



PRIME MINISTER

## THE COMMUNITY CHARGE

## DECISIONS

You will wish to begin to pull together the package of measures on the community charge. Time is short if it is to be announced before the Summer Recess.

2. The new Cabinet Office Note envisages three elements in the package: (i) legislation; (ii) the AEF settlement; and (iii) measures to help individuals. You may wish to discuss them in turn.

3. The most important task for this meeting is to clarify the position on legislation. The Cabinet Office note concentrates on the new option which with your agreement the Chancellor sent to Mr Patten last week: enhanced community charge capping coupled with referendums. Work by officials since then, including preliminary discussions with legal advisers to DOE and the Law Officers, has not identified any major problems. But:

i. Mr Patten is still opposed to legislation, preferring a conventional settlement backed by the stronger use of existing capping powers. He may however accept that the new option is the least objectionable of those discussed so far; and it is possible that he would be prepared to agree to legislation provided that the AEF settlement is sufficiently generous. You will wish to explore where he stands.

ii. the business managers have previously been hesitant about getting the legislation through, particularly on referendums. If there is to be a Bill, it is very important that it should be enacted by the end of February. You will wish to ask for their assessment.

You may wish to aim for agreement in principle that there should

be legislation to adopt enhanced capping coupled with referendums, subject to a satisfactory agreement on the AEF settlement.

4. On the AEF settlement itself, this is not the occasion to try to reach agreement on figures. But you may wish to have a preliminary look at the issues, and then invite Mr Patten and the Chief Secretary to discuss the settlement urgently and report back by the end of next week.

5. Decisions are also needed on any package of measures to tackle the perceived unfairness of the community charge and Unified Business Rate (UBR). You might invite Mr Patten and the Chief Secretary to suggest a package in the light of what is affordable. It will be important to keep the package slim and cheap: these measures will not affect the RPI.

#### MAIN ISSUES

##### Legislation: enhanced capping with referendums

6. Annex A to the Cabinet Office Note sets out the new option in more detail than before. We have discussed it with officials from DOE and the Treasury, and with legal advisers to DOE and the Law Officers (some of whose advice is at Annex B to the Note). No major practical problems have been identified which would prevent the scheme going ahead.

7. The note suggests a variant of the original proposal, under which capped local authorities would be required to set their initial community charges at the lower level determined by the Secretary of State, rather than at their own proposed level. This would have the advantage that any referendum was on a local authority proposal to increase the charge. You may feel that this should be the preferred option, provided that any timetable difficulties can be overcome.

##### Effect of the new powers

8. One factor in deciding whether to adopt the scheme will be the likely effectiveness in restraining expenditure. Table 3 in annex C is an attempt to provide a ready reckoner. It shows how many

authorities might fall within the scope of the new scheme on assumptions about:

- i. the level of total standard spending (TSS) set by the Government as their estimate of what authorities need to spend in 1991-92;
- ii. the level of actual budgets for 1991-92 set by local authorities in March next year.

For example, if TSS was set at £38.4 billion (5% above this year's budgets) but actual spending was £41 billion (12% above this year), then 106 authorities (out of about 150 which spend more than £15m) would be liable for capping.

9. The table also shows what the total of spending above SSA plus 5% would be in each case. But not all of this spending could be squeezed out in practice: some authorities could not make the necessary savings, and others might secure endorsement of their original budgets in a referendum. The table therefore shows a rough estimate of what savings might be achievable in practice. For example, if TSS were £38.4 billion and actual budgets £41bn, £1.3 billion might be within the scope of the scheme, but achievable savings might be around £800m.

#### Feasibility of legislation

10. Mr Patten will almost certainly oppose the scheme, on the grounds that the political and Parliamentary problems associated with major new legislation would more than outweigh any benefits. The business managers may have reservations too, in particular about referendums. You will want to consider their arguments, and decide whether to proceed with the new scheme. If so, officials will need to work it up urgently. In particular the Home Office will need to be involved: we have not talked to them about referendums yet.

#### No Legislation

11. Mr Patten would prefer to make a conventional AEF settlement,

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and rely on the stronger use of existing capping powers. Table 4 in Annex C illustrates what might be achievable under this option. For example, it suggests that if TSS were set at £38.4 billion but authorities chose to spend £41 billion, then it might be possible to cap 64 authorities. Total spending in excess of the capping criteria might be £530m, but the maximum practical savings might be only £330m.

12. In practice under this option Ministers might want to set a lower level of TSS than with the new powers, so as to bring more authorities into capping. For example, with TSS at £36.6bn (a cash freeze on this year's budget) and budgets at £41 billion, 96 authorities might be liable for capping, with maximum practical savings of £700m. But too low a level of TSS could undermine the credibility of the settlement.

#### The AEF settlement

13. Although Mr Patten is likely to oppose the new scheme, he may be prepared to accept it provided there is a generous AEF settlement. The Cabinet Office Note provides some preliminary figures for the effects of settlements at different levels.

14. There are two main figures to be decided:

i. total standard spending (TSS). A low level of TSS would bring more authorities within the scope of capping for any given level of budgets, and might therefore restrain expenditure. On the other hand, if authorities perceive TSS as being unrealistically low they may ignore it, which may actually encourage higher spending. A balance therefore needs to be struck, to set a realistic level of TSS which still imposes restraint.

ii. Aggregate External Finance (AEF). This is the total amount to be provided to local authorities by way of Exchequer grant and the yield of the Unified Business Rate (UBR). A low level of AEF may restrain expenditure, but it will also mean higher community charges for any given level of

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The critical point is that, without enhanced capping, LAs are more likely to spend at £41b.

spending. High AEF will help to cut community charges, but not if it leaks into higher spending. Again a balance needs to be struck.

15. Tables 1 and 2 in annex C to the Cabinet Office Note exemplify the likely effects of various levels of TSS, AEF and budgets:

i. table 1 shows the community charge for standard spending (CCSS) - the figure the Government will have to publish and defend in July - for various levels of TSS and AEF;

ii. table 2 shows what the average actual community charge might be for various levels of AEF and assumed budgets.

16. You may want to consider the figures, and provide a preliminary view about what sort of settlement would be acceptable politically. This could either be in terms of the levels of TSS and AEF, or in terms of the CCSS and the desirable outcome for actual charges. But you will probably want to ask Mr Patten and the Chief Secretary to meet urgently to discuss the settlement and report back, perhaps by the end of next week.

#### Public expenditure implications

17. The Chancellor and Chief Secretary will be reporting to you when they have reviewed this year's PES bids. Present signs are that the bids are higher than ever before. Mr Patten's own bids, apart from the AEF settlement, are approaching £2 billion for 1991-92 including £1.2 billion for housing. You may wish to make the point to Mr Patten that if he wants money for the AEF settlement he will have to accept that there will be no money for other bids including his own.

#### Measures to help individuals

18. The July announcement could also be accompanied by a package of measures to tackle the perceived unfairness of the community charge and UBR for particular groups. The options which have been discussed in detail in previous papers are summarised in Annex D to the Cabinet Office Note. You may want to decide which should be

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adopted. Alternatively you could ask Mr Patten and the Chief Secretary to seek agreement on a slim, cheap package which they could recommend to colleagues within whatever is affordable. If changes to community charge benefits or measures to help the disabled are to be pursued, DSS officials will need to be involved.

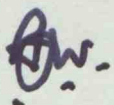
#### Next Steps

19. Time is short if an announcement is to be made before the summer Recess. Further discussion between Mr Patten and the Chief Secretary is likely to be needed before you hold another meeting. You might ask them to report back by the end of next week.

20. You could then hold a further ad hoc meeting, if necessary, and a full meeting of E(LG) in the week commencing 25 June or failing that early in the week of 2 July. This will be the first opportunity for the service Ministers to express a view, particularly on the level of TSS, which has major implications for their services. You may therefore need a further E(LG), perhaps in the week commencing 9 July. Final agreement then would open the way to an announcement on 19 July, the likely date for the Cabinet discussion on public expenditure:

#### Handling

21. You may wish to begin by asking the Secretary of State for the Environment to say how he now views the possibility of legislation next Session. The Chancellor of the Exchequer could then be invited to speak in support of the new option for legislation which he sent Mr Patten. The Chief Whip and the Lord President could be asked how they would plan to secure the passage of legislation. The Chief Secretary could be asked to contribute on the public expenditure aspects, in particular of the AEF settlement and the measures to help individuals.



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