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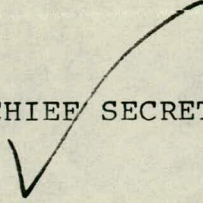
FROM: A C S ALLAN

DATE: 23 May 1988 PPS

cc Mr H. Phillips

Mr Fellgett

PS/CHIEF SECRETARY



1989-90 RSG SETTLEMENT

Please see the PPS' request in this minute. I would be grateful if you could advise, directing the advice via the CBT to the Chancellor

J. Phillips 2075

At the meeting on Friday, Mr Potter and Mr Fellgett mentioned that various commitments had been made about how much councils would be expected to raise from the community charge in 1990-91 for a given level of spending (? a real terms freeze on 1989-90 budgets). The arithmetic was on the lines that grant would be set so that they were required to raise the same amount (in real terms?) from the community charge as they had from domestic rates in 1989-90.

2. The Chancellor would be grateful if the Chief Secretary could commission advice on exactly how these arrangements would work, the extent to which we are firmly committed to them, and their implications (if any) for the 1989-90 settlement.

ACS
A C S ALLAN



if possible

Ch

I would delay playing
the card @ X — ~~probably~~
till next year, & certainly
until it is clearly
needed this year — i.e. if
arguments about the level of
poll tax next year become
a major feature of ECUA
discussions this year.

1 Agree.
Per [unclear] M
[Signature]

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None committed to the words; much of how we interpret them is to be played for. HP.

FROM: R FELLGETT

DATE: 27 May 1988

1. MR PHILLIPS
2. CHIEF SECRETARY
3. CHANCELLOR

cc Sir P Middleton
Mr Anson
Mr Turnbull
Mr A J C Edwards o/a
Mr Potter o/r

1989-90 RSG SETTLEMENT

Mr Allan's minute of 23 May asked for advice on the commitments that had been made about what councils would be expected to raise from the full Community Charge in 1990 for a given level of spending.

2. The DOE yellow booklet on Paying for Local Government, published in August 1987 said:

"There will be a safety net designed to make sure that a local council will need to raise only the same amount from domestic rates plus Community Charge in 1990-91 as it raised from domestic rates in the previous year, provided that it spends the same amount in real terms in both years."

This is consistent with decisions on the safety net and transition taken in E(LF) in July 1987. Following the subsequent decision to amend the safety net slightly (and to introduce the Community Charge immediately outside inner London) an addition to the booklet said:

"The Government proposes to use a safety net to limit the speed at which Community Charge and ratepayers feel the effect of the move to the new system ... In 1990-91 there will be no change in the distribution of grant and non-domestic rates between areas, except that it is now proposed that contributions will be limited to a maximum of £75 per adult from any area. This will slightly reduce the extent to which other areas are able to gain from the safety net."

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3. These statements about the safety net reflect earlier proposals in the Green Paper "Paying for Local Government". They have not subsequently been updated or refined; DOE officials think (and we agree) that it would be prudent to keep local authorities guessing about the precise determination of the safety net arrangements, to reduce the scope for them to manipulate their accounts to obtain maximum benefit from it.

4. The first quote above is actually ambiguous about whether local taxes are intended to be unchanged in real or cash terms. DOE have, however, always accepted that it assumes both spending and local taxes are flat in real terms in 1990-91. This was implicit in the July E(LF) decision. In theory, it should be very helpful in the 1990-91 RSG settlement. Because business rate revenue will be broadly unchanged in real terms, it implies that actual payments of grant will also be flat in real terms. Grant in 1990-91 that was no higher in real terms than the outturn in 1989-90 (after an underclaim of perhaps £500 million) would be an incredible bargain in the first year of the Community Charge. In practice, a cash increase, compared to the settlement for 1989-90, at least as high as inflation seems almost unavoidable; at outturn, grant actually paid would then increase by the size of the underclaim in 1989-90 plus at least the GDP deflator.

5. Mr Ridley is nevertheless likely to deploy the argument in the 1989-90 RSG negotiations that the safety net arrangement means that grant in 1990-91 is effectively determined by the settlement for 1989-90. This would be consistent with his view that it is necessary to keep rates down in 1989-90 to prepare the way for the Community Charge. As you said at your meeting, that is the wrong way round; any generosity in grant should be in 1990-91 to enhance the appeal of the Community Charge. It may therefore be necessary to acknowledge in the E(LA) discussions that the safety net in 1990-91 could be more generous than an increase in grant at outturn in line with inflation would imply. But Mr Ridley should, presumably, have no difficulty accepting this point (which we are bound to concede anyway in due course). And in any case it will be necessary to acknowledge that grant might rise significantly in 1990-91 if we are to rebut Mr Ridley's view that grant should instead be generous in 1989-90.

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6. The announced safety net arrangements therefore seem to add a detail to Mr Ridley's argument that grant should be generous in 1989-90 to prepare the way for the new system, but do not fundamentally change the nature of his argument or the nature of the necessary counter-argument.

Robin Fellgett

R FELLGETT



FROM: A C S ALLAN
DATE: 7 June 1988

psp

BE13/16

psp

PS/CHIEF SECRETARY

cc Sir P Middleton
Mr Anson
Mr Phillips
Mr Turnbull
Mr A J C Edwards
Mr Potter
Mr Fellgett

1989-90 RSG SETTLEMENT

The Chancellor was grateful for Mr Fellgett's note of 27 May on the links between the 1989-90 and 1990-91 settlements, and about when we might acknowledge that the safety net in 1990-91 could be more generous than an increase in grant at outturn in line with inflation would imply.

2. The Chancellor would delay any acknowledgement, if possible until next year, and certainly until it is clearly needed this year - ie. if arguments about the level of the community charge next year become a major feature of E(LA) discussions this year.

ACSA

A C S ALLAN