;
- visits made to twelve local authorities.

Further publications will be issued as the study continues.
<table>
<thead>
<tr>
<th>Stage</th>
<th>Action</th>
<th>Timetable</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Calculating the tax-base, establishing liability and ensuring records remain up to date</strong></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 those 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><strong>Setting tax levels</strong></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.</td>
</tr>
<tr>
<td><strong>Payment frequency</strong></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.</td>
</tr>
<tr>
<td><strong>Awarding CTB</strong></td>
<td>Clear any backlogs.</td>
<td>Clear outstanding backlogs as quickly as possible and certainly before bills are issued for 1994/95.</td>
</tr>
<tr>
<td></td>
<td>Encourage take up of CTB.</td>
<td>As required by Regulations, invite repeat claims from people already receiving CTB, when their current periods of entitlement end.</td>
</tr>
<tr>
<td><strong>Issuing Demand Notices</strong></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>Issue bills by March 17.</td>
</tr>
<tr>
<td><strong>Collection</strong></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>Publicise when issuing bills and reminders.</td>
</tr>
<tr>
<td><strong>Enforcement</strong></td>
<td>Take prompt action when arrears appear.</td>
<td>Send reminders one week after an instalment is missed.</td>
</tr>
<tr>
<td><strong>Backlogs</strong></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><strong>Staffing</strong></td>
<td>Monitor performance and staffing levels as systems settle down, to ensure that arrangements are cost effective.</td>
<td>On-going.</td>
</tr>
<tr>
<td><strong>Management information</strong></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><strong>Other taxes</strong></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.</td>
</tr>
<tr>
<td><strong>Community Charge</strong></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.</td>
</tr>
<tr>
<td><strong>NNDR</strong></td>
<td></td>
<td>Send reminders one week after an instalment is missed.</td>
</tr>
</tbody>
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ANNEX

1. DISCOUNTS
H Have you awarded a significantly high/low level of discounts?
H How did you identify taxpayers who were entitled to discounts?
H How does the number of awards compare with the level assumed when setting the Council Tax?
H How will you identify people who are entitled to discounts before issuing 1994/95 Demand Notices?

DISCOUNTS AWARDED (25% and 50%) AS A % OF NON-EXEMPT DWELLINGS*

2. EXEMPTIONS
H Is there a significantly high/low number of exempt dwellings? How did you verify claims for, and award, exemptions?
H What arrangements have you made to verify future applications for exemptions? Do these arrangements depend on the exemption class?

EXEMPT DWELLINGS AS A % OF ALL DWELLINGS ON THE VALUATION LIST*

3. DISABLED REDUCTIONS
H Have you awarded a significantly high/low level of disabled reductions? What evidence did you require before granting such reductions?
H Do you need to reconsider your arrangements for publicising and awarding disabled reductions?

NO. OF DISABLED REDUCTIONS AS A % OF NON EXEMPT DWELLINGS IN BANDS B to H*

4. TURNOVER
H Has there been a high turnover of exemptions and discounts and many changes in liability? Is there a backlog?
H How will you improve your taxbase and amend your records before you issue 1994/95 Demand Notices?

TURNOVER - CHANGES IN LIABILITY, DISCOUNTS & EXEMPTIONS (BY 31/7/93)

Source: Audit Commission analysis of survey data

* Source: Audit Commission analysis of form CTB1 (June 1993) (English authorities) and form CT 1A (1993/94) (Welsh authorities)

The Sooner the Better: Progress Report on the Council Tax
5. COUNCIL TAX BENEFIT

Do you have a backlog of CTB claims? Since your initial award of CTB, how many changes have you had to make?

Is your level of CTB low? Are you doing enough to encourage take-up?

Do CTB problems affect your pursuit of arrears?

THE BACKLOG OF UNPROCESSED CLAIMS FOR CTB AS A % OF THE NUMBER OF BILLS ISSUED

Source: Audit Commission analysis of survey data. The analysis compares the backlog on 31/7/93 with the number of Demand Notices issued during initial billing

6. COUNCIL TAX - ARREARS

How many taxpayers have not made any payments to date? Have you identified them? Have you sent them reminders?

Will you need to target them for earlier recovery action next year?

6. COUNCIL TAX - ARREARS

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First published 1993

£6.00 net