

BA 3(a-c)

PRIME MINISTER

COMMUNITY CHARGE

Perhaps I could offer a few thoughts in the light of your telephone conversation with the Chancellor this morning and our subsequent brief discussion. This note sets out some of the substantive issues that need to be covered and the arrangements for handling.

Objectives

I take your starting point to be that, as things presently stand, the greater accountability of local authorities will not on its own be sufficient to exercise adequate control over their spending and in turn the level of community charges.

So the objective is to consider what changes to the regime are necessary so that, with effect from April 1991:

- (a) community charges are reduced from levels prevailing in 1990-91;
- (b) the level of those charges is made more controllable by Central Government.

Options

You want to explore placing much firmer controls over levels of aggregate local authority expenditure. But there are some other actions short of that which could be taken. Some people would - and doubtless will - argue they are sufficient on their own; if you reject that argument, some of them might still be used to reinforce tougher expenditure limits.

The various approaches might be set out under three headings:

- (i) Financing measures
- (ii) Transfers of function
- (iii) Expenditure limits

(i) Financing measures

Possibilities here include:

- more Exchequer grant. The problem is that, unless backed up by other measures, this would simply fuel even higher local authority spending. ✓
- a variant would be to transfer a much higher proportion of an enhanced total grant into specific grants. ✓
- instead of having the community charge as the residual means of financing any increase in expenditure, shift more of the burden on to business rates. The problem is that this would rapidly lead to a breakdown of the new unified business rate system, which is far better than its predecessor.
- so if you wanted to impose a bigger "burden" on business, it would be better to encourage/cajole business to take over from local authorities some of the services they currently provide. ✓
- take a stage further the restrictions on local authorities' use of their capital receipts introduced in last year's Act. | Receipts could be diverted either to pay for increases in local authority spending as such or the benefit consequences of higher community charges. One problem is that receipts are very unevenly spread between authorities; what could be done about those with few potential receipts?

(ii) Transfer of functions

- simply transferring functions without any other action also presents a danger of even higher spending on the remaining local authority services.
- but if the priority is to get community charges down, even if this is at the cost of a more than proportionate increase in Central Government taxation, then transfers of functions would help.

- you have recently spoken quite strongly in the House against transferring education.
- but other services like police and fire are stronger candidates.
- some services are, however, bound to have to stay with local authorities - and of these some would be in areas of potential high expenditure growth, for example, community care.

(iii) Expenditure limits

- the first issue to address is whether the existing charge capping mechanism could be used with greater potency in later years. Is it possible under existing legislation to set out the capping criteria in advance of local authorities setting their budgets; and if so, is it logistically possible to impose caps on many more authorities than is presently judged feasible?
- if this is not a runner, the next step is to look at new tougher expenditure controls to be implemented by a major new local government bill. Issues to consider include:
 - what criteria for the expenditure limits? Are SSAs robust enough; and if not, what changes are needed?
 - should limits be absolute or based on sliding scales linked to grant withdrawal? Should any scope be left for the operation of accountability?
 - should new powers extend to Scotland? how easy would that be to achieve, given that there are significant differences between the

present English and Scottish community charge regimes?

- in relation to the various possible criteria for setting expenditure limits, what would be the distributional impact on authorities relative to their present political complexion?
- how great is the need for legislative change? What timing is required in order to affect the 1991-92 settlements - presumably the 1990-91 Parliamentary Session?
- what parts of the legislative programme could be dropped to make way?
- what is the trade-off between the expenditure saving resulting from an absolute limit on local authority total spending and "affordable" increases in Central Government grant. (NB. On the new definitions, only grant to local authorities counts in the planning total, so that would be bound to increase; though non-grant financed spending is still included in general Government expenditure which is the aggregate used to calculate the public spending/national income ratios.)

Handling

- (i) Your first meeting on the capping proposals for 1990-91 is after lunch tomorrow (Monday). Just Chris Patten, David Hunt and Norman Lamont are coming. You will be wanting to reach preliminary conclusions on the extent of capping.
- (ii) After that meeting you were to have had a speech writing session for the Königswinter Conference. That

*Chancellor
will be on the
bench*

is no longer needed. So you could follow on the capping meeting with a first talk about your ideas for more radical action. For that you will want to call in the Chancellor and possibly the Chief Whip. (You were minded not to have the Lord President at the first meeting.) At the same time you will need to settle what the Chancellor should say in his Wind Up speech later in the evening.

(iii) Subject to progress on the capping discussion, you will want to consider when to go to E(LG). I suggested this morning leaving this until Thursday morning before Cabinet. On reflection, there may be other colleagues - notably some of the Service Ministers like Education and Social Services - who are concerned about the implications of capping; so if you make sufficient progress tomorrow, it might be worth going ahead with the E(LG) meeting scheduled for Tuesday afternoon.

(iv) If you then wanted to have a further early discussion about the radical review, one possibility would be to do so after the Audience on Tuesday evening. (Time may be short tomorrow afternoon - (ii) above - since the Chancellor will be preparing for the Debate.) At this stage you might want to bring in one or two others like the Lord President and Mr. Baker.

(v) There is also an E(LG) slot on Thursday morning which can be used for further capping discussion if that proves necessary.

Content with (i) - (v) above?

ALCG.

PG

Yes
Chantson very much

25 March 1990

jd c:community