PRIME MINISTER

E(LG): THE COMMUNITY CHARGE

E(LG) will discuss tomorrow the community charge settlement negotiated between the Chief Secretary and the Environment Secretary last Friday.

At Flag A is the E(LG) paper. At Flag B is a note from PS/Mr Patten which follows up the discussion with Ministers yesterday. At Flag C is a minute from Mr Clarke proposing a three stage transfer of responsibility for community care to local authorities. At Flag D is the Cabinet Office brief; and at Flag E is a note from the Policy Unit.

The proposed settlement

The basic proposal on the community charge in England for 1991/92 is as follows:

TSS	=	£39b.	(+19% on 1989-90)
AEF	=	£26.05b.	(+£2.95b. on 1989-90)
CCSS	=	£379	(+£101 on 1989-90)

These numbers assume no transfer of community care responsibilities to LAs next year.

In addition there is a package of "fairness measures", at a gross cost next year of £334m. The most questionable is the reduction in the threshold for transitional relief from £3 per week to £2, which will cost £220m. next year. A change in the presentation of community charge bills is also part of this package.

Assessment

Guidance on handling the discussion is contained in the Cabinet Office brief. But there are five main issues for the discussion tomorrow:

i. Is the presentation acceptable?

ii. What is a satisfactory outcome on actual local authority spending and hence actual community charges?

iii. How 'secure' are the capping arrangements, etc., in delivering a satisfactory outcome on spending and community charges?

iv. Should the transfer of community care go ahead?

v. Are any changes required in the fairness package?

i) Presentation

There are clear problems, not with the proposed AEF settlement, but with the high TSS and CCSS figures. It will be argued that they show this year's figures are unrealistic, and next year's grant is inadequate.

There is a case for some squeezing down of TSS in order to get a more acceptable CCSS. Table 1 shows that with TSS set at £38.5b., the CCSS would be £365 - against £363 outturn before capping. That would be rather easier to present as an effective cash standstill if LAs spend at need next year. And the Government would still have a satisfactory line on TSS: it would be 5 per cent up on this year's excessive budgets, requiring savings of about 1-1½ per cent in real terms.

ii) Outcome

The paper does not specify a target outcome on local authority expenditure. Table 2 shows a range from £38.5b. up to £41.5b. No single figure is highlighted though the table might indicate DOE are aiming at a figure of £40.5b.

The paper is also guarded on actual community charges: paragraph 9b talks about "... a good chance" of keeping community charges down to £400 on average.

Neither of these positions is satisfactory. Even an outcome on LA spending of £40b. would only just be consistent with keeping community charges below £400 on average - there would be no room for error.

You may consider there is a case for pressing for a slightly better outcome at around £39.5b. This would be consistent with community charges in the range of £380 to £385. It would allow an 8 per cent increase in local authority spending - a broad real terms standstill if not a small increase.

iii) How safe is the outcome?
This is the critical issue not satisfactorily explained in the paper or the DOE later note. How would the capping criteria be applied to limit spending to £40b., under Mr Patten's proposals or lower if colleagues agree?

The letter at Flag B explains for the first time Mr Patten's possible approach to capping criteria. These are:-

i) all LAs budgeting at SSA or below, or less than £15m, would be exempt from capping;

ii) all LAs budgeting at SSA up to SSA +5 per cent, restricted to a 10 per cent increase in budget;

iii) all LAs budgeting at up to SSA +12½ per cent, restricted to a 8 per cent increase; 7%

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iv) all LAs budgeting at over SSA +12½ per cent, restricted to a 5 per cent increase. 1.6

The note says this would achieve an outturn of £40b. - after derogations.

But the figures appear to be dependent on a critical assumption: that the large number of local authorities in category i) and thus not subject to capping would keep down the increase in their spending. How far is not specified in the note. And if they chose to push it up - for example, to SSA on the grounds that the SSA indicated they needed to spend more - then the overall outcome on local authority spending and hence community charges would presumably be higher than the DOE figures imply.

Moreover the last sentence of the letter makes it clear that Mr Patten does not regard himself as committed to keeping down spending to £40b. He may be expecting higher spending - and higher community charges.

You may consider Mr Patten needs to agree now on what the objective should be on outturn LA spending and how it is best secured under the charge capping proposals.

A lower TSS would increase the number of authorities capped; but it would raise the degree of certainty about the outcome on local authority spending and hence outturn community charges. It is a further reason for some compression of the TSS number.

At your meeting the issue was also raised of whether the Solicitor General's approach to capping might place constraints, in legal terms, on what was sensible on TSS. The Solicitor General's advice has not yet been received. There is one question you might put to him:

- If an LA spends at SSA +11 per cent this year it is not capped. If it proposes to spend at SSA +6 per cent next year - it is caught by capping under the excessive increase provision as proposed by Mr Patten. Can it defend itself on the grounds of inconsistency between the two arms of the capping criteria? In short can the LA argue that if its spending was not excessive last year at SSA +11 per cent, how can it be excessive this year when it is spending at SSA +6 per cent?

Finally, under this heading how secure are the assumptions about use of balances? Both Treasury and DOE seem to assume that use of balances will keep community charges about £20 lower than they would otherwise have been. It is not obvious why LAs, in a year where there are no major elections, should make significant use of balances. There is also uncertainty about how far LAs will increase charges, for any given level of spending, on the grounds of low collections this year.

iv) Transfer of community care

This should be relatively straightforward. Mr Clarke's minute effectively argues that he will accept a staged introduction of the transfer of community care. The precise mechanics need to be settled urgently between him and colleagues. This should be referred for further work.

v) Fairness package

You may like to consider whether the reduction in the threshold on transitional relief is good value for money. It gives more assistance to existing recipients of transitional relief - it does not add to the number who qualify. It does not help keep down the RPI. The same amount of money used more generally to add to AEF would help get community charges down by a further £5.

Conclusion

The key objective must be to keep down LA spending and outturn community charges. That may require the following changes or additions to the plans:

- a lower TSS (£38.5b.) and hence CCSS (£365);
- a firm target outcome on LA spending accepted by Mr Patten - at £39.5b.;
- further advice on how secure the capping powers are;
- agreed criteria to be applied on capping; and (possibly);
- a shift of money from transitional relief into AEF.

BHP

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c: ELG (MJ)