

# Have cuts to Council Tax Support in England led to rising council tax arrears?

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## Introduction and summary

Council Tax arrears have risen in the years since the introduction of Council Tax Support (CTS), a local replacement for Council Tax Benefit (CTB) which tends to be less generous. This briefing paper looks at the relationship between the generosity of council tax support schemes and council tax arrears.

Council tax arrears are becoming an increasingly significant pressure faced by low income families, as shown by recent research from Citizens Advice.<sup>1</sup> For working-age adults in poverty it is the most common bill to fall behind with.<sup>2</sup> The Council Tax collection rate for England fell in 2013/14 after the change from CTB to CTS and three years on has still not recovered.<sup>3</sup>

When looking at the relationship between CTS and Council Tax arrears, we need to look at what has happened at the local level. CTB was administered nationally, whereas under CTS local authorities have been responsible for designing their own support schemes for working-age residents, in the context of reduced funding. Councils have changed their schemes in various ways, with previous NPI research on CTS schemes showing that the most common change to require all working-age CTS claimants to pay some of their Council Tax liability. This paper shows a clear trend between higher 'minimum payments' of this sort and larger increases in the amount of uncollected Council Tax.

For many councils, lacking clarity about how else to fund CTS, there has been a sense of inevitability about the introduction of and increases to a minimum payment. But the relationship with arrears raises important questions about whether this is effective or fair. If it is too high it will increase the amounts of uncollected tax and the administration and court costs associated with recovering unpaid Council Tax. It can also push low income families into debt and is an additional financial pressure suffered by both in-work and out-of-work families on a low income.

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<sup>1</sup> Kelly, M. (2016) Catching up: Improving council tax arrears collection. Citizens Advice

<sup>2</sup> Tinson, A. *et al.* (2016) Monitoring poverty and social exclusion 2016. New Policy Institute

<sup>3</sup> Department for Communities and Local Government (2016) Table 2: Council Tax collection rates, 2011-12 to 2015-16. Available at [<https://www.gov.uk/government/statistics/collection-rates-for-council-tax-and-non-domestic-rates-in-england-2015-to-2016>]

## Background

In 2013 CTB was abolished and replaced by CTS, a system whereby each local authority is free to introduce its own scheme for working-age adults. For the first year of the scheme the funding available from central government was decreased by 10% in comparison to the system of CTB which the government had funded in full. Since then, government funding for CTS has been incorporated into the general grant, which itself has been decreasing.

By January each year local authorities decide how CTS will be administered in the following financial year. The most common measure has been to introduce a 'minimum payment' so that all working-age claimants are required to pay at least some Council Tax regardless of income, although many local authorities have also made other changes such as removing the second adult rebate.

In practice this means that even those on the lowest incomes have to pay some Council Tax. In 2015/16, three years after the introduction of CTS, 2.3 million low-income households faced higher Council Tax payments than they did before CTB was abolished, paying on average £167 in additional Council Tax per year.

The extra pressures of CTS on household finances also need to be understood in the context of overall changes to people's circumstances. Our research in 2015 highlighted overlaps between cuts to CTS and the bedroom tax, with 270,000 families affected by both changes.<sup>4</sup>

## How Council Tax collection and arrears have changed

Council Tax arrears occur when a resident falls behind with their council tax payments. The way that councils pursue missed payments varies from authority to authority. The standard procedure is for the council to send two reminders about unpaid council tax before embarking on further collection and enforcement strategies. This may include asking for the entire year's liability to be paid in one instalment, making an application to the magistrate's court for a liability order, or an attachment of earning or benefits (where the council collects council tax from the household's income or benefits that the council itself administers). They may proceed with enforcement measures, such as debt collection by bailiffs.

### Council Tax collection and arrears in England

Net collectible debit (NCD) is the income that local authorities would collect in each year if everyone liable for Council Tax paid it in full. The table below shows that since

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<sup>4</sup> Aldridge, H. (2015) The overlaps between the bedroom tax and cuts to Council Tax Support. New Policy Institute

the introduction of CTS the estimated amount of NCD has been increasing. In 2015/16 the NCD in England was £25.5 billion, an increase of £2.5 billion since 2012/13 the last year of CTB when it was £23.0 billion. This is likely to correspond both to cuts to CTS and to an expanding Council Tax base, including rising levels of employment.

The total amount of arrears has also increased from £2.4 billion in 2012/13 to £2.7 billion in 2015/16. Within arrears, court and administration costs have also increased from £210 million in 2012/13 to £280 million in 2015/16. Between 2012/13, the last year of CTB, and 2015/16 the net collectible debit (NCD) increased by 11%. In comparison, total arrears (excluding court and administration costs) and court and administration costs grew by 13% and 35% respectively.

The collection rate is the actual amount collected expressed as a proportion of the NCD – the amount that is expected to be collected in Council Tax in the same year. In 2013/14 the first year of CTS the in-year collection rate was 97.0% compared to 97.4% the previous year. This was only the second time since council tax was introduced in 1993/94 that national collection rates have fallen compared with the previous year.<sup>5</sup>

**Table 1. Estimate of net collectible debit, total arrears, uncollected tax, court and admin cost and the collection rate from 2011/12 to 2015/16.**

	2011/12	2012/13	2013/14	2014/15	2015/16
Estimate of NCD (£ billions)	£22.7	£23.0	£24.1	£24.8	£25.5
Total arrears relating to all years at the end of the year shown (£ billions)	£2.4	£2.4	£2.5	£2.7	£2.7
Amounts not collected in year shown – includes court and admin costs (£ millions)	£700	£700	£840	£860	£850
Court and admin cost included in total arrears (£ millions)	£200	£210	£230	£270	£280
Collection rate (per cent)	97.3	97.4	97.0	97.0	97.1

Source: Table 5: Council tax and non-domestic rates - amount collected in year in England: 2011-12 to 2015-16 and Table 7: Council tax arrears and write-offs: 2011-12 to 2015-16, DCLG; the data is for England

<sup>5</sup> Ollerenshaw, E. (2016) Three Years On: An Independent Review of Local Council Tax Support Schemes. Department for Communities and Local Government

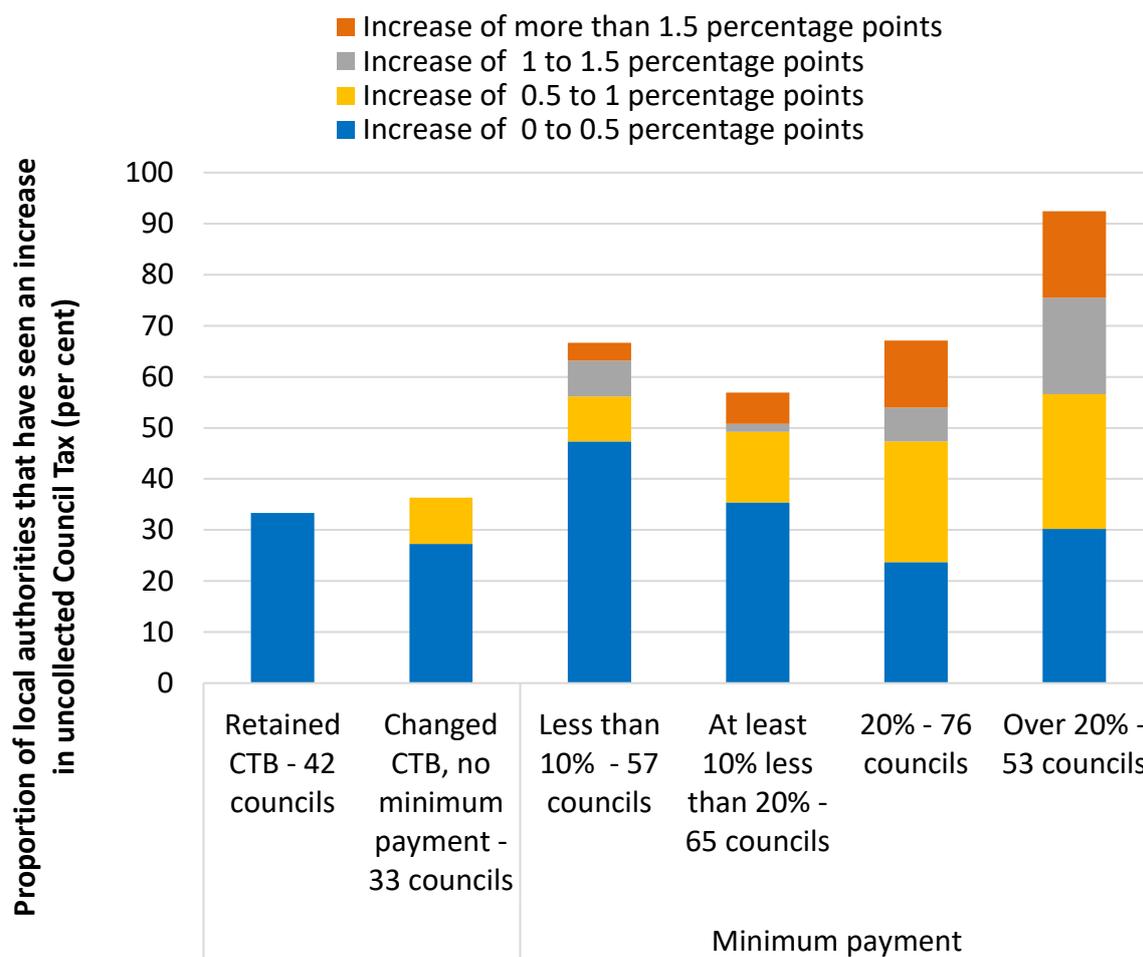
## Council Tax collection and arrears at the local level

Council Tax arrears and write-offs have not increased evenly across local authorities in England. One problem faced when looking comparatively at the relationship between local CTS schemes and changes in Council Tax arrears and collection rates is that the data on arrears and collection rates for working-age CTS claimants is not collected systematically and made available by the Department for Communities and Local Government. Nevertheless we can look at how arrears and collection rates for all residents have changed across local areas and how this corresponds to the variation in local CTS schemes.

Figure 1 looks at uncollected tax in respect of that year of council tax (not including uncollected council tax from previous years) as a proportion of the tax which was expected to be collected – net collectible debit. In this way the size of the local authority and their council tax base has been controlled for. Some local authorities have a much larger amount of uncollected tax in absolute terms because they cover larger areas or have more households paying council tax and this has been taken into account.

The bars are grouped according to the scheme adopted by each council in 2015/16, by whether they changed the scheme from CTB, whether they introduced a minimum payment and the size of the minimum payment if one had been introduced.

**Figure 1. Proportion of local authorities that have seen an increase in uncollected tax in and 2015/16 when compared with 2012/13.**



Source: NPI analysis of collection rates and receipts of council tax and non-domestic rates in England, DCLG; the data is a comparison of 2015/16 with 2012/13.

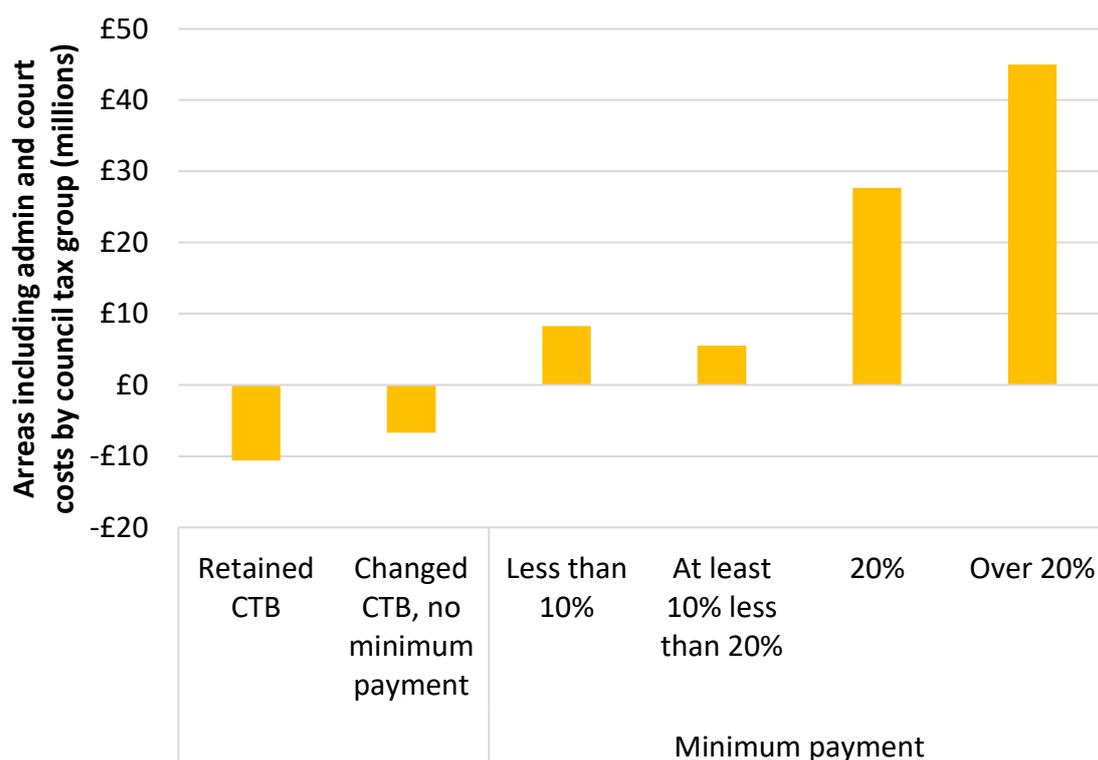
Although for every type of scheme, those with and without minimum payment, the proportion of councils with uncollected taxes has been falling since the first year of CTS. More than 60% of the 75 local authorities with no minimum payment have seen an increase in the collection rate whilst more than half of the 326 who have introduced a minimum payment have seen their collection rate decrease.

Local authorities with the highest minimum payments have been the local authorities with the largest increases in uncollected Council Tax. In 2015/16 compared with 2012/13 the last year of CTB, 14 out of the 42 (33%) councils who retained the full support of CTB saw a small increase in uncollected tax as a proportion of NCD of between 0 and 0.5 percentage points. The remaining 28 (67%) saw a decrease in uncollected Council Tax. Of the local authorities who increased their minimum payment by more than 20%, 4 out of 53 (8%) saw a fall in uncollected tax and 16 out of 53 (30%) saw a small increase of between 0 and 0.5 percentage points. The

remaining 33 of these local authorities (62%) saw larger increases in uncollected tax. 9 out of 53 (17%) of them saw an increase of more than 1.5 percentage points.

These increases may seem small but as the amount of Council Tax that should be collected each year is a large sum – £25.5 billion in 2015/16 – the actual amounts of uncollected tax are also substantial. Figure 2 below takes into account the change in the council tax bases between the years to calculate the additional amounts of uncollected taxes in 2015/16 compared with 2012/13 the last year of CTB. It shows that local authorities with a 20% increase in minimum payment had an additional £27.7 million in uncollected taxes in 2015/16 when compared with 2012/13. Local authorities with a minimum payment of more than 20% had an additional £45.0 million in uncollected taxes in 2015/16 when compared with 2012/13. In contrast, local authorities who retained CTB have seen a decrease of £10.6 million.

**Figure 2. Total additional uncollected tax including admin and court costs of local authorities in 2015/16 compared with relative costs in 2012/13.**



Source: NPI analysis of collection rates and receipts of council tax and non-domestic rates in England, DCLG; the data is a comparison of 2015/16 with 2012/13.

## Collection rates

There are some patterns between the schemes that have been implemented in areas and overall council tax collection rates. 28 local authorities have collection rates that are below 95%. All of these local authorities apart from one have introduced a minimum payment and most of these have a minimum payment of 20% or more. The four local authorities with the lowest collection rates – lower than 92.5% – all have schemes where the minimum payment is at least 10%. These local authorities are in metropolitan areas that had some of the lowest collection rates in 2012/13 when the CTB was still in operation.

## Write-offs

A local authority can choose to write-off debt that it thinks may not be recoverable. The relationship between write-offs and CTS schemes is not straightforward. There are likely to be many factors which affect how councils choose to administer their CTS schemes and councils find different ways to manage increasing non-payment and consequent arrears. For example some councils have hardship funds, although these are not always used effectively. Others put in place different collection and enforcement practices for CTS claimants in the first year of a departure from CTB, which may include writing off arrears.

## Conclusion

The overall collection rate in England fell from 97.4% in 2012/13 to 97.0% when CTS was introduced in 2013/14. In 2015/16 after three years it has not yet recovered and remains at 97.1%. When looking more closely at individual councils, there is a clear trend where uncollected tax has increased most in areas where there has been a greater cut to support to working-age claimants, that is, those with the highest minimum payment.

For councils facing significant budgetary pressures there is a balance to be struck between whether to introduce a minimum payment (or for that matter make other changes), the level at which the minimum payment is set, the effect on uncollected council tax, and debt collection and enforcement practices. As the minimum payment increases those on a low income will find it more and more difficult to pay and may end up in arrears incurring growing admin and court costs (for both the claimants and the local authority) as the local authority tries to recover what are sometimes small amounts of Council Tax. A report by the Child Poverty Action Group (CPAG) and Z2K found that in London in 2015/16 there was a 51% increase compared with 2014/15 of claimants being referred to bailiffs and an increase in the numbers of claimants being charged court costs and the total amount they were being charged

with.<sup>6</sup> This process of Council Tax recovery can be extremely stressful for those subjected to it and can have a long term impact on a family's well-being. In the same report CPAG and Z2K found that claimants were cutting back on essentials like food, clothing and heating or having to borrow money to avoid falling into arrears.<sup>7</sup>

While there is scope for councils to share best practice in the areas of collection and enforcement, councils are aware that there is a point at which it is no longer productive to raise the minimum payment. A council with an already high minimum payment of 45% in 2016/17 is consulting on raising the minimum payment to 68% in 2017/18 but has stated that this could 'adversely impact collection rates'. Meanwhile, other councils have cited increasing arrears and court costs as reasons for reducing their minimum payment in the past two years, while others are currently consulting on this.

### **About this project**

This project has been supported by the Joseph Rowntree Foundation.

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<sup>6</sup> Ashton, S. *et al.* (2016) Still too Poor to Pay: Three Years of Localised Council Tax Support in London. Child Poverty Action Group and Z2K.

<sup>7</sup> Ibid.