

32a-d

cebiuf A ①

363

PRIME MINISTER

275 ~~363~~

379 ccss
367
[380-85]

32.8

39

20%

86.6

95%

17%

500m

THE COMMUNITY CHARGE

Late this evening, the Chief Secretary and Mr Patten reached agreement on the community charge package for next year.

Proposed Settlement

I understand the main proposals are as follows:

TSS + 5-10%
35 1/2

i. Total Standard Spending (TSS) in England - the Government's assessment of what local authorities should spend next year - set at £39.0 billion. This would represent a 19 per cent increase on the TSS figure for 1989-90.

ii. An addition to AEF of £1.87 billion (on top of the increase already in the PES baseline). This would be quite a tight settlement from the Treasury point of view and well below Mr Patten's target figure.

iii. The Community Charge for Standard Spending (CCSS), reflecting the above TSS and AEF proposals, would be £379. This compares with an outturn £357 for this year (after taking account of community charge capping) - an increase of 6 per cent. It would be £101 above this year's CCSS of £278.

Handwritten scribbles and numbers: 39, 17, 35, 1.08, 2.18, 3.26

Agreement has also been reached on a package of measures to increase transitional relief, etc., including a reduction in the threshold from £3 to £2, costing £310 million next year. So the total increase in Exchequer support within the proposed package is £2.18 billion.

Possible Outcome

The projected outcome on local authority spending and actual community charges under these proposals is not set out in Mr Patten's minute. However, that projected outcome must be the test of how adequate the above proposals are.

- (a) DoE officials talk of a range on projected outturn spending between £39.5 billion and £40.5 billion. That would represent an increase of between 8 and 10½ per cent on this year's budgets.
- (b) The minute does not set out what use Mr Patten might make of the extensive capping proposals discussed earlier this week. Yet this is crucial.
- (c) So there is no projection of actual community charges. But DoE officials have hinted Mr Patten might use the capping to keep spending down to £40 billion. Then actual community charges would average £397. This assumes no use of balances: were authorities to draw down balances to the extent of around £³/₄ billion, community charges would be around £376. But continuing problems in collecting community charges would put the figure higher.

Assessment

The figures have only just been telephoned through (at 9 pm); and I am still awaiting a minute from Mr Patten (arrived 10 pm).

Some preliminary thoughts:

- i. The TSS and CCSS figures under the agreed proposals are both very high. Some increases were necessary on grounds of realism. But these figures will be criticised as showing this year's settlement was too low - and next year's grant is inadequate. A 20 per cent rise in the Government's assessment of LAs need to spend is massive: it allows LAs to hold existing (excessive) budgets broadly constant in real terms on present forecasts of the GDP deflator next year (though this will be revised upwards). The CCSS would be up by more than one-third in one year.

278 to
379
↓

368 - in cash terms - no higher

ii. There is a case for a lower TSS; this could still be presented as realistic; it would help curb local authority spending, because of the link with capping; and it would lead to a lower CCSS.

iii. The package represents a considerable victory for the Treasury: they have confined the increase in Exchequer support to below that expected earlier. However, Mr Patten's desire to spend more on transitional relief (much of it directed at the C2 group) has reduced the amount available for extra AEF within the Treasury package. As a result, DoE expect actual community charges to be perilously close to £400. Given the importance of that figure, there could be an argument for more AEF within the total package to keep down community charges in general.

iv. Mr Patten's note does not make clear how he would propose to apply the capping proposals. My understanding is that he is aiming at spending (after capping) of around £40 billion. Overall, that would allow a real increase in local authority spending. But if capping were applied more vigorously (and that could be more easily achieved with lower TSS), spending could be held to £39.5 billion - at or just above a real terms standstill. This would keep average outturn community charges to £383, even on the present AEF proposals and even less if more of the Treasury package went into AEF.

Conclusion

You need to know more than contained in this minute about:

- i. expected outturn LA spending and hence projected actual community charges;
- ii. Mr Patten's specific proposals on community charge capping.

Whatever these figures however, you may also consider that while a major step towards realism is required this year, DoE and the Treasury have gone too far and the TSS and CCSS are much too high and politically unacceptable. There may also be a case for more AEF within the overall Treasury package.

- i. If you agree, content to minute as above?
- or
- ii. Do you prefer a meeting with the Chancellor, Chief Secretary and Mr Patten early next week?

It would be best to

have a meeting.

BHP

me

BARRY H POTTER

29 June 1990