



POLICY IN CONFIDENCE

2 MARSHAM STREET
LONDON SW1P 3EB
071-276 3000

My ref:

Your ref:

Barry Potter
10 Downing St
London SW1

26 October 1990

Dear Barry

COMMUNITY CHARGE : COLLECTION

I enclose a note prepared by officials here, which the Secretary of State, thinks might be helpful as background for the meeting the Prime Minister is to have on Tuesday.

I am copying this to John Gieve in the Chancellor's office, Jeremy Heywood (CST) and Sonia Phippard.

*Yours
Phillip*

Phillip Ward
Private Secretary

POLICY IN CONFIDENCE

NON-COLLECTION OF THE COMMUNITY CHARGE IN ENGLAND

Note by the Department of the Environment

1. Non-collection can affect charges in 1991/92 by two possible routes:

- charging authorities (shire districts, metropolitan districts and London Boroughs) may decide to write off (including making provision for doubtful debts) in 1991/92 some or all of any uncollected income for which they budgeted in 1990/91. Sums should be written off only if it is proper to do so in accounting terms. The amount of any write off have to be added to 1991/92 charges insofar as it had not already been allowed for in fixing the charge for 1990/91. There is no immediate obligation to add to the charge in respect of arrears which are considered still to be collectable - see para 10 below.

- charging authorities may, in the light of experience in 1990/91, make larger assumptions about non-collection than they did this year, spreading their budgeted income amongst fewer chargepayers and so pushing up charges for those assumed to pay.

2. This note looks at the two routes separately although experience in 1990/91 will inform local authorities decisions about both.

Non-collection of property rates up to 1989/90

3. Non-collection is not a new problem introduced with the community charge. There has always been some non-collection of rates. About 10% of ratepayers did not make any payment until they received a summons and 30% needed a reminder before they made any payment. Typically, at the end of the financial year about 1-2% of the income due in that year had not been collected. But rating authorities continued to pursue non-payers so that eventually only 0.2% of rate income was written off (due to bankruptcies, failure to trace the liable rateable occupier, etc). Authorities were not obliged to rate for uncollected income until they wrote it off as uncollectable; meanwhile they could borrow temporarily against this uncollected revenue. So the level of rating for non-collection was in effect 0.2% of the year's yield.

4. This is the position which still obtains, we understand, in Scotland. In England the position has been changed in that under the new system, as an incentive to collection, authorities cannot borrow against uncollected revenue for more than 12 months even if they still believe that it will be collectable thereafter.

Non-collection in 1990/91

(a) Estimated in year non-payment

5. Our best estimate is that charging authorities budgeted to collect charges from 34.1 million personal community chargepayers (counting students as one fifth). This compares with relevant, ie, registered population (the number of adults on the register at 1 December 1989) of 35.65 million and implies that charging authorities on average assumed non-collection of about 4.3% when setting 1990/91 charges. Since it is probable that the registered population had declined a little by March (because

POLICY IN CONFIDENCE

authorities were by then able to count all students as one fifth and take account of exemptions, which they had not necessarily been able to do by 1 December), it is possible that the true allowance for non-collection was nearer 4%. This was the overall figure: there was a wide range of assumptions even within classes of authority. A handful of shire districts assumed non-collection of more than 10%; a similar number assumed collection from the whole of their relevant population and some additional chargepayers. A few London boroughs also assumed non-collection of more than 10%.

(b) Performance so far

6. There has been a considerable amount of press publicity about non-collection levels. Undoubtedly certain authorities such as Lambeth and Liverpool have serious problems, but they do not appear to be typical. The Institute of Revenues, Rating and Valuation (IRRV) - the professional body for rates and community charge collection officials - has published a widely quoted survey of 102 authorities which shows that 87% of chargepayers had made some payment by early in October. In some areas the figures were above 95%.

7. These figures are confirmed by our monthly telephone survey in September of 50 authorities selected as a representative cross-section of charging authorities. It showed that about 85% of chargepayers have paid something. Again there are some high figures for individual authorities - up to 98%. These figures are borne out by the statistical returns which we have so far had from authorities for the first 6 months of the year. Not all of those chargepayers who have paid something are up to date, but once they have paid something, it seems likely that most will eventually pay all that is due.

? not necessarily: some may aspire to escape by moving house + charging authority

POLICY IN CONFIDENCE

8. Collection of community charges is probably lagging at least a little behind collection of domestic rates in earlier years, though probably by less than many press stories imply. This partly reflects the introduction of a right to pay in 10 monthly installments. But it is also a reflection of difficulties which local authorities have had in issuing bills (eg with software), their slowness (relative to the rating system) in sending out reminders and summonses, problems in getting sufficient Court time in certain areas, and their reluctance to proceed to distraint of property or equivalent action and in some cases to pursue debts where the cost of enforcement exceeds the charge owed -especially relevant to income support cases. Capping has also delayed some payments in the authorities concerned.

9. We cannot forecast the level of arrears at the end of the year. Our information on the proportion of community charge income obtained so far is fragmentary. Some information should shortly be available from authorities' half year statistical returns. Collection performance should improve in the remaining five months of the financial year. Quite a few authorities have not sent out summonses yet and some have only just sent out reminders (or substitute bills where they have been capped). Enforcement should improve as the courts increase their throughput of cases, having learned how to deal with this type of business. Our current judgment is that by 31 March, collection is unlikely to be less than 90% and could even begin to approach the 95.7% assumed in local authority budgets.

10. Treasurers will of course continue their efforts to collect any arrears outstanding on 31 March and can be expected to take into account the expected consequent yield in making recommendations for charge levels in 1991/92 (if they want to charge that year for any shortfall at the end of 1990/91). The experience

POLICY IN CONFIDENCE

from Scotland is that over half of the substantial amounts owed at the end of 1989/90 (the first year of the charge) has now been recovered.

11. In Scotland approximately 20% of estimated income had not been collected by the end of 1989/90. Contrary to press reports we understand that the pattern of income this year is not worse than last, but it does not appear to be significantly better overall, though it is rather better in Strathclyde, which accounts for half the chargepaying population, and worse in Lothian for technical reasons. Scottish authorities cannot pursue non-payers as soon as is possible under the law in England and Wales. And perhaps because of the stance of the SNP, "Won't pay" campaigns seem to have had wider support in Scotland than south of the border.

Effect of non-collection in 1990/91 on charges in 1991/92

12. Charging authorities must, by law, budget to make their collection funds balance annually, taking into account any opening surplus or deficit. Non-collection of charges greater than that allowed for in setting original charges will lead to a shortfall in the collection fund in the year concerned. So if an authority budgeted to collect 100,000 charges in 1990/91, but only collects 95,000, at the end of the financial year its collection fund will have a shortfall of 5% of its projected income.

13. A charging authority is permitted in most circumstances to borrow for 12 months against this shortfall, but must then write off any remaining shortfall. In principle there may be no need for any write off in 1991/92 so that non-collection in 1990/91 need have no direct effect on charges in 1991/92. All of the shortfall could be borrowed while collection of the missing

POLICY IN CONFIDENCE

charges is pursued. If at the end of 1991/92 non-collection were still larger than originally expected, then any remaining shortfall would have to fall on charges in 1992/93.

14. But treasurers may not necessarily recommend that the whole shortfall be carried forward. Authorities' auditors will expect them to make estimates of the number of charges they think they will never collect and to write them off at the end of 1990/91. If for instance, an authority had collected 90% of its charges by the end of 1990/91 and expected eventually to collect 93%, under the Audit Commission's Code of Practice on Local Authority Accounting it should write off an extra 2.7% at the end of 1990/91 above that budgetted for in 1990/91, and will therefore have to charge for that extra 2.7% in 1991/92 (the difference between 93% and its original assumption of 95.7% -assuming that that assumption was equal to the national average). It is possible however that authorities will tend to take optimistic views of collectable arrears next March, to minimise pressure on charge levels in 1991/92 and to avoid giving the impression that payment of the charge is voluntary.

15. Each 1% overall of write-off would add about £4 to the 1991/92 average charge. In addition, insofar as there has been any borrowing to cover deficits in the collection fund, it may be necessary to increase charges to balance the fund.

Business rate collection in 1990/91

16. Local authorities have also been behind in their collection of business rates. In the first quarter of this year, a large proportion of the increase in LABR over 1989 was explicable by the slower collection of business rates. To some extent this is a consequence of giving to businesses for the first time the

POLICY IN CONFIDENCE

right to pay in 10 instalments. But some bills were sent out late and reminders issued late. As with community charge collection, matters are improving. In the first quarter business rate collection was only about 70% of the expected level. In the second quarter indications are that it will be up to 80% of the expected level. Even so, slow collection of business rates is contributing at least as much as, if not more than, slow collection of community charges to the increase in LABR compared with 1990. The cost of borrowing to meet the in-year difference between the stream of actual income and the required rate of payment into the central pool falls on the collection fund and is an incentive to efficient collection. An allowance for expected write off is made in calculating the stream of contributions to the central pool and any variance in sums properly written off at outturn stage is also allowable against the pool. The risk of increases in charges from this source is therefore confined to the effects of poorer performance on collection than was assumed in calculating the contributions to the central pool.

Expectations about non-collection in 1991/92

17. In March charging authorities will have to make assumptions about non-collection in 1991/92 in order to set their charges. By then they will have a much better idea of the likely outturn for 1990/91 and will have a good idea of how effective enforcement can be. It is too soon to predict what sort of assumptions they might make.

18. On the one hand, they may expect to do rather better in the second year. Most chargepayers will be used to paying the charge and may well pay earlier. Computer software should be fully operational at the start of the year, so many of this years' delays will be avoided. Authorities will have experience of enforcement mechanisms and can be expected to bring them to bear

POLICY IN CONFIDENCE

more quickly. The quality of the register will be better than in 1990/91. And many will still not want to increase their assumptions for fear of giving the impression that payment is voluntary.

19. On the other hand, on the basis of present information they might be expected to make a more pessimistic assumption about non-collection than they did this year. If they think that collection is going to be worse in 1990/91 than they had expected, many treasurers will want to avoid being seen to be wrong again. They may also shade off their estimate in the light of their assessment of the relative accuracy of the register for relevant population compared with its condition for 1990/91.

20. As things now look, a higher overall estimate of non-collection looks possible. As for non-collection this year, each 1% increase on expected non-collection would increase the charge by about £4 next year.

21. In capping discussions we have said that capping should lead to a charge of £396, or lower, if authorities make the same assumptions as this year about non-collection, standard charges and other adjustments. If, purely illustratively, charging authorities were to write-off 2.7% of charge income at the end of 1990/91 because they expected to collect eventually only 93% of personal charges, and to increase their assumptions about non-collection in 1991/92 to 7%, then charges would be increased by about £22 (half on account of the extra write-off and half on account of the increase in assumed non-collection in 1991/92). So the average charge might be £418 instead of £396. But these figures are only to demonstrate the scale of the effect on the charge of particular assumptions. Local authorities ought to be

able to secure lower figures than these, and the next section goes on to look at some possibilities for steering them in the right direction.

What might be done to reduce the effect of non-collection on 1991/92 charges

(a) Information

22. It is important that finance committees and treasurers should understand their room for manoeuvre in respect of uncollected revenue and write off. There would be merit in Ministers taking a suitable public opportunity to explain the new arrangements for borrowing against uncollected revenue and write off, and to encourage authorities to continue trying to collect and (subject of course to the views of their auditor) not to be too precipitate in deciding to write-off shortfalls at the end of 1990/91. Ministers could also emphasise the importance of ensuring that community charge registers are as up to date as possible as an aid to effective collection and enforcement.

23. Many authorities have said that it is not worth enforcing the 20% payment from those on income support since the cost of enforcement exceeds the amount collected. At present authorities get the other 80% of these charges direct from DSS in benefit subsidy whether or not they collect the corresponding 20%. As an incentive to collection of the 20% contributions, it might be possible to clawback all or part of the benefit subsidy in cases where there is failure to collect. This is a matter for DSS Ministers. It would be complicated and would require legislation and extra manpower in DSS. Moreover, it would have the effect of increasing charges unless spending were cut commensurately. This does not look very promising but it could be considered further.

POLICY IN CONFIDENCE

24. Another possibility is to make the effect of non-collection of charges more prominent on the community charge bill. This could be done by separating out non-collection from the other items in the present 'adjustments' line so that the income from standard charges and interest would go into a separate line. There are technical/legal problems in doing this which we are investigating. The change might also be doubled edged. Some authorities have told us that chargepayers are refusing to pay the adjustments line and our consultation draft in August sought for this reason unsuccessfully to eliminate the "other adjustments" line altogether. Highlighting it even further by specifying the non-collection element would possibly increase the tendency not to pay that element.

25. The Audit Commission are proposing to issue advice to auditors soon on the handling of non-collection in 1991/92. They are to discuss their advice in draft with DOE officials. This should give the Department the chance to make some of the points in this note to the Audit Commission so that they can reinforce the messages proposed above. It is important that the Commission should give properly balanced advice on these points - for some years they have rightly been concerned that authorities frequently fail to make proper provision against uncollectable items generally.

26. Other possible steps to reduce the effect of non-collection on charges in 1991/92 are, in summary:

(a) Capping criteria could be tightened up in an attempt to offset the effect of any increase provision for non-collection. But the proposed criteria are already demanding for authorities. Moreover, since many authorities would be capped if they exceed SSA, changing the permitted increases has a low gearing. 1% off permitted increases only reduces

POLICY IN CONFIDENCE

the average charge by £4, and there are diminishing returns. It would not in practice be possible to set criteria which fully offset the amounts illustrated in paragraph 21 above.

(b) Authorities' power to collect the charge could be strengthened. There are a number of possible detailed changes which might be made to increase authorities ability to get in unpaid charges. The most effective might be to require chargepayers who are moving their address to tell their authority the address to which they are moving and, more generally, to relax restrictions on interchange of information about chargepayers between authorities. But there are difficulties here about data protection and individual privacy which have hitherto led Ministers to the existing arrangements. Nor would it be possible to make changes in primary legislation for 1991/92 without having an emergency Bill which would open up the community charge arrangements on a wide front.

(c) To legislate to restrict the allowance which could be made for non-collection, or to require that if non-collection were above an allowed level, the cost should be offset by reduced spending. This would require substantial and fundamental legislative changes on the operation of the collection fund and/or capping, which would go to the heart of an important part of the 1988 Act. The changes would have to be in place well before 28 February, which is the date by which precepting authorities must set their precepts so that they could take the charging authority's non-collection rate into account in their budgets if it were greater than the statutory amount. Practically, in shire areas the effects would have to bear on the county's spending as well as that of the district, while non-collection is the responsibility of the latter. Non-collection might be a problem in only one area and the question also arises whether if the county does

have to bear some of reductions they could have freedom to spread them over the whole county area or would have to concentrate them in the district concerned. Practically, it is already impossible to complete inevitably complex legislation in time for 1991/92.

Scotland and Wales

27. Collection arrangements in Scotland and Wales are different from those in England. Details are at Annexes A to C. Despite the differences in arrangements, all three territories have difficulties with collection levels and some technical problems with the Scottish arrangements are only just coming to light.

DOC881LB