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PRIME MINISTER

THE COMMUNITY CHARGE : NEXT ACTION

Richard Wilson has circulated a dossier containing the further work by officials commissioned at your meeting on 26 April. I am sorry it is so lengthy but the matters it discusses are many and complex. Chris Patten, Norman Lamont, Michael Portillo and I discussed an earlier draft of the dossier and the issues arising. I hope you will feel, as we do, that the dossier tells us much of what we need to know about the matters raised at your meeting. It does not, however, incorporate the Law Officers' advice, which will in several areas be of crucial importance. Their advice is being circulated separately. Chris Patten too is circulating a separate minute.

Objectives

2. We are all conscious, I think, of the important underlying objectives, which must include -

- doing whatever we sensibly can to keep local authority expenditure, pay settlements and community charges down next year;
- winning the public relations battle with local authorities about who is to blame for high charges; and

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- avoiding unnecessary risks of prolonging the controversy over the community charge; subject to
- avoiding damage to our central economic, fiscal and public expenditure policies.

Main issues

3. The main immediate issues we need to address are, I believe, as follows:

- i. the income/expenditure limits scheme;
- ii. derogations and referenda;
- iii. the legislative timetable;
- iv. transitional relief and community charge benefit;
- v. the higher incomes levy;
- vi. the role of the Audit Commission.

Income/expenditure limits scheme

4. The work which officials have done indicates that a scheme along the lines set out in the official dossier would be feasible, technically and administratively. The savings in local authority expenditure would depend critically on what the authorities would spend otherwise: if all went well, they could be of the order of £0.4, £1.1 or £1.8 billion gross, depending on whether the local authorities concerned would otherwise raise their spending by 7½, 10 or 12½ per cent, less such amounts as could be saved under the existing capping scheme (estimated at up to £224 million this year). A saving of £1 billion in England reduces charges by about £28. Colleagues and I have little doubt that, if we go for a limits scheme, it would need to follow broadly the lines set out in the dossier. We would give the answer yes to the technical questions raised in paragraphs 7, 9 and 12 of the Cabinet Office note.

10-12½%
must be
a reasonable
expectation,
if no
action to
restrain
spending.



5. The argument in favour of such a scheme is that we cannot afford to see local authorities frustrate our policies on the economy, inflation and public expenditure by overspending. If we decide to put in more grant for next year, we must do all we sensibly can to ensure that this is reflected in reduced charges rather than increased expenditure. We risk having the worst of all worlds if we increase grant and the increase then feeds through to higher spending. In my view and Norman's these considerations are of the highest importance.

6. The risks in proceeding with such a scheme are clear enough. The legislation would be high-profile and contentious. The scheme would be represented as detracting from accountability and changing the relationship between central Government and local authorities in a fundamental way, though such accusations would be easier to handle if it were set up as being transitional rather than permanent: in response to paragraph 17 of the Cabinet Office note, I would prefer a three-year transitional period to a five-year period, though the speed of convergence to SSAs could be specified in secondary legislation. I would also favour time-limited powers. Implementation, too, would be a substantial and difficult task, especially if derogations were allowed. Chris Patten is, I know, greatly concerned about these risks.

7. I myself do not think we can resolve this issue independently of decisions on the grant settlement and the further work which we have now commissioned from officials, in consultation with the Law Officers, on what can be done to stretch the existing capping scheme, either by reinforcing the legislation so as to make it more usable or by applying it more vigorously or both. The public expenditure and fiscal position is so serious that we cannot afford at this stage to rule out anything which holds the prospect of substantially reducing public expenditure. The higher the grant

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settlement we offer, moreover, the greater the need for effective curbs on local authority spending will be.

Derogations and referenda (Cabinet Office note, paragraph 16)

8. We are all conscious how exacting the task of assessing and granting derogations on a consistent and defensible basis would be. Derogations would put the spotlight on central government: that is unattractive. It would however be extremely difficult not to grant derogations if the limits set were challenging ones. Some local authorities would insist that they could not provide the statutory services within the limits we had set.

9. We all, likewise, see considerable attraction in the idea of referenda as an element in a limits scheme. Provision for referenda might remove the need for derogations, though problems could remain over cases where local authorities insisted they could not provide statutory services within the limits set by their chargepayers. A system of referenda would reinforce, rather than attack, the principle of local accountability. There would however be a risk that local electorates would vote to raise expenditure rather than keep charges down (though the Government could not be blamed in such circumstances). In addition, the repercussions in terms of pressure for referenda in other areas of policy would need to be weighed carefully. These and other issues of principle and practice would need to be discussed thoroughly with the Home Office. We suspect that referenda, or more frequent local elections, may be a runner for the next Parliament rather than this one. We could consider floating such ideas in a Green or White Paper at the time of the July grant announcement or when bringing forward legislation.



Legislative timetable (Cabinet Office note, paragraph 23)

10. As the Cabinet Office note explains, legislation introduced in the next session would not be available nearly as soon as would be desirable. We think however that it would be asking for trouble to attempt to prepare legislation of the scope envisaged in the official dossier for introduction in the middle of June.

Transitional relief (Cabinet Office note, paragraph 26)

11. As noted in Chris Patten's earlier papers, there are certain things which could be done on transitional relief including postponement of the phasing out of the scheme and adjusting it so as not to penalise chargepayers in local authorities where safety net receipts are being phased out. The annex to the Cabinet Office paper mentions the case for adapting the scheme so as not to give windfall gains to transitional relief recipients in authorities where contributions to the safety net will disappear next year. It also lists several further areas, some very expensive, others less so, where more relief could in principle be given.

12. My own view is that here too we cannot decide what can be afforded save in the context of the local authority grant settlement as a whole. We need also to bear in mind that extra CCTR does not bring inflation down. I think we are all agreed that it would not be right to extend the scheme to first time payers. I myself would be strongly opposed to extending special provisions for the disabled. These would not be justified in principle and would stimulate demands from other pressure groups.

Community charge benefit

13. Much the same arguments apply here. In my view, the only change worth considering would be a small adjustment to the taper.

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It will however be essential to consult DSS colleagues before taking a firm view on this.

Higher incomes levy (Cabinet Office note, paragraph 27)

14. The official dossier sets out a provisional scheme for a levy along the lines requested at your meeting last month. If such a levy were brought in, the suggested specification looks to be on the right lines.

15. Chris Patten continues to see merit in the proposed levy, as an element in the Government's response to accusations that the community charge is regressive and unfair. He would still prefer a triple-banded levy of half a charge, one charge and two charges as people rise up the income scale.

16. The arguments against such a levy seem to me to be persuasive. Not only would it mar the greatly improved income tax structure which has been one of this Government's major achievements. It would also concede, by implication, a point which I do not think we should concede - that a flat rate charge, with help for the least well off, is wrong. Whatever the level of income at which we pitched the levy, there would be a risk that it would be amended downwards during passage of the legislation. I believe we would do far better to argue that it makes no sense to talk about the effect of the community charge on its own; that what matters is the impact of the tax and benefit system as a whole, not of individual taxes or charges; and that when allowance is made for the high proportion of LA expenditure financed by grant, the better off people are already contributing far more than poorer people to the financing of local authority expenditure. We argued repeatedly two years ago that the top 10 per cent of income earners would pay fifteen times more towards the cost of local services than the bottom 10 per cent. Your



Private Office has been discussing other possible formulations with DOE.

Audit Commission

17. We all think that the possibilities for strengthening the Audit Commission's powers set out in paragraph 22 of annex F to the Cabinet Office paper hold some promise and that officials should consider them further.

AEF settlement

18. We have not of course discussed the AEF settlement in any detail in the Group of Four. I do think, however, that we shall only be able to reach final decisions on many of the issues discussed above later in the context of the AEF settlement.

19. My own view is that, given the amount of 'fat' there appears to be in local authorities' budgets this year (with budgeted increases of 17 per cent in income and 14½ per cent in expenditure on last year, at a time when pay settlements have averaged a little under 9 per cent), we should be able even with a moderate grant settlement to argue with conviction that there is no case for increases in average charge levels next year and well-managed authorities should be able to reduce charges. If we were to go for a very large settlement, as some of our supporters have suggested, we would not only fuel large increases in expenditure and pay, as discussed above. We could also undermine, and be seen to undermine, the fiscal position. In these circumstances it would be difficult to avoid announcing simultaneously either a compensating increase in income tax or offsetting savings elsewhere in public expenditure.

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20. I am copying this minute to Geoffrey Howe, Kenneth Baker, Chris Patten, Norman Lamont, Michael Portillo, Malcolm Rifkind, David Hunt, Nicholas Lyell, Tim Renton and Sir Robin Butler.

J.M. Gieve

For [J.M.]

15 May 1990

Approved by the Chancellor and
signed in his absence.