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CHIEF SECRETARY

FROM: B H POTTER (LG1)
X4790
Date: 13 June 1989

cc: Chancellor
Sir Peter Middleton
Mr Anson
Mr Monck
Mr Phillips
Mr Edwards (LG)
Mrs Lomax (GEP)
Mr Hudson (LG1)
Mr G White (LG1)
Mr Rutnam (LG1)
Mr Jessop (PSE)
Mrs Chaplin

LOCAL AUTHORITY CURRENT SETTLEMENT

In the margins of another meeting this morning, you discussed with the Secretary of State for Environment his revised proposals on the local authority (LA) current settlement for 1990-91. You are to discuss this revised package on Thursday with Mr Ridley on the basis of a draft E(LF) paper.

2. At this morning's meeting, I undertook to explore the sort of package put forward by Mr Ridley: I am indebted to Messrs Hudson, Rutnam and Jessop for the computer simulations.

Mr Ridley's revised package

3. What Mr Ridley proposed was as follows:

(i) Option C on AEF (£22.8 billion) plus £200 million extra ie AEF of £23 billion.

(ii) The safety net to be confined to losing LAs which lose by more than £50 per adult ie all authorities where the community charge bill on a given assumption about spending is more than £50 above the 1989-90 average rate bill per adult, uprated for inflation.

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(iii) The cost of this safety net would be £300-£400 million; Mr Ridley correctly identified three ways of meeting that cost:

(a) by a levy on all other CC payers;

(b) by postponing some of the gains for CC payers in gaining authorities; and

(c) by top slicing an element within Revenue Support Grant (RSG).

He favoured (c) (which in practice, within a given AEF, is identical to (a)).

(iv) This safety net to be phased out over three years.

Assessment

4. Our view is that in practice there are three broad approaches to achieving the safety-net arrangement which Mr Ridley has in mind:

A: the cost would fall on the Exchequer; it could be met either within a top-sliced element of RSG as Mr Ridley proposed or as a transitional specific grant, within the AEF envelope (the difference is mainly presentational);

B: the cost could be met by postponing the gains for some gaining authorities;

C: the cost could be met by some combination of these two approaches.

5. However the cost of the safety-net depends on its form; and the pattern of gainers and losers also differs - even with the common objective of preventing (for a given spending assumption) CCs in any authority rising by more than £50 above the 1989-90 rate bill per adult, uprated for inflation.

6. Under approach A (exemplifications attached), our provisional assessment is that the cost of the safety-net would be around £450 million. The cost would be met from an element within RSG; but top-slicing RSG for this particular purpose adds to average CCs by about £16, because this £450 million is not available to hold down CCs in general. This shifts the whole distribution of CCs upwards; in brief the resulting pattern is as follows:

- major gainers (ie more than £16 per adult) will see their gains come through in 1990-91; though all gains will be £16 lower, this group will be better off than under the original safety-net;
- modest gainers (ie up to £15 per adult) will be transformed into modest losers under this proposal: they will be worse off: even though they did not get their gains before, they will now suffer losses;
- all losers will be worse off: modest losers (up to the £50 per adult threshold) will lose because of the £16 per adult levy; all big losers will suffer the £50 loss whereas under the original proposal they suffered no loss.

7. This scheme could be presentationally mitigated by holding the basic AEF back to £22.55 billion and providing a £450 million specific grant (so that the £16 per adult levy is seen as an Exchequer contribution rather than a redistributive element within RSG). But the distribution would be exactly the same.

8. Moreover Mr Ridley envisaged a relatively rapid phasing out of the safety-net. So the protection of even the big losers would disappear quite quickly as the CCs implied by the long-term needs assessment feed through.

9. Under approach B, there are a number of variants. The simplest would be that all gainers had to contribute £19; but we also see some attractions in an approach whereby LAs are allowed a flat rate per adult gain plus a percentage of the remaining gains. The tariff can be selected from the following:

<u>Flat Rate</u>	<u>% of remaining gains</u>
£	
10	31
20	38
30	46
40	58
80	73

If you were attracted to this, a flat rate gain of £30 plus around half the remainder looks about right.

10. The cost of the approach is lower at around £380 million. The difference is that with no levy on all CC payers pushing up average CCs as under approach A, the number of authorities with losses of over £50 per adult is less.

11. The pattern of gains and losses if we follow the simple approach is as follows:

(i) the medium and large gainers still gain relative to the original safety net proposals;

(ii) some of the small gainers (ie less than £19 per adult) are in the same position as under the original safety-net - but better off than under A;

(iii) small losers lose more than under the original safety-net but less than under approach A;

(iv) large losers lose relative to the original safety-net but are in the same position as under A.

12. We have not had the opportunity yet to look at an approach which combines A and B.

13. Additions to AEF above £23.0 billion on either approach A or B, will bring lower CCs for all authorities except big losers.

Conclusion

14. In our view, Mr Ridley's new safety-net ideas represent three important steps forward - and one step back:

(a) he has found a way of letting gainers get much more of their gains in the first year;

(b) he is prepared to allow some losses to feed through;

(c) he is prepared to simplify by ignoring small gains and losses;

BUT

(d) he has made matters worse for some sensitive areas in the North.

15. However our concern is that Mr Ridley will now bid for AEF of £23.2 billion: ie option C plus £400/£450 million to meet the costs of his safety-net from RSG. LG1 consider your objective at Thursday's meeting might be:

(i) to indicate the broad acceptance of the principle of Mr Ridley's proposals on the safety-net;

(ii) to go no further than AEF of £23.0 billion; and

(iii) to look for a contribution from gainers as under approach B above because the cost of the safety-net is less and the pattern of gains and losses very little different (and in some respects rather better).

16. In advance of your meeting with Mr Ridley, it would help if we could get sight of DOE's numbers and discuss with their officials different formulations of the safety net. Now that we know Mr Ridley's broad intentions, are you content for us to try and reach agreement with DOE on the simulations?

17. LG1 will provide further briefing in advance of your meeting with Mr Ridley.

BHP

BARRY H POTTER

13 June 1989

AUTHORITY	CC	SNCC	LONG TERM SAFETY NET		
			RBPA GAIN/LOSS	LOSS	
Lower Hamlets	634	315	265	-370	-50
Greenwich	664	350	300	-364	-50
Hamersmith and Fu	704	424	374	-330	-50
Southwark	572	339	289	-283	-50
Leamsworth	470	262	212	-258	-50
Leamisham	515	336	286	-229	-50
Leameth	547	376	326	-221	-50
Leamington	607	480	430	-176	-50
Leamney	513	395	345	-168	-50
Leamdale	369	292	242	-127	-50
Leam Valley	330	256	206	-124	-50
Leamking and Dagenh	373	301	251	-122	-50
Leamfield	391	333	283	-108	-50
Leam in Furness	310	252	202	-107	-50
Leamsley	332	276	226	-106	-50
Leamden	555	499	449	-106	-50
Leamringley	641	587	537	-104	-50
Leameland	298	247	197	-101	-50
Leamedgefield	329	279	229	-100	-50
Leamdle	273	229	179	-94	-50
Leamklees	312	273	223	-90	-50
Leamwentside	304	271	221	-84	-50
Leamsover	322	289	239	-83	-50
Leamdburn	261	229	179	-82	-50
Leamsdale	256	225	175	-81	-50
Leamthferry	308	278	228	-80	-50
Leamotherham	333	303	253	-80	-50
Leamcaster	342	313	263	-79	-50
Leamsbeck	325	297	247	-78	-50
Leamington	285	258	208	-77	-50
Leamkefield	319	292	242	-76	-50
Leamldale	285	259	209	-76	-50
Leam, Yorks	320	295	245	-75	-50
Leamssendale	279	256	206	-73	-50
Leamley	259	237	187	-72	-50
Leamden	283	263	213	-70	-50
Leam, Tyneside	310	292	242	-68	-50
Leamradford	293	274	224	-68	-50
Leamewcastle upon Tyn	345	334	284	-61	-50
Leamrtlepool	315	304	254	-61	-50
Leamigh Peak	321	310	260	-61	-50
Leamrent	556	546	496	-61	-50
Leam Blackburn	254	244	194	-60	-50
Leamarlisle	287	279	229	-58	-50
Leamorrridge	232	224	174	-58	-50
Leamcunthorpe	346	338	288	-57	-50
Leamochdale	324	317	267	-57	-50
Leamunderland	280	273	223	-57	-50
Leamateshead	308	302	252	-56	-50
Leamiddlesbrough	340	334	284	-56	-50
Leamington Upon Hull	295	291	241	-54	-50
Leamurham	284	281	231	-53	-50
Leamby	262	259	209	-53	-50
Leameicester	296	293	243	-53	-50
Leamlnwick	295	293	243	-51	-50
Leamerwick-upon-Tweed	292	291	241	-51	-50
Leamgbaurgh-on-Tees	355	355	308	-47	-47
Leamrichmondshire	245	245	198	-47	-47
Leamlyth Valley	326	326	280	-46	-46
LeamE. Derbs	331	331	285	-46	-46

AEF = £ 23 bn.

Maximum loss of £ 50

Leethorpes	314	314	270	-44	-44
Hester-le-Street	283	283	240	-42	-42
Shfield	254	254	213	-41	-41
id Devon	241	241	200	-41	-41
umber Valley	298	298	258	-40	-40
ansfield	275	275	235	-40	-40
hesterfield	303	303	264	-39	-39
ewham	401	401	362	-39	-39
assetlaw	271	271	232	-39	-39
carborough	256	256	217	-39	-39
ynedale	292	292	255	-38	-38
igan	311	311	274	-37	-37
lanford	295	295	250	-37	-37
illingdon	369	369	333	-36	-36
reat Grimsby	292	292	256	-36	-36
olderness	298	298	263	-35	-35
raven	242	242	207	-35	-35
. Devon	227	227	192	-35	-35
yedale	250	250	216	-34	-34
orest of Dean	239	239	206	-33	-33
eds	261	261	229	-33	-33
ristol	341	341	309	-32	-32
ork	218	218	186	-32	-32
rewash	304	304	272	-32	-32
arlington	287	287	255	-31	-31
artford	252	252	221	-31	-31
ameside	288	288	258	-30	-30
ancaster	246	246	216	-30	-30
ibble Valley	252	252	223	-29	-29
. Lakeland	284	284	256	-29	-29
errier	229	229	203	-26	-26
. Wilts	258	258	233	-25	-25
ldham	267	267	243	-24	-24
ath	286	286	264	-22	-22
swestry	237	237	217	-20	-20
ansdyke	299	299	280	-19	-19
ewark and Sherwoo	261	261	242	-19	-19
. Devon	232	232	213	-19	-19
tockton-on-Tees	321	321	303	-18	-18
. Wilts	258	258	241	-17	-17
. Derbs	300	300	283	-17	-17
hamedown	271	271	256	-15	-15
eling	341	341	327	-14	-14
wale	217	217	204	-13	-13
. Shropshire	227	227	214	-13	-13
toke-on-Trent	229	229	216	-13	-13
. Tyneside	330	330	318	-12	-12
rawley	275	275	264	-11	-11
. Ribble	243	243	233	-10	-10
erbyshire Dales	312	312	302	-10	-10
. Lindsey	219	219	209	-10	-10
t. Helens	276	276	267	-9	-9
ing's Lynn and W.	219	219	210	-8	-8
estormel	219	219	210	-8	-8
. Shropshire	222	222	214	-8	-8
enwith	221	221	213	-8	-8
edina	260	260	252	-8	-8
. Holland	220	220	212	-8	-8
alford	298	298	291	-7	-7
enland	232	232	226	-6	-6
eymouth and Portl	216	216	210	-5	-5
horley	237	237	232	-5	-5
ambleton	245	245	240	-5	-5

Tonbridge and Malt	239	239	234	-4	-4
Northavon	292	292	288	-4	-4
Staffs Moorlands	242	242	238	-4	-4
Blackpool	248	248	245	-3	-3
Harrogate	267	267	264	-3	-3
N. Cornwall	229	229	226	-2	-2
Kingswood	270	270	268	-2	-2
S. Wight	275	275	273	-2	-2
Merton	292	292	291	0	0
Portsmouth	217	217	216	0	0
Bexley	254	254	253	0	0
Teignbridge	229	229	229	0	0
N. Kesteven	210	210	211	0	0
Dover	209	209	209	1	1
Caradon	226	226	226	1	1
Wrekin	264	264	265	1	1
Breckland	224	224	227	2	2
Exeter	218	218	221	3	3
Carrick	229	229	232	3	3
Lincoln	204	204	208	4	4
Torbay	264	264	268	4	4
Broxtowe	253	253	258	5	5
Wyre	238	238	244	6	6
E. Lindsey	205	205	211	6	6
Sedgemoor	257	257	265	8	8
Halton	256	256	264	8	8
Nottingham	238	238	246	8	8
S. Somerset	255	255	264	8	8
S. Kesteven	215	215	223	8	8
N. Dorset	212	212	222	9	9
N.W. Leics	250	250	259	9	9
Kettering	244	244	253	9	9
Preston	223	223	233	9	9
Harlow	423	423	433	11	11
Boston	204	204	214	11	11
Great Yarmouth	221	221	232	11	11
W. Dorset	213	213	223	11	11
Liverpool	296	296	307	11	11
Plymouth	213	213	224	11	11
Warrington	260	260	272	11	11
E. Cambs	221	221	233	12	12
Forest Heath	213	213	225	12	12
Mendip	248	248	259	12	12
Taunton Deane	245	245	258	12	12
Leominster	179	179	191	12	12
Kenet	238	238	251	13	13
Cannock Chase	237	237	249	13	13
East Northants	231	231	243	13	13
Woodspring	293	293	306	13	13
Bolton	234	234	247	13	13
Newcastle-under-Ly	233	233	246	13	13
N. Warwickshire	300	300	314	14	14
Mid Suffolk	232	232	246	14	14
N. Norfolk	217	217	231	14	14
Redbridge	223	223	238	14	14
Tandridge	296	296	311	15	15
Waltham Forest	316	316	331	15	15
Bury	296	296	312	15	15
Knowsley	288	288	304	15	15
Nuneaton and Bedwo	299	299	314	16	16
S. Norfolk	238	238	254	16	16
Waveney	221	221	238	16	16
Castle Morpeth	289	289	305	16	16

illingham	202	202	218	16	16
st Staffs	221	221	238	17	17
roud	240	240	258	17	17
oucester	209	209	227	17	17
erby	293	293	310	18	18
utland	226	226	244	18	18
anterbury	213	213	232	19	19
Somerset	262	262	281	19	19
edling	255	255	274	19	19
ounslow	358	358	378	20	20
ighton	315	315	335	20	20
abergh	241	241	261	20	20
ellingborough	228	228	249	21	21
orby	249	249	270	21	21
Devon	223	223	246	23	23
eterborough	253	253	276	23	23
urbeck	209	209	233	24	24
rentwood	394	394	418	24	24
Hams	231	231	256	24	24
oventry	291	291	315	24	24
hanet	218	218	243	25	25
everley	297	297	323	26	26
Herefordshire	165	165	191	26	26
shford	218	218	245	27	27
outhampton	202	202	229	28	28
unbridge Wells	215	215	243	28	28
hrewsbury and Atc	229	229	257	28	28
aving	236	236	264	28	28
ale Royal	250	250	278	29	29
elton	234	234	263	29	29
aidstone	204	204	233	29	29
ridgnorth	212	212	242	30	30
rewe and Nantwich	270	270	302	31	31
ravesham	215	215	246	32	32
t. Edmundsbury	207	207	239	32	32
orthampton	272	272	304	32	32
ochester upon Med	178	178	212	33	33
irral	350	350	383	34	34
. Oxon	238	238	272	34	34
herwell	245	245	279	34	34
id Beds	283	283	318	34	34
ongleton	249	249	284	35	35
inckley and Boswo	228	228	263	35	35
orwich	230	230	265	35	35
ereford	151	151	187	36	36
leading	248	248	284	36	36
pswich	254	254	291	36	36
ournemouth	227	227	263	36	36
ylde	239	239	275	37	37
astings	236	236	273	37	37
. Lancs	242	242	280	38	38
roadland	217	217	255	38	38
ushcliffe	250	250	289	39	39
untingdonshire	212	212	253	40	40
eaden	251	251	292	40	40
alisbury	227	227	267	41	41
romley	220	220	261	42	42
ushmoor	200	200	242	42	42
aventry	264	264	306	42	42
Thurrock	328	328	370	42	42
Kingston-upon-Tham	287	287	330	43	43
efton	248	248	292	44	44
Colchester	248	248	292	44	44

Blaby	223	223	267	44	44
Shepway	240	240	284	44	44
Enfield	277	277	322	45	45
Tamworth	219	219	263	45	45
Rugby	271	271	316	45	45
Stafford	212	212	257	45	45
Bracknell	257	257	305	47	47
Sevenoaks	214	214	262	48	48
North Beds	268	268	316	48	48
Ellesmere Port and	261	261	309	48	48
Adur	241	241	290	49	49
Stevenage	341	341	392	51	51
Braintree	255	255	306	51	51
Harborough	250	250	301	51	51
Tewkesbury	219	219	271	52	52
Oadby and Wigston	235	235	287	52	52
Sutton	264	264	316	52	52
Wyre Forest	200	200	252	52	52
Broxbourne	278	278	332	53	53
Suffolk Coastal	236	236	290	54	54
E. Herts	293	293	348	55	55
New Forest	216	216	271	55	55
Cheltenham	239	239	294	55	55
Chester	252	252	307	55	55
Gosport	200	200	256	56	56
Charnwood	210	210	265	56	56
Walsall	254	254	310	56	56
Chichester	212	212	269	57	57
Isles of Scilly	160	160	221	60	60
Sandwell	223	223	284	61	61
Watford	286	286	347	61	61
Birmingham	223	223	285	62	62
Woking	302	302	364	62	62
Milton Keynes	253	253	316	63	63
Tendring	256	256	319	63	63
Spelthorne	231	231	295	64	64
Cotswold	227	227	291	64	64
Test Valley	196	196	261	64	64
South Beds	303	303	368	65	65
Worthing	196	196	261	65	65
Welwyn Hatfield	351	351	418	67	67
Runnymede	234	234	301	67	67
Stockport	248	248	316	68	68
Arun	211	211	280	69	69
Manchester	257	257	326	69	69
Mole Valley	271	271	341	70	70
Redditch	203	203	273	70	70
Dudley	236	236	306	70	70
Eastleigh	209	209	280	70	70
Mid Sussex	222	222	294	71	71
Basildon	368	368	439	72	72
Horsham	195	195	267	72	72
Trafford	220	220	292	72	72
Lewes	241	241	313	73	73
Oxford	229	229	303	74	74
S. Northants	225	225	300	75	75
Vale of White Hors	229	229	304	75	75
Lichfield	219	219	296	76	76
Malvern Hills	190	190	266	77	77
Harrow	256	256	333	77	77
Aylesbury Vale	226	226	303	77	77
S. Staffs	218	218	295	78	78
Winchester	214	214	292	78	78

Hove	227	227	305	78	78
Worcester	187	187	265	78	78
Newbury	215	215	293	78	78
Basingstoke and	171	171	250	78	78
Slough	199	199	279	79	79
E. Hants	212	212	291	80	80
S. Oxfordshire	244	244	325	80	80
E. Dorset	237	237	318	81	81
Havant	204	204	286	82	82
N. Herts	293	293	376	84	84
Maldon	254	254	338	84	84
Christchurch	222	222	307	85	85
Fareham	203	203	289	86	86
Reigate and Banste	277	277	364	87	87
Poole	211	211	299	88	88
Wolverhampton	222	222	311	89	89
Luton	276	276	366	90	90
Rother	241	241	332	91	91
Hart	222	222	317	95	95
Richmond-upon-Tham	265	265	362	97	97
Wychavon	188	188	285	98	98
Epsom and Ewell	310	310	407	98	98
Windsor and Maiden	262	262	360	99	99
Hertsmere	309	309	408	99	99
Cambridge	237	237	336	99	99
Dacorum	277	277	377	100	100
Guildford	233	233	334	101	101
Bromsgrove	169	169	271	102	102
Warwick	266	266	369	102	102
Uttlesford	260	260	363	103	103
Castle Point	246	246	350	104	104
Croydon	170	170	274	104	104
Eastbourne	242	242	346	104	104
Stratford on Avon	264	264	369	104	104
Southend-on-Sea	256	256	361	105	105
Wokingham	233	233	338	105	105
Rochford	268	268	375	106	106
Surrey Heath	247	247	356	108	108
St. Albans	281	281	390	109	109
S. Cambs	198	198	307	109	109
Waverley	255	255	367	112	112
Macclesfield	243	243	355	112	112
Kensington and Che	300	300	414	114	114
Chelmsford	247	247	368	121	121
Three Rivers	297	297	418	122	122
Solihull	198	198	321	123	123
Barnet	239	239	368	128	128
Epping Forest	277	277	415	138	138
Wycombe	240	240	396	155	155
Elmbridge	296	296	460	164	164
Westminster	402	402	589	187	187
City of London	346	346	542	197	197
Chiltern	250	250	480	229	229
S. Bucks	236	236	478	242	242