

Are cuts to Council Tax Support in England a false economy for councils?

Karen Barker and Carla Ayrton, August 2017

Key points

- Total uncollected council tax is £400m higher than in 2013-14 when Council Tax Benefit was abolished.
- The number of local authorities that have either retained CTB or set no minimum payment continues to decline, and more local authorities have set minimum payments of at least 20 per cent.
- The 41 councils that retained CTB had £13.8m less uncollected council tax in 2016-17 than in 2012-13.
- The 67 councils that had a minimum payment of over 20 per cent in 2016-17 had the largest overall increase in that year- £48.6 million more than in 2012-13.
- 25 councils had collection rates below 95 per cent in 2016-17, down from 28 the year before.

Background

Until 2013, households on a low income in England were eligible for Council Tax Benefit (CTB), a nationally administered benefit to cover the cost of Council Tax. Five years ago, CTB was abolished and replaced by Council Tax Support (CTS), which is set and administered individually by each local authority in England.

In the first year of CTS, 2013-14, the funding for CTS was cut by 10 per cent when compared with the funding the councils had previously received for CTB. Now the funding for CTS has been incorporated into the yearly central government grant that each local authority receives, which has been shrinking. In fact, the abolition of CTB has occurred at the same time as seismic shifts in local authority funding. As part of these changes, local authorities are becoming increasingly reliant on Council Tax as a source of revenue - it will account for at least half of every local authorities' funding by 2020.¹

In this funding landscape, the majority of councils have set a 'minimum payment'- a proportion of council tax liability that all working-age residents² are required to pay, regardless of income. However, rising Council Tax arrears across England raises

¹ Kenway and Barry Born (2016) *Sustainable local government finance and liveable local areas: Can we survive to 2020?* APSE

² Local authorities are still required to offer full protection for pensioners.

questions about both the effectiveness and fairness of these schemes. Schemes that raise the taxes of low-income households too much risk increasing 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 low income families.

Council Tax collection and arrears in England

Table 1. Estimate of net collectible debit, total arrears, uncollected tax, court and admin cost and the collection rate from 2012-13 to 2016-17.

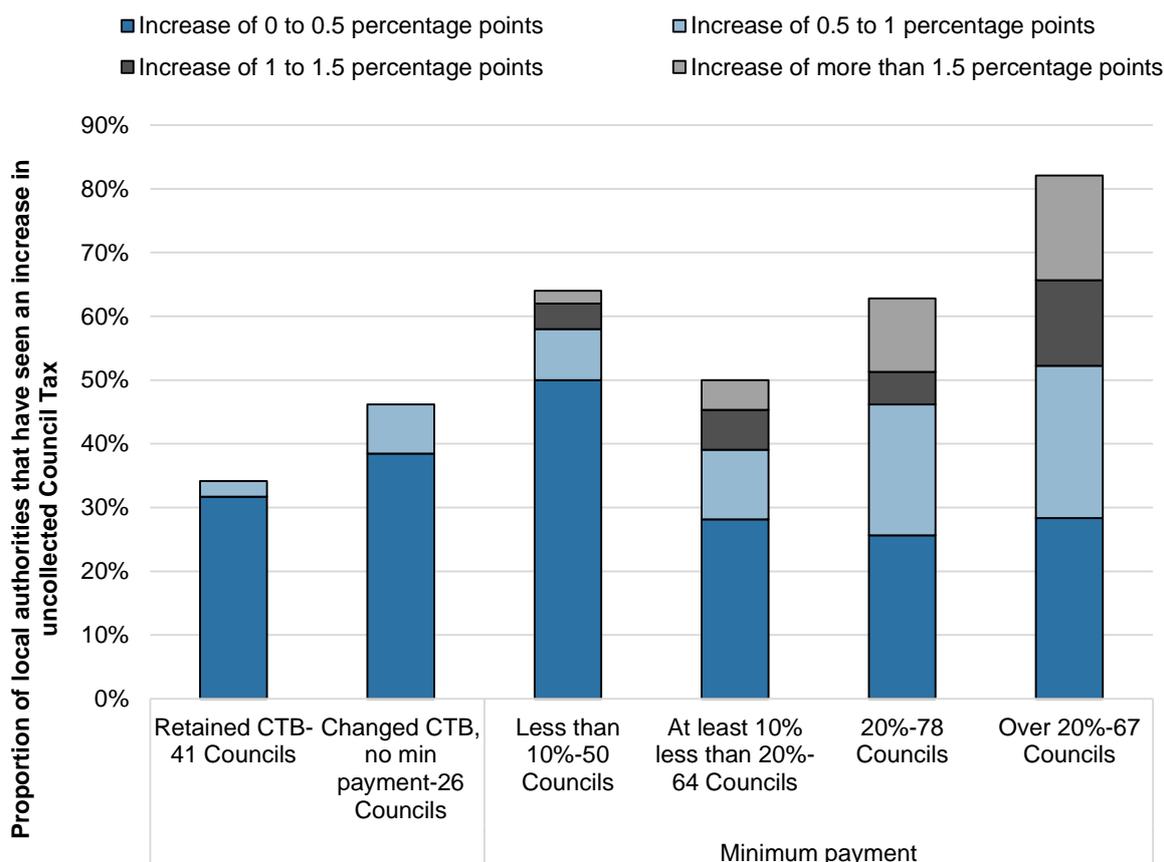
	2012-13	2013-14	2014-15	2015-16	2016-17
Estimate of NCD (£ bn)	£23.0	£24.1	£24.8	£25.5	£26.8
Total arrears relating to all years at the end of the year shown (£ bn)	£2.4	£2.5	£2.7	£2.7	£2.8
Amounts not collected in year shown (inc court and admin costs) (£ millions)	£700	£840	£860	£850	£880
Court and admin cost included in total arrears (£ millions)	£210	£230	£270	£280	£290
Collection rate (%)	97.4	97.0	97.0	97.1	97.2

The total amount of Council Tax arrears has increased by £400m from 2012-13 (the final year of CTB) and 2016-17, from £2.4bn to £2.8bn. In 2016-17 the amount of arrears from the previous year (rather than total arrears from all years) was also the largest amount since CBT was abolished - £880m, up from £700m in 2012-13. Within arrears, court and administration costs are also at a five year high at £290m in 2016-17, up from five years previously (£210m). These costs increased by £10m between 2015-16 and 2016-17.

Since the abolition of CTB, the income that local authorities could collect in each year if everyone liable for Council Tax paid in full (shown in the table as Net Collectible Debit-NCD) has increased every year. The table above shows that the NCD increased by £3.8bn between 2012-13 and 2016-17- from £23bn to £26.8bn. This increase has likely been driven by both cuts to CTS (more people are liable for council tax) and an expanding Council Tax base, due to rising employment rates.

Between 2012-13 and 2016-17, the NCD increased by 17%. In comparison, total arrears (excluding court and administration costs) and court and administration costs grew by 19% and 39% respectively. However, the collection rate has risen for the second year and in 2016-17 was 97.2, 0.2 percentage points lower than in 2012-13. If this trend continues the collection rate will be back at its 2012-13 level within a few years.

Figure 1. Proportion of local authorities that have seen an increase in uncollected tax in 2016-17 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 2016-17 with 2012-13.

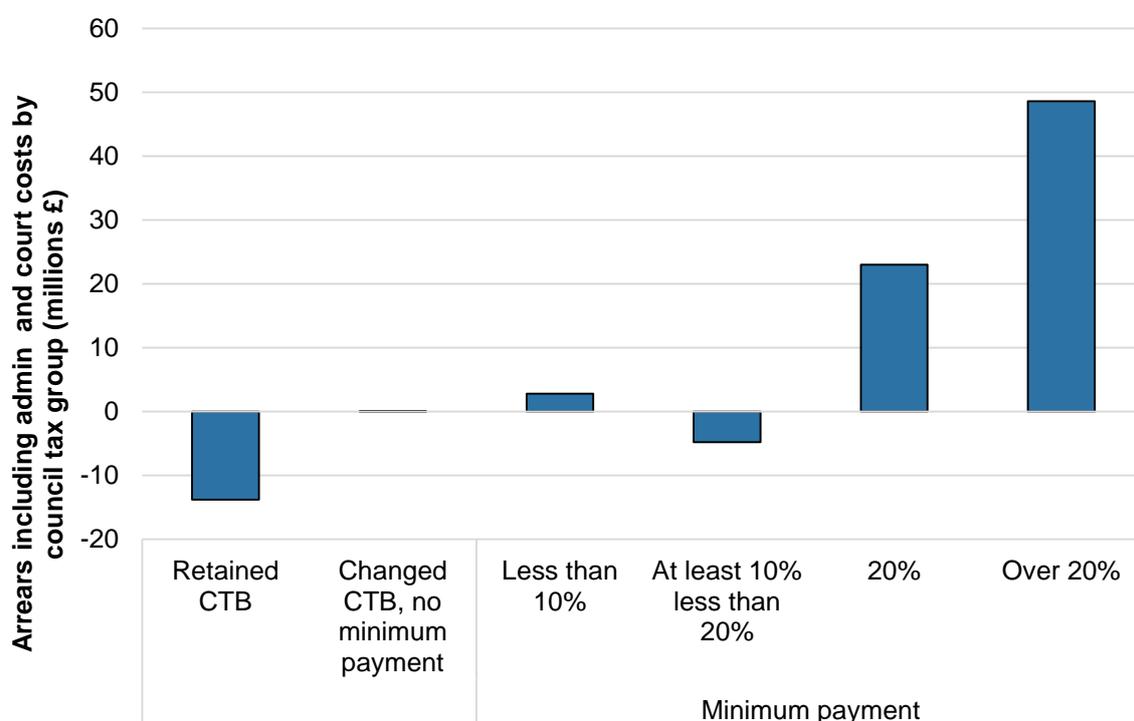
The number of local authorities that have either retained CTB or set no minimum payment continues to decline, as more local authorities drift into higher minimum payments. Last year, 75 of the 326 English local authorities (23 per cent) had either retained CTB or not set a minimum payment. This year, this number was down to 67 (21 per cent). Meanwhile, the number of local authorities charging a minimum payment of 20 per cent or more has risen from 129 (40 per cent) last year to 145 (44 per cent) this year.

Local authorities with the highest minimum payments continue to be the local authorities with the largest increases in uncollected Council Tax.

In 2016-17 compared to 2012-13 (the last year of CTB), 13 of 41 councils (32 per cent) who retained the full support of CTB had an increase in the proportion of NCD that went uncollected of between 0 and 0.5 percentage points. One council saw an increase of between 0.5 and 1 percentage points. The remaining 27 - 66 per cent saw a fall in uncollected tax.

The number of local authorities that have increased their minimum Council Tax payments to over 20% compared to 2012-13 increased from 53 last year to 67 this year. Of these 67, 55 local authorities (82 per cent) have seen an increase in their uncollected tax. This group had the largest number of councils (11 or 16 per cent) that saw their uncollected tax increase by more than 1.5 percentage points this year compared to 2012-13. However, a larger number of councils in this group saw their uncollected tax fall this year (from 4 councils last year to 12 this year), meaning that the proportion of these councils whose collection rates rose in 2016-17 compared to 2012-13 was 18 per cent. As more councils have moved into this group, both the number of councils with rising collection rates and the number with falling collection rates have grown.

Figure 2 Total additional uncollected tax including admin and courts costs of local authorities in 2016-17 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 2016-17 with 2012-13.

Figure 2 shows the sums of money represented by the percentage point increases in uncollected tax discussed under Figure 1. In 2016-17, local authorities would have

collected £26.8bn in Council Tax if everyone liable for Council Tax paid in full- within this context, a small percentage point increase in uncollected tax represents a large sum.

The 67 Councils that had a minimum payment of over 20 per cent in 2016-17 had the largest overall increase in uncollected tax for that year. These councils had £48.6 million more in uncollected tax than they did in 2012-13. This group's arrears this year relative to 2012-13 is £4.2 million more than last year (when only 53 Councils were in this category).

Councils that abolished CTB but did not set a minimum payment saw no significant change between arrears this year compared to 2012-13 (the group overall had an increase of £10,000). Councils that retained CTB continued to have lower arrears this year than they did in 2012-13. This group's arrears declined by £13.8 million relative to their arrears in 2012-13.

Collection rates

This year, 25 local authorities had collection rates below 95 per cent (down from 28 last year). The pattern of local authorities with low collection rates has remained consistent since last year- the majority (16) of these local authorities have a minimum payment of 20 per cent or more. Only one of them has no minimum payment, with a further three setting a minimum payment of less than 10 per cent.

Conclusion

The overall collection rate in England in 2016-17 was 97.2 per cent, the highest it has been since CTB was abolished. The highest collection rate in the last 10 years was 97.4 in 2012-13. If collection rates continue their upwards trajectory of the last few years, soon they will be back to the pre-CTS level or even higher.

The increase in the England collection rate does hide differences among local authorities. Councils with the highest minimum payments continue to have higher overall arrears than in 2012-13 even once the increase in their NCD has been accounted for. This could be seen as evidence that some councils have raised taxes beyond sustainable levels for low-income households. Minimum payments that are set too high may result in an increase in uncollected taxes and increasing administration and court costs (for both the claimants and the local authority) as councils seek to recover the taxes.

Increasing council tax places another financial burden on low-income families who are already contending with rising living costs³ and who may also be affected by

³ Tinson et al (2016) *Monitoring Poverty and Social Exclusion*

falling income due to other welfare changes such as the benefit cap. A report last year found that some households were cutting back on essentials like food and heating or borrowing money to meet their council tax obligations.⁴ Many low-income households do end up in council tax arrears- nearly one in ten adults in poverty were behind with their council tax in 2014-15, making it the most common bill for adults in poverty to fall behind with.⁵ The process of council tax recovery is stressful for those in arrears, and may ultimately cost the council more money than they are able to recoup, through increased administration and court costs.

Councils in England must balance their need to raise revenue as they become increasingly reliant on council tax with what residents on low-incomes can actually afford to pay. For important local government services to be protected, it may be that a more sustainable funding solution is needed than requiring the working-age residents on low-incomes to pay an ever greater share of a steadily rising bill. It is likely that the collection rate is increasing at the moment for a variety of reasons. Rising employment and the increase of the adult national minimum wage (National Living Wage) has led to significant income growth for the bottom fifth over the last few years.⁶ This will mean that some working households can afford the rises. However, many of the poorest households have still seen their income fall in real terms (due to rising living costs and/or welfare changes). Greater collection rates may not always be an indication of a sustainable ability to pay council tax- low-income residents may be prioritising paying council tax at the expense of essential household items, other important bills or by getting into debt.

Local authorities in the most deprived areas have received the biggest cuts in spending power since 2010.⁷ This will mean that they are both more reliant on council tax revenue and have the most difficulty increasing the amount they collect as they will have a larger proportion of low-income residents. Councils provide a huge range of services that impact day to day life- from services that shape our neighbourhoods (such as rubbish collection and park maintenance); to social care that provides support to vulnerable people. Protecting these services is imperative, but attempting to do so at the expense of low-income people is likely to cause as many new problems for local authorities as it solves.

About this project

This project has been supported by the Joseph Rowntree Foundation.

⁴ Ashton et al (2016) *Still too Poor to Pay: Three years of localised Council Tax support in London*. CPAG and Z2K.

⁵ Tinson et al (2016) *Monitoring Poverty and Social Exclusion*

⁶ ONS (2017) *Statistical Bulletin: Household disposable income and inequality in the UK: financial year ending 2016*

⁷ Kenway, P. and Barry Born, T. (2016) Sustainable local government finance and liveable local areas. NPI.