

11(a-1)

SECRET

PRIME MINISTER

30 March 1990

COMMUNITY CHARGE: RELIEVING THE BURDEN

You are having a meeting on this next Thursday. You may like to have a look over the weekend at a first list of the likely options for action in 1991. (Annex B). This is fairly rough, but gives an idea of the possibilities and the orders of magnitude.

First, however, we think you should consider the options for action in 1990. Capping will produce only modest results. Is there anything else? The answer is yes.

It would be possible, using existing powers, to set up a new general scheme of transitional relief which would:

- get the average charge back down to £278;
- reduce the RPI by a full percentage point;
- pave the way for expenditure controls on local authorities in 1991.

This option is developed in the note at Annex A. It is expensive, but could bring incalculable gains. The question is: can you afford not to do it?

Although the gross cost is high (£3 billion) the net cost is considerably less. It could be as low as £1.7 billion. Although this would be an addition to public expenditure it would not increase GGE. And the opportunity would obviously have to be taken in the PES round to recoup as much of this as possible from savings elsewhere.

The opportunity of finding a way out of the present trouble which, through public expenditure, actually 'reduces' inflation by so much just seems too good to miss. It will make proposals

SECRET

b

SECRET

- 2 -

for action in 1991 much more credible. More immediately, it will rally all supporters. And it will be in tune with your own political principles by appealing to fairness for individuals against the depredations of high-spending authorities.

Options for 1991 (Annex B)

It is obvious from scanning the list that the only realistic way forward is through comprehensive controls on expenditure, with very modest leeway (your 'penny rate' idea) for local authorities to go over the set limit. All the other options will either not achieve the objective, or are not tenable for 1991 given the need for urgent legislation. I think this is the view gaining ground in both DOE and the Treasury.

We have little doubt that taking action for 1990 will make announcements on action for 1991 much more credible indeed. The two go together and 1991 action announced now without doing anything about 1990 bills could well end up being dismissed as empty words. The task is to reduce bills now and then keep them down.

Conclusion and Recommendation

The idea of a 1990 extra transitional relief scheme offers the prospect of a real way forward out of the present difficulty. There is no other option available without legislation, and

SECRET

C

SECRET

- 3 -

certainly nothing else which offers the tantalising prospect of such an impact on RPI. The cost is high, but so is the reward. We are alarmed at what may happen if nothing is done, and if ordinary people cannot actually pay high bills.

Brian Griffiths

BRIAN GRIFFITHS

John Mills

JOHN MILLS

SECRET

d

SECRET

ANNEX A

RELIEVING THE BURDEN THIS YEAR

Capping will produce only modest relief to relatively few chargepayers. There is one other option available under existing powers which, albeit at high cost, would bring

- the average charge in England back down to £278;
- get a full percentage point off the RPI, if not a bit more, in the Summer.

A reasonable estimate of the likely net cost of this is £1.7 billion.

This is to bring in an additional transitional relief scheme this year, on top of the scheme already agreed. Provided this is done across the board and not for selective groups only, the resulting reduction in average charge will score against the RPI. This is crucial because it reduces the effective cost as well as bringing obvious wider benefits. **Getting average charge back to the SSA average of £278 will take a full percentage point off the RPI in the summer.**

The gross cost of bringing average charge down to the standard spending level would be about:

England: £2.6 billion (allowing for capping savings of £400 million)

Wales: £140 million

Scotland: £200 million

That is, just under £3 billion.

SECRET

SECRET

- 2 -

But the net cost is rather less. One must deduct:

- £700 million saved this year on community charge benefit (this is currently a call on the reserve);
- £300 million at least saved next year on social security and public sector pension uprating because of lower RPI;
- large but unquantifiable potential savings in the public sector wage round through lower RPI. (1% less on the central government pay bill, (civil service, armed forces, NHS professionals and teachers) would be £300 million).

The indirect benefits are also considerable:

- a full percentage point off the RPI in the summer, the peak period for the public sector pay round;
- help towards an easing of wage pressures;
- eliminating the problem of the shortfall in Income Support rates to meet 20% of Community Charge. This will remove what is likely to be intense pressure for extra uprating in the Autumn to cover this. Instead, getting back to CCSS will be a real increase for those on Income Support;
- ensuring that the weight attached to Community Charge in the RPI does not rise significantly next year (as otherwise it will);
- enabling the commitment to be honoured, in the observance and not the breach, that, under the first transitional

SECRET

P

SECRET

- 3 -

relief scheme, no-one will have to pay more than three pounds a week compared with rates bills;

- removing the awful risk of mass inability to pay.

The arguments for and against

The main argument against is obviously cost. The 1990/91 reserve is £3 billion, of which £700 million is now earmarked for extra community charge benefit. The net cost to the reserve in 1990/91 would therefore be £2.3 billion. This takes no account of the other public expenditure offsets outlined above.

The second argument against is that it would simply validate high local authority budgets. There is some truth in that, but one has to be realistic. There will be no real option in next year's settlement but to take existing budgets as a baseline. So may be it's better, as the situation has developed, to concede this now and avoid arguments about it later which neither side will win but in which local authorities will have the whip hand.

They will have the whip hand because they will argue that their budgets are the minimum they need to deliver key policies - eg community care, food safety, litter, national curriculum.

A scheme of this kind could, in any case, be presented as having exactly the same effect as having given higher RSG to local authorities in the first place. This would not have been controversial at all at the time. But the crucial difference is that doing it this way, through transitional relief, means there is absolutely no leakage into higher expenditure. So it benefits chargepayers more.

It could be presented in this vein as an ace up the Government's

SECRET

SECRET

- 4 -

sleeve, specifically held back to avoid leakage.

The main argument for is simple: that it is the Government's duty to protect individuals from the failure of local authorities to act prudently, and that fairness demands such a course. There will still be plenty of above average charges up and down the country, but supporters will be rallied and critics disarmed.

The other crucial argument for is that it will cancel out the significant increase in the RPI caused by high charges. That needs no further comment, except that this vital benefit would effectively be foregone if the money involved was used instead for RSG next year in the hope of keeping 1991 charge levels down. The issue boils down to whether money should be spent this year or next. The case for this year seems absolutely overwhelming politically, and the RPI aspect simply reinforces this.

Link with Next Year

Action on 1990 charges cannot be taken in isolation. It will have to be coupled with action to limit local authority expenditure next year - ie one or more of the Annex B options. This can then be presented as a coherent package underlining the Government's determination to protect chargepayers and cut local authority expenditure. There is a danger that nothing but brave words now about 1991 will fail to turn the debate. But action now will show that the Government means business and is determined to protect people, whatever the cost.

SECRET

ANNEX B

OPTIONS FOR RELIEVING THE BURDEN IN 1991**1 Additional Grant**

If next year Total Standard Spending rose by 10% and Aggregate Exchequer Finance (AEF) by 9%, average Community Charge would rise by 16% to £422.

To keep average charge at £363, AEF would have to rise by £4.5 billion.

To reduce average charge at £300, AEF would have to rise by £6.7 billion.

To reduce average charge to £200, AEF would have to rise by £10.2 billion.

In all cases the potential for expenditure leakage is high.

2 CAPPING

- (a) current capping powers could be strengthened eg to cap high charges themselves rather than just budgets;
- (b) multi-year capping: a further strengthening probably involving setting provisional caps for future years.

Legislation required for both. But unlikely that the number of capped authorities would be above 40. Not a very effective weapon.

3 COMPREHENSIVE EXPENDITURE LIMITATION

- (i) **Statutory limitation on expenditure by each authority.**
Limit of, say, 5% or 10% above SSA, plus for instance
- a 'penny rate' discretion

- the same in respect of the uniform business rate
- ability to spend capital receipts as revenue
- fees and charges for services now provided free

Some provision for derogation, with Secretary of State's approval, would be necessary.

- (ii) Remove, totally or almost, **local authorities' power to determine and raise their own revenue.**

Centrally-provided funds could be either all grant, or grant plus a centrally-set community charge (along the lines of the business rate.)

This could not be in place for 1991/2, but is an attractive option for further study.

OTHER POSSIBILITIES

- increased use of Specific Grants. This would only work if authorities were not free to spend over and above them. There would have to be eg in education, statutory controls on pupil : teacher ratios etc. Otherwise extra spending falling as chargepayers will simply be encouraged.
- Removal of Functions. The initial view is that if this was desirable in principle it could not be done before 1992 or 93. There is no certainty at all that it would reduce expenditure; it could easily cause leakage into higher spending elsewhere.
- Improvements to Community Charge Benefits. Helpful, but expensive (with no RPI impact) and do not tackle the fundamental problem.

5

SECRET

- Improvements to Transitional Relief (the existing scheme). This is not fundamental, but could be worth considering separately to improve the position in 1991.

- Graduated Charges. Not necessarily in relation to income but (for example) a 1.5 times charge for higher-rate taxpayers and 0.75 for non-taxpayers (that alone would cost about £200 million). Other forms of relief would be possible eg for non-working wives. But this is hitting at the fundamental principle of the community charge and does nothing about local authority expenditure.