CONFIDENTIAL

cc P.U.

SECRETARY OF STATE FOR THE ENVIRONMENT

PRIME MINISTER

LOCAL GOVERNMENT FINANCE

You may care to know where matters stand now that we are approaching the last phase of Community Charge implementation and have completed consultation on the Revenue Support Grant Settlement.

Returns from Registration Officers show that the majority of authorities have reported figures within 5% of our estimate for each area, and the total for all authorities is almost exactly the same as our estimate. Although some of the figures are less than perfect (because, for example, the certification and registration of students have not been completed) it is clear that in general the registration process has been satisfactorily completed. The anti-registration campaigns have had very little effect.

Our general impression is that most authorities are making pretty good progress in their final preparations. The Transitional Relief Scheme has caused some difficulties in some areas, but our proposal to pay 25% of revenue support grant in the first two months of the financial year should give authorities a short period of grace to avoid any difficulties over cashflow. I am grateful to Treasury colleagues for agreeing to this arrangement.

A three-week information campaign about rebates and transitional relief will be launched on 4 January using television, radio and the press. There is some unjustified criticism that the campaign is an attempt to "sell" the community charge; in fact all the material which will be used has been scrupulously vetted. We are confident that it should be effective in encouraging those eligible to take the necessary steps to reduce their community charge liabilities.

There has been a big response to our consultation proposals for the grant settlement. As well as changing the basis of local finance from rates to the Community Charge, we are introducing next year a new system of Standard Spending Assessments to replace GREs, and moving to the national non-domestic rate. There has been concern among many of our own Members about different aspects of these proposals. David Hunt and Christopher Chope have so far seen about 40 delegations and I have seen some myself. Although consultation has now closed David is continuing to speak to many of our Members to ensure that they understand the proposals correctly.

We have always known there would be concern among members with Northern constituencies, where rateable values have been traditionally lower than average, about the switch to the Charge and the ending of resource equalisation. The Transitional Relief Scheme and the Special Grant for areas with low rateable values have gone a little way towards alleviating these fears. Other members have been concerned about the SSA methodology. Our proposals represent a slight shift to London and the South East. Colleagues from areas such as Lincolnshire and Warwickshire have been concerned about this. Their authorities have fared relatively worse than others in the change, and they are worried that when measured against the new yardstick the authorities will be seen in future to be less prudent than in the past. Moreover, this will be reflected in Community Charges in these areas.

All these discussions about the distribution of grant are taking place within last July's announcement which implied that external support for local authorities will increase by 8.5% over this year. We have also said that local authorities in total need not increase their spending by more than 3.8% over their budgets for this year. We have been obliged to publish illustrative charges showing what the effect of an increase of this size would be for individual authorities. These figures have been widely attacked as being unrealistic. Many Treasurers are putting about community charge figures which suggest spending increases of 10-20%, and the local authority associations have suggested that average charges will be not £278 but £340 or £350.

David Hunt and I are doing - and will continue to do - all we can to get across the message that spending increases of this scale are simply not justified. Nevertheless, I am afraid even many of our own supporters in prudent local authorities do not believe they can limit spending increases to 3.8% and fear that they will be blamed for setting charges significantly above our illustrative figures. If charges do turn out at the sort of levels being suggested by the associations it would add 1% to the RPI next Spring, and many individuals would face actual increases of £4 to £5 a week despite our Transitional Relief Scheme. So it is all the more important that we press home the arguments against excessive spending increases.

On present plans, I shall be signing the formal Reports later this week, and they will be laid before the House (and published) when we return in January - possibly on Thursday, January 11. It is a matter for the Business Managers, but I would hope we could debate the Reports the following week. I know that a number of our Members have expressed doubt about whether they will be able to support our proposals; what is difficult to guage is whether the hostility is greater than at a similar stage in past discussions of grant distribution. The combination of the Community Charge and the move from GREs to SSAs within a pretty challenging grant Settlement may have inflated the hostility beyond recently experienced levels. We shall obviously all have to work very hard in the New Year to rally any waverers.

CONFIDENTIAL

SECRETARY OF STATE FOR THE ENVIRONMENT

I am going to see the Executive of the 1922 Committee once again tomorrow evening to discuss all these issues.

I am sending copies of this to Geoffrey Howe, Kenneth Baker, John Major, Norman Lamont and Timothy Renton.

CP

18.12.89

18.12. PM 89