PO-CH/NL/0251

PART G

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Begins: 21/6/88.
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PO -CH /NL/0251
PART G

Chancellor's (Lawson) Papers:

THE COMMUNITY CHARGE AND SETTLEMENT OF THE RATE SUPPORT GRANT SYSTEM

Disposal Directions: 25 Years

27/9/95.

PO -CH /NL/0251
PART G

CAPITAL CONTROLS

24/1/DJS/1801/17

PERSONAL AND CONFIDENTIAL

FROM: BARRY H POTTER
DATE: 21 June 1988

CHIEF SECRETARY

cc PS/Chancellor
Mr Anson
Mr Phillips
Mr Edwards
Mr Fellgett

CLOSEDOWN OF RSG SYSTEM: LETTER TO ENVIRONMENT SECRETARY

I attach a revised draft of the letter to Mr Ridley which we discussed this afternoon. As requested, I have recast the letter to focus on the loophole in the capital consultation document rather than closedown of the RSG system. It should therefore now be in an appropriate form for copying to the Prime Minister. Also, as requested, I have tried to set out the nature of the problem in more detail drawing on the points made in the submission itself and our subsequent discussion.

Ch/ Attached draft makes terrifying reading. Very late in the day, a real cock-up comes to light, which means CST will have to press for further delay on already v. late consultation paper. Appalling that this not spotted much sooner. And not at all clear how we propose to stop a massive surge of spending on repairing school roofs etc. V. bad.

Barry H. Potter

BARRY H POTTER

mgpw 21/6

24/1/DJS/1801/16

PERSONAL AND CONFIDENTIAL

DRAFT LETTER TO SECRETARY OF STATE FOR THE ENVIRONMENT

LOCAL AUTHORITY CAPITAL: CONSULTATION DOCUMENT

Following discussions on the RSG settlement for 1989-90 earlier this week, officials have brought to my attention the risk of a surge in local authority capital expenditure between next week, when the capital consultation document is to be issued, and the introduction of the new control regime in 1990. Even though I understand the consultation paper is already at the printers, we need to meet urgently to discuss whether this risk can be reduced satisfactorily or eliminated by changes to the transitional proposals. I should emphasise that the changes I have in mind would be to details of the transitional arrangements before 1990, not our substantive proposals on how the new regime should work. I am well aware of the difficulties any further delay in publishing the consultation document will cause: but the sums at risk are so large, that if changes are found to be necessary, we must be ready to hold up publication for a few days.

2. The problem is the existence of some £7 billion in cash-backed capital receipts, mostly in the form of money on deposit. Around £5 billion is held by the Shire Districts. Under the proposals in the capital consultation document, 75% of cash-backed housing receipts and 50% of other cash-backed receipts held on 31 March 1990 must be used

to redeem outstanding capital debt or set aside to meet future capital commitments. Local councils will therefore have an incentive to use cash-backed receipts before 31 March 1990, while they are available to be spent, rather than after that date, when more than half of them must be used to redeem outstanding debt.

3. Of course, our present controls on the proportion of capital receipts which can be used to finance prescribed expenditure should help to prevent excessive prescribed spending. But there are no such controls over non-prescribed spending - the bulk of which comprises capitalised current expenditure on repairs and maintenance. So we will be at risk of cash-backed receipts being used on a major scale to finance such repairs and maintenance between next week and 1990. Your own officials have estimated that up to about £1 billion of cash-backed receipts might be used this way; and up to a further £700 million used to substitute capital receipts for due debt repayments rather than meeting these out of revenue account.

4. Moreover the incentives to use capital receipts in these ways are considerably enhanced by the present RSG system. Capitalising current expenditure allows local councils to reduce their recorded total expenditure and increase their entitlement to block grant. Indeed there has always been an incentive in grant terms to capitalise current spending: but that incentive will also disappear from 1 April 1990, with the introduction of the new Community Charge regime.

5. So, from the date the consultation document is issued, local councils will have an incentive to use outstanding cash-backed receipts over the next eighteen months rather than see more than half of that spending power lost after 1 April 1990. They will have the opportunity to use, in principle all though in practice considerably less, of the receipts to finance capitalised current spending which scores as non-prescribed (uncontrolled) capital expenditure. And to the extent they do use them in this way they will have the added financial benefit of extra block grant payments.

ie repairs maintenance etc.

6. We must be at serious risk of a surge in expenditure; and that risk cannot be closed off, just by removing one element in the picture, eg the grant incentive. Difficult though any delay would be at this stage, my officials consider that the detailed transitional proposals in the consultation paper must be revised so as to prevent or at least strongly discourage local councils from excessive drawing down of the money held on deposit from cash-backed receipts. I suggest our officials meet urgently to consider how this could best be done.

7. In view of the possible implications for the publication date of the capital consultation paper, I am copying this letter to the Prime Minister.

JOHN MAJOR

001/4212

PERSONAL AND CONFIDENTIAL

CHIEF SECRETARY TO THE TREASURY

cc:
PS/Chancellor
Mr Anson
Mr Phillips
Mr Edwards
Mr Potter
Mr Fellgett

Treasury Chambers. Parliament Street. SW1P 3AG

The Rt Hon Nicholas Ridley AMICE MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
London
SW1P 3EB

22nd June 1988

Dear Nick,

LOCAL AUTHORITY CAPITAL: CONSULTATION DOCUMENT

Following discussions on the RSG settlement for 1989-90 earlier this week, officials have brought to my attention the risk of a surge in local authority capital expenditure between next week, when the capital consultation document is to be issued, and the introduction of the new control regime in 1990. Even though I understand the consultation paper is already at the printers, we need to meet urgently to discuss whether this risk can be reduced satisfactorily or eliminated by changes to the transitional proposals. I should emphasise that the changes I have in mind would be to details of the transitional arrangements before 1990, not our substantive proposals on how the new regime should work. I am well aware of the difficulties any further delay in publishing the consultation document will cause; but the sums at risk are so large, that if changes are found to be necessary, we must be ready to hold up publication for a few days.

The problem is the existence of some £7 billion in cash-backed capital receipts, mostly in the form of money on deposit. Around £5 billion is held by the Shire Districts. Under the proposals in the capital consultation document, 75 per cent of cash-backed housing receipts and 50 per cent of other cash-backed receipts held on 31 March 1990 must be used to redeem outstanding capital debt or set aside to meet future capital commitments. Local councils will therefore have an incentive to use cash-backed receipts before 31 March 1990, while they are available to be spent, rather than after that date, when more than half of them must be used to redeem outstanding debt.

PERSONAL AND CONFIDENTIAL

Of course, our present controls on the proportion of capital receipts which can be used to finance prescribed expenditure should help to prevent excessive prescribed spending. But there are no such controls over non-prescribed spending - the bulk of which comprises capitalised current expenditure on repairs and maintenance. So we will be at risk of cash-backed receipts being used on a major scale to finance such repairs and maintenance between next week and 1990. Your own officials have estimated that up to about £1 billion of cash-backed receipts might be used this way; and up to a further £700 million used to substitute capital receipts for due debt repayments rather than meeting these out of revenue account.

Moreover the incentives to use capital receipts in these ways are considerably enhanced by the present RSG system. Capitalising current expenditure allows local councils to reduce their recorded total expenditure and increase their entitlement to block grant. Indeed there has always been an incentive in grant terms to capitalise current spending: but that incentive will also disappear from 1 April 1990, with the introduction of the new Community Charge regime.

So, from the date the consultation document is issued, local councils will have an incentive to use outstanding cash-backed receipts over the next eighteen months rather than see more than half of that spending power lost after 1 April 1990. They will have the opportunity to use, in principle all though in practice considerably less, of the receipts to finance capitalised current spending which scores as non-prescribed (uncontrolled) capital expenditure. And to the extent they do use them in this way they will have the added financial benefit of extra block grant payments.

We must be at serious risk of a surge in expenditure. Difficult though any delay would be at this stage, my officials consider that the detailed transitional proposals in the consultation paper must be revised so as to prevent or at least strongly discourage local councils from excessive drawing down of the money held on deposit from cash-backed receipts. I suggest our officials meet urgently to consider how this could best be done.

In view of the possible implications for the publication date of the capital consultation paper, I am copying this letter to the Prime Minister.

Yours Ever,

John

JOHN MAJOR

SECRET

ANNEX A

BANK OF ENGLAND
LONDON EC2R 8AH

E.A.J. GEORGE
EXECUTIVE DIRECTOR

22 June 1988

M C Scholar Esq
H M Treasury
Parliament Street
London
SW1P 3AG

Dear Michael,

INDEX-LINKED GILTS AND THE RPI

1 In your letter of 19 May you outlined three options for adjustments to the RPI to reflect the change from rates to Community Charge, and asked to have an indication of the view we would be likely to take of the implication of the three options for the provision for early redemption of the index-linked stocks.

2 What follows is our provisional view, based at this stage on the summary information in your letter and the working papers you sent us with your letter of 15 June. We may of course need to revise our view in the light of any subsequent information.

3 For each of the three options in your paper we have found it helpful to consider the effect of the change under two heads - the one-off impact effect on the level of the RPI and the continuing effect thereafter on the future rate of growth of the RPI.

SECRET

4 In the first option, rates (apart from Northern Ireland rates) would be progressively removed from the RPI and the Community Charge would not be included in replacement. You indicate in your letter that the impact effect of the first option would be a series of step reductions in the RPI, cumulatively totalling something in excess of 3 1/2%. The continuing effect, as compared with a situation in which rates were not being abolished, would hinge on the relative rate of growth of rates as compared with other components of the RPI: for the future this is unknowable; in the past rates have tended to grow faster than the other components of the RPI, but in this instance the past may not necessarily be a useful guide to the future.

5 The prospectus requirement is that early redemption must be offered "if any change should be made to the coverage or the basic calculation of the Index which, in the opinion of the Bank of England, constitutes a fundamental change in the Index which would be materially detrimental to the interests of stockholders". This requires a view on a series of related questions - whether there is a change in coverage or basic calculation, whether that change is fundamental, whether it would be detrimental, and whether the detriment would be material - the last three of these being for the Bank to decide.

6 We think that the first option would constitute a change in the coverage of the RPI, since rates are to be abolished. What is more difficult to determine is whether it would be a fundamental change. We have considered a number of tests which bear on whether a change could be considered fundamental:

(i) whether the change in components is of such a kind as to change fundamentally the basket from which the RPI is derived; or

(ii) whether, even if the basket is not fundamentally changed, the change in components nonetheless introduces a new element which alters fundamentally the character of the RPI; or

(iii) whether the change produces a result which fundamentally departs from the existing purpose and use of the RPI.

We do not feel that removing rates is ipso facto fundamental on any of these three tests. But a series of step changes on the scale indicated in your letter does seem to us arguably to be fundamental in the sense of the third test above. Moreover, since the step changes would be reductions in the RPI, they would clearly be detrimental to the interests of index-linked stockholders; and, given the magnitude indicated in your letter, we take the view that they would be materially so. We see no grounds for supposing that the continuing effect would offset this material detriment arising from the impact effects. We thus conclude that the first option would require stockholders to be offered early redemption, on the grounds that the change was both fundamental and materially detrimental.

7 In the second option in your letter, rates would be progressively removed and the Community Charge not substituted, as in the first option, but adjustments would be made to the weights attaching to the rates component as rates were progressively abolished to "avoid major discontinuities" in the level of the RPI.

8 If the adjustments do in practice remove any step change - and this is something we would need to check when we see the detail of what is proposed - the impact effect of this option would involve no change in the level of the RPI, and the continuing effect would be as for the first option. On that basis, there does seem to us to be, as in the first option, a change in the coverage of the RPI, since rates are to be removed; and possibly this option also entails a change in basic calculation, given the adjustments being made to avoid discontinuities. But after careful consideration we have reached the view that neither change would in our opinion be a fundamental one. As regards the change in coverage, we do not consider that removing rates is ipso facto fundamental, as indicated above in relation to the first option; and as regards the possible change in basic calculation, we do not feel that an adjustment (or series of adjustments) designed to avoid discontinuity arising from the removal of rates would on that account alone constitute a fundamental change - subject as above to our checking when we see the detail of what is proposed - since adjustments of that nature are made when there are changes in the quantities of the constituents of the RPI basket. In reaching this view, we have again considered the three tests in paragraph 6

above of whether a change is fundamental; it seems to us that none of the three tests is fulfilled in the case of the second option.

9 If the change is not fundamental, the question of detrimentality does not strictly arise. But in any case we can find no firm grounds on which to conclude that the change would be detrimental to the interests of stockholders; and still less to conclude that it would be materially detrimental. The impact effect, if step changes are avoided, would be nil; and the continuing effect would, as indicated above, hinge on whether the RPI would be likely to grow faster if rates were not being abolished. Past experience (see Annex) indicates that over the period 1970-1987 the average annual increase in rates* was 13.6% p.a. against 10.4% p.a. for the RPI, ie, rates grew on average faster than the RPI by 3.2 percentage points p.a. Over the shorter period since 1982, when index-linked gilts were first introduced, the average annual increases were 9.6% p.a. for rates* and 5.3% p.a. for the RPI, ie, rates grew on average faster than the RPI by 4.3 percentage points p.a. This means that the RPI excluding rates* would have been on average 0.112 percentage points p.a. lower over the whole period 1970-87 and 0.185 percentage points p.a. lower over the shorter period 1982-87. This evidence cannot be conclusive, since as indicated we do not feel that in this area the past is necessarily a useful guide to the future. But having considered the evidence, we do not feel that we can reasonably conclude that the continuing effect of the change would be materially detrimental in future years. We thus conclude that this second option would not require stockholders to be offered early redemption, on the grounds that the change is not fundamental and that in any case there are no firm grounds for concluding that it would be materially detrimental.

10 The third option would entail progressively replacing rates with the Community Charge. In your letter you indicate that the impact effect would be likely to raise the level of the RPI somewhat; and the continuing effect would hinge on the extent to which the Community Charge rose faster or slower than rates would have risen had they been retained (not, we think, on the extent to which the Community Charge rose faster or slower than the rest of the Index, as suggested in your letter).

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* including water charges: see Annex

11 This, as in the other options, would seem to us to constitute a change in the coverage of the RPI: and we consider that it would be a fundamental change in the sense of test (ii) in paragraph 6 above, since the Community Charge is a direct tax, not related to the consumption of a specific service, and such payments have hitherto been excluded from the RPI for the conceptual and practical reasons set out in paragraph 2(iv) of your letter. But we see no firm grounds for concluding that the change would be materially detrimental to the interests of stockholders, since we agree with your assessment that the impact effect would be likely to be beneficial, and the continuing effect is unknowable (and there is not even, as in the case of the second option, any historical experience on which to base an assessment of the future effect).

12 Thus our provisional view, based on the information you have supplied, is that the first option would require the offer of early redemption, but the second and third options would not.

13 We have also considered with our legal advisers to what extent our opinion might be challenged in the Courts by aggrieved stockholders. It seems unlikely that judicial review would arise, since the matters in question are not in the area of public law but stem from contractual obligations arising from the terms and conditions of the prospectus, in which the Bank is acting in the capacity of an expert rather than an arbitrator.

14 On the basis of contract, there appear to be two avenues that an aggrieved stockholder might pursue:

(i) in an action against HMG in contract, a stockholder might seek to show that our conclusion was so palpably misconceived that the Court ought to override it. But we are advised that, since the contract under which the stockholder acquired his rights does explicitly leave the question of offering early redemption to the opinion of the Bank, the Courts would be unlikely to override our opinion unless our judgment could be shown to be wildly off-beam;

(ii) in an action in tort against the Bank, a stockholder could attempt to show that we had been negligent in discharging our function, on the basis that we had a duty of care, which we had failed to discharge, and that the stockholder had suffered damage as a result. Again, we are advised that this would be a difficult case to mount. One obvious danger is that, in discharging our responsibilities, we might inadvertently omit to consider some obviously relevant factor because we were unaware of it. It would therefore be helpful if, before we deliver our definitive opinion, you could write and confirm for the record that you have given us all the relevant material information on which to base our opinion.

15 On this basis no challenge in the Courts appears likely in the circumstances to arise under the third option in your letter. It is, however, more likely that we would be challenged under your second option, but we think our position should be defensible.

16 I hope this is helpful in clarifying our provisional views. We would be glad to discuss this assessment with you further, if that would be helpful, and as indicated we may in any case need to review it in the light of detailed study of any further working papers.

Yours sincerely,

Eddie.

GROWTH IN RPI AND RATES AND WATER SUB-INDEX: 1970-87

Average % increase unless specified

	RPI	Rates and water charges*	Rates & water increases less RPI increases	Weight of sub-component (% of RPI)	Contribution of rates and water to RPI increase
1970-87	10.4	13.6	3.2	3.5%	0.112
1982-87	5.3	9.6	4.3	4.3%	0.185

* Rates only in 1987

Note

Except for 1987 these figures include water charges in the figures for rates, since that is the basis on which data for the RPI are published. Water charges are, however, of considerably less importance than rates in the RPI, with a current weight, for example, of 0.7% against 4.2% for rates.

24/1/337/08

CONFIDENTIAL

BF to ACSA 24/6

CHIEF SECRETARY

FROM: B H POTTER

Date: 23 June 1988

cc: PS/Chancellor
Mr Anson
Mr Phillips
Mr Edwards
Mr Fellgett

cc Mr Tyrie

MEETING WITH THE ENVIRONMENT SECRETARY

I attach a revised speaking note and further background briefing for your meeting with Mr Ridley this evening. I suggest that our main objectives for the meeting might be as follows:

(i) to secure agreement in principle that some way needs to be found to prevent the anticipated surge in the use of cash-back capital receipts; the consultation document cannot be released until this is found;

(ii) agree that whatever approach is adopted any consequentials for the RSG settlement in terms of the estimated size of the loan charges and rccos items within relevant expenditure also needs to be taken fully into account.

2. I doubt if it will be possible to reach a firm conclusion on closedown. But to the extent that agreement is reached on blocking the capital loophole, it will improve the attractiveness of option 3 (closedown July 1989) over option 1 (closedown next month). Once a solution to the capital problem is found, it will be appropriate for DOE to recast the paper setting out the options again and reaching a view on the balance between them. Only at that point should the paper be submitted to the Prime Minister and other senior colleagues. This would suggest that it is unlikely the paper could be forwarded to the Prime Minister until after next week's E(LA) discussion.

Barry H. Potter

BARRY H POTTER

SPEAKING NOTES FOR MEETING WITH ENVIRONMENT SECRETARY

Tasks for Meeting

Treasury most concerned to avoid a surge of LA expenditure (or Government grant) as we move from existing current and capital control systems to the new systems. Hence two inter-related problems we need to resolve:

i) how to close down existing capital control system (and in particular deal with problem of large overhang of accumulated cash-backed capital receipts),

ii) how to close down existing RSG system, without relaxing restraints on LA spending or incurring an obligation to pay out large extra amounts in block grant.

Capital Receipts: The Problem

Officials are agreed that, if nothing is done, LAs will have the ability and the incentive to increase their expenditure and grant entitlement between now and April 1990 by drawing on their accumulated cash-backed capital receipts of some £7 billion.

The reason is that, from April 1990, LAs will be obliged to use half of all their capital receipts, past and future, to redeem debt. In April 1990 they will have to use half their outstanding accumulated receipts for this purpose and these receipts will no longer be available to finance expenditure.

A further reason is that LAs can increase their block grant entitlement by using cash-backed capital receipts to finance:

i) expenditure on repairs and maintenance (amount of expenditure involved: up to £1 billion); and/or

ii) the repayments of principal on past borrowing which LAs are obliged to make (amount of expenditure involved: up to £700 million); and/or

iii) capital spending which they would otherwise have financed from revenue (total amount involved uncertain).

All these devices would increase LAs' entitlement to block grant by reducing the total expenditure aggregate to which grant is (inversely) related.

Aware that your officials are reconsidering the numbers in Annex A of your paper. But not in doubt, I think, that sums involved, both for grant and expenditure, run into hundreds of millions of pounds.

Capital Receipts: Possible Solutions

Clear we must act to solve this problem. Main options which officials have identified are:

i) discourage LAs from using capital receipts by saying in consultation paper on new capital control system that LAs making excessive use of capital receipts between now and April 1990 will be required to use a higher proportion of their accumulated receipts to repay debt in April 1990 (my officials suggested this approach but I am by no means wedded to it);

ii) using powers under section 12 of 1980 Local Government Act, withdraw the consent which LAs now have to use capital receipts to finance repairs and maintenance; and deal with the other possible uses of capital receipts by means of offsetting reduction in the 1989-90 block grant and/or settlement spending assumption (in the latter case by including the allowance for use of capital receipts to finance repayments of principal on past borrowing and capital spending otherwise financed by revenue contributions). Reduction in spending assumption would increase grant under-claim.

Believe your officials see the second option as more promising. Could be presented as a measure to prevent surge of additional LA expenditure and block grant entitlement during transition to the new system.

Would presumably be best to announce this in, or at the same time as, consultation paper on new capital controls system, to take effect from midnight on the night of announcement.

CLOSEDOWN OF RSG SYSTEM

Grateful for further work by DOE officials. Paper very helpful in setting out nature and scale of the problem.

2. Choice is essentially between closedown of RSG system next month (options 1 and 2) and closedown next year (option 3).

3. Appreciate that you have had Treasury interests very much in mind in considering option of closedown next month. We do however remain unhappy about option 1 for reasons explained before:

(i) it would gravely weaken the restraints on LAs' expenditure between now and April 1990 by removing their grant incentives to contain spending;

(ii) it would breach several principles of good financial practice by changing the rules in mid game, being inequitable as between authorities, and by rewarding vice penalising virtue.

In view of expenditure worries in particular, still reluctant to go down that route.

4. Option 2 would be better; but probably not much better. Appreciate that it is designed to retain a degree of punishment for overspending; but understand that the view of your officials is that scope for fiddling figures is such that authorities could probably find ways of avoiding penalties for overspending.

5. An approach which related block grant to current expenditure on services rather than total expenditure, would, I believe, have considerable attractions. It would in principle get rid of most of the scope for increasing grant through creative accounting, while retaining the existing restraints on local authority expenditure. But have to accept that it would be difficult to make such a change for one year only. LAs would no doubt complain bitterly.

6. Against this background we would still be inclined to favour an approach which would combine option 3 (normal settlement this followed by closedown in July of next year) with action in meantime to pre-empt possible abuses of system, in particular:

(i) action on cash-backed capital receipts as discussed early (see previous speaking note);

(ii) allowing fully in the RSG settlement for the likely use of special funds and switching of payments between years; and

(iii) direct action, as DOE intends anyway, to deal with other abuses such as factoring and interest rate swaps.

7. This approach would not set an absolute limit on the amount of block grant payable next year but would have the powerful advantages that:

(a) the grant restraints on total LA expenditure would continue; and

(b) since closedown would take place in the context of the new Community Charge system, there would be much less ground for complaints about changing rules in mid-game, inequity between authorities and so on.

24/1/337/024

BACKGROUND BRIEF ON CASH-BACKED CAPITAL RECEIPTS

The problem

Local authorities have approximately £7b in cash-backed capital receipts ie money held on deposit mainly with banks and other financial institutions. About £5b is held by Shire Districts; only around £½b is held by Shire Counties.

2. Under the proposals in the capital consultation document, 75% of cash-backed housing receipts and 50% of other cash-backed receipts held on 31 March 1990 must be used to redeem outstanding debt or set aside to meet future capital commitments (ie it substitutes for new borrowing). Councils therefore have an incentive to use cash-backed receipts before then, while they can still be spent in full, rather than after that date when more than half of them must be set aside for debt redemption.

3. Controls over the proportion of receipts which can be used for prescribed (ie controlled) capital spending should prevent excessive growth in such prescribed spending. But LAs are in principle able to use 100% of their cash-backed receipts on non-prescribed capital expenditure. In particular they can use them:

i) to capitalise current expenditure on repairs and maintenance;

ii) to replace revenue contributions to capital outlays (rccos);

iii) to finance the principal element of debt repayments due to be met out of revenue.

4. But there is an additional incentive to spend in any of these ways: because they reduce recorded total expenditure (TE), local authorities increase their block grant entitlement (which is determined by TE).

5. So we believe that LAs have a double incentive to use cash-backed capital receipts to finance non-prescribed spending and substitute for other spending:

- to use up cash-backed receipts before more than half the spending power is lost;

- to increase block grant entitlement while opportunities still exist under present RSG system.

Scale of the problem

6. DOE officials are in some disarray over this. In Annex A to the draft paper, they quoted £1b as the sum at risk from additional capitalisation and £700m as the amount which might be used to substitute for due debt repayments. They now say that the figure on capitalisation may be nearer £500-£650m and that the £700m is "too high". But what is accepted, however DOE officials may wish to qualify their estimates, is that at least £500m is at risk on expenditure and £250m in extra grant.

7. In practice, neither DOE officials nor ourselves can make a reliable assessment of the sums at risk. But they do run into hundreds of millions: and it is worth bearing in mind the economic effects:

i) all forms of spending cash-backed receipts tend to increase Exchequer costs and can also add to total public expenditure and to the PSBR (unless the money is used to repay debt);

ii) If cash-back receipts only substitute for revenue expenditure, they do not increase public spending directly; but as a result of the extra grant received they increase Exchequer costs - and when the extra grant is eventually spent add to public expenditure;

iii) If spending from cash-backed receipts is additional, it adds both to public expenditure and the PSBR directly.

Possible solutions

8. Our proposed solution was to change the transitional arrangements in the capital consultation document. Specifically, we had in mind a form of words that would discourage LAs from running-down their cash-backed receipts excessively. Some formulation along the following lines was proposed:

> "The Government will take into account the extent to which the amount of cash-backed capital receipts held by an authority changes between the date of this consultation paper and 1 April 1990, when a proportion of outstanding cash-backed receipts must be set aside to repay debt."

9. The implied threat was that if an authority ran down its cash-backed receipts excessively, they would be required to set aside a higher proportion of their receipts to redeem debt. DOE officials are not attracted to this solution because:

- if challenged, they would have to show how any such arrangement would work; and this is not yet thought through;

- there are data problems - information on cash-backed receipts is difficult to define and there are lesser problems in defining non-prescribed spending (an alternative option would be to take into account changes in non-prescribed spending);

- it is holding up publication of the consultation document.

We are by no means convinced these problems are insuperable. But neither are we wedded to that solution.

10. DOE have (reluctantly) floated an alternative. This would involve taking adminstrative action - in the form of a Departmental circular - to withdraw the Secretary of State's present consent in circular 5/87 to use capital receipts in order to finance repairs and maintenance. Ideally such a circular would have to be issued at the same time as the consultation document.

11. This approach would remove the option of running down the cash-backed receipts to pay for non-prescribed spending: but the receipts could still be used to finance due debt repayments. Thus if we pursued the DOE option, it would also be necessary to reduce the estimate of debt repayments within total expenditure (to the extent, we expected them to be financed out of capital receipts rather than as revenue expenditure); and we would have to accept that rccos to pay for capitalised repairs would be higher. So adjustments to the financing elements within relevant (and total) expenditure would be necessary. But this is a second order effect which can be pursued amongst officials.

24/1/32/034

CONFIDENTIAL

CLOSEDOWN OF THE RATE SUPPORT GRANT SYSTEM: BACKGROUND BRIEFING

1. We agree with DOE officials that, at some stage, it will be necessary to closedown the present RSG system. There is little point, and it may be administratively impracticable, to go on making adjustments to the grant due to authorities under the present system for many years into the 1990s. (The final "conclusive calculation" for 1981-82 is just about to be made in 1988.) The issues are when and how closedown should take place. Whenever it happens, primary legislation will be needed.

The options

2. Under option 1 Mr Ridley would announce in July 1988 that "from midnight" he would take account of no new information about authorities expenditure in calculating their grant entitlements for any year up to 1989-90. Adjustments to grant for years up to 1988-89 would take account only of information he had already received. And in 1989-90 grant would be paid on the assumption that authorities would spend at the RSG Settlement spending assumption (ie in line with provision).

3. Option 2 is a variant on option 1. Rather than simply paying the whole amount of grant available for 1989-90, an ad hoc system of withdrawing grant for overspenders would be used. To work effectively, this would have to act on public expenditure, and not on so-called total expenditure which is open to so much manipulation. Technically, we think this could probably be done, although the legislation could not be as straightforward as option 1. Politically it would open the Government to the accusation that they were introducing a new target and penalty system for just one year.

4. Option 3 would mean closedown "from midnight" in July 1989, one year later. In the meantime, the pressures in the present RSG system that penalise authorities for putting up spending would continue, but so would the opportunties for authorities to manipulate their expenditure figures to claim extra grant for no good reason.

General consideration

5. In our view (although this is primarily a political judgement) any "midnight tonight" closedown would provoke loud complaints from local authorities. It would involve removing a legal obligation on the Government to pay extra grant if authorities reduce their spending (and indeed to withdraw grant if they increased it). Authorities who had not declared lower expenditure in 1988-89 and earlier years until they were sure they could deliver would get no reward. And authorities that had declared artificially low expenditure to obtain a cash flow advantage would keep extra grant for ever. There would undoubtedly be genuine hard cases, and a good deal of exaggeration in the complains. Treasury, as well as DOE, Ministers would be accused of behaving improperly and breaching several principles of good financial practice. The Government would be seen to have offered a reward (more grant) if authorities kept their spending down, and then to have withdrawn the reward when it was rightfully claimed.

6. We therefore believe that closedown could only reasonably be announced in the context of good news for local authorities, such as a more generous RSG settlement. Indeed, the quantum of AEG available may need to be topped up to explicitly cover an extra payment to all authorities in recompense for withdrawing their rights. The price of option 1 may therefore be something closer to Mr Ridley's option for AEG for 1989-90 - an increase of around £1 billion - than your option of £520 million more grant. On the other hand, the RSG settlement for 1990-91 may anyway have to be more generous.

Exchequer costs and savings

7. Leaving aside the possibility that closedown would imply more generous RSG settlements, the grant effect of option 1 is broadly the same as the grant effect of never closing down the system. The latest (but inevitably very broad-brush) figures are as follows. Option 1 would means a saving to the Exchequer of:

(i) £200 million from the potential use of special funds in years up to 1988-89;

(ii) £150-300 million from short term delays in expenditure from 1989-90 into 1990-91;

(iii) an unknown sum from any other schemes that DOE have not thought of.

The total saving is therefore about £350-500 million, or possibly a little more.

8. The cost of option 1 to the Exchequer is estimated as:

(i) £250-650 million if there is no grant underclaim in 1989-90; and

(ii) rather more, if Mr Ridley does not agree to allow fully in the RSG settlement spending assumption for at least £900 million drawing of special funds in 1989-90, and make full allowance for any capitalisation (particularly of loan charges) that cannot be covered by the transitional arrangements to the new capital control system.

The grant underclaim figures assume that authorities will spend in 1989-90 7½% more than they spend in 1988-89, ie the same percentage increase as in the previous year. If they spend less, the underclaim will be less, but that would be welcome. The range of figures reflects the options for provision to be discussed in E(LA); the underclaim of £250 million is consistent with the highest option 1 for provision, an underclaim of £650 million with the lowest option 4 for provision.

9. In summary, there are therefore substantial uncertainties about the Exchequer costs and savings. Only early closedown in July 1988 will place a cash limit on the amount of grant to be paid out before 1990. But option 1 looks very broadly equivalent to no closedown provided Mr Ridley agrees to make full allowance, through a lower settlement spending assumption, for the use of special funds and capitalisation in 1989-90. And option 3 should secure some savings without the cost of foregoing the grant underclaim in 1989-90.

Public expenditure

10. In public expenditure terms, option 3 looks clearly better than option 1. The marginal pressures on authorities to keep down spending in order to claim more grant would continue for another 12 months. And, crucially, authorities would set their budgets for 1989-90 in the knowledge that those pressures were still in place. It is very difficult to quantify the amount of additional public expenditure which authorities might incur in 1989-90 under option 1, if they thought they had a "window of opportunity" to spend up without grant pressures before the extra financial discipline of the Community Charge system comes into effect. But our best guess remains that additional expenditure of 1-3%, or £300-800 million covers the likely range.

24/1/337/017

PERSONAL AND CONFIDENTIAL

CHIEF SECRETARY

FROM: B H POTTER

Date: 20 June 1988

cc: Mr Anson
Mr Phillips
Mr Edwards
Mr Pellgett
cc Mr Tyrie

CLOSEDOWN OF RSG SYSTEM

DOE officials have now produced another version of the paper on options for closing down the RSG system (attached)*. The Environment Secretary is anxious to discuss the paper further with you; and, following that discussion, he wishes to write to the Prime Minister recommending one particular option.

POTTER TO CST 20 JUN

2. The option favoured by DOE officials is a closedown of the RSG system in July this year (option 1 in the attached paper). For the reasons set out in the minutes of 10 June from Mr Edwards and Mr Pellgett, we remain convinced this is not attractive. In our view the important considerations of financial and political (as well as Parliamentary) propriety mean that a closedown could only be sold in the context of a generous RSG settlement. It would also expose us to a further risk of a surge in local authority expenditure in both 1988-89 and 1989-90, because grant pressures at the margin had been removed, before the greater accountability under the Community Charge was in place.

3. Option 2 has been developed by DOE officials in an attempt to keep grant pressures in being for 1989-90: this would "cap" the grant available at settlement but, to the extent that expenditure exceeded the settlement spending assumption, local authorities would lose grant. In other respects, the option is similar to option 1. Accordingly many of the same objections of propriety apply: indeed they are worse in the sense that this is a "no reward for underspend but penalties for overspend" arrangement. Moreover the scope to switch expenditure a year

* Not to copy recipients.

forward or back from 1989-90 might in practice mean that no overspend on reported total expenditure would arise and therefore no grant penalty. We are considering a variant of this option which would work on relevant current expenditure ie public expenditure on services rather than total expenditure. It is a technical possibility: but it would require more complex legislation and it might be difficult to persuade Mr Ridley and colleagues that a new approach, which would be characterised by local authorities as a targets and penalties system, should be introduced for the last year of RSG.

4. We believe option 3 remains most promising. This would leave closedown of the RSG system till about this time next year, once local authorities budgets for 1989-90 had been reported to DOE. Closedown would then take place in the inevitably more propitious circumstances of the 1990-91 settlement. And hence the last RSG settlement would go ahead now on a conventional basis.

5. The risk, of course, is that until next July local authorities would be able to play 'creative accounting' games - with their accounts for 1987-88; their reported expenditure for 1988-89; and their budgets for 1989-90. DOE officials have helpfully tried to identify the main areas of risk and to quantify them: their latest results are at Annex A. Two points stand out: first, the scope for using special funds to increase grant entitlement in 1989-90 must be taken fully into account in the RSG settlement; second the other main areas of risk are related not just to the closedown of the RSG system but also the shift to the new capital control regime in 1990.

Capitalisation

6. The particular worry is capitalisation of revenue expenditure. Local authorities already have a grant incentive to do this: if spending on repairs and maintenance is not scored as revenue expenditure, it reduces total expenditure and increases grant. Such capitalised repairs and maintenance spending scores as non-prescribed capital spending and is usually paid for (directly or indirectly) by capital receipts. However, under the new capital

control regime, on 1 April 1990 at least 50% of all outstanding cash-backed capital receipts must be used to redeem outstanding debt. So the problem is that over the next eighteen months, councils have a very strong incentive indeed to capitalise such expenditure because:

- it will reduce total expenditure and raise grant entitlement (last chance in 1989-90);

- it will allow them to use their cash-backed receipts to finance extra spending in 1989-90, rather than allow them just to extinguish part of their debt in 1990-91.

7. DOE officials do not dispute the above analysis: it is based on their figures in Annex A. They see the grant at risk from the move to the new capital control system as an additional argument, developed since your last meeting with Mr Ridley, in favour of option 1 on closedown. On the other hand, we believe that if a way of discouraging such excessive capitalisation could be found that would considerably strengthen the attractions of option 3. For, if capitalisation and special funds were broadly taken into account and other schemes like interest swaps and factoring dealt with directly - work is in train on those - we would have gone a long way to reducing the risks of creative accounting games being played over the next year.

8. But there is an important snag. Our ideas for tackling the creative accounting abuses directly were formulated only at the weekend. Ways of taking into account the scope and likely use of capitalisation (which is not easily measured and which, to a degree, the Government has encouraged) are difficult to specify. Our best thought is that we should require councils to identify all cash-backed receipts on 31 March 1989 and 31 March 1990. The Government would make it clear that, to the extent those receipts had been run down in 1989-90 by excessive non-prescribed expenditure in any authority, it would be required to use a higher prescribed proportion of its remaining receipts to redeem outstanding debt on 1 April 1990.

9. DOE officials are hostile: it is administratively complex; it undoubtedly (if successful) makes option 3 more attractive relative to option 1; and it means revising (yet again) the capital consultation document which has just gone to the printers.

Conclusion

10. We need a few more days to work up option 3 and see whether some such measures to reduce the risks of higher grant being claimed can be made to work satisfactorily. Once that is done, we suggest you should discuss the DOE paper with Mr Ridley - probably Thursday or Friday. But it is essential to let Mr Ridley know immediately that we wish to consider an option which quite probably means delaying the capital consultation paper. That will be difficult for him - he is due to speak about it on Wednesday 29 June - and to you, because you intended to cover it on 1 July at your speech to the ADC. But there is a risk which DOE officials have only just identified, to the Exchequer from issuing the consultation paper in its present form; this would exist whether or not the RSG system was also coming to an end. And the delay should only be two days or so: and if it results in a workable option 3, I imagine Mr Ridley would agree it was worthwhile.

11. I attach a draft letter for you to send to Mr Ridley.

Barry H. Potter

BARRY H POTTER

24/1/337/018

PERSONAL AND CONFIDENTIAL

DRAFT LETTER TO THE SECRETARY OF STATE FOR THE ENVIRONMENT

CLOSEDOWN OF RSG SYSTEM

I have now seen a copy of the paper prepared by your officials setting out options for closing down the RSG system. We will need to meet very soon for a further discussion of the options.

As you know, I am not attracted to an early closedown of the RSG system next month (options 1 and 2) and would prefer to aim for closedown in the summer of 1989 (option 3). However I am very conscious that, if we pursue an approach based on option 3, that could leave the Exchequer open to a potentially large claim on grant. The annex to the paper helpfully identifies the main mechanisms and abuses through creative accounting which can be used and puts an inevitably broad-brush but nonetheless worrying figure on the maximum sums at risk.

If it were possible to act directly on these abuses, then we could be much more confident that option 3 was an acceptable way forward. Our officials take the view that the main potential risks arise not just from the end of the RSG system but from the combined

effect of that, and the change in the capital control regimes. Together they create a particularly strong incentive to capitalise expenditure; and that poses serious risks to the Exchequer. Local authorities will perceive the opportunities once the capital consultation document is issued.

I have asked my officials to pursue with yours as a matter of urgency whether some satisfactory arrangements for discouraging excessive capitalisation might be devised. On that basis, we might be able to build up and describe in more detail how option 3 would work. But I understand that the sort of arrangement for discouraging capitalisation my officials have in mind would quite probably require changes - albeit relatively minor - to the capital consultation document. I appreciate we cannot hold back for more than a few days on publishing the consultation document - we are both committed to speaking about the proposals next week. But I hope we can agree to keep open the option of a last minute change to the consultation document, until we meet at the end of the week.

[J.M]

VERSION TO BE DISCUSSED
ON 23.6.88

X4339.

1 Mr Osborn
2 PS/Secretary of State

cc Mr Tyrie

27/6

1989/90 RSG SETTLEMENT

1. Following the Secretary of State's discussions with the Chief Secretary earlier in the week I attach a note setting out the background to the problem of closing down the RSG system, and the options for dealing with it. I also attach a draft minute for our Secretary of State to send to the Prime Minister. These papers have been discussed with Treasury officials and are being put up to the Chief Secretary.

2. I have included the three options we identified. The first is essentially the option that the Secretary of State discussed with the Chief Secretary on Tuesday. It involves closing down on total expenditure information in July for all years. It is therefore simpler than the proposal we put forward last week. It addresses more directly the problem of authorities manipulating expenditure to increase grant claims. But it would not prevent authorities from challenging aspects other than total expenditure in the Settlement the Supplementary Reports. Nor would it stop us from introducing further Supplementary Reports should we find errors in any of the forthcoming Reports.

88/89 RSG SETTLEMENT VERSION DISCUSSED 23 JUNE

3. The second option is the one whereby we set a maximum amount of grant that can be claimed in 1989/90 but close down on earlier years as under the first option.

16

4. And, finally, the third option is to delay closing down until 1989.

5. I have tried to assess the potential risk of our exposure to manipulations of total expenditure. As we anticipated, it is not possible to produce any firm figures. But I have put together in an Annex to the paper those numbers that I have been able to identify. I should stress that these are the scale of the risk. They are not an assessment of the likely level of manipulation.

6. I have consulted our lawyers on the three options. Their view is that the first option to close down simply on total expenditure information would be relatively easy to draft. The second option would involve a more fundamental change to the grant system and would therefore be more difficult. But option two should still be possible.

7. Treasury officials have also identified a variant to Option 2 whereby we would determine grant entitlements on the basis of current expenditure rather than total expenditure. Our view is that we could not resolve the difficulties with this approval and pass the legislation in time for the 1989/90 Settlememt.

8. My view is that Option 1 is preferable to the other options. Option 2 would be much more difficult to sell to the backbenchers and given the scope for manipulation of expenditure I doubt that it would be more effective than Option 1 at restraining expenditure. Option 3 is simply too high risk.

9. The Secretary of State may wish to discuss.

D L H ROBERTS
FLGR
17 June 1988

cc. PS/Mr Howard
PS/Permanent Secretary
Mr Brearley
Mrs Phillips
Mr D Roberts
Mr J Roberts
Mr Serjeant
Mr Rowsell
Mr Whaley
Mrs Ramsey
Mr Chope

1989/90 RSG SETTLEMENT

1. The 1989/90 RSG Settlement is the last under the present system prior to the introduction to the community charge in 1990. The central feature of the present system is that a local authority's grant entitlement varies with its expenditure. For almost all authorities higher expenditure means lower grant. From 1990 onwards, however, grant entitlement will be fixed at the beginning of the year and will not vary with expenditure.

But in 1990 there will be strong downward pressure on expenditure since all additional expenditure will fall to be met by community chargepayers whereas under the present arrangements it is met by both domestic and non domestic ratepayers.

2. The change to the new grant arrangements gives local authorities an opportunity to reduce reported expenditure in the last years of the present system and thereby increase grant entitlements. In 1990 the capital control system will also be revised. This too will provide incentives to local authorities to manipulate total expenditure to increase grant. Some reductions in expenditure will be genuine and rightly should lead to higher grant receipts. Others will be bookkeeping adjustments - such as use of special funds - that we have accepted over the years should reasonably lead to additional grant. But some adjustments will be more dubious simply taking advantage of this unique opportunity to increase grant.

3. Recent experience suggests that there is considerable scope for achieving reductions in reported expenditure through such accounting arrangements. The effect of some such manipulations would be to increase the total grant claim on the Exchequer without having achieved the real reductions in expenditure that would make such increases in grant acceptable. This note considers the risks of such higher grant claims and discusses options for reducing the risks to the Exchequer.

ASSESSMENT OF THE RISK

4. Since 1987/88 the amount of RSG available to local authorities has been open ended although the expectation has been that the actual claim would be lower than allowed for in the RSG Settlements. In practice local authorities have indeed spent higher than allowed for in the RSG Settlement and have forfeited grant. On present information in 1987/88 authorities overspent by £811m and consequently lost £298m grant. In 1988/89 authorities have budgeted to spend £1035m more than allowed for in the settlement and the grant claim is £521m lower.

5. In the normal cycle of events we would update our information on actual expenditure and revise grant claims accordingly. Final calculations of grant would not be made until at least two years after the end of the relevant financial year.

6. The particular risk to the Exchequer arises now because of the potential local authorities to use various accounting adjustments either to reduce reported total expenditure or to switch reported total expenditure from years in which it would reduce their grant entitlements to years where it has no impact on grant.

7. Throughout the 1980s local authorities have used various devices for reducing reported total expenditure in order to maximise grant. Common methods have been thorough use of special funds, and classifying expenditure on repairs and renewals as capital rather than revenue. Many rate capped authorities have indulged in a much wider range of creative accounting arrangements.

8. We already know that many local authorities are actively considering how best to take advantage of the forthcoming opportunity; and we know that experts in the City are working up schemes to sell to local authorities. Amongst the arrangements being considered are factoring - which involves "selling" future expected capital receipts - use of special funds, capitalising revenue expenditure, and reducing repayments of outstanding debt from revenue.

9. We can anticipate the use of some of these schemes and take account of them in fixing our assumptions for the 1989/90 Settlement. In particular we

can allow for use of special funds to reduce expenditure in 1989/90 (though we cannot now allow for further use in earlier years as local authorities have rated on the basis of the Settlement arrangements approved by Parliament. We may also be able to prevent some abuses - such as factoring - using existing powers. But we cannot allow for other dubious accounting practices in the 1989/90 Settlement without effectively condoning them and thereby encouraging authorities to indulge them.

10. We cannot quantify precisely the extent to which the Exchequer may be at risk. We estimate that in recent years rate capped authorities have understated true expenditure by around 12%. If all authorities were to understate expenditure to this extent the grant claim would rise by around £1700m in 1989/90. This certainly exaggerates greatly the extent to which grant might be manipulated. But we can expect considerable manipulation even from authorities that would normally avoid such arrangements. In particular we can expect a herd instinct to develop as it becomes clear that many authorities are manipulating the system particularly as these accounting arrangements are all within the law. Moreover the proposed changes to the capital control system, which require at least half of cash-backed capital receipts to be applied to redemption of debt in 1990, will encourage local authorities to make maximum use of capital receipts to reduce revenue expenditure in the years up to 1989/90. The risk to the Exchequer is at least £350m in respect of 1987/88 and 1988/89. For 1989/90 an expected grant underclaim of several hundred million pounds could easily become a grant overclaim. Annex A sets out the available information on the scope for manipulation.

11. The ammounts at risk are so large that it is almost inevitable that steps will have to be taken to reduce the exposure of the Exchequer. This inevitably means further legislation either to pre-empt the danger or in response to some of the more dubious accounting arrangements. The following sections consider what action might be taken to reduce the risk to the Exchequer.

12. In considering what might be done we have taken account of the situation regarding determination of grant for the forthcoming year in the next RSG Settlement, the present year (1988/89) and, past years. Grant

entitlements for 1988/89 and all outstanding earlier years are due to be revised in Supplementary Reports later this year. These reports will take account of outturn expenditure for 1985/86 and 1986/87, of revised budgets for 1987/88 and budgets for 1988/89. Full sets of expenditure data for these Supplementary Reports are being put together now. This therefore provides a good opportunity for changing the present system to reduce the risk to the Exchequer. The next such opportunity when we will have full sets of expenditure data for all outstanding years is July 1989.

OPTIONS FOR REDUCING RISK TO EXCHEQUER

13. We have identified three options for reducing the opportunities to manipulate the system to increase grant claims. The first two require legislation in the next session to change the basis on which grant will be distributed in 1989/90, and to limit grant claims in respect of earlier years. The third option is to delay action until summer 1989 and then legislate to close down the present system.

OPTION 1 : Immediate closedown of the present RSG system

14. The main features of this proposal are:-

(a) grant entitlements for 1989/90 would be fixed in the forthcoming settlement and would not be linked to actual expenditure. This means that there would be no grant underclaim as in 1987/88 and 1988/89, but nor would there be any risk for grant overclaim.

(b) Final grant entitlements for 1988/89 and all outstanding earlier years would be determined on the basis of reported expenditure available on the date of the announcement in July of this year. These grant changes would be made through supplementary reports at around the end of this year; these would be the last reports under the present system.

15. Fixing grant in this way would remove the risks to the Exchequer on the grant side. But it would also reduce pressure on local authority expenditure

since higher expenditure would no longer lead to lower grant. We do not know what effect there would be on expenditure in this transitional period before the discipline of the community charge system is introduced. But evey 1% increase in expenditure is equivalent to £300m. Account would have to be taken of such grant and expenditure implications when determining the 1989/90 RSG Settlement.

16. If this option is pursued an early announcement is desirable to minimise both the risk to the Exchequer and the possibility of authorities getting wind of the proposal and adjusting the accounts before we act. A simple short Money Bill would be required in the autumn to achieve Royal assent by March in order to pay grant in 1989/90 on the correct basis. Apart from this the 1989/90 Settlement and the series of supplementary reports planned for the autumn would proceed as planned other than that no account would be taken of expenditure data reported to us after the date of announcement.

OPTION 2 : Removing the opportunity for authorities to gain grant from reducing expenditure

17 This option is similar to the previous option but retains grant penalties for increased expenditure in 1989/90. The main features are : -

a) for 1989/90 the RSG Settlement would set a maximum grant entitlement for 1989/90 equivalent to the grant entitlement determined in Option 1. Unlike Option 1, however, increases in expenditure would lead to reductions in grant entitlements. The maximum grant claim in respect of 1989/90 would therefore be the sum determined in the forthcoming Settlement.

b) grant claims in respect of all earlier years would be determined as in Option 1 i.e. they would be calculated on the basis of information on expenditure at the time of the announcement.

18. As with Option 1 the maximum amount of grant to be paid in respect of all years would be determined at the time of the announcement. But with this

option there would be a grant incentive to authorities to restrain expenditure. The legislation to effect this would, however, be more complex than with Option 1. And, unlike Option 1, subsequent steps would have to be taken to closedown on grant claims early to avoid running the present system until at least 1992.

19. Ideally the expenditure pressure imposed by this option would be on underlying current expenditure rather than total expenditure which is more susceptible to manipulation. However, this would require very considerable legislative changes and it is doubtful that these could be introduced in time for the 1989/90 RSG Settlement. We are investigating this further.

OPTION 3 : Delay closing down until 1989

20. With this option we would run the system for another year and announce the revised arrangements in July 1989. At that time we would have information on expenditure for all outstanding years under the present system. The legislation at that time would therefore simply state that for the purposes of calculating grant entitlements no account would be taken of later information on expenditure in respect of any years.

21. The risk here is that much of the potential undesirable manipulation of expenditure will have already taken place. We would then either have to accept the grant consequences for the Exchequer or make the legislation retrospective to allow us to ignore information available to us. Aside from the normal undesirability of retrospective legislation this would pose particular difficulties in that local authorities would have rated on the basis of an expectation of receiving grant entitlements due under the RSG Settlement. It would be a very serious step to go back on such undertakings.

22. There is some prospect that authorities might delay manipulating expenditure until after details of the transitional arrangements to the community charge system have been announced. But there must be a serious risk that many authorities will act well before July 1989 to maximise grant.

ASSESSMENT OF OPTIONS

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23. The first option provides the greater certainty on grant as Treasury would know exactly how much grant has to be paid out under the present system in July. The change could be presented as an orderly transition to the new system where grant will also be fixed in the Settlement. By acting swiftly we minimise the risk to the Exchequer. Local authorities would also know precisely how much grant they would be entitled to and can concentrate on setting up the new system rather than expending energy trying to manipulate the present system.

24. The main disadvantage of the first option is that there would be less downward pressure on expenditure following the July announcement which may lead to higher local authority expenditure in the period up to March 1990. We cannot predict how much expenditure might rise. Some authorities will probably take the opportunity to spend more. But as expenditure has been rising in recent years there is no pent up pressure to suggest that it will rise substantially. Nevertheless every 1% rise means £300m additional expenditure.

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24. Option 2 would put greater pressure on expenditure in the last year of the present system. But a harsher grant penalty system with no rewards for lower spending would be much more difficult to sell to our supporters. Nor could we claim that with this option there would be no grant underclaim so it would not be such a smooth transition to the future fixed grant system. It is also questionable how effective it would in practice be in restraining expenditure. This depends in part on the 1989/90 Settlement. But introducing fixed grant for 1989/90 and having a fixed grant system in 1990/91 would introduce very considerable scope for artificially reducing expenditure in the middle year. Consequently both the total grant claim and expenditure may be very similar as under Option 1. In practice therefore Option 2 may in effect be very similar to Option 1 but would be presentationaly worse involve more complex legislation and require a second go to close down the system for 1989/90. An option based on current expenditure may be more effective but legislation would be very complex and we may not be able to deliver it in time for the 1989/90 Settlement.

25. Option 3 has the advantage that pressures to restrain expenditure are retained in 1989/90 at least until authorities have set their budgets. But we run the risk that by the time we come to close down the system next summer the

CONFIDENTIAL

Exchequer will already have had to pay out higher grant claims arising from creative accounting.

PUBLIC PRESENTATION

26. Any option for early closedown of the RSG system will inevitably result in a good deal of complaint from local authorities. They will claim that central government has withheld grant on the basis of high budget figures but not giving them credit for reductions in expenditure. And of course they will complain that once again the goal posts are being moved.

27. Our justification for making the change under the first option would be that it is necessary to do so to avoid high grant claims arising from dubious accounting practices : that it is necessary to achieve a smooth transition to the new system; that it provides local authorities with certainty over grant entitlements: and that it avoids a grant underclaim in 1989/90. This option therefore has advantages and disadvantages for local authorities.

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28. With the second option the presentation would have to be much more in terms of being necessary to deliver the Government's public expenditure objectives, and to counter dubious accounting arrangements. It would neither provide certainty over grant nor avoid a grant underclaim. There would be no advantages for local authorities.

29. Presentation under the third Option would need more consideration next summer but would be justified more in terms of providing an orderly closedown to the present system.

ANNEX A

Scope for Manipulating Total Expenditure

Special Funds : £1.1bn of special funds available at April 1989. Use of up to £900m could be allowed for in 1989/90 settlement. Remaining £200m could be used in earlier years to increase grant claims by around £200m

Capitalisation of repairs and renewals:
LAs have around £7bn of cash backed capital receipts that could be used to finance reparis and renewals. In practice the scope is much lower as around £5bn receipts are held by shire districts. But as much as £1bn might be used to reduce total expenditure thereby increasing grant claims by £500m.

Factoring : This scheme is specifically designed to reduce total expenditure and increase grant. It involves "selling future capital future receipts" for a lump sum which is then invested. The resultant interest receipts count as a reduction to total expenditure and hence increase grant. The future capital receipts are "repurchased" post March 1990. One London borough is already planning to increase RSG entitlements by £½m in both 1988/89 and 1989/90 through this arrangement. The total RSG at risk in 1989/90 might be over £100m. Consideration is being given to ways of stopping this abuse of the system.

Capitalisation of debt servicing :
LAs could reduce repayments of outstanding debt from the revenue account by substituting repayment through capital receipts. At risk here is around £700m of expenditure and hence around £350m of grant, though in practice the amount involved is likely to be smaller.

Short term delaying of expenditure :
There is scope for authorities to holdback expenditure from the early part of 1990 and have a surge of expenditure in April 1990. We have seen evidence of this when targets and holdback were abolished in 1986. Perhaps 2% of expenditure might be so delayed. This would increase grant claims by around £300m.

Interest rate swaps :

This involves swapping a low interest loan for a higher interest loan with an outside body for an up front premium. This premium is then invested and the interest receipts used to reduce total expenditure. Although the amounts swapped are large the effect on total expenditure is relatively small.

Other schemes :We know of a number of other schemes for reducing total expenditure but these all appear to be relatively small scale. It is possible however tht new large scale schemes may be devised.

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DRAFT MINUTE FROM THE SECRETARY OF STATE FOR THE ENVIROMENT
TO THE PRIME MINISTER

1989/90 RSG SETTLEMENT

We have identified a potentially serious risk that in the last years of running the present RSG system local authorities could manipulate the system to attract large additional sums of grant from the Exchequer. The risk arises because block grant is open-ended and the amount payable depends on an authority's reported total expenditure. If authorities manipulate their accounts to reduce reported expenditure the grant claim on the Exchequer increases.

We cannot accurately predict the extent to which authorities might so manipulate expenditure but experience of recent years suggests that the risk to the Exchequer could run to 100s of millions of pounds.

To an extent we can allow for this potential claim on the Exchequer in the forthcoming RSG Settlement for 1989/90. But only by allowing for an unrealistically low increase in local authority expenditure, or by a substantial reduction in the grant percentage. Neither of these would be easy to sell to our supporters. The former may be subject to successful judicial review and might also implicitly condone dubious accounting practices. A much reduced grant percentage would be read as implying that having passed the community charge legislation we are prepared to push up community charges to a much higher level than has so far been suggested.

I have therefore considered with the Chief Secretary other options for reducing the risks to the Exchequer. One that has some merit is to act early to remove the present open-ended committment on grant and to close down the present system in an orderly way before we introduce the new grant system in 1990. If we do not act to close down the system early it will continue to operate until spring 1992.

There are a number of ways of closing down the system early. The one I favour would be to make an early announcement - in July - that grant entitlements for 1989/90 would be fixed in the RSG Settlement and would not vary with an authority's expenditure. At the same time, to avoid manipalution of grant in earlier years, we would make final determinations of grant entitlements for all outstanding years including 1988/89 taking account only such information on expenditure available to us at the time of the announcement.

This option has the advantage of minimising the time at which the Exchequer is at risk to higher grant claims. But by abolishing grant penalties it reduces the pressure on authorities to restrain expenditure before 1990. The alternative is to wait until next summer before closedown. But by then much of the grant at risk may have already have been claimed. I have also considered an option of changing the grant system for 1989/90 so that authorities would still lose grant if they spend up but would not gain additional grant if they reduced expenditure. I do not believe, however, that we could sell this to our supporters. Details of the options with the assessment of advantages and disadvantages are set out in the attached paper.

My prefered option requires an additional Bill next session. This is regretable. But primary legislation will be necessary at some stage if we are to close down the present system before 1992. And if we continue with the present system further legislation may be necessary to closedown new dubious accounting practices that may come to light.

In we are to act on this we must do so quickly. This will reduce the chance of local authorities getting wind of our proposal and acting to circumvent it. And we must know the basis on which grant will be paid in 1989/90 before we can reach any conclusions on the 1989/90 RSG Settlement.

[I would welcome an opportunity to talk this through with you and others].

I am copying this letter and enclosure only to Nigel Lawson, Cecil Parkinson, John Major, John Wakeham and Sir Robin Butler.

BF 24/6

CONFIDENTIAL

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

CHIEF SECRETARY
REC. 23 JUN 1988
Mr Potter
Ch
Mr Hudson Mr Edwards
Mr Fellgett
Mr Call
cc Mr Tyrie

The Rt Hon John Major MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1P 3AG

23 June 1988

Dear John

I have received your letter of 22 June about the consultation paper on local authority capital expenditure and finance. The consultation paper had been the subject of extensive discussions by officials and by E(LF) and the version sent to the printer on 20 June had been cleared by your officials and incorporated amendments to meet the points in your letter of 17 June.

The issues which you have identified are not new. Local authorities have been free throughout the present system to use capital receipts to finance repairs and maintenance which would otherwise be carried out over time and charged to revenue account. This practice has had a fair measure of encouragement from Ministers. We have frequently drawn attention to it when responding to criticisms from our supporters about restrictions on the use of capital receipts, and we allow for it when deciding what level of capital allocations would be consistent with the cash limit for local authority capital expenditure. Your officials have long since been involved in discussion about the estimate to be made for 1989-90. The new capital control system proposed in the consultation paper has likewise always included the proposition that a proportion of capital receipts should be applied to debt redemption.

You mention what you describe as estimates by my officials of the amount of cashbacked receipts which might be applied to the capitalisation of repairs and maintenance and of the use of receipts as a substitute for revenue account contributions to debt repayments. There has clearly been some misunderstanding as to the nature of these figures. Neither was an estimate or forecast of additional expenditure that would be financed by these means. They were assessments of upper or outer bounds within which (and probably far within which) the reported total expenditure subject to reclassifications would necessarily be constrained. They were not estimates of what would necessarily occur nor of levels of actual additional expenditure. Moreover, they relate to the three open-ended grant years 1987-88 to

CONFIDENTIAL

1989-90. The £700m which you mention appears on reflection not to be an indication of the scope for reducing debt repayments from revenue. It assumed that authorities could use capital receipts in lieu of such repayments. But this is not possible under present legislation. £50m to £100m per annum at most would be a more realistic estimate of the scope for reducing total expenditure by adjustment of loan repayment profiles. In any event, it would be perverse to penalise authorities for repaying debt from capital receipts when that is what we propose to require them to do in the new system. The figure of £1 billion on capitalisation was likewise an upper limit of the bookkeeping adjustments that might be possible over the 3 year period. The actual sum could be less. But this would not be additional expenditure but simply a post hoc reclassification of expenditure in the revenue account to capital.

We do have a precedent. In 1986-87, local authorities in general faced for the first time negative marginal grant rates. At the same time, they had been presented with our previous proposals for a new capital control system, which envisaged restrictions on the future spending of receipts in some ways harsher than those we now propose. The effect on capitalisation appears to have been less than £100m.

Your officials have explained to mine what they had in mind by way of changes to the transitional arrangements set out in the consultation paper. My officials are not persuaded that the changes would be feasible. The financing of capital programmes is settled on an annual basis after the event rather than day to day as expenditure is incurred. (This issue was, as your officials will know, once exhaustively explored in the context of proposals that the prescribed proportion should be changed in mid-year.) Thus, because we are well into 1988-89 and because the relevant accounts for 1987-88 are still open, the changes would have to be retrospective for 15 months if they were to be fully effective. Nor would we have the data necessary to enforce them.

There is, however, a larger objection to the changes proposed by your officials. Because they would take immediate effect, and because of the penalties that capitalisation would be liable to attract, they would have to be specifically drawn to the attention of local authorities when the consultation paper was published. They would be perceived by our supporters, particularly in the Shires, as a further attack by the Government on the ability of local authorities to use their capital receipts under the present system. We would be seen as going back on what we have said about their freedom to use receipts to pay for repairs. This would create the worst possible climate in which to conduct the consultation on the new capital control system which otherwise offers the prospect of removing many of the difficulties which we have faced in recent years over local authority capital expenditure.

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I do not think that it would be right to use the new capital control system as a means of offsetting the effect of capitalisation of repairs and maintenance (or other revenue expenditure) on local authorities' entitlements to revenue support grant. You and I are considering separately options that would address this issue on a wider front.

I propose that we should proceed as follows.

For the reasons already set out, it would be wrong to delay or amend the consultation paper. It is still possible for it to issue on Tuesday, and it should be published then.

We then need to consider 1988-89 and 1989-90 separately.

In 1987-88, it is clear that there was a substantial underspend on the cash limit. That was attributable to a surge in housing receipts and led to criticism of the Government from those concerned with homelessness. Right-to-buy applications continue to be buoyant and the assumptions underlying the 1988-89 cash-limit already appear pessimistic. (This was drawn to the attention of your officials in connection with my announcement last week of the second tranche of EYF allocations.) We are already forecasting an underspend for the current year of £230m. As the cash-limit applies to net expenditure, I see no reason to be concerned by any increase in capitalisation of up to that amount.

For 1989-90, our officials have already adopted a provisional assumption about the level of non-prescribed expenditure. That assumption was made in light of both the proposals for the new capital control system and the effects of the present RSG system. It stands to be reviewed during the remainder of the Survey in light not only of any later information about historic levels of capitalisation but also of the response to the consultation paper and of our decisions (when reached and announced) about close-down, on which it is within our power to remove the RSG incentive to capitalisation.

We have in reserve for 1989-90 the possibility of amending the general consent for the use of capital receipts to finance repairs and maintenance within specific Ministerial control. (This again is something that would have to be done in relation to a whole year.) This would, however, be a significant and controversial step, which might well be as badly received as the measures which we had to take on 9 March this year. I do not think that we should commit ourselves to such a step now.

I am sending a copy of this letter to the Prime Minister.

Yours ever

Nicholas

NICHOLAS RIDLEY

027/4212

→ AP8/Chancellor

SECRET AND PERSONAL

DRAFT

NSR yet cleared but gives the main points.

COPY NO OF COPIES

Jin 24/6

Treasury Chambers, Parliament Street, SW1P 3AG

cc R Tyrie

Roger Bright Esq
Private Secretary to the
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
London
SW1

23 June 1988

RATE SUPPORT GRANT/CAPITAL CONTROLS

Your Secretary of State had a meeting yesterday evening with the Chief Secretary to discuss closing down the RSG system and the issues on local authority capital expenditure raised in the Chief Secretary's letter of 22 June. Also present were Messrs Osborn, Parker and Roberts from the Department of the Environment and Messrs Edwards, Potter and Fellgett from the Treasury.

Your Secretary of State said that he thought the issue was quite simple. Unless there were early closedown, local authorities could find two routes to maximise their grant entitlement - first by drawing down their balances in special funds and secondly by capitalising repairs and hence avoiding revenue expenditure. The way to stop that grant maximisation was to closedown the system quickly. Trying to act on spending rather than grant would require draconian measures. He drew a distinction between preventing local authorities from milking the Exchequer through over-claiming grant which he regarded as something that needed to tackled and stopping local authorities using what were after all their own resources to finance expenditure. Only the former put the Exchequer at risk and he concluded that the way to avoid that was to closedown the RSG system early.

The Chief Secretary noted that this would require legislative cover. Your Secretary of State said that applied whever the system was closed down. He believed that the risk of a spending spree in the last year could be avoided by giving less grant in the final RSG settlement than would otherwise be provided. The size of the rates hike necessary to finance additional spending would thus provide disincentive to high spending.

The advantages of early closedown as he saw it was that it prevented local authorities manipulating grant in the future and since the system would have to be closed down at some juncture it was better to act sooner rather than later. Mr Roberts pointed out that this was a rare window of opportunity because there were no court cases outstanding. It might not be possible to closedown the system in July next year but DOE could be certain they could do it this year. He added that DOE simply did not know the scope for exploiting sytem through creative accounting and the route of early closedown avoided the need for piecemeal measures to stop up the system.

The Chief Secretary said that he saw some some disadvantages in early closedown. It would remove the discipline on spending that the negative marginal rates of grant provided. He was also concerned about the likely developments on use of capital receipts once local authorities had seen that from April 1990 they would be expected to use 50 per cent of non-housing receipts and 75 per cent of their housing receipts to redeem debt. He believed that would give them a substantial incentive to accelerate spending. Mr Parker queried this. He noted the bulk of these receipts lay with the Shire Districts and there was limited amount of extra expenditure on repairs that they could actually undertake. He pointed out the existing system already gave local authorities an incentive to capitalise revenue expenditure. He thought that additional spending could be of the order of £200 million. He cited the example of the change in 1986-87 when the Green Paper on local government finance had been publised foreshadowing a much more draconian control over receipts. There had not been a surge in capitalisation then. Mr Potter doubted whether this was a valid precedent. The consultation paper had been rapidly withdrawn and there had been no immediate intention to legislate. Moreover the size of the accumulated mountain of cash-backed receipts was now much larger.

Mr Potter thought that if action could be taken to limit the use of receipts that tilted the balance of preference strongly towards closedown in July next year. Your Secretary of State doubted both the practicality and political wisdom of taking action to limit local authorities use of receipts. He believed that it was essential to make first a decision on closedown and then see what consequent action was required. Mr Potter stressed that he was not suggesting a complete moratorium on the use of receipts for non-prescribed spending. Rather he was proposing preventing excessive use of receipts. Mr Parker said it was impossible to do this for part of a year. It would however be possible to replace the Secretary of State's general consent for the use of receipts for non-prescribed expenditure with specific consents for a whole year. But that would inevitably create a major row. Your Secretary of State said he did not believe it would justified. The money was only available for use on repairs. He thought that it would be better to take account of additional non-prescribed expenditure when

setting the amount available for capital allocations with the Survey. The Chief Secretary pointed out that was not without problem itself. Mr Parker again reiterated the view that the likely use to boost repairs would be limited. Local authorities did not even use all the spending power arising from receipts now. Moreover, their auditors would have to accept that the use was legitimate. The Chief Secretary pointed out that the brick wall of April 1990 was likely to induce behavioural differences.

Your Secretary of State said he doubted that it would be possible to limit the use of receipts in the way the Treasury were suggesting. If the limitation were applied to restrain the use to the same level as in 1988-89 local authorities would suddenly discover a huge number of repairs in the pipeline. The DOE lacked the necessary information to implement the restraint proposed. It would cause similar problems to those caused by the 9 March announcement on barter. The Chief Secretary noted that this concern appeared inconsistent with the line the DOE were taking on the limited potential for use of receipts in 1989-90.

After further discussion, it was agreed that the capital consultation document should be held up until there were agreement on how to proceed on closedown and what further measures might be necessary in the light of those decisions. Your Secretary of State believed that if the late closedown option were chosen it might be necessary to take preventative measures on capital though with early close down he doubted that such measures were needed. It was agreed that officials should produce a paper assessing the advantages and disadvantages of options (i) and (iii) option (ii) could be excluded from present discussions though it could be retabled if necessary). The paper should also cover the issues on capital expenditure. The E(LA) discussion on Wednesday should not proceed. The aim would be to put the paper to the Prime Minister next week with a view to taking decisions.

JILL RUTTER

CONFIDENTIAL

24/6/88

Mr Tellgett
Mr Call
Mr Potter
cc Sir Peter Middleton
Mr Anson Mr H Phillips
Mr Edwards Mr Turnbull
early papers please

Prime Minister

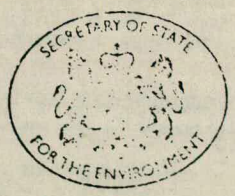
DUAL RUNNING OF DOMESTIC RATES AND THE COMMUNITY CHARGE IN LONDON

You will recall that for 9 inner London boroughs and the City of London, an element of domestic rating is to be retained until 1994 as part of our proposals for phasing in the community charge.

This is very much a residual proposal. We have moved successively from our intention of applying dual running to all local authorities to a position where it was to apply only to the inner London boroughs and Waltham Forest. Then at Commons Report Stage, we announced that Wandsworth, Westminster and Kensington together with Waltham Forest would also be excluded. Very late in the day the London Boroughs Association, the City of London and the Association of London Authorities have made unanimous recommendations to us that we should now decide to move direct to the community charge everywhere and do away with domestic rates completely on 1 April 1990.

All 3 associations made common cause and put Simon Glenarthur under considerable pressure in defending the Government's case when this matter was considered in the Committee Stage in the House of Lords. Although we won the vote on that occasion, I am sure we lost the argument and we know that the matter will be returned to at the Report Stage.

Dual running has never been an end in itself but a means to an end. We have argued throughout that its purpose is to protect community charge payers from excessive levels of community charge in the early years of the system. But dual running is only a subsidiary part of the transitional arrangements. By far the more significant is the safety net which will ensure that in 1990 the level of the community charge is broadly the same as the previous year's rates bill per adult in real terms. The result of this is



that far from the dual running boroughs being those who would otherwise have the highest community charges, many authorities not affected by dual running will have higher ones. For example, 84 authorities outside dual running will have a higher first year community charge than Hammersmith and Fulham, 74 would be higher than Southwark and 66 higher than Lambeth, all of which are in dual running.

The fact is that while the criteria for selection for dual running identifies those authorities with the greatest degree of overspending, which will ultimately lead to the highest community charges, those charges will only come through fully in 1994 when both dual running and the safety net arrangements have been phased out (providing spending has not been reduced in the meantime).

Dual running therefore offers little practical protection to charge payers.

Michael Howard has had a number of discussions with colleagues from the boroughs concerned about how they view dual running. While there is not unanimity on this matter, I believe there is now a sufficient consensus which would support making a clean break with domestic rates. The argument which has been most persuasive with them has been the damage to accountability which is done by dual running. They are particularly concerned by the way dual running will operate in practice. The authorities concerned will be sending out both community charge and rate bills. Householders, will of course receive both. Now that all ratepayers are having to make at least some contribution towards their rate bill the numbers affected by rates are greatly increased and they will receive two bills under dual running.

I think there had previously been some confusion about what was intended. Some at least of our colleagues believed that it would be possible for householders to reconcile their 2 new bills with

their one previous rates bill. This will not be the case. In practice, the domestic rate poundage will be reduced in the first year by a proportion equivalent to the proceeds of £100 per head of population, say 30% typically. The rates bill of each individual household will then be reduced by 30%. The amount of the reduction will therefore depend on the rateable value of the house and will generally bear no relationship to the amount of community charge being paid by that household.

I should perhaps mention the risk that the boroughs concerned could contrive to send out only one of the 2 bills before the borough elections in May of 1990 on grounds which they will argue plausibly are to do with administrative difficulties of implementing the 2 separate charges. They will thus be able to hide the impact of their spending decisions from the electorate.

It is on the grounds of obscured accountability, I think, that a majority of our colleagues now see a balance of advantage in going for a simpler system in 1990.

I should also say, however, that there are strong grounds for believing that the particular boroughs concerned - with the exception of the City of London - are among the least well qualified to operate such a complex dual system satisfactorily.

There is no doubt that running an additional charge at the same time as introducing the community charge will impose considerable extra burdens. It was the concerns of Wandsworth, Westminster and Kensington on this score which prompted us to agree to remove them from the scope of the provisions. My officials have explored in some detail with the local authorities concerned the seriousness of these difficulties. Their advice to me is that while dual running could have been made to work on a national basis, its restriction to a very few authorities makes its application there even more difficult.

Because there is such a small market, there is evidence that the boroughs concerned will not be able to get the computer software suppliers to write the special applications they will need for billing and collection with 2 taxes, nor would they easily get them to write the programmes for the special rebate system which will have to apply in these areas only. There is also considerable evidence that the boroughs concerned are already having difficulty in recruiting and retaining the key staff they will need to run the community charge. The fact that they will be expected to run a more complex system which has a life of only 4 years will make it less likely that these authorities will be able to compete for their staff against either the private sector or the local authorities in outer London and the home counties.

Inadequate staffing will lead to further deterioration in the already unacceptable arrears position on rates. The fact that at both the beginning and the end of the dual running period large numbers of small amounts will have to be collected, first in community charges, then in domestic rates, will further exacerbate this position. The authorities concerned will be able to blame all their administrative difficulties on what they will describe as this unique burden imposed upon them by the Government.

The offer we have made of a specific grant to cover the costs of dual running is unlikely to do anything to overcome these basic administrative issues. I am sure that there are better uses for the £14 million a year which we estimate this would cost.

Finally, we have to remember that we are looking to these authorities to carry out other far more significant policy initiatives at around the same time. In 1990 I shall be looking to them to implement the community charge satisfactorily; to carry forward the reforms in the current housing bill and to be developing competitive tendering. Kenneth Baker will of course be expecting them to take on education authority responsibilities as

well as implementing the substantial reforms in the Education Reform Bill itself. All this has to take place against a background of tight financial constraints - often through rate capping - which themselves are no doubt placing considerable strains on an inadequate management base.

Taken together, these arguments make a compelling case for deciding to drop dual running altogether. The only remaining concern must be whether in doing so we would lose any influence over the authority's spending and community charge levels. In my view we would not. By clarifying local accountability and bringing all local voters into the community charge at a realistic level, we will get the early benefits of the new accountability pressures. At the same time, we will avoid creating an artificially advantageous position for these boroughs compared to neighbouring authorities not affected by dual running and we will avoid confusing and annoying a large number of householders who would otherwise receive 2 bills which the boroughs could clearly establish were a direct result of the Government's policy.

In the final resort, if community charges were to move ahead, driven by high levels of spending in these areas, then we will have the charge capping powers which we have taken for just such an eventuality.

By way of background I attach some figures showing the community charge position in inner London with and without dual running.

I am now convinced that the dual running provisions cannot overcome the problems that are inherent in the high projected levels of community charge in some areas of London. They will not give Conservative candidates in the 1990 elections a sound platform from which to attack the Labour councils, they will create confusion rather than clarity. They will cost a considerable amount of money and they may prejudice the

successful implementation of other policies to which we must attach greater priority. On all these grounds, therefore, I invite colleagues to agree that we should agree to delete the relevant provisions from the Local Government Finance Bill. Time is now short and if we are to do so we will need to table the necessary amendments on Thursday of next week. I should be grateful for replies by close of play on Wednesday 29 June, therefore.

I am copying this to members of E(LF), to the Lord Privy Seal, to the Chief Whips in Commons and Lords and to Sir Robin Butler.

pp N R
24. June 1988

(approved by the Secretary of State and signed in his absence)

DATE: 27- JAN-88

WITH DUAL RUNNING

ILLUSTRATIVE IMPACT OF LOCAL GOVERNMENT FINANCE BILL
(Based on 1988/89 local authority expenditure returns)

Community charge for standing at assessed level of need - £ 202
National non-domestic rate poundage - 239.5p

	DOMESTIC SECTOR				BUSINESS RATES
	Average rate bill per hhold Col 1	Overspending in each area Col 2	Full community charge Col 3	First year safety netted CC Col 4	Change to national poundage Col 5
GREATER LONDON					
City of London	£ 688	£ 9,009	£ 476	£ 100	47.0%
Camden	£ 790	£ 437	£ 639	£ 100	4.1%
Greenwich	£ 513	£ 337	£ 589	£ 100	-3.9%
Hackney	£ 623	£ 376	£ 578	£ 100	-3.4%
Hammersmith and Fulham	£ 457	£ 271	£ 473	£ 100	-2.6%
Islington	£ 597	£ 278	£ 480	£ 100	18.1%
Kensington and Chelsea	£ 582	£ 138	£ 340	£ 384	104.0%
Lambeth	£ 474	£ 288	£ 490	£ 100	16.6%
Lewisham	£ 575	£ 375	£ 577	£ 100	-2.2%
Southwark	£ 452	£ 313	£ 515	£ 100	11.8%
Tower Hamlets	£ 558	£ 414	£ 616	£ 100	1.3%
Wandsworth	£ 370	£ 195	£ 397	£ 205	60.4%
Westminster	£ 793	£ 171	£ 373	£ 448	45.9%

Overspending by the Inner London Education Authority adds £218 to the full community charge in Inner London
Where first year community charge = £100, residual domestic rates also payable: see table below

Barking and Dagenham	£ 429	£ 35	£ 237	£ 228	13.0%
Barnet	£ 673	£ 28	£ 230	£ 305	15.1%
Bexley	£ 384	£-12	£ 190	£ 191	20.4%
Brent	£ 720	£ 105	£ 307	£ 348	-14.3%
Bromley	£ 438	£-23	£ 179	£ 222	39.7%
Croydon	£ 513	£-5	£ 197	£ 258	43.0%
Ealing	£ 528	£ 32	£ 234	£ 249	21.2%
Enfield	£ 566	£ 51	£ 253	£ 278	10.6%
Haringey	£ 541	£ 89	£ 291	£ 302	-2.4%
Harrow	£ 575	£ 23	£ 225	£ 282	17.4%
Havering	£ 474	£ 3	£ 205	£ 223	27.4%
Hillingdon	£ 529	£ 40	£ 242	£ 261	8.2%
Hounslow	£ 522	£ 41	£ 243	£ 277	-4.8%
Kingston-upon-Thames	£ 522	£ 26	£ 228	£ 267	19.8%
Merton	£ 411	£-35	£ 167	£ 218	31.9%
Newham	£ 490	£ 82	£ 284	£ 269	-17.5%
Redbridge	£ 407	£-41	£ 161	£ 200	48.4%
Richmond-upon-Thames	£ 604	£ 57	£ 259	£ 325	13.7%
Sutton	£ 531	£ 30	£ 231	£ 270	14.3%
Waltham Forest	£ 485	£ 67	£ 269	£ 260	4.2%

DATE: 14-JUN-88

WITHOUT DUAL RUNNING

ILLUSTRATIVE IMPACT OF LOCAL GOVERNMENT FINANCE BILL
(Based on 1988/89 local authority expenditure returns)

	DOMESTIC SECTOR				NON-DOMESTIC SECTOR	
	Average rate bill per hhold Col 1	Overspending attributable to each area Col 2	Full community charge Col 3	First yr community charge Col 4	1988/89 rate poundage Col 5	Change to national poundage Col 6
GREATER LONDON						
City of London	£ 688	£ 9,009	£ 476	£ 488	163.0p	47%
Camden	£ 790	£ 437	£ 639	£ 438	230.2p	4%
Greenwich	£ 513	£ 386	£ 586	£ 277	249.2p	-4%
Hackney	£ 624	£ 377	£ 579	£ 347	247.9p	-3%
Hammersmith and Fulham	£ 457	£ 271	£ 473	£ 267	246.5p	-3%
Islington	£ 597	£ 278	£ 480	£ 326	202.8p	18%
Kensington and Chelsea	£ 582	£ 138	£ 340	£ 384	117.4p	104%
Lambeth	£ 474	£ 288	£ 490	£ 277	205.5p	17%
Lewisham	£ 575	£ 375	£ 577	£ 320	244.9p	-3%
Southwark	£ 452	£ 313	£ 515	£ 269	214.2p	12%
Tower Hamlets	£ 558	£ 414	£ 616	£ 312	236.4p	1%
Wandsworth	£ 370	£ 195	£ 397	£ 205	149.3p	60%
Westminster	£ 793	£ 171	£ 373	£ 448	164.2p	46%

Overspending by the Inner London Education Authority adds £218 to the full community charge in Inner London
This table assumes that there is no dual running of rates and the community charge in any area

Barking and Dagenham	£ 429	£ 35	£ 237	£ 228	212.0p	13%
Barnet	£ 673	£ 28	£ 230	£ 305	208.2p	15%
Bexley	£ 384	£-12	£ 190	£ 191	198.9p	20%
Brent	£ 730	£ 105	£ 307	£ 348	270.6p	-14%
Bromley	£ 435	£-33	£ 179	£ 222	171.5p	40%
Croydon	£ 513	£-5	£ 197	£ 258	187.5p	42%
Ealing	£ 533	£ 30	£ 334	£ 249	197.3p	21%
Enfield	£ 566	£ 51	£ 253	£ 278	216.5p	11%
Haringey	£ 516	£ 77	£ 279	£ 288	248.3p	-2%
Harrow	£ 575	£ 38	£ 225	£ 282	204.0p	17%
Havering	£ 474	£ 8	£ 205	£ 228	188.0p	27%
Hillingdon	£ 533	£ 40	£ 242	£ 281	221.3p	9%
Hounslow	£ 522	£ 41	£ 242	£ 277	251.7p	-5%
Kingston-upon-Thames	£ 532	£ 26	£ 228	£ 267	200.0p	20%
Merton	£ 411	£-35	£ 167	£ 213	181.7p	33%
Newham	£ 490	£ 82	£ 284	£ 269	290.3p	-17%
Redbridge	£ 407	£-41	£ 161	£ 200	161.4p	48%
Richmond-upon-Thames	£ 604	£ 57	£ 259	£ 325	210.6p	14%
Sutton	£ 531	£ 30	£ 231	£ 270	209.5p	14%
Waltham Forest	£ 485	£ 67	£ 269	£ 260	229.8p	4%

ph6.29

FROM: A C S ALLAN
DATE: 24 JUNE 1988

CHANCELLOR

LOCAL GOVERNMENT FINANCE

draft now behind

The Chief Secretary and Mr Ridley discussed all this last night (Thursday). Jill will be providing a record of the meeting, but probably not until Monday morning.

Capital Receipts

I don't feel particularly well placed to advise on this. It does seem to me appalling that it was not picked up earlier. Mr Ridley has agreed to delay consultation paper while further discussions take place about how exactly we should act to block the loophole.

Close-down of RSG system

The draft DoE paper sets out the problem. To solve this:

i. DoE favour option 1, closing down the RSG system now. This means that no further adjustments to grant claims for 1988-89 or earlier years would be allowed, thus preventing local authorities from using special funds etc to fiddle their books. For 1989-90, there would be a fixed grant settlement, with no possibility of under-claim or over-claim.

ii. The Treasury favours option 3, delay closing down the RSG system until July next year. The main Treasury reason for this (see also below) is to leave grant pressures in place for 1988-89 budgets, so that if local authorities spend more they get less grant.

John Anson in particular attaches great weight to the arguments of Parliamentary propriety. He feels that Mr Ridley's option 1 is being much too cavalier with Parliament. Jill and I both have considerable doubts. It is not clear to us why closing the system down in July next year would be any easier from a Parliamentary point of view. And option 3 is high risk: it gives another year for local authorities to fiddle their books for 1988-89 and earlier years and claim more grant. Mr Ridley's reaction at the meeting with the Chief Secretary, was quite reasonably though no doubt slightly disengenuously, that it was no skin off his nose if we delayed closing down the RSG system for another year: he was trying to help the Treasury by preventing any surge in grant claims.

What really matter is how tough a fixed grant settlement Mr Ridley would sign up to; and how tough he would be on the related capital control issues. If we can get a reasonable fixed grant settlement then it would be much safer to go for that. If - as Treasury officials fear - the price would be too high, then there may be a case for taking the risk with option 3. It is hard to come to a decision until Mr Ridley comes up with some numbers.

A C S ALLAN

Local Government Finance Bill

[AS AMENDED BY STANDING COMMITTEE E]

ARRANGEMENT OF CLAUSES

PART I

COMMUNITY CHARGES

Charges

Clause

Registers

Charges and registers: miscellaneous

Collective community charge contributions

Liability to pay in respect of charges

Miscellaneous

PART VI

GRANTS

Introduction

Revenue support grant

Additional grant

Transport grants

PART VII

FUNDS

Funds

Calculations

Transfers between funds

Regulations about funds

PART VIII

LIMITATION OF CHARGES ETC

A

BILL

[AS AMENDED BY STANDING COMMITTEE E]

TO

Create community charges in favour of certain authorities, to create new rating systems, to provide for precepting by certain authorities and levying by certain bodies, to make provision about the payment of grants to certain authorities, to require certain authorities to maintain certain funds, to make provision about the administration of the financial affairs of certain authorities, to abolish existing rates, precepts and similar rights, to abolish rate support grants and supplementary grants for transport purposes, to make amendments as to certain grants, to make certain amendments to the law of Scotland as regards community charges, rating and valuation, to provide for the establishment of valuation and community charge tribunals, and for connected purposes. A.D. 1988.

BE IT ENACTED by the Queen's most Excellent Majesty, by and with the advice and consent of the Lords Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the authority of the same, as follows:—

PART I

COMMUNITY CHARGES

Charges

The charges.

1. In accordance with this Part, each charging authority shall have rights and duties in respect of the following community charges—

(a) personal community charges,

(b) standard community charges, and

(c) collective community charges.

Persons subject to personal community charge.

2.—(1) A person is subject to a charging authority's personal community charge on any day if—

(a) he is an individual who is aged 18 or over on the day,

PART I

(b) he has his sole or main residence in the area of the authority at any time on the day, and

(c) he is not an exempt individual on the day.

(2) Schedule 1 below shall have effect to determine whether a person is for the purposes of this section an exempt individual on a particular day.

(3) In deciding whether a person has his sole or main residence in an area, the fact that he does not live in a building is irrelevant.

(4) Where a person's sole or main residence at a particular time is to be decided by reference to his living in premises, and the premises are situated in the areas of two or more authorities, he shall be treated as having his sole or main residence in the area in which the greater or greatest part of the premises is situated.

(5) A person undertaking a full-time course of education and resident in England and Wales for the purpose of undertaking the course shall be treated as having his sole or main residence, on each day of the course, in the place where he is resident for the purpose of undertaking the course.

(6) A person detained in legal custody (other than a convicted person detained in a penal institution in pursuance of his sentence) is not to be treated as having his sole or main residence in the place where he is detained.

Persons subject to standard community charge.

3.—(1) A person is subject to a charging authority's standard community charge on any day if he has at any time on the day a freehold interest in the whole of a building, and the following conditions are fulfilled as regards the building throughout the day—

(a) it is situated in the authority's area,

(b) it is not the sole or main residence of an individual (construing sole or main residence in accordance with section 2 above),

(c) it is domestic property,

(d) it is not designated for the purposes of collective community charges of the authority,

(e) it is not divided into self-contained parts, and

(f) it is not subject (as a whole) to a single relevant leasehold interest.

(2) A person is subject to a charging authority's standard community charge on any day if he has at any time on the day a relevant leasehold interest in the whole of a building, and the following conditions are fulfilled as regards the building throughout the day—

(a) the conditions mentioned in subsection (1)(a) to (e) above, and

(b) the condition that it is not subject (as a whole) to a single relevant leasehold interest inferior to his interest.

(3) A person is subject to a charging authority's standard community charge on any day if he has at any time on the day a freehold interest in the whole of a self-contained part of a building, and the following conditions are fulfilled as regards the part throughout the day—

(a) the conditions mentioned in subsection (1)(a) to (d) above, and

(b) the condition that it is not subject (as a whole) to a single relevant leasehold interest.

PART I

(4) A person is subject to a charging authority's standard community charge on any day if he has at any time on the day a relevant leasehold interest in the whole of a self-contained part of a building, and the following conditions are fulfilled as regards the part throughout the day—

(a) the conditions mentioned in subsection (1)(a) to (d) above, and

(b) the condition that it is not subject (as a whole) to a single relevant leasehold interest inferior to his interest.

(5) A person is subject to a charging authority's standard community charge on any day if he is at any time on the day the owner of a caravan, and the following conditions are fulfilled as regards the caravan throughout the day—

(a) the conditions mentioned in subsection (1)(a) to (c) above, and

(b) the condition that it is not used for touring.

(6) A person is subject to a charging authority's standard community charge on any day if he is at any time on the day the owner of a houseboat, and the following conditions are fulfilled as regards the houseboat throughout the day—

(a) the conditions mentioned in subsection(1)(a) to (c) above, and

(b) the condition that it does not have means of, and is not capable of being readily adapted for, self-propulsion.

Section 3: interpretation.

4.—(1) This section applies for the purposes of section 3 above.

(2) A relevant leasehold interest is an interest under a lease or underlease which was granted for a term of 6 months or more and conferred the right to exclusive possession throughout the term.

(3) A building, self-contained part of a building, caravan or houseboat is domestic property if it is used wholly for the purposes of living accommodation.

(4) But a building or self-contained part of a building is not domestic property if it is wholly or mainly used in the course of a business for the provision to individuals whose sole or main residence is elsewhere of accommodation for short periods together with domestic or other services or other benefits or facilities.

(5) In construing subsections (3) and (4) above, anything not in use shall be treated as domestic property if it appears that when next in use it will be domestic property.

(6) The Secretary of State may by order amend, or substitute another definition for, any definition of domestic property for the time being effective for the purposes of section 3 above.

(7) A self-contained part of a building is a part of a building used, or suitable for use, as a separate dwelling.

(8) "Owner" in relation to a caravan or houseboat—

(a) means, if it is subject to an agreement for hire-purchase or conditional sale, the person in possession under the agreement;

(b) means, if it is subject to a bill of sale or mortgage, the person entitled to the property in it apart from the bill or mortgage.

PART I

(9) A caravan not in use shall be treated as used for touring if it appears that when next in use it will be so used.

(10) Where a building is situated in the areas of two or more authorities, it and each part of it shall be treated as situated in the area in which the greater or greatest part of the building is situated; and where a caravan or houseboat is situated in the areas of two or more authorities, it shall be treated as situated in the area in which the greater or greatest part of it is situated.

Persons subject to collective community charge.

5.—(1) A person is subject to a charging authority's collective community charge on any day if—

(a) he has on the day a qualifying interest in a dwelling situated in the authority's area, and

(b) on the day the dwelling is a designated dwelling.

(2) For the purposes of this Act a dwelling is a designated dwelling on a particular day if it is a building, or part of a building, which on the day concerned is designated under this section.

(3) The registration officer may designate all or part of a building for the purposes of a charging authority's collective community charges if at the time of designation—

(a) the building is situated in the authority's area,

(b) in his opinion the building or part is used wholly or mainly as the sole or main residence of individuals most or all of whom reside there for short periods and are not undertaking full-time courses of education, and

(c) in his opinion it would probably be difficult to maintain the register in respect of, and collect payments in respect of personal community charges from, individuals who would be subject to such charges of the authority if the designation were not made.

(4) A registration officer who has designated a building or part may revoke the designation if at the time of revocation the conditions for designation in subsection (3) above are no longer satisfied.

(5) A designation under this section shall take effect at the end of the period of 7 days beginning with the day on which it is made, and shall cease to have effect at the end of the day (if any) on which it is revoked.

(6) A person has a qualifying interest in a designated dwelling on a particular day if at any time on the day—

(a) he has a freehold interest in the whole dwelling and it is not subject (as a whole) to a single leasehold interest, or

(b) he has an interest in the whole dwelling under a lease or underlease and it is not subject (as a whole) to a single inferior leasehold interest.

(7) Where a building is situated in the areas of two or more authorities, it and each part of it (whether or not designated) shall be treated as situated in the area in which the greater or greatest part of the building is situated.

Registers

Community charges register.

6.—(1) The registration officer for a charging authority shall compile, and then maintain, a community charges register for the authority in accordance with this Part.

(2) A charging authority's register must be compiled on or before 1 December 1989.

(3) A charging authority's register shall contain an item in relation to each community charge of the authority to which a person becomes subject on or after 1 December 1989.

(4) The item shall state—

(a) whether the charge is a personal, a standard or a collective community charge,

(b) the person's name,

(c) the day of his becoming subject to the charge and (if applicable) the day of his ceasing to be subject to it, and

(d) which (if any) of the days on which he is shown in the register as subject to the charge is a day on which he is undertaking a full-time course of education.

(5) The item shall also state—

(a) in the case of a personal community charge, the address of the residence by virtue of which the person is subject to the charge,

(b) in the case of a standard community charge, the address of the property by virtue of which the person is subject to the charge and (if different) his residential address for the time being, and

(c) in the case of a collective community charge, the address of the dwelling by virtue of which the person is subject to the charge and (if different) his residential address for the time being.

(6) The item shall also state, in the case of a standard community charge, the class (if any) which is for the time being specified under section 36 below and into which the property concerned falls.

(7) Where a person is subject to a personal community charge, and the place of residence giving rise to the charge has no address, under subsection (5)(a) above the item shall state that place.

(8) A registration officer's duty to compile and maintain a register in accordance with this Part includes the duty to take reasonable steps to obtain information for that purpose under the powers conferred on him.

Charges and registers: miscellaneous

Persons subject to charges: miscellaneous.

7.—(1) A person shall by virtue of different residences, or different periods of residence in the same residence, be subject (if at all) to different personal community charges, whether of the same or different authorities.

(2) If a person becomes and ceases to be exempt under section 2 above he shall be subject (if at all) to different personal community charges by virtue of different periods when he is not exempt.

PART I

(3) A person shall by virtue of different properties, or different periods of having an interest in the same property, be subject (if at all) to different standard community charges, whether of the same or different authorities.

(4) A person shall by virtue of different dwellings, or different periods of having an interest in the same dwelling, be subject (if at all) to different collective community charges, whether of the same or different authorities.

(5) The day a person becomes subject to a community charge shall be taken, subject to the rules in section 8(2) and (4) below, to be the first (or only) day on which he is subject to it.

(6) The day a person ceases to be subject to a community charge shall be taken, subject to the rule in section 8(3) below, to be the last (or only) day on which he is subject to it.

Registers: miscellaneous.

8.—(1) An entry may be made in an authority's register in anticipation of, or after, a person's becoming or ceasing to be subject to a community charge of the authority.

(2) If on any day a person becomes subject to an authority's community charge but a period of more than 2 years (beginning with the day) expires without an entry being made in the register in respect of the charge, he shall be treated as becoming subject to it 2 years before the day on which an entry is made in the register in respect of it.

(3) If a person becomes subject to an authority's community charge, an entry is made in the register accordingly, he then ceases to be subject to it and a period of more than 2 years (beginning with the day of his ceasing) expires without an entry being made in the register in respect of his ceasing, he shall be treated as having ceased to be subject to the charge 2 years before the day on which an entry is made in the register in respect of his ceasing.

(4) If a person in fact becomes and ceases to be subject to an authority's community charge but a period of more than 2 years (beginning with the day of his ceasing) expires without an entry being made in the register in respect of the charge, he shall be treated as not having become subject to it; and subsection (2) above shall have effect subject to this.

(5) The registration officer may remove from an authority's register an item relating to a community charge of the authority at any time after the expiry of the period of 2 years beginning with the day on which the register shows the person subject to the charge as having ceased to be subject to it.

(6) For the purposes of this Part—

(a) a day on which a person is shown in a charging authority's register as becoming subject to a community charge of the authority shall be treated as a day on which he is shown in the register as subject to the charge,

(b) a day on which a person is shown in a charging authority's register as ceasing to be subject to a community charge of the authority shall not be treated as a day on which he is shown in the register as subject to the charge, and

(c) as regards a day on which a person is shown in a charging authority's register as both becoming and ceasing to be subject to a community charge of the authority, paragraph (b) above shall apply and paragraph (a) shall not.

Collective community charge contributions

Liability to contribute.

9.—(1) A period of a day or successive days is a contribution period if it falls within a chargeable financial year and each of the following conditions is fulfilled on each day in the period—

(a) an individual is resident in a dwelling,

(b) he is a qualifying individual,

(c) the dwelling is a designated dwelling, and

(d) another person is shown in a charging authority's register as subject to a collective community charge of the authority in respect of the dwelling.

(2) In respect of the contribution period, the individual shall be liable to pay to the person mentioned in subsection (1)(d) above an amount by way of contribution to the amount he is liable to pay to the authority in respect of the charge as it has effect for the year.

(3)The amount shall be calculated by—

(a) finding the amount to be paid by way of contribution for each day in the contribution period, and

(b) aggregating the amounts found under sub-paragraph (a) above.

(4) The amount to be paid by way of contribution for a day in the contribution period shall be calculated in accordance with the formula—

$$\frac{A}{B}$$

(5) A day which falls in the financial year beginning in 1990 shall be ignored in ascertaining a contribution period if, when the day begins, no amount has been set by the authority for its personal community charges for the financial year.

(6) The liability to pay an amount under this section must be discharged by making a payment or payments in accordance with regulations under Schedule 2 below.

Contributions: interpretation of formula.

10.—(1) This section applies for the purposes of section 9 above.

(2) In a case where (when the day concerned begins) no amount has been set by the authority for its personal community charges for the financial year, A is the amount set by the authority for its personal community charges for the previous financial year for its area or (as the case may be) for that part of its area which contains the building constituting or containing the designated dwelling.

(3) In any other case A is the amount set by the authority for its personal community charges for the financial year for its area or (as the case may be) for that part of its area which contains the building constituting or containing the designated dwelling.

(4) B is the number of days in the financial year.

PART I

(5) In construing subsection (3) above in relation to a particular day the amount or amounts to be taken shall be the amount or amounts set or last set before the day begins.

(6) For the purposes of subsections (2) and (3) above the Secretary of State may make regulations containing rules—

(a) for treating a building as contained in an authority's area if part only falls within the area;

(b) for ascertaining what part of an authority's area contains a building (whether contained in the area in fact or by virtue of the regulations).

Contributions: further provisions.

11.—(1) For the purposes of section 9 above an individual shall be treated as resident in a dwelling on a particular day if he is resident in it for the whole or part of the day.

(2) For the purposes of section 9 above an individual is a qualifying individual on a particular day if—

(a) he is aged 18 or over on the day,

(b) he is not an exempt individual on the day within the meaning of paragraph 1, 2, 3, 4, 5, 7 or 8 of Schedule 1 below, and

(c) the day does not fall within a period in which he is undertaking a full-time course of education.

(3) An individual shall by virtue of different dwellings, or different periods of residence in the same dwelling, be liable (if at all) to make different payments under section 9 above, whether to the same or different persons.

(4) If, in an individual's period of residence in a dwelling, different collective community charges arise in respect of it because of a change of person with a qualifying interest, the individual shall be liable (if at all) to make different payments under section 9 above as regards the different charges.

(5) If an individual becomes and ceases to be exempt for the purposes of section 9 above he shall be liable (if at all) to make different payments under that section by virtue of different periods when he is not exempt.

(6) If a period of successive days begins in one chargeable financial year and ends in another it shall be deemed to be as many periods as there are chargeable financial years for which it subsists, and each deemed period shall be deemed to fall within a different year.

(7) Different contribution periods shall be calculated in accordance with subsections (3) to (6) above.

Liability to pay in respect of charges

Personal community charge.

12.—(1) If a person is entered in an authority's register as subject in a chargeable financial year to a personal community charge of the authority, he shall be liable to pay to the authority an amount in respect of the charge as it has effect for the year.

(2) The amount shall be calculated in accordance with the formula—

$$\frac{A \times B}{C}$$

(3) A is the amount set by the authority for its personal community charges for the financial year for its area or (as the case may be) for that part of its area which contains the residence by virtue of which the person is shown in the register as subject to the charge.

(4) B is the number of days which fall within the financial year and on which he is shown in the register as subject to the charge.

(5) C is the number of days in the financial year.

(6) For the purposes of subsection (3) above the Secretary of State may make regulations containing rules—

(a) for treating a residence which consists of premises as contained in an authority's area if part only falls within the area;

(b) for ascertaining what part of an authority's area contains a residence which consists of premises (whether contained in the area in fact or by virtue of the regulations).

Relief for students.

13.—(1) This section applies where—

(a) a person is liable under section 12 above to pay an amount to an authority in respect of a personal community charge as it has effect for a chargeable financial year, and

(b) on any day in the period represented by B he is undertaking a full-time course of education.

(2) If he is undertaking the course on each day of that period, the amount he is liable to pay under that section shall be one fifth of the amount it would be apart from this section.

(3) If he is not undertaking the course on each day of that period, the amount he is liable to pay under that section shall be determined in accordance with the formula—

$$\left(\frac{P \times A}{C}\right) + \left(\frac{Q \times A}{C} \times \frac{1}{5}\right)$$

(4) A and C have the meanings given in section 12 above.

(5) P is the number of days which fall within the financial year and on which—

(a) he is shown in the register as subject to the charge, and

(b) he is not undertaking the course.

(6) Q is the number of days which fall within the financial year and on which—

(a) he is shown in the register as subject to the charge, and

(b) he is undertaking the course.

(7) The Secretary of State may by order substitute such proportion as he sees fit for the proportion of one fifth mentioned in subsections (2) and (3) above or for the proportion for the time being mentioned there by virtue of an order under this subsection.

(8) For the purposes of this section a person shall not be treated as undertaking a full-time course of education on a particular day unless he is shown in the register as undertaking the course on that day.

PART I

Standard community charge.

14.—(1) If a person is entered in an authority's register as subject in a chargeable financial year to a standard community charge of the authority, he shall be liable to pay to the authority an amount in respect of the charge as it has effect for the year.

(2) The amount shall be calculated by—

(a) finding the amount to be paid for each day which falls within the financial year and on which he is shown in the register as subject to the charge, and

(b) aggregating the amounts found under sub-paragraph (a) above.

(3) The amount to be paid for a day which falls within the financial year and on which he is shown in the register as subject to the charge shall be calculated in accordance with the formula—

$$\frac{A \times B}{C}$$

(4) A is the amount set by the authority for its personal community charges for the financial year for its area or (as the case may be) for that part of its area which contains the property by virtue of which he is shown in the register as subject to the charge.

(5) B is the standard community charge multiplier which by virtue of section 36 below is effective for the financial year for the following properties or class of property (as the case may be)—

(a) all properties in the authority's area;

(b) the specified class of property to which the relevant property belongs on the day concerned.

(6) C is the number of days in the financial year.

(7) For the purposes of subsection (4) above the Secretary of State may make regulations containing rules—

(a) for treating a property as contained in an authority's area if part only falls within the area or (in the case of a property which is a self-contained part of a building) if part only of the building falls within the area;

(b) for ascertaining what part of an authority's area contains a property (whether contained in the area in fact or by virtue of the regulations).

(8) For the purposes of subsection (5) above the relevant property—

(a) is the property by virtue of which the person is shown in the register as subject to the charge, and

(b) belongs to a particular class on a particular day if (and only if) it belongs to the class immediately before the day ends.

Collective community charge.

15.—(1) If a person is entered in an authority's register as subject in a chargeable financial year to a collective community charge of the authority, he shall be liable to pay to the authority an amount in respect of the charge as it has effect for the year.

(2) The amount shall be found by deducting amount B from amount A.

(3) Amount A is the aggregate of the amounts payable (and whether or not paid) to the person by way of contribution to the amount he is liable to pay to the authority in respect of the charge as it has effect for the year.

(4) Amount B is an amount equal to the relevant proportion of amount A; and the relevant proportion is 5 per cent. or such other proportion as may be prescribed by the Secretary of State by order.

Joint and several liability: spouses.

16.—(1) This section applies where—

(a) a person (the chargeable person) is liable to pay an amount (the chargeable amount) to an authority in respect of a community charge as it has effect for a chargeable financial year, whether the liability arises under section 12 above (read, where appropriate, with section 13 above), section 14 above or section 15 above, and

(b) on any day in the chargeable period he is married to a person (the spouse) who is aged 18 or over on the day.

(2) In this section "the chargeable period" means the period consisting of the days which fall within the financial year and on which the chargeable person is shown in the register as subject to the charge.

(3) If, on each day of the chargeable period—

(a) the chargeable person and the spouse are married to each other, and

(b) the spouse is aged 18 or over,

they shall be jointly and severally liable to pay the chargeable amount.

(4) In any other case—

(a) they shall be jointly and severally liable to pay such fraction of the chargeable amount as is represented by $\frac{A}{B}$, and

(b) the chargeable person shall be liable to pay the remainder of the chargeable amount.

(5) A is the number of days which fall within the chargeable period and on which—

(a) the chargeable person and the spouse are married to each other, and

(b) the spouse is aged 18 or over.

(6) B is the number of days in the chargeable period.

(7) For the purposes of this section people are married to each other if they are a man and woman—

(a) who are married to each other and are members of the same household, or

(b) who are not married to each other but are living together as husband and wife.

(8) For the purposes of this section people are not married to each other on a particular day unless they are married to each other throughout the day.

PART I

Joint and several liability: management arrangements.

17.—(1) This section applies where—

(a) a person (the chargeable person) is liable to pay an amount (the chargeable amount) to an authority in respect of a standard or collective community charge as it has effect for a chargeable financial year,

(b) on any day in the chargeable period he has a management arrangement with another person (the manager) who is neither the chargeable person's employee nor (if an individual) aged under 18 on the day, and

(c) if the charge is a standard community charge, the chargeable person is a company.

(2) In this section "the chargeable period" means the period consisting of the days which fall within the financial year and on which the chargeable person is shown in the register as subject to the charge.

(3) For the purposes of this section a management arrangement is—

(a) where the charge is a standard community charge, an arrangement under which the manager is to collect payments for the use of the property in respect of which the charge arises;

(b) where the charge is a collective community charge, an arrangement under which the manager is to collect payments for residential accommodation in the designated dwelling in respect of which the charge arises, or amounts by way of contribution in respect of the charge, or both.

(4) If, on each day of the chargeable period—

(a) the management arrangement subsists, and

(b) the manager is neither the chargeable person's employee nor (if an individual) aged under 18,

they shall be jointly and severally liable to pay the chargeable amount.

(5) In any other case—

(a) they shall be jointly and severally liable to pay such fraction of the chargeable amount as is represented by $\frac{A}{B}$, and

(b) the chargeable person shall be liable to pay the remainder of the chargeable amount.

(6) A is the number of days which fall within the chargeable period and on which—

(a) the management arrangement subsists, and

(b) the manager is neither the chargeable person's employee nor (if an individual) aged under 18.

(7) B is the number of days in the chargeable period.

(8) The manager may recover from the chargeable person an amount equal to any amount paid by the manager to the authority by virtue of this section.

(9) For the purposes of this section a management arrangement subsists on a particular day if it subsists at any time on the day.

PART I

18. The liability to pay an amount under any provision of sections 12 to 17 above must be discharged by making a payment or payments in accordance with regulations under Schedule 2 below. Discharge of liability.

Miscellaneous

19.—(1) Where a person would be subject to a personal community charge but for paragraph 9 of Schedule 1 below, and a contribution in aid of community charges is made in respect of him, the contribution shall be paid to the charging authority to whose charge he would be subject. Contributions in aid.

(2) Where a person would be subject to a standard community charge but for the rules as to Crown exemption, and a contribution in aid of community charges is made in respect of him, the contribution shall be paid to the charging authority to whose charge he would be subject.

20.—(1) Subsection (2) below applies in the case of property provided and maintained by an authority mentioned in subsection (3) below for purposes connected with the administration of justice, police purposes or other Crown purposes. Standard community charge: special cases.

(2) Any rules as to Crown exemption which would have applied apart from this subsection shall not prevent—

(a) a person being subject to a charging authority's standard community charge by virtue of the property,

(b) an entry being made in the register in relation to the charge, or

(c) the person being liable to pay in respect of the charge.

(3) The authorities are—

(a) a district council,

(b) a London borough council,

(c) the Common Council,

(d) a county council,

(e) a metropolitan county police authority, and

(f) the Northumbria Police Authority.

21.—(1) Schedule 2 below (which contains provisions about administration, including collection and recovery) shall have effect. Administration and penalties.

(2) Schedule 3 below (which contains provisions about civil penalties) shall have effect.

22.—(1) A person aggrieved by any of the matters mentioned in subsection (2) below may appeal to a valuation and community charge tribunal established under Schedule 12 below. Appeals.

(2) The matters are—

(a) the fact that the person is or is not at any time entered in a charging authority's register as subject to a community charge of the authority,

(b) the contents of any item which is contained in a charging authority's register and relates to a charge to which the person is there shown as subject at any time,

PART I

(c) any decision that section 13 above does or does not apply in the case of the person,

(d) any estimate, made for the purposes of regulations under Schedule 2 below, of the amount the person is liable to pay in respect of a charging authority's community charge,

(e) any designation of an individual as a responsible individual under regulations under Schedule 2 below,

(f) the imposition of a penalty on the person under Schedule 3 below,

(g) the fact that a relevant dwelling has been designated under section 5 above, and

(h) the fact that a designation of a relevant dwelling under that section has not been revoked under that section.

(3) Subsection (2)(d) above shall not apply where the grounds on which the person concerned is aggrieved fall within such category or categories as may be prescribed by the Secretary of State by regulations.

(4) In subsection (2)(g) above "relevant dwelling" means a building, or part of a building, in respect of which the person would be subject to an authority's collective community charge if the designation were valid.

(5) In subsection (2)(h) above "relevant dwelling" means a building, or part of a building, in respect of which the person would cease to be subject to an authority's collective community charge if the revocation were made.

Rebates.

23.—(1) The Secretary of State shall make regulations amending the Social Security Act 1986 so as—

(a) to impose on charging authorities a duty to grant rebates to persons as regards payments they are liable to make to authorities in respect of personal community charges,

(b) to impose on charging authorities a duty to grant rebates to persons as regards amounts they are liable to pay by way of contributions under section 9 above, and

(c) to impose on the Secretary of State a duty to pay subsidies to charging authorities as regards the rebates.

(2) The amendments shall be based (so far as practicable) on the provisions of the Social Security Act 1986 relating to housing benefit and subsidy calculated by reference to it.

(3) In particular, section 85 of that Act shall be amended so as to provide that sums payable by way of subsidies as regards rebates shall be paid out of money provided by Parliament.

Community charges registration officer.

24.—(1) There shall be a community charges registration officer for each charging authority.

(2) The registration officer for a district council, a London borough council or the Council of the Isles of Scilly shall be the person having responsibility for the administration of its financial affairs under section 151 of the Local Government Act 1972.

(3) The registration officer for the Common Council shall be the chamberlain.

(4) A charging authority shall provide the registration officer with such staff, accommodation and other resources as are sufficient to allow his functions under this Part to be exercised. .

Default powers as to registers.

25.—(1) If it appears to the Secretary of State that a charging authority's register does not contain items in relation to all community charges of the authority, the Secretary of State may direct the registration officer or the authority (or both) to supply the Secretary of State with such information as he considers necessary to enable him to decide whether his belief is well founded and what action (if any) he should take under subsection (3) below.

(2) A direction under subsection (1) above—

(a) must specify the information to be provided and the period within which it is to be provided;

(b) may be amended by another direction under subsection (1) above;

(c) may be revoked by a direction under this paragraph.

(3) If the period specified in a direction under subsection (1) above expires (whether or not the direction has been complied with) and it still appears to the Secretary of State as mentioned in that subsection, he may direct the officer or the authority (or both) to take such steps as the Secretary of State considers appropriate to secure that the register contains items in relation to as many of the authority's community charges as practicable; and the steps may involve conducting canvasses or otherwise.

(4) A direction under subsection (3) above—

(a) must specify the steps to be taken and the period within which they are to be taken;

(b) may include a requirement to make a report or periodic reports to the Secretary of State as to what steps have been taken and the results of taking them;

(c) must, if a requirement is included under paragraph (b) above, specify the period within which any report is to be made;

(d) may be amended by another direction under subsection (3) above (but without the need for a further direction under subsection (1) above);

(e) may be revoked by a direction under this paragraph.

Default powers as to resources.

26.—(1) If it appears to the Secretary of State that a charging authority has failed to comply with section 24(4) above he may direct the authority to supply him with such information as he considers necessary to enable him to decide whether his belief is well founded and what action (if any) he should take under subsection (3) below.

(2) A direction under subsection (1) above—

(a) must specify the information to be provided and the period within which it is to be provided;

(b) may be amended by another direction under subsection (1) above;

(c) may be revoked by a direction under this paragraph.

PART I

(3) If the authority purports to comply with a direction under subsection (1) above or the period specified in the direction expires without its purporting to comply and (in either case) it still appears to the Secretary of State as mentioned in that subsection, he may direct the authority to provide the registration officer with such staff, accommodation and other resources as the Secretary of State considers sufficient to allow the officer's functions under this Part to be exercised.

(4) A direction under subsection (3) above—

(a) must specify the staff, accommodation and other resources the authority is to provide under the direction and the period within which it is to provide them;

(b) may include a requirement to make a report or periodic reports to the Secretary of State as to what steps have been taken to comply with the requirement included under paragraph (a) above and the results of taking them;

(c) must, if a requirement is included under paragraph (b) above, specify the period within which any report is to be made;

(d) may be amended by another direction under subsection (3) above (but without the need for a further direction under subsection (1) above);

(e) may be revoked by a direction under this paragraph.

Rights of electoral registration officers.

27. For the purpose of exercising his functions the electoral registration officer for any area in England and Wales may inspect the register of any charging authority.

General

Interpretation.

28.—(1) This section applies for the purposes of this Part.

(2) References to the register, in relation to a charging authority, are to its community charges register.

(3) References to the registration officer, in relation to a charging authority, are to the community charges registration officer for the authority.

(4) The residential address of a person who is a company is the address of the company's registered office.

(5) Whether a person is undertaking a full-time course of education on any particular day shall be determined in accordance with regulations made by the Secretary of State.

(6) "Convicted person" means a person found guilty of an offence (whether under the law of the United Kingdom or not) including a person found guilty by a court-martial under the Army Act 1955, the Air Force Act 1955 or the Naval Discipline Act 1957, or on a summary trial under section 49 of the Naval Discipline Act 1957, or by a Standing Civilian Court established under the Armed Forces Act 1976, but not including a person dealt with by committal or other summary process for contempt of court.

(7) "Penal institution" means a prison or other institution to which the Prison Act 1952 applies.

(8) A person detained for default in complying with his sentence shall not be treated as detained in pursuance of the sentence (whether or not the sentence provided for detention in the event of default) but a person detained for breach of a condition of a conditional pardon in respect of an offence shall be treated as detained in pursuance of his sentence for the offence.

(9) References to a building include references to a chalet or hut.

(10) The Secretary of State may make regulations containing rules for ascertaining what is to be treated as the greater or greatest part of premises or a building, caravan or houseboat.

(11) Nothing in a private or local Act passed before this Act shall prevent a person being subject to a community charge or being liable to pay anything in respect of a community charge or anything by way of contribution in respect of a collective community charge.

PART II

CHARGES AND MULTIPLIERS

Charges

Amount for personal community charges.

29.—(1) For each chargeable financial year, a charging authority shall set for its personal community charges an amount or amounts in accordance with this section and section 30 below.

(2) Any amount must be set on or before 1 April on which the financial year for which it is set begins, but is not invalid merely because it is set after that date.

(3) In setting any amount the authority must secure (so far as practicable) that the total amount yielded by its community charges for the year is sufficient to provide for the items mentioned in subsection (4) below, to the extent that they are not to be provided for by other means.

(4) The items are—

(a) any precept issued to the authority for the year,

(b) the authority's estimate of the aggregate of the payments to be met from its collection fund in the year under section 96(2)(b) to (f) below or section 96(4)(b) and (c) below (as the case may be),

(c) the amount calculated (or last calculated) by the authority in relation to the year under section 99(4) below, and

(d) the authority's estimate of the amount to be transferred from its collection fund in the year under section 102(3) below.

Setting of different amounts.

30.—(1) A charging authority must set one amount for its area under section 29 above, except as provided by the following provisions of this section.

(2) Where an item mentioned in subsection (3) below relates to a part only of its area, a charging authority must set different amounts for different parts so as to secure (so far as practicable) that the item is provided for only by amounts yielded by such of its community charges as relate to premises situated in the part, to the extent that the item is not to be provided for by other means.

PART II

(3) The items are—

(a) any precept or portion of a precept issued to the authority if the precept or portion is stated to be applicable to a part, and

(b) any expenses of the authority which are its special expenses and were taken into account by it in making the calculation (or last calculation) in relation to the year concerned under section 99(2) below.

(4) For the purposes of subsection (3) above—

(a) provided a resolution of a charging authority to the following effect is in force, its expenses needed to meet a levy issued to it are its special expenses or (if the resolution relates to some only of those expenses) those to which the resolution relates are its special expenses,

(b) any expenses which a charging authority believes will have to be met out of amounts transferred or to be transferred from its collection fund to its general fund or to the City fund (as the case may be), and which arise out of its possession of property held in trust for a part of its area, are its special expenses,

(c) any expenses which a charging authority believes will have to be met out of amounts transferred or to be transferred from its collection fund to its general fund or to the City fund (as the case may be), and which relate to a part of its area, are its special expenses provided that expenses of the same kind which relate to another part of its area are to be met out of property held in trust for that part, and

(d) any expenses incurred by a charging authority in performing in a part of its area a function performed elsewhere in its area by the sub-treasurer of the Inner Temple, the under-treasurer of the Middle Temple, a parish or community council or the chairman of a parish meeting are the authority's special expenses provided a resolution of the authority to that effect is in force.

Power to set substituted amounts.

31.—(1) An authority which has set an amount or amounts for a financial year in accordance with sections 29 and 30 above (originally or by way of substitute) may set an amount or amounts in substitution.

(2) Any amount set in substitution under this section must be set in accordance with sections 29 and 30 above, ignoring section 29(2) for this purpose.

(3) No amount may be set in substitution under this section if it would be greater than that for which it is substituted, except as provided by subsection (4) below.

(4) Any amount set in substitution under this section may be greater than that for which it is substituted (the old amount) if the setting of the old amount has been quashed because of a failure to fulfil section 29(3) or 30(2) above.

Duty to set substituted amounts.

32.—(1) Where an authority has set an amount or amounts for a financial year in accordance with sections 29 and 30 above (originally or by way of substitute) and a precept of a relevant authority is then issued

to it for the year (originally or by way of substitute) it must as soon as is reasonably practicable after the issue set an amount or amounts in substitution, even if it or any of them is equal to or greater than that for which it is substituted.

(2) Each of the following is a relevant authority for the purposes of subsection (1) above—

(a) a county council,

(b) the Inner London Education Authority,

(c) a metropolitan county police authority,

(d) the Northumbria Police Authority,

(e) a metropolitan county fire and civil defence authority,

(f) the London Fire and Civil Defence Authority,

(g) a metropolitan county passenger transport authority, and

(h) the Receiver for the Metropolitan Police District.

(3) Any amount set in substitution under subsection (1) above must be set by reference to the precept and in accordance with sections 29 and 30 above, ignoring section 29(2) for this purpose.

(4) Where an authority has set an amount or amounts for a financial year in accordance with sections 29 and 30 above (originally or by way of substitute) and it then makes substitute calculations in accordance with section 99 below, it must as soon as is reasonably practicable after making the substitute calculations set an amount or amounts in substitution, even if it or any of them is equal to or greater than that for which it is substituted.

(5) Any amount set in substitution under subsection (4) above must be set by reference to the substitute calculations and in accordance with sections 29 and 30 above, ignoring section 29(2) for this purpose.

(6) Where a special authority has set an amount or amounts for a financial year in accordance with sections 29 and 30 above (originally or by way of substitute) and it then sets a multiplier in substitution under paragraph 10 of Schedule 6 below, it must as soon as is reasonably practicable after setting the multiplier in substitution set an amount or amounts in substitution, even if it or any of them is equal to or greater than that for which it is substituted.

(7) Any amount set in substitution under subsection (6) above must be set by reference to the multiplier set in substitution and in accordance with sections 29 and 30 above, ignoring section 29(2) for this purpose.

Substituted amounts: supplementary.

33.—(1) Where an authority sets any amount in substitution under section 31 or 32 above (a new amount) anything paid to it by reference to the amount for which it is substituted (the old amount) shall be treated as paid by reference to the new amount.

(2) But if the old amount exceeds the new amount, the following shall apply as regards anything paid if it would not have been paid had the old amount been the same as the new amount—

(a) it shall be repaid if the person by whom it was paid so requires;

PART II

(b) in any other case it shall (as the charging authority determines) either be repaid or be credited against any subsequent liability of the person to pay in respect of any community charge of the authority.

(3) Where an authority sets an amount or amounts in substitution under section 32(1) above it may recover from the precepting authority administrative expenses incurred by it in, or in consequence of, so doing.

Power to anticipate precept.

34.—(1) For the purposes of this section a district council and the Common Council are relevant charging authorities, and—

(a) in relation to a district council, relevant precepting authorities are any parish or community council, chairman of a parish meeting or charter trustees with power to issue a precept to the district council;

(b) in relation to the Common Council, relevant precepting authorities are the sub-treasurer of the Inner Temple and the under-treasurer of the Middle Temple.

(2) Subsections (3) to (5) below apply if at the time a relevant charging authority sets an amount or amounts for a financial year under sections 29 and 30 above (originally or by way of substitute) a precept for the year has not been issued to it by a relevant precepting authority.

(3) If a precept for the previous financial year has been issued to it by the precepting authority the charging authority may include among the items listed in section 29(4) above an amount equal to that payable under the precept (or last precept) issued for the previous financial year; and in such a case section 29(4) shall be read accordingly.

(4) If after the charging authority has set an amount or amounts for the financial year under sections 29 and 30 above (originally or by way of substitute) the precepting authority issues a precept to it for the year (originally or by way of substitute) then—

(a) if subsection (3) above does not apply, or no amount was included under it, the precept shall be treated as not having been issued,

(b) if an amount was included under subsection (3) above, and it is equal to or less than the amount of the precept, the amount of the precept shall be treated as equal to the amount included, and

(c) if an amount was included under subsection (3) above, and it exceeds the amount of the precept, the amount of the precept shall be treated as equal to its actual amount.

(5) If the precepting authority issues no precept to the charging authority for the year, the fact that an amount is included under subsection (3) above does not make the charging authority liable to pay anything to the precepting authority.

(6) Where the financial year mentioned in subsection (2) above is that beginning in 1990 this section shall have effect as if subsection (3) read—

"(3) The charging authority may include among the items listed in section 29(4) above an amount equal to its estimate of the amount of any precept it expects will be issued to it for the year by the precepting authority."

(7) Where an authority includes under subsection (3) above an amount equal to that payable under a precept, section 30 above shall have effect as if among the items listed in subsection (3) there were included an amount equal to that payable under the precept, in a case where the precept is stated to be applicable to a part of the authority's area.

(8) Where an authority includes under subsection (3) above an amount equal to its estimate of the amount of any precept it expects to be issued, in a case where it expects the precept will relate to a part only of its area section 30 above shall have effect as if—

(a) the reference in subsection (2) to an item relating to a part included a reference to an item the authority expects will relate to a part, and

(b) among the items listed in subsection (3) there were included an amount equal to the authority's estimate of the amount of the precept it expects will be issued to it in relation to a part.

Information.

35.—(1) An authority which has set an amount or amounts in accordance with sections 29 and 30 above (whether originally or by way of substitute) shall, before the expiry of the period of 21 days beginning with the day of doing so, publish a notice of the amount or amounts in at least one newspaper circulating in the authority's area.

(2) Failure to comply with subsection (1) above does not make the setting of an amount or amounts invalid.

Multipliers

Standard community charge multipliers.

36.—(1) A charging authority shall determine a standard community charge multiplier for properties in its area.

(2) If it sees fit, different multipliers may be determined for properties of different specified classes.

(3) A specified class is such class as may be specified in regulations made by the Secretary of State.

(4) If the Secretary of State so requires by regulations, a multiplier for a specified class of property shall not exceed whichever of the following he specifies in the regulations as regards the class, namely, 0, ½, 1, 1½ and 2.

(5) An authority must determine under this section before 1 April 1990.

(6) Once a multiplier has been determined it shall remain effective for all chargeable financial years until varied (whether to comply with a requirement under subsection (4) above or otherwise).

(7) A multiplier as it has effect for a given financial year may only be varied before the year begins.

(8) Regulations under this section in their application to a particular financial year—

(a) may only be made if they come into force before 1 January in the preceding financial year, and

(b) may only be amended or revoked if the amendment or revocation comes into force before 1 January in the preceding financial year.

PART II

(9) A multiplier must be one of the following, namely, 0, ½, 1, 1½ or 2.

(10) References to properties are to buildings, self-contained parts of buildings, caravans and houseboats in respect of which persons are or may become subject to standard community charges of the authority.

PART III

NON-DOMESTIC RATING

Local rating

Local rating lists.

37.—(1) In accordance with this Part the valuation officer for a charging authority shall compile, and then maintain, lists for the authority (to be called its local non-domestic rating lists).

(2) A list must be compiled on 1 April 1990 and on 1 April in every fifth year afterwards.

(3) A list shall come into force on the day on which it is compiled and shall remain in force until the next one is compiled five years later.

(4) Before a list is compiled the valuation officer must take such steps as are reasonably practicable to ensure that it is accurately compiled on 1 April concerned.

(5) Not later than 31 December preceding a day on which a list is to be compiled the valuation officer shall send to the authority a copy of the list he proposes (on the information then before him) to compile.

(6) As soon as is reasonably practicable after receiving the copy the authority shall deposit it at its principal office and take such steps as it thinks most suitable for giving notice of it.

(7) A list must be maintained for so long as is necessary for the purposes of this Part, so that the expiry of the five year period for which it is in force does not detract from the duty to maintain it.

(8) In compiling and maintaining the list which must be compiled on 1 April 1990, the valuation officer may take into account information obtained under section 82 or 86 of the 1967 Act.

Contents of local lists.

38.—(1) A local non-domestic rating list must show, for each day in each chargeable financial year for which it is in force, each hereditament which fulfils the following conditions on the day concerned—

(a) it is situated in the authority's area,

(b) it is a relevant non-domestic hereditament,

(c) at least some of it is neither domestic property nor exempt from local non-domestic rating, and

(d) it is not a hereditament which must be shown for the day in a central non-domestic rating list.

(2) For each day on which a hereditament is shown in the local list, it must also show whether the hereditament—

(a) consists entirely of property which is not domestic, or

(b) is a composite hereditament.

(3) For each day on which a hereditament is shown in the list, it must also show whether any part of the hereditament is exempt from local non-domestic rating.

(4) For each day on which a hereditament is shown in the list, it must also show—

(a) the rateable value of the hereditament (in a case where none of it consists of domestic property, and none of it is exempt from local non-domestic rating, on the day);

(b) the rateable value of such part of the hereditament as is neither domestic property nor exempt from local non-domestic rating on the day (in any other case).

(5) The list must also contain such information about hereditaments shown in it as may be prescribed by the Secretary of State by regulations; and the information so prescribed may include information about the total of the rateable values shown in the list.

Occupied hereditaments: liability.

39.—(1) A person (the ratepayer) shall as regards a hereditament be subject to a non-domestic rate in respect of a chargeable financial year if on any day in the year the following conditions are fulfilled—

(a) the ratepayer is in occupation of all or part of the hereditament, and

(b) the hereditament is shown in a local non-domestic rating list in force for the year.

(2) In such a case the ratepayer shall be liable to pay an amount calculated by—

(a) finding the chargeable amount for each chargeable day, and

(b) aggregating the amounts found under sub-paragraph (a) above.

(3) A chargeable day is one which falls within the financial year and on which the conditions mentioned in subsection (1) above are fulfilled.

(4) Subject to subsection (5) below, the chargeable amount for a chargeable day shall be calculated in accordance with the formula—

$$\frac{A \times B}{C}$$

(5) Where subsection (6) below applies the chargeable amount for a chargeable day shall be calculated in accordance with the formula—

$$\frac{A \times B}{C \times 2}$$

(6) This subsection applies where on the day concerned the ratepayer is a charity or trustees for a charity and the hereditament is wholly or mainly used for charitable purposes (whether of that charity or of that and other charities).

(7) The amount the ratepayer is liable to pay under this section shall be paid to the charging authority in whose local non-domestic rating list the hereditament is shown.

(8) The liability to pay any such amount shall be discharged by making a payment or payments in accordance with regulations under Schedule 8 below.

Occupied hereditaments: supplementary.

40.—(1) This section applies for the purposes of section 39 above.

PART III

(2) A is the rateable value shown for the day under section 38(4) above as regards the hereditament or (as the case may be) such part of it as is neither domestic property nor exempt from local non-domestic rating.

(3) The Secretary of State may make regulations providing that where—

(a) the chargeable day falls within a period in which the ratepayer is in occupation of part only of the hereditament,

(b) the period is such limited one as may be prescribed, and

(c) other prescribed conditions are fulfilled,

for the day A shall be taken to be a value which is smaller than it would be apart from the regulations and which is found in accordance with prescribed rules.

(4) Subject to subsection (5) below, B is the non-domestic rating multiplier for the financial year.

(5) Where the charging authority is a special authority, B is the authority's non-domestic rating multiplier for the financial year.

(6) C is the number of days in the financial year.

Unoccupied hereditaments: liability.

41.—(1) A person (the ratepayer) shall as regards a hereditament be subject to a non-domestic rate in respect of a chargeable financial year if on any day in the year the following conditions are fulfilled—

(a) none of the hereditament is occupied,

(b) the ratepayer is the owner of the whole of the hereditament,

(c) the hereditament is shown in a local non-domestic rating list in force for the year, and

(d) the hereditament is of a description prescribed by the Secretary of State by regulations.

(2) In such a case the ratepayer shall be liable to pay an amount calculated by—

(a) finding the chargeable amount for each chargeable day, and

(b) aggregating the amounts found under sub-paragraph (a) above.

(3) A chargeable day is one which falls within the financial year and on which the conditions mentioned in subsection (1) above are fulfilled.

(4) The chargeable amount for a chargeable day shall be calculated in accordance with the formula—

$$\frac{A \times B}{C \times 2}$$

(5) The amount the ratepayer is liable to pay under this section shall be paid to the charging authority in whose local non-domestic rating list the hereditament is shown.

(6) The liability to pay any such amount shall be discharged by making a payment or payments in accordance with regulations under Schedule 8 below.

Unoccupied hereditaments: supplementary.

42.—(1) This section applies for the purposes of section 41 above.

(2) A is the rateable value shown for the day under section 38(4) above as regards the hereditament or (as the case may be) such part of it as is neither domestic property nor exempt from local non-domestic rating.

(3) Subject to subsection (4) below, B is the non-domestic rating multiplier for the financial year.

(4) Where the charging authority is a special authority, B is the authority's non-domestic rating multiplier for the financial year.

(5) C is the number of days in the financial year.

Exemption.

43. Schedule 4 below shall have effect to determine the extent (if any) to which a hereditament is for the purposes of this Part exempt from local non-domestic rating.

Central rating

Central rating lists.

44.—(1) In accordance with this Part the central valuation officer shall compile, and then maintain, lists (to be called central non-domestic rating lists).

(2) A list must be compiled on 1 April 1990 and on 1 April in every fifth year afterwards.

(3) A list shall come into force on the day on which it is compiled and shall remain in force until the next one is compiled five years later.

(4) Before a list is compiled the central valuation officer must take such steps as are reasonably practicable to ensure that it is accurately compiled on 1 April concerned.

(5) Not later than 31 December preceding a day on which a list is to be compiled the central valuation officer shall send to the Secretary of State a copy of the list he proposes (on the information then before him) to compile.

(6) As soon as is reasonably practicable after receiving the copy the Secretary of State shall deposit it at his principal office.

(7) A list must be maintained for so long as is necessary for the purposes of this Part, so that the expiry of the five year period for which it is in force does not detract from the duty to maintain it.

Contents of central lists.

45.—(1) With a view to securing the central rating en bloc of certain hereditaments, the Secretary of State may by regulations designate a person and prescribe in relation to him a description of relevant non-domestic hereditament.

(2) Where the regulations so require for any day in a chargeable financial year for which a central non-domestic rating list is in force, the list must show the name of the designated person and, against it, each hereditament (wherever situated) which on the day concerned—

(a) is occupied or (if unoccupied) owned by him, and

(b) falls within the description prescribed in relation to him.

(3) For each such day the list must also show against the name of the designated person the rateable value (as a whole) of the hereditaments so shown.

PART III

(4) Only one description of hereditament may be prescribed under subsection (3) above in relation to each person designated under it, but a description may contain a number of different headings.

(5) A central non-domestic rating list must also contain such information about hereditaments shown in it as may be prescribed by the Secretary of State by regulations.

Central rating: liability.

46.—(1) A person (the ratepayer) shall be subject to a non-domestic rate in respect of a chargeable financial year if on any day in the year his name is shown in a central non-domestic rating list in force for the year.

(2) In such a case the ratepayer shall be liable to pay an amount calculated by—

(a) finding the chargeable amount for each chargeable day, and

(b) aggregating the amounts found under sub-paragraph (a) above.

(3) A chargeable day is one which falls within the financial year and on which the ratepayer's name is shown in the list.

(4) The chargeable amount for a chargeable day shall be calculated in accordance with the formula—

$$\frac{A \times B}{C}$$

(5) A is the rateable value shown for the day in the list against the ratepayer's name.

(6) B is the non-domestic rating multiplier for the financial year.

(7) C is the number of days in the financial year.

(8) The amount the ratepayer is liable to pay under this section shall be paid to the Secretary of State.

(9) The liability to pay any such amount shall be discharged by making a payment or payments in accordance with regulations under Schedule 8 below.

General

Alteration of lists.

47.—(1) The Secretary of State may make regulations providing that where a copy of a list has been sent under section 37(5) or 44(5) above and the valuation officer alters the list before it comes into force—

(a) the officer must inform the charging authority or Secretary of State (as the case may be), and

(b) the authority or Secretary of State (as the case may be) must alter the deposited copy accordingly.

(2) The Secretary of State may make regulations about the alteration by valuation officers of lists which have been compiled under this Part, whether or not they are still in force; and subsections (3) to (7) below shall apply for the purposes of this subsection.

(3) The regulations may include provision that where a valuation officer intends to alter a list with a view to its being accurately maintained, he shall not alter it unless prescribed conditions (as to notice or otherwise) are fulfilled.

(4) The regulations may include provision—

(a) as to who (other than a valuation officer) may make a proposal for the alteration of a list with a view to its being accurately maintained,

(b) as to the circumstances in which a proposal may be made,

(c) as to the procedure for making a proposal, and

(d) requiring the valuation officer to inform other prescribed persons of the proposal in a prescribed manner.

(5) The regulations may include provision that, where there is a disagreement about the accuracy of a list between a valuation officer and another person making a proposal for its alteration, an appeal may be made to a valuation and community charge tribunal established under Schedule 12 below.

(6) The regulations may include—

(a) provision as to the period for which or day from which an alteration of a list is to have effect (including provision that it is to have retrospective effect);

(b) provision requiring the list to be altered so as to indicate the effect (retrospective or otherwise) of the alteration;

(c) provision requiring the valuation officer to inform prescribed persons of an alteration within a prescribed period;

(d) provision requiring the valuation officer to keep for a prescribed period a record of the state of the list before the alteration was made.

(7) The regulations may include provision as to financial adjustments to be made as a result of alterations, including—

(a) provision requiring payments or repayments to be made, and

(b) provision as to the recovery (by deduction or otherwise) of sums due.

Valuation and multipliers.

48.—(1) Schedule 5 below (which contains provisions about valuation for the purposes of this Part) shall have effect.

(2) Schedule 6 below (which contains provisions about multipliers for the purposes of this Part) shall have effect.

Special provision for 1990-95.

49.—(1) In relation to any relevant financial year the Secretary of State may make regulations under this section before the beginning of the year.

(2) The regulations may provide that, in any case falling within a prescribed description, the amount a person is liable to pay in respect of the year under section 39 or 41 above as regards a hereditament, or under section 46 above as regards hereditaments, shall be the lesser of—

(a) an amount found in accordance with prescribed rules, and

(b) the amount he would be liable to pay if the regulations had not been made.

PART III

(3) The rules prescribed under subsection (2) above may be framed by reference to—

(a) the amount (or a prescribed proportion of the amount) payable by way of a general rate, or by way of a non-domestic rate under this Part, as regards the hereditament or hereditaments in respect of the financial year preceding that for which the amount is to be found,

(b) the amount (or a prescribed proportion of the amount) which would have been so payable by the person mentioned in subsection (2) above if facts identified under prescribed rules had been the same in that preceding year as in that for which the amount is to be found, or

(c) such other factors as the Secretary of State thinks fit.

(4) For the purposes of this section relevant financial years are financial years beginning in 1990, 1991, 1992, 1993 and 1994.

Contributions in aid.

50.—(1) Where a hereditament would be subject to the provisions of this Part but for the rules as to Crown exemption, and a contribution in aid of non-domestic rating is made in respect of the hereditament, the contribution shall be paid to the charging authority in whose area the hereditament is situated.

(2) But the Secretary of State may make regulations requiring such a contribution to be paid to him if it is made in respect of a hereditament falling within a prescribed description.

Non-domestic rating pool.

51. Schedule 7 below (which provides for the establishment and maintenance of the non-domestic rating pool) shall have effect.

Valuation officers.

52.—(1) The Commissioners of Inland Revenue shall appoint—

(a) a valuation officer for each charging authority, and

(b) the central valuation officer.

(2) The remuneration of, and any expenses incurred by, valuation officers in carrying out their functions under this Part (including the remuneration and expenses of persons, whether or not in the service of the Crown, employed to assist them) shall be paid out of money provided by Parliament.

Administration.

53. Schedule 8 below (which contains provisions about administration, including collection and recovery) shall have effect.

Interpretation

Hereditaments.

54.—(1) A hereditament is anything which, by virtue of the definition of hereditament in section 115(1) of the 1967 Act, would have been a hereditament for the purposes of that Act had this Act not been passed.

(2) In addition, a right is a hereditament if it is a right to use any land for the purpose of exhibiting advertisements and—

(a) the right is let out or reserved to any person other than the occupier of the land, or

(b) where the land is not occupied for any other purpose, the right is let out or reserved to any person other than the owner of the land.

(3) The Secretary of State may make regulations providing that in prescribed cases—

(a) anything which would (apart from the regulations) be one hereditament shall be treated as more than one hereditament;

(b) anything which would (apart from the regulations) be more than one hereditament shall be treated as one hereditament.

(4) A hereditament is a relevant hereditament if it consists of property of any of the following descriptions—

(a) lands;

(b) coal mines;

(c) mines of any other description, other than a mine of which the royalty or dues are for the time being wholly reserved in kind;

(d) any right of sporting (that is, any right of fowling, of shooting, of taking or killing game or rabbits, or of fishing) when severed from the occupation of the land on which the right is exercisable;

(e) any right which is a hereditament by virtue of subsection (2) above.

(5) A hereditament provided and maintained by an authority mentioned in subsection (6) below for purposes connected with the administration of justice, police purposes or other Crown purposes is not prevented from being a relevant non-domestic hereditament by virtue of any rules as to Crown exemption which would have applied apart from this subsection.

(6) The authorities are —

(a) a district council,

(b) a London borough council,

(c) the Common Council,

(d) a county council,

(e) a metropolitan county police authority, and

(f) the Northumbria Police Authority.

(7) A hereditament is non-domestic if either—

(a) it consists entirely of property which is not domestic, or

(b) it is a composite hereditament.

(8) A hereditament is composite if part only of it consists of domestic property.

(9) A hereditament not in use is wholly exempt from local non-domestic rating if it appears that when next in use it will be wholly exempt from local non-domestic rating.

(10) In subsection (2) above "land" includes a wall or other part of a building and a sign, hoarding, frame, post or other structure erected or to be erected on land.

PART III
Owners and occupiers.

55.—(1) The owner of a hereditament or land is the person entitled to possession of it.

(2) Whether a hereditament or land is occupied, and who is the occupier, shall be determined by reference to the rules which would have applied for the purposes of the 1967 Act had this Act not been passed (ignoring any express statutory rules such as those in sections 24 and 46A of that Act).

(3) Subsections (1) and (2) above shall have effect subject to subsections (4) to (9) below.

(4) Regulations under section 54(3) above may include rules for ascertaining—

(a) whether the different hereditaments or the one hereditament (as the case may be) shall be treated as occupied or unoccupied,

(b) who shall be treated as the owner or occupier of the different hereditaments or the one hereditament (as the case may be).

(5) A hereditament which is not in use shall be treated as unoccupied if (apart from this subsection) it would be treated as occupied by reason only of there being kept in or on the hereditament plant, machinery or equipment—

(a) which was used in or on the hereditament when it was last in use, or

(b) which is intended for use in or on the hereditament.

(6) A hereditament shall be treated as unoccupied if (apart from this subsection) it would be treated as occupied by reason only of—

(a) the use of it for the holding of public meetings in furtherance of a person's candidature at a parliamentary or local government election, or

(b) if it is a house, the use of a room in it by a returning officer for the purpose of taking the poll in a parliamentary or local government election.

(7) In subsection (6) above "returning officer" shall be construed in accordance with section 24 or 35 of the Representation of the People Act 1983 (as the case may be).

(8) A right which is a hereditament by virtue of section 54(2) above shall be treated as occupied by the person for the time being entitled to the right.

(9) A right of sporting shall be treated as occupied by the owner of the right, whether or not it is let; and "owner" here means the person who is entitled to receive rent (if the right is let) or to exercise the right to let (if the right is not let).

Domestic property.

56.—(1) Property is domestic if—

(a) it is used wholly for the purposes of living accommodation,

(b) it is a yard, garden, outhouse or other appurtenance belonging to or enjoyed with property falling within paragraph (a) above,

(c) it is a private garage used wholly or mainly for the accommodation of a private motor vehicle, or

(d) it is private storage premises used wholly or mainly for the storage of articles of domestic use.

(2) But none of the following is domestic property—

(a) property wholly or mainly used in the course of a business for the provision to individuals whose sole or main residence is elsewhere of accommodation for short periods together with domestic or other services or other benefits or facilities,

(b) any mooring for a boat, and

(c) land on which a caravan is stationed for the purposes of providing living accommodation.

(3) Property not in use is domestic if it appears that when next in use it will be domestic.

(4) The Secretary of State may by order amend, or substitute another definition for, any definition of domestic property for the time being effective for the purposes of this Part.

Interpretation: other provisions.

57.—(1) Unless the context otherwise requires, references to lists are to local and central non-domestic rating lists.

(2) Unless the context otherwise requires, references to valuation officers are to valuation officers for charging authorities and the central valuation officer.

(3) A right or other property is a hereditament on a particular day if (and only if) it is a hereditament immediately before the day ends.

(4) A hereditament is relevant, non-domestic, composite, unoccupied or wholly or partly occupied on a particular day if (and only if) it is relevant, non-domestic, composite, unoccupied or wholly or partly occupied (as the case may be) immediately before the day ends.

(5) For the purpose of deciding the extent (if any) to which a hereditament consists of domestic property on a particular day, or is exempt from local non-domestic rating on a particular day, the state of affairs existing immediately before the day ends shall be treated as having existed throughout the day.

(6) A person is the owner, or in occupation of all or part, of a hereditament on a particular day if (and only if) he is its owner or in such occupation (as the case may be) immediately before the day ends.

(7) Section 39(6) above applies on a particular day if (and only if) it applies immediately before the day ends.

(8) For the purpose of deciding what is shown in a list for a particular day the state of the list as it has effect immediately before the day ends shall be treated as having been its state throughout the day; and "effect" here includes any effect which is retrospective by virtue of an alteration of the list.

(9) The 1967 Act is the General Rate Act 1967.

(10) Nothing in a private or local Act passed before this Act shall have the effect that a hereditament is exempt as regards non-domestic rating, or prevent a person being subject to a non-domestic rate, or prevent a person being designated or a description of hereditament being prescribed under section 45 above.

PART III

(11) This section and sections 54 to 56 above apply for the purposes of this Part.

PART IV

RESIDUAL RATING

Introduction

Charging authorities affected.

58.—(1) This Part shall not apply in the case of a charging authority unless the first figure exceeds the second figure by more than £130.

(2) The first figure is the aggregate of—

(a) the total expenditure per head, for the financial year beginning in 1987, of the charging authority, and

(b) the total expenditure per head for the year of each relevant precepting authority of the charging authority.

(3) The second figure is the aggregate of—

(a) the grant-related expenditure per head for the year of the charging authority, and

(b) the grant-related expenditure per head for the year of each relevant precepting authority of the charging authority.

(4) An authority's total expenditure per head for the year or grant-related expenditure per head for the year is its total or (as the case may be) grant-related expenditure for the year divided by its population.

(5) An authority's total expenditure for the year is the amount estimated as its total expenditure in relation to the year and submitted by it to the Secretary of State before 17 November 1987 in response to a requirement made under section 65 of the 1980 Act (taking, where more than one amount was submitted, the latest to be submitted).

(6) An authority's grant-related expenditure for the year is the amount shown as grant-related expenditure in relation to the authority in the supplementary rate support grant report for the year for England ordered by the House of Commons on 30 April 1987 to be printed; and should that report be found to be wholly or partly invalid this definition shall not be affected.

(7) An authority's population is the Registrar General's estimate of its population on 30 June 1985 as certified by him to the Secretary of State for the purposes of the enactments relating to rate support grant.

(8) A relevant precepting authority, in relation to a charging authority, is an authority which has power to issue a precept to it for the financial year beginning in 1987 and which is—

(a) a county council,

(b) the Inner London Education Authority,

(c) a metropolitan county police authority,

(d) the Northumbria Police Authority,

(e) a metropolitan county fire and civil defence authority,

(f) the London Fire and Civil Defence Authority,

(g) a metropolitan county passenger transport authority, or

(h) the Receiver for the Metropolitan Police District.

(9) The 1980 Act is the Local Government, Planning and Land Act 1980, and "total expenditure" means total expenditure for the purposes of Part VI of that Act.

(10) The Secretary of State shall notify each English charging authority whether in his opinion this Part applies to it together with the reasons for his opinion; and he shall do so within the period of one month beginning with the day on which this Act is passed.

Valuation lists

Valuation lists.

59.—(1) Any valuation list maintained by an English charging authority under the 1967 Act on 31 March 1990 shall be maintained by the authority in accordance with this Part in respect of the transitional period.

(2) Before 1 April 1990 the authority shall take such steps as are reasonably practicable to ensure that the valuation list is accurately maintained on that date.

(3) A valuation list must be maintained for so long as is necessary for the purposes of this Part, so that the expiry of the transitional period does not detract from the duty to maintain it.

Hereditaments identified in lists.

60.—(1) An authority shall make entries in its valuation list identifying each hereditament—

(a) which was on 31 March 1990 shown in the valuation list,

(b) for which a valuation was shown in the list on that date, and

(c) which is on 1 April 1990 either domestic or composite.

(2) The entries shall distinguish hereditaments which are domestic on 1 April 1990 from those which are composite on that date.

(3) Subsections (1) and (2) above have effect subject to subsections (4) to (6) below.

(4) No entry shall be made identifying a hereditament which on 1 April 1990 is shown in a local non-domestic rating list as a hereditament consisting entirely of property which is not domestic.

(5) If for 1 April 1990 a hereditament is shown in a non-domestic rating list as composite, for the purposes of subsections (1) and (2) above it shall be treated as composite on that day (even if it is not in fact).

(6) No entry identifying a hereditament as composite shall be made unless on 1 April 1990 it is shown in a local non-domestic rating list as a composite hereditament.

(7) Once a hereditament has been identified in a valuation list as domestic or composite on 1 April 1990, it shall be treated as shown in the list as composite or domestic (as the case may be) throughout the transitional period or until such time, if any, as it is deleted in accordance with this Part.

Deletion from lists.

61.—(1) Where anything is shown in a valuation list as a domestic or composite hereditament, the authority concerned shall delete it from the list if in a transitional year—

(a) it ceases to exist,

(b) it becomes two or more hereditaments, or

PART IV

(c) it becomes part only of a hereditament;

and in such a case the authority shall enter as the day of deletion the day when the event mentioned in paragraph (a), (b) or (c) above (as the case may be) occurred.

(2) Where anything is shown as a domestic hereditament in a valuation list, the authority concerned shall delete it from the list if for any day in a transitional year (other than 1 April 1990) it becomes shown in a non-domestic rating list; and in such a case the authority shall enter as the day of deletion the day for which it becomes so shown.

(3) Where for 1 April 1990 anything is shown as a composite hereditament in both a valuation list and a non-domestic rating list, the authority concerned shall delete it from the valuation list if for any day in a transitional year it becomes shown in the non-domestic rating list as a hereditament consisting entirely of property which is not domestic; and in such a case the authority shall enter as the day of deletion the day for which it becomes so shown.

(4) Where for 1 April 1990 anything is shown as a composite hereditament in both a valuation list and a non-domestic rating list, the authority concerned shall delete it from the valuation list if in a transitional year it ceases to be shown in the non-domestic rating list; and in such a case the authority shall enter as the day of deletion the last day for which it was shown in the non-domestic rating list.

Values to be shown in lists.

62.—(1) For each day on which a hereditament is shown in a valuation list as domestic or composite, the list must also show the hereditament's rateable value and (in an appropriate case) the information mentioned in subsection (4) below.

(2) The hereditament's rateable value shall be taken to be the rateable value shown in respect of it in the valuation list on 31 March 1990 (the old value).

(3) But if for a particular day its rateable value found in accordance with rules prescribed under subsection (5) below would be less than 75 per cent. of any other value shown in the valuation list as its rateable value for any preceding day in the transitional period, the rateable value found in accordance with those rules shall be taken to be its rateable value for that particular day.

(4) For each day on which a hereditament is shown in a valuation list as composite, the list must also show the hereditament's domestic value, that is, such part of the hereditament's rateable value shown for the day in the list as is attributable to the part of the hereditament which consists of domestic property on the day.

(5) The Secretary of State may make regulations containing rules for ascertaining for the purposes of this Part the rateable values of hereditaments; and the regulations may include provision for the preservation of such principles, privileges, and provisions for the making of valuations on exceptional principles, as apply or applied for the purposes of the 1967 Act.

(6) The Secretary of State may make regulations containing rules for ascertaining what part of a composite hereditament's rateable value is attributable to the part of the hereditament which consists of domestic property.

63.—(1) A person (the ratepayer) shall as regards a hereditament be subject to a residual rate in respect of a transitional year if on any day in the year the following conditions are fulfilled—

(a) the hereditament is shown as a domestic or composite hereditament in a valuation list maintained by an authority under section 59 above, and

(b) the ratepayer would have been liable to pay anything in respect of a general rate as regards the hereditament if this Act had not been passed, the authority had made a rate for the year and the hereditament had been included in a valuation list in force for the year for the purposes of the 1967 Act.

(2) In construing subsection (1)(b) above—

(a) the fact that the hereditament is situated in an area designated as an enterprise zone under the Local Government, Planning and Land Act 1980 shall be ignored,

(b) no resolution under section 17 of the 1967 Act (unoccupied property) shall be treated as having effect in a transitional year, and

(c) section 177 of the City of London Sewers Act 1848 (empty property) shall be treated as having no effect in a transitional year.

(3) In construing subsection (1)(b) above—

(a) a resolution under section 55(1) of the 1967 Act (rating of owners) shall be treated as having effect throughout the transitional period if it would have had effect on 1 April 1990 had this Act not been passed, but

(b) if in that period the authority concerned resolves to rescind the resolution it shall be treated as rescinded at the end of the transitional year in which it so resolves.

(4) In construing subsection (1)(b) above—

(a) an agreement under section 56 of the 1967 Act (payment or collection by owners) shall be treated as having effect throughout the transitional period if it would have had effect on 1 April 1990 had this Act not been passed, but

(b) if in that period notice to determine the agreement is given by the authority concerned to the owner or by the owner to the authority, the agreement shall be treated as determined at the end of the transitional year in which the notice is given.

(5) In a case where subsection (1) above applies the ratepayer shall be liable to pay to the authority an amount calculated by—

(a) finding the chargeable amount for each chargeable day, and

(b) aggregating the amounts found under sub-paragraph (a) above.

(6) A chargeable day is one which falls within the transitional year and on which the conditions mentioned in subsection (1) above are fulfilled.

(7) The chargeable amount for a chargeable day shall be calculated in accordance with the formula—

$$\frac{A \times B}{C}$$

PART IV

(8) The Secretary of State may make regulations providing that, in a case where subsection (1) above applies and the ratepayer falls within a prescribed description, he shall be entitled to a relief and accordingly liable to pay to the authority a reduced amount calculated in a prescribed manner.

(9) The liability to pay an amount under this section shall be discharged by making a payment or payments in accordance with regulations under Schedule 11 below.

Section 63: supplementary.

64.—(1) This section applies for the purposes of section 63 above.

(2) Where for the chargeable day—

(a) the hereditament is shown in the valuation list as composite, and

(b) its domestic value is shown in the list,

A is its domestic value shown for the day in the list.

(3) In any other case A is the hereditament's rateable value shown for the day in the valuation list.

(4) B is the residual rating multiplier for the authority concerned for the financial year.

(5) C is the number of days in the financial year.

Residual rating lists

Residual rating lists.

65.—(1) In accordance with this Part each English charging authority shall compile, and then maintain, a list (to be called its residual rating list).

(2) A list must be compiled on 1 April 1990, and before that date the authority must take such steps as are reasonably practicable to ensure that it is accurately compiled on that date.

(3) A list must be maintained for so long as is necessary for the purposes of this Part, so that the expiry of the transitional period does not detract from the duty to maintain it.

Contents of lists.

66.—(1) An authority shall make entries in its residual rating list showing, for each day in the transitional period, each hereditament which is situated in the authority's area and which—

(a) on the day concerned is a domestic or composite hereditament, and

(b) for the day concerned is not shown as domestic or composite in a valuation list.

(2) Subsection (1) above has effect subject to subsections (3) to (6) below.

(3) A residual rating list shall not show for a particular day a hereditament which for that day is shown in a local non-domestic rating list as a hereditament consisting entirely of property which is not domestic.

(4) If for a particular day a hereditament is shown in a non-domestic rating list as composite, for the purposes of subsection (1) above it shall be treated as composite on that day (even if it is not in fact).

(5) A residual rating list shall not show for a particular day a domestic hereditament if on that day the whole of it consists of—

(a) a private garage used wholly or mainly for the accommodation of a private motor vehicle, or

(b) private storage premises used wholly or mainly for the storage of articles of domestic use.

(6) A residual rating list shall not show for a particular day a composite hereditament if on that day the whole of the domestic property within it consists of—

(a) a private garage used wholly or mainly for the accommodation of a private motor vehicle, or

(b) private storage premises used wholly or mainly for the storage of articles of domestic use.

Liability.

67.—(1) A person (the ratepayer) shall as regards a hereditament be subject to a residual rate in respect of a transitional year if on any day in the year the following conditions are fulfilled—

(a) the hereditament is shown in a residual rating list maintained by an authority under section 65 above, and

(b) the ratepayer would have been liable to pay anything in respect of a general rate as regards the hereditament if this Act had not been passed, the authority had made a rate for the year and the hereditament had been included in a valuation list in force for the year for the purposes of the 1967 Act.

(2) In construing subsection (1)(b) above—

(a) the fact that the hereditament is situated in an area designated as an enterprise zone under the Local Government, Planning and Land Act 1980 shall be ignored,

(b) no resolution under section 17 of the 1967 Act (unoccupied property) shall be treated as having effect in a transitional year,

(c) no resolution under section 55(1) of that Act (rating of owners) shall be treated as having effect in a transitional year, and

(d) section 177 of the City of London Sewers Act 1848 (empty property) shall be treated as having no effect in a transitional year.

(3) In construing subsection (1)(b) above—

(a) an agreement under section 56 of the 1967 Act (payment or collection by owners) shall be treated as having effect throughout the transitional period if it would have had effect on 1 April 1990 had this Act not been passed, but

(b) if in that period notice to determine the agreement is given by the authority concerned to the owner or by the owner to the authority, the agreement shall be treated as determined at the end of the transitional year in which the notice is given.

(4) In a case where subsection (1) above applies the ratepayer shall be liable to pay to the authority an amount calculated in accordance with the formula—

$$\frac{A \times B}{C}$$

PART IV

(5) A is the number of days falling within the transitional year and on which the conditions mentioned in subsection (1) above are fulfilled.

(6) B is the residual rating standard amount for the authority concerned for the financial year.

(7) C is the number of days in the financial year.

(8) The Secretary of State may make regulations providing that, in a case where subsection (1) above applies and the ratepayer falls within a prescribed description, he shall be entitled to a relief and accordingly liable to pay to the authority a reduced amount calculated in a prescribed manner.

(9) The liability to pay an amount under this section shall be discharged by making a payment or payments in accordance with regulations under Schedule 11 below.

General

Alteration of lists.

68.—(1) The Secretary of State may make regulations about the alteration by charging authorities of valuation lists and residual rating lists maintained under this Part; and subsections (2) to (7) below shall apply for the purposes of this subsection.

(2) The regulations may include provision that where a charging authority intends to alter a valuation or residual rating list with a view to its being accurately maintained, the authority shall not alter it unless prescribed conditions (as to notice or otherwise) are fulfilled.

(3) The regulations may include provision—

(a) as to who (other than a charging authority) may make a proposal for the alteration of a valuation or residual rating list with a view to its being accurately maintained,

(b) as to the circumstances in which a proposal may be made,

(c) as to the procedure for making a proposal, and

(d) requiring the charging authority to inform other prescribed persons of the proposal in a prescribed manner.

(4) The regulations may include provision that, where there is a disagreement about the accuracy of a valuation or residual rating list between a charging authority and another person making a proposal for its alteration, an appeal may be made to a valuation and community charge tribunal established under Schedule 12 below.

(5) The regulations may include—

(a) provision as to the period for which or day from which an alteration of a valuation or residual rating list is to have effect (including provision that it is to have retrospective effect);

(b) provision requiring the list to be altered so as to indicate the effect (retrospective or otherwise) of the alteration;

(c) provision requiring the charging authority to inform prescribed persons of an alteration within a prescribed period;

(d) provision requiring the charging authority to keep for a prescribed period a record of the state of the list before the alteration was made.

(6) The regulations may include provision as to financial adjustments to be made as a result of alterations, including—

(a) provision requiring payments or repayments to be made, and

(b) provision as to the recovery (by deduction or otherwise) of sums due.

(7) To deal with any case where a valuation list maintained under the 1967 Act is altered on or after 1 April 1990 but as regards a time before that date, the regulations may include provision about the consequential alteration of the list as maintained for the purposes of this Part.

(8) No valuation or residual rating list maintained under this Part shall be altered after 31 March 1994.

Multipliers and standard amounts.

69.—(1) Schedule 9 below (which contains provisions about residual rating multipliers) shall have effect.

(2) Schedule 10 below (which contains provisions about residual rating standard amounts) shall have effect.

Cases where owners are liable.

70. (1) The Secretary of State may make regulations providing for financial adjustments to be made between charging authorities, owners and occupiers in cases where persons are subject to residual rates by virtue of section 63(1) above as read with section 63(3) and (4) or by virtue of section 67(1) above as read with section 67(3).

(2) The regulations may include such provision (with appropriate modifications) as is contained in the 1967 Act in relation to cases where resolutions under section 55 or (as the case may be) agreements under section 56 of that Act have effect as regards rates under that Act.

Contributions in aid.

71. Where a hereditament would be subject to the provisions of this Part if it were not occupied by or on behalf of the Crown for public purposes, and a contribution in aid of residual rating is made in respect of the hereditament, the contribution shall be paid to the charging authority in whose area the hereditament is situated.

Administration.

72. Schedule 11 below (which contains provisions about administration, including collection and recovery) shall have effect.

Interpretation

Hereditaments and domestic property.

73.—(1) A hereditament is anything which, by virtue of the definition of hereditament in section 115(1) of the 1967 Act, would have been a hereditament for the purposes of that Act had this Act not been passed.

(2) A hereditament is domestic if it consists entirely of domestic property.

(3) A hereditament is composite if part only of it consists of domestic property.

(4) Subsection (5) below applies in the case of a hereditament provided and maintained by an authority mentioned in subsection (6) below for purposes connected with the administration of justice, police purposes or other Crown purposes.

PART IV

(5) Any rules as to Crown exemption which would have applied apart from this subsection shall not—

(a) detract from any duty to show the hereditament in a residual rating list, or

(b) prevent a person being subject to a residual rate as regards the hereditament under section 67 above.

(6) The authorities are—

(a) a district council,

(b) a London borough council,

(c) the Common Council,

(d) a county council,

(e) a metropolitan county police authority, and

(f) the Northumbria Police Authority.

(7) Property is domestic at any time if it is domestic at that time for the purposes of Part III.

Interpretation: other provisions.

74.—(1) A valuation list is a valuation list maintained under section 59 above and, in relation to a charging authority, is the valuation list so maintained by the authority concerned.

(2) A residual rating list is a list maintained under section 65 above and, in relation to a charging authority, is the residual rating list so maintained by the authority concerned.

(3) A hereditament is domestic or composite on a particular day if (and only if) it is domestic or composite (as the case may be) immediately before the day ends.

(4) For the purpose of deciding what is shown in a valuation or residual rating list for a particular day the state of the list as it has effect immediately before the day ends shall be treated as having been its state throughout the day; and "effect" here includes any effect which is retrospective by virtue of an alteration of the list.

(5) The 1967 Act is the General Rate Act 1967.

(6) This section and section 73 above apply for the purposes of this Part.

PART V

PRECEPTS AND LEVIES

Precepts

Precepts to be issued.

75.—(1) For each chargeable financial year, a precepting authority shall issue a precept or precepts in accordance with this section.

(2) A precept must be issued before 11 March in the financial year preceding that for which it is issued, but is not invalid merely because it is issued on or after that date.

(3) The precepting authority must secure (so far as practicable) that the total amount yielded by precepts issued by it for a financial year is sufficient to provide for the items mentioned in subsection (4) below, to the extent that they are not to be provided for by other means.

(4) The items are—

(a) the expenditure the authority estimates it will incur in the year in performing its functions in the year(including an allowance for contingencies),

(b) the payments it estimates it will make in the year in defraying outstanding expenditure incurred in any earlier financial year,

(c) the expenditure it estimates it will incur and will have to meet in the next financial year before amounts to be yielded in respect of precepts for that year become sufficiently available, and

(d) the amount it estimates it will pay in the year into a fund or funds it has established under paragraph 16 of Schedule 13 to the Local Government Act 1972.

(5) In estimating under subsection (4)(a) above a precepting authority which is a county council shall take into account the amount of any levy issued to it for the year but (except as provided by regulations under section 81 below) shall not anticipate a levy not issued.

Precepted authorities

76.—(1) A precept may only be issued to an appropriate charging authority.

(2) If the whole or part of a charging authority's area falls within a precepting authority's area, it is an appropriate charging authority in relation to the precepting authority to the extent of the area which so falls.

(3) A precepting authority must secure that such of its general expenses as are to be met by precepts are borne by its appropriate charging authorities (if more than one) in proportion.

(4) A precepting authority must secure that such of its special expenses as are to be met by precepts are borne by the appropriate charging authority to whose area or part the expenses concerned relate or by all such charging authorities (if more than one) in proportion.

(5) Proportions under subsection (3) above shall be determined by reference to the relevant population of each charging authority's area or (as the case may be) the part which falls within the precepting authority's area.

(6) Proportions under subsection (4) above shall be determined by reference to the relevant population of each area or part to which the expenses concerned relate.

(7) "Relevant population", in relation to an area or part, means the members of the population of the area or part who fall within such description as is specified in regulations made by the Secretary of State.

(8) A precept may be issued to the same authority in respect of both general and special expenses of the precepting authority.

(9) A precept must state—

(a) whether it or any portion of it is issued in respect of general expenses,

(b) whether it or any portion of it is issued in respect of special expenses, and

(c) whether it or any portion of it is applicable to all or part of the area of the authority to which it is issued and, in the case of a part, what part.

PART V

General and special expenses.

77.—(1) This section applies for the purposes of section 76 above.

(2) All the expenses of a county council are its general expenses except that—

(a) if it is the police authority for part only of its area its expenses as police authority are special expenses provided a resolution of the council to that effect is in force, and

(b) provided a resolution of the council to the following effect is in force, its expenses needed to meet a levy issued to it are its special expenses or (if the resolution relates to some only of those expenses) those to which the resolution relates are its special expenses.

(3) Expenses which are special by virtue of a resolution under subsection (2)(a) above relate to the part of the council's area for which it is the police authority.

(4) Expenses which are special by virtue of a resolution under subsection (2)(b) above relate to the part of the council's area in which the levying body carries out functions.

(5) All the expenses of each of the following are its general expenses—

(a) the Inner London Education Authority,

(b) a metropolitan county police authority,

(c) the Northumbria Police Authority,

(d) a metropolitan county fire and civil defence authority,

(e) the London Fire and Civil Defence Authority, and

(f) a metropolitan county passenger transport authority.

(6) All the expenses of the Receiver for the Metropolitan Police District are his general expenses, except that his expenses relating to the metropolitan police courts and the probation system in the metropolitan police court area are his special expenses.

(7) Expenses which are special by virtue of subsection (6) above relate to the metropolitan police court area.

(8) All the expenses of the sub-treasurer of the Inner Temple are his general expenses, and all the expenses of the under-treasurer of the Middle Temple are his general expenses.

(9) All the expenses of a parish or community council, the chairman of a parish meeting or charter trustees are general expenses.

Substituted precepts.

78.—(1) An authority which has issued a precept or precepts for a financial year (originally or by way of substitute) may issue a precept or precepts in substitution.

(2) Any precept issued in substitution must be issued in accordance with sections 75 to 77 above, ignoring section 75(2) for this purpose.

(3) No precept may be issued in substitution if its amount would be greater than the amount of that for which it is substituted, except as provided by subsection (4) below.

(4) The amount of any precept issued in substitution may be greater than the amount of that for which it is substituted (the old precept) if the old precept has been quashed because of a failure to fulfil section 75(3) or 76(3) or (4) above.

(5) Where an authority issues a precept in substitution (a new precept) anything paid to it by reference to the precept for which it is substituted (the old precept) shall be treated as paid by reference to the new precept.

(6) But if the amount of the old precept exceeds that of the new precept, the following shall apply as regards anything paid if it would not have been paid had the amount of the old precept been the same as that of the new precept—

(a) it shall be repaid if the charging authority by whom it was paid so requires;

(b) in any other case it shall (as the precepting authority determines) either be repaid or be credited against any subsequent liability of the charging authority in respect of any precept of the precepting authority.

Statement as to payment of precept.

79.—(1) A precept (whether original or by way of substitute) must state—

(a) whether the authority to which it is issued needs to pay anything in respect of the amount of the precept, and

(b) if it does, what it needs to pay to the issuing authority.

(2) The Secretary of State may make regulations providing that prescribed matters are, and other prescribed matters are not, to be taken into account by an authority in preparing a statement under this section.

(3) The matters which may be prescribed include the effects of sections 34(4) and 78(5) and (6) above and of regulations under section 103 below.

Information.

80.—(1) If the Secretary of State so requires by regulations, a charging authority shall supply prescribed information within a prescribed period to any precepting authority which has power to issue a precept to the charging authority.

(2) Where regulations under Schedule 2 below impose a duty on a charging authority to supply information to any person, they may also require any appropriate precepting authority to supply the charging authority with prescribed information if the Secretary of State considers it to be information the charging authority needs in order to fulfil its duty.

(3) For the purposes of subsection (2) above an authority is an appropriate precepting authority in relation to a charging authority if it has power to issue a precept to the charging authority.

Levies

Levies.

81.—(1) In this section "levying body" means any body which—

(a) is established by or under an Act,

(b) in respect of the financial year beginning in 1989 has power (conferred by or under an Act) to issue a precept to, make a levy on or have its expenses paid by a county council, district council or London borough council, and

(c) is not a precepting authority.

(2) Whereas a levying body has (by virtue of section 121 below) no such power under the Act concerned in respect of a chargeable financial year, the Secretary of State may make regulations conferring on each

PART V

levying body power to issue to the council concerned and in accordance with the regulations a levy (to be so called) in respect of any chargeable financial year.

(3) The regulations may include provision—

(a) as to when levies are to be issued;

(b) imposing a maximum limit on levies;

(c) as to apportionment where a body issues levies to more than one council;

(d) conferring a power to issue levies by way of substitute for others;

(e) as to the payment (in instalments or otherwise) of amounts in respect of which levies are issued;

(f) conferring a right to interest on anything unpaid.

(4) The regulations may include provision—

(a) that a county council issuing a precept or precepts under this Act may anticipate a levy;

(b) that a charging authority making calculations under section 99 below (originally or by way of substitute) may anticipate a levy;

(c) as to the treatment as special expenses of amounts so anticipated;

(d) as to the treatment of any levy actually issued.

(5) The regulations may include—

(a) provision equivalent to anything in section 34 above or in sections 75 to 79 above (subject to such modifications as the Secretary of State thinks fit);

(b) provision amending or adapting any provision of this Act in consequence of any provision included under subsection (4) above.

(6) In this section "Act" includes a private or local Act.

PART VI

GRANTS

Introduction

Interpretation.

82.—(1) This section applies for the purposes of this Part.

(2) Each of the following is a receiving authority—

(a) a charging authority, and

(b) in the application of this Part to Wales, a county council.

(3) Each of the following is a notifiable authority (and is accordingly entitled to receive certain information and copies of certain documents as provided in this Part)—

(a) a charging authority,

(b) a county council,

(c) the Inner London Education Authority,

(d) a metropolitan county police authority,

(e) the Northumbria Police Authority,

(f) a metropolitan county fire and civil defence authority,

(g) the London Fire and Civil Defence Authority,

(h) a metropolitan county passenger transport authority, and

(i) the Receiver for the Metropolitan Police District.

(4) A specified body is any body which provides services for local authorities and is specified in regulations made by the Secretary of State under this subsection; but a body is not a specified body as regards a financial year unless the regulations specifying it are in force before the year begins.

(5) Before exercising the power to make regulations under subsection (4) above the Secretary of State shall consult such representatives of local government as appear to him to be appropriate.

(6) Any regulations made under section 2(7) of the Local Government Act 1974 or section 56(9) of the Local Government, Planning and Land Act 1980 shall have effect for the purposes of subsection (4) above as if they had been made under it.

Information.

83.—(1) The Secretary of State may serve on a charging authority or precepting authority a notice requiring it to supply to him such information as is specified in the notice and required by him for the purpose of deciding whether to exercise his powers, and how to perform his functions, under this Part.

(2) The authority shall supply the information required if it is in its possession or control, and shall do so in such form and manner, and at such time, as the Secretary of State specifies in the notice.

(3) If an authority fails to comply with subsection (2) above the Secretary of State may assume the information required to be such as he sees fit if he informs the authority concerned of his intention to make the assumption; and in such a case he may decide in accordance with the assumption whether to exercise his powers, and how to perform his functions, under this Part.

(4) In deciding whether to exercise his powers, and how to perform his functions, under this Part the Secretary of State may also take into account information obtained from charging or precepting authorities under any other provision of this Act or a provision of any other Act or a provision of an order or regulations made under this or any other Act.

Revenue support grant

Revenue support grant.

84.—(1) For each chargeable financial year the Secretary of State shall pay a grant (to be called revenue support grant) to receiving authorities and specified bodies in accordance with this Part.

(2) For each chargeable financial year the Secretary of State shall make a determination under this section.

(3) A determination shall state—

(a) the amount of the grant for the year,

(b) what amount of the grant he proposes to pay to receiving authorities, and

(c) what amount of the grant he proposes to pay to each specified body.

PART VI

(4) Different amounts may be stated under subsection (3)(c) above in relation to different specified bodies.

(5) Before making a determination the Secretary of State shall—

(a) consult such representatives of local government as appear to him to be appropriate, and

(b) obtain the Treasury's consent.

(6) A determination shall be specified in a report (to be called a revenue support grant report) and the report shall be laid before the House of Commons.

(7) As soon as is reasonably practicable after the report is laid before the House of Commons the Secretary of State shall send a copy of it to each notifiable authority.

Effect of report's approval.

85.—(1) This section applies where in accordance with section 84 above a determination as regards revenue support grant has been made for a financial year and specified in a report which has been laid before the House of Commons.

(2) If the report is approved by resolution of the House of Commons the Secretary of State shall pay the amount stated in the determination as the amount of the revenue support grant for the year.

(3) The Secretary of State shall pay to receiving authorities the amount stated in the determination under section 84(3)(b) above, and shall pay to specified bodies the aggregate of the amounts stated in the determination under section 84(3)(c) above.

(4) The amount falling to be paid to receiving authorities shall be distributed among and paid to them in accordance with sections 86 to 89 below or sections 86 to 90 below (as the case may be).

(5) The amount to be paid to a particular specified body shall be the amount stated in relation to it under section 84(3)(c) above.

(6) Where a sum falls to be paid to a specified body by way of revenue support grant it shall be paid at such time, or in instalments of such amounts and at such times, as the Secretary of State determines with the Treasury's consent; and any such time may fall within or after the financial year concerned.

Distribution reports.

86.—(1) The Secretary of State shall make a report containing the basis on which he proposes (subject to any report under section 90 below) to distribute among receiving authorities those amounts of revenue support grant which fall to be paid to such authorities under this Part.

(2) Before making the report the Secretary of State shall notify to such representatives of local government as appear to him to be appropriate the general nature of its intended contents.

(3) The report shall be laid before the House of Commons.

(4) As soon as is reasonably practicable after the report is laid before the House of Commons the Secretary of State shall send a copy of it to each notifiable authority.

(5) After making the report the Secretary of State may make a further report or reports, and any such report—

(a) may replace any previous report under this section, or

(b) may amend any previous report under this section.

(6) A report under subsection (5)(a) above shall contain a revised basis on which the Secretary of State proposes (subject to any report under section 90 below) to distribute the amounts mentioned in subsection (1) above.

(7) A report under subsection (5)(b) above shall contain amendments to the basis of distribution contained in the report which it amends.

(8) Subsections (2) to (4) above shall apply to any report under subsection (5) above as they apply to one under subsection (1) above.

(9) A report under this section shall state the day on which it is to come into force and the first financial year for which it is to operate.

Effect of distribution reports.

87.—(1) This section applies where in accordance with section 86 above a report has been made and laid before the House of Commons.

(2) If the report is approved by resolution of the House of Commons it shall come into force on the day stated in the report.

(3) If the report is made under section 86(1) or (5)(a), on and after the day it comes into force the basis it contains shall have effect as regards revenue support grant payable for all chargeable financial years beginning with the first financial year for which it states it is to operate; but this is subject to the effect of any subsequent report under section 86(5).

(4) If the report is made under section 86(5)(b), on and after the day it comes into force the basis it amends read subject to the amendments shall have effect as regards revenue support grant payable for all chargeable financial years beginning with the first financial year for which it states it is to operate; but this is subject to the effect of any subsequent report under section 86(5).

Calculation of sums payable.

88.—(1) As soon as is reasonably practicable after a revenue support grant report for a financial year has been approved by resolution of the House of Commons, the Secretary of State shall calculate what sum falls to be paid to each receiving authority by way of revenue support grant for the year in accordance with the basis of distribution for the time being effective (as regards grant payable for the year) under section 87 above.

(2) At any time after making a calculation under subsection (1) above the Secretary of State may make one further calculation of what sum falls to be paid to each receiving authority by way of revenue support grant for the year in accordance with the basis of distribution for the time being effective (as regards grant payable for the year) under section 87 above.

(3) If the Secretary of State decides that he will leave out of account information received by him after a particular date in making a calculation under subsection (1) or (2) above the calculation shall be made accordingly.

(4) Subsection (3) above applies only if the Secretary of State informs each notifiable authority in writing of his decision and of the date concerned; but he may do this at any time before the calculation is made under this section (whether before or after a determination is made for the year under section 84 above).

(5) As soon as is reasonably practicable after making a calculation under subsection (1) or (2) above the Secretary of State shall—

(a) inform each receiving authority of the sum he calculates falls to be paid to it by way of revenue support grant for the year, and

(b) inform each authority falling within section 82(3) (b) to (i) above of the sum he calculates falls to be paid by way of revenue support grant for the year to any receiving authority to which it has power to issue a precept.

(6) Subsection (5)(b) above shall not have effect in the application of this Part to Wales.

Payment of sums.

89.—(1) Where a calculation is made under section 88(1) above the Secretary of State shall pay to each receiving authority any sum calculated as falling to be paid to it.

(2) The sum shall be paid in instalments of such amounts, and at such times in the financial year concerned, as the Secretary of State determines with the Treasury's consent.

(3) Where a calculation is made under section 88(2) above and the sum it shows as falling to be paid to a receiving authority exceeds that shown as falling to be paid to it by the calculation for the financial year concerned under section 88(1) above, the Secretary of State shall pay to the authority a sum equal to the difference.

(4) The sum shall be paid at such time, or in instalments of such amounts and at such times, as the Secretary of State determines with the Treasury's consent; but any such time must fall after the end of the financial year concerned.

(5) Where a calculation is made under section 88(2) above and the sum it shows as falling to be paid to a receiving authority is less than that shown as falling to be paid to it by the calculation for the financial year concerned under section 88(1) above, a sum equal to the difference shall be due from the authority to the Secretary of State.

(6) If the Secretary of State decides that a sum due under subsection (5) above is to be recoverable by deduction he may deduct a sum equalling (or sums together equalling) that sum from what the authority is entitled to receive by way of revenue support grant for one or more subsequent financial years; and this section shall have effect accordingly as regards such years.

(7) If the Secretary of State decides that a sum due under subsection (5) above is to be recoverable by payment it shall be payable on such day after the end of the financial year concerned as he may specify; and if it is not paid on or before that day it shall be recoverable as a simple contract debt in a court of competent jurisdiction.

(8) The Secretary of State may decide that a sum due under subsection (5) above is to be recoverable partly by deduction and partly by payment, and in such a case subsections (6) and (7) above shall have effect with appropriate modifications.

(9) The Secretary of State may decide differently under subsections (6) to (8) above as regards sums due from different authorities or as regards sums due from the same authority for different financial years.

Special provision for transitional years.

90.—(1) The Secretary of State may lay before the House of Commons a report containing provision about—

(a) the calculation under section 88(1) above for a transitional year, and

(b) any calculation under section 88(2) above for such a year;

and the following provisions of this section shall apply to the report (if any).

(2) The report shall provide that the basis of distribution in accordance with which such a calculation is to be made shall be the basis which would have applied (apart from the report) but read subject to adjustments set out in the report.

(3) The report—

(a) must be laid before the beginning of the first transitional year;

(b) must contain provision for each transitional year;

(c) may make different provision for different transitional years or different authorities.

(4) As soon as is reasonably practicable after the report is laid before the House of Commons the Secretary of State shall send a copy of it to each notifiable authority.

(5) If the report has been laid in accordance with this section, and is approved by resolution of the House of Commons, subsection (6) below shall have effect as regards a transitional year.

(6) The basis of distribution in accordance with which—

(a) the calculation under section 88(1) above, and

(b) any calculation under section 88(2) above,

is to be made for the year shall be the basis which would have applied (apart from the report) but read subject to adjustments set out for the year in the report.

(7) Subject to subsection (6) above, the provisions of this Act relating to any such calculation shall apply as they apply to a calculation made, or falling to be made, in accordance with an unadjusted basis.

(8) In deciding whether to lay a report, and in deciding its contents, the Secretary of State may make such assumptions and estimates as he sees fit as to income, expenditure, balances and other financial matters in relation to receiving authorities and other bodies, whether as regards any transitional year or otherwise.

Additional grant

Additional grant.

91.—(1) This section applies where a revenue support grant report for a chargeable financial year has been approved by the House of Commons, and before the year ends the Secretary of State forms the view that fresh circumstances affecting the finances of local authorities have arisen since the approval.

(2) For the year concerned the Secretary of State may pay a grant (to be called additional grant) to receiving authorities in accordance with this Part.

(3) Where the Secretary of State proposes to pay additional grant for a financial year he shall make a determination under this section.

(4) A determination shall state—

(a) the amount of the grant for the year, and

(b) the basis on which he proposes to distribute it among receiving authorities.

(5) Before making a determination the Secretary of State shall obtain the Treasury's consent.

(6) A determination shall be specified in a report and the report shall be laid before the House of Commons.

(7) As soon as is reasonably practicable after the report is laid before the House of Commons the Secretary of State shall send a copy of it to each notifiable authority.

Effect of report's approval.

92.—(1) This section applies where in accordance with section 91 above a determination as regards additional grant has been made for a financial year and specified in a report which has been laid before the House of Commons.

(2) If the report is approved by resolution of the House of Commons—

(a) the Secretary of State shall pay the amount stated in the determination as the amount of the additional grant for the year, and

(b) the amount shall be distributed on the basis stated in the determination.

(3) Where a sum falls to be paid to a receiving authority by way of additional grant it shall be paid at such time, or in instalments of such amounts and at such times, as the Secretary of State determines with the Treasury's consent; and any such time may fall within or after the financial year concerned.

(4) The Secretary of State may direct a receiving authority to which he pays any sum by way of additional grant to pay all or such part of the sum as he may specify to such relevant precepting authority or authorities as he may specify.

(5) For the purposes of subsection (4) above an authority is a relevant precepting authority in relation to a receiving authority if it has power to issue a precept to the receiving authority.

(6) Subsections (4) and (5) above shall not have effect in the application of this Part to Wales.

Transport grants

Transport grants.

93.—(1) The Secretary of State shall pay to a defined council a grant for a chargeable financial year if he accepts that at least some of its estimated relevant transport expenditure for the year is appropriate to be taken into account for the purposes of this section.

(2) The amount of the grant shall be a proportion of so much of the council's estimated relevant transport expenditure for the year as he accepts under subsection (1) above.

(3) The proportion shall be such as is determined for the year by the Secretary of State and shall be the same as regards each council to which a grant is paid for the year under this section.

(4) A grant under this section shall be paid at such time, or in instalments of such amounts and at such times, as the Secretary of State thinks fit; and any such time need not fall within the financial year concerned.

(5) In deciding whether to accept any of a council's estimated relevant transport expenditure for a financial year under subsection (1) above, and how much of it to accept, the Secretary of State may have regard to the following matters (in addition to any other matters he thinks fit)—

(a) whether the council's relevant transport expenditure for any preceding financial year or years is greater or smaller than its estimated relevant transport expenditure for that year or those years;

(b) the extent (if any) to which it is greater or smaller.

(6) The total accepted under subsection (1) above as regards all defined councils for a particular financial year shall not exceed such amount as is approved by the Treasury for the year.

Transport grants: supplementary.

94.—(1) This section applies for the purposes of section 93 above.

(2) Each of the following is a defined council—

(a) a county council,

(b) a metropolitan district council,

(c) a London borough council, and

(d) the Common Council.

(3) A council's relevant transport expenditure for a financial year is the expenditure it calculates it incurred in the year in connection with—

(a) highways or the regulation of traffic (where the council is English), or

(b) highways, the regulation of traffic or public transport (where the council is Welsh).

(4) But in making the calculation expenditure shall be left out of account unless, at the time the calculation is made, it is prescribed expenditure for the purposes of Part VIII of the Local Government, Planning and Land Act 1980.

(5) A council's estimated relevant transport expenditure for a financial year is the expenditure it estimates it will incur in the year in connection with—

(a) highways or the regulation of traffic (where the council is English), or

(b) highways, the regulation of traffic or public transport (where the council is Welsh).

(6) But in making the estimate expenditure shall be left out of account unless, at the time the estimate is made, it is prescribed expenditure for the purposes of Part VIII of the Local Government, Planning and Land Act 1980.

PART VII

FUNDS

Funds

Collection funds.

95.—(1) Every charging authority shall establish, and then maintain, a fund (to be called its collection fund) in accordance with this Part.

(2) An authority's collection fund must be established before 1 April 1990.

(3) Section 101(1)(b) of the Local Government Act 1972 (delegation) shall not apply as regards the functions of an authority in relation to its collection fund.

(4) Any sum paid into an authority's collection fund shall be used in settlement of payments which are to be met from that fund or of transfers which are to be made from it.

(5) If not immediately required for the purpose of settling those payments or transfers, the sum shall be held in a bank account or lent to another charging authority or a precepting authority.

Payments to and from collection funds.

96.—(1) The following shall be paid into the collection fund of an English charging authority—

(a) sums received by the authority in respect of its community charges (but not sums received by way of penalty),

(b) sums received by the authority in respect of any non-domestic or residual rate under this Act,

(c) sums received by the authority from the non-domestic rating pool,

(d) sums received by the authority by way of revenue support grant,

(e) sums received by the authority by way of additional grant,

(f) sums received by the authority as interest on sums held or lent in accordance with section 95(5) above, and

(g) any other sums which the Secretary of State specifies are to be paid into an English charging authority's collection fund.

(2) The following payments shall be met from the collection fund of an English charging authority—

(a) payments to be made by the authority in respect of the amount of any precept issued under this Act or in respect of interest on such an amount,

(b) payments to be made by the authority to the Secretary of State under paragraph 5 of Schedule 7 below,

(c) payments to be made by the authority to the Secretary of State under section 89(7) above,

(d) payments to be made by the authority to another authority under a direction under section 92(4) above,

(e) payments to be made by the authority to another person in repaying excess receipts by way of community charges or of non-domestic or residual rates under this Act, and

(f) any other payments which are to be made by the authority to another person and which the Secretary of State specifies are to be met from an English charging authority's collection fund.

(3) The following shall be paid into the collection fund of a Welsh charging authority —

(a) sums received by the authority in respect of its community charges (but not sums received by way of penalty),

(b) sums received by the authority as interest on sums held or lent in accordance with section 95(5) above, and

(c) any other sums which the Secretary of State specifies are to be paid into a Welsh charging authority's collection fund.

(4) The following payments shall be met from the collection fund of a Welsh charging authority —

(a) payments to be made by the authority in respect of the amount of any precept issued under this Act or in respect of interest on such an amount,

(b) payments to be made by the authority to another person in repaying excess receipts by way of community charges, and

(c) any other payments which are to be made by the authority to another person and which the Secretary of State specifies are to be met from a Welsh charging authority's collection fund.

(5) The power to specify under this section includes power to revoke or amend a specification made under the power.

General funds.

97.—(1) For the purposes of this section each of the following is a relevant authority—

(a) a district council,

(b) a London borough council, and

(c) the Council of the Isles of Scilly.

(2) Every relevant authority shall establish, and then maintain, a fund (to be called its general fund) in accordance with this Part.

(3) An authority's general fund must be established before 1 April 1990.

(4) Any sum received by a relevant authority after 31 March 1990 shall be paid into its general fund; but this does not apply to a sum which is to be paid into its collection fund or a trust fund.

(5) Any payment to be made by a relevant authority after 31 March 1990 shall be met from its general fund; but this does not apply to a payment which is to be met from its collection fund or a trust fund.

(6) After 31 March 1990 no district council or London borough council shall be required to keep a general rate fund ; and the assets and liabilities of the general rate fund of such an authority which subsist immediately before 1 April 1990 shall be transferred to its general fund on that date.

PART VII
The City fund.

98.—(1) The Common Council shall establish, and then maintain, a fund (to be called the City fund) in accordance with this Part.

(2) The City fund must be established before 1 April 1990.

(3) Any sum received by the Common Council after 31 March 1990 shall be paid into the City fund if it is not a sum which is to be paid into its collection fund or a trust fund and—

(a) it is received in respect of the general rate, the poor rate or the St. Botolph tithe rate, or

(b) it would have fallen to be credited in aid of any of those rates had this Act not been passed.

(4) Any payment to be made by the Common Council after 31 March 1990 shall be met from the City fund if it is not a payment which is to be met from its collection fund or a trust fund and if, had this Act not been passed, it would have fallen to be met out of—

(a) the general rate, the poor rate or the St. Botolph tithe rate, or

(b) sums which, had this Act not been passed, would have fallen to be credited in aid of any of those rates.

(5) The assets and liabilities of the Common Council subsisting in respect of the general rate, the poor rate or the St. Botolph tithe rate immediately before 1 April 1990 shall be transferred to the City fund on that date.

Calculations

Calculations to be made by authorities.

99.—(1) In relation to each chargeable financial year a charging authority shall make the calculations required by this section.

(2) The authority must calculate the aggregate of —

(a) the expenditure it estimates it will incur in the year in performing its functions in the year (including an allowance for contingencies),

(b) the payments it estimates it will make in the year in defraying outstanding expenditure already incurred,

(c) the expenditure it estimates it will incur and will have to meet in the next financial year before amounts to be transferred as regards that year from its collection fund to its general fund or to the City fund (as the case may be) become sufficiently available, and

(d) the amount it estimates it will pay in the year into a fund or funds it has established under paragraph 16 of Schedule 13 to the Local Government Act 1972.

(3) The authority must calculate the aggregate of the sums it estimates will be paid in the year into its general fund or into the City fund (as the case may be).

(4) If the aggregate calculated under subsection (2) above exceeds that calculated under subsection (3) above the authority must calculate the amount equal to the difference.

(5) In making the calculation under subsection (2) above the authority must ignore payments which must be met from its collection fund under section 96(2) or (4) above or from a trust fund.

(6) In estimating under subsection (2)(a) above an authority which is a district council or London borough council shall take into account the amount of any levy issued to it for the year but (except as provided by regulations under section 81 above) shall not anticipate a levy not issued.

(7) In making the calculation under subsection (3) above the authority must ignore sums which have been or are to be transferred from its collection fund to its general fund or to the City fund (as the case may be).

(8) Calculations to be made in relation to a particular financial year under this section must be made before 11 March in the preceding financial year, but they are not invalid merely because they are made on or after that date.

Substitute calculations.

100.—(1) An authority which has made calculations in accordance with section 99 above in relation to a financial year (originally or by way of substitute) may make calculations in substitution in relation to the year in accordance with that section, ignoring section 99(8) for this purpose.

(2) None of the substitute calculations shall have any effect if the amount calculated under section 99(4) would exceed that so calculated in the previous calculations.

(3) But subsection (2) above shall not apply if the previous calculation under section 99(4) has been quashed because of a failure to comply with section 99 in making the calculation.

Transfers between funds

Principal transfers between funds.

101. An authority which has made calculations in accordance with section 99 above (originally or by way of substitute) shall transfer from its collection fund to its general fund or to the City fund (as the case may be) an amount equal to that calculated (or last calculated) under section 99(4).

Other transfers between funds.

102.—(1) An English charging authority which receives a sum by way of additional grant shall transfer from its collection fund to its general fund or to the City fund (as the case may be) an amount found by deducting B from A; and the Secretary of State may by direction specify the time at which the transfer is to be made.

(2) A is the sum received by the authority by way of additional grant, and B is such of that sum as the authority pays under a direction under section 92(4) above.

(3) If the Secretary of State directs it to do so, a charging authority shall transfer from its collection fund to its general fund or to the City fund (as the case may be) such an amount as is specified in, or calculated in a manner specified in, the direction; and the transfer shall be made at such time as is specified in the direction.

(4) Different directions may be given to different authorities under subsection (1) or (3) above.

PART VII *Regulations about funds*

Regulations about funds.

103.—(1) The Secretary of State may make regulations about the discharge of the following liabilities of a charging authority—

(a) the liability to pay anything from its collection fund in respect of any precept, and

(b) the liability to transfer anything from its collection fund under section 101 above.

(2) The regulations may include provision—

(a) that anything falling to be paid or transferred must be paid or transferred within a prescribed period,

(b) that anything falling to be paid or transferred must be paid or transferred in instalments of such amounts, and at such times, as are determined by the charging authority in accordance with prescribed rules,

(c) that the charging authority must inform any precepting authorities when instalments will be paid and how they are to be calculated,

(d) that if an instalment is not paid to a precepting authority in accordance with the regulations, it is to be entitled to interest on the amount of the instalment at such rate as may be prescribed,

(e) that the charging authority must calculate at a prescribed time and in accordance with prescribed rules the amount available in its collection fund to meet the liabilities mentioned in subsection (1) above,

(f) that any deficiency in or excess of such an amount is to be borne as between, or shared among, the charging authority and precepting authorities in accordance with prescribed rules,

(g) that the charging authority must inform any precepting authorities of the effects of any calculation and rules mentioned in paragraphs (e) and (f) above,

(h) as to the circumstances in which the charging authority is to be treated as having discharged the liabilities mentioned in subsection (1) above,

(i) as to the recovery (by deduction or otherwise) of any excess amount paid by the charging authority to any precepting authority in purported discharge of the liability mentioned in subsection (1)(a) above, and

(j) as to the transfer back of any excess amount transferred by the charging authority in purported discharge of the liability mentioned in subsection (1)(b) above.

(3) The Secretary of State may make regulations requiring transfers between funds, or adjustments or assumptions, to be made to take account of any substitute calculation under section 99(4) above.

(4) The Secretary of State may make regulations providing that sums standing to the credit of a charging authority's collection fund at any time in a financial year must not exceed a total to be calculated in such manner as may be prescribed.

(5) Regulations under subsection (4) above in their application to a particular financial year—

(a) may only be made if they come into force before 1 March in the preceding financial year, and

(b) may only be amended if the amendment comes into force before 1 March in the preceding financial year;

but this is without prejudice to the power to revoke.

PART VIII

LIMITATION OF CHARGES ETC

Power to designate authorities.

104.—(1) As regards a chargeable financial year the Secretary of State may designate a charging authority if in his opinion—

(a) the amount calculated by it in relation to the year under section 99(4) above is excessive, or

(b) there is an excessive increase in the amount so calculated over the amount calculated by it in relation to the preceding financial year under section 99(4).

(2) As regards a chargeable financial year the Secretary of State may designate a relevant precepting authority if in his opinion—

(a) the aggregate amount of precepts issued by it for the year is excessive, or

(b) there is an excessive increase in that aggregate over the aggregate amount of precepts issued by it for the preceding financial year.

(3) For the purposes of this Part each of the following is a relevant precepting authority—

(a) a county council,

(b) the Inner London Education Authority,

(c) a metropolitan county police authority,

(d) the Northumbria Police Authority,

(e) a metropolitan county fire and civil defence authority,

(f) the London Fire and Civil Defence Authority, and

(g) a metropolitan county passenger transport authority.

(4) A decision whether to designate an authority shall be made in accordance with principles determined by the Secretary of State and, in the case of an authority falling within any of the classes specified in subsection (5) below, those principles shall be the same either for all authorities falling within that class or for all of them which respectively have and have not been designated under this Part as regards the preceding financial year.

(5) The classes are—

(a) county councils,

(b) councils of metropolitan districts,

(c) councils of non-metropolitan districts,

(d) councils of inner London boroughs,

(e) councils of outer London boroughs,

PART VIII

(f) metropolitan county police authorities and the Northumbria Police Authority,

(g) metropolitan county fire and civil defence authorities, and

(h) metropolitan county passenger transport authorities.

Restriction on power to designate.

105.—(1) An English authority shall not be designated under section 104 above as regards a financial year unless the amount calculated by it in relation to the year under section 99(4) above or the aggregate amount of precepts issued by it for the year (as the case may be) is equal to or greater than £15 million or such greater sum not exceeding £35 million as the Secretary of State may specify by order.

(2) A Welsh authority shall not be designated under section 104 above as regards a financial year unless—

(a) the Secretary of State has informed it of the sum he calculates under section 88(1) above as falling to be paid to it by way of revenue support grant for the year,

(b) he has informed it of the amount he calculates in relation to it for the year under paragraph 11 of Schedule 7 below, and

(c) the aggregate of the amounts mentioned in subsection (3) below is equal to or greater than £15 million or such greater sum not exceeding £35 million as he may specify by order.

(3) The amounts are—

(a) the amount calculated by the authority in relation to the year under section 99(4) above or the aggregate amount of precepts issued by it for the year (as the case may be),

(b) an amount equal to the sum the Secretary of State calculates under section 88(1) above as falling to be paid to it by way of revenue support grant for the year, and

(c) the amount he calculates in relation to it for the year under paragraph 11 of Schedule 7 below.

(4) If the Secretary of State informs an authority of a sum he calculates under section 88(2) above as falling to be paid to it by way of revenue support grant for the year, it shall not affect the operation of subsection (3)(b) above.

Designation of authorities.

106.—(1) If the Secretary of State decides under section 104 above to designate an authority he shall notify it in writing of—

(a) his decision,

(b) the principles determined under section 104(4) above in relation to it, and

(c) the amount which he proposes should be the maximum for the amount calculated by it in relation to the year under section 99(4) above or the maximum for the aggregate amount of precepts issued by it for the year (as the case may be).

(2) A designation—

(a) is invalid unless subsection (1) above is complied with, and

(b) shall be treated as made at the beginning of the day on which the authority receives a notification under that subsection.

(3) Where a charging authority has been designated under this section, and after the designation is made the authority makes substitute calculations in relation to the year in accordance with section 99 above, the substitute calculations shall be invalid unless they are made under section 111(1) below.

(4) Where a precepting authority has been designated under this section, and after the designation is made the authority issues any substitute precept for the year, the substitute precept shall be invalid unless it is issued under section 111(2) below.

(5) Before the end of the period of 28 days beginning with the day it receives a notification under this section, an authority may inform the Secretary of State by notice in writing that—

(a) for reasons stated in the notice, it believes the maximum amount stated under subsection (1)(c) above should be such as the authority states in its notice, or

(b) it accepts the maximum amount stated under subsection (1)(c) above.

(6) References in the following provisions of this Part to a designated authority are to an authority designated under this section.

Transitional years: special provisions.

107.—(1) In relation to the power to designate under secton 104 above as regards the financial year beginning in 1990, that section shall have effect as if subsection (1)(b) read—

"(b) there is an excessive increase in the amount so calculated over the relevant notional amount, that is, the amount which would in the Secretary of State's opinion have been calculated by the authority in relation to the preceding financial year under section 99(4) on the assumption that that year was a chargeable financial year and on such additional assumptions as he thinks fit."

(2) In relation to the power to designate under section 104 above as regards the financial year beginning in 1990, that section shall have effect as if subsection (2)(b) read—

"(b) there is an excessive increase in that aggregate over the relevant notional aggregate, that is, the amount which would in the Secretary of State's opinion have been the aggregate amount of precepts issued by the authority for the preceding financial year on the assumption that that year was a chargeable financial year and on such additional assumptions as he thinks fit."

(3) In relation to the power to designate under section 104 above as regards the financial year beginning in 1990, that section shall have effect as if in subsection (4) "this Part" read "Part I of the Rates Act 1984".

(4) Where the Secretary of State decides under section 104 above to designate an authority as regards the financial year beginning in 1990, subsections (5) and (6) below shall apply.

(5) Where this subsection applies, section 106 above shall have effect as if the following appeared after subsection (1)(a)—

"(aa) where subsection (1A) below applies, the matters there mentioned,".

PART VIII

(6) Where this subsection applies, section 106 above shall have effect as if the following appeared after subsection (1)—

"(1A) This subsection applies if the decision to designate is made under section 104(1)(b) or (2)(b) above; and the matters referred to in subsection (1)(aa) above are—

(a) the relevant notional amount or the relevant notional aggregate (as the case may be), and

(b) the additional assumptions made in arriving at that amount or aggregate."

(7) If the Secretary of State decides that paragraph 13 of Schedule 7 below is not to have effect in relation to a transitional year, as regards the year section 105 above shall have effect as if in subsections (2)(b) and (3)(c) "11" read "12".

Challenge of maximum amount.

108.—(1) This section applies where a designated authority informs the Secretary of State by notice in writing under section 106(5)(a) above.

(2) If the authority is a charging authority, after considering any information he thinks is relevant the Secretary of State shall (subject to subsection (8) below) make an order stating the amount which the amount calculated by it in relation to the year under section 99(4) above is not to exceed.

(3) Subject to subsection (4) below, the amount stated under subsection (2) above may be the same as, or greater or smaller than, that stated in the notice under section 106(1)(c) above.

(4) The amount stated under subsection (2) above may not exceed the amount already calculated by the authority in relation to the year under section 99(4) above unless, in the Secretary of State's opinion, the authority failed to comply with section 99 above in making the calculation.

(5) If the authority is a precepting authority, after considering any information he thinks is relevant the Secretary of State shall (subject to subsection (8) below) make an order stating the amount which the aggregate amount of precepts issued by it for the year is not to exceed.

(6) Subject to subsection (7) below, the amount stated under subsection (5) above may be the same as, or greater or smaller than, that stated in the notice under section 106(1)(c) above.

(7) The amount stated under subsection (5) above may not exceed the aggregate amount of precepts already issued by the authority for the year unless, in the Secretary of State's opinion, the authority failed to fulfil section 75(3) or 76(3) or (4) above in issuing any precept.

(8) The power to make an order under this section shall be exercisable by statutory instrument, and no such order shall be made unless a draft of it has been laid before and approved by resolution of the House of Commons.

(9) An order under this section may relate to two or more authorities.

(10) As soon as is reasonably practicable after an order under this section is made the Secretary of State shall serve on the authority (or each authority) a notice stating the amount stated in the case of the authority in the order.

(11) When he serves a notice under subsection (10) above on a precepting authority the Secretary of State shall also serve a copy of it on each charging authority to which the precepting authority has power to issue a precept.

Acceptance of maximum amount.

109.—(1) This section applies where a designated authority informs the Secretary of State by notice in writing under section 106(5)(b) above.

(2) If the authority is a charging authority, as soon as is reasonably practicable after he receives the notice the Secretary of State shall serve on the authority a notice stating the amount which the amount calculated by it in relation to the year under section 99(4) above is not to exceed; and the amount stated shall be that stated in the notice under section 106(1)(c) above.

(3) If the authority is a precepting authority, as soon as is reasonably practicable after he receives the notice the Secretary of State shall serve on the authority a notice stating the amount which the aggregate amount of precepts issued by it for the year is not to exceed; and the amount stated shall be that stated in the notice under section 106(1)(c) above.

(4) When he serves a notice under subsection (3) above the Secretary of State shall also serve a copy of it on each charging authority to which the precepting authority has power to issue a precept.

No challenge or acceptance.

110.—(1) This section applies where the period mentioned in section 106(5) above ends without a designated authority informing the Secretary of State by notice in writing under section 106(5)(a) or (b) above.

(2) If the authority is a charging authority, as soon as is reasonably practicable after the period ends the Secretary of State shall (subject to subsection (4) below) make an order stating the amount which the amount calculated by it in relation to the year under section 99(4) above is not to exceed; and the amount stated shall be that stated in the notice under section 106(1)(c) above.

(3) If the authority is a precepting authority, as soon as is reasonably practicable after the period ends the Secretary of State shall (subject to subsection (4) below) make an order stating the amount which the aggregate amount of precepts issued by it for the year is not to exceed; and the amount stated shall be that stated in the notice under section 106(1)(c) above.

(4) The power to make an order under this section shall be exercisable by statutory instrument, and no such order shall be made unless a draft of it has been laid before and approved by resolution of the House of Commons.

(5) An order under this section may relate to two or more authorities.

(6) As soon as is reasonably practicable after an order under this section is made the Secretary of State shall serve on the authority (or each authority) a notice stating the amount stated in the case of the authority in the order.

(7) When he serves a notice under subsection (6) above on a precepting authority the Secretary of State shall also serve a copy of it on each charging authority to which the precepting authority has power to issue a precept.

PART VIII

Substituted calculations and precepts.

111.—(1) A charging authority which has received a notice under section 108(10), 109(2) or 110(6) above shall make substitute calculations in relation to the year in accordance with section 99 above, but—

(a) section 99(8) shall be ignored for this purpose, and

(b) the calculations shall be made so as to secure that the amount calculated under section 99(4) does not exceed that stated in the notice.

(2) A precepting authority which has received a notice under section 108(10), 109(3) or 110(6) above shall issue, in substitution for any precept or precepts previously issued by it for the year, a precept or precepts in accordance with sections 75 to 77 above, but—

(a) section 75(2) shall be ignored for this purpose, and

(b) the amount of the precept, or the aggregate amount of the precepts, issued by the authority for the year shall not exceed that stated in the notice.

(3) Where calculations are made under subsection (1) above Part II, section 101 above and regulations under section 103 above apply accordingly.

(4) Where a precept is issued under subsection (2) above sections 32(1) to (3), 33, 35, 78(5) and (6) and 79 above and regulations under section 103 above apply accordingly.

Failure to substitute.

112.—(1) Subsection (2) below applies if a charging authority which has received a notice under section 108(10), 109(2) or 110(6) above fails to comply with section 111(1) above before the end of the period of 21 days beginning with the day on which it receives the notice.

(2) During the period of restriction the authority shall have no power to transfer any amount from its collection fund to its general fund or to the City fund (as the case may be) and sections 101 and 102 above shall have effect accordingly.

(3) For the purposes of subsection (2) above the period of restriction is the period which—

(a) begins at the end of the period mentioned in subsection (1) above, and

(b) ends at the time (if any) when the authority complies with section 111(1) above.

(4) Subsection (5) below applies if a precepting authority which has received a notice under section 108(10), 109(3) or 110(6) above fails to comply with section 111(2) above before the end of the period of 21 days beginning with the day on which it receives the notice.

(5) During the period of restriction any authority to which the precepting authority has power to issue a precept shall have no power to pay anything in respect of a precept issued by the precepting authority for the year.

(6) For the purposes of subsection (5) above the period of restriction is the period which—

(a) begins at the end of the period mentioned in subsection (4) above, and

(b) ends at the time (if any) when the precepting authority complies with section 111(2) above.

Other financial requirements.

113.—(1) This section applies where an order under section 108 above states in the case of an authority an amount greater than that stated in the notice under section 106(1)(c) above.

(2) The Secretary of State may decide to impose on the authority concerned such requirements relating to its expenditure or financial management as he thinks appropriate.

(3) If he does so decide he shall include a statement of his decision and of the requirements in the notice served on the authority under section 108(10) above.

(4) The authority shall comply with any such requirements, and shall report to the Secretary of State whenever he directs it to do so on the extent to which they have been complied with.

Information.

114.—(1) A charging authority shall notify the Secretary of State in writing of any amount calculated by it under section 99(4) above, whether originally or by way of substitute.

(2) A relevant precepting authority shall notify the Secretary of State in writing of the amount of any precept issued by it under this Act, whether originally or by way of substitute.

(3) A notification under subsection (1) or (2) above must be given before the end of the period of seven days beginning with the day on which the calculation is made or the precept is issued (as the case may be).

(4) The Secretary of State may serve on a charging authority or relevant precepting authority a notice requiring it to supply to him such other information as is specified in the notice and required by him for the purpose of deciding whether to exercise his powers, and how to perform his functions, under this Part.

(5) The authority shall supply the information required if it is in its possession or control, and shall do so in such form and manner, and at such time, as the Secretary of State specifies in the notice.

(6) An authority may be required under subsection (4) above to supply information at the same time as it gives a notification under subsection (1) or (2) above or at some other time.

(7) If an authority fails to comply with subsection (1) or (2) above, or with subsection (5) above, the Secretary of State may decide whether to exercise his powers, and how to perform his functions, under this Part on the basis of such assumptions and estimates as he sees fit.

(8) In deciding whether to exercise his powers, and how to perform his functions, under this Part the Secretary of State may also take into account information obtained from charging or relevant precepting

PART VIII

authorities under any other provision of this Act or a provision of any other Act or a provision of an order or regulations made under this or any other Act.

PART IX

FINANCIAL ADMINISTRATION

Interpretation.

115.—(1) This section applies for the purposes of this Part.

(2) Each of the following is a relevant authority—

(a) a county council,

(b) a district council,

(c) a London borough council,

(d) the Inner London Education Authority,

(e) a metropolitan county police authority,

(f) the Northumbria Police Authority,

(g) a metropolitan county fire and civil defence authority,

(h) the London Fire and Civil Defence Authority,

(i) a metropolitan county passenger transport authority,

(j) a waste disposal authority,

(k) the Council of the Isles of Scilly,

(l) a combined police authority, and

(m) a combined fire authority.

(3) A waste disposal authority is an authority established at any time by an order under section 10(1) of the 1985 Act.

(4) A combined police authority is a combined police authority established at any time by an amalgamation scheme under the Police Act 1964.

(5) A combined fire authority is a fire authority constituted at any time by a combination scheme under the Fire Services Act 1947.

(6) The 1972 Act is the Local Government Act 1972 and the 1985 Act is the Local Government Act 1985.

(7) The commencement day is the day on which this Part comes into force.

(8) This Part shall come into force at the end of the period of 2 months beginning with the day on which this Act is passed.

Financial administration as to certain authorities.

116.—(1) On and after the commencement day each authority mentioned in subsection (2) below shall make arrangements for the proper administration of its financial affairs and shall secure that one of its officers has responsibility for the administration of those affairs.

(2) The authorities are—

(a) any combined police authority, and

(b) any combined fire authority.

PART IX

Qualifications of responsible officer.

117.—(1) On and after the commencement day the person having responsibility for the administration of the financial affairs of a relevant authority under section 151 of the 1972 Act, section 73 of the 1985 Act or section 116 above shall fulfil the requirement in one (or the requirements in each) of the paragraphs of subsection (2) below.

(2) The requirements are that—

(a) he is a member of one or more of the bodies mentioned in subsection (3) below;

(b) immediately before the commencement day he had responsibility for the administration of the financial affairs of any of the authorities mentioned in section 115(2)(a) to (k) above, under section 151 of the 1972 Act or section 73 of the 1985 Act.

(3) The bodies are—

(a) the Institute of Chartered Accountants in England and Wales,

(b) the Institute of Chartered Accountants of Scotland,

(c) the Chartered Association of Certified Accountants,

(d) the Chartered Institute of Public Finance and Accountancy,

(e) the Institute of Chartered Accountants in Ireland,

(f) any other body of accountants established in the United Kingdom and for the time being approved by the Secretary of State for the purposes of this section, and

(g) the Chartered Institute of Management Accountants.

(4) The authority mentioned in subsection (2)(b) above need not be the same as that under consideration for the purpose of applying subsection (1) above.

Functions of responsible officer as regards reports.

118.—(1) On and after the commencement day the person having responsibility for the administration of the financial affairs of a relevant authority under section 151 of the 1972 Act, section 73 of the 1985 Act or section 116 above shall have the duties mentioned in this section, without prejudice to any other functions; and in this section he is referred to as the chief finance officer of the authority.

(2) The chief finance officer of a relevant authority shall make a report under this section if it appears to him that the authority, a committee or officer of the authority, or a joint committee on which the authority is represented—

(a) has made or is about to make a decision which involves or would involve the authority making a payment it has no power to make, or

(b) has committed or is about to commit an act of wilful misconduct which is or would be likely to cause a loss or deficiency on the part of the authority.

(3) The chief finance officer of a relevant authority shall make a report under this section if it appears to him that the expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure.

PART IX

(4) Where a chief finance officer of a relevant authority has made a report under this section he shall send a copy of it to—

(a) the person who at the time the report is made has the duty to audit the authority's accounts, and

(b) each person who at that time is a member of the authority.

(5) Subject to subsection (6) below, the duties of a chief finance officer of a relevant authority under subsections (2) and (3) above shall be performed by him personally.

(6) If the chief finance officer is unable to act owing to absence or illness his duties under subsections (2) and (3) above shall be performed—

(a) by such member of his staff as is a member of one or more of the bodies mentioned in section 117(3) above and is for the time being nominated by the chief finance officer for the purposes of this section, or

(b) if no member of his staff is a member of one or more of those bodies, by such member of his staff as is for the time being nominated by the chief finance officer for the purposes of this section.

(7) A relevant authority shall provide its chief finance officer with such staff, accommodation and other resources as are in his opinion sufficient to allow his duties under this section to be performed.

(8) In this section—

(a) references to a joint committee are to a committee on which two or more relevant authorities are represented, and

(b) references to a committee (joint or otherwise) include references to a sub-committee.

Authority's duties as regards reports.

119.—(1) This section applies where copies of a report under section 118 above have been sent under section 118(4) above.

(2) The authority shall consider the report at a meeting where it shall decide whether it agrees or disagrees with the views contained in the report and what action (if any) it proposes to take in consequence of it.

(3) The meeting must be held not later than the end of the period of 21 days beginning with the day on which copies of the report are sent.

(4) Section 101 of the 1972 Act (delegation) shall not apply to the duty under subsection (2) above where the authority is one to which that section would apply apart from this subsection.

(5) If the report was made under section 118 (2) above, during the prohibition period the course of conduct which led to the report being made shall not be pursued.

(6) If the report was made under section 118 (3) above, during the prohibition period the authority shall not enter into any new agreement which may involve the incurring of expenditure (at any time) by the authority.

(7) If subsection (5) above is not complied with, and the authority makes any payment in the prohibition period as a result of the course of conduct being pursued, it shall be taken not to have had power to make the payment (notwithstanding any obligation to make it under contract or otherwise).

(8) If subsection (6) above is not complied with, the authority shall be taken not to have had power to enter into the agreement (notwithstanding any option to do so under contract or otherwise).

(9) In this section "the prohibition period" means the period—

(a) beginning with the day on which copies of the report are sent, and

(b) ending with the day (if any) on which the report is considered under subsection (2) above (whether or not within the period mentioned in subsection (3) above and whatever the decisions made at the meeting).

Information about meetings.

120.—(1) Where it is proposed to hold a meeting under section 119 above the authority's proper officer shall as soon as is reasonably practicable notify its auditor of the date, time and place of the proposed meeting.

(2) As soon as is reasonably practicable after a meeting is held under section 119 above the authority's proper officer shall notify its auditor of any decision made at the meeting.

(3) For the purposes of this section an authority's proper officer is the person to whom the authority has for the time being assigned responsibility to notify its auditor under this section.

(4) For the purposes of this section an authority's auditor is the person who for the time being has the duty to audit its accounts.

PART X

EXISTING RATES, PRECEPTS AND GRANTS

Rates and precepts: abolition.

121.—(1) The General Rate Act 1967 shall not have effect as regards any time after 31 March 1990.

(2) As regards any time after 31 March 1990 the Common Council shall have no power to make or levy a rate under section 15 or 18 of the City of London (Union of Parishes) Act 1907, the City of London (Tithes and Rates) Act 1910 or section 68(1) of the London Government Act 1963 (general rate, poor rate and St. Botolph tithe rate).

(3) Neither the sub-treasurer of the Inner Temple nor the under-treasurer of the Middle Temple shall have power to make or levy a rate as regards any time after 31 March 1990.

(4) No precepting authority shall have power to issue a precept in respect of a chargeable financial year, except as provided by this Act.

(5) In subsection (6) below "levying body" means any body which—

(a) is established by or under an Act,

(b) in respect of the financial year beginning in 1989 has power (conferred by or under an Act) to issue a precept to, make a levy on or have its expenses paid by a county council, district council or London borough council, and

(c) is not a precepting authority.

(6) In respect of any chargeable financial year no levying body shall have power under the Act concerned to issue a precept to, make a levy on or have its expenses paid by the council concerned.

PART X

(7) In subsections (5) and (6) above "Act" includes a private or local Act.

(8) The Secretary of State may make regulations providing that the preceding provisions of this section shall have effect subject to prescribed savings.

Statutory references to rating.

122.—(1) This section applies in the case of a provision which is made by or under an Act and refers to a rate or a rateable value or any other factor connected with rating.

(2) The Secretary of State may make regulations providing that the reference shall instead be to some factor other than the one connected with rating.

(3) The regulations may provide as mentioned in subsection (2) above as regards such provision, or provisions of such description, as may be prescribed.

(4) The regulations may provide as mentioned in subsection (2) above in such way as the Secretary of State thinks fit (whether by amending provisions or otherwise).

(5) In this section "Act" includes a private or local Act.

Rate support grant: abolition.

123.—(1) No payments by way of rate support grant shall be made for a financial year beginning in or after 1990.

(2) The Secretary of State may by order repeal any enactment relating to rate support grant.

(3) If a sum paid to an authority under any provision repealed under subsection (2) above is less than the amount which should have been paid to it under the provision, the Secretary of State shall calculate the amount equal to the difference and pay a sum equal to that amount to the authority.

(4) If a sum in excess of an amount payable to an authority has been paid under any provision repealed under subsection (2) above, the Secretary of State shall calculate the amount equal to the excess and a sum equal to that amount shall be due from the authority to the Secretary of State.

(5) If the Secretary of State decides that a sum due under subsection (4) above is to be recoverable by deduction he may deduct a sum equalling (or sums together equalling) that sum from anything the authority is entitled to receive from him (whether by way of revenue support grant or otherwise).

(6) If the Secretary of State decides that a sum due under subsection (4) above is to be recoverable by payment it shall be payable on such day as he may specify; and if it is not paid on or before that day it shall be recoverable as a simple contract debt in a court of competent jurisdiction.

(7) The Secretary of State may decide that a sum due under subsection (4) above is to be recoverable partly by deduction and partly by payment, and in such a case subsections (5) and (6) above shall have effect with appropriate modifications.

(8) The Secretary of State may decide differently under subsection (5) to (7) above as regards sums due from different authorities or as regards sums due from the same authority in respect of different financial years.

Transport grants: abolition.

124. Section 6(1) to (7) of the Local Government Act 1974 (supplementary grants for transport purposes) shall not have effect for a financial year beginning in or after 1990.

Variation of multipliers in supplementary reports. 1980 c. 65. 1986 c. 54.

125.—(1) In section 61 of the Local Government, Planning and Land Act 1980 (in this section referred to as "the 1980 Act") subsection (4A) (which was inserted by paragraph 10 of Schedule 1 to the Rate Support Grants Act 1986 and restricts the scope for the variation of multipliers in supplementary reports) shall cease to have effect.

(2) If it appears to the Secretary of State that, in a supplementary report under section 61 of the 1980 Act for any year (whether beginning before or after the passing of this Act), he should specify a fresh determination of a multiplier, in place of the determination thereof (in this section referred to as "the earlier determination") specified in the Rate Support Grant Report or any supplementary report for the year in question, he may make the fresh determination (and any calculation required by section 2(4) of the Rate Support Grants Act 1986) on the basis of such information, assumptions and determinations as he thinks appropriate.

(3) Without prejudice to the generality of subsection (2) above, in the exercise of his discretion under that subsection the Secretary of State may disregard any information received or determination made after such time or times as appear to him to be appropriate.

(4) Expressions used in subsections (2) and (3) above have the same meaning as in Part VI of the 1980 Act and any reference in this section to a multiplier is a reference to a multiplier determined or purported to be determined in exercise of the power conferred by section 59 of the 1980 Act.

(5) In subsection (4) above the reference to section 59 of the 1980 Act includes a reference to paragraph 5(1) of Schedule 2 to the Local Government Finance Act 1982 (which makes corresponding provision for the Receiver for the Metropolitan Police District). 1982 c. 32.

(6) Nothing in this section shall be taken to prejudice the generality of the powers of the Secretary of State under subsections (4) and (5) of section 65 of the 1980 Act (powers in relation to matters as to which there is no or no sufficient information and in relation to information which is not submitted in accordance with the requirements of subsection (1) of that section).

London Regional Transport grants: amendment.

126.—(1) No levy under section 13 of the London Regional Transport Act 1984 (contribution to expenditure on grants) shall be made in respect of any time after 31 March 1990.

(2) The Secretary of State may make regulations providing that subsection (1) above shall have effect subject to prescribed savings.

PART X

PART XI

SCOTLAND

Rates levied for certain years.

127.—(1) This section applies to any lands and heritages in respect of which a rateable value appears in the valuation roll in force immediately before 1 April 1990.

(2) Every rate levied by a rating authority in respect of lands and heritages to which this section applies for each of the years commencing in 1990, 1991, 1992, 1993 and 1994 shall be levied according to whichever is the lesser of—

(a) the rateable value of the lands and heritages as appearing in the valuation roll in force at the beginning of the year in respect of which the rate is levied; or

(b) the rateable value of the lands and heritages which appeared in the valuation roll in force immediately before 1 April 1990 multiplied by such factor as may be prescribed by regulations made under this section by the Secretary of State in respect of the year in respect of which the rate is levied.

(3) Regulations made under this section—

(a) may make different provision in respect of different years;

(b) may modify the definition of "R" for the purposes of section 3(4) of the Abolition of Domestic Rates Etc. (Scotland) Act 1987; and

(c) shall be made by statutory instrument subject to annulment in pursuance of a resolution of either House of Parliament.

(4) Expressions used in this section and in section 7(1) of the Local Government (Scotland) Act 1975 shall have the same meaning as in the said section 7(1).

Exemption from personal charge.

128. In the Abolition of Domestic Rates Etc. (Scotland) Act 1987 in section 8(8) (exemption from liability to the personal community charge) there shall be added at the end the following paragraphs—

"(e) diplomatic agents within the meaning of the Diplomatic Privileges Act 1964;

(f) members of visiting forces."

PART XII

MISCELLANEOUS AND GENERAL

Miscellaneous

Community charges: cross-border information.

129.—(1) The Secretary of State may make regulations providing that any person mentioned in subsection (2) below shall supply to a community charges registration officer for an English or Welsh charging authority such information as fulfils the following conditions—

(a) it is in the possession or control of the person concerned,

(b) the registration officer requests the person concerned to supply it,

(c) it is requested by the registration officer for the purpose of carrying out his functions under Part I, and

(d) it does not fall within any prescribed description of information which need not be supplied.

(2) The persons are—

(a) the community charges registration officer for a Scottish region or islands area,

(b) a Scottish regional council or islands council, and

(c) the assessor or electoral registration officer for any area in Scotland.

(3) The Secretary of State may make regulations providing that any person mentioned in subsection (4) below shall supply to a community charges registration officer for a Scottish region or islands area such information as fulfils the following conditions—

(a) it is in the possession or control of the person concerned,

(b) the registration officer requests the person concerned to supply it,

(c) it is requested by the registration officer for the purpose of carrying out his functions under the Abolition of Domestic Rates Etc. (Scotland) Act 1987, and

(d) it does not fall within any prescribed description of information which need not be supplied.

(4) The persons are—

(a) the community charges registration officer for an English or Welsh charging authority,

(b) an English or Welsh charging authority, and

(c) the electoral registration officer for any area in England and Wales.

(5) Regulations under this section may include provision that the information is to be supplied in a prescribed form and within a prescribed period of the request being made.

(6) Sections 136, 137(1) and 139(5) below extend to Scotland (as well as England and Wales) for the purposes of this section.

Tribunals.

130. Schedule 12 below (which contains provisions about the establishment of, and other matters relating to, valuation and community charge tribunals) shall have effect.

Amendments.

131. Schedule 13 below (which contains amendments) shall have effect.

General

Judicial review.

132.—(1) The matters mentioned in subsection (2) below shall not be questioned except by an application for judicial review.

(2) The matters are—

(a) the setting by a charging authority of an amount or amounts for its personal community charges for a chargeable financial year, whether originally or by way of substitute,

(b) the determination by a charging authority of any standard community charge multiplier for properties in its area,

PART XII

(c) a specification by the Secretary of State under section 36 above,

(d) a precept issued under this Act,

(e) a levy issued under regulations under section 81 above,

(f) a calculation under section 99(4) above, whether original or by way of substitute,

(g) the specification of a non-domestic rating multiplier under paragraph 2 of Schedule 6 below,

(h) the specification of a non-domestic rating multiplier under paragraph 7 of Schedule 6 below,

(i) the setting by a special authority of a non-domestic rating multiplier under Schedule 6 below, whether originally or by way of substitute,

(j) a calculation of a residual rating multiplier under Schedule 9 below, and

(k) a calculation of a residual rating standard amount under Schedule 10 below.

(3) If on an application for judicial review the court decides to grant relief in respect of any of the matters mentioned in subsection (2)(a) or (d) to (k) above, it shall quash the setting, precept, levy, calculation or specification (as the case may be).

(4) If on an application for judicial review the court quashes a calculation of a residual rating multiplier or standard amount under Schedule 9 or 10 below—

(a) the calculation shall nevertheless be treated as having been properly made until such time as a calculation is made in substitution (so that payments made may be retained and payments not made may be enforced), but

(b) when a calculation is made in substitution anything paid if it would not have been paid had the multiplier under the quashed calculation been the same as that under the substituted calculation shall be repaid and recoverable as a simple contract debt in a court of competent jurisdiction.

Functions to be discharged only by authority.

133.—(1) Each of the functions of an authority mentioned in subsection (2) below shall be discharged only by the authority.

(2) The functions are—

(a) setting an amount or amounts for the authority's personal community charges for a chargeable financial year, whether originally or by way of substitute,

(b) issuing a precept under this Act, whether originally or by way of substitute,

(c) making a calculation under section 99(4) above, whether originally or by way of substitute, and

(d) setting a non-domestic rating multiplier under Schedule 6 below, whether originally or by way of substitute, in a case where the authority is a special authority.

PART XII

Separate administration in England and Wales.

134.—(1) Parts III, VI and VIII shall be read as applying separately, and be administered separately, in England and Wales.

(2) In particular, for England and Wales respectively—

(a) separate central non-domestic rating lists shall be compiled and maintained,

(b) separate estimates shall be made under paragraph 5(5) and (6) of Schedule 6 below for the purpose of determining non-domestic rating multipliers,

(c) separate non-domestic rating pools shall be established and maintained,

(d) separate revenue support grant reports shall be made,

(e) separate distribution reports under section 86 above shall be made, and

(f) separate principles shall be determined under section 104(4) above.

(3) Parts III, VI and VIII shall be construed accordingly so that (for instance) references to authorities shall be read as references to those in England or Wales, as the case may be.

(4) Any power conferred by this Act on the Secretary of State may be exercised differently for England and Wales, whether or not it is exercised separately; and this shall not prejudice the generality of section 136(1) below.

Saving for remedies.

135. No provision of this Act which provides an express remedy shall prejudice any remedy available to a person (apart from that provision) in respect of a failure to observe a provision of this Act; and references here to this Act include references to instruments made under it.

Orders and regulations.

136.—(1) The power to make an order or regulations under this Act may be exercised differently in relation to different areas or in relation to other different cases or descriptions of case.

(2) An order or regulations under this Act may include such supplementary, incidental, consequential or transitional provisions as appear to the Secretary of State to be necessary or expedient.

(3) Subject to subsections (4) to (6) below, the power to make an order or regulations under this Act shall be exercisable by statutory instrument subject to annulment in pursuance of a resolution of either House of Parliament.

(4) As regards the power to make an order under section 105 (1) or (2) above, subsection (3) above shall have effect without the words from "subject" to the end.

(5) The power to make an order under section 108 or 110 above shall be exercisable as there mentioned.

(6) The power to make an order under paragraph 3 of Schedule 5 below shall be exercisable by statutory instrument, and no such order shall be made unless a draft of it has been laid before and approved by resolution of each House of Parliament.

PART XII
Interpretation: authorities.

137.—(1) Each of the following is a charging authority—

(a) a district council,

(b) a London borough council,

(c) the Common Council, and

(d) the Council of the Isles of Scilly.

(2) Each of the following is a precepting authority—

(a) a county council,

(b) the Inner London Education Authority,

(c) a metropolitan county police authority,

(d) the Northumbria Police Authority,

(e) a metropolitan county fire and civil defence authority,

(f) the London Fire and Civil Defence Authority,

(g) a metropolitan county passenger transport authority,

(h) the Receiver for the Metropolitan Police District,

(i) the sub-treasurer of the Inner Temple,

(j) the under-treasurer of the Middle Temple,

(k) a parish or community council,

(l) the chairman of a parish meeting, and

(m) charter trustees.

(3) A charging authority is a special authority if its population on 1 April 1986 was less than 10,000, and its gross rateable value on that date divided by its population on that date was more than £10,000.

(4) An authority's population on 1 April 1986 is the Registrar General's estimate of its population on that date as certified by him to the Secretary of State for the purposes of the enactments relating to rate support grant; and an authority's gross rateable value on that date is the aggregate of the rateable values on that date of the hereditaments in its area.

Interpretation: financial years etc.

138. (1) Chargeable financial years are financial years beginning in 1990 and subsequent years.

(2) Transitional years are financial years beginning in 1990, 1991, 1992 and 1993; and the first, second, third and fourth transitional years are those beginning in 1990, 1991, 1992 and 1993 respectively.

(3) The transitional period is the period of four years beginning with 1 April 1990.

(4) A financial year is a period of 12 months beginning with 1 April.

Interpretation: other provisions.

139. (1)—Unless the context otherwise requires, a precept is a precept under this Act.

(2) Unless the context otherwise requires, a levy is a levy under regulations made under section 81 above, and a levying body is a body with power to issue a levy under those regulations.

(3) The Common Council is the Common Council of the City of London.

(4) The Inner Temple and the Middle Temple shall be taken to fall within the area of the Common Council.

(5) "Prescribed", in the context of an order or regulations, means prescribed by the order or regulations.

(6) This section and sections 137 and 138 above apply for the purposes of this Act.

Power to make supplementary provision.

140.—(1) The Secretary of State may at any time by order make such supplementary, incidental, consequential or transitional provision as appears to him to be necessary or expedient for the general purposes or any particular purposes of this Act or in consequence of any of its provisions or for giving full effect to it.

(2) An order under this section may in particular make provision for amending, repealing or revoking (with or without savings) any provision of an Act passed, or an instrument under an Act made, before the passing of this Act and for making savings or additional savings from the effect of any amendment or repeal made by this Act.

(3) Any provision that may be made under this section shall be in addition and without prejudice to any other provision of this Act.

(4) No other provision of this Act shall be construed as prejudicing the generality of the powers conferred by this section.

(5) In this section "Act" includes a private or local Act.

Finance.

141. There shall be paid out of money provided by Parliament—

(a) any expenses of the Secretary of State incurred in consequence of this Act, and

(b) any increase attributable to this Act in the sums payable out of money so provided under any other enactment.

Repeals.

142. The enactments mentioned in Schedule 14 below are repealed to the extent specified in column 3, but subject to any provision at the end of any Part of that Schedule.

Extent.

143.—(1) Part XI of this Act, paragraphs 1 and 8 of Schedule 13 below, and Part IV of Schedule 14 below, extend to Scotland only.

(2) Sections 129, 131, 141 and 142 above, this section and section 144 below extend to England and Wales and Scotland.

(3) Subject to subsections (1) and (2) above and section 129(6) above, this Act extends to England and Wales only.

Citation.

144. This Act may be cited as the Local Government Finance Act 1988.

SCHEDULES

Section 2.

SCHEDULE 1

PERSONAL COMMUNITY CHARGE: EXEMPTION

Prisoners

1. A person is an exempt individual on a particular day if he is a convicted person who at any time on the day is detained in a penal institution in pursuance of his sentence.

Visiting forces

2.—(1) A person is an exempt individual on a particular day if at any time on the day he has a relevant association with a visiting force.

(2) A visiting force, in relation to any particular time, is any body, contingent or detachment of the forces of a country to which any provision in Part I of the Visiting Forces Act 1952 applies at that time.

(3) A person has, at any particular time, a relevant association with a visiting force if he has at that time such an association within the meaning of that Part.

International headquarters and defence organisations

3.—(1) A person is an exempt individual on a particular day if at any time on the day he is a member of a headquarters or a dependant of such a member.

(2) A headquarters, in relation to any particular time, is a headquarters or organisation designated at that time by an Order in Council under section 1 of the International Headquarters and Defence Organisations Act 1964.

(3) A person is, at any particular time, a member of a headquarters if he is at that time such a member within the meaning of the Schedule to that Act.

(4) A person is, at any particular time, a dependant of such a member if he is at that time such a dependant within the meaning of that Schedule.

The severely mentally handicapped

4.—(1) A person is an exempt individual on a particular day if—

(a) he is entitled for the day to a severe disablement allowance under section 36 of the Social Security Act 1975,

(b) at any time on the day he is severely mentally handicapped, and

(c) he is certified as severely mentally handicapped at that time by a registered medical practitioner.

(2) A person is severely mentally handicapped if he is suffering from a state of arrested or incomplete development of mind which involves severe impairment of intelligence and social functioning.

(3) The Secretary of State may by order substitute another definition for the definition of severe mental handicap for the time being effective for the purposes of this paragraph.

Children

5. A person is an exempt individual on a particular day if the day falls within a week for which a person is entitled to child benefit in respect of the individual.

Students

6. A person is an exempt individual on a particular day if it falls within a period in which he is undertaking a full-time course of education and he is resident in Scotland or Northern Ireland for the purpose of undertaking the course.

Hospital patients

7.—(1) A person is an exempt individual on a particular day if at any time on the day he is a patient who has his sole or main residence in a hospital.

(2) "Hospital" means a health service hospital within the meaning of the National Health Service Act 1977.

(3) The Secretary of State may by order substitute another definition for the definition of hospital for the time being effective for the purposes of this paragraph.

Patients in homes

8.—(1) A person is an exempt individual on a particular day if at any time on the day—

(a) he has his sole or main residence in a residential care home, nursing home or hostel, and

(b) he is receiving care or treatment (or both) there.

(2) A residential care home is—

(a) an establishment in respect of which registration is required under Part I of the Registered Homes Act 1984 or would be so required but for section 1(4) or (5)(j) of that Act, or

(b) a building or part of a building in which residential accommodation is provided under section 21 of the National Assistance Act 1948 or paragraph 2(1)(a) of Schedule 8 to the National Health Service Act 1977.

(3) A nursing home is—

(a) anything which is a nursing home within the meaning of the Registered Homes Act 1984 or would be but for section 21(3)(a) of that Act, or

(b) anything which is a mental nursing home within the meaning of that Act.

(4) A hostel is anything which falls within any definition of hostel for the time being prescribed by order made by the Secretary of State under this sub-paragraph.

(5)The Secretary of State may by order substitute another definition for any definition of a residential care home or nursing home for the time being effective for the purposes of this paragraph.

Residents of certain Crown buildings

9.—(1) A person is an exempt individual on a particular day if at any time on the day he has his sole or main residence in a building which on the day concerned is designated under this paragraph.

(2) The Secretary of State may designate a building under this paragraph if at the time of designation the first and second conditions are fulfilled.

(3) The first condition is that—

(a) the Crown has a freehold interest in the whole building and it is not subject (as a whole) to a single leasehold interest, or

SCH. 1

(b) the Crown has an interest in the whole building under a lease or underlease and it is not subject (as a whole) to a single inferior leasehold interest.

(4) The second condition is that in the Secretary of State's opinion the building is used wholly or mainly as the sole or main residence of individuals, and in his opinion most or all of them—

(a) reside there for short periods, or

(b) should in the interests of national security not be registered as subject to a personal community charge.

(5) The Secretary of State shall revoke a designation under this paragraph if the first or second condition ceases to be fulfilled.

(6) A designation under this paragraph shall take effect at the beginning of the day following that on which it is made, and shall cease to have effect at the end of the day (if any) on which it is revoked.

(7) The Crown has an interest in a building if the interest belongs to Her Majesty in right of the Crown or of the Duchy of Lancaster, or belongs to the Duchy of Cornwall or a government department, or is held for the purposes of a government department.

Residents of certain other dwellings

10. A person is an exempt individual on a particular day if—

(a) at any time on the day he has his sole or main residence in a designated dwelling in respect of which a person is shown in the register as subject on the day to a collective community charge of a charging authority, and

(b) the day does not fall within a period in which he is undertaking a full-time course of education.

Section 21.

SCHEDULE 2

COMMUNITY CHARGES: ADMINISTRATION

Introduction

1. The Secretary of State may make regulations containing such provision as he sees fit in relation to—

(a) the collection and recovery of amounts persons are liable to pay in respect of community charges;

(b) the collection and recovery of amounts individuals are liable to pay by way of contribution to amounts other persons are liable to pay in respect of collective community charges;

(c) other aspects of administration as regards community charges and contributions.

Charges

2.—(1) In this paragraph—

(a) references to the chargeable person are to a person who is entered in an authority's register as subject in a chargeable financial year to a community charge of the authority and who has sole liability to pay an amount to the authority in respect of the charge as it has effect for the year,

(b) references to the chargeable amount are to the amount he is liable to pay, and

(c) references to the authority and the financial year are to the authority and the financial year concerned.

(2) Regulations under this Schedule may include provision—

(a) that the chargeable person is to make payments on account of the chargeable amount, including payments during the course of the financial year,

(b) that payments on account must be made in accordance with an agreement between the chargeable person and the authority or in accordance with a prescribed scheme for payment by instalments,

(c) that payments on account may be calculated by reference to an estimate of the chargeable amount,

(d) that an estimate may be made on prescribed assumptions (whether as to the chargeable person's residence or his interest in property or amounts payable by way of contribution or otherwise),

(e) that if the authority requests the chargeable person to supply it with information for the purpose of enabling it to make an estimate, he must supply it to the authority within a prescribed period if it is in his possession or control,

(f) that the authority must serve a notice or notices on the chargeable person stating the chargeable amount or its estimated amount and what payment or payments he is required to make (by way of instalment or otherwise),

(g) that, in the case of a collective community charge, the chargeable person must compile, and retain for a prescribed period, records about individuals resident in the designated dwelling (whether or not they are liable to make a payment under section 9 above) and about periods of residence and contributions payable,

(h) that, in the case of a collective community charge, the chargeable person must within a prescribed period of being requested by the authority or its registration officer allow it or him (as the case may be) to inspect the records,

(i) that, in the case of a collective community charge, the chargeable person must within a prescribed period of being requested by the authority or its registration officer send a copy of the records to it or him (as the case may be),

(j) that, in the case of a collective community charge, the chargeable person must submit returns to the authority containing information about amounts payable by way of contribution,

(k) that no payment on account of the chargeable amount need be made or return submitted unless a notice requires it,

(l) that a notice and any requirement in it is to be treated as invalid if it contains prescribed matters or fails to contain other prescribed matters or is not in a prescribed form,

(m) that the authority must supply prescribed information to the chargeable person when it serves a notice and that the notice is to be treated as invalid if the authority does not do so,

(n) that if the chargeable person fails to pay an instalment or submit a return in accordance with the regulations the unpaid balance of the chargeable amount or its estimated amount is to be payable within a prescribed period beginning with the failure, and

(o) that any amount paid by the chargeable person in excess of his liability (whether the excess arises because an estimate turns out to be wrong or otherwise) must be repaid or credited against any subsequent liability.

SCH. 2

3.—(1) Regulations under this Schedule may include provision as to the collection of amounts persons are jointly and severally liable to pay in respect of community charges.

(2) The regulations may include provision equivalent to that included under paragraph 2 above subject to any modifications the Secretary of State sees fit.

(3) The regulations may include rules for determining whether any payment made by a person jointly and severally liable as to a fraction of an amount is (or is not) made towards satisfaction of his liability as to that fraction.

Contributions

4.—(1) In this paragraph—

(a) references to the contributor are to an individual liable to pay in respect of a contribution period an amount to another person by way of contribution to the amount he is liable to pay to an authority in respect of a collective community charge of the authority as it has effect for a financial year,

(b) references to the chargeable person are to the other person,

(c) references to the contribution are to the amount the individual is liable to pay, and

(d) the reference to the contribution period is to the contribution period concerned.

(2) Regulations under this Schedule may include provision—

(a) that the contributor is to make a payment or payments on account of the contribution, including a payment or payments before the contribution period ends,

(b) that payments must be made at prescribed times (which may be times determined by the chargeable person or times when rent or some other consideration for accommodation is due or otherwise),

(c) that payments on account may be calculated by reference to an estimate of the contribution,

(d) that an estimate may be made on prescribed assumptions (whether as to a period of residence or otherwise),

(e) that the chargeable person must inform the contributor that the dwelling is a designated dwelling and supply him with prescribed information about the contribution and a receipt for any payment by way of the contribution, and

(f) that any amount paid by the contributor in excess of his liability (whether the excess arises because an estimate turns out to be wrong or otherwise) must be repaid.

Recovery

5. Regulations under this Schedule may include provision that any payment due to an authority under any provision included under paragraph 2 or 3 above shall be recoverable by distress and sale of goods and chattels, or by attachment of earnings, or by both those methods.

6. Regulations under this Schedule may include provision that any payment due to a person under any provision included under paragraph 4 above shall be recoverable in the same way as rent or (depending on the terms of the regulations) shall be recoverable as a simple contract debt in a court of competent jurisdiction.

7. Regulations under this Schedule may include provision that any repayment due under any provision included under paragraph 2, 3 or 4 above shall be recoverable as a simple contract debt in a court of competent jurisdiction.

Discounts

8.—(1) Regulations under this Schedule may include provision that where—

(a) a person has sole liability to pay an amount (a chargeable amount) in respect of an authority's community charge as it has effect for a chargeable financial year,

(b) his liability would (apart from any provision under this paragraph) fall to be discharged by making payments on account in accordance with an agreement or in accordance with a scheme for payment by instalments,

(c) an estimate is made of the chargeable amount,

(d) he makes on account of the chargeable amount a single lump sum payment which is less than the estimated amount and is calculated in accordance with prescribed rules, and

(e) other prescribed conditions (if any) are fulfilled,

the person's liability in respect of the chargeable amount shall be discharged by making the single lump sum payment.

(2) The regulations may include provision that—

(a) if the chargeable amount proves to be greater than the estimated amount an additional sum, calculated in accordance with prescribed rules, shall be due from the person to the authority;

(b) if the chargeable amount proves to be less than the estimated amount a sum, calculated in accordance with prescribed rules, shall be due from the authority to the person or credited against any subsequent liability.

(3) Rules included under sub-paragraph (2)(a) above shall be so framed that the aggregate of the lump sum paid and the additional sum is less than the chargeable amount.

(4) Rules included under sub-paragraph (2)(b) above shall be so framed that the lump sum paid, minus the sum due or credited, is less than the chargeable amount.

(5) The regulations may include provision that—

(a) a sum due under any provision included under sub-paragraph (2)(a) above shall be recoverable by distress and sale of goods and chattels, or by attachment of earnings, or by both those methods;

(b) a sum due under any provision included under sub-paragraph (2)(b) above shall be recoverable as a simple contract debt in a court of competent jurisdiction.

(6) The regulations may include, as regards a case where persons are jointly and severally liable to pay an amount in respect of an authority's community charge as it has effect for a chargeable financial year, provision equivalent to that included under sub-paragraphs (1) to (5) above subject to any modifications the Secretary of State sees fit.

(7) The regulations may include provision that (in a case where any provision included under sub-paragraphs (1) to (6) above applies) any provision which is included under paragraph 2, 3, 5 or 7 above and is prescribed under this sub-paragraph shall not apply.

Information

9.—(1) Regulations under this Schedule may include provision that any person mentioned in sub-paragraph (2) below shall supply to a registration officer for a charging authority such information as fulfils the following conditions—

(a) it is in the possession or control of the person concerned,

(b) the registration officer requests the person concerned to supply it,

SCH. 2

(c) it is requested by the registration officer for the purpose of carrying out his functions under this Part, and

(d) it does not fall within any prescribed description of information which need not be supplied.

(2) The persons are—

(a) the registration officer for any other charging authority,

(b) the charging authority for which the officer making the request is the registration officer,

(c) any other charging authority,

(d) any precepting authority, and

(e) the electoral registration officer for any area in England and Wales.

(3) The regulations may include provision that the information is to be supplied in a prescribed form and within a prescribed period of the request being made.

10.—(1) Regulations under this Schedule may include provision that any person falling within sub-paragraph (2) below shall supply to a registration officer for a charging authority such information as fulfils the following conditions—

(a) it is in the possession or control of the person concerned,

(b) the registration officer requests the person concerned to supply it, and

(c) it is requested by the registration officer for the purpose of carrying out his functions under this Part.

(2) A person falls within this sub-paragraph if he is a person the officer making the request reasonably believes is, has been, or is about to become, subject to a community charge of the authority for which the officer is the registration officer.

(3) The regulations may include provision that the information is to be supplied in a prescribed form and within a prescribed period of the request being made.

11.—(1) Regulations under this Schedule may include provision that as regards any relevant property one or more individuals (to be called responsible individuals) may be designated by a registration officer for a charging authority, or otherwise identified, in accordance with prescribed rules.

(2) The regulations may include provision that a responsible individual shall supply to a registration officer for a charging authority such information as fulfils the following conditions—

(a) it is in the possession or control of the responsible individual,

(b) the registration officer requests the responsible individual to supply it, and

(c) it is requested by the registration officer with the object of enabling him to form a view whether the responsible individual or any other person is, has been, or is about to become, subject to a community charge of the authority by virtue of the relevant property.

(3) The regulations may include provision that the information is to be supplied in a prescribed form and within a prescribed period of the request being made.

(4) References to relevant property are to a building, a part of a building, a caravan or a houseboat.

12.—(1) Regulations under this Schedule may include provision that a person who has reason to believe he is or has been subject at any time after 1 December 1989 to a community charge of a charging authority shall inform the registration officer accordingly.

(2) The regulations may include provision that where a person is shown in a charging authority's register as subject to a community charge of the authority, and he has reason to believe that the item concerned contains an error or is not complete or up-to-date, he shall inform the registration officer accordingly.

(3) The regulations may include provision that the information is to be supplied in a prescribed form and within a prescribed period of the person having reason to believe as mentioned in sub-paragraph (1) or (2) above.

13. Regulations under this Schedule may include provision that—

(a) where a person becomes or ceases to be subject to a charging authority's community charge, and the registration officer makes an entry in the register accordingly, as soon as is reasonably practicable after doing so he shall send the person a copy of the item contained in the register in relation to the charge,

(b) where the registration officer amends an item contained in the register in order to correct an error or render the item more complete or up-to-date, as soon as is reasonably practicable after doing so he shall send the person shown in the register as subject to the charge concerned a copy of the amended item, and

(c) any copy sent in accordance with the regulations must be accompanied by prescribed information.

14.—(1) Regulations under this Schedule may include provision that a registration officer for a charging authority shall supply to the Secretary of State such information as fulfils the following conditions—

(a) it is in the possession or control of the officer and was obtained by him for the purpose of carrying out his functions under this Part,

(b) the Secretary of State requests him to supply it, and

(c) it is requested by the Secretary of State for the purpose of carrying out his functions under this Part.

(2) The regulations may include provision that the information is to be supplied in a prescribed form and within a prescribed period of the request being made.

15.—(1) Regulations under this Schedule may include provision that (so far as he does not have power to do so apart from the regulations) a registration officer for a charging authority may supply relevant information to a registration officer for another charging authority, even if he is not requested to supply the information.

(2) Information is relevant information if—

(a) it was obtained by the first-mentioned officer in exercising his functions under this Part,

(b) he believes it would be useful to the other officer in exercising his functions under this Part, and

(c) it does not fall within any prescribed description of information which is not to be supplied.

16. Regulations under this Schedule may include provision that, in carrying out its functions under this Part, a charging authority may use information which—

(a) is obtained under any other enactment, and

(b) does not fall within any prescribed description of information which cannot be used.

SCH. 2 *Inspection etc.*

17.—(1) Regulations under this Schedule may include provision that a person shown in a charging authority's register as subject at any time to a community charge of the authority may, at a reasonable place and reasonable time stated by the registration officer, inspect the item contained in the register in relation to the charge.

(2) The regulations may include provision that if such a person requests the registration officer to supply a copy of such an item the officer shall supply a copy to the person.

(3) The regulations may include provision that if the authority requires a reasonable charge in respect of the supply of such a copy the duty to supply it shall not arise unless the person pays the charge.

(4) To cater for any case where a register is not kept in a documentary form, the regulations may include provision equivalent to that included under sub-paragraphs (1) to (3) above subject to any modifications the Secretary of State sees fit.

18.—(1) Regulations under this Schedule may include provision that a registration officer is to compile and then maintain—

(a) an extract of prescribed information taken from the information for the time being contained in the charging authority's register, and

(b) a list of the addresses of buildings and parts of buildings for the time being designated by the registration officer for the purposes of the charging authority's collective community charges.

(2) The regulations may include provision that any person may, at a reasonable place and reasonable time stated by the registration officer, inspect the extract and list maintained as mentioned in sub-paragraph (1) above.

(3) The regulations may include provision that the registration officer shall (on request) supply a copy of the extract and list to any person.

(4) The regulations may include provision that the duty to supply such a copy shall not arise unless the person making the request pays a prescribed charge.

(5) The regulations may include provision that the duty to supply a copy does not extend to prescribed parts of the extract and list.

(6) To cater for any case where the extract and list are not maintained in a documentary form, the regulations may include provision equivalent to that included under sub-paragraphs (2) to (5) above subject to any modifications the Secretary of State sees fit.

19. Regulations under this Schedule may include provision that an authority which, or officer who, has received a copy of records under any provision included under paragraph 2(2)(i) above must allow the copy to be inspected by an individual liable to pay an amount to the chargeable person concerned by way of contribution to the amount he is liable to pay in respect of the charge concerned.

Miscellaneous SCH. 2

20. A payment on account of a contribution an individual is liable to pay under section 9 above shall not be treated as rent or other consideration for accommodation, notwithstanding anything included in regulations under paragraph 4 or 6 above.

SCHEDULE 3

Section 21.

COMMUNITY CHARGES: PENALTIES

Imposition by authority

1.—(1) Where a person (other than an authority) is requested to supply information under any provision included in regulations under paragraph 2 or 3 of Schedule 2 above, the authority making the request may impose a penalty of £50 on him if—

(a) he fails without reasonable excuse to supply the information in accordance with the provision, or

(b) in purported compliance with the provision he knowingly supplies information which is inaccurate in a material particular.

(2) Where a penalty has been imposed on a person under sub-paragraph (1) above and he is requested by the authority a second time to supply the same information under the same provision, the authority may impose a further penalty of £200 on him if—

(a) he fails without reasonable excuse to supply the information in accordance with the provision, or

(b) in purported compliance with the provision he knowingly supplies information which is inaccurate in a material particular.

(3) Where a person is requested by an authority to allow it to inspect records under any provision included in regulations under paragraph 2 or 3 of Schedule 2 above, the authority may impose a penalty of £50 on him if he fails without reasonable excuse to allow the records to be inspected in accordance with the provision.

(4) Where a penalty has been imposed on a person under sub-paragraph (3) above and he is requested by the authority a second time to allow it to inspect the same records under the same provision, the authority may impose a further penalty of £200 on him if he fails without reasonable excuse to allow the records to be inspected in accordance with the provision.

(5) Where a person is requested by an authority to send a copy of records under any provision included in regulations under paragraph 2 or 3 of Schedule 2 above, the authority may impose a penalty of £50 on him if he fails without reasonable excuse to send a copy in accordance with the provision.

(6) Where a penalty has been imposed on a person under sub-paragraph (5) above and he is requested by the authority a second time to send a copy of the same records under the same provision, the authority may impose a further penalty of £200 on him if he fails without reasonable excuse to send a copy in accordance with the provision.

(7) Where a person, in purported compliance with any provision included in regulations under paragraph 2 or 3 of Schedule 2 above, knowingly submits a return which is inaccurate in a material particular, the authority concerned may impose on him a penalty of £50.

SCH. 3 *Imposition by registration officer*

2.—(1) Where a person—

(a) fails without reasonable excuse to compile or retain records in accordance with any provision included in regulations under paragraph 2 or 3 of Schedule 2 above, or

(b) in purported compliance with such provision knowingly compiles a record which is inaccurate in a material particular,

the registration officer for the authority concerned may impose a penalty of £50 on him.

(2) Where a penalty has been imposed on a person under sub-paragraph (1) above and as regards the same community charge—

(a) he fails without reasonable excuse to compile or retain records in accordance with any provision included in regulations under paragraph 2 or 3 of Schedule 2 above, or

(b) in purported compliance with such provision he knowingly compiles a record which is inaccurate in a material particular,

the registration officer for the authority concerned may impose a further penalty of £200 on him.

(3) Where a person is requested by a registration officer to allow him to inspect records under any provision included in regulations under paragraph 2 or 3 of Schedule 2 above, the officer may impose a penalty of £50 on him if he fails without reasonable excuse to allow the records to be inspected in accordance with the provision.

(4) Where a penalty has been imposed on a person under sub-paragraph (3) above and he is requested by the officer a second time to allow him to inspect the same records under the same provision, the officer may impose a further penalty of £200 on him if he fails without reasonable excuse to allow the records to be inspected in accordance with the provision.

(5) Where a person is requested by a registration officer to send a copy of records under any provision included in regulations under paragraph 2 or 3 of Schedule 2 above, the officer may impose a penalty of £50 on him if he fails without reasonable excuse to send a copy in accordance with the provision.

(6) Where a penalty has been imposed on a person under sub-paragraph (5) above and he is requested by the officer a second time to send a copy of the same records under the same provision, the officer may impose a further penalty of £200 on him if he fails without reasonable excuse to send a copy in accordance with the provision.

(7) Where a person fails without reasonable excuse—

(a) to inform a contributor in accordance with any provision included in regulations under paragraph 4(2)(e) of Schedule 2 above,

(b) to supply information in accordance with such a provision, or

(c) to supply a receipt in accordance with such a provision,

the registration officer for the authority concerned may impose a penalty of £50 on him in respect of any (or each) such failure.

(8) Where a person is requested to supply information under any provision included in regulations under paragraph 10 or 11 of Schedule 2 above, the officer making the request may impose a penalty of £50 on him if—

(a) he fails without reasonable excuse to supply the information in accordance with the provision, or

(b) in purported compliance with the provision he knowingly supplies information which is inaccurate in a material particular.

(9) Where a penalty has been imposed on a person under sub-paragraph (8) above and he is requested by the officer a second time to supply the same information under the same provision, the officer may impose a further penalty of £200 on him if—

(a) he fails without reasonable excuse to supply the information in accordance with the provision, or

(b) in purported compliance with the provision he knowingly supplies information which is inaccurate in a material particular.

(10) Where a person is requested to supply information under any provision included in regulations under paragraph 10 or 11 of Schedule 2 above, and another person in responding to the request knowingly supplies information which is inaccurate in a material particular, the officer making the request may impose a penalty of £50 on the person supplying the information.

(11) Where a person fails without reasonable excuse to inform a registration officer in accordance with any provision included in regulations under paragraph 12 of Schedule 2 above the officer may impose a penalty of £50 on him.

General

3. Where a person is convicted of an offence, the conduct by reason of which he is convicted shall not also allow a penalty to be imposed under paragraph 1 or 2 above.

4.—(1) If it appears to the Treasury that there has been a change in the value of money since the passing of this Act or (as the case may be) the last occasion when the power conferred by this paragraph was exercised, they may by order substitute for any sum for the time being specified in paragraphs 1 and 2 above such other sum as appears to them to be justified by the change.

(2) An order under this paragraph shall not apply in relation to anything done, or any failure which began, before the date on which the order comes into force.

5.—(1) A penalty under paragraph 1 above shall be paid to the authority imposing it.

(2) A penalty under paragraph 2 above shall be paid to the authority for which the registration officer imposing it is the registration officer.

6.—(1) The Secretary of State may make regulations containing provision as to the collection and recovery of amounts payable as penalties under paragraph 1 or 2 above.

(2) The regulations may include provision for the collection of such amounts (including provision about instalments and notices) which is equivalent to that made in regulations under Schedule 2 above for the collection of amounts persons are liable to pay in respect of community charges subject to any modifications the Secretary of State sees fit.

(3) The regulations may include provision for the recovery of payments due in respect of such amounts in the same way as payments due in respect of amounts persons are liable to pay in respect of community charges.

SCH. 3

(4) Provision as to penalties incurred under paragraph 2 (8) to (11) above before 1 April 1990 may be included in regulations under sub-paragraph (2) or (3) above notwithstanding that no liability to pay amounts in respect of community charges arises before that date.

Section 43.

SCHEDULE 4

NON-DOMESTIC RATING: EXEMPTION

Agricultural premises

1. A hereditament is exempt to the extent that it consists of any of the following—

(a) agricultural land;

(b) agricultural buildings.

2.—(1) Agricultural land is—

(a) land used as arable, meadow or pasture ground only,

(b) land used for a plantation or a wood or for the growth of saleable underwood,

(c) land exceeding 0.10 hectare and used for the purposes of poultry farming,

(d) anything which consists of a market garden, nursery ground, orchard or allotment (which here includes an allotment garden within the meaning of the Allotments Act 1922), or

(e) land occupied with, and used solely in connection with the use of, a building which (or buildings each of which) is an agricultural building by virtue of paragraph 4, 5, 6 or 7 below.

(2) But agricultural land does not include—

(a) land occupied together with a house as a park,

(b) gardens (other than market gardens),

(c) pleasure grounds,

(d) land kept or preserved mainly or exclusively for purposes of sport or recreation, or

(e) land used as a racecourse.

3. A building is an agricultural building if it is not a dwelling and—

(a) it is occupied together with agricultural land and is used solely in connection with agricultural operations on the land, or

(b) it is or forms part of a market garden and is used solely in connection with agricultural operations at the market garden.

4.—(1) A building is an agricultural building if it is used solely in connection with agricultural operations carried on on agricultural land and sub-paragraph (2) or (3) below applies.

(2) This sub-paragraph applies if the building is occupied by the occupiers of all the land concerned.

(3) This sub-paragraph applies if the building is occupied by individuals each of whom is appointed by the occupiers of the land concerned to manage the use of the building and is—

(a) an occupier of some of the land concerned, or

(b) a member of the board of directors or other governing body of a person who is both a body corporate and an occupier of the land concerned.

(4) This paragraph does not apply unless the number of occupiers of the land concerned is less than 25.

5.—(1) A building is an agricultural building if—

(a) it is used for the keeping or breeding of livestock, or

(b) it is not a dwelling, it is occupied together with a building or buildings falling within paragraph (a) above, and it is used in connection with the operations carried on in that building or those buildings.

(2) Sub-paragraph (1)(a) above does not apply unless—

(a) the building is solely used as there mentioned, or

(b) the building is occupied together with agricultural land and used also in connection with agricultural operations on that land, and that other use together with the use mentioned in sub-paragraph (1)(a) is its sole use.

(3) Sub-paragraph (1)(b) above does not apply unless—

(a) the building is solely used as there mentioned, or

(b) the building is occupied also together with agricultural land and used also in connection with agricultural operations on that land, and that other use together with the use mentioned in sub-paragraph (1)(b) is its sole use.

(4) A building (the building in question) is not an agricultural building by virtue of this paragraph unless it is surrounded by or contiguous to an area of agricultural land which amounts to not less than 2 hectares.

(5) In deciding for the purposes of sub-paragraph (4) above whether an area is agricultural land and what is its size, the following shall be disregarded—

(a) any road, watercourse or railway (which here includes the former site of a railway from which railway lines have been removed);

(b) any agricultural building other than the building in question;

(c) any building occupied together with the building in question.

6.—(1) A building is an agricultural building if it is not a dwelling, is occupied by a person keeping bees, and is used solely in connection with the keeping of those bees.

(2) Sub-paragraphs (4)and (5) of paragraph 5 above apply for the purposes of this paragraph as for those of that.

7.—(1) A building is an agricultural building if it is not a dwelling and—

(a) it is used in connection with agricultural operations carried on on agricultural land, and

(b) it is occupied by a body corporate any of whose members are (together with the body) the occupiers of the land.

(2) A building is also an agricultural building if it is not a dwelling and—

(a) it is used in connection with the operations carried on in a building which, or buildings each of which, is used for the keeping or breeding of livestock and is an agricultural building by virtue of paragraph 5 above, and

(b) sub-paragraph (3), (4) or (5) below applies as regards the building first mentioned in this sub-paragraph (the building in question).

(3) This sub-paragraph applies if the building in question is occupied by a body corporate any of whose members are (together with the body) the occupiers of the building or buildings mentioned in sub-paragraph (2)(a) above.

SCH. 4

(4) This sub-paragraph applies if the building in question, and the building or buildings mentioned in sub-paragraph (2)(a) above, are occupied by the same persons.

(5) This sub-paragraph applies if the building in question is occupied by individuals each of whom is appointed by the occupiers of the building or buildings mentioned in sub-paragraph (2)(a) above to manage the use of the building in question and is—

(a) an occupier of part of the building, or of part of one of the buildings, mentioned in sub-paragraph (2)(a) above, or

(b) a member of the board of directors or other governing body of a person who is both a body corporate and an occupier of the building or buildings mentioned in sub-paragraph (2)(a) above.

(6) Sub-paragraph (1) above does not apply unless the use there mentioned, or that use together with the use mentioned in sub-paragraph (2) above, is its sole use.

(7) Sub-paragraph (2) above does not apply unless the use there mentioned, or that use together with the use mentioned in sub-paragraph (1) above, is its sole use.

(8) Sub-paragraph (4) or (5) above does not apply unless the number of occupiers of the building or buildings mentioned in sub-paragraph (2)(a) above is less than 25.

8.—(1) In paragraphs 1 and 3 to 7 above "agricultural land" shall be construed in accordance with paragraph 2 above.

(2) In paragraphs 1 and 5(5)(b) above "agricultural building" shall be construed in accordance with paragraphs 3 to 7 above.

(3) In determining for the purposes of paragraphs 3 to 7 above whether a building used in any way is solely so used, no account shall be taken of any time during which it is used in any other way, if that time does not amount to a substantial part of the time during which the building is used.

(4) In paragraphs 2 to 7 above and sub-paragraph (2) above "building" includes a separate part of a building.

(5) In paragraphs 5 and 7 above "livestock" includes any mammal or bird kept for the production of food or wool or for the purpose of its use in the farming of land.

Fish farms

9.—(1) A hereditament is exempt to the extent that it consists of any of the following—

(a) land used solely for or in connection with fish farming;

(b) buildings (other than dwellings) so used.

(2) In determining whether land or a building used for or in connection with fish farming is solely so used, no account shall be taken of any time during which it is used in any other way, if that time does not amount to a substantial part of the time during which the land or building is used.

(3) "Building" includes a separate part of a building.

(4) "Fish farming" means the breeding or rearing of fish, or the cultivation of shellfish, for the purpose of (or for purposes which include) transferring them to other waters or producing food for human consumption.

(5) "Shellfish" includes crustaceans and molluscs of any description.

Places of religious worship

10.—(1) A hereditament is exempt to the extent that it consists of any of the following—

(a) a place of public religious worship which belongs to the Church of England or the Church in Wales (within the meaning of the Welsh Church Act 1914) or is for the time being certified as required by law as a place of religious worship;

(b) a church hall, chapel hall or similar building used in connection with a place falling within paragraph (a) above for the purposes of the organisation responsible for the conduct of public religious worship in that place.

(2) The exemption in sub-paragraph (1) above does not apply in the case of a place or building (as the case may be) in a particular financial year if—

(a) the place or building, or any part or parts of the place or building, was or were at any time in the previous financial year let for non-religious use,

(b) any payment in consideration of the letting or lettings for non-religious use accrued due in that previous year, and

(c) the amount of the payments accruing due in that previous year, as consideration for the letting or lettings for non-religious use, exceeds the amount of the expenses attributable to the letting or lettings in that previous year.

(3) A place or building (or part of a place or building) is let if it is subject to a tenancy or a licence.

(4) Non-religious use, in relation to a place or building, is use otherwise than for public religious worship or (as the case may be) otherwise than as mentioned in sub-paragraph (1)(b) above.

Certain property of Trinity House

11.—(1) A hereditament is exempt to the extent that it belongs to or is occupied by the Trinity House and consists of any of the following—

(a) a lighthouse;

(b) a buoy;

(c) a beacon;

(d) property within the same curtilage as, and occupied for the purposes of, a lighthouse.

(2) No other hereditament (or part of a hereditament) belonging to or occupied by the Trinity House is exempt, notwithstanding anything in section 731 of the Merchant Shipping Act 1894.

Sewers

12.—(1) A hereditament is exempt to the extent that it consists of any of the following—

(a) a sewer;

(b) an accessory belonging to a sewer.

(2) "Sewer" has the meaning given by section 343 of the Public Health Act 1936.

(3) "Accessory" means a manhole, ventilating shaft, pumping station, pump or other accessory.

(4) The Secretary of State may by order repeal sub-paragraphs (1) to (3) above.

SCH. 4

Property of drainage authorities

13.—(1) A hereditament is exempt to the extent that it consists of any of the following—

(a) land which is occupied by a drainage authority and which forms part of a main river or of a watercourse maintained by the authority;

(b) a structure maintained by a drainage authority for the purpose of controlling or regulating the flow of water in, into or out of a watercourse which forms part of a main river or is maintained by the authority;

(c) an appliance so maintained for that purpose.

(2) "Drainage authority", "main river" and "watercourse" have the same meanings as in the Land Drainage Act 1976.

(3) Nothing in this paragraph renders exempt a hereditament (or part of a hereditament) which consists of a right of fishing or shooting.

Parks

14.—(1) A hereditament is exempt to the extent that it consists of a park which—

(a) has been provided by, or is under the management of, a relevant authority or two or more relevant authorities acting in combination, and

(b) is available for free and unrestricted use by members of the public.

(2) The reference to a park includes a reference to a recreation or pleasure ground, a public walk, an open space within the meaning of the Open Spaces Act 1906, and a playing field provided under the Physical Training and Recreation Act 1937.

(3) Each of the following is a relevant authority—

(a) a county council,

(b) a district council,

(c) a London borough council,

(d) the Common Council,

(e) the Council of the Isles of Scilly,

(f) a parish or community council, and

(g) the chairman of a parish meeting.

(4) In construing sub-paragraph (1) (b) above any temporary closure (at night or otherwise) shall be ignored.

Property used for the disabled

15.—(1) A hereditament is exempt to the extent that it consists of property used wholly for any of the following purposes—

(a) the provision of facilities for training, or keeping suitably occupied, persons who are disabled or who are or have been suffering from illness;

(b) the provision of welfare services for disabled persons;

(c) the provision of facilities under section 15 of the Disabled Persons (Employment) Act 1944;

(d) the provision of a workshop or of other facilities under section 3(1) of the Disabled Persons (Employment) Act 1958.

(2) A person is disabled if he is blind, deaf or dumb or suffers from mental disorder of any description or is substantially and permanently handicapped by illness, injury, congenital deformity or any other disability for the time being prescribed for the purposes of section 29(1) of the National Assistance Act 1948.

(3) "Illness" has the meaning given by section 128(1) of the National Health Service Act 1977.

(4) "Welfare services for disabled persons" means services or facilities (by whomsoever provided) of a kind which a local authority has power to provide under section 29 of the National Assistance Act 1948.

Air-raid protection works

16. A hereditament is exempt to the extent that it consists of property which—

(a) is intended to be occupied or used solely for the purpose of affording protection in the event of hostile attack from the air, and

(b) is not occupied or used for any other purpose.

Swinging moorings

17. A hereditament is exempt to the extent that it consists of a mooring which is used or intended to be used by a boat or ship and which is equipped only with a buoy attached to an anchor, weight or other device—

(a) which rests on or in the bed of the sea or any river or other waters when in use, and

(b) which is designed to be raised from that bed from time to time.

Property in enterprise zones

18.—(1) A hereditament is exempt to the extent that it is situated in an enterprise zone.

(2) An enterprise zone is an area for the time being designated as an enterprise zone under Schedule 32 to the Local Government, Planning and Land Act 1980.

Power to confer exemption

19.—(1) The Secretary of State may make regulations providing that prescribed hereditaments or hereditaments falling within any prescribed description are exempt to such extent (whether as to the whole or some lesser extent) as may be prescribed.

(2) But the power under sub-paragraph (1) above may not be exercised so as to confer exemption which in his opinion goes beyond such exemption or privilege (if any) as fulfils the first and second conditions.

(3) The first condition is that the exemption or privilege operated or was enjoyed in practice, immediately before the passing of this Act, in respect of a general rate in its application to the hereditaments prescribed or falling within the prescribed description.

(4) The second condition is that the exemption or privilege—

(a) was conferred by a local Act or order passed or made on or after 22 December 1925, or

(b) was conferred by a local Act or order passed or made before 22 December 1925 and was saved by section 117(5)(b) of the 1967 Act.

SCH. 4

(5) Regulations under sub-paragraph (1) above in their application to a particular financial year—

(a) may only be made if they come into force before 1 March in the preceding financial year, and

(b) may only be amended or revoked if the amendment or revocation comes into force before 1 March in the preceding financial year.

Interpretation

20. In this Schedule "exempt" means exempt from local non-domestic rating.

Section 48.

SCHEDULE 5

NON-DOMESTIC RATING: VALUATION

1. This Schedule has effect to determine the rateable value of non-domestic hereditaments, and parts of them, for the purposes of this Part.

2.—(1) The rateable value of a non-domestic hereditament shall be taken to be an amount equal to the rent at which it is estimated the hereditament might reasonably be expected to let from year to year if the tenant undertook to pay all usual tenant's rates and taxes and to bear the cost of the repairs and insurance and the other expenses (if any) necessary to maintain the hereditament in a state to command that rent.

(2) Where (apart from this sub-paragraph) the rateable value would include a fraction of a pound—

(a) the fraction shall be made up to one pound if it would exceed 50p, and

(b) the fraction shall be ignored if it would be less than 51p.

(3) Where the rateable value is determined for the purposes of compiling a list the day by reference to which the determination is to be made is—

(a) the day on which the list must be compiled, or

(b) such day preceding that day as may be specified by the Secretary of State by order in relation to the list.

(4) Where the rateable value is determined with a view to making an alteration to a list which has been compiled (whether or not it is still in force) the day by reference to which the determination is to be made is—

(a) the day on which the list came into force, or

(b) if a day was specified under sub-paragraph (3)(b) above in relation to the list, the day so specified.

(5) Where the rateable value is determined for the purposes of compiling a list by reference to a day specified under sub-paragraph (3)(b) above, the matters mentioned in sub-paragraph (7) below shall be taken to be as they are assumed to be on the day on which the list must be compiled.

(6) Where the rateable value is determined with a view to making an alteration to a list which has been compiled (whether or not it is still in force) the matters mentioned in sub-paragraph (7) below shall be taken to be as they are assumed to be on the day the alteration is entered in the list or (if the alteration is made in pursuance of a proposal) the day the proposal is made.

(7) The matters are—

(a) the state of the hereditament,

(b) the mode or category of occupation of the hereditament,

(c) the quantity of minerals or other substances in or extracted from the hereditament,

(d) other premises situated in the locality of the hereditament and their use or occupation, and

(e) matters affecting the amenity of the locality of the hereditament (including transport services and other facilities).

(8) The Secretary of State may make regulations providing that, in applying the preceding provisions of this paragraph in relation to a hereditament of a prescribed description, prescribed assumptions (as to the hereditament or otherwise) are to be made.

(9) The Secretary of State may make regulations providing that in arriving at an amount under sub-paragraph (1) above prescribed principles are to be applied; and the regulations may include provision for the preservation of such principles, privileges, and provisions for the making of valuations on exceptional principles, as apply or applied for the purposes of the 1967 Act.

(10) If a day is specified under sub-paragraph (3)(b) above the same specification must be made in relation to all lists to be compiled on the same day.

3.—(1) The Secretary of State may by order provide that in the case of a non-domestic hereditament of such description as may be prescribed—

(a) paragraph 2 above shall not apply, and

(b) its rateable value shall be such as is determined in accordance with prescribed rules.

(2) The Secretary of State may by order provide that in the case of non-domestic hereditaments to be shown in a central non-domestic rating list by virtue of regulations under section 45(2) above—

(a) paragraph 2 above shall not apply, and

(b) their rateable value shall be such as is specified in the order or determined in accordance with prescribed rules.

4.—(1) The rateable value of such part of a non-domestic hereditament as is neither domestic property nor exempt from local non-domestic rating shall be such part of the rateable value of the hereditament as is found in accordance with rules prescribed by regulations made by the Secretary of State.

(2) Where (apart from this sub-paragraph) the rateable value of a part would include a fraction of a pound—

(a) the fraction shall be made up to one pound if it would exceed 50p, and

(b) the fraction shall be ignored if it would be less than 51p.

SCHEDULE 6

Section 48.

NON-DOMESTIC RATING: MULTIPLIERS

PART I

NON-DOMESTIC RATING MULTIPLIERS

Introduction

1. This Part of this Schedule has effect to determine the non-domestic rating multiplier for each chargeable financial year.

General provisions

2.—(1) In the revenue support grant report for the financial year beginning in 1990 the Secretary of State shall specify a non-domestic rating multiplier for the year.

(2) The multiplier must be expressed as a figure in which a part of a whole (if any) is expressed to one decimal place only.

SCH. 6

(3) If the report is approved by resolution of the House of Commons the multiplier so specified shall be the non-domestic rating multiplier for the year.

3. The non-domestic rating multiplier for a chargeable financial year beginning in or after 1991 shall be calculated in accordance with the following formula if the year is not one at the beginning of which new lists must be compiled—

$$\frac{A \times B}{C}$$

4. The non-domestic rating multiplier for a chargeable financial year beginning in or after 1991 shall be calculated in accordance with the following formula if the year is one at the beginning of which new lists must be compiled—

$$\frac{A \times B \times D}{C \times E}$$

5.—(1) This paragraph applies for the purposes of paragraphs 3 and 4 above.

(2) A is the non-domestic rating multiplier for the financial year preceding the year concerned.

(3) B is the retail prices index for September of the financial year preceding the year concerned.

(4) C is the retail prices index for September of the financial year which precedes that preceding the year concerned.

(5) D is the number of whole pounds in the Secretary of State's estimate of the total of the appropriate rateable values of all appropriate hereditaments, where—

(a) appropriate rateable values are those shown (or to be shown) in lists for the last day of the financial year preceding the year concerned, and

(b) appropriate hereditaments are those so shown (or to be shown).

(6) E is the number of whole pounds in the Secretary of State's estimate of the total of the appropriate rateable values of all appropriate hereditaments, where—

(a) appropriate rateable values are those shown (or to be shown) in lists for the first day of the financial year concerned, and

(b) appropriate hereditaments are those so shown (or to be shown).

(7) References in sub-paragraphs (3) and (4) above to the retail prices index are references to the general index of retail prices (for all items) published by the Department of Employment; and if that index is not published for a month for which it is relevant for the purposes of either of those sub-paragraphs, the sub-paragraph shall be taken to refer to any substituted index or index figures published by that Department.

(8) Estimates under sub-paragraphs (5) and (6) above shall be made on the basis of information available to the Secretary of State on such date as is specified in the revenue support grant report for the year concerned.

(9) In calculating a multiplier a part of a whole (if any) shall be calculated to one decimal place only—

(a) adding one tenth where (apart from this sub-paragraph) there would be more than five hundredths, and

(b) ignoring the hundredths where (apart from this sub-paragraph) there would be less than six hundredths.

6.—(1) The Secretary of State shall calculate the non-domestic rating multiplier for a chargeable financial year beginning in or after 1991 and, as soon as is reasonably practicable after doing so, shall serve on each charging authority a notice stating the multiplier as so calculated.

(2) Where the financial year is one at the beginning of which new lists must be compiled, the notice must contain his estimates made under paragraph 5(5) and (6) above.

Special provision for 1990-95

7.—(1) Regulations under section 49 above in relation to a relevant financial year may include provision that the non-domestic rating multiplier for the year shall be one which exceeds what it would have been if the regulations had not been made and which is specified in the regulations; and in such a case paragraphs 2 to 6 above shall have effect subject to the regulations.

(2) A multiplier specified under this paragraph must be expressed as a figure in which a part of a whole (if any) is expressed to one decimal place only.

(3) For the purposes of this paragraph relevant financial years are financial years beginning in 1990, 1991, 1992, 1993 and 1994.

8.—(1) A multiplier must be specified under paragraph 2 above for the financial year beginning in 1990 even if a different one is or may be specified for the year under paragraph 7 above.

(2) A multiplier must be calculated, and notices of it must be served, under paragraphs 3 to 6 above for each subsequent relevant financial year even if a different one is or may be specified for the year under paragraph 7 above.

(3) In calculating under paragraphs 3 to 6 above the multiplier for a financial year beginning in or after 1991 (whether or not a relevant financial year) A shall be taken to be what it would have been if no regulations had been made under section 49 above for any year.

(4) For the purposes of this paragraph relevant financial years are financial years beginning in 1990, 1991, 1992, 1993 and 1994.

PART II

SPECIAL AUTHORITY'S MULTIPLIERS

9.—(1) A special authority's non-domestic rating multiplier for a chargeable financial year shall be such as is set for the year by the authority in accordance with this Part of this Schedule.

(2) The multiplier must be expressed as a figure in which a part of a whole (if any) is expressed to one decimal place only.

(3) The multiplier must be not less than the required minimum for the year and not greater than the required maximum for the year, where—

(a) the required minimum for the year is a figure equal to such proportion of the non-domestic rating multiplier for the year as is specified in an order made by the Secretary of State, and

(b) the required maximum for the year is a figure calculated in accordance with a formula specified in the order.

(4) An order under sub-paragraph (3) above in its application to a particular financial year—

(a) may only be made if it comes into force before 1 March in the preceding financial year, and

(b) may only be amended if the amendment comes into force before 1 March in the preceding financial year;

but this is without prejudice to the power to revoke.

SCH. 6

10.—(1) Where a special authority has set a multiplier for a financial year (originally or by way of substitute) it may set a multiplier in substitution if, and only if, it has been quashed because of a failure to fulfil paragraph 9(2) or (3) above.

(2) Any multiplier set in substitution must be set in accordance with paragraph 9 above.

(3) Where a special authority sets a multiplier in substitution under this paragraph (a new multiplier) anything paid to it by reference to the multiplier for which it is substituted (the old multiplier) shall be treated as paid by reference to the new multiplier.

(4) But if the old multiplier exceeds the new multiplier, the following shall apply as regards anything paid if it would not have been paid had the old multiplier been the same as the new multiplier—

(a) it shall be repaid if the person by whom it was paid so requires;

(b) in any other case it shall (as the authority determines) either be repaid or be credited against any subsequent liability of the person to pay anything to it by way of a non-domestic rate.

11.—(1) Where a special authority has set a multiplier in accordance with paragraph 9 above (whether originally or by way of substitute) it shall, before the expiry of the period of 21 days beginning with the day of doing so, publish a notice of the multiplier in at least one newspaper circulating in its area.

(2) Failure to comply with sub-paragraph (1) above does not make a multiplier invalid.

Section 51.

SCHEDULE 7

NON-DOMESTIC RATING POOL

The pool

1.—(1) In accordance with this Schedule the Secretary of State shall establish, and then maintain, a pool (to be called the non-domestic rating pool and in this Schedule referred to as the pool).

(2) The pool must be established before 1 April 1990.

(3) The Secretary of State—

(a) shall prepare accounts of the pool in such manner and form and at such times as the Treasury may direct, and

(b) shall at such times as the Treasury may direct send copies of the accounts to the Comptroller and Auditor General.

(4) The Comptroller and Auditor General shall examine, certify and report on any accounts of which copies are sent to him under sub-paragraph (3) above and shall lay copies of the accounts and of his report before each House of Parliament.

Payments in and out

2.—(1) The following shall be paid by the Secretary of State into the pool—

(a) sums received by him under section 46 above,

(b) sums received by him by virtue of regulations under section 50(2) above, and

(c) sums received by him under paragraph 5 below.

(2) The following payments shall be met by the Secretary of State from the pool—

(a) payments to be made by him under paragraph 5(10) below or under regulations made under paragraph 6(4) below, and

(b) payments to be made by him under paragraph 8, 11 or 12 below (as the case may be).

Surpluses

3. Any balance remaining in the pool at the end of a chargeable financial year shall be kept in the pool and carried forward to the next financial year.

Non-domestic rating contributions

4.—(1) The Secretary of State may make regulations containing rules for the calculation of an amount for a chargeable financial year in relation to each charging authority (to be called its non-domestic rating contribution for the year).

(2) The rules shall be so framed that the amount calculated under them in relation to an authority is broadly the same as the total which, if the authority acted diligently, would be payable to it in respect of the year under sections 39 and 41 above.

(3) Sub-paragraph (2) above shall not apply in the case of a special authority, but the rules shall be so framed that the amount calculated under them in relation to the authority is broadly the same as the total which would be payable to it in respect of the year under sections 39 and 41 above if—

(a) the authority's non-domestic rating multiplier for the year was equal to the required minimum for the year, and

(b) the authority acted diligently.

(4) For the purposes of sub-paragraph (3) above the required minimum for the year is the required minimum for the year as found for the purposes of paragraph 9(3) of Schedule 6 above.

(5) Regulations under this paragraph in their application to a particular financial year—

(a) may only be made if they come into force before 1 January in the preceding financial year, and

(b) may only be amended if the amendment comes into force before 1 January in the preceding financial year;

but this is without prejudice to the power to revoke.

5.—(1) This paragraph applies where regulations under paragraph 4 above are in force for a chargeable financial year.

(2) By such time before the year begins as the Secretary of State may direct, a charging authority shall calculate the amount of its non-domestic rating contribution for the year and shall notify the amount to the Secretary of State.

(3) If the authority fails to comply with sub-paragraph (2) above or if the Secretary of State believes the amount notified is not likely to have been calculated in accordance with the regulations he may make his own calculation of the amount; and where he makes such a calculation he shall inform the authority why he has done so and shall inform it of the amount calculated.

(4) The authority shall be liable to pay to the Secretary of State an amount (the provisional amount) equal to—

(a) that calculated and notified under sub-paragraph (2) above, or

(b) if sub-paragraph (3) above applies, that calculated by the Secretary of State under it.

SCH. 7

(5) The authority shall pay the provisional amount during the course of the year, in such instalments and at such times as the Secretary of State may direct.

(6) After the year ends the authority shall—

(a) calculate the amount of its non-domestic rating contribution for the year,

(b) arrange for the calculation and the amount to be certified by its auditor, and

(c) notify the amount, together with the auditor's certification of it, to the Secretary of State.

(7) If the authority fails to comply with sub-paragraph (6) above by such time as the Secretary of State directs, he may suspend payments which would otherwise fall to be made to the authority from the pool; but if the authority then complies with the sub-paragraph he shall resume payments falling to be made to the authority from the pool and make payments to it equal to those suspended.

(8) If, at any time after the year ends, the Secretary of State receives notification from an authority under sub-paragraph (6)(c) above he shall—

(a) calculate the amount of the difference (if any) between the amount notified and the provisional amount, and

(b) if there is a difference, inform the authority of the amount of the difference.

(9) If the amount notified under sub-paragraph (6)(c) above exceeds the provisional amount the authority shall be liable to pay an amount equal to the difference to the Secretary of State by such time as he may direct.

(10) If the amount notified under sub-paragraph (6)(c) above is less than the provisional amount the Secretary of State shall be liable to pay an amount equal to the difference to the authority.

6.—(1) Any calculation under paragraph 5 above of the amount of an authority's non-domestic rating contribution for a year shall be made in accordance with the regulations under paragraph 4 above and on the information before the person making the calculation at the time he makes it.

(2) The power to give a direction under paragraph 5 above—

(a) includes power to revoke or amend a direction given under the power;

(b) may be exercised differently for different authorities.

(3) A direction under paragraph 5(5) above is ineffective unless given with the Treasury's consent.

(4) The Secretary of State may make regulations providing that, once the provisional amount has been arrived at under paragraph 5 above as regards an authority for a financial year and if prescribed conditions are fulfilled, the provisional amount is to be treated for the purposes of that paragraph as being an amount smaller than it would otherwise be.

(5) Regulations under sub-paragraph (4) above may include—

(a) provision as to the re-calculation of the provisional amount, including provision for the procedure to be adopted for re-calculation if the prescribed conditions are fulfilled;

(b) provision as to financial adjustments to be made as a result of any re-calculation, including provision for the making of reduced payments under paragraph 5 above or of repayments.

(6) For the purposes of paragraph 5(6) above an authority's auditor is the person appointed to audit the authority's accounts for the financial year for which the contribution is calculated.

Distributable amount

7.—(1) Before a chargeable financial year begins the Secretary of State shall calculate the total of the relevant credit items and the total of the relevant debit items.

(2) The relevant credit items are—

(a) the sums he estimates he will pay into the pool in the year by virtue of paragraph 2(1) above, and

(b) any balance he estimates will be carried forward in the pool from the previous financial year.

(3) The relevant debit items are the payments he estimates he will meet from the pool in the year by virtue of paragraph 2(2)(a) above.

(4) If the total of the relevant credit items exceeds the total of the relevant debit items the Secretary of State shall calculate the amount equal to the difference and deduct from it such amount as he thinks it is prudent to allow as a working margin for the pool.

(5) In the revenue support grant report for the year the Secretary of State shall specify the amount arrived at under this paragraph (the distributable amount for the year).

Distribution: England

8.—(1) This paragraph has effect in the application of this Schedule to England.

(2) As soon as is reasonably practicable after the revenue support grant report for a chargeable financial year has been laid before the House of Commons the Secretary of State shall calculate an amount in relation to each charging authority by reference to the formula—

$$\frac{A \times B}{C}$$

(3) A is an amount equal to the distributable amount for the year.

(4) B is the relevant population of the authority.

(5) C is the aggregate of the relevant populations of all charging authorities.

(6) "Relevant population", in relation to an authority, means the members of the population of the authority's area who fall within such description as is specified in regulations made by the Secretary of State.

(7) As regards each authority the calculation shall be made to the nearest £100 in accordance with the following rules—

(a) where (apart from this sub-paragraph and after taking into account each complete £100) there would be an excess of more than £50, the excess shall be made up to £100, and

(b) where (apart from this sub-paragraph and after taking into account each complete £100) there would be an excess of less than £51, the excess shall be ignored.

(8) As soon as is reasonably practicable after making the calculation the Secretary of State shall inform each charging authority of the amount which he calculates in relation to it.

(9) The Secretary of State shall pay to each authority the amount calculated in relation to it.

(10) The amount shall be paid to the authority during the course of the year concerned, in such instalments and at such times as he decides with the Treasury's approval.

SCH. 7 *Distribution: Wales*

9. Paragraphs 10 to 14 below have effect in the application of this Schedule to Wales.

10.—(1) As soon as is reasonably practicable after the distributable amount for a chargeable financial year has been arrived at, the Secretary of State shall calculate how much of it he proposes to pay to county councils (the county share for the year) and how much of it he proposes to pay to district councils (the district share for the year).

(2) The calculation shall be made in accordance with the basis of division for the time being effective (as regards the year) under paragraph 14 below.

(3) In the revenue support grant report for the year the Secretary of State shall specify the county and district shares.

11.—(1) As soon as is reasonably practicable after the revenue support grant report for a chargeable financial year has been laid before the House of Commons the Secretary of State shall calculate an amount in relation to each county council and each district council by reference to the formula—

$$\frac{A \times B}{C}$$

(2) In the case of a county council A is an amount equal to the county share for the year and C is the aggregate of the relevant populations of all county councils.

(3) In the case of a district council A is an amount equal to the district share for the year and C is the aggregate of the relevant populations of all district councils.

(4) B is the relevant population of the council.

(5) "Relevant population", in relation to a council, means the members of the population of the council's area who fall within such description as is specified in regulations made by the Secretary of State.

(6) As regards each council the calculation shall be made to the nearest £100 in accordance with the following rules—

(a) where (apart from this sub-paragraph and after taking into account each complete £100) there would be an excess of more than £50, the excess shall be made up to £100, and

(b) where (apart from this sub-paragraph and after taking into account each complete £100) there would be an excess of less than £51, the excess shall be ignored.

(7) As soon as is reasonably practicable after making the calculation the Secretary of State shall inform each county council and each district council of the amount which he calculates in relation to it.

(8) The Secretary of State shall pay to each council the amount calculated in relation to it.

(9) The amount shall be paid to the council during the course of the year concerned, in such instalments and at such times as he decides with the Treasury's approval.

12.—(1) This paragraph has effect in relation to a transitional year.

(2) As soon as is reasonably practicable after the revenue support grant report for the year has been laid before the House of Commons the Secretary of State shall decide whether paragraph 11 above is to have effect in relation to the year.

(3) If he decides that it is not to have effect he shall as soon as is reasonably practicable calculate—

(a) what amount of the county share for the year he proposes to pay to each county council, and

(b) what amount of the district share for the year he proposes to pay to each district council.

(4) The calculations may be made by reference to such factors as the Secretary of State thinks fit.

(5) As soon as is reasonably practicable after making the calculations the Secretary of State shall inform each county council and each district council of the amount which he calculates in relation to it.

(6) The Secretary of State shall pay to each council the amount calculated in relation to it.

(7) The amount shall be paid to the council at such time, or in instalments of such amounts and at such times, as the Secretary of State decides with the Treasury's approval; but any such time must fall within the year concerned.

13.—(1) The Secretary of State shall make a report containing the basis on which he proposes to divide the distributable amount for a chargeable financial year between county councils (on the one hand) and district councils (on the other).

(2) Before making the report the Secretary of State shall notify to such representatives of local government as appear to him to be appropriate the general nature of its intended contents.

(3) The report shall be laid before the House of Commons.

(4) As soon as is reasonably practicable after the report is laid before the House of Commons the Secretary of State shall send a copy of it to each county council and each district council.

(5) After making the report the Secretary of State may make a further report or reports, and any such report—

(a) may replace any previous report under this paragraph, or

(b) may amend any previous report under this paragraph.

(6) A report under sub-paragraph (5)(a) above shall contain a revised basis on which the Secretary of State proposes to divide the distributable amount.

(7) A report under sub-paragraph (5)(b) above shall contain amendments to the basis contained in the report which it amends.

(8) Sub-paragraphs (2) to (4) above shall apply to any report under sub-paragraph (5) above as they apply to one under sub-paragraph (1) above.

(9) A report under this paragraph shall state the day on which it is to come into force and the first financial year for which it is to operate.

14.—(1) This paragraph applies where in accordance with paragraph 13 above a report has been made and laid before the House of Commons.

(2) If the report is approved by resolution of the House of Commons it shall come into force on the day stated in the report.

(3) If the report is made under paragraph 13(1) or (5)(a), on and after the day it comes into force the basis it contains shall have effect as regards all chargeable financial years beginning with the first financial year for which it states it is to operate; but this is subject to the effect of any subsequent report under paragraph 13(5).

(4) If the report is made under paragraph 13(5)(b), on and after the day it comes into force the basis it amends read subject to the amendments shall have effect as regards all chargeable financial years beginning with the first financial year for which it states it is to operate; but this is subject to the effect of any subsequent report under paragraph 13(5).

SCH. 7
Section 53.

SCHEDULE 8

NON-DOMESTIC RATING: ADMINISTRATION

Collection and recovery

1. The Secretary of State may make regulations containing such provision as he sees fit in relation to the collection and recovery of amounts persons are liable to pay under sections 39, 41 and 46 above.

2.—(1) In this paragraph—

(a) references to the ratepayer are to a person liable to pay an amount under section 39, 41 or 46 above,

(b) references to the amount payable are to the amount he is liable to pay,

(c) references to the payee are to the charging authority to which he is liable to pay or (where section 46 applies) the Secretary of State, and

(d) references to the financial year are to the financial year concerned.

(2) Regulations under this Schedule may include provision—

(a) that the ratepayer is to make payments on account of the amount payable, including payments during the course of the financial year,

(b) that payments on account must be made in accordance with an agreement between the ratepayer and the payee or in accordance with a prescribed scheme for payment by instalments,

(c) that payments on account may be calculated by reference to an estimate of the amount payable,

(d) that an estimate may be made on prescribed assumptions (whether as to the ratepayer's interest in property or otherwise),

(e) that the payee must serve a notice or notices on the ratepayer stating the amount payable or its estimated amount and what payment or payments he is required to make (by way of instalment or otherwise),

(f) that no payment on account of the amount payable need be made unless a notice requires it,

(g) that a notice and any requirement in it is to be treated as invalid if it contains prescribed matters or fails to contain other prescribed matters or is not in a prescribed form,

(h) that the payee must supply prescribed information to the ratepayer when the payee serves a notice and that the notice is to be treated as invalid if the payee does not do so,

(i) that if the ratepayer fails to pay an instalment in accordance with the regulations the unpaid balance of the amount payable or its estimated amount is to be payable within a prescribed period beginning with the failure, and

(j) that any amount paid by the ratepayer in excess of his liability (whether the excess arises because an estimate turns out to be wrong or otherwise) must be repaid or credited against any subsequent liability.

3.—(1) Regulations under this Schedule may include provision that any payment due to a charging authority under any provision included under paragraph 2 above shall be recoverable by distress and sale of goods and chattels, or as a simple contract debt in a court of competent jurisdiction, or by both those methods.

(2) Regulations under this Schedule may include provision that any payment due to the Secretary of State under any provision included under paragraph 2 above shall be recoverable as a simple contract debt in a court of competent jurisdiction.

(3) Regulations under this Schedule may include provision that any repayment due under any provision included under paragraph 2 above shall be recoverable as a simple contract debt in a court of competent jurisdiction.

Information

4.—(1) A valuation officer may serve a notice on a person who is an owner or occupier of a hereditament requiring him to supply to the officer such information as is required by him for the purpose of carrying out functions conferred or imposed on him by or under this Part.

(2) A person on whom a notice is served under this paragraph shall supply the information required if it is in his possession or control, and he shall do so in such form and manner as is required in the notice and within the period of 21 days beginning with the day on which the notice is served.

(3) If a person on whom a notice is served under this paragraph fails without reasonable excuse to comply with sub-paragraph (2) above, he shall be liable on summary conviction to a fine not exceeding level 2 on the standard scale.

(4) If a notice has been served on a person under this paragraph, and in supplying information in purported compliance with sub-paragraph (2) above he makes a statement which he knows to be false in a material particular or recklessly makes a statement which is false in a material particular, he shall be liable on summary conviction to imprisonment for a term not exceeding 3 months or to a fine not exceeding level 3 on the standard scale or to both.

5.—(1) If in the course of the exercise of its functions any information comes to the notice of a relevant authority which leads it to suppose that a list requires alteration it shall be the authority's duty to inform the valuation officer who has the duty to maintain the list.

(2) For the purposes of sub-paragraph (1) above each of the following is a relevant authority—

(a) a charging authority;

(b) a precepting authority which falls within section 137(2)(a) to (g) above.

Power of entry

6.—(1) If a valuation officer needs to value a hereditament for the purpose of carrying out functions conferred or imposed on him by or under this Part, he and any person authorised by him in writing may enter on, survey and value the hereditament if sub-paragraph (2) below is fulfilled and (where it applies) sub-paragraph (3) below is fulfilled.

(2) At least 24 hours' notice in writing of the proposed exercise of the power must be given.

(3) In a case where a person authorised by the valuation officer proposes to exercise the power, the person must if required produce his authority.

(4) If a person wilfully delays or obstructs a person in the exercise of a power under this paragraph, he shall be liable on summary conviction to a fine not exceeding level 1 on the standard scale.

Inspection

7.—(1) A person may, at a reasonable time and without making payment, inspect—

(a) a list currently in force or a list in force at any time in the preceding 5 years;

(b) any proposal made or notice of appeal given under regulations made under section 47 above, if made or given as regards a list currently in force or a list in force at any time in the preceding 5 years;

SCH. 8

(c) minutes of the proceedings of a valuation and community charge tribunal with respect to a list currently in force or a list in force at any time in the preceding 5 years;

(d) a copy of a proposed list deposited under section 37(6) or 44(6) above and not yet in force.

(2) A person may—

(a) make copies of or extracts from a document mentioned in sub-paragraph (1) above, or

(b) require a person having custody of such a document to supply to him a photographic copy of (or of extracts from) the document.

(3) But if a reasonable charge is required for a facility under sub-paragraph (2) above, the sub-paragraph shall not apply unless the person seeking to avail himself of the facility pays the charge.

(4) If without reasonable excuse a person having custody of a document mentioned in sub-paragraph (1) above—

(a) intentionally obstructs a person in exercising a right under sub-paragraph (1) or (2)(a) above, or

(b) refuses to supply a copy to a person entitled to it under sub-paragraph (2)(b) above,

he shall be liable on summary conviction to a fine not exceeding level 1 on the standard scale.

Section 69.

SCHEDULE 9

RESIDUAL RATING MULTIPLIERS

1. This Schedule has effect to determine the residual rating multiplier for each English charging authority for each transitional year.

2.—(1) The Secretary of State shall determine in relation to each authority a formula in accordance with which the multiplier for the authority for the first transitional year is to be calculated; and the formula must be the same in the case of each authority, except that it may be different in the case of a special authority.

(2) Any formula determined under sub-paragraph (1) above shall be specified in a report which—

(a) may (but need not) be the revenue support grant report for the first transitional year, and

(b) shall be laid before the House of Commons.

(3) If the report concerned is approved by resolution of the House of Commons the Secretary of State shall calculate the multiplier for each authority for the first transitional year in accordance with the formula determined in relation to it.

(4) The Secretary of State may require any English charging authority and any English precepting authority to supply him with information which he specifies and which he considers he needs for the purpose of making the calculation.

(5) If any such authority fails to supply the information within such time as he specifies he may make the calculation on the basis of such assumptions and estimates as he considers appropriate.

(6) The Secretary of State shall notify each authority of the multiplier he calculates for it, and the multiplier so notified shall be the residual rating multiplier for the authority for the first transitional year.

3.—(1) The Secretary of State shall determine a percentage which, when applied to the multiplier for an authority for the first transitional year, is to produce the multiplier for the authority for the second transitional year; and the percentage must be the same in the case of each authority and must be less than 100.

(2) The percentage shall be specified in a report which—

(a) may (but need not) be the revenue support grant report for the second transitional year, and

(b) shall be laid before the House of Commons.

(3) If the report concerned is approved by resolution of the House of Commons the multiplier for an authority for the second transitional year shall be calculated by applying the percentage concerned to the multiplier for the authority for the first transitional year; and the authority shall calculate the multiplier for the second transitional year accordingly.

4. As regards the third transitional year paragraph 3 above shall have effect as if—

(a) "second" read "third", and

(b) the reference to 100 were to the corresponding percentage approved by the House of Commons for the second transitional year.

5. As regards the fourth transitional year paragraph 3 above shall have effect as if—

(a) "second" read "fourth", and

(b) the reference to 100 were to the corresponding percentage approved by the House of Commons for the third transitional year.

6. Where the Secretary of State or an authority calculates a multiplier under this Schedule a part of a whole (if any) shall be calculated to one decimal place only—

(a) adding one tenth where (apart from this sub-paragraph) there would be more than five hundredths, and

(b) ignoring the hundredths where (apart from this sub-paragraph) there would be less than six hundredths.

SCHEDULE 10

Section 69.

RESIDUAL RATING STANDARD AMOUNTS

1. This Schedule has effect to determine the residual rating standard amount for each English charging authority for each transitional year.

2.—(1) The Secretary of State shall determine a formula in accordance with which the standard amount for each authority for the first transitional year is to be calculated; and the formula must be the same in the case of each authority and must be such that it produces a figure expressed in pounds.

(2) The formula shall be specified in a report which—

(a) may (but need not) be the revenue support grant report for the first transitional year, and

(b) shall be laid before the House of Commons.

(3) If the report concerned is approved by resolution of the House of Commons the Secretary of State shall calculate the standard amount for each authority for the first transitional year in accordance with the formula.

(4) The Secretary of State may require any English charging authority and any English precepting authority to supply him with information which he specifies and which he considers he needs for the purpose of making the calculation.

SCH. 10

(5) If any such authority fails to supply the information within such time as he specifies he may make the calculation on the basis of such assumptions and estimates as he considers appropriate.

(6) The Secretary of State shall notify each authority of the standard amount he calculates for it, and the standard amount so notified shall be the residual rating standard amount for the authority for the first transitional year.

3.—(1) The standard amount for an authority for the second, third and fourth transitional years shall be calculated by applying the relevant percentage to the standard amount for the authority for the first transitional year; and the authority shall calculate the standard amount for the second, third and fourth transitional years accordingly.

(2) In sub-paragraph (1) above "the relevant percentage" in relation to the second, third or fourth transitional year means the percentage which is to be applied to the authority's residual rating multiplier for the first transitional year for the purpose of calculating its multiplier for the second, third or fourth transitional year (as the case may be).

4. Where the Secretary of State or an authority calculates a standard amount under this Schedule and (apart from this paragraph) the amount would include a fraction of a pound—

(a) the fraction shall be made up to one pound if it would exceed 50p, and

(b) the fraction shall be ignored if it would be less than 51p.

Section 72.

SCHEDULE 11

RESIDUAL RATING: ADMINISTRATION

Collection and recovery

1. The Secretary of State may make regulations containing such provision as he sees fit in relation to the collection and recovery of amounts persons are liable to pay under sections 63 and 67 above.

2.—(1) In this paragraph—

(a) references to the ratepayer are to a person liable to pay an amount under section 63 or 67 above,

(b) references to the amount payable are to the amount he is liable to pay, and

(c) references to the authority and the financial year are to the authority and the financial year concerned.

(2) Regulations under this Schedule may include provision—

(a) that the ratepayer is to make payments on account of the amount payable, including payments during the course of the financial year,

(b) that payments on account must be made in accordance with an agreement between the ratepayer and the authority or in accordance with a prescribed scheme for payment by instalments,

(c) that payments on account may be calculated by reference to an estimate of the amount payable,

(d) that an estimate may be made on prescribed assumptions (whether as to the ratepayer's interest in property or otherwise),

(e) that the authority must serve a notice or notices on the ratepayer stating the amount payable or its estimated amount and what payment or payments he is required to make (by way of instalment or otherwise),

(f) that no payment on account of the amount payable need be made unless a notice requires it,

(g) that a notice and any requirement in it is to be treated as invalid if it contains prescribed matters or fails to contain other prescribed matters or is not in a prescribed form,

(h) that the authority must supply prescribed information to the ratepayer when the authority serves a notice and that the notice is to be treated as invalid if the authority does not do so,

(i) that if the ratepayer fails to pay an instalment in accordance with the regulations the unpaid balance of the amount payable or its estimated amount is to be payable within a prescribed period beginning with the failure, and

(j) that any amount paid by the ratepayer in excess of his liability (whether the excess arises because an estimate turns out to be wrong or otherwise) must be repaid or credited against any subsequent liability.

3.—(1) Regulations under this Schedule may include provision that any payment due to a charging authority under any provision included under paragraph 2 above shall be recoverable by distress and sale of goods and chattels, or by attachment of earnings, or by both those methods.

(2) Regulations under this Schedule may include provision that any repayment due under any provision included under paragraph 2 above shall be recoverable as a simple contract debt in a court of competent jurisdiction.

Information

4.—(1) A charging authority may serve a notice on a person who is an owner or occupier of a hereditament requiring him to supply to the authority such information as is required by it for the purpose of carrying out functions conferred or imposed on it by or under this Part.

(2) A person on whom a notice is served under this paragraph shall supply the information required if it is in his possession or control, and he shall do so in such form and manner as is required in the notice and within the period of 21 days beginning with the day on which the notice is served.

(3) If a person on whom a notice is served under this paragraph fails without reasonable excuse to comply with sub-paragraph (2) above, he shall be liable on summary conviction to a fine not exceeding level 2 on the standard scale.

(4) If a notice has been served on a person under this paragraph, and in supplying information in purported compliance with sub-paragraph (2) above he makes a statement which he knows to be false in a material particular or recklessly makes a statement which is false in a material particular, he shall be liable on summary conviction to imprisonment for a term not exceeding 3 months or to a fine not exceeding level 3 on the standard scale or to both.

5.—(1) If in the course of the exercise of its functions any information comes to the notice of a relevant authority which leads it to suppose that a valuation or residual rating list maintained under this Part requires alteration it shall be the authority's duty to inform the charging authority which has the duty to maintain the list.

(2) For the purposes of sub-paragraph (1) above each of the following is a relevant authority—

(a) any other charging authority;

(b) a precepting authority which falls within section 137(2)(a) to (g) above.

Power of entry

6.—(1) If a hereditament needs to be valued for the purpose of enabling a charging authority to carry out functions conferred or imposed on it by or under this Part, any person authorised by it in writing may enter on, survey and value the hereditament if sub-paragraphs (2) and (3) below are fulfilled.

SCH. 11

(2) At least 24 hours' notice in writing of the proposed exercise of the power must be given.

(3) The person proposing to exercise the power must if required produce his authority.

(4) If a person wilfully delays or obstructs a person in the exercise of a power under this paragraph, he shall be liable on summary conviction to a fine not exceeding level 1 on the standard scale.

Inspection

7.—(1) A person may, at a reasonable time and without payment, inspect—

(a) a valuation list maintained under this Part;

(b) a residual rating list maintained under this Part;

(c) any proposal made or notice of appeal given under regulations made under section 68 above;

(d) minutes of the proceedings of a valuation and community charge tribunal with respect to a valuation or residual rating list maintained under this Part.

(2) A person may—

(a) make copies of or extracts from a document mentioned in sub-paragraph (1) above, or

(b) require a person having custody of such a document to supply to him a photographic copy of (or of extracts from) the document.

(3) But if a reasonable charge is required for a facility under sub-paragraph (2) above, the sub-paragraph shall not apply unless the person seeking to avail himself of the facility pays the charge.

(4) If without reasonable excuse a person having custody of a document mentioned in sub-paragraph (1) above—

(a) intentionally obstructs a person in exercising a right under sub-paragraph (1) or (2)(a) above, or

(b) refuses to supply a copy to a person entitled to it under sub-paragraph (2)(b) above,

he shall be liable on summary conviction to a fine not exceeding level 1 on the standard scale.

Section 130.

SCHEDULE 12

TRIBUNALS

Establishment

1. The Secretary of State shall make regulations providing for the establishment of tribunals (to be known as valuation and community charge tribunals).

Jurisdiction

2. The tribunals shall exercise the jurisdiction conferred on them by—

(a) section 22 above;

(b) regulations under section 47 above;

(c) regulations under section 68 above.

3.—(1) The Secretary of State may by regulations provide for the tribunals to exercise the jurisdiction conferred (apart from the regulations) on local valuation courts by the General Rate Act 1967.

(2) The regulations may apply as regards matters arising or appeals instituted before, as well as those arising or instituted after, the coming into force of the regulations.

Procedure, staff, etc

4.—(1) The Secretary of State may by regulations make such provision as he sees fit in relation to proceedings before and other matters relating to the tribunals.

(2) The regulations may in particular include provision—

(a) for determining to which tribunal an appeal is to be made,

(b) for prescribing the procedure to be followed on an appeal,

(c) for the award of costs and expenses,

(d) for taxing or otherwise settling costs or expenses, and

(e) for the registration and proof of decisions and orders of tribunals.

(3) The regulations may also include provision as to staff and accommodation in relation to the tribunals.

Finance

5. The Secretary of State may make such payments as he sees fit as regards tribunals (including payments in respect of remuneration and accommodation).

General

6.—(1) Without prejudice to section 136(1) above, regulations under this Schedule may make different provision for cases where tribunals exercise jurisdiction conferred on them by or under different provisions of this Act.

(2) Without prejudice to section 136(2) above, regulations under paragraph 3 above may include—

(a) provision for the winding up of local valuation courts or for their reconstitution as valuation and community charge tribunals;

(b) provision amending or repealing provisions of the General Rate Act 1967.

SCHEDULE 13

Section 131.

AMENDMENTS

Valuation and Rating (Scotland) Act 1956 (c.60.)

1. In section 6 of the Valuation and Rating (Scotland) Act 1956 (ascertainment of certain values of lands and heritages) the following subsections shall be inserted after subsection (8)—

"(8A) The Secretary of State may by regulations made under this subsection prescribe the principles to be applied in arriving at the net annual value of lands and heritages under subsection (8) above.

(8B) Regulations made under subsection (8A) above—

(a) may be made so as to apply differently to different areas or in relation to other different cases or classes of case;

(b) may include such supplementary, incidental, consequential or transitional provisions as appear to the Secretary of State to be necessary or expedient; and

(c) shall be made by statutory instrument subject to annulment in pursuance of a resolution of either House of Parliament."

SCH. 13

City of London (Various Powers) Act 1957 (c.x)

2.—(1) The following shall be substituted for section 6(1)(a) of the City of London (Various Powers) Act 1957 (qualification of voters at ward elections)—

"(a) are occupying as owner or tenant the whole or part of a hereditament which is shown in a local non-domestic rating list, which is in that ward, and for which the rateable value shown in that list is not less than £10; or".

(2) This paragraph shall have effect as regards qualifying dates after 31 March 1990.

Commonwealth Secretariat Act 1966 (c.10.)

3.—(1) In paragraph 3 of the Schedule to the Commonwealth Secretariat Act 1966 for "the general rate" there shall be substituted "any non-domestic rate".

(2) This paragraph shall have effect for financial years beginning in or after 1990.

International Organisations Act 1968 (c.48.)

4. In section 2(2) of the International Organisations Act 1968 after paragraph (a) there shall be inserted—

"(aa) the like exemption or relief from being subject to a community charge, or being liable to pay anything in respect of a community charge or anything by way of contribution in respect of a collective community charge, as in accordance with that Article is accorded to a diplomatic agent, and".

Justices of the Peace Act 1979 (c.55.)

5.—(1) In section 41(1)(b) of the Justices of the Peace Act 1979 (application to City) for "general rate fund of the City" there shall be substituted "City fund".

(2) This paragraph shall have effect as regards any time after 31 March 1990.

Local Government Finance Act 1982 (c.32.)

6.—(1) The following shall be substituted for section 12(3) of the Local Government Finance Act 1982 (accounts subject to audit)—

"(3) This section also applies to—

(a) the accounts of the collection fund of the Common Council and the accounts of the City fund; and

(b) the accounts relating to the superannuation fund established and administered by the Common Council under the Local Government Superannuation Regulations 1974 as amended by the Local Government Superannuation (City of London) Regulations 1977;

and any reference in this Part of this Act to the accounts of a body shall be construed, in relation to the Common Council, as a reference to the accounts mentioned in paragraphs (a) and (b) above."

(2) This paragraph shall have effect for financial years beginning in or after 1990.

Road Traffic Regulation Act 1984 (c.27.)

7.—(1) In section 55(2) and (4) of the Road Traffic Regulation Act 1984 (financial provisions relating to designation orders) for "general rate fund" there shall be substituted "general fund".

(2) This paragraph shall have effect for financial years beginning in or after 1990. SCH. 13

Abolition of Domestic Rates Etc. (Scotland) Act 1987 (c.47.)

8. In section 11(7) of the Abolition of Domestic Rates Etc. (Scotland) Act 1987 (amount of collective community charge) at the end there shall be added the words "and such product shall be reduced by the relevant proportion, being 5 per cent. or such other proportion as may be prescribed."

SCH. 13
Section 142.

SCHEDULE 14

REPEALS

PART I

ABOLITION OF RATES AND PRECEPTS

Chapter	Short title	Extent of repeal
1907 c.cxl.	City of London (Union of Parishes) Act 1907.	In section 11(1) the words from "and from" to "poor rate". Section 15. In section 16(1) the words "together with and as part of the general rate". Sections 17 to 19 and 21.
1963 c.33.	London Government Act 1963.	Section 66. Section 68(1).
1967 c.9.	General Rate Act 1967.	The whole Act.
1969 c.19.	Decimal Currency Act 1969.	In Schedule 2, paragraph 28.
1970 c.19.	General Rate Act 1970.	The whole Act.
1971 c.23.	Courts Act 1971.	In Schedule 9, the entry relating to the General Rate Act 1967.
1971 c.39.	Rating Act 1971.	Part I.
1971 c.78.	Town and Country Planning Act 1971.	In Schedule 23, in Part II, the entries relating to the General Rate Act 1967.
1976 c.45.	Rating (Charity Shops) Act 1976.	Section 1(1).
1979 c.46.	Ancient Monuments and Archaeological Areas Act 1979.	In Schedule 4, paragraph 10.
1980 c.43.	Magistrates' Courts Act 1980.	In Schedule 7, paragraphs 57 to 60.
1983 c.2.	Representation of the People Act 1983.	Section 98. In Schedule 1, rule 22(3) of the parliamentary election rules.
1985 c.9.	Companies Consolidation (Consequential Provisions) Act 1985.	In Schedule 2, the entry relating to the General Rate Act 1967.
1985 c.51.	Local Government Act 1985.	Section 83(1).
1986 c.10.	Local Government Act 1986.	Section 1. In section 12(2) the words "Part I comes into force on the day this Act is passed;".
1986 c.44.	Gas Act 1986.	In Schedule 7, paragraph 8.

These repeals shall have effect for financial years beginning in or after 1990, but subject to any saving under section 121(8) above.

PART II

SUPPLEMENTARY GRANTS FOR TRANSPORT PURPOSES

Chapter	Short title	Extent of repeal
1974 c.7.	Local Government Act 1974.	Section 6(1) to (7).
1985 c.51.	Local Government Act 1985.	Section 8(3).

These repeals shall have effect for financial years beginning in or after 1990.

PART III

LONDON REGIONAL TRANSPORT

Chapter	Short title	Extent of repeal
1984 c.32.	London Regional Transport Act 1984.	Sections 13 and 14.

These repeals shall have effect in accordance with section 126 above and any regulations made under it.

PART IV

SCOTLAND

Chapter	Short title	Extent of repeal
1987 c.47.	Abolition of Domestic Rates Etc. (Scotland) Act 1987.	In section 4(1) the words "or of section 7(3) of the 1966 Act (which relates to the reduction of rates on premises occupied partly as a dwelling house by reference to the domestic element)".

Local Government Finance

A

BILL

[AS AMENDED BY STANDING COMMITTEE E]

To create community charges in favour of certain authorities, to create new rating systems, to provide for precepting by certain authorities and levying by certain bodies, to make provision about the payment of grants to certain authorities, to require certain authorities to maintain certain funds, to make provision about the administration of the financial affairs of certain authorities, to abolish existing rates, precepts and similar rights, to abolish rate support grants and supplementary grants for transport purposes, to make amendments as to certain grants, to make certain amendments to the law of Scotland as regards community charges, rating and valuation, to provide for the establishment of valuation and community charge tribunals, and for connected purposes.

Presented by Mr Secretary Ridley
supported by
The Prime Minister
Mr Secretary Walker, Mr Secretary Baker
Mr Kenneth Clarke, Mr Secretary Rifkind
Mr Secretary Channon, Mr John Major
Mr Michael Howard and *Mr Christopher Chope*

Ordered, by The House of Commons,
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LONDON SW1

11 April 1988

Dear Gareth

LOCAL GOVERNMENT FINANCE BILL

Here is something to deal with Chris Dunabin's letter of 7 April about multipliers.

The system we now have is much improved, and there are two reasons. First, the multiplier no longer has to be specified in the revenue support grant report. Secondly, you accept that the distributable amount will have to be estimated even though the estimate may be difficult to make : should there be an express power to make assumptions (as in clause 114(7))?

You will see that Schedule 6 paragraph 6 now contains a time limit. This is designed to remove the possibility of the Secretary of State causing confusion by purporting to calculate the multiplier too early.

You will also see that I have amended Schedule 7 paragraphs 8, 11 and 12. This is because, if the report were withdrawn or not

12/4/1

approved, the Bill as printed would leave one guessing as to the distributable amount or the county and district shares. Compare clause 85(2).

I have not provided that the City multiplier is to be fixed by 11 March : if the non-domestic rating multiplier were not then known the City would be under a duty it could not fulfil. I cannot understand Chris Dunabin's observation that the City's failure could not be challenged.

I have not dealt with the wider issues mentioned in the correspondence - such as the position where no report is approved before the year starts. This clearly needs more thought.

Yours sincerely

Geoffrey Bowman.

E G BOWMAN

CONSIDERATION OF BILL

LOCAL GOVERNMENT FINANCE BILL, AS AMENDED

Mr Secretary Ridley

Page 73, line 33 [Clause 136], leave out '(6)' and insert '(7)'.

Page 73, line 45 [Clause 136], at end insert-

'(7) The power to make an order under paragraph 5 of Schedule 6 below shall be exercisable as there mentioned.'

Page 96, line 17 [Schedule 6], at end add '; but if the Treasury so provide by order in relation to the year concerned, B is a figure which is less than that index and which is specified in (or calculated in a manner specified in) the order.'

Page 96, line 39 [Schedule 6], leave out from 'as' to end of line 40 and insert 'he determines'.

Page 96, line 46 [Schedule 6], at end insert-

'(10) The power to make an order under sub-paragraph (3) above shall be exercisable by statutory instrument.

(11) An order under sub-paragraph (3) above in its application to a particular financial year (including an order amending or revoking another) shall not be effective unless it is approved by resolution of the House of Commons before the revenue support grant report for the year is approved by that House.'

Page 97, line 2 [Schedule 6], after 'contain' insert '(a)'.

Page 97, line 3 [Schedule 6], at end insert ', and

(b) the date determined by him under paragraph 5(8) above for

the purpose of making the estimates.

(3) A calculation under sub-paragraph (1) above is invalid if made at a time when either-

(a) the revenue support grant report for the year has not been approved by resolution of the House of Commons, or

(b) an order under paragraph 5(3) above which is effective in relation to the year has not come into force.'

Page 97, line 23 [Schedule 6], at end insert-

'(3A) An order may be made under paragraph 5(3) above in relation to a financial year beginning in or after 1991 even if a multiplier is or may be specified for the year under paragraph 7 above.'

Page 101, line 22 [Schedule 7], leave out from beginning to second 'the' in line 23 and insert 'If the revenue support grant report for a chargeable financial year is approved by resolution of the House of Commons, as soon as is reasonably practicable after the report is approved'.

Page 102, line 13 [Schedule 7], leave out from beginning to 'the' in line 15 and insert 'If the revenue support grant report for a chargeable financial year is approved by resolution of the House of Commons, as soon as is reasonably practicable after the report is approved'.

Page 102, line 44 [Schedule 7], leave out from beginning to third 'the' in line 45 and insert 'If the revenue support grant report for the year is approved by resolution of the House of Commons, as soon as is reasonably practicable after the report is

approved'.

19/1 8/039/ejb

SECRET

Leaks
Legal
How do we know?

FROM: A J C EDWARDS
DATE: 27 June 1988

CHIEF SECRETARY

cc Chancellor 12/2
Sir P Middleton
Mr Anson
Mr Phillips
Mr Potter
Mr Fellgett
cc Mr Tyrie

RSG SETTLEMENT AND RELATED MATTERS

At your meeting on Thursday with Mr Ridley you commissioned a paper by officials about the problems of winding up the existing RSG system, and the related problem of capital receipts, as the basis for an early discussion with the Prime Minister. DOE's first draft of this paper did not seem to us satisfactory, and we are still discussing this intensively with them. The paper will not, however, be able to deal adequately with some of the more delicate issues at stake, and it may therefore be helpful if I try in this minute to summarise how we see things in preparation for your discussion with the Chancellor.

The Problem

2. The problem is, in a nutshell, that, if we are not careful, there could be a surge in local authority spending and in government grant to local authorities as we move from the exisiting control systems for local authority current and capital expenditure to the new systems.

3. The immediate area where we are vunerable is government grant. Under the existing system (but not the new system from April 1990) most local authorities lose grant if they increase their total expenditure and gain grant if they reduce it. This feature of the system has the merit of strengthening local authorities' financial incentives to restrain their expenditure. Unfortunately, however, authorities are able to massage their reported expenditure totals downwards by means of various creative accounting devices and thus claim extra government grant. The main such devices,

and our best guesses as to the extra amounts of government grant potentially claimable by the authorities between now and April 1990, are shown in the accompanying table. There are other manipulative devices as well, including factoring and interest swaps. Yet another device, just invented, is advance maintenance deals, which would enable authorities to use capital receipts this year or next to finance maintenance and repairs in future years when the restrictions on the use of capital receipts will be tighter. DOE are confident, however, that they can block off these additional manipulative devices, which are not reflected in their table.

4. There are four important points to note about the expenditure/grant manipulation devices in the table. First, local authorities will have an immense incentive to draw on their accumulated 'special funds' and some of the other devices for reducing reported expenditure during the rest of this year and next year so as to gain extra government grant; for under the new system from April 1990 these grant advantages will no longer be available.

5. Second, authorities will anyway have an incentive quite apart from increases in their grant entitlement, to maximise use of capital receipts to finance expenditure before April 1990 when they will be required to use more than 50% of their accumulated stock of receipts to retire debt.

6. Third, the most significant of the devices listed are in fact legitimate in terms of the existing system. The special funds device, in particular, is legitimate. For grant purposes payments into a special fund have scored and continue to score as expenditure while drawings on such funds score as negative expenditure. Local authorities lost grant when they built up the existing £1.1 billion of special funds in the expectation that on some future occasion they would be able to gain grant correspondingly. The use of capital receipts to finance repairs and maintenance is similarly legitimate within reason.

7. Finally we have to beware of the danger that in the process of solving the problem of vulnerability on grant, we do not

simultaneously reduce the general restraints on total local authority spending.

Options for action

8. The paper by officials will identify two broad options for action to protect the government against a surge of claims for extra grant.

- Option 1: 'a fixed grant for 1989-90, with immediate 'closedown' of earlier years. Mr Ridley would announce at the end of July that the grant for 1989-90 would be a fixed sum, not related to expenditure, and that no further adjustments would be made to grant, in respect of either the current year or earlier years beyond those flowing from changes already reported to the DOE.

- Option 2: expenditure-related grant to continue for 1989-90, with action as necessary to wind up the existing system next year. Mr Ridley would announce a 'normal' settlement this year and would wait until next year before completing the unfinished business of the existing system. In the meantime all foreseeable loopholes would be either blocked or offset in the amount of the grant settlement.

This is the old 'Option 3'

Certainly under Option 2, and preferably under Option 1, it would be important to take action as well on the capital side to prevent a surge in repairs and maintenance expenditure financed by capital receipts and to preclude 'advance maintenance deals'.

Options compared

9. In comparing the options there are 5 main factors to consider, effects on government grant, effects on total local authority expenditure, stage management, financial propriety and legislative implications. It is convenient to take these in reverse order.

10. First, the legislative implications. A Bill will be required to close down the existing RSG system. Option 1 would require

short but highly contentious bill at the beginning of the 1988-89 session, the pressures on which are already intense. Option 2 would require a much less contentious bill at the beginning of the 1989-90 session.

11. Second, financial propriety. We have to assume that Local Authorities would complain loudly and stridently about option 1, which can justifiably be described as changing the rules and the goal posts in mid-game. Local authorities who have accumulated 'special funds', at the cost of reduced grant, in previous years would complain vigourously. There must inevitably be some doubts as to whether the government could sustain its position. Option 2 would not involve this problem in anything like the same degree. It would be quite natural for the government to announce arrangements for winding up the existing system in the context of the proposed grant settlement for the first year of the new system. By that stage it may well be possible to proceed on the basis that all grant claims arising from special funds already accumulated would be met provided that the funds are run down before the end of 1989-90.

12. Third, stage management. Option 1 would only achieve its intended objective of blocking claims for extra grant if the government suceeds in keeping its intentions secret up to the time of announcement. If local authorities guess what is afoot, they will draw on special funds straight away and report lower expenditure immediately so as to avoid being caught out. The problems of preserving confidentiality up to the last moment should not be underestimated. It would be difficult to avoid warning the other ministers and department's concerned with local authorities in advance - and some time in advance, too. The difficulties of maintaining complete confidentiality in such circumstances are well known. If the governments intentions were leaked or widely guessed the DOE would probably call off the whole plan. Option 2 does not raise any comparable problems.

13. Fourth, the effects on government grant. This aspect of the comparison between the two options is less than clear-cut. Option 1 has the considerable advantage of certainty. Under Option

grant, once settled would be a fixed and known amount, whereas under option 2 we would have no comparable certainty.

14. The comparative amounts of grant which the government might expect to have to pay out under the two options are more difficult to predict. Under option 1 we would not be at risk on creative accounting devices (provided that secrecy had been maintained up to the time of announcement). The government would in effect serve notice that it was not prepared to meet the extra grant claims which the authorities thought they were entitled. Option 2 could not deliver similar certainty about the outcome on grant. Under option 2 the aim would be to set the level of grant lower than in a normal settlement so as to offset the use of special funds by the authorities. We would also shut off the grant gains from delaying expenditure to 1991-92 in the context of next years settlement. We would limit the repairs on maintenance route to extra grant by separate and specific administrative action to limit the ability of authorities to finance repairs and maintenance from capital receipts. In short, therfore, Option 1 would more comprehensively and dependedly deal with manipulative devices leading to extra grant claims. But the government could take action under option 2 to offset the likely effects of special funds claims and to block off or contain most but not all of the other main possibilities for manipulation.

This is critical || Can we really offset this?!

15. A major disadvantage of option 1, in grant as well as expenditure terms, however, is that the government would lose the 'grant underclaim' resulting from the fact that many local authorities will in practice establish their budgets at levels above the Governments settlement spending assumption and will thus have their grant entitlements reduced under the existing system. The amount involved here could be of the order of £250-£600 million depending on the levels of the settlement spending assumption and the authorities budgets.

16. Mr Ridley has said in discussion with you that he would be prepared to have a lower grant settlement under option 1 than under option 2. We do not know, however, exactly what he has

in mind. We do wonder, moreover, whether this would in fact be the reality. As described above, option 1 would, we think, provoke the strongest criticism from local authorities on the basis that the goal posts had been shifted in mid-game. Especially incensed would be the authorities with special funds who had been planning to draw on them next year or in the remainder of this year. They would feel totally cheated. Even if Mr Ridley started out with a tough grant settlement, therefore, we would expect him to come under intense pressure when the closedown Bill was before the house to make concessions, and in particular a concession whereby authorities could obtain grant relief in respect of drawings on their existing special funds. Such concessions could be enormously expensive unless Mr Ridley acted simultaneously to remove the exemption from grant underclaim in which case we would be back with Option 2. From the Treasury's point of view, despite what Mr Ridley has said we risk in practice ending up with an extremely expensive settlement this year followed by another expensive settlement next year. In other words, we risk ending up by paying twice over for the transition to the new system. When these risks are weighed in the balance, option 1 arguably looks less attractive even in terms of grant than option 2.

17. Finally, the effects on total local authority expenditure. There is no doubt, that on this criterion, option 2 is superior to option 1. It would retain the grant incentive to local authorities to keep their total spending down during a period which local authorities may see as their last chance for milking business rate payers and setting a high starting level for the national non domestic rate.

18. DOE claim to believe that the financial disincentives at the margin provided by the existing RSG system have little effect on Local authority expenditure. We do not share this view, which incidentally implies that the disincentives to expenditure from the community charge are likely to be similarly ineffective. For an average authority which has to raise an extra £150 from rate payers for every £100 of extra expenditure, the marginal impact of extra expenditure on the domestic rate payer would be about 40% under option 1, compared with about 70% under option 2 and 100% under the community charge system.

Conclusions on Option 1 versus Option 2

19. Mr Ridley and DOE seem extremely attached to Option 1, despite the furore which it would undoubtedly cause. They say, doubtless sincerely, that they are concerned to protect the exchequer from extreme vulnerability over grant. We think that they are also anxious to get rid of the complications of the existing RSG system just as soon as possible.

20. For all the reasons discussed above Treasury officials would go for Option 2 rather than Option 1, provided that a reasonable overall settlement on grant and provision can be obtained. If option 1 were chosen, we would think it better to allow individual authorities to have the grant benefit of existing special funds but to offset this fully in the grant total. We would not see maintenance of the existing grant percentage as a desirable policy objective. Preserving this percentage is equivalent to underwriting past excesses by local authorities.

Capital receipts

21. As mentioned earlier local authorities will have both the incentive and the ability to use cash backed capital receipts between now and 1990 on repairs and maintenance, since they will 'lose' more than 50% of their accumulated receipts on 1 April 1990 (they will have to use them to retire debt). Under option 2, authorities will have a grant incentive as well to substitute capital receipts for revenue wherever possible in the financing of repairs and maintenance. Under either option they will have an incentive both to spend more on repairs and maintenance (thus intensifying in some degree the pressures on the construction industry) and to finance all the repairs and maintenance they do to the greatest possible extent from capital receipts, thus enabling themselves to spend more elsewhere for any given level of rates.

22. The conclusion we would draw is that DOE must take action to control the financing of repairs and maintenance through capital receipts in any event as well as cutting of further devices such

s forward maintenance deals. DOE say that they can do this without legislation. The best time would probably be January/February of next year. In the meantime, we suggest that you should now agree that the capital controls consultative paper should issue tomorrow as originally intended.

Next Action

23. The next action as we see it should be:

i. agreement as soon as possible on the official paper about options 1 and 2 for Mr Ridley to send to the Prime Minister;

ii. we should stand ready to give you a draft minute to the Prime Minister if that seems appropriate;

iii. in the meantime you may like to authorise us to let DOE issue the consultative paper on the future capital control system (we need to pass the word to DOE immediately after discussion with the Chancellor);

iv. subject to the outcome of your discussion with the Chancellor, you may also wish to ask us to confirm to the Cabinet Office your wish to cancel this weeks E(LA) meeting.

24. We shall be minuting separately on rate-caping and dual-running.

p.p. Barry H. Potter

A J C EDWARDS

CLOSEDOWN: GRANT AND EXPENDITURE AT RISK

	£ million at risk on: Expenditure	Grant
(i) Drawings on previously accumulated 'special funds', which score as negative expenditure		
[(a) 1989-90	c900	c450]*
(b) Earlier years	c200	c200
(ii) Postponement of expenditure from 1989-90 to 1990-91, when there will be no grant penalty	?300	?150
(iii) Reductions in reported expenditure through scoring repairs and maintenance as capital expenditure		
(a) extra expenditure	?200	?100
(b) switch of financing to capital receipts	700	350
(iv) End-loading the profile of debt repayments which LAs are obliged to make	?200	?70
(v) Reductions in reported expenditure through reduced revenue contributions to capital expenditure	?50	?25
		900

* Not included in total: can be taken into account in 1989-90 RSG settlement.

010/3292

SECRET AND PERSONAL

COPY NO 1 OF 10 COPIES

NOTE OF A MEETING HELD ON MONDAY, 27 JUNE 1988

AT NO. 11 DOWNING STREET

Present:

Chancellor
Chief Secretary
Mr Anson
Mr A J C Edwards
Mr Potter
Mr Tyrie
Mr A C S Allan

RSG SETTLEMENT AND RELATED MATTERS

Papers: -Mr Edwards' minute of 27 June and previous papers.

The Chancellor thanked Mr Edwards for his helpful note. He said however that he took the view that the position was more evenly balanced than Treasury officials were indicating. The Chief Secretary said that Mr Ridley was strongly supporting Option 1. On financial and propriety grounds officials' advice was for Option 2. He shared the Chancellor's view that the position was more evenly balanced than suggested. There was difficulty in quantifying the consequences of either option. Much depended on how the financial effects were taken into account in the eventual RSG settlement. He found that the prospect of certainty in the early closedown route attractive. But it would require a Bill at the beginning of the 1988-89 session. The business managers would need to be consulted on that. The Chancellor asked if Mr Ridley had indicated what sort of settlement he would envisage associated with early closedown. The Chief Secretary said Mr Ridley had not put any firm figure on this.

2 Mr Anson said that he would agree with the Chancellor and the Chief Secretary that the argument was evenly balanced if Option 1 did indeed offer certainty. But he was concerned that

Mr Ridley would be forced off a tougher initial stance as early closedown was taken through the House of Commons and was subject to judicial review. He was also concerned that Option 1 would be perceived as very unfair. Local authorities did have a legitimate entitlement to reclaim grant, having lost it when they made the transfer into special funds. He thought that this was the sort of legislation which the courts would seek to unstitch. The Chancellor said he thought that it would be possible to carry this sort of legislation through the House. However, making the legislation judicial-review-proof was another question. DOE would need top quality legal advice on the scope for making the legislation watertight. He had noted in the record of the meeting with the Secretary of State for the Environment that DOE were concerned that closedown in July 1989 might not be possible if there were court cases pending. Mr Potter noted that DOE would only be in trouble if an authority was specifically challenging total expenditure. There were at the moment two court cases on other issues outstanding.

3 The Chancellor said that he thought in reality the choice was between either closing down in July as per Option 1 or not closing down at all. Local Authorities would undoubtedly run down their balances. Option 1 would stop them getting a grant benefit on that. They would in any case still have the financial benefit of using those balances. Without closedown, local authorities would both have the financial benefit of running down their special funds and the benefit of extra grant paid on it. There would therefore need to be a tougher settlement Option 2 than with Option 1. He did not think it would be possible to get an agreement on a sufficiently tough settlement to offset that. Moreover a settlement which took full account of the scope for special fund use would be unfair to those local authorities which had not created special funds. Option 1 would mean rough justice. But the justice would be even rougher under Option 2.

4 After some further discussion, the Chancellor and the Chief Secretary agreed that it was essential to make Mr Ridley put

some numbers on the sort of settlement he would envisage under Option 1. The Chief Secretary should have a further early meeting with Mr Ridley. It would be better to approach the Prime Minister with a degree of agreement between the two departments. A meeting this week with the Prime Minister would thus be premature. If Mr Ridley were prepared to offer a suitably tough settlement with Option 1, then the Treasury should be prepared to agree.

5 The Chief Secretary raised the issue of how to cope with the rundown of receipts through the capitalisation of revenue expenditure. The Chief Secretary noted that the Treasury had proposed mechanisms for stopping such a rundown to the Secretary of State, but he had been disinclined to take them. DOE's view was that with early closedown the additional spending was likely only to be of the order of £200 million. Mr Potter said considerable sums were at risk. He believed that it would be possible to revise the general consent for use of capital receipts for non-prescribed spending in relation to 1989-90, and to take into account any surge in 1988-89 in exercising that consent. Mr Edwards' said that DOE officials were not clear on their Secretary of State's view. They would still like to publish on 28 June. His view was that the Treasury should now let the consultation document go ahead provided they were prepared to agree to action in 1989-90 on the basis proposed. The Chancellor agreed that DOE should be given the go-ahead to publish on 28 June if they were prepared to exercise effective control 1989-90 and take account of spending in 1988-89 in the way suggested by Mr Potter.

Jill Rutter

JILL RUTTER
Private Secretary

Distribution

Those present
Sir Peter Middleton
Mr H Phillips
Mr Fellgett

CONFIDENTIAL

10 DOWNING STREET

LONDON SW1A 2AA

27 June 1988

From the Private Secretary

Dear Roger,

DUAL RUNNING OF DOMESTIC RATES AND THE COMMUNITY CHARGE IN LONDON

The Prime Minister was grateful for your Secretary of State's minute of 24 June.

The Prime Minister recognises the force of the arguments for deciding now to drop dual running altogether, and she agrees with that conclusion. She recognises that, if community charges in the areas affected were likely to be set at unreasonably high levels, the charge capping powers are available, and she thinks it important that your Secretary of State should stand ready to use those powers if necessary. But the Prime Minister also thinks that a further look should be taken at the detailed safety net and grant distribution arrangements with a view to seeking to limit the first year community charge in all areas to a maximum of, say, £350. She would be grateful if your Secretary of State could consider this possibility.

I am copying this letter to the Private Secretaries to members of E(LF), the Lord Privy Seal, the Chief Whips in the Commons and Lords and Sir Robin Butler.

Yours,
Paul

(PAUL GRAY)

Roger Bright, Esq.,
Department of the Environment.

CONFIDENTIAL

a
X is potentially v dangerous.
AA

3452/004

CONFIDENTIAL

FROM: A J C EDWARDS
DATE: 28 June 1988

CHIEF SECRETARY

cc Chancellor
Sir P Middleton
Mr Anson
Mr Phillips
Mr Potter
Mr Fellgett

RSG, 1989-90 AND LA CAPITAL RECEIPTS

You are due to see Mr Ridley at 11.30 tomorrow morning. The main developments since yesterday's discussion with the Chancellor are:

(i) Mr Ridley did not accept the Treasury's terms for publication of the consultative paper on the new capital control system (that he should commit himself firmly to taking action to control use of capital receipts in 1989-90, and if possible in the current year as well): the consultative paper is not, therefore, being issued today;

(ii) we understand that Mr Ridley, while supporting the objective of reaching agreement with you first, is anxious not to delay much longer before taking the RSG close-down issue to the Prime Minister. As he sees it, time is running out;

(iii) Mr Ridley, or his officials on his behalf, is apparently wary about taking up the Treasury's challenge of saying what grant figures in the 1989-90 RSG settlement he would be prepared to consider under options 1 and 2 for the close-down, respectively;

(iv) we have reached broad agreement with DOE on the attached paper setting out the pros and cons of options 1 and 2 and the position on capital receipts;

(v) DOE have consulted outside Counsel, Mr Paul Walker, about possible legal challenges to option 1 close-down legislation, with generally reassuring results. Counsel's preliminary opinion will be available in writing tomorrow evening.

Objectives

2. We suggest that your objectives should be:

(i) to reach agreement, if possible, on the choice between options 1 and 2, with an understanding at least on the relative amounts of Aggregate Exchequer Grant on offer as between the two options; and

(ii) to reach agreement on how to proceed with the consultative document on the capital control system.

RSG close-down

3. You are thoroughly familiar with the arguments, both from earlier papers and from yesterday's discussion with the Chancellor. The only point I would like to add is that DOE told us today that their impression was that in many cases local authorities probably did not forfeit grant in order to build up special funds. To that extent the early closedown option would be rather less brutal than we suggested yesterday.

NB

4. The difficult question is the grant figures which might be associated with either option. You will wish to ask Mr Ridley what his proposals would be. Your own position, we suggest, might be as follows:-

- if we are going for option 2, you should stick rigidly by your existing offer of an increase in AEG in line with inflation: that is to say, an increase of

£520 million over last year as set out in option B of the recent E(LA) paper. You would wish to make it clear that you regard this increase as being conditional on (i) taking action as at option C2 of the paper to limit the use of capital receipts for repairs and maintenance for 1989-90; and (ii) full account being taken of the likely use of special funds in the settlement spending assumption for 1989-90. This means an allowance of around £900 million as against the £567 million allowed for in the DOE's existing E(LA) arithmetic;

- if option 1 is preferred, we suggest you should argue that, if a surge in local authority spending is to be avoided, we must have a tough overall grant settlement in order to make up for the much weakened incentive at the margin to keep spending under control. Under option 1 the amount of any extra LA spending at the margin which falls on the domestic ratepayer would fall from 70% at present to as little as 45% before rising to 100% under the Community Charge system. Perhaps for this reason, and also because the authorities would not lose grant through underclaim, Mr Ridley acknowledged at your meeting in the House that with option 1 a tougher grant settlement would be needed. He may now change his line on this. We suggest that you should endorse his earlier line and press for a grant increase of between £520 million and zero, preferably closer to the latter.

5. We estimate that the loss of grant underclaim under option 1 would mean that we would have to pay perhaps £450 million more grant than otherwise (or more or less, depending on the settlement decisions and the actual level of budgets established). But this additional grant should be rather more than offset by the fact that we should no longer be liable to additional claims for grant arising from the manipulation of accounts. The main dangers from manipulation are:

- retrospective capitalisation of repairs in 1987-88 and 1988-89 (up to £350m grant);

- manipulation of special funds in those years (up to £200m);

- and delaying expenditure from March to April 1990 (up to £150m-300m).

In practice not all these dangers should materialise by July 1989. Our best guess is that, for any given level of grant at settlement, the total amount of grant we would have actually to pay out (in respect of all years) would be perhaps £100-200 million less under option 1 than under option 2. The case for a lower settlement under option 1 therefore rests critically on the need to make up for the weakening of restraints at the margin on overall spending.

Capital controls consultation paper

6. As noted above, DOE last night rejected the suggestion that they should agree firmly to restrict the use of capital receipts in 1989-90 as a condition for our agreeing that the consultative paper should issue. They continue to maintain that action affecting 1988-89 is not practicable without retrospection, but they admit that action on 1989-90 could have some effect. Paragraph 17 of the paper explains why they think that the problem maybe less acute than we suggest. As the figures in paragraph 18 show, however, the amounts of expenditure at risk are substantial.

7. If you have agreed separately on grant option 2, stopping this loophole will be doubly important. If, as is more likely, you reach agreement on a tough variant on option 1, I think you could soften your position to the extent of insisting on

a presumption in favour of dealing with this problem by one means or another (possibly less Allocations or restricting the use of capital receipts for repairs or maintenance) early next year.

8. In the meantime, we think it important that the consultative paper should now issue as soon as possible. The longer it is delayed, the greater the danger that the legislation for a more effective control system to take effect from April 1990 will slip. We do not think that action to deal with the capital receipts problem in 1989-90 requires any change in the consultative paper text.

AJCE

A J C EDWARDS

CHANGES TO THE LOCAL GOVERNMENT FINANCE SYSTEM
IMPLICATIONS FOR GRANT AND EXPENDITURE

1. The 1989/90 Rate Support Grant (RSG)Settlement is the last under the present system prior to the introduction of the community charge in 1990. The central feature of the present system is that a local authority's grant entitlement varies with its expenditure. For almost all authorities higher expenditure means lower grant. From 1990 onwards, however, grant entitlement will be fixed at the beginning of the year and will not vary with expenditure; strong downward pressure on expenditure will, however, continue to exist since all additional expenditure will fall to be met by community chargepayers.

2. The change to the new grant arrangements gives local authorities an opportunity to reduce reported expenditure in the last years of the present system and thereby increase grant entitlements. In 1990 the capital control system will also be revised. This too will provide opportunities to local authorities to manipulate total expenditure to increase grant. Some reductions in expenditure will be genuine and rightly should lead to higher grant receipts. Others will be bookkeeping adjustments - such as use of special funds - that we have accepted over the years should reasonably lead to additional grant. But some adjustments will be more dubious simply taking advantage of this unique opportunity to increase grant.

3. While authorities may be using these opportunities to reduce their "total" expenditure (total expenditure is the term of art for the measure of expenditure on which RSG is paid) and gain grants, they may alternatively increase their real underlying level of expenditure without foregoing grant, or strike some balance between the two. This note considers the risks of higher grant claims or higher expenditure and discusses options for reducing them.

ASSESSMENT OF RISK

(1) GRANT

4. Since 1987/88 the amount of RSG available to local authorities has been "open ended" i.e. dependent only on authorities' own expenditure decisions - the less they spend, the more grant is paid. The expectation, however, has been that the actual payments would be lower than allowed for in the RSG Settlements. In practice local authorities have indeed spent higher than allowed for in the RSG Settlements and have forfeited grant. On present information in 1987/88 authorities overspent by £811m and consequently lost £298m grant, while in 1988/89 authorities have budgeted to spend £1035m more than allowed for in the settlement and have lost £521m grant.

5. In the normal cycle of events we update our information after the year end to take account of first "unaudited" and subsequently "audited" out-turn and revise grant claims accordingly. Final calculations of grant are not made until at least two years after the end of the relevant financial year.

6. The particular grant risk to the Exchequer arises now because of the opportunity for local authorities to use accounting adjustments either to reduce reported total expenditure or to switch reported total expenditure from years in which it would reduce their grant entitlements to years where it has less impact on grant.

7. Throughout the 1980s local authorities have used a number of devices for reducing reported total expenditure in order to maximise grant. Common methods have been through the use of special funds, and by classifying expenditure on repairs and renewals as capital rather than revenue. Many rate capped authorities have indulged in a wider range of creative accounting arrangements.

8. We already know that many local authorities are wondering how best to take advantage of the opportunity presented by the change of system; and we believe that experts in the City are working up schemes to sell to local

authorities. Amongst the arrangements being considered are factoring - which involves "selling" future expected capital receipts - use of special funds, capitalising repair and maintenance, and reducing debt servicing costs.

9. We can anticipate the use of some of these schemes and take account of them in fixing the assumptions for the 1989/90 Settlement. In particular we can allow for use of special funds to reduce expenditure in 1989/90 and partly for further capitalisation of repairs and maintenance. We may also be able to prevent some abuses - such as factoring - using existing powers. But we cannot allow for other unwelcome accounting practices in the 1989/90 Settlement without effectively condoning them and thereby encouraging authorities to indulge them. Nor can we now change the assumptions for 1987/88 or 1988/89 which are the other years at risk of grant manipulation. Moreover it is always possible there may turn out to be other devices available to authorities to manipulate grant which we have not yet identified.

10. We cannot quantify precisely the extent to which Exchequer grant may be at risk. As an outer limit we note that in recent years rate capped authorities have understated true expenditure by around 12%. If all authorities were to understate expenditure to this extent the grant claim would rise by around £1700m in 1989/90. This certainly exaggerates greatly the extent to which grant might be manipulated. But we can expect manipulation even from authorities that would normally avoid such arrangements. In particular we can expect a herd instinct to develop as it becomes clear that many authorities are manipulating the system particularly as these accounting arrangements are all within the law. The risk to the Exchequer is at least £350m in respect of 1987/88 and 1988/89. For 1989/90 an expected grant underclaim of several hundred million pounds could become a grant overclaim. Moreover the proposed changes to the capital control system, which requires at least half of cash-backed capital receipts to be applied to redemption of debt in 1990, may encourage local authorities to make maximum use of capital receipts to reduce revenue expenditure, and hence gain grant, in the years up to 1989/90. Annex A sets out our present assessment of the maximum scope for manipulation by those means we have been able to identify.

(2) EXPENDITURE

11. Another risk is that the period of transition to the new control system will see a surge in overall spending by local authorities. There are three main ways in which this might come about.

12. First, the more grant the authorities succeed in obtaining from the Government, the more possible it will be for them to finance extra expenditure without additional calls on the domestic ratepayer. However, to the extent that authorities raise revenue spending in 1989/90 they will, under present rules, forego grant gains.

13. Second, the action which the Government takes to prevent local authorities from obtaining large extra amounts of grant on the strength of creative accounting could have the effect of reducing the marginal impact of extra spending on domestic ratepayers to a level far below that under the existing control system or the Community Charge system. This would reinforce the temptation which authorities may anyway perceive to spend more during the next 18 months when they will be able for the last time to raise extra sums from non-domestic ratepayers.

14. Third, some authorities may be prompted to undertake extra expenditure as a result of publication of details of the transition to the new capital control system. Although most capital expenditure by local authorities is "prescribed expenditure" and thus subject to control under Part VIII of the Local Government, Planning and Land Act 1980, there is also a considerable amount of "non-prescribed" expenditure. The largest element of such expenditure (about £500m a year) is capitalised repair and maintenance of buildings, roads, and structures. The amount of capitalisation has increased in recent years, largely in response to pressures to maximise grant and keep rates down. The 1980 Act limits the rate at which local authorities may use their capital receipts to finance prescribed expenditure and, at present, there are approximately £6½ billion of cash-backed capital receipts (of which £0.4bn are held by counties, £0.6bn by metropolitan districts, £1.2bn by London authorities, and £4.2bn by shire districts).

15. Under the new capital control system, local authorities will be required to apply a proportion of their cash-backed capital receipts to debt redemption. (The proportions at present envisaged are 75% for the proceeds of council house sales and 50% for other receipts). In terms of their ability to use capital receipts to finance capital expenditure, they will "lose" this amount and the Treasury's first concern is that this may provide an incentive to them to "use" their capital receipts in the interim to undertake extra capitalised repair and maintenance expenditure.

16. Quite apart from this, and leaving aside the question of RSG incentives to capitalisation, the Treasury's second concern is that the prospect of the new system may also provide an additional incentive to local authorities to transfer expenditure that they would otherwise have incurred on repair and maintenance from revenue to capital account. That would not represent additional expenditure, and would probably be accomplished by ex post facto bookkeeping adjustments, but would have the effect of converting a corresponding amount of capital receipts into revenue balances, which would be available to finance further expenditure rather than be applied (in part) to debt redemption.

17. There are a number of constraints or disincentives which will in practice limit the use of capital receipts (either to finance extra expenditure or to transfer expenditure out of reserve account) :-

i) Not all repair and maintenance expenditure can properly be capitalised. (works which will lengthen the lives of assets or save expenditure in several future accounting periods may qualify - day-to-day repairs do not);

ii) There is a marked "mismatch" between the distribution of capital receipts (primarily in shire districts) and the distribution of the sort of structural maintenance that can properly be capitalised. (Some of the authorities who have latterly made extensive use of capitalisation have now used up their capital receipts);

iii) To the extent that capital receipts are spent before the new capital control system comes into effect, the amount of capital spending power which local authorities will derive in the new system from capital receipts will be reduced. (For any given level of capital receipts, the new system will, by comparison with the present system, give local authorities greater freedom to spend a smaller overall amount. But it will permit a larger proportion to be spent in any given year). Thus to use capital receipts for extra maintenance will make it more difficult to undertake future large projects.

iv) In so far as additional repairs are carried out using capital receipts, councillors will not perceive any benefit to rate/community charge levels, since the savings on future maintenance will be offset by loss of interest on the cash balances or by the debt charges on debt not redeemed.

v) Depending on the choice made between options G1 and G2 below, the present strong grant incentive to capitalisation may be removed.

18. DoE's assessment is that the amount of additional repair and expenditure which might be undertaken as a result of knowledge of the proposals for the new capital control system would not exceed £200m in 1989/90. (This figure is an upper bound, not an estimate). The overall scope for capitalisation by bookkeeping adjustments might be as much as £1000m over the 3 years 1987-88, 1988-89 and 1989-90.

16

OPTIONS FOR REDUCING RISK

19. This section considers what action might be taken to reduce these risks. There are 2 grant options (G1 and G2) and one option on capital receipts (C1 and C2). Doing nothing is also an option in both cases.

20. In considering what might be done we have taken account of the situation regarding determination of grant for the forthcoming year, in the next RSG Settlement, the present year (1988/89) and, past years. Grant entitlements for 1988/89 and all outstanding earlier years are due to be

revised in Supplementary Reports later this year. These reports will take account of outturn expenditure for 1985/86 and 1986/87, of revised budgets for 1987/88 and budgets for 1988/89. Full sets of expenditure data for these Supplementary Reports are being put together now. This therefore provides a good opportunity for changing the present system to reduce the risk to the Exchequer. The next such opportunity when we will have full sets of expenditure data for all outstanding years is July 1989.

21. We have identified two main options for reducing the opportunities to manipulate the system to increase grant claims. The first requires legislation in the next session to change the basis on which grant will be distributed in 1989/90, and to limit grant claims in respect of earlier years. The second option is to delay action until summer 1989 and then legislate to close down the present system.

OPTION G1 : Immediate closedown of the present RSG system

22. The main features of this proposal are: -

(a) grant entitlements for 1989/90 would be fixed in the forthcoming settlement and would not be linked to actual expenditure. This means that there would be no grant underclaim as in 1987/88 and 1988/89, but nor would there be any risk of grant overclaim.

(b) Final grant entitlements for 1988/89 and all outstanding earlier years would be determined on the basis of reported expenditure available on the date of the announcement in July of this year (possibly with a small adjustment reflecting the normal average reduction in expenditure from budget to outturn). These grant changes would be made through supplementary reports at around the end of this year : these would be the last reports under the present system.

23. Fixing grant in this way would remove the risks to the Exchequer on the grant side. But it would also reduce pressure on local authority expenditure since higher expenditure would no longer lead to lower grant. We do not know what effect there would be on expenditure in this transitional period before

the discipline of the community charge system is introduced. But every 1% increase in expenditure is equivalent to £300m. Account would have to be taken of such grant and expenditure implications when determining the 1989/90 RSG Settlement.

24. If this option is pursued an early announcement is desirable to minimise both the risk to the Exchequer and the possibility of authorities getting wind of the proposal and adjusting the accounts before we act. A short Money Bill would be required in the autumn to achieve Royal assent by March in order to pay grant in 1989/90 on the correct basis. Apart from this the 1989/90 Settlement and the series of supplementary reports planned for the autumn would proceed as planned other than that no account would be taken of expenditure data reported to us after the date of announcement.

Option G2: Delay closing down until 1989.

25. Under this option the existing grant related restraints on expenditure would continue. For most individual authorities, higher expenditure would continue to mean absolute reductions in grant. The option consists of three elements:

(a) run the system for another year and announce close-down arrangements in July 1989. At that time we would have information on expenditure for all outstanding years of the present system. The legislation would simply state that for the purposes of calculating grant entitlements no account would be taken of later information expenditure in respect of any year. If at that time the scope for manipulation seems much reduced, it might even be possible to give authorities advance notice of closedown in respect of certain financial arrangements.

This element alone would carry a significant risk of grant manipulation in 1989/90. It would therefore also be necessary:

(b) to draw up a "tough" 1989/90 RSG Settlement to allow as far as possible for potential manipulation in deciding upon the spending assumptions and the grant total; and

(c) to take separate action to block off other manipulations of the system to the greatest possible extent. Action on capitalisation of repairs, etc. (Option C2 below) would certainly be necessary. Other action, to prevent the use of other devices that come to light, would have to be taken as soon as their significance or potential significance came to light.

26. The option on capital receipts is:-

OPTION C1 and C2 : Bring Capitalisation of Repairs under control.

The use of receipts to finance capitalised repair and maintenance expenditure is theoretically under the control of the Secretary of State, though that control has for many years now been waived by means of the issue of general consents and block borrowing approvals. Under the option, these contents would be modified so as

(i) to preclude the use of capital receipts for this purpose; or

(ii) to require specific consents to be obtained; or

(iii) to permit the use of receipts only for specified classes of expenditure.

There are limitations on the scope for changing the rules during a financial year, and in particular for changing them with immediate effect. This is because (a) changes cannot be made retrospectively in the absence of primary legislation and (b) it is only at the end of year, when the accounts are drawn up, that particular sources of finance are imputed to the particular items of expenditure. So to the extent that permission to use receipts for any given class of transactions is withdrawn during the year, the local authority could whendrawinguptheriraccountsimputereceiptstoalltransactionsinthatclassbeforetherele vant date and other sources of finance to transactions after that date.

27. In DOE's view, it is not practicable to think of altering the rules for 1988-89 so as to impose restrictions on the use of receipts to finance actual repair and maintenance during that year. It would, however, be possible to prevent local authorities from entering into advance maintenance deals (on the

lines of the advanced purchase deals for capital expenditure which were brought into control by the Local Government Act 1987). This is because there is no evidence that authorities have yet started to enter into such deals. The immediate prohibition of advance maintenance deals in Option C1.

28. It would in DOE's view be practicable to impose a more rigorous control for 1989-90. It would be necessary for consultation to be undertaken and for the consents to be modified before the end of 1988-89 so that the modification took effect from 1 April 1989 and so that authorities could allow for this when setting rates. The modification would have to be accompanied (if this had not already been done) by action in relation to advance maintenance deals. This is Option C2.

29. Option C2 would be controversial and would be represented as being inconsistent with undertakings that Ministers have given about the ability of authorities to use capital receipts to finance repair and maintenance work and the encouragement that authorities have been given to do this in the field of housing. It would have to be justified on the basis that action was needed to prevent excessive expenditure in this area financed by capital receipts or the use of receipts to liberate revenue spending power. Option C1 would be much less controversial.

ASSESSMENT OF OPTIONS

30. Option G1 provides the greater certainty on grant as Treasury would know exactly how much grant has to be paid out under the present system in July. The change could be presented as an orderly transition to the new system where grant will also be fixed in the Settlement. By acting swiftly we minimise the risk to the Exchequer. Local authorities would also know precisely how much grant they would be entitled to and could concentrate on setting up the new system rather than expending energy trying to manipulate the present system.

31. The first option has four main disadvantages. The first is that there would be less downward pressure on local authorities' total expenditure following the July announcement. This could lead to higher local authority expenditure in the period to March 1990. A 1% increase, as noted earlier, is £300 million. DOE doubt whether the reduced disincentive to spend more at the

margin would greatly affect the overall level of expenditure. In the Treasury's view these marginal effects do influence behaviour. Under Option 1, an average authority would have to finance some 45% of any increase in expenditure from the domestic rate-payer, as against some 73% under option 2 and 100% under the community charge.

32. A second, related disadvantage is the loss of grant underclaim in 1989-90. This needs to be set against the savings in grant from closing off the possibilities for manipulating accounts so as to increase grant entitlement.

33. A third disadvantage is that the Government would have to expect strident criticism from local authorities for changing the rules. Authorities who genuinely reduce their expenditure below present reported levels for 1987/88 and 1988/89, and below the 1989/90 settlement spending assumption would receive no reward. Further, authorities who have legally built up special funds would resent action by the Government to remove the grant entitlements which they assumed they would have on drawing down those funds. The Government would come under pressure during passage of the Bill to concede that authorities may enjoy the grant advantages of special funds: no significant concession would be possible, however, without destroying the whole approach.

34. Finally, option 1 would require a short but highly contentious money Bill in the 1988-89 Parliamentary session, where the pressures on time already promise to be intense.

35. Option G2 would have the advantages of retaining the grant-related restraints on total expenditure in 1989-90, at least until the authorities have set their budgets. There would also still be a grant underclaim in 1989-90 associated with decisions by local authorities to spend in excess of the settlement spending assumptions. And this option avoids legislation in the 1988-89 session and the opportunity that would provide for complaint and concessions.

36. This option also has several disadvantages. The main one is that between now and next summer the Government would have to be ready to meet large claims for extra grant in respect of 1987/88 and 1988/89, and in respect

of 1989/90 to the extent that the settlement did not allow for all opportunities to reduce expenditure and increase grant.

37. The second disadvantage is that at any time local authorities might bring forward new schemes to increase grant entitlements. We would either have to live with the grant consequences or stand ready to block such loopholes through further legislation. Most likely these would entail "midnight tonight" elements.

38. Thirdly we would expect a rolling barrage of criticism both about the flow of administrative and legislative changes necessary to block off loopholes, and about the implied very tough RSG Settlement. On the Settlement we would face particular criticism over assumptions that effectively required authorities to indulge in "creative accounting" arrangements such as capitalisation of which many would heartily disapprove.

39. Finally Option G2 would require a Money Bill in the 1989/90 legislative session, where pressures on time are also likely to be considerable.

40. It should also be noted that although this option would allow authorities with special funds to gain the grant benefits other authorities would receive correspondingly less grant within a given grant pool. The grant distribution in 1989/90 might therefore be very skewed leaving some authorities well placed for the introduction of the community charge but others poorly placed.

41. Options C2 will prevent exploitation of the freedom to capitalise repairs and renewals in 1989/90. It is likely to be badly received by local government (see para 28 above) even if the approach is modified e.g. to allow capitalisation on the level of recent years. Furthermore, authorities have to know what is proposed before they set their rates for 1989/90, but this fore-knowledge will give them an opportunity to maximise capitalisation in 1987/88 and 1988/89. This option cannot therefore be wholly effective. Option C1 would be less controversial and would operate successfully on one aspects of the problem. Neither of these options would require legislation.

42. Either Option G1 or G2 can be combined with Option C1, or Option C2. Option G1 (RSG Closedown in July 1988) would remove the grant incentives to undertake capitalisation and to that extent, but to that extent only, would make Options C1 and C2 less necessary. A combination of Option C2 and Option G2 would be an effective approach to 1989/90 provided allowance was made for potential manipulation in framing the 1989/90 Settlement, but this combination of a pre-emptive Settlement and the announcement of Option C2 might well lead authorities to maximise the opportunities still open to them in 1987/88 and 1988/89. Option C1 would, however, shut off one avenue of manipulation completely.

ANNEX A

Scope for Manipulating Total Expenditure In Order To Gain Grant

N.B. These figures are estimates of the maximum potential use of the various devices. We have no evidence that they will be used on this scale.

		Maximum grant at risk £m
Special Funds :	£1.1bn of special funds available at April 1989. Use of up to £900m could be allowed for in 1989/90 settlement. Remaining £200m could be used in earlier years to increase grant claims by around £200m	200
Capitalisation of repairs and renewals:	LAs have around £7bn of cash backed capital receipts that could in principle be used to finance repairs and renewals. In practice the scope is much lower as around £5bn receipts are held by shire districts. But as much as £1bn could be used between 1987/88 and 1989/90 to reduce total expenditure thereby increasing grant claims by £500m.	500
Factoring :	This scheme is specifically designed to reduce total expenditure and increase grant. It involves "selling future capital receipts" for a lump sum which is then invested. The resultant interest receipts count as a reduction to total expenditure and hence increase grant. The future capital receipts are "repurchased" post March 1990. One London Borough is already planning to increase RSG entitlements by £½m in both 1988/89 and 1989/90 through this arrangement. The total RSG at risk in 1988/89 is probably small but in 1989/90 could in principle be up to £100m. Consideration is being given to ways of stopping this abuse of the system.	100
Debt Servicing:	LAs could reduce repayments of outstanding debt from the revenue account by shifting the profile of repayments or by early repayment of outstanding debt from capital receipts. At risk here is up to £200m of expenditure and hence around £100m of grant for the period up to March 1990.	100

Short term delaying of expenditure :

There is scope for authorities to holdback expenditure from the early part of 1990 and have a surge of expenditure in April 1990. We have seen evidence of this when targets and holdback were abolished in 1986. Perhaps 2% of expenditure might be so delayed. This would increase grant claims by around £300m. 300

Interest rate swaps :

This involves swapping a low interest loan for a higher interest loan with an outside body for an up front premium. This premium is then invested and the interest receipts used to reduce total expenditure. Although the amounts swapped are large the effect on total expenditure is relatively small. —

Other schemes :We know of a number of other small scale schemes for reducing total expenditure. We cannot rule out however that new large scale schemes may be devised. ?

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14

5-11

SECRET

FROM: M C SCHOLAR
DATE: 28 JUNE 1988

1. **SIR PETER MIDDLETON**

2. **CHANCELLOR OF THE EXCHEQUER**

cc Chief Secretary
Economic Secretary
Sir Terence Burns
Mr Anson
Mr Peretz
Mr Sedgwick o/r
Miss O'Mara
Mr Potter
Miss Wheldon - Tsy Solicitor

THE COMMUNITY CHARGE, THE RPI AND INDEXED-LINKED GILTS

We have now had the Bank's reply (annex A) to my letter (annex B) asking them whether the possible changes to the RPI which are in contemplation would in their view "constitute a fundamental change in the Index which would be materially detrimental to the interests of stockholders".

2. In summary the Bank are saying that option one, which has neither rates nor Community Charge but involves step reductions in the index, would be a fundamental change and would be detrimental; that option two, which has neither rates nor the Community Charge but avoids step reductions in the index, would not be a fundamental change and that there are no firm grounds for concluding that it would be detrimental, or materially detrimental; and that option three, which replaces rates with the Community Charge in the index, would be a fundamental change but not materially detrimental to stockholders. So option one would require the offer of early redemption of these gilts (at a cost of more than £3 billion) but options two and three would not.

3. Sir Peter Middleton has taken several discussions of this issue. We noted first that the view the Bank are taking is not, as it at first appears to be, wholly at variance with the advice we received (annex E) from the Law Officers and Treasury Counsel. That advice proceeded from the assumption that the Bank of England would consider

that option two would give rise to material detriment, and concluded on that basis that there was a fundamental change in the coverage of the index. In fact, the Bank agree that option two would represent a change in coverage but think it would be neither fundamental nor detrimental.

4. It is worth reminding ourselves here why our legal advisers assumed that the Bank would consider that there was detriment. We gave them this assumption, explicitly: we said in paragraph 11 of our instructions (annex C) that there was little doubt that the Bank of England would conclude that either options one or two would have a detrimental effect; and in paragraph 5 we said that if the Community Charge were substituted for the rates in the RPI the RPI would be expected to increase faster than under options one or two or indeed than it would have increased had the system of rates remained in place.

5. That was the general view at that time, and it runs through all the material we received then from the Departments of the Environment and Employment. But after careful consideration of all these issues, and discussions between LG and the forecasters, we are now doubtful whether this original presumption about the buoyancy of the Community Charge was well founded. The uncertainties are considerable. Our view now is that, within the framework that the quantum of grant from central government is held constant, there are two limiting cases:

(i) the Government's intentions in reforming local authority finance and introducing the Community Charge - to improve local accountability and thus restrain local authority spending - will be realised, so that in the long run (and perhaps in the short run too) the Community Charge will be less buoyant than the rates were;

(ii) the Government's intentions will be frustrated, and local authority expenditure will be no less buoyant in the future than in the past; and (because of the rules for the business rate) the Community Charge will therefore if anything be more buoyant than rates have been in the past.

6. The attached note by the forecasters (annex D) argues that the initial incidence of the Community Charge is, on present indications, likely to be modest - although its immediate impact if it were to be included in the RPI would be to increase the index (see Table 4 of Annex D) because the households whose expenditure is measured by the RPI will bear a heavier burden of Community Charge than they did of rates. It goes on to give some structural reasons for thinking that the Community Charge is likely to rise faster than the rates - for example the possible shortfalls in receipts through evasion and so on; and some structural reasons for thinking the contrary - the disappearance of grant penalties for example. But its main conclusion is that the actual outcome will largely depend on what Ministers decide about the quantum of grant and on what local authority expenditure decisions are; and that the outcome will differ from time to time both as these factors change, and as local authority balances rise and fall. Sir Peter Middleton's meeting endorsed this analysis. (I am more pessimistic).

7. Although the gilts prospectus places with the Bank and not with the Government the responsibility for opining on detriment, the money at stake is the Government's, so we clearly need to satisfy ourselves that the Bank's view is well-based and unlikely to be successfully challenged.

8. This at once raises the question whether we have given the Bank all the relevant information at our disposal; and the Bank's letter asks us to confirm that we have done so. We are conducting a trawl, via LG and the forecasters on whether there is any analytical work within the Treasury or other Departments on the likely buoyancy of the Community Charge which we have so far overlooked. We think we should send the Bank the forecasters' note annexed to this minute; and it is for consideration whether we should now disclose to them the legal advice we received - although there is arguably no reason for doing so, given the argument in paragraph 3 above.

9. On the assumption that the Bank's view will not be changed by this further information, we need to assess the risks attaching to options two and three (option one can, we assume, be ruled out).

10. The risk is that an aggrieved stockholder, ignoring the problems he would face in getting off the ground any action against the Bank, might seek to argue

(i) in the case of Option two that, notwithstanding the fundamental reform of local authority finance, payments in respect of local authority services by households were always likely - especially given the regime for business rates - to go up in future faster than the generality of prices, as they have in the past. Such an investor might try to establish that the RPI minus rates and the Community Charge would go up slower (a) than it would with the Community Charge included in it; (b) than it did before the abolition of rates; and (c) than it would if the rates were somehow projected forward after their abolition, self-contradictory though this hypothesis would be.

(ii) in the case of Option three that the Community Charge had been artifically included in the index where it had no proper place, against (no doubt) the advice of the statisticians and (some of) the RPI Advisory Committee, and that the effect was to slow down the growth of the index.

11. Given the sums at stake we need to assess these risks with the greatest care. We do not think that we should take too much comfort from the argument - correct though it undoubtedly is - that the answers to (a), (b) and (c) in paragraph 10(i) above are unknowable. We need to reach the best view we can on what the likelihoods are. Are we right to think that the RPI without the Community Charge is as likely to be more buoyant as it is to be less buoyant than an RPI with the Community Charge, once the transitional period is over? Are we likely to be successful in brushing aside the comparison at 10(i)(c) above, on the basis that it is self-contradictory; and the comparison at 10(i)(b), on the basis that there has been a wholesale change in policy, avowedly designed to reduce the growth of local authority expenditure and payments connected thereto? On this last point we must surely be on strong ground: if not, any policy change by the Government designed to reduce inflation would, if it reduced the RPI and was describable as a fundamental change etc., be a ground

for action against us on indexed-linked gilts. Do we accept the Bank's contention (paragraph 9 of letter, penultimate sentence) that if the comparison at 10(i)(b) were made, there would be a difference of 0.1-0.2 per cent a year to the RPI which would be insufficient to be judged materially detrimental? (NB a Department of National Savings junior official is currently challenging DNS' refusal to take into account the recent RPI error in calculating the return on his investment in indexed-linked National Savings Certificates; the case will go to the Registry of Friendly Societies, and might go no further.)

12. Miss Wheldon considers that the Bank are right to use as the point of comparison for options two and three a notional index in which rates are retained. The point of departure when guessing what this index would look like would be the historical evidence used in paragraph 9 of the Bank's letter. In other words, the comparison at 10(i)(b) would be treated by a Court as relevant unless a better index could be constructed. Miss Wheldon considers that the comparision at 10(i)(c) might be thought by a Court to be a better index and that we should therefore make a bona fide attempt to produce such an index. Miss Wheldon's argument is that the Government (and the Bank) would generally be in a better position in any legal proceedings if there is contemporary evidence proving that every effort was made to estimate the effect of the change on investors and showing, if this proves to be the case, why the comparison at 10(i)(c) is impossible.

Procedure

13. The next steps are (i) to reply to the Bank, ensuring that they have all the information they need at this stage (updating will be needed in due course), and (ii) to respond to the Department of Employment's request for comments on their draft paper for Ministers on the RPI and the Community Charge.

14. The inclination of Sir Peter Middleton's meeting was to get on with (i) immediately, and to do (ii) as soon as possible thereafter. We are now getting very short of time indeed, since rates in Scotland disappear in April 1989, the RPI Advisory Committee will on past form

take some time to deliberate, and we have an interdepartmental and Ministerial process to go through before any question of approaching the RPIAC can be considered.

15. Sir Peter Middleton's meeting also thought that a further stage with the Law Officers would be prudent, particularly since we will no doubt in due course wish to inform them of our conclusions. The best way of doing this might be to consult them on the terms of our reply to the Bank's letter.

16. You will also wish to consider how to handle the indexed-linked gilts issue with colleagues. We do not think that the Department of Employment's paper, which may form the basis for consultation with the RPIAC, should contain any reference to the subject. But you will presumably wish to minute the Prime Minister about IGs, with copies to the Law Officers and to the senior Ministers most concerned (Messrs Fowler, Ridley and Moore).

17. The issues for immediate decision are:

(i) Is the Bank's opinion well-founded?

(ii) What assessment can be made of the risks as between options two and three? It it acceptably low on both options: is option three significantly less risky than option two?

(iii) Which option are Ministers likely to wish to put to the RPIAC, if they decide as usual to consult it?

(iv) Should we reply to the Bank on the lines suggested in paragraphs 8 and 13 above?

(v) Should we return to the Law Officers?

(vi) Do you agree with the handling suggestion in paragraph 16 above?

18. We are to discuss this with you on Wednesday.

M C SCHOLAR

24/1/342/016

CONFIDENTIAL

1. MR EDWARDS

2. CHIEF SECRETARY

FROM: R FELLGETT

Date: 28 June 1988

This reflects discussion with Mr Potter and me. We understand that the suggestion at x/ (in Paul Gray's letter) originated with the No 10 Policy Unit rather than the Prime Minister herself. AJCE 28 vi

cc: Chancellor
Paymaster General
Sir Peter Middleton
Mr Anson
Mr Phillips
Mr Turnbull
Miss Peirson
Mr Culpin
Mr Potter o/r
Mr Tyrie
Mr Call

Ch [could discuss with CST @ lunch]

DUAL RUNNING OF DOMESTIC RATES AND THE COMMUNITY CHARGE IN LONDON

Mr Ridley minuted the Prime Minister on 24 June, and Paul Gray's response of 27 June reported her agreement with his proposal that all local authorities in England should transfer from domestic rates to Community Charge without transitional dual running in April 1990. I recommend that you accept this proposal, subject to emphasising again that the consequence must not be additional Exchequer finance to subsidise the change (although we fear that there will be intense pressure for additional subsidies).

2. DOE officials have been lobbied hard by officers of the inner London boroughs who, under previous plans, would have retained dual running of domestic rates and Community Charge for a transitional four year period. DOE seem genuinely convinced that there is no realistic prospect of the London boroughs administering both tax systems for this period. We accept this judgement, and have reluctantly concluded that there is now no realistic option but to end dual running.

3. Prospective Community Charges in some inner London boroughs in 1990-91 are, nevertheless, very high, and it will be very difficult for losers from the new system to adjust overnight.

The annex to Mr Ridley's minute quotes Community Charges of £269 (Southwark) to £438 (Camden) and even £488 (The City, although there are special circumstances that make this figure particularly prone to error) in boroughs that were previously intended to have dual running. These DOE estimates assume that authorities spend only their reported level of expenditure, not the underlying level of expenditure supported by creative accounting etc, and collect the Community Charge in full from everyone. In practice, Community Charges in 1990-91 (at today's prices) are likely to be £100-£200 higher, unless the boroughs either cut their spending in the meantime or continue to find ways of financing it from new creative accounting.

4. An individual on income support, receiving the maximum rebate, may have to find another £1.50 a week to finance their contribution to the Community Charge; and losers higher up the income scale may face substantially larger losses. We fear that there will be intense pressure to deal with losers on this scale, either directly by subsidising the individuals (eg by higher levels of income support in London or more generous rebates) or indirectly by subsidising the boroughs so that they can set lower Community Charges.

5. Indeed, the Prime Minister's suggestion that the safety net should be adjusted so that no Community Charge was more than £350 in 1990 is liable to lead to just such pressure. Extra grant would be needed to finance additional safety net grant in London, unless grant was diverted from other parts of the country; we doubt if a redirection of grant is now practicable since the safety net arrangements have been announced and exemplified. You may therefore wish to comment on this proposal in your letter.

6. The Prime Minister also mentioned Community Charge capping as a method of keeping charges down in 1990-91. We agree, and indeed foresee the need for wide ranging Community Charge capping in 1990 when every local authority will know that they can blame

their charge on the Government's policy decision to change the local tax system. However, there is a limit to the extent to which pressure can be put on London boroughs. Many of them are very short of middle and senior management skills, and already have to face the change in the local finance system, the change in the capital control system, the absorption of responsibility for education expenditure from ILEA, and other changes in 1990. They may simply have no one to spare to pursue efficiency savings, although these undoubtedly should exist. Community Charge capping in London will therefore have to be nicely judged, and may not be the complete answer.

Conclusion

7. Mr Ridley's proposal therefore carries substantial risks for the Exchequer, but we believe there is no realistic alternative. A draft letter is accordingly attached, which agrees to the proposal and comments on the Prime Minister's two points about Community Charge capping and possible adjustments to the safety net.

Rob Fellgett

R FELLGETT

CONFIDENTIAL

DRAFT LETTER FOR THE CHIEF SECRETARY'S SIGNATURE

TO SECRETARY OF STATE FOR THE ENVIRONMENT

DUAL RUNNING OF DOMESTIC RATES AND THE COMMUNITY CHARGE IN LONDON

Thank you for copying to me your minute of 24 June to the Prime Minister. I have also seen the Prime Minister's response in Paul Gray's letter of 27 June.

I do not dissent from your conclusion that we should now delete the dual running provisions from the Local Government Finance Bill. I am particularly persuaded by the administrative argument that a number of inner London boroughs simply could not cope with the administrative difficulties of running both tax billing and collection systems at the same time.

The only condition attached to my agreement is that we resolve again that this change in the transitional arrangements must not lead to additional calls on the Exchequer. In considering the Prime Minister's suggestion of looking again at the safety net arrangement as it affects the London boroughs we need

to bear this important principle in mind. We must in particular ensure that the safety net as a whole continues to be self-financing.

Without dual running, there will be substantial initial Community Charge bills in inner London, which might be rather higher than the figures you quote if one allows for the expenditure which boroughs are currently financing through creative accounting and for the possibility that they will not be able to collect the charge fully from all their resident population. As the Prime Minister has noted, Community Charge capping may be an important way in which we can help chargepayers in London, and indeed elsewhere, after 1990.

I am copying this letter to the Prime Minister, members of E(LF), and to Sir Robin Butler.

[J.M]

SECRET

Prep

MINUTES OF A MEETING HELD IN CHANCELLOR'S ROOM HM TREASURY AT 12 O'CLOCK ON WEDNESDAY, 29 JUNE

Those present

Chancellor
Economic Secretary
Sir P Middleton
Sir T Burns
Mr Anson
Mr Scholar
Mr Peretz
Mr Sedgwick
Mr Potter

Miss J Wheldon - T.Sol

THE COMMUNITY CHARGE, THE RPI AND INDEX-LINKED GILTS

Sir P Middleton said that the letter from the Bank had revealed that, in the Bank's view, neither option 2 (excluding the community charges but avoiding a step change in the RPI) nor option 3 (including the community charge) would constitute a fundamental change in the RPI which would be materially detrimental to the interests of holders of indexed gilts.

2. In discussion, the following points were made:

(i) it might be possible for someone to devise legal challenges to either Option 2 or Option 3. Under option 2, someone could seek to argue that having not including the community charge in the RPI we had removed a buoyant element, to the detriment of stockholders; but it would be difficult for anyone to sustain this against the Bank's view, provided that view was properly reached on the basis of full information. Conversely under option 3, if the Government proved successful in restraining the growth of local authority spending and the community charge, someone might seek to argue that the Bank should have known that the Government's decision to include the community charge would have been detrimental to them.

(ii) It was easy to see the case for dropping rates from the RPI: they would not exist at all after 1990; but it was less easy to see any valid justification for <u>including</u> the community charge, which was clearly neither an indirect tax nor a housing cost. So there might be additional vulnerability on this score in choosing option 3.

(iii) DOE would be likely to argue that the community charge was not a tax but a charge for local services, and so should be included. Some DOE officials had also argued that the community charge <u>would</u> be buoyant, and so should be included in the RPI to protect those dependent on social security. But this line was completely at odds with the stated purpose of introducing the community charge, which was to make local authorities more accountable to their electorates and hence reduce the growth of spending.

(iv) It was unlikely that the RPIAC would make a unanimous recommendation in favour of either option 2 or option 3, whichever one the Government recommended.

2. Summing up this part of the discussion, the <u>Chancellor</u> said it was agreed that, even though there were some risks with both option 2 and option 3, these risks seemed acceptably low. In these circumstances, the fact that the community charge was clearly a direct tax, and so should not be included in the RPI, pointed in favour of choosing option 2.

3. There was then a discussion of the further procedures which should be followed. The following steps were agreed:

(i) We should return to the Law Officers, show them the Bank's letter and explain the changed position. We should ask for new advice, in particular on whether we were following all the proper procedures in reaching our

decisions. We should also seek a written view from the Law Officers confirming that, in these new circumstances, it was acceptable to pursue option 2.

(ii) we should carry out a trawl of work done in other Departments - principally DOE - on the effect of the switch from rates to the community charge on local government spending and taxation. But we should ask for analytical work, rather than just opinions.

(iii) we should reply to the Bank and show them the analysis by the Treasury forecasters; this showed that there could be no certainty one way or the other on the buoyancy of the community charge. We should also send the result of the trawl of work done in other Departments.

(iv) Assuming that the Law Officers and the Bank confirmed that option 2 was acceptable, the Chancellor should minute the Prime Minister recording the Bank of England's and the Law Officers' views: there would be no need to copy this minute widely.

4. Miss Wheldon noted that there would be some advantages in also sending the Bank an analysis showing how the RPI might increase with a notional allowance for rates in it. But in discussion it was noted that it was not at all clear how this should be done or what it would signify. It would instead be better to tell the Bank that we had considered very carefully the option of doing this, but had rejected: the RPI with a notional rates component would be variable in just the same way as the projections set out by the Treasury forecasters and would depend critically on decisions yet to be taken by local authorities and the Government about spending and grant.

1 July 1988

Distribution

Those present

PS/Chief Secretary

ACSA

A C S ALLAN

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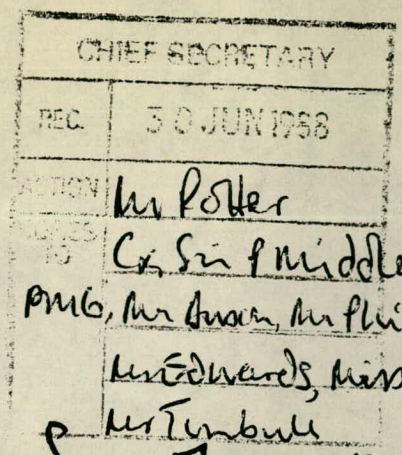

QUEEN ANNE'S GATE LONDON SW1H 9AT

29 June 1988

Mr Jelicoe
Mr Tyrie
Mr Call

Dear Secretary of State, Mr Culpin

DUAL RUNNING OF DOMESTIC RATES AND THE COMMUNITY CHARGE IN LONDON

Thank you for copying to me your minute of 24 June to the Prime Minister proposing the abandonment of dual running.

Your proposal, even taking the safety net into account, will bear hard in particular on those whose houses have low rateable value. But I am content to accept your view that the balance of advantage has now shifted towards abandoning rates altogether from 1 April 1990. I hope we can present this change of policy as a response to the wishes of the authorities themselves to be excluded from dual running.

Copies of this letter go to the recipients of your minute.

Yours sincerely
N. Lawson
(approved by the Home Secretary and signed in his absence)

The Rt Hon Nicholas Ridley, MP

CONFIDENTIAL

SECRETARY OF STATE FOR EDUCATION AND SCIENCE

ELIZABETH HOUSE
YORK ROAD
LONDON SE1 7PH
01-934 9000

CH/EXCHEQUER
REC. 29 JUN 1988
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2
12a/6

The Rt Hon Nicholas Ridley, MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
London SW1P 3EB

29 June 1988

Dear Nick,

DUAL RUNNING OF DOMESTIC RATES AND THE COMMUNITY CHARGE IN LONDON

Thank you for sending me a copy of your minute of 24 June to the Prime Minister proposing that we abandon dual running.

2. I am content to go along with your proposal. However, even with the safety net, the first year community charge will be higher for the two-payer household than the average rate bill per household in each area. And those paying the community charge for the first time will have to find over £400 from the start in some of the Boroughs. There will undoubtedly be criticism particularly from poorer households who do not qualify for community charge rebate. I am uneasy about being able to rebuff this entirely by saying that it is a consequence of profligate spending by councils, especially at a time when they will be assuming responsibility for the first time for education.

3. The key factor in all this will be the precise level of the safety net, and in reaching a decision on this I think we shall need to consider very carefully the implications for community charge levels in inner London.

4. I am sending copies of this letter to the Prime Minister and members of E(LF) and to Sir Robin Butler.

Yours ever,
Kenneth

CONFIDENTIAL

DEPARTMENT OF HEALTH AND SOCIAL SECURITY
Richmond House, 79 Whitehall, London SW1A 2NS
Telephone 01-210 3000

From the Secretary of State for Social Services

CONFIDENTIAL

The Rt Hon Nicholas Ridley MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
LONDON
SW1P 3EB

29 June 1988

Dear Nicholas.

DUAL RUNNING OF DOMESTIC RATES AND THE COMMUNITY CHARGE IN LONDON

I have seen a copy of your minute of 24 June to the Prime Minister on this subject.

I strongly favour your proposal that we should delete the provisions for dual running from the Local Government Finance Bill and make a clean break with domestic rates on 1 April 1990. In addition to the arguments which you raise in your minute there is also the problem of devising a satisfactory rebate scheme to cover dual running. It has always been clear that devising a rebate scheme for residual rates and the community charge would be highly complex and that it would inevitably be confusing for claimants, and difficult and expensive for local authorities to administer.

Abolishing dual running will obviously expose inner London chargepayers to realistic levels of community charge. It will as you argue ensure that the principle of accountability on which the community charge is based will apply to inner London authorities from the outset of the new system. However although I support the removal of dual running it is vital that we keep adequate protection for authorities themselves through the provisions of the safety net and that the transitional process does not lead to a detrimental effect on service provision.

I am copying this letter to the Prime Minister, to members of E(LF), to the Lord Privy Seal, to the Chief Whips in the Commons and the Lords and to Sir Robin Butler.

JOHN MOORE

SECRET AND PERSONAL

COPY NO 2 OF 9 COPIES

Treasury Chambers, Parliament Street, SW1P 3AG

Roger Bright Esq
Private Secretary
to the Secretary of State for the Environment
Department of the Environment
2 Marsham Street
London
SW1

29 June 1988

CX.
Sir P Middleton
Mr Anson
Mr Phillips
Mr Edwards
Mr Potter
Mr Fellgett
Mr Tyrie

Dear Roger,

RATE SUPPORT GRANT SETTLEMENT/CAPITAL CONTROLS

The Chief Secretary held a meeting this morning with your Secretary of State to follow on from the meeting he had last Thursday. Also present were the Minister for Local Government, Mr Osborn, Mr Brearley, Mr Parker and Mr Roberts from DOE and Mr Edwards and Mr Fellgett from the Treasury.

Your Secretary of State said he thought the timetable was now critical. He believed that the closedown decision needed to be made such that it could be put to Cabinet on 7 July with an announcement made immediately thereafter. He would want to publish the capital control document on the same day. The RSG announcement would be made later. Mr Howard said this would allow E(LA) to discuss grant and provision in the light of the decision on closedown. It would not be possible to inform E(LA) about closedown before Cabinet. The Chief Secretary said that he did not think it was possible to separate the question of grant element of the settlement from the decision on closedown in the way proposed. His attitude to the decision on closedown was coloured by the likely settlement. Your Secretary of State said he thought ideally he would like to settle the whole package with the Chief Secretary so that it could then be put the Chairman of E(LA), the Prime Minister and the Chancellor.

Turning to the officials' paper, your Secretary of State said that his strong preference was for Option G1 - early closedown - and Option C1 which would be an immediate prohibition on advance maintainance. He was not attracted to Option C 2. The Chief Secretary said he saw considerable attractions in early closedown

though the grant figure associated with it was critical. He would like to take the Secretary of State's mind on the likely grant figures he would associate with either settlement. Your Secretary of State had already indicated that he would envisage a tougher settlement with early closedown than that he had proposed to E(LA).

Your Secretary of State said that an analysis by DOE officials suggested that early closedown would save the Exchequer some £300 million in back claims for grant in respect of 1987-88 and 1988-89. The Exchequer would lose the benefit of the potential underclaim of a similar size in 1989-90. That led him to think the figure proposed to E(LA) was of broadly the right order of magnitude. He would, however, be prepared to reduce that by £250 million. To go further than that would have in his view unacceptable consequences for a rate increases. He was anxious to avoid a situation where local authorities exhausted their balances in 1989-90 and then built them up in the first year of the Community Charge. The Chief Secretary noted that behavioural effects could go in both ways. Local authorities would have a powerful incentive in any case to minimise rate increases next year. Mr Howard said that he wanted a settlement which enabled the Government to ensure that some authorities at least would be able to produce low initial Community Charges and these could then be held up as an example to other authorities who would undoubtedly would attempt to levy excessive Community Charges in 1990-91. Your Secretary of State said he would find a much tougher settlement than he was now proposing difficult to present alonsgide the decision on early closedown which would be presented as denying local authorities grant they might otherwise expect, and possible action to limit use of receipts for capitalised repairs.

The Chief Secretary said he did not believe the presentation need be as difficult as your Secretary of State was proposing. In order to avoid a surge in local authority spending in 1989-90 when the marginal pressure would be removed through early closedown he would be looking for a settlement tougher than the £520 million addition to AEG he had proposed to E(LA). Like your Secretary of State he believed that that justified some £250 million off his initial proposal for grant. It had to be remembered that not closing down the system and taking action to block off manipulations was another option. Your Secretary of State said he did not believe that would be feasible and would require repeated action by DOE. That was why he found Option 2 so unpalatable. Moreover because of the risk to the Exchequer associated with Option 2 an even tougher settlement than that he was now proposing would be required. But that would start to have very harsh effects on authorities which had not created special funds. A settlement which was sufficiently tough to offset the risks to the Exchequer would have the perverse effect of allowing authorities which had built up special funds to obtain a grant advantage from their use while forcing authorities which

had not used this device to have high rate increases.

It was agreed that in order to take the matter forward DOE officials should, in consultation with the Treasury, produce some exemplifications of the rate effects of varying levels of grant additions ranging from £350 million to £850 million compared with 1988-89 AEG at settlement. That had now been corrected. There would be a further meeting. The aim would then be to prepare a paper for discussion with the Prime Minister, Mr Parkinson and the Chancellor. The Chief Secretary noted, that last year DOE had over-stated likely rate increases by a considerable margin. Mr Roberts said that this was due in part to an error in the allowance made for rateable value increases. The Chief Secretary noted he would not be prepared to leave the decision on grant to be made separately from the decision on closedown. He might still wish to argue that it was preferable to delay closedown and take action to block off creative accounting. Your Secretary of State said that he could live with Option 2 and simply let the Exchequer take the risk.

On capital, your Secretary of State said he was prepared to action along the lines set out in Option C1. He did however, have severe reservations about Option C2. The Chief Secretary said he was attracted to this. He would wish to see action taken in 1989-90, taking account of any excessive use of capitalisation in 1988-89. Mr Parker confirmed that it was feasible. There were various ways in which the limitation might be exercised. Your Secretary of State felt this would not be politically sustainable. The Chief Secretary asked whether your Secretary of State 's objection was to any action at all or whether he would be prepared to accept a limitation based on uprating previous use of receipts for repairs. Your Secretary of State said that he would still regard such action as unfair but would prefer action in that form if action were needed. He did however very much wish to avoid an early announcement of action on 1989-90. It was not required operationally until the end of the year .

It was agreed that capital control document should be prepared for publication on 7 July. Your Secretary of State noted that he would be more resistant to Option C2 than to tougher grant.

A meeting has now been fixed for 2.30pm tomorrow.

Yours,

Jill

JILL RUTTER
Private Secretary

CONFIDENTIAL

CHIEF SECRETARY

FROM A J C EDWARDS
DATE 29 JUNE 1988

cc Chancellor
Sir P Middleton
Mr Anson
Mr Potter
Mr Fellgett

RATE SUPPORT GRANT, 1989-90 AND CAPITAL RECEIPTS

Following your meeting with Mr Ridley this morning, we have reached agreement with DOE on:

(i) the estimated consequentials for rates next year of increases in aggregate Exchequer grant of between £350 million and £850 million (annex A);

(ii) what would best be done (if it were agreed to do something) to limit manipulations of capital receipts next year (annex B); and

(iii) small revisions to the joint paper by officials which I submitted last night.

Estimated rates consequentials of particular levels of grant

2. The gratifying results presented in DOE's note at Annex A confirm the figures which Mr Fellgett quoted this morning. DOE now accept that, for an increase of 3 per cent in real terms in overall spending by Local Authorities, and assuming that they draw down balances and special funds by £570 million, the range of increases in grant which you discussed this morning would produce the following average increases in rates:

Increase in grant £m	Average rate increase (per cent)
350	6.6
450	6.1
600 550	5.6 5.3
650	5.0
750	4.5
850	4.0

These increases compare with a 7½% average increase in rates this year.

3. If local authorities decided to draw nore heavily on special funds and balances, the increases in rates could of course be significantly lower. The amount of special funds outstanding is some £1.1 billion, and balances outstanding are believed to be similar in magnitude. Each £200 million drawing on special funds or balances would reduce the rates increase by 1 percentage point.

4. The DOE figures seem to us powerfully to reinforce the case which you have argued on overall expenditure control grounds for a low grant increase. There was, I think, widespread support in E(LA) for the thesis that the Government had little interest in making rates popular in their last year. Even the lowest grant increase illustrated above (+£350 million) would, on these calculations, entail a lower increase in rates than this year.

Capital receipts

5. The note at annex B, ~~proposed~~ prepared, by us after discussion with DOE, sets out what would best be done on capital receipts if Ministers agree that they cannot be indifferent to a possible surge of up to £550 million in authorities' spending potential next year. Doe have calculated that they could spend £200 million on extra repairs and maintenance and substitute up to £350 million of capital receipts for revenue financing of repairs and maintenance expenditure, thus liberating an equivalent sum of revenue for spending elsewhere.

[To follow]

6. In our view there is no question that action must be taken to preclude advance maintenance deals (option C1). The experts now think, however, that this should not be announced on 7 July since drawing attention to the possibilities for manipulating

capital receipts would encourage local authorities to increase repairs and maintenance expenditure and/or explore the possibilities for substituting capital receipts for revenue financing.

7. DOE remain opposed to taking any action to limit possible use of capital receipts by local authorities to enhance expenditure or balances in 1989-90 (option C2). They agree, however, that the two realistic options for dealing with this problem, in descending order of efficacy, are:

(i) amend the consent in Circular 5/87 so as to limit the use of capital receipts to finance repairs and maintenance to this year's level of around £500 million: for the reasons explained in annex B, this would best be announced in November;

(ii) achieve offsetting savings in capital expenditure, if possible, by increasing the assumed level of non-prescribed capital and reducing the capital allocations agreed in the survey (say by £350 million).

Clearly approach (i) is far superior to approach (ii) from the Treasury's point of view. It would be extremely difficult to persuade Messrs Baker, Channon and Moore in the survey, not to mention Mr Ridley himself, to accept capital allocations several hundred million pounds lower than they would otherwise have been.

8. We suggest that you should continue to argue for approach (i) in the previous paragraph, to be announced in November alongside option C1, up to and including the Prime Minister's meeting.

Simultaneous announcement of grant and closedown

9. Assuming that Ministers decide on option 1, Mr Ridley

envisages a timetable whereby Cabinet would confirm the decision next Thursday morning (7 July) and he would make the announcement that afternoon. It seems to us important that he should announce the amount of Government grant as well as the closedown proposals. There are two reasons for this:

- First, the Government would come under great pressure between 7 July and the end of the month to provide a generous grant settlement if the initial announcement had not covered this.

- Second, it would anyway be difficult presentationally to announce a fixed grant for 1989-90 without indicating the level at which it would be fixed.

The decisions on rate capping and expenditure provision would then be announced later in July, in accordance with the normal timetable.

10. You may like to check with Mr Ridley tomorrow that he too envisages announcing the level of grant on 7 July as part of the fixed grant/closedown announcement.

Consultation with other Ministers

11. Mr Ridley seemed to envisage this morning that a small group of Ministers comprising the Prime Minister, the Chancellor, Mr Parkinson, Mr Wakeham, himself and yourself would decide on closedown and the level of grant for 1989-90.

12. Before you and Mr Ridley joined the meeting, we considered the logistics of consultations with the colleagues. Our provisional conclusion was that the best approach might be:

(i) to cancel next week's E(LA) meeting and deal with rate-capping in correspondence;

(ii) Mr Ridley to minute the Prime Minister on Friday,

in preparation for a meeting of those in paragraph 11 above on Tuesday next (5 July);

(iii) to have an E(LA) meeting immediately before Cabinet on Thursday (7 July), so as to bring E(LA) Ministers more fully into the picture; and

(iv) to arrange E(LA) meetings as necessary between 7 July and the end of the month in preparation for the usual announcement at the end of the month covering rate-capping and expenditure provision.

13. We have to consider also the problems of Wales and Scotland. Although Mr Walker might contest the point, we think that the only sustainable solution is for fixed grant and closedown to apply in Wales just as in England. It would be much best for Mr Ridley to cast his 7 July announcement in terms of England and Wales. Mr Walker will however need to be consulted. We think therefore that Mr Ridley should copy to Mr Walker his minute to the Prime Minister and that a Welsh Office minister should attend the Prime Minister's meeting: Mr Walker himself will, we understand, be abroad next week.

14. The Scots have a different RSG system and are due anyway to introduce the Community Charge next year. We do not think, therefore, that any closedown option will be needed there. A possible way ahead would be for Mr Ridley to copy to Mr Rifkind his minute to the Prime Minister but note that his announcement will not affect Scottish local authorities.

15. It would be useful to discuss these issues with Mr Ridley tomorrow. Miss Rutter might also like to check whether DOE have booked a slot in the Prime Minister's diary for next Tuesday.

Objectives for July and November packages

16. If you agree with the above, your objective might be to

end up with an announcement on 7 July covering both England and Wales and comprising:

(i) a fixed grant of between £350 million and £630 million (England) for 1989-90;

(ii) immediate closedown of grant claims in respect of all earlier years; and

(iii) issue of the consultative paper on the new capital control system.

17. This would be followed at the end of July by an announcement on rate-capping and expenditure provision, and in November by an announcement on advance maintenance deals and limitation on the use of capital receipts for repairs and maintenance.

Checklist of points for meeting

18. It maybe helpful to summarise the points on which you will wish if possible to reach agreement with Mr Ridley:

(i) option 1 on fixed grant/closedown

(ii) amount of grant (preferably £350 million given the new rates figures and certainly not more than £630 million);

(iii) on capital receipts, options C1 and C2 (consent variant), to be announced in November;

(iv) 7 July statement to cover fixed grant and closedown, including level of grant for next year, and consultative paper on new cap ital control system;

(v) statement to cover Wales as well as England, but not Scotland;

(vi) Mr Ridley to minute the Prime Minister, Chancellor,

Mr Parkinson, Mr Wakeham, Mr Walker, Mr Rifkind and yourself on Friday;

(vii) Prime Minister's meeting on Tuesday next;

(viii) cancel E(LA) now planned for next week but fix a meeting immediately before Thursday Cabinet if possible;

(ix) Thursday Cabinet to confirm decisions prior to afternoon announcement.

AJCE

A J C EDWARDS

DATE: 29-JUN-88

ANNEX A

RATE IMPLICATIONS OF GRANT OPTIONS FOR 1989/90 RATE SUPPORT GRANT SETTLEMENT

	AEG £13,325m (+ £350m)	AEG £13,425m (+ £450m)	AEG £13,525m (+ £550m)	AEG £13,625m (+ £650m)	AEG £13,725m (+ £750m)	AEG £13,825m (+ £850m)
Non-rate limited	8.1	7.5	6.9	6.3	5.7	5.2
All authorities	6.6	6.1	5.6	5.0	4.5	4.0
% increase in AEG at settlement	2.7	3.5	4.2	5.0	5.8	6.5
% increase in AEG at outturn	6.7	7.5	8.2	9.0	9.8	10.5

NOTES

1. Based on closedown Option G1: so no grant underclaim.

2. Assumes local authorities use £570m of reserves (special funds and balances) in 1989/90 to hold down rates.

3. Assumes that authorities spend at 3% above inflation plus community charge preparation costs ie 7.5% above this year's budgets.

4. % increase in AEG at settlement calculated from AEG at 1988/89 settlement adjusted for transfer of polytechnics.

3452/008

CONFIDENTIAL

FROM: A J C EDWARDS
DATE: 30 June 1988

PS/CHIEF SECRETARY

cc PS/Chancellor
Sir P Middleton
Mr Anson
Mr Potter
Mr Fellgett

RATE SUPPORT GRANT FOR 1989-90 AND CAPITAL RECEIPTS

Here, with apologies for the delay, is Annex B to my submission of last night.

AJCE

A J C EDWARDS

ANNEX B

POSSIBLE MEASURES ON CAPITAL RECEIPTS

C1 Stop Advance Maintenance Deals

This would best be done by amending the consent in Circular 5/87 so as to stop advance maintenance deals unless the Secretary of State gives specific consent for them (which he would not do). Best to announce later than July but before actual deals would be contracted. Early announcement would run the risk of drawing to authorities' attention the advantages of increasing repairs and maintenance expenditure between now and April 1990.

C2 Stop or limit capitalisation of repairs and maintenance in 1989-90

This too would best be done by amendment of Circular 5/87. The consent in this Circular would be amended to stop the use of capital receipts for repairs and maintenance without the specific consent of the Secretary of State. A consequential amendment to the consent to borrow would also be needed. DOE could then, if so desired, maintain capitalisation at broadly the current level by issuing some £500 million of such consents, corresponding to the amount of repairs and maintenance currently financed from capital receipts and borrowing. DOE regional offices would distribute these consents between local authorities. Announcement would best be made in December. This would allow just enough time for the necessary consultation with local authorities and for them to finalise their 1989-90 budgets. Earlier announcement would give them more time to increase their repairs and maintenance expenditure this year.

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30/6/88

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(I'm not sure his optimism is justified, but helpful for PM)

Prime Minister

DUAL RUNNING: RATES AND THE COMMUNITY CHARGE

Your Private Secretary's letter of 27 June, in relaying your agreement to our withdrawing the provisions for residual domestic rates in inner London after 1990, made 2 points about the size of community charges in inner London in the early years of the new system.

I did not elaborate on this point in my minute to you of 24 June but I think it worth putting on the record now that there are some grounds for cautious optimism about the introductory level of community charges in London in 1990. First we have another round of rate capping in 1989/90 which will continue the downward trend in spending we have seen this year and which led to such substantial reductions in the projected levels of community charge in inner London. Second there is a more realistic attitude from the London boroughs towards the level of their spending and the need to come to grips with it. I have only today received a letter from the leader of Southwark drawing attention to their planned reductions in expenditure and manpower over the next few years.

Our work on other aspects of the new finance system is now also beginning to take shape. Preliminary work on the new simplified grant system suggests that this can help to reduce the projected level of community charge in inner London. And we have the benefits of our structural reforms, the abolition of the ILEA and the proposals on housing revenue accounts which will also pay dividends in the early years of the new system.

You particularly asked, however, that I should stand ready to use the charge capping powers which are already in the Bill. Of course I am ready to do this if necessary. I have always argued that the capping powers will be particularly appropriate for use

during the transitional period before the full accountability of the new system is in place. You also draw attention to the safety net provisions. I can confirm that the powers in the Local Government Finance Bill are broad enough for us to establish a safety net of the sort you envisage and I am more than happy that my officials should jointly consider the implications of a safety net regime of that sort with officials from the Treasury and the other affected Departments.

I am copying this letter once more to the members of E(LF), the Lord Privy Seal, the Chief Whips in the Commons and Lords and to Sir Robin Butler.

N R

30 June 1988

3452/008

CONFIDENTIAL

FROM: CHIEF SECRETARY
DATE: 30 June 1988

CHANCELLOR

cc Sir P Middleton
Mr Anson
Mr Edwards
Mr Potter
Mr Fellgett

RSG 1989-90 AND CAPITAL RECEIPTS

When Nick Ridley and Michael Howard came to see me this afternoon, we reached provisional agreement on the following package:

(i) a fixed grant of £13,575 million for 1989-90, representing an increase of £600 million on the grant at settlement in the current year;

(ii) immediate closedown of grant claims in respect of all earlier years, as in option 1 which we discussed with you on Monday;

(iii) no action for now on capital receipts (because this would draw attention to the possibilities for manipulation) but a commitment by Nick Ridley to consider with us what action is needed, for announcement towards the end of the year or earlier if necessary;

(iv) issue of the consultative paper on the new capital control system.

2. We agreed that the aim should be to announce items (i), (ii), (iv) after discussion at Cabinet. I made clear that we must announce the quantum of grant simultaneously with the fixed grant/closedown proposal since otherwise we would come under intense pressure from authorities hurt by closedown to provide a generous grant settlement. Nick took the point that it would be difficult to announce a fixed grant without saying how much it would be.

3. In preparation for next Thursday's announcement, we agreed that Nick Ridley would minute the Prime Minister and a few other Ministers closely concerned before the weekend. We envisage that the Prime Minister would hold a meeting on Monday or Tuesday of next week, followed by discussion in E(LA) on Wednesday evening, in preparation for Cabinet on Thursday and the announcement later that day.

4. Although Nick Ridley did not finally commit himself to the grant figure of £13,575 million for next year, he came extremely close to doing so. He was concerned as a matter of presentation to be able to say that he had made an allowance for the fact that local authorities would not now receive any grant award for underspending over the past two years. I insisted however that any such allowance must come within the £13,575 million total. I pointed out that such a grant could be convincingly presented as representing an increase of 9% compared with projected grant at outturn this year and that on his own figures (included in Mr Edwards's submission of last night) this grant would imply an average rate increase of not more than 5½% (if LAs again increase their spending by 7½%).

5. Now that Nick Ridley is prepared to accept a drop in the grant percentage and we have agreed on fixed grant the decision on provision assumes less significance. Nick and I agreed that there would be considerable advantage in reaching agreement on all the key elements on the settlement for announcement next Thursday. E(LA) will discuss provision next week. In my view it should be possible to get agreement on a 4 per cent increase over local authorities 1988-89 Budgets plus an allowance of £110 million for CC preparation costs i.e. £350 million more than allowed for in GEP's present assessment. In my view ~~since~~ service colleagues are unlikely to settle for less and I think we could live with it. We may have to go further.

6. I hope you will feel, as I do, that this will represent

a satisfactory outcome and that our aim should now be to join Nick Ridley in commending it to colleagues.

7. In that connection there are, I think, three pieces of next action.

8. First, we need to enlist John Wakeham to the cause. The whole plan depends on obtaining time for a short but probably controversial money Bill in the next parliamentary Session. Although I would be glad to speak to him myself, I think it would be much better for you to do so if you are willing. I would of course be delighted to accompany you if you think that would be helpful.

When?

9. Second, we need to bring Peter Walker on board since similar arrangements will need to be made in Wales. Nick Ridley is attempting this. Scotland, is, as always, different.

10. Third, we need to tell Cecil Parkinson where we are. I will be speaking to him this evening.

CST has done, & CP seemed content, though nervous about bill.

pp JOHN MAJOR