

## **Struggling to pay council tax**

***A new perspective on the debate about local taxation***

*Michael Orton*

### **Struggling to pay council tax: a new perspective on the debate about local taxation**

**This study finds out who is struggling to pay council tax, and provides first-hand evidence of their views and experiences of this tax.**

Although council tax is the subject of on-going review, there has been little research into how many households, and which, are struggling to pay. This study addresses that gap by looking at who is struggling to pay and why, and assessing the views and experiences of people who had received a Magistrates' Court summons for non-payment of council tax.

The study begins by exploring how many low income households there are in each council tax valuation band; how many households are struggling to pay council tax; and whether households in all council tax valuation bands are struggling to pay. It examines in more detail three groups of interviewees who were struggling to pay – those who were in work; those in receipt of benefits; and those who had low/fluctuating incomes but lived in high value properties. The study also reports interviewees' own views of council tax benefit, and what they saw as key issues and solutions. It concludes with a review of key findings, and the policy implications arising from the research.

*Struggling to pay council tax* is essential reading for all those with an interest in local taxation, and will also be of particular interest to organisations and individuals concerned with issues of personal debt and welfare to work.



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# Abbreviations and glossary of terms

## Abbreviations

CIPFA	Chartered Institute of Public Finance and Accountancy
CTB	Council tax benefit
FRS	Family Resources Survey
IB	Incapacity Benefit
IS	Income Support
JSA	Jobseeker's Allowance

## Glossary of terms

Rate of summonses: the number of summonses issued by a council as a percentage of properties in the council's area.

Attachment of earnings order: where money is deducted direct from a person's wages.

# Executive summary

This report presents findings from new research into council tax from the perspective of people who are struggling to pay. There are four major policy implications.

- Within the current debate about local taxation consideration needs to be given to the position of the estimated *more than two million households who struggle to pay council tax each year* in England; these households predominantly have low incomes and are in low value properties, not high value properties.
- Consideration should be given to making council tax fairer by *revising the ratio between valuation bands*: fears that making council tax more progressive would have a negative impact on large numbers of low income households in high value properties are misplaced, because there are few such households. In Britain, there are an estimated *181,000 low income households in bands F–H, but 5.7 million low income households in bands A–C*.
- Concern with low income households in high value properties should not lead to a failure to address the position of the far greater numbers of low income households in low value properties who, because of the regressive nature of council tax, currently ‘lose’ in relative terms. A different approach would be to ask *how can the current regressive system be justified?* And why should council tax not be reformed so as to be fairer for the millions of low income households in low value properties?
- Discussion of council tax benefit needs to move beyond take-up: greater consideration should be given to the *negative impact of council tax on making work pay* for people of working age on low incomes.

## The research and the policy context

Council tax is the subject of ongoing review and within the current debate four points are of particular relevance to the report:

- Council tax is regressive, meaning that it accounts for a larger proportion of household income for those on low and middle incomes than for those on high incomes.
- There has been no attempt to identify how many, and which, households are struggling to pay council tax.

- There is considerable concern regarding the position of people, particularly pensioners, with low incomes in high value properties.
- There is an emphasis on improving the take-up of council tax benefit in order to make council tax fairer.

The research therefore investigated:

- how many households are struggling to pay council tax
- how many low income households there are in each council tax valuation band
- whether households in all council tax valuation bands are struggling to pay
- why people are struggling to pay
- how people who are struggling to pay experience council tax benefit, and what they see as key issues and solutions.

The research:

- used receipt of a magistrates' court summons for non-payment of council tax as an indicator of struggling to pay
- included 51 in-depth interviews with people who had received a council tax summons, plus statistical analyses of currently available data sets, along with data from a sample of 22 councils
- gave centrality to the views of people who had received a summons.

## **Struggling to pay: how many, and which, households?**

It is estimated that over two million households struggle to pay council tax each year in England.

Households struggling to pay council tax are predominantly low income households in low value properties, not people in high value properties.

These conclusions are based on the following findings:

- It is estimated that close to three million summonses for non-payment of council tax are issued in England each year.
- Deprivation is a key factor in explaining the number of summonses issued by councils.
- One in four households in band A receives a summons, and one in seven in band B, but fewer than one in ten in bands E–H (based on a sample of 22 councils).
- Low income households in high value properties are exceptional: households with low incomes in bands F, G and H combined represent 0.7 per cent of all households in Britain.
- It is estimated that 181,450 households in Britain have a low income and live in bands F–H (including 101,008 pensioner households).
- It is estimated that 5,740,833 households in Britain have a low income and live in bands A–C (including 2,898,888 pensioner households).

### **Council tax, low wages and day-to-day living**

Low income was the main reason cited by interviewees as to why they had received a summons for non-payment of council tax.

The largest group of interviewees were in employment but on low wages, and the struggle to pay council tax formed part of the day-to-day difficulty of making ends meet, despite having a job.

Struggling to pay council tax can also be part of a broader debt problem caused by a dramatic fall in income.

Examples of summonses being received because of administrative issues and the person's own actions were found in all council tax bands and at all income levels – but low income creates vulnerability to missing payments and means problems repaying arrears.

## **Low income, benefits and pensions**

For those in receipt of benefits, the administration of council tax benefit (CTB) was a problem, as was repaying arrears accrued when in employment and before being in receipt of benefits.

There are questions as to both the fairness and efficiency of collecting very small amounts of council tax from people in receipt of benefits, particularly Incapacity Benefit: in one case, the summons costs were higher than the interviewee's annual council tax liability.

An example of a pensioner with a low income in a high value property raised issues about pension provision and equity release schemes.

Problems experienced by other interviewees with apparently low incomes in high value properties were more to do with fluctuating income.

## **Experiencing council tax benefit, and key issues and solutions: interviewees' perspectives**

Interviewees' experience of CTB raised issues not about take-up but about the meanness of the scheme, administrative problems and the sheer complexity of CTB and its interaction with other benefits (including tax credits).

The key issue raised by interviewees was again low income and, despite being in paid employment, the struggle to make ends meet.

Council tax has a negative impact on making work pay for those on low incomes.

People in receipt of Incapacity Benefit questioned why they have to pay council tax at all.

Interviewees raised some issues regarding the administration of council tax at the local level, in particular relating to payment methods.

Interviewees expressed little enthusiasm for advice services or more affordable credit, but this perhaps reflected the fact that for most interviewees the struggle to pay council tax was part of the day-to-day experience of low income rather than being due to multiple debts.

### Discussion: key findings and policy implications

Six particular findings are highlighted, relating to:

- the estimate that in England more than two million predominantly low income households in low value properties struggle to pay council tax each year
- the key issue raised by interviewees being low income and, despite being in paid employment, the struggle to make ends meet
- issues relating to CTB being about the meanness of the scheme, administrative problems and the sheer complexity of CTB and its interaction with other benefits, not about take-up
- the negative impact of council tax on making work pay
- low income households in high value properties being exceptional
- questions as to the fairness and efficiency of collecting small amounts of council tax from people in receipt of benefits.

This leads to the four policy implications listed above, but to emphasise them:

- Within the current debate about local taxation, consideration needs to be given to the position of the estimated *more than two million households who struggle to pay council tax each year*; these households predominantly have low incomes and are in low value properties, not high value properties.
- Consideration should be given to making council tax fairer by *revising the ratio between valuation bands*: fears that making council tax more progressive would have a negative impact on large numbers of low income households in high value properties are misplaced, because there are few such households. There are an estimated *181,000 low income households in bands F–H, but 5.7 million low income households in bands A–C*.
- Concern with low income households in high value properties should not lead to a failure to address the position of the far greater numbers of low income households in low value properties who, because of the regressive nature of council tax, currently ‘lose’ in relative terms. A different approach would be to ask *how can the current regressive system be justified?* And why should council tax not be reformed so as to be fairer for the millions of low income households in low value properties?

- Discussion of council tax benefit needs to move beyond take-up: greater consideration should be given to the *negative impact of council tax on making work pay* for people of working age on low incomes.



# 1 Introduction: the research and the policy context

This report presents findings from new research into council tax from the perspective of people who are struggling to pay. Council tax is the subject of ongoing review and within the current debate four points are of particular relevance to the report:

- Council tax is regressive, meaning that it accounts for a larger proportion of household income for those on low and middle incomes than for those on high incomes.
- There has been no attempt to identify how many, and which, households are struggling to pay council tax.
- There is considerable concern regarding the position of people, particularly pensioners, with low incomes in high value properties.
- There is an emphasis on improving the take-up of council tax benefit in order to make council tax fairer.

The research therefore investigated:

- how many households are struggling to pay council tax
- how many low income households there are in each council tax valuation band
- whether households in all council tax valuation bands are struggling to pay
- why people are struggling to pay
- how people who are struggling to pay experience council tax benefit, and what they see as key issues and solutions.

Before discussing the research, the policy context will be considered in more detail.

### Council tax, fairness and regressivity

Council tax is the subject of ongoing review. In 2003/04, the issue was considered by the Balance of Funding Review (see Balance of Funding Review, 2004), and subsequently the Lyons Inquiry into Local Government (this report was written after publication of the latter's *Consultation Paper and Interim Report*, 2005).

A recurring issue is the fairness of council tax, with a particular focus of concern being the impact of council tax on older people, especially in the light of increases in council tax above the rate of inflation.

#### **Box 1 Council tax: key facts**

Council tax has been the British system of local taxation since 1993. Key elements of the scheme are:

- *Valuation bands:* council tax is principally property-based, with properties being valued and then placed in one of eight bands, A to H (H is the highest valuation band). A different amount of tax is payable for each band with the liability for a band H property being three times that of a band A property.
- *Discounts:* there is a system of discounts. For example, single householders receive a 25 per cent discount on the amount they have to pay, as do some people with disabilities.
- *Council tax benefit (CTB):* CTB is a means-tested benefit which reduces the amount of council tax that has to be paid. People in receipt of Jobseeker's Allowance/Income Support generally receive 100 per cent CTB, meaning they do not have to pay any council tax. People not on Jobseeker's Allowance/Income Support, including those in employment, can still apply for CTB. They may receive partial CTB, meaning they still have to pay some council tax.
- *Administration:* council tax collection, including CTB, is the responsibility of local councils. Local policies and practices can vary between councils. The level of council tax is set by councils, subject to control by central government.
- 12.9 per cent was the average amount by which council tax increased in 2002/03 (see Audit Commission, 2003); in 2005/06 it increased by an average of 4.3 per cent in England.
- £1,009 was the average annual council tax bill in 2005/06 in England.

An issue that attracts less attention is that council tax is highly regressive, meaning that it accounts for a larger proportion of household income for those on low and middle incomes than for those on high incomes, as demonstrated in Table 1. The reason for this lies in the structure of council tax. For council tax purposes, properties are placed in one of eight valuation bands, band A being the lowest and band H the highest. A different amount of council tax is payable for each band, with the liability for a band H property being three times greater than for a band A property.

**Table 1 Local tax in the UK as a percentage of gross household income by quintile**

Income quintile	Local tax as a percentage of gross household income
Bottom	4.9
2nd	3.7
3rd	3.1
4th	2.5
Top	1.7

*Source: Jones (2005, p. 7).*

### **Valuation bands, ratios and income**

The ratio between council tax valuation bands may appear a rather obscure issue, but it is critical because it affects the disposable income of virtually every household. It was demonstrated at the introduction of council tax that if the ratio was 6:1, not 3:1, those in the bottom half of the income distribution would gain significantly (Hills and Sutherland, 1991).

The position is complex, however, because there is no direct relationship between household income and council tax band. As the Lyons Inquiry Interim Report noted:

people in higher bands may be 'wealthier' by virtue of owning a more valuable house, but will not necessarily have a higher income. So reducing the council tax bill for people in Band A, for example, will reduce the bill not only for some people on low incomes, but also for some on middle and high incomes. In contrast, an increasing tax bill for those in the highest council tax bands will impact on some people with low incomes, as well as those who are at the top end of the earnings scale. (Lyons Inquiry into Local Government, 2005, p. 12)

The Lyons Inquiry Interim Report did not consider the issue of ratios: it did examine adding extra valuation bands but found this would not make council tax less regressive.

### ***Council tax benefit and making work pay***

Improving take-up of council tax benefit (CTB) has been identified as a key way of improving the fairness of council tax (see Lyons Inquiry into Local Government, 2005). CTB is a means-tested benefit which reduces the amount of council tax that has to be paid. People in receipt of Jobseeker's Allowance/Income Support generally receive 100 per cent CTB, meaning they do not have to pay any council tax. People not on Jobseeker's Allowance/Income Support, including those in employment, can still apply for CTB. They may receive partial CTB, meaning they still have to pay some council tax.

CTB has the lowest rate of take-up for any means-tested benefit. It is estimated that the average number of people entitled to but not claiming CTB is between 2.17 million and 2.78 million, leaving £1,160 million to £1,550 million unclaimed (Department for Work and Pensions, 2006). Since 1997/98, take-up of CTB has fallen by eight, and possibly over ten, percentage points.

But even increasing the take-up of CTB does not necessarily address the difficulties faced by those in work. The New Policy Institute (2005, p. 1) argues that 'there are three basic problems with CTB as it affects working-age households: it is mean, it is full of anomalies and its administration is deficient'. Even amongst working-age households in poverty (i.e. with incomes below 60 per cent of the median) the majority get either no CTB or at best only partial CTB. Forty-five per cent of children in poverty are in households that get no CTB, while a further 21 per cent are in households that get only partial CTB, thus affecting 2.4 million children (New Policy Institute, 2005, p. 1).

#### **Box 2 Estimated level of weekly wages at which entitlement to CTB ceases**

Single under 25	£135
Single 25+	£150
Lone parent	£130
Couple (without children)	£225
Couple (with children)	£225

Source: New Policy Institute (2005).

There is a particular failure to connect the council tax debate with issues of welfare to work and making work pay. For those on low incomes, the loss of CTB and Housing Benefit, as people move off benefits into work, can mean an effective marginal tax rate of 90 per cent (Alcock and Pearson, 1999). There is also a complex interplay between CTB and tax credits. For a person who was entitled to CTB but then receives Working Tax Credit, 20 per cent of the latter is immediately 'lost' as CTB is reduced because of the income from the tax credit (New Policy Institute, 2005). Reform of CTB and Housing Benefit 'remains one of the biggest challenges to any government wanting to make work pay' (Brewer and Shephard, 2004, p. ix) but this issue was not considered in the Balance of Funding Review or the Lyons Inquiry Interim Report.

### ***Who's struggling to pay***

Concern about rises in council tax has not led to consideration of which households, or how many, are struggling to pay. From an administrative perspective there is even some sense that council tax is not problematic. For example, the Lyons Inquiry Interim Report stated that council tax 'is relatively easy and inexpensive to collect and administer and collection rates are high' (Lyons Inquiry into Local Government, 2005, p. 12).

But the Chartered Institute of Public Finance and Accountancy (CIPFA) estimated that in 2003/04 close to three million magistrates' court summonses were issued for non-payment of council tax (CIPFA, 2005). Hence, there are immediate questions as to which households are struggling to pay, and why.

As a final point it should be noted that separate to the debate about council tax, there is also concern with the broader issue of debt (e.g. see Kempson *et al.*, 2004; McKay, 2004). The Government has launched an action plan for tackling over-indebtedness with key initiatives including the provision of affordable credit and free face-to-face money advice (Department of Trade and Industry, 2005). There is some overlap with the debate about local taxation because improving the administration of CTB is cited as a key issue in the Government's action plan on over-indebtedness. The issue of multiple debts is raised in Chapters 3 and 5.

## **The research**

With regard to the research, two points need to be highlighted.

### ***Summonses and the council tax collection process***

Identifying which households are struggling to pay council tax was based on receipt of a magistrates' court summons for non-payment. Councils have some discretion in collecting arrears so the following describes a simplified, but not untypical, collection process, but which does vary at the local level:

- council tax payable by ten monthly instalments (April to January inclusive)
- if instalment not paid reminder letter sent
- magistrates' court summons issued – taxpayer informed they have lost the right to pay by instalments and the full year's liability is due
- liability order granted – council can take further action including: instruct bailiffs to recover the debt; apply for attachment of earnings; pursue bankruptcy or a charging order
- ultimately, a person can be committed to prison for non-payment.

Estimates for these different stages of the collection process are presented in Table 2.

**Table 2 Estimates for council tax collection activity in England, 2003/04**

<b>Initial bills</b>	<b>Reminders</b>	<b>Summonses</b>	<b>Liability orders granted</b>	<b>Cases referred to bailiff</b>	<b>Committed to prison</b>
18,802,816	10,716,631	2,987,550	1,986,143	1,146,624	44

*Source: CIPFA (2005).*

At summons stage, costs (typically £30 to £50) are added to the arrears, suggesting that there is difficulty paying, rather than payment just being late. Hence, summonses are used as an indicator of struggling to pay.

### ***Giving centrality to the views of interviewees***

The research consisted of two elements. First, issues relating to how many households are struggling to pay council tax, whether households in all council tax valuation bands are struggling to pay and how many low income households there are in each council tax valuation band were addressed using quantitative methods, drawing on currently available data sets plus data obtained direct from a sample of 22 councils.

Second, 51 in-depth interviews were conducted with people who had received a council tax summons. The research focused on enabling interviewees to explain why they had received a summons, their experience of council tax benefit, and what they identified as key issues and solutions. In particular, the approach allowed participants to identify issues which do not necessarily figure in the current debate, thereby bringing a different perspective to policy development. Thus, the focus of this project was not an administrative one, but gave centrality to the views of people who had received a summons. Further details regarding the research methodology are provided in the Appendix.

## **The structure of the report**

Chapter 2 presents findings regarding how many low income households there are in each council tax valuation band; how many households are struggling to pay council tax; and whether households in all council tax valuation bands are struggling to pay.

Chapter 3 examines why interviewees who were in work were struggling to pay council tax.

Chapter 4 considers two other groups of interviewees who were struggling to pay: those in receipt of benefits and those who had low/fluctuating incomes but lived in high value properties.

Chapter 5 examines interviewees' experience of council tax benefit, and what they saw as key issues and solutions.

Chapter 6 highlights key findings and the policy implications.

## 2 Struggling to pay: how many, and which, households?

### Introduction

This chapter presents findings regarding:

- how many households are struggling to pay council tax
- how many low income households there are in each council tax valuation band
- whether households in all council tax valuation bands are struggling to pay.

### The number of households struggling to pay

It is estimated that more than two million households struggle to pay council tax each year. As noted in Chapter 1, summonses for non-payment of council tax were used as an indicator of struggling to pay. Some information about numbers of summonses is available from an annual survey undertaken by the Chartered Institute of Public Finance and Accountancy (CIPFA), with results published by CIPFA as *Revenue Collection Statistics Actuals* for the relevant year: the problem is that not all councils respond to the survey. The analysis therefore involved using the CIPFA data and building a statistical model (a multiple regression model) to examine which combinations of factors would predict the number of summonses issued by all councils with greatest certainty, and to determine which factors are most important (the Appendix contains details of the methodology used in this chapter). Using the model, it was estimated that 2,894,616 summonses were issued in England in 2002/03. This figure is remarkably close to CIPFA's own estimate of total summonses issued, which is based on mean estimates for different categories of councils (CIPFA, 2004).

The estimate of close to three million summonses being issued equates to one in every seven households in England receiving a summons: however, it must be recognised that not every summons represents difficulty paying. It will be seen in Chapter 3 that not all those who receive a summons are unable to afford to pay, e.g. some people who are not struggling to pay can still forget to make a payment or even receive a summons in error. Also, some households may receive more than one summons: the figure of nearly three million summonses being issued does not

necessarily mean that they are received by three million separate households. The qualitative research presented in Chapters 3 to 5 suggests that up to a fifth of summonses do not represent difficulty paying but are due to administrative reasons or the person's own actions. Even if this is an underestimate and as many as a quarter of summonses do not indicate that ability to pay is a problem, this still means over two million households are struggling to pay. That summonses are in overall terms a good indicator that households are struggling to pay council tax can be seen by considering the key factors that determine the numbers of summonses issued by councils, as follows.

### ***Summonses and deprivation***

Deprivation is a key factor in explaining the number of council tax summonses that are issued. Not surprisingly, there is a strong relationship between the number of summonses issued by a council and the number of properties in its area. However, there are very considerable differences in what can be described as each council's rate of summonses, i.e. the number of summonses issued by a council as a percentage of the total number of properties in its area. For example:

- Broadland District Council – 3.4 per cent of households received a summons (i.e. the council had 52,390 properties and issued 1,806 summonses).
- Tower Hamlets – 49.8 per cent of households received a summons (i.e. the council had 87,046 properties and issued 43,344 summonses). (CIPFA, 2004)

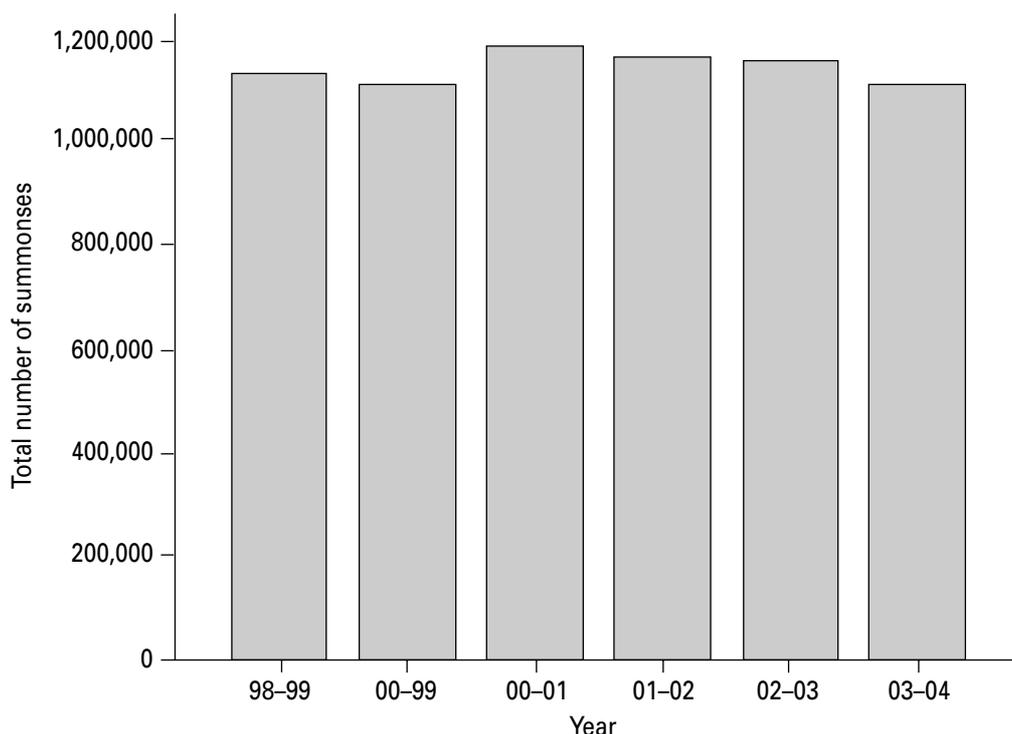
Two factors were found to be of most importance in explaining the difference between the rates of summonses for councils:

- the level of deprivation in the council's area
- whether or not the council was in London (councils in London issue more summonses than councils of the same size that are not in London).

The statistical model that was used was able to explain 58.7 per cent of the difference in the rate of summonses between councils. When the model included only the deprivation indicator, 43.0 per cent of the difference was accounted for. When the London variable was added, a further 15.7 per cent was accounted for. This does leave 41.3 per cent of the difference between rates of summonses for individual councils unexplained. There may be other relevant factors such as population mobility in different council areas, but it would also appear that local policies and practices are of significant importance.

There appears to have been little change in the number of households struggling to pay council tax over recent years. Figure 1 shows the number of summonses issued by 117 councils which responded to all CIPFA's surveys for the six years from 1998/99 to 2003/04 inclusive, representing a sample of just under a third of all councils. There are slight differences in the number of summonses issued each year, but there is no consistent pattern of summonses increasing (or decreasing). Despite rising council tax bills, the number of summonses issued appears to have remained stable.

**Figure 1 Number of summonses issued 1998/99–2003/04: sample of 117 councils**



Before turning to the question of which households are struggling to pay, consideration will be given to how many low income households there are in each council tax valuation band. This issue is of importance in providing context as to which households are struggling to pay council tax. It is also of broader relevance to the debate about council tax because, as noted in Chapter 1, considerable attention is given to the position of people with low incomes in high value properties, but the number of such households has not previously been quantified.

### Low income and council tax bands

Low income households in high value properties are exceptional, as can be seen in Table 3. Households with low incomes in bands F, G and H combined represent 0.7

per cent of all households in Britain. Households in bands F–H with a modest income represent a further 0.8 per cent of all households. Those with low incomes in the bottom three valuation bands (A–C) constitute 22.8 per cent of all households, while those with modest incomes in bands A–C represent a further 15.6 per cent of all households. In short, 38.4 per cent of all households have low/modest incomes and live in band A–C properties, whereas only 1.5 per cent of households have a low/modest income and live in a band F–H property. Households in band A which have a high income constitute just 0.9 per cent of all households (definitions of income levels are discussed in the Appendix).

**Table 3 Households in each council tax band by income level, as a percentage of all households in Great Britain**

Income level	Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H
Low	12.4	6.5	4.9	2.9	1.3	0.4	0.3	0.0
Modest	6.6	4.8	4.0	2.8	1.3	0.5	0.3	0.0
Average	5.4	6.8	7.2	5.8	3.1	1.5	0.8	0.1
High	0.9	1.8	3.2	4.2	3.7	2.4	2.1	0.4

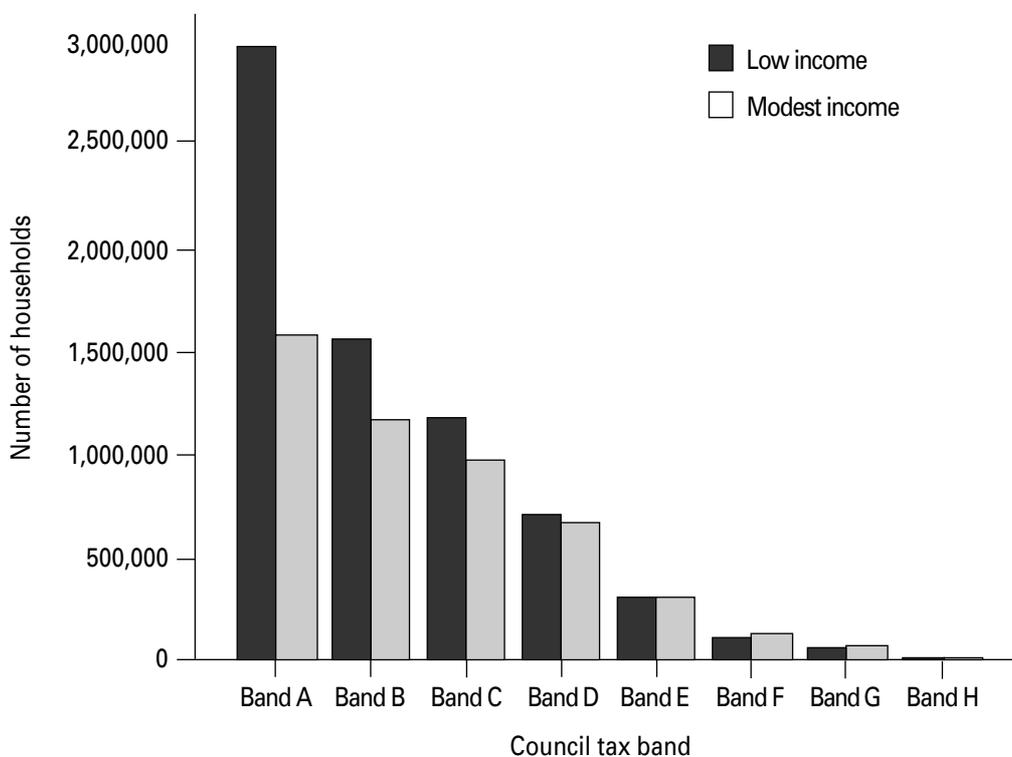
*Note: Percentage values do not sum to 100 due to rounding.*

*Source: Family Resources Survey.*

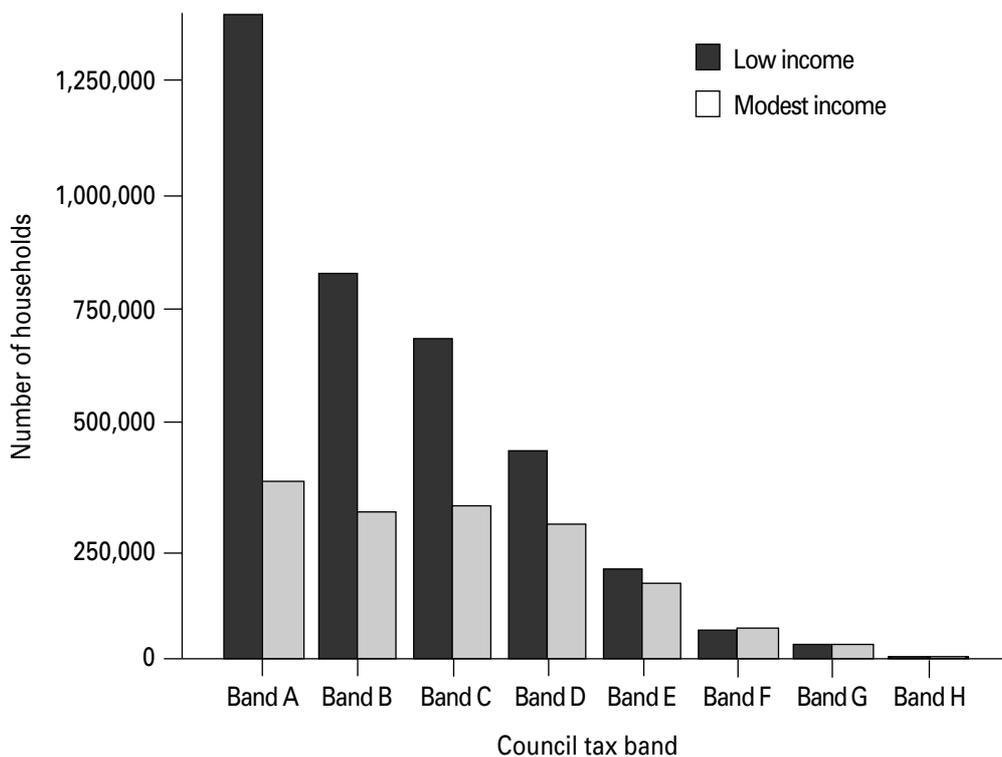
In terms of numbers it is estimated that 181,450 households in Britain have a low income and live in a band F–H property; and 193,721 households have a modest income and live in a band F–H property (see Figure 2). This compares with 2,989,884 low income households in band A, and 5,740,833 low income households in bands A–C combined. In total, there are 9,474,661 households in band A–C properties with low/modest incomes.

With regard to pensioners, it is estimated that there are 101,008 pensioner households in Britain which have a low income and live in a band F–H property; and 99,807 pensioner households which have a modest income and live in a band F–H property (see Figure 3). There are 1,384,586 low income pensioner households in band A, and 2,898,888 low income pensioner households in bands A–C combined. In total, there are 3,921,283 pensioner households in band A–C properties with low/modest incomes.

**Figure 2 Number of low and modest income households by council tax band, Great Britain**



**Figure 3 Number of low and modest income pensioner households by council tax band, Great Britain**



The pattern of low income households being heavily concentrated in the lower valuation bands, and low income households in high value properties being exceptional, holds true across the nations and regions of Great Britain. London and the South East have low proportions of low value properties, relative to other regions/nations: in the South East there are higher percentages of low income households in bands B and C than in band A, and in London higher percentages in bands B to E than A. However, low income households living in high value properties in the South East and London remain exceptional. In the South East only 1 per cent of all households live in band F–H properties and have a low income, and even in London the figure is just 1.6 per cent.

Contrary to what is often considered to be the case, it can be seen that low income households are heavily concentrated in the lower valuation bands, and low income households in high value properties are exceptional.

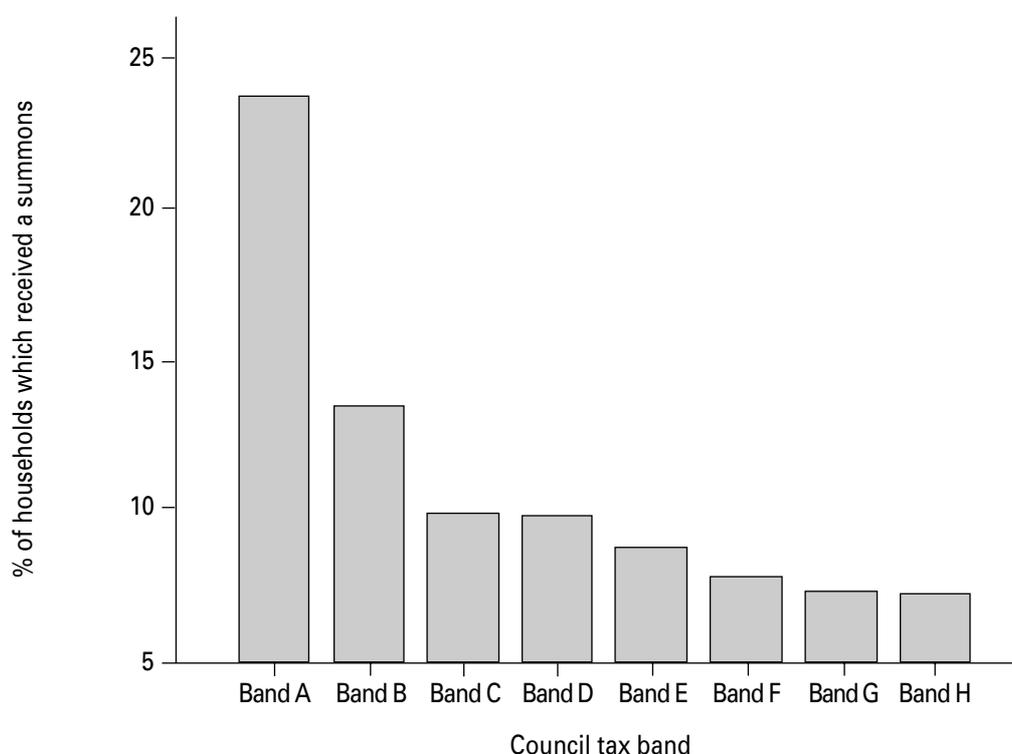
### **Which households are struggling to pay: summonses and council tax bands**

Significantly higher proportions of households in the lower valuation bands, particularly band A but also band B, are struggling to pay council tax compared with households in the higher bands. Data were obtained from a sample of 22 diverse councils containing 2.2 million properties (see the Appendix for further details). In total the councils issued 345,000 summonses, which equates to around one in seven households receiving a summons, the same as for the estimated total number of summonses issued by all councils (see above). However, it can be seen from Figure 4 that summonses were not equally distributed amongst the eight council tax valuation bands. Nearly one in four households in band A received a summons and one in seven households in band B. But in the four higher council tax bands fewer than one in ten households received a summons. The higher the valuation band in which a person lives, the less likely they are to receive a summons.

The overall pattern of summonses being disproportionately received by people in lower value properties holds true across all councils. This remains the case even though councils have very different rates of summonses; within the sample the rate of summonses ranged from 4.7 per cent to 26.6 per cent, the former equating to one in 25 households receiving a summons, and the latter equating to one in four households receiving a summons. The overall pattern also held true, despite the fact that councils have different proportions of high and low value properties (see Box 3). It was found that in the small number of councils that have greater proportions of high value properties, more summonses were issued to band B properties (and even

C to D properties) than to band A. However, this simply reflected the make-up of the local housing stock. For example, for the majority of councils the lowest (say) 10 per cent of properties will be in band A, and summonses will be over-represented in this band. However, for some councils the lowest 10 per cent of properties will be in bands A and B (or even C and D), and summonses will be 'shunted' from band A into band B (or C and D). However, this still does not affect households in the higher bands (F–H). The key point remains that summonses are disproportionately issued to households in the lower valuation bands.

**Figure 4 Percentage of households in each council tax band which received a summons, 2004/05**



### **Struggling to pay: income, valuation band and summonses**

To summarise the above, the evidence points clearly to those households struggling to pay council tax as predominately having a low income and being in low value properties. The points that lead to this conclusion are: deprivation is a key factor in determining the number of summonses issued by a council; low income is concentrated in the lower valuation bands; and summonses are concentrated in the lower valuation bands. There is a small number of households with low incomes in high value properties, and some undoubtedly are struggling to pay council tax (an

**Box 3 Percentage of properties in council tax valuation bands, England, 2005**

Band A	25.4
Band B	19.3
Band C	21.6
Band D	15.1
Band E	9.5
Band F	5.0
Band G	3.5
Band H	0.6

The largest single band in council areas is:

Band A	122 councils
Band B	70 councils
Band C	115 councils
Bands D–H	47 councils

Note: Figures are updated periodically and the website provides only the most recent.

Source: [www.local.dtlr.gov.uk/finance/stats/data/dwellnew2.xls](http://www.local.dtlr.gov.uk/finance/stats/data/dwellnew2.xls)

example is provided in Chapter 4). But the key point is that the estimated two million-plus households struggling to pay council tax are predominantly low income households in low value properties, not people in high value properties.

## Key points

It is estimated that over two million households in England struggle to pay council tax each year.

Households struggling to pay council tax are predominantly low income households in low value properties, not people in high value properties.

These conclusions are based on the following findings:

- It is estimated that close to three million summonses for non-payment of council tax are issued in England each year.

- Deprivation is a key factor in explaining the number of summonses issued by councils.
- One in four households in band A receives a summons and one in seven in band B, but fewer than one in ten in bands E–H (based on a sample of 22 councils).
- Low income households in high value properties are exceptional: households with low incomes in bands F, G and H combined represent 0.7 per cent of all households in Britain.
- It is estimated that 181,450 households in Britain have a low income and live in bands F–H (including 101,008 pensioner households).
- It is estimated that 5,740,833 households in Britain have a low income and live in bands A–C (including 2,898,888 pensioner households).

The next chapter turns to why people are struggling to pay council tax, by drawing on the experience of people who had received a summons.

# 3 Council tax, low wages and day-to-day living

## Introduction

In-depth interviews were conducted with 51 people who had received a summons for non-payment of council tax (details of the research methodology are provided in the Appendix). Low income was the main reason cited by interviewees as to why they had received a summons. Other reasons for receiving a summons were administrative issues (e.g. the council sent the summons in error) or the interviewee's own actions (e.g. they forgot to pay). Indeed, there were ten interviewees who had above average income and for whom receipt of a summons was not linked to ability to pay. It will be seen that administrative issues and the individual's own actions were relevant to people at all income levels and in all council tax bands. But it was low income that was the central issue.

This chapter focuses on interviewees who were in employment but on low wages.

## In employment but struggling to pay

The largest group of interviewees (19 in total) were in employment, but low income was the reason they were struggling to pay council tax. They were a mix of owner-occupiers and tenants, but all were in the four lower council tax valuation bands.

These interviewees had net weekly wages of up to £250. For many interviewees in employment, describing their income was complex because it fluctuated (e.g. due to working overtime, seasonal changes in income from self-employment, or working term time only) and/or they saw income solely in terms of wages and described other income in terms of meeting specific costs, e.g. 'Tax credits? That just pays for my childcare' (Office worker, female, 20s).

For these interviewees, the recurring theme was that despite being in employment, making ends meet was still a struggle. Some interviewees gave very clear indications of their budgeting. For example, one single man explained that his net weekly wage was £170. His rent was £80 per week, and council tax £15 a week. He estimated that £15–20 a week went on other household bills (e.g. gas, electricity and water charges), leaving something over £50 a week for all his other expenses whether food, clothing, travel costs or general personal and household expenditure.

He explained the reason why he had received a council tax summons as being:

My wages. I just don't earn enough.  
(Gardener, male, 20s)

For families, explanations tended to be more complex. One single parent with a dependent daughter and two non-dependent (but not working) sons explained her situation as follows:

I'm bringing £1,000 a month home, which isn't a lot, you know, to pay my rent which is £80 a week for this. So I've got to pay that, and I've got to get my food, pay my electric and my gas and everything else [...] Plus going to work and trying to feed and clothe all the kids and everything.  
(Care worker, female, 40s)

The interviewee was paying £50 a month off council tax arrears plus her current amount which she said was £90 per month (although it appeared this figure also included some arrears). The interviewee did receive Child Benefit and tax credit, although like other interviewees she was unclear as to the composition of the latter and even how much she received; the position was not helped by the tax credit having reduced because of her wages increasing the previous year and one child ceasing to be a dependant. Her view of why she had arrears was:

it's a lot of money for them to expect me to pay.  
(Care worker, female, 40s)

In some cases, low income was not cited by the interviewee as the direct reason they had received a summons, but income was a factor: first, in terms of being vulnerable to missing a payment; and, second, in having difficulty repaying arrears. These points are best illustrated by comparing two interviewees. The first was a woman with a low income of £12,500 gross per annum; the second, a man with an above average income of around £40,000 gross per annum. Both had received a summons because of making a late payment, and expressed considerable anger that a difference of just a few days in paying resulted in a summons.

However, the very different incomes of the two interviewees meant very different responses to the summons. The man with the above average income paid the full amount of council tax for the whole year plus court costs. However, the low income woman had continued paying monthly and the summons costs of close to £50 were a significant amount for her which she had not as yet paid. Because of the worry

caused by the experience, she was considering setting up a direct debit, but was hesitant because she was unsure she would always have sufficient funds in her account to cover the regular payment. As with other low wage interviewees, she talked strongly in terms of constant budgeting, financial discipline, cutting back and going without. She lived in a sparsely furnished and poorly heated one-bedroom rented flat in a deprived inner-city area. She saw a car, never mind homeownership, as an impossible aspiration. Thus, while the man with above average income could choose whether to pay in cash or by direct debit, the low income woman, despite working and her considerable money management skills, was vulnerable to making late payments due to her low wages.

This sense of struggling to pay council tax as being part of an ongoing difficulty in making ends meet, as opposed to a discrete issue, was exemplified by the following interviewee. He had received a summons because there was confusion about a direct debit. The direct debit was collected earlier in the month than he had anticipated, and there were insufficient funds in his bank account to pay it. His explanation of how this had happened focused on his general financial position:

I'm like the run-of-the-mill average bloke I suppose ... You know, you watch what you spend in the shops, so you don't ... you know you go for the cut-price ... you don't go for Heinz Beans, you go for something else ... I do a lot of shopping out the *[local market]* because they do a lot of reasonable priced vegetables and apples, bananas, things like that you can get a lot cheaper. *[He then explained that after paying his mortgage, service charge for his flat, and council tax, he was left with around £100 per week]* ... I have to run a car and things *[to get to his workplace]*, so I'm not actually flush, even though it sounds reasonable *[...]* because I'm single I can quickly cut a bit out here, cut a bit out there and I'm not a great big spender, because I ain't got the money to spend!  
(Factory handyman and security guard, male, 40s)

For parents, putting children's needs first was a priority and struggling to make ends meet was felt most keenly when children were affected. As one interviewee explained:

My son needed some new shoes to start nursery ... I've had to buy him some cheap trainers and that felt awful ... terrible.  
(Self-employed, female, 30s)

### ***Multiple debt***

Several interviewees with low wages had other arrears, in particular paying fuel by pre-payment meter, but there was a specific group of five additional interviewees who located their council tax arrears within the broader context of multiple debt. Two of these interviewees blamed their own financial (mis)management for their problems. For example, one interviewee was a single man who had previously lived in a shared house and had no financial problems. However, he then bought a flat and found it difficult to cope with the level of bills. He had multiple debts, including possession action for mortgage arrears. He ascribed his position firmly to his money management skills:

I'm blaming my financial, not even mismanagement, it's no management at all.

(IT worker, male, 30s)

The other three interviewees had all experienced a dramatic fall in income, for example due to redundancy or a business going bankrupt. In one case, the interviewee's husband had his own fruit and vegetable shop but the business had gone bankrupt the previous year. The husband now had a job working in another shop, but his wages were far lower than his previous income. The interviewee was working as a self-employed hairdresser, and the couple received tax credits and Child Benefit for their four school-age children. All income went into the couple's bank account, but business debts were also being repaid from the same account. The interviewee had no idea of actual income. The couple had not paid any household bills (gas, electricity, water, council tax) for six months. She described her position as:

Terrible, diabolical, struggle, struggle ... it's hell ... My husband's on medication. He's been on medication for a year. It's just very stressful, you're constantly worrying, you know, what to do, you come home and you're stressed ... I just thank God every day that I've got a roof over my head.

(Hairdresser, female, 40s)

For these interviewees, receiving a council tax summons was again not a discrete issue, but was part of a broader debt problem caused by a dramatic fall in income as opposed to the long-term experience of low wages.

***Low income, administrative issues and individual action***

It was noted above that while low income was the main reason cited by interviewees for receiving a summons, other causes were administrative issues or the interviewee's own actions. The preceding examples have included administrative issues (e.g. payment dates and confusion about a direct debit) and interviewees' own actions (e.g. financial management). Individual action was relevant in other interviews. For example, one interviewee's non-payment was a principled protest. However, since deciding to pay his arrears rather than going to prison, the interviewee had also gone from employment (as a refuse collector) on to Incapacity Benefit, due to chronic arthritis. His wife was working and earned £240 per week net. With two dependent children the couple's income was severely stretched, and repaying council tax arrears was adding to the struggle.

Another interviewee had reached a point where some arrears were being collected through an attachment to earnings order (where money is deducted direct from a person's wages). He had therefore decided to make no further payments direct to the council and would continue allowing money to be taken from his wages, indicating a degree of individual action and some form of refusal to pay. An example was noted above of a man with an above average income who received a summons for making a late payment. Other interviewees with above average incomes had received summonses because of their own actions, for example forgetting to pay, or in two cases being in dispute with the council and either withholding part of their payment or deliberately paying late. But in such cases ability to pay was not an issue: as seen above, the man with above average income was able to pay the full year's council tax in one go. But for the interviewee with the attachment of earnings order, his non-payment was due solely to his low wages. As he said:

I'm not happy about it because I'm getting further and further into debt.  
(Factory worker, male, 30s)

**Low wages and day-to-day living**

It would be possible to examine in far greater detail the individual circumstances and actions of interviewees, but to do so risks missing the point that the key issue is a structural one relating to low wages. Interviewees themselves reflected upon their own actions, and were in many cases very self-critical. For example, one single man said that perhaps he was being unrealistic in renting his own home and he could live with his parents. Another interviewee commented that owning two dogs might be seen by some people as an unnecessary luxury, as was smoking and having satellite

television in other interviews. One of the people in multiple debt had throughout his financial difficulties continued to send his son to a private school. The interviewee himself debated whether he should be criticised for, as he put it, 'clearly living beyond our means' (Lorry driver, male, 40s) or praised for being determined to do what he considered to be the best for his child.

But the centrality of low wages in explaining why interviewees were struggling to pay council tax was summed up by one man with multiple debts. The interviewee had previously accrued £17,000 of consumer credit debt while with a previous partner and was very clear that he and his former partner were to blame. The couple had separated and the man had continued to repay the debts. He was very proud of having repaid all but two creditors. With a net wage of £295 per week he was slightly better off than many interviewees in the sample, but his financial position had been worsened the previous year when his new partner moved in, along with a young child and shortly thereafter a new baby. The new partner was not in work and even with some tax credit and Child Benefit, household income was stretched. Having put so much effort into debt repayment, the interviewee reflected at length on why he had missed a council tax payment. In the end his answer was:

I think ... it was just day-to-day living.  
(Factory worker, male, 20s)

### Key points

The key issue raised by interviewees was that struggling to pay council tax is part of the day-to-day difficulty of making ends meet when on low wages.

Struggling to pay council tax can also be part of a broader debt problem caused by a dramatic fall in income.

Examples of summonses being received due to administrative issues and the person's own actions were found in all council tax bands and at all income levels – but low income creates vulnerability to missing payments and means problems repaying arrears.

The next chapter will consider other interviewees who had low incomes, but who raised different issues to those discussed above.

# 4 Low income, benefits and pensions

## Introduction

This chapter discusses two further groups of interviewees for whom low income was a problem, but who raised different issues to those highlighted in Chapter 3. These two groups were:

- interviewees in receipt of benefits
- those who had low/fluctuating incomes but lived in high value properties.

## Interviewees in receipt of benefits

For 13 interviewees, income consisted solely of benefits. All were tenants and in the four lower council tax bands. The reasons these interviewees had received a summons depended largely on the type of benefit received.

### ***Income Support and Jobseeker's Allowance: every penny counts***

People in receipt of Jobseeker's Allowance or Income Support (JSA/IS) generally receive 100 per cent CTB, meaning they do not have to pay any council tax, so interviewees in receipt of JSA/IS had received a summons either because of administrative issues or because of problems before going onto benefit. An example of the former was a single parent who was in receipt of IS on a long-term basis. She believed she had completed the required annual renewal application for CTB and there had been an error by the council. Problems before going onto benefit included council tax arrears arising while in a previous low-paid job, for example as discussed in Chapter 3.

The point to make here is the impact of arrears on the position of interviewees in receipt of benefits. For example, one interviewee's council tax arrears had arisen due to a relationship breakdown and she was now in receipt of IS. She explained:

When you're only on Income Support you've still got to pay your water and your gas and your electric and your contents insurance, and blah de blah de blah ... so £14 a month [*council tax arrears*] is ... OK I get free

school meals for the children, but with three growing children they eat me out of house and home and I can't say, 'No you can't, no you can't eat', but £14 a month would be, you know, I don't know, it's food on the table as such. That's how I feel. I've never had to look at anything like that before, but that's how I have to sort of look at it ... every penny counts at the minute.

(Woman, IS, 30s)

### ***Incapacity Benefit: could you survive on £85 a week?***

People in receipt of Incapacity Benefit (IB) are entitled to some, but not 100 per cent, CTB. The amount of council tax interviewees in receipt of IB had to pay was in cash terms minimal, but so was their level of income. As one woman explained:

I have to pay, I know it's not a lot, it's about £45 a year, right, but it's everything else that has to be paid too. Rent, gas, electric, water, council tax. And that's before you put a slice of bread on the table.

(Woman, IB, 50s)

She was unable to afford items ranging from dental treatment to a television to replace a faulty one. The situation was exacerbated once arrears were accrued. In this case the interviewee should have been paying £4.50 per month, but in order to repay arrears she was paying £10 per month. In addition, she paid at her local post office for which a charge of £1.65 was made (for each payment). The summons costs of close to £50 were higher than her liability for the full year; getting into arrears meant her bill doubled. This interviewee summarised her position in a challenging way:

£85 is not a lot of money, is it? Could you survive on it? Could you?

(Woman, IB, 50s)

All the interviewees on IB saw low income as the reason they had received a summons, but their experience also illustrates how receipt of a summons forms part of a broader set of circumstances, rather than being a discrete issue. The interplay of different factors was demonstrated by the following interviewee, for whom low income, administrative issues relating to CTB and his own actions were all relevant. The interviewee had been married and in work, but then went onto IB (for mental health reasons) and left his wife. He explained:

I started getting the letters saying they were going to take me to court ... then some letters they've sent me say I'm in receipt of this, what's the word, a *[single person]* discount, so I shouldn't have to pay the full amount. Then I get all the letters about the rebate. I don't know how many times I've phoned them ... I've had others letters down the line saying, 'You don't owe this at all, you don't owe anything'. Then a couple of months down the line again I've got a letter saying I owe £3,000. I can't understand where that's coming from.

(Man, IB, 30s)

His own actions were relevant because the interviewee had decided he was not going to pay any council tax at all. His attitude towards threats of action being taken by the council were:

I say 'carry on, it doesn't make a jot of difference to me!' You know, I mean I always say, I shouldn't say it, but I always say 'I'm under the Mental Health Act, so if you *[bailiffs]* try and break into my flat I'm going to take that as a paranoid schizophrenic and I'm going to attack', yeah ...

(Man, IB, 30s)

There are similarities with the language used by two high income interviewees who were in dispute with the council. For example, one was a farmer/businessman with an income over £100,000 a year who was in dispute with the council about the date he had occupied his band F home. He said:

you have to fight them because they won't listen to you ... the bailiffs will only come two or three times. They won't come when they try to get over the fence and have dogs jump up at them. When they get threatened by a dog, they won't come again. Don't you worry about that.

(Businessman/farmer, 60s)

The difference was that while the high income interviewee had no worries about ability to pay, for the man on IB low income was critical:

I get paid fortnightly, on a Thursday. By the *[preceding]* Tuesday I've got nothing, nothing at all ... I can't remember how much *[council tax arrears]* it is they said they wanted me to pay. But that would leave me nothing. I'd be minus money per fortnight. I mean there's no way. I'd have to cut back on my *[food]* shopping, there's nothing else.

(Man, IB, 30s)

### Low/fluctuating income in high value properties

The research did identify four interviewees who were in high value properties but did not have high incomes, and for whom the relationship between income and receipt of a summons was complex. One man, in a band E property, had recently retired. His income had reduced considerably, but at £25,000 gross per annum remained around the national average. A second man was in a band G property, worth close to a million pounds. He was awaiting trial for a very serious criminal offence, as a result of which he had been sacked from his £100,000 a year job. Household income now consisted of his wife's salary of £13,500. The third case was a woman, also in a band G property, who described herself as having been married to a very wealthy man but when they separated they had not made a formal financial settlement. He gave her the property in which she now lived, and occasional lump sums, most recently £50,000. She owned another property from which she derived rental income and did casual waitressing work, which gave her a regular income of £700–£800 net per month. But the most recent payment of £50,000 from her ex-husband moved her immediately from a low income to a high income.

Unlike interviewees discussed in Chapter 3, low income was not the direct reason these interviewees had received a summons. The recently retired man was adjusting to a new level of income, but not a low income. The woman who was divorced had not paid council tax while awaiting a lump sum from her ex-husband but her overall financial position continued to be comfortable, if somewhat uncertain. The man facing trial for a criminal offence had, after being arrested, forgotten to pay. In the analysis in Chapter 2, these interviewees would appear as being in high value properties but having a low/modest income. However, the overall financial resources available to them meant that loss of income, divorce and redundancy did not lead to poverty.

The final interviewee in this group provides an illustration of a pensioner in a high value property with a low income, a figure who in Chapter 1 was seen to be a recurring concern in the current council tax debate. The interviewee was a woman in her seventies, in a band F property. Her, slightly older, husband had suffered a stroke and was severely disabled. Because of her husband's disability she received a 25 per cent council tax discount. The couple's main source of income was an Equitable Life pension which in 2004/05 fell by about a quarter. At that stage she sought advice. Her husband then claimed Attendance Allowance. She then applied for, and was awarded, CTB. However, she did not declare an annual income of around £1,000–£1,500 from using her home for an occasional bed and breakfast business. When the council discovered this it determined there was a benefit overpayment, and the receipt of a summons was for this. The woman then decided to stop the bed

and breakfast business, which meant CTB was reinstated. The woman was completely and utterly confused as to how much council tax she was required to pay. She described her financial position as 'breadline'.

However, this example raises issues different to those so far discussed in relation to low income. A neighbouring property similar to the interviewee's was currently for sale at £550,000. The interviewee was aware that her home was a considerable financial resource but saw equity release schemes as 'scams' and was reluctant to move because of her husband's health. She described the problem with council tax as being 'the last straw' in a deteriorating financial position, thereby indicating that other issues were also relevant, including the insecurity of private pension provision, trying to maintain a high value property purchased while in work when on reduced income, difficulties releasing housing wealth, and the complexity of the CTB scheme.

## **Key points**

For those in receipt of benefits, the administration of council tax benefit (CTB) was a problem, as was repaying arrears accrued when in employment and before being in receipt of benefits.

There are questions as to both the fairness and efficiency of collecting very small amounts of council tax from people in receipt of benefits, particularly Incapacity Benefit: in one case, the summons costs were higher than the interviewee's annual council tax liability.

An example of a pensioner with a low income in a high value property raised issues about pension provision and equity release schemes.

Problems experienced by other interviewees with apparently low incomes in high value properties were more to do with fluctuating income.

The next chapter will consider in further detail interviewees' experience of CTB, and what interviewees saw as key issues and solutions.

# 5 Experiencing council tax benefit, and key issues and solutions: interviewees' perspectives

## Introduction

This chapter examines interviewees' experience of CTB, and what interviewees saw as key issues and solutions.

### Council tax benefit: 'meanness' and complexity

From interviewees' experience of CTB it was, to use a term noted in Chapter 1, the 'meanness' of the scheme that was central, along with its complexity. It was seen in Chapter 1 that improving take-up of CTB features significantly in debates about making council tax fairer, but for the interviewees in this research, it was lack of entitlement to CTB that was the main issue. None of the interviewees who were in employment were in receipt of CTB, but this was not because of failing to take up the benefit, it was because of the very low level of income at which a person ceases to receive CTB. The theme of people not being entitled to CTB, rather than failing to claim it, was a recurring one in interviews. For example:

I can't get it because the wife works ... I'm only getting £68 a week on Incapacity. But they said, 'There's too much going in the house'. They say there's too much going in, but what they don't look at is what's going out.  
(Man, IB, 40s)

It was noted in Chapter 1 that a person who was entitled to CTB but then receives Working Tax Credit immediately 'loses' 20 per cent of the latter as CTB is reduced because of the income from the tax credit (New Policy Institute, 2005): interviewees had a strong sense of CTB as part of a system which gives money in one way, but takes it back in another.

As one interviewee said:

When my wages were lower I did used to get them [*Housing Benefit and CTB*]. But then I got the new [*higher paid*] job ... and I get tax credit ... but it doesn't entitle me to no money off anything, so I pay the full whack

of everything [*rent and council tax*]. Your money goes up, but so does what you have to pay out.

(Care worker, female, 40s)

This relationship between Working Tax Credit and CTB was emphasised by another interviewee:

We used to get council tax benefit but not now because they gave us ... they give us tax credits. That puts you over the barrier [*i.e. CTB threshold*] ... So you either don't take your tax credits and have your council tax benefit, or you take your tax credits and not your council tax benefits.

(Woman, self-employed, 30s)

Another issue that was raised by interviewees was the sheer complexity of the system. Chapter 4 included the example of the woman in her seventies living in a high value property but with a low income. The woman was completely confused as to how much council tax she was required to pay. She had three files of papers relating to the previous year. From her perspective, she had first received a 25 per cent discount because of her husband's disability; Attendance Allowance was then awarded which did not take account of income; CTB took account of her husband's disability (in terms of a disability premium) but also assessed income; by giving up her bed and breakfast business she became entitled to CTB; however, if her pension income again increased, CTB would then be reduced. As she put it:

They couldn't make it more complicated if they tried.

(Pensioner, female, 70s)

The theme of CTB as a cause of problems, rather than a solution, was emphasised by this interviewee's experience:

We did apply [*for CTB*] once ... first they said we would get some. Then her money [*his wife's wages*] went up a bit so we told them. It took ages ... but in the end they turned round and said we owed them money [*i.e. there had been an overpayment*]. We owed them! It was supposed to help us, but we ended up owing them!

(School caretaker, male, 60s)

All of the above is in addition to the administrative problems with CTB that were identified in Chapter 4.

### Avoiding future problems with council tax: too much to pay, too little income

In terms of how future problems might be avoided, some people saw the key issue as being the amount of council tax that has to be paid, whereas for others the starting point was the level of their income. The balance between the two was summarised by one interviewee:

we had something like 2 per cent [*pay increase*]but everything's going up – petrol, gas, the service charge [*on his flat*], council tax ... [*The increase*] OK, it's only £8 [*a month*], but every £8 adds up and everything keeps going up and you get 2 per cent ... I mean it's nothing, it's not a fat lot, so your standard of living actually is depreciating, you know?  
(Factory handyman and security guard, male, 40s)

For those who were recently unemployed, avoiding future problems with council tax focused on employment: 'getting a job' was a typical view. Those with recent experience of unemployment but now in work expressed similar views:

I shouldn't have too much of a problem, hopefully ... but staying in work is the main thing.  
(Warehouse operative, male, 50s)

However, it has been seen that having a job does not in itself mean an end to low income so for many interviewees wage levels were a key issue. For example, one recently unemployed man who had previously been earning around £24,000 gross per annum said:

The other day the Job Centre tried to get me to take a labouring job which was £45 a day. After tax and national insurance you get about 170 a week. For four weeks, well, that's short of £700. Well, it's £600 for my rent. Council tax is 100. So that's your 700 quid gone ... They're, they're constantly trying to get you off benefits as quick as they can. They're, they're quite happy for you to go into any job. They don't take into account the fact that I've got a partner and a child to feed and clothe and other bills to pay.  
(Man, JSA, 20s)

His view was therefore:

I can't see us getting into a problem *[with council tax]* once I'm back into work ... as long as the pay is enough.

This interaction of wage levels and ability to pay council tax was reinforced by one man who had previously been on the minimum wage, working in catering, but was now on JSA:

the only way that I can start paying council tax is if I get a good job, like £7 or £8 an hour. But when are they going to give you a job of £8 or £7 an hour when you got no qualifications? The only way I can do it is go up and work seven days a week and just work like a slave and I'm 43 years old and I've been doing that since I was 16, you know what I mean? I'm 43, why should I work like a slave, earn all my money, just to pay rent and tax, give it all out again?

(Man, JSA, 40s)

The following quotation sums up much of the above:

Obviously the main reason I've had problems *[paying council tax]* is a lack of money and I just feel that the Government ... I mean they are encouraging you on the one hand to go to work and to earn money, but then what they are giving you, they are taking straight back off you in council tax and full rent ... I just feel that ... they really need to look into that because it's ... unfortunate ... *[sighs]*.

(Care worker, female, 40s)

The use of the word 'unfortunate' carried a certain sense of bathos in the context of the struggle interviewees faced in making ends meet. But the need to 'really look into' the fact that those in employment still face that struggle was the key issue expressed by interviewees.

### ***Incapacity Benefit: why do people have to pay?***

The very direct issue raised by interviewees on IB was why they had to pay council tax at all. People in receipt of IB were aware that while they received a higher income than IS/JSA, people in receipt of IS/JSA receive 100 per cent CTB. As with the Working Tax Credit/CTB issue, interviewees in receipt of IB had a very strong sense that, as one person described it:

It's like they give it you with one hand, and take it away with the other.  
(Woman, IB, 30s)

As noted in Chapter 4, the amount of council tax paid by those in receipt of IB was minimal. This raises questions as to both the fairness and cost-effectiveness of collecting such small amounts of council tax, especially in relation to the disproportionate effect of summons costs upon people in receipt of IB.

Interviewees also raised some issues relating to the administration of council tax, in particular payment methods, as follows.

### **Administrative issues at the local level: payment methods**

A number of social housing tenants recalled how with general rates (the system of local taxation that was abolished in 1989/90 and replaced by the community charge/poll tax), the tax was collected through a combined rent payment, which also included water charges. These interviewees suggested that returning to such a system would help with budgeting, although it perhaps could be seen as a preference for a system that required lower payments. This can also be seen from a suggestion about payments being made over twelve, not ten, months:

they do it from April to February, well why can't they just do it for the whole year? It would be smaller amounts then as well.  
(Woman, self-employed, 30s)

Some interviewees in receipt of benefits suggested a council tax payment card. For example, as one interviewee explained:

I just think it would be easy to go to the post office with a card ... everything I've got that I pay, my water, my gas, my electric, my television licence, even my rent, I've got like, swipe cards, and they [*the post office staff*] give me a receipt ... but with council tax it's a bit of paper and then £1.65 on top ... I think, you know, everything's easy, everything is so easy, it's all on swipe card, but not the council tax.  
(Woman, IB, 50s)

The issue of a payment card to help budgeting was therefore also linked to the cost of paying at a post office.

Such issues about methods of payment have been discussed since the commencement of council tax (see Association of Metropolitan Authorities, 1993) and are largely dependent on local policy decisions. For example, some councils do use payment cards for council tax. However, amidst the current national debate, interviewees in this research saw budgeting and payment methods as priorities.

A final point to consider is the provision of advice services and affordable credit, which were seen in Chapter 1 to form part of the Government's action plan on tackling over-indebtedness.

### **Advice services and affordable credit**

Interviewees expressed little enthusiasm for advice services or affordable credit, perhaps reflecting the fact that for most interviewees the struggle to pay council tax was part of the day-to-day experience of low income rather than being due to multiple debt. The views of interviewees were as follows.

#### ***Advice services***

Some interviewees had had positive experiences of advice services, and there were few directly negative comments, but the provision of advice services was not seen by interviewees as a key solution to the difficulties they faced. Interviewees raised practical issues about access to advice for those in employment, and some reluctance to discuss financial issues with a third party. However, the key point was that advice did not address the central issue of low income. As one interviewee said:

they sort of worked a financial balance out for us. She [*the adviser*] said, 'Oh this is how much money you've got left every month'. I said, 'Where?'  
But in theory it was very good.  
(Lorry driver, male, 40s)

#### ***Affordable credit***

Some interviewees were positive about the idea of access to affordable credit, but a large majority were not. Positive responses came from self-employed people who had struggled to get a business loan, and those attracted by the idea of affordable credit as a form of debt consolidation. However, most interviewees expressed very negative views, a typical comment being:

The easier a loan is to get, the worse it is in the end ... No solution there at all ... it's making it so much easier to spend money you don't have and you will end up in trouble.

(Secretary, female, 50s)

### Key points

Interviewees' experience of CTB raised issues not of take-up but the meanness of the scheme, administrative problems and the sheer complexity of CTB and its interaction with other benefits (including tax credits); CTB was not so much seen as a solution, but as part of the problem.

The key issue raised by interviewees was again low income and, despite being in paid employment, the struggle to make ends meet.

Council tax has a negative impact on making work pay for those on low incomes.

People in receipt of IB questioned why they have to pay council tax.

Interviewees raised some issues regarding the administration of council tax at the local level, in particular relating to payment methods.

Interviewees expressed little enthusiasm for advice services or affordable credit, but this perhaps reflected the fact that for most interviewees the struggle to pay council tax was part of the day-to-day experience of low income rather than being due to multiple debt.

The next chapter will highlight the key findings and discuss policy implications.

# 6 Discussion: key findings and policy implications

## Introduction

This chapter highlights key findings and discusses the policy implications.

## Key findings

There are six particular findings to highlight:

- It is estimated that more than two million predominantly low income households in low value properties struggle to pay council tax each year in England.
- The key issue raised by interviewees was low income and, despite being in paid employment, the struggle to make ends meet.
- For interviewees, issues relating to CTB were not about take-up but the meanness of the scheme, administrative problems and the sheer complexity of CTB and its interaction with other benefits (including tax credits).
- Council tax has a negative impact on making work pay for those on low incomes.
- Low income households in high value properties are exceptional.
- There are questions as to both the fairness and efficiency of collecting very small amounts of council tax from people in receipt of benefits.

The policy implications of these findings will now be discussed.

## Policy implications

Within the current debate about local taxation, consideration needs to be given to the position of the more than two million households, predominantly with low incomes in low value properties, which struggle to pay council tax each year. It was noted in Chapter 1 that from an administrative perspective high collection rates mean council

tax is not necessarily problematic. But the research demonstrates that paying council tax is a problem for millions of households. It was also noted in Chapter 1 that there is considerable concern regarding low income households in high value properties. This research highlights the need for concern with low income households in low value properties. There are very particular issues relating to the fairness and cost-effectiveness of collecting very small sums of money from people in receipt of benefits. More broadly, the struggle to pay council tax could be seen as a symptom of a wider issue of low income, for example raising issues about wage levels and in-work benefits. But there are specific policy implications for the current debate about local taxation, as follows.

### ***Council tax benefit***

Discussion of CTB needs to move beyond take-up and instead give greater consideration to the negative impact of council tax on making work pay. There is a need to distinguish between different groups of potential CTB recipients. While improving take-up of CTB may help pensioners, the issues relating to those of working age are different. Having said that, the ongoing very low level of take-up of CTB, and the fact that take-up has fallen since 1997/98, suggests there are fundamental problems with CTB.

There is no shortage of ideas regarding how CTB could be reformed. Suggestions include the abolition of CTB and the provision of tax exemptions for vulnerable groups such as older people (Clark *et al.*, 1999); offering older people the option to build up a council tax charge with accumulated interest, to be settled upon the sale of the dwelling or the death of the surviving resident spouse (Muellbauer and Cameron, 2000); or changing CTB from a means-tested benefit to a 'maximum liability scheme' whereby people would apply for a cap on their council tax liability based on their income (New Policy Institute, 2004). Less radical reform could include increasing the income threshold at which people cease to be entitled to CTB, or disregarding some forms of income (e.g. Working Tax Credit), so as to make CTB more generous for those in work (also see Orton, 2006).

However, sight must not be lost of the fact that council tax is regressive, meaning those on low and middle incomes pay proportionately more than those on high incomes. CTB in some ways is being used to try to remedy a problem created by the regressive nature of council tax. In the light of low take-up of CTB, its meanness and complexity, an alternative approach would be to focus more fundamentally on what was described in Chapter 1 as the rather obscure issue of the ratio between council tax valuation bands.

***Reviewing the ratio between valuation bands***

Consideration should be given to making council tax fairer by revising the ratio between valuation bands. It was seen in Chapter 1 that when council tax was introduced it was evident that the ratio between valuation bands is critical to the impact, regressive or otherwise, of council tax. Council tax impacts directly on the disposable income of low income households, and has a particularly negative effect on making work pay. Redressing the regressivity of council tax would have the potential advantage of removing dependence on CTB, avoiding the complexity evidenced by interviewees, and contributing to making work pay.

Fears that making council tax more progressive would have a negative impact on large numbers of low income households in high value properties are misplaced, because such households are exceptional. Low income households in high value properties constitute just 0.7 per cent of all households in Britain, an estimated 181,000 households in total. Making council tax more progressive may demand more of these households. However, as with all low income households, they would continue to be able to apply for CTB (whether in its current or a revised form). Also, previous changes to local taxation have used transitional arrangements to ameliorate the impact on certain groups; in this case, transitional arrangements could protect low income households in high value properties.

Concern with low income households in high value properties should not lead to a failure to address the position of the far greater numbers of low income households in low value properties who, because of the regressive nature of council tax, currently 'lose' in relative terms. There are an estimated 5.7 million low income households in bands A–C. Changing any system of taxation creates potential 'winners' and 'losers'. But the regressive nature of council tax means that those on low and middle incomes are currently 'losing' by paying proportionately more than those on high incomes. Rather than focusing on the exceptional position of low income households in high value properties, a different approach would be to ask how the current regressive system can be justified. And why should council tax not be reformed so as to be fairer for the millions of low income households in low value properties?

***Implications for local councils***

The focus of the research was on issues raised through the current debate about local taxation but, as noted in Chapter 5, interviewees did draw attention to the local administration of council tax especially in relation to payment methods. At the very

least, the research highlights the ongoing need for local policies and practices relating to council tax to take account of the difficulties faced by those on low incomes.

## Conclusion

In conclusion, there are four principal policy implications that arise from the research findings, as follows.

- Within the current debate about local taxation consideration needs to be given to the position of the estimated *more than two million households who struggle to pay council tax each year* in England; these households predominantly have low incomes and are in low value properties, not high value properties.
- Consideration should be given to making council tax fairer by *revising the ratio between valuation bands*: fears that making council tax more progressive would have a negative impact on large numbers of low income households in high value properties are misplaced, because there are few such households. There are an estimated *181,000 low income households in bands F–H, but 5.7 million low income households in bands A–C* in Britain.
- Concern with low income households in high value properties should not lead to a failure to address the position of the far greater numbers of low income households in low value properties who, because of the regressive nature of council tax, currently 'lose' in relative terms. A different approach would be to ask *how can the current regressive system be justified?* And why should council tax not be reformed so as to be fairer for the millions of low income households in low value properties?
- Discussion of council tax benefit needs to move beyond take-up: greater consideration should be given to the *negative impact of council tax on making work pay* for people of working age on low incomes.

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# Appendix: The research methodology

## Chapter 2

### *Estimating the number of summonses issued and determining key factors*

The research was based on building a statistical model (a multiple regression model). The initial analysis used data from CIPFA regarding numbers of summonses, and merged them with data from the Office of the Deputy Prime Minister on numbers of dwellings by council area, broken down by valuation band. The indicator of deprivation that was selected was the average ward score from the 2000 Indices of Deprivation ([www.odpm.gov.uk/stellent/groups/odpm\\_urbanpolicy/documents/downloadable/odpm\\_urbpol\\_608100.xls](http://www.odpm.gov.uk/stellent/groups/odpm_urbanpolicy/documents/downloadable/odpm_urbpol_608100.xls)). The percentage of households in receipt of CTB in a council's area and the council's collection rate (i.e. the percentage of collectable debt recovered by each council) were two further variables that were considered but were not found to be of significance compared with the deprivation and London variables.

### *Council tax band and household income*

The analysis used the Family Resources Survey (FRS), the primary purpose of which is to provide the Department for Work and Pensions with information about household finances. Data from four successive years of the FRS were merged: 1998/99, 1999/2000, 2000/01 and 2001/02. Grossing factors were then applied to the data to produce average population estimates over this period.

The basic unit of analysis within the FRS is defined in terms of entitlement to benefits and is described as the 'benefit unit'. Council tax is not paid by individual benefit units as defined by the FRS, but by the household. For the purposes of the analysis, therefore, multiple benefit units were condensed into a single household so as to provide a total household income.

An average (median) weekly gross household income was calculated for the sample. Based upon this average income, the following income bands were defined:

- low income – less than 60 per cent of median income
- modest income – between 60 per cent of median income and median

- above average income – between median and twice median income
- high income – more than twice median income.

Terms such as ‘low’, ‘modest’ and ‘high’ income are used within the debate about local taxation, but without definition. The definitions used in this report are intended to give a general indication of income levels, with terms such as ‘modest income’ reflecting this. The term ‘low income’ was used rather than ‘poverty’ both to reflect the language of the local taxation debate and because the analysis did not take account of issues such as housing costs.

### ***Summonses and council tax bands***

The aim was to provide an illustration of the issue, not to undertake a comprehensive survey (indeed, the research found that many smaller councils do not have the IT capability to break summonses down by council tax band). A purposive approach was therefore taken to selecting councils, based on achieving diversity in terms of geography, type of council, size of council and rate of summonses. Data were obtained from a sample of 22 diverse councils including three London boroughs, 12 urban areas and seven smaller borough/district councils. The sample included councils in each of the ten English regions. In terms of size, the largest council in the sample had over 300,000 properties and the smallest had just 25,000. The rate of summonses ranged from 4.7 per cent to 26.6 per cent, the former equating to one in 25 households receiving a summons, and the latter equating to one in four households receiving a summons.

## **Chapters 3–5: the qualitative research**

Fifty-one in-depth interviews were conducted in two local authority areas in the North/Midlands of England: one an urban council with a high proportion of low value properties, the other a borough council covering a more affluent area, including one major town and a number of villages. The areas are not named principally because confidentiality was a very significant issue for some interviewees. Names were selected from magistrates’ court council tax summons lists.

Interviews followed a ‘conversation with a purpose’ approach (Burgess, 1991), allowing participants to cover issues in the order most appropriate to them. Interviews varied in terms of the order in which themes were covered, and also took very different amounts of time, ranging from barely 15 minutes to over an hour.

The aim was to have a diverse sample of interviewees and this was achieved with the sample including eight single women, 13 single men, four single parents (all women), 16 couples with dependent children and ten couples with no dependent children. Thirty-six of the interviewees (or their partner) were in paid employment (including self-employment), five were in receipt of IB, five JSA, three IS and two retirement pension. There was a fairly even spread of ages from people in their twenties, thirties, forties and fifties, with three people in their sixties and one in their seventies. Twenty-five interviewees were owner-occupiers, and there was a mix of people in private rented and social housing. One interviewee was a wheelchair user, and seven were from minority ethnic groups. Sixteen interviewees were in band A, nine in B, ten in C, five in D, four in E, three in F, four in G and none in H.

Further details of the methodology are contained in working papers which are available at: [www2.warwick.ac.uk/fac/soc/ier/research/current/ctax/](http://www2.warwick.ac.uk/fac/soc/ier/research/current/ctax/)

