

PRIME MINISTER

P 03679

## THE COMMUNITY CHARGE

Cabinet Office Note of 15 May;  
minutes from the Chancellor of the Exchequer (15 May)  
and the Secretary of State for the Environment (16 May)

## DECISIONS

The basic problem is still how to control local authority expenditure and ensure that any additional Government grant feeds through to lower community charges rather than higher spending.

2. The basic choice is now between two approaches. You will wish to decide which should be adopted:

i. legislation for income limits, possibly coupled with referenda. The Cabinet Office paper, which has been agreed by Treasury and DOE Ministers, sets out a system of income limits which would control the expenditure of large spending authorities for a transitional period. There is no disagreement that the system would be technically and administratively feasible: the issue is one of legislative and political practicability. The need for a power of derogation is the weakest feature. An alternative safety valve would be a requirement that a local authority which wished to break its limit should hold a referendum. But it may not be feasible to legislate for this in time for 1991-92. You may wish to consider the possibility of introducing income limits for 1991-92 with minimal derogations and publishing a White or Green Paper on referenda.

ii. no legislation, but a generous grant settlement coupled with firm use of existing capping powers. Mr Patten is strongly opposed to the approach in (i). He would prefer a generous AEF settlement coupled with improvements to transitional relief and perhaps benefits. He is against legislation which he believes would be extremely difficult to



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get through. His aim is to put the Government into a position to say that responsible authorities should be able to hold their charges steady, and to ensure that those which push up their charges take the blame.

3. You will then wish to run through the other issues in the Cabinet Office paper:

i. possible extension of the transitional relief scheme and community charge benefits (paras 24-26 and annex C);

ii. a possible higher rate charge (para 27 and annex D);

iii. the role of the Audit Commission and auditors (para 28 and annex E);

iv. new burdens on local authorities (para 29 and annex F).

4. In conclusion you will wish to decide what the next steps should be. A meeting of E(LG) has been arranged for a week's time, on Thursday 24 May. Depending on how the discussion goes you may wish to invite the Secretary of State for the Environment and, if necessary, the Chancellor of the Exchequer to circulate proposals. You may also feel that there should be a discussion in Cabinet before decisions are finalised.

5. Beyond that, there is the question of when the whole package - decisions on improving the community charge system and on this year's AEF settlement plus a possible White or Green Paper - should be announced. There is still a lot of work to be done. You will wish to consider whether the aim should be a comprehensive announcement in July. If so, you may wish to stress the importance of avoiding leaks.

#### MAIN ISSUES

#### Controlling local authority expenditure

6. The key issue for this meeting is whether to legislate to



introduce a system of income limits in 1991-92. The main advantages would be:

i. expenditure restraint. Budgets could be constrained close to PES plans, helping to meet the Government's public expenditure and fiscal objective. The Chancellor says that the savings might be around £1.1 billion on the assumption that authorities would otherwise increase spending by 10%, or £1.8 billion on the assumption of a 12.5% increase.

ii. lower community charges. Lower expenditure would in itself mean lower community charges. There would also be reasonable certainty that any extra grant would feed into reduced charges rather than higher expenditure.

iii. convergence of expenditure levels. Effective control over a number of years could lead to a convergence of local spending levels around SSA. This could ease the transition to any longer-term reforms of the functions, financing and fiscal powers of local authorities.

7. The main disadvantages would be:

i. the contentious nature of the legislation, which might cause major controversy in Parliament and elsewhere, and provide an opportunity for undesirable (and expensive) amendments to all aspects of the community charge system. This is probably the most serious objection. Although the Treasury are arguing for income limits they are concerned that legislation could be a hazardous exercise and might not get through. You will want the views of the Business Managers.

ii. constitutional implications. Income limits set by central Government would remove local accountability. On the other hand they would only be transitional; and referenda to authorise extra spending might get round the objection.



iii. limited savings. Mr Patten may argue that the system is unlikely to deliver reductions in spending of more than £500-£750m, on top of the £250-500m which he thinks could be achieved through use of the existing capping powers. But this assumes that the worst that could happen without legislation is a 10 per cent increase in local authority spending.

8. The main alternative, favoured by Mr Patten, would be to make a generous conventional settlement for 1991-92, coupled with vigorous use of the existing capping powers. There would be no certainty that the extra grant would feed into lower community charges. But the Government would be in a position to say that responsible authorities should be able to set their charges at or even below the 1990-91 level. The aim would be to ensure that local authorities rather than the Government took the blame for high charges. The highest spenders could be capped, perhaps more toughly than in 1990-91. You will want to ask the Solicitor General for his advice on this last point: I understand that he is likely to say that the existing powers cannot be pushed much beyond what was done this year.

Critical

9. You will want to decide whether to go ahead with a scheme of comprehensive income limitation for 1991-92.

#### Detailed issues

10. If you decide to proceed with income limits, you will want to check that you are content with the main features of the system set out in the Cabinet Office paper: in particular, the construction of income limits and the question of safety valves.

#### Construction of income limits

11. The Cabinet Office paper sets out a method of constructing income limits which would seek to ensure that authorities spending above SSA made phased reductions down to SSA over a period of 5 years. Authorities already spending below SSA would have their limits set at the SSA level. This raises two issues:



i. whether it is realistic to set out a rigid five year plan for income limits, converging on SSA. A simpler approach might be to take power to decide each year what cuts high-spending authorities should be expected to make.

ii. whether it is right to have no restraint below the SSA level. This could reduce controversy over the new system and perhaps legal difficulties. But limiting the increases that low-spending authorities were allowed to make in any one year could make a further substantial contribution to restraining public expenditure. For example, Government expenditure assumptions for 1990-91 assumed that low spenders would spend £1 billion below SSAs: in practice they used up nearly all of this headroom, adding nearly £900m to public expenditure.

12. Subject to these and any other points, you will probably wish the details of the income limit system to be worked up with a view to final approval in good time before an announcement is made.

#### Safety valves: derogations or referenda

13. One of the problems with a system of income limits is that it would almost certainly be necessary to have some sort of safety valve procedure. The Cabinet Office paper sets out two options:

i. derogations. Both the Chancellor and Mr Patten argue that a power for the Secretary of State to grant derogations is unattractive because it would put the spotlight on the Government and invite contentious litigation.

ii. referenda. Both Ministers express more support for this option because it would put the onus for high charges clearly on local authorities and their electors, and preserve a form of local accountability. But further work is needed with the Home Office to identify the full implications, eg in relation to pressure for referenda in other areas. There are also doubts about whether it would be feasible to legislate for referenda in time for 1991-92.



14. If you favour the option of referenda, you will probably want to commission further work urgently from Mr Patten, in consultation with the Home Secretary. This will need to consider the timing constraints. If it is clear that referenda cannot be introduced in time for next year, you might want to consider whether to introduce an interim scheme of income limits with minimal derogation powers for 1991-92, followed by a White or Green Paper on a more permanent scheme based on referenda.

#### Legislative timetable

15. It will be difficult to get legally watertight legislation in place before 1991-92, whether in this Session or next. But on balance the advice of officials, supported by the Chancellor, is that it would be better to legislate next Session, making every effort to ensure that the Session starts as early as possible and that the Bill has a speedy passage. You will want the views of the Business Managers on this issue.

#### Transitional relief scheme

16. Your last meeting reached broad agreement on Mr Patten's proposals to extend the period of the current transitional relief scheme, reduce the rate at which relief is withdrawn and provide extra relief to cover the withdrawal of the area safety net and the low rateable value grant. The cost is estimated to be about £140m in 1991-92. To extend relief to cover withdrawal of the ILEA transition grant might cost an additional £20 million, but Mr Patten does not appear to be advocating this.

17. The paper discusses the possibility of extending transitional relief in other ways. In particular, there is the possibility of relief for two groups mentioned at your last meeting:

- i. the disabled. The paper sets out a way of giving them extra relief, at a cost of under £20 million. But the Chancellor opposes any such concession and Mr Patten does not argue in favour of it.



ii. young first-time payers. The paper recommends against extending relief to this group because of the difficulty of explaining why community charge rebates do not provide sufficient protection for those on low incomes.

You will want to consider whether you are content for the scheme to be extended on the proposed basis, without further concessions to special groups.

#### Community charge benefits

18. Annex C to the paper summarises the three options for changes to community charge benefits which Mr Patten put forward to your last meeting. The Chancellor says that the only change worth considering would be a small adjustment to the benefit taper. But Mr Patten says that he would prefer improvements to the earnings disregards and the capital rules. You were not attracted to making any of these concessions at your previous meetings, preferring the proposed changes to transitional relief. You will want to consider whether there is any case for reconsidering this view. (If so, urgent consultations with the Secretary of State for Social Security would be needed).

#### High rate charge

19. The paper fulfils the remit from your last meeting to work up in detail a scheme for a limited levy on people with incomes over about £50,000. Mr Patten favours such a levy, to help combat the perceived unfairness of the charge, and to finance some of his proposals, eg on transitional relief. But the Chancellor is strongly opposed. He argues that a levy would be contrary to Government policy on the tax system, and would concede that the community charge was unfair. He favours stronger presentation of the argument that high earners already contribute much more to local services through income tax than low earners.

20. You will want to consider whether the proposal for a higher rate levy should now be dropped.



**Role of the Audit Commission and auditors**

21. The paper discusses several options for strengthening the value for money role of the Audit Commission and auditors (paragraph 22 of Annex E). You will probably want to commission urgent work to develop these options, perhaps for inclusion in a White or Green Paper.

**Powers and duties**

22. Annex F to the paper lists new burdens being imposed on local authorities in 1991/92, ranging from community care (costed at £535m, and under discussion separately) to the Road Traffic Bill next Session (£1m). You will wish to consider whether to ask the Departments concerned to pursue the possibility of deferring the implementation of any of those burdens.

**Possible way forward**

23. Depending on the discussion, one possible way forward would be to agree to proceed in two steps:

i. to legislate as early as possible in the next Session to put in place an interim system of income limits, with minimal derogation powers, to operate for 1991-92 and at most one or two subsequent years. Improvements to the transitional relief scheme could also be put in place for 1991-92;

ii. to agree to publish a White or Green Paper proposing arrangements based on referenda and any proposals on the VFM role of the Audit Commission. You might also wish to explore for the White or Green Paper other ideas for improving accountability, such as the introduction of separate billing by each tier of local authorities, or a move to unitary authorities. If so, you will wish to commission further urgent work on these issues from Mr Patten.

**RSG settlement: level of AEF and TSS for 1991-92**

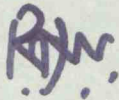
24. You will also need to decide by July what level of AEF



(aggregate external finance) and TSS (total standard spending) to set in the RSG settlement for 1991-92. The Chancellor may wish to get agreement to the figures in parallel with the decisions of principle on income limits. But Mr Patten is likely to resist this, and you do not have the information to take these decisions at the present meeting. Depending on the outcome of the discussion, you might ask the Chancellor and Mr Patten to see whether they can agree on figures which they could recommend to colleagues for a decision in June/July.

**Scotland and Wales**

25. If you conclude that there should be a system of income limits for high-spending authorities in England you will also need to decide whether and how far it should apply in Wales and more particularly Scotland.



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Cabinet Office  
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