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PRIME MINISTER

26 October 1987

E(LF)

E(LF) tomorrow is to discuss:

- the transitional arrangements for the community charge;
- a new system for controlling local authority capital expenditure.

Transitional arrangements for the Community Charge

Mr Ridley initially proposed that the Community Charge should be introduced in a single step in 1990, but with some transitional help for inner London. This approach was rejected because it would have given families insufficient time to adjust. Instead there was to be a safety net to smooth the changes in grant and business rate income and dual running of Rates and the Community Charge.

These transitional arrangements have been criticised both because of the expense and confusion of dual running and because they would delay the benefits for those areas that gain. Politically, the Government may gain little from the transition because criticism will focus on the eventual level of the Charge.

In view of the pressure at the Party Conference for the Community Charge to be introduced in a single step, Mr Ridley proposes to give all District and Borough Councils (who collect taxes for all tiers of local Government) the option of a shorter transitional period. The safety net arrangements will remain as before.

Local Option

Handed the initiative

The effect of this proposal is that:

1990 - 1991

- individual areas would be free to introduce the Community Charge in full from 1990;
- but the grant gains for certain areas would not be brought forward. For example, at the extreme, Epsom and Ewell face a full charge in 1990 of £300 compared to an eventual £182 a head;
- it would have no effect on the very high levels of eventual Charge in inner London.

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The proposal may therefore be insufficient to deal with criticism of the transitional arrangements. There is clearly a risk that it will be seen as a half measure and create an impression of muddle. Since the primary justification is political we should try to collect some hard information about the likely reaction from councillors and backbenchers before taking a final decision. One option would be to commission a quick survey from a market research firm.

It would also be prudent, now that options involving different transitional arrangements in different areas are under consideration, to look at the other possibilities. For example we might be able to manage without a transitional period in all areas except those facing a Community Charge higher than (say) £300 a head. The average Charge in Scotland (in 1987-88 prices) will be £253 a head with a maximum of £294 in Glasgow. Only half a dozen English local authorities outside inner London face charges higher than £294 a head.

Local Authority Capital Controls

The second item on the agenda is a replacement for the

present system for controlling local authority capital expenditure. This system has proved thoroughly unsatisfactory leading both to substantial underspends and massive overspends. The main reason for this is the unpredictability of the spending power from receipts.

Mr Ridley's earlier proposals for revised controls on local authority capital expenditure were not well received. He has therefore re-examined his proposals to produce a system consistent with the move to a Community Charge. He will be bringing forward separate proposals covering capital expenditure on housing.

Mr Ridley has concluded that with improved accountability from the Community Charge the Government need not attempt to control capital expenditure funded from this source. The new system therefore aims to control borrowing by local authorities including disguised borrowing under creative accounting schemes. In addition it is necessary, at least temporarily, to limit local authorities' freedom to spend capital receipts because of the size of the spending power that will remain available from accumulated receipts. Local authorities will, however, lose some of this spending power because the new system will only recognise those receipts backed by cash.

These new proposals are more changes of form than of substance. They should be broadly as effective as an expenditure based system in controlling expenditure since the Community Charge will provide a check on extra spending from revenue.

We think these revised proposals are sensible and likely to be effective. They are also much more likely than the earlier ones to be accepted by local authorities as sensible and reasonable because some of them have themselves argued for a borrowing based system.

Conclusion

Mr Ridley's proposals for changing the transitional arrangements for the Community Charge are only worth agreeing if they will satisfy the critics of the earlier transitional arrangements. Further hard information, possibly from market research, is needed before a firm conclusion can be reached. Before a decision is taken other alternatives involving different transitional periods in different areas need to be considered. One option is to move to the Community Charge in a single step except where it will be exceptionally high (eg above £300).

Mr Ridley's proposals for a new system for controlling local authority capital expenditure by placing annual controls on borrowing seem likely both to be more effective than the present system and more acceptable to local authorities than earlier alternatives. We support them.

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