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Paul Gray Esq
Private Secretary to
The Prime Minister
10 Downing Street
LONDON
SW1A 2AA

Note

My ref:

Your ref:

*Overaken by subsequent
E(LF) discussions
on the safety net.*

13 June 1989

Dear Paul,

*REC 6
2/7*

Thank you for your letter of 15 May. I am sorry not to have replied before now.

The Prime Minister asked for a note on the community charge aspects raised by Councillor Beresford and a comparison between Wandsworth's charge and those of other London boroughs. I enclose a one page summary together with a fuller note and a table giving illustrative figures for all London boroughs. These figures have not been published. They are based on our latest assumptions and could be changed by decisions still to be taken on issues such as the safety net and need assessments. The note goes wider than the main issue raised by Councillor Beresford, namely the ring fencing of the Housing Revenue Account, since a wider view is needed to explain the factors affecting Wandsworth's charge and these of other London boroughs. Wandsworth's illustrative community charge with the benefit of the first year of the safety net as currently envisaged is £219, the lowest in London. This would rise to £463 over four years as the safety net is phased out, unless Wandsworth can make expenditure savings, for which there should be scope on the education services inherited from ILEA.

My Secretary of State is still considering the capital finance issues which Councillor Beresford has raised, in particular that proposed for a different debt redemption rate for inner cities. I will let you have the further notes the Prime Minister has asked for as soon as possible, when my Secretary of State has consulted the Chief Secretary and the Chancellor of the Duchy of Lancaster.

I am copying this letter to Carys Evans and John Alty.

*Tom,
A D RING*

A D RING
Private Secretary

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COMMUNITY CHARGE: WANDSWORTH

Summary

Wandsworth has an average rate bill per adult of £192 per adult in 1989/90, the lowest in London.

Wandsworth's illustrative full community charge in 1989/90 for the same level of spending would have been £376, the second lowest in inner London.

Abolition of ILEA would have increased Wandsworth's community charge by about £6 to £382.

Ring fencing of the HRA would have increased Wandsworth's full community charge by a further £81 to £463, still below most of inner London (all but City, Kensington and Chelsea and Westminster).

The safety net would pay grant to Wandsworth to reduce its charge by £244 to £219, bringing it back towards the average rate bill per adult of £192. This would be the lowest in London.

The charge would then increase to £463 over 4 years as the safety net was phased out unless Wandsworth reduced spending.

New needs assessments could reduce full community charges for Wandsworth and other inner London boroughs.

Wandsworth will be able to transfer interest on the useable 25 percent of its housing capital receipts from the HRA, to keep down charges, but the effect is likely to be small.

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COMMUNITY CHARGE: WANDSWORTH

Wandsworth's 1989/90 average rate bill per adult is £192 (see column 1 of table) compared with an average bill in inner London of £327. It has the lowest rate bill per adult in London.

To raise the same revenue ^{without safety net} Wandsworth would have to set a community charge of £376 in 1989/90 (see column 2). This would still be below the inner London average charge of £524. Only Kensington and Chelsea would have a lower charge in inner London but several outer London boroughs would have charges below £300.

For most inner London boroughs community charges would be higher than average rate bills per adult largely because the whole of ILEA's overspend falls on all inner London boroughs as an equal amount per adult. With rates, ILEA's overspend is distributed between boroughs in proportion to rateable value; ILEA's poundage is relatively low because of London's high rateable resources. Authorities with high rateable values per adult (particularly the City, Westminster and Kensington and Chelsea) have lower community charges than rate bills largely because of this change in the distribution of ILEA's precept. But authorities with low rateable values per adult would have community charges higher than average rate bills. Wandsworth falls in the latter category, as do boroughs like Greenwich and Tower Hamlets. Most of the increase from Wandsworth's rate bill of £192 to a charge £376 can be explained by this change.

But further factors will also lead to changes in Wandsworth's community charge. Firstly, with the abolition of ILEA, the costs of education will fall to authorities in relation to the number and size of schools they run, rather than proportionately to adult population. The grant system will also adjust through the needs assessments. The net effect would be a further £6 increase

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in Wandsworth's community charge to £382 (see column 3). By comparison this change could increase charges in Greenwich by as much as £54 and reduce those in Kensington and Chelsea by a further £104.

The second major factor is the ring fencing of the Housing Revenue Account. This is the factor on which Councillor Beresford has concentrated. Wandsworth will no longer be able to transfer the surplus on the HRA to the general fund. Needs assessments will no longer assume that Wandsworth needs to make a transfer the other way. Together these changes would lead to an £81 increase in Wandsworth's charge to £463 in 1989/90 (see column 5). Kensington and Chelsea similarly have charges £64 higher than if the HRA were not ring fenced while Islington would have a £111 reduction in charge because it would no longer be allowed to subsidise the HRA from chargepayers.

All of these changes will fall within the scope of the safety net. On present proposals Wandsworth will receive a transitional grant in 1990/91 which will allow it to keep its community charge at the same level in real terms as its average rate bill per adult in 1989/90, provided it keeps its spending broadly constant in real terms. Operated purely within 1989/90, such a safety net would have given Wandsworth a transitional grant of £244 per adult (see column 7) allowing it to keep its community charge for the same level of spending down to £219. Most other inner London authorities will also receive safety net grants. But the safety net is self financing so authorities such as Kensington and Chelsea and Westminster contribute up to £75 per adult because their full community charges are below their average rate bills per adult.

It is ^{currently} proposed that the safety net should be phased out over the next four years by withdrawing 25 percent of the transitional grant each year. With constant spending, Wandsworth's charge

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would rise by £61 a year to move from the first year charge of £219 to a full charge of £463. Wandsworth can limit these increases by making expenditure savings, which should particularly be possible on the education service inherited from ILEA.

Other changes between 1989/90 and 1990/91 could help Wandsworth and other inner London boroughs. A needs assessment for inner London education which was higher than ILEA's grant related expenditure (GRE) would help to bring down community charges for most inner London boroughs. Changes to needs assessments for other services could also help.

It is now proposed that in 1990/91 authorities will be able to transfer all of the interest on the useable 25 percent of their HRA capital receipts from the HRA to the general fund. This will allow Wandsworth to continue to make a transfer from the HRA to keep down community charges. But the transfer will be much smaller than in the past because 75 percent of housing capital receipts have to be set aside to redeem credit.

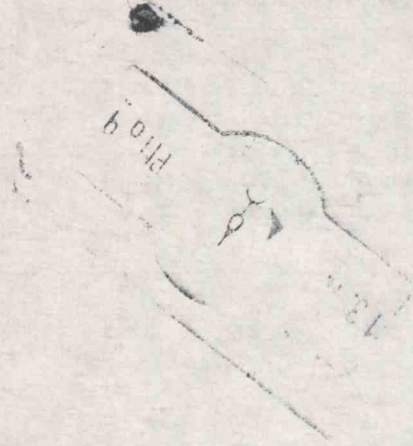
None of the figures in this note are published at present. DOE Ministers do not intend to publish the 1989/90 illustrative community charges until more complete expenditure information is available from authorities. There are no plans to publish information of the effect of ILEA abolition or of ring fencing of the HRA.

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PROVISIONAL 1989/90 COMMUNITY CHARGES

	COL 1 1989/90 average rate bill per adult (£)	COL 2 1989/90 full community charge (£)	COL 3 Effect of ILEA abolition (£)	COL 4 Charge after ILEA abolition (£)	COL 5 Effect of ring- fencing the HRA (£)	COL 6 Charge after ring- fencing (£)	COL 7 Safety net adjustment (£)	COL 8 1989/90 first year community charge (£)
City of London	514	493	-181	312	-5	306	75	381
Camden	424	580	6	586	-41	544	-94	451
Greenwich	271	593	54	647	2	649	-352	297
Hackney	333	577	-33	544	-24	520	-160	360
Hammersmith and Fulham	354	650	38	688	2	690	-309	381
Islington	423	669	42	711	-111	600	-150	450
Kensington and Chelsea	373	339	-104	235	64	299	74	373
Lambeth	300	552	-10	543	3	546	-219	327
Lewisham	261	508	-7	502	5	507	-219	288
Southwark	267	550	9	559	9	568	-274	293
Tower Hamlets	267	521	-27	494	140	634	-340	294
Wandsworth	192	376	6	382	81	463	-244	219
Westminster	558	396	2	398	9	407	75	482
Total Inner London	327	524	-0	523	11	535	-192	343
Barking and Dagenham	232	256	-	256	111	367	-109	259
Barnet	343	235	-0	235	-0	235	75	310
Bexley	235	250	-	250	0	250	-	250
Brent	467	561	0	561	-10	551	-57	493
Bromley	242	189	-	189	27	215	26	242
Croydon	254	172	-	172	1	173	75	248
Ealing	305	336	0	336	3	339	-7	332
Enfield	300	274	-	274	2	276	24	300
Haringey	506	627	-	627	5	632	-100	532
Harrow	311	253	-	253	1	254	56	311
Havering	244	219	-	219	13	232	12	244
Hillingdon	311	337	-0	337	24	361	-23	338
Hounslow	354	405	0	405	-50	355	-	355
Kingston-upon-Thames	308	276	-	276	7	283	25	308
Merton	270	238	-	238	51	289	-	289
Newham	338	445	0	445	-34	411	-46	365
Redbridge	219	187	-	187	35	222	-	222
Richmond-upon-Thames	339	255	-	255	1	257	75	332
Sutton	294	256	-0	256	3	259	35	294
Waltham Forest	309	340	-0	340	-21	319	-	319
Total Outer London	308	301	-0	301	7	308	7	315
TOTAL London	314	378	-0	378	9	387	-62	325

LOCAL GOV.: Correspondence
with Air Base, etc.,
Feb 23



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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

15 May 1989

*File PA
C. V. Wintlingdale
QR TO KEEP*

Dear Roger,

CORRESPONDENCE WITH COUNCILLOR PAUL BERESFORD

Thank you for your letter of 8 May, which the Prime Minister has seen.

The Prime Minister thinks that efforts should be made to try to avoid the difficulties Councillor Beresford has identified. She would therefore be grateful for an assessment of his arguments for a different debt redemption ratio for housing receipts in relation to inner cities policy; she wonders, for example, whether a 60/40 ratio rather than 75/25 might be appropriate for inner city authorities, which would still help very considerably with debt redemption while leaving something more for refurbishment of old properties. She would also be grateful for further information on the possibility of taking into account authorities' track record on asset disposal in the distribution of credit approvals, and the extent to which this would ease Wandsworth's concern. Finally, she would be grateful for a note on the community charge aspects raised by Councillor Beresford, including the likely comparison between Wandsworth's charge and those of other London boroughs.

BR/

The Prime Minister would be grateful if your Secretary of State could co-ordinate his response with the Treasury and Department of Trade and Industry; I am therefore copying this letter to Carys Evans (Chief Secretary's Office) and John Alty (Chancellor of the Duchy of Lancaster's Office).

Paul Gray

PAUL GRAY

Roger Bright, Esq.,
Department of the Environment.

LRP

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