

Supporting councils to improve revenue collection with behavioural insights

The **Behavioural Insights Team** (BIT) is a social purpose company, jointly owned by the Government, Nesta, and their employees. BIT has extensive experience using behavioural insights to improve public services, including revenue collection, and is working with the Local Government Association (LGA) to share evidence of what works.

www.behaviouralinsights.co.uk

The Local Government Association's (LGA) **Behavioural Insights programme** has now worked with seventeen councils to run behavioural insight projects. These have been delivered in a wide variety of council service areas, including public health, adult social care and housing. The purpose of the programme is to use innovative skills and methods to help councils achieve outcomes for residents in the face of decreasing resources. This is a match funded programme which means that both the LGA and the councils involved contribute.

The LGA is keen to encourage and support councils to innovate and push boundaries. We do this through our grant funding, partnerships and sharing the lessons learnt from innovative council projects. We are building a behavioural insights hub with public sector projects and tools for councils to learn from.

www.local.gov.uk/behavioural-insights

Foreword

Behavioural insights is based on the idea that interventions aimed at encouraging people to make better choices for themselves and society will be more successful if they are based on an improved understanding of how people actually behave.

With very little money upfront, people can be nudged to change their behaviour in order to produce better outcomes. This helps manage demand for public services, and can also decrease the cost of them. The use of behaviourally informed interventions has been proven to provide significant results for councils, such as greater council tax revenue collection, improvements to health outcomes, and increased recycling rates.

One of the earliest proven examples of a council intervention was to increase revenue collection from residents through their council tax. Since then, many councils have improved financial outcomes by changing the way they write their council tax letters.

For example, in 2015, the Behavioural Insights Team (BIT) worked with Medway Council to test the effectiveness of altering the first reminder letter sent to households who failed to pay their council tax bill; comparing two new, behaviourally-informed letters to the existing one. Both new letters significantly increased repayment.

The Local Government Association (LGA) and the Behavioural Insights Team have joined together to pass on what was learned from this project, and others, to help councils use behavioural insights to enhance the way they collect revenue. Practical recommendations to improve outcomes at little cost.

Councillor Paul Bettison OBE

Chair, LGA Improvement and Innovation Board

Five simple recommendations

1 Make paying as easy as possible



- **Reduce the number of stages involved**
- **Prefill forms**
- **Set up payment defaults**

The harder it is for an individual to undertake a behaviour, the less likely they are to do it. This may seem obvious, but reducing the effort required can have a surprisingly large effect on behaviour. Simplify the actions required to make a payment wherever possible.

2 Make communications clear, simple, and attractive



- **Highlight required actions**
- **Use plain English**
- **Personalise messages**

Communications should be made as clear as possible. Many people will simply ignore complicated instructions, rather than make the effort needed to decipher them. In addition, try to personalise and tailor messages to respondents to make them more attention-grabbing.

3 Remind people at the right times



- **Send instructions and reminders at timely moments**
- **Use planning prompts**

Instructions should be delivered at the time they are most likely to be acted on. Where future actions are required, prompts to make plans can make it more likely that good intentions in the present get carried out in the future.

4 Highlight social norms



- **Highlight the positive behaviour of the majority**
- **Make social norms local and specific**

Our actions are often influenced by the behaviour of others. As the majority of people do pay taxes and fines on time, highlighting this positive behaviour can be an effective way of encouraging those who are slower to pay, provided that the individual identifies with the reference group.

5 Consider wider motivations and frame incentives in the right way



- **Highlight individual accountability for inaction**
- **Emphasise reciprocity and altruism**
- **Use lotteries to increase compliance**

Moral concerns can be powerful drivers of behaviour and may be affected by changes in policy and service design. For example, financial incentives can crowd out our intrinsic motivations to 'do the right thing'. When financial incentives are used they should be designed in ways that maximise their impact on behaviour. Lotteries provide a good example: people tend to focus on the potential prize, rather than the odds of winning, so this can be a cost effective way to motivate compliance.

The use of behavioural insights in revenue collection

What are behavioural insights?

When encouraging a behaviour, we often think about carrots and sticks – we look to increase the payoff from doing something (for example by providing a financial incentive), or increase the cost of not doing it (for example through penalties). This approach often brings results, but it may not solve the whole problem. Sometimes incentives can have a very limited effect or even backfire – in one famous study, a day care centre that started fining parents for picking their children up late found that parents were subsequently more likely to arrive late.¹

In contrast to our assumptions about carrots and sticks, many decisions are made without sitting down to weigh up the pros and cons. Instead, they are guided by rules of thumb (or, 'heuristics'), which we use to simplify complex decisions. Drawing on research from across the social sciences, particularly social psychology and behavioural economics, we can identify biases which arise from these heuristics. These behavioural insights allow us to design more effective systems based on an evidence-based model of human behaviour.

Using behavioural insights to help local government

At a time of significant financial pressure for councils, revenue collection is now particularly important to ensure that valuable frontline services continue.

Existing approaches to maximising revenue collection typically focus on the carrot and stick approach mentioned above. While these levers can be effective, they are often resource intensive. Behavioural insights offers an alternative approach. Many behavioural insights applications are both inexpensive and also prevent other costs: by preventing non-compliance before it occurs, they reduce the need to implement costly sanctions.

This guide summarises our top five recommendations for improving revenue collection in local government, drawing mainly on BIT's own trials. For each recommendation we have highlighted concrete examples of how it can be applied. Some of these are well-evidenced and could be implemented across the board – these are listed in **blue**. Other suggestions are promising but require further testing, and we have highlighted these in **orange**.

1 Make paying as easy as possible



The harder you make it for an individual to undertake a behaviour, the less likely they are to do it. This simple insight understates the often disproportionate effect even small hassle factors and 'friction costs' can have on behaviour.²

To improve revenue collection, it is important to make payment as easy as possible. Although each task may present specific hassles which could be removed, the following changes can be widely applied to simplify processes.



Reduce the number of stages involved

Each stage in a process is a point where an individual could drop out. In one of its early trials, BIT changed the web-link in an HM Revenue and Customs (HMRC) letter to lead straight to the tax filing form, rather than to the section where the form could be found, just one click away.³

Tax filing rates increased from 19.2 per cent to 23.4 per cent. Small steps are not always easy to spot – completing a process yourself is often the best way. You may be able to identify specific drop off points in your online processes through website analytics.



Encourage the use of payment defaults

People have a strong tendency to go with the default or pre-set option, since it reduces the friction costs of undertaking an action.⁴

Using a direct debit to make tax payments effectively defaults individuals into paying, reducing the chance of non-payment. Signing up for direct debit can be encouraged – a trial by Medway Council using BIT's Test+Build tool (discussed below) increased direct debit sign-ups significantly, using social norms or loss aversion messaging.⁵



Test pre-filling forms, if possible, with the amount owed and personal details

An easy way to reduce friction costs is by pre-filling forms with information that is already known. This tool is widely used by online retailers, but is also used by governments to collect tax. The pre-filled information could include the amount owed and personal information such as name and address. Research by McKinsey on the characteristics of effective tax-collection systems found that the pre-population of forms was highly correlated with higher levels of tax collection.⁶

However, improvements are not guaranteed: non-compliance may increase if the information held by government is incomplete and the pre-filled amount owed is too low.⁷

This could occur due to carelessness, but possibly also from a reduced feeling of guilt from a false declaration where the default is already presented and the declaration is passive.⁸

We recommend this approach is tested further.

2 Make communications clear, simple, and attractive



Many BIT projects embed behavioural insights into communications, and we consistently find that simplification has positive effects at little to no additional cost.⁹

Best practice involves the following:



Highlight required actions

When people look at a page, they tend to focus on headings, colours, and images.¹⁰ Detailed text is often ignored, so required actions should be highlighted clearly. In a trial with an Australian state government new penalty and enforcement notices which featured a prominent 'Pay Now' stamp at the top. The new letters significantly increased payment by 21 per cent (from 14.7 per cent to 17.8 per cent).¹¹ These stamps have also been used in combination with other approaches to maximise impact (see below).



Use a 'Pay Now' stamp at the top of fine letters or, for more detailed instructions, consider using highlighted boxes with clear steps.

For more complex tasks, more detailed instructions can be included in the text but should be explicit. Adding the sentence 'To make sure you do not miss any future payments fill in the attached direct debit form now and return it to us in the pre-paid envelope tomorrow' to the opening paragraph of a council tax letter in a local authority in England increased payments by 9 per cent (from 51 per cent to 60 per cent).¹²



Personalise communications

People pay more attention to personalised messages than general ones.¹³ In a US city we added personalised sticky notes to sewer bill envelopes which read 'John, you really need to read this'. Along with changes to the letter (including a 'Pay Now' stamp), payment rates within 29 days rose by 137 per cent, from 8.1 per cent to 18.6 per cent.¹⁴

Another way of personalising correspondence is to give feedback on the recipient's previous payment behaviour. BIT trialled the impact of text reminders on the payment rates of people due to make self-assessment payments. The most effective message included personal feedback such as 'you were late last time', increasing on-time payment rates by 49 per cent (from 6.9 per cent to 10.3 per cent).¹⁵



Simplify language

Official communications are often long and use bureaucratic language, making them more difficult to understand. Simplifying the language used, as well as reducing message length where possible, can increase comprehension. Legal requirements to include more formal language could be moved to the back of a letter.

The Irish Revenue has tested various ways of simplifying tax letters and making the key points more salient. Overall, simplification improved effectiveness by 3.3 per cent – the third most effective type of intervention (after using deterrence and personalising letters, both discussed below).¹⁶

The most successful trial they ran increased the number of non-filers who consequently filed their income tax return by 6.2 per cent.

3 Remind people at the right times



The behavioural science literature shows that people's decisions are affected by their context — whether they realise it or not.¹⁷

The same request made at different times can have different levels of success, and (pre-emptive) reminders can help us follow through. Revenue collection can be improved using the following timely tools:



Use timely prompts and reminders

Prompting people at particular times to engage in behaviours has repeatedly been shown to be effective, especially when a deadline is approaching. Behavioural research suggests that a deadline can help overcome procrastination and prioritise task completion,¹⁸ because of the sense of urgency and 'time scarcity' it creates.¹⁹



Sending text messages close to deadlines can significantly improve response rates.

We can harness the power of timing by making future costs and benefits salient. In a trial run by BIT and the Courts and Tribunals Service, sending people text message prompts to pay an overdue debt increased their payment rates by up to three times.²⁰ Crucially the message was sent shortly before they were referred to a bailiff and notified them that this was the next step if they failed

to act. Prompts and reminders should use varied delivery mechanisms (eg letters as well as texts) to reduce the likelihood they go unnoticed. If reminders are sent pre-emptively there is often a significant up-front cost involved, and a proportion of the recipients are likely to pay anyway, so value for money is context-specific and testing is advisable.



Use planning prompts for required actions in the future

There is often a gap between what people intend to do and what they actually end up doing. This is particularly true when individuals do not support their intentions with plans of how, when and where the action will take place.²¹ Planning prompts reduce this gap by encouraging recipients to form a specific plan and are particularly effective for simple tasks requiring a single action.²² For example, individuals were 12.7 per cent more likely to get a free flu vaccine when the information letter they were sent specifically prompted them to write down a time and date to go for the vaccine (vaccination rates rose from 33.1 per cent to 37.3 per cent).

A stronger form of this approach involves helping individuals to form an 'if-then' plan, in which individuals picture potential barriers to completing an action and specify strategies should the barriers occur.²³ There is widespread evidence for the impact of these approaches in encouraging positive health behaviours, such as regulating eating,²⁴ which requires repetition of an action.

To date, planning prompts have not been thoroughly trialled in the revenue collection space, however the strong evidence from other policy areas and their clear applicability to the revenue context suggests this could be a good area for future action. Interventions could be as simple as prompting individuals to choose a time to complete a payment or, if you are using email for the message, allowing individuals to input a commitment date and send reminders that coincide. Results of an initial planning prompt trial with HMRC are expected to be published in the coming year.

4 Highlight social norms



We will often adapt our behaviour to what we see others doing in the same situation, or what we are told others do.²⁵ Some of BIT's earliest work showed that highlighting what the majority are doing – the 'social norm' – can substantially increase tax compliance. Since then we have run many trials to refine this finding, and recommend the following:



Highlight social norms

Starting in 2011, BIT worked with HMRC to include information on descriptive social norms in letters sent to those who were late paying tax.²⁶ We showed that a set of messages incorporating the idea that most people had already paid increased payment rates by 15 per cent.²⁷ Similar statements can be used to encourage timely payments of fines too. One word of caution: social norms can backfire if they indicate that the individual is 'doing better' than others, since the recipient may feel licensed to perform worse (since that's what most other people do). For example, households consuming less energy than their neighbours were found to increase their consumption when they were informed of this fact.²⁸ Therefore, social norm messages are particularly suited to letters referring to non-compliance, since these are usually targeted at a minority of individuals.



Make the norms relevant to the recipient

As part of the same trial outlined above, we tested variations of the message using increasingly specific norms. In addition to the '9 out of 10...' statement, some letters also included a line stating that most people in their local area had already paid and/or that most people with a similar debt had already paid. These more specific norms were more effective, in line with other tax compliance research on group identification.^{29, 30} Local government has a particular advantage in this respect, as letters do not need to be personalised to create a local norm. However, where possible, the norms should be personalised by using a more specific reference, for example to a particular town or district.

In a separate trial, we tested the impact of adding a line which emphasised that the individual was in the minority ('Nine out of ten people in the UK pay their tax on time. You are currently in the very small minority of people who have not paid us yet'). Including this line made the messages significantly more effective than the social norm alone.³¹ In a council tax trial in Medway we included this same line, whilst also simplifying and personalising the standard letter, and making it more action focused. This composite letter improved payment rates by 11 percentage points (from 57 per cent to 68 per cent).³²

5 Frame incentives and costs in the right way



Revenue collection invariably involves a direct financial cost to individuals, and in most cases this cost is indirectly paired with a benefit or public good. We feel the pain of paying now, and our minds discount the benefits we stand to gain in the future. We can encourage payment by reshaping how we frame incentives in several ways.



Highlight individual accountability for inaction

While some people fail to pay tax because they simply forget, for others it is a deliberate decision. There is much evidence that we find it easier to justify harmful inaction as opposed to harmful action, even if the result is exactly the same.³³ For example, we make less harsh judgements of people who withhold an antidote from someone who has been poisoned than of people who actively poison others – even though the outcomes is the same.³⁴

In a series of trials on tax credits, those who owed money to HMRC were told that their failure to pay until this point was being seen as an oversight, but that not responding to this latest letter would be seen as an active choice. Repayment rates almost doubled, from 12 per cent in the control group to 23 per cent in the treatment group.³⁵



Encourage people to consider reciprocity and altruism

There are two complementary theories regarding how to increase individuals' feelings of obligation to pay taxes – reciprocity and altruism. In the case of reciprocity, tax is paid in recognition of what has been provided by the state to the individual.³⁶ Altruism, in contrast, sees an obligation to pay taxes for the benefit of state provision to others.³⁷

In a trial with HMRC testing both of these theories, the more altruistic, gain-framed, public goods message ('Paying tax means we all gain from vital public services like the NHS, roads, and schools') was found to be effective, increasing payment rates by 1.3 per cent.³⁸ However, this is a fairly small impact and in similar trials the effects have been variable and sometimes no improvement has been found. We therefore suggest further testing of these approaches.



Use lotteries to increase compliance

Lotteries are often a cost-effective way of encouraging behaviour, as people overestimate the small likelihood that they will win. In a trial with Southwark Council we tested the effect of financial incentives on voter registration. Households offered the chance to win £1,000 if they registered to vote were significantly more likely to register to vote than those who received a letter encouraging registration without the incentive (registration rose from 44.7 per cent to 46.6 per cent).³⁹ Increasing the lottery prize to £5,000 only marginally increased the probability of registration. We have also used lotteries to encourage ratepayers to make a range of payments early in work with Yarra Ranges Council in Australia.⁴⁰

Applying and testing ideas in practice: when to run a trial

At the heart of BIT's ethos is an emphasis on rigorously evaluating the recommendations we make, predominantly through the use of randomised controlled trials (RCTs). It is because of these trials that we can measure the impact of the changes we make.

All of the recommendations in this guide have already been tested through RCTs. Many, such as using a recipient's name, have been found to have significant impacts across various contexts. These are indicated in **blue** and can be implemented without further testing. Others have been tested in limited contexts, or have been shown to be context dependent. These are indicated in **orange** and should be tested before being rolled out more widely.

In some cases it may not be advisable to use recommendations in conjunction with one another. For example, incorporating loss aversion, social norms and planning prompts into a single text message reminder could be excessive. In these cases you may want to trial one or two forms of the message to see which is more effective.

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A BIT more about us

Who are the Behavioural Insights Team?

The Behavioural Insights Team (BIT) started life in 2010 inside the Prime Minister's Office, 10 Downing Street, as the world's first government institution dedicated to the application of behavioural sciences. Much of our early work sought to reduce error and avoidance in tax payments and we spent a sustained period working with HMRC to increase compliance through low-cost interventions. We have now conducted over 400 randomised controlled trials (RCTs), including many in the area of government revenue, and have a specific team focused on local government. We have an office in Manchester and have set up Test and Build; a light touch online platform to support local authorities to apply behavioural insights.

To find out more contact tim.pearse@bi.team who leads BIT's local government team.



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