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LONDON SW1P 3EB  
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The Rt Hon John Major MP  
Chief Secretary  
HM Treasury  
Parliament Street  
LONDON  
SW1

8 September 1988

*Dear Chief Secretary*

COMMUNITY CHARGE: SPECIFIC GRANT FOR PREPARATION COSTS

We corresponded in July about the method we should adopt for distributing revenue support to charging authorities in respect of their community charge preparation costs in 1989/90. As I forewarned in my letter of 18 July, I am returning to this issue now that we have further details of the 1989/90 RSG Settlement.

I appreciate that the usual way of contributing towards the expenditure of local authorities is through the grant related expenditure for each authority. Notwithstanding the points made by you and Malcolm Rifkind in your letters of 8 and 11 July however, I have concluded that there is a strong case for channelling at least part of the £110 million for preparation costs by means of a specific grant.

The unhypothecated nature of block grant is both a strength and a weakness. For any authority that receives block grant it is always possible to argue that some of that is in support of each of the services that they provide but it is not possible to say precisely how much is provided. With block grant it will therefore be impossible to say to what extent any local authority has received support from local government in respect of community charge preparation costs.

A particular difficulty arises with using block grant alone in 1989/90 for supporting community charge preparation costs in that on our first set of exemplifications a substantial number of shire districts appear likely to receive less block grant in 1989/90 than they received in 1988/89 despite having to meet community charge preparation costs. In addition a number of other authorities will receive no support through block grant for community charge preparation costs because they receive no block grant at all. The upshot is that a very large number of authorities will feel that they are receiving no support whatsoever to help them prepare for the community charge.

I do not accept Malcolm Rifkind's view that a specific grant in England need undermine his position: I see little similarity in circumstance since as I understand it no Scottish charging authorities are out of grant, nor would it look like a panic measure since everyone knows we have been considering this matter for some time and all the local authority associations support it.

I have considered the level of specific grant and the basis on which it might be paid. I would wish to avoid a specific grant based on actual expenditure which would require audited figures and could lead to arguments about what expenditure is and is not eligible for grant support. I would propose instead a formula-based grant on adult population.

As to the rate of grant, I can see no reason why this need be higher than the 50% in order to promote efficiency and for there to be a GRE for the residual expenditure falling to be met by the local authority. In effect this would mean that we were supporting half the expenditure through a specific grant and the remaining half through block grant.

A specific grant means that we can visibly identify additional support being made available to all charging authorities to help them prepare for the introduction of the community charge. Without one I fear that we will hand authorities a significant propaganda point which some will not hesitate to use against us. I hope therefore that in the exceptional circumstances of 1989/90 you and other colleagues will agree to a one year transitional specific grant for community charge preparation costs.

I am copying this letter to the Prime Minister, other members of E(LF) and to Sir Robin Butler.

Yours sincerely  
RB

ff NICHOLAS RIDLEY

(Approved by the Secretary of State and signed in his absence)

CONFIDENTIAL

*ppp p1.*

CHIEF SECRETARY

*chrd*

FROM: B H POTTER

Date: 15 September 1988

cc: PS/Chancellor *←*  
Sir Peter Middleton  
Mr Anson  
Mr Phillips  
Mr Edwards  
Miss Peirson  
Mr Turnbull  
Mr Fellgett  
Mr Call**COMMUNITY CHARGE: SPECIFIC GRANT FOR PREPARATION COSTS**

In his letter of 8 September attached, the Environment Secretary presses his earlier proposal for a specific grant for Community Charge (CC) preparation costs next year. I recommend that you again oppose a specific grant for this purpose.

Background

2. Mr Ridley first raised the possibility of such a grant in July. Following letters from Mr Rifkind and you opposing the idea, Mr Ridley indicated that he might well return to the point in the autumn. However this second letter does not contain any new arguments in favour of a specific grant. Rather the arguments focus on the presentational advantages of a specific grant, with references to how local authorities will "feel" if they do not receive "visible identifiable additional support".

Assessment

3. On the one hand, it might be argued that we should acquiesce. Now that AEG is fixed for 1989-90, it does not matter in Exchequer or public expenditure terms whether grant towards CC preparation costs is paid as block grant or specific grant. And if Mr Ridley feels there are presentational advantages in introducing a specific grant (which would only last for one year) then given his responsibility for introducing the policy, Treasury should not object.

4. But there are strong arguments of principle against a specific grant (reflected in my earlier submission of 8 July attached) - that specific grants reduce local accountability; that they reduce the amount available to meet differences in need through block grant; and that, having required LAs by law to introduce the CC, it should not be necessary to "bribe" them as well through additional specific grants.

5. I recommend your reply should pick up three other points. First the argument is all about presentation. All but the handful of local authorities out of grant, receive block grant from DOE; and all authorities get specific grants from DOE and other Departments. Providing the same method of distribution is adopted therefore, most local authorities should be indifferent whether grant comes in the form of block or specific grant.

6. It is true that local authorities will not notice how much grant they get for Community Charge costs if it is contained within their general unhypothecated block grant. But the importance of this can be much exaggerated by DOE officials. Assume an authority is entitled to £1 million grant towards Community Charge preparation costs (whether delivered as block or specific grant). Also assume that its block grant entitlement has fallen between 1988-89 and 1989-90 for other reasons, (ultimately related to its relative needs and resources) by £5 million. The heart of Mr Ridley's case is that the local authority will "feel" better if their block grant does down by £5 million but there is an identifiable extra £1 million in the form of a specific grant for Community Charges, than if their block grant goes down by a net £4 million and there is no specific grant for Community Charge preparation costs.

7. It would require a particular lack of financial sophistication amongst councillors to be deceived by this. And certainly any Treasurer ought to be able to explain what was happening. We are not convinced that the Government ought to start paying specific grants for essentially presentational purposes. Indeed we are sceptical of the whole premise that LAs will only prepare properly for the CC if they receive overt grant support: post 1990, the Community Charge will be virtually their only source of own revenue - they have a considerable incentive to collect the money efficiently.

8. Secondly Mr Ridley has understated the importance of the Scottish dimension. Scottish local authorities did not get specific grant paid to them this year to help with their preparation costs. (And arguably, their costs are likely to be proportionally greater as the burden of the learning process is placed on them.) It would be very awkward for Mr Rifkind now if there were a specific grant introduced in England; and you will have noted his suggestion (letter of 11 July) that it would look like a panic measure. Mr Ridley argues that the distributional problems were less in Scotland because no authorities there were out of block grant - his other main reason for seeking a specific grant. But the only authorities responsible for introducing the CC in England which are out of grant tend to be rich resource authorities like Westminster and Kensington; they seem unlikely to grumble too loudly. Moreover, and importantly, Welsh Office also do not want a specific grant for this purpose. In short we are being told that specific grant is necessary to introduce the CC in England but not in Scotland and Wales.

9. Thirdly there is an extraordinary contradiction in Mr Ridley's own proposals. He is arguing for earmarking grant to provide visible identifiable additional support on the current costs of introducing the Community Charge. But his proposals for handling the larger capital expenditure on preparation costs do not involve any central Government direction of the resources.

10. You are to discuss with Mr Ridley shortly capital allocations for new computer equipment, additional office space etc. But Mr Ridley is not proposing to earmark ie "top slice" allocations within the total capital allocations given under the LA cash limit DOE/LA1. (Thus they can in principle be vired to other expenditure purposes.) Even more extraordinary, he is content to leave the distribution of these capital allocations to the local authority associations - as part of the LES block. Why is it necessary to have "visible identifiable support" for current costs while the larger capital costs are neither reserved for this purpose nor distributed according to central government's own assessment of need?

Conclusion

11. Our view remains that this is something of a panic measure which in large part reflects pressure from the Association of Metropolitan Authorities (AMA). (The ADC are more modestly supportive of the idea.) But Mr Ridley takes the issue seriously; and we are aware of strong lobbying both by senior DOE officials to us and to the Prime Minister's office. Our understanding is that the Prime Minister is likely to regard this as an issue for Mr Ridley to sort out as the Minister responsible for the policy. But Mr Ridley may appeal to the Prime Minister if you and colleagues again reject the proposal.

12. The attached draft therefore takes a rather less aggressive line than your previous letter. It acknowledges the presentational point, while nonetheless bringing out our doubts about its importance. It also draws attention to the points about Scotland; the position on capital; and restates the wider points of principle.

Barry H. Potter

BARRY H POTTER

**DRAFT LETTER TO SECRETARY OF STATE FOR THE ENVIRONMENT**

**COMMUNITY CHARGE: SPECIFIC GRANT FOR PREPARATION COSTS**

Thank you for your letter of 8 September pursuing the case for a specific grant in 1989-90 towards the current costs of preparing for the introduction of the Community Charge.

I have carefully reconsidered the proposal. I appreciate that you believe there would be presentational advantages in introducing a specific grant towards the preparation costs. But I do wonder how important these would be.

The bulk of authorities responsible for setting up a collection fund will be in receipt of block grant and therefore would get grant support for Community Charge preparation costs. We have already announced that the full £110m for such costs is to be added to GREs. It is true that local authorities will not be able to identify a specific sum within their total block grant and that some authorities will nonetheless see their total block grant payment fall between 1988-89 and 1989-90 - for example, because their relative needs have fallen or resources increased. But how much difference will it make to such authorities whether they receive say £3m less in block grant in 1989-90 and no specific grant for CC preparation costs or £4m less in block grant plus £1m specific grant? I would be surprised and dismayed if councillors thought the latter presentationally important.

Moreover I would not be so inclined to dismiss Malcolm Rifkind's objections to the specific grant. I think it would be difficult to explain why a specific grant was necessary in England but not in Scotland. (I take the point about some authorities being out of block grant in England but these are all either rich and need no grant assistance or overspenders and deserve none.) I also understand that Peter Walker sees no need for a specific grant in Wales for this purpose.

We also need to consider the position on capital expenditure for CC preparation costs, where you have an outstanding bid for £150m in additional capital allocations. We will be discussing that bid shortly: but I understand it is your intention not to "top slice" any allocations agreed ie not to earmark them for this particular purpose and to leave it to the local authority associations to distribute them. It seems odd that you see a requirement for a specific grant so as to channel visibly grants towards the current preparation costs, while being content neither to earmark nor control the distribution of the larger amounts proposed for capital expenditure.

In short I remain unconvinced that the presentational case is made. As you and I have so often argued in the past specific grants are inherently undesirable since they reduce the amount available within AEG for block grant and reduce the financial incentives for efficiency and value for money. Moreover the Local Government Finance Act requires LAs to prepare for the CC; and they have a strong financial incentive to meet that requirement,



in order to collect their main source of own revenue. Quite simply I do not believe it is desirable for us to appear to offer additional grant support in order to encourage LAs to do something they are required to do by law and is in their own financial interests.

I am copying this letter to the Prime Minister, other members of E(LF) and to Sir Robin Butler.

[J.M]

CONFIDENTIAL



CC CXI SR PMIDDLETON

Mr ANSON, Mr PHILLIPS

Mr EDWARDS, Miss REESON

Mr TURNBULL, Mr POTTER

Mr FAIGETT, Mr AYL

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Nicholas Ridley AMICE MP  
 Secretary of State for the Environment  
 Department of the Environment  
 2 Marsham Street  
 London  
 SW1P 3EB

16 September 1988

Dear Secretary of State,

**COMMUNITY CHARGE: SPECIFIC GRANT FOR PREPARATION COSTS**

Thank you for your letter of 8 September pursuing the case for a specific grant in 1989-90 towards the current costs of preparing for the introduction of the Community Charge.

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In short I remain unconvinced that the presentational case is made. As you and I have so often argued in the past specific grants are inherently undesirable since they reduce the amount available within AEG for block grant and reduce the financial incentives for efficiency and value for money. Moreover the Local Government Finance Act requires LAs to prepare for the CC; and they have a strong financial incentive to meet that requirement, in order to collect their main source of own revenue. Quite simply I do not believe it is desirable for us to appear to offer additional grant support in order to encourage LAs to do something they are required to do by law and is in their own financial interests.

I am copying this letter to the Prime Minister, other members of E(LF) and to Sir Robin Butler.

*Yours sincerely*

*P. Major*

PP JOHN MAJOR

*[Approved by the Chief Secretary  
and signed on his behalf.]*



DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Richmond House, 79 Whitehall, London SW1A 2NS

Telephone 01-210 3000

From the Secretary of State for Social ~~Services~~ Security

*MF*

The Rt Hon John Major MP  
Chief Secretary to the Treasury  
HM Treasury  
Parliament Street  
LONDON  
SW1P 3AG

19 September 1988

*Den J*

COMMUNITY CHARGE: SPECIFIC GRANT FOR PREPARATION COSTS

I have seen Nick Ridley's letter of 8 September to you about a specific grant to local authorities for their community charge preparation costs.

My interest is primarily in the implications for the community charge benefit scheme. The costs of preparing for the introduction of the benefit scheme are of course very closely tied up with those of preparing for the community charge generally and we had not proposed to make separate provision for them: the benefit scheme preparation costs are reflected in the provision of £110m.

I support Nick's argument for a specific grant, which would help ensure that support is properly targeted and is manifestly fairer to the shire districts. At the same time, your proposal to distribute it on the basis of population, rather than actual expenditure, would give authorities a firm incentive to economy.

I am copying this letter to the Prime Minister, to Nick Ridley, other members of E(LF) and to Sir Robin Butler.

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*John Moore*

JOHN MOORE