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a. / economic / 1990-91

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cc PC.

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

4 January 1990

Dear Rose,

1990-91 LOCAL AUTHORITY GRANT SETTLEMENT

The Prime Minister held a meeting this afternoon to discuss your Secretary of State's minute of 3 January. Those present were the Lord President, the Chancellor of the Exchequer, your Secretary of State, the Chief Secretary, the Chief Whip, the Minister for Local Government and Mr. John Mills (Policy Unit).

I should be grateful if you and copy recipients would ensure that no further copies of this letter are taken and that it is seen only by named individuals.

Opening the discussion the Chief Whip said that there was no significant change in the assessment he had given before Christmas that some 83 Conservative backbenchers might withhold their support in the votes later this month on the Statutory Reports determining the Revenue Support Grant settlement for 1990-91. But this could only be an approximate assessment; some colleagues might be persuaded to give their support, but others who had not been contacted in the pre-Christmas exercise might join the dissenters. The fact that the votes later this month would also cover the national non-domestic rate could make it more difficult to persuade members in south-east constituencies to support the package. The present number of backbenchers threatening to withhold their support was too high for comfort and there could certainly be no guarantee of carrying the votes. He disagreed with the view the Chief Secretary had put forward that the present position was little different from earlier RSG debates; this year's problem was greater.

In further discussion the following main points were made:

- (i) it was clear from your Secretary of State's minute that there was no single problem, but rather a complex of different concerns. Action taken to ease one aspect could lead to others being worsened. Any action that involved the need for a new consultation procedure with local authorities was likely to lead to new classes of loser being created. There was therefore no simple way of injecting a modest amount of additional Exchequer resources which would remove the differing concerns felt by backbenchers;

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- (ii) it was for consideration whether, in the changeover from GREs to SSAs, mistakes had been made in the earlier decisions on grant distribution. But this was not felt to be the case, even though SSAs were not as simple an approach that had originally been envisaged and did provide extra resources for educational needs in inner cities. The principal problems were that authorities who had financed over-spending in earlier years from running down balances were now arguing that they had no option but to increase community charges; and many authorities felt they could make large increases in spending in 1990-91 and blame the first year community charge consequences on the Government. Compared with 1989-90 budgets some authorities were planning spending increases of 19 per cent or more. It was essential for the Government to highlight these figures, while at the same time carefully considering whether particular authorities did face genuine problems in the change-over to the new system;
- (iii) last year's local authority settlement had been extremely generous, but it had led to substantial increases in authorities' spending. For 1990-91 total government support had been increased by £3.7 billion, in addition to which an extra £700 million grants had subsequently been agreed and some £500 million provision had been earmarked to cover new community charge rebates. As your Secretary of State's minute brought out, the figure for "Total Standard Spending" was 11 per cent above the equivalent for this year; this meant there was no reasonable basis for the protests from local authorities about the settlement;
- (iv) such protests were clear evidence that local authorities were becoming aware that the community charge system would, as had been intended, increase their accountability to charge-payers. It was important for the Government to emphasise the accountability advantage and to ensure that charge-payers were aware of the large spending increases authorities were planning; and of the 11 per cent increase in "Total Standard Spending" and 8½ per cent increase in Government grant. A higher profile attempt to get these points over to the public and to backbenchers would be highly desirable over the next few weeks; it was important for the facts to be explained simply and for misleading figures put out by local authorities to be challenged. Other information to get over included the fact that some responsible authorities had traditionally spent below their GREs; and the spending levels the Government judged reasonable for high spending authorities should be spelt out. There might also be presentational advantage in highlighting the consequences of a domestic rating revaluation had the community charge system not been introduced;

- (v) it would be necessary for the Chief Whip to organise a further, if possible more precise, assessment of voting intentions in the light of the impact of the Government's efforts to put over the arguments just discussed;
- (vi) there would be very great difficulties in seeking to find additional public expenditure resources to ease further the grant settlement. There could be no question of finding a figure of £500 million. And any scheme of extra assistance could well lead to local authorities raising their spending plans. Of the options set out in paragraph 11 of your Secretary of State's minute, no advantage was seen in (iv), involving extra protection under the transitional relief scheme, because this would involve no consequential reduction in the RPI. Option (i), involving a new grant for collection costs, had the advantage of providing some assistance to all authorities, but the serious disadvantage that assistance would be too thinly spread and therefore insufficiently targeted on the problem areas. Option (ii), involving extra finance for the safety-net in 1990-91, would carry the major disadvantage of encouraging people to think that a similar concession would be made in relation to the NNDR. Option (iii), special help for authorities losing significantly from the switch to SSAs, might be the most attractive of the options. But further work was required to see whether it could be more precisely targeted on the key problems, and it would also be necessary to consider what, if any, spending implications there would be after 1990-91;
- (vii) further consideration was needed of the timetable for the Parliamentary handling of the Statutory Reports. One option would be to hold to the original intention of laying down on 11 January and having the debate and votes on 18 January. Two alternatives would be, first to lay the reports on 11 January but defer the debate until 25 January; and second to defer laying the reports until 18 January and have the debate on 25 January.

Summing up the discussion, the Prime Minister said it was agreed that maximum efforts should be made in the next couple of weeks to put over to the public and backbenchers as effectively as possible the case for the existing grant settlement. There was a strong case on merits, and particular attention should be given to the large increases provided for Total Standard Spending and grant; the excessive spending increases proposed by some local authorities; and the accountability advantages brought about by the community charge system. Every effort should be made to put these arguments in simple language, and other colleagues should lend maximum support to your Secretary of State and the Minister for Local Government.

Continuing, the Prime Minister said that the group saw major difficulty in introducing a further package of Government assistance. But further work should be done on the lines indicated in the discussion on options (i)-(iii) set out in your Secretary of State's minute; the group were presently minded to think that option (iii) was the best of these. This work should be carried out under tight security, and no hint should be given of the possibility of further assistance. The group would need to consider further whether a modest package of extra assistance was required, in the light of the success achieved in putting over the case for the present grant settlement and of an updated assessment by the Chief Whip of voting intentions on the Statutory Reports. Meantime, your Secretary of State, in conjunction with the Lord President and the Chief Whip, should consider further the Parliamentary timetable and other arrangements for laying and debating the Reports.

I am sending copies of this letter to the Private Secretaries of those Ministers attending and to Sir Robin Butler.

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Minister.

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Yan.
Paul

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