

PRIME MINISTER

COMMUNITY CHARGE: IMPACT OF COLLECTION RATES

You are meeting the Chancellor, Environment Secretary, Minister for Local Government and the Chief Secretary tomorrow to discuss the impact on community charges next year of changes in the collection rates assumed by local authorities.

There are two main objectives:

- i) to assess likely LA assumptions on collection rates and hence forecast average community charges; and
- ii) to check what action might be taken to raise collection rates.

Background

The Chancellor brought this issue to your attention a week ago.

In brief Mr. Patten, in putting forward his proposals last week on capping, assumed that local authorities would budget next year for the same assumed rate of collection of community charge as this year. On that basis the average community charge in England next year was forecast at £396.

The Treasury take a more pessimistic view than the DoE. They consider LAs will assume a lower collection rate: this, together with a number of other minor differences, led to their forecast of £430.

Attached at Flag A is a minute I sent you on this earlier: pages 3-5 are worth glancing through again. At Flag B, also worth review, is an earlier minute from Policy Unit.

DoE Paper

DoE have now provided a further paper (Flag C). The analysis is quite useful in explaining how various factors contribute to the non-collection problem. These are as follows.

- i) Local authorities may decide at the end of this year to write off some part of community charges not collected. Where this is actually written off (rather than borrowing undertaken in lieu) an amount must be added to the community charge to cover the cost of the write-off in 1991-92.
- ii) Non-collection of business rates this year may also have a very small impact on community charges next year. But the only cost to arise will reflect higher borrowing undertaken in-year which will flow through into next year's debt charges.
- iii) Most important, in terms of impact on next year's community charges, will be whether local authorities change the assumed rate of non-collection. As you will recall each one per cent change in the assumed rate of collection adds/ subtracts £4 to the average community charge.

While this analysis of the causes is helpful, the overall DoE judgements about their impact on forecast community charges seem unduly optimistic. And many of the proposed policy conclusions seem impractical and by no means encouraging.

Forecast of Community Charges

First on the forecast itself, there are one or two suspicious assumptions. For example, in paragraph 7 it is assumed that charge payers who have paid something so far, will eventually pay all that is due. It seems equally credible that those who have moved house having paid once or twice may well feel they can escape responsibility for further instalments, at least for this year (see also article at Flag D).

Second, for this and other reasons, the judgement in paragraph 9 that collection rates could even begin to approach the 95.7 per cent assumed in local authorities 1990-91 budgets does seem optimistic. Two paragraphs later the paper explains that nearly 20 per cent of the estimated income was not collected in the first year of the community charge in Scotland. Even allowing for the lower degree of political opposition (ie no Scottish National Party), a figure much above 90 per cent does not seem credible. After six months only 87 per cent have paid even one month's community charge.

Third, the balance of arguments displayed in paragraphs 18-19 hardly leads to the slightly upbeat conclusion in paragraph 20. Despite the careful distancing in the draft, paragraph 21 seems to paint all too plausible a picture: that LAs will write off some part of uncollected charge income this year; and that next year assumed non-collection rates will rise by about 2 or 3 per cent. That would take the average charge next year to nearly £420.

Policy Response

Although DoE officials have now put greater effort into a possible policy response, they have come up with relatively little.

The two best ideas are contained in paragraph 22 - more effort by Government to explain the new arrangements - and paragraph 25 - further advice and guidance from the Audit Commission (see Flag D note from Policy Unit).

The others are non-starters.

- a) Holding back the 80 per cent contribution to the community charge for those on income support from the DSS, where the 20 per cent has not been paid, seems positively unhelpful. Whatever the merits, other charge payers will not thank the Government if their community charges are higher because the Government has joined the category of non-payers.

- b) The idea of identifying non-collection separately within the adjustment line of the Community Charge Bill looks superficially attractive. Drawing more attention to the impact of non-payment (by those who still use LA service) on higher charge bills for others is sensible. But this is not the right vehicle. It would complicate the community charge demand note; it might risk legal challenge; and it could thus aggravate not ameliorate non-payment.

- c) Changing the capping criteria is clearly impractical at this stage.

- d) Changes to local authorities collection powers cannot be undertaken without primary legislation.

Conclusion

It will be useful to get Mr. Patten's and Mr. Portillo's view on non-collection and their best forecast for community charges next year.

In addition to the Audit Commission proposal and general exhortation, a different form of DoE initiative seems encouraging. The general message - that everyone's community charge may be increased next year, because some people are refusing to pay - does need to be hammered home strongly by Ministers. No-one should be allowed a 'free ride' on LA services. And LAs should be encouraged to move against non-payers more speedily (as Audit Commission proposes).

BHP

BARRY H. POTTER
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