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PHASING OUT OF TRANSITIONAL GRANTS

Roger Bright's letter of 10 October. *flap.*

It is not clear exactly how far "preliminary decisions" now have to go, but it seems beyond doubt to me that the Prime Minister will be best served by leaving as many options as possible open for 1991 and 1992. I sense some very awkward choices hidden in the figures and ideas we have been given.

ILEA TRANSITIONAL GRANT

The DOE paper implies, without spelling out precise effects, a considerable impact on some inner London boroughs as this grant runs down alongside the safety net. We should therefore be cautious, at this stage, at looking at the one in isolation from the other.

Wandsworth, for example, is quite convinced that inherited ILEA costs can be reduced, but they are not confident that, even with the best will in the world, they can be reduced quickly. The main savings will come from closure of schools to rationalise the building stock. This is always difficult (as I can testify from repeated attempts by parents to thwart such rationalisation in my own borough, Merton) with much potential for conflict with other important policy objectives such as parental choice. Being realistic, Wandsworth think it is very unlikely that sufficient progress can be made on this in 1990/91 to have a major effect on their 1991/2 budget.

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But the profile for the ILEA grant envisages a reduction of 30% in 1991/2. There is thus a strong likelihood of this, if unchanged, imposing a significant additional burden in April 1991 just when the safety net is also starting to run down.

It therefore seems premature to accept para 4 of DOE's paper that phasing out the ILEA grant should be decided in isolation from the safety net. It would be much more prudent to have the cushion of higher profile figures for 1991/2 and 1992/3 in the PE White Paper, just in case, and take a final decision on the precise profiling this time next year in the light of events.

#### AREA SAFETY NET

Exactly the same considerations apply. For White Paper purposes, we now have a public statement of the overall 3year profile from 1991/2. But we should leave open for now how best to achieve the profile figures until we've had the chance to assess the impact of the Community Charge.

Again taking Wandsworth as an example, the "£25 or 25%" approach would alone mean an increase of about 18% in April 1991 over the 1990 charge. This is because it is a major beneficiary from the safety net in year 1. This is before any adverse further impact from reducing the ILEA grant, or any inflation uplift. We must not get boxed in by settling details too soon.

#### TRANSITIONAL RELIEF

On this I am simply unclear at this stage how the scheme

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would work in year 2. Would it, for example, be based still on this year's rates bills, or on next year's community charge for the purposes of the £3 ceiling on increases?

It has now been said publicly that the scheme will last for 3 years, with details for years 2 and 3 to be announced 'later', so I am unsure what is meant by the last paragraph of Roger Bright's letter. I cannot see the urgency, given that the scheme is to be based simply on a general power in the Bill, and given the need to concentrate on making it work for 1991. Moreover, we don't yet even know the real shape of Scottish and Welsh schemes for 1991.

So unless DOE and the Treasury have very pressing reasons to the contrary, I would recommend putting this aspect to one side for the moment so as to leave options open. That would tie in with the Prime Minister's own sentiments in the recent E(LG).

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