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31(A)

25 June 1990

*Dear Barry,*

**THE COMMUNITY CHARGE**

Your letter of 21 June to Juliet Wheldon asked my Secretary of State to prepare and circulate exemplifications of a scheme of capping on the lines discussed in the Solicitor-General's minute to the Prime Minister of 19 June. I enclose a table which sets out relevant figures for a range of options for local authority budget levels and Total Standard Spending and compares them with those which might result from enhanced capping powers.

My Secretary of State thinks that it would be helpful if a number of points were borne in mind in considering these figures.

As in the case of the figures circulated with his minute for the last meeting of the Prime Minister's group, these latest exemplifications take account of the savings which might result from the deterrent effect of the alternative mechanisms exemplified. For the purposes of exemplification, it is assumed that the savings are obtained in each case directly through the operation of capping. In either case assuming that the capping principles are known in advance, it would of course be open to authorities voluntarily to reduce their budgets to keep within the limits contained in the principles. This however affects only the route by which the savings are obtained, not the quantum of savings which could be achieved.

The figures represent the best estimates which we can make of the maximum savings which could be achieved under the alternative systems of capping now under consideration. But my Secretary of State does not want to exaggerate or over-emphasise the results of the comparison. In his view, the figures should be regarded as what is arithmetically possible, rather than what is politically practicable. £2,000 million or so of savings could only be achieved through capping by sharp reductions in services. Even if it were assumed that authorities drew significantly on balances and made the additional £300 million of efficiency savings which we believe are

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achievable, service reductions of more than £1 billion would be likely to be needed. In addition, such sharp cuts would present severe problems of administrative practicability, and one wonders too whether capping which made such deep inroads into services would not be the subject of vigorous legal challenge.

The figures clearly suggest that greater savings can be achieved through the use of the existing power to cap excessive increases in spending than could be achieved from enhanced powers, and my Secretary of State continues to think that in any case early legislation on local government finance is undesirable. He believes that the right course would be to use both legs of the existing powers to reduce the budgets of the highest spenders in 1991/92 and in subsequent years, so as to reduce their spending to not much more than their SSAs within a reasonable period. He is wholly committed to the proposition that we may need to be more robust in capping next year, but does not want to mislead colleagues about what he could achieve by following his preferred route.

I am also circulating with this letter a copy of the joint paper by my Secretary of State and the Chief Secretary about the levels of AEF and TSS in 1991/92, ie, the paper requested at (iii) in your letter of 21 June.

Copies of this letter and enclosures are being sent to the private secretaries to the Lord President, the Chancellor of the Duchy of Lancaster, the Chancellor of the Exchequer, the Chief Secretary, the Chief Whip, the Solicitor-General and Sir Robin Butler; and to Peter Owen (Cabinet Office) and Richard Wilson (Treasury).

Yours

Phillip

PHILLIP WARD  
Private Secretary

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LOCAL AUTHORITY, EXPENDITURE AGGREGATE EXTERNAL FINANCE AND RELATED MEASURES 1991/92: ENGLAND

PAPER BY THE SECRETARY OF STATE FOR THE ENVIRONMENT AND THE CHIEF SECRETARY, TREASURY

Ministers intend to announce in July their decisions on the main features of the local authority settlement for 1991/92. This paper sets out the issues for decision and the background to the settlement; and gives our respective proposals. It deals with possible changes in community charge transitional relief, community charge benefit, the standard charge and the treating of mixed hereditaments as well as with the settlement proper.

Issues for Decision in the Settlement

2. There are in principle three issues for decision in the settlement.

(a) **Aggregate External Finance (AEF)**: the amount, made up of business rates and central government grants, which central government makes available in support of local authority services;

(b) **Total Standard Spending (TSS)**: the amount which the government judges local authorities need to spend in order to provide a reasonable common level of services;

(c) **the Community Charge for Standard Spending (CCSS)**: the community charge which local authorities need to levy (leaving aside the effects of the safety net etc) in order to provide a common level of services.

3. These decisions are linked and interdependent: CCSS is broadly equal to TSS less AEF divided by the number of chargepayers. Table 1 shows the CCSS for a range of assumptions about AEF and TSS.

4. In taking the settlement decisions we also need to keep very much in mind the possible level of actual community charges next year.

(a) **For any assumed level of local authority spending, the higher is AEF the lower are actual community charges.** Table 2 shows this relationship on the important assumption that authorities budget to make no use of balances in 1991-92.

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(b) On the other hand, most authorities are unlikely to decide on their spending independently of the level of AEF: the level of AEF influences the amount which local authorities feel able to spend bearing in mind the implications for community charges. In general, some of any extra AEF paid can thus be expected to hold down charges, some to 'leak' into higher spending.

(c) TSS (and CCSS) are inevitably compared with local authorities' actual decisions on spending and charges. Their credibility and usefulness as targets will be influenced by the extent to which prudent, well-managed authorities can set budgets at or close to Standard Spending Assessments (SSA), derived from TSS, and community charges at or near CCSS.

(d) On the other hand, TSS, SSAs and the CCSS are normative figures representing what the government believes local authorities should spend; and the level of TSS, through the SSAs for individual authorities, will affect the government's ability to reduce spending through community charge capping.

Background to the Settlement: 1990-91

5. For the current year we set TSS at £32.8 billion. This was 3.8% above the amount authorities were actually budgeting to spend in 1989/90, and 11% above TSS for that year. We set AEF at £23.1 billion, an increase of 8.5% over 1989/90. The CCSS worked out as £278.

6. In practice authorities have budgeted to spend £36.6 billion, an increase of 14% over the latest outturn estimates for 1989/90. Most of the £3.8 billion excess over TSS has fallen on community charges, giving an average charge of £363. (Because authorities have also budgeted to draw less from their reserves in 1990/91 than they did in 1989/90, the increase in their budgeted income between the two years (15%) exceeds the increase in their budgeted expenditure.)

7. We do not have a complete explanation of the reasons for the high increase in local authority spending year on year. Part of it is attributable to higher than expected pay settlements, including the Edmund-Davies pay settlement for the police and the teachers' pay settlement recommended by the Interim Advisory Committee. Part is due to pressures on services (eg an increase of 43,000 on primary school rolls, the implementation of the Education Reform Act and the collection costs of the community charge). Part is represented by an unexpectedly large provision in authorities' budgets for capital financing costs. Part almost

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certainly reflects a view by some authorities that they could set unreasonably high budgets in 1990/91, in the hope that the blame for the resultant high community charges would rest with the Government.

Background to the Settlement: Pressure on Spending in 1991-92

8. It is not possible to predict with certainty how much local authorities will spend next year. We have to take decisions in the settlement knowing that there is a range of possible outcomes, and in the light of a judgement about where in that range local authorities are most likely to pitch their budgets. Authorities' decisions are themselves likely to be influenced by the decisions we reach on AEF and TSS.

9. It is however possible to identify a number of factors which will affect the level of spending next year.

(a) Pay, which accounts for 75% of local authority expenditure. Local authority white collar staff have settled at 9.38%. It would be unrealistic to suppose that the pay settlements to be concluded in the latter half of this year and early next year - including those for the police and possibly teachers - will be much below 9%; they could be higher.

(b) New burdens on local authorities, or burdens which have increased because of demographic change or for other reasons. The analysis and figuring in this paper take no account of the transfer of responsibility for community care to local authorities. Service departments estimate the effect of other new and increased burdens at some £850 to £950 million. The Treasury take the view that these figures substantially over-estimate the pressures for extra spending next year.

(c) Efficiency savings. The Audit Commission has firmly identified longer-term potential for £650 million of savings not yet realised, achievable over a number of years. The Commission believes that authorities could achieve £250 million of these savings within a year within existing constraints. These estimates are based on detailed audit work of some 40% of local authority spending. There is scope for further savings as yet unverified by the Commission which might amount to another £200 million in the year. But local authorities have recently been achieving savings of about £150 million a year (about half of one per cent of local authority revenue spending).

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Service departments' assessments of the pressures on local authority spending are set out at annex A, together with the Treasury's comments.

10. Community charges set in 1991-92 will also be affected by the extent to which local authorities budget to finance expenditure by drawing down balances. On average between 1985/86 and 1989/90 authorities budgetted to do so by £850 million per year: were they to do the same in 1991-92, average community charges would be £24 per head lower, at every level of spending, than is indicated in table 2. Whether they follow this pattern in 1991-92 is likely to be influenced by actual movements in balances in 1990-91: in 1989-90 authorities appear to have drawn down balances in accordance with their budgets, whereas in previous years they did not in the event reduce balances.

11. The average community charge in 1991/92 will also be reduced to the extent that Ministers decide to cap charges. The charges announced in February and March of 1991 will not take account of any subsequent decision to cap.

Views of the Secretary of State for the Environment

12. In the Secretary of State for the Environment's view, the crucial objective in setting the levels of TSS and AEF in the light of likely spending by local authorities should be to secure a CCSS which is only a little higher than the average community charge this year (£363) so as to offer some reasonable chance that, after drawings from balances the out-turn average community charge set by local authorities would be less than £400. This would have a beneficial effect on the Retail Price Index. It would also be possible to argue convincingly that reasonably competent authorities, particularly those controlled by the Government's supporters, ought to be able to set budgets so that the community charge for the area could be held in money terms at this year's level plus or minus safety net changes.

13. The Secretary of State believes that realistically local authorities are unlikely to spend less than £40.5 billion (leaving aside community care), given the pay and price pressures upon them, the additional demands arising from demographic changes and Government initiatives, and their past record in achieving savings. It would in his view be unwise to make any lower assumption when looking at likely out-turn community charges; the local authorities' own estimate is £41.5bn (exclusive of community care).

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14. He further believes that it would be unwise to assume significant use of balances by authorities to hold down community charges in 1991/92. As pointed out in paragraph 10 above, local authorities have a history of budgetting to use balances but in the event not doing so. As a consequence they remain available for use in the following year. However, all the indications are that in 1989/90 authorities did in fact make larger than budgeted drawings from balances. If this is repeated in 1990/91 balances may well not be available for significant use in 1991/92 and indeed many authorities may see a need to rebuild them, especially in London.

15. Furthermore, in the light of this year's experience of collecting the charge, authorities may think it prudent next year to levy a slightly higher charge to raise any given amount of money. The Secretary of State concludes that great caution should be used in using any figures below those in Column III of Table 2 in assessing average community charges.

16. The Secretary of State does not believe that TSS should be set at what local authorities are likely to spend. Clearly there is greater scope for efficiency savings (see para 9(c) above), and there is room for differences of view on how much new initiatives should cost, and the standard of service which should be provided. It is, however, important that TSS should bear a realistic relationship to authorities own estimates if it is to perform its job as a challenging but not impossible target. He believes that taking account of the factors mentioned here it would be possible to justify a TSS as low as £39.5 billion. Any lower figure would, however, be most unlikely to command credibility with local government as a target and could well lead to a repeat of this year's experience of having to defend between July and April a settlement which was thought, and eventually shown, to be unrealistic.

17. The Secretary of State fully accepts that, for general economic and other public expenditure reasons, the amount of AEF should be kept to the minimum consistent with the objectives and considerations just set out. He notes that a CCSS of £375 and an average community charge of £393 would be produced by an additional £2.5 billion of AEF, at the levels of TSS and realistic spending described above. He believes that this is the minimum which should be provided.

18. Costs also attach to the measures addressing the fairness of the charge that have been presented to the Group in earlier papers. The Secretary of State's proposals for this element of the package, covering transitional relief, the safety net,

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community charge benefit (CCB), small composite hereditaments, the standard charge and students are set out in Annex B. These proposals are estimated to cost £383 million in 1991/92, additional to provision for AEF.

Views of the Chief Secretary

19. In the Chief Secretary's view, the main decision for Ministers is the extent to which extra central government funding should be made available in support of local authority expenditure and of community chargepayers, against the background of competing claims on public expenditure. Ministers collectively face an exceptionally difficult public expenditure survey: the decision reached on AEF will be a major element in the planning total announced in November. The Chief Secretary's judgement is that it would be unjustifiable to add more than £1.5 billion to planned expenditure in England for these purposes, including any expenditure on measures to increase the "fairness" of the community charge. Any increase in expenditure in this area will put greater pressure on other areas of planned expenditure or lead to additions to the planning total which would risk casting doubt on the credibility of the government's macroeconomic and public expenditure policies and would seriously limit the Chancellor's freedom of manoeuvre in the Budget next March.

20. The Chief Secretary accepts that there can be no certainty about the likely level of local authority budgets and community charges next year, but believes that a reasonable case can be made out for the government's basing its decisions on the assumption that local authority budgets next year might be in the range £39 to £39.5 billion, representing a year on year increase of 8-9 per cent, taking account of the analysis set out in annex A, and of the prospect that local authorities may underspend their budgets this year. He points out:

(a) that the large increase in local authority budgets in 1990-91 makes it likely that authorities will underspend against their budgets this year, and will plan to draw down balances by at least £850 million (the average of recent years) in 1991-92; the level of outstanding balances (£2.8bn at the beginning of 1990/91) is sufficiently high to allow this;

(b) that experience in Scotland (expenditure up 8% this year) suggests that local authorities will realise that in the second year they, rather than the government, will be blamed for the community charge consequences of high spending;

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(c) that if spending were at £39.5 billion, with normal use of balances, and AEF were increased by £1.5 billion average charges would be around £370 before capping;

(d) that average charges would be further reduced by capping.

21. The Chief Secretary accepts that TSS needs to make some allowance for past actual pay and price increases, but argues that it would be inappropriate and damaging for government to validate in full the excessive local authority budget increases either this year or in future. In the Chief Secretary's view the right balance would be struck by a figure for TSS in the range £37.5 billion to £38.5 billion.

22. So far as measures to increase "fairness" are concerned, the Chief Secretary's views are as follows.

(a) The cost of any measures should be included within a total addition to baseline, including increased AEF, of 1.5 billion;

(b) Within that envelope it would probably be appropriate to devote no more than £100 million or so to 'fairness' measures, with priority given to reducing the adverse financial consequences on transitional relief recipients of existing plans for withdrawing that relief;

(c) it would be premature (and is unnecessary) to take decisions on the withdrawal of transitional relief which go beyond 1991/92;

(d) There should be no changes in community charge benefit. The change proposed by the Secretary of State would have repercussive effects on other benefits; and would further increase the already excessive number of CCB recipients (about one quarter of chargepayers).

23. The Chief Secretary joins the Secretary of State for the Environment in commending to colleagues the minor changes affecting the standard community charge, students and mixed hereditaments set out in annex B (paragraphs 1(f), (g) and (h)).

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Summary

24. We have not been able to reach an agreed set of proposals covering the main issues under discussion. Our views are as follows.

(a) The Secretary of State favours a settlement that will give a CCSS not far removed from this year's average charge and a good likelihood of average charges next year of less than £400. He believes that £40.5 billion is a realistic spending assumption and that TSS should be set at £39.5bn. AEF of £2.5bn above baseline will result in a CCSS of £375 and a likely average charge before capping of £393.

A package of measures to help individuals is recommended at Annex B costing an additional £383 million in 1991/92.

(b) The Chief Secretary favours a settlement based on AEF of £1.5 billion over baseline, to include any measures to increase "fairness", which he thinks should amount to no more than £100 million or so of the cost. He thinks TSS should be set in the range at £37.5 billion to £38.5 billion giving a CCSS of between around £347 and around £375 ~~billion~~ <sup>actual</sup>. With this level of AEF, and normal use of balances, the average community charge before capping would be around £370, if spending were at £39.5 billion or around £384 if spending were at £40bn.

We are however agreed on the minor changes affecting the standard community charge, students and mixed hereditaments set out in annex B.

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LEVELS OF TSS AND AEF:

TABLE 1: IMPLICATIONS FOR COMMUNITY CHARGE FOR STANDARD SPENDING (CCSS)

AEF	Increase over baseline	-----Level of TSS-----		
		A	B	C
		£37.5bn	£38.5bn	£39.5bn
£25.7bn	£1.5bn	£347	£375	£403
£26.2bn	£2.0bn	£333	£361	£389
£26.7bn	£2.5bn	£319	£347	£375

TABLE 2: IMPLICATIONS FOR AVERAGE COMMUNITY CHARGE

AEF	Increase over baseline	-----Level of 1991/92 budgets-----				
		I	II	III	IV	V
		£38.5bn	£39.5bn	£40.5bn	£41.0bn	£41.5bn
£25.7bn	£1.5bn	£365	£393	£422	£436	£450
£26.2bn	£2.0bn	£351	£379	£408	£422	£436
£26.7bn	£2.5bn	£336	£365	£393	£408	£422

Notes to Table 1:

Total relevant population 35.65m  
 Area protection grant £465.8m  
 Inner London education grant £70.0m

Notes to Table 2:

Number of chargepaye 35.10m  
 City offset £30.0m  
 Assumed use of balan £0.0m

If local authorities budget for their normal use of balances their income will be £850m lower than shown and charges correspondingly £24 lower.

If TSS and budgets were at the same level then the average charge shown in this table would be about £10 lower than the CCSS shown in Table 1. This is mainly because special grants reduce average charges but not the CCSS.

These figures assume no transfer of responsibility for Community Care in 1991/92

£16.0m payments to specified bodies assumed in both tables

PRESSURES ON SPENDING IN 1991/92

1. The main influence on spending in 1991/92, as in previous years, will be pay and prices. The recent pay offer of 9.38% for local authorities' own white collar staff is higher than any of us would have liked, though it is not out of line with other recent settlements. It would be unrealistic to suppose that the pay settlements to be concluded in the latter half of this year and early next year - including those for teachers and police - will be much below 9%; they could be higher.

2. On the basis of estimates provided by service Departments, the major pay and price effects to be accommodated within the Settlement include:

Teachers' pay	£1,150 million
Other education pay	£300 million
Education non-pay inflation	£250 million
Police (pay and prices)	£287 million
Fire and CD (pay and prices)	£70 million
Personal social services (pay and prices)	£299 million
Highways maintenance (pay and prices)	£127 million
Other services (pay and prices)	<u>£498 million</u>
	£2,981 million

The Treasury have questioned the figures for additional education spending, pointing out that DES's estimates (including the cost of new burdens, discussed below) are £250 million above the latest estimate of even the local authority associations. The associations are however believed to be understating their true view in order not to weaken their negotiating hand in pay bargaining. The DES estimate incorporates a realistic view of the likely outcome. Overall, on current estimates

by service Departments local authority spending next year would need to rise to £39.3 billion (from £36.6 billion in 1989/90) in order to provide the current volume of services without any compensating savings.

3. There will also be other pressures for increased spending, where we have imposed new burdens on local authorities or where those burdens have increased because of demographic change or for other reasons. The most significant, as assessed by service Departments, are as follows. (Some of these estimates are not accepted by Treasury; where this is the case the fact is denoted by an asterisk. Treasury observations are detailed in paragraph 4.)

(i) Education

Teachers for rising primary rolls	£30 million
National Curriculum	£70 million
Repair and maintenance of schools and colleges	£80 million
Other schools (including libraries, integration of SEN pupils, additional places for rising primary rolls)	£67 million
Other FHE (including Local Management of Colleges, National Vocational Qualifications)	£16 million
Other (including the Children Act, pupil support, discretionary awards)	<u>£37 million</u>
Total additional spending	£300 million*

(ii) Personal social services (excluding Community Care)

Mental Illness Grant	£30 million
New burdens	£47 million
Demographic and other pressures	<u>£141 million</u>
Total additional spending	£218 million*

[If we decided to proceed with Community Care the Department of Health estimates that this would add a further £504 million, including £308 million transferred from DH. The Treasury however consider that this overstates the amount of new provision required.]

(iii) Highways

3% increase in traffic plus 0.5% increase in road length	£63 million
LESS Expenditure reclassified as capital	<u>-£90 million</u>
Net reduction	-£27 million*

(iv) Police, fire, CD

Service pressures (including increased police numbers)	£68 million
New burdens	<u>£19 million</u>
Total additional spending	£87 million*

(v) Other Services

## Environmental Protection Bill:

Waste disposal	£42 million
Code of Practice on Litter	£52 million
Food Safety Bill	£26 million
Land Compensation	£35 million
Reduction in Housing Benefit Subsidy	£87 million
[Short-term leased accommodation formerly included in HRA]	£35 million
Other miscellaneous items	<u>£31 million</u>
 Total additional spending	 <u>£308 million*</u>

Total across all services £886 million\*

4. The Treasury have questioned the validity of some of the above analysis. They note, for example:

(a) that the DES figure for education spending substantially overstates the likely outcome: DES have taken on board virtually wholesale the additions estimated by the local authority associations in the final version of their Service Working Group report which would have included an element of bidding. For example, the figure of £30 million for extra primary teachers assumes that because of rising pupil numbers, some 1800 more teachers will be needed in 1991/92 - ie that the primary pupil:teacher ratio (PTR) remains unchanged. Local authorities may well choose to tighten it instead. Similarly a figure of £80 million for repair and maintenance has been included, and it is unlikely that this and other service improvements will be funded in full;

(b) that the extra service pressures for higher expenditure on police, fire, and road maintenance will not be fully provided for, given the high level of real growth in this year's budgets, and the increased accountability of the community charge in the second year;

(c) that the figures quoted for the Environmental Protection Bill (and in particular the figures of £50 million for waste disposal and £52 million for litter) are inconsistent with Ministers' early assertions about the financial implications of the Bill, eg in the Financial Memorandum.



## PROPOSED MEASURES TO HELP INDIVIDUALS

1. The following measures are proposed by the Secretary of State for the Environment. Other possible measures have been considered by colleagues, and these are listed in Annex D to the Cabinet Office paper of 12 June.

a. Delay withdrawal of transitional relief for two years and extend the scheme for two years. Cost £90m in 1991/92.

b. Reduce the threshold for transitional relief to £2 per household from 1991/92. Cost £220m in 1991/92.

c. Provide special transitional relief to all disabled people allowing them to reduce their assumed community charge to £104 (cf 2). Cost about £25m in 1991/92.

d. Change the arrangements for the withdrawal of safety net receipts to give £25 per adult maximum withdrawal everywhere. With changes a. and b. above this means that there is no need to give special transitional relief in areas with safety net withdrawal because the increased transitional relief will offset losses from safety net. Cost £24m in 1991/92.

e. Reduce the income tariff to £1 in £400 for capital in excess of £8,000 for community charge benefit only. This reduces the assumed return on capital between £8,000 and £16,000 to 13%. Cost about £20m in 1991/92 but perhaps £60m if extended to other benefits.

f. Alter the business rate transitional arrangements for all small composite hereditaments to limit year-on-year increases to 10% in real terms. Cost £4m in 1991/92.

g. Make all the proposed changes to prescribed standard community charge multipliers set out in the list at Attachment A. No cost to Government but small (£2-£3 maximum) increase in charges.

h. Close the "student gap" between school and college to give exemption until start of academic year to avoid unnecessary administrative costs. No cost to Government.

2. The Total cost of above measures would be £383m in 1991/92. The table at attachment B sets out the costs over the PESC period.

Other possibilities with high costs relative to effects

3. Other measures which have been considered would have very high costs relative to their effects. These are:

a. doubling the earnings disregard for community charge benefit only, to bring more people into benefit. Cost £100m in 1991/92 unless extended to other benefits. It would be difficult to ring-fence this to CCB only.

b. Extend special transitional relief to elderly and disabled living in sheltered accommodation bringing their assumed charge down to £104. It would be difficult to ring-fence this to sheltered housing: cost up to £120m in 1991/92 (after change 2(b) above).

## POSSIBLE CHANGES TO THE STANDARD COMMUNITY CHARGE

1. Prescribe a maximum multiplier of 1 for properties owned by people whose main home is provided by their employer.
2. Prescribe a maximum multiplier of 1 for unoccupied standard charge properties adjacent to non-domestic property of the same chargepayer.
3. Prescribe a maximum multiplier of 1 for unoccupied standard charge properties adjacent to the main residence of the same chargepayer.
4. Prescribe a zero multiplier unoccupied property belonging to prisoners for the duration of their imprisonment.
5. Prescribe a zero multiplier for other property in the ownership of chargepayers exempt from the personal community charge.
6. Prescribe a zero multiplier for unoccupied property repossessed by a mortgage lender.
7. Prescribe a maximum multiplier of  $\frac{1}{2}$  for property in the ownership of a chargepayer subject to student relief.
8. Extend to six months the period of grace before the owner of an unoccupied, unfurnished property becomes liable to a standard charge.
9. Extend to six months after the grant of probate the period of grace before an unoccupied property can give rise to a standard charge on the death of the occupier.
10. Remove the limit (currently 12 months) on the period for which an unoccupied property is subject to a zero multiplier where the chargepayer is cared for in a home or hospital.
11. Remove the limit (currently 12 months) on the period for which an unoccupied property is subject to a zero multiplier where the chargepayer is being cared for in the community, or is providing care in the community.
12. If, in the future, there is a suitable legislative vehicle, it would be sensible to introduce a narrowly defined hardship waiver to deal with a small number of other hard cases.

**COMMUNITY CHARGE CAPPING: EXCESSIVE INCREASES**

1. The table below illustrates the effect of capping in 1991/92 based on excessive increases over 1990/91 precepts and demands (income) using the scheme described in paragraph 4 of the Solicitor General's minute to the Prime Minister of 19 June. The effect is shown for the same levels of spending as included in the joint paper by the Chief Secretary and Secretary of State for the Environment on the 1991/92 settlement.

2. The capping scheme exemplified is one where maximum year on year increases in income are set for authorities, taking account of the level of their income in 1990/91 in relation to SSA. The rules modelled are that for those authorities assumed to have income of more than £15m in 1991/92:

(i) authorities spending below SSA in 1990/91 have no restriction on the increases in precept which they are allowed. If they increase their spending to more than 12.5% above their 1991/92 SSA they will be caught by the absolute excessiveness arm of capping, but that cannot occur with the expenditure assumptions used here;

(ii) authorities spending between SSA and 5% above SSA in 1990/91 are only allowed an increase in income of 8%. If their budgets take them above this, they will be capped back to an 8% increase;

(iii) authorities spending more than 5% above SSA in 1990/91 are only allowed an increase in income of 5%. If their budgets are above this they will be capped back to a 5% increase.

3. With the income and TSS assumptions modelled, capping depends entirely on spending in relation to SSA in 1990/91. We have not yet been able to model any extra savings which might arise because increases in income take authorities which were below SSA in 1990/91 to 12.5% or more above SSA in 1991/92. These extra savings are unlikely to be large. This means that the modelled

savings from existing powers are invariant to the assumptions about the level of TSS in 1991/92.

4. The tables compare the effect of capping using existing powers on excessive increases, as described above, against the effect of legislation to enhance capping so as to allow capping down to 5% above SSA. The figures for the latter approach are broadly the same as those in Annex C to the Cabinet Office paper of 12 June but have been updated to take account of later information about spending in 1990/91 and to base the savings achievable on a 5% increase in income rather than spending (for consistency with the assumptions on excessive increases).

5. The assumed savings from the use of the excessive increase arm of existing powers are substantial - in most cases larger than those from legislation to enhance capping powers. With the excessive increase basis, income after capping converges on about £38.5bn whenever the initial spending assumption is above £38.5bn. With the highest spending assumption (consistent with local authority forecasts), this implies savings from capping of nearly £3bn. The extent of capping could be altered by changing the permitted increases, or by changing the threshold above SSA at which the more severe limitation came into effect, or a combination of the two.

EFFECT OF CAPPING EXCESSIVE INCREASES

Level of TSS		Level of 1991/92 budgets				
		£38.5bn	£39.5bn	£40.5bn	£41.0bn	£41.5bn
TSS set at £37.5bn	<b>Enhanced powers</b>					
	No capped	79	95	113	125	140
	Savings	£560m	£770m	£1110m	£1400m	£1750m
	Spending	£37.9bn	£38.7bn	£39.4bn	£39.6bn	£39.8bn
	<b>Excessive increase</b>					
	No capped	89	140	149	149	149
	Savings	£490m	£1180m	£2030m	£2460m	£2890m
Spending	£38.0bn	£38.3bn	£38.5bn	£38.5bn	£38.6bn	
TSS set at £38.5bn	<b>Enhanced powers</b>					
	No capped	64	80	95	102	111
	Savings	£380m	£570m	£820m	£1030m	£1280m
	Spending	£38.1bn	£38.9bn	£39.7bn	£40.0bn	£40.2bn
	<b>Excessive increase</b>					
	No capped	89	140	149	149	149
	Savings	£490m	£1180m	£2030m	£2460m	£2890m
Spending	£38.0bn	£38.3bn	£38.5bn	£38.5bn	£38.6bn	
TSS set at £39.5bn	<b>Enhanced powers</b>					
	No capped	53	65	81	89	95
	Savings	£270m	£400m	£610m	£760m	£940m
	Spending	£38.2bn	£39.1bn	£39.9bn	£40.2bn	£40.6bn
	<b>Excessive increase</b>					
	No capped	89	140	149	149	149
	Savings	£490m	£1180m	£2030m	£2460m	£2890m
Spending	£38.0bn	£38.3bn	£38.5bn	£38.5bn	£38.6bn	