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Barry Potter Esq
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The Prime Minister
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My ref:
Your ref:

15 July 1990

Dear Barry

LOCAL GOVERNMENT FINANCE: ENGLAND

Subject to final clearance by Cabinet, my Secretary of State proposes to make an oral statement on Thursday, 19 July announcing proposals for local government finance for 1991/92 and the outcome of the community charge review. I enclose a copy of the draft statement.

We propose to issue copies of the statement to all local authorities, as well as to MPs and the press.

In considering further the changes to the community charge agreed by E(LG) the Secretary of State has come to the conclusion that we should offer more help to people who have self-contained accommodation, such as a "granny flat", in their own home. E(LG) had agreed that such accommodation should be subject to a maximum standard charge multiplier of 1. While such flats may often have been separately rated under the old system, many people would feel that it was quite unreasonable to regard them as any kind of second home and a separate charge as a hang over from the old system. He proposes, therefore, unless there are any objections from colleagues, to consult on a proposal that the maximum multiplier should be zero.

In order that the practical arrangements can be set in hand, I should be grateful for any comments on the Statement no later than close of play Tuesday, 17 July.

I am sending copies to the Private Secretaries to members of E(LG), to Sonia Phippard (Cabinet Office) and to Michael Carpenter (Attorney General's Chambers).

Yours
Phillip

PHILLIP WARD
Private Secretary

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DRAFT OF 16 JULY 1990

LOCAL GOVERNMENT FINANCE: ENGLAND

Introduction

1. With permission Mr Speaker, I should like to make a statement about the Government's proposals for the local authority finance settlement for England for 1991/92 and about the review of the community charge. I apologise at the outset for the inevitable length of my remarks.

Local Authority Spending

2. In recent years there has been substantial growth in local authority spending. In the current year, local authorities have budgeted to spend £36.6 billion. This is an increase of 14% over the comparable figure for 1989/90, and that came on top of a 9% increase over the previous year. So spending has grown by very nearly a quarter in only two years, ahead of most central Government programmes.

3. Local authorities, like other public sector bodies, should play their part in restraining expenditure if we are to maintain economic progress and limit the burden of national and local taxation.

4. As part of the financial settlement, the Government has to make an estimate of the total amount which it would be appropriate for local authorities to spend. This figure is known as Total Standard Spending. From this is derived a Standard Spending Assessment for each authority, representing the amount

it should cost to provide a standard level of service. The Standard Spending Assessment serves as a benchmark of accountability against which each authority's spending can be judged.

5. In considering what level of spending would be appropriate for 1991/92, I have taken into account the views which the local authority associations have put to me. I have also taken account of the level of spending for this year and the scope for making economies through improved efficiency, through competitive tendering, and through eliminating needless extravagance. In the light of these factors, I propose to set Total Standard Spending for next year at £39 billion. This is an increase of 19% over the figure we set for the current year, and is 7.1% more than the amount authorities are planning to spend this year. £39 billion would adequately fund local authority services next year, taking account of the additional pressures and burdens local government will face, and the scope for improved efficiency. Spending above this amount should not be necessary.

External Support

6. Most local authority spending is financed by Government grants and the business rate. This year these funds, known as Aggregate External Finance, were set at £23.1 billion, compared with about £10.6 billion from chargepayers after allowing for rebates and transitional relief. I propose that the amount of Aggregate External Finance for 1991/92 should be £26.050 billion. This is an increase of very close to £3 billion or 12.8% over the amount being provided this year. It is a significant increase in the support for local spending. It will necessarily mean that less can be afforded for other Government spending programmes later in the year. I expect authorities to pass on the benefit to their chargepayers in their charges, rather than allowing spending to grow.

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is done with later in my statement*

7. Proposals for the distribution of grant, including any changes which may be made to the methodology for Standard Spending Assessments, will be announced in the autumn in the

usual way. Earlier this year I made it clear that I would be willing to consider new evidence about the way the Standard Spending Assessments are calculated.

Community Charges

8. The figure of £39 billion for Total Standard Spending is well above budgeted spending for this year. It comes on top of a 24% increase in spending over two years. My proposal is entirely realistic. I repeat that External finance will go up by nearly £3 billion or 12.8%.

9. Actual charges will depend on the decisions made by local authorities themselves. I can offer no individual forecasts. This year, with many councils overspending, the average charge after capping was £357. That, alas, is the position from which we will start next year. If local authorities play their part, as we have played ours, the average charge next year should be close to the Community Charge for Standard Spending consistent with my proposals for Total Standard Spending and Aggregate External Finance - that is about £379. The majority of areas have charges below that figure this year, and many will benefit because no authority will have to pay into the safety net next year. Efficient authorities should be able to set charges below the norm, as should authorities who next year will still be receiving grant from the safety net.

10. Those local authorities which are not prepared to budget sensibly should know that I shall be prepared to make vigorous use of my powers for charge capping next year. I have power to cap in two ways. I can cap excessive spending by a council, and I can cap excessive increases from one year to the next. This year I was unable to use the latter power. Next year, I shall not hesitate to use both powers to protect chargepayers. I shall cap not only those authorities which budget excessively but also those authorities budgeting above their Standard Spending Assessment (or SSA) which make excessive year on year increases.

11. In deciding what is an excessive increase in an authority's budget, I propose to distinguish between those authorities which budget well above their SSA and those which spend above SSA by a smaller margin. I would expect to see smaller annual increases for the higher spenders, because the more profligate the authority the greater the scope for savings. As it would be the first time that authorities were capped on the basis of excessive budget increases, I propose this year to give an advance indication of designation criteria, so that local authorities may take them into account in reaching their budgeting decisions.

12. In summary, I intend to use my powers to protect chargepayers in order to ensure that the substantial amount of extra money contributed by national taxpayers to local government is not wasted in higher spending but ensures that community charges are not, on average, significantly higher than the figure I have announced today.

Community Charge Review

13. I now turn to our review of the Community Charge. The basic principle that all local people should make some direct contribution to the cost of local services through a charge levied on almost all adults has been accepted increasingly widely. But it would be surprising if a change of this magnitude did not require some adjustments in its second year of operation.

14. We have received many constructive suggestions from Hon Members and others. My proposals concern the Standard Community Charge, non-domestic rating, the area safety net, the transitional relief scheme, the administration of the charge, and improvements in accountability.

Standard Community Charge

15. An issue which has given rise to a great deal of concern is the standard community charge. This charge applies where domestic property is no one's sole or main residence. It is right that owners of such properties should contribute towards the cost of local services. We have given local authorities a quite wide discretion in setting multipliers for the various classes of standard charge payer for the year ahead. It is disappointing that many have not used this discretion sensibly. There are many people, for example, who are required as a condition of their job to live in a particular property. They quite naturally wish to maintain another property which they would regard as their home even though it is not their sole or main residence. The law allowed local authorities to set out a different approach to these cases, and I regret that many local authorities did not do so.

to what?
16. I therefore propose a number of changes for next year so as to reduce the maximum standard charge which local authorities can levy in cases where the individual may be described as an "involuntary" second home owner. Among those people who may benefit are:

- people such as clergymen or some teachers who are required as a condition of their job to live in a particular property;
- people who have houses with an empty "granny flat";
- people who find themselves paying a standard charge when their home is empty following repossession by a mortgage lender;
- people who have an empty flat over a shop which it would be difficult to let for security or other reasons;

- students who pay a reduced personal charge, but who can face a double charge if they own a house elsewhere;

- people whose homes are empty because they have gone to look after a relative or friend, or to be looked after; and

- farm owners who have empty dwellings on their land which, because of planning restrictions, can be occupied only by agricultural workers.

17. We are also proposing to help people who are having difficulty selling a property, either on a move or after they have inherited it, by extending the period during which it is subject to a zero charge. Full details are set out in a consultation paper published today.

18. These and other proposed changes will I hope be widely welcomed. Subject to consultation, we propose to bring forward regulations which will come into force before the end of 1990 so that authorities can give effect to these changes from 1 April 1991.

Non-Domestic Rating

19. Next, small businesses. There has been concern about the position of owners of small businesses who live "over the shop". They pay rates on their business property but they are of course also liable to pay the community charge. This is not in fact an anomaly: all adults have to pay a personal charge irrespective of where they live, and rates are paid on all business property. It would therefore be inappropriate to change the fundamental liability for either the community charge or the business rate for people who happen to live on their business premises. Like other businesses they may qualify for transitional protection against large increases in rate bills, and like other former domestic ratepayers they may be eligible for community charge transitional relief. However, I recognise that this group of

businesses may need more time to adapt to the higher bills which they face under the new system and I propose to amend the business rate transitional arrangements, for small composite hereditaments only, so that from 1991/92 annual increases in the business rate will be limited to 10% in real terms instead of the current maximum of 15%. This will help 95,000 properties in England.

Bed and Breakfast

20. There has also been concern about the liability for non-domestic rates of people who provide bed and breakfast accommodation in their own homes. The present exemption for people who make accommodation available for less than 100 days a year has caused some difficulty. We therefore plan to change this rule from 1 April next year. We will shortly issue a consultation paper canvassing a range of options based on the amount of accommodation which the household proposes to make available rather than the time for which it is available.

Other Changes

21. These are the main changes to the community charge and non-domestic rates. I am also proposing a number of minor changes, designed for the most part to improve the administration of the charge by local authorities. These are also included in the consultation paper which is being sent to local authorities today. Copies are in the Library and the Vote Office.

Community Charge Bill

22. I also have in mind improvements to the community charge bill. The contribution of individual authorities to high charges is not clear enough on the face of the bill, and charge payers are inclined to think the council whose name appears on the top of the bill is responsible for the whole of any excessive spending. I shall therefore be proposing changes to ensure that

the respective contributions of precepting and charging authorities to over or underspending are shown much more clearly. This will increase accountability.

Area Safety Net

23. I propose to make an alteration to the area safety net. The safety net is designed to protect chargepayers in those areas where the ending of cross subsidies under the old rating system caused the largest changes.

24. As the House will know, in 1991/92 there will be no contributions for gaining areas into the area safety net, and this will enable 20 million charge payers to benefit by up to £75. I expect the authorities concerned to ensure that this benefit is passed on to chargepayers, and is not swallowed up in higher spending. For those people in areas receiving the most support from the safety net, paid for from the Exchequer, I propose that support should be withdrawn more slowly than previously proposed, at a maximum rate of £25 per adult per year. This will help almost 3½ million people living in 25 areas where the support received in 1990/91 was more than £100 per adult. This could be worth up to £28 a year for the chargepayers affected.

Transitional Relief

25. Finally, I propose a substantial increase in community charge transitional relief in 1991/92. The Transitional Relief scheme was designed to help former ratepayers, and pensioners or disabled people who were not ratepayers, who faced significant increases in their bills as a result of the change to the new system.

26. I do not propose as some have suggested to change the basis of calculation to take account of actual charges set by local authorities. That would merely channel extra help to the areas

where authorities have increased spending fastest. I propose changes which will nonetheless help those most affected by the switch from the rates to the community charge - typically people who lived in property with low ratesable value.

27. The improvements will more than double the amount of relief to be given in 1991/92 from the planned level of £260m to £570m. This is an increase of £310m. I propose to distribute this extra help by requiring authorities to calculate relief in 1991/92 so that most households face no more than an increase of £2 a week because of the structural change from rates to the community charge. In other words, the threshold will be cut from £3 to £2. I also propose to postpone the phasing out of the relief for two years and to extend the scheme to 1994/95. In all other respects the scheme in 1991/92 will be unchanged. It will continue to be based on assumed charges for 1990/91.

28. The lowering of the threshold for relief will give £52 more relief than would otherwise have been the case to each household that qualified for it, provided they have not moved. Pensioners and the disabled who were not former ratepayers will also have an extra £52 of relief. On top of this, the moratorium on withdrawal of relief will be worth up to £13 in 1991/92 to everybody already entitled to relief in 1990/91. Many couples will be £78 a year better off than they would otherwise have been as a result of these changes. About 7½ million people will gain.

29. Furthermore, the lowering of the threshold will bring almost another 4 million people into transitional relief for the first time. They will gain up to £52 a household.

30. These changes will require amendments to the regulations which will be brought forward in the autumn. My officials will be discussing the administrative implications with the local authority associations.

Conclusion

31. Mr Speaker, the grant settlement I have proposed envisages 12.8% more support from Government grant and business rates towards local authority spending. That is generous by any measure, reflecting a substantial increase in real terms. If authorities budget sensibly, the average community charge should be close to the Community Charge for Standard Spending. But I can assure the House, that if they do not I will use my powers to protect charge payers from excessive demands. I expect local authorities to set prudent budgets, so that the extra grant being provided goes to help chargepayers through moderate charges and not to boost spending.

32. The changes I have announced to transitional relief will benefit an extra 4 million people on top of the 7½ million who already receive relief. They will represent a further £310 million of help on top of the previously planned £260 million for the relief scheme in 1991-92. Among those who will benefit will be elderly and disabled people who qualify for extra help under the current scheme. Almost 3½ million people will benefit from the changes to the safety net. Many individuals and small businesses will benefit from the proposed changes in the rules concerning second homes, composite hereditaments, and bed and breakfast.

33. My announcement today means substantially more relief to those who most need help in the changeover to the community charge. It means a realistic financial settlement for local authorities. I believe we have played our part in helping to smooth the introduction of this major reform. Now it is up to local authorities to play their part.

DEPARTMENT OF THE ENVIRONMENT

19 JULY 1990