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PRIME MINISTER

LOCAL AUTHORITY EXPENDITURE AND AEF 1991-92

As you know, the meeting of E(LG) this afternoon is at a time when - particularly in view of yesterday's events - I need to be on the Front Bench for Kenneth Clarke's statement. I hope to be able to get back for part of the E(LG) discussion. But in case this proves impossible I thought I should set out the main point I would have wished to make at the meeting.

I am glad that Chris Patten and Norman Lamont have reached agreement on figures for AEF and TSS; and I hope that colleagues will endorse their recommendations. But in doing so, we need to bear in mind that we are by no means yet home and dry with an average Community Charge of under £400 next Spring. The paper brings out clearly some of the factors which will influence local authorities' actual spending decisions. Since capping, however widespread, takes effect by reducing Community Charge bills after they have been set at unacceptably high levels, it will be all the more important in presenting our decisions, and in speaking on the Community Charge between now and the late Autumn to create a climate in which we maximise the chances that the local authorities will indeed behave reasonably when setting their budgets. Paragraph 11 of the Paper reminds us how badly local authorities' spending in aggregate this year has overshot our expectations this time a year ago, leading to an average charge of £363 compared with the £278 figure to which we gave great publicity. If the local authorities were to exceed our current expectations by a similar margin in 1991/92, we could be looking at an average Community Charge of £485, before capping. Of course, there is no reason to expect that local authorities will

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for a second year overshoot our expectations by a similar margin; and this is the whole point of a generous settlement for TSS (7% over authorities' current year budget, as against last year's settlement for TSS which was 3.8% above local authorities' budgets at the time).

In short, while we cannot be sure at this stage what local authorities' 1991-92 budgets will total, we need to bear in mind that even accepting the recommendations that Chris Patten and Norman Lamont have made, we are hoping that local authorities will on average increase their spending by 7% over the current year, half the increase that the current year's spending represents over 1989-90 - this against a headline rate of inflation which is higher than a year ago. If the settlement is to have the effect we all hope for on next year's Community Charge levels, we will need to sell it positively and sensitively.

I am copying this minute to other members of E(LG) and to Sir Robin Butler.

*N. Butler*

GH

*(Approved by the Lord Presidents and signed  
in his absence)*

4 July 1990