

RATE SUPPORT GRANT SETTLEMENT: 1986/7

There is no painless solution. All the options leave you open to attack from some quarter.

If you want to stick to the £11,764 million grant that you approved months ago, and if you want to prevent big rate rises in metropolitan areas following abolition, then you will have to steer money away from the shires.

The package devised by E(LA) does just that. It:

- gives London and other metropolitan areas £330 million more grant than this year;
- gives the shire areas (counties and districts) only £9 million more grant than this year.

Combined with rate-capping, this will produce:

- very low rate rises (in some cases, rate decreases) in London;
- low-ish rate rises in other metropolitan areas;
- high rate rises (in some cases, very high) in the shires, particularly at county level.

A few examples may help. If all local authorities spend the same amount in real terms as this year (which is a reasonable assumption about the average result, given the pressures now being exerted by the RSG system) then:

The figures
in the annex
for grant
amounts are
probably
politically
as important
as these.

Kensington and Chelsea rates could drop by 10%.

Lambeth (rate-capped) rates could drop by 3%.

Westminster rates could rise by 1%.

Greenwich (rate-capped) rates could rise by 1.5%.

Ealing rate could drop by 6%.

Barnet rates could rise by 1.5%.

Richmond-upon-Thames rates could rise by 5%.

Birmingham rates could drop by 0.2%.

Gateshead rates could rise by 3%.

Liverpool (rate-capped) rates could rise by 5%.

North Yorkshire rates could rise by 6%.

Norfolk rates could rise by 7%.

Oxfordshire (hung council) rates could rise by 9%.

Hertfordshire rates could rise by 12%.

The arguments for accepting this package are that:

1. Abolition must be seen to deliver good results in London and the metropolitan areas.

2. There are no county elections in May, whereas the London boroughs and metropolitan districts do have major elections.

3. Even if more grant were given to the shires, they would still produce high rate rises because, 1) they will want to build up balances in their non-election year, and 2) they will be able to spend more painlessly now that targets have been abolished.

4. It is better to direct grant towards the metropolitan areas, which have an electoral interest in producing low rates next year, and which are restrained from excessive spending both by the tough block-grant régime and by expenditure limits.

The arguments against accepting the package are that:

1. You will have a nasty row with the shires.

2. The settlement will look like a reward for the bad behaviour of left-wing city councils.

3. There are plenty of shire district elections in May; your supporters there will not thank you for delivering this bombshell.

4. The Government's friends will do badly in the cities anyway, whereas the shire districts are winnable.

5. Abolition is no longer as much of an issue as it used to be.

6. Liverpool's antics have thrown inner city boroughs generally into public disrepute, so rate-rises there would not be blamed on the Government nearly as much as they would be in the shires.

The arguments are fairly evenly balanced. Since E(LA) have spent a long time weighing them up, and have opted in favour of the package, we reluctantly recommend that you should accept it.

But there is one caveat: Ken Baker should be asked to prepare the shire politicians for the bad news, and to explain our problems to them, so that the edge is taken off their indignation. Past experience shows that a little tactful groundwork of this sort can yield immense political benefits.

Ol Letwin

OLIVER LETWIN

ANNEX

*These are
grant totals*

GRANT CHANGES: 1985/86-1986/87

	<u>1986/7</u> <u>Change</u> £m	<u>1985/6 Grant</u> £m
Kensington & Chelsea	+10	17
Lambeth	+14	48
Westminster	-65*	-26**
Greenwich	+16	36
Ealing	+17	55
Barnet	+9	32
Richmond-upon-Thames	+3	12
Birmingham	+17	165
Gateshead	+7	40
Liverpool	+41	29
North Yorkshire	+4	109
Norfolk	-2	93
Oxfordshire	-5	39
Hertfordshire	-13	59

* Westminster's loss of grant is balanced by other gains following abolition.

* Westminster is a net contributor, through the London Rate Equalisation Scheme.