

CONFIDENTIAL

PRIME MINISTER

6 July 1987

THE NEW LOCAL AUTHORITY GRANT SYSTEM

You are meeting to discuss Mr Ridley's paper on the new local authority grant system and Mr Walker's dissenting from it.

One grant rather than two

We agree with Mr Ridley and Mr Walker that a single Revenue Support Grant is preferable to the two grants proposed in the Green Paper.

Payment of Grant

Mr Ridley proposes that the new grant would be paid, at least notionally, to individual charge payers rather than to each tier of local government. The bill sent to each charge payer would set out the gross charge levied by each tier, the amount of central government grant to be deducted from it and the net liability to be met by the charge payer. The bill would also show how much the Government assessed each tier should spend, the amount of grant that would then be payable and the resulting community charge. We see several advantages in this approach:

- (i) if the bill increased from one year to the next, a charge payer could identify whether this was caused by increased spending by one or other tier or by a reduced government grant;

- (ii) it would emphasise to charge payers how much of their local authorities' expenditure was paid for from government taxation;
- (iii) a charge payer would be able to tell how well their authority was performing by comparing the actual bill with the needs assessment.

Mr Walker argues against this approach in favour of one which would show a single net charge for each tier of government. Each tier's level of expenditure depends both on its need to spend and on its relative efficiency. He argues that charge payers might draw the wrong conclusion by looking at a gross figure but that a net figure is more relevant because the grant equalises for different needs. He suggests that these net figures will give charge payers a better idea of the relative performance of their authority since they can be compared with those for other authorities of a similar type.

There is some force in Mr Walker's argument but the needs assessment which will explicitly be shown under Mr Ridley's proposal will similarly enable charge payers to assess the performance of their authority. Moreover Mr Ridley's approach is more transparent in unravelling the effects of grant (although specific grants will still be netted off expenditure figures).

Mr Ridley's approach works well once the community charge is fully in operation. But the last meeting of E(LF) favoured retaining transitional arrangements of the sort proposed in the Green Paper. These included a "safety net" grant which would initially ensure that domestic rate and charge payers in each local authority did not face an increased burden. Gradually this safety net grant will have to be withdrawn. Depending on the rate of withdrawal, this could appear as a year to year reduction in government grant. Far from

blaming the local authority for increased expenditure,
charge payers in such authorities might blame the Government
for lower grants. We therefore suggest taking no final
decision on this issue until the precise proposals on
transitional grants have been agreed.

Freze

Conclusion

We agree with Mr Ridley's proposal for a single Revenue Support Grant. But decisions on whether the grant should be paid at charge payer level should be deferred until the precise nature of any transitional grant has been agreed.

Peter Stredder

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