

REPORT TO: Corporate Policy and Performance Board

DATE: 31 January 2017

REPORTING OFFICER: Strategic Director – Enterprise, Community and Resources

PORTFOLIO: Resources

SUBJECT: Council Tax Collection Costs

WARD(S): Borough-wide

1.0 PURPOSE OF REPORT

- 1.1 To propose a change to the treatment of costs relating to the attachment of benefits in relation to the collection of council tax arrears. This follows a report received by the Board on 6th September 2016.

2.0 RECOMMENDED: That Executive Board approve, where a first attachment of benefits has been paid in full, that the cost element for any subsequent attachments of benefit are written-off by the Council, as outlined in paragraph 3.5 below.

3.0 SUPPORTING INFORMATION

- 3.1 On 6th September 2016 the Board received a report (see appendix) which provided an update regarding the collection of council tax income, council tax arrears, recovery action and the impact of the localisation of council tax support.
- 3.2 The Board expressed concern at the significant increase in the level of council tax arrears following the localisation of council tax support, whereby approximately 6,300 households are now paying council tax for the first time, in addition to those who are partial benefit claimants.
- 3.3 This has led to a situation where a significant number of taxpayers with an attachment of benefits, are not able to clear their arrears by the end of the financial year, at which point they become liable for the following year's council tax. Hence their council tax arrears begin to escalate year-on-year.
- 3.4 Before a taxpayer can be given an attachment of benefits to recover the council tax which is owed, the Council must first obtain a liability order. This currently carries an additional cost for the taxpayer of £77 which then increases their council tax arrears
- 3.5 A liability order must be obtained in these circumstances. However, in order to assist with this situation and avoid increasing the arrears burden unnecessarily for taxpayers, it is proposed that once a first attachment of benefits has been paid in full, the cost element for any subsequent attachments of benefit are written-off by the Council.

4.0 POLICY AND OTHER IMPLICATIONS

4.1 None.

5.0 IMPLICATIONS FOR THE COUNCIL'S PRIORITIES

5.1 There are no direct implications however, council tax is a major source of funding for the Council's revenue budget.

6.0 RISK ANALYSIS

6.1 None.

7.0 EQUALITY AND DIVERSITY ISSUES

7.1 None.

8.0 LIST OF BACKGROUND PAPERS UNDER SECTION 100D OF THE LOCAL GOVERNMENT ACT 1072

8.1 There are no background papers under the meaning of the Act.

REPORT TO: Corporate Policy and Performance Board

DATE: 6 September 2016

REPORTING OFFICER: Strategic Director – Enterprise, Community and Resources

PORTFOLIO: Resources

SUBJECT: Council Tax Collection Update

WARD(S): Borough-wide

1.0 PURPOSE OF REPORT

- 1.1 To provide an update regarding the collection of council tax, as requested by the Board on 7 June 2016.

3.0 RECOMMENDED: That the latest position regarding the billing and collection of council tax, as set out in the report, be noted.

3.0 SUPPORTING INFORMATION

Background

- 3.6 Council tax income is one of the main sources of funding for the Council's services. For the 2016/17 financial year the opening balance of council tax due to be collected was £73m. This total includes the council tax liability where discounts or exemptions may subsequently be applied, the liability to be met from council tax support and the outstanding liability for arrears from previous years.
- 3.7 The scale of income involved means that any fluctuation in the collection rate can have a significant effect upon the Council's cashflow and the funding of its services.
- 3.8 In recent years there have been two significant legislative changes, which have directly impacted upon the collection rate and the level of arrears, as follows;
- (i) Changes which enabled the Council to vary the period and amount of discounts provided and charges made in respect of empty properties;
 - (ii) Abolition of council tax benefit and its replacement with a local council tax support scheme.

Collection of Council Tax

- 3.9 Council tax collection rates in Halton over the past ten years have been amongst the best in the North West, especially given the deprivation factors within the Borough.
- 3.10 As shown in Table 1 below, collection rates improved steadily up until 2012/13 when in-year collection exceeded 97%. But they subsequently reduced following the abolition of council tax benefit and its replacement with the local council tax support scheme.

Table 1 – Council Tax Collection Rates

Year	06/07 %	07/08 %	08/09 %	09/10 %	10/11 %	11/12 %	12/13 %	13/14 %	14/15 %	15/16 %
In-year collection	95.96	96.41	96.77	97.00	97.00	97.11	97.11	95.82	95.47	95.21
Total collected to date	99.18	99.26	99.14	99.21	99.21	99.12	99.00	98.34	97.60	95.78

Council Tax Arrears

- 3.11 Table 2 below shows the council tax arrears position for each of the past seven years. There had been a broadly consistent level of arrears, which had been the case ever since the abolition of the Poll Tax.
- 3.12 However, there has been a significant increase in arrears following the abolition of council tax benefit in 2012/13 and its replacement with the local council tax support scheme from 2013/14. Despite increased recovery activity, the arrears have still increased significantly each year and this trend is expected to continue.

Table 2 – Council Tax Arrears

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
	£	£	£	£	£	£	£
Gross Arrears C/F	3,612,230	3,555,944	3,721,853	3,761,990	4,759,997	5,585,849	6,283,068
Increase/Decrease	111,766	-56,286	165,909	40,137	998,006	825,852	697,219
In-year Collection Rate	97.00%	97.00%	97.11%	97.11%	95.82%	95.47%	95.21%
Increase/Decrease on Previous Year	0.23%	0.00%	0.11%	0.00%	-1.29%	-0.35%	-0.26%
Assumed eventual Collection Rate	99.00%	99.00%	99.00%	99.00%	97.93%	96.50%	96.50%

Recovery Action

- 3.13 The collection of council tax is a key financial priority for the Council. After excluding discounts, exemptions and council tax support payments, a 1% reduction in the collection rate amounts to around £460,000 of lost income.
- 3.14 There are over 55,000 properties in the Borough, so it is essential that a systematic but equitable approach is taken to the collection of council tax debt. Failure to ensure maximum collection of council tax impacts upon the funding for all of the Council's services. However, it is acknowledged that debt problems are one of the major causes of family breakdown, although experience has shown there is a difference between people who are struggling to pay and those who won't pay. For many households payment of council tax is not considered a priority debt.
- 3.15 The Division's staff are trained to negotiate, within reason, with council taxpayers in order to find an agreeable basis for payment of their council tax liability. It is important for the taxpayer to make contact with the council tax section as soon as they begin to experience difficulties with paying their bill. Staff will attempt to find a fair arrangement with taxpayers to clear their debt and avoid the imposition of costs. However, many taxpayers in arrears only contact the council tax section after they have been issued with a liability order or the enforcement agents contact them, by which time costs will have been added to their arrears.
- 3.16 From the Council's point of view, court action or enforcement action is always the last resort and the preference is to find an agreeable solution before reaching these stages. The approach taken to recovery is considered fair and equitable and is similar to the approach taken by neighbouring councils. As far as possible assistance is given to taxpayers to help them meet their financial responsibilities in terms of their council tax liability.
- 3.17 Over 124,000 individual bills and reminders are currently sent out from the council tax section each year. When the first stage of recovery action was required for this financial year, around 48,500 (88%) households were up to date with their council tax payments. Of these almost 35,000 households pay by direct debit. Therefore a large proportion of the Borough's households require no form of recovery action.
- 3.18 The increase in council tax arrears has led to a significant increase in the amount of recovery action required to be taken. Table 3 below shows the increased activity in terms of reminders, summons etc. and highlights that in certain areas recovery action has almost doubled compared with previous years.

Table 3 – Recovery Action

	2011-12	2012-13	2013-14	2014-15	2015-16
First Reminder	18,275	18,387	29,672	28,645	27,248
Second Reminder	3,740	3,613	5,699	6,116	5,678
Final Notice	11,921	11,813	20,475	20,361	19,500

Summons	7,671	7,583	13,366	13,297	13,327
Liability Orders Granted	5,615	5,261	9,203	9,163	9,365
Pre-Bailiff / Enforcement Letters	6,188	6,409	9,848	9,086	10,547
Issued to Bailiff / Enforcement Agents	3,263	4,381	3,888	3,039	3,248
Attachment of Earnings	1,670	1,451	1,282	2,006	1,925
Attachment of Benefit	1,898	1,857	3,363	4,162	3,136
Arrangement Default Letters	3,226	3,111	3,536	4,882	7,546
Total	54,589	54,224	87,241	88,555	88,907

- 3.19 This increase in recovery action places significant extra demands upon the Council Tax Section, Halton Direct Link Shops and the Contact Centre, when households contact the Council regarding their arrears. The Council also provides support through the Welfare Rights Service and the Money Advice Team, but in many cases there is no alternative other than proceeding to court and obtaining an Attachment of Benefit or Attachment of Earnings.
- 3.20 Increased recovery action also means that residents are trying to contact the Council in a distressed state, concerning very difficult situations such as Court summons or Enforcement Agents letters, which has a consequential impact upon Council staff.

The Impact of Localisation of Council Tax Support

- 3.21 From April 2013 the Government abolished council tax benefit and instead localised support for council tax whereby the Council established its own Council Tax Support Scheme. As part of this transfer of responsibilities the Government grant funding for such support was reduced by 10%.
- 3.22 During the last year of council tax benefit the Council paid out in excess of £11m. The reduction in Government grant funding for the new localised scheme was in the region of £1.4m.
- 3.23 In order to address this shortfall in funding, the local scheme introduced in Halton was based upon the premise that everyone, excluding pensioners, would pay a minimum of 21.55% of their council tax liability. This brought approximately 6,300 households into paying council tax for the first time, in addition to those who are partial benefit claimants.
- 3.24 Since 2014/15 the grant funding for the Council Tax Support Scheme has been included within the Council's general Government grant funding, which in total has also been reduced each year by around 10%. The total cost of the Council Tax Support Scheme in 2016/17 will be approximately £9.2m and will relate to 13,500 households.

- 3.25 Table 4 below demonstrates the minimum council tax payment required for a band C property, whose council tax liability was fully met from council tax benefit prior to 2013/14.

Table 4 – Council Tax Support

	2012/13 £	2013/14 £	2014/15 £	2015/16 £	2016/17 £
Band C charge	1,204.06	1,227.10	1,247.88	1,271.73	1,319.17
Minimum payment	Nil	264.44	268.91	274.05	284.28

- 3.26 At the same time many of these households were also affected by other welfare benefit changes, such as the Under Occupancy Charge (Bedroom Tax), which would have seen additional cuts in their household income.
- 3.27 Council tax arrears have started to increase significantly since the abolition of council tax benefit. Although this situation was expected, there are an increasing number of households who are not clearing their in-year arrears before the following year's council tax liability is added to their account.
- 3.28 This can be illustrated by looking at an example for an individual taxpayer as shown in Table 5 below. This is an example of a taxpayer who has been billed the minimum 21.55% each year for a band C property. It highlights the on-going debt problem which some households in the Borough will have, as a result of the abolition of council tax benefit and the subsequent reduction in council tax support.
- 3.29 On the basis that a recovery plan is in place for this account, the outstanding debt will continue to rise, until such time as the taxpayer is able to increase their household income.

Table 5 – Attachment of Benefits Example

	2013/14 £	2014/15 £	2015/16 £	2016/17 £
Band C council tax charge	1,227.10	1,247.88	1,271.73	1,319.17
Minimum (21.55%) amount charged	264.44	268.91	274.05	284.28
Plus liability order costs	77.00	77.00	77.00	77.00
Total due to be paid	341.44	345.91	351.05	361.28
Attachment of benefits (AOB) monthly deduction	14.60	14.60	14.60	14.60
AOB expected to commence	August 2013	September 2015	October 2017	November 2019
AOB expected to terminate	August 2015	September 2017	October 2019	December 2021

- 3.30 Before a taxpayer can be given an attachment of benefits to recover the council tax which is owed, the Council must first obtain a liability order, which currently carries an additional cost for the taxpayer of £77.00.
- 3.31 Therefore, in the example above the taxpayer will not clear their 2013/14 arrears until August 2015 some 17 months after the year-end. They will then not clear their 2014/15 arrears until 2 years 5 months after year-end and similarly their 2016/17 arrears until 4 years 8 months after the relevant year-end.
- 3.32 As a liability order must be obtained in these circumstances, one option would be when the initial attachment has been paid in full, for the costs element for the second attachment to be written-off by the Council. This may help to avoid the current situation whereby some households may never be able to clear their council tax arrears, unless their circumstances and household income changes significantly.

Cash Collection

- 3.33 Whilst there has been a significant increase in the level of council tax arrears as outlined above, the total amount of cash collected by the Council since April 2013 has increased as shown in Table 6 below. This is due to an increased number of households being billed and having to meet the minimum 21.55% of their liability, plus the additional charges introduced for empty properties.

Table 6 – Council Tax Cash Collected

	2012/13 £	2013/14 £	2014/15 £	2015/16 £
Cash Collected	41,880,978	45,127,199	46,805,989	48,531,889
Increase on previous year	348,626	3,246,221	1,678,789	1,725,899

- 3.34 The on-going collection of council tax year-on-year, including that relating to previous year's arrears, has historically meant that the eventual collection rate in most years exceeds 99%. This is as opposed to the in-year collection rate. However, the impact of the council tax support scheme has meant that this will become more difficult as the level of arrears continues to increase. Table 7 below shows the latest position regarding the in-year collection rate and the eventual collection rate for each year.

Table 7 – Eventual Collection Rate

	06/07 %	07/08 %	08/09 %	09/10 %	10/11 %	11/12 %	12/13 %	13/14 %	14/15 %	15/16 %
In-year collection rate	95.96	96.41	96.77	97.00	97.00	97.11	97.11	95.82	95.47	95.21
Eventual collection rate (to date)	99.18	99.26	99.14	99.21	99.21	99.12	99.00	98.34	97.60	95.78

Conclusions

- 3.35 Council tax is one of the Council's main sources of funding for delivery of its services.
- 3.36 The localisation of council tax support has had a significant impact upon the collection of council tax, the number of households falling into arrears, and the amount of recovery action having to be taken as a result.
- 3.37 A significant number of households, where attachment of earnings or attachment of benefits have been applied, will not be able to clear their arrears in-year unless there is a significant change in their circumstances and household income.
- 3.38 The Council takes all possible steps to assist taxpayers in meeting their council tax liability and recovery action is fair and equitable. The use of court action or enforcement agents is always the last resort and the preference is to find an agreeable solution with taxpayers before reaching these stages.
- 3.39 An increased amount of cash is now being collected because a greater number of households are liable to pay all or part of their council tax and additional charges are also being levied for empty properties.
- 3.40 Many households are suffering from other reductions in welfare benefits at the same time as having council tax arrears.
- 3.41 There is increased pressure for staff within the Council Tax Section, Halton Direct Link and the Contact Centre, as a result of the increased amount of billing and recovery activity having to now be undertaken.

4.0 POLICY AND OTHER IMPLICATIONS

- 4.1 None.

5.0 IMPLICATIONS FOR THE COUNCIL'S PRIORITIES

- 5.1 There are no direct implications, however, council tax is a major source of funding for the Council's revenue budget.

6.0 RISK ANALYSIS

- 6.1 None.

7.0 EQUALITY AND DIVERSITY ISSUES

- 7.1 None.

8.0 LIST OF BACKGROUND PAPERS UNDER SECTION 100D OF THE LOCAL GOVERNMENT ACT 1072

- 8.2 There are no background papers under the meaning of the Act.