

Prime Minister

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You saw the earlier version of
the RSG statement. This takes on
board comments from colleagues.

Princial changes need to be made
by 2 p.m. tomorrow.

Barry Potter Esq
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The Prime Minister
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BHP

29/10

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My ref:

Your ref:

29 October 1990

Dear Barry

AUTUMN ANNOUNCEMENT

I undertook to send you the latest draft of the Secretary of State's
autumn announcement. The attached takes into account responses from
other Government departments to the draft sent to you by Phillip
Ward on 26 October.

I should be grateful if you could let us have comments tomorrow
morning so as to allow time for the major logistical exercise of
copying and collating the statement and other material in sufficient
quantities for MPs and others.

Yours sincerely

Richard Shaw

RICHARD SHAW
Private Secretary

LOCAL GOVERNMENT FINANCE - ENGLAND

1. With permission, Mr Speaker, I should like to make a statement about the Local Authority Financial Settlement for England for 1991/92. I apologise for its length.

Introduction

2. I announced the Government's broad proposals in July including an increase of nearly 13% in the amount of grant and business rates to be paid to local authorities in 1991/2. I have today sent the local authority associations a consultation paper setting out the proposed distribution between authorities. Copies have been sent to authorities, and are also in the Vote Office and Library.

Aggregate External Finance

3. I confirm that we propose to give English local authorities £26.050 billion of aggregate external finance, that is the total of certain specific and special grants, payments from the business rate pool, and revenue support grant.

4. We have already announced that next year the safety net will be abolished. It will be replaced by an area protection grant, which will be paid for by the Exchequer. £485 million of grant will be used for this purpose.

5. Another component of aggregate external finance is the money paid to local authorities from the business rate pool. We propose that the business rate next year should be 38.6 pence in the pound, which is, an increase in line with the annual increase

in the RPI to September of 10.9%. The total burden on business will therefore remain broadly the same, allowing for RPI inflation as it was in 1989/90. This is despite the substantial growth in local authority spending since then, and shows the benefit of the Uniform Business Rate for business. Under the previous system, businesses would have paid at least £1 billion more in rates this year. It should be recalled that between 1979/80 and 1989/90, locally-set rate poundages rose by 37.4% more than inflation - an average of 3.2% a year on a compound basis.

6. The Consultation Paper sets out my forecasts of the amount which will be available from the business rate pool to support local authority spending in 1991/92. In making this estimate, known as the "Distributable Amount", I have taken account of the business rates local authorities are expected to collect in 1991/92. I have also taken into account that local authorities are collecting more rates in 1990/91 than will be paid out from the pool during 1990/91. The Distributable Amount takes account of that surplus, as the statute requires. This arrangement means that, taking one year with another, all the income raised from business rate payers will be passed to local authorities to support their spending.

7. I propose that revenue support grant will top up the income from the business rate pool and other grants to bring the total to £26.05 billion. The amounts are £13.6 billion of grants, and £12.4 billion from the pool.

Local Authority Spending

8. As I said in July, the Government believe that it would be appropriate for local authorities to spend £39 billion next year in providing services. This figure takes account of what local authorities are spending now, the new pressures they face, the scope for economies and savings, and what the country can afford. From this figure is derived a Standard Spending Assessment (or SSA) for each authority.

9. In January I invited authorities to put forward any fresh evidence about the way SSAs should be calculated. We have received many representations suggesting changes which might be made. We have considered those representations most carefully. Many of the suggestions were familiar from last year, and there was no consensus as to what changes, if any, should be made. I remain persuaded that the decisions we made last year were broadly right. I also believe that it is helpful to maintain stability, so that chargepayers can make comparisons between what they are asked to pay from one year to another. I have therefore decided we should retain the broad principles which we adopted last year after a great deal of research. But I do propose some changes and improvements. Details may be found in the Consultation Paper, but I shall describe three of them:

- First, I propose to reduce somewhat the weighting applied to the Additional Educational Needs Index used in the assessments for education. I have looked again the impact of this factor on the cost of providing education. In the case of the Primary, Secondary and Post-16 elements the weight is fair, and I am proposing no changes. In the case of the "Under-5" and "Other Education" elements, however, I have decided to adjust the weight from 70% to 50%;

- Second, I propose to double the significance given to the number of tourists in calculating the SSA component for Other Services. This change will help in particular those areas which receive a substantial number of overnight visitors;

- Third, I propose to make allowance for supernumerary posts in the police force designated for special protection duties.

(Helps
services at
expense of
minor london
& metropolitan
areas)

(Helps
metropolitan)

I know that these changes will be welcomed by a number of Hon Members.

10. On average, SSAs will increase by 19.4% over SSAs for 1990/91. There will be variations around that average reflecting the changes which I have announced, and the changes between years in factors like the numbers on school rolls and the population in each authority.

Community Charges

11. The Settlement proposals give local authorities scope to increase their spending by 7% in aggregate above this year's budgets. Taxpayers and business ratepayers together will be providing 12.8% more support than this year. The Community Charge for Standard Spending will be £380. If authorities are extravagant, or if they are inefficient in collecting community charges, they may have to set charges at levels higher than that. But the more efficient authorities which spend within their SSAs will be able to set charges significantly lower than the Community Charge for Standard Spending. Authorities receiving help from the area protection grant should also have lower charges. Authorities which paid into the safety net this year should ensure that the community charge payer receives the full benefit of the abolition of those payments.

12. Many people will receive help to meet their charges through community charge benefits and from the Transitional Relief scheme. This year the average amount actually paid by chargepayers will be £293, against an average charge of £357. One in four chargepayers will receive benefits, and up to 11 million people will receive help from the more generous transitional relief scheme operating in 1991/92. Each couple receiving transitional relief now will receive £52 more relief next year, rather than losing £26 as they would have done without the improvements I announced in July.

13. It is important that authorities should make every effort to collect charges. The best authorities have already collected charges from 97% of people, and across the country nearly 90% of people have begun paying. We have given authorities the powers they need to ensure payment. Authorities - both officers and councillors - have a duty to ensure that revenue is collected. If they fail, the majority who do pay will have to pay higher charges. Those who are tempted not to pay are merely expecting other people to pay their bills for them. That is totally unacceptable.

Charge Capping

14. In the first year of the new system, some local authorities used the transition from rates to the community charge as a smokescreen to hide their increases in spending. Spending rose by 13½%; it went up by a quarter in only two years.

15. I have made it clear that authorities must be prepared to play their part in ensuring that the nearly £3 billion extra we have made available in 1991/92 is passed on to chargepayers. I have also made clear that I am prepared to make full use of my powers to cap authorities' budgets if necessary. But this year I hope, by specifying well in advance the criteria by which I am minded to judge whether to cap, that councils will take the appropriate action to control their spending. Many authorities have specifically asked that I should make an early announcement.

16. As I told the House in July, I have power to cap in two ways. I can cap a council's excessive budget, or cap excessive increases from one year to the next. In my judgement it is reasonable to allow smaller increases for those authorities whose budgets are well above their SSAs.



17. My intended criteria are therefore:

- any increase of more than 9% over the previous year's budget will be considered an excessive increase if it gives rise to a budget over the authority's SSA;

- any increase of more than 7% will be considered excessive if it gives rise to a budget over 5% above the SSA; and

- any increase of more than 5% will be considered excessive if it gives rise to a budget over 10% above the SSA.

In addition I intend that any budget more than 12.5% above the SSA will be considered excessive.

18. This year I specified that no authority would be capped if it budgetted only a small amount above the measure of excessiveness I used. But authorities should not assume that I will again adopt a de minimis proviso, or if I do that it will be at the same level as for 1990/91. Authorities spending less than £15 million are exempt from capping. I do not propose to increase that threshold. But I am minded to make special provision for the particular circumstances of the inner London Boroughs which still bear the cost of inherited overspending by the Inner London Education Authority, and also for the City of London where slightly different financial arrangements apply.

19. These criteria are necessarily provisional. When I come to make my decisions on capping I will of course take into account all appropriate considerations and hence I cannot rule out the possibility that I might reach different views. I have placed a paper in the Library and Vote Office setting out my intentions in detail and have sent a copy to local authorities.

20. The criteria I have announced today are demanding. But local authorities cannot be exempt from the restraint that is needed - from public and private sectors alike - to achieve the overriding objective of getting inflation down.

21. My RHF the Secretary of State for Wales and I are determined to make sure that chargepayers benefit in full from any budget reductions arising from chargecapping. Following the recent judgment in the Lambeth case, we therefore propose to legislate as soon as possible to secure that objective.

Review of the Community Charge

22. In my statement on 19 July I also announced a number of proposals to improve some of the detailed workings of the new system, to make it simpler and to remove anomalies. We have now completed consultations with local authorities and other interested organisations on these matters. Our conclusions, which I believe will be widely welcomed, will be announced shortly. We propose to make reductions from next year in the community charge that can be levied on the owners of unoccupied property in certain special cases. This provides relief for people who live in tied accommodation, for certain students, for people who move from their home into hospital, for people who are having difficulty selling a house and for some other exceptional circumstances.

23. We intend to introduce a simplified community charge bill to improve accountability, more generous transitional arrangements for the rating of small businesses where the owner lives "over the shop", and a number of other useful administrative improvements. We shall be bringing forward regulations to bring all these changes into effect for the start of 1991/92. We have not yet completed consideration of all the responses to the consultation on the treatment of bed and breakfast accommodation but I expect to be able to make an announcement on that very soon.



Conclusion

24. Mr Speaker, my proposals for next year's settlement envisage a realistic increase in local authority spending, backed by an increase in external support which is fair by any standard. We have made a number of improvements in the method of distributing grant, while maintaining stability. Standard Spending Assessments are increasing by 19.4% on average, so there is no reason why many authorities should not budget at or below their SSAs. And no area will contribute to the safety net. Charges therefore need not be much higher than about £380 anywhere, and should be lower where authorities are efficient or where there is help from the area protection grant. I shall use my chargecapping powers to make sure that the extra resources from national taxation and businesses go to benefit chargepayers rather than fuelling excessive spending. I have given authorities advance warning of the criteria I have in mind so that they can plan.

25. The Government are ensuring that local authorities have the resources which they need. This is a sizable settlement, which must necessarily have its impact on public expenditure settlements elsewhere. It is now for local authorities to respond by setting reasonable budgets and reasonable community charges. Chargepayers are looking for services at a price they can afford.

DEPARTMENT OF THE ENVIRONMENT

31 OCTOBER 1990

