



Citizens Advice evidence for the Independent Review of local council tax support schemes

January 2016

Summary

- Local delivery of welfare can support positive reform of the wider welfare system. As set out in our [work on the future of the welfare state](#)¹, if delivered well, local schemes can provide innovative, flexible and integrated approaches to welfare delivery where centrally-administered policy may struggle. However, local schemes are less likely to be effective if used to deliver blunt spending reductions in the short term, rather than creatively mitigating demands on spending in the medium term.
- Council tax benefit was replaced by a localised system of council tax support in 2013. There are some examples of good practice, including using partnerships with local voluntary and advice agencies to improve design and communication of new arrangements.
- But generally schemes do not yet appear to be an effective form of local welfare delivery. As a result, we have seen a sharp increase in clients seeking help with council tax support; we handled 100,000 related enquiries during the first year of the scheme's operation.
- The main problems we see relate to: poor communication leading to arrears when people fail to claim²; inappropriate collection practices, such as unnecessary use of bailiffs; levying disproportionate fees or continuing to enforce disputed liabilities³; and unrealistic payment expectations for the most vulnerable residents, with larger minimum payments leading to significant increases in debt problems.⁴
- There are potential improvements to local council tax support. Recent [Citizens Advice research](#) into central and local Government debt suggests recommendations to improve debt collection including adopting our [good practice protocol](#) developed with the Local Government Association.
- For localised council tax support to be effective, councils must design schemes which reflect the wider welfare reform agenda. The principles behind Universal Credit centre on closer integration of individual benefits. With council tax support schemes still operating separately, local authorities should be considering how to ensure these different systems are as simple as possible for claimants to navigate.
- This briefing relates primarily to England, where responsibility for council tax support has been devolved, but also draws comparisons with the Welsh experience.

Background

Council tax benefit was designed to ensure that vulnerable people were able to meet the cost of paying council tax, with the most vulnerable usually exempted entirely. In 2013, this benefit was

¹ Citizens Advice: Responsive Welfare - local, digital and intelligent (2015).

² Citizens Advice: Waiting for Credit: The delivery of Universal Credit as experienced by Citizens Advice clients in England and Wales (2015).

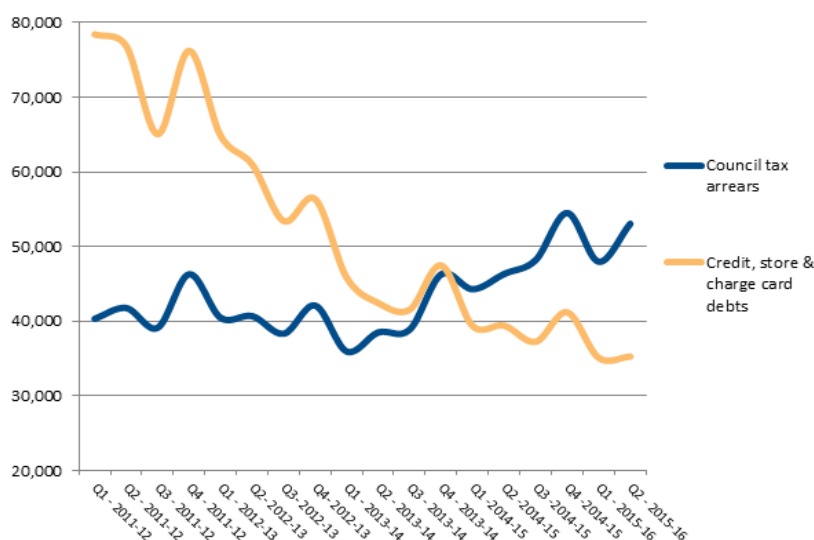
³ Citizens Advice: The state of debt collection - The case for fairness in government debt collection practice (2015)

⁴ Institute for Fiscal Studies: Reforming Council Tax Support Schemes in England: What Did Local Authorities Choose, and with What Effects? (2014).

replaced by a local model of council tax support. This passed 90% of the previous council tax benefit budget to councils, allowing them to design their own systems within certain parameters.⁵ In Wales, the 10% shortfall was covered by extra funding from the Welsh Government until 2016-17. In England, however, the budget reduction created tough choices - most of the evidence in this submission therefore focuses on English examples. Mandatory protection for pensioners that effective cuts for working age residents were around 19% or higher.⁶ Councils had to decide whether to pass the cuts on in full, or to cross-subsidise schemes to mitigate the impact fully or partially.

The changes have led to significant increases in Citizens Advice enquiries about council tax arrears, with bailiff and enforcement problems accounting for 28% of these issues.⁷ Since the new system took effect in 2013, council tax arrears have overtaken credit card debt as the number one debt problem our clients seek help with. This has given us significant insight into the challenges of the current council tax support model, as well as some examples of better practice.

Trends in Citizens Advice debt issues, 2011-2015



Efficiency

For the new model of council tax support to be considered efficient, it should not reduce collection rates, nor incur extra costs elsewhere in the system. On these measures, the current model appears to be falling short.

First, collection rates have fallen slightly in England since the introduction of the scheme - although they have risen in Wales, which chose to mitigate the reduction. Receipts in England fell 0.4% in the first year of implementation and did not increase in 2014-15.⁸ At the end of the 2014-15 financial year, £2.7bn worth of council tax was outstanding, an increase of £129m on the previous year. Research from Citizens Advice [North Somerset](#) found that liability orders increased by over 50% yet annual overall collection rates fell by just 0.3% after the introduction of council tax support.

⁵ Councils were required to: give pensioners on a low income a 100% reduction in their council tax; incentivise work; and protect vulnerable people (each local authority had to define vulnerability).

⁶ Institute for Fiscal Studies: Reforming Council Tax Benefit (2012).

⁷ Quarter 2 2015/16 saw an increase of 14% compared to the previous year.

⁸ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/440177/Collection_Rate_Statistics_Release_July_2015.pdf

Local Citizens Advice have published several research reports which provide valuable insights into the local impacts of reform around England. A big challenge was that of making already financially-vulnerable households newly liable for council tax. This creates obvious problems of communication, discussed below, but also real budgeting challenges for those affected. The IFS analysed Citizens Advice data and found a close correlation between the minimum payments councils were demanding and arrears; introducing minimum payments of more than 8.5% led, on average, to a 30–40% increase in council tax debt queries recorded by local Citizens Advice.⁹ More complex schemes also tend to see an increase in disputes over liabilities.

These costs are then often compounded by inefficient and expensive practices used by many councils to collect tax owed. One way of helping those struggling with budgeting may be to allow them to pay via instalments, through deduction from their wages or benefits. However, this cannot currently be arranged without either a court-imposed liability order or a bailiff's visit. This means arrears need to have accrued to a certain point before this method of payment can be implemented and usually entails additional fees for the taxpayer struggling - often to pay relatively small amounts. This simply exacerbates the cycle of debt for many of our clients, with all the associated direct and indirect costs this brings.

Alan came to Citizens Advice for help with his council tax. He is disabled and was struggling with arrears of around £75. A liability order could only be granted by taking him to court. This added £70 in fees, almost doubling his initial debt. He had been subject to a previous liability order, which he had cleared through a £3.60 per week deduction from his benefit. He now needed to begin paying off both the new liability order and the fees incurred.

Suzanne has mental health problems and came to Citizens Advice about council tax arrears. She had been told she owed money, with her documents stating "any arrangement to pay by instalments is made subject to our bailiff calling at your property and and completing the relevant paperwork (this will incur a statutory fee) and client making an immediate payment". The stress of a bailiff's visit, as well as the addition of the fee to her existing costs, had been exacerbating her mental health problems.

More encouragingly, we are beginning to see examples of good practice, with local authorities now considering more effective collection and enforcement methods, particularly for vulnerable council tax payers. We recommend councils should review our good practice [protocol](#), which recommends considering the level of debt to decide whether it is appropriate to instruct a bailiff and prioritising deductions from wages or benefits to avoid saddling the most vulnerable with bailiff fees.

Good practice: Citizens Advice Camden recently published a [report](#) on more effective council tax collection. They highlighted good practice at Camden Council, which had recently taken steps to limit the effect of the changes by restricting minimum contributions to 8.5%, reducing enforcement fees for the most vulnerable, introducing additional steps before court action is taken, and working with Citizens Advice to alleviate problems. The report also highlighted the

⁹ Institute for Fiscal Studies: Reforming Council Tax Support Schemes in England: What Did Local Authorities Choose, and with What Effects? (2014) - page 2. See also Harrow Council evaluation: <http://www.harrow.gov.uk/www2/documents/s117755/CTSS%20-%20Appendix%201.pdf> - page 28.

problems associated with bailiff collection, highlighting examples such as councils in Islington and Southwark who were avoiding using bailiffs for those receiving council tax support.¹⁰

Fairness

One of the main risks associated with localising welfare schemes is the idea of a 'postcode lottery', with support varying significantly between areas. While there are good arguments for allowing some local variation to reflect differing local needs or circumstances, there can be problems where schemes vary markedly without obvious justification.

Council tax support schemes vary greatly. The IFS found that just over a third partially or completely exempt the most vulnerable from minimum contributions, yet two-thirds do not offer this support.¹¹ Minimum contributions range widely; in Redbridge this is set at 5% while in Harrow hits 30%. Citizens Advice in York evaluated their local authority's model, which had set a 30% minimum contribution.¹² Such a high rate left many vulnerable residents with little hope of avoiding ongoing and escalating arrears. The report found the most common debt collection method was a deduction from wages or benefits. However, the liabilities of those paying by deductions often exceeded the maximum deductions permitted. It points out that this 'rolling over' of liabilities means *"the individual accrues debt year on year which they are unlikely to be able to pay and due to court restrictions the Council is unlikely to ever recover."*

Such examples highlight the need for councils to focus on the needs and circumstances of the most vulnerable, ensuring there is back-up help to prevent those struggling to budget falling into arrears - for reasons of both fairness and efficiency. A third of councils have set up hardship funds to provide additional support to the most vulnerable in their community (budgets and eligibility conditions vary greatly), but take-up is often low due to lack of awareness.

A fairer system of council tax support would in future place greater emphasis on ensuring all local authorities offer hardship funds to avoid driving vulnerable residents into a cycle of arrears. This would create fairer, more consistent support for those struggling most, but schemes could also still benefit from local intelligence. Our good practice [protocol](#) recommends stronger local partnerships, with better use of data from voluntary sector and other organisations a better structured and costed scheme reflecting local circumstances. For example, Citizens Advice York's evaluation of their local council tax support scheme identified the particular problems that the council faced when forecasting costs and take-up to set minimum contributions. Evidence from the evaluation helped the local authority to improve their model.¹³

Transparency

Another challenge when introducing a new model for council tax support, particularly where the structure of different schemes varies so widely, is ensuring that changes, requirements and help

¹⁰ Camden Citizens Advice: Making the Poor Pay - The real cost of the council tax reduction scheme in Camden (2015)

¹¹ Institute for Fiscal Studies: Reforming Council Tax Support Schemes in England: What Did Local Authorities Choose, and with What Effects? (2014).

¹² Advice York: Every Penny Counts - The Real Cost of Council Tax Support (2015).

¹³ Advice York: Every Penny Counts - The Real Cost of Council Tax Support (2015).

available are clearly communicated to those affected. This is particularly important given many will not have been paid any council tax previously and may find the new schemes complicated.

Communication of council tax support changes often appear to have been ineffective. Local Citizens Advice offices have seen many clients still unaware that they must pay and in debt as a result. Some reported having struggled to understand official communications and letters.

Janet came to Citizens Advice because she was in rent arrears and struggling to meet her council tax payments. She is dyslexic and has mental health problems. She explained that she had not been able to understand communications from the council; she had received a 25 page letter telling her about the arrears and what she owed. Janet was anxious and unsure what to do next; this meant her debts had been increasing.

The particular challenges for vulnerable residents or those dealing with language barriers are highlighted in many evaluation reports¹⁴; additional measures may be necessary to communicate with these audiences. Citizens Advice York research identified low awareness as one reason vulnerable residents were not always accessing the additional financial help to which they were entitled.¹⁵

Another issue was balancing the need for easily understandable schemes with those that best reflected the needs of those affected. Local Citizens Advice has seen examples of councils using forms of over 30 pages to make awards of council tax support. By contrast, we have also seen much simpler schemes based solely on income bands, for example. While these are easier to explain to a claimant, there is a danger they cannot always reflect subtle differences in needs and may erode work incentives.

In terms of good practice, the best examples we have seen involve local authorities working in partnership with other local services to communicate changes and attempt to resolve problems before arrears build up. Some areas partnered effectively with local advice providers to ensure that the message got through; for example Chelmsford Council used outreach workers to help council tax support recipients by ensuring they received advice and working to avoid court enforcement.

Our good practice [protocol](#) outlines best practices for partnership working including: joint evaluation of policies; alternative routes for clients to resolve disputes; and training to improve understanding of how clients are affected. Communications should be reviewed as part of liaison work between councils and advice agencies and joint communications exercises can ensure that taxpayers receive and understand the information that they need.

Effectiveness

Local delivery of welfare can support positive reform of the wider welfare system. As set out in our [work on the future of the welfare state](#)¹⁶, if delivered well, local schemes can provide innovative, flexible and integrated approaches to welfare delivery where centrally-administered policy may

¹⁴ For example Harrow's report made recommendations about communicating with tax payers [<http://www.harrow.gov.uk/www2/documents/s117755/CTSS%20-%20Appendix%201.pdf>]

¹⁵ Advice York: Every Penny Counts - The Real Cost of Council Tax Support (2015) - page 22.

¹⁶ Citizens Advice: Responsive Welfare - local, digital and intelligent (2015).

struggle. However, local schemes are less likely to be effective if used to deliver blunt spending reductions in the short term, rather than creatively mitigating demands on spending in the medium term.

The effectiveness of the new model for council tax support as an example of local delivery of welfare is questionable on the criteria set out above. We are concerned that the sharp and continued rise in enquiries relating to council tax and associated debts is a clear indicator that schemes are not yet working sufficiently well or that the ten percent funding reduction has been too difficult for residents to absorb. Our evidence suggests the struggle to achieve spending reductions has in some cases prevented councils from designing schemes which fairly meet local need and do so efficiently, without exacerbating problems such as debt for vulnerable residents.

There are, however, potential improvements to council tax support. Many of these are set out in our good practice [protocol](#). This includes guidance on information exchange, joint working and enforcement procedures. As councils begin to review their schemes following the first few years of operation, we hope that they will consider such findings.

- Effective council tax support schemes will make full use of all data available to them to make the most accurate forecasts about take-up and expenditure. This may become easier as schemes bed in.
- Effective schemes should reflect and meet the needs of the local community, ensuring that local taxpayers understand their liabilities and are in a position to meet them. All local authorities should ensure emergency hardship funds are available to avoid pushing vulnerable taxpayers into a cycle of arrears.
- Effective schemes should balance nationally and locally calculated entitlements to incentivise work. Work incentives should genuinely reward those who work and working extra hours should not cost more in additional council tax than is earned.
- Collection and enforcement regimes should avoid compounding financial burdens wherever possible. An [evaluation](#) of the first year of the new schemes by Citizens Advice found that, rather than focus on payment methods with the lowest upfront costs, it may be cheaper and more efficient overall to offer a variety of payment methods to make it as easy as possible for taxpayers.
- Finally, council tax support schemes must reflect the wider welfare reform agenda. The principles behind Universal Credit centre on closer integration of individual benefits, making the whole system easier for claimants to navigate and rationalising work incentives with a single means test. Yet, under Universal Credit, no clear mechanism exists for DWP to pass claims from central to local government and the single means test is potentially undermined by separate criteria for council tax support.¹⁷ Recent research by Citizens Advice found that one in three Universal Credit recipients likely to qualify for council tax support had not understood that they could claim or had claimed late.¹⁸ Local authorities must be designing their schemes with a much closer focus on the structure and principles of Universal Credit.

¹⁷ Institute for Fiscal Studies: Reforming Council Tax Benefit (2012) - page 8.

¹⁸ Citizens Advice: Waiting for Credit: The delivery of Universal Credit as experienced by Citizens Advice clients in England and Wales (2015).