

PRIME MINISTER

LOCAL AUTHORITY EXPENDITURE: DISTRIBUTION OF TOTAL STANDARD SPENDING (TSS)

I attach two notes from Policy Unit on detailed but important technical aspects of this year's local government financial settlement.

Note A (and background minutes) considers the distribution of the agreed Total Standard Spending (TSS), for England between different services - eg education, personal social services, etc. TSS is what the Government believes local councils need to spend to provide a standard service.

Note B considers the distribution of Standard Spending Assessments (SSAs) for each local council. The sum of SSAs is equal to TSS. (Each council's SSA is determined by the application of formulas: these give spending weights to different factors by service, eg more spending according to number of schoolchildren, age of school buildings etc for education.)

The decisions on the distribution of TSS between services (note A) and consideration of SSA formulas (note B) determines the allocation of grant between individual local councils - and therefore the pattern of community charges.

Background

Before considering the specific proposals, there are a number of points to be borne in mind.

- i) Both exercises are in the nature of a zero sum game. The £39 billion total for TSS in 1991-92 has already been fixed. It follows that more for one service, eg education, is at the cost of another, eg personal social services. The same applies to SSAs. A gain, for one group of councils, eg rural districts, means a loss for another, eg inner city boroughs.

- ii) Neither exercise is a precise science. It is difficult to allocate the TSS between services according to sensible criteria. It is even worse trying to set precise weights on factors like the age of school buildings or the number of tourists in a particular area. Both exercises involve essentially a political compromise.
- iii) The Government is committed to a review of SSAs. There are long-standing complaints about some formulae: and views are bound to differ on the relative importance of factors like number of tourist nights. But the Government cannot afford to concede more weight to one factor, or include a new factor, without bearing in mind the loss for other areas. In practice, this constrains how far the distribution can be changed in one year.

Proposals

The proposals set out by the Environment Secretary (Flag A) and the Chief Secretary (Flag B) need to be seen against that background.

- i) On A - service distribution of TSS - all Ministers have accepted a compromise option, albeit with considerable reluctance in the case of Mr MacGregor.
- ii) On B - the distribution of SSAs - I understand no Minister has raised objections to the DoE proposals.

John Mills' note (Policy Unit) suggests you might propose a different option on (A) - the service distribution of TSS. This would benefit the other services group, at the cost of education. He has also pointed out this would be a particular help to the Shire districts.

You will wish to consider whether to make the case for such a change. John Mills is right to indicate that the proposed service distribution takes spending need (and thus grant) away

from shire districts. But the effect of proposals on SSAs is the reverse - it makes more grant available to the shire districts. And the balance of the two effects on services and SSAs is to give more to the shires.

Given other Ministers agreement on both the service distribution and the SSA proposals, and that shire districts are net gainers, you may not wish to challenge the proposed settlement.

- i) Content to accept the proposals on the split of TSS between services and the distribution of SSAs? or Yes ms
- ii) Prefer to suggest a different distribution between services as proposed by Policy Unit?

BHP

BARRY H POTTER

28 September 1990

a:\TSS (MRM)

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B

PRIME MINISTER

28 September 1990

STANDARD SPENDING ASSESSMENTS FOR 1991-2

Chris Patten is seeking colleagues' views on a number of changes to the way next year's SSAs are calculated. This results from his undertaking last January to review them in the light of any 'new evidence'. This was intended at the time to help head off the severe criticism of the SSAs which was then emerging.

There is some cynicism in local government about this exercise. The simple question is, therefore, whether the changes proposed are sufficient to give credibility to the review?

On balance the answer to this is yes - just. Privately, local authorities recognise that, within a fixed cake, changes in favour of one group such as counties inevitably act in reverse on other groups, such as districts. So minimal change, based strictly on 'new' evidence, can be defended.

The five changes include:

- two wholly new points (items (iii) and (iv));
- a technical change to meet new policy (v);
- one bonus for counties (i) and one for districts (ii).

One other, more significant new point on treatment of interest receipts was not pursued since it would have benefited counties disproportionately. (They suggested it, of course!)

The average impact of the changes proposed is fairly marginal: a transfer of £2 per adult from metropolitan to shire areas. (Barnet, for example, loses just that). Inner London, however, loses £10 per adult, with as much as £25 in Tower Hamlets. Wandsworth loses £10 per adult and Westminster £12. These are high enough to warrant some

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concern, and will inevitably give rise to strong representations.

If one adopts the Chief Secretary's Option I for distributing TSS (see my separate note) there is a further slight shift of £2 per adult within the shire areas, from counties to districts.

Conclusion and Recommendation

Any change in the way SSAs are made up will produce winners and losers. What is proposed here is about the least that can be done to make the review credible. Despite Inner London, the overall modest shift in favour of shire areas seems probably the right way to tip the balance.

I recommend therefore that you endorse the proposals as a basis for consultation with local authorities.

John Mills
JOHN MILLS

28 September 1990

1991-2 LOCAL AUTHORITY SPENDING: DISTRIBUTION OF TOTAL STANDARD
SPENDING BETWEEN SERVICES

Total Standard Spending (TSS) is what the Government judges local authorities need to spend to provide a standard level of service. On it is also based the crucial figure for community charge at standard spending (this year's infamous £278).

It was agreed in July that 1991-2 TSS should be £39 billion, 7.1% above this year's local authority revenue budgets.

A decision is needed on how to split this among the six service blocks:

education	fire and civil defence
social services	highway maintenance
police	other services

This governs the way grant is then distributed to each authority. The split itself has no public expenditure implications.

There are various ways of making the split. Departments naturally favour the approach from which they do best and so Norman Lamont has proposed a compromise half-way between the two main options which have been discussed.

This compromise is Option II in his letter of 21 September.

The sensitivities of this exercise are obvious. But while Option II has obvious merits as a compromise, it does give rise to one important difficulty. This is the amount allocated to "other services".

This is, in effect, what district councils spend. It covers politically sensitive areas such as

- food safety;
- litter and environmental services;
- community charge administration

There is added relevance this year because of next May's district council elections.

Option II means that the % increase over 1990/91 budgets for 'other services' will be significantly less than for all the other service blocks: 4.3% against a range of 6.8-8.8% for the others.

This will be very controversial indeed in the shire districts. They will accuse the Government of singling them out for harsh treatment despite the importance which the Government keeps on saying it attaches to the services in question. It seems well worth trying to avoid such a row.

Option I, on the other hand, while still requiring a tough, below-inflation settlement for 'other services', would at least keep it (at 5.5% over budgets) on a par with some of the other service blocks. This means that district councils at least will not be able to argue that they have been singled out, and it will help the Government's credibility on key policies such as food safety and litter.

The drawback of Option I as it stands is however that it does mean marginally less for education: £25m out of £17.5bn. John MacGregor has already written round to say he cannot accept anything less than Option II.

But it would be possible to alleviate this by modest transfers from, say, fire and highway maintenance. The important point is to get the percentage increases for each block akin to each other to avoid a needless row with the districts.

Recommendation

Express a preference for Norman Lamont's Option I so that the % increase over this year's budget for 'other services' is not lower than the others. Recognise that this would have a small impact on

education, and suggest that this might be alleviated by a slight
lightening in the other blocks - notably fire and highway
maintenance.

John Mills
JOHN MILLS