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6 April 1990

Dear Barry

My Secretary of State thought that it would be useful if I circulated copies of the Q and A briefing we have prepared on charge capping to the private secretaries of E(LG) members so that colleagues may take a consistent line on the points most likely to be raised.

I am copying this letter and enclosure to the Private Secretaries of the other members of E(LG) and to Sonia Phippard in Sir Robin Butler's office.

John

Roger Bright

R BRIGHT
Private Secretary

CHARGE CAPPING:

Q and A Briefing

PART I: Key Points

Accountability

Q Capping undermines the basic philosophy of the community charge? Blatant negation of the local accountability which the new system purports to improve? Clear admission that new system is not working?

A Local accountability is and remains central to the new system. But it would be some time before the new system has had a chance to bed down and for the accountability pressures to be fully effective. A number of authorities have regrettably chosen to budget excessively. Hence the need for me to use the powers Parliament has given me to protect chargepayers from the consequences of excessive budgets.

Q Capping amounts to the Government setting the charge. So much for local accountability.

A As I said accountability is fundamental to the new system but it will take a while for the accountability pressures to be fully effective.

Q You are not even giving accountability a chance to work by capping ahead of the local elections on 3 May?

A Accountability is weaker in the early years before the system has had a chance to settle down. I want to bring chargepayers relief as quickly as possible from the effects of excessive budgets.

Political Bias

Q Why are no Conservative controlled authorities capped? The selection principles are obviously politically biased, manipulated to avoid catching Conservative councils.

A This is patently absurd. The selection principles are of general application to all classes of authorities, subject to the variation for inner London Boroughs. There is no question of political bias. It is simply that Conservative councils did not meet the criteria for selection. That is because they are not budgeting excessively.

Q Why have you not used the excessive increase option for 1990/91? Because Conservative councils would be more likely to be capped?

A Certainly *not*. I of course accept that I am empowered to cap authorities whose budgets represent an excessive increase over the previous year. In this first year of the new system I would need to construct for each authority the budget it would have set in 1989/90 had the new finance systems then applied so that I would have a fair basis against which to measure any increase. The statute empowers me to do this and I have considered very carefully how in practice it would be done. *But* after looking very carefully at the practicalities I have concluded that notional budgets - essentially trying to form a view of what each authority might have done if the world had been very different from what in fact it was - did not seem to me to be a sensible and sound basis on which to cap authorities.

Service Disruption

Q Capping will cause service disruption/financial collapse?

A This is a wild assertion. The proposed caps are in my view, on the basis of the information before me, reasonable and appropriate in all the circumstances of the authorities concerned, and are achievable without disruption to services. But a capped authority has the opportunity to suggest to me an alternative cap together with the reasons why they think that this alternative is appropriate. Should an authority do this we shall of course consider very carefully what they say. If I am persuaded by their case I can set my final cap at some higher level than my original proposal.

CHARGE CAPPING:

Q and A Briefing

PART II: Full Brief

General

Q Capping undermines the basic philosophy of the community charge? Blatant negation of the local accountability which the new system purports to improve? Clear admission that new system is not working?

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Selection criteria

Q Why measure excessiveness by reference to SSAs?

A Overspending comes home to chargepayers as the amount in £s per head by which their charges exceed that for spending at SSA. Therefore SSAs, which is the amount we consider it appropriate for each authority to spend to provide a standard level of service consistent with Total Standard Spending, is the best benchmark for excessiveness. Under ratecapping authorities were selected on the basis of budgets relative to GRES - the Grant Related Expenditure Assessments which SSAs have replaced.

Q Why not measure excessiveness by reference to the spending assumption used for safety net and transitional relief purposes?

A The spending assumption is merely a crude reflection of authorities' 1989/90 spending patterns. It is simply a reference point for the calculation of an appropriate degree of protection under the safety net and transitional relief scheme. It is not a target or guideline or an amount which an authority could or should spend or set. It is the SSA -and only that -which represents our view of an appropriate level of spending.

Q So an authority could be capped even though its charge is below its assumed charge?

A Yes. Haringey is in this position but its overspend is around 30% and £351 per adult above SSA.

Q Is there not a general expectation that authorities spending at or below the spending assumption are safe from capping?

A If there is, it is misplaced. My HF, the Minister for Local Government and Inner Cities explained the status of the spending assumption in response to a question from my HF the Hon Member for Hayes and Harlington on 15 February. Copies of that answer were sent to authorities.

Q Why a combined percentage/per capita approach?

A It ensures that an authority is capped only if its overspend on SSA results in a significant burden on chargepayers and that overspend is significant relative to the size of its budget.

Q Why not just a percentage approach?

A This approach by itself would give no direct recognition to the burden on chargepayers.

Q Why not just a per capita approach?

A This approach by itself would not be an adequate measure of overspend relative to the budget concerned.

Q Why not have different criteria for different tiers, as the Act enables you to do?

A I felt that, subject to the variation for inner London Boroughs, a uniform measure of excessiveness was appropriate for all the classes.

Q What recognition are you giving to the overspend which inner London Boroughs are inheriting from ILEA? Surely it is unfair to penalise them for inherited overspend?

A We do not expect the Boroughs to eradicate the whole of the overspend in year 1 but they should certainly be making a start. In recognition of the position in which the boroughs find themselves I am deducting from each Borough's budget for the purposes of comparison with SSA the amount of its inner London education grant.

Q Why are no Conservative controlled authorities capped? The selection principles are obviously politically biased, manipulated to avoid catching Conservative councils.

A This is patently absurd. The selection principles are of general application to all classes of authorities, subject to the variation for inner London Boroughs. There is no question of political bias. It is simply that Conservative councils did not meet the criteria for selection. That is because they are not budgeting excessively.

Q Why have you not used the excessive increase option for 1990/91? Because Conservative councils would be more likely to be capped?

A Certainly not. I of course accept that I am empowered to cap authorities whose budgets represent an excessive increase over the previous year. In this first year of the new system I would need to construct for each authority the budget it would have set in 1989/90 had the new finance systems then applied so that I would have a fair basis against which to measure any increase. The statute empowers me to do this and I have considered very carefully how in practice it would be done. But after looking very carefully at the practicalities I have concluded that notional budgets - essentially trying to form a view of what each authority might have done if the world had been very different from what in fact it was - did not seem to me to be a sensible and sound basis on which to cap authorities.

Q Why notional rather than actual budgets for 1989/90?

A To take account of the various changes in the finance system and in authorities' functions between last year and this to compare like with like.

Q But are you not doing a similar calculation for the safety net and transitional relief?

A The purpose is quite different. It is simply a reference point for the calculation of an appropriate degree of protection from changes resulting from the old finance system to the new. It did not seem to be appropriate to cap authorities on the basis of notional figures.

Q Why have you chosen a percentage figure of 12½% and a per capita figure of £75? Why not more or less in each case?

A These amounts above SSA represent in my opinion the most appropriate measure of the excessiveness of an authority's budget. Hon Members may recall that 12½% above GRE - the Grant Related Expenditure Assessments which SSAs have replaced - was used as a criterion in the last round of ratecapping.

Q Do you not consider the budgets of authorities spending below your criteria to be excessive?

A No. My 12 1/2 % £75 per adult above SSA principles represent my view of excessiveness.

A What is the de minimis proviso?

It means that an authority is designated for capping only where its overspend per adult above the 12 1/2 %/£75 per adult benchmark for excessiveness is at least £26.

Q Why a de minimis proviso? Why £26?

A Because I did not think it right to put authorities to the trouble of rebilling if the benefit to chargepayers was relatively small. £26 - 50 pence a week - seemed to me an appropriate figure.

Q How many authorities does the £26 proviso exclude and which?

A 13. Northumberland, Cumbria, Ipswich, Kirklees, Oxfordshire, Wakefield, Walsall, Tameside, Middlesborough, Stockport, Lewisham, Hounslow, Sandwell.

Q Do you not consider these authorities' budgets excessive?

A They are certainly excessive. But I have not selected them for capping because the benefit to their chargepayers of so doing would be relatively small.

Q Surely the de minimis proviso means that the selection criterion is really 12 1/2% and £101 above SSA?

A Not necessarily because the £26 proviso applies to both elements of the 12 1/2%/£75 per adult criterion but I must emphasise that all authorities whose budgets are 12 1/2% and £75 per adult above SSA are budgeting excessively; the £26 de minimis proviso is to avoid capping for the sake of only a small reduction in the burden on chargepayers.

Q Can't you cap an authority below the level implied by the 12 1/2%/£75 per adult criterion?

A I believe that these are the toughest criteria which are appropriate and which I can safely adopt.

Proposed caps

Q How have you arrived at the caps you propose?

A They represent my considered view of what it would be reasonable to expect each authority to achieve in the light of the information I have about it.

Q Supposing the proposed cap is too tight?

A Authorities have 28 days to challenge the proposed caps, if they so wish, and suggest an alternative amount with reasons. It is open to me to set the final cap at a higher level if that appears justified on the basis of the information before me.

Q What if an authority neither accepts nor challenges the proposed cap?

A I must set it at the level proposed.

Q Why are you cutting different authorities by different amounts? Why are you reducing the charges of capped authorities by different amounts?

A As I said, each cap which I am proposing reflects my view of what is reasonable in the individual circumstances of each authority. Inevitably, the budget reductions implied - and therefore the effect on the charges - will vary from one authority to another but I must stress that it is the budgets not the charges directly which are capped.

Parliamentary involvement

Q Will the Commons debate the caps?

A Yes, if an authority does not accept its cap. If the proposed caps are challenged (or even if an authority does not respond) the final caps have to be set by a Commons affirmative resolution Order.

Public expenditure/RPI effect

Q What is the PE saving implied by the caps you propose?

A The saving in General Government Expenditure is about £215m.

Q Hardly significant in the context of a £3bn overspend by local authorities?

A That is not the point of capping, which is essentially to curb excessive budgets.

Q RPI effects of £215m GGE saving?

A Under 0.1%.

Implications for local authorities

Q How do you expect authorities to achieve the cuts? What services should they cut?

A It is for the authorities concerned to consider their spending priorities within their lower overall budgets.

Q Will you instruct capped councils to avoid cutting essential services?

A No. As I said, it is for the authorities themselves to decide how to live within their lower overall budgets.

Q Capping will cause service disruption/financial collapse?

A This is a wild assertion. The proposed caps are in my view, on the basis of the information before me, reasonable and appropriate in all the circumstances of the authorities concerned, and are achievable without disruption to services. But a capped authority has the opportunity to suggest to me an alternative cap together with the reasons why they think that this alternative is appropriate. Should an authority do this we shall of course consider very carefully what they say. If I am persuaded by their case I can set my final cap at some higher level than my original proposal.

- Q Capping will lead to cash flow difficulties? Arrears?
- A Cash flow difficulties are not a necessary consequence of capping. Chargepayers are obliged to pay the initial charge set until a substitute is made; charge income is not in any event the sole source of income to the collection fund.
- Q Capping will mean administrative chaos and expense. Especially unfair on charging authorities in capped counties?
- A Sending out new bills, recalculating benefit etc obviously does impose some extra administrative burden and expense. But clearly in the case of charging authorities which have been capped this is a consequence of their excessive spending. Where the county is capped the charging authorities in its area can recover their costs of rebilling etc from the county.
- Q Very difficult to recalculate bills where transitional relief and charge benefit have been awarded?
- A No more than it would have been to calculate the initial bills.
- Q What are the administrative costs involved?
- A We estimate that it would cost about £200,000 per charging authority on average: £6m-£7m in total for the authorities I am capping, including all the districts in Avon and Derbyshire.
- Q Do the proposed caps take account of these extra costs?
- A Yes.
- Q What about loss of interest on cash flow?
- A I have made no specific allowance or estimate. As I said, cash flow difficulties are not a necessary consequence of selection for capping. In any event, it would not affect authorities' budgets as any loss of interest would be borne by collection funds.
- Q Wouldn't it be better if authorities delayed bills?
- A No. We have encouraged authorities to do all they can to issue bills on time and most expect to do so this month.

Q Capping and school budgets? [Local Management of Schools: LMS)

A If an authority were capped it would need to consider its spending priorities within its overall lower budget. There is nothing in the statutory framework for LMS which would prevent an authority from adjusting school budgets if it decided in-year for whatever reason to reduce its overall expenditure on schools. School budgets are in no different a position from other items of an authority's expenditure and have no prior claim on an authority's funds.

Implications for chargepayers

Q Will chargepayers in capped authorities get refunds (where appropriate), revised instalments, revised transitional relief and benefit entitlements reflecting the lower charge bills?

A Yes.

Q When do chargepayers get lower bills? Do they pay the original bill until then?

A Until a capped authority has issued new lower bills chargepayers must pay the original charge set. If authorities were to challenge their caps it is unlikely that they would issue new bills, reflecting the final caps, before July.

Q How many chargepayers will benefit from capping?

A Over 4 million.

Q How many chargepayers are there in England?

A About 36 million.

Q What reductions in charges do your proposals achieve?

A Reductions range from some £30 to £100 on the basis of my preliminary proposals for caps.

Q How does capping affect the average charge?

A My proposals would reduce it from £363 to £357.

Anomalies/disappointments

Q Why are you not capping authority X?

A In general terms, if an authority is not capped it is because it does not meet the criteria or because it is excluded by the de minimis proviso or because they are exempt from capping entirely (ie budget below £15m).

- Q But my authority's budget/charge is patently excessive. How can you justify not capping it?
- A I understand my HF's disappointment. I have considered very carefully what principles I should adopt. I felt it right to adopt an approach on the lines of that adopted by my predecessors on ratecapping.
- Q How is it that capping can result in some authorities with high charges escaping and others with lower charges being caught? Surely this is ridiculous?
- A Capping works on the basis of budgets not charges. The substantial transitional support which we are making available can result in charges being much lower than those implied by budgets eg Calderdale, Greenwich. Conversely, a district with a high charge, such as Oxford, can avoid capping if it is below the £15m threshold and the county is not caught.
- Q Why is there not a direct relationship between budgets and charges?
- A Basically because of the safety net and other transitional support (special grants: inner London education grant and low RV areas grant).
- Q How can you justify capping Haringey when its charge of £572.89 is below the Government's guideline of £573.17?
- A The assumed charge figure of £573.17 in no way represents a Government target or guideline. It is simply a reference point for the calculation of an appropriate degree of protection under the transitional relief scheme. Haringey's assumed charge figure is high because its spending in 1989/90 was high. It is an authority's SSA which represents an appropriate level of spending. Haringey's budget is 29.8% and £351 per adult over SSA.
- Q Why don't you put forward a capping scheme which does not produce glaring anomalies?
- A There would be bound to be some anomalies. This is the inevitable consequence of the safety net and special grants and the under £15m exemption.
- Q Why not scrap/lower the £15m threshold?
- A The threshold is a statutory one and I have no power to abolish or reduce it. I can only increase it (by Order) up to a maximum of £35m, which I am not proposing to do for 1990/91.

Q Why any exemption? Why £15m?

A It is to avoid catching large numbers of districts whose percentage overspend over SSA is significant but where the extra burden on chargepayers is minimal. There was an analogous provision under ratecapping. The £15m figure is an uprating of the 1988/89 ratecapping threshold of £13.1m.