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PRIME MINISTER

LOCAL AUTHORITY GRANT SETTLEMENT

I have seen Chris Patten's minute to you of 6 September setting out his concerns about the local authority settlement announced by Nick Ridley on 19 July and putting forward proposals for meeting the problems he identifies. Norman Lamont and I subsequently discussed these proposals with Chris on 7 September.

We are all well-aware of the vociferous, if ill-informed and misguided campaign, against the safety net. It is mischievous that such a campaign should have been generated by representatives of the very local authorities that stand to gain most from the introduction of the community charge. For the complaint does not come from local councils facing a new financial burden - quite the reverse. Under the present Rate Support Grant system, these authorities contribute around £1 billion a year to other councils through 'resource equalisation'. The new system will sweep away that burden. In reality, what is being asked for is all of that huge gain straightaway - irrespective of the cost to the losing authorities or, as Chris now proposes, the taxpayer.

I therefore made it clear to Chris that there could be no question of accepting the solution he canvasses in his minute to you - an extra £660m grant. That is a huge new bid when the public expenditure position is already, as you know, acutely difficult. I do not imagine we could persuade colleagues that priority should be given to extra grant for local councils (the bulk of whom, as the map in the DOE paper indicates, are the richest local



authorities in England) in preference to their own high priority bids in the Survey.

Moreover there can be no guarantee that the grant would be used to reduce community charges: on the contrary, there is bound to be leakage into extra public spending. And giving extra grant to local authorities now would be quite the wrong signal: it would be interpreted as helping bail out councils from the cost of the recent NALGO pay award which they agreed for non-manuals. Such a step would be disastrous in advance of both the teachers and LA manuals negotiations.

Nor would some smaller addition to Exchequer grant in order to reduce safety net contributions next year be effective. It would indicate a willingness to accommodate the backbench pressure; far from assuaging backbench concern it would merely intensify the pressure for further tranches of extra grant. We did not provide Exchequer support for the safety net in Scotland; there is no case for such support in England in 1990.

My conclusion is that the basic principle - gainers should compensate losers - should stand for the introduction of the community charge, just as it will for the new uniform business rate. That said, I do recognise we are faced with a potentially difficult parliamentary situation. I would suggest that we meet it in the following way.

First, the presentation needs to be radically improved. We must avoid the term 'safety net contributions' and talk instead of phasing in gains on the one hand and transitional protection for losers on the other.

Second, we should add a little to the gains coming through in 1990-91, outside inner London. By adjusting the distribution, we can allow half - rather than as at present slightly less than half - of gains to all gainers in the first year, at no extra cost.



Thirdly, and most importantly, I propose that all gains should come through in full from the second year onwards. For gainers, we would then have a most attractive package: half the gains immediately next year, all the gains from April 1991 onwards.

Clearly, we would still we need to sustain the protection for losers in the first year already announced and meet the expectations of losing authorities, including those in sensitive areas in the North and Midlands, that there will be transitional protection thereafter. Since that cost cannot be met from gainers if they are to have their gains in full from next year, the burden must fall on the public in general. This would have to be done by some system of time-limited specific grants, without - for public expenditure reasons - any increase in what we would be paying by way of Aggregate External Finance.

In his minute, Chris also raises the issue of community charge capping. I very much endorse his view that capping has an important role to play, particularly in 1990-91, and welcome his intention to pursue the policy vigorously. The precise number to be capped can be considered when the LA budgets emerge next March.

Chris Patten's minute also proposes that we examine ways of providing further help for individuals who lose from introduction of the charge. I am not at all persuaded that we should go further. The community charge benefit scheme will already be more generous than the rate rebate scheme, following our decision last year to cut the income taper from 20% to 15%. Although this has already been announced, I am sure we can take further credit for it. The extra cost will be £100 million a year, and one million additional chargepayers will be helped as a result.

In all, we are likely to spend up to £2 billion next year on community charge benefit, compared with less than £1½ billion on rate rebates (and community charge benefit in Scotland) in the current year. This will help 11 million chargepayers (1 in 4 of



the total), over half of them with incomes above income support level. Some 4½ million pensioners will be helped. A further £½ billion or so will be spent on income support, helping people with their 20% minimum payment. We have also taken action to soften the impact of the benefit rules on people with savings. Last year, the amount of free capital allowed before claimants are disqualified from housing benefit and community charge benefit was raised from £6,000 to £8,000.

So a very substantial commitment of public expenditure has already been made to helping a large minority of chargepayers. Against the extremely difficult background of this year's Survey, I would be most reluctant to see further concessions. I am sure we should also try to avoid measures which would add still further to the number of people claiming social security benefits.

When we meet to discuss this on Thursday 14 September we shall also need to consider carefully the timing of any announcements. In my opinion an early concession, quite apart from the damaging effect it would have on the conduct of the public expenditure round and on market sentiment, would be politically unwise. We need to keep it up our sleeve for use when it can have the maximum parliamentary effect.

I am copying this minute to Chris Patten and Norman Lamont.

A handwritten signature in black ink, appearing to be 'N.L.' with a flourish.

[N.L.]

8 September 1989