

Local government

National report

November 2005

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commission



The efficiency challenge

The administration costs
of revenues and benefits

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Summary

- 1 The Audit Commission promotes value for money in public services. We have undertaken this study because administration of revenues and benefits is costly. English councils spend £1 billion each year on collecting council tax and business rates and on processing housing and council tax benefit claims. The government's Efficiency Review (Sir Peter Gershon's report *Releasing Resources to the Front Line*) expects councils to make efficiency savings of 2.5 per cent per annum. Transactional services are one area where councils can make savings and this study examines the potential for savings in the administration of revenues (council tax and business rates) and benefits (housing and council tax benefit).
- 2 This study has examined:
 - the national context of revenues and benefits – including changes in legislation and guidance;
 - the costs of providing the services;
 - the approach councils take to changing how they deliver these services;
 - the successes and difficulties for partnerships in delivering transactional services;
 - the additional cost issues facing London boroughs; and
 - how direct debit can contribute to improved efficiency.

Key findings

- 3 The study found that those councils prepared to be more innovative in delivering revenues and benefits services can make considerable savings, without lowering service quality. Improving direct debit take-up rates alone could generate savings in transactional and administration costs totalling £15 million per annum within five years.
- 4 Partnership working, either within the public sector or with the private sector, offers councils the greatest potential for efficiency savings if they are prepared to overcome the perceived barriers. Partnership working between two district councils is already releasing over £100,000 per annum to each partner. If this approach were extended across the country it could generate substantial savings.

- 5 The case studies in this report show that other initiatives, such as home working and modern IT systems, offer further scope for efficiency improvements. And for London councils, where costs are higher, the relocation of back office functions outside London presents a considerable opportunity for cost reduction.
- 6 The Efficiency Review target of 2.5 per cent equates to £75 million per annum by 2007/08 for revenues and benefits. The study has demonstrated that there is scope for achieving efficiency savings of much more than this amount. Savings of this order are particularly important to help councils minimise pressure on high profile frontline services such as education and social care.
- 7 Major reductions in cost may take some time to achieve because existing arrangements are complex. However, councils that approach this task with enthusiasm should secure savings that will allow them to protect or invest further in frontline services to the public.
- 8 From 2005/06, the Audit Commission will deliver an annual value for money judgement for all councils. This will assess how councils manage, promote and improve the value for money of their services, including how well they take advantage of the opportunity to make savings in the administration of revenues and benefits.

Introduction

- 9 Revenues (council tax and business rates) and/or benefits (housing and council tax benefit) affect every household in the country.
 - Most residents are liable to pay council tax, which funds around 25 per cent of council services with the remaining 75 per cent from government grants.
 - Businesses pay business rates as a local tax and the council collects the money on behalf of the government. Based on a national formula, the government then redistributes the money to councils.
 - Housing benefit is a social security benefit which helps people on low incomes to pay their rent. Councils administer it on behalf of the Department for Work and Pensions (DWP). Councils administer council tax benefit under similar regulations and 'pay it' to people through a reduction in their council tax bill. This contrasts with most other benefits which central government departments administer, although the recipients are often the same.
 - The services have a significant impact on many other council functions. Revenue collection – to help fund other services. Housing benefit – to help vulnerable people, and to ensure the social and private rented sectors fully contribute to preventing homelessness (through quick and efficient payment of benefit to help people pay their rent). Therefore, housing benefit payments also significantly impact on landlords in the housing rented sector.
- 10 The services operate under a complex and regularly changing national legislative framework – although there is provision for local discretion, particularly in relation to frontline customer services and local policies on social inclusion. Councils can decide on the number of different payment options available for people to pay their council tax, or how to promote discounts. Differing policies on debt collection – through the approach to the issue of reminders and summonses for non-payment, for example – can also impact on performance. Many councils also differ in their approach to encouraging benefit take-up and their approach to benefit hardship payments. While local policy differences exist, processing work (or back office functions, such as calculating benefit claims and council tax bills, replying to letters, etc) is dealt with in a similar way by most councils. There is no national database or computer system, so each council makes its own arrangements for purchasing IT systems. Most councils operate their own systems and process the work. However, some councils use the private sector, which tends to process work for a number of councils in one location.

- 11 The services, therefore, can play a significant part in the approach a council takes to deal with its customers and related policy issues on social inclusion and anti-poverty. Nevertheless, there is nothing preventing councils working together, or in other partnership arrangements to deal with back office functions in order to maximise efficiencies. Many of the issues relating to this are discussed in this report.

1

The national context of revenues and benefits

- 12 The government commissioned a review of public service efficiency which resulted in Sir Peter Gershon's report *Releasing Resources to the Front Line*^I. This report outlined the potential for councils to make significant efficiencies in delivering transactional services. Revenues and benefits services will be significant, due to the high volume of processing activity, in achieving these efficiencies. The amount of a council's administrative budget spent on these services is, on average, over 13 per cent in a district council and 1.5 per cent in a single tier council (a lower percentage due to the fact that they administer the large budgets for education and social services^{II}). The costs of administering revenues and benefits in England in 2003/04 were:

Service area	Net total annual cost excluding specific grants (£ millions)
Housing benefit	463
Council tax benefit	262
Council tax and business rates	339
Total	1,064

Source: Office of the Deputy Prime Minister

- 13 Revenues and/or benefits impact on every household in the country, and council tax collection has a strong relationship with benefit administration through the administration of council tax benefit. Councils were responsible for collecting £18.9 billion of council tax and £15 billion of business rates in 2003/04. Payment of housing and council tax benefits totalled £13.2 billion in 2002/03 (latest figures available).

- ^I The government's Spending Review statement effectively sets every local authority a target for efficiency gains of 2.5 per cent per annum for each of the next three years – with 2004/05 acting as the baseline. A key point with the overall target is that at least one-half of efficiency gains should be 'cashable' (ie, resources actually able to be redirected rather than securing improved efficiency through heightened productivity).
- ^{II} Education and social services budgets are not administered by district councils – county councils have this responsibility in two-tier council structures.

- 14 The services operate under a framework of national regulations, although there is some scope for local discretion. This is an important contextual issue because when the government makes any changes to regulations, each council has to deal with the impact of the change (Box A).

Box A

Example of impact of a change in legislation for a council

All councils have to consider each piece of guidance on benefit changes from the DWP. It can be very detailed, and may follow changes to the regulations and require considerable work in all councils administering the benefits system. Each council has to consider a number of potential implications, such as:

- information to the public;
- staff training;
- procedures;
- implications for computer systems; and
- costs to the council.

As a result, considerable time is devoted in each council to managing a regularly changing system.

Source: Audit Commission

- 15 Councils have had to manage other significant changes over the last few years, especially in relation to housing benefit regulations, and these changes are continuous. In 2004, the DWP issued 53 circulars to councils advising them of changes in regulations, subsidy from the government, fraud issues, procedures or case law; an average of over one new circular per week. Other examples of some of the changes that councils currently have to manage include:
- a new scheme for business rates relief for small businesses was introduced in 2005;
 - the local housing allowance (LHA) is being piloted by a number of councils and the government has recently announced an additional £180 million to extend the scheme across the country by 2008;
 - planning for council tax revaluation (now deferred);
 - councils are working with the DWP to implement a new customer relationship management (CRM) system;

- council tax levels continue to be a concern to the public, which presents further challenges for councils to collect the tax. The rise in council tax levels was the subject of a report by the Audit Commission in 2003^I; and
 - benefit fraud continues to be an important concern of government, and councils have continued to develop their approach to identifying fraud and error, prosecution, and the national fraud initiative^{II}.
- 16 While each change may be necessary and important on its own, it is clear that, cumulatively, they put a large burden on local authorities. Greater stability in regulation and fewer changes to the benefits system would no doubt help councils plan and develop their services more effectively and deliver them more efficiently.
- 17 However, despite this turbulent external environment, council tax collection has continued to improve over the last three years. On average, councils collect almost 97 per cent of council tax and over 98 per cent of business rates^{III} due, within the billing year (Figure 1). Unitary councils, metropolitan districts and London boroughs all improved performance between 2003/04 and 2004/05. Collection rates at district councils, at 97.8 per cent, are already higher than other councils. This steady improvement gives councils better cash flow and allows staff more time to deal with non-payment. Councils have achieved this improvement at the same time as the volume of activity for both services has been increasing – both being subject to the impact of population growth.

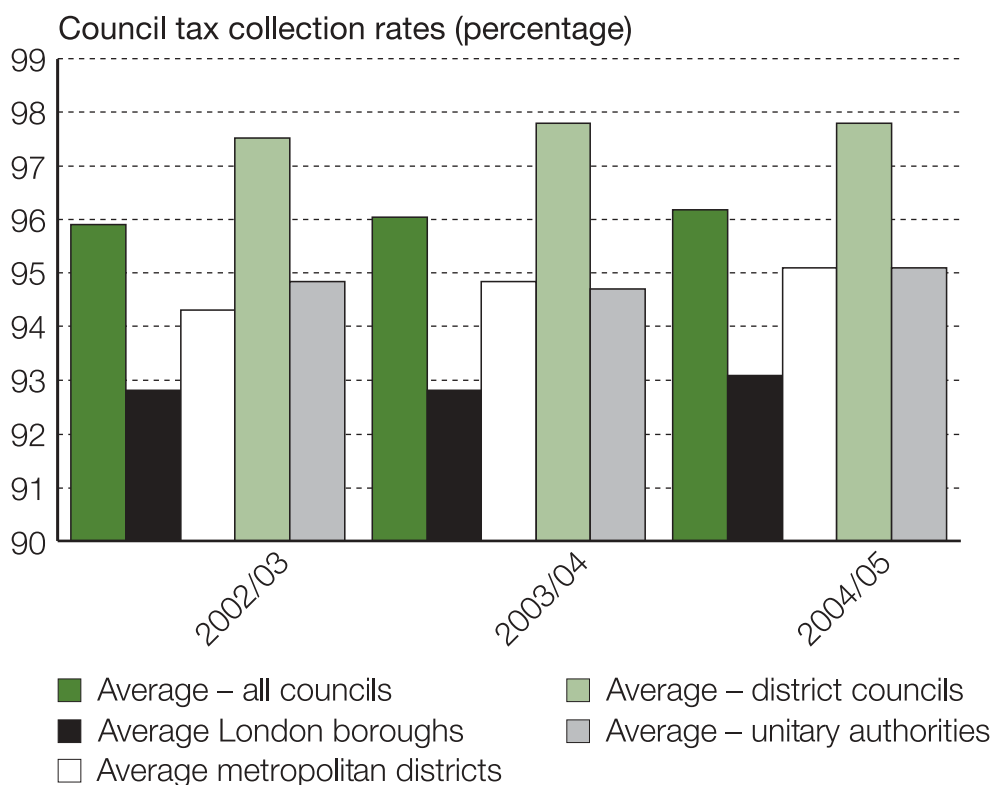
^I *Council Tax Increases 2003/04 – Why Were They So High?* – published by the Audit Commission in December 2003.

^{II} The Audit Commission's national fraud initiative (NFI) brings together data from NHS bodies, local authorities, government departments and other agencies, to detect a wide range of frauds against the public sector.

^{III} Collection of business rates tends to be higher for several reasons, for example there are fewer accounts to administer.

Figure 1**Council tax 'in year' collection 2002/03 to 2004/05**

Performance of council tax collection has improved over the last three years.



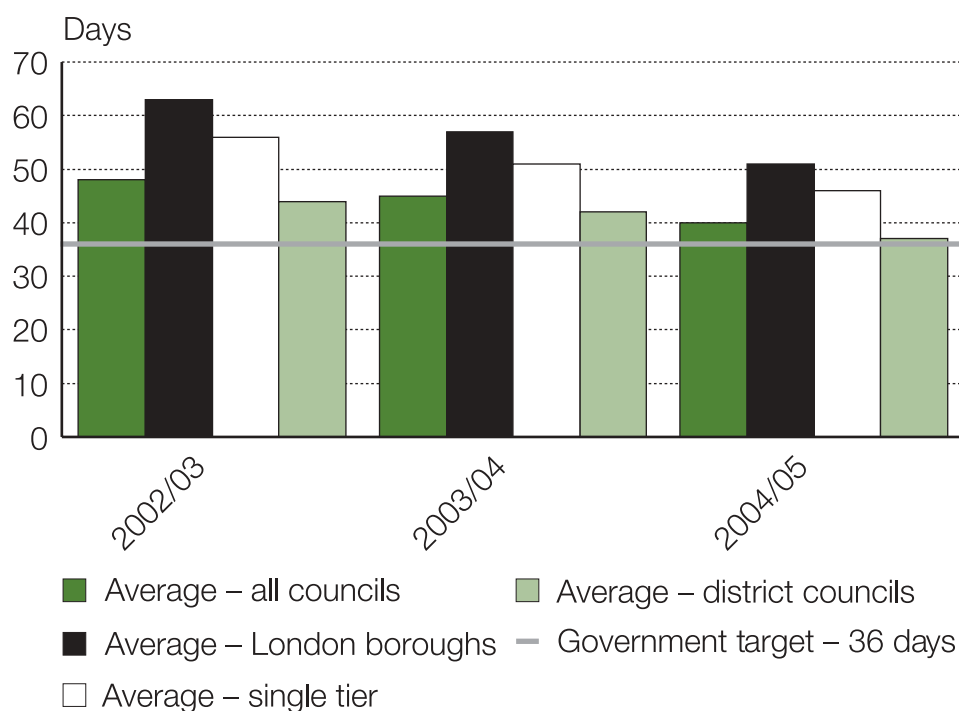
Source: Office of the Deputy Prime Minister

- 18 Councils also improved the speed of processing housing benefit claims over the same period (Figure 2, overleaf). The average time it takes to process a claim reduced from 48 days in 2002/03 to 40 days in 2004/05 (unaudited figure). District councils are meeting the government target of 36 days, but other types of council are not. This improved speed of payment helps to reduce the impact of poverty for vulnerable people – because they are able to pay their rent sooner, which also means they are less likely to be made homeless. This improvement has taken place with financial support to councils from the government through the performance standards fund.¹

¹ The DWP Standards fund. £200 million has been available for councils to bid for, to help them meet the DWP performance standards. Around £150 million has so far been used (June 2005), and the fund lasts until the end of 2005/06.

Figure 2

Speed of processing new housing benefit claims 2002/03 to 2004/05
 Performance has improved, but not all councils meet the government target of 36 days.



Source: Department for Work and Pensions

- 19 Other activity is taking place in relation to these services. The DWP has commissioned a two phase study to investigate the costs incurred by councils in administering housing and council tax benefit. The study is designed to help inform future policy decisions, as well as to help councils achieve an improved understanding of the costs of administration. The Audit Commission has maintained close liaison with the DWP to ensure that the findings of this study complement its work.

- 20 The government's efficiency review has resulted in the establishment of nine Regional Centres of Excellence (RCEs)¹, to assist councils to take forward the efficiency agenda. The remit of the RCEs has recently been extended to cover transactional services, and there is already work underway exploring efficiency opportunities in revenues and benefits, although the work is at a very early stage.
- 21 The revenues and benefits services therefore operate in an environment of continuous change. The volume of legislative related changes that councils have to deal with illustrates that they are not always in control of their own destiny. Despite this, improvements in performance are being made.

¹ The launch of the National Procurement Strategy in 2003 and the setting of a target efficiency gain of £6.45 billion were significant landmarks for local government. The Regional Centres of Excellence (RCEs) were established to support the implementation of the National Procurement Strategy and the delivery of council efficiency targets. Their remit has recently been extended to cover transactional services.

2

Costs – the main issues for revenues and benefits

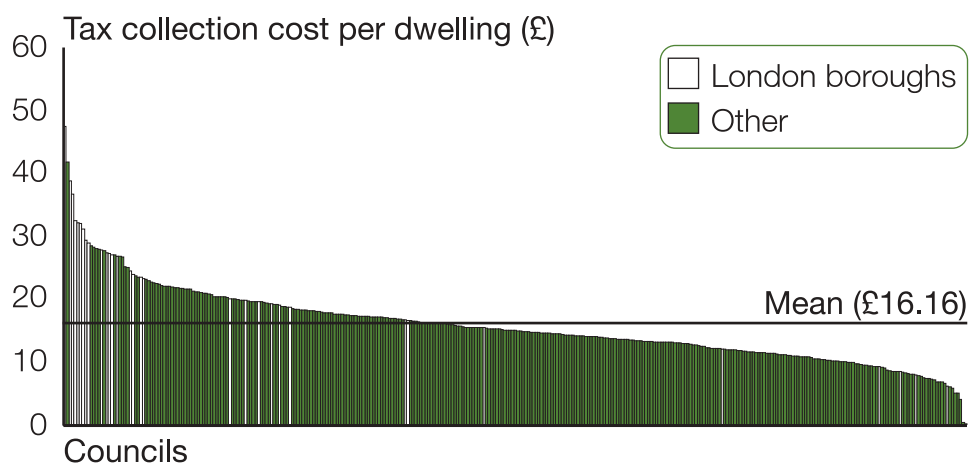
General issues

- 22 There are large variations in administration costs between councils dealing with similar amounts of activity. Direct comparison between councils is complex and a number of factors need to be taken into account. Methods of allocating internal overheads vary and we have explored some of the reasons for this later in this chapter. However, internal charges do not account for all the differences and there are a number of other important influences on high or low cost services.
- 23 We estimate that if all councils outside London with above average administration costs for revenues and benefits could reduce their costs to the average for their type of council, there would be a potential saving of up to £70 million per annum. London costs are around 40 per cent higher than the average for the rest of the country. This issue is dealt with in Chapter 5
- 24 It is important to note this figure is a maximum potential figure in the preliminary research (hence the decision to undertake the study). Actual savings may be less and could require changes that take time to generate cost savings. This is because:
- our analysis suggested evidence of substitution between cost headings (internal recharges), and this will account for some of the apparently high unit costs;
 - we were not able to estimate the proportion of high unit costs caused by poor data quality; and
 - there may be additional costs associated with necessary liaison arrangements between councils in order for them to deliver services in partnership with others.
- 25 English councils' net expenditure on collecting council tax and business rates is currently £339 million (2003/04)¹. Over 92 per cent of this relates to council tax. The cost of local tax collection per dwelling varies widely, ranging from around £4 to over £47 in 2003/04 (Figure 3).

¹ We have used net total cost excluding specific grants, from ODPM RO returns 2003/04 throughout this section.

Figure 3**Variation in unit costs between councils
in the administration of council tax 2003/04**

The average cost of collecting the tax for each dwelling varies from £4 to over £47.



Source: Chartered Institute of Public Finance and Accountancy

- 26 Annual net expenditure on housing benefit administration in England is currently £463 million (2003/04). The average cost per housing benefit case ranges from less than £25 to nearly £450. Annual net expenditure on council tax benefit administration is currently £262 million (2003/04).
- 27 It is important to understand that these variances occur for a number of different reasons, many of which are explained in this report. However, factors such as the type and turnover of benefit cases are also significant factors. For example, few district councils will have the same difficulties as a large city. Where there are higher volumes of people who frequently change their addresses, this will require greater processing time and therefore incur a higher cost.
- 28 We conducted further analysis to determine whether or not there were clear relationships between:
- performance and deprivation;
 - cost and performance;

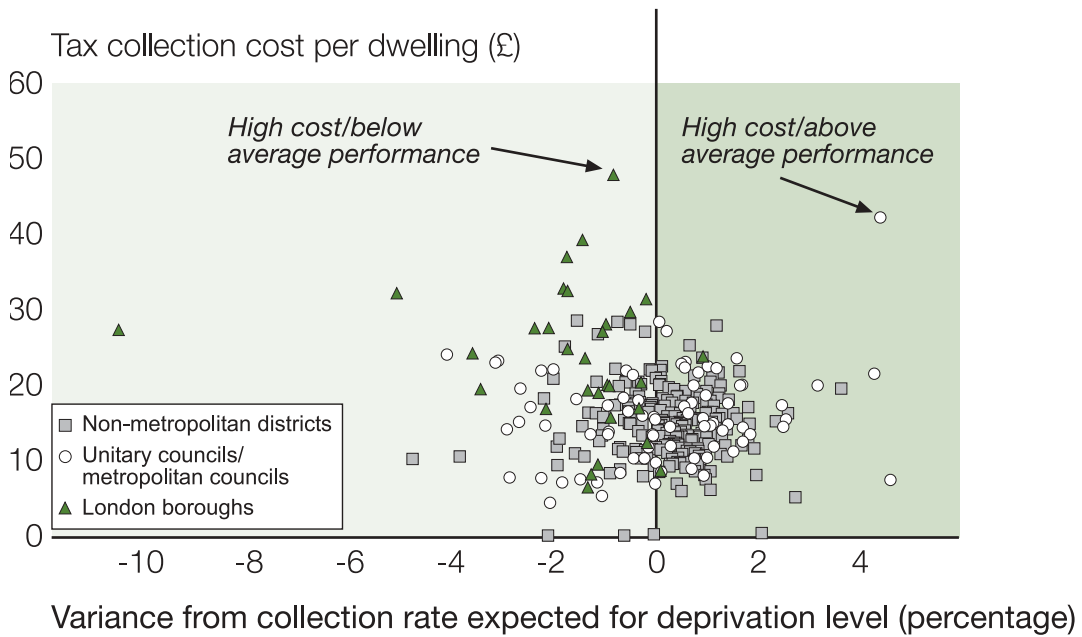
- cost and outsourcing service delivery; and
- cost and size of council.

29 Councils with higher levels of deprivation¹, on average, collect less council tax each year than less deprived areas. We have adjusted for this on the chart (Figure 4) below. Those councils on the right collect more of the tax than the average for other councils with the same level of deprivation. Overall, the better performing councils (on the right) do not spend more than underperforming councils (shown on the left).

Figure 4

Lack of relationship between spending and performance (2002/03)

There is no clear relationship between costs and performance in council tax collection.



Source: Chartered Institute of Public Finance and Accountancy

¹ Deprivation indicator used is the percentage of council tax benefit as a percentage of the total amount collectable.

- 30 Figure 5 (using council tax collection as the example) is the same analysis, but councils where the service has been contracted out (CO) and partly contracted out (PCO) rather than keeping the service in-house (IH) have been identified separately. The figure shows that unit costs at councils that have contracted out the collection of taxes are no higher or lower than at other councils. Equally, contracted out services are not noticeably better or worse at collecting it.

Figure 5

Comparison between councils with in-house and contracted out services (2002/03)

Unit costs at councils that have contracted out the collection of taxes are no higher or lower than at other councils.



Source: Chartered Institute of Public Finance and Accountancy

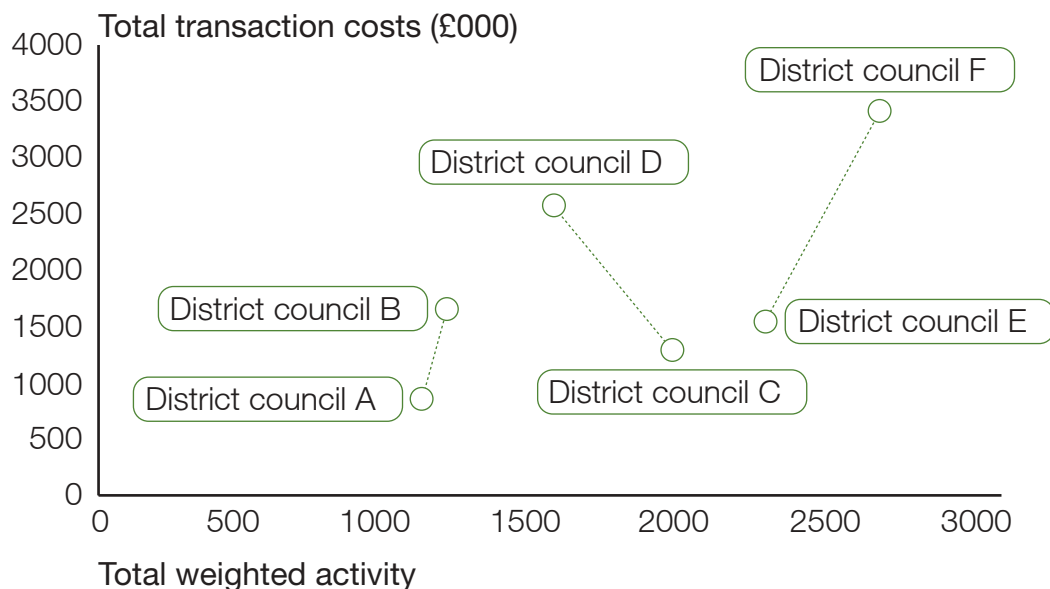
- 31 However, a relationship does exist between unit cost and size of a council. Analysis shows that authorities with the lowest activity levels in housing benefit administration, essentially districts, have significantly higher unit costs than larger authorities outside London. These diseconomies of scale are due to a fixed cost which, after further analysis, we estimated to be between £100,000 to £200,000 per annum for each district council. Examples of such costs could include: management arrangements, computer and telephone systems.

- 32 To explore these issues further our study examined the relationship between costs of revenues and benefits administration (based on data from councils' 2003/04 financial estimates) and volume activity data (provided by the Chartered Institute of Public Finance and Accountancy (CIPFA)). We selected pairs of councils from across the country (districts, unitary/metropolitan boroughs and London boroughs) with similar volumes of activity, based on the number of properties and benefit claims but with different levels of cost, for our analysis.
- 33 Figure 6 demonstrates the variation in costs between councils dealing with similar levels of activity. For example, the cost difference between councils A and B is around £800,000 per annum. Council C deals with a higher quantity of activity than council D, but its costs are much lower.

Figure 6

Selection of district councils in the study

We selected pairs of councils with similar volumes of activity but with different levels of costs in 2003/04.



Note: The combined activity measure has been generated by adding together the three main activity measures (council tax dwellings, council tax benefit and housing benefit cases). To allow for the fact that some activities are more resource intensive than others, we weighted each activity. The cost data comes from CIPFA Finance and General Statistics 2003/04, and each activity measure was the latest available at that time.

Source: Audit Commission

- 34 The study involved meetings with each of the councils at different levels in the cost spectrum, but similar potential activity rates, for the districts, unitary/metropolitan boroughs and London boroughs. Further analysis was then undertaken to understand the underlying reasons behind the cost information, in order to establish:
- the overall reasons for the differences in unit costs;
 - whether these differences are environmental or process-driven;
 - processes which lead to lower costs; and
 - whether these processes lead to worse or better outcomes.
- 35 This analysis has shown that there are significant differences in costs between councils providing similar levels of services. The largest difference between two districts within the sample dealing with similar amounts of activity was £1.9 million per annum. The largest for unitary/metropolitan boroughs was £9 million per annum. The reasons behind these significant differences in costs are explored further in the following sections.

Cost comparison and benchmarking

- 36 We analysed these differences, and found that there were a number of issues that led to higher or lower costs. The analysis includes costs that may well be offset by additional grants, for example, from the DWP Standards fund, or investment made through a strategic partnership with the private sector. Cost structures are different and make true comparison very difficult. The removal of statutory cost performance indicators from revenues and benefits has led some councils to stop measuring costs locally, although others still do.
- 37 Most councils keep a record of the volume of activity for these services, such as people moving house, which impacts on both council tax and benefits, but there is no national system in place to capture the data, and thus assess the impact this may have on costs. Councils are involved in local benchmarking groups, but there is no real knowledge from them as to which council is the most efficient. A significant amount of benchmarking¹ information is open to interpretation. While it is healthy for councils to challenge the data there remains a lack of trust by councils in some of the local benchmarking groups.

¹ The Audit Commission published a management paper on benchmarking in 2000, *Getting Better All the Time: Making Benchmarking Work*. Much of this guidance to help organisations deliver better services still stands today.

- 38 Many initiatives have taken place to improve efficiency such as:
- electronic document management (EDM);
 - joint recruitment and training initiatives;
 - increasing direct debit take-up;
 - outsourcing; and
 - home working.
- 39 However, we found little proof that councils had assessed the cost-benefit of their efficiency initiatives prior to commencement and consequently few were able to show any efficiency gains. It is difficult for other councils to assess the potential benefit of these initiatives because the financial outcomes are not clear.

Factors influencing costs

- 40 There are a number of factors that lead to high or low costs. While the actual cost to the council can be demonstrated by the figures we have examined, the difficulties in comparing internal recharges and other council initiatives remain. Comparison of raw data is complicated and there are many factors that influence the figures. Costs fluctuate from year to year. Examining data and comparing the costs is therefore difficult as it may contain one-off expenses, for example, the revenue implications of implementing a new computer system. The figures do not reflect one-off grants either. Nevertheless, there are a number of significant issues that impact on costs, and the outcome of our visits to councils involved in our study illustrates some of the main features. It is difficult to quantify which has the most significant implication on costs for all councils, as we found that this was very dependent on local circumstances.
- 41 Examples for some of the variations in costs identified in our study are:
- Decentralised local offices or corporate one-stop shops – revenues and benefits attract high recharges where costs are allocated in relation to the number of customers using the facilities.
 - IT systems:
 - where other services have migrated from the older mainframe system, leaving revenues and benefits with a higher proportion of costs; and

- that do not give councils the flexibility to maximise initiatives such as home working, or other multi-site arrangements.
- Councils with lower rates of council tax collection through direct debit (DD) spend more administrative time collecting the debt – DD requires much less administration than other methods, such as cash. Additional costs are incurred in cash collection, for example, cash offices, as direct debit is the cheapest transactional method of collection (see Chapter 6).
- Clearing backlogs of work – this has been a major issue for some councils, mainly in benefits. The additional costs are as a result of employing temporary staff, outsourcing the backlogs and other initiatives to clear the work.
- Service costs for revenues and benefits may appear high or low when viewed in isolation from other council services when a council has a strategic partnership arrangement. There are a number of reasons for this. A high cost may reflect a significant investment in new technology. A low cost can mask other features of what can be a widely scoped and complicated partnership arrangement.
- Local policies on administering these services can impact on costs. Some councils will offer more choice on the method and frequency of payments, for example payment points in several locations, usually not automated. While meeting an important government priority to increase choice for people, it can also add to costs. Other policies relating to social inclusion and anti-poverty also impact on how councils approach debt collection. For example, the approach to the issue of reminders and summonses for non-payment varies and this has an impact both on administration costs, as more processing time is needed, and on cash flow, as the debt may not be collected as quickly.
- High staff turnover featured in many councils we visited, and is not confined to London boroughs. Councils are working hard to deal with this, through joint training, home working and other initiatives. A heavy reliance on agency staff costs more per hour than council employees. This can tempt away experienced council staff to join an agency
- Many councils still have the majority of staff based in city centre locations, with associated high rental costs. While accessibility is important for customers, significant savings can be achieved by locating processing staff elsewhere.

Internal recharges

- 42 Internal recharges¹ are a significant factor in determining the overall cost of a service to a council. We identified a large variation in these costs with the councils we sampled. For example, two councils with very similar levels of activity had a difference of over £2.3 million in recharges for revenues and benefits. While one of them (the more expensive one) was able to provide us with a breakdown of these costs, the other could not. We found many variations in recharges; for example, two district councils with similar levels of activity had IT recharges varying by over £350,000 per annum. However, service managers were unable to ascertain whether this was because of the level of the IT cost or activity. Therefore, there remains a risk in examining (and comparing) the costs of service in isolation from the rest of the council.
- 43 Most councils have service level agreements (SLAs) to provide internal services with a basis on which to charge support costs. While we recognise that in the past the monitoring of these agreements was disproportionately time consuming, there is now very little evidence that they are consistently monitored. While this is not the case in all councils, for many there is no robust forum for services to challenge the internal recharges.
- 44 In accordance with the CIPFA best value accounting code of practice (BVACOP), it is important that councils ensure the allocation of overheads is transparent and that service managers fully understand the costs allocated to them, in order to promote accountability and cost efficiency. This will become increasingly important with the introduction of the Use of Resources (including value for money) judgements being made in relation to all councils by the Audit Commission from 2005/06.

¹ Internal recharges – in order that frontline services can operate effectively they need support and assistance from other services, mainly finance, human resources, facilities management and IT. To identify the true full cost of frontline services, it is important that they are charged for the cost of the level of the support service that they receive. Recharges from support services to frontline services are often allocated by activity levels, floor space, direct time, etc.

Summary

- 45 The study has identified the need for key organisations in the finance profession to assist local government in achieving greater comparability. A more robust framework around performance and financial information will speed up the process of comparison and enable councils to focus on areas of real difference. This will save a great deal of effort that is currently being put into benchmarking initiatives, as information will be available on a more consistent basis.
- 46 Our data suggests a potential for savings of £140 million per annum if councils reduced unit costs to the national average (this is not to say that councils with below average costs cannot also make improvements in efficiency). London boroughs (see Chapter 5) account for £70 million of this figure. The remaining savings potential of £70 million per annum is a maximum figure and the factors described elsewhere in this report make achieving this challenging.

Councils outside London: driving costs down to the current average – annual savings:

100% achievement	£70 million
50% achievement	£35 million
25% achievement	£17.5 million

3

The approach to change

Barriers

- 47 Our study revealed that many councils see a number of barriers to changing their current working arrangements. However, those councils that have achieved significant change do not see the barriers in the same light. The following issues are barriers which are seen as significant to the councils in our study. The issues need to be examined by councils in order to ensure that all potential avenues to achieve efficiencies are fully exploited:

Risk aversion

- The fear of failure is high and prevents councils adopting a different approach to delivering the services. For example, there is still a strong awareness of some of the bad experiences of services that have been contracted out in the past.
- There is a strong view that there is a high risk that the reputation of councils will be damaged if things go wrong, particularly for councils that have good existing levels of performance. Poor performance has a much higher profile than the cost of delivery, particularly in benefits, and is a significant issue for councillors too.
- Councils value the existence of the service delivered and tailored locally and some see a more central approach to delivery as a threat to local accountability.

Service policies

- Local policies vary. This is seen as a barrier in relation to council tax collection issues, where some councils adopt a harder approach to collection. Others have strong social inclusion policies that can impact on the cost of both services, for example, a comprehensive approach to benefit take-up would increase the costs of benefits, but this conceals the wider community benefit of helping raise income levels.

Partnerships

- Some councils are unwilling to work with others for a variety of reasons such as lack of trust or poor relations between the organisations, at both political and managerial level.
- Larger councils already benefit from many economies of scale and are therefore reluctant, in some cases, to look at partnerships to increase the capacity of smaller councils, and further improve efficiency for themselves.

Staffing issues

- A centralised back office would be unacceptable to many councils if it was located outside their area as it would mean a loss of local jobs. This issue was reflected in all types of council and is preventing more in-depth partnership work from taking place.
- It is often down to individual managers to lead the change agenda, where there is no drive from the top of an organisation. This is difficult, as managers have potentially most to lose (their jobs) in any potential joint working arrangement.
- Recruitment and retention at staff and management level are further pressures that can prevent a move to change. One council we visited had experienced five changes in senior management for revenues and benefits in five years. Many councils, particularly London boroughs, have difficulty recruiting and retaining staff.

IT systems

- Incompatibility of IT systems between councils is seen as a barrier to change. The revenue and benefits market is served by a number of different software suppliers and, although the systems need to comply with regulations, each one is different. Staff within councils therefore need to develop different expertise to use each system. However, there are examples of organisations in the public and private sector working together effectively with different systems for these services.

External pressures

- Where significant change has taken place, it has tended to be driven by problems. For example, a poor inspection report, or Comprehensive Performance Assessment (CPA) rating.
- Pressure prevents innovation and forward thinking – revenues and benefits are subject to regular external changes through legislation. Add to this local pressures created by staff restructures, relocation and new computer systems, all very recent in one council we visited, and there is limited capacity to deal with other significant changes.
- While all these barriers are real issues, we found that councils are not making a robust evaluation of the alternatives. As a result, local taxpayers may be paying a premium for the existing method of service delivery.

Benchmarking

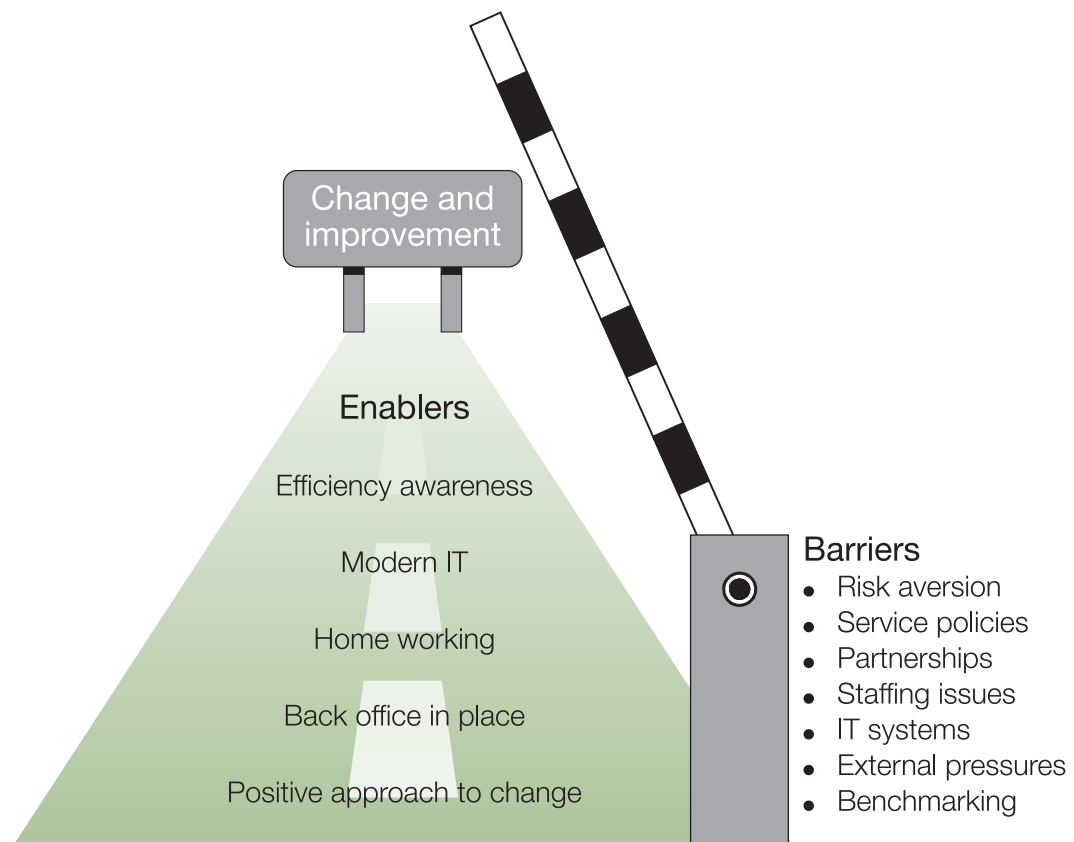
- Examples of innovative practices are often not accompanied by a thorough cost-benefit analysis. This makes it more difficult to share the benefits and encourage others.
- Within councils there is a lack of trust in some of the benchmarking, particularly in relation to costs. Councils are not maximising the benefits of benchmarking and there is no clear purpose to much of this activity. Benchmarking groups are more active in some areas than others. The Greater Manchester Group has produced some useful data that can be used to identify the relationship between process and performance. Other groups operate in a fairly competitive spirit, and this can prevent a more joined-up approach being adopted. There is evidence that in some areas authorities have stopped participating, meaning that councils cannot maximise opportunities to share initiatives, such as procuring a new computer system together.

Enablers for change

- 48 We found a number of very innovative ways of providing these services at the councils we visited. We examined a number of councils where change has taken place in order to identify the different methods of service provision and the factors which led to the changes. The factors pushing against changing the existing approaches to service provision and the enablers for change are demonstrated in Figure 7.

Figure 7

Barriers and enablers to changing revenues and benefits services
Barriers outweigh enablers as far as some councils are concerned.



Source: Audit Commission

- 49 The awareness of the efficiency agenda has now grown and councils are starting to consider issues in relation to revenues and benefits. The need for better publicised success stories is clear, as the view of councils is that there need to be very significant savings in order to make change attractive.
- 50 Many councils now operate with electronic document management (EDM) systems. This modern IT platform provides an opportunity for work to be transferred quickly to staff at a variety of locations. Systems and structures that will help to enable change are now in place in many councils. Home working initiatives are in place in some councils

(Case study 1), using EDM is helping to improve productivity through better output and reduced sickness levels.

Case study 1

Home working at Salford and East Riding

Salford City Council has introduced home working for benefits and revenues staff and there are now 60 people working from home – over a third of the workforce for these services. This has resulted in a 29 per cent reduction in sickness and a 15 per cent increase in productivity.

The main driver for the Salford initiative was to utilise new technology, while at the same time improving efficiency and providing more choice and flexibility for staff. Pressures on accommodation have eased and this has enabled office-based staff to have an improved working environment.

East Riding of Yorkshire Council introduced home working as one of a number of measures to help clear a backlog of work in 2000/01. As a result, it has made significant improvements in performance and has seen sickness rates drop from 8 per cent to 3.4 per cent. Staff turnover has also reduced, from 35 per cent in 2000/01 to 10 per cent by 2003/04. The council estimates that home working has saved it around £104,000 over a three-year period.

Source: Audit Commission

- 51 Most councils now have a front/back office¹ approach to delivering the service. This was not the case five years ago, and provides an opportunity, if councils wish to follow this route, of relocation of back office functions (Case study 2).

¹ Front office refers to the function of providing the service a customer receives, such as a telephone or reception service. Back office refers to the function of processing the work, for example, the assessment of a benefit claim. A front/back office is where councils have split their resources in this way.

Case study 2

Manchester City Council

Manchester City Council has the processing function for both revenues and benefits two miles outside the city centre in Moss Side. The public are still seen at the main council offices in the city centre. The move also assists working parents who have more time to drop children off at school before going to work, with fewer parking problems when they get there. The council saves around £150,000 a year through savings in accommodation costs.

Source: Audit Commission

- 52 Government and council initiatives to modernise other IT interfaces through e-government are making progress. Websites are improving and providing more interactive services. Specific projects such as the National Benefits Project^I provide the potential to improve efficiency, and in council tax collection, the e-government project Valuebill^{II} offers further opportunities to councils. The Office of the Deputy Prime Minister (ODPM) e-innovations fund is being used to help councils trace people who move house and have a council tax debt outstanding. The ODPM has approved a bid sponsored by Mid Sussex District Council to develop a national solution in conjunction with the Institute of Revenues, Rating and Valuation, TDX Group and Agilisys.
- 53 Where innovative projects have taken place, we identified a very positive approach to change with staff empowerment, high-quality managers, and a strong commitment to change from the top of the organisation. Performance nationally has improved over the last three years and more councils are achieving the level of stability required in order to take new initiatives to improve efficiency.
- 54 IT systems need not be a barrier and examples are emerging of effective partnerships using different IT systems. The Kent benefits partnership provides council tax benefit assessments for 10 councils using five different IT systems (Case study 3).

^I The National Benefits Project is led by Rotherham Council and sponsored by ODPM. The project supports the use of IT, for example by greater sharing of information between government agencies to improve the delivery of benefits, as well as helping to ensure people receive all they are entitled to.

^{II} Valuebill enables transformation of, and access to, data that relies on property references. It is not just confined to revenues and benefits but applies across services, especially in relation to bringing together a cohesive database supporting customer services, including one-stop shop/contact centres. It could enhance partnership working between authorities and between local and central government.

Case study 3

Kent councils

The Kent Benefits Partnership (KBP) involves all of the 13 benefits authorities in Kent and Medway and it includes Kent County Council. The project aims to maximise council tax benefit take-up in the area. The partnership processes new claims for council tax benefit for pensioner owner-occupiers for 10 of the 13 authorities.

The team of assessment staff has access to all five different computer systems operated by the councils involved. The IT links were enabled by the Kent Connects project and by Kent County Council's ICT staff working with ICT staff in each district. Funding has been provided by all the councils involved along with a grant from the DWP performance standards fund. In 2005/06 the KBP is planning to expand so that it processes the full range of council tax and housing benefits.

The partnership is still at an early stage and, as yet, the financial benefits are not clear. Nevertheless, it has already helped to increase council tax benefit take-up directly by around 1,500 successful claims. The team of assessment staff is also a useful potential training ground for the district councils. One assessor has already moved from the project team to a council.

Source: Audit Commission

- 55 High-performing councils have greater capacity to break down the process so that delays and blockages can be reduced or removed. This is not always the case if a backlog of work exists as much time is spent problem solving and therefore there is less capacity to examine alternative solutions.
- 56 Inspection and assessment have enabled change. Poor BFI reports have led councils to make significant changes in the way their services are delivered. There are examples of councils using the CPA framework so that learning is shared (Case study 4).

Case study 4

Selby and East Riding

East Riding of Yorkshire Council, a unitary Council which has an 'excellent' CPA rating and has won awards from the Institute of Revenues Rating and Valuation (IRRV) for its revenues and benefits teams, is working with Selby District Council to support the implementation of its new computer system for revenues and benefits. It forms the basis for further long-term partnerships between the two councils. So far the work has included training over 40 staff and support for the conversion from the old IT system to the new one. The partnership is expected to produce efficiency gains for both councils.

Source: Audit Commission

- 57 A variety of solutions to service development are saving councils money. We found a number of examples where councils have saved a significant amount of money and have been able to quantify it while maintaining or improving services delivery:
- one council centralised its benefit service, previously managed by two separate departments, and saved £100,000 per annum;
 - a similar amount of money was projected to be saved by another council which was merging the management arrangements in revenues and benefits;
 - three councils worked together to buy a new revenues and benefits computer system and saved £80,000 each as a result; and
 - £50,000 per annum was saved at another council by closing a cash office as a result of improved take-up of direct debit.
- 58 These examples demonstrate the potential benefits for examining alternatives to existing forms of service delivery – savings that can be used to provide improved services or reduce costs for councils. Councils looking for alternatives and improved efficiency should actively follow up the examples in this report to explore if they could work for them.

4

Partnerships – features of success and how barriers have been overcome

- 59 We found that the greatest potential for more efficient working was through increased partnership working. However, our findings also reflect the need for different solutions for different situations. There is no clear ‘one size fits all’ solution and councils need to consider what is best for them and their local community. Partnerships have tended to be stronger when they have developed because there was a need for one to start with. The financial benefits have followed, but have not been the main driver. Our research has also concluded that there is no clear relationship between the cost or performance of a service and whether or not it is delivered by the council or by the private sector.
- 60 Councils that have overcome the barriers to change have adopted different approaches. Putting the customer first is seen to remove some of the less quantifiable barriers. Common features of successful partnerships include:
- trust – a vital element, so that problems can be shared and approached in a constructive manner;
 - bravery – successful partnerships have taken a constructive approach to partnership working and have met difficulties as they arose;
 - a strong involvement of staff – this helps ownership;
 - a real need, supported by clear business objectives;
 - opportunities to share in joint procurement (such as jointly purchasing a new computer system); and
 - robust governance arrangements¹.

¹ The Audit Commission published *Governing Partnerships: Bridging the Accountability Gap* in October 2005. This report outlines the principles of good partnership governance and how partnerships can help local public bodies deal with the growing challenges. It contains a checklist of key questions to help those engaged in partnerships to assess how well they are equipped to meet these challenges.

Partnerships between district councils

- 61 Partnerships have been adapted for different circumstances and this has helped to overcome potential difficulties. The Welland partnership (Case study 5), covers a number of services and, as a consequence, the back office function could be shared between councils depending on the relative strengths of the individual councils.

Case study 5

The Welland partnership

In December 2004 the Welland Partnership (Melton, East Northants, South Kesteven, Rutland and Market Harborough) gained support from the ODPM for a £250,000 Capacity Building Grant. The project is designed to assist the councils to decide the best way to benefit from shared working on a range of services currently undertaken by each council individually. The purpose is to improve service delivery and cost efficiency. The partnership is one of choice and has built on a relationship which started as long ago as 1998 and resulted in a legal agreement in 1999.

The partnership has been able to secure joint funding, for example, to help implement a joint customer relationship management system (CRM) e-government funding was pooled. The councils have overcome many of the barriers previously identified in this study by making a strong commitment to improve customer service and as a result this prevented unnecessary obstacles from getting in the way.

The project is broad with four different council services involved, including revenues and benefits. The broader partnership arrangement enables all the councils to specialise in certain services, and limits the chances of losing jobs from the area.

Source: Audit Commission

- 62 Breckland and Forest Heath District Councils have formed a partnership to deliver their revenues and benefits service (Case study 6).

Case study 6

Breckland and Forest Heath partnership

The two councils (situated in adjoining counties) have built a partnership to deliver an improved service for both authorities. Sound working relationships already existed before an opportunity arose for Breckland to provide support for Forest Heath's new revenues and benefits IT system.

The relationship developed to one that now provides a shared processing function for both councils. Staff from both councils work in the same building with management costs shared between them. Financial savings of at least £100,000 a year for each council have been achieved. At the same time performance has improved through the ability to respond better to peaks and troughs and by combining resources on initiatives such as training.

The partnership is supported by a joint board with mutual aims of top quartile performance. It has not been without difficulties, but a strong commitment and leadership from the highest levels of both organisations have overcome the problems so far. The partnership has attracted a lot of interest from other councils, one of which is pursuing its interest with a view to joining.

Source: Audit Commission

- 63 East and West Lindsey District Councils have adopted a partnership based on the joint provision of their business rates service (Case study 7).

Case study 7

East and West Lindsey partnership

The business rates service in West Lindsey had been contracted out to the private sector and, on contract expiry, a decision was made to return it to the Council.

As there was no longer any expertise to deal with business rates at West Lindsey, mutual benefits were recognised from combining the service with East Lindsey, the neighbouring Council with an already effective service.

The service is now run for both Councils from East Lindsey although customers can make payments in both areas. Performance has improved since the partnership was formed and both Councils benefit from improved economies of scale.

Source: Audit Commission

Other partnerships

- 64 We found other examples of partnerships between councils at an earlier stage, and some of the benefits are yet to emerge fully. True partnerships exist where there is an element of sharing of risks as well as rewards. Not all partnerships are the same. Modern partnerships between councils and the private sector tend to be based on performance outcomes, for example, increases in the council tax collection rate. This is very different from many of the contracts that existed in the days of compulsory competitive tendering (CCT), where the contracts were often based on measuring a series of activities involved in council tax collection.
- 65 Strategic partnerships present a further opportunity for councils to develop their services. A number of councils have entered into agreements with private sector companies in order to assist with the development of their services. The contracts are normally long term and offer councils the opportunity to share efficiency savings (normally over a longer time period) coupled with investment from the private sector partners. There are examples of contracts offering wider community benefits, such as the creation of additional jobs (Case study 8).

Case study 8

Blackburn with Darwen Council

Blackburn with Darwen Council has entered into a strategic partnership with Capita. The main purpose of the partnership, which includes many council services, including revenues and benefits, was to contribute to regeneration and provide more local employment. The newly created business centre has expanded from the original 500 council jobs that transferred, to an additional 750 high-quality white collar jobs.

The business centre deals with council tax and benefit processing for other parts of the country too. For example, the centre processes work for the City of Westminster Council.

A major attraction of having a base outside London and the south east has been the ability to recruit and retain high-quality staff. Salary costs are generally lower, particularly as there is no need to rely on temporary staff from agencies, coupled with reduced on-costs, such as accommodation.

Source: Audit Commission

- 66 There is a highly developed private sector in the revenues and benefits arena. Not all arrangements in the past have been successful, but some councils now consider this approach as less of a risk than it was in the past. Variations exist on the more traditional private sector arrangements. Rotherham Council has entered into a long-term partnership with British Telecom (BT) (Case study 9).

Case study 9

Rotherham MBC strategic partnership

Rotherham's partnership with BT started in 2003 for a 12-year period. The main driver was the need for additional investment which could not be provided by the Council without putting pressure on council tax increases. Staff have been seconded to the partnership and remain employees of the Council.

The Council is now leading on the National Benefits Project (see footnote 1 page 27) and has been involved in examining and re-engineering the benefits processes.

Service performance has remained strong and performance has remained in the top quartile for revenues and benefits performance indicators in 2003/04.

Source: Audit Commission

- 67 South Gloucestershire Council entered into a seven-year contract with Unisys in 2003 (Case study 10).

Case study 10

South Gloucestershire

The basis of the South Gloucestershire contract is to introduce new technology and improve the service. A large proportion of the contract is dependent upon the Council's key performance indicators. The Council only pays part of the cost if performance standards are not met. The revenues and benefits staff remain employed by the Council.

The partnership has enabled the Council to utilise the knowledge of the private sector, which has included a total business re-engineering process. It has introduced a document management and workflow system, a call centre, and has laid the foundation for a number of innovative service improvements around e-government. Visiting staff have use of tablet PCs and a fraud management system has been introduced. The council is a lead authority for a DWP funded national project. The contract has been

recognised by the ODPM with Pathfinder status for its management arrangements.

The partnership has resulted in service improvements and annual savings of over £300,000 for the Council.

Source: Audit Commission

- 68 Contracts exist at councils of varying sizes. There is a more traditional contract between West Devon District Council and the private sector (Case study 11).
-

Case study 11

West Devon private sector contract

West Devon had tendered for the contracting out of its revenues and benefits service in 1994. The in-house team maintained the contract until 2001, when the new contract was awarded to Capita. The service has maintained top quartile performance in council tax and business rate collection. Benefits performance is improving and is now second quartile. Customer satisfaction is good with most benefits indicators in the first or second quartiles.

The Council will have made direct savings of over £185,000 over the first five years of the contract, compared to its costs of running the service before. The Council estimates an additional total efficiency saving of over £1.5 million to date as the service is being run on a modern IT platform and a new office location has been provided by the contractor.

Source: Audit Commission

- 69 Councils are examining other opportunities for partnerships which link into the revenues and benefits services. Local strategic partnerships which provide the focal point for improvements to local services can be used to maximise wider community benefits. Salford Council has worked closely with its Primary Care Trust and has linked benefit take-up to health issues. Joint surgeries have helped to contribute to a large increase in flu vaccinations for older people. This is helping to add value to other services and helps to improve the quality of life for local people. This shows that different types of collaboration can bring different benefits. The advantages of all possible solutions should be actively considered by councils challenging their services.

- 70 Councils have worked with the DWP to improve the administration of benefits. The DWP has encouraged bids from councils working together for the Performance Standards Fund, with £200 million available for councils to bid for between 2003/04 and 2005/06, and this has resulted in many shared bids. To date, the Standards Fund Panel has awarded a total of £24 million to 51 joint working applications. These applications cover areas including:
- recruitment of training officers;
 - training needs analyses;
 - recruitment and training of processing staff and assessors;
 - new IT hardware and software; and
 - joint processing and external support.
- 71 The fund has so far released a total of about £150 million (June 2005), and has focused very much on improving performance (and performance is improving nationally) rather than specifically reducing costs. While we found the fund was welcomed and well used, there remain concerns from some higher performing councils. They think that there is little incentive for them to be involved as the majority of funding was targeted at lower performing councils.
- 72 If the partnership opportunity is followed to its conclusion, it could be argued that there is scope for one nationally delivered revenues and benefits service. While the legislation would not prevent a large-scale back office, processing work for all councils, there remain many significant practical and financial issues to consider.
- 73 There are many barriers to partnership working detailed in this report. A move to national processing could face much opposition. There are many other issues, and these include:
- Costs – IT costs in particular. Many councils have purchased new computer systems, often with financial support from the government, or are actively considering this. The systems will normally be part of an overall corporate IT strategy and not necessarily just dedicated to revenues and benefits.
 - The links between council tax and benefits are strong – hence nationalising either without the other would be complex. Related issues between housing and housing benefit, particularly where there is council housing stock, are also often reliant on strong IT interfaces and other links.
 - New national system implementation has a mixed track record of success. Recent examples include the tax and pension credit schemes.

- Many local issues impact on the services, and would necessitate a strong locally delivered element. Although this would not prevent back office functions being centralised, some of the examples include:
 - access and levels of service – by personal, phone, mail, email contact from customers;
 - information – for example in forms and leaflets, which is often tailored to meet local circumstances and language needs;
 - links to other council services – for example, free school meals, uniforms, student awards;
 - links to housing services – whether the council or housing associations own the stock;
 - business rate relief and local discretion – the approach varies across the country;
 - the approach to improve benefit take-up will depend on local priorities; and
 - council tax collection policies and the approach to methods and frequency of payment, bailiffs and committals.

74 In summary, the issues relating to moving towards a national service are therefore very complex. However, there are many examples of partnerships and opportunities exist for other councils to learn from the innovative arrangements that are already in place. Our analysis, supported by case studies, suggests that at least £70,000 per annum for each district council could be saved through improving economies of scale by councils working together. While recognising that some of the barriers will be more difficult for some councils to overcome, there is clearly scope for councils to explore these opportunities.

5

London – the additional issues facing London boroughs

Costs

- 75 London costs for the administration of revenues and benefits are, on average, over 40 per cent higher than the rest of the country (2003/04 estimates). This is mainly due to the higher cost of living, and in particular salary and accommodation costs. Recruitment and retention difficulties result in high staff turnover which creates difficulties in dealing with high volumes of work. Staff from agencies are used to fill gaps in staffing structures and a strong market for this labour exists. Benefit assessors can earn considerably more money working for an agency. The generally low levels of unemployment mean it is difficult for councils to recruit and retain high-quality staff. These difficulties have consequences for the levels of performance illustrated in Figures 1 and 2 in this report.
- 76 On average, it costs around £9 more to administer the collection of council tax for each property compared to other parts of the country. Housing benefit costs show a similar variation. Our research suggests that up to £70 million per annum in savings could be achieved by London boroughs by bringing their costs down to the average of other similar councils (metropolitan boroughs/unitary councils). So why don't London councils look to take advantage of new technology, and locate staff in other areas of the country, or work more closely together?

Alternative working arrangements

- 77 Most of the barriers to changing working arrangements described within this report apply equally to London boroughs. Indeed, although there are examples of benchmarking work across the capital, barriers for councils working together to improve efficiency appear to be even stronger.
- 78 The principle of providing alternative forms of service delivery for a number of London boroughs is already established. For example, a private sector company runs the business rates service for 12 London boroughs from its service centre in Bromley. Processing also takes place well outside the capital, for example, revenues and benefits transactions for the City of Westminster are processed in Blackburn.

- 79 Liberata, in its partnership with the London Borough of Southwark, employs staff in Barrow in Furness (Case study 12). The partnership has demonstrated that high-quality staff can be recruited and used to help meet additional peaks of activity at a lower cost.

Case study 12

London Borough of Southwark

In 2002 a best value inspection of Southwark's revenues and benefits service found it to be poor. Benefit claims were taking 120 days to process. The Council was involved in a more traditional contract with Liberata at the time. Following the best value review, the Council renegotiated the contract to one which allowed more flexibility with mutual goals. The Council now processes claims in 34 days – inside the government's target of 36 days.

Source: Audit Commission

- 80 There are various other contractual arrangements with the private sector in London. However, some of the contracts are a result of the early arrangements under compulsory competitive tendering (CCT) and these contracts have not always been successful. They tended to be driven by inputs and quantities of activity, rather than outcomes that would improve services for customers. This is adding to the concerns of councils and inhibiting the exploration of new arrangements with the private sector.
- 81 The nine new Regional Centres of Excellence (RCEs) which are hosted by, run by, and act for, councils receive core funding through the Challenge Fund and Capacity Building Fund. These funds are administered through the ODPM. The RCEs are responsible for promoting efficient practices relating to transactional services. They also have a responsibility to promote shared working between councils.
- 82 RCEs are examining the potential for shared working in revenues and benefits. The RCE for London is examining opportunities for shared training and recruitment initiatives. It is also about to start a feasibility study to explore the potential for more integrated revenues and benefits in west London. This work is at an early stage and there remains much to be done to secure the potential efficiency gains through shared service delivery.

- 83 The projection of £70 million per annum of potential savings for London boroughs through the relocation of back office functions to other parts of the country is challenging. Our study has identified a number of issues that would make achieving this figure difficult. However, council taxpayers are currently meeting the bill for this and it remains a challenge that needs to be addressed. The table below shows the potential savings that London boroughs should be aspiring to, in order to reduce their costs to the non-London average (metropolitan boroughs/unitary councils):

London councils: driving costs down to the current non-London average – annual savings

100% achievement	£70 million
50% achievement	£35 million
25% achievement	£17.5 million

6

Direct debit and how this can contribute to increased efficiency

Current situation

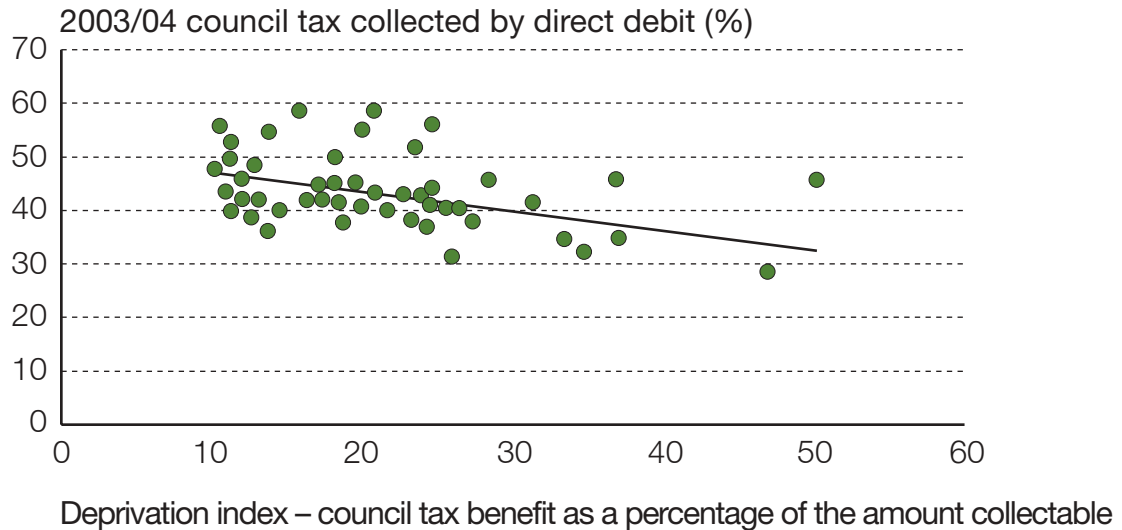
- 84 Direct debit (DD) is the most efficient way to collect council tax and business rates. This is because the individual transaction costs are much lower and there is less associated staff time involved in administration. Although DD is the most efficient way to collect local taxes, the collection rate through this method varies from less than 30 per cent to over 70 per cent across the country across all types of councils. Although councils face potential conflict with government encouragement to offer people more choice, for example, in the ways people can pay their council tax, while at the same time improving their efficiency, this report has identified that there is potential for improvement.
- 85 There is no national performance indicator for collection by DD. Estimates put the average at around 53 per cent of people with a liability to pay council tax. Councils that collect more tax through this method minimise costs in two ways:
- transactional costs are cheaper – councils told us it costs them between 50p and 65p to deal with a cash transaction, and between 1.5p and 15p for a direct debit transaction; and
 - administrative costs are lower as councils need fewer staff to deal with DD than other methods of payment. Resources to collect the remaining debt are released, increasing the capacity of the council to deal with non-payment. For example, a council that has increased its DD rate from 50 per cent to 70 per cent will be able to concentrate the majority of its resources, mainly staffing, on chasing just 30 per cent of the debt, rather than 50 per cent. This is because people who pay by direct debit do not default payment very often, and money collected through this method is therefore almost guaranteed.
- 86 Overall collection rates by DD are very similar to some of the public utilities, (electricity and gas payments for example). However, this study has highlighted this area of work for development.

- 87 There is a wide variation across the country in the amount of council tax collected by DD (Figure 8). The graph below shows that rates vary from around 30 per cent to over 60 per cent in unitary councils. District councils tend to have higher rates, and London boroughs lower.
- 88 While there is a relationship between council tax collection rates and deprivation, the data suggests that some councils with similar or higher deprivation levels still perform better than others on DD collection. The chart below demonstrates the variation in unitary councils and metropolitan districts. Councils above the line are doing better than those below it.

Figure 8

Percentage of council tax collected by direct debit for unitary councils/metropolitan boroughs 2003/04

There is a wide variation across the country in the amount of council tax collected by direct debit, taking deprivation levels into account.



Source: Chartered Institute of Public Finance and Accountancy

- 89 Some of the reasons behind these differences are understood, for example, the more deprived an area is, the lower the DD rate and also the lower the overall collection rate. However, councils with similar levels of deprivation still have a different DD rate, which further suggests there is room for improvement.
- 90 There is very little robust information about the reasons customers do not use DD as a method of payment. There is a perception of a cash economy in many areas, but there is little or no evidence to support this. Information, both nationally and within councils, on the relative costs and cost-benefit of using this method of collection is sparse. However, councils unanimously accept that it is the cheapest and most efficient method.
- 91 There is scope for councils to improve DD collection because:
- councils themselves support this view and acknowledge that more could be done;
 - the government is promoting the payment of other state benefits directly into people's bank accounts. By May 2004, 65 per cent of DWP's customers were being paid all their benefit entitlements by direct payment, with a target to raise this figure to 85 per cent by December 2005;
 - high levels of employment exist across the country with most people now having wages paid directly into their bank accounts;
 - the local housing allowance scheme being piloted in Blackpool is being paid directly into the bank for 75 per cent of its customers; and
 - councils with high rates of DD collection tend to be the better performing councils in overall collection rates.
- 92 There are potential conflicts between collection by DD and local policies, such as the need to support local post offices – a high priority in many areas. The needs of minority groups and vulnerable people need to be considered. There will always be an element of the population without a bank account, although it is not clear how many of these people are liable to pay council tax. Savings may only be generated by councils having to make tough decisions, such as closing cash offices.
- 93 In summary, there remain some complicated issues around this method of collection. The government has promoted bank accounts for many of its benefit payments, but there is an expectation on councils to offer customers a wide choice of payment facilities. However, significant potential exists to make substantial savings across the country (Box B, overleaf).

Box B

Savings from increased take up of direct debit

- The current national average for council tax collection collected by direct debit (DD) is about 53 per cent¹.
- Assuming payment by cash costs around 50p (see paragraph 75) more than a DD payment (this is a minimum figure based on our initial research), for each cash payer there is an annual additional cost to a council of £5 per year (assuming 10 instalments paid by this method – some people pay cash more frequently).
- The table below demonstrates the potential annual transactional cost saving for all councils if the national average direct debit rates improve to the level of the council with the current highest rate (around 70 per cent). Given the efforts required to achieve these figures, we recognise the change could not be achieved quickly. But we think it would be reasonable for councils to work towards this improvement over the next three to five years.

For each additional percentage increase in DD in England, there is potential to save around £900,000 per annum.

DD rate	Total amount of potential savings per annum (£ millions)
53%	Current rate
60%	6.3
70%	15.4

(85% is the government target for electronic benefit payments)

Note: Many people on benefit do not have to pay any council tax. However, some people still have to pay something towards the tax but we have excluded them from this calculation as there is insufficient data available to calculate an accurate figure. The savings assumption is therefore based on a maximum of 17 million households paying 10 instalments a year. We have also excluded any potential savings from efficiencies in back office functions.

Source: Audit Commission

94 The Audit Commission is currently undertaking a more detailed examination of these issues in order to provide further support to councils in improving efficiency.

¹ This is an estimated figure based on information supplied from BACS Payment Schemes Ltd and CIPFA.

7

Conclusions

- 95 This study has found that those councils prepared to be more innovative in delivering revenues and benefits services can make considerable savings, without lowering service quality. Improving direct debit take-up rates alone could generate savings in transactional and administration costs totalling £15 million per annum within five years.
- 96 Partnership working, either within the public sector or with the private sector, offers councils the greatest potential for efficiency savings if they are prepared to overcome the perceived barriers. Partnership working between two district councils is already releasing over £100,000 per annum to each partner. If this approach were extended across the country it could generate substantial savings.
- 97 The case studies in this report show that other initiatives, such as home working and modern IT systems, offer further scope for efficiency improvements. And for London councils, where costs are higher, the relocation of back office functions outside London presents a considerable opportunity for cost reduction.
- 98 The Efficiency Review target of 2.5 per cent equates to £75 million per annum by 2007/08 for revenues and benefits. The study has demonstrated that there is scope for achieving efficiency savings of much more than this amount. Savings of this order are particularly important to help councils minimise pressure on high profile frontline services such as education and social care.
- 99 Major reductions in cost may take some time to achieve because existing arrangements are complex. However, councils that approach this task with enthusiasm should secure savings that will allow them to protect or invest further in frontline services to the public.
- 100 From 2005/06, the Audit Commission will deliver an annual value for money judgement for all councils. This will assess how councils manage, promote and improve the value for money of their services, including how well they take advantage of the opportunity to make savings in the administration of revenues and benefits.

Recommendations

To help councils meet this challenge, we recommend that:

Councils should:

- consider the benefits of sharing services, with other councils, other public service providers, or through the private sector;
- ensure that, when new initiatives are undertaken, there is a clear cost-benefit analysis;
- set clear goals and objectives for benchmarking activity to ensure that good practices are shared, with improved outcomes for customers;
- maximise opportunities to improve collection by direct debit; and
- London councils should actively work together in order to maximise efficiency for the revenues and benefit services and relocate transaction processing out of London.

The government should:

- commit to stability in the housing benefit regime so that councils can plan and fundamentally improve the development of their services; and
- actively promote examples of successful innovation in service delivery and use the Regional Centres of Excellence (RCEs) and capacity building funds to promote sharing of services.

The Audit Commission will:

- when reviewing its value for money arrangements, expect councils to demonstrate that they have seriously addressed the potential for reducing costs through shared service delivery;
- work with the Chartered Institute of Public Finance and Accountancy (CIPFA) to obtain greater consistency in allocation of central support service costs across council services so that cost comparisons are more meaningful; and
- carry out more research on direct debit payments, in order to provide councils with a good practice guide.

Appendix 1 – acknowledgements

This report uses research from a variety of sources to examine the potential for improved efficiency including:

- visits to over 30 councils across the country to examine the approach to costs, processes, activity, performance and the variety of ways to deliver the services;
- financial data from council submissions to the Office of the Deputy Prime Minister (ODPM);
- statistical data from the Chartered Institute of Public Finance and Accountancy (CIPFA);
- research into the recording of financial information at six district councils, six unitary/metropolitan borough councils, and four London boroughs; and
- interviews with key stakeholders including the: Local Government Association (LGA); Institute of Revenues, Rating and Valuation (IRRV); ODPM; 4ps; Department of Work and Pensions (DWP), CIPFA; Benefit Fraud Inspectorate (BFI); and Association for Public Service Excellence (APSE).

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Salford CC	Guildford BC
Blackpool CC	East Lindsey DC

Fareham BC

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