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Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Christopher Patten MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
London
SW1P 3EB

20 December 1989

Dear Chris

LOCAL GOVERNMENT FINANCE

Thank you for copying to me your minute of 18 December to the Prime Minister. It is encouraging to have confirmation that local authorities are making good progress in their preparations for the introduction of the community charge. I am sure the decision to front load grant payments next year will help to ease any cash flow problems for them, if there are still residual difficulties in sending out community charge demand notices.

2. I have read the report of the consultation procedures on the grant settlement for England next year. I appreciate that it is difficult to gauge the overall response. I thought it might be helpful therefore to let you have my own views.

3. We need of course to bear in mind that there is always quite strong disquiet about the RSG settlement at this time of year. It is customary for local councils' first draft budgets (or bid figures) to involve substantial increases in proposed expenditure. Councils then draw the 'horrendous' community charge/rating implications of such budgets to the attention of their local MP and encourage him to lobby for improved treatment. Inevitably there is bound to be more activity this year when the system is changing. It is only when those representations are rejected that local councils reconsider whether the budget might be cut back and the revised plans financed in a different way - for example by more use of revenue balances. As you have said, we need to reinforce and encourage that process this year.

4. The high CC figures of £340-£350 which you mention need to be seen in this light. They are of course well above the published £278 for the CCSS - but that was, in turn, well below our central view of likely actual CCs. It is of course that realistic estimate of CCs which has already been taken into account in the RPI forecast in the Autumn Statement. Most of the increase would have occurred anyway, even without the CC, as a result of

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increases in rates. So there is no question of the very high figures quoted in your minute adding a further 1 per cent to the RPI forecast we have already published.

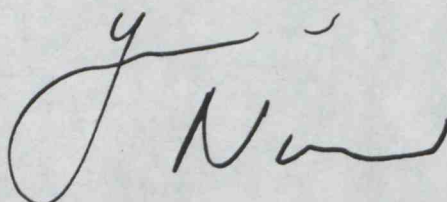
5. Secondly in 1990-91 there is a massive number of complex interacting changes to local authority current finance being introduced. It would be quite extraordinary if a relatively large number of local authorities did not lose from the redistribution of grant resources (which inevitably results from the decisions to make changes in the assessment of relative needs underlying the Standard Spending Assessments) and if these losers were not vociferous in their concern. Indeed it is the shift in the pattern of grant between authorities as a result of the new SSAs rather than the introduction of the community charge per se, which has generated much of the concern. The vast bulk of local councils will have hoped to see some long-held grievance or other about their needs assessment redressed in the new SSA and a grant distribution more to their liking introduced. Within this zero sum game, inevitably there has to be disappointment as well as satisfaction.

6. In the light of this, there is bound to be a considerable degree of disquiet this year - just as we saw at the last major change in the local government finance in 1986-87. (I think there were at least a dozen or so backbenchers who failed to support the RSG settlement then.) So we must be prepared for a similar degree of dissension with this settlement; and I very much welcome and support the efforts you and David Hunt are making to keep that number as low as possible.

7. Finally, you are right to emphasise that the causes of concern about the grant settlement are very diverse. They are by no means capable of resolution by belated tinkering with our existing grant proposals - even if, within the tight RSG timetable, there were time for substantive changes to our plans. Any attempt to tinker further with the settlement at this stage would in my view be counter-productive, since it would very seriously damage the credibility of the whole community charge policy. We recognised this danger in October, when we decided to introduce transitional relief and to fund the safety net from April 1991. As you will recall, that is why we agreed then that package must be the final one, as you have emphasised. We should therefore respond to the threats of spending increases of the order of 10%-20% quoted in your minute by applying the full rigour of the new policy - including our policy on community charge capping.

8. I therefore strongly support your view that the task must be to stand our ground and rally the waverers.

9. I am copying this letter to the Prime Minister, Geoffrey Howe, Ken Baker, John Major and Tim Renton.



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