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From: P F Owen
18 October 1990

P 03729

MR POTTER

cc Sir Robin Butler
Mr Burr
Mr Wells

LOCAL AUTHORITY FINANCE: 1991/92

1. The Secretary of State for the Environment has now written to the Prime Minister (his letter of 16 October) with proposals for the criteria to be used for charge capping in 1991/92. with BP?
2. The criteria are consistent with the earlier discussion with colleagues (E(LG)(90) 2nd Meeting). Authorities' spending would be capped on the following basis:

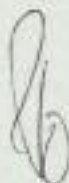
Proposed 1991/92 expenditure budget	Maximum permitted increase over 1990/91 budget
up to SSA	no limit
up to SSA+5%	9%
up to SSA+10%	7%
up to SSA+12½%	5%
over SSA+12½%	0%

3. The Secretary of State estimates that this would enable him to constrain aggregate expenditure in England to £39.8 billion in 1991/92, with an average community charge of about £396, even on pessimistic assumptions. (I understand this to mean that he has made an allowance both for the need to grant derogations to some authorities and for the likelihood that low spending authorities will make use of the "headroom" for increasing expenditure within the limit set for them.) These figures are a little below those discussed in E(LG).

4. There is no allowance, however, for any increase in charges that might arise if authorities were to make larger allowances for non-collection of community charges than they did this year. If they allowed for an extra 1% shortfall, the average charge would rise to £400. There is no way to prevent increases in community charges arising from this source. Capping applies only to authorities' budgeted expenditure, and this is not affected by an increase in the provision for a shortfall in revenue.

5. Under Mr Patten's proposals some of the shire districts would in principle be liable to make very large reductions in expenditure. Bristol, for example, would be expected to spend over 16% less in cash terms than this year. However, the process allows for the exercise of discretion. Once Bristol had been designated for capping, it would be able to apply to the Secretary of State for a derogation setting a more achievable level of expenditure reductions.

6. Against that background, the capping levels proposed do not seem unrealistically tough. It would of course be wholly unprecedented to cap well over one hundred authorities - which might be required if authorities are not deterred from high spending by the announcement of the criteria - but colleagues have always recognised that this would be a possibility if local government spending was to be held below £40 billion next year.



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