



MR GRAY

P 03549

COMMUNITY CHARGE: STANDARD SPENDING ASSESSMENTS

You asked for advice on the Secretary of State for the Environment's minute of 10 October about Standard Spending Assessments (SSAs).

BACKGROUND

2. Standard Spending Assessments replace the old GREs (grant-related expenditure assessments) and are the "needs assessments" under the new grant system. They are the last major element of the local government finance settlement for 1990/91 on which decisions are needed before consultation can begin in early November.

DECISIONS

3. Two sorts of decisions are needed to produce Standard Spending Assessments:

i. the split of Total Standing Spending (TSS) between services. The Chief Secretary wrote to colleagues about this on 14 September. His proposals divided TSS between services pro rata to 1989/90 budgets, except in the case of the police service (where additional resources were provided to cover increases in police manpower and pay) and education (where extra money was provided to cover the remit to the Interim Advisory Committee on pay). Colleagues responsible for the main services have all accepted these proposals, albeit reluctantly.

ii. the methodology for distributing the total for each service between authorities. The Minister for Local Government wrote to colleagues with proposals on 21 August.



After some correspondence, agreement has now been reached on most issues. But there are two outstanding points, which concern capital receipts and education.

OUTSTANDING POINTS

Treatment of capital receipts

4. SSAs need to include an assessment of the revenue costs of financing capital expenditure (eg interest and capital repayments on loans). This element needs to take account of the income available from interest on capital receipts. DOE Ministers proposed a simple treatment under which such interest would be assumed to be available to reduce financing costs on a pro rata basis for all authorities. But the Secretaries of State for Education and Transport felt that this approach might penalise shire county authorities whose assets (eg schools, roads and bridges) are less easy to sell than those of district authorities.

5. These Ministers therefore favoured taking some account of the actual availability of capital receipts at the level of individual authorities. DOE Ministers did not find this option acceptable, because it could remove much of the financial incentive for authorities to sell surplus assets and realise receipts. But since Mr Patten's minute, officials have held further talks and have identified an alternative approach which may be acceptable to all three Departments. This would take account of the average availability of receipts to classes of authorities (eg counties and districts) but not to individual authorities. This would avoid penalising education and highway authorities with fewer saleable assets, without removing the incentive for individual authorities to realise receipts.

Education: weighting on AEN

6. Mr Patten has adopted a weighting for Additional Educational Need which results in 24% of the education SSA being distributed in accordance with this indicator. This was the minimum level



which the previous Secretary of State for Education believed to be acceptable, because of the position of inner London boroughs taking over education for the ILEA in 1990/91. I understand that Mr MacGregor is still considering this. If he wished to adopt a somewhat lower weighting (eg 21%) this would probably be acceptable to DOE Ministers. But he may simply accept Mr Patten's proposal.

EFFECTS ON COMMUNITY CHARGES

7. The table attached to Mr Patten's minute illustrates the effect of the SSAs on community charges. The key columns are:

- i. column 3 which shows average rate bills in 1989/90, uprated by 4%;
- ii. column 4 which shows 1990/91 community charges for spending 3.8% above 1989/90 budgets, after the operation of the area safety net. In this column the effect of the SSA decisions is masked for many authorities by the operation of the safety net;
- iii. column 5 which shows 1990/91 community charges on the same spending assumption, but without the safety net. This column gives an idea of the long-run community charges, and shows the full effect of the decisions on SSAs.

8. The figures for safety-netted and long-run charges appear to be broadly similar to those which Ministers have seen at earlier stages (for instance, in the tables attached to Mr Patten's letter of 6 September). But the Prime Minister will wish to be sure that she is content with the effect of the package before it goes to consultation.



CONCLUSION

9. If the Prime Minister agrees, you might write to Mr Patten's private secretary in the terms of the attached draft.

RTW.

R T J WILSON

13 October 1989

CONFIDENTIAL

DRAFT LETTER FOR MR GRAY TO SEND TO ROGER BRIGHT, PS, SECRETARY OF STATE FOR THE ENVIRONMENT

COMMUNITY CHARGE: STANDARD SPENDING ASSESSMENTS

The Prime Minister ~~has seen~~ your Secretary of State's minute of 10 October.

On capital receipts, ^{she} ~~the Prime Minister~~ hopes that the Ministers concerned will be able to reach agreement on a treatment which is both fair and maintains the incentive for authorities to dispose of surplus assets. She is content with the remaining proposals, subject to the views of other colleagues.

I am copying this letter to the Private Secretaries to other members of E(LG) and to Sir Robin Butler.

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