BARRY POTTER 10 May 1990

cc: Brian Griffiths

COMMUNITY CHARGE: DEROGATION ETC

I would appreciate your comments on the reasoning in this note.

The best scenario one can construct for the proposed new system next year is one where average charge (England) remains fairly steady. See attached arithmetic.

This has precious little effect on the C2 problem.

But leaving that aside, there is clearly the possibility that what is proposed will set income limits as high if not higher than a likely outturn on unchanged policies - ie spending 10-11% about SSA. This is because the essence of the income limits is validation of 90/91 spending and it would be absolutely unrealistic to suggest a limit much less than, say, 8% above 90/91 spending.

Thus why have derogations at all? All it would do, whether central or local, would create an outlet for still higher spending above an already generous figure. This would not only add to average charge and thus the RPI, and increase benefit expenditure, but it would also create an entirely new concept: supplementary community charges. Bills for these would land on mats in June or October 1991. Would they not simply make matters worse?

As we discussed, an alternative would be to have no derogation at all for year 1, but just a reasonable target figure, and plan the referendum approach for year 2. By rejigging the due dates for setting budgets, referenda could then, if necessary, be got out of the way before the start of financial year 1992/3, thus avoiding extra bills.

Another practical matter to bear in mind is that a Bill with referendum provisions might well be forced by opponents into committee consideration on the floor of the House, as a matter of "first-class constitutional importance". That would definitely destroy the timetable and would be a great risk to the whole business.

John Mills

JOHN MILLS

<u>1991/2 scenario: England only</u> (£bn)

<u>1990/91</u>

SSA	32.8	
Spending	36.2	- 85% of this arises in authorities it is planned to target next year.
(AEF	23.1)	

<u>1991/2</u>

Assume SSA rises 10% = 36.1

Assume income limit is set at 90/91 spending + 8%

(Assume untargeted districts increase by 10%) = 38.9

Because 90/91 spending so high, and is effectively being validated, 91/2 spending remains more than 10% above SSA.

Assume AEF rises 10% = 25.4

That means extra spending of 2.7 and extra grant of 2.3. Average charge rises marginally to <u>370</u>.

All this is <u>before</u> community care/any other new burdens.

On top of this, however, new system would erect a new system of <u>supplementary community charges</u> (following referenda). Thus creating a licence for still higher spending and higher average charge (with knock-on to RPI and benefit costs).

Is this necessary? Is it not enough to allow an 8% + rise in expenditure, with no derogations at all, with the cushion of balances (estimated as a usuable 1-1.5 bn at end 90/91) plus a settlement increase <u>higher</u> in percent terms than the income limit increase?