



PRIME MINISTER

CAPPING THE COMMUNITY CHARGE

[Minute of 28 July from Mr Ridley]

DECISIONS

Mr Ridley seeks agreement to the arrangements for capping the community charges of high spending local authorities from 1990/91.

BACKGROUND

2. E(LF) agreed on 2 July (E(LF)(87)11th Meeting, Item 2) that it would be essential to legislate for community charge capping on a permanent basis under the new local government finance system which will apply from 1990/91. Mr Ridley was asked to bring forward further proposals.

MR RIDLEY'S PROPOSALS

3. Mr Ridley's minute proposes a form of capping which is based on the existing Scottish model rather than on the current arrangements for England and Wales. Local authorities would no longer be selected for capping before the start of the financial year. Instead, Mr Ridley would wait until they had set their own community charges. He would then decide on criteria to select those who had set the highest absolute charges, or had made the largest year on year increases, and propose a lower charge for them. They would have a chance to apply for a figure between their original charge and Mr Ridley's figure. Finally, the resulting reduced charge would be imposed by Order, and the authorities would have to cut their expenditure accordingly.

MAIN ISSUES

4. A scheme of this sort has a number of advantages over the existing rate capping arrangements for England -

a. it deals solely with the community charge fixed by the authority, which is what charge payers will be concerned about;

b. the Government is seen to have secured an actual reduction in the community charge which the authority would have set. Under the present system, ratepayers never know what charge the council would have fixed if left to take its own decisions;

c. it is less susceptible to abuse by local authorities through creative accounting. They can avoid selection only by actually cutting their community charges.

But there are also disadvantages

d. it would be more staff intensive, and it would probably not be possible to select as many authorities as under the existing system;

e. since control would be applied only at a late stage, it would probably not be feasible to seek such large reductions in spending;

f. it involves interfering in local authorities' financial arrangements after the start of the financial year. This is likely to be very controversial, not least during the passage of the Bill through Parliament. (Previous provisions with similar effect have been substantially weakened during their Parliamentary consideration).

CONFIDENTIAL

5. On balance, Mr Ridley is probably right that the Scottish model of capping has advantages, particularly in presentational terms. But you will want to seek the views of the Business Managers about how it is likely to affect the Bill in both the Commons and the Lords.

Capping during the transitional period

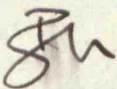
6. Capping is bound to be more complex to operate during the transitional period, when authorities will be levying both rates and the community charge. Marginal spending will all be financed from the community charge, and capping will therefore apply to that tax rather than to rates (which will be fixed by the transitional provisions). However, community charges will be increasing sharply from year to year as rates are phased out. (There will also be problems associated with boroughs opting out of ILEA, which you will have discussed at E(EP)). Very complicated criteria will be needed to select authorities under these conditions. You will want to be assured that Mr Ridley is developing proposals which will deal with this.

TIMING

7. Mr Ridley seeks decisions now so that the relevant parts of the Rates Reform Bill can be drafted.

HANDLING

8. You will want to ask the Environment Secretary to introduce his paper. The Chancellor of the Exchequer and other Ministers will wish to comment on the substance of his proposals. You will want to seek the Business Managers' views about the Parliamentary implications.


J BEUNWIN

29 July 1987