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Treasury Chambers, Parliament Street, SW1P 3AG

Roger Bright Esq
Private Secretary to the
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
London
SW1

3 July 1989

Dear Roger

E(LF)

I attach a note by Treasury officials setting out the option for assistance to the north and explaining the Chief Secretary's preference as between the options in E(LF)89 4.

A copy has gone to No. 10.

Yours

Carys

MISS C EVANS
Private Secretary

THE SAFETY NET AND THE NORTH: NOTE BY TREASURY OFFICIALS

Four of the six safety net options envisaged in E(LF)(89)4 proposed that, in "losing" local authority areas, the first £25 or £26 per adult of losses would be allowed to feed through. In other words, for standard spending the safety-netted community charge in such areas in 1990-91 would be £25 or so above the uprated 1989-90 average rate bill per adult.

2. Within the self-financing safety-net, if gaining areas are to benefit from some of their gains in the first year it will be necessary to allow some losses to come through. But, by and large, it is areas in the south of England which will receive the gains; it is the north including sensitive areas in the north-west such as Pendle, Hyndburn, Calderdale and Rossendale, which must bear the losses.

3. In these northern areas, average rate bills per adult are low due to a combination of low rateable values, the operation of the present grant system and in many cases relatively modest spending.

4. At present, such areas are not expecting to bear any losses for standard spending: under the safety-net proposals announced last year, all losses were to be fully protected. Allowing through the first £25 or £26 of losses as the Environment Secretary now proposes represents a greater proportionate burden for those areas than for chargepayers elsewhere.

Assistance to the North

5. A modest addition to the Environment Secretary's proposals would protect in full these sensitive areas, by allowing no losses to feed through. (In principle, this could be in the form of a specific grant or, as exemplified here, an adjustment to the safety-net.) The qualifying areas could be selected on the basis of:

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(i) low average rate bill per adult;

(ii) low average domestic rateable values;

(iii) low total rateable values per adult;

or some combination of the three.

6. The exemplifications attached are on the basis of (ii) above with qualifying areas being those local authorities with average domestic rateable values below a threshold of £135.

7. On this basis, 26 local authorities would qualify and would bear no losses under the safety-net. The cost of this additional element would be around £70m.

The Case for Help

8. Assistance has been agreed for inner London to reduce the impact on chargepayers of inheriting ILEA overspend; assistance is desirable in the north because:

(i) a flat-rate loss would impose proportionately higher local tax burdens in areas where the average rate bill per adult is low;

(ii) local authorities (LAs) with low rateable values have received relatively more grant (for standard spending) under the present grant system because of their low rateable values; LAs need time to adjust the spending to lower grant entitlements from 1990 onwards, if they are not to burden local domestic taxpayers unduly.

9. This adjustment to the safety-net could in principle be [illegible] to any of the four safety net options set out in E(LF)(89)4, in which the first £25-26 of losses feed through.

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10. The Chief Secretary's view is that it would be best to take this new element for the north in conjunction with option 5 - in which the gainers are allowed a fixed percentage of their gains (around 40%). Such proposals (including the new element for the north):

(a) would prevent any losses in the most sensitive areas in the north;

(b) keep losses elsewhere down to £25 per adult, as proposed by the Environment Secretary;

(c) protect chargepayers in inner London from the additional burden of inherited ILEA overspending; and

(d) allow through around 40% of all gains in the first year.

11. The Chief Secretary is not attracted to option 6 in E(LF)(89)4 because the proposed flat-rate contribution of £26:

- turns small losers into big losers;

- turns some gainers into losers;

- provides for a common £26 per adult contribution to the safety-net: that will be wrongly interpreted as an addition to everyone's community charge.

12. Nor would any proposal to top-slice an element of Revenue Support Grant to meet the cost of this £26 flat-rate contribution be helpful: it would

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1) need primary legislation;

2) add significantly to the published community charge for standard spending (CCSS), taking it above £300;

3) add to public expenditure, by tempting authorities to raise their spending to a level consistent with the higher CCSS.

AUTHORITIES WITH DOMESTIC RV PER HEREDITAMENT BELOW £135

	Domestic RV per hereditament	Long-run charge compared to CCSS, 'overspend'(+)/ 'underspend'(-)
	£	£
Burnley	102	-13
Pendle	104	- 2
Wear Valley	112	-41
Hyndburn	112	-16
Barrow in Furness	114	-49
Calderdale	115	+107
Teesdale	115	-49
Easington	116	+16
Kirklees	118	+54
Barnsley	120	-95
Copeland	120	+21
Blackburn	121	-41
Rossendale	122	+ 2
Derwentside	124	+29
Kingston upon Hull	126	+58
Bradford	127	+ 4
Torridge	128	-56
Sedgefield	128	+52
Allerdale	129	+ 7
Eden	130	-16
Bolsover	131	+70
Wansbeck	132	+76
Wakefield	134	+72
York	135	-24
Boothferry	135	-3
Rotherham	135	---