



A

A

PRIME MINISTER

P 03499

RSG SETTLEMENT 1990-91: SAFETY NET AND ILEA SPECIFIC GRANT
 [Minutes from Mr Ridley (dated 5 July) and
 Mr Baker (dated 3 July)]

DECISIONS

E(LF) discussed the safety net briefly on 22 June. Members were invited to put any further thoughts in writing but none has done so. Mr Ridley's minute reflects his further discussions today with you and Mr Major. You may wish to reach decisions on:

See Mr. Ridley's minute at Flag B

i. the new proposals for the safety net. If these are agreed, the next formal step is for the outcome on the whole grant settlement to be reported orally to the public expenditure Cabinet next week, 12 July.

Flag C

ii. specific grant for ILEA. Mr Baker's note gives more details about the grant which E(LF) agreed last time.

iii. legislation. The two new specific grants - for low rateable value authorities and for ILEA - require legislation. There is a procedural question about whether the one for low rateable value authorities can be done in the House of Lords.

iv. announcement. Mr Ridley is likely to want to announce the grant settlement on or around Monday 17 July. Presumably he will also announce the decisions on the safety net at the same time.

NEW SAFETY NET

2. The new arrangements for the safety net which you discussed this morning are as follows.



i. The general safety net would give partial protection to losers in 1990-91, not full protection as originally proposed. Losses of £25 per adult would be allowed to come through.

ii. This protection would be financed by removing 53% of gains in all gaining authorities in 1990-91, allowing them to keep 47% of their gains.

iii. In addition, there would be a new specific grant to give additional protection to low rateable value authorities, mainly in the North (eg Pendle, Rossendale). This would meet their losses of £25 per adult under the safety net, at a cost of about £100m in 1990-91. This would be new money, increasing the AEF total to £23.1 bn. The grant would be phased out over 5 years, with nothing payable by 1995-96.

iv. There would also, as already agreed, be a specific grant for education in inner London, again costing £100m, paid on the basis proposed by Mr Baker.

3. The effects of this package are illustrated in the new (simplified) table attached to Mr Ridley's minute. This shows that most losers will be worse off than under the original safety net, by £25 per adult. But those authorities with the lowest rateable values will see no change in their position because of the new specific grant. Most gainers will be better off, because they will now receive 47% of their gains in 1990-91. But very large gainers (eg Westminster) will be worse off because of the removal of the £75 maximum contribution to the safety net.

4. You will want to invite E(LF) to endorse these agreed proposals and invite Mr Ridley to put in hand the necessary detailed work.



ILEA SPECIFIC GRANT

5. Mr Baker's minute sets out more details of the specific grant proposed in Mr Ridley's earlier paper (E(LF)(89)3) to ease the abolition of the ILEA in 1990-91 and subsequent years. The main features are:

i. the specific grant would be paid for five years from 1990-91 to 1994-95;

ii. £100m would be paid in 1990-91, from within the AEF total. Thereafter the grant would be reduced progressively. Mr Baker gives illustrative figures of £70m, £50m, £20m and £10m for the remaining 4 years;

iii. the grant would be distributed between boroughs on the basis of a stable formula, not as a percentage of spending. The formula requires further work.

6. I understand that Mr Ridley and Mr Major are content with these proposals. E(LF) will probably want to endorse them.

LEGISLATION

7. The new specific grant for low rateable value authorities in the North would require legislation. This would need to be introduced in the Lords by way of amendment to the Local Government and Housing Bill. We understand that this may create difficulties with Parliamentary procedure because the provisions are financial. You may wish to seek the Business Managers' views. (Mr Baker's proposals for the ILEA specific grant would also require legislation, but only in the form of a minor amendment to extend the scope of an existing power: this is not expected to cause difficulties.)

HANDLING

8. You may wish to ask the Secretary of State for the



Environment to introduce the new proposals, followed by the Chief Secretary, Treasury. No other member of the Sub-Committee has taken up the invitation to put forward views in writing although some service Ministers may wish to comment. You will wish to ask the Business Managers about the legislative implications.

A handwritten signature in dark ink, appearing to be 'RTJW.', with a small dot below the 'W'.

R T J WILSON

5 July 1989