docs 10.7.9 CONFIDENTIAL

Rayner

From: Mrs J Chaplin
Date: 14 July 1989

CHIEF SECRETARY

cc

Chancellor

BACKBENCH BRIEF FOR COMMUNITY CHARGE STATEMENT

I attach a first draft of the brief for backbenchers on the community charge, NNDR and the safety nets for your comments. I have spoken to Patrick Rock, the Special Adviser, at the DOE who has not yet prepared any briefing. He is aware that any brief he prepares must be checked by the Treasury. It seems sensible to prepare a draft in case the DOE briefing needs substantial amendment or replacement.

2. I am concerned to hear that the Statement has been pushed back towards the end of July as the major difficulty is going to be with our backbenchers rather than the opposition and I think they will feel it has been put out at the end of the session to prevent them commenting properly.

JC

JUDITH CHAPLIN

RSG SETTLEMENT: BACKBENCH BRIEF: SECOND DRAFT

Key points

- Government support (Aggregate Exchequer Finance) up £1.7 billion on 1989-90.

- Community charge for standard spending set at £275, around level of actual average rate bill per adult in 1989-90.

- Total standard spending set at £32.8 billion, £1.2 billion above 1989-90 budgets - a realistic but challenging target for local authorities.

- Safety net reformed: all gainers now get 40-50 per cent of gains in first year; losers get transitional protection from all but first £25 of losses; extra protection for areas of lowest rateable value, and for Inner London, where boroughs take on education from ILEA.

- Business rates [Depends on timing of announcement.]

  - Transitional arrangements to take account of changes in rate bills following revaluation and more to uniform business rate.

  - Losses from the changes limited in first year to 20 per cent of previous bill, in real terms.

  - To pay for protection, gains limited to around [10 per cent].

  - Government doubled ceiling for special help for small businesses.

A. BACKGROUND

1. Background to settlement is one of continued local authority overspending.

- In 1989-90, authorities' budgets are £1.2 billion more than the Government provided for in last year's settlements.

- And budgets are £1.9 billion more than the Government's assessment of the actual need to spend.

2. Still enormous scope for savings. Audit Commission has identified potential savings of over £2½ billion from contracting out, efficiency improvements etc.

3. Reducing public expenditure as share of national income is a central element of economic policy - the only way to create the conditions for sustained growth and the defeat of inflation. Local authorities must play their part.

B. NEW SYSTEM OF LOCAL GOVERNMENT FINANCE

4. New system of local government finance to be introduced from April 1990:

- simpler
- fairer
- more accountable.

5 Key features are:

- community charge replaces domestic rates;
- national uniform business rate replaces local business rates set by councils;
- new grant system, once fully introduced, will distribute grant so that if all councils delivered standard level of services, community charge would be same everywhere.

6. Compared with domestic rates, community charge

- spreads burden over all those benefiting from local authority services;
- promotes accountability, since all electors will understand how much the council is spending;
- rebates help those in need (see... for details, to follow).

7. Under new system of <u>business rates</u>

- all businesses will pay same uniform business rate, set by central government;

- business rate revenue distributed to all councils on a per adult basis.

8. <u>New grant system</u> Principle is that, if authorities spend at level needed to provide standard service, community charge should be same everywhere. A much simpler and fairer system.

- Start by deciding total amount local authorities need to spend, to deliver standard services - Total Standard Spending (TSS).

- Decide how much of this falls to each authority.

- Deduct authority's share of business rate income.

- Pay grant so that cost of remaining standard spending works out at same amount per adult everywhere - community charge for standard spending (CCSS)

- Authorities with greater needs therefore get more grants.

C. GRANT SETTLEMENT FOR 1990-91

9. The Environment Secretary announced that government support for current spending for 1990-91 would be £23.1 billion, £1.7 billion more than in the current year, an increase of nearly 8%. With inflation set to fall from present levels, this will represent a substantial real increase in spending power in 1990-91.

10. This support (known as Aggregate Exchequer Finance (AEF)) includes Standard Spending Grant (the old rate support grant, now technically known as revenue support grant), and the payment to local authorities from business rates. It also includes most specific grants, [other than those which pay for 100% of spending on the service in question (or almost 100%). So most of the current grants which used to form part of Aggregate Exchequer Grant (AEG) are within AEF, such as police grant, and education support grants. But grants which are paid at or are very close to 100% are outside, such as housing benefit.]

11. The division of AEF between Standard Spending Grant, business rate payments, and specific grants will be made in the Autumn.

12. The Environment Secretary also announced Total Standard Spending - the amount authorities need to spend in aggregate, to deliver a standard level of services. For 1990-91, this will be £32.8 billion. This is an increase of £1.2 billion on local authority budgets for 1989-90 - a challenging, but realistic target. Those authorities which stayed within their old grant-related expenditure assessment (GREA) should have no difficulty in spending at standard spending - and Conservative authorities as a whole spent below their GREA. However, the standard spending figure will impose a squeeze on overspending authorities, particularly high-spending Labour authorities. It thus maintains the Government's ten-year policy of getting down local authority overspending - a policy which the community charge will help.

13. The community charge for standard spending (CCSS) depends on the level of TSS and grant (AEF). The figures above mean that, if local authorities spent in line with the standard assessment, £9.9 billion would have to raised from chargepayers. That means the community charge for standard spending would be about £275. This is the benchmark for accountability in the new system. After taking account of the safety net (see below) chargepayers will know that if their local authority is charging more than the CCSS they are overspending.

14. Actual community charges will depend partly on the safety net, and partly on each local authority's own decisions on spending.

15. This is a fair and balanced settlement. Reasonable, well run authorities will be well able to set community charges in line with the CCSS (after taking account of any contribution to or from the safety net). But overspending councils will have to account to chargepayers for their overspending.

D. SAFETY NET

16. The Environment Secretary also announced changes to the safety net, to enable gainers to get more of their gains sooner.

17. Not surprisingly, with such wide-ranging changes to the local government finance system, there will be substantial changes in domestic tax bills. In some authorities, the community charge is likely to be significantly lower than the average domestic rate bill per head; in others, it will be higher.

18. One of the main reasons for this is that the old system distributed grant on the basis of rateable value. Where both spent at need, an area of low rateable value would get more grant than an area of high rateable value. So community charges will tend to be higher than average rate bills in areas of low rateable value, typically in the North, and lower in areas of high rateable value, typically in Outer London and the South. Charges are also likely to be high in some parts of Inner London [which lose from the change to the system of business rates.]

19. The Government has decided that it would not be right for the full impact of the changes to come through straight away - that would mean community charges in some authorities might be £100 above this year's average rate bill per head, or in some cases more. Where these increases would result from overspending, the accountability of the community charge will help to bring this down. But this is bound to take time, and it would be unreasonable to expect chargepayers to bear the full burden straight away. So some form of safety net is essential.

20. The original proposal for the safety net was:

- losing authorities would see no increase in domestic tax bills in the first year: if they maintained their spending in real terms, the community charge in the first year need be no higher than the average rate bill per adult in real terms;

- this was to be paid for by gainers seeing none of their gains in the first year, subject to a maximum contribution of £75.

21. The Government has reviewed the safety net in the light of representations. The new proposals are:

- losers will bear the first £25 of loss;

- there will be special protection for two particular sets of authorities (see para 23 below);

- gainers will get 40-50 per cent of their gains in the first year;

- and in no case will gainers have to contribute more than £75.

22. This is a <u>much better package for the gainers</u>.

- Previously, only the larger gainers saw any benefit at all in the first year. Now all of them gain straight away.
- Previously, some authorities made the maximum contribution of £75. Now, very few will do so.
- For the great majority of gainers, the safety net contribution will be lower than previously expected, in some cases substantially so.

23. The new package is also <u>a fair deal for the losers</u>. For most, the loss will mean an average of below 50 pence a week. And in two particular cases, there will be special protection.

- Areas with the lowest domestic rateable values are among the heaviest losers. So there will be a specific grant of £100 million to give these authorities more time to higher level of charges.
- In Inner London, the boroughs are taking on responsibility for education for the first time with the abolition of ILEA. It will undoubtedly take time for them to bring down ILEA's overspending. In the short term, a specific grant of £100 million will be paid to reduce the burden falling on the chargepayer. For the first year, much of this serves to reduce the cost of safety net protection for Inner London and thus reduce further the cost of the safety net falling on gaining authorities.

E. BUSINESS RATES

24. Reform of business rates

- Rates set by local councils replaced by uniform national business rate, set by central government.

- Business rate revenue distributed to all councils as an equal amount per adult.

- Revaluation of all properties, for first time since 1973.

25. New systems has considerable advantages.

- Legislation provides that rate must not rise by more than inflation.

- So businesses have stable and predictable rate bills, after volatile and often substantial increases of recent years.

- Rate the same everywhere, so decisions on location no longer affected by local councils' rate decisions.

- Local councils can no longer load burden of overspending on business rate payer who has no vote - overspending now reflected in community charge, so councils properly accountable to voters.

- Revaluation means rate bills based on up-to-date figures: helps businesses in areas which have done less well than the average since 1973.

26. In general, factories and warehouses will benefit; shops and offices will tend to pay more. Overall, business in the North and the Midlands is projected to see rate reductions of £800 million.

27. Not surprisingly, with major reform plus revaluation, there will be substantial shifts in rate bills. Transitional arrangements therefore provided, to phase these in.

- Losses limited to 20 per cent of previous year's rate bill in real terms.

- To pay for this protection, gains have to be limited to around [10 per cent] of previous year's bill in real terms.

28. Government has extended special help for small businesses. For them, losses are limited to 15 per cent and 15 per cent of gains allowed to come through. Previously, the Government had defined small businesses as those with a new rateable value of £7500 in London and £5000 elsewhere. These thresholds have been doubled, to £15,000 in London, and £10,000 elsewhere. This extends special help to around 80 per cent of properties.

 18/7/89. PMP

[Backbench Brief]

1990-91 LOCAL AUTHORITY GRANT SETTLEMENT: BRIEFING

As faxed to DOE by Mrs Chaplin 18-7.89

Key points

- Government support (Aggregate Exchequer Finance) up £1.7 billion on 1989-90.

- Total standard spending (the Government's measure of the amount authorities need to spend to deliver a standard level of services) set at £32.8 billion, £1.2 billion above 1989-90 budgets - a realistic but challenging target for local authorities.

- Community charge for standard spending (the community charge an authority would need to set to pay for standard services) fixed at £275, around level of actual average rate bill per adult in 1989-90.

- Safety net reformed: all gainers now get 40-50 per cent of gains in first year; losers get transitional protection from all but first £25 of losses; extra protection for areas of lowest rateable value, and for Inner London, where boroughs take on education from ILEA.

A. BACKGROUND

Background to settlement is one of continued local authority overspending.

- Budgets in 1989-90 are £1.9 billion more than the Government's assessment of the actual need to spend, (the aggregate of all grant-related expenditure assessments - GREAs).

- On the basis of this year's budgets, Conservative authorities as a group spend below their GREA. But nearly

90 per cent of Labour authorities spend above their GREA. [DoE to check, please]

Local authority spending is growing much faster than public spending as a whole. Over the last 4 years, general government spending, excluding privatisation proceeds, has grown by 1 per cent in real terms, whereas local authority current spending has grown by 13 per cent in real terms. So local authorities are making it harder for the Government to achieve its target of reducing the share of national income which goes in public spending.

Still enormous scope for savings. Audit Commission has identified potential savings of over £2½ billion for local authorities as a whole from contracting out, efficiency improvements etc. District auditors have identified £900 million savings for individual local authorities. Only £300 million of this has been realised.

Reducing public expenditure as share of national income is a central element of economic policy - the only way to create the conditions for sustained growth and the defeat of inflation. Local authorities must play their part.

B. NEW SYSTEM OF LOCAL GOVERNMENT FINANCE

New system of local government finance to be introduced from April 1990:

- simpler
- fairer
- more accountable.

Key features are:

- community charge replaces domestic rates;
- national uniform business rate replaces local business rates set by councils;
- new grant system, once fully introduced, will distribute

grant so that if all councils delivered standard level of services, community charge would be same everywhere.

Under the new system, some 70 per cent of total standard spending will be met by the taxpayer and the business ratepayer. So the community charge only pays for part of the total.

Compared with domestic rates, community charge

- spreads burden over all those benefiting from local authority services;

- promotes accountability, since all electors will understand how much the council is spending;

- rebates help those in need.

Under new system of <u>business rates</u>

- all businesses will pay same uniform business rate, set by central government;

- business rate revenue distributed to all councils on a per adult basis;

- in future the business rate will rise no faster than inflation.

<u>New grant system</u> Principle is that, if authorities spend at level needed to provide standard service, community charge should be same everywhere. A much simpler and fairer system.

- Start by deciding total amount local authorities need to spend, to deliver standard services - Total Standard Spending (TSS).

- Decide how much of this falls to each authority.

- Deduct authority's share of business rate income.

- Pay grant so that cost of remaining standard spending works out at same amount per adult everywhere - community charge for standard spending (CCSS)

- Authorities with greater needs therefore get more grants.

C. GRANT SETTLEMENT FOR 1990-91

The Environment Secretary announced that government support for current spending for 1990-91 would be £23.1 billion, £1.7 billion more than in the current year. This increase of 8% is well above projected levels of inflation for next year.

This support (known as Aggregate Exchequer Finance (AEF)) includes Standard Spending Grant (the old rate support grant, now technically known as revenue support grant), and the payment to local authorities from business rates. It also includes most specific grants. So most of the current grants which used to form part of Aggregate Exchequer Grant (AEG) are within AEF, such as police grant, and education support grants. But grants which pay for all or almost all of spending on a particular service - such as housing benefit, or mandatory student awards - are paid in addition to AEF.

The division of AEF between Standard Spending Grant, business rate payments, and specific grants will be made in the Autumn.

The Environment Secretary also announced Total Standard Spending - the amount authorities need to spend in aggregate, to deliver a standard level of services. For 1990-91, this will be £32.8 billion. This is an increase of £1.2 billion on local authority budgets for 1989-90 - a challenging, but realistic target. Those authorities which stayed within their old grant-related expenditure assessment (GREA) should have no difficulty in spending at standard spending - and Conservative authorities as a whole spent below their GREA. However, the standard spending figure will impose a squeeze on overspending authorities, particularly high-spending Labour authorities. It thus maintains the Government's ten-year policy of getting down local authority overspending - a policy which the community charge will help.

The community charge for standard spending (CCSS) depends on the level of TSS and grant (AEF). The figures above mean that, if local authorities spent in line with the standard assessment, the community charge for standard spending would be about £275. This is the benchmark for accountability in the new system. After taking account of the safety net (see below) chargepayers will know that if their local authority is charging more than the CCSS they are overspending.

Actual community charges will depend partly on the safety net, and partly on each local authority's own decisions on spending. If local authorities spend more, the money will have to come from the community charge.

This is a fair and balanced settlement. Reasonable, well run authorities will be well able to set community charges in line with the CCSS (after taking account of any contribution to or from the safety net). But overspending councils will have to account to chargepayers for their overspending.

D. SAFETY NET

The Environment Secretary also announced changes to the safety net, to enable gainers to get more of their gains sooner.

Not surprisingly, with such wide-ranging changes to the local government finance system, there will be substantial changes in domestic tax bills. In some authorities, the community charge is likely to be significantly lower than the average domestic rate bill per head; in others, it will be higher.

One of the main reasons for this is that the old system distributed grant on the basis of rateable value. Where both spent at need, an area of low rateable value would get more grant than an area of high rateable value. So community charges will tend to be higher than average rate bills in areas of low rateable value, typically in the North, and lower in areas of high rateable value, typically in Outer London and the South. [Charges are also likely to be high in some parts of Inner London, in particular because ILEA's overspending now falls wholly on the chargepayer and not on the business ratepayer.] [DoE to check, please.]

The Government has decided that it would not be right for the full impact of the changes to come through straight away - that would mean community charges in some authorities might be £100 above this year's average rate bill per head, or in some cases more. Where these increases would result from overspending, the accountability of the community charge will help to bring this down. But this is bound to take time, and it would be unreasonable to expect chargepayers to bear the full burden straight away. So some form of safety net is essential.

The original proposal for the safety net was:

- losing authorities would see no increase in domestic tax bills in the first year: if they maintained their spending in real terms, the community charge in the first year need be no higher than the average rate bill per adult in real terms;

- this was to be paid for by gaining authorities seeing none of their gains in the first year, subject to deferring a maximum of £75 per adult.

The Government has reviewed the safety net in the light of representations. The new proposals are:

- charge payers in losing authorities will bear the first £25 of their loss;

- there will be special protection for two particular sets of authorities (see below);

- gainers will get almost half of their gains in the first year;

- and in no case will even the largest gainers have more than £75 of their gain deferred.

This is a much better package for the gainers.

- Previously, only the larger gainers saw any benefit at all in the first year. Now all of them will get around 45% of their gains straight away.
- Previously, charge payers in several authorities had £75 of their gain deferred. Now, very few will do so.
- For the great majority of gainers, the amount deferred by the safety net arrangement will be lower than previously expected, in some cases substantially so.

The new package is also a fair deal for the losers. On average, the community charge in losing areas need to be no more than 50 pence a week above the average rate bill, if local authorities spend in line with the standard spending assumption. And in two particular cases, there will be special protection.

- Areas with the lowest domestic rateable values are among the heaviest losers. So there will be a specific grant of £100 million to give these authorities more time to adjust to a higher level of charges.

- In Inner London, the boroughs are taking on responsibility for education for the first time with the abolition of ILEA. It will undoubtedly take time for them to bring down ILEA's overspending. In the short term, a specific grant of £100 million will be paid to reduce the burden falling on the chargepayer. For the first year, much of this serves to reduce the cost of safety net protection for Inner London and thus reduce further the cost of the safety net falling on gaining authorities.

doc 10.7.8. Chaplin **CONFIDENTIAL** 18/7/89 CN/ This replaces the RSG section in the version you already have. Comments required in the morning. DJS

RSG SETTLEMENT: BACKBENCH BRIEF: THIRD DRAFT

__Key points__

- __Government support__ (Aggregate Exchequer Finance) up £1.7 billion on 1989-90.

- __Total standard spending__ - the Government's measure of the amount authorities need to spend to deliver a standard level of services - set at £32.8 billion, £1.2 billion above 1989-90 budgets - a realistic but challenging target for local authorities.

- __Community charge for standard spending__ - the community charge an authority would need to levy in order to pay for standard services - set at £275, around level of actual average rate bill per adult in 1989-90.

- __Safety net reformed__: all gainers now get 40-50 per cent of gains in first year; losers get transitional protection from all but first £25 of losses; extra protection for areas of lowest rateable value, and for Inner London, where boroughs take on education from ILEA.

- __Business rates__ [Depends on timing of announcement - now likely to be by Written Answer next week.]

    - Transitional arrangements to take account of changes in rate bills following revaluation and move to uniform business rate.

    - Losses from the changes limited in first year to 20 per cent of previous bill, in real terms.

    - To pay for protection, gains limited to around [10 per cent].

    - Government doubled ceiling for __special help for small businesses__. Around 80 per cent of properties likely to benefit.

A. BACKGROUND

1. Background to settlement is one of continued local authority overspending.

- Budgets in 1989-90 are £1.9 billion more than the Government's assessment of the actual need to spend, (the aggregate of all grant-related expenditure assessments (GREAs)).

- X per cent of Conservative authorities spend within their GREA. But X per cent of Labour authorities spend above their GREA.

2. Local authority spending is growing faster than public spending as a whole. Over the last X years, central government spending has grown by Z per cent, whereas local authority spending has grown by Y per cent. So local authorities are making it harder for the Government to achieve its target of reducing the share of national income which goes in public spending.

3. Still enormous scope for savings. Audit Commission has identified potential savings of over £2½ billion for local authorities as a whole from contracting out, efficiency improvements etc. District auditors have identified £900 million savings for individual local authorities. Only £300 million of this has been realised. (Examples to follow.)

4. Reducing public expenditure as share of national income is a central element of economic policy - the only way to create the conditions for sustained growth and the defeat of inflation. Local authorities must play their part.

B. NEW SYSTEM OF LOCAL GOVERNMENT FINANCE

4. New system of local government finance to be introduced from April 1990:

- simpler
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5 Key features are:

- community charge replaces domestic rates;
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- new grant system, once fully introduced, will distribute grant so that if all councils delivered standard level of services, community charge would be same everywhere.

6. Under the new system, some 70 per cent of total standard spending will be met by the taxpayer and the business ratepayer. So the community charge only pays for part of the total.

7. Compared with domestic rates, community charge

- spreads burden over all those benefiting from local authority services;

- promotes accountability, since all electors will understand how much the council is spending;

- rebates help those in need (see... for details, to follow).

8. Under new system of <u>business rates</u>

- all businesses will pay same uniform business rate, set by central government;

- business rate revenue distributed to all councils on a per adult basis;

- in future the business rate will rise no faster than inflation.

9. <u>New grant system</u> Principle is that, if authorities spend at level needed to provide standard service, community charge should be same everywhere. A much simpler and fairer system.

- Start by deciding total amount local authorities need to spend, to deliver standard services - Total Standard Spending (TSS).

- Decide how much of this falls to each authority.

- Deduct authority's share of business rate income.

- Pay grant so that cost of remaining standard spending works out at same amount per adult everywhere - community charge for standard spending (CCSS)

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15. Actual community charges will depend partly on the safety net, and partly on each local authority's own decisions on spending. If local authorities spend more, the money will have to come from the community charge.

16. This is a fair and balanced settlement. Reasonable, well run authorities will be well able to set community charges in line with the CCSS (after taking account of any contribution to or from the safety net). But overspending councils will have to account to chargepayers for their overspending.

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19. One of the main reasons for this is that the old system distributed grant on the basis of rateable value. Where both spent at need, an area of low rateable value would get more grant than an area of high rateable value. So community charges will tend to be higher than average rate bills in areas of low rateable value, typically in the North, and lower in areas of high rateable value, typically in Outer London and the South. [Charges are also likely to be high in some parts of Inner London, in particular because ILEA's overspending now falls wholly on the chargepayer and not on the business ratepayer.]

20. The Government has decided that it would not be right for the full impact of the changes to come through straight away - that would mean community charges in some authorities might be £100 above this year's average rate bill per head, or in some cases more. Where these increases would result from overspending, the accountability of the community charge will help to bring this down. But this is bound to take time, and it would be unreasonable to expect chargepayers to bear the full burden straight away. So some form of safety net is essential.

21. The original proposal for the safety net was:

- losing authorities would see no increase in domestic tax bills in the first year: if they maintained their spending in real terms, the community charge in the first year need be no higher than the average rate bill per adult in real terms;

- this was to be paid for by gainers seeing none of their gains in the first year, subject to a maximum contribution of £75.

22. The Government has reviewed the safety net in the light of representations. The new proposals are:

- losers will bear the first £25 of loss;

- there will be special protection for two particular sets of authorities (see para 23 below);

- gainers will get ~~40-50 per cent of~~ almost half their gains in the first year;

- and in no case will even the largest gainers have to contribute more than £75.

23. This is a <u>much better package for the gainers</u>.

- Previously, only the larger gainers saw any benefit at all in the first year. Now all of them will get around 45% of their gains straight away.
- Previously, some authorities made the maximum contribution of £75. Now, very few will do so.
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24. The new package is also <u>a fair deal for the losers</u>. On average, the community charge in losing areas need to be no more than 50 pence a week above the average rate bill, if local authorities spend in line with the standard spending assumption. And in two particular cases, there will be special protection.

- Areas with the lowest domestic rateable values are among the heaviest losers. So there will be a specific grant of £100 million to give these authorities more time to higher level of charges.
- In Inner London, the boroughs are taking on responsibility for education for the first time with the abolition of ILEA. It will undoubtedly take time for them to bring down ILEA's overspending. In the short term, a specific grant of £100 million will be paid to reduce the burden falling on the chargepayer. For the first year, much of this serves to reduce the cost of safety net protection for Inner London and thus reduce further the cost of the safety net falling on gaining authorities.

E. BUSINESS RATES

25. Reform of business rates

- Rates set by local councils replaced by uniform national business rate, set by central government.

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- Revaluation of all properties, for first time since 1973.

26. New system has considerable advantages.

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- Losses limited to 20 per cent of previous year's rate bill in real terms.

- To pay for this protection, gains have to be limited to around [10 per cent] of previous year's bill in real terms.

29. Government has extended special help for small businesses. For them, losses are limited to 15 per cent and 15 per cent of gains allowed to come through. Previously, the Government had defined small businesses as those with a new rateable value of £7500 in London and £5000 elsewhere. These thresholds have been doubled, to £15,000 in London, and £10,000 elsewhere. This extends special help to around 80 per cent of properties.