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A *copy*



Prime Minister

This has come in late this evening. There will be time to

refine the statement tomorrow evening, but you may want to have a first look this evening.

PRIME MINISTER

(i) Contact with parts (A), (B) + (C) below.

(ii) Any other initial comments on the attached draft?

1990/91 LOCAL AUTHORITY GRANT SETTLEMENT FOR ENGLAND

Rec 1/1

as you requested Rec 6.

It has now been agreed that I should announce our proposals for the 1990/91 grant settlement in an oral statement this Wednesday, 19 July. I attach a draft which sets out the decisions we reached in E(LF).

There are a number of minor outstanding details which I propose to handle in the following way. First, E(LF) invited me to consider with John Wakeham the questions of powers to pay the specific grant we envisage for low RV areas. We wanted to have sufficient scope to respond also to any further problems which may emerge. I have identified two possible legislative routes for achieving what is proposed. I am writing separately to John to seek his views before making a final decision. I have therefore drafted the statement to be open on the point of powers so that we can consider the technical merits of the different options carefully over the next few days.

(A)

We have agreed that the new specific grant to inner London Boroughs should be paid over five years. It is not necessary to announce decisions now on the phasing out of the main safety net and the special arrangement for low RV areas, and I will bring forward proposals in September for announcement in the autumn.

(B)

Finally, I propose to publish on the same day as the statement figures showing what the Community Charge would have been in 1989/90 had the new system been in force. These figures will be based on the rate poundages local authorities actually set in 1989/90 and on the existing system of Grant Related Expenditure Assessments, but they will illustrate how the safety net now proposed would have operated.

(C)

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I am sending copies of this to members of E(LF) and to Sir Robin Butler.

A handwritten signature in dark ink, appearing to be 'N.R.' with a flourish at the end.

N R

17 July 1989

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LOCAL GOVERNMENT FINANCE

1. With permission, Mr Speaker, I should like to make a statement about the Local Authority Grant Settlement for 1990/91 for England.

2. As the House will know, next April sees the introduction of ~~the~~ new Local Government Finance System. The community charge will replace domestic rates, there will be a uniform national business rate, and there will be a new grant system. These reforms bring greater accountability to authorities' spending decisions.

3. In order to give local authorities the maximum time to plan their budgets, I am today announcing the Government's proposals for Aggregate External Finance, that is the amount of support which will be available to local authorities in England from Government grants and business rates. I am also announcing my assessment of Total Standard Spending, and the Community Charge for Standard Spending.

4. First, spending. In the current year, 1989/90, English local authorities have budgeted to spend about £30.3 billion. This is £1.2 billion more than the Government had provided for in the last RSG Settlement. It is £1.9 billion more than the total of Grant Related Expenditure Assessments, the Government's assessment of the amount which authorities needed to spend.

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Spending increased by 9% compared with 1988/89, which is more than the rate of inflation. Over the last four years local authority expenditure has increased by 13% in real terms. This is excessive.

5. Local authorities can make substantial savings, through increased efficiency, through contracting out, and in some cases by eliminating wasteful and unnecessary activities, and by controlling their pay^{roll}/costs.

6. In assessing the amount of revenue spending which is appropriate for 1990/91, known as Total Standard Spending, I have taken account of what can reasonably be afforded, given the need for restraint in public expenditure and the Government's priorities for spending as between different programmes. I have also taken into account the amount authorities are spending now, and the Local Authority Associations' views about the pressures for increased spending next year. My RHF the Minister and I discussed this with them in the Consultative Council on Local Government Finance on 12 July.

7. I propose to base the grant distribution arrangements on the assessment that Total Standard Spending should be £32.8 billion. On a comparable basis, allowing for technical changes such as the ring-fencing of the Housing Revenue Account, this is equivalent to 11% more than the amount the Government assessed authorities needed to spend in the current year, and is £1.2 billion more than they have budgeted for this year.

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8. In the Autumn we shall announce details about the amount of Standard Spending Grant, various other grants and the amount which is likely to be raised from business rates. I propose that the aggregate amount of support which will be available from these sources will be £22.9 billion. In addition, I intend to provide a further £200 million of support for two specific purposes which I shall describe shortly, making a total of £23.1 billion in support of revenue spending. This is £1.8 billion more than in the current year, an increase of 8.5 %.

9. This implies that if local authorities budget to spend in line with our assessment, about £9.9 billion will fall to be raised from community charges. That corresponds to a Community Charge for Standard Spending of about £275. This is the level of charge which, apart from the safety net, each charging authority could set if spending is in line with the Government's Standard Spending Assessment. Actual community charges will, of course, depend on local authorities' own spending decisions: if an authority chooses to spend less than the Government's standard assessment its community charge will be less, and vice versa.

10. The actual charge in each area in the first year will however depend on the transitional arrangements.

11. As the House will know, we have proposed that there should be a four year transitional safety net in order to phase in the impact of the new system. The objective is that people living in areas which have traditionally had low average rate bills will have a period in which to adjust to the greater demands on them.

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I believe it is right that those people should have some protection. But as originally proposed, that protection had to be paid for by the gainers postponing receipt of virtually all their gains.

12. I now think we can get a better balance between the interests of gainers and losers. It is wrong that areas which have suffered under the present unfair system of resource equalisation should have to wait a further year before seeing any relief. Equally, I think it fair that areas which stand ultimately to have higher average bills under the new system should be expected to make some adjustment from the first year.

13. I am therefore now proposing new arrangements so that some gains can come through immediately. To allow this, I propose that "losses" of up to £25 per adult should be allowed to feed through in the first year. This will allow those who gain from the reform of the finance system to see between 40% and 50% of their gain come through to them in the first year, although the precise figure will not be known until the ~~autumn~~ autumn. In this way we can begin to move more quickly towards the position we shall have once the new arrangements are fully in force. As in my earlier proposal, the maximum contribution to the safety net will be £75 per adult.

14. I turn to my proposals for extra protection for certain areas.

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15. There are some authorities where due to the historical accident of low rateable values the adjustment to the full Community Charge is generally greater proportionately than in other areas. The original safety net proposals would have prevented them from paying any increase in the first year beyond their existing rate bill per adult. I do not think we should frustrate their expectations because of my revised proposals for the safety net. I therefore intend to provide extra protection of up to £25 per adult for charging authorities in England where the average domestic rateable value per hereditament is £130 or less and where the introduction of the new system results in a loss. This means there will be no loss to the authorities from the safety net. Authorities with average domestic rateable values per hereditament between £130 and £150 will receive support on a tapering scale. This support will cost roughly £100 million. I will publish in the Official Report a list of authorities which may qualify under these criteria.

16. Secondly, my RHF The Secretary of State for Education and Science has today announced that the Government will be making available a transitional grant to inner London boroughs and to the City which will be taking over education responsibilities from ILEA on 1 April. This grant will be £100 million in 1990/91. It will take some time for the boroughs to eliminate wasteful expenditure inherited from ILEA. This grant will provide transitional protection for their chargepayers while the savings are realised. Both of these proposals will require minor legislative changes, which we will seek to enact in the Local Government and Housing Bill.

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17. Compared to the original proposals for the safety net, these revised arrangements will enable much quicker progress towards the full introduction of the new local Government finance system. A large percentage of the gains will come through to gaining areas immediately. In inner London, where community charges threaten to be highest, the proposed specific grant will help authorities to reduce charges. There will be special protection for areas with low rateable values. And the maximum extra that local councils in any losing authority need impose on their local chargepayers works out at only 50p per week per adult.

18. I am placing in the Library today illustrative charges showing how a safety net on this basis would have operated in 1989/90 had the new system been in force then. These illustrative charges reflect authorities' own 1989/90 spending decisions, and show what the Community Charge might have been in each area.

19. I shall be discussing these proposals with the Local Authority Associations in September. I will bring forward full proposals for the Settlement in the Autumn, including details of the methodology which we propose to use to distribute standard spending grant between authorities.

20. Mr Speaker, under these proposals if local authorities control their spending and improve their efficiency, the average community charge need not be higher than about £275, and could be lower. We recognise the particular problems some authorities face through the change to the new system, and we are providing extra

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help targeted on these areas. But it will be for local authorities to set their budgets, and for community chargepayers to judge whether the amount they are asked to pay is justified.

FLG

17 July 1989

17 APR 1989

CC Q
DM
BI
✓ DC

LOCAL GOVERNMENT FINANCE

1. With permission, Mr Speaker, I should like to make a statement about the Local Authority Grant Settlement for 1990/91 for England.

2. As the House will know, next April sees the introduction of the new Local Government Finance System. The community charge will replace domestic rates, there will be a uniform national business rate, and there will be a new grant system. These reforms bring greater accountability to authorities' spending decisions.

3. In order to give local authorities the maximum time to plan their budgets, I am today announcing the Government's proposals for Aggregate External Finance, that is the amount of support which will be available to local authorities in England from Government grants and business rates. I am also announcing my assessment of Total Standard Spending, and the Community Charge for Standard Spending.

4. In the current year, 1989/90, English local authorities have budgeted for spending of about £30.3 billion. This is £1.2 billion more than the Government had provided for in the last RSG Settlement. It is £1.9 billion more than the total of Grant Related Expenditure Assessments, the Government's assessment of the amount which authorities needed to spend. Local authorities have budgeted to increase spending by 9% compared with 1988/89, which is more than the rate of inflation. Over the last four years local authority expenditure will have increased by 13% in real terms. This is excessive.

5. In assessing the amount of revenue spending which is appropriate for 1990/91, known as Total Standard Spending, I have taken account of what can reasonably be afforded. I have also taken into account the amount authorities are spending now, and the Local Authority Associations' views about the pressures for increased spending next year. My RHF the Minister and I discussed this with them in the Consultative Council on Local Government Finance on 12 July. I have had regard to the continued scope for local authorities to make substantial savings, through controlling their payroll costs, increased efficiency, competitive tendering, and in some cases by eliminating wasteful and unnecessary activities. I understand the value for money improvements now identified by the Audit Commission could be worth more than £900 million annually, and only £350 million of these have been achieved.

6. Under the new system, Total Standard Spending is my assessment of the amount appropriate for authorities to spend in providing services. I propose that this total should be £32.8 billion. On a comparable basis, allowing for technical changes such as the ring-fencing of the Housing Revenue Account, this is £1.2 billion more than authorities have budgeted to spend this year. It is a significant real increase on the amount the Government assessed authorities needed to spend this year.

7. I propose that the aggregate amount of support which will be available from Government grants and business rates will be £22.9 billion. In addition, I intend to provide a further £200 million of support for two specific purposes which I shall describe shortly, making a total for Aggregate External Finance of £23.1 billion in support of revenue spending. This is £1.8 billion more than in the current year, an increase of 8.5 %. I shall announce in the Autumn how the £23.1 billion is to be divided between Standard Spending Grant, the various specific grants, and the amount likely to be raised from business rates.

8. This implies that if local authorities budget to spend in line with our assessment, just under £10 billion will fall to be raised from community charges. That corresponds to a Community Charge for Standard Spending of about £275. This is broadly the same as the existing average rate bill per adult. £275 is the level of charge which, apart from the safety net, each charging

authority could set if spending is in line with the Government's Standard Spending Assessment.

9. The actual charge in each area in the first year will, however, depend on the transitional arrangements, and the level at which local authorities choose to spend.

10. As the House will know, we have proposed that there should be a four year transitional safety net in order to phase in the impact of the new system. The objective is that people living in areas which traditionally have had low rate bills will have a period in which to adjust to the greater demands on them. I believe it is right that those people should have some protection. But as originally proposed, that protection had to be paid for by the gainers postponing receipt of virtually all their gains.

11. I now think we can get a better balance between the interests of gainers and losers. It is wrong that areas which have suffered under the present unfair system of resource equalisation should have to wait a further year before seeing any relief. Equally, I think it fair that areas which stand ultimately to have higher average bills under the new system should be expected to make some adjustment from the first year.

12. I am therefore now proposing new arrangements. In those areas in which chargepayers can expect to see their bills falling, nearly half of the gain will come through immediately.

To allow this, I propose that losses of grant support equivalent to up to £25 per adult should be allowed to feed through in the first year. This will allow those who gain from the reform of the finance system to see between 40% and 50% of their gain come through to them in the first year, although the precise figure will not be known until the autumn. In this way we can begin to move more quickly towards the position we shall have once the new arrangements are fully in force. As in my earlier proposal, the maximum contribution to the safety net will be £75 per adult.

13. I turn to my proposals for extra protection for certain areas.

14. First, there are some authorities where, due to the historical accident of low rateable values, the adjustment to the full Community Charge is generally greater proportionately than in other areas. I therefore intend to provide extra protection of up to £25 per adult for charging authorities in England where the average domestic rateable value per hereditament is £130 or less and where the introduction of the new system results in a loss. This means that in these areas there will be no loss. Authorities with average domestic rateable values per hereditament between £130 and £150 will receive support on a tapering scale. This support will cost roughly £100 million. I will publish in the Official Report a list of authorities which may qualify under these criteria.

15. Second, my RHF The Secretary of State for Education and Science has today announced that the Government will be making available a transitional grant to inner London boroughs and to the City which will be taking over education responsibilities from ILEA on 1 April. The cost of this extra grant will be £100 million in 1990/91. It will take some time for the boroughs to eliminate wasteful expenditure inherited from ILEA. This grant will provide transitional protection for their chargepayers while the savings are realised. Both of these proposals will require minor legislative changes, which we will seek to enact in the Local Government and Housing Bill.

16. Compared to the original proposals for the safety net, these revised arrangements will enable much quicker progress towards the full introduction of the new local government finance system. A large percentage of the gains will come through to gaining areas immediately. In inner London, where community charges threaten to be highest, the proposed specific grant will help authorities to reduce charges. There will be special protection for areas with low rateable values. And the maximum extra that local councils in any losing authority need impose on their local chargepayers works out at only 50p per week per adult.

17. In response to a Parliamentary Question, I am placing in the Library today illustrative charges showing how a safety net on this basis would have operated in 1989/90 had the new system been in force now. These illustrative charges reflect authorities' own 1989/90 spending decisions, and show what the Community Charge

might have been in each area. I have also exemplified the effect of a system of capital value rates and local income tax. Copies of these tables are also available in the Vote Office.

18. I shall be discussing these proposals with the Local Authority Associations in September. I will bring forward full proposals for the Settlement in the Autumn, including details of the methodology which we propose to use to distribute standard spending grant between authorities.

19. Mr Speaker, under these proposals if local authorities control their spending and improve their efficiency, the average community charge need not be higher than about £275, and could be lower. We recognise the particular problems some authorities face through the change to the new system, and we are providing extra help targeted on these areas. But it will be for local authorities to set their budgets, and for community chargepayers to judge whether the amount they are asked to pay is justified.

19 July 1989

AREAS POTENTIALLY BENEFITTING FROM EXTRA PROTECTION

The following is a list of authorities where the average domestic rateable value per hereditament on 1 April 1989 was less than £150

	Domestic rateable value per hereditament (£)

Burnley	103
Pendle	105
Wear Valley	113
Hyndburn	113
Barrow in Furness	115
Teesdale	116
Calderdale	116
Easington	117
Kirklees	119
Barnsley	120
Copeland	121
Blackburn	122
Rossendale	123
Derwentside	125
Kingston upon Hull	127
Bradford	128
Torridge	129
Sedgefield	129
Allerdale	130
Eden	131
Bolsover	132
Wansbeck	133
Rotherham	135
Wakefield	135
Boothferry	136
Berwick-upon-Tweed	136
York	136
Gateshead	136
Sunderland	137
Ashfield	138
Sheffield	138
Carlisle	140
Doncaster	140
East Yorkshire	141
Craven	142
Rochdale	142
Hartlepool	143
South Tyneside	143
Scarborough	144
North Devon	146
Penwith	147
Tameside	147
Kerrier	148
Oldham	148
Leeds	148
Lincoln	149
Mansfield	149

NB These authorities fall within the rateable value criterion for extra protection, but they will only receive help if they would otherwise have a 1990/91 community charge higher than their uprated average rate bill per adult



Paul MR

I put this into the
PM's box.

2 MARSHAM STREET
LONDON SW1P 3EB
01-276 3000

My ref:
Your ref:

Derek
(8/7)

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

18 July 1989

Dear Paul,

LOCAL GOVERNMENT FINANCE

I attach a revised version of the statement which my Secretary of State proposes to make tomorrow. This is subject to any further revisions which Mr Ridley may wish to make overnight.

I am copying this letter and the statement to Private Secretaries to members of E(LF) and to Trevor Woolley (Cabinet Office)

A D Ring
Private Secretary



→ RA

10 DOWNING STREET

PRIME MINISTER

LOCAL AUTHORITY ANNOUNCEMENT

You saw Nick Butler's first
draft of tomorrow's statement
last night (Fly A). You may
like to glance at the latest
version just received (Fly B)
incorporating amendments from
John Neja.

RA 66

18/7



2 MARSHAM STREET
LONDON SW1P 3EB
01-276 3000

My ref:

Your ref:

17 July 1989

Dear Colleague

LOCAL GOVERNMENT FINANCE

I shall shortly be making a Statement about the main elements of my proposals for the Local Authority Grant Settlement for 1990/91. This will be the first Settlement under the new Revenue Support Grant system. I have taken the opportunity to reconsider some of the terms we use for parts of the system, to see if we could make them more comprehensible and less confusing.

At the recent meeting of the Consultative Council on Local Government Finance, I set out for the local authority representatives the new terminology I propose to use. I thought it would be helpful, also, to explain to you the new terms which I will be using from now on. They are as follows:-

Total Standard Spending: The amount of revenue expenditure which the Secretary of State considers it is appropriate for all local authorities in England to incur in the provision of services and in the financing of expenditure.

Standard Spending Assessment: The amount of revenue expenditure, net of specific grants, which it is appropriate for each authority to incur in providing a common level of service consistent with the aggregate figure of Total Standard Spending. The sum of all authorities Standard Spending Assessments is equal to Total Standard Spending less the total of specific grants.

Aggregate External Finance (AEF): The total of support for local authorities' revenue expenditure from central government grants and non-domestic rates. It includes revenue support grant and certain specific grants.

Standard Spending Grant: An informal alternative name for revenue support grant, which makes it clear that the grant is paid only in support of expenditure up to the level of the Standard Spending Assessment.

Community Charge for Standard Spending (CCSS): The community charge which each charging authority could set if all authorities in their area spend at the level of their Standard Spending Assessment.

NICHOLAS RIDLEY

Nicholas Ridley
Andrew Rosen

17 JUL 1969



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2 MARSHAM STREET
LONDON SW1P 3EB
01-276 3000

My ref:

Your ref:

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

14 July 1989

Dear Paul

LOCAL GOVERNMENT FINANCE: THE JULY ANNOUNCEMENT

You asked for a note setting out my Secretary of State's views on the timing of the July announcement about the Local Authority Grant Settlement for 1990/91.

My Secretary of State's view is that the most appropriate timing for the announcement would be the week beginning Monday 24 July, which would allow a reasonable interval after his meeting this week with the local authority associations in the Consultative Council on Local Government Finance. Clearly, however, it would be unwise to leave the statement too close to the end of that week, since otherwise the Government would lay itself open to accusations of seeking to slip the announcement out just before the House rises, which of course would not be the intention. He therefore considers that the most sensible time to make the announcement would be in the early part of that week. He has discussed this informally with the Lord President, and they have agreed that Tuesday 25 July looks to be the most appropriate date for the announcement.

He would be grateful to know whether the Prime Minister is content for him to make the announcement on this timescale.

I am copying this to Steve Catling (Lord President's office) and to Murdo MacLean (Chief Whip's office).

R Bright
Roger

R BRIGHT
Private Secretary

cel



NBRM

*RRG
13/7*

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Nicholas Ridley AMICE MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
London
SW1P 3EB

12th July 1989

Dear Nick,

at flat

1989 GRANT SETTLEMENT

Thank you for sending me a copy of your minute of 5 July to the Prime Minister in which you recommended the use of the term "Standard Spending Grant" as an alternative to Revenue Support Grant for the purpose of speeches etc.

As you say, the statutory term remains Revenue Support Grant, which we will be using in the Autumn Statement and the Public Expenditure White Paper, as well as in the documents you mention. However, I am quite happy for you to use the term "Standard Spending Grant" in speeches and other presentations.

I am copying this letter to the Prime Minister, and to other members of E(LF).

*Yours Ever,
John*

JOHN MAJOR