

PRIME MINISTER

P 03545

LOCAL GOVERNMENT FINANCE SETTLEMENT 1990/91  
[E(LG) (89)2 and Mr Patten's minute of 3 October]

## DECISIONS

1. Mr Patten's paper carries forward the discussion of transitional relief for community charge payers. He has also circulated a minute, but only to those who attended your earlier meeting, explaining his thinking in more detail. His second minute includes a very useful table, illustrating a number of options. You might find it helpful to begin the meeting by asking for this table to be handed out so that everyone can see it. We shall have copies ready for the purpose.

2. You asked Mr Patten to take option V in the earlier Cabinet Office Note as the basis for his further work, using assumptions which would reduce the costs. The main issues are:

i. targeting. Mr Patten's paper sets out two versions of option V. One, which he favours, would give relief to all adults in a household but with the main benefit going to former rate-payers and their spouses. The other, which the Chancellor prefers, would concentrate solely on one and two-adult households plus pensioners and the disabled and would not extend to other charge-payers such as grown-up children in work living at home. You will need to consider which approach should be adopted.

ii. affordability. The actual cost will depend on the targetting and specification of the scheme. The cost appears to be particularly sensitive to the threshold which beneficiaries have to bear before relief is given. Mr Patten's approach, with a £2 threshold, would cost £575 million for England, Wales and Scotland including administration. The Chancellor's approach, with a split



threshold of £2.50 for pensioners and the disabled and £4 for other eligible adults, would cost £220-250m for the same coverage. The table shows intermediate options of both the Chancellor's version (scheme B in the table) and Mr Patten's version (scheme D) for England only. You will wish to decide how much can be afforded, and in particular what the threshold should be.

3. Further work will be needed on the details of a scheme. But you will want to get far enough to be able to agree that the Secretary of State should report orally to Cabinet this Thursday and make an announcement (at) the Conservative Party Conference next week; and you will want to agree what can be said there.

or before  
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#### BACKGROUND

4. At your meeting on 28 September Ministers agreed that there should be a scheme of transitional protection for community charge payers, and that it should be based on option V from the Cabinet Office Note. The main features of that option, as amended in discussion, were:

i. protection would be given to the first single adult or couple in each household, ie those who previously paid rates;

ii. in addition all pensioners and disabled people would be protected, whether or not they previously paid rates;

iii. protection would be based on a comparison of the rates paid by the eligible couple or adult and the corresponding community charge, on the assumption of spending 3.8% above 1989-90 budgets;

iv. there would be a threshold, probably of £2.50 per week, before protection applied.

5. You asked the Secretary of State for the Environment and the



Chancellor of the Exchequer to commission further work, moving downwards from option V and testing out any other variations which they wished, with a view to producing an acceptable scheme. In the event the gap between them has narrowed but they have not, in the very limited time, been able to agree a single scheme.

## MAIN ISSUES

### Design of the scheme

6. One simplification which appears to be common to both Mr Patten's approach and the Chancellor's is that they target relief on one and two-adult households rather than on former ratepayers. This involves an element of rough justice in that it would include some two-person households which are not couples (eg. two sisters living together). On the other hand, 85% of two person households are couples; and this simplification carries major savings on administration. DoE say that it would be difficult to define precisely who was eligible; that local authorities would find it difficult to identify who had been ratepayers and were couples; and that the scheme would have to be based on applications from all eligible adults and couples. Administrative costs could be as much as £340m for a scheme paying £380m of relief (see scheme A in the table). Concentrating on one and two-person households would appear to mean that the majority of cases could be dealt with automatically although pensioners and the disabled would still have to apply. You may wish to check that this is right and, if so, decide whether the scheme should be directed at one and two-person households rather than ratepayers.

### Targeting

7. The groups covered by Mr Patten's scheme would be as follows:

- i. all single adult households would get protection if their losses exceeded the threshold. In this respect, the



scheme is identical to option V.

ii. all two adult households would be eligible for protection. All couples in these households would get protection as under option V. But in addition any two adults living together (eg a parent and adult child, an adult and elderly relative, or two adults sharing) would get relief. This is the simplification described above.

iii. households with more than two adults would get relief on the basis of two adults. The relief would be shared between all the adults. (For example, if two adults living in a house would qualify for relief of £100 per annum between them, but there were actually four adults, they would each get relief of £25 per annum.) This is the main difference between the scheme and option V.

iv. pensioners and the disabled who did not qualify for full protection under the above arrangements would be able to apply for relief. Mr Patten believes this would be workable, because numbers would be small.

Mr Patten believes that a scheme of this sort could be introduced in many areas by 1 April 1990, and that it would be cheaper to administer: perhaps £90-100m for the scheme he favours (see scheme D in the table).

8. The Chancellor's scheme by comparison would appear in essence to cover categories (i), (ii) and (iv) but not (iii); that is, it would provide protection only for one and two person households, and for pensioners and the disabled.

9. You will wish to decide whether the scheme should extend to all adults in a household as Mr Patten proposes, or should be narrower on the lines suggested by the Chancellor.

**Affordability**

10. The next question is how much should be spent on the scheme which depends on its specification and in particular the thresholds chosen.

i. Mr Patten's scheme envisages a threshold for all eligible adults of £2 per adult or couple. This gives a cost of £400 million in England. The table (scheme D) appears to suggest however that if the threshold was raised to £2.50, the cost would be reduced to £320 million. The table also suggests that the costs of administration would be reduced by £15 million, from £90 million to £75 million. And there would presumably be consequential savings in Wales and Scotland.

ii. The Chancellor's scheme envisages a split threshold of £4 for all one or two-person households but with a lower threshold of £2.50 for pensioners and the disabled. This would give a total cost of £220 to 250 million for a scheme covering England, Scotland and Wales including administration. The table (scheme B) suggests that with a single threshold of £2.50 for everyone the cost in England alone would be £320 million plus £90 million for administration.

*£4 seems a high threshold for one person; could that be set at say £2.50, with the higher threshold for couples?  
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11. The Chancellor's option has the advantages of:

- i. much lower cost;
- ii. restricting payments in a multiple household to the first couple, rather than applying them to all persons in the household as in Mr Patten's option.

Mr Patten may argue, against this, that his scheme is administratively simpler. But the figures for administrative costs in the table appear to suggest that the cost of the

Chancellor's approach is not very much greater than Mr Patten's. You may wish to check that this comparison is correct and then consider which option strikes the right balance between the level of protection and overall cost.

**Area safety net**

12. Mr Patten proposes no action on the area safety net for 1990-91. But he proposes to indicate that the Government will look again at the position for later years. You may prefer to say nothing at this stage, as you agreed at the last meeting.

**Scotland and Wales**

13. It is not clear from Mr Patten's paper where things stand on applying the scheme to Wales and Scotland. You may wish to ask.

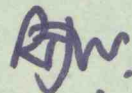
**NEXT STEPS**

14. Assuming that E(LG) reach agreement on transitional protection, you will wish to invite Mr Patten to report orally to Cabinet on Thursday morning. You will also wish to agree what can be said (at) the Conservative Party Conference.

Debate  
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**HANDLING**

15. You will want to ask the Secretary of State for the Environment to introduce his paper. The Chancellor of the Exchequer and the Chief Secretary, Treasury will wish to give their views. The Secretaries of State for Scotland and Wales will wish to comment on the implications for those countries. Other Ministers will also wish to contribute.



R T J WILSON  
Cabinet Office  
3 October 1989