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From the Private Secretary

6 February 1990

COMMUNITY CHARGE TRANSITIONAL RELIEF

The Prime Minister held a meeting this morning to discuss the issues set out in Trevor Beattie's letter to me dated 2 February. Those present were your Secretary of State, the Chief Secretary, the Minister for Local Government and Richard Wilson (Cabinet Office).

I should be grateful if you and copy recipients would ensure that this letter is seen only by those with a strict need to know.

The Prime Minister said she was concerned that, as matters presently stood, the arrangements for transitional relief bore down too harshly on former ratepayers in traditionally low-spending authorities. It was for that reason she had asked for the possibility to be considered of amending the £3 cap under the transitional relief scheme such as it operated up to Government assumed spending or SSA in a particular area, whichever was the higher. But having seen the estimated cost of this approach of some £225 million in 1990-91, she had concluded that additional expenditure of this level would not be justified, particularly against the background of the present overall public spending position. However, she wished to consider with colleagues the alternative possibility identified of a proposal along the lines suggested by Terence Higgins, M.P., whereby the spending assumption for low-spending authorities would be the same percentage below SSA as their budgeted income was below GRE in 1989-90.

Your Secretary of State said that the general difficulty now being faced was that, because local authorities were fearful of the impact of accountability for community charge levels once the new regime was in place, they were anxious to set initial community charges in 1990-91 at a high level which could be blamed on the Government and then provide a comfortable base for the future. The Higgins proposal had to be viewed against that background. It would provide some additional help to charge payers in prudent low-spending authorities. It could also be argued that targeted help of this sort was appropriate because it was more difficult for traditionally low-spenders to live within tight limits than other more extravagant authorities. On the other hand, there were a number of difficulties in adopting the

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proposal as set out in the 2 February letter. Hitherto all the transitional arrangements had been geared to offering protection against changes in the system not in authorities' level of spending. To make such a change now would imply acceptance that the aggregate figure for Total Standard Spending was too low, and might encourage authorities to increase their actual levels of spending.

In discussion, the following main points were raised:

- (i) While it was right that in general the transitional arrangements should only protect against changes in the system, it was difficult to justify to charge payers in low-spending authorities that their transitional protection should be capped at a level involving spending further below the new SSA in 1990-91 than their authorities' budgeted income was below GRE in 1989-90. If the Higgins proposal was adopted there was no question of changing the actual SSA for individual authorities, but simply a recognition that the present transitional relief proposals involved an artificially low baseline.
- (ii) The only way of providing reasonable assurance that adopting the Higgins proposal would not cause authorities to increase their spending plans (with a consequent impact on the RPI) in 1990-91 would be to defer announcement until after authorities' budgets had been set in March. But there would in any event be some knock-on expenditure consequences for later years. And if announcement of a change was deferred until a late stage, there could be justifiable complaints from local authorities that they had been left insufficient time to prepare community charge bills, with the blame for late bills being put on the Government.
- (iii) Whatever decision was reached on the Higgins proposal, it would be essential to consider making maximum use of the charge capping powers in relation to high spending authorities of whatever political persuasion. Ministers had already indicated that the number of authorities capped might be greater than the maximum of 20 authorities whose rates had been capped. At a pinch, it would be administratively possible to cap 30 authorities.
- (iv) The Higgins proposal would deal with only one element of the continuing concerns expressed by backbenchers about the community charge arrangements; the only way these could be fully met would be to have much more generous transitional relief coupled with tighter control over authorities' spending during the transition. It was too late to contemplate such an approach and it was therefore questioned whether it made sense to devote extra public expenditure resources now to the one aspect covered by the Higgins proposal. The overriding problem still faced was of authorities' ambitions to set high spending plans. It was also for



consideration whether adopting the Higgins proposal for transitional relief might lead to pressures for further concessions, for example extending the same mechanism to the calculations of the safety net, although it should be possible to resist these.

Summing up the discussion, the Prime Minister said that the group were not yet in a position to reach a decision on whether the Higgins proposal should be adopted. It was essential to consider this possibility in the context of the various issues and problems which would arise during the introduction of the community charge regime over the coming months. It would only make sense to commit an additional £70 million public expenditure if this was judged to have a significant impact on the overall reception for the new regime and its handling in Parliament. Your Secretary of State should therefore prepare by Friday, 9 February, a note setting out the major issues which would be arising over the coming months, together with a detailed timetable, and put the Higgins proposal within this context. It would also be helpful if this note could cover latest thinking on the number (but not the identity) of the authorities which might be considered for charge capping. The group would probably wish to have a further discussion of your Secretary of State's note in about a week's time.

I am sending a copy of this letter to those present at the meeting, and to John Gieve (H.M. Treasury), and Sonia Phippard (Cabinet Office).

PAUL GRAY

Roger Bright, Esq.,  
Department of the Environment.