

Call for evidence into the collection of council tax arrears

Report to the Levelling Up, Housing and Communities Committee

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About Policy in Practice

1. Policy in Practice is a data analytical and social policy organisation. We specialise in understanding the impact of policy on residents and we support councils and other organisations to identify, engage, support and track residents in need. Our mission is to make the welfare system simpler and easier for people to navigate through our policy research, benefit calculation software and advanced analytics for the public sector. 10,000 people each day use our [benefit calculator](#) to navigate the benefit system. We work with more than 100 councils to identify and engage vulnerable households and track the impacts of policy (including Universal Credit) through our [LIFT platform](#). Our research work has been supported by the Joseph Rowntree Foundation, Welsh Government, Local Government Association, Trust for London and the Cabinet Office among others.
2. We welcome this call for evidence on council practices regarding CT arrears collection. Policy in Practice has worked with many councils to design CTR schemes and to target proactive support and to segregate debtors. We have also undertaken a number of pieces of relevant research that inform this submission. Notably;
 - Research on [Council Tax debt collection and low-income Londoners](#) for the Greater London Authority (GLA), 2020
 - [Universal Credit, Council Tax Reduction scheme and rent arrears in Wales: final report](#), for the Welsh Government 2020
3. We would be pleased to provide further assistance or evidence to the committee should this be useful of use in the exploration on this subject.

Do there need to be changes in the practice employed by local authorities to collect council tax arrears?

Policy in Practice believes that a more uniform and customer-focused approach to CT arrears collection will assist both the resident and the council. In order to achieve this, many councils will need to address, and change, current policies.

In 2020, Policy in Practice undertook research for the Greater London Authority to understand CT debt collection across London. As part of the research we held a roundtable of officers responsible for CT debt collection in London boroughs. The discussion indicated a widespread tension between the wish to support low-income households and the need to protect their budgets. Councils may be resistant to adopting new practices where they believe collection rates could be compromised. This is understandable, given the reduction in council budgets in recent years and the ongoing challenges faced by many councils to fund frontline services.

Our experience is that most councils do want to support the most vulnerable. Particularly by ensuring that those who cannot pay are not forced down the standard enforcement route, thus protecting them from fees and charges. Nevertheless, the significant differences between councils give cause for concern.

- 67% of London boroughs explicitly state that they take account of vulnerability in determining action on collection of arrears.
- 82% of London boroughs take account of ability to pay in determining action on collection of arrears.
- 8 London boroughs had signed up to the Citizens Advice/Local Government Association voluntary protocol of good practice.
- All but one London borough use bailiffs as part of their enforcement activities.

As part of the research for the GLA we evaluated the main barriers to adopting more flexible enforcement policies. These were:

- The need to maintain **in-year collection rates** puts pressure on councils to continue current enforcement practices and does not reflect cross-year payment arrangements.
- **Data-sharing** is needed to define vulnerability, but this is hindered by different IT systems, data protection, and the move to Universal Credit. Under legacy systems councils had greater visibility over low-income households due to the joint application for HB and CTR. With the move to UC certain vulnerability data (e.g. on receipt of DLA or PIP) is not shared as a data file by DWP for UC claimants (although it is accessible on a case by case basis). Councils are also just beginning to understand the UC data share and how this can be used to segregate claims. Policy in Practice is now using this data within the LIFT dashboard to provide indicators of vulnerability and household finances.

This assists councils in separating out those who cannot pay, and so steer them towards support, and those who won't pay. Currently this visibility is only available for households who claim CTR and UC. Policy in Practice works with a number of councils who would welcome access to UC data on residents who are not claiming CTR. This would enable visibility over the vast majority of low-income residents.

- **IT systems** built around the regulations mean that adoption of flexible policies prior to the summons stage can be problematic. IT providers will only change system specifications in response to legislation. This means segregation of debtors prior to liability order is problematic and requires councils to use additional resources for bespoke IT solutions or amendment of current systems.
- **Political leadership** is key to a change in policy towards a more customer-focused approach. Where this doesn't exist there may not be the impetus to change policy if the current way of working is embedded.

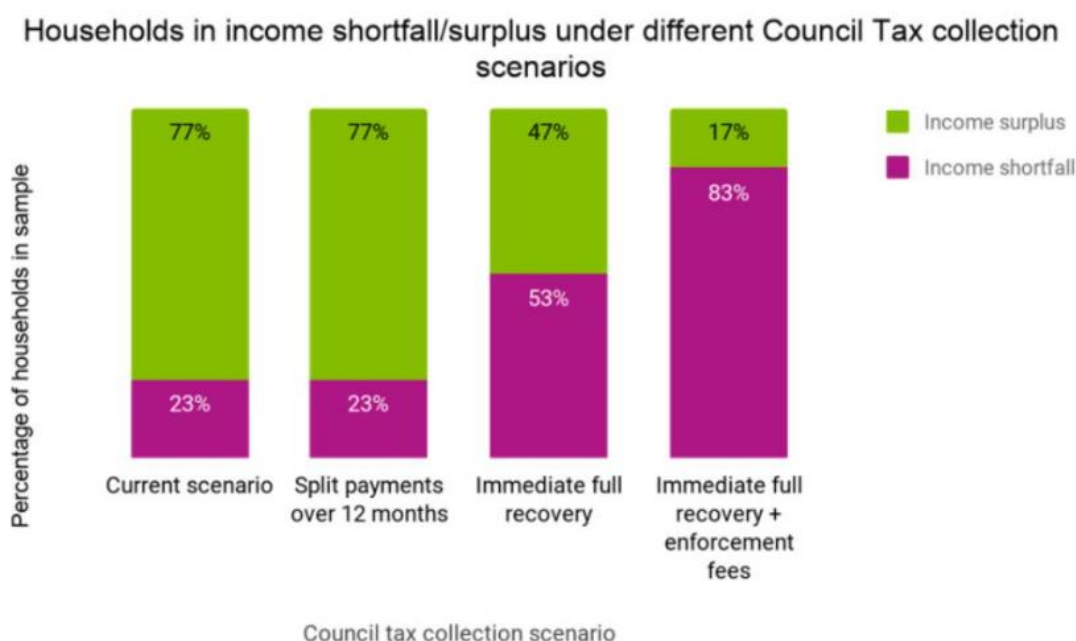
Our research showed that it can be in the council's interest, and support CT arrears collection, to implement supportive collection policies. Enforcement action against low-income households can result in further costs being added to their council tax debt and make recovery less likely. Generally, a household missing a payment has instalments withdrawn and is expected to pay the full amount for the year. Further enforcement action can lead to the addition of court and enforcement fees making the final debt many times higher than the original debt.

Analysis for the GLA sought to understand the proportion of households who would be unable to pay these increased debts compared to those who could pay if a more flexible option was available, and the debt had been spread over a longer period. Policy in Practice has developed a sophisticated measure of household financial resilience. This involves looking at income and expenditure, both now and in the future, taking account of relevant policies such as minimum wage and personal taxation. Policy in Practice's Low Income Family Tracker (LIFT) Platform allows local authorities to identify and support households with low financial resilience and monitor the impact of interventions that are designed to support them.

We looked at existing administrative data that we hold for most London boroughs. We were able to use this to determine how many households would be pushed into a cash shortfall between their income and expenditure if one month's council tax was recovered over 12 months. Then we did the same calculation for recovering the whole council tax bill over 12 months and for the whole council tax bill plus average costs for liability orders and enforcement action.

We found that only 0.1% additional households in the sample would be pushed into a shortfall from recovering one month's council tax over 12 months, but an additional 25% for recovering the whole bill, and an additional 60% if costs were added. So, as the amount of debt increased, the chances of successful recovery were much reduced.

- Dividing repayment of one month's council tax arrears across 12 subsequent months had an almost negligible impact on household financial vulnerability. Only 0.1% of households whose monthly income is currently higher than their legitimate expenditure would move into shortfall between income and expenditure as a result of the additional split payments.
- Requiring immediate full payment of council tax after a single missed instalment led to more than half (53%) of all households experiencing an income shortfall.
- Adding recovery and enforcement fees to this financial burden raised the percentage of households in financial shortfall to 83%



There is growing evidence that the collection of council tax arrears from low-income households can exacerbate poverty and have a significant impact on mental health of debtors.¹

Research undertaken by Policy in Practice for the Welsh Government indicated that fear of debt and enforcement activity prevented a significant proportion of eligible claimants (16% of respondents) from claiming CTR support for fear of debt and council enforcement action.

Our research for the GLA made a number of recommendation that could be adopted by councils:

- Adopt a policy of not adding costs to council tax debt for low-income households. Adding recovery and enforcement fees to this financial burden raised the percentage of

¹ [Action needed to prevent a council tax enforcement cliff-edge following coronavirus, StepChange, Citizens Advice and Money Advice Trust, 21st May 2020](#)

households in financial shortfall to 83%. Requiring immediate full payment of council tax after a single missed instalment led to more than half (53%) of all households experiencing an income shortfall.

- Adopt the practice of identifying CTR recipients in advance of the summons stage to allow them to seek debt advice and draw up a repayment plan.
- Share more data internally between departments to help move towards a more rounded, single view of household debt.
- Ensure that Council Tax Reduction Schemes are as generous as possible to support council tax collection and do not incorporate Universal Credit policies such as the two-child limit.
- Consider the introduction of more customer-friendly contact hours for people in difficulty.

More flexible collection policies can be mutually beneficial to both the taxpayer and the council but need to overcome the obstacles to change which are deeply embedded in some councils. The key to promoting flexible collection practices lies in easing this tension by providing councils with empirical evidence which demonstrates that the adoption of new approach will not impact collection rates.

The current variation in CT arrears action across councils means that enforcement action, and support is a postcode lottery. Given the impact that this can have on household finances and wellbeing of residents, a move towards uniformity would be welcome.

What examples are there of local authority best practice in respect of council tax arrears collection – and what has the impact of this practice been?

CT arrears do not exist in isolation. In many cases, arrears are due to households having insufficient income to cover basic costs or vulnerability leading to an inability to manage affairs. Proactive support of residents can prevent the development of arrears. Visibility over household income can allow for segregation of debtors into those that cannot pay (who can be signposted to support) and those for whom enforcement action could be considered. Councils can do this using their own data to provide pro-active support prior to the development of arrears. Policy in Practice works with numerous councils to target support to low-income and vulnerable residents, to increase benefit take up, and to segregate debt.

These councils use the Low-Income Family Tracker ([LIFT](#) platform). This software uses council administrative data (SHBE, CTRS, rent arrears, CT arrears data, council debt data) together with DWP UC data that is shared with the council to provide visibility over low-income residents. This allows councils to identify people in danger of crisis before it hits and target support where it will be most effective, preventing hardship. The platform then allows councils to track changes to

understand the best use of resources and interventions. A number of councils use this platform to assist residents in debt and we would be pleased to provide further details if this would be of assistance to the committee.

The impact of targeted holistic support can be illustrated through a Policy in Practice project, funded by the Cabinet Office, which sought to evaluate the impact of individual holistic support to those in debt. We used the Low-Income Family Tracker (LIFT) platform. By identifying, analysing, and tracking changes in household income and arrears on a monthly basis, councils improved customer engagement, targeted support proactively, and were able to see each customer's journey on a single screen.

- In **Newcastle**, the proportion of rent or council tax arrears greater than £250 fell from 74% to 58% and average rent and council tax arrears fell by £1,216. 17% of the cohort became wholly arrears-free.
- In **Barking & Dagenham** 50% of those previously in arrears became arrears free and the proportion of rent or council tax arrears greater than £250 fell from 18% to 8%. Arrears fell by 3x more in the treatment group than in the control group

Our CT debt research for GLA included the case study of the **London Borough of Newham** (included in the research report as an annex). This study shows that whole authority support for policy change can have real impact. The management team and cabinet members made debt management a corporate priority and are exploring new ways of managing debt across the council.

The council's continuous improvement team started work around a year ago to investigate how debt is currently collected, and what improvements could be made. The review is timely because the council stopped all debt collection activity due to COVID-19, and there is now an opportunity to look afresh at working methods as debt collection is re-introduced.

The first step of the review involved detailed end-to-end process mapping of each area of the council where debt is collected. All parts of the council with an interest were fully involved in the study. In common with most councils, each department has its own policies and processes and there is no overall place where debt is managed or reported to, and no consistent central place for learning and good practice.

Following the review Newham are now going take forward work in three key areas:

- A council-wide debt policy. The team will look at what needs to happen to make this work in practice. This will include a review of their overall debt collection aims, and efforts to decide upon a hierarchy of debt.
- Better use of data. This can help with the customer segmentation process to understand the different customer groups and therefore what the most appropriate and effective debt management solutions would be. Services may be better able to manage the needs of

resident/customer based on greater information on circumstance with clear parameters. Ideally, making smarter use of data should help identify warning signs, and so allow the council to give help to people before their debt escalates or even begins.

- A cross-service pilot. This will involve drawing up a single view of resident debt, adopting common definitions of what constitutes vulnerability, and signposting people to the most appropriate means of support. For those with high, multiple debts this could include referral to MoneyWorks, an innovative in-house service that provides a range of free and confidential money, debt, and benefits advice. The focus is on a person's or household's whole circumstance, and as such it provides support to boost income whilst also using tools such as the Standard Financial Statement to manage repayment based on what people can manage and afford.

Newham has very clear values and priorities for community wealth building that focus on a 'fair and inclusive Newham' and building an inclusive economy. The focus on debt management is an important step within this journey.

Similarly, in **Southwark**, the new mayor has given priority to a customer-focused approach to all council business. This has led to a re-examination of all council processes. The outcome is an individual examination of debt before passing to enforcement. In Southwark, the low collection rate achieved by external agencies allowed services to be brought in-house. With in-house teams, the council has used internally held data to segregate claimants and identify appropriate enforcement routes. Southwark has invested in software to create a single view of debt across the council.

What is your assessment of the August 2021 government guidance on best practice for council tax collection?

The 2021 government guidance sets a clear direction and contains useful tools and links to good practice examples. This will prove helpful to councils that wish to extend current supportive processes and those that are evaluating the introduction of such processes.

However, there have previously been several attempts to define a set of criteria and protocols for collection practices. As adoption of these is voluntary there has been little uniformity of practice and a postcode lottery remains. The guidance will be of use to those councils committed to adopting supportive practices but is unlikely to change practices in councils wedded to non-supportive processes.

In general, boroughs have adopted their own specific policies, many of which contain provision specifically for low-income households. However, the non-committal nature of flexible, customer-centric debt collection guidelines means that different local authorities vary in the specific practices that are put in place.

The majority of respondents (80%) to our survey on collection practices for the GLA research were already signed up to the Citizens Advice protocols. Even so, the adherence to the protocol varied between councils. The councils that engaged with the research did tend to segregate debtors from other customers and were, in general, customer-focused.

The key barriers to development of collection practices, identified by those attending the GLA research roundtable, are shown below. In each case the coverage in the 2021 government guidance of these barriers is discussed.

Terminology

The councils that took part in our research disliked the term “ethical collection”. Government guidelines use the word “supportive collections” which is likely to be more acceptable to councils.

In-year collection as a performance measure

All Councils mentioned in-year collection as a key performance indicator. This is seen as one of the key indicators by both elected members and the public. As long as this remains a key performance indicator, there will be reluctance to risk slippage. The move to a more flexible system will potentially introduce this risk. The councils that engaged with this project would like to see a move to indicators that include previous years’ debt. If previous years’ debt is not included in the key indicator, there is little pressure on councils to move towards a more flexible approach with repayment plans crossing financial years.

As performance indicators and targets tend to drive behaviour, it may also be helpful to explore the viability of a new performance indicator for the number of repayment plans in place. The use of the in-year collection as a performance indicator is not addressed in the 2021 government guidance. We recommend moving away from this to a multi-year measure.

Need for data

In order to understand vulnerability, and so inform collection segregation, councils require data on debtor households. Councils stated that barriers to data-sharing hindered segregation. Several councils are developing a cross-council view of debt and are considering, or have implemented, appropriate data-sharing across relevant departments. Other councils that engaged with the research said they were hindered in this approach by the numerous IT systems holding data and the legislation around data-sharing.

The 2021 government guidance highlights the need for intelligent use of data. However, even if a council wishes to use data more fully, and internal structures mean this is possible, data

sharing is hampered by limited data sharing by DWP and health services. Access to data from the DWP is particularly difficult with the move to Universal Credit as councils hold less data on low-income households than under the legacy benefit systems.

Policy in Practice's LIFT platform uses the daily UC data share from DWP to identify low-income and vulnerable households. This data share contains reasonably detailed household information, but some useful information is not shared. For example, whether the household is in receipt of a disability benefit.

Additionally, the data share does not cover all low-income residents. The data share only covers those households that have indicated they wish to apply for CTR. This leads to many potentially eligible claimants not applying for support and at so being at risk of CT arrears.

It would be beneficial for the proactive support that many councils wish to undertake if DWP would share further data for those already included in the data share and for all UC claimants in a council area. Reliance on claimants to indicate interest in CTR in order to share data risks the development of CT arrears.

Inflexible IT systems built around regulation

Current practices are somewhat determined by legislation as the IT systems used to administer collection adhere strictly to regulation. The relevant provisions of the legislation in the Council Tax (Administration and Enforcement) Regulations 1992 (and amendments) set out procedures for reminder notices in the event of failure to pay by instalments and then outline arrangements for court action and ensuing enforcement measures. There is no mention of debt advice nor the desirability of repayment plans.

This stymies the ability of councils to act outside the standard collection routes. Any amendment to IT systems on an individual basis would be very expensive. Councils also mentioned that the need to build processes around the IT provision would determine how they respond to breathing space.

The 2021 government guidance does not address how councils could overcome barriers with suppliers or guidance as to supplementary systems that may be of use. We would recommend further evaluation of how Government could assist councils with this.

Do there need to be changes to the legislation on the recovery of council tax arrears?

The voluntary nature of adherence to guidelines and protocols, and our experience of variation in practice across councils suggests that legislation may be necessary to meet the objective of supportive recovery across all councils.

Legislation may be welcome by some councils as it would ensure that IT suppliers provided the necessary software for the administration of supportive policies that allowed for the segregation of debtors.

Without legislation it is likely that those councils that prioritise proactive and supportive policies will extend this work. The driver to do this coming either from revised political or corporate objectives or through an understanding that reduction in arrears goes hand in hand with supporting residents. In contrast, councils that are wedded to current policies, generally for fear of reduced collection rates and a lack of impetus to amend policies that appear to work, are likely to retain stricter enforcement measures. Over time, this could lead to an even greater postcode lottery in enforcement action.

Key areas that could usefully be evaluated for whether a legislative framework is appropriate are:

- Removal of the sanction of prison for CT debt in England to bring it in line with Wales and Scotland.
- Exemption of those on low-income or vulnerable from enforcement action (or until other support measures have been carried out)
- Prohibit additional fees and charges being added to the debt for those on low-income.
- Introduction of a minimum level of maximum council tax support for low-income working-age households.
- Enable greater data sharing, particularly useful to councils would be DWP data on all low-income UC claims.

How do the different schemes of local authority council tax support affect council tax collection rates?

In England, a report by the Institute for Fiscal Studies (IFS)² concluded that reducing a household's council tax reduction entitlement has led to sizeable increases in the amount of

² [The impacts of localised council tax support schemes](#), Stuart Adam, Robert Joyce and Thomas Pope, (Institute for Fiscal Studies, 29th January 2019)

council tax uncollected. Where cuts in support are made, the rate of non-collection is around 10 times higher than the typical rate of non-collection of council tax.

However, because cuts to council tax reduction are small relative to the total council tax due, the effect on the aggregate rate of non-collection has still been relatively modest – increasing it from 2.5% to 2.7% on average (from 2012-13 to 2018-19). The main issue giving rise to the increase seems to be requiring households to pay some council tax when they would otherwise have had no bill, rather than the size of those bills

However, in Wales all CTR has retained the 100% maximum award. Even so, data from Citizens Advice indicates that, in 2014-15, council tax arrears became the largest single debt-related problem seen by their network in Wales. This trend continued in 2015-16 with over 16,000 problems reported, an increase of 7% on the previous year.

By 2017-18, the number of problems had reduced slightly (to 13,100) but it remained the most common debt problem. So, although the CTR scheme across Wales provided support equal to the most generous in England, other drivers of arrears exist.

There are likely to be a number of reasons for the steady increase in CT arrears³ including:

- The migration to Universal Credit (our [research](#) for the Welsh Government provided a consistent picture of council tax arrears being both more common, and more severe, under Universal Credit)
- Historically low levels of means-tested benefits
- Austerity measures introduced into the benefits system (such as the two-child limit, LHA freeze, and benefit cap)
- The historically low take up of CTR

Policy in Practices [research for the GLA](#) attempted to understand the drivers of collection rates. The research used a multiple regression model to determine how the following factors relate to council tax collection rates:

- Maximum CTR award
- CT charge
- Level of poverty using the indicator for multiple deprivation
- Collection policies (divided into supportive and non-supportive policies as determined by adherence to the Citizens Advice protocol)

³ <https://gov.wales/sites/default/files/statistics-and-research/2021-08/understanding-the-impact-of-covid-19-on-the-council-tax-reduction-scheme-in-wales-final-report.pdf>

Following this approach, we found that only financial resilience (IMD) and the generosity of the local Council Tax Reduction Scheme were significantly associated with local authority's council tax collection rates.

As expected, local authorities with higher levels of relative deprivation tended to report lower council tax collection rates. Local authorities with higher maximum CTR awards tended to report higher council tax collection rates. Together, these two predictors accounted for 73% of the variance in collection rates. Neither the level of council tax nor adherence to the Citizens Advice council tax protocol significantly improved the amount of variance in collection rates accounted for by the model.

Our data analysis showed that the generosity of the CTR scheme is more important in determining collection rates than the collection policy.

The research only included London boroughs, and these showed significant variation in scheme generosity. The most generous schemes provide support based on 100% of council tax liability. The least generous provide support based on 60% of liability. If residents that are reliant on means-tested benefits are required to pay a substantial sum towards council tax, this is paid from their personal allowance.

The means-tested personal allowance was set at a time when Council Tax Benefit was based on 100% of liability and the allowance was not increased to take account of these additional payments. A reduction in the generosity of financial support for council tax occurred at the same time as benefit rates were frozen. For many residents, payment of this additional amount is not possible and will inevitably result in the accumulation of arrears.

London boroughs are likely to find that increasing the generosity of the Council Tax Reduction Scheme will support collection rates more so than adherence to non-supportive collection policies. It is also open to councils to mitigate the impact of Universal Credit policies such as the two-child limit in their CTR schemes.

Our key findings from this research were:

- Only Council Tax Reduction Scheme generosity and local poverty levels are significantly associated with collection rates.
- Council tax rates and collection practices (as captured by adherence to the Citizens Advice/LGA Council Tax Protocol) were not significantly associated with collection rates.
- Local authorities with higher levels of relative deprivation tended to report lower council tax collections rates.
- Local authorities with higher maximum award levels for their CTR schemes tended to report higher council tax collection rates.