

PRIME MINISTER

COMMUNITY CHARGE 1991-92

At Flag A is a minute from the Environment Secretary setting out his final proposals on the RSG settlement and the application of charge capping powers in England for 1991-92.

(Although the minute seeks an early response the proposed announcement on Thursday, 25 October, has been put back.)

Background

The minute considers four issues:

- (a) the distribution of the agreed Total Standard Spending (TSS) amongst services;
- (b) the allocation of TSS into SSAs for each authority;
- (c) the proposed charge capping criteria; and
- (d) the implications for community charges in England in 1991-92.

(a) and (b): TSS and SSAs

You saw the proposals on these earlier and agreed they were acceptable (see note at Flag B). Colleagues are also content.

(c): Charge Capping Criteria

Charge capping works by limiting the demand which an authority can make on the collection fund - its precept. In effect, except to the extent that local authority expenditure is financed by balances, capping limits the local authority's budget. Unlike this year, the criteria for capping are to be announced in advance, i.e. in the next few days.

Mr. Patten's proposals on the criteria are commendably tough. They can be summarised as follows:

<u>Proposed 1991-92 expenditure budget</u>	<u>Maximum permitted increase over 1990-91 budget</u>
up to SSA	no limit
up to SSA+5%	9%
up to SSA+10%	7%
up to SSA+12½%	5%
over SSA+12½%	0%

This is broadly the same package as agreed in the summer. ✓

The impact on potential capped authorities is shown in the tables attached to Mr. Patten's minute. The first column in each table shows the maximum permitted increase in budget over the 1990-91 budget.

- (i) For shire counties, London boroughs, Metropolitan districts and Fire Authorities the figures are reasonable. Most "offending" authorities will be restricted to manageable budget increases of between 7 and 9 per cent. Against the expected movement in the local authority cost deflator that implies a real terms freeze or slight cut.
- (ii) For some districts it will be necessary to allow greater permitted increases than shown in the table, e.g. Basildon and Bristol, in order for the position to be legally defensible. But the capping will still restrict spending below what it would otherwise have been.

Two other points. First, the figures in these tables are for maximum increases: some authorities will budget for lower rises. On the other hand, a number of authorities escape capping altogether because they are spending at or below SSA. In principle, these could opt for larger increases in their spending next year.

Overall Mr. Patten has set tough criteria and made sensible assumptions to allow:

- (a) for higher spending by certain capped shire districts,
and
- (b) for more spending by those below SSA; and
- (c) for lower than maximum increases for other capped authorities.

Total local expenditure in England is estimated at around £39.8 billion. I have checked with Treasury: their view is that this figure is about right, perhaps a little on the low side.

(d): Implications for Community Charges

Any particular aggregate expenditure figure is consistent with a range of average community charges. Next year three main factors will influence the outcome:

- (i) Attempts to recover community charge revenue not collected this year;
- (ii) Rebuilding/use of balances;
- (iii) Provision for under-collection.

(i) is difficult to assess. Some local authorities might be tempted to push up their community charges next year in order to compensate for "lost" revenue this year. But their capacity to do so will be constrained by the capping provisions. Moreover, for the whole of next year local authorities can undertake temporary borrowing in lieu of uncollected community charges. In practice, most authorities will pursue this route. (This simply puts back the problem of uncollected community charges until 1992-93.)

On (ii), the outcome on balance may be marginally beneficial. Attempts to rebuild the balances will again be caught by the capping provisions. But some authorities, though relatively few given the absence of important local elections, may contribute existing balances to keep down their charges.

(iii) is absolutely critical. Given the assumption about total local authority expenditure, Mr. Patten's figure of £396 for the average community charge in England next year therefore looks reasonable. (The Community Charge for Standard Spending has been announced at £379.) But it is on the basis that local authorities will set their community charges next year assuming the same rate of collection as in 1990-91. This is distinctly questionable (the same point is made in the Policy Unit note at Flag C).

Most local authorities budgeted this year assuming either a 95 per cent or (rarely) 90 per cent collection rate. The latest published figures show a collection rate of around 80 per cent. I spoke to Chris Patten yesterday, who told me that the final figure might rise up to 87 per cent.

But a rational local authority on the basis of this year's experience (and even allowing for improvement) may well assume a lower rate of collection. The final community charge figure is extremely sensitive to the assumption made. If local authorities assume that collection rates are likely to be 5 per cent worse than this year (and that would still be well above the projected collection rate), then community charges in England would be £20 higher - i.e. £416.

DOE officials argue that local authorities may not assume a lower collection rate because:

- (i) it would be the wrong message to their charge payers: the righteous would be paying for the sinners;
- (ii) local authorities, whatever their views about the community charge, consider it vital not to give any impression that it is a voluntary tax.

However commendable the sentiment, I am not persuaded by this argument. Neither is the Chancellor: I understand he has written a personal letter to Chris Patten asking for his own view of the likely collection rate next year.

Further Policy Action

I have discussed with Treasury officials what steps might be taken to tighten up collection.

- Legislation.

In principle, the Government could legislate to require local authorities to set their collection rate at, say, no lower than 95 per cent. In practice there are overwhelming objections. First, it is too late to draft such complex legislation. Second, it would be impossible to legislate for a single collection rate for all authorities. (A sliding scale would make nonsense of the legislation.) Difficulties in collection are bound to be proportional to the stability of the local population.

- Extra Exchequer Support

It is not too late to inject further AEF into the system. But it would be a perverse response. First, part of any extra grant could simply end up being spent rather than compensating for loss of local revenue. Second, it is a wholly wrong signal from Government: everyone should pay their community charge.

- Use of Audit Commission

Much more promising would be to get the Audit Commission to give practical advice and assistance so as to maximise collection rates.

In short, every effort must be made to improve collection of the community charge so as to keep down average charges. But neither more grant nor legislation offers scope for sensible action.

Conclusion

To sum up, the capping criteria look sensible. They will keep down local authority spending as Ministers agreed in the summer. And Chris Patten told me his own expectation is of relatively few authorities needing to be capped. Others will respond to the publication of the capping criteria by setting budgets within their caps.

But there is clearly some difficulty in assessing how that level of spending will translate into community charges. The Treasury forecast (which is unduly pessimistic on capping collection rates) indicates a figure of £430 - a rise of 20% and thus only of small benefit to the RPI. What does look certain is that the final community charge average in England next year will be in excess of £400.

That said, as a result of the capping powers and improved collection rates in many responsible authorities, an increasing divergence can be expected between the well-managed, well-behaved authority and the profligate. This could become the sensible focus for Government statements about the success of the policy.

The uncertainty about the outcome on community charges, even with pursuit of the capping powers agreed in the summer, is worrying. Audit Commission pressure and support to maximise collection rates, need to be considered. There may well be merit in bringing in Chris Patten and the Chancellor for a further word.

Yes not
Content to ask the Chancellor and Environment Secretary to discuss with you; or

- Prefer to discuss in E(LG); or
- Content to endorse proposed package?

BHP

BARRY H POTTER
19 October 1990
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