CONFIDENTIAL

PRIME MINISTER 19 October 1990

LOCAL AUTHORITY FINANCE 1991/2

Chris Patten's capping proposals will be tough, highly controversial, and probably difficult to obtain in their entirety. But they are the absolute minimum if average community charge is to be kept down.

But even these tough proposals contain some fairly optimistic assumptions. I believe that it will in practice be very difficult indeed to keep average charge below £420. It could well be above that. I hope I am wrong, but you should be aware of the possibility.

This note also summarises the RPI implications of different levels of average charge.

The July Statement

In July Chris Patten announced the 1990/91 settlement and envisaged £379 as the likely average charge at standard spending. This will be the benchmark for 1990/91, as £278 was this year.

Current position

Chris Patten now envisages an average charge of £396. This

- is net of capping reductions;
- assumes authorities again budget for a 5% non-collection rate.

Best case

But it is very likely indeed that the non-collection assumption will rise. At 8%, say, average charge jumps to £408. This implies, as a best case, a gross figure before capping takes place of about £420.

This assumes that publishing the criteria in advance imposes a discipline on most authorities, so that capping is only about twice as extensive as this year. (This year it yielded £6 off the average. If next year it yielded £12, that would represent cuts of £430 million.)

Worst case

£450, before capping, is far from impossible, if

- the non-collection assumption rises from 5% to 10%;
- authorities budget to spend £41 billion instead of Chris Patten's aim of £39.8 billion. 41 would represent an increase of 12% over this year's spending budgets. It is being bandied around local government as the minimum "realistic" figure.

On these assumptions, if £1 billion was then capped off (just missing Chris Patten's target of 39.8) net average charge would be £422.

That would be 18% above this year's £357.

Given the non-collection factor, and the likelihood of some slippage in the capping targets, it is hard to see how the final net figure can be much less than £420.

RPI implications

The gross impact of the community charge on last April's RPI was 1.34 percentage points. The net impact was 1.02, after allowing for dropping out of the 1989 rates increase.

This 1.02 drops out next April, thus leaving scope for a fall in RPI even if there is quite a big increase in average charge.

If Chris Patten's target of £396 is achieved, the RPI next April (published in May) will fall by 0.6. The amount of the reduction falls as average charge rises, until £445 after which an RPI increase begins to be registered:

Average charge	Increase over this year	RPI effect
379*	6%	-0.9
400	12%	-0.6
420	18%	-0.34
440	23%	-0.07
450	26%	+0.07

* the announced estimate based on standard spending

These are English average charges, but the RPI effects assume similar percentage increases in charges in Wales and Scotland, and in Northern Ireland rates.

The effect of capping on the RPI is important. The £6 reduction which capping yielded this year was scored in the April index even though the gains had not by then been realised. It is crucial, in a bigger capping programme, to ensure that this approach is maintained in order to maximise the April impact. £20 of capping cuts is worth 0.25 off the RPI.

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