

PRIME MINISTER

P 03697

LOCAL AUTHORITY EXPENDITURE, AGGREGATE EXTERNAL FINANCE
AND RELATED MEASURES 1991/92: ENGLAND

[E(LG) (90) 3]

DECISIONS

1. The paper puts forward proposals, agreed with the Treasury, for 1991/92 on:

(a) measures to help individual community charge payers (paragraphs 3 to 4 and Annex A);

(b) the form of community charge bills (paragraph 5 and attachment C to Annex A);

(c) how charge capping powers are to be used (paragraph 6);

(d) the Total Standard Spending (TSS) and Aggregate External Finance (AEF) settlement (paragraphs 7 to 20: the main recommendations are in paragraphs 17 to 19);

2. Subject to the discussion, you will wish to seek the committee's endorsement of (a), (b) and (c).

3. The proposed settlement gives a Community Charge for Standard Spending (CCSS) which is £16 above this year's average community charge of £363; and on plausible spending assumptions could result in an average charge close to £400 for 1991/92. Before inviting the committee to endorse (d), the proposed settlement, you will wish to be satisfied that it is not practicable to aim for a lower CCSS and that the risk of a £400 average charge is minimal.

4. The figures in the paper make no allowance for the transfer of community care to local authorities. You will wish to seek the

agreement of the committee that, in view of the importance of limiting increases in community charges in the coming year, the implementation of the new arrangements for funding residential care should be deferred for two years (you have already agreed that the proposed specific grant for the mentally ill should go ahead).

5. The proposals are for England. You will wish to invite the Secretaries of State for Scotland and for Wales to agree equivalent settlements with the Chief Secretary.

6. The paper briefly outlines (paragraph 21 and Table 4 of Annex B) a possible split of TSS between services. This is intended simply to provide an opportunity for spending Ministers to raise any issues which need to be borne in mind in the detailed development of the settlement. No decisions on the service split are required at this stage.

7. The "review of the community charge" has been widely trailed in the press, and expectations have been aroused of major changes. You may wish to ask Mr Patten how he intends to handle announcements.

BACKGROUND

Charge capping

8. English local authorities' TSS for 1990/91 was set at £32.8 billion, 3.8% above their 1989/90 budgets. AEF (which comprises central government grants and the Unified Business Rate) was set at £23.1 billion. In practice local authorities intend to increase their spending by 14% to £36.4 billion (after capping). The average community charge before capping was £363, about £90 higher than the announced CCSS. Clearly, a second year like this one would be disastrous and could discredit the community charge as a means of raising local finance.

9. The level of community charges depends partly on local authorities' decisions on how much to spend, and partly on how

much of that spending is met from AEF. But an increase in AEF will reduce community charges only if councils do not increase their spending by the same or a larger amount. Before settling the amount of AEF to be provided for 1991/92 it was essential to ensure that extra grant would not simply leak through the "hole in the bucket" into higher spending.

10. A number of possibilities for improving expenditure control by more effective charge capping have been considered by colleagues, including fresh legislation. The final decision has been to rely on existing powers, for three main reasons.

a. We can now use year-on-year comparisons of budgets as a basis for capping (not possible in the first year of the scheme because there was no comparable previous year to use as a baseline). A comparison using authorities' own budgets is much more secure against legal challenge than one based on Standard Spending Assessments (SSAs).

b. A recent legal judgement, upheld on appeal (to be further considered in the Lords in the week of 9 July), confirmed that the Secretary of State has great discretion in deciding what constitutes "excessive" expenditure for the purposes of capping.

c. Fresh legislation would be difficult to enact in time (it would be needed by the end of February) and would open up new and unfamiliar ground for legal challenge.

The links between TSS, AEF, CCSS, and average community charges

11. In broad terms, CCSS equals TSS minus AEF divided by the number of chargepayers.

12. The level of TSS is important in two respects. If it is too high, the CCSS (which is widely regarded as a government forecast of community charges) will also be high. But the TSS, when divided up, also determines the SSAs for individual authorities.

If it is too low, even responsible authorities will seem to be overspending. It needs to be set at a challenging but realistic level.

13. The higher AEF is set, the lower community charges will be for any given level of spending. But if AEF is too high it will encourage spending. A balance needs to be struck. If there are effective measures to control expenditure directly, like the enhanced use of capping now proposed, we can be more confident that increases in AEF will go directly into holding down community charges.

14. Actual average community charges will be higher than CCSS because about half a billion of the total of AEF will be earmarked for safety nets and so will not be available to reduce charges in the typical authority. Charges will also be pitched higher if a big shortfall in charges actually collected is anticipated. On the other hand they will be reduced if authorities use balances to fund expenditure. Normal drawings from balances of £850 million are equivalent to a £24 reduction in charges. Efficiency savings (typically about £150 million a year) also help to reduce charges.

MAIN ISSUES

Help for individuals

15. The paper sets out in paragraphs 3 and 4 and Annex A a package of measures to improve the perceived fairness of the community charge arrangements. It comprises:

(a) more generous arrangements for transitional relief and the area safety net;

(b) help for small business ratepayers;

(c) new rules to deal with anomalies in standard charges (listed in attachment A to the Annex) and the levying of charges on school leavers before they take up higher education.

The costs are set out in attachment B to the Annex.

16. Most of the changes involve little cost, but the changes to transitional relief are expensive. In particular the reduction from £3 to £2 per week in the threshold figure (based on a notional loss arising from the change from rates to the community charge) at which chargepayers qualify for protection will cost £220 million next year. You might ask the Secretary of State for the Environment if he is satisfied that the money would be better spent in this way rather than as AEF which would help keep average charges down and reduce the RPI. Since, however, this arrangement will be of particular benefit to low-income home owners you may want to endorse the package.

Clearer bills

17. The paper proposes an improved form of community charge bill which highlights the effect of councils' spending decisions (paragraph 5; a draft of the new bill is at attachment C to Annex A). This can be introduced by regulation. You will want to endorse the recommendation.

Chargecapping

18. Paragraph 6 describes in outline how the Secretary of State for the Environment intends to use the chargecapping powers:

- he will use the year-on-year increase criterion;
- he will apply the test of "excessiveness" robustly;
- he will announce the selection rules in advance to deter high spending;
- if necessary he will use the powers in line with the warnings;
- he will announce his intention to act in this way in July.

Subject to satisfactory assurances on the rigour with which

capping will be applied in practice (see below) you will wish to agree these proposals.

The settlement

19. In paragraphs 17 to 19 the Secretary of State and the Chief Secretary jointly propose AEF of £26.05 billion (a £1.87 billion increase over the existing baseline increase of £1.08 billion) and TSS of £39 billion (19% higher than the current year). This would give a CCSS for 1991/92 of £379: £16 higher than this year's average community charge before capping of £363. You have previously argued for a CCSS at about the same level as this year's charge.

20. Annex B describes the factors that will influence expenditure next year, and Tables 1 and 2 show what the effects might be for different levels of TSS and AEF. With AEF at the level proposed, the central expenditure assumptions would give actual average community charges for 1991/92 of:

Expenditure (fbn)	Average charge (f)
40.5	411
40.0 (not shown in the paper)	397
39.5	383.

This is finely balanced if the aim is to have a community charge below £400 next year. But the figures assume no use of balances. If authorities used £850 million of balances (the normal level), community charges would be £24 less: even with expenditure of £40.5 billion the average charge would be only £387, and vigorous use of capping powers ought to be able to keep expenditure at or below this level.

21. There is no clear indication in the paper, however, of the use of balances and the outturn expenditure Mr Patten regards as realistic (which will in large part depend on how rigorously he intends to apply the capping powers). Before endorsing the proposals you will want to be satisfied that the level of TSS

could not safely be reduced, and that the capping powers will be used to ensure that the risk of a f400 average community charge in 1991/92 is minimal.

22. Some illustrative figures are provided - in tables 3, 4 and 5 of Annex B - of community charges by area and by authority, and of a possible service split. They are based on purely formal assumptions and are circulated for information only.

Community care

23. The margin for error is tight if we are to be confident of keeping average charges below f400 next year. The figures make no allowance for the transfer of the residential care element of community care to local authorities, and the paper warns (paragraph 15) that this major new burden could be used as an excuse for pushing charges up. You might conclude that the residential care part of the community care proposals should be deferred for two years (in earlier discussions the Secretary of State for Health advised that this was the appropriate delay if he could not go ahead next April).

HANDLING

24. You may want to open the meeting yourself by briefly setting the scene for colleagues who have not been involved in previous discussions. You might make the following points.

- It has been particularly difficult this year to keep to the normal timetable for decisions on local government finance.

- Before the levels of expenditure and grant could even be considered, we had to find ways of stopping council spending from running out of control again and pushing up community charges.

- We also had to look at some of the complaints about the way the community charge had been applied to particular groups.

- And all this had to take account of a very difficult and threatening legal challenge.

- Happily we won the case comprehensively. A great deal of work has been done very quickly. If the proposals before the committee are accepted we are back on track for the normal July announcement, with the prospect of sensible community charges next year.

25. You might then invite the Secretary of State for the Environment to introduce the paper. The Chief Secretary might then be asked to comment on the implications of the AEF settlement for what is likely to be a difficult PES round.

26. A number of Ministers from spending departments will wish to comment. You might invite the Secretary of State for Health to speak first, since the figures in the paper are only valid if his proposals for residential care are postponed. You might then invite the Secretary of State for Education, the Home Secretary, and the Secretary of State for Transport to speak.

27. You might then ask the Secretaries of State for Scotland and for Wales to outline what equivalent arrangements they have in mind.

28. Finally, you might ask the Secretary of State for the Environment what arrangements he has in mind for the announcement of the outcome of the community charge review and the AEF settlement.



P F OWEN
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