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My ref:

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Barry Potter Esq
Private Secretary to
The Prime Minister
10 Downing Street
LONDON
SW1A 2AA

24 April 1990

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Dear Barry,

COMMUNITY CHARGE

The enclosed table should have been attached to my Secretary of State's minute to the Prime Minister yesterday. I would be grateful if you could insert it into the bundle of papers, immediately below the Secretary of States' minute.

I am copying this to the Private Secretaries to the Lord President, Chancellor of the Exchequer, Secretary of State for Wales, Chancellor of the Duchy of Lancaster, Secretary of State for Scotland, Chief Secretary and Secretary of the Cabinet.

Yours

A D RING
Private Secretary

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COST OF PROPOSALS

PROPOSAL

ADDITIONAL COST IN 1991-92

Extension of TR scheme

£90m

Excluding safety net/ LRV grant receipts from assumed charge

£50m-£100m

Increase CCB earnings disregard

£80m

Differential CCB taper

£30m-£50m

Change in tariff rate for capital in CCB assessment

£40m (CCB)
£30m (HB)

Higher rate supplement

Saving of £400m

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IMPROVEMENTS TO THE TRANSITIONAL RELIEF SCHEME

1. This note considers improvements which could be made to the transitional relief scheme. It recommends an extension of the scheme for two years, with no withdrawal of relief in either 1991-92 or 1992-93; and a change in the rules to allow people who will lose from the withdrawal of the safety net and low rateable value grant to qualify for increased relief. These proposals are discussed in paragraphs 9 to 15 below.
2. The paper also considers a number of other options for change, some of which could be considered in addition to the changes proposed.

BACKGROUND

3. Transitional relief was introduced to smooth the transition from rates to the community charge. Its main beneficiaries are people living in lower rateable value properties who are at least £3 a week worse off as a result of the change. It is based, for most people, on a comparison between a notional rates bill for a property in 1989-90 and either one or two assumed community charges, depending on the number of chargepayers resident in the property on 1 April 1990. Relief is paid if the assumed community charge exceeds the notional rates by more than £156 (£3 a week).
4. The assumed community charge in 1990-91 is the charge which would be set in a local authority's area if the local authorities in that area were spending in line with the assumptions made by the Government in the RSG settlement. Any excess of the actual community charge over the assumed community charge is met in full by the chargepayer.

Relief covers only the excess of the assumed charge over rates plus £156.

5. Entitlement to relief stops when a person either dies or moves from the property where he was registered on 1 April 1990, even if the new address is within the area of the same charging authority. A person who is entitled to relief in 1990-91 may be entitled to it in each of the following two years if he is still resident in the same property. The cash amount of relief to which a person is entitled in 1990-91 is, however, reduced by £13 a year (25p a week) in each of the two years after 1990-91, and disappears entirely in 1993-94.

6. In addition to the rates-based relief described above there are special arrangements for people who are of pensionable age or disabled and who did not formerly pay rates (if they paid rates they are considered for relief on the same basis as other people). People in these two categories are entitled to relief, provided they apply for it, if their assumed personal community charge is more than £156. As with rates-based relief, any excess of the actual charge over the assumed charge is met in full by the chargepayer.

7. The Department estimates that some 7½ million people will benefit from the transitional relief as originally formulated, of whom about half a million are expected to receive the special help for elderly and disabled people. The cost of the scheme over the three years of its intended life is expected to be £810m (£350 million in 1990-91).

IMPROVING THE SCHEME

8. The following improvements to the scheme have been considered:

- a. extending the period of the scheme (paragraph 9);

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- b. reducing the rate at which relief is withdrawn after year 1 (paragraph 10);
- c. providing relief to cover increased charges arising from withdrawal of the safety net/ILEA grant/low rateable value grant (paragraph 12);
- d. reducing the threshold from £156 to some lower amount (paragraph 16);
- e. basing relief on the actual number of community charges paid in a property rather than a maximum of two (paragraph 17);
- f. basing the calculation on actual rather than assumed community charges (or on an assumed charge greater than the one used for the current scheme) (paragraph 19);
- g. allowing relief to continue when a person moves (paragraph 22);
- h. allowing people to qualify after 1 April 1990 (paragraph 23);
- i. allowing relief in domestic properties which do not have a separate entry on the valuation list (paragraph 30).
- j. relaunching the scheme from scratch in 1991-92 (paragraph 32).

EXTENDING THE PERIOD OF THE SCHEME

9. The scheme as announced is designed to cover the financial years 1990-91, 1991-92 and 1992-93. At the end of 1992-93 all relief of whatever amount will be withdrawn in one go, which could result in a substantial increase in liability for some people. This could be

mitigated by extending the scheme for as long as is necessary in individual cases to ensure that no individual ever faces a loss of more than £13 a year (or whatever other reduction is decided on); but this could mean, in an extreme case, that the scheme lingered on for about 30 years (though this would be very rare). Alternatively the scheme could be extended for a defined number of years, which would reduce the size of the increase faced by those still in the scheme at the end. If the scheme is to continue in its present form there would be some presentational advantage in announcing an extension, and few administrative difficulties for charging authorities. It is therefore recommended that the life of the scheme should be extended for two years (ie to 1994-95).

REDUCING THE RATE OF WITHDRAWAL

10. Any extension of the life of the scheme could be accompanied by a reduction in the rate at which relief is withdrawn. Under the current system relief, once awarded, is regarded as a cash sum and is withdrawn at £13 a year. This could be reduced to any level, but the less the annual rate of withdrawal, the greater the cliff-edge for those left in the scheme at the end of the final year.

11. There are a number of possibilities for adjusting the rate of withdrawal:

a. not reducing relief at all once it had been awarded. This, however (and its variant of indexing the relief every year to maintain its real value), would mean that anyone left in the scheme at the end of its life would face a sudden steep increase in payments. For this reason this approach is not recommended;

b. not withdrawing any relief at all in the second (or second and third) years of the scheme, with withdrawal proceeding over the remainder of the extended period;

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c. withdrawing relief (either in the last two or three years only, or over the whole life of the scheme) at a lower rate.

If the scheme is extended the maximum presentational impact would probably be gained by simply not withdrawing any relief in the second and third years of the scheme. Relief would then be withdrawn over the remainder of the scheme. It is recommended that this approach should be adopted.

INCREASES DUE TO WITHDRAWAL OF SAFETY NET AND LRV GRANT

12. Areas benefiting from the safety net and/or low rateable value grant (LRV grant) will lose £25 per adult or 25% of the receipt, whichever is the greater, in the years after 1990-91. This means that residents of Greenwich, for example, which currently receives £212 a head from the safety net, will face an increase of £53 a year in their bills over the next 4 years purely because of its withdrawal. In addition, along with other Inner London boroughs, withdrawal of ILEA grant will give rise to an increase.

13. These effects, of course, are a fundamental feature of the safety net, LRV grant and ILEA grant; but they will give rise to hardship, and their interaction with transitional relief will lead to anomalies. People who have failed to qualify for relief in year 1 because their charge has been reduced by the safety net will be unable to qualify for relief in future years as the safety net is withdrawn, because of the rule which debars from relief in years 2 and 3 anyone who did not qualify in year 1.

14. Increases in the community charge which can be attributed to the Government's rules rather than local authority decisions are likely to be particularly sensitive. For this reason there is a good deal to be said for changing the rules to allow people who would have had relief if it were not for the safety net and LRV grant to qualify for it in future years as the safety net is withdrawn. It is therefore

recommended that this change should be made. The cost of this recommendation would be about £150 million at most over the life of the safety net.

ILEA GRANT

15. Ministers may also wish to consider whether to make similar arrangements for ILEA grant, which has separate arrangements for withdrawal. This is different in character from both the safety net and the low rateable value grant, since it is an allowance for previous high spending. Ministers may feel, therefore, that there may not be so much justification for providing protection against its withdrawal through transitional relief. If protection were to be given the cost would be about £20 million.

REDUCING THE THRESHOLD

16. This has one major disadvantage: if it were to apply to 1990-91 it would require recalculation of relief which has already been awarded, as well as new calculations for those who were outside the scope of the original scheme, and subsequent rebilling for both groups. The gross cost of reducing the threshold to £2 a week (£104 a year) with no other changes would be £250 million, but savings in benefit would reduce this to a net cost of £170 million. The £3 figure, however, does not appear to have generated many complaints, and the change is not recommended.

BASING RELIEF ON THE ACTUAL NUMBER OF CHARGES PAID

17. When the transitional relief scheme was first devised it was intended to apply to ratepayers and their partners. Practical difficulties in this approach led to the current scheme, under which relief is available to all chargepayers in properties which qualify, whether they were formerly ratepayers or not. But the origins of the scheme are still reflected in the fact that relief is based on a

comparison between rates and a maximum of two community charges, irrespective of the number of chargepayers in the property.

18. The result of this is that for properties containing three or more chargepayers relief would not deliver the promised maximum increase of only £3 a week even if the charge were set at or below the level of the assumed charge. This does not seem to have given rise to many complaints, however, and the number of households affected by it is likely to be small. Again, therefore, a change is not recommended.

INCREASING THE ASSUMED COMMUNITY CHARGE

19. It is the fact that the majority of community charges have been set higher than the assumed community charge which has done most to undermine the credibility of transitional relief. In spite of the fact that it was made clear when the scheme was announced that spending above the assumed charge would not qualify for relief, the headline which has been remembered is that "no one will pay more than £3 a week extra".

20. Taking the actual community charge as the basis of the comparison in 1990-91 would cost an extra £1.2 billion and would bring over 10 million more people into the scope of relief: the total number helped would be 18 million, over half the chargepaying population. It would, however, be possible to use a comparator at any level between the actual charge and the assumed charge by defining a percentage of any excess which the Government was prepared to see covered by relief (eg 50%), with correspondingly lower costs.

21. Any change which applied to 1990-91 would require recalculation of bills, which would be unwelcome to local authorities, and would cause confusion for chargepayers. Full reasonable costs of rebilling would have to be met by the Exchequer, and could amount to £15-20 million.

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ALLOWING RELIEF TO CONTINUE WHEN A PERSON MOVES

22. Relief currently ceases whenever a person moves from the property where he was registered for the community charge on 1 April 1990. It would be possible to provide "portable" relief to enable it to continue in such circumstances. There are a number of possible approaches, but the simplest would be simply to allow an individual who has been awarded relief to retain its cash value (perhaps in the form of a voucher) which can be used to reduce his community charge at his new address. In the year of the move the relief on the new charge would be apportioned according to the number of days left in the financial year; in future years the gross cash amount would be reduced in the normal way. This would, in many cases, lead to mismatches between relief and actual charges, with people in the same area receiving different amounts of relief; but it would be easily understood and probably popular.

QUALIFICATION AFTER 1 APRIL 1990

23. One of the perceived arbitrary features of the current scheme is that a person who becomes subject to a community charge for the first time after 1 April 1990, or who first meets the criteria for extra help after that date, is not entitled to relief. This applies to those who reach their 18th birthday and to non-ratepayers who reach pensionable age or become disabled after 1 April 1990.

24. These problems could be addressed by allowing anyone becoming subject to a charge, or meeting the criteria for extra help, after 1 April 1990, but during the lifetime of the scheme, to be entitled to relief. Relief would be calculated as if the individual had been eligible on 1 April, with relief in the current year apportioned, and withdrawn in the normal way in following years.

25. A variation on this would be to confine the improvement to people reaching pensionable age or becoming disabled, while doing

nothing to help people becoming 18 after 1 April ("attainers"), on the grounds that few of these would have been ratepayers. This would, however, highlight the anomaly that some non-ratepaying 18 year olds will have been awarded relief, purely because their 18th birthday fell before 1 April 1990.

26. A major difficulty with allowing attainers to qualify is that because relief is distributed equally among the chargepayers in a household, an award of relief to a person qualifying after 1 April ought to mean a decrease in the relief entitlement of other chargepayers in the property. Failure to reduce their relief would mean giving them an unfair advantage over other properties containing the same number of chargepayers who all qualified before 1 April. For this reason a change in the rules is not recommended for attainers.

27. This problem does not arise with people who reach pensionable age or become disabled, however, since the relief of the other chargepayers in the property will already have been calculated to take account of their presence. If any change were to be made, therefore, it would be better to confine it to those who reach pensionable age, or become disabled, during the lifetime of the scheme.

28. It should be borne in mind, however, that the special arrangements for elderly and disabled people are intended to protect those who have not previously paid rates. It would be odd to allow people who become pensioners or disabled some time after the introduction of the community charge to benefit from these arrangements, since they will have been paying the charge. Nonetheless, there is a stark difference in treatment between a non-ratepayer who reached pensionable age on 1 April 1990 and one whose 60th or 65th birthday fell the following day. A possible approach which would smooth this rough edge would be to allow a former non-ratepayer who is due to reach pensionable age in 1990-91 to apply for a reduction in the year's charge. The amount of relief would be based on the number of days in the financial year on which the applicant is of pensionable age.

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29. Such application in advance is, of course, not possible in the case of someone who becomes disabled during 1990-91, but the disablement criteria for transitional relief depend on the award of certain benefits, which also qualify the individual for more generous treatment under the community charge benefit system. The financial position of the newly disabled person should not, therefore, be too drastically affected, and it is recommended that no special provision should be made.

SHELTERED HOUSING AND OTHER PROPERTIES WITHOUT A SEPARATE ENTRY ON THE VALUATION LIST

30. Transitional relief is based on a notional rates figure which is obtained by multiplying the rateable value of the property by the average 1989-90 rate poundage for the district. This has the unfortunate effect that some people occupying separate units of domestic property on which rates are paid cannot qualify for relief because the unit does not have a separate entry on the valuation list. The individual unit therefore has no rateable value on which a relief calculation can be based. This affects, among other types of property, married quarters on military bases where the base itself comprises a single entry on the list; and some sheltered housing where, again, all the units are shown in the list under a single aggregate valuation. The residents of such properties undoubtedly pay rates as part of their rent; and many of them face increases of more than £3 a week; but they cannot obtain relief because the rateable value of the unit shown on the list is simply too big to qualify when compared with two community charges (the maximum comparator allowed under the scheme).

31. This situation could be remedied by requiring the charging authority either to pay relief on an assumed rateable value for the property, or by using as a comparator, in such cases, the actual number of community charges being paid. In view of the fact that many of those suffering from this anomaly are elderly people living in

sheltered accommodation who are debarred from both rates-related relief and extra help (because they are ratepayers) it is recommended that a change on these lines should be made. The change could, however, benefit more people than just those in military bases and sheltered accommodation. It could, for example, benefit young single people in multiply occupied dwellings. Ministers will wish to consider whether they would want the relief to extend as widely as this; if not, we would need to be sure that the necessary regulations could be sufficiently closely defined to limit the relief to those cases Ministers wished to help. Sheltered accommodation has a statutory definition in housing legislation, so this may not be too difficult.

A MORE RADICAL APPROACH: RELAUNCHING THE SCHEME

32. One way in which the credibility of the scheme could be restored would be to relaunch it in 1991-92, effectively regarding 1990-91 as water under the bridge. The new scheme could be announced with a commitment that community charge bills in 1991-92 would be no more than (say) £5 above rates in 1989-90, provided local authorities spent at or below their targets.

33. If such an approach were adopted it would be necessary to decide how to deal with people who were no longer resident in the property where they paid rates in 1989-90. The quickest way to cut this particular Gordian knot would be to base relief on the rateable value of the hereditament in which people were resident on 1 April 1991, irrespective of where they lived in 1989-90.

34. The relaunch approach would necessitate local authorities keeping their rating records for at least a year longer than they might have thought necessary. Although it is unlikely that many authorities would wipe their rating records, it would be advisable to make an announcement as soon as a decision had been taken to ensure that the necessary data were still available.

35. Some of the changes suggested above for the existing scheme would also be capable of being incorporated into a relaunched scheme. These are "portable" relief; protection against increases arising from safety net and low rateable value grant withdrawal; allowing people who reach pensionable age during 1991-92 to qualify for reduced pensioner relief; and allowing relief to be calculated for the residents of sheltered accommodation and similar properties where a number of separate units are included in one entry on the valuation list.

36. The gross costs of such a relaunched scheme are estimated to be in the region of £1.5 billion over the five year life of the scheme, with a caseload of perhaps 8-9 million people initially.

CONCLUSION

37. The transitional relief scheme is targeted at people who formerly paid rates, and who stood to lose at least £3 a week from the change to the new system. It appears, from early returns, that the Department's estimates of the number of people who would be helped by it have proved to be accurate, and that about 20% of chargepayers have had their bills reduced. Improvements to a scheme which is already benefiting a large number of people would therefore have considerable presentational impact, and would be relatively straightforward to introduce and to explain. It is recommended that Ministers should announce an extension of the scheme for at least two years, and a freeze on withdrawal in years two and three. It is also recommended that changes in the rules should be made to allow people who will lose from the withdrawal of safety net/LRV grant receipts to qualify for transitional relief.

38. Optional improvements which could be added to this basic package are:

- a. portable relief;

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- b. allowing people reaching pensionable age in 1990-91 to qualify for partial relief;
- c. allowing elderly people in sheltered accommodation to qualify for rates-based relief; and
- d. providing relief from the effects of the withdrawal of ILEA grant on the same basis as that recommended for safety net and LRV grant withdrawal.

POWERS

39. All the changes recommended in this paper could be made using existing powers.

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Department of the Environment

23 April 1990

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COMMUNITY CHARGE BENEFIT

1. This paper examines the changes which could be made to the community charge benefit (CCB) system to enable some of its perceived deficiencies to be remedied. It concludes that the Secretary of State for Social Security should be asked to consider:

- an increase in the earnings disregard to £10 for a single person and £20 for a couple; or, if this cannot be done without undesirable implications for other benefits;
- the introduction of a differential taper to enable more people to qualify for rebates without unduly increasing the benefits of those already receiving them; and
- a change in the rate at which capital is assumed to generate income to give further help to people with savings.

BACKGROUND

2. Community charge benefit is intended to help people on low incomes with their community charge bills. The benefit is administered by charging authorities on behalf of the Department of Social Security, and is paid, in most cases, in the form of a rebate, deducted from the bill at source, though it can be paid in other ways.
3. The maximum rebate available is 80% of the actual charge. Those who qualify for 80% rebates are all those in receipt of income support and all those whose net weekly income exceeds the "applicable amount" for income support by less than a specified "disregard" (usually £5

for a single person and £10 for a couple; but £15 in certain special cases). A list of applicable amounts and disregards for various typical cases is at Appendix A.

4. As income rises above the "applicable amount plus disregard" threshold, benefit entitlement reduces from the maximum by 15p for every additional £1 of net weekly income. Thus a person whose net weekly income exceeds the threshold by £10 will be entitled to benefit of the maximum minus £1.50. Benefit ceases altogether at the income level where these 15p deductions reduce entitlement to less than 50p a week (benefit of less than 50p a week is not paid).

5. This method of reducing benefit entitlement as income rises is called the "taper". The rate of reduction (15p in the pound, or 15%) is known as the "slope" of the taper; and the amount in cash by which net weekly income can exceed the threshold before benefit entitlement ceases altogether is known as the "length" of the taper. This latter is determined solely by the amount of the community charge. The higher the community charge the longer the taper and, consequently, the greater the level of net weekly income at which an individual in a given set of circumstances can qualify for benefit. At Appendix B is a table showing the points at which benefit entitlement ceases for a range of typical cases for various levels of community charge.

6. For benefit purposes couples are treated as a single claim. The rebate is calculated on their joint community charge liability, and is based on their joint resources.

7. In determining entitlement, account is taken of capital as well as income. The first £3,000 of capital is ignored. Capital of between £3,000 and £16,000 is assumed to generate an income of £1 a week for every £250 or part thereof above £3,000. Capital of more than £16,000 disqualifies an individual or a couple from benefit.

PERCEIVED WEAKNESSES OF THE SYSTEM

8. The major criticism of CCB is that the point at which entitlement ceases is too low on the income scale. Particularly in the case of young single people (aged between 18 and 25), those who are just outside benefit entitlement face community charge bills which represent a significant proportion of their net weekly income. A single person under 25 with the average community charge bill of £363 would have to pay the full community charge with a net weekly income of £67.63 (which is equivalent to a gross income of about £98 a week). The charge would account for 10.3% of their net income. A single person aged over 25 in the same area would run out of benefit entitlement with a net weekly income of £75.53 (about £110 gross), of which the charge would account for 9.2%.

9. Until recently there was also criticism of the capital limits, which excluded from benefit individuals and couples with capital of over £8,000. The criticism focused particularly on the fact that couples had the same capital limit as single people. The announcement in the budget that the limit was being increased to £16,000 overcame this to some extent. But there has since been criticism of the decision to leave the lower limit at £3,000 and the assumed (or "tariff") income derived from capital at £1 a week per £250. The present tariff means that the assumed income from capital could be deemed to represent an annual return of 16.9% at the maximum holding of capital (though as little as 1.6% at the other end of the scale - a list of the assumed rate of return under the present system is shown in column 2 of the table at Appendix C).

10. It is also possible to present the assumed income as representing an annual return of 20.8% if the simple conversion of £1 a week per £250 of capital is used. Either way, the implied rates of return on amounts of capital of more than about £6,000 are very optimistic. DSS argue that the system does not try to reflect plausible rates of return: the tariff deduction is merely a way of

ensuring that those with capital are encouraged to draw on it to a reasonable degree by reducing their benefit entitlement. But, again, this argument is too sophisticated to present convincingly.

WAYS OF MAKING THE SYSTEM MORE GENEROUS

11. There are 4 ways in which the system could be made more generous:

- a. increase the applicable amounts;
- b. increase the earnings disregards;
- c. decrease the slope of the taper;
- d. alter the lower limit for the capital disregard or otherwise reduce the implied rate of return on capital.

INCREASING THE APPLICABLE AMOUNTS

12. This is almost certainly not an option. The applicable amounts represent the Government's view of what an individual in a particular set of circumstances needs to live on. They are based on income support rates which are the basis of the whole of the social security system. They underlie all the income related benefits (including housing benefit and income support). Increasing them for one benefit only would seriously undermine the credibility of the whole system. Increasing them for all benefits would be very costly.

INCREASING THE EARNINGS DISREGARD

13. This would bring into the system those with low earnings just above the income support threshold, but would also benefit everybody who is currently receiving a rebate of less than the maximum and who is in work. It would not benefit pensioners, who are not entitled to

have any earnings disregarded. The disregards are the same as for other income related benefits, and it may, therefore, be difficult to make this change in respect of CCB alone, but it would certainly be worth considering if it could be confined to CCB. Doubling the disregard to £20 for couples and £10 for single people could result in an extra £1.50 a week in benefit for couples and 75p for single people; and about 300,000 more chargepayers would be brought into benefit entitlement. If, however, the disregards cannot be increased independently of those for other benefits, then a change in the taper such as is described in paragraph 16 below could bring about a very similar result.

ALTERING THE SLOPE OF THE TAPER

14. A reduction in the slope of the taper would have two effects:
- a. an increase in the benefit entitlement of those already on the taper;
 - b. an increase in the number of people receiving benefit.

It would not necessarily have any impact on other income-related benefits. The CCB taper in Scotland last year was different from the rates rebate taper in England; and the taper is different from that which applies to housing benefit for rent.

15. One feature of a straightforward alteration of the slope of the taper is that most of the extra benefit could go to people who are already receiving substantial help rather than those currently receiving little or no help. This could, however, be addressed by the introduction of a differential taper. Up to a certain point the deduction would remain at 15p per pound; above that point the deduction could be less. There are a variety of possible approaches; but if we were to take the case of a couple with two children under 11 in an area where the community charge is £363 (£13.92 a week for the couple), and posit a taper deduction of 15p for the first £40 of

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excess income and 10p thereafter (while retaining the 50p minimum payment) the results would be as shown in the table below.

Net weekly income -----1-----	Rebate entitlement (old system) -----2-----	Rebate entitlement (new system) -----3-----
£99.65*	£11.15 (80%)	£11.15 (80%)
£110.00	£9.60 (68.9%)	£9.60 (68.9%)
£120.00	£8.10 (58.2%)	£8.10 (55.9%)
£130.00	£6.60 (47.4%)	£6.60 (47.4%)
£140.00	£5.10 (36.6%)	£5.10 (36.6%)
£150.00	£3.60 (28.0%)	£4.10 (29.5%)
£160.00	£2.10 (15.1%)	£3.10 (22.3%)
£170.00	£0.60 (4.3%)	£2.10 (15.1%)
£170.61@	£0.50 (3.6%)	£2.05 (14.7%)
£180.00	-	£1.10 (7.9%)
£186.09\$	-	£0.50 (3.6%)

* beginning of taper
@ end of old taper
\$ end of new taper

16. The result of the change is to leave unaffected the rebate entitlement of all those couples with net weekly income of up to £140, to give increased rebates to those with net weekly income of between £140 and £170, and to bring into the rebate system those with net weekly income of between £170 and £186. The increase in the numbers benefiting in this case is the same as would have been brought about by an increase in the earnings disregard of nearly £16.

CAPITAL DISREGARD

17. As explained in paragraph 9 above, the recent announcement of an increase in the upper limit in the capital disregard was less effective than intended because the lower limit and the tariff rate were left untouched, enabling it to be claimed that the change was more cosmetic than real, despite the fact that 190,000 people will gain from it.

18. There are two further changes which could be made to the capital limits:

- a. double the lower capital limit to £6,000; or
- b. leave the lower limit at £3,000, but alter the tariff.

Column 3 of the table at Appendix C shows the effect the first of these would have in terms of the implied annual rates of return on capital. It will be seen that these are more realistic than those assumed under the current system, but still rather optimistic at the top end.

19. Column 4 of the same table shows the effect of changing the tariff rate from £1 a week per £250 to £1 a week per £400 in terms of implied annual rates of return. It will be seen that the profile is rather different from that in column 3, and that the results at the top end of the range are more realistic either than those under the current arrangements or those obtained by doubling the capital limits. This option is also cheaper than simply doubling the capital limits. We would expect it to cost about £40 million on community charge benefit, and about £30 million in housing benefit. Additional costs on family credit and income support would be negligible.

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CONCLUSION

20. If changes to the community charge benefit are sought, it is recommended that these should be:

- an increase in the earnings disregard to £20 for a couple and £10 for a single person; or, as an alternative if this is felt to have undesirable implications for other benefits;
- the introduction of a differential taper to extend rebates further up the income scale without bringing excessive uncovanted improvements to the position of those who already receive significant protection; and
- a change in the rate at which capital is assumed to generate income from £1 per £250 to £1 per £400.

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Department of the Environment

23 April 1990

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COMMUNITY CHARGE BENEFIT: APPLICABLE AMOUNTS AND EARNINGS DISREGARDS

Case ---1---	Applicable amount ----2----	Earnings disregard ----3----	Threshold* ----4----
Single under 25	£28.80	£5	£33.80
Single over 25	£36.70	£5	£41.70
Couple no children	£57.60	£10	£67.60
Couple 2 children under 11	£89.65	£10	£99.65
Single pensioner	£48.50	-	£48.50
Pensioner couple	£75.55	-	£75.55

*The threshold is the level of net weekly income at which community charge benefit begins to reduce from the maximum.

Appendix B to Annex B

NET INCOME AT WHICH ENTITLEMENT TO COMMUNITY CHARGE BENEFIT CEASES

(£ per week)

Community Charge	Single under 25	Single over 25	Couple 2 children under 11	Single Pensioner	Pensioner Couple
£200	£50.92	£58.82	£137.23	£65.92	£113.13
£250	£56.03	£63.93	£147.46	£70.73	£123.36
£278	£58.90	£66.80	£153.19	£73.60	£129.09
£300	£61.15	£69.05	£157.69	£76.15	£133.59
£350	£66.27	£74.17	£167.91	£80.97	£143.81
£400	£71.38	£79.28	£178.14	£86.08	£154.04
£450	£76.49	£84.39	£188.37	£91.19	£164.27
£500	£81.61	£89.51	£198.60	£96.31	£174.50

Notes

The figures are based on 1990-91 benefit levels, which were announced by the Secretary of State for Social Security on 25 October 1989.

Net income in the case of the married couple with two children is not equivalent to net earnings. For the purposes of community charge benefit net income includes both child benefit and family credit. Net earnings will therefore be lower than the figures shown.

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ANNUAL RATE OF RETURN IMPLIED BY TARIFF INCOME AT DIFFERENT LEVELS OF CAPITAL

Capital -----1-----	Implied rate of return (current arrangements) -----2-----	Implied rate of return (lower limit £6,000) -----3-----	Implied rate of return (deduction of £1 per £400) -----4-----
£3,250	1.6%	No tariff deduction	1.6%
£4,000	5.2%	No tariff deduction	3.3%
£5,000	8.3%	No tariff deduction	5.2%
£6,000	10.4%	No tariff deduction	6.5%
£7,000	11.9%	2.9%	7.4%
£8,000	13.0%	5.2%	8.1%
£9,000	13.9%	6.9%	8.7%
£10,000	14.6%	8.3%	9.1%
£11,000	15.1%	9.5%	9.5%
£12,000	15.6%	10.4%	9.8%
£13,000	16.0%	11.2%	10.0%
£14,000	16.3%	11.9%	10.2%
£15,000	16.6%	12.5%	10.4%
£16,000	16.9%	13.0%	10.6%

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THE STANDARD COMMUNITY CHARGE

1. This paper considers whether changes could be made to the standard community charge in order to improve its perceived fairness.

BACKGROUND

2. The standard community charge was originally intended to reflect the fact that the owners of unoccupied domestic property benefited from local services, and ought, therefore to make some contribution towards their cost. It was aimed particularly at those who had second homes. The legislation, however, makes no reference to second homes: the charge is levied on domestic property which is not used as a sole or main residence. This, of course, goes rather wider than second homes, and a number of cases have been identified where it could be argued that the charge has gone further than may have been intended.

3. The amount of the standard charge is linked to the level of an authority's personal community charge by the application of one of five multipliers (0, $\frac{1}{2}$, 1, $1\frac{1}{2}$ and 2). This means that the charge can range from nothing at all to twice the personal community charge. The maximum of twice the personal charge was chosen since that was the amount a charging authority might expect to be able to raise from an average occupied domestic property.

3. Cases which have been identified as anomalies include:

a. elderly people who have subdivided their house into self contained units for rent, but who no longer rent any part of the property. They live in one of the units themselves. Because the Act defines each self contained unit as separate domestic premises, an elderly person living in his or her own property can be liable not only for the personal community charge, but also for a standard community charge on each of the other units;

b. flats over business premises which have no access except via the premises and which are the subject of covenants preventing occupation except by persons connected with the business;

c. retirement homes purchased by people who are required, as a condition of their employment, to live at their place of work (typically teachers at boarding schools, the clergy and licensed house managers);

d. mature students who own their own homes. Their student status entitles them to an 80% reduction in their personal community charge; but the special residence rule which applies to students deems them to be solely or mainly resident in the area where they live while attending the course, even during the vacation. This means that a student can be liable to a standard charge on his house even when he is, in fact, occupying it as his sole or main residence;

e. prisoners, who are exempt from the personal charge on the grounds that they have no vote and no means to pay the charge, but who are liable for a standard charge on their home, if it is unoccupied during their sentence.

f. people who inherit property but who, in areas where the housing market is slow, have difficulty in selling it. Currently there is a statutory period of three months after the grant of probate or letters of administration during which the charge must be zero. After this local authorities may levy the charge at any rate up to the maximum;

4. The solution to some of these problems (though probably not (a)) is already in the hands of local authorities, who have discretion both in setting the level of the charge and in defining the classes of property which will be subject to it. Authorities in England were

under no direct pressure to set any particular level of standard community charge, since the RSG settlement made no assumptions about revenue from that source. Authorities, however, cannot now make any changes in the way in which they have exercised their discretion in respect of 1990-91, since the deadline for setting classes and specifying multipliers for this year was 1 April. There is also some legal doubt as to whether the power in the Act allows local authorities to make any changes at all after 1990; but if this is the case it is the result of a drafting error which will have to be put right.

5. In addition to the flexibility available to authorities in setting classes and multipliers the Secretary of State has a power to define maximum multipliers for certain classes of property. This power must, however, be exercised before 1 January if the classes so specified are to have effect in the following financial year. Certain classes have been specified, but they do not cover the situations listed in paragraph 3 above.

6. The Department will be collecting detailed information of the way in which local authorities have implemented the standard charge; but this will not be available for a month or so. In the meantime anecdotal evidence suggests a wide variety of approaches in different areas.

7. DOE Ministers have said recently that they will be monitoring the use made by local authorities of their discretion in 1990-91 with a view to considering whether further central prescription of classes is necessary in 1991-92 (press notice at Appendix A).

SCOPE FOR ACTION

8. Ministers have already announced publicly that they will be considering whether changes are necessary in 1991-92. Any changes earlier than this would need primary legislation. This will be needed

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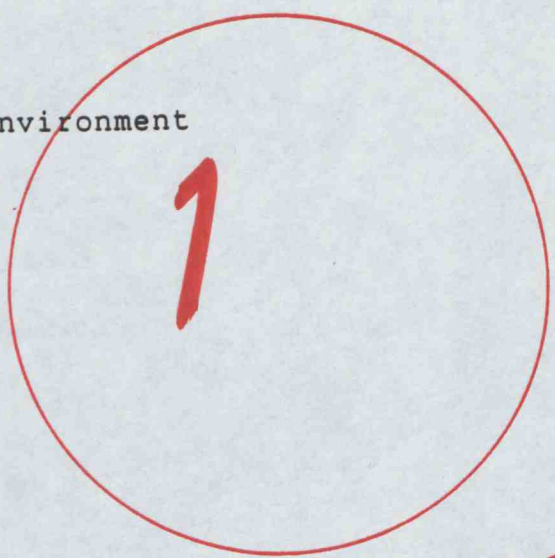
in any event if the possible legal difficulty mentioned in paragraph 4 above proves to be real; but the effect of making in-year changes to community charge classes and multipliers would involve local authorities in recalculation of charges, rebilling and refunding of overpaid standard charge. It could also have a wider effect on their finances, since income sources on which they had relied in setting their their budgets would be reduced.

9. It is recommended, therefore, that Ministers adhere to the plans announced by Mr Hunt on 21 March, and reserve any package of improvements to the standard charge for 1991-92.

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Department of the Environment

23 April 1990



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ENVIRONMENT

NEWS RELEASE

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21 March 1990

DAVID HUNT EXPRESSES CONCERN OVER STANDARD COMMUNITY CHARGE LEVELS

There is increasing evidence to show that local authorities are not making enough use of the discretion that they have been given to set lower levels of Standard Community Charge in cases of need, David Hunt, Local Government Minister said today.

Mr Hunt said that local authorities were already required not to levy a standard charge for at least 12 months for properties which are empty because someone has moved out in order to take care of someone living elsewhere or because someone has moved elsewhere in order to be cared for.

He had also provided that properties vacant because of the death of the owner shall not give rise to a standard charge until at least three months after probate or letters of administration have been obtained. He had also given local authorities discretion to extend these periods for as long as they wish.

Mr Hunt is concerned that some local authorities have not yet made sufficient use of these power. He will be monitoring this carefully over the next few months to see if changes are needed for 1991/92.

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In answer to a written Parliamentary Question from James Couchman MP (Gillingham), Mr Hunt said:

"The standard community charge applies where domestic property is not used as a sole or main residence. Charging authorities may levy the standard charge by applying one of a choice of five multipliers (either 0, $\frac{1}{2}$, 1, $1\frac{1}{2}$ or 2) to their personal community charge. However, different multipliers may be applied for certain prescribed or specified classes of property.

"We have prescribed that no standard charge will be payable for the classes of property listed in table one below. We have also prescribed that for the classes of property listed in table two below the standard community charge multiplier may not exceed one. These provisions will ensure that in an important number of cases either total or partial relief is guaranteed. In particular, no charge is payable for up to three months on property which is unoccupied and unfurnished (for example because it is for sale); until three months after probate where a property is vacant because of the death of the owner; and for up to 12 months where a property is empty because the occupier has moved elsewhere either to care for another person or to be cared for by another person.

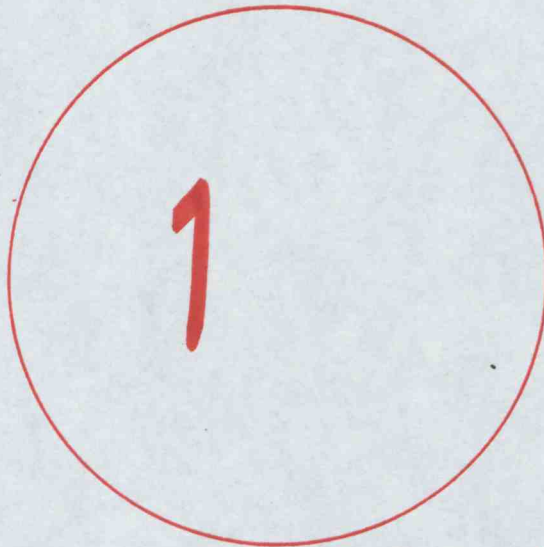
"Charging authorities may also set different standard community charge multipliers for classes of property specified by reference to one or more of the factors listed in table three below. This for instance allows authorities the discretion to extend the periods of total relief applying to any class of property prescribed by the Secretary of State, and the discretion to take account of special circumstances, for example where properties give rise to the standard charge because the owner is required to live elsewhere in tied accommodation as a condition of his or her employment. My Department has given advice to local authorities on the scope and exercise of the discretion.

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"I understand that many authorities have already made good use of these provisions. However, I am concerned that other authorities have not chosen to make reasonable use of the discretion available to them. We will be monitoring local authority practice closely in the first months of the next financial year and, if necessary, we will have to consider further prescription by the Secretary of State for 1991/92.

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TABLE 1 : TYPES OF PROPERTY FOR WHICH THE GOVERNMENT HAS SPECIFIED A MAXIMUM STANDARD CHARGE OF 0

"Unoccupied and unfurnished property requiring structural repair work to render it habitable, including unoccupied property with respect to which less than six months have elapsed since the day on which the work was completed.

"Newly built unoccupied and unfurnished property or property which is being structurally altered, including property in respect of which less than six months have elapsed since the day on which the works were complete.

"Unoccupied and unfurnished property in respect of which less than three months have elapsed since the date it was last occupied.

"Property which has been empty for less than 12 months because the owner is living in a hospital or residential care home.

"Property which has become vacant on death and in respect of which either probate or letters of administration has been obtained or less than three months have elapsed since grant of probate or letters of administration.

"Property whose occupation is prohibited by law.

"Empty vicarages pending the arrival of the new incumbent.

"Properties which have been empty for less than 12 months because the owner has gone to be cared for in someone's home or the carer has left their own home empty to care for someone else.

TABLE 2 : TYPES OF PROPERTY FOR WHICH THE GOVERNMENT HAS
PRESCRIBED A MAXIMUM MULTIPLIER OF 1

Caravans (that is, mobile homes on protected sites).

Property which may not be occupied throughout the year
because of local planning conditions imposed on it.

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TABLE 3 : FACTORS WHICH CHARGING AUTHORITIES MAY TAKE INTO ACCOUNT IN SPECIFYING STANDARD COMMUNITY CHARGE CLASSES

"The use to which properties are put or intended to be put.

"Whether properties are occupied.

"The period for which properties have been unoccupied.

"The circumstances, other than financial circumstances, of persons subject to standard charges.

"The capacity in which persons are subject to standard charges.

"Whether properties fall within a class prescribed by the Secretary of State.

"The periods for which unoccupied properties have previously been occupied.

"The periods for which properties would have been unoccupied if all or some periods of occupation were treated as periods during which the properties were unoccupied.

"In the case of properties comprised in a deceased's estate, the period which has elapsed since a grant of probate or of letters of administration was made.

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NOTES TO EDITORS

The Secretary of State for the Environment has the power to require by regulations that a multiplier for a prescribed class of property may not exceed either 0, $\frac{1}{2}$, 1, $1\frac{1}{2}$, or 2. The prescribed classes which are currently in force are laid out in regulation 62 of The Community Charges (Administration and Enforcement) Regulations 1989 as amended by The Community Charges (Miscellaneous Provisions) (No. 2) Regulations 1989.

In addition local authorities may specify different multipliers for different classes of property. This must be done by reference to one or more of a number of factors set out in subsection 11 of the Local Government Finance Act 1988 (inserted by Schedule 5 to the Local Government and Housing Act 1989, amended by The Standard Community Charge (Multipliers) Order 1990). The Department has given advice to authorities on the scope and use of their discretion. In particular this allows for special provision to be made to extend the periods of total relief which are prescribed by the Secretary of State or to take account of a person's circumstances, other than financial circumstances, such as whether he or she is obliged to live elsewhere as a condition of employment. This might include teachers and people who live in tied property.

Press Enquiries: 01 276 0910
(Out of Hours: 01 276 4120)
Public Enquiries: 01 276 3000
(Ask for Public Enquiries Unit)

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INFLUENCING EXPENDITURE

Introduction

1. In 1990/91 local authorities have budgeted to raise about £3bn more income than the Government's view of the amount needed to provide an appropriate level of service. They have increased the amount of revenue they raise by about 17% between years (allowing for changes in function) and are planning to spend about 14½% more than in 1989/90. 339 authorities out of 419 have set precepts or demands which are above their standard spending assessments (SSAs) and 390 are above their spending assumption used to calculate the safety net and transitional relief. The average charge is £363 rather than £278 consistent with the Government's view of the appropriate level of spending for 1990/91.

2. This note considers a scheme designed to allow the Government to increase grant support without it leaking into higher spending and at the same time, through a system of incentives and expenditure limitation, provide a framework within which spending by individual local authorities may be brought broadly into line with their SSAs over a 5 year period. At the end of those 5 years it might leave a margin of about 5% by which authorities could spend above SSA. It would leave authorities with freedom of budgeting where spending was below that level. But in the earlier years of the scheme larger margins of spending freedom above SSA would be allowed with the limits gradually tightened.

3. This paper considers a framework which would:

- set target level of precept or demand for each individual authority. This is needed for the subsequent framework of incentives and, possibly, capping but is unlikely to do anything on its own to influence spending. The target would initially be based on their spending in 1990/91 and its relationship to SSA for 1991/92. For low spending authorities

the target would be set at SSA. For high spending authorities the target would start below 1990/91 spending adjusted for growth and be tightened from year to year so that it converged on SSA over perhaps five years. The paper notes some difficulties of fitting parishes into this system;

- offer incentive payments for authorities which spent below, at or just above their target. These incentive payments would be designed to reduce charges in their area and would be shown on the charge bill as resulting from a particular authority's achievements. The incentive payment for reaching target might be £50 per adult split between tiers. This could cost up to £2bn if authorities met their targets but might be financed by a transfer from AEF;

- the framework of targets and incentives would be strengthened by enforced capping powers for authorities which exceed target or SSA. These would include the ability to keep authorities within the scope of capping for several years until their expenditure reduced sufficiently.

4. In this note, the framework is developed in terms of expenditure targets for individual authorities. An alternative would be to set target charges for each area. But this would not bear directly on the spending of each individual authority. In most shire areas charges are the result of spending by two authorities and three authorities in the metropolitan areas and London. In a system which set target charges it would not be clear which authority was responsible for overshooting the target and savings by one tier could be offset by spending increases for the other.

The targets

5. The framework developed on this annex needs to construct a set of targets which would form the basis of an incentive scheme and might be interwoven into the criteria for capping and the levels of caps. But targets on their own can be expected to

have little or no effect on the level of local authority spending in aggregate or by individual authorities. Experience with SSAs and this year's expenditure assumptions shows that indicative figures for appropriate levels of spending have little influence on the levels which authorities choose. So targets would simply define what we think is achievable by individual local authorities as part of a phased reduction in spending towards SSA and form the basis of an incentive scheme. They have no value on their own.

6. In order to be achievable, targets for 1991/92 will need to be based on budgeted spending in 1990/91. This is because there are limits to the spending reductions which authorities can make from year to year, arising from their statutory and contractual obligations. It is not possible for all authorities to simply reduce their spending to, say, 5% above SSA in one year.

7. The use of expenditure, rather than precepts or demands, is suggested for the first year of the system because some authorities [including Wandsworth] will have made drawings from balances in 1990/91 which they will be unable to repeat in 1991/92. For some, the drawings are so large that any other approach would make targets unachievable. This is particularly important as the scheme envisaged here would base targets for 1992/93 and later years on the targets set for 1991/92. So any underestimate of spending for individual authorities made for 1991/92 would also carry through into later years. Conversely to base on precepts or demands the targets for those authorities which have made explicit contributions to balances would give those authorities over-generous targets for 1991/92 and later years.

8. Although targets would be based on 1990/91 spending the comparison for incentive purposes would be between target and precepts or demands - the amount of income each authority raises. Authorities would continue to be free to use balances and in particular to use them to achieve their target. This would be

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consistent with the whole operation of the Community Charge system which, unlike the old block grant system, contains no definition of expenditure for individual authorities.

9. In general terms the 1991/92 target for an authority spending above SSA would be set as:

- (a) its 1990/91 expenditure; plus
- (b) an allowance for year to year growth; less
- (c) a reduction to move target spending towards SSA.

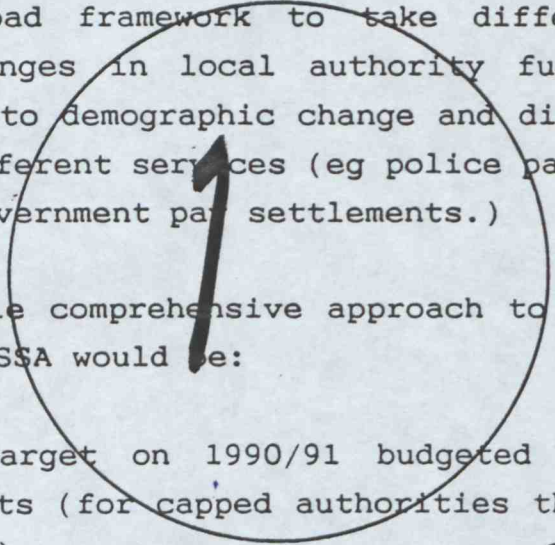
10. In later years there would be a similar calculation except that at (a) the basis of the target for the current year would be the target for the previous year. The reductions at (c) would be based on the relationship of previous years' target to SSA.

11. There are a number of possible ways of setting targets within this broad framework to take different approaches to issues like changes in local authority functions, changes in expenditure due to demographic change and differential increases in costs for different services (eg police pay awards larger than average local government pay settlements.)

12. One possible comprehensive approach to targets for 1991/92 for those above SSA would be:

- (a) base target on 1990/91 budgeted expenditure net of specific grants (for capped authorities this would be budgets after capping);
- (b) increase for all authorities by a common percentage calculated as the aggregate percentage increase between 1990/91 budgets and 1991/92 SSAs;

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(c) adjust by the percentage (or amount per head) by which each authority's 1991/92 SSA is above or below its 1990/91 SSA rescaled on a common percentage basis to the 1991/92 total of SSAs. This single adjustment would be designed to encapsulate all the differential effects on costs mentioned at paragraph 10. Changes in SSAs take account of changes in the balance of expenditure between services, the effect of demographic change and the effect of new functions affecting particular types of authority;

(d) reduce the resulting figure by £2 per adult for each £10 per adult that the result of the calculation at (c) exceeded the 1991/92 SSA, as the first stage of convergence on SSA over a five year period. This approach effectively assumes that the higher an authority's spending is above SSA, the greater its capacity to reduce spending.

13. A variation of (d) would be to reduce the target more steeply where the figure was more than £100 an adult above SSA. Thus the target might be reduced by £2 per £10 up to £100 above SSA and £4 per £10 above that. An authority with a target £200 above SSA at (c) would then have to make a reduction of £60 rather than £40 per adult. Another possibility, which would assume equal capacity to reduce spending would, be to require the same reduction in £ per adult for all authorities in a class, so long as that did not take them below SSA. This would give a longer period of convergence on SSA for the highest spenders and rapid convergence for those spending close to SSA. Flat rate and graduated reductions could be combined as, for example, £20 plus £2 for each £10 more than £100 above SSA.

14. Any such system is rather complex. A much simpler system would be to set the 1991/92 target a fixed amount, perhaps 5% or £50 per head - above SSA. But this would take account of the starting position and would be likely to imply unacceptable year on year reductions in expenditure for some authorities. The

system at paragraph 12 would produce achievable targets which moved over several years towards SSA so that after 4 years targets would be close to SSA for everyone.

15. The authority's target for 1992/93 would be calculated as:

(a) its 1991/92 target adjusted as at 11(b) and (c) for inflation and differential changes in cost, although for authorities capped in 1991/92 their cap might replace their target in this calculation (see para 42);

(b) reduced by £2.50 per adult for each £10 per adult that target at (a) was above SSA - the scale of this adjustment has to increase from year to year in order to converge on SSA within 5 years;

(c) possibly further adjusted to slightly relax the target for those authorities which achieved their 1991/92 target.

16. It is important that targets for 1992/93 and later years should be based on earlier targets. If they were based on the previous years' spending then authorities would have an incentive to spend up in one year in order to get a higher target in the next year. If a system of incentives is also part of the framework then they could have an incentive to spend up in one year to earn a bigger incentive payment the next.

17. The system of targets described above applies only to those above SSA. There are two possible approaches for authorities spending below SSA. Targets could either be set to converge from present levels of spending up towards SSA over a number of years, or they could be set at SSA from the start of the system.

18. The main argument for the second approach, which would give each authority a target of at least its SSA, is that the SSA represents the cost of providing the standard level of service which the Government thinks appropriate for the year in question. To set targets below this level would imply that the Government

intended those authorities to provide a standard of service below that which it generally thought appropriate. This would probably be a persuasive argument should an authority challenge its target. In the past, the setting of targets below GRE has been one of the issues which has led to the greatest controversy and setting them below SSA in this new system could be expected to generate an exceptional degree of opposition amongst the Government's supporters.

19. The counter arguments are practical. Firstly a level of expenditure below SSA does not necessarily imply a lower standard of service. The calculations of the cost of a common standard of service implicitly assume that all authorities have a similar level of efficiency. Some authorities may spend below their SSA because they provide their services more efficiently and it might not be considered right that targets should encourage these authorities to provide services less efficiently or to increase their services at the existing level of efficiency. It is clear that a number of previously low spending authorities chose to spend up to, or even above, SSA this year because their SSA was to be shown on the community charge bill. Issuing targets might give similar incentives.

20. Secondly allowing authorities to move their spending up to SSA pushes up the aggregate of spending achievable in any year (assuming authorities spend up to target). The extent to which this gives headroom for spending depends very much on how close SSAs in aggregate are to local authority spending plans. In 1990/91 few major authorities have budgeted to spend below SSA. If all of those below SSA spent up to SSA it would add about £115m to spending overall. But on the settlement spending assumptions (which might be taken as a proxy for 1990/91 targets) SSAs in those authorities which were assumed to spend below SSA were £1bn above the spending assumption.

21. The question of whether targets should be below SSA will be particularly acute in 1991/92. A considerable number of authorities which are budgeting to spend above SSA in 1990/91 would have targets below 1991/92 SSA on the basis described in paragraph 11 if 1991/92 SSAs are increased in recognition of actual 1990/91 aggregate spending. This would imply that these authorities were expected to move from spending above SSA to below SSA, a situation which would give rise to presentational difficulties. On balance it seems more appropriate not to set any targets below SSA.

22. Some examples of how this scheme of targets might work in 1991/92 are at Appendix A. The various parameters of the scheme described here are purely illustrative, taking as their objective targets at SSA within 5 years. The reductions in targets have all been described and illustrated in terms of £ per adult adjustments. It would alternatively be possible to make percentage adjustments so that a target might be reduced by 0.2% for every 1% that spending was above SSA. But per adult adjustments are more consistent with the community charge system where £1 per adult of extra spending falls as £1 extra on the community charge.

23. One rather technical, but none-the-less important, consideration in this is the treatment of parish precepts. SSAs for district councils are sufficient to cover all relevant services provided in their area. But in some parts of some districts those services may be provided by parish councils not districts. The target for the district must initially include parish spending because the comparison of spending with SSA when constructing the target must do so. Targets might then be set for parish councils which assume the same percentage change in spending as the average for the district. The sum of parish targets would then be deducted from the district's target. We have never attempted to include parishes in either target or grant systems in the past, but unless we do so now, spending

districts which do not have parishes will claim that they are being less fairly treated than those that do (because the level of service could be higher in districts with parishes whose spending was unrestricted).

Incentives

24. On their own targets would provide signals to local authorities indicating the level of precept or demand which the Government thought appropriate for them. Used only in this way, targets could be expected to have virtually no effect on spending in an area. The 1990/91 assumed charges for transitional relief and the assumed spending figures which underlay them were widely seen as government targets, but there is little evidence that they affected local authority spending plans. To influence expenditure the targets would therefore have to be reinforced by mechanisms which encouraged authorities to spend at or close to their level.

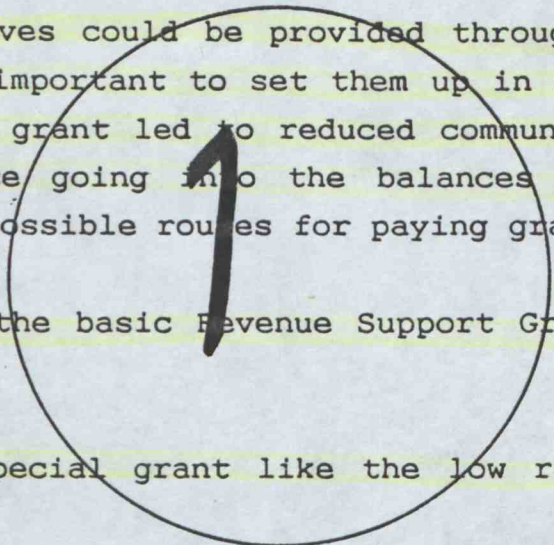
25. The incentives could be provided through the grant system but it would be important to set them up in such a way that the benefit of extra grant led to reduced community charges (rather than for instance going into the balances of the authority). There are three possible routes for paying grant:

- (i) through the basic Revenue Support Grant (RSG) distribution;
- (ii) as a special grant like the low rateable value areas grant;
- (iii) as a grant to pay for reduced bills, like the transitional relief grant.

26. Paying the grant through RSG would have disadvantages. It would relate basic grant to expenditure in a way which the new system was meant to avoid. It would be better to leave the fundamental logic of the RSG system unchanged and present the

This is what an SSA is!

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incentive system clearly as an 'add on'. This would leave in place the top part of the community charge bill which shows comparisons of spending with SSAs and the comparison of the full community charge for the area with the Community Charge for Standard Spending (CCSS - £278 in 1990/91).

27. Paying the incentive grant to the collection fund as either special grant or a grant similar to that for transitional relief would avoid distortions in the RSG system. It would be better than paying special grant directly to individual authorities as the grant could be shown clearly on the community charge bill as a reduction in the charge. It would thus be less likely to leak into allowances or spending. This would also have the advantage that the extra grant could be shown clearly as resulting from spending decisions by a particular authority. So if a district spent at or below its target then a special grant could be shown as 'Grant because District has spent at target' or if paid along transitional relief lines as 'Reduction in your charge because District has spent at target'. This sort of distinction would not be possible within RSG as there is a single payment into the collection fund in respect of spending by all authorities in the area.

28. The mechanism for calculating the grant might be to provide an incentive payment of perhaps £50 per adult if all authorities in an area spent at their target. The basic incentive amount would have to be split between tiers. A basic £50 might be split £10 for the districts and £40 for the county in shire areas (broadly in line with SSA shares). In other areas, it might be split as £40 for metropolitan districts and London boroughs and £5 each for police and fire authorities. This split would be needed so that some incentive payment could be made in areas where one authority achieved its target but the other was above target. If overspending by one authority were allowed to offset underspending by another authority in the same area and cancel

out the incentive payment, then there would be no incentive for the underspending authority to achieve its target because chargepayers in the area could not benefit from its underspending.

29. The incentive payment might be increased for those authorities which spent below their target perhaps by 20p for each £1 per head up to £50 that the authority spent below target. If the £50 limit applied separately to each tier this would give a maximum extra payment of £20 in shire areas, although few districts are likely to be able to spend £50 an adult below target. It is important to have some incentive payment at target otherwise there is no reason for an authority to achieve its target. But if that payment is withdrawn entirely once the target is missed, then there is no incentive for those authorities which cannot be able to come close to target, but not quite

achieve it. Some incentive payment might also be made where authorities spent above, but close to, the target. The incentive payment might be withdrawn at £10 for each £10 per adult that an authority spent above its target. Thus no area could have an incentive payment if its authorities spent more than £50 an adult above target.

30. The size of the incentive payment is a matter for judgement. If every authority achieved its target then the maximum cost of incentive payments of £50 an adult would be about £1.8bn. If every authority spent £50 an adult below its target then the cost could be an extra £700m although in practice the maximum is nearer to £400m as it would be difficult for the minor authorities to spend more than about £10 per adult below target on average. These are very large costs and whether they would be worthwhile depends partly on how they were financed and partly on the reduction in spending brought about by authorities achieving their targets. If in aggregate authorities were planning a 10% increase in spending before targets then their spending would increase by £3.6bn between 1990/91 and 1991/92. If targets were in aggregate 5% above 1990/91 budgets then the saving in spending

if they were achieved would be £1.8bn. This would mean that the planning total had increased by £1.8bn but GGE would have fallen by a similar amount. Charges would be about £100 lower, falling from say £450 to £350 on average, because LA self financed expenditure would fall by both the £1.8bn reduction in GGE and the £1.8bn extra grant. The table below shows amounts of incentive grant and expenditure savings for various levels of spending:

Authorities spend:	Incentive grant (£bn)	Expenditure saving (£bn)	Average charge
At target	1.8	1.8	350
£50 an adult below target	2.2	3.5	290
£25 an adult below target	2.0	2.7	315
£10 below target	1.9	2.1	335
£10 above target	1.6	1.6	360
£25 above target	0.7	0.7	400

31. A cost of £1.8bn in grant might be considered to be a high price to pay for this reduction in GGE. On the other hand average charges would be £100 lower than expected. If part of any extra AEF for 1991/92 were put into incentive payments rather than RSG, then the reduction in spending could potentially be achieved at no cost in extra grant. In this case there would be a £1.8bn reduction in GGE because of the incentives, but no reduction in the planning total. Average charges would only fall by £50 from an anticipated £350 to £300. But the disadvantage of switching AEF is that if authorities did not meet their targets there would be a reduction in grant and average charges would be up to £50 higher than they need have been (£400 instead of £350).

32. An incentive of less than £50, split between tiers in the way described would probably be too small to have much effect on spending - especially for district councils which might not think it worth holding back spending for a reduction in charge of less than £10. A £50 incentive payment is about a 14% discount on the average 1990/91 charge of £363. Each £10 per adult reduction in the size of incentive would save up to £350m.

33. It is not possible to estimate what the effect of these targets and incentives might be for spending in 1991/92. That depends to a large extent on the overall level of the settlement the best pressures on local government and the achievability of targets. On the whole the framework described here might reduce spending by at most £1bn from the level which would otherwise be expected at a cost of a little less than £1bn in grant. But it would be a cost of putting in extra AEF which would be less likely to leak into spending.

34. One matter for further consideration would be the treatment of parishes in the incentive system. Paragraph 21 outlined the general problem of parishes. For the incentive system it would probably be necessary to add together district and parish spending before working out incentive payments which would all be attributed to the district. But this would leave open the possibility of parish spending (over which the district has no control) causing the district to lose an incentive payment. There are no mechanisms for paying grant directly to parishes.

35. This framework would undoubtedly encourage local authorities to try to find new accounting devices which enabled them to achieve targets without affecting spending or to manipulate incentive payments. The incentive system would have to be carefully designed to limit the scope for creative accounting. But it is unlikely that it could be ruled out altogether. If targets in later years were based largely on targets for the previous year then the scope for creative accounting might be less than under some previous systems. Payment of incentives on the basis of precepts or demands, rather than expenditure,

eliminates the opportunity to manipulate expenditure between budget and outturn, or between years. It also avoids the recalculation of entitlements as the year progresses. Provided that targets are set to converge on SSA in a systematic way, accountancy devices which worked for only one year would make it more difficult for the authority to reach its target in the next year. So we would expect the only effective devices to be those which operated over a number of years.

Expenditure Limitation

36. This section describes a system of capping which would be integrated with the target and incentive system. It is similar in some respects to the scheme described in the Secretary of State's covering minute. It would leave him discretion to set the criteria under which authorities came into capping in any one year; to cap user to SSA; and to continue to cap authorities over a run of years. But it also draws on the targets which would underly an incentive system for the setting of caps and possibly for setting the selection criteria.

37. The framework described so far would set a target for each notifiable authority and provide an incentive for authorities to come close to that target, in the form of reduced charges. But local authorities would retain the freedom to set their precepts and demands at any level which they chose. For high spending authorities, meeting targets would effectively involve expenditure reductions in successive years. Although some of those reductions might come from cutting out waste, the majority of the expenditure reductions would have to come from a reduction in the services provided by those authorities. Some authorities would may well choose to carry on with existing service levels rather than securing reductions in charges for their precepts and some may even choose to continue to increase spending.

38. In either circumstance the Government might want powers to limit the expenditure of the worst offenders. There are already capping powers which have been used to cap the spending of 21 authorities in 1990/91. These should yield savings of about £230m in revenue raised by the capped authorities. But the powers have proved to be restricted in the extent to which capping can bring expenditure down towards SSA (a 12½% safety margin over SSA is needed). They also limit capping to authorities with budgets above £15m which means that some large overspenders in percentage or £ per adult terms are exempted from capping. They are also limited to capping authorities in year, for single year.

39. The following paragraphs consider in general terms what sort of powers a cap Minister's might wish to see for the future. They effectively consider a widening of powers to allow capping nearer to SSA to make selection and caps consistent with the framework of targets and incentives discussed above and to allow a programme of expenditure limitation over several years to be set out for authorities selected for capping. The powers envisaged are for 'exemplary' capping and allow Ministers discretion over the selection criteria from year to year in order to limit the number of authorities selected to a manageable level.

40. Within the framework of targets and incentives, in any one year each authority would effectively have a long term target for expenditure (its SSA) and a specific target for the current/next financial year which would converge in successive years to SSA. Each authority would have a margin above the target for the current year within which it would be eligible for an incentive payment. At the core of the capping process described below is an assumption that the current year target for an authority was considered an achievable level of expenditure by that authority taking account of its previous years' spending (or target) and changes in circumstances. It could therefore be used as a level

to which an authority's expenditure could be limited. The legislation would need to be drafted to make targets secure in this context.

41. In any financial year two different groups of authorities might be capped. The first group would be those whose expenditure plans brought them into the range of in year capping. The second might be those which had been capped in the previous year. The relationship between the criteria and caps for these two groups would have to be carefully handled.

42. For in-year capping, the Secretary of State could announce criteria after budgets had been set (ie as this year) or he could announce this in advance of the budgeting round. The latter course would commit him to capping however many authorities then qualified and there would be the danger of many authorities budgeting just below the selection criteria. It is not recommended he should set his criteria either in terms of a particular level of spending per adult above SSA or in terms of a particular level of spending above target or a combination of the two. Any criterion relating to spending above target would take the place of the excessive increase criterion. Thus he might decide to cap all authorities in a class spending more than £60 per adult above SSA and more than £20 per adult above target.

43. Having selected authorities he would then, as at present, have to decide on caps. One approach might be to make the cap automatic once selected so that caps were, for instance, always set at target (which is by definition an achievable level of spending) or at some margin above target. It would be very difficult to set a cap below target even if the targets were presented as the minimum achievable level of expenditure reduction in the year. Anything lower than target would be more susceptible to successful challenge. But the cap might be set above target if for instance the target was (in the example) less than £60 above SSA. In that case the cap might be at £60 above SSA.

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44. This element of automatic setting of caps would greatly simplify the present administrative process where budgets have to be examined in detail in order to set the level of the cap. But any such capping scheme would need to retain a power of derogation so that he could relax a cap if the authority could make a case that the target could not be achieved (during a 28 day period before the cap became final). The capping process would remain highly intensive in its use of skilled resources during that period.

45. In successive years the targets would move closer to SSA so the criteria for capping would also become tighter.

46. An important feature of capping within this framework is that if caps were set at or close to targets, capped authorities would be brought within the range of incentive payments, despite the incentive having had no effect. But this would probably have presentational advantages. The capping process would not only reduce charges for residents of the capped authority on a £ for £ basis but give them a 'bonus' charge reduction as well.

47. The expenditure limit could be set in advance of the financial year for those authorities which had been capped previously. So, for instance, in perhaps January 1992 it would be possible to set 1992/93 expenditure limits for those authorities that had been capped in 1991/92. For these authorities, targets would be set as the 1991/92 capped level of income uprated for authority's change in SSA (see paragraphs 11 and 12) and then adjusted downwards on the same scale as all other authorities. The expenditure limit would be set equal to the authority's target unless that target was within some pre-specified range above SSA - perhaps £50 an authority or 5% in which case the authority would cease to be capped in that year, although it could again become subject to in-year capping.

48. Automatically capping those authorities which had been capped the previous year would be a way of introducing multi-year capping. An authority would know from year to year that as long as its target was above the threshold level, its expenditure would continue to be limited. This approach would also allow

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capping for pre-selected authorities to take place on a more relaxed timetable. They could put a case to the Secretary of State in the course of one financial year as to why their cap in the next year should not be based on the general principles of targets. Since their expenditure limits would be set in advance those authorities would not face the extra costs of re-billing associated with in-year capping.

49. It is assumed here that different criteria for capping might be set for different classes of authority. Thus shire counties, metropolitan districts and London boroughs might be capped if they spent more than £60 per adult above SSA but shire districts and other minor authorities if they spent more than £20 per adult above SSA. Authorities could be subject to capping whatever their absolute level of spending (ie the £15m threshold would be dropped) because even those below this threshold can have a large effect on charges, but there might be an expenditure threshold of perhaps £90 an adult (the average SSA for shire districts) below which no authority could be capped. This would effectively leave out of capping those authorities whose expenditure decisions have relatively little effect on charges.

50. This is very much a general description of a basis for capping to fit in with the general targets and incentives framework. there are many points at which difficult legislation would be needed [in particular SSAs at present have no statutory basis but if capping were to work to a level much closer to SSA, robust legislation on SSAs might be needed].

Department of the Environment

23 April 1990

DOC733LB

EXAMPLES - SHIRE COUNTIES

	A	B	C
<u>1990/91</u>			
(a) SSA (£m)	245	770	445
(b) Precept (£m)	285	760	480
(c) Spending (£m)	285	755	485
(d) Overspend (£m)	40	-15	40
<u>1991/92</u>			
(e) SSA (£m)	295	900	510
(f) Differential SSA change (£m)	+7	-5	-13
(g) Spending uprated by 5% (£m)	299	793	509
(h) Expenditure projection (f+g)(£m)	306	788	496
(i) Projected overspend (£m)	11	-112	-14
(j) Projected overspend (£ per adult)	+28		
(k) Reduction in target due to overspend (£m)	-6		
(l) Target (£m)	304	900	510
(m) % increase on 1990/91 spending	6.7	19.2	5.2
(n) % increase on 1990/91 precept	6.7	18.4	6.3
Relevant population	390	1150	780

Notes (e) SSA uprated by approx 17.5%.

(k) Target reduced by £2 per £10 up to £100 above SSA, then £4 per £10.

NB: Although authority A is projected to overspend SSA, it has a larger than average target increase because its SSA has increased more quickly than average. Although authority C overspent in 1990/91, the projected increase in SSA for 1991/92 makes it an underspender for the target calculations.

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EXAMPLES - LONDON BOROUGHES

	A	B	C
<u>1990/91</u>			
(a) SSA (£m)	170	200	190
(b) Demand (£m)	210	210	180
(c) Spending (£m)	210	240	190
(d) Overspend (£m)	40	40	0
<u>1991/92</u>			
(e) SSA (£m)	200	230	230
(f) Differential SSA change (£m)	0	-5	+6
(g) Spending increased by 5% (£m)	220	252	200
(h) Expenditure projection (f+g) (£m)	220	247	206
(i) Projected overspend (£m)	20	17	-26
(j) Projected overspend (£ per adult)	118	81	
(k) Reduction in target due to overspend (£ per adult)	-27	-16	
(l) Target (£m)	215	244	230
(m) % increase on 1990/91 spending	2.6	1.7	21.0
(n) % increase in 1990/91 demand	2.6	16.2	27.8
Relevant population ('000)	170	210	240

Notes (e) SSA updated by approx 17.5.

(k) Target reduced by £2 per £10 up to £100 above SSA, then £4 per £10.

NB: Although authority B is projected to overspend less than authority A, it has a smaller target increase as its SSA increases less than average.

MANPOWER CONTROLS

1. This paper considers whether manpower targets could form part of any system of controlling local authority expenditure.
2. Information on local authority manpower is available from two sources:
 - a. the quarterly statistics which local authorities have a statutory duty to publish; and
 - b. the Joint Staffing Watch (JSW) (formerly the Joint Manpower Watch).
3. The JSW is a group comprising the local authority associations and the Department, serviced by the Local Authority Conditions of Service Advisory Board (LACSAB). It collects statistics on local authority manpower on a quarterly basis and publishes summary information. The statistics are gathered from local authorities on a voluntary basis as an indicator of trends in local authority expenditure.
4. There are problems in using the JSW statistics to provide anything more than a general indication of trends:
 - a. the survey collects numbers of staff showing full-time and part-time separately. "Part time" means anyone working less than 30 hours a week, and "full-time" means anyone working more than that amount. This does not give a precise measure of labour inputs or allow meaningful comparisons over time or between authorities. At the overall class and service level the

numbers are converted using general factors to full time equivalents to allow broad comparisons to be made;

b. because the survey is voluntary not all authorities submit returns to LACSAB. Failure to make a return is more likely to be due to the low priority of the exercise rather than any hostility towards it;

c. probably because of fears that the Department may use the information to introduce manpower controls, one authority (Southwark) does not allow LACSAB to pass any information from the survey to the Department; and the Association of County Councils has vetoed the provision to the Department of anything other than the totals for each county.

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RECENT TRENDS IN LOCAL AUTHORITY STAFFING

5. Using the statistics which have been converted to full time equivalents it is possible to identify an overall reduction in local authority staff since 1978. Appendix B shows this graphically. It will be seen that in the early 1980s there was a sharp fall, which has now halted, and to some extent reversed.

6. It is not possible to draw general conclusions about the performance and efficiency of local government overall from looking at changes in staffing figures in isolation, because local authority functions do not remain constant from year to year. An example of this is shown in the graph at Appendix A, which shows the number of full time equivalents in post for each December from 1979 to 1989. The graph shows an absolute drop in manpower in the year from December 1988 to 1989. But this is due only to the fact that in that year polytechnics were moved out of the local authority sector. If this change is ignored the graph shows an underlying increase in the

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figures in that year (shown by the dotted line). Additional functions, such as the implementation of the community charge, will result in increases in staff which also need to be adjusted out in looking at year to year trends. Comparisons cannot be made in the case of individual authorities, as opposed to the aggregate across all authorities, because full time equivalents are not available, and there is the added complication that changes in staff numbers over time may reflect local recruitment conditions more than deliberate planning decisions.

STAFFING TARGETS

7. There are a number of approaches to setting manpower targets. One would be simply to take a snapshot of the numbers of local authority staff at a particular point in time and to specify a percentage decrease to be achieved by authorities. This would, however, be a difficult path to follow. Every authority would have a number of different factors affecting its manpower total at the point when the snapshot was taken, and the result of this crude approach could be to penalise authorities which had already made serious efforts to reduce manpower, or which had a great many vacancies. An authority which had contracted out a number of services, for example, could be worse affected by a target based on a simple percentage reduction than an authority which contracted out very little and employed a lot of staff. An authority which had low manpower because of abnormally high vacancies (in teaching, for example) could find its position made even more difficult. Studies in 1987 showed that the national average vacancy rate was 10% (16.2% in London).

8. No suitable snapshot is currently available on which such an exercise could be based. Providing one would entail a detailed survey of local government manpower, the rules for which would have to be carefully devised (so as to provide, for example, an appropriate method of arriving at full time equivalents). This would involve detailed discussions and consultations with the local authority associations.

9. Great care would also be needed in selecting the point at which the initial snapshot is taken. Local authority staffing is affected by seasonal factors (supply teachers, for example, will not be on the books during the summer holidays, while authorities in resort areas will have extra staff in post from Easter, which could give a high count for some authorities in the second quarter (calendar year). And following the initial snapshot it would be necessary to establish monitoring procedures. This might require more than simply looking at local authorities' performance at a particular point in time. Seasonality will affect the count at different times of the year; and there would be scope for manipulation of the system by authorities, by, for example, careful timing of taking on and discarding casuals.

10. It is clear, therefore, that any system of manpower targets would have to be tailored closely to individual authorities' circumstances, taking into account not just numbers of staff in post, but also vacancies on its complement, its seasonal staffing pattern, what progress had been made in contracting out services, local recruitment difficulties, pattern of casual recruitment and so on. It would also be necessary to arrive at some sort of judgment of the number of staff appropriate to carry out the local authority's functions in the light of its policy on contracting out and other factors.

11. Such an exercise would resemble community charge capping, where, in order to limit expenditure it is necessary to carry out a detailed examination of the authority's books in order to work out a suitable cap. Nor would it simply be a one-off exercise. Targets would have to be changed from year to year to take account of changes in functions (community care and food safety are current examples). The resource implications for the Department would be considerable, particularly if, as would appear to be necessary, local authorities were given an opportunity to make representations and seek derogations on the grounds of their particular circumstances.

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12. In any event, control on staff numbers would not necessarily have a corresponding effect on expenditure, since a smaller number of highly paid staff would not necessarily be any cheaper or efficient than a large number of staff on lower salaries. Without direct control of staff pay and conditions (including, for example, limits on overtime payments) there is no guarantee that simply reducing staff numbers would result in reduced costs. And the need to meet manpower targets could provide incentives to local authorities to adopt methods of service provision which are not the most efficient, simply in order to get the numbers down (contracting out a service which could be better provided in-house, for example).

13. There is also the danger that general staffing limits could be used by local authorities to make cuts in politically sensitive areas. There is evidence that capped authorities are at present encouraging talk of teacher redundancies to put capping in a bad light. If part of the Government's strategy for expenditure limitation were aimed directly at staff numbers, authorities would be able to claim that that they were being denied the opportunity to make equivalent savings through (say) increased efficiency because the Government was insisting on staff cuts. On the other hand, separate staffing targets for individual local authority services would require the Government to make, and to justify, judgments about the relative value of local authority services (as between law & order and education, for example).

CONCLUSION

12. Attempts to limit local authority spending by controlling staff numbers would require the assembly of new data from local authorities followed by very detailed analysis of the position of each individual authority and careful monitoring, with consequent resource implications for the Department. There is no guarantee that simply reducing numbers will have a comparable effect on expenditure, and there is scope for authorities to make highly publicised staff reductions in sensitive areas to put the Government in a bad light.

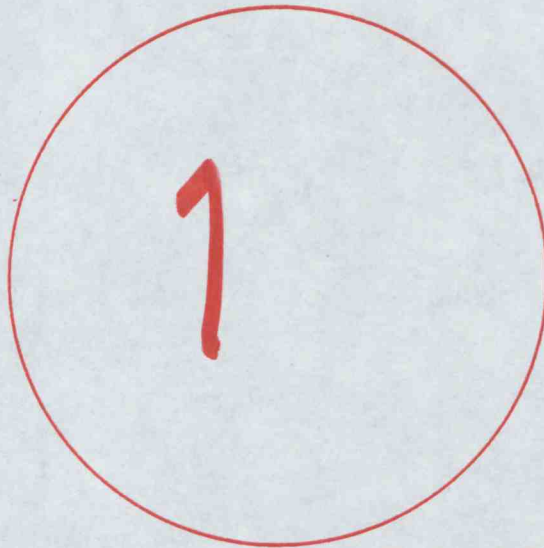
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It is recommended, therefore, that action aimed at limiting local authority expenditure should not be tied to this or any other particular route, but should leave the method by which reductions are achieved to authorities themselves.

Department of the Environment

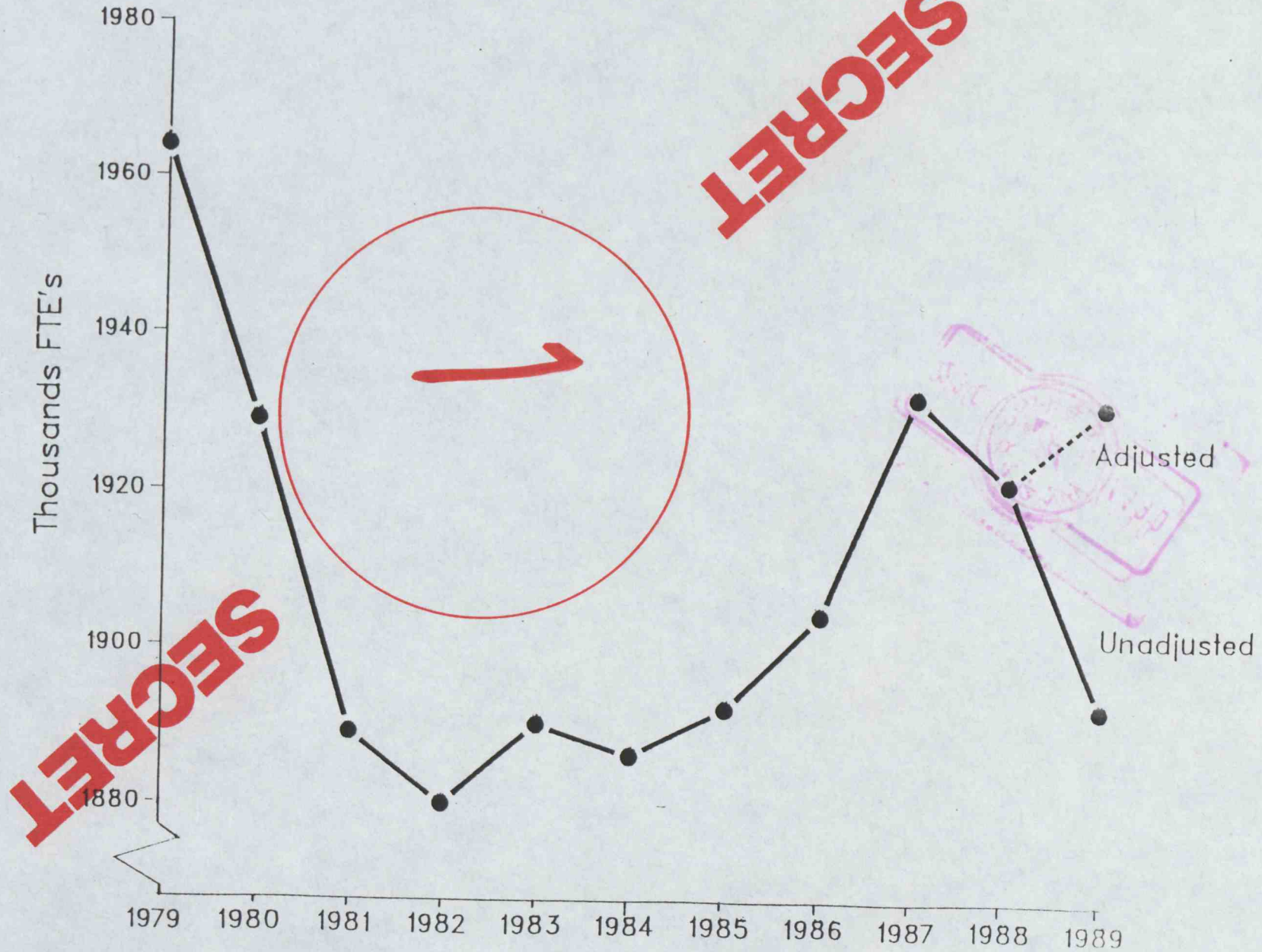
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Total Manpower (FTEs) at December — England



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