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SECRET AND PERSONAL

CABINET OFFICE

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MR. B. POTTER

THE COMMUNITY CHARGE

At the meeting on 26th April the Prime Minister asked that the further work which was needed should be carried out urgently by a group of officials under Cabinet Office chairmanship, reporting to a small group of Ministers chaired by the Chancellor of the Exchequer.

2. I attach a note by the Cabinet Office which sets out the work which officials were asked to do, and which has been discussed and agreed in the Chancellor's Group on that basis. It makes no recommendations however about the way forward on the community charge. Advice on that will be coming forward separately next week from the Ministers concerned.

3. If the Prime Minister is content we will circulate the paper to all members of her group for next Thursday's meeting.

4. I would be grateful if recipients would ensure that the note is seen only by those with a need to do so and that no copies are taken without your authority.

5. I am copying this minute and the attachment to the private secretaries to the Chancellor of the Exchequer, the Secretary of State for the Environment, the Chief Secretary, Treasury, and the Minister for Local Government and to John Mills (Policy Unit).

R. T. J. WILSON

11 May 1990

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THE COMMUNITY CHARGE

Note by the Cabinet Office

Following the Prime Minister's meeting on 26 April, we were asked to co-ordinate further work on the community charge.

2. This work is set out in the annexes attached to this paper which have been prepared by the Departments concerned. The main points are summarised below. We have concentrated on developing the options which were identified at the last Ministerial meeting, and have not repeated the arguments about their merits.

Controlling local authority expenditure

3. The main issues which arise in controlling local authority expenditure are political and constitutional. But the work done by officials suggests that it would be feasible, technically and administratively, to operate a system of limits on the income of those local authorities which are large spenders, so as to contain the growth in their expenditure and thus increases in community charges. The advice of the Law Officers is however needed urgently on whether and how the necessary powers could be defined.

4. The main features of such a system are discussed in Annex A. The aim would be to ensure that any increase in central Government support for local authorities was used mainly to reduce charges rather than to increase spending. Such a scheme would place more weight on standard spending assessments (SSAs) as a realistic measure of authorities' need to spend than they have had to bear before, and a system of derogations (see para 14 below) would be complex and require a considerable number of suitably qualified staff in DOE.

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Coverage

5. The system would apply primarily to the 107 authorities which are shire counties, metropolitan districts and London boroughs. Between them they are responsible for 88 per cent of net revenue expenditure of local authorities in 1990-91. The annex also proposes that income limits should extend to cover the larger shire districts which have income of say £150 an adult or more in 1990-91. This would bring in a number of districts where overspends had a large impact on community charges this year: for instance, Harlow, Derwentside and Wear Valley. But the annex proposes that the City of London and the Isles of Scilly should be excluded from the system.

6. This coverage would be broadly comparable with that of the present capping provisions which exclude all authorities with budgets of less than £15 million. Excluding smaller district authorities with income below £150 per head carries some risk that expenditure and charges would be higher than expected. But the aggregate effect is not thought likely to be large, and Ministers may feel that the resource cost on central Government of including them would be disproportionate to the benefits.

7. Ministers are invited to agree that if a system of income limits is adopted it should apply to large spending authorities along these lines.

Limits on income

8. Annex A recommends that technically the limits should apply to income (broadly equivalent to expenditure plus additions to balances). This has the most direct relationship with charges, it would be relatively easy to police and it would be consistent with the approach in the existing community charge legislation. Experience has shown that limits on expenditure alone would be open to creative accounting, more difficult to police and would

have a less direct relationship with charges because of freedom to use balances. Limits on charges themselves are not recommended for a variety of reasons. In particular charges are not set by each tier of local government in England.

9. Ministers are invited to agree that any future work should be based on the concept of limits on income.

Constructing the income limits

10. The aim would be to produce a system of limits which was as simple and formula-based as possible, to reduce the risk of legal challenge.

11. The paper proposes that the starting point for calculating income limits would be the level of spending in 1990-91 for each local authority, plus a general uplift to be determined by Ministers, plus any further adjustment which was necessary to reflect changes in the relative circumstances of the authority (eg because of a change in functions). Where the result of this calculation was above the Standard Spending Assessment (SSA) for an authority, the income limit would be calculated so as to converge towards the SSA over a period of years. In the first year, for example, high spending authorities might be expected to narrow the gap between their uplifted income figures and their SSAs by one-fifth. The paper illustrates a number of mechanisms for convergence. Where the calculation came out at or below the SSA, it would be set at the SSA or a margin above it. Legal advice is being sought inter alia on whether limits would need to be set, say, 5 per cent above the SSA, to reduce the risk of legal challenge.

12. Ministers are invited to decide whether this approach is broadly on the right lines subject to further work on the details and legal advice.

Safety valves

13. One major question is what should happen where a local authority considered that it had an over-riding case for breaching its income limit. It might for instance claim that the income limit could not be achieved without breaching its statutory or contractual obligations either because the limit paid too little regard to these obligations or because of special temporary factors such as special payments falling due or a natural disaster. The paper considers two options, not necessarily exclusive.

14. One possibility would be for the Secretary of State to have a power of derogation, to enable him to relax an income limit where he thought this appropriate. This would however lead to a great increase in workload for central Government, and open up scope for legal challenge, particularly if a large number of local authorities all sought derogations simultaneously for political or tactical reasons. Despite these difficulties some form of power to derogate, tightly defined, would seem essential if the limits are to be set at challenging levels.

15. A second possibility would be to require any local authority which wished to breach its income limit to secure the endorsement of its plans by a majority of chargepayers or electors in a referendum. This approach would preserve the concept of accountability which underlies the community charge, alongside the introduction of income limits. It could deal with the problem of mass applications to the Secretary of State to exercise his power to relax income limits: authorities would have to apply to their chargepayers instead. There would, however, be constitutional and practical implications about which the Home Office would need to be consulted. A power to derogate would probably still be needed to deal with unforeseen situations (eg disasters) but it could if desired be much more limited.

16. Ministers are invited to decide whether further work should be done on the power to derogate and on the possibility of referenda.

Duration

17. A further question is whether the scheme should be transitional or permanent. The paper recommends that it should be transitional and last for five years. The argument would be that this would cover the period of transition for the community charge while the safety net, the ILEA grant and the transitional relief scheme were phased out; and it would provide time for the discipline of accountability to become established. It would of course be possible to adopt a different period - say 3 years - if Ministers thought this appropriate in view of the draconian nature of the scheme. Ministers are invited to decide whether the system, if adopted, should be transitional.

Legislation and timetable

18. Primary legislation would be needed to introduce a system of income limits on the lines described above. Annex B assesses the options for enacting this legislation in time for introduction of the system in 1991-92.

19. Preliminary advice suggests that it would be safer from the point of view of legal challenge to spell out on the face of the statute the main details of the system of income limits rather than take a general enabling power which left a great deal to the Secretary of State's discretion. This would mean however that the primary legislation would be longer and more complex, and that it would require more time for its preparation.

20. Passage of the legislation this Session would mean that the powers would be available in good time before local authorities set their budgets for 1991-92. It would however present severe

problems not only of business management but of ensuring that the new powers were properly drafted and thought through. The Bill would have to be introduced soon after the Whitsun Recess, certainly no later than around 18 June. This would leave too little time in which to secure formal policy approval, work out the details and draft the Bill. There would be a real risk that mistakes would be made in a subject which is exceptionally complicated and contentious.

21. The alternative would be to start the next Session as early as possible - say 6 November - and introduce the Bill immediately using every device to secure swift progress. This would allow more time to get the provisions right. But the powers would not be available at least until the end of February by which time many authorities could have set their precepts, particularly if they thought this was a good way to obstruct the legislation (the counties are required to set precepts by 1st March).

22. The choice is therefore a difficult one. On balance our recommendation is that if Ministers decide to introduce legislation it should be in the next Session; but that every legal and Parliamentary device should be explored to speed up the passage of the Bill and to ensure that powers could be used effectively as soon as they were available. There might need to be an element of retrospection, preferably on the basis of precedent.

23. Ministers are invited to consider whether they would wish legislation to be introduced this Session or next Session.

Transitional Relief Scheme

24. The Secretary of State for the Environment has already made proposals for improving the transitional relief scheme by extending the period of the scheme, reducing the rate at which relief is withdrawn and providing relief to cover increased charges arising from withdrawal of the area safety net, the low rateable value grant and the ILEA transition grant.

25. Annex C considers the case for extending the scheme to provide assistance for particular groups. It sets out a possible way of providing further assistance to all disabled people, whether or not formerly ratepayers, if Ministers wished to go down this route. But it recommends against using the transitional relief grant to help young first-time payers.

26. Ministers are invited to decide how far they wish to extend the transitional relief grant scheme.

Higher rate charge

27. Annex D outlines a flat rate levy, equal to the average community charge, on individuals with incomes above a certain amount. If the broad aim were to target people with gross incomes of £50,000 and above, for example, the charge could be applied to those with taxable incomes above £40,000 (although the average difference of £10,000 masks substantial variations in individual cases). If Ministers wished to pursue such a levy, decisions would be needed on the issues listed at the end of the paper. It would in particular be necessary to decide:

i. to whom the levy should apply. The possibilities include applying the levy to all people whose taxable income exceeds the specified amount, whether chargepayers or not; or only those individuals liable to community charge for the relevant tax year; or all income taxpayers with certain categories (eg children and people living in Northern Ireland) excluded.

ii. when the first levy should be paid. It would be administratively simpler to collect the levy for 1991-92 on 1 December 1992; but to preserve the concept of fairness Ministers might wish to consider 1 December 1991.

iii. what the amount of the levy should be. The main possibilities are the community charge for standard spending (CCSS) set by the Government for 1991-92 or the average community charge for 1990-91. A further issue is whether there should be a double charge for people with very high incomes.

iv. accounting for the levy. The arguments point to a notional link with the amount of grant provided to local government, avoiding any form of mechanical hypothecation.

Ministers will wish to decide whether they wish to pursue an additional flat rate levy on the highest incomes and if so give guidance on its main features.

Role of the Audit Commission and auditors

28. Annex E describes the role of the Audit Commission and auditors and sets out possible ways of strengthening their powers in relation to value-for-money work: see paragraph 22 of the Annex. Ministers are invited to decide whether further work should be done on these possibilities.

Powers and duties

29. Annex F sets out some new burdens which are to be placed on local authorities in 1991-92 as a result of recent or current legislation. Ministers are invited to consider whether they wish Departments to pursue the possibility of deferring the implementation of any of these new burdens.

Next Steps

30. A meeting of E(LG) has been arranged for Thursday 24th May to consider formally the outcome of this work.

Cabinet Office
11 May, 1990.

ANNEX A

GENERAL INCOME LIMITATION

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 389 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 annex describes a system of income limitation which would prevent individual local authorities raising more income than an absolute amount determined by Statute, unless they had express permission to do so. The limitation would apply to the classes of authority responsible for the majority of spending in their areas and might also apply to some smaller authorities. For low spending authorities the limit might be set equal to their SSA (or some margin above that) and vary from year to year in line with their SSA. For high spending authorities the limits would converge down to SSA over a period of years.

3. The remainder of this paper considers:

- how long a scheme might run (paras 5 to 6);
- whether to limit charges or income/expenditure (paras 7 to 9);
- whether to limit income or expenditure (paras 10 to 14);
- the classes of authority to which limitation might apply (paras 15 to 23);
- the construction of limits (paras 24 to 47);

- safety valves: derogation or referenda (paras 48 to 61);
- the aggregates: SSA and income limits (paras 62 to 68);
- illustrative calculation of limits (paras 69 to 80);
- the effect on charges and AEF (paras 81 to 82).

4. This Annex focuses on England but similar considerations and schemes could also apply in Scotland and Wales.

DURATION OF SCHEME

5. Any scheme to limit local authority income or expenditure changes the relationship between central and local government. It also means that local authorities are not fully accountable to their chargepayers through the community charge. The scheme for income limitation developed in this paper has as its objective the limitation of income down to SSA, or a margin above SSA, over a five year period. The scheme must therefore last for five years but there is the question of what should happen beyond that. There are two possibilities. The scheme could be

permanent subsequently constraining everyone to spend at or below SSA, or it could be temporary with local accountability left to bite on spending beyond the five years.

6. We recommend that any scheme should be transitional in nature lasting only for five years. It would be presented as being needed while there are other transitional arrangements in place (safety nets, ILEA grant and an extended transitional relief scheme). At the end of the five year transitional period everyone would be spending at or below SSA and all charges would be at or below the CCSS. Transitional elements of grant distribution would no longer distort community charges between authorities and all areas would start from similar levels of service so that accountability could then be really effective.

FORM OF LIMIT: CHARGES, INCOME OR EXPENDITURE?

Limit charges or income/expenditure?

7. A main purpose of limitation would be to contain or reduce community charges. The most simple way to do this might appear to be to set limits on the charges that charging authorities have the power to set. This might be in the form of a general limit under which no charging authority could set a charge of more than say £400, or a variable limit under which some authorities would be allowed an increase in charges in line with inflation while those with high charges were allowed smaller increases or even required to make reductions. But this would effectively mean limiting the income of all authorities.

8. The financing arrangements for individual authorities mean that it would not be possible to have such a scheme in England without first setting income limits for each individual authority. In England individual authorities do not set a charge to cover their own expenditure. Instead each authority sets a precept or demand on the collection fund or funds for its area. The charging authority (shire district, metropolitan district or London borough) is responsible for administering the collection fund for its area. The Revenue Support Grant (RSG) and business rate income for its area are paid into the fund together with income from the community charge. The charge income is set by the charging authority so as to be able to meet the demands and precepts made upon it. The collection fund must then meet the precepts upon it in full.

9. Any limit on charges would have to be accompanied by rules on how the income to the fund was split between the authorities precepting on the fund. Otherwise the county councils, whose precepts must be met in full, could annex all of the increase in income and force the districts to make spending reductions. This problem is considered in more detail in Appendix A where there is an illustrative example. Since charge limitation implies direct income limitation to avoid this problem, we recommend that any limits should apply directly at authority level and not to charges as such.

Income limits or expenditure limits?

10. Accountability under the community charge (as exemplified by the community charge bill) and the capping procedures are based on consideration of precepts and demands - that is income rather than expenditure. It is income, after drawings from or contributions to balances, which is compared with SSA in both instances. Unlike block grant, the RSG and community charge system contains no formal definition of expenditure. In the past, rigid definitions of expenditure have given rise to widespread devices for creative accounting in order to manipulate the grant system and to avoid penalties and capping. Many of the loopholes under the old system had been plugged, but the use of an income measure further reduces the scope for such devices. Even with the loopholes plugged, it is still, for instance, open to authorities to make accounting decisions to switch expenditure between years. They cannot readily do so with income. It is also relevant that expenditure estimates change in the course of the year even without manipulation. Decisions would be needed as to whether an expenditure limit should apply at budget (which is open to manipulation) or at outturn (which is too late for control to be effective).

11. Income limitation on the other hand would ensure that the limitation applied directly to the entity which determines community charges and is shown on bills - the income raised by each authority. Income is only expenditure plus or minus use of balances and authorities cannot go on drawing from balances year after year so over several years, what we described here as income limits would in effect become expenditure limits. There is evidence that although rate capping initially led authorities to draw on balances, after a period they actually had to start to reduce spending in order to stay within their limits. Income limitation could not guarantee a given maximum level of spending in any one year because of the use of balances. But on the other hand spending limits also could not guarantee a maximum level of charge as long as local authorities had freedom to budget to make large contributions to balances.

12. Limitation would be intended both to affect charges and to limit spending. As the former is the stronger imperative, a system of income limitation would be more appropriate than one of expenditure limitation. This would also have the advantages that there would be no need to create a new definition of expenditure and it would be entirely consistent with the presentation and calculation of the community charge.

Balances

13. Whether balances are seen as a problem depends on the scale of the freedom to increase spending that they would give authorities. It is difficult to estimate what balances local authorities will have by the end of 1990/91. This depends on whether they actually spend all they have budgeted for and whether they will actually generate more community charge and other income than is shown in their budgets. Typically local authorities have drawn less from balances in a year than has

been assumed in their budgets. Their plans are to draw £400m in 1990/91. Our best estimate is that local authorities might hold balances of about £2-2½bn at the end of 1990/91. About £1bn of this is probably needed as working balances, so authorities may have about £1-1½bn free to spend in 1991/92, although they are unlikely to do so in one year. The balances are very unevenly spread - about 70% of them are in shire areas and over 40% are in shire districts which only account for 8% of income. London boroughs appear to have run their balances down in 1990/91 to about the level needed as working balances (particularly after charge capping).

14. In practice, therefore, it does not appear that freedom to use balances would severely undermine the purposes of a scheme of limitation. And it has the advantage that it would give authorities some freedom of manoeuvre in order to keep within their limits (see also paras 48 to 61 on safety valves). We recommend that any further power taken should, as with capping, limit local authorities' income rather than their expenditure.

WHICH AUTHORITIES TO LIMIT?

15. There are three available approaches to deciding which authorities should be subject to limitation:

- include all authorities;

- including only authorities providing the majority of services in an area, so capturing the bulk of spending;

- an intermediate approach which includes all of the large authorities plus smaller authorities whose spending had a significant effect on local charges.

The following paragraphs discuss how the third of these approaches might be implemented.

The main spenders

16. In England, any scheme of limitation should apply to all shire counties, metropolitan districts and London boroughs. These authorities are responsible for 88% of the £32.7bn of net revenue expenditure raised from collection funds in 1990/91 (see table 1). These authorities receive over 85% of the combined income from chargepayers, business rates and grants for their areas. Service responsibilities differ between these three classes of authority - shire counties are responsible for police and fire services which the metropolitan districts and London boroughs are not; metropolitan districts and London boroughs are responsible for community charge collection, refuse collection, planning, environmental health, most recreation etc, while shire counties are not. But these differences need not affect the scheme for limitation.

Table 1: 1990/91 income by class of authority

	Income (£bn)	Income as % of England total	Income as % of area total
Shire counties	15.7	48	86
Shire districts	2.5	8	14
Shire areas	18.2	56	100
Metropolitan districts	7.5	23	91
Met police authorities	0.5	2	6
Met fire authorities	0.3	1	3
Metropolitan total	8.3	25	100
London boroughs and City	5.5	17	87
Metropolitan police	0.6	2	10
London fire	0.2	-	3
Total London	6.3	19	100

Note: This table takes no account of expenditure reductions in 1990/91 as a result of capping.

Smaller authorities

17. To include all other authorities within limitation would impose a high resource cost on central government to limit a relatively small proportion of expenditure. The smaller authorities - shire districts, police and fire authorities in metropolitan areas and London, the City of London and Isles of Scilly - could be excluded entirely from income limitation by definition in the Statute or most of them could be excluded by a de minimis provision which meant that only those authorities whose spending had a significant effect on charges would be included.

18. The exclusion of any authorities from limitation means that it is more difficult to control the maximum level of expenditure allowed. If smaller authorities are excluded from limitation there is some risk that expenditure and charges would be higher than the Government expected. For instance, in shire areas, some services like recreation are provided concurrently by counties and districts. It would be left to local discretion to decide whether the authority outside limitation should provide more of these services. But the aggregate effect is not likely to be large.

19. The existing charge capping powers in the Local Government Finance Act have a de minimis provision under which it is not possible to cap authorities with incomes of less than £15m. In 1990/91 this meant that 274 out of 296 shire districts and the Isles of Scilly were exempt from capping. But of those districts 29 had incomes more than £50 per adult above SSA and 155 had incomes more than 10% above SSA. Some of these overspends had large impacts upon community charges - for instance overspending

by Harlow added £113 to the community charge, Derwentside added £111 and Wear Valley added £96. The scale of these effects on charges is such that a change in the basis of the de minimis provision looks appropriate in order to limit small but high spending authorities.

20. There remains a strong case for excluding most shire districts, police authorities and fire authorities from limitation. Most have a relatively small impact on charges (the metropolitan fire authorities only spend about £30 an adult) and the single service authorities have no scope to meet limits by viring between services. And the SSAs for these authorities are subject to a greater potential degree of inaccuracy than those for the main spenders. For instance the SSAs for metropolitan fire authorities are not particularly satisfactory, but there is no better alternative. As the method of calculating limits described later would depend on SSAs, it might be better to exclude these authorities. But Ministers may wish to consider an alternative form of de minimis provision which would allow limitation of some of these smaller authorities.

21. The approach which is most consistent with the per adult nature of the charge would be to provide that no authority with income of less than, say, £150 an adult in 1990/91 was subject to limitation. This is broadly comparable to the present £15m de minimis level in its effect. It would automatically exclude 259 shire districts and all of the metropolitan police and fire authorities (including those in London) - 273 authorities in all. In 1990/91 a £150 per adult exemption would have left 37 shire districts within the scope of expenditure limitation.

22. These authorities could be excluded once and for all at the beginning of the scheme. But a better, more flexible approach would be to notionally include all authorities within limitation but provide that no income limit should be less than £150 per adult (indexed for inflation). This would initially exclude the 273 authorities mentioned in paragraph 21, but if any of them subsequently increased their spending above this level they might be brought within the scope of limitation. On either approach special provision would still be needed if Ministers wished to exclude the City of London or the Isles of Scilly. (Both have a very small number of chargepayers and so do not affect average charges significantly. The City is a special authority in current legislation and excluded from many provisions).

23. We recommend that all authorities with income of more than £150 per adult in any year should be included in the limitation scheme. We also recommend that the City of London and Isles of Scilly should be excluded by Statute.

Parishes

24. 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 limit for the district must initially include parish spending because the comparison of spending with SSA when constructing the limit must do so. Ways would have to be found to allocate the limit between the district and its parishes. This may not be a significant problem if most districts are excluded from limitation by de minimis provision but solutions would be needed.

SETTING THE LIMITS

The starting point

25. For legal reasons, income limits cannot just be plucked from the air. There are only three measures available on which the limits for 1991/92 could be based, either exclusively or in combination:

- income in 1990/91;
- expenditure (income adjusted for use of balances) in 1990/91;
- SSAs, either for 1990/91 or 1991/92.

26. Income limits based solely on 1990/91 income or expenditure, such as allowing every authority a common percentage uplift would mean preserving existing relative levels of spending. Those authorities spending below SSA would be compelled to continue to spend a similar degree below SSA so long as income limitation continued. Those authorities spending above SSA (including the present charge capped authorities) would be allowed to continue indefinitely with their current high spending behaviour. This does not seem a satisfactory solution.

27. Income limits based solely on SSAs, have two disadvantages:

- SSAs are by definition approximate. Because they are formula based and are based on data which is often a year or two out of date, they cannot measure precisely the spending needed to provide a standard level of service. The margins of uncertainty are probably smaller for the main spenders - the three classes of authority that paragraph 16 suggests would be subject to universal income limitation - than for shire districts or single service authorities, because their spending is more homogenous and because their SSAs are spread over a number of service blocks so there may be offsetting inaccuracies in the different blocks;

- some authorities are spending so much above their SSAs in 1990/91 (and have done so for many years) that it would be literally impossible for them to make cuts in one year to get down to SSA or a margin above it, while keeping to their statutory and contractual obligations. For instance, to get down to SSA in 1990/91 Bristol would have to halve its income, Greenwich would have to cut its income by 28% and Somerset, the Isle of Wight and Kensington and Chelsea would have to cut by 10%.

28. This suggests that income limits should be based on a combination of 1990/91 income (or expenditure), to recognise the current position, and SSAs to give a basis on which to set differential limits for high spenders and low spenders. These might be combined in such a way as to provide limits at SSA (or a margin above that) for the low spenders and which, for the higher spenders, converge over several years on SSA (or a margin above it).

29. The use of 1990/91 income adjusted for use of balances is recommended as the starting point for income limits in the first year of the system. This is because some authorities 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 the limits unachievable. This is particularly important as the scheme envisaged here would base the limits for 1992/93 and later years on the limits set for 1991/92. So any underestimate of income for individual authorities made in setting the 1991/92 limits would also carry through into later years. Conversely to base on unadjusted income the limits for those authorities which have made explicit contributions to balances would give those authorities over-generous limits for 1991/92 and later years.

The mechanics

30. There are a number of possible ways of setting limits 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.)

(i) **High spenders**

31. One possible comprehensive approach to income limits for 1991/92 for those authorities spending above SSA would be:

(a) the starting point for the calculation would be 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 (see para 40);

(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 30. 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.

32. A variation of (d) would be to reduce the limit more steeply where the result of (a) to (c) was more than £100 an adult above SSA. Thus the limit might be reduced by £2 per £10 up to £100 above SSA and £4 per £10 above that. An authority with a calculation £200 per adult 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, a £20 flat rate plus £2 for each £10 more than £100 per adult above SSA.

33. The authority's limit for 1992/93 would be calculated as:

(a) its 1991/92 limit adjusted as at 30(b) and (c) for inflation and differential changes in cost;

(b) reduced by £2.50 (because there would only be four years left to get to SSA) per adult for each £10 per adult that the limit 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.

(ii) Low spenders

34. The system of limits described above applies only to those above SSA. There are two possible approaches for authorities whom 1990/91 spending adjusted for cost pressures as at 30(a)-(c) would be below SSA. Limits 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.

35. The main argument for the second approach, which would give each authority a limit 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 limits 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 limit. In the past, the setting of targets below GRE has been one of the issues which has lead to the greatest controversy and setting limits below SSA in this new system could be expected to generate an exceptional degree of opposition amongst the Government's supporters.

36. 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 limits should encourage these authorities to provide services less efficiently than in the past 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.

37. Secondly allowing authorities to move their income up to SSA pushes up the aggregate of income achievable in any year (assuming authorities spend up to their limits). 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 income limits) SSAs in those authorities which were assumed to spend below SSA were £1bn above the spending assumption.

38. The question of whether income limits 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 income limits below 1991/92 SSA, if 1991/92 SSAs were increased enough to recognise the actual 1990/91 aggregate level of 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 income limits below SSA.

Year to year adjustments

39. The most difficult questions in this scheme for setting income limits are those posed by the adjustments described at paragraph 31(b) and (c).

(i) **The general uplift**

40. There are a number of published general indicators which could be used to increase income limits from year to year. The main possibilities are:

- the local authority cost index published by CIPFA which directly reflects the specific cost pressures on local authorities. But use of this might be seen as underwriting local authority pay settlements (the main reason for differential cost pressures);

- the GDP deflator which measures the cost pressures on business generally. In the past, Government has argued that this is the best indication of cost pressures on local

government - but it is only published quarterly and is subject to subsequent revision. Forecasts are available at the time of the Autumn Statement but cannot be recommended as a basis for uprating;

- the RPI for the previous September, which is used to uprate the business rate but is not a good indicator of local authority costs because it is based on consumer expenditure patterns and in addition includes mortgage interest rates which do not affect local authorities.

41. The alternative is for the Government to set a judgemental uplift each year. In any particular year, it might present that uplift as being related to one of these indicators but its hands would not be tied by legislation. We recommend this approach.

(ii) **Differential cost pressures**

42. The question of how to adjust for changes in demographic and other characteristics which impact on the levels of spending needed in each authority, and the varying cost pressures on different services, is also important. These factors mean that simply giving each authority a general uplift on spending is not a tenable approach. Fast growing authorities like Buckinghamshire will need larger uplifts to enable them to cope with the growing numbers of school children and other demands for services. Similarly authorities with populations ageing faster than the average may need larger increases. London authorities might need faster increases because market wages are rising faster in London than the rest of the country.

43. A related consideration is the differential cost pressures on authorities providing different ranges of services. To some extent the differences would be restricted if income limitation applied only to the main spending classes of authority. A large part of their services are common to all the classes. But shire counties provide the police and fire services, the costs of which generally increase faster than the remainder of local authority services because of special arrangements for pay. Some recognition of this would be needed when setting income limits.

44. The adjustment suggested in paragraph 31(c) complicates the setting of income limits considerably. But it is in fact the simplest approach available. Provided that the methodology does not change from year to year, changes in SSA for an individual authority represent: the Government's assessment of the general cost pressures on all authorities; the service specific cost pressures for that class of authority; and the effects of demography etc on the individual authority. If the general uplift for SSAs and income limits were the same then differences between the year to year change in SSA for the individual authority and the general uplift could be applied to the income limit in order to reflect varying cost pressures. Any adjustment to converge on SSA would follow. In setting 1991/92 income limits a slightly different approach might be needed if the uplift on SSAs is much larger than the general uplift for income limitation. In such circumstances the differential uplift would

have to reflect the difference between the authority's increase in SSA and the average increase for all SSAs. The effect of this differential adjustment would depend on decisions made on changes in the distribution of SSAs.

A margin above SSA

45. The scheme of income limitation described here depends crucially on SSAs reflecting a level of spending at which appropriate standards of service could be provided. It has always been recognised in the past for rate capping that GREs had a margin of inaccuracy (over 10%) and a margin has also been allowed in charge capping this year. Because of this uncertainty it might be better to leave a margin by which income limits would exceed SSAs. This might be in the form of a constraint that no limit should be less than 5%, or perhaps £50 per head above SSA. This would allow low spenders some leeway about SSA but would also mean that high spenders could only be brought down to the same margin above SSA.

THE NEED FOR A SAFETY VALVE

46. There is a need for some arrangement by which authorities can acquire permission to exceed their limits. SSAs are by definition approximate and even if income limits had a 5% margin for error above SSA, there would no doubt be circumstances where a local authority could claim that it would be in breach of statutory or contractual obligations if it spent at its income limit. Or some might be able to demonstrate that in their circumstances, year on year reductions in spending calculated by formula, could not be achieved. Continuing arrangements might be needed to allow for unforeseen changes in the circumstances of individual authorities - floods and other natural or human disasters. We have considered two ways of providing flexibility - either through powers of derogation or through referenda. Both might be needed to deal with the various circumstances which could arise.

Derogation

47. One approach would be to give the Secretary of State powers to relax income limits for individual authorities, in circumstances he thought appropriate. Authorities might for instance apply for derogation in the period between publication of their income limit and the setting of their budget (1 March for shire counties, 10 March for the other major authorities). But any power of derogation would be likely to increase the risk of successful legal challenge because local authorities would find it easier to question in the courts whether the Secretary of State had properly used his discretionary powers than they would the result of mechanistic calculations set out in the Statute.

48. Derogation however raised difficult questions of timing. The previous paragraph mentioned giving authorities the right to apply for derogation between the setting of income limits and the setting of budgets. But limits could not be set until the settlement for the year - on recent practice probably in mid

January - so that would leave only 5 weeks for derogation powers to be exercised for shire counties (assuming they had to be told the results of their application a week before their budget setting) and 7 weeks for metropolitan districts and London boroughs. The timing would be tighter if the settlement slipped at all.

49. Depending on the timing of primary legislation, the timetable could be even tighter in 1991/92. If the powers were not in place until late February, there would be only a week or two for authorities to make their case and the Secretary of State to consider it. This would be impossible.

50. A second model would therefore have to be considered, perhaps as a transitional arrangement for the first year, or as a permanent feature. On this model authorities would be required to set their budgets and charges on the normal timetable, with budgets no higher than income limits. They could subsequently seek derogation from the Secretary of State to increase their budgets and their charges. This would involve extra costs of rebilling and might lead to cash flow losses - although there would be no reason for chargepayers to hold back payments as bills could only go up.

51. Any such possibility would have to be time limited so that, for instance, applications for derogation had to be put to the Secretary of State by the end of March and he had to reach his decisions by the end of June. There would be nothing to stop earlier applications. Without such time limits there would be the risk that authorities would deliberately budget to spend at their income limit, but actually spend more, and come forward to the Secretary of State in January to say they could not pay their staff for the rest of the year. This would have to be ruled out.

52. However, similar considerations mean that application for derogations is likely to be a continuous process throughout the year on either model. After the time limits had expired, these applications would be for derogation for the next financial year. Authorities would come forward to say that they had got their budgeting wrong (eg because pay rises were larger than expected). They could finance this by short term borrowing in the present financial year but would have to make it up in the next year from increased income/charges. The Secretary of State would have to consider such applications in great detail.

53. On either model, the need to ensure that powers of derogation were properly exercised would have major resource consequences for central Government. It is likely that, at least for a year or two, virtually every authority subject to income limitation would apply for a derogation. This could mean up to 150 applications for derogations with the coverage of income limitation described here. It has taken a division of 15 staff to implement the capping of 21 authorities this year. On a one for one basis, this would involve over 100 staff in implementation of a scheme of derogation in combination with general income limitation. And they would have to be people who know their way

around local authority finance and budgets. It is doubtful whether skilled resources on the scale required are presently available within central government.

54. Despite all these difficulties we recommend that the system of derogation would be essential even if another safety valve were provided.

Referenda

55. The system of income limitation with derogation described here would be seen by many as undermining one of the main purposes of the community charge - increasing local accountability. It would be represented as taking decisions on spending out of the hands of local authorities and their chargepayers. The whole existence of powers of derogation, while essential, would greatly increase the risk of successful legal challenge. An alternative approach would be to in effect put the derogation powers into the hands of chargepayers through a system of local referenda where authorities wanted to exceed their income limit. Local people would be asked to decide whether they wanted higher spending and higher charges or spending at the limit with lower charges.

56. Income limits would be set in the way described above and authorities would be free to spend at any level up to that limit. If they wanted to go above this limit they would have to gain a majority at a referendum. Consideration would need to be given to the timing of the referendum and the question to be asked. This is considered in more detail at Appendix C. There are three possible models:

- referendum before budgets are set in early March asking do you want spending at the Government's limit of a charge of b or spending of a+x and charge of b+y;
- referendum after budgets had been set at limit and charges issued, asking do you want spending increased by x and charges increased by y?;
- referendum after budgets and charges have been set at the local authority's chosen level asking do you want spending reduced by x and charges reduced by y?

57. Although this would restore a degree of accountability, would present less risk of successful challenge and have lower resource implications for central government, the disadvantage is that it carries the risk that local people would vote for higher spending. It would also impose extra costs on those local authorities that wanted to exceed their limit. But if chargepayers did vote for higher spending they would find it more difficult to blame the Government for the high charges that resulted. Those charges would clearly be the will of local people.

58. A scheme of referenda was proposed in 1981. The legislation was introduced but not proceeded with because of opposition from local government and MPs. It followed the second of the models described in paragraph 56, in that the referendum would have given clearance for the setting of a supplementary rate.

59. Circumstances may well have changed since 1981, because the community charge has been introduced so the passage of such a measure might be easier. We recommend that this possibility should be examined in more detail. (The Home Office would need to be consulted).

ILLUSTRATIVE FIGURES

60. The following sections give some numerical illustrations of how the system described might work. They are not saying what the aggregates should be but are purely to help understanding of the system. If Ministers decide to pursue this they may well want to look at a wider range of options.

The Aggregates

(i) Background

61. Total Standard Spending (TSS) is the central aggregate for the grant system and the Government's presentation of potential levels of community charge. It is the Government's assessment of the amount which it is appropriate for local authorities to spend in a particular financial year. Appropriateness takes account of considerations both of the desired level of provision of services and of the level of expenditure that the economy can afford.

62. Standard Spending Assessments (SSAs) sum to TSS net of specific grants. This net TSS is the aggregate most relevant to income limitation. But with the scheme for setting income limits described above, the total of income limits will, by definition, be larger than the total of SSAs. This is because the no income limit is below SSA and the limits for overspending authorities are above SSA. With a 5% margin above SSA, the total of income limits would diverge even further from the total of SSAs - it would be at least 5% higher. This would lead to confusion as to which was the important aggregate. The sum of income limits would be the main aggregate in the short term but would move towards SSAs over time.

63. This will all make presentation very difficult. There will be two sets of key aggregates in the public domain. Local government will claim that they are inconsistent and the Government will be asked why the aggregates they assume for grant distribution are lower than the income limits which will be presented as a more realistic level of spending. This in turn would feed through into a Community Charge for Standard Spending (CCSS) whichis the centrepiece of the grant system and accountability, which was considerably below the average community charge at the income limits. Again local government would point to the inconsistency.

(ii) Setting the aggregates

64. There are two possible extreme approaches to setting the aggregates:

- set the aggregate of SSAs to reflect an assessment of the cost of providing a standard level of service, set a maximum year on year increase for income limits for individual authorities so that the aggregate of limits flows from those prior decisions;

- predetermine a target aggregate of income limits, a maximum increase for individual authorities so that the total of SSAs to flow from this set of prior decisions.

65. The first of these approaches would be the easier to present and defend, but would lead to a higher total of income limits than the second. In practice the approach to setting limits is likely to fall somewhere between these two extremes, with an iterative procedure setting SSAs and limits to achievable levels. We recommend that the priority in any system of targets should be to set a level of SSAs which can continue to be presented as a realistic assessment of the cost of providing a standard level of service.

66. The interaction of the aggregates for SSAs and income limits will have important effects on the income limits for individual authorities. The lower the total of SSAs and the higher the basic year on year increase for income limits, the more likely authorities are to have income limits above SSA and hence the less likely it is that they would be allowed the basic increase in full. For instance, if the increase for 1990/91 SSAs and the basic increase for income limits were the same, then most authorities' limits would be above their SSA. Amongst the 107 shire counties, met districts and London boroughs, only 9 had precepts below SSA in 1990/91 - Trafford, Westminster, Barnet, Croydon, Harrow, Merton, Kent, Lincolnshire and West Sussex. Of these only 3 had spending below SSA, the other 6 used balances to bring precepts below SSA.

67. Thus, out of 107 authorities 104 would have income limits for 1991/92 which exceeded their 1990/91 expenditure by less than the general increase. There is a great deal of room for decisions about the relationship between the total of SSAs and the basic increase built into income limits to affect the precise income limits which are derived for individual authorities. The next section and the tables at Appendix B look at some illustrative combinations of assumptions and their effect on individual authorities.

Illustrative figures for individual authorities

68. Table B1 at Appendix B look at the effect on income limits for the 107 major authorities of four different very preliminary and illustrative assumptions about the aggregate of SSAs and the basic increase allowed. None of the sets of assumptions

incorporate any allowance for community care or other new burdens. These factors would add £600m-£750m to the totals of income illustrated.

69. In each case income limits are assumed to be based on 1990/91 expenditure rather than income. Income limits are reduced by £2 for each £10 overspend above SSA. Table B1 shows the resulting limits in £ million and as percentage change from 1990/91 expenditure.

70. The assumptions, which we emphasise are wholly illustrative and indicative because they do not take account of changes in function or separate decisions on aggregates, are:

Case 1 - SSAs are assumed to be increased by 8% over their 1990/91 level and the basic increase over 1990/91 expenditure is also set at 8%. The total of income limits falls out of the calculation;

Case 2 - as Case 1 but with a margin of 5% over SSA allowed in income limits;

Case 3 - as Case 1 but with SSAs first increase to the 1990/91 total of spending and then increased by 8%;

Case 4 - as Case 1 but with the SSA total set to give income limits totalling £30.2bn for the 107 authorities, a 5% increase over 1990/91 budgets. The SSA total needed to give this falls out of the calculation.

71. The aggregate results of the four cases are shown in Table 2 below:

Table 2: Income limits on illustrative assumptions

	Case 1	Case 2	Case 3	Case 4
SSA (all 419 authorities £bn)	32.2	32.2	35.9	30.7
Income limits (£bn)	30.8	31.0	32.2	30.5
Increase over 1990/91:				
Expenditure: £bn	1.7	1.9	3.2	1.5
%	6.0	6.7	11.0	5.0
Income: £bn	2.2	2.4	3.6	1.9
%	7.6	8.3	12.6	6.6
Saving against 10% increase in spending (£bn)	1.1	0.9	-0.3	1.4

Note: Comparative figures for 1990/91 are:

SSA (all 419 authorities)	£29.8bn
Expenditure	£29.0bn
Income	£28.6bn

72. In Case 1, only 5 of the 107 authorities are allowed the full 8% increase in spending or more. The average increase is 6.0%, the largest is 11.6% and the lowest is 1.0% in Greenwich. If the remaining 312 authorities all increased their spending by 10%, specific grants increased by 10% and there were no use of balances then the gross spending implied by the income limits would be £38.7bn. This is an 18% increase over 1990/91 TSS of £32.8bn and a 7% increase on budgets of £36.2bn. Community care and other new burdens could add a further £600m to £750m. With this set of assumptions it is likely that most of the 107 authorities would spend right up to their limits. If they would otherwise have increased spending by 10% the limits would have saved spending of £1.1bn. Those that used balances in 1990/91 would be allowed larger increases in income - up to 20% in Wandsworth.

73. In Case 2, 15 authorities are allowed at least the full increase in spending. They average increase is 6.7%, the largest is 17.4% and the lowest is 1.0%. The implied gross total spending could be £38.9bn. These figures are not very much higher than those in Case 1 because the extra 5% margin above SSA only fully benefits a few authorities - those whose limits would otherwise be at SSA. Authorities within 5% of SSA benefit by between 0% and 5% and those above SSA benefit by 1% of their SSA through lower required reductions. With a larger increase in SSAs as in Case 3, the cost of the 5% margin would be much higher.

74. In Case 3, 53 of the 107 authorities are allowed at least the full 8% increase in spending. They have increases of up to 24.5% because they are allowed to spend up to greatly increased SSAs. The average increase is 11% and the lowest increase 2.7%. The gross spending for all authorities implied by the income limits would be £40.1bn meaning that spending was in fact £0.3bn higher than authorities would otherwise have planned (hence -0.3 in the table). In this case it is unlikely that all authorities would in fact spend up to their limits. If they spent the higher of a 10% increase or their limit then gross spending would total £39.4bn, a saving of £0.4bn compared with no limits. Figures are again before community care.

75. Case 4 yields an unrealistic result for SSAs - to achieve the target sum of income limits, it would require that SSAs should be increased by only 3% from their 1990/91 level, which are already regarded by many as being unrealistically low. They would be £2.5bn below spending in 1990/91. No authority would be allowed the full 8% increase in spending. The average increase would be the target of 5%, the largest increase is 7.7% and the lowest increase 0.3%. This approach would call into question the role of SSAs in the community charge system and could not be recommended. If the aim were to tighten the aggregate of limits then a better approach would probably be to adopt one of the alternative options for setting convergence on SSA considered in the next section.

Alternative tapers on income limits

76. Table B2 of Appendix B shows the effect for Case 1 of using different parameters to set income limits:

Option A - uses a £2 reduction for each £10 of overspend as in Case 1 above;

Option B - uses a £2 reduction for each £10 of overspend where the overspend is less than £100 per adult, but a £4 reduction above that;

Option C - requires all overspenders to make a reduction of £20 per adult (or to SSA if smaller) and a further £2 for each £10 where the overspend is more than £100 per adult.

77. The aggregate results are shown in Table 3 below:

Table 3: Income limits with Case 1 and different parameters

		Option A	Option B	Option C
Income limits (£bn)		30.8	30.6	30.6
Increase over 1990/91				
expenditure:	£bn	1.7	1.6	1.6
	%	6.0	5.4	5.4
income:	£bn	2.2	2.0	2.0
	%	7.6	7.0	7.0
Saving against 10% increase in spending		1.1	1.3	1.3

78. Option A is the same as Case 1 described in paragraph 73. Option B applies a tighter reduction towards SSA for those authorities spending most above SSA. This makes little difference to income limits in the shire counties where Avon, Derbyshire, Northumberland and Oxfordshire have slightly lower limits. But the effects are much larger amongst the high spending inner London boroughs, and metropolitan districts. Greenwich would be required to make a cash reduction of 4.7%. Hammersmith and Haringey would also have cash reductions. Kensington and Chelsea and Wandsworth would also be squeezed harder.

79. By contrast Option C is tighter on those authorities spending up to £100 per adult above SSA because they are all required to make a reduction of £20 per adult. The main squeeze here compared with Case 1 is amongst the shire counties which typically see their increases reduced from about 6% to about 5%.

THE EFFECT ON CHARGES AND AEF

80. We have not attempted to show what the effect of these various illustrative cases would be for community charges in individual areas. That depends upon decisions on the level of AEF which would accompany any of the cases. Ministers have agreed that those decisions should follow decisions on limitation. This section looks at the levels of AEF which would be required to hold average charges constant in each of the illustrative cases. But it should be remembered that even with the average charge held constant there will be significant changes in charges for individual areas as safety net contributions are abolished and as the safety net, low RV grant and ILEA grant are withdrawn.

81. The level of AEF needed to keep the average community charge at £363 with the various cases and options described is shown in Table 4. This excludes extra AEF needed to fund community care and other new burdens, without increasing charges.

Table 4: AEF required to hold charges at £363

	Gross Spending in GGE 1991/92 £bn	Increase over FSBR £bn	Increase over 'plans' £bn	AEF 1991/92 £bn	AEF Increase over 1990/91 £bn	AEF Increase over PEWP plans £bn
Case 1: Option A	38.7		0.4	26.0	2.9	1.7
Option B	38.5		0.2	25.8	2.7	1.5
Option C	38.5		0.2	25.8	2.7	1.5
Case 2	38.9	0.6		26.2	3.1	1.9
Case 3	40.1		1.8	27.4	4.3	3.1
Case 4	38.4	0.1		25.7	2.6	1.4

LEGISLATION

82. There are at present no powers to implement income limitation. A separate annex looks at the implications in terms of legislative requirements and timetable.

SUMMARY OF RECOMMENDATIONS

83. The main recommendations of this paper on any scheme of limitation in England are:

- that it should be a transitional measure;

- that it should apply to income for individual authorities rather than charges or expenditure;

- that it should apply to 107 main authorities (shire counties, metropolitan districts and London boroughs) and other authorities with income of more than £150 per adult although the City of London and Isles of Scilly would be excluded;

- that income limits should be based on 1990/91 budgeted expenditure, tapered towards SSA over 5 years, but that no limit should be less than SSA or a margin above SSA;

- that a safety valve should be provided either through a derogation power or referenda;

- that the main criterion in setting the aggregates of SSAs and income limits should be the preservation of the integrity of SSAs as a realistic measure of the cost of providing a common level of service.

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Appendix A

LIMITING CHARGES

1. In a shire area, the shire county precepts on the collection funds of all districts in its area in order to raise an amount of income sufficient to provide its services in the year. The county's precept is the same amount per adult for each district - for example Kent set a precept of £663 per adult in 1990/91, £2 an adult above its planned spending as it has budgeted to put £2m into balances this year. The districts then set their demands on the collection fund to cover all of their expenditure, after use of balances. Gillingham in Kent set a precept of £101 per adult. Gillingham therefore had to set a charge to raise £764 an adult, £663 to pay to Kent County Council and £101 for its own purposes. Gillingham will receive £188 per adult in grants and £293 in business rates (£481 in total) and so has to raise £283 from community charges (£285 after allowing for non-collection).

2. A scheme of charge limitation might limit Gillingham's charge to £305 in 1991/92 - an increase of 7% or £20. If Gillingham's RSG and business rate income did not increase, this would allow Kent and Gillingham between them a £20 per adult increase in income (2.6%). If Gillinghams' grant and business rate income also increased by 7% it would allow them a £55 per adult increase in income. On the same assumptions there would be different allowed increases for every district in Kent, ranging from £43 per adult in Shepway to £66 per adult in Dartford -although both are about the same amount per adult over SSA. The figures might be further distorted by the removal of safety net contribution, unless charges were first adjusted for this.

3. No further action might be required by Government so long as Kent County Council and Gillingham District Council could agree between them how to divide up the £55. And similar agreement could be reached in all other districts in Kent. But suppose Kent County Council chose to increase its precept by £60 an adult. That would leave Gillingham having to make cash cuts of £5 an adult in its spending. Under present legislative provisions the collection fund has to meet precepts in full and the only way that Gillingham could balance the books would be to cut its own spending. Shepway would have to cut its spending even further, but Dartford could still increase by £6 per adult.

4. Unless Kent County Council could agree its precept with all of its districts then the Government would have to step in with rules about how the increase in charge, grant and business rates should be split between the county and each district. Because they county council has to set the same precept per adult in every district, this would effectively mean settings its precept. That is the same as direct income limitation. The combination of limiting Kent's precept and limiting the charge in each district would then in effect mean that the income of each district had been set. This means that in England charge limitation and income limitation reduce to the same thing - income limitation for individual authorities - because charge limitation cannot work on its own. The only way round this would be major changes

in the grant, business rate and charging arrangements so that each authority set its own charge. But even this has the same effect as direct income limitation.

5. Some other difficulties which would have to be resolved with charge limitation are:

- the effect of withdrawal of safety net contributions and receipts: charges would probably have to be adjusted for this;

- the effect of use of balances: authorities which drew heavily from balances in 1990/91 and cannot do so again in 1991/92 (eg Wandsworth) could not meet their limits unless the charges were first adjusted;

- there are big differences in adjustments for non-collection between authorities: a system of charge limitation would validate the present assumption about non-collection.

Allowing for these points would mean that a system of charge limitation could not simply apply a common percentage increase for every authority even before the questions of demographic change considered in the paper.

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Appendix B

TABLE B1: ILLUSTRATIVE 1991/92 INCOME LIMITS AND INCREASE FROM 1990/91 EXPENDITURE

			CASE 1		CASE 2		CASE 3		CASE 4	
	1990/91 income (£m)	1990/91 spending (£m)	1991/92 limit (£m)	Increase %	1991/92 limit (£m)	Increase %	1991/92 limit (£m)	Increase %	1991/92 limit (£m)	Increase %
	1	2	3	4	5	6	7	8	9	10
TOTAL MAJOR AUTHORITIES	28,591	29,023	30,755	6.0	30,956	6.7	32,203	11.0	30,473	5.0
INNER LONDON BOROUGHS	2,419	2,502	2,607	4.2	2,615	4.5	2,675	6.9	2,586	3.4
OUTER LONDON BOROUGHS	2,968	3,083	3,259	5.7	3,282	6.5	3,403	10.4	3,229	4.7
METROPOLITAN DISTRICTS	7,476	7,681	8,094	5.4	8,108	5.6	8,374	9.0	8,028	4.5
SHIRE COUNTIES	15,728	15,757	16,794	6.6	16,951	7.6	17,752	12.7	16,629	5.5

TABLE B1: ILLUSTRATIVE 1991/92 INCOME LIMITS AND INCREASE FROM 1990/91 EXPENDITURE

			CASE 1		CASE 2		CASE 3		CASE 4	
	1990/91 income (£m)	1990/91 spending (£m)	1991/92 limit (£m)	Increase %	1991/92 limit (£m)	Increase %	1991/92 limit (£m)	Increase %	1991/92 limit (£m)	Increase %
	1	2	3	4	5	6	7	8	9	10
GREATER LONDON										
Camden	181	181	189	4.4	189	4.4	193	6.5	188	3.6
Greenwich	213	227	229	1.0	229	1.0	233	2.7	228	0.3
Hackney	236	236	248	5.2	248	5.2	253	7.4	246	4.3
Hammersmith and Fulham	168	174	179	2.8	179	2.8	182	4.7	178	2.1
Islington	190	196	204	3.8	204	3.8	208	5.8	202	3.0
Kensington and Chelsea	110	117	123	4.5	123	4.5	125	6.6	122	3.7
Lambeth	294	290	303	4.3	303	4.3	309	6.3	300	3.4
Lewisham	208	208	218	4.5	218	4.5	222	6.6	216	3.6
Southwark	241	243	251	3.6	251	3.6	256	5.6	249	2.8
Tower Hamlets	209	212	222	4.7	222	4.7	227	6.8	221	3.8
Wandsworth	211	243	254	4.4	254	4.4	259	6.5	252	3.6
Westminster	160	174	187	7.8	195	12.5	208	19.5	185	6.8
Barking and Dagenham	99	100	106	5.6	106	5.6	108	7.8	105	4.7
Barnet	157	157	173	10.1	181	15.7	193	22.9	169	7.4
Bexley	118	125	133	6.6	133	6.6	140	12.5	132	5.6
Brent	249	250	262	5.0	262	5.0	268	7.1	260	4.1
Bromley	142	150	160	6.8	161	6.9	171	13.6	159	5.8
Croydon	179	190	205	8.2	216	13.6	229	20.7	203	7.0
Ealing	227	223	236	6.0	236	6.0	244	9.5	234	5.1
Enfield	164	171	182	6.6	182	6.6	192	12.9	180	5.7
Haringey	217	218	224	3.0	224	3.0	228	4.9	222	2.2
Harrow	115	125	133	6.3	133	6.3	140	11.3	132	5.4
Havering	128	133	141	5.4	141	5.4	143	7.6	139	4.5
Hillingdon	151	164	169	3.0	169	3.0	172	4.9	168	2.2
Hounslow	142	160	165	3.3	165	3.3	168	5.2	164	2.5
Kingston-upon-Thames	79	84	88	5.2	88	5.2	90	7.4	87	4.3
Merton	94	117	122	4.4	122	4.4	125	6.5	121	3.6
Newham	216	212	225	6.3	225	6.3	235	11.2	223	5.4
Redbridge	131	133	142	7.4	146	10.4	156	17.4	141	6.5
Richmond-upon-Thames	83	84	89	5.9	89	5.9	92	8.8	88	5.0
Sutton	99	105	110	4.5	110	4.5	112	6.6	109	3.7
Waltham Forest	179	183	193	5.4	193	5.4	197	7.6	191	4.5

NB Figures for Barnet are provisional as we do not have a return for their spending. Spending has been assumed equal to income but we understand they have in fact drawn from balances

TABLE B1: ILLUSTRATIVE 1991/92 INCOME LIMITS AND INCREASE FROM 1990/91 EXPENDITURE

	1990/91 income (£m)	1990/91 spending (£m)	CASE 1 1991/92 limit (£m)	CASE 1 Increase %	CASE 2 1991/92 limit (£m)	CASE 2 Increase %	CASE 3 1991/92 limit (£m)	CASE 3 Increase %	CASE 4 1991/92 limit (£m)	CASE 4 Increase %
	----1---	----2---	----3---	----4---	----5---	----6---	----7---	----8---	----9---	---10---
GREATER MANCHESTER										
Bolton	167	168	179	6.7	179	6.7	190	13.3	178	5.8
Bury	103	109	114	4.6	114	4.6	116	6.7	113	3.7
Manchester	354	386	407	5.5	407	5.5	416	7.7	404	4.6
Oldham	152	150	159	6.5	159	6.5	168	12.1	158	5.6
Rochdale	152	153	160	4.4	160	4.4	163	6.5	159	3.6
Salford	160	163	173	5.8	173	5.8	177	8.2	171	4.9
Stockport	169	169	178	5.4	178	5.4	182	7.6	176	4.5
Tameside	142	145	153	5.0	153	5.0	156	7.1	151	4.1
Trafford	119	124	132	6.4	138	11.8	147	18.8	132	6.7
Wigan	201	205	213	3.9	213	3.9	217	5.9	211	3.1
MERSEYSIDE										
Knowsley	119	120	128	6.7	128	6.7	136	13.3	127	5.8
Liverpool	385	385	408	6.0	408	6.0	421	9.6	404	5.1
Sefton	176	180	189	5.4	189	5.4	193	7.6	188	4.5
St Helens	127	130	136	4.5	136	4.5	139	6.6	135	3.7
Wirral	205	218	231	5.9	231	5.9	238	8.9	229	5.0
SOUTH YORKSHIRE										
Barnsley	142	142	147	3.4	147	3.4	150	5.4	146	2.6
Doncaster	191	191	199	4.4	199	4.4	203	6.4	198	3.5
Rotherham	166	169	176	4.1	176	4.1	179	6.1	175	3.3
Sheffield	326	354	368	4.1	368	4.1	375	6.1	365	3.3
TYNE AND WEAR										
Gateshead	132	145	151	3.9	151	3.9	154	6.0	150	3.1
Newcastle upon Tyne	195	200	210	5.1	210	5.1	215	7.3	208	4.2
North Tyneside	130	138	143	3.5	143	3.5	145	5.5	142	2.7
South Tyneside	107	115	120	4.7	120	4.7	123	6.8	119	3.8
Sunderland	193	193	205	6.2	205	6.2	213	10.4	203	5.3
WEST MIDLANDS										
Birmingham	770	775	826	6.6	826	6.6	873	12.7	818	5.7
Coventry	211	218	230	5.2	230	5.2	234	7.4	228	4.4
Dudley	175	182	191	5.0	191	5.0	195	7.2	189	4.2
Sandwell	217	224	235	5.0	235	5.0	239	7.1	233	4.1
Solihull	111	111	118	6.6	118	6.6	125	12.8	117	5.7
Walsall	179	196	203	3.7	203	3.7	207	5.7	201	2.9
Wolverhampton	186	188	199	6.3	199	6.3	208	11.0	198	5.4
WEST YORKSHIRE										
Bradford	325	327	351	7.2	358	9.3	380	16.2	348	6.3
Calderdale	133	136	141	3.8	141	3.8	144	5.8	140	3.0
Kirklees	252	254	267	5.0	267	5.0	273	7.2	265	4.1
Leeds	418	421	448	6.4	448	6.4	470	11.4	444	5.4
Wakefield	186	199	207	3.9	207	3.9	211	5.9	206	3.1

TABLE B1: ILLUSTRATIVE 1991/92 INCOME LIMITS AND INCREASE FROM 1990/91 EXPENDITURE

	1990/91 income (£m)	1990/91 spending (£m)	CASE 1 1991/92 limit (£m)	CASE 1 Increase %	CASE 2 1991/92 limit (£m)	CASE 2 Increase %	CASE 3 1991/92 limit (£m)	CASE 3 Increase %	CASE 4 1991/92 limit (£m)	CASE 4 Increase %
	----1---	----2---	----3---	----4---	----5---	----6---	----7---	----8---	----9---	---10---
Avon	534	534	558	4.6	558	4.6	570	6.8	554	3.8
Bedfordshire	303	307	325	5.9	325	5.9	334	9.0	322	5.0
Berkshire	411	404	431	6.5	431	6.5	454	12.3	427	5.6
Buckinghamshire	343	348	371	6.6	371	6.6	392	12.5	368	5.6
Cambridgeshire	328	335	358	6.9	360	7.7	383	14.5	355	6.0
Cheshire	534	534	564	5.6	564	5.6	576	7.8	559	4.7
Cleveland	372	372	394	6.0	394	6.0	406	9.2	391	5.1
Cornwall	250	250	267	6.7	267	6.7	284	13.4	265	5.8
Cumbria	286	280	295	5.4	295	5.4	301	7.6	292	4.6
Derbyshire	561	561	581	3.7	581	3.7	592	5.7	577	2.9
Devon	524	524	558	6.4	558	6.4	586	11.8	553	5.5
Dorset	302	304	326	7.0	329	8.1	350	14.9	323	6.0
Durham	325	326	347	6.6	347	6.6	366	12.5	344	5.6
East Sussex	337	337	361	7.2	369	9.4	392	16.3	358	6.3
Essex	777	795	851	7.1	863	8.6	917	15.5	843	6.1
Gloucestershire	274	274	291	6.2	291	6.2	303	10.7	289	5.3
Hampshire	771	766	825	7.7	857	11.9	910	18.9	817	6.7
Hereford and Worcester	320	320	346	7.8	360	12.5	383	19.5	342	6.8
Hertfordshire	507	509	543	6.7	543	6.7	575	13.1	538	5.7
Humberside	520	520	550	5.8	550	5.8	562	8.0	545	4.9
Isle of Wight	70	69	73	6.1	73	6.1	76	9.7	73	5.2
Kent	760	758	831	9.6	872	15.1	927	22.3	813	7.3
Lancashire	828	814	864	6.1	864	6.1	895	10.0	856	5.2
Leicestershire	495	495	527	6.4	527	6.4	553	11.6	523	5.5
Lincolnshire	295	300	323	7.7	335	11.6	356	18.6	320	6.7
Norfolk	370	370	396	7.0	400	8.2	425	15.0	392	6.1
Northamptonshire	314	314	335	6.8	337	7.3	358	14.0	332	5.9
Northumberland	165	165	174	4.9	174	4.9	177	7.1	172	4.1
North Yorkshire	346	351	375	6.9	378	7.7	401	14.4	372	6.0
Nottinghamshire	574	584	616	5.4	616	5.4	629	7.6	611	4.6
Oxfordshire	291	292	306	5.1	306	5.1	313	7.2	304	4.2
Shropshire	220	220	235	6.9	237	7.6	252	14.4	233	5.9
Somerset	250	251	265	5.7	265	5.7	271	8.0	263	4.8
Staffordshire	526	526	562	6.9	565	7.5	601	14.2	557	5.9
Suffolk	319	319	339	6.4	339	6.4	356	11.7	336	5.5
Surrey	482	479	510	6.5	510	6.5	538	12.4	506	5.6
Warwickshire	250	253	268	5.7	268	5.7	273	8.0	265	4.8
West Sussex	313	313	349	11.6	367	17.2	390	24.5	337	7.7
Wiltshire	282	285	304	6.8	305	6.9	324	13.6	302	5.8

Appendix B

TA[illegible]B2: VARIATIONS ON ILLUSTRATIVE 1991/92 CASE 1 INCOME LIMITS AND IMPLIED INCREASE FROM 1990/91 EXPENDITURE

			OPTION A		OPTION B		OPTION C	
	1990/91 income (£m)	1990/91 spending (£m)	1991/92 limit (£m)	Increase %	1991/92 limit (£m)	Increase %	1991/92 limit (£m)	Increase %
	1	2	3	4	5	6	7	8
GREATER MANCHESTER								
Bolton	167	168	179	6.7	179	6.7	177	5.7
Bury	103	109	114	4.6	113	3.6	114	4.6
Manchester	354	386	407	5.5	403	4.4	407	5.5
Oldham	152	150	159	6.5	159	6.5	158	5.9
Rochdale	152	153	160	4.4	158	2.9	160	4.4
Salford	160	163	173	5.8	173	5.7	173	5.8
Stockport	169	169	178	5.4	178	5.3	178	5.4
Tameside	142	145	153	5.0	152	4.3	153	5.0
Trafford	119	124	132	6.4	132	6.4	132	6.4
Wigan	201	205	213	3.9	209	2.0	213	3.9
MERSEYSIDE								
Knowsley	119	120	128	6.7	128	6.7	128	6.2
Liverpool	385	385	408	6.0	407	5.8	408	6.0
Sefton	176	180	189	5.4	189	5.3	189	5.4
St Helens	127	130	136	4.5	134	3.2	136	4.5
Wirral	205	218	231	5.9	231	5.9	231	5.8
SOUTH YORKSHIRE								
Barnsley	142	142	147	3.4	144	1.2	147	3.4
Doncaster	191	191	199	4.4	197	3.0	199	4.4
Rotherham	166	169	176	4.1	173	2.6	176	4.1
Sheffield	326	354	368	4.1	363	2.6	368	4.1
TYNE AND WEAR								
Gateshead	132	145	151	3.9	148	2.0	151	3.9
Newcastle upon Tyne	195	200	210	5.1	208	4.2	210	5.1
North Tyneside	130	138	143	3.5	140	1.2	143	3.5
South Tyneside	107	115	120	4.7	119	3.5	120	4.7
Sunderland	193	193	205	6.2	205	6.2	204	5.8
WEST MIDLANDS								
Birmingham	770	775	826	6.6	826	6.6	823	6.2
Coventry	211	218	230	5.2	228	4.5	230	5.2
Dudley	175	182	191	5.0	190	4.7	191	5.0
Sandwell	217	224	235	5.0	232	3.9	235	5.0
Solihull	111	111	118	6.6	118	6.6	117	5.3
Walsall	179	196	203	3.7	198	1.4	203	3.7
Wolverhampton	186	188	199	6.3	199	6.3	199	6.0
WEST YORKSHIRE								
Bradford	325	327	351	7.2	351	7.2	347	6.0
Calderdale	133	136	141	3.8	139	1.8	141	3.8
Kirklees	252	254	267	5.0	265	4.2	267	5.0
Leeds	418	421	448	6.4	448	6.4	445	5.5
Wakefield	186	199	207	3.9	204	2.2	207	3.9

TABLE B2: VARIATIONS ON ILLUSTRATIVE 1991/92 CASE 1 INCOME LIMITS AND IMPLIED INCREASE FROM 1990/91 EXPENDITURE

			OPTION A		OPTION B		OPTION C	
	1990/91 income (£m)	1990/91 spending (£m)	1991/92 limit (£m)	Increase %	1991/92 limit (£m)	Increase %	1991/92 limit (£m)	Increase %
	1	2	3	4	5	6	7	8
Avon	534	534	558	4.6	555	4.0	558	4.6
Bedfordshire	303	307	325	5.9	325	5.9	323	5.4
Berkshire	411	404	431	6.5	431	6.5	426	5.3
Buckinghamshire	343	348	371	6.6	371	6.6	366	5.3
Cambridgeshire	328	335	358	6.9	358	6.9	352	5.1
Cheshire	534	534	564	5.6	564	5.6	562	5.3
Cleveland	372	372	394	6.0	394	6.0	394	5.8
Cornwall	250	250	267	6.7	267	6.7	263	5.2
Cumbria	286	280	295	5.4	295	5.4	294	5.3
Derbyshire	561	561	581	3.7	571	1.9	581	3.7
Devon	524	524	558	6.4	558	6.4	551	5.1
Dorset	302	304	326	7.0	326	7.0	319	4.7
Durham	325	326	347	6.6	347	6.6	342	5.2
East Sussex	337	337	361	7.2	361	7.2	353	4.8
Essex	777	795	851	7.1	851	7.1	835	5.1
Gloucestershire	274	274	291	6.2	291	6.2	288	5.1
Hampshire	771	766	825	7.7	825	7.7	816	6.5
Hereford and Worcester	320	320	346	7.8	346	7.8	343	7.1
Hertfordshire	507	509	543	6.7	543	6.7	535	5.1
Humberside	520	520	550	5.8	550	5.8	549	5.5
Isle of Wight	70	69	73	6.1	73	6.1	73	5.1
Kent	760	758	831	9.6	831	9.6	831	9.6
Lancashire	828	814	864	6.1	864	6.1	858	5.4
Leicestershire	495	495	527	6.4	527	6.4	522	5.4
Lincolnshire	295	300	323	7.7	323	7.7	319	6.3
Norfolk	370	370	396	7.0	396	7.0	388	4.9
Northamptonshire	314	314	335	6.8	335	6.8	330	5.3
Northumberland	165	165	174	4.9	173	4.7	174	4.9
North Yorkshire	346	351	375	6.9	375	6.9	368	4.9
Nottinghamshire	574	584	616	5.4	616	5.4	616	5.4
Oxfordshire	291	292	306	5.1	306	4.9	306	5.1
Shropshire	220	220	235	6.9	235	6.9	231	5.2
Somerset	250	251	265	5.7	265	5.7	264	5.2
Staffordshire	526	526	562	6.9	562	6.9	552	5.0
Suffolk	319	319	339	6.4	339	6.4	335	5.1
Surrey	482	79	510	6.5	510	6.5	502	4.7
Warwickshire	250	253	268	5.7	268	5.7	266	5.1
West Sussex	313	313	349	11.6	349	11.6	349	11.6
Wiltshire	282	285	304	6.8	304	6.8	300	5.1

Appendix B

TABLE B2: VARIATIONS ON ILLUSTRATIVE 1991/92 CASE 1 INCOME LIMITS AND IMPLIED INCREASE FROM 1990/91 EXPENDITURE

			OPTION A		OPTION B		OPTION C	
	1990/91 income (£m)	1990/91 spending (£m)	1991/92 limit (£m)	Increase %	1991/92 limit (£m)	Increase %	1991/92 limit (£m)	Increase %
	1	2	3	4	5	6	7	8
TOTAL MAJOR AUTHORITIES	28,591	29,023	30,755	6.0	30,595	5.4	30,567	5.3
INNER LONDON BOROUGHS	2,419	2,502	2,607	4.2	2,543	1.7	2,606	4.1
OUTER LONDON BOROUGHS	2,968	3,083	3,259	5.7	3,233	4.9	3,249	5.4
METROPOLITAN DISTRICTS	7,476	7,681	8,094	5.4	8,039	4.7	8,078	5.2
SHIRE COUNTIES	15,728	15,757	16,794	6.6	16,780	6.5	16,635	5.6

TABLE B2: VARIATIONS ON ILLUSTRATIVE 1991/92 CASE 1 INCOME LIMITS AND IMPLIED INCREASE FROM 1990/91 EXPENDITURE

			OPTION A		OPTION B		OPTION C	
	1990/91 income (£m)	1990/91 spending (£m)	1991/92 limit (£m)	Increase %	1991/92 limit (£m)	Increase %	1991/92 limit (£m)	Increase %
	1	2	3	4	5	6	7	8
GREATER LONDON								
Camden	181	181	189	4.4	185	2.3	189	4.4
Greenwich	213	227	229	1.0	216	-4.7	229	1.0
Hackney	236	236	248	5.2	244	3.5	248	5.2
Hammersmith and Fulham	168	174	179	2.8	172	-1.0	179	2.8
Islington	190	196	204	3.8	198	0.9	204	3.8
Kensington and Chelsea	110	117	123	4.5	120	2.5	123	4.5
Lambeth	294	290	303	4.3	295	1.7	303	4.3
Lewisham	208	208	218	4.5	214	2.6	218	4.5
Southwark	241	243	251	3.6	244	0.6	251	3.6
Tower Hamlets	209	212	222	4.7	218	2.4	222	4.7
Wandsworth	211	243	254	4.4	249	2.6	254	4.4
Westminster	160	174	187	7.8	187	7.8	186	7.1
Barking and Dagenham	99	100	106	5.6	106	5.4	106	5.6
Barnet	157	157	173	10.1	173	10.1	173	10.1
Bexley	118	125	133	6.6	133	6.6	131	5.4
Brent	249	250	262	5.0	258	3.5	262	5.0
Bromley	142	150	160	6.8	160	6.8	158	4.9
Croydon	179	190	205	8.2	205	8.2	205	8.2
Ealing	227	223	236	6.0	236	5.9	236	6.0
Enfield	164	171	182	6.6	182	6.6	180	5.7
Haringey	217	218	224	3.0	216	-0.8	224	3.0
Harrow	115	125	133	6.3	133	6.3	132	5.6
Havering	128	133	141	5.4	141	5.4	140	5.3
Hillingdon	151	164	169	3.0	164	0.1	169	3.0
Hounslow	142	160	165	3.3	161	0.5	165	3.3
Kingston-upon-Thames	79	84	88	5.2	88	4.9	88	5.2
Merton	94	117	122	4.4	121	3.1	122	4.4
Newham	216	212	225	6.3	225	6.2	225	6.3
Redbridge	131	133	142	7.4	142	7.4	140	5.4
Richmond-upon-Thames	83	84	89	5.9	89	5.9	88	5.1
Sutton	99	105	110	4.5	109	3.5	110	4.5
Waltham Forest	179	183	193	5.4	191	4.5	193	5.4

NB Figures for Barnet are provisional as we do not have a return for their spending. Spending has been assumed equal to income but we understand they [illegible] in fact drawn from balances

APPENDIX C

LOCAL AUTHORITY INCOME LIMITATION: REFERENDA

1. This paper examines the scope for allowing a local authority to budget in excess of its limits if its proposal to do so has been endorsed by a referendum of the chargepayers in the area.

2. The following discussion is predicated on there being in force a system of statutory limits on the amount an authority can raise by way of precepts on the collection fund. If there were to be such a system it is likely to be targeted at precepting authorities, but it is possible that some charging authorities might also be the subject of such limits if they were proposing to raise more than £150 per adult.

3. One of the drawbacks of a system of income limitation is that it would be necessary to provide for authorities to be able to apply to the Secretary of State for derogations. If many authorities were to do so there could be significant resource implications for the Department, and scope for judicial review of the determination of applications for derogation. If, however, it were provided that an authority could raise more than its limit only if a proposal to do so had been endorsed in a referendum of community chargepayers then the need to provide for derogations would be removed. It would be for the chargepayers to say whether there should be a derogation.

4. A system of limits and referenda was put forwrd in the Local Government Finance Bill published in November 1981. The Bill was withdrawn before 2nd Reading and replaced with the Local Government Finance (No 2) Bill, which dropped the referendum provisions, and replaced it with a prohibition on supplementary rates. The mechanics of the original provisions are described in Attachment A.

DISADVANTAGES OF REFERENDA

5. A general argument against the use of referenda to validate local authority spending decisions is that it would undermine the local (and perhaps eventually the national) democratic process. An authority would argue that it had already been elected on a particular programme, and that it had a mandate to carry out that programme. It could be said that letting the electorate vote separately both on the level and type of services it wanted and on the amount it was prepared to pay for them was allowing it to have its cake and eat it; and might result in contradictory expressions of opinion.

6. It could also be argued that the acceptance of referenda would be setting a precedent with significant constitutional implications. If the principle of single-issue voting is accepted for local authority spending it would be difficult to resist pressure to extend it in other areas, both local and

national. Why, for example, should local taxes be the subject of referenda, but not national taxes?

7. More specifically it would have to be accepted that giving the last word to the electorate on levels of local spending would mean, effectively, that the Government had no control over the level of local government expenditure. If the electorate was prepared to back the proposals of high spending councils then local authority spending would exceed the Government's limits, and there would be nothing the Government could do about it. No matter how unlikely it might seem that people would vote for higher community charge bills, no result could be guaranteed. Turnout in local elections is traditionally low, and a "yes" vote could be achieved with the support of perhaps as few as 15% of the electorate in some areas.

COUNTERMEASURES

8. The general arguments about the constitutional implications of referenda could be resisted only by firmly holding the line that local referenda were not to be regarded as a precedent. It would be helpful in maintaining this line if the word "referendum" were not used to describe the process. The vote could perhaps be likened to a "shareholders' meeting" to approve the accounts, and a suitable short name attached to the process, stressing local involvement and municipal responsibility ("local voice", for example, but no doubt other descriptions could be devised).

9. The problem of "perverse" voting could be minimised by laying down careful conditions for the poll. Instead of a straight majority of those voting it could be laid down that an authority could increase its budget above the limit only with the consent of more than 50% (or some higher percentage) of those entitled to vote. This would, however, lead to comparison with the system used in ordinary local and national elections, and the difference would need robust defence.

9. The form of the question could also be carefully regulated, to ensure that the electorate was in no doubt about what it was voting for; but it would not be possible to stop the vote becoming a party political issue, and the local parties could no doubt be expected to issue their own propaganda to voters.

10. It would be for decision whether the provisions of the Representation of the People Acts relating to expenditure incurred during a campaign, and to the publication of material, should apply to a referendum; but it would be difficult to defend such control, since the referendum would not be an election in the traditional sense, with candidates whose interests could be prejudiced by the power of their opponents' purse. Although the legislation could certainly prohibit the authority from issuing anything other than closely prescribed factual material, it would be almost impossible to prevent independent bodies, pressure groups and political parties from issuing their own material to the electorate. The results might be so similar to what the electorate had come to expect from a normal election that voting

could simply be on party lines, based on simple slogans (for example, "Vote Labour - vote YES").

DETAILED POINTS

11. Decisions would need to be taken on the point at which the authority would put the question to its electorate, both in 1991-92, given the timetable constraints on the introduction and implementation of legislation, and in subsequent financial years.

12. In a normal year there are three possible models:

a. a referendum before budgets are set in early March. The electorate would be asked whether they wanted spending at the Government's limit, with the charge which that implied; or whether they wanted spending at a higher level and at a higher charge (which would be specified in the question);

b. a referendum after budgets and charges had been set within the limits, asking the electorate to endorse an increase - in effect a referendum on a supplementary charge, which could be held either at any time after the setting of the budget, or within time limits set out in the legislation;

c. a referendum after budgets and charges have been set in excess of limits, asking the electorate either to validate the budget, or to vote for a reduction.

13. The first option is, on the face of it, the most sensible; but there would be severe practical difficulties. The proposals put to the electorate would have to have been agreed by the councils concerned. In a shire county this means that the County Council would have had to come to a decision on the budget it would like, and have notified this to the charging authorities well in advance of the statutory deadline of 1 March. All the charging authorities would similarly have had to come to a preliminary decision on their budgets. In effect each council would have to have two meetings to fix the budget; one to agree the proposal to put to the electorate and one to set the actual budget following the referendum. It would require close liaison between precepting and charging authorities at all stages of the budget planning process, and entail widespread acceptance that the budgeting process would be carried out on a timetable considerably earlier than that implied by the dates in the legislation. If the timetable slipped (as is likely) bills in some areas would be issued late.

14. It is difficult to envisage such a procedure working in practice, particularly where there is political antipathy between precepting and charging authorities. The second option, however, which would allow the electorate to vote for or against a supplementary charge would avoid the difficulties, and would enable bills to be issued in time for the beginning of the financial year. If the vote was in favour of a supplementary charge, new bills would have to be sent out. This would have to be at the expense of the authority whose budget proposals had led

to the referendum, just as the cost of rebilling following the capping of a county under the present system, falls on the county council.

15. Referenda on the basis of the second option would not require any special provisions for 1991-92.

16. There seems little to be said for the third option.

THE ELECTORATE

17. Decisions would be needed on whether the electorate would be those on the electoral roll or those on the community charges register. The fact that it is (effectively) the level of the charge which is the subject of the vote points to the latter as the most appropriate, but decisions would also be needed on whether the franchise should extend to those who are shown as subject to personal charges only, or whether those who are subject to standard and community charges should also be entitled to vote. Standard chargepayers certainly have an interest in the level of the charge, but their inclusion might involve the need for postal voting arrangements, which would add to the administrative complexity of the operation.

18. Collective chargepayers, somewhat perversely, benefit from high charges, since, although the liability to pay rests with them, the cost is borne by their contributors, and the chargepayer is entitled to keep 5% of the contributions for himself. The contributors do not appear on the register, and could not vote in the referendum.

19. The most straightforward approach would be to allow all those shown in the register to vote, irrespective of the type of charge, voting to be in person; and for those shown in the register as subject to more than one charge to have only one vote. Those shown in the register of two or more authorities would be entitled to vote in a referendum held in any or all of them.

CONCLUSION

20. Referenda would have implications for other parts of the democratic process, and pressure for their extension would be difficult to resist. If they are adopted the most practical approach is to allow chargepayers to vote for supplementary charges rather than to vote on budgets in advance.

q Questionable judgement.

Attachment A

THE 1981 LOCAL GOVERNMENT FINANCE BILL

1. The Local Government Finance Bill was introduced on 6 November 1981. On 16 December the then Secretary of State for the Environment (Mr Heseltine) announced that the Bill was being withdrawn, and that the provisions for a poll on supplementary rates would be replaced by a prohibition on supplementary rates.

2. Clause 1 provided that the main rate for a financial year had to be made by 1 June, and had to be of an amount in the pound which did not exceed a limit determined for that year in accordance with a method specified by the Secretary of State. Authorities were to be empowered to make supplementary rates, provided such a supplementary rate was not made before 1 June, and provided that the amount of the supplementary rate was limited to the amount by which the main rate fell short of the limit, except where the proposed supplementary rate had been approved in a poll held in accordance with Schedule 1 to the Bill. The Bill contained similar provisions for precepts and supplementary precepts.

3. Schedule 1 to the Bill contained the arrangements for Polls for approving supplementary rates or precepts. They were to be conducted by returning officers, and were to be held on the first Thursday following the 21 June next after the resolution on the supplementary rate or precept was passed. The electorate were those entitled to vote at elections of council members.

4. The detailed rules for the conduct of the poll were to be contained in regulations made by the Secretary of State, which regulations were required to specify the form of the question to be asked, and could apply, with any necessary modifications, provisions of the Representation of the People Acts.

5. Councils passing resolutions giving rise to a poll were to be required to send to the electorate a statement of the case for the supplementary rate or precept, and councillors who voted against the resolution were to be entitled to have a statement of the case against the precept circulated to the electorate, at the same time. Authorities were prohibited from using any of their other powers for the purposes of advocating the proposed rate or precept. The costs of the poll were to be met by the council proposing the supplementary rate or precept.

ANNEX B

LEGISLATIVE REQUIREMENTS AND TIMETABLE

1. This annex considers the legislative requirements under three headings: income limitation; surcharge payable by those with high incomes; and improvements to the Community Charge Transitional Relief Scheme. It considers when the powers would be needed; whether primary or secondary legislation is required; and, in those cases where primary legislation is needed, it reviews the options for that.

2. The main conclusions are:-

Income Limitation

2.1 Primary legislation would be required. It would be complex and would require careful drafting to limit the risk of legal challenge. The new powers should be operative by 1 March, when shire counties set their budgets and precepts. Account needs to be taken of the possibility that authorities would legally set budgets under the existing statute before the new legislation was passed, calling for transitional arrangements in the new legislation which might require some retrospective effect.

2.2 Even with a Commons guillotine the time required to reach detailed decisions and draft the legislation would make it unrealistic to aim to introduce a bill and have it enacted this Session.

2.3 It would be technically possible to introduce a bill in the spillover, take it through the Commons under a guillotine before the House rises, and then to introduce an identical bill in the Lords at the beginning of the next Session, providing virtually no time for debate when that bill came back to the Commons, on the grounds that the matter had already been discussed. This would increase the chance of achieving enactment in time before local authority budgets are set, but would not necessarily rule out the need for retrospective transitional provisions. It would be an unwelcome innovation, strongly opposed by the Business Managers in both Houses, and is not recommended.

2.4 Assuming a Commons guillotine and an early start to the next Session (no later than 6 November) a bill introduced at the beginning of next Session could be enacted by 1 March. In this case it would almost certainly require retrospective transitional provisions. Such provisions are, however, precedented. This is the course recommended by the Business Managers. The Lord President is considering with the Business Managers the steps which would need to be taken to ensure an early start to the next Session.

Surcharge payable by those with high incomes

2.5 It would be desirable to design such a scheme so that the necessary statutory provisions, which would require primary legislation, could be taken in the 1990-91 Finance Bill.

Community Charge transitional relief

2.6 All the options recommended by officials could be achieved by secondary legislation under existing powers. Such regulations could be made within a month or so of decisions being taken and could therefore be ready this Session if required.

INCOME LIMITATION

Legislative Requirements

3. There are at present no powers under which income limits for individual authorities could be enforced. Primary legislation would be needed to give the Secretary of State a power to calculate income limits and powers to enforce them.

4. There are two models for powers to set income limits:

4.1 a general enabling power under which the Secretary of State would be empowered to set income limits, with the details of those limits to be set out in secondary legislation - either regulations or a Report debated by the House, along the lines of the Revenue Support Grant Distribution Report. The legislation would set out the classes of authority to which the limits might be applied;

4.2 a detailed specific provision which sets out precisely how income limits should be calculated including the source of data for the first year, the period over which they should converge on SSA and the mechanism by which they should converge. This would leave some parameters - such as the year on year maximum increase - to be set by the Secretary of State.

5. The first approach would give the greater flexibility and the shorter legislation. But it would be more susceptible to legal challenge because it left more discretion in the hands of the Secretary of State. This is an extremely important consideration since the setting of income limits is likely to be opposed by almost all of local government whatever its political complexion or its past spending patterns. Preliminary advice

suggests that it would be safer to go for the second approach which would mean more extensive primary legislation.

6. Provisions would be needed to enhance the role of SSAs which are not at present mentioned in the Statute. They are presently under attack in court cases, particularly on charge capping. The legislation would probably have to put a duty on the Secretary of State to calculate an SSA for each year, and to define what that SSA should represent.

7. Ideally the Secretary of State would set the income limits before local authorities set their budgets and to provide that no authority may exceed that limit without his express permission or holding a referendum as appropriate. Any spending above the limit would be ultra vires and enforcement would be through the usual sanctions - possibly surcharge, prohibition of expenditure by auditors ('stop orders'), or Section 114 reports by chief financial officers.

8. We have not yet considered in detail how the legislation might specify the factors to be taken into account in granting derogations, or limits which might be set on those powers (eg maximum derogation of 5% above the income limit). The legislation might have to give the Secretary of State new powers to require information from local authorities by particular dates, although present powers are extensive and could suffice.

9. Different provisions would be needed if the safety valve were to be provided through referenda. These would have to specify timing and the question to be asked, together with rules about campaigning, expenditure, information for chargepayers and similar matters. The development of detailed proposals would be difficult and time-consuming, and the inclusion of provisions such as this would increase the controversiality of the bill.

10. It is also possible that different, transitional, provisions would be needed for 1991/92 if Royal Assent were not achieved much before the end of February 1991 (see para 13 below). If this were so, the length of the bill could be increased considerably.

11. The Annex on General Income Limitation recommends that income limits for 1991/92 should be based on expenditure for 1990/91. But there is no unique definition of expenditure for the year. Local authority estimates will change in the course of the year. Once the policy had been announced it would be in the interest of local authorities to increase their estimates. The legislation would therefore have to provide a definition, probably as the contents of a line or lines on a standard form returned to DOE (and where appropriate, amended in writing) as at a particular date - the day of the announcement. Provision might have to be made to use estimates or later returns for charge capped authorities which may not have returned their forms by

then. Except in the latter respect, this would be similar to the provisions in the 1988 closedown legislation.

12. It is clear that the legislation will be complex and that drafting will take some time after decisions are reached.

Requirement for legislation to be on the Statute Book

13. Ideally, any legislation on expenditure limits should be in place before local authorities make their budgets. Precepting authorities (ie counties, etc) are required to have notified their precepts for the financial year by 1 March. Charging authorities (ie districts and boroughs) are required to have made their budgets by 11 March. Until the new legislation was in force there would be nothing to prevent local authorities from setting their budgets on the basis of existing legislation, notwithstanding their knowledge that the rules would be changed. Some indeed might go out of their way to do this. The legislation might have to cope with this by transitional provisions, which might be complex and have retrospective effect. Depending on the extent to which retrospection was permissible, on which the Attorney General would have to be consulted, enactment by the beginning of March could cease to be a constraint. But widespread retrospective action after budgets have been set and bills issued would, of course, increase the administrative complexity and cost of the new measures, as well as having considerable political drawbacks.

Parliamentary timetable

14. It is impossible to be absolutely precise about the time which such a bill would take in either House. On the assumption that the guillotine was used in the Commons but that time was allowed for 3 or 4 days in Committee, the bill would require about 6 weeks. In the Lords, any bill of substantial length or complexity needs at least 6 weeks for its passage. This period can be shortened by agreement between the usual channels, but that would be unlikely to be available for a bill of this nature.

15. Quicker progress is, of course, possible in relation to emergency measures. A relevant example is the Local Government Finance Act 1987, which had its Commons Second Reading on 12 January 1987, Committee Stage on the floor of the House, and had completed all its Commons stages by 26 January - the fourth sitting week after introduction. In a further 6 weeks the bill had completed its Lords stages.

16. There are two main options on Parliamentary handling:-

16.1 Introduction this session. Enactment this session would require introduction immediately after the Whit Recess, use of the Commons guillotine and adjustment of the

Lords business so that the bill was the only major contentious item requiring its Committee and Report Stages in the spillover. The detailed analysis underlying this conclusion is as follows:

16.1.1 The main constraint is the House of Lords. It is just practicable to take a bill requiring substantial discussion through its Committee, Report and Third Reading stages in the Lords in the spillover, and leave time to achieve Royal Assent. This would require a spillover extending to mid-November (ie a relatively late start to the 1990-91 Session) and that the bill should have achieved its Second Reading in the Lords before the Summer Recess. The implication for the management of the rest of the Lords business would be that all other substantial or controversial bills would have to have completed Committee Stage and all but one to have completed Report Stage in the Lords by the summer recess. Assuming 6 weeks in the Commons, therefore, points to a requirement for introduction in the week beginning 4 June, ie immediately after the Whit Recess.

16.1.2 Even the marginally shorter timetable implied for the Local Government Finance Act 1987 would only allow introduction to be delayed by at best 2 weeks, until around 18 June.

16.1.3 Later introduction would require a quite draconian guillotine timetable in the Commons, possibly coupled with a delay in the summer adjournment, so that the bill could have its Lords Second Reading before the Recess.

16.1.4 The possibility of taking the whole bill through in the spillover seems out of the question. Even with a State Opening on 20 November, there are no more that 6.5 sitting weeks in October and November.

16.2 Legislation next session. Early introduction of a bill next Session would enable the necessary powers to be available by the start of financial year 1991-92. Even with the guillotine in the Commons and pressure for swift progress in the Lords it would be difficult to achieve Royal Assent by the beginning of March, when local authorities in England and Wales are required to set their community charges. Success would depend crucially on an early start to the Session. The analysis underlying this is as follows

16.2.1 The present planning objective is that the next Session should start as early as possible, which has been taken to mean 6 November. On the assumption of immediate introduction and a guillotine timetable of 6

weeks the bill would complete its Commons stages before Christmas.

16.2.2 It would not, however, achieve Lords Second Reading until January. January and February contain roughly seven sitting weeks. Therefore, bearing in mind that there will be other important business in the Lords, the bill could not complete its Lords stages until, at best, end February.

16.2.3 Slippage in the start date of the Session to, in the worst case, 20 November, would make it impossible to complete the Commons stages before Christmas, putting the date for Royal Assent into March.

17. For completeness a third option has been considered. This would involve introducing the bill in the Commons at the beginning of the spillover session and guillotining it so that it had completed its Commons stages by the time the House rose. This would require a spillover of some 6 weeks, involving a return early in October and delaying the start of the next Session until 20 November. The bill would then be introduced in the Lords at the start of the next Session and, when it returned to the Commons, virtually no time would be allowed for discussion on the grounds that the Commons had already dealt with an identical bill at the end of the preceding Session. This device is open to a number of objections. Although it might produce enactment comfortably before the beginning of March 1991 it would not prevent local authorities from taking obstructive action by setting budgets legally under the present powers, so some transitional provisions with limited retrospective effect would still be required. Proceeding in this way would draw significant criticism that Parliamentary procedures were being abused, and undesirable precedents created. For these reasons the Business Managers in both Houses recommend firmly against this approach.

Choice between the options

18. The choice is a difficult one. Attempting to legislate this Session would require that policy be settled and announced before the Whit Recess, and that the bill should be drafted at enormous speed for introduction in the first half of June (the drafting of the 1987 Act took 6 weeks). Even with a substantial spillover, enactment this Session would require a very strict Commons timetable and would raise very considerable business management difficulties in the Lords. It would lead to a late start to the next Session, with knock-on difficulties for the 1990-91 legislative programme. On the other hand, legislation next Session, even with an early start, would be risky, since the consequences of delay would be considerable confusion and uncertainty over the budget-setting process. On balance, however, the option of legislating next Session seems preferable

in providing for a more orderly sequence of policy consideration, announcement and drafting of the necessary legislation. It would be important that the business management consequences of such a decision, both for this Session and next, should be handled carefully and the Lord President is developing contingency plans in discussion with the Lords and Commons Business Managers.

SURCHARGE PAYABLE BY THOSE WITH HIGH INCOMES

19. Primary legislation would also be required to introduce a high-income surcharge. There are two options:-

19.1 1991 Finance Bill. Assuming the surcharge were a central Government charge, paid into the Consolidated Fund, although clearly distinguished from income tax, the necessary legislation could be contained in a Finance Bill.

19.2 If, contrary to officials' firm advice, the proceeds were to be hypothecated into a separate fund (the drawbacks of which are discussed in the relevant Annex) the provisions could not be included in a Finance Bill and would require to be included in the legislation dealing with income limitation, making it even more contentious and casting doubt on the timetables discussed above.

20. It therefore seems highly desirable to design such a scheme so that the powers could be taken in the Finance Bill next Session.

COMMUNITY CHARGE TRANSITIONAL RELIEF

21. DOE are satisfied that all the recommended options on transitional relief (including targeting help at the disabled) could be implemented under existing powers. Past experience on this subject suggests that regulations could be made within a month or so of policy decisions being taken. It would therefore be possible to have any necessary regulations made before the Summer Recess, provided decisions were made in the course of June.

ANNEX C

IMPROVEMENTS TO TRANSITIONAL RELIEF AND COMMUNITY CHARGE BENEFIT

1. This note:

a. summarises the recommendations for improvements to the transitional relief scheme already proposed by the Secretary of State, the broad lines of which have been agreed by other Ministers (paragraphs 7 to 14);

b. considers a new proposal: the use of transitional relief to provide extra help to specific groups, such as young first time payers (paragraphs 16 to 26); and

c. includes a summary of the changes to community charge benefit which have been put forward by the Secretary of State for the Environment, and on which no decisions have yet been taken (Appendix A).

TRANSITIONAL RELIEF: BACKGROUND

2. 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).

3. 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.

4. 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.

5. 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.

6. 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

7. Improvements to the scheme along the following broad lines have already been agreed:

a. extending the period of the scheme (paragraph 8);

b. reducing the rate at which relief is withdrawn after year 1 (paragraph 9);

c. providing relief to cover increased charges arising from withdrawal of the safety net/ILEA grant/low rateable value grant (paragraph 11);

EXTENDING THE PERIOD OF THE SCHEME

8. 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 a 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

9. 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.

10. 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;

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. This is the approach the Secretary of State has recommended.

INCREASES DUE TO WITHDRAWAL OF SAFETY NET AND LRV GRANT

11. 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.

12. 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.

13. 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. The cost of this recommendation would be about £150 million at most over the life of the safety net.

ILEA GRANT

14. 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.

OTHER PROPOSALS

15. In addition to the proposals described above the Secretary of State's paper considered, but did not recommend, a number of other proposals. These together with their costings, are set out in Attachment A to this Appendix.

SPECIAL ASSISTANCE FOR PARTICULAR GROUPS

16. It has been suggested that the transitional relief scheme should be used to provide assistance for people with incomes just too high to qualify for rebates. Groups suggested are young first time payers and disabled people, but not non-working spouses.

DISABLED PEOPLE

17. The transitional relief scheme already provides extra help for disabled people who are not ratepayers. Disabled people who qualify for rates-based relief are treated no differently from other ratepayers, however, though they do have a higher earnings disregard under the community charge benefit system, which allows them to qualify for benefit at a higher income than other claimants.

18. There continues to be pressure for physically disabled people to be exempt from the community charge. The only disability which currently brings exemption is severe mental impairment. The reason for this is that people with severe mental impairment can have no understanding of local issues, or exercise an informed vote, and local accountability therefore cannot work in their case. These arguments do not apply to people who are physically disabled. Because, however, many physically disabled people benefited from special rate rebates under the old system there is a feeling that there should be special provision for them under the new.

19. Disabled persons' rating relief was designed to stop disabled people having to pay more than their neighbours if necessary adaptations to their home increased its rateable value. In a system which is not based on rateable values such relief is not necessary; but this argument is not easily understood by people who believe that they are losing a special rebate.

20. Many disabled people do have very low incomes. Although single disabled people can qualify for community charge benefit, the fact that couples are jointly assessed for benefit has given rise to some dissatisfaction where the earnings of a disabled person's spouse disqualifies the couple from benefit. A fairly common complaint is that the spouse of a disabled person has greater calls on his or her income arising from the partner's disability, though this is to some extent recognised in the higher earnings disregard, and in the availability of other benefits.

21. If it were decided to give further help to disabled people through the transitional relief scheme the most obvious way of doing so would be to allow the extra help, currently available only to disabled people who were not formerly ratepayers, to apply to all disabled chargepayers. This would mean that every disabled chargepayer could apply for relief to reduce the charge to £156, plus any excess of the actual community charge over the assumed community charge. For those who had already been given rates-based relief the extra help would be given in the form of a "top-up". Since charging authorities will not usually have details of disabled people it would be necessary for the extra help to be applied for.

22. We are not able to estimate the cost of providing extra help for all disabled people in this way, but it is unlikely to be more than £20 million. If adopted, the provision would be widely welcomed by disabled people and their representative organisations. Policy on disabled people is the responsibility of the Department of Social Security, who have not been consulted on this matter.

YOUNG PEOPLE

23. So far as young people are concerned, if the criterion for extra help is low income then it would be difficult to justify providing it through the transitional relief scheme, which does not currently contain a means test. In introducing such a test into the scheme it would be difficult to explain why the community charge benefit scheme, which has its own means test, and is specifically designed to help people on low incomes, would not be a more appropriate vehicle for assistance. It would be an admission that the benefit scheme did not extend far enough up the income scale.

24. On the other hand, help for young first-time payers which did not include a means test would involve offering extra help to a significant number of people who did not need it. But all students currently qualify for a reduced rate of charge irrespective of their income, and a similar blanket approach for young people would not therefore be unprecedented.

25. If it were decided to provide help for young people through transitional relief there are several possible approaches:

a. provide extra help for young non-ratepayers exactly parallel to the extra help currently provided for elderly and disabled people;

b. provide that young people who qualify for rates-based relief can apply for a special top-up to reduce their charge even further.

c. do both of the above (ie provide relief at "top-up" level for all chargepayers aged between, say, 18 and 21, irrespective of their former ratepaying status). Relief would be phased out in the normal way;

d. provide phasing for young people so that, say, 18 year olds pay 25% of the charge, with the proportion increasing to 100% when the young person reaches a certain age (which could be anything between 21 and 24).

26. If either of the first two were adopted it would be haphazard in its coverage. Many young people in similar circumstances would be treated differently, though option (a) is specifically targeted at young first-time payers. It would, however, be difficult to police, since it would be impossible to check the truth of statements that a young person living with his or her parents had previously made no contribution to the rates.

27. Options (c) and (d) would help all young people. Option (d) would be easy to explain, but would be expensive, and departs rather a long way from the original intention of transitional relief; there must be some doubt whether it falls within the scope of the powers.

Conclusion

28. The obvious way of helping young first-time payers on low incomes is through the benefit system. Because of the difficulty of explaining why the benefit scheme was considered inadequate to do the job, help through TR based on a means test is not an attractive option.

29. Subject to the existing powers being adequate, a scheme on the lines of option (c) and option (d) in paragraph 24 above would avoid this difficulty, but would be expensive because it would help all young chargepayers.

30. The use of the TR powers to help young people, is not, therefore, recommended. If, however, it is felt that provision should be made under TR for young people then option (a), which is targeted specifically at young first-time payers, is probably the most logical approach, though it will be almost impossible to ensure that those who claim it were not formerly contributing to rates.

Department of the Environment

10 May 1990

Note: not covered in Cabinet Office paper.

APPENDIX A TO ANNEX C

COMMUNITY CHARGE BENEFIT

1. This note summarises the three possible options for changes in community charge benefit (CCB) put forward by the Secretary of State for the Environment:

a. doubling the earnings disregard (ie the amount of income a person may earn before his entitlement to benefit starts to be reduced);

b. the introduction of a differential taper (the taper is the amount by which benefit is reduced for every £1 of income above the earnings disregard); and

c. further changes in the capital rules (which determine the amount of capital a person may hold before his entitlement begins to reduce, and the rate at which his benefit reduces to take account of assumed income from capital).

2. The estimates in this paper are necessarily provisional; DSS would need to be consulted before any firm figures could be given. All estimates are for England only, and are likely to be of the order of 80% of the GB figures.

3. An estimated 10 million people are already expected to receive CCB, with 5 million getting maximum 80% rebates. The 15% taper for CCB is significantly more generous than the earlier 20% taper for rate rebates. Total expenditure on CCB in 1990-91 in GB is estimated at £2½ billion (compared with £1½ billion on rate rebates in England and Wales plus CCB in Scotland in 1989-90). CCB already covers one chargepayer in four and over £1 in every £6 of community charge revenue.

OPTION 1: DOUBLING EARNINGS DISREGARDS

4. The option under consideration is to double the disregard, for CCB only, from £5 to £10 a week for single persons, and from £10 to £20 for couples. The present disregards are the same for all the income-related benefits. The aim would be to extend the coverage of rebates further up the income scale, in order to help those who just fail to qualify for benefit. The community charge can form a substantial part of the net weekly income of such people. It would help those of the 5 million people on the taper who were earners, and a further 300,000 people might receive some CCB for the first time. Gainers would get up to 75p a week (£1.50 for couples). It would not help pensioners or others not in employment: by definition, changing the earnings disregard only helps earners. The cost could be up to £100 million a year if it could be restricted to CCB, but another £170 million could be added to this if the change were extended to housing benefit.

5. There would be strong pressure to extend such a change to income support. The effect would be similar to that of adjusting

the taper, but the latter option would not exclude non-earners such as pensioners.

OPTION 2: DIFFERENTIAL TAPER

6. This would involve maintaining the slope of the taper at 15% for income up to a certain point above the threshold, and then reducing it to 10%. The aim is the same as that of option 1, that of extending benefit coverage further up the income scale, but it would be cheaper, since those near the beginning of the taper, where help is already generous, would not receive any extra benefit. Precise costs would depend on exactly where the change in the taper occurred, but would be less than those of option 1. There could be pressure to extend the change to other benefits; but the slope of the CCB taper already differs from that of the housing benefit taper, and it should therefore be easier to resist such pressure than in the case of the other two options discussed. The change would require amendment of local authorities' benefit software. It would involve further complexity in the system: different switchover points from 15% to 10% would be required for different categories of claimant. The effect of the change would be to help more people; but it would no doubt be criticised because those with higher incomes within the taper range would be treated more generously.

7. A simple reduction in the slope of the taper throughout its length would have the same effect in terms of numbers of extra people benefiting, but would be more expensive, since it would help all those on the taper. A change to 12½% would help 970,000 people (630,000 of them coming into benefit for the first time) and would cost £160 million; a change to 10% would help at least 2½ million people (1¾ million of them coming into benefit for the first time) and would cost £400 million.

FURTHER CHANGES IN CAPITAL RULES

8. The proposal is to change the assumed income from capital from £1 per £250 above £3,000 to £1 per £400 above £3,000.

9. The aim of this would be twofold:

a. to complement the increase in the upper capital limit to £16,000 announced in the Budget, the impact of which was lessened by criticism that some people would not benefit because the tariff deduction took them out of benefit at capital levels below £16,000; and

b. to counteract criticism that the implied rate of return on capital is unrealistic. Critics of the system have drawn attention to the marginal rate of almost 21% implied by imputing income of £1 a week to capital of £250. Even if the tariff rate is regarded as income from the whole of the savings the implied rate can be as high as 16.9% at the upper limit. The taper ensures that only 15p is deducted for each £1 of assumed income, so that on the maximum savings of £16,000 the amount of benefit deducted is £7.80 (equal to a rate of return of 2½%).

10. The cost of this option could be £40 million if the change were restricted to CCB. The Budget changes, however, covered both housing benefit and community charge benefit, and it would therefore be difficult to exclude housing benefit from any further adjustment. This would more than double the cost. The cost of an alternative approach, doubling the lower limit from £3,000 to £6,000 would be £65 million in CCB, but extending it to income support and housing benefit could add a further £200 million.

WIDER IMPLICATIONS

11. The integration of the various income-related benefits (income support, family credit, housing benefit and community charge benefit) is based on the assumption that people on low incomes need a certain amount to live on, and the same sort of help with various calls on their resources. Any change in the arrangements for one benefit, with the possible exception of the taper, will lead to pressure for similar changes in the others, and go against the integrated structure of the benefit system. There are already different tapers for CCB, housing benefit and family credit; and in the first year of the operation of the community charge in Scotland the taper for rate rebates in England was different from that for community charge rebates in Scotland.

APPENDIX B TO ANNEX C

POSSIBLE CHANGES TO THE TRANSITIONAL RELIEF SCHEME WHICH HAVE BEEN CONSIDERED BUT NOT RECOMMENDED (SHOWING, WHERE KNOWN, THE APPROXIMATE 1990-91 COST)

a. Reducing the threshold from £3 a week to £2 a week (cost £250 million).

b. Basing relief on the actual number of community charges paid in a property rather than a maximum of two.

c. Basing the calculation on actual rather than assumed community charges (cost £1.2 billion)

d. Allowing relief to continue when a person moves.

e. Allowing people to qualify after 1 April 1990.

f. Allowing relief in domestic properties which do not have a separate entry on the valuation list.

g. relaunching the scheme from scratch in 1991-92.

ANNEX D

HIGHER INCOMES LEVY

Note by Officials

This annex outlines a flat rate levy, equal to the average community charge, on individuals with incomes above a certain amount. The possibility of a double levy for people with income above some specified higher level (which might be twice the threshold for the basic levy) is also considered.

Tax base

2. The proposal is that the levy would be administered by the Inland Revenue. This points to using taxable income as the appropriate measure of income for the levy, with all the usual income tax allowances and reliefs. Ministers would, however, still be able to target the surcharge broadly on people with a given level of gross income, simply by adjusting for the average level of reliefs and allowances. This would produce roughly the same result on average, though there are wide variations between the reliefs and allowances different people can claim. For example, if the aim were to target people with gross incomes above £50,000, the charge could apply to those with taxable incomes above around £40,000. The levy would apply separately to a husband and wife.

3. The scope of the community charge differs from that of income tax. For example, the community charge does not apply in Northern Ireland, to children or to non-residents who do not have homes here but may be liable to income tax. Administratively, it would be simpler to apply the levy to everyone whose taxable income exceeded the specified amount, even if they were not liable to the community charge.

4. Alternatively, the levy could apply only to those individuals liable to community charge at some time during the relevant income tax year. That would increase administrative costs because exempt cases would have to be identified individually. And it would have the perverse effect of encouraging people to avoid the community charge, thereby also avoiding the levy. A less troublesome approach would be to apply the levy to income tax payers but exclude particular categories, broadly equating to groups exempt from the community charge (eg children). Another possible exclusion would be for people living in Northern Ireland and not owning property in Great Britain. But this would present practical difficulties because the Revenue would not at present necessarily have complete or up-to-date information to judge whether the exemption was due. And a relief of this kind for Northern Ireland residents might have to be extended to other non-residents.

SECRET AND PERSONAL

Collection of the levy

5. About a third of the people liable to the levy would be outside the PAYE system (either because they are self-employed or because their income comes from investments.) For these there would be no alternative to making an assessment for the levy and collecting it directly from the individual concerned.

6. For employees it would in principle be possible to use the PAYE system to collect the levy. But the Revenue believe the results would be patchy and a large number of cases would need to be put right after the end of the tax year. To collect through PAYE during 1991-92 would also require legislation in the present Finance Bill or a second Finance Bill later this year (and even then could only be done by the Revenue attempting to identify potential levy-payers and reducing their PAYE codes). The Revenue would therefore envisage making separate assessments which would be explicitly for the purposes of the levy, and only for the levy, in all cases.

7. Capital gains tax and higher rate income tax on investment income are assessed to tax after the end of the tax year and become payable on the following 1 December. If the levy were collected in the same way, and not through PAYE, the necessary legislation could be taken in the 1991 Finance Bill. The first levy could be collected either

i. on 1 December 1992, based on 1991-92 levels of taxable income, or

ii. on 1 December 1991, based on 1990-91 levels of taxable income.

Option i. would be simpler. It would however mean that no payments of levy would be made until December 1992.

8. Under option ii., payments would come in a year earlier, starting in December 1991. But option ii. would be more troublesome to introduce than Option i. because there would be less time to make the necessary preparations, work on the levy could not be fully integrated with income tax work in 1991/92 (since the legislation would not be in place until 4 months of the year had passed), and the additional work would fall at a time when the Revenue is already under particular pressure implementing other policy changes. Moreover, it could involve some appearance of retrospection when announced in July, since it would apply to income already earned or received in the first four months of 1990-91.

Legislation

9. Provided that the levy proceeds were paid into the Consolidated Fund and not formally hypothecated to local authorities (see further below), legislation for the levy could be included in a Finance Bill. If the levy were collected as sketched in paragraph 7 above, and not through PAYE, the necessary powers could be included in the 1991 Finance Bill. A levy which was formally hypothecated to local authority finances would almost certainly have to be included in a separate Local Government Finance Bill.

<u>Amount of levy</u>

10. The amount of the levy could be based either on the community charge for standard spending (CCSS) or on the average community charge for a specified year. If the estimated proceeds from the levy were to be seen as forming one element in the grant paid to local authorities, and importance was attached to making this link as close as possible, there would be advantage in relating the amount of the levy in respect of any given year to a community charge figure which would be known at the time when the grant settlement was announced. That in turn would point to basing the levy to be taken into account in the 1991-92 grant settlement, announced in July and autumn 1990, on either

a. the community charge for standard spending (CCSS) set by the Government for 1991-92, or

b. the average community charge for 1990-91.

11. In the first year of the system, the levy would be taken into account in the grant settlement for 1991-92. Under option ii. in paragraph 7, moreover, it would be collected during 1991-92. These considerations might point to relating the amount of the levy to a community charge figure for 1991-92, which could only be the CCSS. There might however be presentational advantage in relating the levy to average <u>actual</u> community charges as against an indicative figure promulgated by the Government. With the timing option in paragraph 7, moreover, the levy would be collected alongside higher rate tax assessments for 1990-91. These considerations would point to basing the levy on the average community charge for 1990-91 (as in option b. above).

12. If the later timing option in paragraph 7(i) were chosen, or a looser link between the amount of the individual levy and the aggregate levy element in the overall grant for local authorities were thought acceptable, the levy could be based on community charges in 1991-92. Further consideration would have to be given to the setting of the levy in later years.

<u>Accounting for the levy</u>

13. It would be for consideration how proceeds from the levy would be treated and accounted for and in particular whether these proceeds should or should not be formally hypothecated to local authorities. There are two particular questions:

i. Should formal legislative provision be sought for a specific payment of estimated higher rate levy proceeds to local authorities (like the 'distributable amount' provisions for the NNDR)?

ii. Should the levy proceeds be specifically noted as Consolidated Fund Extra Receipts on the Vote for grants to local authorities?

14. On the first issue, it would seem preferable to avoid complicating the new and already complicated legislation which is likely to be needed with further provisions to define a 'higher incomes levy' element within the total grant paid to local authorities. The Government would be able nevertheless to make the presentational point that the availability of levy receipts of an estimated £x million had enabled a higher level of grant to be paid than might otherwise have been possible, with consequent benefits to the chargepayer.

15. On the second issue, it would not seem practicable to take specific note of the levy proceeds on the Vote for grants to local authorities. Although the amounts of levy charged could be identified, the amounts actually paid in respect of a particular tax year would become known only approximately, and after a passage of time. The Revenue may never know the precise figures because of difficulties in identifying cases where the levy is charged but not paid. For these and other reasons, the yield would best be paid into the Consolidated Fund like other tax revenues and not mechanically hypothecated to local authority finance. This approach would also remove possible complications about making provision for such a levy in a Finance Bill.

Graduation of the levy

16. With a simple flat-rate levy a small increase in income which takes an individual over the threshold would lead to a full payment of levy, leaving the individual worse off overall. If, for example, the surcharge were £350 on taxable incomes of £40,000 or more, anyone earning taxable income between £40,000 and £40,580 would be worse off than anyone earning taxable income of £39,999. Ministers might consider this acceptable given the income levels of the people concerned. Alternatively, with some extra complexity and a extra administrative cost, a simple taper could prevent this. For example, if the levy were £350 this could be phased in over the band of income £700 above the threshold for the levy, producing an effective tax rate in this band of 90 per cent including the higher rate of income tax. The combined rate could be reduced to 50 per cent by extending the marginal band of income to £3,500. But a significant proportion of levy payers (perhaps 15 to 20 per cent) would then be within the marginal band, increasing its complexity and staff cost.

Double charge

17. A double charge could be imposed on individuals whose income was above some higher threshold. Unless the higher threshold was close to the basic threshold a double charge would not greatly increase the yield. This proposal would even more closely approximate to a new structure of progressive higher rates of income tax, and would encourage the Government's critics to press for further progressivity in income tax or the new levy, or in the community charge itself.

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SECRET AND PERSONAL

Structure of the levy

18. The following table shows broad estimates for 1990-91 income levels at different taxable income thresholds for the levy of

a. the number of individuals chargeable;

b. the yield, assuming a rate of £350 (the average 1990-91 charge in Great Britain);

c. the yield assuming a double charge on individuals whose income was twice the threshold for the basic levy; and

d. the additional ongoing number of Inland Revenue staff needed to administer the levy.

Threshold (1990-91 taxable income	Individuals liable	Yield with single charge	Yield with double charge	Extra staff needed (full-time equivalent, on-going)
	(a)	(b)	(c)	(d)
£	('000)	£m	£m	
25,000	1,170	410	500	520
30,000	810	280	340	360
35,000	580	200	240	260
40,000	425	150	180	190
45,000	330	120	140	150
50,000	260	90	110	120
60,000	165	60	70	70
70,000	115	40	50	50
80,000	85	30	30	40
90,000	65	20	30	30
100,000	50	20	20	25

19. For 1991-92 income levels, the yield would be about 15 to 20 per cent higher than the amounts shown above. For comparison, to raise £100 million through the Community Charge requires an average charge of £2.50 in Great Britain.

20. The double charge could apply from a threshold which was not twice the threshold for the basic levy. For example, if it applied to incomes above £100,000 the total yield would be £20 million more than the yield from a single charge.

21. Although conceptually simple, the levy would inevitably be somewhat staff-intensive to administer because of the number of cases involved and the complexity of taxpayers' affairs at these income levels. An individual's total taxable income would have to be identified (which is not usually necessary for income tax); a separate assessment would have to be made in each case, and amended if a threshold were crossed as a result of a change in an individual's estimated taxable income; appeals would need to be dealt with, and payment of the levy stood over; in some cases the Revenue would need to take action to enforce payment of the assessed tax, and in all cases account for the levy received. The staff cost would depend on the number of cases handled, not the

amount of the charge: so the higher the threshold the lower the additional staff cost. In the first year there would be setting up costs in addition to the costs shown in the table (higher for a 1991 start than for 1992). This relates to a straightforward levy on all taxable income. If the levy were made more elaborate, for example to bring its scope more into line with the community charge, or to introduce a broader marginal band, the staff cost would increase.

Use of estimated proceeds

22. As has been argued above, the simplest way of using the surcharge would be notionally to identify within grants paid to local authorities or to chargepayers a sum equivalent to its expected yield, while avoiding statutory provisions or formally hypothecated payments of levy proceeds. The expected yield could be identified, perhaps in 'per adult' terms as well as in aggregate, when presenting the grant settlement.

23. An alternative would be to present the proceeds of the surcharge as notionally funding additions to particular grants, eg the community charge transitional relief, or community charge benefit. This would be easier in the first year than in later years.

24. If these linkages were presentational rather than statutory, the Government could keep its options open on the precise presentation until announcement of the main grant settlement proposals.

Territorial implications

25. The implications for Scotland, Wales and Northern Ireland would also need to be considered. If Ministers wished to introduce statutory provisions for payments to local authorities from the levy proceeds together with a degree of formal hypothecation, it would be necessary to consider what parallel arrangements could be made for the three territories, bearing in mind the absence of any community charge in Northern Ireland and the lower average community charges in Scotland and (particularly) Wales. With a more informal linkage between estimated higher income levy proceeds and local authority finances, as sketched above, the presentation would be much simpler - presumably along the lines that the levy proceeds enabled Government grants to all areas of the country to be maintained at higher levels than might otherwise have been possible.

Classification

26. Assuming the surcharge were a Central government charge, paid into the Consolidated Fund, the legislation, which would clearly distinguish the surcharge from income tax (although many of the income tax management provisions would have to apply), could be contained in a Finance Bill. Given that the surcharge would be a levy on income collected by the Inland Revenue, we believe it would have to be classified as a form of income tax.

RPI

27. We have not consulted CSO or legal experts at this stage. Subject to that we have little doubt that, if the levy were set up as a surcharge on higher rate taxpayers above a defined level of taxable income, there would be no effect on the RPI and no need to consult the RPIAC. If it were set up as part of the community charge system, however, the RPIAC might have to be consulted (even though people paying the levy would be unlikely to come from index households) and might even be tempted to review their position on RPI treatment of the community charge generally.

Time of announcement

28. The intention to introduce a levy could be announced in a July package, although some of the fine details might not have been finalised by then.

Summary of issues for decision

29. The main issues, discussed above, which would need to be resolved if Ministers wish to proceed with the introduction of a levy are:

i. to whom would the levy apply? (Paragraphs 2-4);

ii. time and method of first collection (December 1991 versus December 1992) (paragraphs 5-8);

iii. legislative vehicle (paragraph 9);

iv. amount of levy (paragraphs 10-12);

v. accounting arrangements and linkage with local authority finance (paragraphs 13-15);

vi. graduation (paragraph 16);

vii. double charge (paragraph 17);

viii. structure (paragraphs 18-21);

ix. use of estimated proceeds (paragraphs 22-24); and

x. territorial implications (paragraph 25).

HM Treasury
8 May 1990

ANNEX E

CONFIDENTIAL

THE AUDIT COMMISSION, AUDITORS AND LOCAL AUTHORITIES

INTRODUCTION

1. In discussion between Ministers on 26 April of the community charge, it was agreed that further consideration should be given to whether there might be a role for the Audit Commission to go into those authorities with the highest overspending to help them put their houses in order.

2. This paper sets out by way of background the present statutory arrangements governing the work of the Audit Commission and local authority's auditors; describes the principal powers and duties of the auditor and how the Commission assists the auditor, particularly in relation to value for money; and considers some ways of strengthening the system and the possible use of H.M. Inspectorates as an alternative to the Commission.

3. One background point to be noted is that internal audit concerned with value for money as well as propriety has been widely introduced in local government, as elsewhere, in recent decades.

THE AUDIT COMMISSION

4. The Audit Commission is established under the Local Government Finance Act 1982 (LGFA 82) as an independent body to

(i) appoint the external auditors for local authorities; and

(ii) help those authorities ensure that they provide their services economically, efficiently and effectively.

5. The Commission's members are appointed jointly by the Secretaries of State for the Environment and Wales (after statutory consultation with the local authority associations and bodies representing accountants and local authority employees) and are paid by Department. Subject to the limited powers of direction noted below it is however independent of the Secretary of State and of the local authorities. The cost of the Commission's operations, including its audit and value for money work, are paid for by the local authorities through the fees charged for audit, not by the Secretary of State.

The Secretary of State's powers of direction

6. The Secretary of State has power to give the Commission directions as to the discharge of its functions. This power extends however only to the Commission's functions - it cannot be used to direct the auditor (see paragraph 8 below) - and the power may only be used after consultation with the Commission, and such local authority associations and accountancy bodies as appear to him to be appropriate. Nor can the power be used to direct action in respect of a particular authority.

7. The Secretary of State also has a power under s.22(2) of LGFA 82 to require the Commission to direct an extraordinary audit of a local authority's accounts by an auditor or auditors appointed by the Commission.

Role of the Commission

8. The Commission carries out its work in four principal ways:

(i) by appointing auditors to audit the accounts of all local authorities in England and Wales and some other specified bodies;

(ii) by undertaking and publishing studies which make recommendations at the national level for improving economy, efficiency and effectiveness of services;

(iii) by encouraging authorities to learn from one another and thus to apply good management practice which has proved effective elsewhere; and

(iv) by carrying out studies to investigate the impact on local authorities of legislation or central government action or advice.

The Government intends to extend the remit of the Audit Commission to the Health Service. This is provided for in the NHS and Community Care Bill now at Report Stage in the Lords; the Local Government and Housing Act 1989 gives the Commission paving powers enabling it to audit Health Authorities on an agency basis for the Secretary of State for Health.

THE ROLE OF THE AUDITOR

9. The local authority's auditor, even those on the Commission's staff, acts in a personal capacity and is independent of the Secretary of State, the Commission and the local authority to which he is appointed.

10. The Auditor's work is guided by the Commission's "Code of Local Government Audit Practice for England and Wales" (the Code), which is required to be subject to the approval of both Houses at intervals of not more than five years. Revisions can be made in the meantime without further approval. The code was last approved on 9 February 1988 and revised on 7 July 1988. Further revisions will be needed following enactment of the National Health Service and Community Care Bill.

11. The code is divided into three principal sections:

1. **General Duties of an Auditor**, covering the basic approach; independence; professional care; responsibilities to the public; exercise of powers in certain cases of illegality or impropriety; questions about and objections to the accounts; and exercise of powers to issue a prohibition order or to apply for judicial review.

2. **Conducting the Audit**, covering audit practice; responsibilities in relation to fraud, irregularities and corruption; and responsibility of auditor in relation to value for money.

3. **Reporting the Audit**, covering reports in the public interest; management letters; the auditor's certificate and opinion; and qualification to an auditor's opinion.

Regularity and propriety

12. The first section, and that part of the second section which deals essentially with various aspects of regularity and propriety, need little elaboration. However, it is relevant that most of the auditor's statutory disciplinary powers relate to propriety rather than his value for money role. (For example, if the auditor considers that a local authority is doing, or has done, something which it has no legal right to do, he can, if appropriate, apply to the courts for a declaration that the item concerned is unlawful. If the auditor considers that it is in the public interest to produce a report, either immediately or at the end of an audit, he will do so and send it to the authority, which must consider it and make it available to members of the public and press.)

VALUE FOR MONEY

Auditor's responsibilities

13. The LGFA 82 requires the auditor to satisfy himself that the authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code defines these three concepts and directs the auditor to consider the management practice required to deliver them including financial and manpower analysis and control, asset management, specific initiatives to achieve these aims and proper codification of responsibility, authority and accountability.

14. The Code makes it clear that it is not the role of the auditor to question policy but he should consider the effects and examine how policy decisions are reached. To these ends the auditor should consider whether policy decisions are taken with appropriate authority and are based on appropriate analysis including alternatives; whether subsequent decisions are consistent with aims; whether there is conflict between different policy aims; and whether alternative levels of service have been considered as costs and circumstances change.

15. The auditor has two specific actions which he can take to add force to his value for money audit of an authority:-

(a) **Reports in the public interest**

The auditor is required to consider whether, in the public interest, he should make a report on any matter so it may be considered by the authority or be brought to the attention of the public. (These reports can refer to matters of regularity and propriety as well as value for money.) The auditor must consider whether the public interest requires an immediate report rather than one at the conclusion of the audit. Materiality is a key consideration. According to the Code such reports should

be constructive, avoid generating defensiveness and opposition, and emphasise the steps necessary to effect improvements.

(b) Management letters

The auditor will normally write memoranda for chief officers and discuss with them matters which are to be in any report. In addition the Code requires the auditor to summarise in a management letter for members of the authority the significant matters that have arisen in the course of the audit and the officers' response. A draft of the letter should be discussed first with the officers. The letter should then provide an agenda for a meeting with members. The management letter should be issued within nine months of the end of the financial year concerned.

Audit Commission's work on value for money

a. Statistical profiles

16. The Commission helps auditors in their value for money work by publishing a statistical "profile" for each council each year. The profile collects information on all major council activities and the demographic background, compares unit costs and level of provision with the average for similar councils, and highlights areas which may be worth examining in more detail.

b. Special studies

17. The Commission carries out special studies in areas which appear to offer good opportunities for the achievement of better value for money and detailed evaluation of the effects on local government of various aspects of central government control over its revenue and capital spending. (The list at Annex A includes details of the special studies undertaken by the Commission.) Inter alia, these studies have suggested since 1982 that a total

of nearly £0.9 billion per annum could be saved by authorities by more efficient operations. Some £350 million of these savings have been made. The remaining £550 million cannot be made in one year however and some require prior capital expenditure. (The Commission has been asked to revise these estimates.) It should be noted that the auditor and the Commission in their studies have on occasion (eg in the case of highways maintenance) recommended more, rather than less expenditure.

c. Management and Information Papers

18. The Commission also publishes a series of management papers and information papers on the general performance of authorities which contain recommendation on how authorities might improve their performance on the function concerned. Details of these papers are included in Annex A. For instance in December 1989 it published a management paper aimed at stimulating debate about how to build strong management into local authorities. The paper concluded that, although authorities have generally recognised that performance review is essential for good management, most councils could improve the way they go about it.

19. The paper discussed the respective roles of members and officers and advocated that the chief executive should have the particular responsibility and authority for the way in which the system operates, ie:

- ensuring that each department has an effective performance review system

- monitoring key aspects of each department's performance, reviewing results with its chief officers and where possible agreeing corrective action;

- organising the council's top-level performance review system - in particular providing regular monitoring information to its central policy-making committee;

- highlighting particular issues for the attention of this group; and

- recommending which services or activities should be subject to an in-depth review of performance; agreeing the arrangements for doing this with the appropriate chief officer; and reviewing departments' progress in implementing changes.

STRENGTHENING VALUE FOR MONEY INQUIRY

The Commission and auditors

20. In principle, the Commission and auditors have considerable scope for value for money inquiry and for drawing attention to inefficiency. Much however depends on the priorities and style of the Commission and the individual auditor. It might be possible to encourage or require the Commission to deploy extra resources so as to shift the focus of auditors' activities more towards value for money work. The Secretary of State could also make use of his power under S.22(2) of the 1982 Act to direct an extraordinary audit specifically to ask the auditor to undertake a major review of an authority's VFM performance. The Commission could direct that such an audit be conducted by someone other than the authority's normal auditor, but it is doubtful if the Secretary of State could require the Commission to proceed in that way.

21. Beyond that the weakness of the system is that there is no obligation on the authority to take corrective action in response to management letters and public interest reports since the powerful sanctions of repayment, disqualification and rectification of accounts apply only to unlawful expenditure and wilful misconduct.

22. Possible ways of strengthening these powers are:

a. to legislate, as already agreed by Ministers, for immediate publication of public interest reports - sometimes authorities try in effect to conceal embarrassing reports (the provisions had to be dropped from the Local Government and Housing Bill last Session, and have not been found room in this Session's National Health Service and Community Care Bill).

b. to require the officers and/or members to respond in writing to the management letter;

c. to require the auditor's management letter to be published in local press in summary form;

d. to require the members' response to be made public, possibly in the local press in summary form; and

e. to require executive summaries of the auditor's management letter and/or the members' responses to be sent out with community charge bills (though these are probably already overloaded with unread paper).

f. if the Secretary of State had a power to give derogation under a system of expenditure limitation, power might be taken to impose conditions, e.g. to require a VFM review of the authority's operations by consultants.

g. to improve the Secretary of State's power to direct extraordinary audit, if that proved on eaxamination to be desirable.

23. Consistent with the notion of audit, most of the auditor's work in essence looks back at the performance of the authority. It might be possible however for the auditor, given his familiarity with an authority's finances, to be required (or empowered) to comment on an authority's budget proposals. However, the timetable of budgeting and charge setting is so constrained that it would be necessary for the auditor to put himself alongside the authority throughout its budgetting process if he were to be able to have any constructive influence. The more this is done the greater the risk that he would in effect begin to usurp the policy role of the members and the executive responsibility of officers rather than confine himself to matters of efficiency and effectiveness (his current statutory remit).

24. Because of the statutory framework, reflecting the policy objective of giving audit and efficiency matters to an independent body, the determination of initiative, priorities, and style lies with the Commission. More use could perhaps be made of the Secretary of State's power to direct extraordinary audit specifically to identify value for money savings, but this would be a novel use of the power open to judicial review, and the problem of enforcing any recommendations following from the audit would remain.

Other possibilities

25. It might be possible to make local authorities subject to some regular inspection by an inspectorate with a duty to report to the authorities and Ministers on the authorities' value for money performance. There are four inspectorates which might act as a model: HM Inspectorate of Schools, HM Inspectors of Constabulary, the fire service Inspectorate, the social services inspectorate. The schools and police Inspectorates are described in Annex B.

26. By statute and long custom these inspectorates are concerned with professional standards and quality. It is conceivable however that they could be given additional responsibilities for value for money which would have the advantage of comments on input and output performance from bodies under Ministerial direction which could comment on the main spending services. This would require a major change of culture for these bodies, however. And it would take them into a field which would essentially duplicate the VFM work of the auditor and audit commission - though it can be argued that, bearing in mind to the degree of grant support from government, there is something rather unsatisfactory about having bodies under direct Ministerial influence which encourage higher standards (and therefore expenditure), while the body and individuals who are the external monitors of efficiency and effectiveness are largely outside ministerial influence.

CONCLUSION

27. There are already comprehensive arrangements for reviewing the economy, effectiveness and efficiency of local authorities' operations under the auspices of the Audit Commission. Sanctions to ensure that the auditor's VFM recommendations are acted upon are fairly modest. They are not easy to strengthen, but the measures set out in paragraph 22 above could be taken. It would be a radical step to alter the responsibilities and traditions of the Departmental inspectorates.

ANNEX A

LIST OF AUDIT COMMISSION REPORTS PUBLISHED SINCE FEB 1985

A. SECTION 26 STUDIES

Under Section 26 of the Local Government Finance Act 1982, the Audit Commission has a duty to undertake comparative and other studies to enable it to make recommendations for improving economy, efficiency and effectiveness (value for money) in the provision of local authority services.

COMPETITION	
Competitive management of parks and green spaces	1988
EDUCATION	
Towards better management of secondary education	1986
Obtaining better value from further education	1985
FINANCE	
Improving cash flow management in local government	1986
HOUSING	
Improving council house maintenance	1986
Managing the crisis in council housing	1986
RECREATION	
Sport for Whom: clarifying the Local authority role in sport and recreation	1989
SOCIAL SERVICES	
Managing social services for the elderly more effectively	1985
TECHNICAL SERVICES	
Building maintenance direct labour organisations: a management handbook	1989
Improving highways maintenance: a management handbook	1988
Improving the condition of local authority roads	1988
Vehicle availability bonus scheme	1988
Local authority property: a management handbook	1988
Local authority property: a management overview	1988
Improving supply management in local authorities	1987
Improving highways agency arrangements between counties and districts	1987
Saving energy in local government buildings	1985

B. SECTION 27 STUDIES

Under Section 27, the Commission must report on the impact of statutory provisions or any minsterial directions or guidance on such value for money.

Urban regeneration and economic development	1989
The Probation service: Promoting value for money	1989
Housing the homeless: the local authority role	1989
Making a reality of community care	1986
Capital expenditure controls in local government in England	1985

C. MANAGEMENT AND PERFORMANCE REVIEW

Performance review in local government: a handbook for auditors and local authorities	1986

D. MANAGEMENT PAPERS

The Competitive Council	1988
The Chief Executive in Local Government	1989
Better Financial Management	1989
Retaining and recruiting professionals	1989
Managing Services Effectively - Performance Review	1989
Management Buy-Outs: Public interest or Private Gain	1990
Preparing an Information Technology Strategy	1990

E. POLICE PAPERS

Administrative support for operational police officers	1988
Improving the performance of the fingerprint service	1988
The Management of Police Training	1989

F. INFORMATION PAPERS

Survey of Local Authority Housing Rent Arrears	1989

G. OCCASIONAL PAPERS

Value for money in the fire service	1986
The Management of London's authorities	1987
Competitiveness and contracting out of local services	1987
Community care: developing services for people with a mental handicap	1987
Delegation of management authority to schools	1988
Losing an Empire, Finding a Role: The LEA of the future	1989
Developing Community Care for Adults with a Mental Handicap	1989
Managing Cemeteries and Crematoria	1989

ANNEX B

HM Inspectorate of Schools has not specific statutory remit but its role was defined in the 1982 Rayner Scrutiny thus:

> "(a) to assess standards and trends throughout the education system and to advise central government on the state of the system nationally, on the basis of its independent professional judgement. This is [HMI's] first and overriding duty; and at the same time
>
> (b) to contribute to the maintenance and improvements of standards in the system by the identification and dissemination of good practice; by bringing to notice weaknesses which require attention; and by advice to those with a direct responsibility for the operation of the service including teachers, heads and principals, governing bodies and local education authorities."

HM Inspectors of Constabulary are appointed by the Secretary of State and one is appointed as chief inspector. The Police Act 1964 provides that

- it shall be the duty of the inspector of constabulary to inspect, and report to the Secretary of State on the efficiency of, all police forces maintained under Section 1 of this Act and the City of London policy force;

- the inspectors of constabulary shall carry out such other duties for the purpose of furthering police efficiency as the Secretary of State may from time to time direct;

- the chief inspector of constabulary shall in each year submit to the Secretary of State a report in such form as the Secretary of State may direct, and the Secretary of State shall lay a copy of that report before Parliament.

In practice, the main function of inspectors is to carry out an annual inspection of each of the regional police forces in England and Wales (this excludes the Metropolitan Police). For this purpose they draw on information and observations from a variety of sources, including

- a computerised Matrix of Indicators, providing comparative statistics in each of 10 broad areas of police work;

- Inspection Notes, compiled by all forces in response to an annual wide-ranging Home Office questionnaire;

- other written sources such as the Chief Constable's Annual Report;

- a formal Inspection Visit.

From 1990 these reports are to be published. They are expected to contain comments on good practice, areas of concern and recommendations for remedial action; they are not a comprehensive account of all of each force's activities.

ANNEX F

NEW BURDENS ON LOCAL GOVERNMENT EXPENDITURE 1991/92

1. The attached note summarises the most significant new burdens arising from legislation in the current or next session of Parliament, together with some of the more significant new burdens being imposed by subordinate legislation.

2. There are three Bills in the current session with significant implications for local government spending. The most important is the Community Care Bill, which Ministers are discussing separately. (The costs of this and other initiatives shown in the paper reflect departmental estimates: these have not yet been agreed in all cases with Treasury.) Many of the cost of the Environmental Protection Bill should be recovered by charging, although new duties on litter may increase spending. There may also be some costs in the first year in setting up new system - for example £50m for improved waste management arrangements. The Food Safety Bill is estimated to cost £30 million for Great Britain.

3. Legislation in the next session is unlikely to have a significant impact on local authority spending until 1992/93. New burdens arising from regulations or other changes in policy not yet implemented could add £40 million to spending in 1991/92.

4. In addition there will be increased costs in dealing with legislation recently enacted. Implementation of The Children's Act is likely to cost £3.5 million in 1991/92. There will also be further costs in implementing existing legislation, as for example policies for the Education Reform Act are progressively put in place.

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NEW BURDENS ON LOCAL AUTHORITY EXPENDITURE 1991/92

1. BILLS CURRENTLY BEFORE PARLIAMENT

Food Safety Bill
Local authorities will be required to maintain a register of food premises and undertake more inspections. This will necessitate additional staff.

£30m
(for Eng, Scot and Wales)

National Health Service and Community Care Bill
Management, administration and development costs as well as updating of the costs of additional demand for care on the basis of revised policy assumptions.

£535m
(£300m of this will be met from Social Security)

Environmental Protection Bill
The Explanatory and Financial memorandum states: "Most local authority costs associated with new duties under the bill are expected to be offset by charging regimes and efficiency savings", and this remains officials view. There will be extra costs for litter clearance, and these are currently being considered by consultants.

(see cover note)

2. BILLS IN NEXT SESSION

Road Traffic Bill
To implement recommendations of the North report. Additional costs for Local Authorities resulting from speed detection measures, and traffic regulation measures associated with the introduction of red routes in London.

£1m

Teachers Pay and Conditions Bill The new negotiating machinery and provision for LEAs to opt out should not in themselves result in higher spending.	-
Town and Country Planning Bill To improve the operation, enforcement and control of planning system, to make it more responsive to local requirements; to revise compensation arrangements; and to make miscellaneous changes to the law relating to heritage and tree preservation.	£67.5m
Criminal Justice Bill The Bill may include provision to make local authorities responsible for the secure remand of juvenile offenders. It may also entail some additional costs for magistrates courts.	£5m

3. NEW BURDENS RESULTING FROM REGULATIONS

EC Regulations Regarding Shellfish Beds DoH are currently looking in to the way Local Authorities can be funded to take on additional responsibilities in respect of shellfish beds. This expenditure will fall to Local Authorities in 1991/92. This will largely affect coastal authorities.	£1m
Other EEC Directives on Food Safety	£3m
Construction Products Directive Implementation planned for 1991/92.	£5m
Renovation Grants The introduction of means testing will result in increased costs of administering grant applications.	£15m

Electromagnetic Compatibility
Costs of enforcement - Local authorities are likely to be responsible only for consumer products sold in shops. Regulations planned for 90/91 session, but this might not be achieved.

"less than £1m"

Contaminated Land
Local authorities would be required to set up local registers of contaminated land.

£8m

Charging For Valuation Services
Local authorities would be charged for valuation services.

£10m
(Eng, Scot & Wales)

4. MINOR NEW BURDENS

£4m

These include the display of information at off street parking places, guidance on hygiene standards during poultry processing, regulations on resale of gas and electricity, regulations aimed at differential pricing between cash and credit cards, an order on price marking, regulations on estate agents, amendments to the trade descriptions act, regulations on bureaux de change, control of explosives regulations, and others. The total of minor new burdens falling to Local Authorities in 1991/92 is unlikely to come to more than £4m.

REHABILITATING THE COMMUNITY CHARGE

Problem

The hoped-for benefits of the community charge have not yet emerged. Councils generally have increased their spending, resulting in an average charge about £100 higher than the Government wanted to see. As a result, the charge is at a level which seems to generate far more losers than winners, and which makes the flat-rate element harder to sustain. The distance between the actual and forecast figures also casts doubt on the way SSAs are calculated. This is important since, unless the "baseline" is accepted as valid, one of the strongest features of the charge - the ability to make robust comparisons between authorities - does not "bite".

Local authority reactions are rational and might have been expected, given the rules of the game. They think the level of this year's charge will be blamed on the Government, whatever it is. Also, they have an interest in muddying the waters of comparison. Many fear the long-term implications of a system which facilitates simple comparisons.

So the community charge needs to be rehabilitated, which means reducing the average level, eliminating some of the inevitable anomalies, securing wider acceptance of the basis of calculating spending assessments, and focussing local people's attention on the alternatives to high spending.

Simply reducing the charge by increasing grant is not attractive. It is hard to ensure that councils reduce the charge pound for pound. They may just spend more. And, of course, other central government taxes would have to rise.

Ring-fencing specific areas is also difficult. There are significant local variations. The community charge does pay some of the cost of education. A 100% grant system could well mean paying at the level of the highest spenders. And the community charge might still not fall.

A Possible Approach

A package on the following lines might help:

1) **Bring the SSA review in to the open.** The SSA system is not bad. An independent assessment - though risky - would be likely to confirm that. It might also propose some improvements. Support from an independent Commission would help to establish the validity of the baselines.

2) **Replace capping with local referenda.** A council proposing to spend, say, 10% above SSA would need to propose a local referendum. At least two propositions would be on the ballot paper: the council's proposed spending and community charge, and an alternative from the opposition party below that figure, approved by the Treasurer and the

auditor as a realistic proposal. Without a clear majority on a decent turnout (?50% of the electorate), the council would be capped at SSA + 10%. No council could, in any circumstances, exceed SSA + 20%.

3) **Transfer responsibility for Vehicle Excise Duty to local authorities.** VED raises around £2 billion, @ £100 on 20 million private cars. It has not been raised for 3 years. There is an environmental case for higher taxation on cars. Car ownership is roughly related to income.

Local authorities could be allowed to levy differential rates on cars. Rates could be lower in rural areas and higher in cities. Each £50 on VED would allow a reduction of £30 on the community charge, for no revenue loss. A combination of VED and community charge locally would reduce the criticism of community charge as a regressive impost. No "new tax" would be created. Central government would forego one and local government acquire one. Some of the opprobrium attributable to higher rates of car tax, which may be inevitable, would be attracted to local councils.

Commercial vehicle rates, where registration could be shifted geographically to take advantage of lower rates, could be set centrally, on the UBR analogy. In Year 1 (and possibly thereafter) the Duty could be collected by the DVLC and redistributed to councils.

4) **Consider exempting the 20% payers.** Although the principle of universal payment is sound, the practice is expensive. On average, those with 80% discounts contribute, net, £6 (after taking account of the benefit uplift) but costs about £15 to collect. These people will also generate difficulties in enforcement, and unappealling personal cases.

Such a package should reduce the additional grant required, though might not eliminate it. For example, at 1990/91 spending levels, alternative combinations might be:

	Now	**Revised**
RSG	£10 billion	£11.5 billion
Community Charge	370	280
VED	100	175
Exchequer cost		£1.5 billion

(All figures approximate and assume no reductions attributable to referenda)

VED AS A LOCAL TAX

Problem*	Solution
1. DVLC Computer not ready until 1985	Solved already
2. No link between registration and place of residence	Most cars are registered at place of residence. Inland Revenue P11D system now catches all business car users. Law could be changed to require address of registered keeper to be place of residence
3. Opportunities for evasion by commercial vehicles	Tax nationally, as with UBR
4. Problems of compiling register "comparable to those of compiling a poll tax register"	Now done
5. "Duty would bear more heavily on poorer households"	Better than community charge in this respect
6. "Could raise only a limited proportion of the yield of domestic rates"	A limited contribution is all that is required

* Taken from "Alternatives to Domestic Rates"