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PRIME MINISTER

LOCAL AUTHORITY GRANT SETTLEMENT 1990-91

[Minute of 22 May from the Secretary of State for the Environment]

DECISIONS

1. Decisions about local authority grant for 1990-1991 are particularly sensitive because it will be the first year of the community charge. The purpose of this informal meeting is to give you, Mr Ridley, the Chancellor of the Exchequer, the Chief Secretary and Mr Parkinson (as chairman of E(LA)) a chance to assess the position, in preparation for E(LF) at which the spending Ministers will be present.

2. An announcement will be needed in July on three key matters (the terms are explained below):

- i. the total of needs assessments;
- ii. Aggregate Exchequer Finance (AEF);
- iii. the community charge for spending at need (CCSN).

These three amounts are closely inter-related. The decision before Ministers is essentially what the best combination of them would be.

3. Mr Ridley has put forward a paper, agreed with the Chief Secretary, which sets out four different possible combinations in Annex A. You may wish to discuss:

- i. which is the best option. The preferred options of Mr Major (option A) and Mr Ridley (option D) are some way apart. But Mr Major's "illustrative" higher option (option B) and Mr Ridley's "lower" option (option C) are close. You may wish first to explore the implications of these two

middle options and then, if they are acceptable, see whether you can get the two Ministers to agree on one of them;

ii. what range of options should be put to E(LF), bearing in mind that the Ministers responsible for the main local authority services are likely to want a total of needs above even Mr Ridley's higher option (option D). You will wish to decide this in the light of discussion and invite Mr Ridley to produce a detailed paper for E(LF) accordingly, including detailed exemplifications for major local authorities.

THE NEW SYSTEM OF GRANT

4. The chart attached shows how the new system of local government finance compares with the old system. It lists the main decisions which will be needed and when they will be announced.

5. In this discussion you may wish to concentrate on the three key figures which have to be announced in July:

i. the total of needs assessments to be used in the new grant system. This is the Government's estimate of what local authorities will need to spend;

ii. the amount of Aggregate Exchequer Finance (AEF) which the Government will contribute towards what local authorities need to spend (i above). This will be made up of three elements: needs grant, certain specific grants and income from the national non-domestic rate (NNDR);

iii. together these two figures will determine the community charge for spending at need (CCSN). This is the average community charge which all local authorities taken together would charge if they were to spend at need, as at i above, after receiving AEF as at ii above. (The figure is derived quite simply by dividing the total of needs assessments minus Aggregate Exchequer Finance by the total number of community charge payers which is about 36

million.) The figure for this year would have been £240. A figure for 1990-1991 will have to be published in July.

6. Actual community charges in individual areas will be determined by how AEF is distributed, by the operation of the safety net and by what authorities actually choose to spend. Decisions on these matters will not need to be announced until October. But you may well want to ask Mr Ridley how decisions on these aggregate amounts under the different options would affect individual major local authorities. You raised with him earlier the possibility of providing that no charge was above, say, £350 in 1990-91 in a constant real level of spending.

OPTIONS FOR 1990/91

7. Mr Ridley's minute sets out four options covering these matters in Annex A. It includes illustrative actual community charges for a range of expenditure levels, from a 4% cash increase (a real terms standstill) to a 7% cash increase (a 3% real increase).

8. The options are:

i. option A. Total needs are set 7.5% above the total of grant-related expenditures (GRES) set for 1989-1990 under the old system. AEF is set 4% above the 1989-90 level. The CCSN is £264 and the range of forecast actual charges is £300 - £321. This is Mr Major's preferred option;

ii. option B. Total needs are 9.5% above 1989/90 GRES. AEF is 6% above the 1989/90 level. The CCSN is £270 and the range of forecast actual charges £289-310. This is another option put forward by Mr Major for "illustrative" purposes;

iii. option C. Total needs are set 3% above 1989/90 budgets; AEF is 6.5% above the 1989/90 level. The CCSN is £273 and the range of forecast actual charges £285 - £306. This is a lower option put forward by Mr Ridley;

Outline

iv. option D. Total needs are 4% above 1989/90 budgets; AEF increases by 9.3%. The CCSN is £271 and the range of forecast actual charges £270-290. This is Mr Ridley's preferred option.

MAIN ISSUES

9. The main difference between Mr Ridley and Mr Major appears to be over the objectives for the settlement:

i. Mr Major argues that the Government should take responsibility only for spending at the level of needs, and for the associated CCSN. He wishes to set these figures and AEF as "challenging but realistic targets" for authorities, to reinforce downward pressure on expenditure. He believes local authorities will take responsibility for setting community charges above the CCSN level;

ii. Mr Ridley accepts the importance of the needs and CCSN figures. He will want to set needs at a level which ensures that responsible authorities can continue to budget within their new needs assessments. But he also believes that the Government will be held responsible to some extent for the actual level of the community charge. He therefore wishes to set AEF at a level which will ensure average charges below £300 even if authorities increase spending by 7%.

10. Actual community charges will depend on actual budgets for 1990/91. Mr Major may argue that the bottom of the range illustrated in Annex A - £33.2 billion which is a 4% cash increase over 1989/90 - is a realistic outcome if the grant settlement is sufficiently tough. But Mr Ridley is likely to suggest that the top end of the range - £33.9 billion, a 7% cash increase - is the lowest realistic forecast of likely spending, given pay and service pressures, and experience in 1989-90 and earlier years. You will want to form your own judgement about what is a realistic forecast of budgets for 1990/91; and what would be an acceptable level of community charge for that level



of spending.

11. In discussion it may be helpful to take the different elements separately:

i. total need to spend. Mr Ridley's preferred option (option D), based on 1989/90 budgets plus 4% plus £200m for community charge collection costs, would involve an increase of over 12% compared to 1989/90 GREs. This looks rather generous, and could give the wrong signal to responsible authorities who have in the past aimed to spend at or just below needs. An increase of 7.5-9.5% as under options A or B might be more realistic: if Mr Ridley is correct in his assessment that actual spending will increase by 7%, either figure should allow most authorities budgeting below GRE in 1989/90 to spend below their needs assessment again in 1990/91;

ii. AEF. This decision depends on what you judge to be an acceptable level for the CCSN, and how far you are concerned about actual community charges. Options B and C involve AEF of £22.7-22.8 bn, and a CCSN of around £270. But they would result in an average actual charge of around £310 if spending rose by 7%. If you felt that that was too high, you would need to set AEF higher, perhaps at £23.4 bn as under option D, giving an average actual charge of £290 for a 7% increase in spending. Mr Major will however point out that option D would involve an increase of £2.0 bn in AEF compared to 1989/90.

12. This suggests that you might be able to agree with Mr Ridley and Mr Major to set total needs at around the level in options B and C. AEF could also be set at around the level under those options, or higher (eg as in option D) if you wished to keep actual charges below £300 for spending 7% above this year.

Options to be put to E(LF)



13. You will also need to decide what options should be put to E(LF)'s first meeting on 22 June. An important consideration is the position of the Ministers responsible for the main local authority services (Mr Baker, Mr Hurd, Mr Clarke and Mr Channon). Under the new system there will be no provision for local authority spending on their services. The total of the needs assessments for each service will be the only figures the service Ministers can point to to show what the Government is providing. But the service needs assessments need to be contained within the total you agree and announce in July. The service Ministers are therefore likely to be arguing for a total even higher than under Mr Ridley's preferred option.

14. The main options for E(LF) appear to be:

- i. to show a single option, agreed between Mr Ridley and Mr Major, on the lines discussed above;
- ii. to show a narrow range of options, perhaps based on options B and C in the current paper;
- iii. to show a wider range of options, similar to the range (A to D) in the current paper.

15. You will wish to decide how wide a range of options should be put to E(LF).

16. You will also need to look at what the different options mean for individual local authorities. Their position will be influenced by the transitional safety net and the needs assessment methodology, even though these do not need to be announced until October. You will wish to ask Mr Ridley to bring forward detailed exemplifications to E(LF) showing the implications of each option for all the major authorities.

A handwritten signature in blue ink, appearing to read 'R T J Wilson'.

R T J WILSON

24 May 1989



CABINET OFFICE

R.T.J. Wilson

Mr Gray

If the brief is too long, this
is an attempt to get all the
important points on one page.

RJT 24/5

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There are five variables which matter:

1. Total need to spend. This is the Government's estimate of what LAs ought to spend.
2. Aggregate Exchequer Finance (AEF). This is the total of Government payments towards 1 above. It is a part of the Planning Total. It is made up of: i. needs grant (more formally, Revenue Support Grant); ii. certain specific grants; iii. income from the National Non-Domestic Rate (NNDR).
3. Actual LA Expenditure. This (except for the element at 2) is not in the Planning Total but is in General Government Expenditure (GGE) and so affects the target ratio between that and GDP.
4. Community Charge for Spending at Need (CCSN). This is what the Community Charge will be if LAs spend at need (1 above) and receive AEF as in 2 above. This figure will be published in July.
5. Actual Community Charge. This is what the Community Charge will actually be, given LAs actual spending (likely to be higher than spending at need) and AEF. This figure will not be published in advance.

The decision before Ministers is essentially about the optimum pattern for these five variables taken together. The table below shows how the main options in Mr Ridley's paper affect these variables.

	1989-90	1990-91			
	(adjusted)	Option A	Option B	Option C	Option D
1. Total need to spend (£bn)	29.6	31.8	32.4	32.7	33.2
2. AEF (£bn)	21.4	22.3	22.7	22.8	23.4
3. Actual expenditure (£bn - forecast)	31.7	33.2- 33.9	33.2- 33.9	33.2- 33.9	33.2- 33.9
4. CCSN	227	264	270	273	271
5. Actual CC (forecast)	258	300-321	289-310	285-306	270-290

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10 DOWNING STREET

PRIME MINISTER

PREPARATORY MEETING

ON LOCAL AUTHORITY

GRANT SETTLEMENT

There are 2 papers:

Page A - Note from Mr. Ridley

Page B - Brief from Richard Wilson.

PLC.G.

24/5

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PRIME MINISTER

LOCAL GOVERNMENT FINANCE 1990-91

You are holding an informal meeting on Thursday 25 May after E(A) to discuss the prospects for the forthcoming local government finance round in E(LF). The Chancellor, the Chief Secretary and the Secretaries of State for the Environment and Energy will be present.

2. Mr Ridley and Mr Major will be submitting a joint paper, probably on Monday, and I will provide a detailed Brief when that is available. This note attempts to identify the main issues which you will wish to address.

STRUCTURE OF THE NEW SYSTEM

3. The chart at Annex A shows how the new system of local government finance compares with the old system. It lists the main decisions which will be needed and when they will be announced.

MAIN ISSUES

4. The key decisions to be announced in July are the amount of Aggregate Exchequer Finance (AEF) for local authorities, and the overall total of needs assessments to be used in the grant system. Taken together these two figures will determine the community charge for spending at need (CCSN): that is, the average level of the community charge if authorities actually budget at the level at which the Government considers they need to spend.

5. These decisions are about figures at the national level.

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But in practice you will want to see what they mean for individual local authorities. These will be affected by other aspects of the new regime - the transitional safety net and the needs assessment methodology - which influence the distribution of grant, even though they do not need to be announced until October. You will therefore wish to ask Mr Ridley to bring forward detailed exemplifications to E(LF), showing the implications of various options for all the major local authorities.

Aggregate Exchequer Finance (AEF)

6. The decision about AEF is a key one because it determines the actual income which local authorities will receive from Exchequer grants and the national non-domestic rate (NNDR). You will want to watch the implications for:

i. the actual level of community charges which local authorities are likely to set in practice, which in turn will depend on what they decide to spend in 1990/91. We understand that Mr Ridley may suggest that they are likely to increase their spending by 3% in real terms, as in recent years. You will need to decide whether this is a realistic assessment, and if so, what would be an acceptable outcome on the community charge;

ii. the percentage of local spending met by Exchequer grant. Mr Ridley and his Ministers have implied that the Government will continue to finance about 50% of expenditure through needs grant, specific grants within AEF, and certain grants outside the AEF (eg for community charge rebates). You will want to know what figure for percentage support would be implied by the various options, both for spending at need and for likely actual spending.

Total of needs assessments

7. The total of needs assessments will be important for



presentation of the settlement. You may want to ask about the implications for:


i. the level of the community charge for spending at need (CCSN), which will be the Government's view of the right level for the charge if authorities spent at the level of needs rather than some higher level. The 1990-91 CCSN will be judged against the published estimate of £240 for 1989-90. We understand informally that the figure which is emerging from Treasury/DoE options is likely to be around £270 for 1990-1991;

ii. the level of individual needs assessments for key authorities. Mr Ridley is likely to stress the importance of ensuring that a reasonable selection of the more responsible authorities, particularly among the counties, can budget within their needs assessments in 1990-91. At the same time you will want to watch the overall increase in needs assessments. If all the 1989-90 overspend were validated, needs assessments could rise by well over 10% compared to 1989-90 GREs. This could give authorities entirely the wrong signal about the Government's view on expenditure;

iii. the implications for totals of needs assessments for individual services (eg education, personal social service). This is what will most concern the main service Ministers, who are preparing a joint paper for E(LF).

Transitional safety net

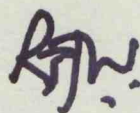
8. In addition to the level of AEF, the transitional safety net will have an important effect on individual authorities' community charges in 1990-91. The Government has already announced the main principles which it proposes to adopt, namely that the safety net will prevent any shift in the pattern of domestic taxation between areas in 1990-91, and will then be phased out over 4 years. But you may wish to consider



refinements in E(LF). The most obvious option, which you have already discussed, is a special safety net for areas where the community charge would otherwise be exceptionally high in 1990-91 (eg certain inner London boroughs). Such a safety net would aim to ensure that no charge was above, say, £350 in 1990-91 in a constant real level of spending.

Methodology

9. The method which you adopt for calculating needs assessments for individual authorities will determine the pattern of community charges once the new system is fully in place. But in 1990-91 the new needs assessments will be mainly of presentational importance, because of the operation of the transitional safety net. You will want to look at the figure for community charges without the safety-net to ensure that the needs assessments decisions are acceptable in the long-term. But this could be left to the autumn.



R T J WILSON
Cabinet Office
19 May 1989

P03448



LOCAL GOVERNMENT FINANCE: OLD AND NEW SYSTEMS

Government Decisions announced in July

Old System

New System

A. The July announcement used to cover provision for local authority current expenditure (which counted against the old Planning Total) and an estimate of financing items, as well as B and C below.

A. No equivalent announcement. The July announcement this year will cover only B,C and D below.

B. The total of grant-related expenditures (GRES).

B. The total of new needs assessments.

C. Aggregate Exchequer Grant (AEG), which comprised:

C. Aggregate Exchequer Finance (AEF), which will comprise:

i. Rate Support Grant;

i. "needs" grant, formally known as Revenue Support Grant;

ii. specific and supplementary grants (both current and capital).

ii. certain specific grants (current only);

iii. national non-domestic rate (NNDR) income.

AEF is the contribution to expenditure which will be determined and met by central Government and will count against the new Planning Total.

D. The difference between B and C determined the grant-related (rate) poundage for spending at GRE.

D. The difference between B and C will determine community charge for spending at need (CCSN). The Government has estimated publicly that this would have been £240 for 1989-90.

NOTE: C as a proportion of A was 43 per cent for 1989-90.

NOTE: C as a proportion of B may be around 70 per cent for 1990-91, depending on the decisions taken.



Government Decisions announced in October

Old System

New System

E. An announcement used to be made in October about the distribution of Rate Support Grant to compensate for differences in needs and resources. This was paid to all authorities. Its level depended on F,G and H below.

E. In future there will be an October announcement about the distribution of needs grant to compensate for differences in needs only (not resources). It will be paid only to district authorities to cover the needs of all tiers. Its level will depend on F,G and H below.

F. The distribution of the GRE total between services.

F. The distribution of the needs assessment total between services.

G. The method of calculating GREs, which assessed the cost to each authority of providing a standard level of service.

G. The method of calculating needs assessments for individual authorities which will measure the cost of providing a standard level of service in the area.

H. Safety nets, which provided a mechanism to limit changes in grant each year.

H. The transitional safety net, which will provide a mechanism to smooth the transition to the new regime. There will be no power subsequently to limit changes between years.

NOTE: A decision will also be needed on the amount of self-financed expenditure to be included within General Government Expenditure in the Autumn Statement.



Decisions by local authorities

I. Actual spending by local authorities. Any overspend was a charge on the Reserve.

I. Actual spending by local authorities. This will count as General Government Expenditure (GGE): any excess over the Autumn Statement estimate will increase GGE.

J. The difference between I and E determined the actual rate poundage charged to domestic and business ratepayers in each area.

J. The difference between I and E will determine actual community charges. (The business rate contribution will be fixed under the NNDR: see C above.)

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PRIME MINISTER

FORTHCOMING E(LF) DISCUSSIONS OF REVENUE SUPPORT GRANT

You discussed earlier this week with the Chancellor and Chief Secretary the overall prospects for the Public Expenditure Survey. One of the topics touched on was the forthcoming local authority finance discussions in E(LF) which you will be chairing this year.

Next Thursday you have a further preparatory meeting specifically to focus on the forthcoming local authority settlement, which Nick Ridley and Cecil Parkinson will also be attending.

Nick Ridley will be preparing a paper for next Thursday's meeting early next week. (He is having bilateral discussions with John Major about it). But, in the light of this week's talk, I thought you might find it helpful over the weekend to look at a note which summarises the key issues and the terms to be used in the new local authority system. I commissioned such a note from the Cabinet Office and this is now attached. Of particular value is the annex which compares the old and the new systems, and hopefully provides you with a useful introduction to the language that will be dominating the E(LF) discussions.

R.C.G.

PAUL GRAY

19 May 1989

KAYAVS



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

12 May 1989

**MEETING ON LOCAL GOVERNMENT FINANCE:
25 MAY**

I am writing to let you know that the above meeting will begin at 12 noon instead of 1230 and will last for one hour. There is no change in the E(A) meeting which will still take place at 11 am.

I am copying this letter to the Diary Secretaries to the Chief Secretary, the Secretary of State for the Environment, the Secretary of State for Energy, and to Sir Robin Butler and Richard Wilson (Cabinet Office).

(MRS AMANDA PONSONBY)

Mrs. Julie Thorpe,
H.M. Treasury.

KK

Mrs. Pansbury of R
Can you liaise with FARR's office
or X please?

Mr Gray

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MR WILSON
(through Mr Monger)

I agree that it would be
helpful to fix these meetings now.
It is always easier to cancel.

E(LF): LOCAL GOVERNMENT FINANCE 1990/91

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You asked me to consider, in consultation with DOE and the Treasury, when E(LF) might need to meet to consider the 1990/91 Revenue Support Grant (RSG) settlement.

2. The Prime Minister is to have a preliminary discussion with the Secretaries of State for the Environment and Energy, and the Chief Secretary, Treasury on Thursday 25 May. DOE will still need a certain amount of time after that for technical work to produce the detailed figures (eg for likely community charges in each area) which Ministers will wish to consider in E(LF). They aim to produce a first E(LF) paper in the week commencing 12 June. E(LF) are then likely to need at least two meetings to reach decisions, and possibly more.

3. This points to meetings on something like the following timetable:

i. a meeting in the week commencing 19 June to discuss an initial DOE paper, a (joint) paper from the main service Ministers on the spending needs of their services, and probably a Treasury paper. The aim would be to narrow the options and commission a further DOE paper;

ii. a meeting in the week commencing 3 July to consider that paper. This meeting might be able to reach decisions, but we cannot count on that;

iii. a meeting in the week commencing 10 July, arranged on a contingency basis, for a further discussion if necessary.

4. DOE and the Treasury would both be content with this timetable.

5. If you agree, we might seek to fix times for these three meetings now, rather than wait until the end of the month when diaries for June and July will be more difficult.

Andrew Wells

ANDREW WELLS

8 May 1989

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