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To: Mr J Whittingdale  
Mr B Potter

From: H M Saunders

Date: 18 April 1990

COMMUNITY CHARGE

Further to our meeting last Tuesday, I enclose a first draft of some thoughts. I am not quite certain what precisely is required and would much appreciate your comments and input so that I can go through a redraft. I would be very willing to meet you if you think that helpful or alternatively, we could talk on the telephone.

*thatsy*

*Malcolm Saunders*

H M Saunders

cc: Sir Jeffrey Sterling

H M Saunders

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Preamble

Can I start by saying that I have always supported the principal of the Community Charge, for two related reasons. Firstly, it is not a function of local government to redistribute wealth. Secondly, the best way to raise money locally for the services of local government is from the adult population, using a simple head count. Central government, through the Social Security system, should provide any necessary support to those with low incomes.

I am also a fervent advocate of local government. The Tory party is a very decentralised organisation. One of its strengths is its ability to encourage people of all walks of life to become involved in their local communities, either through the branches and associations or through the Parish and District Councils. Without its strong roots the party nationally would be much weakened.

I have divided these jottings into four sections, the present situation, the transition, the ongoing situation and comments on local government financing. There is then a brief conclusion.

The present situation

It should be the case that all local government budgets have been set and the initial Community Charge demands sent out. To say the least, it would not be easy to change these for all the country.

The effect politically on the local elections this May will vary enormously, from being a non-event to being of enormous importance. (the attached leaflets indicate the low level of priority in my area).

The proper, efficient and effective use of local government monies has usually been a high priority of Conservative Councils. I think it absolutely right to target, this May, levels of council expenditure and the effect on the Community Charge. One could argue that parts of Widdicome are too prescriptive but certainly all Tory opposition groups should have full access to their Council's current budget. They should be in a good position to state precisely what savings can be made and the consequential Community Charge effect.

The transition

What we should not lose sight of is the major faults of the old rating system : the elderly lady paying the same as three

or four wage earners; the fact that there had been no rating revaluation since 1973; and several/many authorities have budgeted to increase balances. Many of the current problems would have arisen with the rating revaluation.

I suggest that three points could be considered in the next few months for action during this year:

1. As part of the transition, commercial ratepayers were given an upper percentage limit to cap any increase of rates in any one year. I am not aware that any similar transitional relief was given to households.
2. Somehow, central government planned expenditure for local government and local government out-turn expenditure must be brought into line. To plan on a basis £2.5bn (\*%) different does mean that there will be innumerable problems: of credibility that national and local government understand each other; of large differences between government estimates and the actual Community Charge.

It is essential that Standard Spending Assessments ("SSA") are realistic and hence achievable. For instance, the Hertfordshire Social Services budget of £63 million is \*% above SSA of £\* million, although it is hard to see where £\* million can be cut from the budget.

3. In next year's Community Charge demands, as well as stating the spending plans and the SSA (both in £ per person), last year's plans and the percentage increase should be required to be shown. In the cases of contribution to the safety net, the 1990-91 figures should exclude this contribution so that any increases are not hidden.

The ongoing situation

Could I start with a list of "Dont's"?

1. The safety net payment ceases at the end of this year. It must not be replaced with anything else.
2. There should not be any local income tax (and this includes the "banding" of the Community Charge). For people's salaries to be known locally is invidious and for there to be a national scheme would, I expect, completely paralyse the Inland Revenue. Both would create a large, unwanted bureaucracy for companies.
3. The funding and running of Police, Fire and Education should remain with the Counties (and London boroughs etc). To fund and/or run this centrally would create severe strains between various parts of the Tory party organisation.

Labour are about to regionalise (centralise?) local government, which is wrong and will give us enormous political advantage. This will be completely negated if we ourselves have effectively castrated local government.

But to be more constructive.

We are in the process of bringing greater accountability of local government finance to a greater number of people. In financial terms most local authorities, year on year, are responsible. The problem is to constrain the few who are never responsible and those who are not responsible in any given year.

With the rating system, controls were applied by rate-capping and by grant penalty which, although sounding simple, were complex in practice and not completely effective.

With the Community Charge both the government standard spending grant and the business rates receipt should be neutral, rising in line with inflation. These are not control mechanisms. The control mechanisms should be the absolute level of expenditure (by the Government) and the level of Community Charge (by the elector).

In the budgeting process it is the level of expenditure (net of direct grants) in £ sterling which councillors use as their marker. Committee and council budgets and annual increases are discussed in £ sterling terms. It is only at the end of the process that the rate precept/community charge is calculated and then, maybe, is ameliorated by the use of reserves or balances.

Local authority financing could be much more effective and much more controllable if three year forward cash-limited spending targets (maxima and minima) were required to be published annually each November. It should then be feasible for central government to develop a simple system of controls based on total projected expenditure and SSAs, with possibly grant benefits where SSAs are not exceeded.

The election of County Councils, a quarter each year, may also be a moderating influence.

For the wayward authorities, their next year's total expenditure should be capped by the end of January, so that their capped budget and capped Community Charge can be produced in an orderly, timely manner. I consider that the only way for central government to control absolutely local government finance is for central government to assume complete responsibility. Whether this would stop real growth (cf the National Health Service) is debatable and I personally, do not agree with this line of action.

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Local Authority accounting

If local authorities are to become more cost conscious and profit orientated it is essential that the basis of accounting is reviewed and more commercial practices instilled. In this connection the proposed merger of the Institute of Chartered Accountants in England and Wales and CIPFA is to be welcomed.

Budgets should be drawn up on a "cash limited" basis (including year end revenue accruals), with inflation provisions allocated to committees. Thus budgets and actuals would be directly comparable and more readily understandable both to members and the public alike. This basis would also counteract the current "volume driven" approach to budgeting, which does not encourage efficiency and economies.

The annual accounts should be finalised and audited more quickly, ideally by the end of June or July. Accounts should not be kept open because of objections, but if necessary, adjusted in the next year.

Consideration should be given to the prohibiting of all special reserves etc, so that the ability to smooth expenditure is substantially curtailed.