

SUBJECT CEMASTER

SECRET AND PERSONAL

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CEconomic Ward
26(a-d)

MEETING RECALD



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

15 June 1990

Dear Parleyp,

THE COMMUNITY CHARGE

The Prime Minister held a meeting at 2.45pm on Wednesday 13 June to discuss the community charge. Those present were the Lord President of the Council, the Chancellor of the Exchequer, your Secretary of State, the Chief Secretary, Treasury, the Chief Whip, the Minister for Local Government, Sir Robin Butler, Richard Wilson, Peter Owen and Andrew Wells (Cabinet Office).

I would be grateful if you would ensure that this letter is not copied without your authority and is seen only by those with a strict need to know.

The meeting considered a Note by the Cabinet Office, attached to Richard Wilson's minute to me of 12 June, and your Secretary of State's minute to the Prime Minister of 12 June.

Your Secretary of State said that the Cabinet Office Note set out a new proposal, first put forward by the Chancellor of the Exchequer, for enhanced community charge capping powers coupled with referendums. This was an imaginative proposal which overcame some of the problems with earlier options. In particular, the use of referendums as a safety valve was to be preferred to derogations, which would have serious implications for the workload of his Department and for the scope for judicial review of his decisions.

The new proposal would however require legislation in the forthcoming Session. This would be very contentious. There was no realistic possibility that a Bill could be limited in scope. In practice it would open up all the arguments about the community charge, both among the Government's supporters in Parliament and with the Opposition. This would keep the debate about the new system alive through the autumn and winter. Referendums held in the spring would provide another focus for opposition, with scope for adverse publicity where local authorities secured approval for higher budgets.

Subject to the outcome of the present judicial review of this year's capping decisions, he was not convinced that the benefits of the scheme outweighed these substantial disadvantages. The legal advice which the group had received suggested that it would be possible to exercise the existing

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capping powers much more strongly in 1991-92 than had been possible in the current year. The 12.5% threshold above standard spending assessments (SSAs) would have to remain. But it should be possible to tighten the separate per capita threshold of £75 per adult, to cut the de minimis threshold of £26, and to operate on the second limb of capping, based on year-on-year increases in expenditure. Used in this way, the existing capping powers could deliver much of the effect which was expected from the new scheme. The figures attached to his minute suggested that on realistic assumptions about Total Standard Spending (TSS) and Aggregate External Finance (AEF), the new scheme might reduce average community charges by less than £10 compared to existing powers.

Whatever could be achieved through capping, the Government had to recognise that local authority expenditure in 1991-92 was likely to be in the range £40-41 billion. This estimate was based on advice from the Government Departments responsible for the main local authority services, and reflected demographic pressures, likely pay movements and other new burdens. It would be essential for the Government to set realistic levels of TSS and AEF for 1991-92 if they were to have a defensible position in the following spring. His strong political judgement was that the Government should rely on existing powers rather than introducing contentious new legislation, and aim for a realistic AEF settlement at the lowest achievable cost to the Exchequer.

In discussion the following main points were made -

- a. There were exceptionally strong arguments for taking new powers to ensure effective control of irresponsible local authority expenditure. Budgets for 1990-91 represented an increase of around 16% above the previous year. This had had a substantial effect on the RPI, with knock-on effects on wage bargaining and the general economy. The Government could not accept the risk that budgets might be as high as £40-41 billion in 1991-92. That would be a further 12% increase, or 30% over two years. The Government would be failing in their responsibilities if they allowed local authorities to set community charges on this extravagant basis. New powers were therefore essential, and the option set out in the Cabinet Office note was the best so far identified. Adopting it would allow the Government to set realistic figures for TSS and AEF, which would not otherwise be affordable.
- b. The figures attached to the Secretary of State's minute were misleading for three main reasons. First they ignored the deterrent effect of new powers allowing the Government to cap authorities down to 5% above SSA. Second, they discounted the benefits of secure capping powers, free from the constraints of legal precedent and the excessiveness criterion which limited the use of existing powers. Third, they took no account of the fact that stronger powers would allow the Government to set higher figures for TSS and AEF, secure in the knowledge that extra grant would go to cut community

charges rather than increase expenditure. If these factors were taken into account, the difference between the two schemes would be seen to be much greater than was suggested.

- c. The community charge was the single problem causing most concern among Government supporters in Parliament. Their expectations greatly exceeded what could be achieved in practice. There was a case for saying that it would not be worth introducing contentious legislation unless the Government could show that it would lead to a significant cut in community charges, perhaps of the order of £50 on average. The proposal to introduce referendums might prove particularly difficult, since it would attract opposition both from MPs interested in local government and from those who opposed referendums on principle as unconstitutional. Opposition from these two groups had led to the withdrawal of a similar Bill in the early 1980s.
- d. On the other hand, the level of concern among backbenchers made it essential that the Government were seen to be taking effective action to tackle the problems of the community charge, and the present scheme, including referendums, was the best which had so far been identified. If however the introduction of referendums seemed likely to cause particular problems in 1991-92, one option would be to operate the new powers without them in that year, and to introduce them from 1992-93.
- e. The group also needed to take decisions on a package of measures to tackle the perceived unfairness of the community charge and the Unified Business Rate (UBR). It was important to bear in mind that measures of this sort would have no effect on the RPI. Ministers should therefore seek a restricted package, at modest cost, to tackle the worst perceived problems.
- f. For the longer term, the Government might need to seek more radical solutions to the problems of local authority expenditure. Options included the introduction of elections by thirds for all authorities, and structural changes in local authority powers and responsibilities. But these were not options for the present Parliament.

The Prime Minister, summing up the discussion, said that the Government had to take effective action to restrain local authority expenditure. Another round of increases in budgets and community charges in April 1991 on the scale of those seen in the current year would be totally unacceptable.

In this context, the option outlined in the Cabinet Office Note, based on enhanced capping powers coupled with referendums, was the best option for enhanced powers which had been identified so far. However the Secretary of State for the Environment still had reservations about whether the benefits would outweigh the

problems associated with a Bill. He had proposed that there should be further work on the likely effects of this scheme and the tough use of existing powers, for a further meeting when the result of the present High Court action over capping for 1991-92 was known. The Cabinet Office should arrange for this work to be done, in consultation with officials from the Department of the Environment and the Treasury. The work would need to take account of the points made in discussion: the deterrent effect of new powers; the benefits of having secure powers which were not subject to the legal precedents and the excessiveness criterion which constrained the use of existing powers; and the fact that the Government would be in a position to make more available by way of TSS and AEF if new powers provided greater certainty that additional grant would feed into lower community charges rather than higher expenditure.

Ministers would need to meet again to consider the outcome of this work. In the meantime, on the premise that a means would be found of preventing Exchequer assistance leaking into higher expenditure than would otherwise have occurred, the Secretary of State for the Environment and Treasury Ministers should have further discussions, to see if they could reach an acceptable agreement on the level of AEF and TSS for 1991-92, which they could recommend to colleagues. Any such settlement was likely to have serious implications for the Public Expenditure Survey generally, and it would be necessary to take a very tough line on all other bids. The Secretary of State for the Environment had accepted this implication in respect of his own bids.

It was important that Ministers should reach decisions on these issues as soon as possible if a legally watertight Bill were to be prepared for introduction at the earliest possible date in the next Session of Parliament. Ministers would also need to reach decisions on a modest package of measures to tackle the perceived unfairness of the community charge and the UBR. The work which had been commissioned should therefore be completed as soon as possible, for a further meeting in the following week.

I am copying this letter to the Private Secretaries to the other Ministers present, and to others who attended.

Yours own,

Barry

(BARRY H. POTTER)

Phillip Ward, Esq.,
Department of the Environment.