audit 2002/2003

# Collection of Income - Council Tax Follow up

## Salford City Council

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## Introduction

In March 2002 we reported the findings from our review of the Council's performance in collecting council tax and sundry debtors. The reason for the review was that there were concerns that income collection in these areas had not been fully effective. There was a need to strengthen the management of debt recovery to reduce the amount of debt the Council carried.

We have carried out a follow up of the report to ascertain whether the recommendations have been implemented and, if so, what impact they have had on the level of arrears.

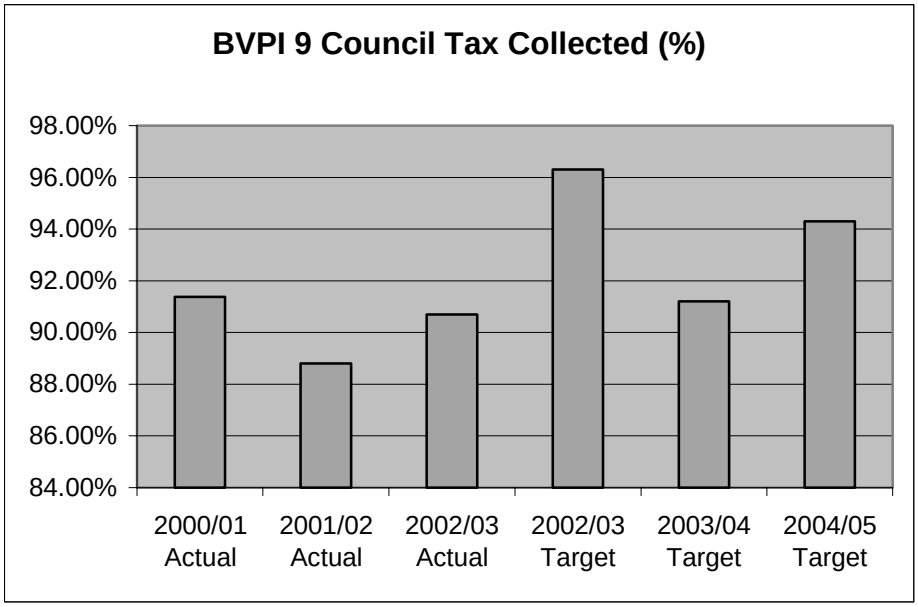
The original report covered both council tax and sundry debtors. The results of our follow up work have been outlined in two separate reports – one for council tax and the other for sundry debtors. This report concentrates on the progress on council tax collection.

## Background

Council tax was introduced in April 1993, replacing the community charge. Council tax is levied upon chargeable dwellings. Liability for paying council tax rests in the first instance, with the occupier of the property. Where the property is not occupied or an occupier cannot be identified then liability rests with the property owner.

Council tax arrears amounted to just over £18 million (excluding costs) at 31 March 2003, an increase of £2 million on the £16 million outstanding at 31 March 2001 when our original report was produced. An analysis of these arrears is included in Appendix 2. This shows that, although all of the earlier year's arrears are reducing, by at least 30% over the period, this is out weighed in total terms by new arrears from 2001/2002 and 2002/2003.

With regard to the council tax collection rate year on year, the following graph indicates the percentage of council tax collected during the years 2000/2001 to 2002/2003, relative to the amounts due in those years, together with the 2002/2003, 2003/2004 and 2004/2005 targets.



The graph shows that the collection rate fell in 2001/2002 but increased in the following year albeit by a relatively small percentage from 88.8% in 2001/2002 to 90.7% in 2002/2003. The fall in collection rate during 2001/2002 was largely due to a change in the way in which the indicator was calculated. During this year it was found that estimates of income had been incorrectly included in the figures and these had to be excluded from any future calculations.

## Scope and objective

We originally reviewed the Council's council tax collection performance by focussing on:

- policy and standards
- performance monitoring
- collection rates
- billing and payment
- recovery.

The follow up has ascertained the current position on the recommendations made in our original report. We have not re-visited any area that was assessed as being satisfactory during the initial piece work.

## Audit approach

Our follow up audit has been based on:

- meetings with key officers
- a review of documentation to support the current position
- a review of Internal Audit work in relation to the council tax system
- testing of a small number of items as considered necessary.

## Main conclusions

Our detailed findings are contained in Appendix 1. This shows that the Council has implemented many of our recommendations including:

- revising exception reports to include only relevant cases
- increasing the payment options and locations available to council tax payers including the promotion of direct debit
- tightening the times between the various recovery stages to a level the Council considers to be the minimum reasonably allowable
- extending the use of external debt recovery agents
- writing off significant amounts of irrecoverable debts during 2001/2002 and 2002/2003.

Whilst we commend the Authority for the measures taken so far, the figures in the above graph show that their impact on the year on year collection rate has been limited. It is difficult to identify the reasons for this limited success. However one factor is likely to be that some of the measures, such as the use of external bailiffs, have only just been implemented so their full effect has not yet been felt.

In addition our review has highlighted further areas in which the recovery process could be strengthened. The main ones are by:

- tightening up controls surrounding accounts with outstanding correspondence so that recovery action is only stopped if the correspondence is relevant to the arrears being pursued

- introducing an overall control to check on all accounts that have not had any recovery action for a certain period of time
- linking accounts for the same council tax payer so that the Council can take more effective recovery action based on the aggregate position for that person.

It is important that the Council addresses these weaknesses and continues to rigorously apply the other recently introduced measures if the target collection rates of 91.2% for 2003/2004 and 94.3% for 2004/2005 are to be achieved.

The Council still has a significant problem with the overall level of arrears which has increased since our original report. For a number of years the Council did not have an active write off policy with the result that many accounts had laid dormant on the system with no attempt to recover the debt for some time. Some of these debts are now ten years old.

These arrears should be covered by a bad debts provision based on an assessment of the likelihood of recovery for each debt or category of debts. The bad debt provision for 2002/2003 is currently being assessed as part of the closedown process and we will review this as part of our final accounts audit. However, our 2001/2002 final accounts audit concluded that the provision of £2.87m at 31 March 2002 was inadequate and that a further £2.86m should be provided based on historic collection rates. The Council is trying to address this problem by declaring a £1m deficit on the collection fund for the next few years although this is less than our calculations show is needed.

Once all avenues of recovery have been pursued, genuinely irrecoverable debts need to be written off. The 2001/2002 and 2002/2003 write offs have started to address Salford's backlog in this area. However, the scale of the task is significant and it has not yet been possible to action all the accounts requiring write off.

## The way forward

The recommendations arising from this follow up work are contained in the attached Action Plan together with the Council's response. We have listed our key recommendations below.

| Recommendations | |
|---|---|
| R6 | Correspondence should be reviewed if it is holding up the issuing of a reminder or summons to ensure that it relates to the arrears overdue. |
| R7 | Accounts with no recovery action for a set period of time should be reviewed. |
| R9 | Accounts for the same council tax payer should be linked so that the Council is aware of the aggregate position when recovering amounts due. |
| R10 | Bailiffs should be asked to pursue the total amount due from a council tax debtor. |
| R11 | Review court action procedures to ensure that all the outstanding arrears for the same council tax payer are pursued. |
| R14 | Continue to write off outstanding debts that are no longer considered viable to collect. |

## Status of our reports to the Trust

*Our reports are prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Reports are prepared by appointed auditors and addressed to non-Executive Directors/Members or officers. They are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any Director/Member or officer in their individual capacity, or to any third party.*

APPENDIX 1

# Current position on recommendations

| Original Recommendation | Current Position | Conclusion | Further Recommendations |
|---|---|---|---|
| **Income collection policy and standards** | | | |
| R1 The Council should develop a comprehensive corporate policy for income collection which covers:<br>billing<br>collection<br>recovery and enforcement<br>write-offs. | A draft policy has been produced by the Council Tax Section and is currently being discussed with other Directorates. The target date for finalisation is 1 July 2003.<br>Write off limits and procedures were approved by the Audit Sub Committee in March 1999. | The draft policy concentrates on recovery, enforcement and collection with only a reference in the introduction to billing and write-offs. Therefore the policy is not comprehensive. | R1 Consider including more detail in relation to billing and write-offs in the final policy. |
| R2 Members should receive periodic reports showing the volume, value and age of the Council's outstanding debts, together with movements and a concise written commentary. | Monthly reports go to the Lead Member for Corporate Services and to the Quality& Performance Scrutiny Committee when requested. | The reports show details of:<br>• collection rates<br>• level of reminders<br>• summonses and liability orders,<br>• level of arrears collected<br>• performance indicators.<br>The reports also give comparatives and a commentary on actions being taken.<br>As the report does not include volume, value or age of outstanding debt, members do not get a full understanding of the Council's position. | R2 The monthly reports to the Lead Member for Corporate Services should include the volume, value and age of outstanding debt.<br>R3 The Quality and Performance Scrutiny Committee should receive quarterly reports containing the same level of detail as that reported to the Lead Member. |

| Original Recommendation | Current Position | Conclusion | Further Recommendations |
|---|---|---|---|
| **Billing and payment** | | | |
| R3 Internal audit should review the effectiveness of the restructure within the next six months. | A further restructuring has just taken place and it is intended that the new system will be in place by April 2004. | The effectiveness of the new structure and system will require reviewing once it has settled down. | R4 The effectiveness of the latest restructure should be reviewed within six months of its implementation. |
| R4 Revise the council tax exception reports to include only relevant cases. | Cases that are worth less than £5 or are in credit are no longer included on the 'demand row missing' report.<br>The remaining exception reports have not been reduced but now contain a narrative so that only those with outstanding invoices are chased. | The amount of work required to clear the reports has been reduced thus making it more manageable.<br>Internal Audit work revealed the exception report on 'bills not produced as no instalments keyed' is filed without being actioned. | R5 The recommendations contained in Internal Audit's 2002/2003 review of the Council Tax system should be implemented as intended. |
| R5 Ensure that exception reports are fully and speedily actioned. | Exception reports are cleared promptly. | The reports reviewed had been promptly cleared with the exception of that mentioned in R4. | None. |
| R7 The cost of recovery should be evaluated following the restructure the Council Tax Section and the Financial Services Group. | A further restructuring has recently taken place that has reduced the number of internal recovery staff by transferring them to the fraud section.<br>Three external bailiff companies have been appointed to work on a no fee, no recovery basis. Upon recovery their costs are reclaimed from the council tax payer. | Reports have been produced detailing the revised structure and the appointment of the external bailiff companies. | See R4 above. |
| R11 Ensure that staff are aware of the need to retain additional information following the recommendations of the Woolf report. | Adequate papers are held for cases to be presented to the magistrates' court. | Adequate information to meet the requirements of the courts appears to be retained. | None. |

| Original Recommendation | Current Position | Conclusion | Further Recommendations |
|---|---|---|---|
| **Billing and payment** | | | |
| R12 Liaise with other authorities with higher numbers of direct debit payers to determine ways of increasing take up. | Information obtained of split of payments by type showed that during 2002/2003 61% by value and 51% by number of payments have been made by direct debit.<br>IA confirmed that direct debit and other payment methods are detailed on the bill. | The use of direct debits is promoted whenever possible. | None. |
| R13 The Council should consider the cost and effectiveness of alternative income collection methods for their services. | There are now numerous ways in which people can pay eg post offices, pay points in shops. There are a large number of places and a wide range of times.<br>The Council is currently looking at whether or not to charge for payment by credit card. | The Council has significantly increased the number of payment options. | None. |
| **Recovery and enforcement** | | | |
| R18 The period between an account being raised and it being classed as overdue needs to be monitored closely to determine its overall effectiveness. | The computer system has been adjusted so that two reminders are issued and then a summons. A timetable is in place for the issuing of reminders and summonses. | In the Council's view the times between the various recovery stages are now at the minimum that could reasonably be allowed. This has speeded up the recovery process. | R6 Correspondence should be reviewed if it is holding up the issuing of a reminder or summons to ensure that it relates to the arrears overdue.<br>R7 Accounts with no recovery action for a set period of time should be reviewed.<br>R8 Correspondence from the Land Registry should be acted upon.<br>R9 Accounts for the same council tax payer should be linked so that the Council is aware of the aggregate position when recovering amounts due. |

| Original Recommendation | Current Position | Conclusion | Further Recommendations |
|---|---|---|---|
| **Recovery and enforcement** | | | |
| (R18 cont.) | (See above). | Our review of a sample of cases highlighted a couple of areas where cases could 'slip through the net'. These are as follows:<br>**Correspondence**<br>The receipt of correspondence, whether relevant or not, will hold up the issue of reminders or summonses whilst it is being dealt with. We found examples of cases with no recovery action for a significant amount of time due to on-going correspondence.<br>We also found a case where correspondence from the Land Registry indicating that the property had been sold had not been actioned.<br>**Aggregating Accounts**<br>In certain circumstances council tax payers may have more than one invoice. The main instances of this are in relation to landlords with more than one property and people who have had a change in their circumstances eg benefits. Our testing highlighted cases where several accounts for the same person had not been aggregated for recovery purposes. | (See above).<br>R10 Bailiffs should be asked to pursue the total amount due from a council tax debtor.<br>R11 Review court action procedures to ensure that all the outstanding arrears for the same council tax payer are pursued.<br>R12 Consider using the aggregate debt due per person when producing the top 200 council tax debtors list. |

| Original Recommendation | Current Position | Conclusion | Further Recommendations |
|---|---|---|---|
| **Recovery and enforcement** | | | |
| (R18 cont.) | (See above). | The practical effect of this is that the Council may not be aware of the full picture when following up outstanding amounts. We found a case where only the latest account had been referred to the bailiffs even though there were others with no action taken on them since May 2002.<br>We also found an example of a case where a court summons had been issued for the latest debt even though other accounts, with no on-going recovery action on them, were due from 1997.<br>Members monitor the Council's top 200 council tax debtors. However, these debts are based on debts per account, not per person. | (See above). |
| R19 Consider contacting debtors by telephone to pursue outstanding accounts. | Debtors are contacted by telephone and notes should be made of all contacts in the case diary. | Whilst efforts are now being made to obtain telephone contact information, we found examples of accounts that did not contain these details. | R13 Obtain the telephone numbers for account holders or note the reason for this not being possible. |
| R20 Introduce and monitor staff work plans to ensure that the newly adopted recovery procedures are strictly enforced. | Every member of the Team has a work plan covering at least the next six months.<br>A recovery time table is produced for the next year.<br>Section meetings include a review of work load. | Plans are in place and being monitored. | None. |

| Original Recommendation | Current Position | Conclusion | Further Recommendations |
|---|---|---|---|
| **Recovery and enforcement** | | | |
| R23 Consider extending the use of external debt recovery agents. | As outlined above, three external recovery agents have been appointed and a report on their appointment supplied to members. The Council are just starting to put some of the worst debtors out to the agencies for collection. | The use of external debt recovery agents has been increased. | None. |
| **Bad debt provision and write offs** | | | |
| R24 Calculate the annual provision for doubtful debts based on a realistic assessment of the likelihood of recovery for each debt. | A profile has been done on the current provision. This will be combined with the age mix information and the collectability to produce the new provision required for the 2002/2003 accounts.<br>Our 2001/2002 final accounts audit concluded that the provision of £2.87m at 31 March 2002 was inadequate and that a further £2.86m should be provided based on historic collection rates.<br>The Council is aware that the bad debts provision needs to be increased and is planning to declare a deficit on the collection fund of £1m for the next few years in order to help address this. | Unable to conclude as the information on the current position will not be available until the 2002/2003 accounts have been produced. | This will be followed up as part of our final accounts audit. |

| Original Recommendation | Current Position | Conclusion | Further Recommendations |
|---|---|---|---|
| **Bad debt provision and write offs** | | | |
| R25 Review outstanding accounts against the agreed write off policy. | Outstanding cases have been classified according to the reason for non-payment eg bankrupt, death, cannot be traced.<br><br>Over the last two years significant amounts have been written off for debts where recovery is no longer considered viable. These are as follows:<br>• 2001/2002 - £6.4m<br>• 2002/2003 - £2.2m<br><br>In addition, all accounts with a balance of less than £5 due from 2000/2001 or earlier have been written off.<br><br>There are still a large number of old accounts that need to be written off. In 2004/2005 a new council tax system will be implemented and it is anticipated that many of these old debts will be cleared in order to reduce the amount carried forward. | Progress has been made on writing off irrecoverable debts. However the scale of the task is significant and it has not yet been possible to action all the accounts requiring write off. There are plans to continue to address the backlog over the next few years.<br><br>The arrears report is 7,244 pages long and contains a large number of low value amounts. The size of the report has made it unusable. | R14 Continue to write off outstanding debts that are no longer considered viable to collect.<br><br>R15 Review the £5 minimum level for automatic write off as this appears to be low. |
| R26 Set fair but challenging performance targets to emphasise the importance of quickly pursuing debts. | The target for BVPI9, % of council tax collected, in the 2002/2003 BVPP was 96.3% compared to an actual collection rate of 90.7%.<br><br>The targets for 2003/2004 and 2004/2005 have been revised to 91.2% and 94.3 % respectively. | The target for 2002/2003 was unrealistic given the current collection rates. The Council has reviewed the targets for future years in order to make them more achievable. These targets should be kept under continuous review. | None. |

APPENDIX 2

# Debt Analysis

**EXHIBIT 1 AGE ANALYSIS OF COUNCIL TAX**

| Year | Amount outstanding 1 April 2001 £ | Amount outstanding 31 March 2003 £ |
|---|---|---|
| 1993/1994 | 889,885.19 | 292,583.45 |
| 1994/1995 | 1,029,971.56 | 468,455.11 |
| 1995/1996 | 1,208,896.65 | 678,451.85 |
| 1996/1997 | 1,569,473.77 | 872,603.15 |
| 1997/1998 | 1,929,429.21 | 1,197,396.58 |
| 1998/1999 | 2,235,280.99 | 1,482,958.60 |
| 1999/2000 | 2,574,925.39 | 1,750,716.34 |
| 2000/2001 | 4,531,128.37 | 2,443,376.69 |
| 2001/2002 | | 3,260,728.70 |
| 2002/2003 | | 5,842,287.98 |
| Total | 15,968,991.13 | 18,289,558.45 |