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PRIME MINISTER

3 April 1990

COMMUNITY CHARGE: RELIEVING THE BURDEN

You are having a meeting on Thursday to examine options for 1991.

Has enough been done for 1990?

First, however, you may wish to consider the scope for further action this year to relieve the burden. Over and above capping, there is one possibility listed in Chris Patten's paper, which could be done under existing powers.

This would be to set up an extra transitional relief scheme which would rebate all chargepayers so that

- average charge is reduced to £278;
- most of the RPI impact of community charge is reversed (a full percentage point in the summer is at stake);
- the way is paved for expenditure controls on local authorities in 1991.

This is developed in more detail in the note at Annex A.

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The gross cost would be around £3 billion. But the direct cost would be less. There would be an immediate saving of £700 million on community charge benefit, plus indirect savings of at least £600 million next year from lower RPI. The net public expenditure cost this year - £2.3 billion - could be funded from the reserve. (NB £700 million is already committed from the reserve for the extra benefit: this is what would be saved.)

These are large sums. The implications for the fiscal stance could be significant although there would be no increase this

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year in GGE nor, if it was funded from the reserve, in PE. The reduction in reserve might however be viewed as a hostage to fortune and a switch from local taxation to a reduced surplus by central government might have an impact on interest rates.

But the political gains could be important. It would lance what otherwise might be a running sore all this year. It would set the right tone for action in 1991, backing up what you said in Cheltenham and giving the electorate an unmistakable signal that you mean business and will not stand idly by and see the people exploited by high spending authorities. Supporters and backbenchers would be rallied. The knock-on effects of this would be substantial.

Another bonus is the RPI effect. To achieve this, a general scheme is needed, not a selective one. The criticism that such a scheme helped the well-off as well as the less well-off would have to be faced. But the opportunity to 'buy back' a full percentage point on the RPI, with all that that implies given the latest pessimistic forecasts, seems too good to miss. This would impact in the summer, just when the wage round is reaching its peak.

Recommendation

We recommend that you ask John Major and Chris Patten to examine this option in more detail.

What should be done for 1991?

It is evident from Chris Patten's paper that the only realistic option in the time available is some form of comprehensive expenditure limitation. The various other ideas, such as annual elections, could be very useful but cannot be in place by next

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April.

Expenditure limitation will require:

- **Simplicity:** it needs to be readily understood. Anything linked to SSAs is not easily understood, as well as being wide open to legal challenge. A limit based on the RPI may be better (see below);
  
- **Toughness:** spending must come down in real terms. This needs sticks not carrots, since 70% of local authority expenditure goes on wages. The only way to reduce staff numbers is to set binding efficiency targets. An 'RPI-x' formula could be the best way to achieve this;
  
- **Advance Warning:** councils need to know where they stand for 1991 as early as possible. This is essential if staff numbers are to fall. The charge that "it's too late for us to do anything" must be avoided;
  
- **Presentation:** absolutely critical. The Government has got to get across the message that what is at stake is not 'cuts' but reducing spending which is excessive, wasteful or non-essential - the discipline already imposed on central Departments over the last decade.

What is needed is a plain man's guide to reducing local authority expenditure (see

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below).

SPENDING LIMIT BASED ON THE RPI

Chris Patten's approach is a limit based on SSA + 5 or 10%. In Government we have just about grasped what that means but SSAs are not understood by the people. Moreover, the Government may well have to admit in legal cases on capping that SSAs are only accurate  $\pm 10\%$ . This means that SSAs are not an ideal criterion for statutory limits, even with 5-10% leeway.

*But we must have some reductions*

An alternative worth exploring would be limits related to the RPI. Spending increases next year would be limited to an allowance for inflation, less binding efficiency targets. The great advantage of using the RPI is that everyone knows what it is. Spending above it cannot be fudged. It is hard to argue that spending limited by the RPI is unfair. It makes it easier to impose efficiency targets, and to get across the Government's case on them.

A possible model would be as follows:

- 1991 upper spending limit = 1990 spending + (RPI - x).  
(A tougher limit would be 1990 SSA + 12.5% (the capping criterion) if lower than 1990 spending).
- Say that  $x = 1$ . Thus all councils have a statutory efficiency target, just like BT had when it was privatised.
- But there would be incentives to achieve  $x = 2$  or better. One way would be to pay a certain amount of extra grant tied to giving chargepayers an extra rebate. This would increase local pressure on councils

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to cut spending, because there would be direct extra benefit on people's pockets.

- Possibly, a 'penny rate' safety valve in addition.

The above would be coupled with a generous settlement (there just seems no political alternative to that) so that average community charge falls next year thus scoring a reduction on the RPI.

RECOMMENDATION

The feasibility of spending limits related to the RPI should be explored, along the lines of the above model.

PLAIN MAN'S GUIDE TO REDUCING SPENDING

People generally haven't the faintest idea what local authorities spend and what services they provide, how much goes on town hall overheads rather than actual delivery of services and so on. Nor do they have any real idea of the inefficiencies and wastefulness revealed, for example, by the Audit Commission. Nor do they really understand the huge gap between best and worst practice, except perhaps Wandsworth/Lambeth.

The list of expenditure by function at Annex B indicates the range and complexity of local authority services, and it's no wonder people have little idea. Even in such a table, there is £500 million of unspecified 'other services'.

Opponents will characterise spending limits as meaning 'cuts'. These are always presumed to hit vital services and not fringe activities. Many councils will make it their business to proceed in this way.

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Hence the need for much greater public understanding. This is absolutely essential if the Government is going to win back the initiative in the debate about local government spending.

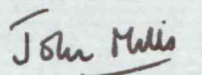
The idea of a plain man's guide to cutting expenditure is in fact Tim Bell's. He put this to us a week ago and the more we have thought about it in the Policy Unit the better an idea it seems. He has offered to help on it.

RECOMMENDATION

A plain man's guide should be prepared, to be as presentationally attractive as possible, in order to buttress the Government's message that expenditure can be pruned without affecting the delivery of essential services.



BRIAN GRIFFITHS



JOHN MILLS

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ANNEX A

RELIEVING THE BURDEN THIS YEAR

Capping will produce only modest relief to relatively few chargepayers. There is one other option available under existing powers which, albeit at high cost, would bring

- the average charge in England back down to £278;
- get a full percentage point off the RPI, if not a bit more, in the Summer.

A reasonable estimate of the likely net cost of this is £1.7 billion. But the public expenditure cost in this year would be £2.3 billion.

This is to bring in an additional transitional relief scheme this year, on top of the scheme already agreed. Provided this is done across the board and not for selective groups only, the resulting reduction in average charge will score against the RPI. This is crucial because it reduces the effective cost as well as bringing obvious wider benefits. **Getting average charge back to the SSA average of £278 will take a full percentage point off the RPI in the summer.**

The gross cost of bringing average charge down to the standard spending level would be about:

England: £2.6 billion (allowing for capping savings of £400 million)

Wales: £140 million

Scotland: £200 million

That is, just under £3 billion.

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But the net cost is rather less. One must deduct:

- £700 million saved this year on community charge benefit (this is currently a call on the reserve);
- £300 million at least saved next year on social security and public sector pension uprating because of lower RPI;
- large but unquantifiable potential savings in the public sector wage round through lower RPI. (1% less on the central government pay bill, (civil service, armed forces, NHS professionals and teachers) would be £300 million).

The indirect benefits are also considerable, over and above the RPI effect:

- virtually removing the problem of the shortfall in Income Support rates to meet 20% of Community Charge. There is likely to be intense pressure for extra uprating in the Autumn to cover this. (The average 'loss' to a couple this year on IS is about 70p);
- ensuring that the weight attached to Community Charge in the RPI does not rise significantly next year (as otherwise it will);
- enabling the commitment to be honoured, in the observance rather than the breach, that, under the transitional relief scheme announced last autumn, no-one will have to pay more than three pounds a week extra compared with rates bills.

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The arguments against

The main argument against is obviously cost. The 1990/91 reserve is £3 billion, of which £700 million is now earmarked for extra community charge benefit. The net cost to the reserve in 1990/91 would therefore be £2.3 billion. (The other public expenditure offsets outlined above would arise mainly next year).

The second argument against is that it would simply validate high local authority budgets. There is some truth in this, but one has to be realistic. There will be little option in next year's settlement but to take existing budgets, or something close to them, as a baseline. So may be it is better, as the situation has developed, to concede this now and avoid arguments about it later which neither side will win but in which local authorities will have the whip hand.

They will have the whip hand because they will argue that their budgets are the minimum they need to deliver key policies - eg community care, food safety, litter, national curriculum.

The Arguments For

The main argument for is simple: that it is the Government's duty to protect individuals from excessive local authority spending, and that fairness demands such a course. There will still be plenty of above average charges up and down the country, but supporters will be rallied and critics disarmed.

The second argument for is that it would effectively cancel out the significant increase in the RPI caused by the high average charge. That needs no further comment.

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The third argument for is that putting in additional funds in this way is not really any different from having conceded a more generous RSG settlement for 1990 in the first place. Except that doing it this way means there can be absolutely no leakage into higher spending. If 1990 local authority budgets in practice become the baseline for the 1991 settlement, then the issue is simply whether this year's overspend should be a burden on individual chargepayers or on taxpayers generally.

Link with Next Year

Action to reduce 1990 charges cannot be taken in isolation. It will have to be coupled with strong action to limit local authority expenditure next year. This can then be presented as a coherent package underlining the Government's determination to protect chargepayers and cut local authority expenditure. There is a danger that nothing but brave words now about 1991 will fail to turn the debate in the Government's favour. But action now will show that the Government means business and is determined to protect people, even at a substantial cost.

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Provisional revenue outturn and budgets: 1988/89 and 1989/90

ANNEX B  
 What authorities will spend this year on each service (Nov. '82 prices) £ 000

	1988/89 PROVISIONAL OUTTURN			1989/90 BUDGET(a)		
	Debt Charges	Other Expenditure	Total	Debt Charges	Other Expenditure	Total
1 Nursery & Primary Education	202,262	4,237,902	4,440,164	230,263	4,404,044	4,634,307
2 Secondary Education	277,692	5,135,749	5,413,441	300,151	5,116,636	5,416,787
3 Special Education	27,986	821,001	848,987	30,090	828,720	858,810
4 Polytechnics/PCFC	61,150	585,550	646,700	16,513	24,397	40,910
5 Other Maintained Establishments	97,921	1,592,985	1,690,906	98,234	1,464,115	1,562,349
6 Other Educational Services	33,881	1,462,643	1,496,524	41,517	1,496,930	1,538,447
7 School Catering Services	13,368	385,023	398,391	14,507	370,474	384,981
8 Libraries	31,828	427,919	459,747	38,322	440,833	479,155
9 Museums & Art Galleries	8,400	75,082	83,482	9,593	78,985	88,578
10 Personal Social Services	126,077	3,270,602	3,396,679	143,425	3,427,324	3,570,749
11 Port Health	11	3,992	4,003	5	4,252	4,257
12 Police	52,879	3,491,672	3,544,551	69,593	3,651,171	3,720,764
13 Fire Service	33,578	782,561	816,139	42,250	786,543	828,793
14 Magistrates' Courts	19,491	182,178	201,669	25,046	190,110	215,156
15 Other Courts	1,397	23,563	24,960	1,506	24,498	26,004
16 Probation	2,545	197,569	200,114	3,470	212,818	216,288
17 School Crossing Patrols	10	22,563	22,573	11	23,811	23,822
18 Civil Defence	227	17,977	18,204	273	19,546	19,819
19 Registration of Electors	112	29,682	29,794	154	29,415	29,569
20 Street Cleaning for Highways	1,271	97,887	99,158	1,453	99,015	100,468
21 Highways, Lighting, Road Safety	319,488	1,053,681	1,373,168	379,127	1,096,712	1,475,839
22 Transport Technical Services	21,135	293,652	314,787	25,142	304,179	329,321
23 Parking	37,544	-69,671	-32,127	43,873	-77,264	-33,391
24 Housing Benefit Administration	987	210,161	211,148	1,085	223,802	224,887
25 Disc. Rent Rebates and Rent Allowances	6	10,859	10,865	7	11,432	11,439
26 Net Cost of Housing Act Advances	0	5,409	5,409	0	5,370	5,370
27 Other (non HRA) Housing	669,865	166,872	836,736	731,820	160,996	892,816
28 Careers Service	692	82,192	82,884	863	90,372	91,235
29 Sheltered Employment and Workshops	800	28,412	29,212	830	30,077	30,907
30 Consumer Protection	1,118	78,479	79,597	1,270	85,170	86,440
31 Refuse Collection	20,628	457,942	478,570	24,187	447,856	472,043
32 Refuse Disposal	25,493	156,894	182,387	29,430	162,242	191,672
33 Public Conveniences and Sewage	6,845	86,693	93,538	8,316	84,946	93,262
34 Other Environmental Health	5,047	198,013	203,060	5,829	210,779	216,608
35 Street Cleaning for Public Health	2,247	120,059	122,306	2,469	127,170	129,639
36 Swimming Pools, Sport & Recreation	106,191	340,790	446,982	118,263	348,263	466,526
37 Parks and Open Spaces	65,103	450,520	515,623	73,475	464,917	538,392
38 Planning	85,068	294,126	379,194	93,653	316,111	409,764
39 Economic Development	78,155	70,084	148,239	87,300	72,845	160,145
40 Cemeteries and Crematoria	5,330	44,072	49,402	5,950	43,966	49,916
41 Land Drainage & Flood Protection	8,790	11,981	20,771	9,859	12,099	21,958
42 Coast Protection	7,440	6,341	13,781	8,475	6,228	14,703
43 Smallholdings and Other Ag. and Fish.	-354	-6,686	-7,040	-34	-6,408	-6,442
44 Cost of Rate Collection	621	188,794	189,415	710	188,413	189,123
45 Comm. Charge Preparation Costs	1,151	33,461	34,612	6,215	191,067	197,282
46 General Administration (Unallocated)	118,971	78,180	197,151	145,386	64,131	209,517
47 Other Services	125,474	486,467	611,941	138,524	546,778	685,302
48 Debt Charges to Residuary Bodies	83,909	0	83,909	84,209	0	84,209
49 Unallocated Contingencies	19,223	10,131	29,354	13,881	90,985	104,866
50 Total of Rows 1 to 49	2,809,054	27,732,006	30,541,060	3,106,491	27,996,865	31,103,356
51 Provision for Pay and Price Change	-	-	-	21,231	1,491,443	
52 Total of Rows 50 & 51	2,809,054	27,732,006	30,541,060	3,127,722	29,488,308	

## Provisional revenue outturn and budgets: 1988/89 and 1989/90 (continued)

£ 000

	1988/89 Outturn Prices	1989/90 Nov 88 Prices	1989/90 Outturn Prices
54	Line 52 Col. 2, line 50 Col. 5, line 52 Col. 5	27,732,006	29,488,308
55	National Education Pools	34,913	-2,032
56	Inter-Auth Education Recoupments	10,345	4,423
57	Concessionary Fares	308,848	344,197
58	RFC to Passenger Transport	226,074	237,566
59	RFC to Trading Services	26,544	25,928
60	Residuary Body Levy	8,544	1,524
61	Waste Regulation and Disposal Auth Levy	79,724	85,777
62	Parish/Community Precepts	68,773	80,149
63	Land Drainage Precepts	130,999	139,779
64	Other Precepts	18,932	20,074
65	Other Adjustments	-15,603	-6,410
66	Total Current Expenditure	28,630,099	30,419,283
67	'Current Expenditure' at Outturn Prices	28,630,099	30,419,283
68	Rate Fund Contributions to HRA	371,737	367,973
69	Net Expenditure on Rent Rebates	71,396	80,737
70	Net Expenditure on Rent Allowances	29,797	38,928
71	Net Expenditure on Rate Rebates	52,314	55,061
72	Debt Charges met from Rate Fund (exc. leasing)(b)	2,604,721	2,879,488
73	Leasing Payments met from Rate Fund(b)	204,332	248,236
74	Revenue Contributions to Capital Outlay	78,494	89,078
75	Unallocated Contributions to/from Spec./Cap. Fund	-173,661	-263,803
76	Unallocated Contributions to/from DLO's	-32,836	-25,285
77	Expenditure on Mandatory Student Awards	764,776	798,461
78	Interest Receipts on Revenue/Other Balances	-718,737	-720,587
79	Total Local Rate & Grant Borne Expenditure	31,882,433	33,967,571
80	Specific Grant on Mandatory Student Awards	-688,296	-718,611
81	Specific Grants as Defined for RSG Purposes	-3,303,740	-3,626,716
82	Transport Supplementary Grant taken to Revenue	-52,362	-58,462
83	Storm and Flood Damage	-2,619	0
84	"Total" Expenditure	27,835,416	29,563,781
85	London Equalisation	1,291	0
86	Block Grant: Anticipated Entitlement	-8,996,317	-8,837,839
87	Other Specific Income Outside "Total" Expenditure	-2,827	-795
88	Residuary Body Levy Outside "Total" Expenditure	0	0
89	Receipts from Residuary Bodies outside "Total" Expenditure	-13,921	-5,647
90	Transfers to Airport Companies	0	0
91	Storm and Flood Damage	2,619	0
92	Variation in Balances	-402,330	-624,750
93	Total Local Rate/Precept	18,423,932	20,095,669
94	Balance of Specific Grant Defined for RSG	5,151	7,466
95	Balance of Transport Supplementary Grant	138,244	146,497
96	Rate Fund Balance at 31 March 1989	1,575,929	

(a) Lines 1 to 50 columns 4, 5 and 6 are given at November 88 prices.

(b) The sum of the lines 72 and 73 equate to the sum of debt charges in columns 1 and 4, in 1988/89 and 1989/90 respectively.