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11 September 1989

*Dear David,*

COMMUNITY CHARGES: STANDARD SPENDING ASSESSMENTS

Thank you for your letter of 21 August setting out your proposals for the new standard spending assessments methodology.

I am content with the overall framework proposed and with an identifiable control total for under 5s and the principle of an area cost adjustment based on wider labour market evidence.

The proposal for the 24% AEN option will still leave a substantial gap between the assessment and likely education spending in inner London. I believe, however, that the interim protection given to chargepayers through the transitional grant and safety net arrangements makes this a defensible approach, not least because we must also ensure that our decisions will be seen as fair across the country as a whole.

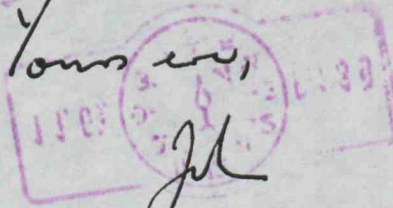
I would like to consider the issue of capital financing further over the next few days, but subject to comments from other colleagues, I am content for you to use the methodology you suggest for the purpose of current exemplifications.

There are two further items of detail that concern me. The first is that I attach importance to the adoption of the simplified sparsity index enhanced by 50%. There was no mention of this in your annex but I understand that you intend to adopt it. Secondly I am concerned that the area cost adjustment appears to be spreading ever further from London. This has the dual effect of diluting the adjustment in existing areas and increasing the demand for such adjustments in other areas. I think colleagues may want to consider carefully whether a further extension is really necessary.

In summary I am content with your proposals subject to the caveats set out above. I think, however, that we shall need to keep all aspects of the assessment under close review, and would like to leave open the possibility of taking a final look at the SSAs if necessary once the other decisions you refer to are firmed up.

I am copying this letter to all members of E(LG) and to Sir Robin Butler.

*Yours ever,*  
*JH*



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