

CONFIDENTIAL

1. MR POTTER (LG1)
2. CHIEF SECRETARY

FROM: A P HUDSON (LG1)
Date: 23 May 1989
Ext: 4945

(Copies attached for:
Chancellor
Mr Anson)

cc: Mr Phillips
Mr Monck
Mr A J C Edwards
Mrs Lomax
Mrs Chaplin

*Ch/ CST may wish to
discuss at 10.45. JIS*

LOCAL AUTHORITY CURRENT: NOTE FOR MR PARKINSON

You thought it would be a good idea for you or the Chancellor to have a word with Mr Parkinson, in advance of the Prime Minister's meeting on Thursday (25 May), and to hand him a note setting out the Treasury case.

2. I attach a draft. The Cabinet Office will be briefing Mr Parkinson on the structure of the decisions to be taken, along the lines of the note for the Prime Minister cleared with Mr Potter. So the attached draft concentrates on the bull points of the Treasury's case. I am very sorry that work on the paper for the Prime Minister prevented me from letting you have it earlier.



A P HUDSON

LOCAL AUTHORITY GRANT SETTLEMENT 1989: KEY POINTS

Decisions to be taken

1. Under the new system of local authority finance, we have to decide three things:

- (a) the need to spend, the amount local authorities, in aggregate, need to spend to provide a standard level of service;
- (b) Aggregate Exchequer Finance (AEF), the total of Government support, comprising revenue support grant, certain specific grants, and non-domestic rates;
- (c) the community charge for spending at need (CCSN), which is the difference between (a) and (b), divided by the number of chargepayers.

Obviously, we will also have regard to the actual community charges that are likely to emerge. But it is a key part of the new system that local authorities, not Ministers, set the actual community charge, and are accountable to the voters for it. And as Nicholas Ridley's paper says, some authorities will set high charges whatever we do - any extra grant will lead to higher spending, not lower charges.

2. So our objectives should be:

- (a) a fair settlement, in which the need to spend and the CCSN are challenging but realistic targets for reasonable local authorities, including, of course, the vast majority of our own supporters;
- (b) continued pressure on overspending councils to get their spending under control - the whole aim of the community charge policy;
- (c) a settlement which can be met within our overall objectives for public expenditure in what is likely to be a difficult round.

In short, a settlement which is fair, consistent, and affordable.

3. There are some points to which the Treasury attaches particular importance.

- For ten years, as a Government, we have been trying to bring local authority spending under better control. The community charge is the culmination of that.
- Extra grant tends to feed through into extra spending, rather than lower community charges. Nicholas Ridley implicitly accepted this last year, in agreeing that the end of grant penalties meant a lower settlement was called for.

Even so, spending has increased significantly, and the Prime Minister suggested that the settlement may have been overgenerous.

- The need to spend and CCSN - the benchmarks for accountability - must be realistic but challenging targets. Our own supporters, on average, are spending a little below the need to spend this year. So there is no case for a step increase.

- Basing the need to spend on this year's budgets, rather than this year's need to spend, would frank overspending.

- A high need to spend has dangers. In Scotland, some traditionally moderate spenders took the opportunity of the community charge to increase spending up to need. But accountability has yet to bring the overspenders down to that level.

- We cannot control actual community charges. They will vary considerably. But the range for Option B, at least, suggests that most moderate overspenders could be below £300, though some Labour authorities are bound to go higher, whatever we do.