

Prime Minister ②

Olive's note explains the implications of Lady Porter's proposals. The action is with Kenneth Baker who will report on the outcome of his discussions with Westminster.

AT 15/3

PRIME MINISTER

GLC AND WESTMINSTER: LADY PORTER'S LETTER

Lady Porter's proposal is attractive, but it needs careful handling.

London Rate Equalisation Scheme

The London Rate Equalisation Scheme is a system for equalising rates throughout inner London by redistributing money from boroughs with high rateable values to those with low rateable values. The effect is that Westminster and the City subsidise the other inner London boroughs to the tune of about £75million pa.

This system is peculiar to London. It runs in parallel with the national redistributive system. It is retained in order to prevent London from skewing the national results.

Effect of GLC Abolition on the Rate Equalisation Scheme

When the GLC is abolished, the boroughs will no longer need to pay the precept; but they will have to spend extra money on the services that they take over from the GLC.

Westminster and the City will benefit disproportionately because they at present pay the lion's share of the precept. To prevent uneven rate rises following this change, the DoE intend to extend the London Rate Equalisation Scheme so that Westminster and the City are forced to hand over to the other boroughs a large proportion of the money that they save.

The DoE has not yet settled how much extra they will ask Westminster and the City to pay. This depends on the assumption made about the amount that the other boroughs will need to spend on the services taken over from the GLC. If we assume that spending will be at the level of the GLC's "target", Westminster will have to pay about £70 million more. But if we assume that spending will be as low as the GLC's "GRE" (the amount needed to maintain average services), then the Scheme would increase by only £100 million, of which Westminster would pay only an extra £40 - £50 million.

Lady Porter's Plan

Naturally enough, Lady Porter would like to ensure that the Government assumes a low spending level on these services. That way, she will keep more of her ratepayers' money, and her rates will go down.

She wants Ministers to give an assurance that they will assume spending of only 5% over "GRE". She would then have to pay much less in additional 'rate equalisation' to the other boroughs than she will save through the abolition of the precept.

In return, she is willing to spend £5 million pa on the English National Opera, the London Tourist Board and other highly visible items, to prove that there is "life after the GLC".

The Snags

It would be tremendously advantageous for the Government if Lady Porter were to take on these visible items. This might begin to make people doubt the GLC's propaganda; and it would certainly ease the passage of the Abolition Bill through the Lords.

But there are real dangers:

1. If Patrick Jenkin meets Lady Porter's demand in full, and assumes that the boroughs will spend only 5% above the GLC's GRE on the services that they take over, he will be challenged in the courts because the move will demand cuts that are very difficult to make in a single year.

2. Other Conservative London boroughs will be furious.

Councils like Croydon, Hillingdon and Barnet - which will be brought into the Rate Equalisation Scheme when the GLC is abolished - will find that they have to pay far more for the services that they take over than they now pay in the form of a precept.

3. To buy off legal challenges and the fury of Conservative boroughs, the DoE would either have to redistribute money from the politically sensitive shires, or increase the total of Rate Support Grant.

What should be done?

There two sensible options:

- either: persuade Lady Porter to take on the highly visible items of spending by going some way towards what she wants, without turning the screws too tightly on the other London boroughs;
- or: persuade Westminster and the City to take over so many London-wide services that the Rate Equalisation Scheme can be abolished entirely without damaging the other boroughs.

We understand from DoE that Kenneth Baker is now pursuing

both of these options. We recommend that you should ask him
to report at the end of next week on the outcome of his
negotiations.

Oliver Letwin

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