

NOTE FOR THE RECORD

COMMUNITY CHARGE ARRANGEMENTS

Note I gave John Giese (Chancellor's office), Camp Evans (CSI's office) and Roger Bright (S/S Env.'s office) a debrief and briefing on this meeting. It explained it would not be appropriate to include a written record.

The Prime Minister held two meetings this afternoon to discuss various aspects of the community charge arrangements.

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At the first meeting only the Secretary of State for the Environment, the Chief Secretary and the Minister for Local Government were present. The Prime Minister said that she had spoken the previous day to the Chancellor of the Exchequer outlining to him her wish for a major review of the community charge arrangements from 1991-92 onwards. She wished to cover the same ground with the Secretary of State. The conclusion she had reached was that, following the events of recent weeks, the general public were blaming the Government for the high levels of community charge because it was the Government who was responsible for the system. Accountability was not yet working and indeed was unlikely to work in future with community charges at the current level. The principle of the community charge was absolutely right but it was bearing harshly on the "conscientious middle". She had therefore concluded it was necessary to have a rapid review of possible changes from 1991-92 involving:

- effective control or limits over the expenditure of all authorities. This might be based on a given margin above SSA, although allowing some degree of latitude for variance in spending.
- having secured more effective controls, increasing the level of Government grants, so easing the impact of the community charge on the RPI.
- considering switching much more of the total Government grant to local authorities into specific grants; and

requiring local authorities to use more of their capital receipts to finance spending increases.

- while not radically changing the financial burden on businesses through the new rating system, to consider whether the legal duties for carrying out certain services might be passed from local authorities to businesses themselves.
- strengthening the role of the Audit Commission.
- reconsidering the degree of discretion given to local authorities over the fixing of standard community charges, possibly by introducing some of the restrictions already implemented in Scotland.
- given the priority attached to this problem, making clear to Cabinet colleagues that any other expenditure bids over the coming year would have to take a lower priority.

The Secretary of State for the Environment said that the present figures reflected the combination of two factors. First, the high level of community charges being set. And second, the heavy impact on the "nearly poor". He agreed with the Prime Minister that it was necessary to consider controlling the level of local authorities spending. But he would need to consider urgently with colleagues the implications of this approach.

The discussion then turned to the proposals for community charge capping in 1990-91. The Prime Minister expressed concern that the proposals in the Secretary of State's minute of 23 March did not go far enough, and wondered whether an additional criterion would be to consider increases in authorities spending compared with last year. The Secretary of State responded that it was essential to set criteria which could be robustly defended in possible court actions; it would be foolish to take any risks because if only one cap was successfully challenged it would undermine not only other caps for 1990-91 but the

Government's ability to develop wider control measures for later years.

The second meeting followed immediately afterwards and, in addition to those already present, was joined by Sir Robin Butler and Richard Wilson (Cabinet Office) and John Mills (Policy Unit).

Initial discussion focussed on the charge capping proposals for 1990-91. The Prime Minister said she was disappointed that the present proposals would reduce expenditure by only some £250m; she would prefer caps which yielded say, £400-£500m. She wondered whether it would be possible to introduce a new criterion to widen the net.

The Secretary of State for the Environment said this would be extremely difficult. Using the increase in expenditure for 1990-91 over 1989-90 would involve artificially constructing comparable budgets for the earlier year; he was advised that caps operated on this basis would be very difficult to defend legally. Operating a criterion based simply on the absolute size of the community charge would run into complications in relation to safety net contributions.

The discussion then turned to the possibility of tightening the existing proposed criteria of 12.5 per cent and £75 a head above SSA. The Secretary of State said these figures had been chosen because 12.5 per cent was the tightest criterion used for rate capping and £75 was the contribution some areas were being expected to make towards the safety net; it would be difficult to justify going below either figure. There was also the more general problem that, the greater the number of caps, the greater the risks of successful legal challenge.

Following a brief discussion the Prime Minister asked the Secretary of State to consider further the possibility of tighter criteria, in particular reducing the percentage excess over SSA from 12.5 per cent to 10 per cent. He should talk urgently to the Law Officers about this, and report to a meeting of a wider

group of colleagues to be held the following day. The issue would then subsequently be brought to a meeting of E(LG) on 29 March.

The discussion then turned to the longer-term review of the community charge arrangements raised in the earlier meeting. The following points were raised:

- the radical ideas outlined by the Prime Minister could be represented as an excessively centralist approach, particularly if this was seen as a permanent move. It would therefore be important to present any such changes as the introduction of transitional powers over a period of years until the process of accountability took full effect. To be realistic, moves to bring high spending authorities close to SSA might also need to be staged rather than implemented in full from the outset. The best approach might be to think in terms of new transitional powers, but with the possibility for the Government to renew them if necessary.
- another difficulty to be faced with greater central powers was that local authorities might then seek to blame the Government for any cuts that were imposed. Against that it could be argued that the Government would not be telling authorities how to manage their spending, but simply imposing overall limits in order to carry out Parliament's proper function of protecting the citizen from the exercise of over-weening power.
- if new powers were to be implemented for the 1991-92 local authority settlement it would be necessary to introduce new statutory powers in the current Parliamentary Session.
- consideration would need to be given to the interaction between new transitional powers and the operation of the existing transitional relief scheme, for which arrangements had already been laid down to cover the next two years.

- the option of Government fully funding certain local authority functions should also be looked at. The strongest candidates were the police and fire services, because these were areas where the Government already exercised direct control over total expenditure by the amount of power it controls.

The Prime Minister said she would wish urgently to consider these issues further with Treasury and Department of the Environment Ministers when they have had the opportunity to consider the implications. Meantime, it would be essential to maintain tight security.

At the end of the meeting it was suggested that account should also be taken to impose greater control over local authorities discretion in relation to standard community charges. For the most part this could be done by secondary legislation. But the problem recently identified in relation to caravans might require early remedial action by primary legislation.

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