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FROM: BARRY H POTTER (LG1)
DATE: 24 May 1989
x4790

CHIEF SECRETARY

cc Chancellor
Sir P Middleton
Mr Anson
Mr Monck
Mr Phillips
Mr Edwards
Mrs Lomax
Mr MacAuslan
Mr Hudson
Mr Rutnam
Mrs Chaplin

imp

LOCAL AUTHORITY CURRENT: MEETING WITH THE PRIME MINISTER,
THURSDAY, 25 MAY

I attach briefing in note form as requested for tomorrow's meeting with the Prime Minister to discuss the local authority current settlement in England for 1990-91.

Briefing

2. The briefing is set out as follows: the various notes are in descending order of likely importance:

- A - Speaking note.
- B - AEF/grant.
- C - Need to spend.
- D - CCSN.
- E - Arguments for/against options.
- F - Actual spending.
- G - NNDR.

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- H - Needs assessment/safety net.
- I - Scope for savings.
- J - Background data.

Objectives

3. As you know Mr Ridley believes the objective of the meeting should be to agree on the range of options to be presented to E(LF). Your aim should be to go further and to reach a close understanding on the key variable - the quantum of AEF. (Ideally, agreement on the need to spend and CCSN should be secured: but the precise accompanying presentation on need to spend and CCSN can be settled later if an agreement on AEF is possible.)

4. On the range of options, Mr Ridley has dropped his previous high grant option: it will be important to keep that out of consideration. Mr Ridley will however not give way on his target Option D if he can avoid it. And, only if he does give way, will you wish to move from Option A. Tactically it will be important for you to maintain Option A on the table while Option D remains.

5. On the quantum of AEF, Option A (£22.3 billion) is your target. But Mr Ridley's Option C (£22.8 billion) on AEF is your fallback (your own Option B (£22.7 billion) is a negotiating position).

6. In the event that agreement can be reached, then Option C would be a very good outcome. I understand that the Cabinet Office will be drawing the Prime Minister's attention to the Option B/Option C range as the likely area for any settlement. You may like to know that LG1's original expectation was for an outcome rather closer to Mr Ridley's target Option D (£23.4 billion), perhaps at AEF of around £23 billion.

Tactics

7. The speaking note at A also serves as a line to take for the meeting.

8. The greatest danger is that the Prime Minister will go for a lower CCSN than £265-£270. We have been seeking to influence both No.10 Policy Unit and Cabinet Office briefing to resist this: but whatever their line, the danger exists. In that eventuality you will have to move swiftly in order to point to the close link between need to spend and CCSN. Any move towards a CCSN at around £250, will mean that need to spend cannot be allowed to go above Option A on needs, even settling at your fallback position on grant. A simple ready-reckoner of AEF, need to spend and CCSN is included in Note E.

9. A second possible early diversion is the likely CCSN/actual CCs in individual authorities. DOE are in a position to give figures for Option D but not for Options A, B and C; even then their figures are on the basis of one interpretation of the safety net and new needs assessment - not cleared with us. It is best to stay off this ground. You can point to the fact that any DOE figures quoted have not been agreed with you and to the further scope for examining the distributional implications of other options. The CCSN for individual authorities will depend on decisions about needs assessments and the safety net which Ministers still have to take. And the actual CCs are up to authorities (see Note H).

10. If however the Prime Minister is content with a CCSN of around £265-£270 and the meeting can be kept away from distributional issues you will be able to focus the discussion on need to spend. This is Mr Ridley's weak ground: (I rather suspect the Cabinet Office are briefing in that vein.) The arguments against his proposals on need to spend, particularly in Option D, are set out at Note B.

Next Steps

11. Cabinet Office have certainly pointed to the possibility of agreement at around Options B/C. But the outcome is clearly uncertain. We suggest the follow-up strategy might be:

(i) if the meeting goes badly ie there is support for Option D or even something worse, it may be best to seek a second meeting with the Prime Minister before E(LF) after officials have done further work;

(ii) if the meeting reaches agreement on either a single AEF or suggests a narrower range, it will be necessary to think further how best to present the position at E(LF). Because of the long delay until the first E(LF) meeting, we are concerned that any understandings reached might be unstitched between now and then. We will therefore press for an earlier E(LF) discussion.

Barry H. Potter

BARRY H POTTER

SPEAKING NOTE FOR MEETING

Recognise importance of this year's settlement - first under the community charge.

Agree with Nick that meeting should aim to [agree/narrow the range of options] on the three crucial variables - total AEF, need to spend and CCSN - for which central government is responsible.

AEF/grant is critical in determining what will happen. Agree with Nick's paragraph 2, "...keeping grant levels down so as to discourage excessive spending".

Need to strike a difficult balance therefore: settlement must enable smooth introduction of the CC but also maintain ten year policy of bringing LA spending under better control. Must not undermine fundamental aim of improving control over LA spending at the outset, with a grant settlement that generates a further surge in current expenditure.

Need enough grant to enable LAs to set reasonable CCs: too much will increase LA spending even further - and growth has averaged 3% real over the last three years.

Differences in view on precise gearing between higher grant and higher spending. But one message very clear: past attempts to smooth the way for new systems with more grant have led to higher spending. Targets were ended in 1986-87; grant was increased by 5% in real terms in 1987-88; real spending grew by 10% over these two years. Last year's generous grant settlement (up 9% in cash) led to a real rise in spending of around 4% - second largest annual rise in 10 years.

Need to spend is important too. The figure for which central government accepts responsibility. Important signalling role. Danger that too high a need to spend will lever up spending. Scottish evidence this year suggest need to spend figure seen as a minimum by many councils. Not surprisingly accountability has as yet had no impact on overspenders.

Right place to start is this year's GREs - themselves 4% up in real terms on 1988-89. Must balance rising demands for community charge implementation costs, education and other services against huge scope for efficiency savings identified by the Audit Commission. Nick's figures also strangely take no account of savings from his own policies next year - the wider scope for fees and charges and further competitive tendering.

My favoured option (A) offers a 3½% real increase in need to spend. (NB. using GDP deflator of 4% for 1990-91.) To go further would give quite the wrong signal: at this level of need to spend Conservative councils, on average, could raise their budgets by 4% in real terms and set CCs at the CCSN (adjusted for safety net).

CCSN must set a realistic and challenging target. Nick proposes £270. Agree this is the right order. Important that the figure is high enough to provide a reasonable contribution from chargepayers. But vital politically that substantial number of well-run councils should be able to show figures on the demand note at/below that CCSN.

Combining need to spend and CCSN in option A, indicates holding AEF constant in real terms. This is the right message: continuity of policy and downward pressure on LA spending, but realistic: will enable a wide range of authorities to charge CCSN if they budget sensibly.

Arithmetical relationship between AEF, need to spend and CCSN. But AEF vital because of the behavioural relationship between grant, actual spending and actual CCs.

Central government no longer responsible for projected actual spending and community charges, but clearly important. Should not base our assessment of likely outcome solely on last year's budgets; that would validate LAs overspend much of which was financed by unusually high drawings from balances. Many local authorities will budget cautiously next year starting from underlying spending levels, excluding use of balances. Actual spending should be no higher than budgets maintained broadly constant in real terms (ie £33.2b) - providing an over-generous grant settlement is avoided. (Excluding all balances this is equivalent to an 8% cash increase on 1989-90 budgets.)

Must recognise that actual CCs will vary widely: some Labour authorities will push up their spending and their community charges whatever we do - though as Nick points out we have our capping powers to take care of them. For our own supporters the option (A) I have proposed will allow them a real increase in spending and enable them to show that their CC (including the safety net adjustment) shown on the demand note at or below the CCSN.

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NOTE B**AEF/GRANT**

- high grant levels lead to higher spending (acknowledged in last sentence of paragraph 2 of Mr Ridley's minute);
- grant as a percentage of LA expenditure has been falling for 10 years: no case for reversing that trend now;
- past experience indicates new LA finance systems cannot be bailed out by higher grant: ending targets in 1986-87 and higher grant in 1987-88 led to 10% real increase in spending over these 2 years; last year's generous 9% (cash) increase in grant led to 4% real increase in spending - second highest in last 10 years;
- under new system no financial disincentives to spending at the margin; accountability cannot have an immediate effect; so quantum of grant needs to encourage moderation on spending (a point registered by Mr Ridley last year);
- AEF scores directly in the new planning total; affordability; too high a settlement now will compress room for central programmes in the autumn;

- should negotiate on AEF and avoid separate discussion of total grant (RSG + specific grants) and RSG; if pressed, you can indicate that the total grant amount may be a little higher than DOE officials expect, because they have overestimated NNDR; [WARNING: DOE have also underestimated specific grants so, on balance, their figures for RSG are probably about right.]

- extra RSG cannot be targeted under new system: so extra amounts benefit all authorities; no help for our supporters to reduce CCs, without helping the other two-thirds of all authorities - who will add it to spending.

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NOTE C

NEED TO SPEND1. Why Mr Ridley's proposals are excessive

- Option D represents a 12% cash increase on 1989-90 GRES (needs), up to 8% in real terms; the wrong signal: no case for a "break out";
- would be largest increase in need to spend ever in the last ten years: not justified by the fundamentals of demand pressures and costs and the scope for savings;
- would allow Conservative authorities on average to raise their spending by 8% in real terms and still charge the CCSN (+ safety net): hardly an inspiring start;
- great danger that whatever figure is set becomes a minimum - particularly with a term like need to spend.

2. Why Mr Ridley starts from the wrong base

- need to spend ought to be related to the old concept of GRES, not budgets;
- taking budgets validates overspending in 1989-90, which DOE paper identifies;
- must understand what that base represents: a 7% gap between 1989-90 GRES and 1989-90 budgets; but half of that gap financed by drawing down reserves/balances of £1 billion: tends to be one-off spending, at local authorities' own discretion: if built into the base for needs, adds to burden on taxpayer and chargepayer.

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3. Why correct approach is GREs

- they represent need to spend, not a measure of what LAs choose to spend but what central government takes responsibility for in LAs spending;
- right that they should be based on last year's need to spend: Conservative authorities on average managed to stay within their GRE figures;
- excessive increase in need to spend would imply all Conservative authorities on average should raise spending in line with this;
- acknowledge case for need to spend as realistic but challenging target: agreed to one-off increase in GREs in 1989-90 (over 4%) to achieve that; no case now for a step increase, much larger than anything contemplated in the last decade;
- Option A represents a 7.5% increase in need to spend - around 3%-3½% in real terms (measured against current GDP deflator); this would be a large increase by historical standards and would mean nearly an 8% increase in need to spend over 2 years (1988-89 to 1990-91).

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NOTE D

CCSN

- CCSN a central government responsibility: it must be realistic, achievable (for those which budget sensibly) and credible
- CCSN below £260 would not be credible or achievable even for our own supporters with an acceptable quantum of AEF: actual CCs in Scotland £281 in 1990-91 (= £295 maintained in real terms for 1989-90); published actual for England is £274;
- CCSN must be a figure which well-run LAs can be expected to deliver at £270, most Conservative authorities should be able to achieve that;
- CCSN closely linked to need to spend: cannot have figures for need to spend even as high as option A, unless CC is at or close to £270;
- CCSN figures shown in paper (p.3) need to be interpreted with care; show average rate bill per adult for spending at GRE not CCSN: (Government believes outcomes would have been different if CC policy had been in place); CCSN have risen so much in 3 years because
 - (i) LAs overspend above provision; the overspend in one year, gets built into the base for the CCSN in the next;

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- (ii) GRE deliberately raised in real terms by 4% last year;
- comparison between adjusted £227 figure for 1989-90 and £270 for 1990-91 also irrelevant and invalid:
 - i) irrelevant because the figure has not been published, only the £240 (and that has attracted no public attention); while the LAAs can work it out, they also understand its artificial nature;
 - ii) invalid and artificial because it reflects changes in functions and higher than expected non-domestic rate income: Government would have taken different decisions with different functions and NNDR income in place.
- important thing is that CCSN is credible and valid for new system; comparisons with notional figures for earlier years irrelevant.

NOTE E

SUMMARY OF ARGUMENTS FOR AND AGAINST OPTIONS

1. This note summarises the likely arguments for and against the four options. "HMT" indicates Treasury arguments; "NR" indicates Mr Ridley's likely counter-arguments.

E

Option A

2. HMT arguments for:

- need to spend up 7½ per cent - significant real increase, allowing responsible councils to maintain services, while still spending at need, taking account of upward pressures on the one hand, and potential savings on the other;
- our own supporters spend slightly below need at present;
- AEF held constant in real terms.

3. NR arguments against:

- need to spend barely above last year's budgets in cash terms - very few authorities likely to be able to meet this;
- AEF up 4 per cent, but inflation bound to be higher (HMT counter: will review GDP deflator in due course: but a forward measure no reason to depart from projection at this stage;
- cash cut in RSG and total grant (RSG plus specific grants);
- average actual CCs above £300, even at bottom of range for likely spending;
- Option completely unrealistic, would be criticised even by our own supporters, and would discredit the whole policy.

Option B

4. HMT arguments for:

- need to spend up 9½ per cent on needs and significantly up on last year's budgets;
- and most of increase compared to Option A falls on the taxpayer - AEF goes up by 2 per cent in real terms, rather more than in the plans for public expenditure as a whole;
- [AEF actually almost the same as in NR' Option C];
- range of actual CCs straddles £300: on HMT spending forecast, most will be below £300; even on NR forecast, many will be, though some Labour authorities bound to be above, come what may.

5. NR arguments against likely to be modified version of those against Option A, especially:

- still unrealistically low need to spend;
- small real cut in grant.

Option C

6. NR arguments for:

- lowest realistic need to spend;
- shared burden between taxpayer and chargepayer, by building in significant increase in CCSN;
- certainly could not defend CCSN any higher than this.

7. HMT arguments against:

- wrong to base need to spend on this year's budgets - franks overspending;
- increase of over 10 per cent on this year's needs - will drag up spending in a large number of authorities;
- NB in Scotland, a number of authorities took the opportunity of the community charge to increase spending to need, but no sign yet of accountability pressures bringing overspenders back down to that level;
- compared to HMT Option B, both AEF and the CCSN have to be higher because of the high need to spend.

Option D

8. NR arguments for:

- need to spend must be realistic, so take last year's budgets, uprate for inflation, and add £200m for cost of collecting CC - only realistic way of getting to a need to spend which most authorities have a chance of meeting;
- significant real pressures on LAs - pay increases, new functions, uncertainty about CC;
- accept some of burden must fall on chargepayer, so substantial increase in CCSN - this too must be a figure which most LAs can reasonably expect to get close to;
- recognise substantial increase in AEF, but
 - important to get new system off to a good start;
 - half the increase in AEF is in the NNDR (HMT counter: estimate may be on the high side, and all in planning total anyway);
 - with uncertainty about yield of CC (defaults etc), LAs will be tempted to set high CCs to be on the safe side - all the more so if grant settlement appears mean;
- this is only option showing range of average actual CCs all below £300.

9. HMT arguments against:

- completely unaffordable;
- £2 billion on AEF, would pre-empt any room within difficult public expenditure round for priorities such as NHS, roads;
- basing need to spend on constant real budgets builds into the base every penny piece of overspending, and throws away ten years of efforts to bring LA spending under better control - CC is designed to help that, not to buy it out;
- extra grant would overwhelmingly lead to extra spending;
- package would send all the wrong signals to LAs: our own supporters might question the apparent message that they had been underspending, after all; Labour councils would have plenty of ideas for spending £2 billion, while still setting a high CC, and expecting the Government to be blamed.

READY RECKNONER FOR VALUES FOR CCSN (£)

NEED TO SPEND/ACTUAL SPENDING

| | 31.8 | 32.0 | 32.2 | 32.4 | 32.6 | 32.8 | 33.0 | 33.2 | 33.4 | 33.6 | 33.8 | 34.0 |
|----------------|------|------|------|------|------|------|------|------|------|------|------|------|
| <u>AEF</u> fbn | | | | | | | | | | | | |
| 22.3 | 264 | 269 | 275 | 281 | 286 | 292 | 297 | 303 | 308 | 314 | 319 | 325 |
| 22.5 | 258 | 264 | 269 | 275 | 281 | 286 | 292 | 297 | 303 | 308 | 314 | 319 |
| 22.7 | 253 | 258 | 264 | 269 | 275 | 281 | 286 | 292 | 297 | 303 | 308 | 314 |
| 22.9 | 247 | 253 | 258 | 264 | 269 | 275 | 281 | 286 | 292 | 297 | 303 | 308 |
| 23.1 | 242 | 247 | 253 | 258 | 264 | 269 | 275 | 281 | 286 | 292 | 297 | 303 |
| 23.3 | 236 | 242 | 247 | 253 | 258 | 264 | 269 | 275 | 281 | 286 | 292 | 297 |
| 23.4 | 233 | 239 | 244 | 250 | 256 | 261 | 267 | 272 | 278 | 283 | 289 | 294 |

NOTE F

ACTUAL SPENDING

Factual

1. Local authority budgets (adjusted to cover same functions as in 1990-91) are £31.7 billion in 1989-90.
2. This includes nearly £1 billion of spending financed by balances and special funds.
3. HMT estimate that actual spending in 1990-91 will be £33.2 billion - an increase of 4 per cent on 1989-90 (GDP deflator) plus £200 million for the extra cost of running the community charge. (We tried to persuade DoE that this was not a functional change that should be recognised specifically, but they resisted strongly, and you agreed to show the higher figure in the paper for the Prime Minister. It is an important presentational point for Mr Ridley.)
4. DoE estimate that actual spending will be £33.9 billion - a real increase of 3 per cent, in line with the average of the past three years. But they have only just desisted from suggesting an even higher number, pointing out that the 7% cash increase assumed for next year is below this year's 9% cash increase.

Arguments for the Treasury estimate

5. The base

- DoE are assuming that all expenditure out of balances is built into the base for future years.

- In fact, much of it may have been of a one-off nature - procurement spending on school books, etc - rather than continuing current spending. That is a more appropriate use of balances. While the only evidence available on this is anecdotal (from the LAAs, Treasurers and councillors), it is supported by the manpower figures which have not grown. (75% of all LA current spending is wages and salaries; much of the remainder is procurement).

- Some LAs may have inflated spending through use of balances, in the hope of prompting the Government to frank this with higher grant. We have to call their bluff. [IF PRESSED: excessive budgets can be cut back through charge-capping.]

- DoE make no allowance for increased use of fees and charges, additional competitive tendering or efficiency savings, in the base. All mean that LAs can deliver same level of services for lower net spending. The Local Government and Housing Bill extends LAs power to levy fees and charges.

6. The real increase

- Not a uniform real increase, over the last three years: 1987-88 spending increased by step change in teachers' pay; 1988-89 broadly flat; 1989-90 reflected end of grant penalties, and burst of spending, much of it out of balances, in last year of the old system, before uncertainty of community charge.

- One way to encourage high spending would be an overgenerous grant settlement.

7. Implications for community charges

- Exemplifications assume all spending above AEF falls on community charge.

- Many LAs still have ample balances to draw on. If DoE insist on including all of spending from balances in the base, should assume some continuing use of balances to finance it.

- It may be argued that LAs will raise their CCs to meet higher spending and restore balances: (that is what seems to have happened in Scotland). However large balances still available in a substantial number of authorities. And the Government should not be setting grant so that LAs can in effect build up balances.

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NOTE G

NNDR: DECISIONS AND TIMING

Background

1. There will be two sets of decisions for Ministers on the NNDR:

(a) in June final decisions on the transitional arrangements;

(b) in September/October, deciding the yield of NNDR and the starting poundage.

Transitional Arrangements

2. The main issue here is how to deal with gainers. Mr Ridley may want to drop the present proposal to limit gains to 10 per cent of the old rate bill, in real terms, so that gains would come through in full straight away. Protection for losers would be financed either by a premium on the poundage, or by the Exchequer (in effect, extra grant).

3. Mr Ridley is meeting his officials on Thursday afternoon (25 May), so is unlikely to raise this. If he does, you could say:

- will obviously consider proposals;
- but no case for Exchequer funding: always agreed transition self-financing.

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Yield

4. The yield of the NNDR will be determined broadly as follows:

- 1989-90 yield from private sector and nationalised industries uprated by September RPI;
- plus Crown contribution in lieu of rates (revalued and uprated);
- plus allowance for buoyancy;
- less mandatory reliefs for charities, deduction for effect of appeals etc.

5. This is largely a matter of arithmetic, and setting the initial poundage follows from the decisions on the yield. Mr Ridley may argue, in the autumn, that the burden on business ratepayers is too high, and that the uprating should be rather less than the September RPI. But indications so far are that he is reasonably robust on this point.

6. All the options incorporate DOE's estimate of the NNDR yield, of £10.5 billion. We think this may be on the high side - it assumes a September RPI of 8 per cent, and buoyancy of 2 per cent. So you can resist arguments that RSG looks low on the grounds that

- what matters, to local authorities and for public expenditure, is the quantum of AEF;
- the NNDR estimate may be on the high side; but this is offset by a low estimate of specific grant, so that the RSG figure may be broadly right.

NOTE H

DISTRIBUTION OF CCs: NEEDS ASSESSMENT AND SAFETY NET

Nicholas Ridley's paper flags up the issue of the pattern of CCs in England. The distribution of CCSN (any by extension actual CCs) amongst LAs depends upon their entitlement to RSG; this in turn depends upon:

- A) the needs assessment
- B) the safety net

In the long term the pattern of CCs depend upon the needs assessment. In the short term, it is determined mainly by the safety net (though need assessments still have some influence).

A. Needs assessments

DOE have been working on four basic options for need assessments. They have been shown to Mr Ridley and (belatedly) to us, though Mr Ridley has made no decisions as yet. The main points are as follows:

- i) only one of the options would put more RSG in to the shires; it is not likely to be pursued;
- ii) the DOE central (and most likely) option involves a shift of RSG resources away from shire areas and towards London;
- iii) this option will help with the difficulties posed by the prospect of high community charge in London over the medium to longer term;
- iv) but it does so only at the cost of raising community charges in the shires for a given level of spending;

- v) this prospective diversion of RSG away from shire areas means that, even though Conservative authorities spend on average below GRE at present, they may find it more difficult to do so in future: Mr Ridley may argue that, unless there is a substantial increase in the aggregate need to spend, many Conservative authorities could face a real cut in their GRE, forcing them to cut real spending in order to charge the CCSN.

Line to take

- interesting figures; not yet seen by Treasury Ministers;
- understand only figures for needs assessment on Mr Ridley's high Option D available; that option not acceptable on wider grounds eg affordability
- understand importance of needs assessment; believe need to look at this on the basis of agreed/all the options for E(LF);
- in 1990-91 any deleterious effects will largely be overridden by the safety net; over longer term shire, areas - if they do lose out on grant - likely to moderate their spending in line with new needs assessment.

B. Safety net

Government has announced basic structure of safety net: it will:

- i) keep burden of domestic taxation constant in any area in real terms for constant real level of spending in 1990-91 relative to 1989-90;
- ii) but this is subject to a maximum contribution from any LA of £75 per chargepayer; (in practice, this would have meant an addition of around £5 to CCs for LAs which lose from the new system, and so element i) above is not delivered in full);

iii) phased out over four years; and

iv) self-financing.

Safety net has the following effects on starting CCs:

- reduces CCs in Labour controlled inner London boroughs;
- increases CCs in Conservative controlled inner London boroughs;
- increases CCs in the long-term gaining areas ie the South East and the South West;
- reduces the CCs in the North.

Options on safety net

However there is scope for interpretation and manipulation of i) and ii) above but we cannot lengthen the duration ie iii) or put in Exchequer funds iv).

DOE officials have exemplified one safety net so far. It is close to the announced scheme above. DOE have been able to bring the maximum contribution down to £50 per chargepayer; this concession is financed basically by assuming Mr Ridley's high grant option. (Under high grant, CCs are lower: the gap between 1989-90 rate bill per adult and the long-term CC is reduced: so is the need for safety net financing from the contributing authorities.)

The Prime Minister earlier supported the idea of a maximum CCSN in the first year of £350. This option not likely to be very attractive; it is in any case overtaken by consideration of a transitional specific grant for ILEA - which is not likely to be raised at the meeting.

For any level of RSG, main issues on the safety net likely to be on trade-off between:

- reducing the maximum contribution to £50 or below per chargepayer; this benefits some inner London authorities such as Westminster and Kensington and Chelsea, and winning areas in the South East; and
- adding to the initial CC elsewhere; the higher this cost, the more the losers start to suffer losses in first year eg in the North [and Stockport].

Line to take

If the safety net is raised on Thursday we suggest you:

- say it is too soon to look at distribution: your options have not been exemplified;
- agree more work should be done on alternative options; and
- reaffirm that the safety net must be self-financing. (Although any other form or longer duration of safety net would require new primary legislation, we understand that Mr Gummer has floated that proposal within DOE.)

SCOPE FOR SAVINGS

AUDIT COMMISSION

Key points

1. Audit Commission reports identify potential savings of some £2 billion for local authorities as a whole.
2. By March 1988, auditors had identified annual savings of £750 million for individual LAs; authorities had actually achieved £220 million savings. More progress will have been made - but more savings identified, too.
3. So plenty of scope for further savings: not unrealistic to expect up to £500 million in total, in 1990-91.

Examples

(Figures are for total potential savings - some will already have been achieved.)

- £500 million a year on housing maintenance (report of November 1986)
- £100 million a year from better cash flow management (report of October 1986)
- £100 million a year from reducing administration costs in council housing (report of 1986)
- £30 million a year from competitive tendering for refuse collection (February 1987).

Other potential savings

- Local Government and Housing Bill extends powers to set fees and charges for a wide range of services. Potential extra income of up to £50 million (HMT estimate)..
- Compulsory competitive tendering being extended to range of services: refuse collection; building cleaning; other cleaning; school meals, and other catering; ground maintenance; vehicle maintenance; and (shortly) management of sports facilities. DOE estimate savings building up to some £300 million, once programme is complete (starting August 1989, complete by January 1994).

LOCAL AUTHORITY CURRENT SETTLEMENT 1989: FIGURES

| | 1989-90 | OPTIONS | | | |
|-----------------------------|---------|---------|-------|-------|-------|
| | | A | B | C | D |
| NEED TO SPEND fbn | 29.6 | 31.8 | 32.4 | 32.7 | 33.2 |
| Increases on 1989-90 | | | | | |
| - over GRE fbn | | +2.2 | +2.8 | +3.1 | +3.6 |
| % | | 7.4% | 9.5% | 10.5% | 12.2% |
| - over budgets fbn | | +0.1 | +0.7 | +1.0 | +1.5 |
| % | | 0.3% | 2.2% | 3.2% | 4.7% |
| AEF fbn | 21.4 | 22.3 | 22.7 | 22.8 | 23.4 |
| Increases on 1989-90 | | | | | |
| - fbn | | +0.9 | +1.3 | +1.4 | +2.0 |
| % | | 4.2% | 6.1% | 6.5% | 9.3% |
| BREAKDOWN OF AEF | | | | | |
| - RSG fbn | 9.2 | 9.0 | 9.4 | 9.5 | 10.1 |
| - Specific grants fbn | 2.7 | 2.8 | 2.8 | 2.8 | 2.8 |
| - NNDR fbn | 9.5 | 10.5 | 10.5 | 10.5 | 10.5 |
| <u>Increases on 1989-90</u> | | | | | |
| RSG fbn | | -0.2 | +0.2 | +0.3 | +0.9 |
| % | | -2.2% | +2.2% | 3.3% | 10.2% |
| SGs fbn | | +0.1 | +0.1 | +0.1 | +0.1 |
| % | | 4% | 4% | 4% | 4% |
| NNDR fbn | | +1.0 | +1.0 | +1.0 | +1.0 |
| % | | 10.5% | 10.5% | 10.5% | 10.5% |

| | 1989-90 | A | B | C | D |
|--|---------|-------|-------|-------|-------|
| <u>Increases on baseline</u> | | | | | |
| AEF fbn | | +0.2 | +0.6 | +0.7 | +1.3 |
| RSG fbn | | -0.4 | - | +0.1 | +0.7 |
| Specific grants fbn | | -0.1 | -0.1 | -0.1 | -0.1 |
| NNDR fbn | | +0.7 | +0.7 | +0.7 | +0.7 |
| CCSN £ | | 264 | 270 | 273 | 271 |
| Increase on 1989-90 published figure (£240) | | 10.0% | 12.5% | 13.8% | 12.9% |
| Increase on 1989-90 adjusted figure (£227) | | 16.3% | 18.9% | 20.3% | 19.4% |
| GRANT PERCENTAGES | | | | | |
| AEF as % of needs | 72.4% | 70.1% | 70.1% | 69.9% | 70.6% |

NOTE J2

HISTORICAL DATA FOR EXCHEQUER SUPPORT FOR LOCAL AUTHORITIES

1. You asked for figures for AEF, covering a run of years. This note also looks at other measures of Exchequer support.

AEF

2. Table 1 below shows figures for AEF for a run of years. It includes, for all years, those specific grants which will be within AEF for 1990-91. So specific grants which were within the old AEG, but are not within AEF, are excluded - the main examples are capital and loan charge grants, eg home improvement grants, and transport supplementary grant. The last column shows the 1989-90 figures adjusted for functional changes which will take place for 1990-91. (The figures for past years are outturn figures.)

Table 1: AEF, 1986-87 to 1989-90

| | £bn | | | | |
|-----------------|---------|---------|---------|---------|-----------------------|
| | 1986-87 | 1987-88 | 1988-89 | 1989-90 | 1989-90 (adjusted) |
| RSG | 9.3 | 9.9 | 9.8 | 9.6 | 9.2 |
| Specific grants | 2.0 | 2.3 | 2.4 | 2.7 | 2.7 |
| NNDR | 7.7 | 8.2 | 8.8 | 9.7 | 9.5 |
| AEF | 18.9 | 20.3 | 21.0 | 22.0 | 21.4 |

AEG

3. These AEF figures are thus very much a construct. A better measure of the "generosity" of previous settlements may be the figures which were actually agreed each year, for Aggregate Exchequer Grant, and within that RSG. Table 2 shows these figures. These are settlement figures; the outturn figures are slightly different because of the effect of grant penalties.

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Table 2: AEG, 1986-87 to 1989-90

| | £bn | | | | |
|------------------------------|---------|---------|---------|------------------------------------|---------|
| | 1986-87 | 1987-88 | 1988-89 | 1988-89 (adjusted for Polys) | 1989-90 |
| AEG | 11.8 | 13.0 | 13.8 | 12.9 | 13.6 |
| Increase on previous year | 0 | 1.2 | 0.8 | na | 0.7 |
| Of which, RSG | 9.0 | 9.7 | 10.2 | 9.4 | 9.6 |
| Increase on previous year | | 0.7 | 0.5 | na | 0.2 |

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NOTE J 3

LOCAL AUTHORITY SPENDING AND GRANT, 1981-82 TO 1989-90

| | 1981-82 | 1982-83 | 1983-84 | 1984-85 | 1985-86 | 1986-87 | 1987-88 | 1988-89 | 1988-89 (ex Polys) | 1989-90 |
|--------------------------|---------|---------|---------|---------|---------|---------|---------|---------|-----------------------|---------|
| GDP deflator | 74.281 | 79.54 | 83.225 | 87.337 | 92.12 | 95.219 | 100 | 107.25 | 107.25 | 113.149 |
| Relevant Expenditure (O) | 19,933 | 21,765 | 23,005 | 23,900 | 24,039 | 26,370 | 28,704 | 30,877 | 30,242 | 33,114 |
| Rel. Exp. (Real) ■ pnds | 26.835 | 27.364 | 27.642 | 27.365 | 26.095 | 27.694 | 28,704 | 28,790 | 28.197 | 29.266 |
| Real change % | | 1.97 | 1.02 | -0.01 | -4.64 | 6.13 | 3.65 | 0.3 | n.a. | 3.8 |
| GGE(ex pp)(Real) bn pnds | 162.9 | 167.3 | 170.1 | 174.9 | 174.6 | 177.3 | 177.0 | 173.5 | 173.5 | 176.4 |
| Real change % | | 2.7 | 1.67 | 2.82 | -0.17 | 1.55 | -0.17 | -1.98 | -1.98 | 1.67 |
| AEG(S) ■ pnds | 10,900 | 11,500 | 11,800 | 11,900 | 11,800 | 11,800 | 13,000 | 13,775 | 12,940 | 13,575 |
| AEG(S)(Real) ■ pnds | 14,674 | 14,458 | 14,178 | 13,625 | 12,809 | 12,392 | 13,000 | 12,844 | 12,065 | 11,997 |
| Real change % | | -1.15 | -1.94 | -3.9 | -5.99 | -3.26 | 4.91 | -1.2 | n.a. | -0.5 |
| AEG(O) ■ pnds | 10,900 | 11,200 | 11,500 | 11,900 | 11,785 | 11,961 | 12,744 | 13,297 | | 13,575 |
| AEG(O)(Real) ■ pnds | 14,674 | 14,081 | 13,818 | 13,625 | 12,793 | 12,562 | 12,744 | 12,398 | | 11,997 |
| GRE ■ pnds | 17,194 | 18,358 | 19,156 | 20,003 | 21,237 | 22,952 | 24,237 | 26,015 | 25,180 | 27,662 |
| GRE (l) ■ pnds | 23,147 | 23,080 | 23,017 | 22,903 | 23,054 | 24,104 | 24,237 | 24,256 | 23,478 | 24,447 |
| Real change % | | -0.3 | -0.3 | -0.5 | 0.7 | 4.6 | 0.6 | 0.0 | n.a. | 4.1 |
| Grant percentage (S) | 59.1 | 56.1 | 52.8 | 51.9 | 48.7 | 46.4 | 46.4 | 46.2 | n.a. | 43.3 |
| Grant percentage (O) | 54.9 | 51.7 | 49.8 | 50.0 | 49.0 | 45.4 | 44.4 | 42.8 | 41.2 | n.a. |