

Ref. A090/1722

PRIME MINISTER

CABINET: LOCAL GOVERNMENT FINANCE: THE JULY STATEMENT
Paper by the Secretary of State for the Environment
C(90)7

DECISIONS

1. Mr Patten's paper briefly reports on the decisions of E(LG) on the local authority finance settlement for England and the review of the community charge. The Secretary of State has separately circulated the oral statement which he proposes to make on the afternoon of Thursday, 19 July. You will wish to invite the Cabinet to authorise him to make his statement.

MAIN ISSUES

2. At its meeting on 4 July E(LG) agreed a package of measures on:

i. the 1990-91 local government finance settlement, including the use of community charge capping;

ii. the community charge review.

The 1991-92 local government finance settlement

3. The financial settlement agreed by E(LG) comprises Total Standard Spending (broadly speaking, the revenue spending approved by government) of £39 billion, and Aggregate External Finance (grant and Unified Business Rates) of £26.05 billion.

4. This will give an announced Community Charge for Standard Spending of £379, £16 above this year's average community charge before capping of £363. If Mr Patten is successful in keeping expenditure next year below £40 billion (the decision to phase in the community care proposals will be helpful in this respect) the average community charge should be below £400.

5. Mr Patten notes (paragraph 4) that E(LG) concluded that the substantial increase in AEF needed to keep down community charges would severely constrain the scope for other increases in spending. You may wish to draw attention to that conclusion, on which the Chief Secretary will also wish to comment.

6. The use of community charge capping will be an important factor in keeping spending down. E(LG) agreed that no fresh legislation would be needed. This decision was based on:

a. advice from the Solicitor General that, in the light of recent legal successes, it would be practicable to make extensive use of existing powers and in particular to base decisions on capping on year-on-year changes in expenditure, not just absolute expenditure levels;

b. an undertaking from the Secretary of State for the Environment that he would apply the powers as vigorously as necessary to ensure that spending in the coming year did not exceed £40 billion, and would deter spending by announcing in advance the way he proposed to use these powers.

Mr Patten reaffirms (paragraph 6) his determination to use the powers robustly if necessary. You might wish to forewarn colleagues that this could call for some tough decisions later in the year if councils refuse to rein back their spending.

The community charge review

7. Mr Patten sets out in paragraph 8 the changes to the community charge arrangements to help individual chargepayers which E(LG) agreed. In brief, they are:

a. a reduction of the notional loss which qualifies chargepayers for transitional relief from £3 to £2 a week, an extension of transitional relief from three to five years, and a two-year moratorium on transitional relief withdrawal;

- b. limitation of the withdrawal of the area safety net to £25 per head;
- c. a gentler transition to the Unified Business Rate for small businesses, with living accommodation as part of their premises;
- d. a package of proposals - to be set out in a consultation paper - to limit councils' discretion in setting standard charges;
- e. regulations to prescribe a clearer form of community charge bill.

You may wish to invite the Cabinet to note these proposed changes. They should be generally welcomed, particularly by home-owners in low rateable value properties, but no doubt there will be claims that they do not do enough.

HANDLING

8. You will wish to invite the Secretary of State for the Environment to introduce his paper. The Chief Secretary may then wish to comment briefly: he will have more to say about the public expenditure implications of the settlement under the next item on the agenda. The Solicitor General has been invited for this item: you may want to ask him to comment on the legal aspects.

F.R.B.

ROBIN BUTLER

18 July 1990