

Item 7

AUDIT COMMITTEE

23 APRIL 2007

REPORT OF THE DIRECTOR OF RESOURCES

Portfolio: **STRATEGIC LEADERSHIP**

COLLECTION AND RECOVERY OF COUNCIL TAX

1. SUMMARY

- 1.1 At the meeting of the Audit Committee on 30 October 2006, it was requested that a report be submitted to a future meeting of this Committee to inform members of the Council Tax collection and recovery procedures used by the Council.
- 1.2 This report provides the information requested by the Committee and considers options available to improve cash flow.

2. RECOMMENDATION

- 2.1 That the information be received.

3. PERFORMANCE MEASURES

- 3.1 There is one Key Best Value Performance Indicator (BVPI) in relation to this service. BVPI 009 "Proportion of Council Tax collected in year" is a measure of performance that the Audit Commission regularly reviews.
- 3.2 Since the introduction of the Key BVPIs in 2002/03 the Council's performance in respect of this Indicator had improved year on year until 2006/07 as shown below:

Year	%
2002/03	94.6
2003/04	94.9
2004/05	95.3
2005/06	95.4
2006/07	95.0

- 3.3 Although this is a bottom quartile level of performance, the Council has taken a view over the years that there was no benefit in increasing the resources within the Council Tax Service to improve the in-year collection rate as it had been calculated that the additional staffing costs would exceed the extra investment income received as a result of any improved cash flow.

- 3.4 The table below confirms that the Council is very effective in collecting Council Tax “over time”.

Year	Total due	Total paid	%age collected	%age written off
	£000	£000		
1993/94	10,435	10,382	99.5	0.5
1994/95	11,850	11,800	99.6	0.4
1995/96	13,018	12,986	99.6	0.4
1996/97	13,890	13,832	99.6	0.4
1997/98	16,090	16,023	99.6	0.3
1998/99	18,137	18,052	99.5	0.3
1999/00	19,073	18,963	99.4	0.3
2000/01	20,206	20,064	99.3	0.2
2001/02	21,309	21,124	99.1	0.2
2002/03	24,383	24,151	99.1	0.1
2003/04	26,604	26,298	98.9	0.1
2004/05	28,416	28,008	98.6	0.05
2005/06	29,563	28,957	98.0	0.04
2006/07	31,079	28,536	95.0	0.03

- 3.5 The following table shows the volumes of bills and recovery notices sent out during the 2006/07. It should be noted bills include balances for previous years but separate recovery notices are issued for each year of debt. Consequently, many more notices are sent than those shown.

Council Tax recovery notices issued during 2006/07 in respect of the 2006/07 financial year

Bills	119,501
Reminders	10,952
Second Reminders	1,868
Final Notices	6,723
Summonses	3,864
Liability Orders	3,182
Further warning letters	3,889

- 3.6 As pointed out in 3.3 above, the Council has in the past determined that the cost of additional staff would be greater than the cost benefit of improved cash flow. However, the amount due for 2007/08 of £33M is going to be approx. 200% more than 1993/94 when council tax was first introduced, there may now be a case to review the level of staffing to improve cash flow. Furthermore, the Council’s Use of Resources Assessment could be compromised if nothing is done to address the ongoing bottom quartile performance. Options to improve cash flow that are available to the Council are set out in paragraph 5 below.

4. RECOVERY PROCEDURES

4.1 The recovery of council tax is set out in the Local Government Act 1992 and pursuant regulations. The Council must follow each of the procedures set out below to obtain a liability order. The liability order gives the Council a range of further recovery powers.

4.2 At **ALL** stages, arrangements to clear the debt will be considered and agreed with the debtor instead of proceeding to the next stage. In some cases, arrangements will be made as well as proceeding to the next stage. This is to protect the Council's interests where it is considered that there is a risk of further non-payment.

Bill	A bill sets out the dates and amounts of instalments.
First Reminder	A reminder is issued where one or more instalments is overdue.
Second Reminder	A second reminder is issued where the instalments were brought up to date but further instalments have subsequently become overdue.
Final Notice	A final notice cancels the right to statutory instalments for the year and requires the full amount to be paid where instalments have not been brought up to date despite the issue of a first or second reminder.
Summons	The Council requests Sedgefield Magistrates to issue a summons where the full amount remains unpaid. At this stage court costs of £47 are incurred.
Liability Order	The Council requests Sedgefield Magistrates to grant a liability order.
Further warning letter	This letter advises the debtor that the Magistrates have issued a liability order and what action can be taken by the Council if the debt remains unpaid. It also requests details of the debtor's employment or other income.

4.3 The liability order gives the Council the following powers to recover the amount outstanding:

- To serve an Attachment of Earnings Order on the debtor's employer. The weekly/monthly amount deducted is determined by the level of wages/salary in accordance with legislation and can include an administrative charge for the employer.
- To request the Department for Work and Pensions to make deductions of £2.95 per week from a claimant's income support or jobseekers allowance.

- To instruct a bailiff to recover the amount due. The debtor also has to pay the bailiff's costs of £24.50 for the first visit and £18.00 for the second visit. Further costs of up to £160 can be incurred where attendance is made to remove goods.
 - To make a charging order on the property so that when it is sold, the debt is paid from the equity. The total of debt(s) has to be over £1,000.
 - To take committal proceedings where all other avenues of recovery have been exhausted. Further costs are payable by the debtor.
- 4.4 Attachment of Earnings Orders are made wherever possible because this is the quickest means of recovery. 396 Orders were made during 2006/07 in respect of 2006/07 debts. However, there may be other orders already in place that prevent the Council's from being implemented. Also, not everyone responds to the further warning letter.
- 4.5 Council tax records show those debtors who are in receipt of income support or jobseekers allowance and deductions are set up in these cases. During 2006/07, deductions were set up for 78 cases in respect of 2006/07 debts.
- 4.6 Cases are referred to the bailiff only where arrangements are not adhered to and other means of recovery cannot be followed.
- 4.7 The Council has not yet been in a position to make a charging order on a property. It is envisaged that this would only happen, for example, in the case of an elderly person with little means of paying immediately.
- 4.8 The final stage of recovery is committal to prison which is very labour-intensive in the time needed to prepare each case with evidence and in attendance at Court. It is therefore an expensive means of recovery. It is a last resort and a balance has to be struck between recovering the amount due and the cost of recovering it. In recent years, the Magistrates have been extremely reluctant to imprison someone for council tax debt and instead, they are likely to order a weekly/monthly payment and adjourn the case. These cases have to be monitored by the Council and brought back the Court where the debtor defaults, increasing our costs. Because of this, no new cases for committal have been taken recently but debtors are reminded of the possibility of committal proceedings to encourage payment.
- 4.9 Bankruptcy proceedings have been considered but this is now thought to have little impact in encouraging payment. Increasingly, debtors see bankruptcy as a means of ridding themselves of debts. Indeed, insolvency is advertised on television as a means of such.
- 4.10 In 2005, a contract was agreed with Experian, a credit reference agency that enables officers to search their records and, in some cases, identify a debtor's employer and/or to trace them to a new address. This enables us to follow other preferred means of recovery.

5. IMPROVING CASH FLOW

- 5.1 The Council has a duty to maximise collection and cash flow and the Government has determined that all District Councils should achieve 98.3% in-year collection. The table at 3.2 above indicates that the Council is unlikely to achieve this target with the present resources.
- 5.2 Direct debit is the most cost-effective means of collecting monies due to the Council and mail shots over the years have increased take-up. Since 1993, tax payers paying by direct debit have been allowed to pay from May to February each financial year. Since April 2006, new taxpayers are required to pay from April to January but they are offered a choice of three payment dates – 1st, 11th or 21st. Cash flow could be improved by moving all direct debit payments to April. This would be unpopular with the existing direct debit payers who currently pay from May and they would have to be given adequate notice together with the reasons why the change is necessary. However, it would yield an improved cash flow.
- 5.3 The collection rate could also be improved by issuing reminders, etc earlier in the year. This would require additional resources but it is considered that if we were able to increase the collection rate by 1%, we would bring in an additional £330k in-year. If we were able to achieve the Governments target of 98.3% in-year i.e. 3% higher than at present, that could improve the in-year cash flow by an additional £1m. In terms of additional investment income, that could produce up to an extra £60k of cashable savings that could be ploughed back into the service as well as providing other non cashable savings and there would be less old debt to pursue in subsequent years. The additional resource could also provide for further savings by allowing visits to be made, particularly to cases that are repeatedly referred to the bailiff. Such visits could reduce the number of cases referred to bailiff and thereby reduce fees payable by the Council. Visits would also allow us to establish if the debtor was entitled to any reductions or benefit for which they had not applied and also secure information to set up attachments of earnings.

6. RESOURCE IMPLICATIONS

- 6.1 As mentioned in paragraph 3.3 above the Council has in the past considered the financial implications of improving the in-year collection rate but concluded that it was not cost-effective to do so. The Council has always had a very low cost of collection in comparison to other local authorities but this is no longer a Performance Indicator and comparisons are not now available.
- 6.2 The Council Tax Section achieved its best ever collection rate of 95.4% in 2005/06. However, this was only sufficient to rank Sedgefield ninth worst in comparison with all Districts in the country. The table below compares the collection rates for Co Durham Districts in 2005/06.

Chester-le-Street	97.69%
Derwentside	98.30%
Durham City	97.65%
Easington	96.26%
Sedgefield	95.40%
Teesdale	98.72%
Wear Valley	99.09%

6.3 There were significant staffing problems in the Council Tax Section during 2006/07 and the collection rate worsened to 95.0%. In view of the above and the Government's expectation of Districts achieving an in-year collection rate of 98.3%, it may now be timely to give consideration to options to improve the present in-year collection rate and to the possible use of any additional investment income to further improve the performance of the Council Tax Service which would underpin the Use of Resources Assessment.

7. CONSULTATION

7.1 No consultations have been undertaken with regard to the production of this report

OTHER MATERIAL CONSIDERATIONS

8. LINKS TO CORPORATE OBJECTIVES/VALUES

8.1 The arrangements made to collect and recover Council Tax meet the Council's Corporate Values of

- Being responsible with and accountable for public finances

9. RISK MANAGEMENT

9.1 If the Council did not have effective arrangements in place to collect and recover Council Tax, there would be a risk that good payers might be discouraged from paying if they considered that the Council was not taking appropriate action to collect the Tax from those payers who are reluctant to pay. The Council's Use of Resources Assessment could be adversely affected by the Audit Commission if action is not taken to improve the present bottom quartile level of performance.

10. HEALTH AND SAFETY

10.1 There are no health and safety issues arising from this report

11. EQUALITY AND DIVERSITY

11.1 There are no equality and diversity issues arising from this report.

12. LEGAL AND CONSTITUTIONAL

- 12.1 The Council is the responsible authority to collect and recover Council Tax and appropriate arrangements have been made within the Constitution to undertake these responsibilities.

13. CRIME AND DISORDER

- 13.1 There are no crime and disorder issues arising from this report

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Ward(s): Not Ward Specific

Key Decision Validation: Not a key decision

Background Papers: None

Appendices None

Examination by Statutory Officers:

	Yes	Not Applicable
1. The report has been examined by the Council's Head of the Paid Service or his representative.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
2. The content has been examined by the Council's S.151 Officer or his representative.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
3. The content has been examined by the Council's Monitoring Officer or his representative.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
4. Management Team has approved the report.	<input type="checkbox"/>	<input checked="" type="checkbox"/>

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