

MIDDLESBROUGH COUNCIL

FINAL REPORT OF THE AD HOC SCRUTINY PANEL – COUNCIL TAX COLLECTION IN MIDDLESBROUGH

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AIM OF THE INVESTIGATION

1. To assess if the current arrangements in place for Council Tax collection are providing value for money or if alternative solutions should be explored. While the core remit of the Panel's investigation is still valid, it should be noted that on the 1st August 2018 the Executive decided to return Council Tax collection processes to the Council from its strategic partner, Kier. The panel therefore felt it would examine if current processes added value for the residents of Middlesbrough, rather than the value of collection processes being delivered by a third party.

TERMS OF REFERENCE

2. The terms of reference for the scrutiny panel's investigation were as follows:
 - a) To review current Council Tax Collection processes and rates in comparison to other Councils.
 - b) To examine factors that may affect collection rates, such as Welfare Reform and deprivation levels.

INFORMATION REQUESTED/ RECEIVED

3. Prior to the Panel meeting, information was requested from the Service Area on the following items:
 - An overview of current Council Tax collection processes
 - An overview of the impact of Welfare reform on Council Tax collection.
4. The Panel was provided with information/evidence from the following organisations/representatives:

Mr John Shiel – Head of Financial Governance and Revenues
Mrs Jeanette Savage – Head of Revenues (Kier group)
Mr Martin Barker – Benefits Manager
Mr Mark Simmons – Support Services Manager
5. In line with Terms of Reference a), the investigation aimed to seek input from neighbouring authorities about their collection processes. Stockton Council were identified as an example of best practice in their use of different methods of collection. Unfortunately, Stockton Council were unable to attend the panel.

BACKGROUND INFORMATION

6. In May 2001 the Council entered into a ten year Public-Private partnership, valued at £260m, and one of the largest of its kind in local government. This involved the transfer of approximately 1000 staff and the delivery of services including Public Access, Finance, Administration and HR on the Council's behalf. Known as the Strategic Partnership, and more colloquially referred to as 'the Contract', several companies have assumed the role of strategic partner with Kier Group being the latest.

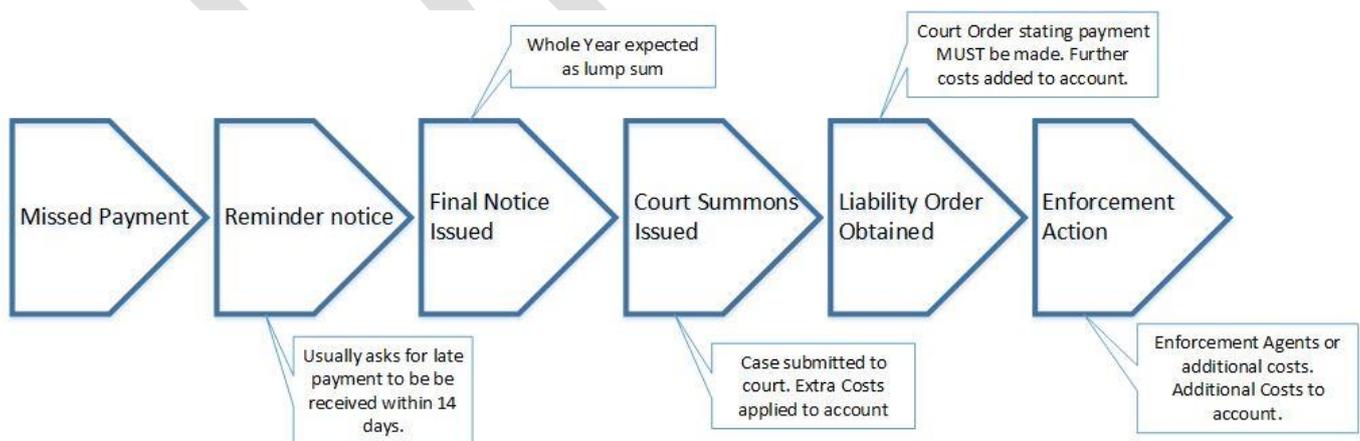
7. Whilst the relationship between the two organisations has been generally positive the nature of contract has previously required examination owing to difficulties experienced by both parties. For example, 18 months after commencement both the Council and, then, HBS agreed to an Audit Commission study in to the contract's working arrangements. The resulting study showed that while both parties were willing to work to make the partnership effective, there were some difficulties on getting the best out of the contract. These difficulties included a lack of joint understanding of the contract relationship, staff unwilling to engage in the partnership and, crucially, strict adherence to performance management of the contract rather than partnership working. ⁱⁱ
8. The condition of the relationship has improved since then, however emphasis on performance management does not seem to have dissipated.

TERMS OF REFERENCE A - To review current Council Tax Collection processes and rates in comparison to other Councils.

9. The panel heard there are a total of 63,300 dwellings in Middlesbrough from which £60m in Council Tax is collected, constituting approximately 22% of the Council's income.
10. Of those dwellings 19,600 were in receipt of Council Tax Support (CTS), a support scheme for residents based of their financial position (see below). 4,000 dwellings receive 100% Council Tax Support, such as those containing Old Age Pensioners, with a further 2,400 being exempt from paying Council Tax, such as churches.
11. This means 56,900 dwellings have something to pay toward their Council Tax liability. Just over half (53%) paying by Direct Debit with 11% classed as cash payers not requiring a prompt for payment.

Current Processes and their impact

12. Council Tax is collected in close adherence to the Local Government Finance Act 1992 and the panel heard that issuing a Council Tax bill followed a rigid course;



13. Each of the above steps entails different actions required by both the Council and resident and each can create difficulties for people facing financial difficulty. As will be discussed below, the rigidity of current Council Tax collection processes can have a detrimental impact on all parties involved, including resident well-being and the financial stability of the Council.
14. Research undertaken by the Citizens Advice Bureau shows that the strict process driven method of collecting Council Tax can actually make it more difficult for residents to pay back their debts. For example,

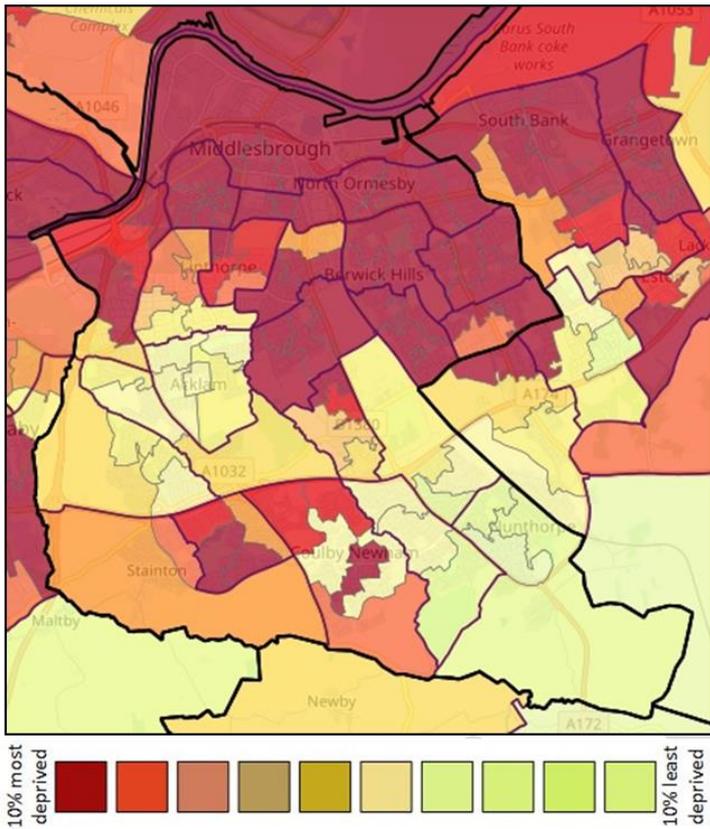
In most cases, [a] council's actions actively worsened respondents' situations – over half (54%) said they'd made it much harder to repay the debt, with an additional 15% saying they'd made repaying slightly harder. Just seven per cent said [a] council's actions had a positive effect.ⁱⁱⁱ
15. The CAB also found that in cases where residents had discussed their circumstances with Council officers, three quarters reported those officers were either not very understanding, or not understanding at all of the resident's situation.
16. In Middlesbrough a significant proportion of bill-payers required encouragement to pay. For example, Middlesbrough had seen a rise in liability orders from 6,548 to 15,371 (an increase of 135%) between 2012/13 and 2016/17 respectively. Furthermore, 34% of residents received a summons for non-payment, and each summons resulted in additional administrative costs of £65. Collectively, additional administrative costs for non-payment amounted to an estimated £900,000 during 2017/18. These additional costs have to be collected prior to the outstanding Council Tax debt.
17. Such trends are not unique to Middlesbrough with CAB's research finding additional charges accounted for a growing proportion of total arrears owed, or a third of the national increase of total arrears owed.^{iv} It was also highlighted that there was a concern that when a Council Tax debt reached the enforcement stage it would not be recoverable as it was not as high a priority as others debts, such as water and heating bills for example.
18. It is important, therefore, that payment should be made at the earliest possible time, however, the Panel heard that non-paying residents only engaged with the collection process at the summons stage as, at this point, communication messages tended to be firmer prompting contact and arrangement for payment. Non-engagement with the collection process is likely caused by apathy on the part of the resident.
19. Should payment not be forthcoming the Council can engage the use of external Enforcement Agents, or Bailiffs. The panel heard that using Enforcement Agents was not a preferred method of collection as engagement with residents usually saw better results. The use of Enforcement Agents could be via external Agents (currently used) internal Agents and hybrid models. Hybrid models for the use of enforcement Agents could operate internal agents to engage with residents experiencing Council tax arrears and receiving benefits whereas external agents could be used for those arrears but not receiving benefit.
20. Middlesbrough has an enforcement strategy in place and it was emphasised that where Enforcement Agents are used, any previous administrative costs would be added to this

action, again emphasising that engagement was the preferred solution to addressing collection rates.

21. It was also found that many residents are already trying to pay back a debt from a previous bill should they pursued for payment for a current bill. Early engagement with the collection process is therefore welcomed with any delay likely to incur additional costs and reducing a resident's overall ability to pay.
22. At its most extreme non-payment of Council Tax can result in committal to prison and while the Courts are generally reluctant to undertake this kind of action, it is still something that plays on residents minds.

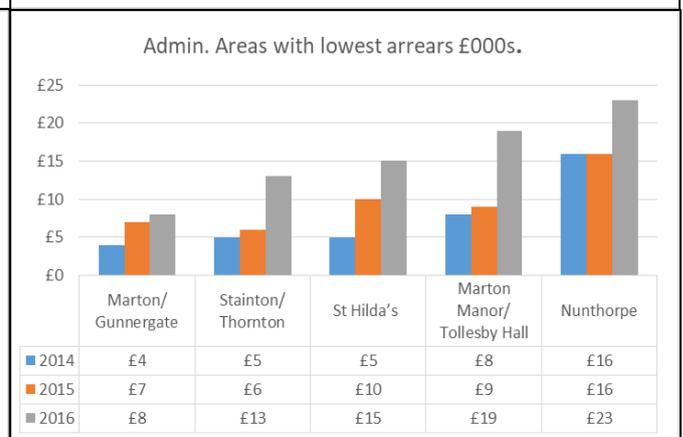
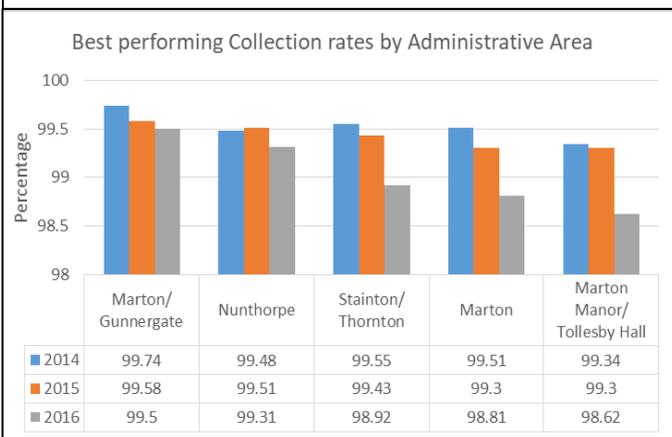
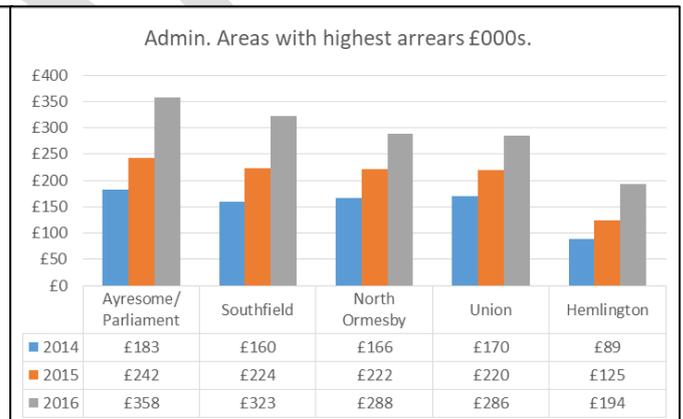
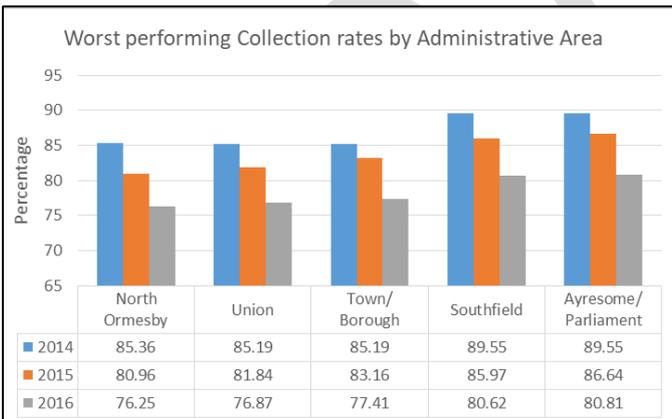
Performance Management

23. Measuring success at collecting Council Tax generally rests with the amount, or rate, of liability collected either "In-Year" or "Overall". In-Year collection relates to liabilities for a specific financial year, whereas Overall collection relates to all liabilities that are outstanding (overall rates of collection are part of the Council's budget setting process).
24. While rates for In-Year collection are not performing as hoped, the Overall collection rate is more positive with 98.06% of Council Tax liabilities collected between 1993 and 2016/17. Importantly, any delays to In-Year collection impact on the Council's financial situation as this is, essentially, lost income for that year.
25. Significant sums of Council Tax is being collected, but there are recognised delays in current processes that slow the In-Year collection rate. Potentially, the most significant factor affecting collection effectiveness are deprivation levels; effective collection is only possible if residents have the ability to pay. Indeed, under performing collection rates are also apparent in Council areas that have higher levels of deprivation.
26. Analysis presented to the panel showed the least deprived Council area in England was in Wokingham, Surrey, which collected 99.6% of its Council Tax In-Year. From the same analysis, of 11 Councils with the best In-Year collection rates, five were the least deprived areas in England. Where residents have a greater ability to pay Council Tax, it can be assumed collection is be easier for those Councils.
27. In 2016/17 the average In Year Collection rate for English Councils was 97.2% with Middlesbrough placing third from bottom in these rankings. There is a clear correlation between Councils with high deprivation rates and lower collection rates and, as Middlesbrough suffers relatively higher levels of deprivation the Council's ability to successfully collect Council Tax will continue to be problematic.



28. The map (left) shows levels of deprivation across electoral Wards and Lower Super Output Area (those areas coloured shades of red having higher levels of deprivation)^v. It is striking that many of those areas shaded red also contain properties with lower Council Tax banded properties. This means that not only will residents in those areas struggle to pay their Council Tax bills, but when they do the amounts received will be relatively low.

29. Examining collection rates versus deprivation levels more locally also shows deprivation can lead to poor collection performance. Council Tax in Middlesbrough is collected by Administrative Area, which cover similar geographic areas to, but are not directly comparable with electoral ward.



30. The graphs above show those Administrative Areas with the worst and best collection rates and arrears, respectively. This information would suggest that regardless of areas having low or high levels of deprivation the rate of collection has decreased year on year.
31. Again, those areas with the highest arrears tend to be those areas with the higher levels of deprivation. Similarly, regardless of administrative area the amounts of arrears appear to have increased across the town.
32. Middlesbrough's In-Year collection rate has steadily dropped from a high of 96% since 2012/13, coinciding with the replacement of Council Tax Benefit with Council Tax Support.

Impact of Collection Processes

33. Collecting Council Tax is not only affected by a resident's ability to pay but also on the Council's capacity to collect it. For example, with increased housing development in the Town the overall Council Tax liability has increased from £44.9m in 2012/13 to £60.8m in 2017/18. However, until recently the means to collect had not been adjusted to sufficiently match this.
34. Failure to pay Council Tax can result in a Liability Order being issued by the courts (namely ordering the bill to be paid), after which, the Council ordinarily engages Enforcement Agents. As will be discussed below, this process not only places additional costs to the account, it can also be extremely distressing for residents. The panel heard that a number of initiatives had been, or were being, introduced to improve resident experience and in doing so hopefully improve collection rates. Many of the initiatives focussed on early intervention to try and prevent residents falling through the system and thereby facing large payment demands.
35. Structurally, the Revenues and Benefits service have merged thereby allowing residents to discuss both monies owed and benefits they were be entitled to. The panel heard the new combined service had been in place for several months and had led to closer working with Landlords in relation to housing benefit. It was explained that Revenues and Benefits were traditionally two large, separate services that had to be broken down into more manageable components involving a long process of re-structuring. Because of this the benefits were only recently being realised.
36. Additional staffing resources have also been made available and this had generated results and, with increased early intervention, collection rates should improve further. This initiative, however, was only in place until the 31 March 2018 after which the additional resource would be lost. Due to staff leaving their posts Revenue Services currently have 6 FTE and were using agency staff to fill the gap.
37. Specific Initiatives to encourage earlier engagement included:
 - Cash Maximisation Strategy, which aimed to ensure residents paying cash (those not on Direct Debit), paid their bill on time.
 - Propensity to Pay which attempted to analyse how Revenue Services communicates with residents in order to tailor their communications to different residents depending on their circumstances.
 - Community Support Fund whereby £300,000 was used to reduce the liability for

people on Council Tax Support, involving contacting residents in receipt of a summons and offering, over a set period of time, to contribute toward the cost of their overall liability. It was hoped that, if the resident matched the Council's contribution, in essence, encouraged people to pay something toward their debt.

- Revenue Services presence in Community Hubs and Libraries in order to better engage with residents.

38. The success of these initiatives has been mixed. For example, the Community Support Fund approached several thousand residents but only 205 engaged. The cause was attributed to resident's inability to pay any amount toward their debt.

39. It was also noted that a review of the Council Tax Support Scheme has been undertaken for 2018/19 with a view to reduce liability from 20% to 15%. Middlesbrough explored moving to a 100% Council Tax Support scheme in 2013, however the cost at that time was £2m and it was not pursued.

40. The panel heard that, due to the nature of the contract, Kier could only implement initiatives provided they complied with Key Performance Indicators and resources made available by the Council.

41. Due to a tripling in the number of summons being issued, the Council agreed to fund an additional 8 Full Time Equivalent staff in Revenue Services with their objective being to generate a 1% increase for In-Year collection rates. Commencing in mid-2017, the results of this additional resource started to be realised in early 2018 as recruitment and training meant officers only became effective in November/ December 2017. In order to hit a target of 93% In-Year collection Revenue Services staff needed to generate £51,000 per day, which had been achieved as of February 2018.

42. The increase in resources highlighted above has resulted in increased collection rates, but sustaining this would require further resources beyond what is currently available. For example, it requires 6 to 8 contacts to be made with a single resident to arrange a payment schedule if their account is in arrears. When this work is multiplied by the 20,000 residents in arrears making further resources available may not be sustainable.

43. The panel also heard that collection rates of 92.8% to 93% would be achieved but because other Council's performance was unknown, it could not be guaranteed Middlesbrough's position in the league tables would change.

TERM OF REFERENCE B – To examine factors that may affect collection rates, such as Welfare Reform and deprivation levels.

44. The changes to welfare has a direct correlation to resident's ability to pay their Council Tax as well as the Council's ability to collect it. The most notable change was the introduction of Universal Credit (UC).

45. The panel heard the Welfare Reform bill introduced some of the biggest changes to welfare reform in 60 years. There are five major changes to welfare namely; the Welfare Benefits Cap, Under Occupancy (commonly known as the 'Bedroom Tax'), replacement of Council Tax Benefit with Local Council Tax Support, ending of the Social Fund and the introduction of Universal Credit.

46. The panel heard how, with the introduction of the benefits cap in April 2013, income from benefits was limited to £350 per week for a single person and £500 per week for couples. This was further reduced in November 2016 to £257.69 per week for a single person, and £384.62 for a couple. As of March 2018 53 residents were facing a situation 50p per week toward their Housing Benefit.
47. Further reductions to benefit entitlement came with the introduction of Under Occupancy, also known as 'Bedroom Tax'. This resulted in a reduction of 14% in benefit if there was one spare bedroom and a 25% reduction if there were two spare bedrooms.
48. Prior to 2013, where Housing Benefit was claimed Council Tax Benefit was applied, provided 100% support and funded by central Government. After 2013, however, this support was reduced and allowed Councils to determine their own Council Tax Support Schemes (CTS). Middlesbrough adopted an 80% support scheme requiring residents to pay a minimum of 20% towards their Council Tax bill. As of April 2018 the support scheme changed to 85% requiring 15% from residents. Despite this reduction any Council Tax contributions would still need to be found by residents
49. Importantly, the panel heard that benefit claimants were not always out of work but their circumstances in relation to Council Tax arrears was the same as those not in work. Indeed, research carried out by the Citizens Advice Bureau in 2016 found that,
- “Two-thirds of our survey respondents with council tax arrears were working - 59% were employed, with a further 7% in self-employment. Over half (53%) had annual household incomes under £15,000. In addition, most (75%) were not receiving any help with their payments from local council tax Support schemes.”vi
50. While all changes to the welfare system have, and will continue to have, an impact on the ability for residents to pay Council Tax, it is the introduction of Universal credit that may prove to be the most significant.
51. Universal Credit (UC) is a means based benefit for people of working age that replaced Income support, Income-based Job Seekers allowance, Income related Employment and Support Allowance, Housing Benefit, Child Tax Benefit and Working Tax Credit. The introduction of UC means claimants need to budget monthly rather than weekly or fortnightly and contribute to their Council Tax bill. Because of this, there is an increased likelihood that Council Tax payments could be neglected behind other commitments, such as food and other debts.
52. Administering Council Tax collection will be affected by UC because how it is calculated can result in changes to how much Council Tax a resident owes. For example, changes to a claimant's income affects UC entitlement and in the event of wage changes Council Tax bills would need to be recalculated. While reporting changes to income would be received via HMRC keeping up with such changes and recalculations could be challenging for Revenue Services.
53. Middlesbrough has one of the highest levels of benefit caseload against its chargeable dwellings, however recent evidence suggests benefit claims are decreasing, with Middlesbrough having approximately £600,000 in unclaimed benefit.

54. Working with 52 residents entitled to Council Tax Reduction, the Council and Kier undertook analysis that showed only one resident had taken up this benefit. This trend is concerning for two reasons; a fall in benefit take-up increases Council Tax liability and those residents not making claims may be unable to pay their Council Tax bills. More work was being undertaken to further understand why this was happening.
55. Using a random sample of 100 Middlesbrough residents subject to Under Occupancy, Benefits Cap and Universal Credit it was demonstrated how the number of residents paying their Council Tax in full decreased depending on their benefit. The table below shows this in detail:

	Size Criteria (Bedroom Tax)	Benefit Cap	Universal Credit
Paid in full	55	23	25
In Arrears	45	77	75
Total in Yr Arrears	£5,693.16	£10,124.28	£19,062.62
Average Arrears	£126.51	£131.48	£254.17
No taken to court	20	50	50
Value	£3,896.61	£8,820.48	£14,966.92

56. It is clear that for residents with Council Tax arrears, and who are receiving benefits, their ability to repay those arrears would prove difficult. Indeed, collecting those arrears often proves too difficult with any monies paid contributing toward the additional charges and not the outstanding debt.
57. Given the levels of income required by the Council it is clear that changes to the support scheme, the removal of discounts and the introduction of other Welfare reform had had a comparatively greater impact on the residents of Middlesbrough than other areas of England.
58. In response to the Welfare Reform agenda, the Council and Kier have implemented several initiatives in an attempt to mitigate its impact. These included face to face engagement, to educate residents about benefit entitlement and encouraging a return to work, as well as the introduction of the Council Tax Hardship provision.
59. As Kier provide services to other Councils the panel heard that initiatives used in Oldham, where Universal Credit was a live service, had been employed to engage with residents would all be suggested for use in Middlesbrough. Examples included Council Tax bills containing reminders about claiming Council Tax reduction; improvements to messages on websites and messages from partner organisations. To minimise any detrimental impact on residents in arrears, when recovery letters are sent to non-payers they are encouraged to contact Revenue Services to discuss their individual circumstances.
60. It was confirmed Thirteen Group would also help the Council promote the message of Council tax reduction in due course. Again, where the Council knew UC claimants were not claiming Council Tax Reduction but should be, a telephone claim was undertaken whereby the Council called the claimant and completed the digital online form.
61. The Local Government Association (LGA) have carried out research and made various

recommendations about ways in which Councils can use improved communications with residents who are in arrears with their Council Tax Bill. Using the concept of behavioural insights, the LGA argue that current processes are resource intensive and are somewhat punitive in their approach. Instead, several methods could be used to alter how residents behave toward paying their Council Tax, and shifting the emphasis on preventative approaches.

62. For example, citing research by the Australian State Government and the Irish Revenue the LGA show that making language clear and accessible in letters can help to encourage payment. In these instances changes included the removal of detailed text and the inclusion of simplified language. Utilisation of technology, such as text messaging, can also help to encourage payment, especially if the messages are sent to emphasise the scarcity of time available.^{vii}
63. Failure to pay Council Tax and the Council's current processes in collecting the debt can have a detrimental impact to resident's wellbeing. It is not only Council Tax bill payers who can be affected but their wider family and friends, including children.
64. The Children's society in their publication "Wolf at the Door, how Council Tax Collection is harming Children", published in 2015, found that approximately 1.6 million children in England lived in families who were experiencing Council Tax related debt.^{viii} With half of those families having been visited by enforcement agents as a result of Council Tax debt had children present.
65. The study found that if families fall into debt, whether this be Council Tax or other kinds of debt, they tended to use credit as a means of keeping up with payments leading to a "debt trap". The fact a family is in debt is not lost on children and young people, who become aware of tensions brought about by financial difficulties faced by families.

"More than half of the children we surveyed worry about whether their family has enough money, with 15% of children in families who have faced council tax debt strongly agreeing that they hold back on asking for things that they want as a result of this."^{ix}

66. Given the effects a bailiff visit has on children it would be advisable for the Council to review how it employs the element of its collection strategy. Such a review should include Council processes and, should enforcement practices be changed, how the Council enforces non-payment of Council Tax. In cases where children are present in families that are experiencing Council tax arrears and some kind of enforcement is required, the Children Society suggested that Enforcement Agents are not employed in those instances. Instead, trained Council Officers could be used to engage with the family in the first instance.

CONCLUSIONS

67. The scrutiny panel reached the following conclusions in respect of its investigation:

TERM OF REFERENCE A – To review current Council Tax Collection processes and rates in comparison to other Councils.

- Despite a good working relationship, the strategic contract delivering Council Tax collection processes has, since its creation, been focussed on performance management rather than partnership working.
- Because of this the panel agrees with the Executive's decision to return Council Tax provision to its purview.
- Council Tax is collected using relatively rigid processes that are laid down in legislation.
- To align with the Council's Social Regeneration agenda, returned processes may offer greater flexibility in how collection processes can be administered and improve resident experience and well-being.
- The rigidity of current collection processes can, and does, have a detrimental impact on resident's ability to pay Council Tax arrears.
- Current processes can lead to distress for residents with Council Tax arrears.
- Middlesbrough experiences higher levels of deprivation than average which compounds resident's ability to pay Council Tax bills.
- The performance of Council Tax collection processes is dependent on how it is measured; if using in-year rates it is not reaching its targets however overall rates are.

TERM OF REFERENCE B – To examine factors that may affect collection rates, such as Welfare Reform and deprivation levels.

- Welfare reform has changed the way residents receive benefits and this is likely to result in difficulty for residents to pay Council Tax arrears.
- There is a large contingent of residents that are not applying for benefits. This not only affects resident's financial position, it also affects the Council's ability to collect Council Tax effectively.
- Engagement with residents as soon as possible in the process was beneficial to both the Council and the resident.

RECOMMENDATIONS

68. Following the submitted evidence, and based on the conclusions above, the Ad Hoc Scrutiny Panel's recommendations for consideration by the Executive are as follows:

- a) To ensure alignment with the Council's Social Regeneration agenda, when Council Tax services return to the Council's purview it should explore ways of changing communications and interactions with residents experiencing Council Tax debt.
- b) The Council should follow, and build on, work already undertaken by Kier and ensure any initiatives are a multi-team in their approach.
- c) Any improvement to collection processes should look to include key stakeholder such as the Financial Improvement Group.
- d) Continue with work undertaken by Kier in terms of service restructuring to ensure service delivery is efficient and effective.

ACKNOWLEDGEMENTS

The panel would like to thank the following for their input during the investigation:

Mr John Shiel – Head of Financial Governance and Revenues
Mrs Jeanette Savage – Head of Revenues (Kier group)
Mr Martin Barker – Benefits Manager
Mr Mark Simmons – Support Services Manager

BACKGROUND PAPERS

The following sources were consulted or referred to in preparing this report:

- Middlesbrough Council and HBS Strategic Partnership, Annual Service Review 2005-2006
- Catching up: Improving council tax arrears collection, Citizens Advice Bureau, July 2016
- Local Government Association, Supporting Council to Improve Revenue Collection with behavioural insights, January 2018
- The Children Society, The Wolf at the Door: How Council Tax Collection is harming Children, March 2015,

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ⁱ Middlesbrough Council and HBS Strategic Partnership, Annual Service Review 2005-2006, p5

ⁱⁱ Middlesbrough Council, CMT Report, 16 October 2003

ⁱⁱⁱ Michael Kelly, *Catching up: Improving council tax arrears collection*, Citizens Advice Bureau, July 2016, p12

^{iv} Michael Kelly, *Catching up: Improving council tax arrears collection*, Citizens Advice Bureau, July 2016, p12-13

^v <http://dclgapps.communities.gov.uk/imd/idmap.html>

^{vi} Michael Kelly, *Catching up: Improving council tax arrears collection*, Citizens Advice Bureau, July 2016, p9

^{vii} Local Government Association, *Supporting Council to Improve Revenue Collection with behavioural insights*, January 2018, p7-8

^{viii} David Ayre and Lucy Capron, *The Wolf at the Door, How Council Tax Collection is harming Children*, The Children Society, March 2015, p 5.

^{ix} David Ayre and Lucy Capron, *The Wolf at the Door, How Council Tax Collection is harming Children*, The Children Society, March 2015, p 32.