



Council tax collection

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The Accounts Commission is a statutory, independent body which, through the audit process, assists local authorities and the health service in Scotland to achieve the highest standards of financial stewardship and the economic, efficient and effective use of their resources.

The Commission has five main responsibilities:

- securing the statutory external audit
- following up issues of concern identified through the audit to ensure satisfactory resolutions
- reviewing the management arrangements which audited bodies have in place to achieve value for money
- carrying out national value for money studies to improve economy, efficiency and effectiveness in the NHS and local government
- issuing an annual direction to local authorities setting out the range of performance information which they have to publish.

The Commission secures the audit of 32 councils, 36 joint boards (including police and fire services), 15 health boards, 47 NHS trusts and five other NHS bodies. In total, these organisations spend public funds worth around £12 billion a year.

Preface

The Accounts Commission for Scotland has undertaken this study to encourage authorities in Scotland to consider potential improvements in the collection and administration of council tax.

Council tax was introduced in April 1993, replacing the community charge, more commonly known as the 'poll tax'. Non-payment of the poll tax had reached high levels. The new tax has been seen as a fairer system of local taxation. This report relates principally to the collection of council tax but it also looks at authorities' responsibility for collecting non-domestic rates.

Before local government reorganisation in April 1996, council tax was collected by the regional councils on behalf of themselves and the district councils. Since April 1996, each council has been responsible for the collection of its own local taxes. This report looks at the new councils' first year of operation. Many councils were required to set up systems quickly to deal with the billing and collection of taxes. Integrating staff into the new councils, acquiring information technology resources, and accommodation problems proved to be the main challenges for managers.

The report is directed principally at council members, and managers within the finance service responsible for council tax collection. It will also appeal to a broader audience interested in local government finance.

In addition to this report, individual audit reports have gone to most councils, identifying their own performance relative to others and setting out action plans to help implement change. Every year, the Commission publishes comparative information on the performance of councils, and this year information on council tax collection will be included.

This report's findings are taken from local value for money audits conducted in all Scottish local authorities in 1997, supported by analysis of data from The Scottish Office and additional fieldwork in a small number of councils to investigate and discuss particular issues. The Commission would like to express its thanks to the councils which assisted in the fieldwork element of the study. We would also like to express appreciation of the support from the CoSLA Revenue Practices Group, which provided valuable advice during the course of the work, and from the Audit Commission, which provided material from its study in England and Wales. The Accounts Commission, however, retains sole responsibility for the findings and recommendations in this report.

The study was managed by Jim Lakie under the general direction of Steve Evans, Director of Value for Money Studies (Local Government). Craig McKinlay undertook the data analysis, and Lesley Bloomer helped with the final stages of the study. Ernst & Young were engaged to prepare an audit guide in the early stages of the study. Comments on this report should be directed, in the first instance, to Jim Lakie, on 0131 477 1234.

Summary

Council tax was introduced in April 1993. It is a tax levied on chargeable dwellings, with bills reflecting the value of each dwelling, and the number and status of people resident in the dwelling.

Councils in Scotland vary in both their collection levels and their costs of collection. This report looks at the variation, the factors affecting it, and at examples of good practice which can increase collection levels and reduce costs of collection.

The Best Value regime that is being introduced is intended to encourage councils to achieve continuous improvement. It requires monitoring progress over time and comparing performance with other authorities. This report is very much in the spirit of Best Value and encourages councils to aim for improvements over time.

Collection levels matter. If more money is collected than budgeted for then there is money available for spending on services or for transfer to reserves. If the improvement can be sustained in future years, a council can reduce the level of bills - more people will be paying so the average council tax bill can fall, while the authority will still raise the required amount.

In 1996/97, Scottish councils collected, on average, 87% of the council tax due that year (net of council tax benefit), with levels for individual councils varying between 74% and 96%. The majority of the tax uncollected by the end of the year will be recovered in later financial years. However, the more that is collected in the year it falls due, the more that will be collected ultimately. Also, the sooner the tax is collected, the greater the value it has to the council, because it can help cash flow and reduce borrowing.

The variation in collection levels can be explained in part by factors outwith councils' control (notably social deprivation and population density) and in part by factors within councils' control (such as the accuracy of the records). Some councils have over twice the level of uncollected tax as other councils which are in similar circumstances. If each council were to achieve the collection level of the better-performing councils in similar circumstances to its own, an additional £43 million council tax would be collected in the year it falls due. This equates to a benefit of about £15 million a year to those who pay their council tax, given that some of the uncollected tax would have been recovered in subsequent years. Currently, those who pay are subsidising those who don't.

Costs of collection also vary, but the priority for most councils should be to improve collection levels rather than reduce costs. Councils should compare their collection levels with the benchmarks established by this study, and develop an action plan with specific, time-bound targets to improve collection levels.

In particular, there is scope in some councils to:

- improve the take-up of council tax benefit
- review the arrangements for administering council tax, rents and benefits
- bring forward instalment dates to earlier in the month
- increase the take-up of direct debit as a method of paying council tax
- undertake regular checking of properties to ensure continued entitlement to discounts or exemptions
- improve IT systems, to increase the accuracy of records and improve the service to customers
- tighten the procedure for recovery of council tax debt, including the contractual arrangements with sheriff officers.

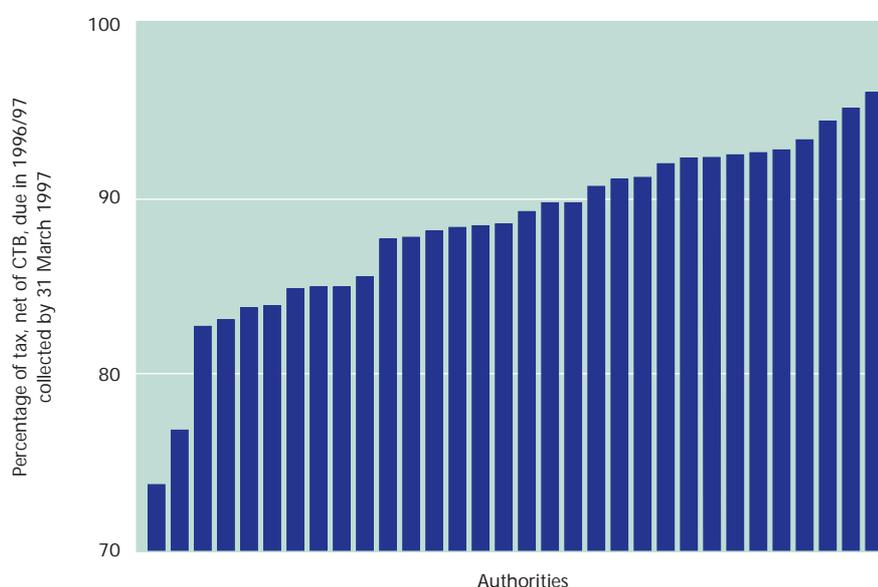
Collection levels

In 1996/97, the net amount of council tax billed in Scotland amounted to £1.04 billion. Each year councils issue a total of approximately three million council tax bills to approximately two million dwellings, and handle tens of millions of payment instalments, plus numerous letters and telephone queries.

This report looks primarily at the levels of tax collected net of council tax benefit (CTB).¹ The proportion of the council tax due in 1996/97 collected by 31 March 1997 varied considerably among authorities (exhibit 1). The top collection rate was 96% of tax (net of CTB) due in 1996/97 collected by 31 March 1997, while the lowest was 73.7%.

Exhibit 1: Collection levels of Scottish local authorities, 1996/97

Authorities vary in the level of tax collected.



Source: Local VFM audits

Much of the tax uncollected will be recovered in later financial years. Authorities make budgetary provision for this based on experience, expecting ultimately to collect between 90% and 98% of the tax through recovery action in future years. However, the amount collected in the year in which it falls due is important for two reasons:

- the sooner the tax is collected, the greater the value it has to the council, because it can help cash flow and thus reduce borrowing
- the more that is collected in the year it falls due, the more that will be collected ultimately. The information from The Scottish Office on collection levels demonstrates that authorities that collect 95% in the year due can expect after a period of four years to collect perhaps 97% to 98% of the total due, whereas an authority collecting only 80% in the year due may expect to collect around 90% after four years.

The variation in collection levels can be explained in part by factors outwith councils' control, and in part by factors within councils' control (exhibit 2).

Exhibit 2: Factors affecting levels of council tax collection

Some factors are within councils' control and some outwith their control.

Factors within councils' control	Factors outwith councils' control
<ul style="list-style-type: none"> • Accuracy of records - if valuation records, personal details and rebate records are up to date and accurate then more tax will be collected. • Timing of payments - if payment dates are set earlier in the month then more tax will be collected in the year it falls due. • Use of recovery procedures - the usage and timing of recovery procedures can affect the level of tax collected. There is a statutory framework to which authorities adhere, but there are variations possible in the methods used in recovery and enforcement. • Encouraging take up of CTB - payment of council tax is made directly to the council for CTB claimants. There is a potential loss to the council if residents who are eligible to receive CTB do not apply. • Offering convenient methods of payment - more people will pay if the method of payment suits their circumstances. • Ensuring appropriate training and advice is provided to staff responsible for the collection of taxes. • The provision of alternative payment dates to taxpayers. 	<ul style="list-style-type: none"> • Level of deprivation - the more deprived an area, all else being equal, the lower the proportion of council tax due that is collected. • Level of population density - the more densely populated an area, all else being equal, the lower the proportion of council tax due that is collected. • History of non-payment of community charge. This is an additional external factor, which is likely to influence the level of payment by taxpayers. (No attempt has been made in this study to quantify this aspect.)

The quantifiable external factors, deprivation and population density, can be used to establish 'families' of councils. Authorities in the same family will experience similar effects on collection levels and costs from external factors. The variation among councils within family groupings can then be looked at by examining the factors that are under their influence or control.

The effects of social deprivation and population density on collection levels

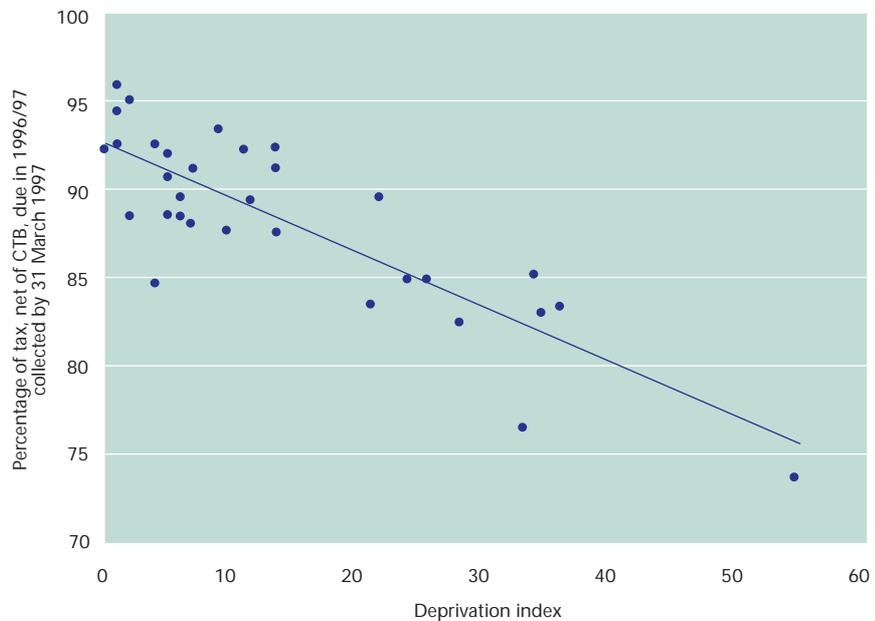
The density of population and level of social deprivation are two principal factors outwith the control of councils that affect collection levels. The effects of these are looked at in more detail below.

The indicator of social deprivation used was based on six factors used for the assessment of Grant-aided Expenditure (GAE) by The Scottish Office. These factors include levels of overcrowding, unemployment, youth unemployment, permanently sick, single-parent families, and large households.

The more deprived an area, the lower the collection levels (exhibit 3). The underlying reasons for this correlation may include less ability or readiness to pay, higher mobility of population and hence greater difficulty in maintaining up-to-date records, and a legacy from campaigns for non-payment of community charge.

Exhibit 3: Relationship between collection levels and deprivation

The more deprived an area, the lower the collection rate.



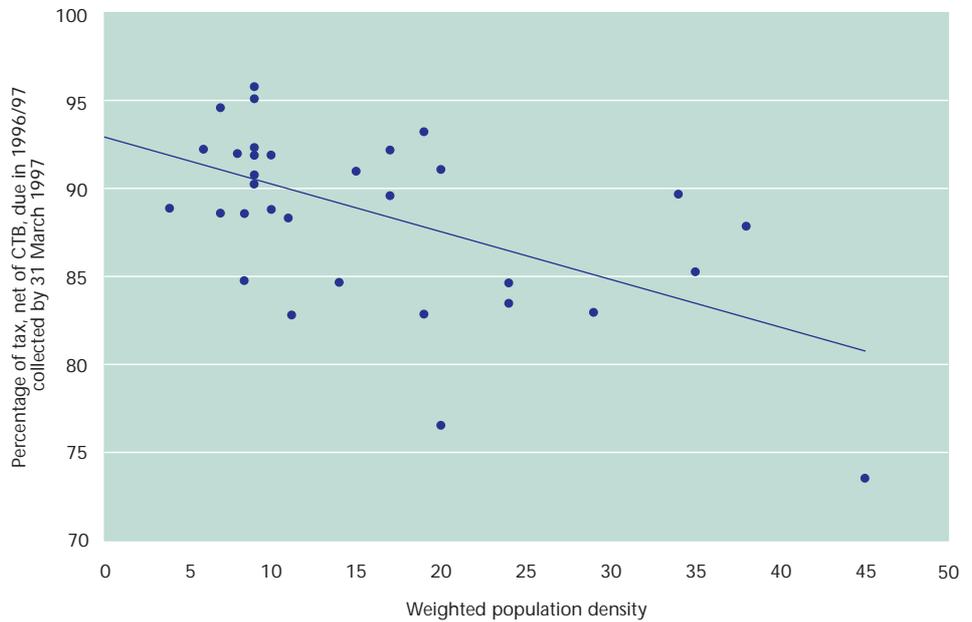
Source: Local VFM audits

It is reasonable to conclude from this evidence that it is more difficult for councils to collect tax from deprived areas. However, councils with the same or similar levels of deprivation have quite widely differing collection levels. There are actions that can be taken to improve collection levels. For example, a council can encourage CTB take-up, and improve the accuracy of records.

The effect of population density is best taken into account by looking at weighted population density.² The more densely an area is populated, the lower the collection levels (exhibit 4). Part of this effect is no doubt due to the relationship between population density and deprivation, but it is considered that population density has an effect in its own right. It is likely to reflect such factors as public attitude towards non-payment and the level of population mobility (in a more densely populated area people are generally more mobile, making accurate record-keeping more difficult).

Exhibit 4: The relationship between population density and collection levels

The more densely populated an area, the lower the collection rate.



Source: Local VFM audits

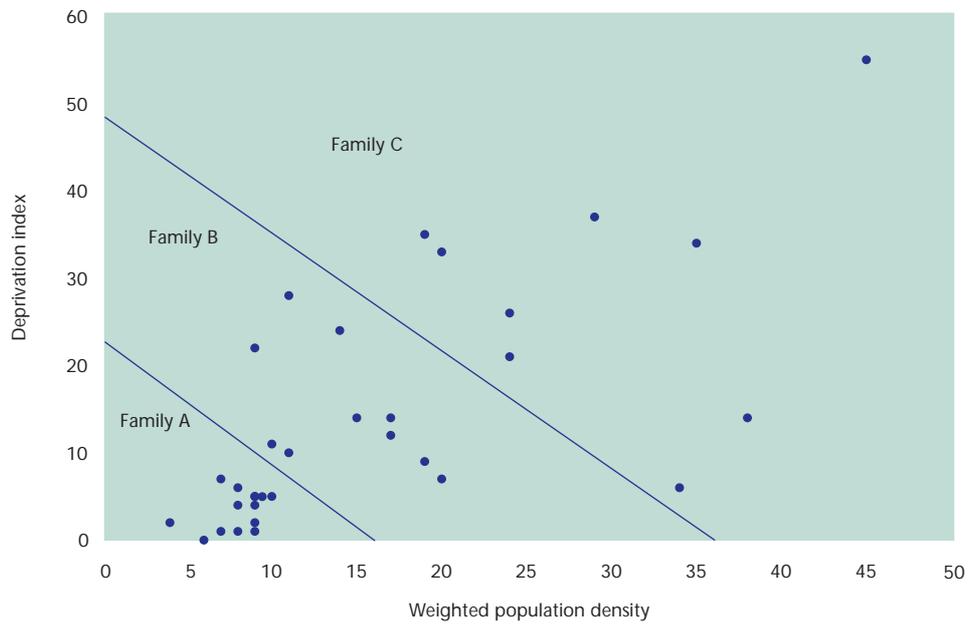
Family groupings

In making comparisons between councils, grouping authorities into ‘families’ allows more of a like-for-like comparison than would be the case by comparing all Scottish councils with one another.

Population density and social deprivation influence collection levels. Therefore, for this study, authorities were combined into three family groupings based on both deprivation and density (exhibit 5). An authority may be placed in family C, for example, because it has a high level of social deprivation or a high weighted population density, or both. Authorities in family B have medium levels of deprivation and/or weighted population density. It is possible for an authority in family B to have a higher level of deprivation than some of those in family C, but this will be offset by a lower level of weighted population density. Authorities in family A are relatively rural authorities with low levels of social deprivation.

Exhibit 5: Family groupings

Family groupings can be distinguished on the basis of deprivation and population density.



Source: Accounts Commission

The choice of three groups reflects a compromise between the need to combine councils which share similar levels of density and/or deprivation and the need to have a reasonable number of councils in each group to allow differences in practice to be examined and, where appropriate, to preserve confidentiality. The groups include between 9 and 13 authorities each (exhibit 6).

Exhibit 6: Local authority family groupings

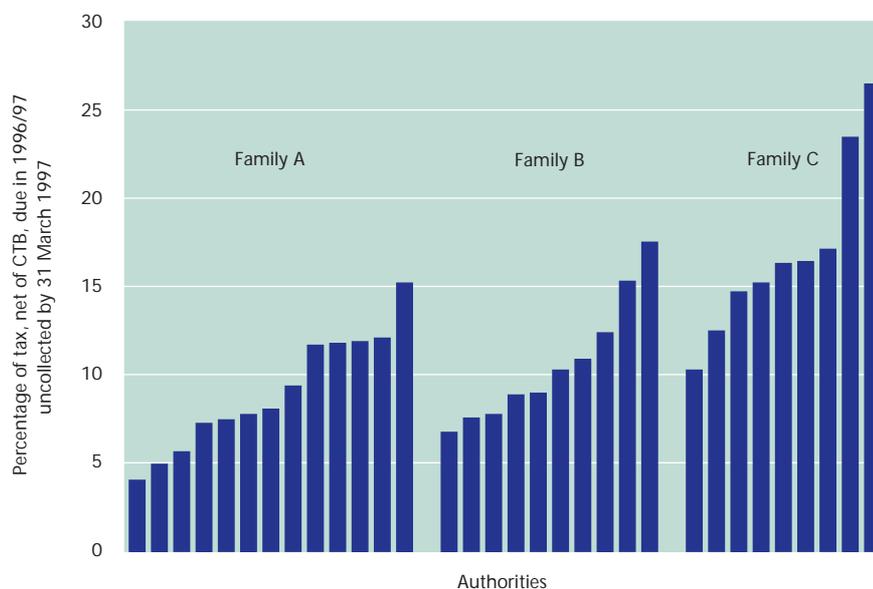
Three families have been defined.

A	B	C
Aberdeenshire	Clackmannanshire	Aberdeen City
Angus	East Ayrshire	Dundee City
Argyll & Bute	East Dunbartonshire	City of Edinburgh
Dumfries & Galloway	East Renfrewshire	Glasgow City
East Lothian	Falkirk	Inverclyde
Highland	Fife	North Lanarkshire
Midlothian	North Ayrshire	Renfrewshire
Moray	South Ayrshire	South Lanarkshire
Orkney Islands	Stirling	West Dunbartonshire
Perth & Kinross	West Lothian	
Scottish Borders		
Shetland Islands		
Western Isles		

The family groupings reflect the impact of external conditions on collection levels. However, there is substantial variation among the councils within each grouping (exhibit 7). Within each grouping, some councils have over twice the level of uncollected tax as others.

Exhibit 7: Uncollected council tax for 1996/97, by council within each family

Levels of uncollected tax vary markedly within families.



Source: Local VFM audits

Variation in the levels of uncollected tax within each family group will depend, to an extent, on the factors within councils' control shown in exhibit 2 on page 4. These include records, CTB take-up, and so on. We look at these in more detail in the sections below.

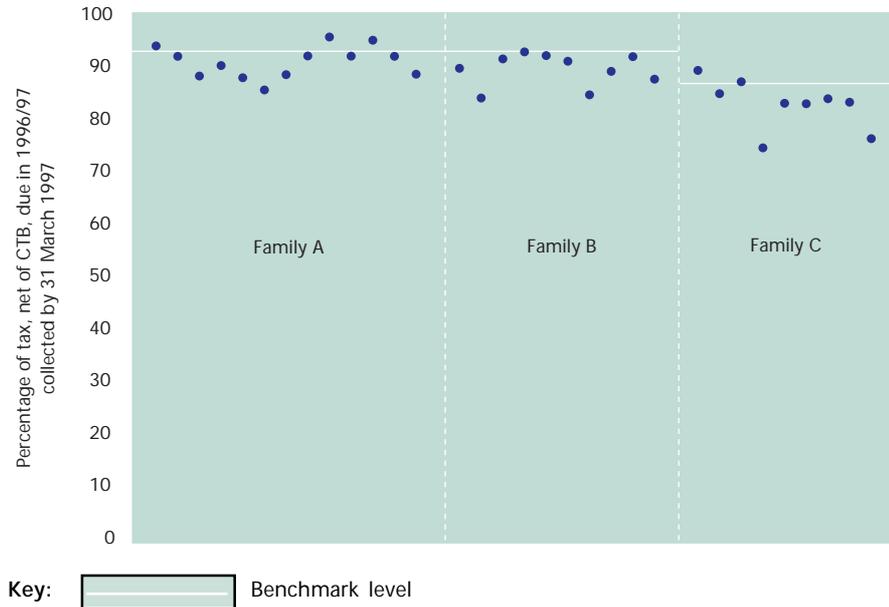
Benchmarks

Part of the rationale for establishing the family groupings is that benchmarks for collection levels can be established. So, for example, authorities in family C can compare their performance against the highest collection levels in their family.

The findings showed little difference in the collection levels for families A and B, and so these families were combined for the purposes of setting the benchmark (exhibits 8 and 9). Benchmarks were set at the level achieved by the better-performing councils in each group.³

Exhibit 8: Collection levels and benchmarks for each family group

Collection levels in family C are generally lower than those in families A and B.



Source: Local VFM audits

Exhibit 9: Benchmarks of good collection levels, by family

The benchmark for family C is lower than that for families A and B.

Family	Benchmark collection rate
Family A	93.5%
Family B	93.5%
Family C	87.6%
For comparison:	
Average, Scotland, 1996/97	86.6%
Upper quartile of all authorities	92.3%

If each council were able to achieve the benchmark level for its family, the additional council tax collected in the year it falls due would be £43 million. These benchmarks will be challenging for some authorities in the short term, but the evidence from England and Wales suggests they can be bettered.

Comparison with England and Wales

Levels of council tax collection in Scotland are substantially lower than those in England and Wales - on average, 87% compared with 95%. There are a number of

factors that may partly explain the difference:

- English and Welsh authorities are able to bill from 1 April, a month earlier than Scottish authorities. This means that the recovery process begins one month earlier also.
- Scottish authorities bill water and sewerage charges at the same time as council tax. These charges increase the size of the bill, and are non-rebatable, which may increase non-payment.
- Scottish authorities levied the community charge for four years, compared with three in England and Wales. This, together with the strength of the non-payment campaign in certain areas of Scotland, may be affecting collection levels of council tax.

Recommendation

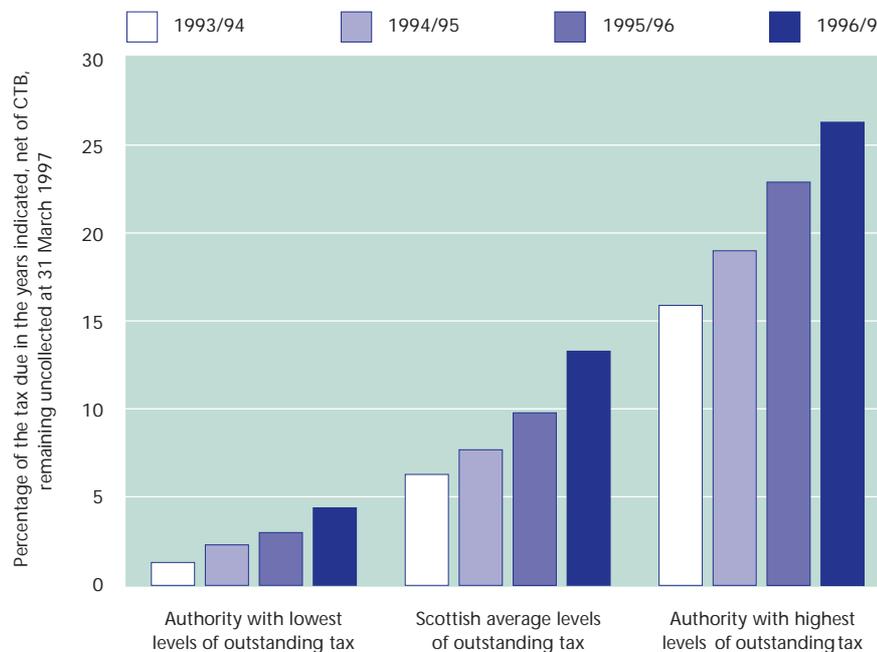
Councils should compare their collection levels against the benchmarks shown above and develop action plans with specific, time-bound targets to improve collection levels.

Collection levels over a number of years

Authorities continue to try to recover uncollected tax beyond the year in which it was due. Indeed, authorities are still pursuing outstanding community charge arrears. The total tax outstanding from a particular year reduces as recovery and enforcement action proceeds (exhibit 10). Looking at the first year of council tax collection, 1993/94, a total of 93.7% of tax due that year had been collected by 31 March 1997.

Exhibit 10: Percentage of the council tax outstanding for each year of operation, as at 31 March 1997

The more tax that is collected in the year it falls due, the higher will be the total collected.



Source: The Scottish Office

The higher the level of tax collected in the year in which it falls due, the greater will be the overall level collected. Analysis of data from the The Scottish Office shows that between half and three-quarters of the tax outstanding at the year end can be expected to be collected within four years. Procedures for recovery used now may differ from those used by the former regional authorities, and the proportion eventually recovered may be at the higher end of the above range in the future.

Across Scotland, an additional £10 million of tax collected in the year in which it was due could give rise to a benefit of around £3.4 million a year.⁴ This calculation takes into account 'windfall' extra cash of £10 million in the year that collection levels are raised, and recognises that some of the windfall would have been collected in subsequent years in any case. Taking interest into account, the benefit is equivalent to about £3.4 million a year on average if the improved collection level is sustained.

This study has shown that if councils achieved the benchmark level for their 'family', £43 million extra would be collected in the year in which it was due. This would equate to a benefit of about £15 million a year to those who currently pay their council tax, if the higher level was sustained. At the moment, those who pay are subsidising those who don't.

The timing of collection within a year

Councils have some flexibility in setting instalment dates. By issuing bills promptly, a first instalment date of 1 May can be achieved (although dates may have to be staggered to avoid peaks in workload). Early collection of tax has cash flow advantages and also means that a greater proportion of outstanding sums can be recovered in the year to which they relate. Some councils have scope to bring forward instalment dates.

Accuracy of records

If council records are up to date and accurate then collection levels will be higher. Problems with records can include, for example:

- differences between the council tax band shown on the authority's records and that on the valuation list
- dwellings which appear twice in the authority's records
- demand notices sent to addresses which do not exist
- bills being sent to 'the council taxpayer' rather than to a named person
- dwellings which are no longer exempt.

This area is one where there are likely to be short-term costs in reviewing and updating records, and possibly also in IT improvements. These short-term costs must be balanced against the likely benefits in collection levels.

In Scotland, the Assessor has responsibility for the banding of domestic properties and also determining the value of properties for non-domestic rates. Assessors need to liaise with different departments of a council, including planning, building warrant, and finance. Good communication between the council and the Assessor is essential, otherwise delays in records being processed will reduce income to the council. Some Assessors set themselves targets for processing records - one Assessor has set a target of two months. The Commission considers setting targets to be good practice.

Discounts and exempt dwellings

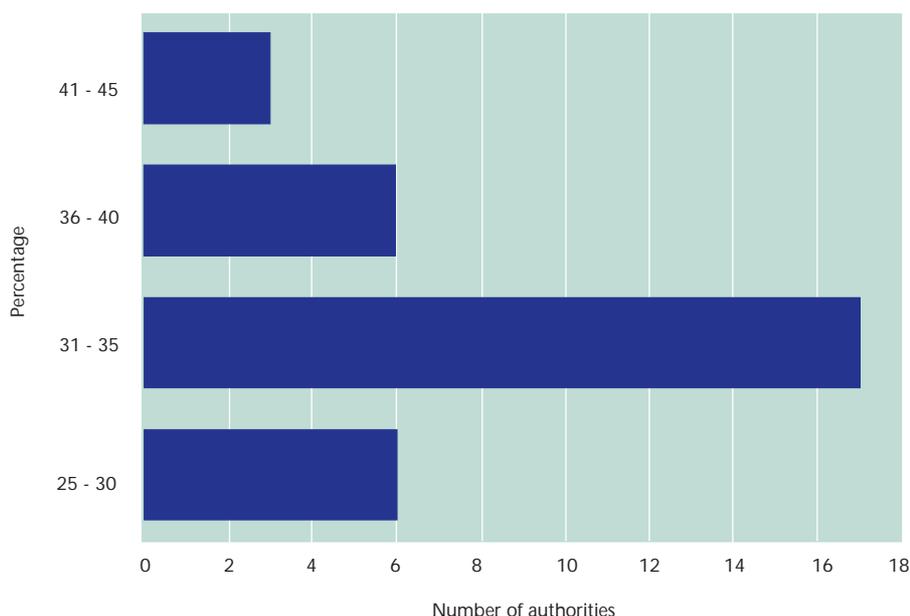
Discounts

For non-exempt dwellings, full council tax is payable if there are two or more qualifying adults living in the dwelling. Discounts are allowed where there is only one or no qualifying adult (25% and 50% discounts, respectively).

Single discounts are more common than double discounts. Overall, authorities awarded single discounts to 35% of non-exempt dwellings (exhibit 11), and double discounts to 2% of non-exempt dwellings.

Exhibit 11: The percentage of non-exempt dwellings awarded single discounts, 1996/97

The percentage of non-exempt dwellings awarded single discounts varies from about 25% to about 45%.



Source: Local VFM audits

In some councils, the number of single discounts awarded, expressed as a percentage of the number of dwellings, differed substantially from the percentage of single-adult households recorded in the 1991 census. Some variation since 1991 is to be expected. However, where the difference is large, authorities should investigate the discrepancy.

Councils should conduct a postal survey, at least annually, of all households currently receiving discounts, and require a response from the householder, otherwise the discount should be discontinued. Where householders wrongly receive a discount it impacts on the burden on other taxpayers. It would be worth councils inspecting a proportion of properties in receipt of a discount to deter fraudulent claims. This practice is uncommon in Scotland but not so in England.

Exemptions

Most authorities have procedures for checking exempt dwellings. However, local government reorganisation has resulted in some authorities delaying the checking process. The method primarily adopted to review exempt dwellings is an annual postal survey, which seeks information on whether changes have occurred since the previous review. Councils should adopt the practice of requiring a response from householders whether there have been changes or not, rather than asking householders to respond only if records need correction. Failure by a council to identify timeously those properties no longer entitled to exemption may result in lost council tax to the council.

The method of checking adopted by the majority of Scottish councils differs from the approach used by some English authorities, where the validity of certain categories of exempt properties may be checked every three months.

Recommendations

Councils should carry out regular checking of properties to ensure continued entitlement to discounts or exemptions. The approach adopted by some English authorities of checking exempt properties every three months deserves consideration.

If the percentage of households in receipt of single discounts varies significantly from the figure suggested by the census, councils should investigate the discrepancy.

Council tax benefit

Council tax benefit is available to people on low incomes. A good take-up of council tax benefit has twin advantages to authorities. First, collection levels are improved - 95% of CTB is paid directly to the authority on behalf of claimants. Second, identification of all those who are entitled to CTB means that the other householders should be in a reasonable position to pay, and so recovery action has a higher likelihood of success.

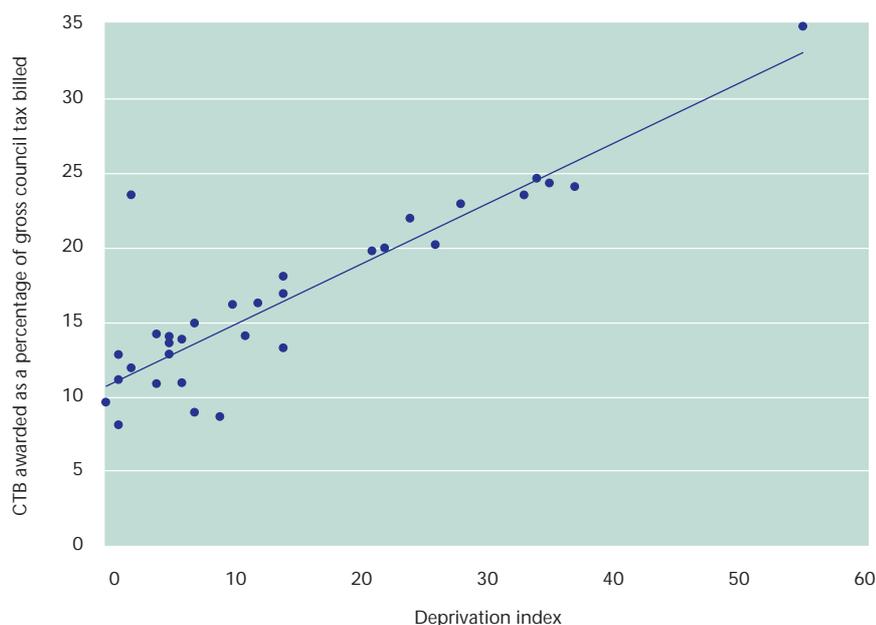
Across Scotland, the amount of CTB awarded in 1996/97 was £237 million. The amount of CTB awarded in an authority depends on a number of factors, in particular:

- the level of incomes, which is related to the level of deprivation in the area
- the rate of council tax levied.

The level of CTB awarded increases in line with social deprivation (exhibit 12). There is still a substantial variation in CTB awarded, after taking account of deprivation levels. For example, councils with a deprivation index of around 10 have CTB take-up ranging between 8% and 16% of gross council tax billed. Variation in the level of council tax itself is unlikely to explain all of these differences.

Exhibit 12: Relationship between the level of council tax benefit awarded and level of deprivation

CTB awarded increases in line with social deprivation.



Source: Local VFM audits

The amount of CTB awarded depends both on eligibility levels, and on the extent to which eligible taxpayers claim the benefit. Authorities have some influence over the latter, and can encourage the take-up of CTB in a variety of ways:

- making publicity material available at the authority's offices
- sending information with bills, reminders, and other letters from the authority
- ensuring good communication with other departments in the authority and with housing associations
- targeting specific groups. For example, people with arrears can be encouraged to claim CTB, if there is any likelihood that they are eligible
- combining housing benefit and council tax benefit claim forms.

Recommendation

Councils should compare the level of CTB awarded against the level expected, as shown in exhibit 12. Where the level awarded is below that expected, there may be scope for the authority to encourage greater take-up.

Benefits administration

The Commission's publication *Local Government Reorganisation and the Stewardship of Public Funds*, August 1995, stated that "The effective management of Council Tax will depend on the ability of new councils to integrate Council Tax and rent collection systems with housing benefit systems." Many councils have combined the administration of council tax and housing benefit and have been able to demonstrate both financial and service benefits. One of the most recent to do so is Aberdeen City Council, which expects savings in excess of £0.4 million per year by putting the administration of both housing benefit and council tax within the Finance Department.

There are a number of benefits that may be achieved by a 'one-stop' access to the benefits service. These include:

- service delivery points may be closer to the claimant
- the level of take-up is improved as there is no need for the claimant to apply separately for both benefits
- joint application forms allow concurrent assessment of the claimant's entitlement to both benefits, and may reduce fraud
- the claimant's personal data needs to be collected and processed only once
- staff can be assigned to work on both services (generic working)
- there is the potential for reductions in costs.

Recommendation

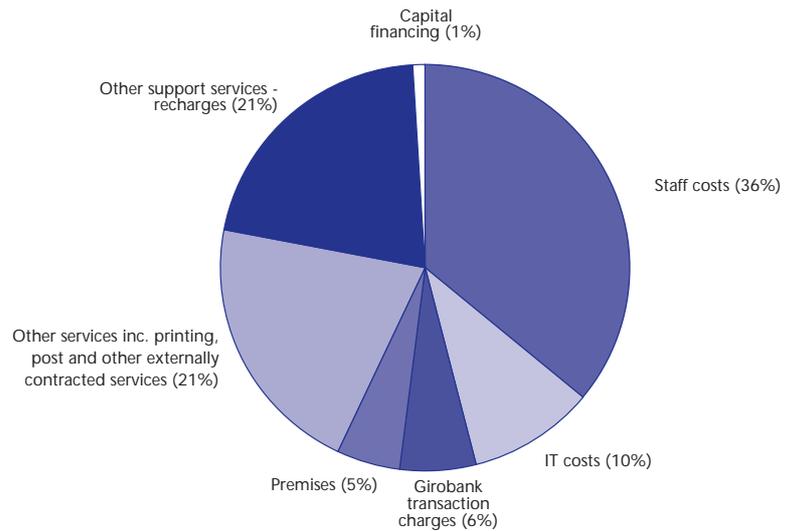
Authorities should consider the most appropriate administration arrangements for council tax, rent and benefits systems. Councils should consider combining their benefits administration where there is the opportunity to provide an improved service to clients and savings to the council.

Costs of collection

Councils incur costs in collecting the council tax. These include staff, IT, premises, central service recharges, capital charges, contracted services, and so on. Staff costs make up the largest single element (exhibit 13). The gross cost of council tax collection varies considerably among authorities (exhibit 14).

Exhibit 13: Breakdown of costs of council tax collection

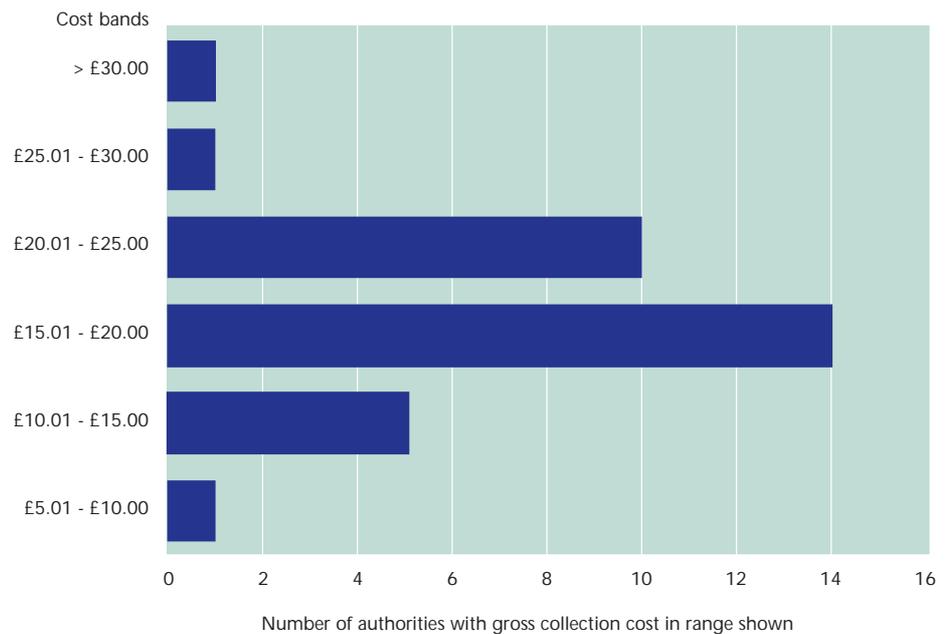
The bulk of costs are in staff and central recharges.



Source: Local VFM audits

Exhibit 14: Gross annual collection cost per non-exempt dwelling

Councils vary in their costs of collection.



Source: Local VFM audits

The range of gross cost per dwelling in 1996/97 is from £9 to £35. Authorities in family A tend to have the highest costs. For the purpose of setting benchmarks, families B and C were combined, because there was not much difference between them. Benchmarks of gross collection cost per non-exempt dwelling per year for each of the three family groups are given below:

- family group A £16.60
- family group B £13.00
- family group C £13.00

The costs of collection in part reflect the compromises made by authorities between minimising expense and providing a good level of service. Some of the choices facing authorities are shown below:

Options	Pros	Cons
Invest in IT?	<ul style="list-style-type: none"> • increases accuracy of records, leading to increased collection levels • may improve service to customers • may reduce staff costs through increased efficiency of working 	<ul style="list-style-type: none"> • cost of IT investment
Make available decentralised payment and advice points?	<ul style="list-style-type: none"> • higher level of service for residents who want to pay this way • potential for increased collection levels 	<ul style="list-style-type: none"> • increased staff, premises and IT costs

Size of authority may also affect the level of costs. Very small authorities may have a higher cost per dwelling than larger ones, because their fixed costs are spread over a smaller number of dwellings.

Information technology costs

IT costs varied from about £1 to almost £7 per council tax account per year. The very wide variation reflects:

- the sophistication and fitness for purpose of the IT used
- the costs of the system inherited from a previous regional council
- difficulty in splitting IT costs between council tax, non-domestic rates and community charge functions.

Partly because of the difficulty in apportioning costs between functions, this study does not set out benchmarks for IT costs.

The need for accurate, up-to-date records is critically important in the collection of taxes - and IT has a pivotal role in this. A good IT system can also improve the service to customers - for example, by providing staff handling enquiries with instant information on payment records. In this respect, low IT costs are not necessarily a good thing. The need is for careful appraisal of IT options, balancing their costs against the gains of:

- reductions in staff time required
- increased efficiency and accuracy of record-keeping, leading to
- increased collection levels.

The study found that the majority of the new unitary authorities have experienced difficulties with IT since reorganisation. The requirement for many to disaggregate from the former regional authority's system has caused problems. A number of councils are dependent on paper-based transfer of information from Assessors, rather than the more speedy and reliable disk transfer.

Aberdeen City Council has developed an IT solution for all aspects of council tax collection. The council has built on the system administered by the former Grampian Regional Council and intends further expansion to include housing benefit applications. The system, known as WIRED (Workflow and Imaging Revenue Development), provides the council taxpayers with a one-stop approach. The council's objectives for the system are to:

- improve customer service through a one-stop approach for council tax
- improve document handling and throughput
- enhance the working environment for staff
- obtain economies of operation.

Recommendation

Authorities should assess their current IT systems against possible alternatives on the basis of costs and benefits, with the objective of increasing collection levels.

Staff costs

The number of accounts dealt with per full-time equivalent (FTE) member of staff varies significantly among councils, from just under 1,000 accounts per FTE, to around 6,000. The reported range reflects in part the difficulty in separating out staff dealing with council tax from those dealing with community charge and non-domestic rates.

The average cost per member of staff involved in council tax collection is around £13,500 (this covers salaries and on-costs). The range is wide, from around £25,000 in one of the smallest authorities, to around £12,000 in some medium and larger authorities.

The variation in average staff costs will reflect a number of factors:

- the management structure, and the mixture of staff grades involved in the work
- the way in which the work is divided between staff - for example, whether staff deal with a range of functions or tasks are subdivided and performed by different groups
- the use of contract staff and the extent of flexible working practices.

Recommendation

Authorities should consider the costs of staff involved in council tax collection and assess the potential for savings by looking at the mix of grades involved and the use of flexible working practices.

Choice of payment methods

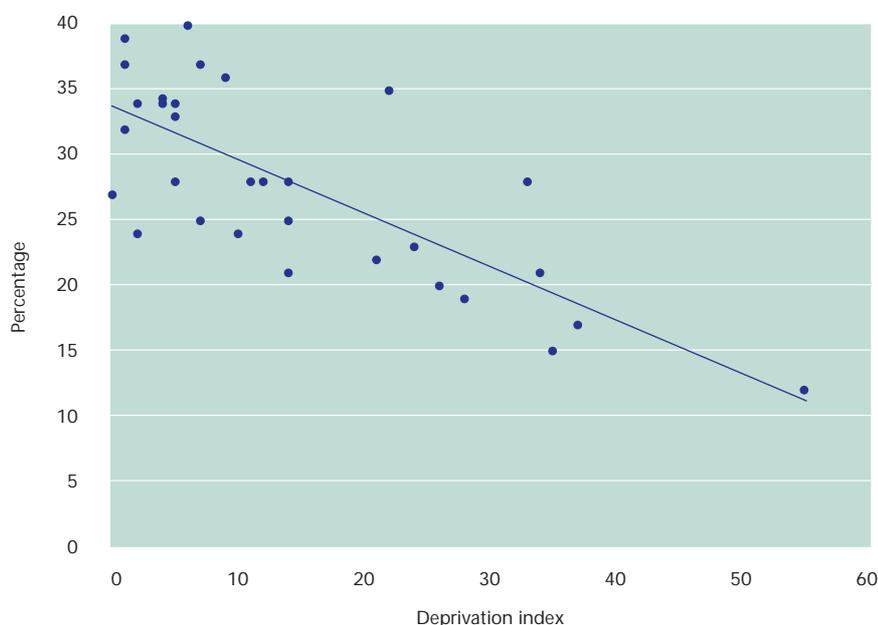
The range of payment methods used has an effect on the costs of collection.

Authorities use local offices, post offices, direct debit, standing orders, debit cards and, in some cases, lump sum payments. One of the cheapest and most reliable ways of collecting the tax is via direct debit. For Scotland as a whole, the total amount of council tax collected by direct debit for 1996/97 was £266 million (26%).

The percentage of taxpayers paying by direct debit is related to deprivation levels (exhibit 15). The percentage paying by direct debit declines as the level of deprivation increases. So, authorities with higher levels of deprivation will be less able to benefit from direct debit as a form of payment.

Exhibit 15: Percentage of each local authority's taxpayers paying by direct debit

The level of payment by direct debit reduces as social deprivation increases.



Source: Local VFM audits

However, there is still substantial variation among authorities with similar deprivation levels. There may be scope for some authorities to increase the number of direct debit payers by looking at ways of promoting this option. Authorities should generally encourage payment by direct debit in preference to payment by standing order.

Recommendation

Authorities should consider the extent to which direct debit is used and take steps to increase it where possible.

Incentives for lump sum payment

Authorities have the opportunity to encourage lump sum payment of council tax. For 1997/98, Scottish Borders offered a discount of 3.5% if the total for the year was paid before the date the first instalment was due. The scheme is self-financing. Gross savings to the council through a reduction in collection costs, and interest savings from advance payments exceed £100,000. Over 12% of the council's taxpayers take advantage of the scheme. Another council has a significant number of taxpayers paying in a lump sum, even though it offers no financial incentives. This needs to be borne in mind when setting discounts for lump sum payments.

Recommendation

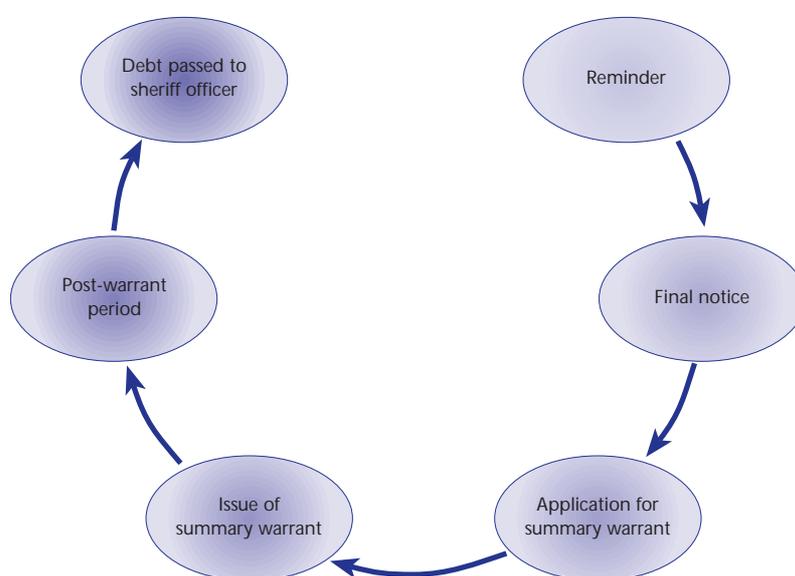
Authorities should consider the costs and benefits of offering incentives for early payment.

Recovery and enforcement

Legislation provides authorities with a statutory framework that sets out the recovery process. The different stages are shown in exhibit 16. Typically, the recovery process is in three stages. First, a reminder is issued within 15 days of the default in payment. Second, failure to make payment results in a final reminder being issued within the next 21 days. Third, if the debt remains outstanding after that period, a summary warrant is issued within the next 21 days. The study found examples where there was significant delay compared with this schedule. At one council, reminders had not been sent until September, four months after the start of the tax year, by which time over 25% of taxpayers were one or more instalments in arrears.

Exhibit 16: Recovery process

Ultimately the debt may be passed to sheriff officers.

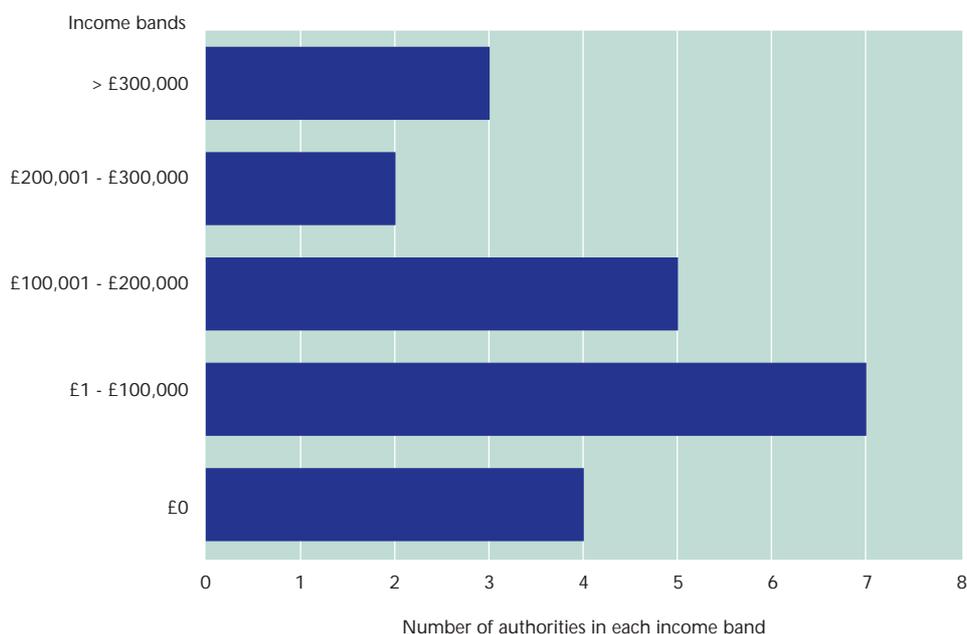


Following the issue of a summary warrant, an authority can pursue the debt by advising the taxpayer of the outstanding debt and adding a 10% surcharge. Some authorities take this step rather than passing the debt immediately to the sheriff officer, with the objective of recovering both the debt and the surcharge in many cases. Exhibit 17 provides a summary of the information from 21 authorities where auditors identified the amount recovered in 1996/97 through the 10% surcharge. Of course, this does not present a complete picture because some of the debt would have been recovered by sheriff officers, and their charges might be higher if the more readily recoverable debts have been 'creamed off' by the authority.

Just holding on in the hope that the debtor might pay is not a satisfactory approach, and authorities need either to pursue debts rigorously themselves or pass them on timeously to the sheriff officers if they are to have a realistic chance of recovering them.

Exhibit 17: Income from 10% surcharges received in 1996/97

Authorities have the potential to recover significant sums during the post-warrant period.



Source: Local VFM audits

Recommendation

Authorities should consider their procedures for recovery, including looking at when debts are passed to sheriff officers.

Authorities require to employ sheriff officers to enforce summary warrants, since only they are empowered to undertake certain recovery measures, such as pointing and warrant sales, and earnings arrestments. Study findings showed that there are significant variations in the approach authorities adopt to appoint and monitor the work of firms of sheriff officers. Some authorities have used the same firms for a number of years without testing whether the fees and the service represent good value for money.

Effective use of sheriff officers may be helped by:

- preparing a specification which covers performance and quality of service
- specifying when debt will be passed to sheriff officers
- obtaining competitive tenders every two or three years
- specifying the monitoring the council will undertake and the reporting required from sheriff officers. Regular monitoring of the performance of sheriff officers is good practice.

Recommendation

Authorities should review their contractual arrangements with sheriff officers.

Non-domestic rates

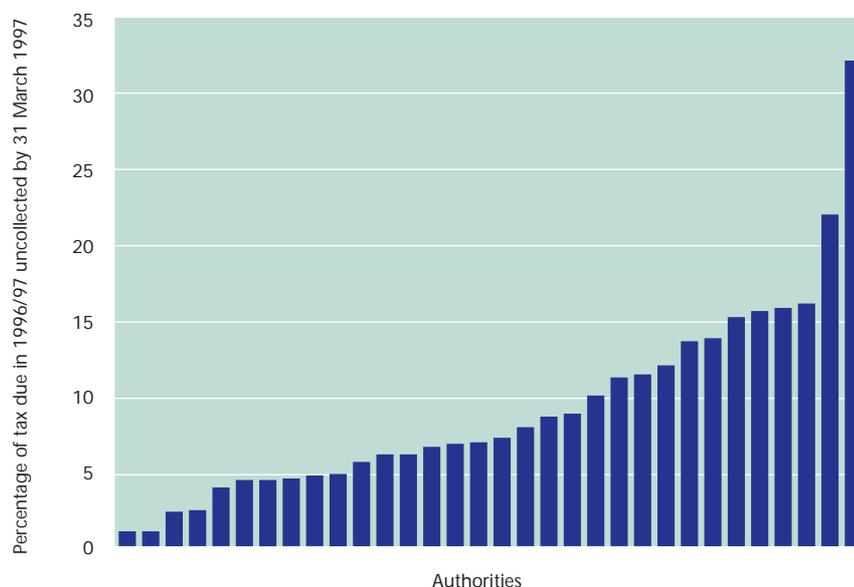
Local authorities are responsible for the collection of non-domestic rates (NDR). The rate income is remitted to the government and then paid out to each authority on a per capita basis - the system is known as the 'Pooling of Non-domestic Rate Income'. The rate is set by The Scottish Office.

The total amount of NDR due in 1996/97 that was collected by 31 March 1997 was £1.2 billion. Collection levels of non-domestic rates vary among authorities (exhibit 18). This may be due to a number of factors, including:

- accuracy of records
- recovery and enforcement procedures
- the nature of the business base and the propensity of local companies to pay promptly.

Exhibit 18: Uncollected non-domestic rates for 1996/97

Collection levels of NDR vary among councils.



Source: Local VFM audits

A benchmark of good collection levels for NDR is 95.6%. This is set at the level achieved by the best quarter of authorities in 1996/97. If all authorities achieved this level then an additional £87 million would be collected within the year. The benefit would largely be improved cash flow, because the vast majority of the uncollected amount will be recovered in subsequent years.

Recommendation

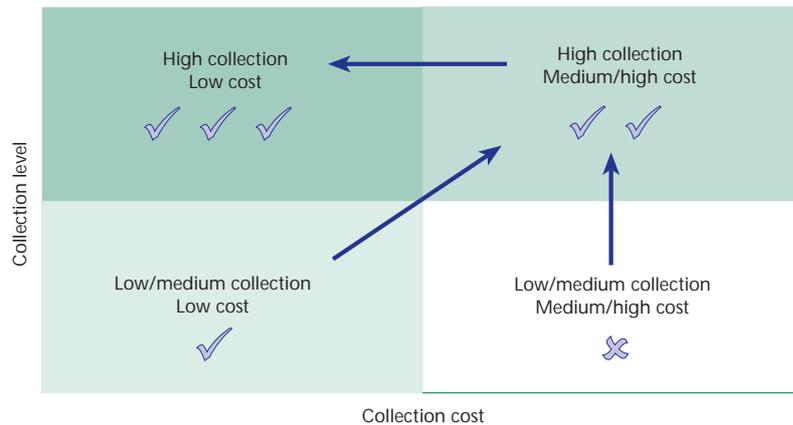
Authorities should assess their NDR collection levels and take action to increase them.

Priorities for action - costs or collection levels?

In an ideal world, all authorities would have high collection levels and low collection costs. The routes to achieving high collection and low cost are likely to require some investment, either short or long term (exhibit 19). For example, they may require new IT systems or more regular surveys of dwellings.

Exhibit 19: Collection level and collection cost grid

Authorities should aim for high collection levels with low costs.



Key: the more ticks the better. Arrows show possible routes to achieving high collection levels and low costs.

Source: Adapted from Audit Commission Management Handbook, *Collecting Local Taxes*, 1995.

The number of Scottish authorities in each section of the grid is shown below. A high collection level is defined as a level equal to or above the benchmark rate for the authority's family grouping. A low cost is one that is equal to or lower than the benchmark rate for the family group.

		Number of authorities
High collection, low cost	✓ ✓ ✓	3
High collection, medium/high cost	✓ ✓	3
Low/medium collection, low cost	✓	5
Low/medium collection, medium/high cost	✗	21

The priority for action should be to increase collection levels. If authorities achieved the benchmark collection level for their family, an additional £43 million would be collected in the year it was due.

A proportion of this £43 million would have been collected in subsequent years. The benefit to those who pay their council tax is equivalent to around £15 million a year.⁵ The total council tax burden on those who currently pay could be reduced by about £15 million a year if all authorities achieved their benchmark level for tax collected in the year it falls due. By contrast, it would require a decrease of about 40%⁶ in collection costs across Scotland to yield the same reduction in total council tax burden.

This is not to say that costs should not be the lowest level compatible with good collection and customer service levels. Rather, that there may be more benefit to the public at large if the immediate priority for action is increasing collection levels.

Recommendation

Authorities should develop action plans based on the findings of this report and those in local audit reports. Priority should be given to those actions which will increase collection levels.

Other initiatives

The Convention of Scottish Local Authorities (CoSLA) has argued that council tax collection levels could be improved if the legislation were changed to allow authorities to pursue debtors more effectively and allow additional payment options to taxpayers. These initiatives are:

- Joint billing and collection of council tax with rent

The benefits envisaged include improved customer care because there would be one bill for total debt due in respect of the occupancy of a property. There would be the potential for improved collection where the liable person(s) for council tax could be established at the same time as the tenancy commences, and any adjustments to tenancy would also be reflected in council tax. There would also be a reduction in the number of payment transactions since only one payment would be required for both rent and council tax.

- Decrease the debt level for sequestration (the name given to the court process of bankruptcy in Scotland) to that which previously applied, ie £750 instead of £1,500

- Refuse sale of council houses to community charge/council tax debtors

Councils might be granted the right to refuse to sell council housing to tenants until they had cleared outstanding council tax or community charge debt.

- Give councils access to Inland Revenue data

Grant councils access to Inland Revenue data in cases where it has not been possible for authorities to find out the employment details of a council tax/community charge debtor by other means.

- Direct deductions from benefit without recourse to summary warrant

Introduce legislation which will allow the Department of Social Security to make a direct deduction from benefit arrangements to pay off community charge/council tax debts, without having to go through the summary warrant procedure.

Further initiatives suggested by individual councils include:

- Earnings arrestments

Provide local authorities with the power to lodge earnings arrestments directly with employers rather than having to use sheriff officers.

- Imprisonment of defaulters

Provide local authorities with the power to seek imprisonment of defaulters similar to legislation available to English authorities.

Some of these proposals are contentious. They are listed here with the intention of encouraging a debate on their potential advantages and disadvantages.

Recommendation

Consideration might be given by government to legislation which makes it easier for councils to collect council tax and recover debt.

Summary of recommendations

The recommendations included throughout the report are summarised here for ease of reference.

Collection levels

Councils should compare their collection levels against the benchmarks and develop action plans with specific, time-bound targets to improve collection levels.

Discounts and exemptions

Councils should carry out regular checking of properties to ensure continued entitlement to discounts or exemptions. The approach adopted by some English authorities of checking exempt properties every three months deserves consideration.

If the percentage of households in receipt of single discounts varies significantly from the figure suggested by the census, councils should investigate the discrepancy.

Council tax benefit

Councils should compare the level of CTB awarded against the level expected, as shown in exhibit 12. Where the level awarded is below that expected, there may be scope for the authority to encourage greater take-up.

Benefits administration

Authorities should consider the most appropriate administration arrangements for council tax, rent and benefits systems. Councils should consider combining their benefits administration where there is the opportunity to provide an improved service to clients and savings to the council.

Costs of collection

Authorities should assess their current IT systems against possible alternatives on the basis of costs and benefits, with the objective of increasing collection levels.

Authorities should consider the costs of staff involved in council tax collection and assess the potential for savings by looking at the mix of grades involved and the use of flexible working practices.

Authorities should consider the extent to which direct debit is used and take steps to increase it where possible.

Authorities should consider the costs and benefits of offering incentives for early payment.

Recovery and enforcement

Authorities should consider their procedures for recovery, including looking at when debts are passed to sheriff officers.

Authorities should review their contractual arrangements with sheriff officers.

Non-domestic rates

Authorities should assess their NDR collection levels and take action to increase them.

Priorities for action

Authorities should develop action plans based on the findings of this report and those in local audit reports. Priority should be given to those actions which will increase collection levels.

Other initiatives

Consideration might be given by government to legislation which makes it easier for councils to collect council tax and recover debt.

References

- ¹ Net of CTB, second-adult rebate and any transitional relief.
- ² This takes the population density of each ward and weights it by the population of the ward. Thus a council with a densely populated city containing the majority of the population and a sparsely populated hinterland will still have a high weighted density, reflecting the fact that the bulk of the population live in areas with a high density.
- ³ Four councils out of 23 achieved or bettered the benchmark in the combined families A and B, and two councils out of nine in family C.
- ^{4.5} For calculation purposes it has been taken that 40% of the sum outstanding will be collected in the year following when it fell due; and 25% of the amount outstanding at the end of that year will be collected in the following year, and so on for three years. A total of 75% of the amount initially outstanding will be collected over four years. Interest has been taken to be 5% per annum.
- ⁶ Total collection costs estimated as about £37.5m, including the cost of collecting water and sewerage charges.

