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CHIEF SECRETARY

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

*The draft
statement needs
a great deal
of work. No
word is.*

cc: Chancellor
Mr Anson
Mr Phillips
Mr Edwards (LG)
Mrs Lomax (GEP)
Mr Hudson (LG1)
Mr G White (LG1)

*Told APS/CST
14/7*

LOCAL AUTHORITY CURRENT SETTLEMENT: ENGLAND

You asked me for a progress report on the arrangements for announcing the local authority current settlement for England.

2. First Mr Phillips is now dealing with the timing of the statement. He will report separately on that.

3. Secondly I understand that DOE lawyers and Parliamentary Counsel are now persuaded that the specific grant route is the best approach to paying additional assistance in areas of low rateable value. The Environment Secretary will be writing round recording that view shortly. But he will also make colleagues aware that any further minor changes to the transitional measures, which the government might propose to effect through this legislation, could be subject to challenge on procedural grounds. We await Mr Ridley's letter.

4. Thirdly, we are still pursuing the Chancellor's concern about the safety netted community charges for inner London authorities.

5. At present the ILEA specific grant and the safety net interact such that the specific grant provisions override the safety net. This leads to community charges below the average uprated rate bill per adult in some boroughs. Were we to reverse the process, so that the ILEA specific grant was within the safety net, then the safety net would override the specific grant:

Accordingly most inner London boroughs would receive no help under the transitional specific grant. (The only gainers would be Westminster, the City of London, Hackney, and Kensington and Chelsea.) Mr Ridley rejected this approach earlier on presentational grounds. The Education Secretary would not be attracted to it either.

6. I think however there may be an intermediate position. The ILEA specific grant would remain outside the safety net. But we would add an overriding provision to the safety net, such that no authority could end up with a safety netted community charge in 1990-91 below the uprated average rate bill per adult in 1989-90. (I fear this is effectively a safety net on the safety net.) Under this arrangement, every inner London authority would get some benefit from the ILEA specific grant. Moreover there would be a saving on total grant, which would be available to increase, albeit marginally, the percentage of gains allowed through. This is attractive presentationally. I have commended this approach to DOE: they are investigating whether it can be managed both technically and within the legislative arrangements.

7. If any legal problems can be overcome, DOE officials certainly had no objection to the proposal. But Mr Ridley might be unhappy as might Mr Baker. In that event you and the Chancellor will wish to judge how to pursue the issue within the time left before the RSG statement.

8. Fourthly, we have received the DOE draft statement (attached at A): it has already been seen by Mr Ridley and reflects his comments. DOE officials indicated that he may not have examined it very carefully.

9. Frankly it is an unattractive flat presentation. I have had a first shot at redrafting the statement to make it clearer (and hopefully) more attractive in presentational terms (attached at B). You may like to have a glance through both versions. We will undertake further work tomorrow to improve upon the statement before sending it back at official level. We can of course reflect in that official letter any thoughts which you or the Chancellor might have on the statement.

10. Finally, DOE are unclear on what exemplifications can be circulated with the statement. I will report further on this as soon as possible.

BHP

BARRY H POTTER

A.
(Apologies for the
manuscript changes:
the one on the second
to ignore.)

LOCAL GOVERNMENT FINANCE

1. With permission, Mr Speaker, I should like to make a statement about the Local Authority Grant Settlement for 1990/91 for England.

general Expenditure

2. As the House will know, next April sees the introduction of a new Local Government Finance System. The community charge will replace domestic rates, there will be a uniform national business rate, and there will be a new grant system. In order to help local authorities plan their budgets in the first year, I am today announcing the Government's proposals for the amount of support which will be available to local authorities in England from grants and business rates.

3. In the current year, 1989/90, English local authorities have budgeted to spend about £30.3 billion. This is £1.2 billion more than the Government had provided for in the last ^{Rate Support Grant} RSG Settlement. It is equivalent to £1.9 billion more than the total of GREs, the Government's assessment of the amount which authorities needed to spend. Spending increased by 9%, which is more than the rate of inflation. Over the last four years local authority expenditure has increased by 13% in real terms.

Maintaining the downward trend in 96 9

proportion of GDP

4. This is ^{very} disappointing. Controlling public expenditure remains a priority: only in this way can we create the conditions for sustained economic growth and for defeating inflation. Local

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authorities must play their part. They can make substantial savings, through increased efficiency, through contracting out, and in some cases by eliminating wasteful and unnecessary activities. They can also seek to control the cost of their pay rolls, which ^{will have} is one of the main reasons for their increasing expenditure.

5. In assessing the amount of revenue spending which is appropriate for 1990/91, known as Total Standard Spending, I have taken account of what can reasonably be afforded, given the need for restraint in public expenditure and the Government's priorities for spending as between different programmes. ^{I have also taken into account the scope for savings as noted above.} The fact is that authorities are this year spending nearly £2 billion more than the Government's estimate of what needed to be spent. ^{Finally} I have also taken into account the amount authorities are spending now, and the Local Authority Associations' views about the pressures ^{under the scope for savings} for increased spending next year. ^I I discussed this with them in the Consultative Council on Local Government Finance on 12 July.

^(I doubt whether the LAA's believed it amounted to discussion!)
6. I propose to base the grant distribution arrangements on the assessment that local authorities need to incur revenue expenditure of £32.8 billion in order to provide a standard level of service. On a comparable basis, ^{represents about} allowing for technical changes such as the ring-fencing of the Housing Revenue Account, this is ~~equivalent to 11% more than the amount the Government assessed authorities needed to spend this year, and~~ ^{it} is £1.2 billion more than they have budgeted for. I have ^{been} determined to set

^{the first} assessment of total standard spending under the new system ~~as~~ a realistic but challenging target for LA's.

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7. In the Autumn we shall announce details about the amount of Standard Spending Grant, various other grants and the amount which is likely to be raised from business rates. To help local authorities in their planning, I can announce that I propose that the aggregate amount of ^{central go. funding} support which will be available from these sources will be £22.9 billion. This is £1.5 billion more than in the current year, an increase of [?]. In addition, I intend to provide a further £200 million for two new specific grants which I shall describe shortly, making £23.1 billion in support of revenue spending.

8. This implies that if local authorities budget to spend in line with our standard assessment, ^{£270} £9.9 billion will fall to be raised from community charges. That corresponds to an average community charge of about ^{£275} £275. ^{In principle, this} This is the level of charge every authority would need to set if they ~~all~~ ^{and actual} spend in line with the Government's standard assessment. ^{also} Actual community charges, will, of course, depend on local authorities' own spending decisions, ~~and if they choose to spend less than the Government's standard assessment the average community charge will be lower than £275, and vice versa.~~ ^{But in 1990-91, we} The actual charge in each area will also depend on the transitional arrangements.

9. As the House will know, we have proposed that there should be a four year transitional safety net in order to phase-in the impact of the new system, so that those people living in areas which have traditionally had low rates will have a period in which to adjust to the demands on their personal budgets. ~~It is right that~~ ^{It} If LAs budget at standard spending, each LA should be able to set a CC in 1990-91 which is very little different at most to more than a small margin above the average rate bill per adult for that year, updated by inflation.

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believe it is right that those people should have some protection. But that protection does have to be paid for by the gainers surrendering some of their gains. Our earlier proposal envisaged that all gains up to £75 per adult would have to be surrendered to pay for protection.

would have to be given up

*(except for 20 unemployed
families*

10. I believe this represents the wrong balance between the interests of gainers and losers. It is wrong that areas which have suffered under the present unfair system of resource equalisation should have to wait a further year before seeing any relief. I am therefore now proposing that losses of up to £25 per adult should be allowed to feed through in the first year. This will allow those who gain from the reform of the finance system to see between 40% and 50% of their gain come through to them in the first year. The precise figure will not be known until the Autumn. In this way we can begin to move more quickly towards the position we shall have once the new arrangements are fully in force.

in general, ~~in~~ the relevant areas

which would add up to £25 to allow the uprated average rate rise per

over local authorities

11. There are, however, some authorities where due to the historical accident of low rateable values the adjustment to the full Community Charge is generally greater proportionately than in other areas. The original safety net proposals would have prevented them from paying any increase in the first year beyond their existing rate bill per adult. I do not think we should frustrate their expectations because of my revised proposals for the safety net. I therefore intend to provide extra protection through a specific grant of up to £25 per adult for authorities

Given a relatively greater proportion of

*allowing
with
would
be
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in England where the average domestic rateable value per hereditament is £130 or less and where the introduction of the new system results in a loss. Authorities with average domestic rateable values between £130 and £150 will receive support on a tapering scale. This support will cost roughly £100 million. I will publish in the Official Report a list of authorities likely to qualify under these criteria.

12. Secondly, my RHF The Secretary of State for Education and Science has today announced that the Government will be making available a transitional grant to inner London boroughs taking over education responsibilities from ILEA on 1 April. This grant will be £100 million in 1990/91. It will take some time for the boroughs to eliminate wasteful expenditure inherited from ILEA. This grant will provide transitional protection for their chargepayers while the savings are realised.

13. I will place in the Library ^[today] ~~tomorrow~~ ^{might} exemplifications showing how a safety net on this basis ~~would~~ have operated in 1989/90 had the new system been in force then. These exemplifications reflect authorities' own 1989/90 spending decisions, and show what the Community Charge would have been in each area.

14. I shall be discussing these proposals with the Local Authority Associations in September. I will bring forward full proposals for the Settlement in the Autumn, including details of the methodology which we propose to use to distribute the grant between authorities.

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15. Mr Speaker, under these proposals if local authorities moderate their spending and improve their efficiency, the average community charge need be no higher than £275⁰, and could be lower. We recognise the particular problems some authorities face through the change to the new system, and we are providing extra help targetted on these areas. But it will be for local authorities to set their budgets, and for community chargepayers to judge whether the amount they are asked to pay reflects value for money.

FLG

12 July 1989

LOCAL GOVERNMENT FINANCE

1. With permission Mr Speaker I should like to make a statement about the local authority grant settlement for 1990-91 for England.

2. As the House knows, next April sees the introduction of a new local Government finance system. The community charge will replace domestic rates; there will be a uniform national business rate; and there will be a new grant system. The aim of the new local Government finance arrangements is to improve control over local authority spending by making local councils more accountable to their chargepayers through the ballot box. Next year we can look forward to beginning the process of reining back the excessive growth in local authority spending of recent years.

3. To help local authorities plan their revenue spending in the first year, I am today announcing the Government's proposals for the aggregate external finance or AEF from Exchequer grants and business rates - the central Government support towards local authorities current spending next year. I am also announcing the first assessment of total standard spending under the new system and the implied community charge, if LAs budget at the standard spending assessment. This community charge for standard spending is the key benchmark for accountability under the new system.

First total standard spending. This is the total amount of current spending which the Government believes local authorities will have to undertake in order to provide appropriate levels of local services on an efficient basis. The background is very unsatisfactory. In the current year 1989-90, English local authorities have budgeted to spend about £30.3 billion. This is £1.2 billion more than the Government provided for in the last Rate Support Grant settlement; and it is £1.9 billion more than the total of GREs, the Government's assessment of authorities' need to spend. Local authorities budgets have been increased by 9%, ahead of the rate of inflation. Indeed on the basis of these budgets, over the last four years, local authority current expenditure will have increased by 13% in real terms.

5. This is very disappointing. Maintaining the downward trend in public expenditure as a proportion of GDP is an essential element of the Government's economic policy; only in this way can we create the conditions for sustained economic growth and for defeating inflation. Local authorities must play their part.

6. I am therefore determined to set the first assessment of total standard spending under the new system on a realistic achievable but nonetheless challenging basis for local authorities in England. To do so I have had to balance a number of factors: the fact that authorities are this year spending nearly £2 billion more than the Government's estimate of what needed to be spent; the scope for savings through increased efficiency, contracting out and in some cases the elimination of wasteful and unnecessary activities; and the local authority associations own views about the pressure for increased spending next year, which I discussed with them in the Consultative Council on Local Government Finance on 12 July.

7. I propose that total standard spending should be set at £32.8 billion: this will be the aggregate on which the grant distribution arrangements will be based. Total standard spending is a new concept and represents a break from the previous grant related expenditure assessments (GRES). At £32.8 billion, total standard spending is around £1.2 billion more than local authorities have budgetted for this year, even though that itself was well above the Government's plans. Allowing for technical changes such as ring-fencing of the Housing Revenue Account, total standard spending also represents a considerable real increase on the amount which the Government believed authorities needed to spend in 1989-90.

8. Secondly, I propose that general central support to local authorities should be set at £22.9 billion. This is £1.5 billion more than in the current year, an increase of just over 7%. In addition, I intend to provide a further £200 million for two new specific grants which I shall describe shortly, making £23.1 billion available in support of revenue spending. In the autumn we shall announce details of how that AEF will be divided between Revenue Support Grant (or Standard Spending Grant), various other specific grants, and the amount which is likely to be raised from business rates.

9. Thirdly, taken together my proposals for total standard spending and AEF mean that if local authorities budget in line with the standard spending assessment, £9.9 billion will fall to be raised from community charges. That corresponds to a community

charge for standard spending of about £275: in principle this is the level of charge every authority will be able to set, if they spent in line with the standard spending assessment.

10. In 1990-91, the actual charge in each local authority will also depend upon the transitional arrangements. As the House will know we have proposed that there should be a transitional safety net in order to phase in the impact of the new system. The objective was that local authority areas which have traditionally been able to set low domestic taxes should have a period in which to adjust their budgets, so that they need not place unreasonable new demands on their local chargepayers. I continue to believe it is only right, that if local authorities budget in line with standard spending, they should be able to set a community charge in 1990-91 which is - at worst - no more than a small margin above the rate bill per adult for this year, uprated by inflation.

11. I have however looked again at the details of the safety net in the light of the proposed grant settlement and the responses to our earlier safety net proposals.

12. Our earlier proposals envisaged that there should be no loss of support from grant and business rates in any area; and that all gains would similarly have to be given up, except for the very largest gainers which were protected by a maximum contribution to the safety net of £75 per adult. I believe this represents the wrong balance between the interests of gainers and losers. It is wrong that areas which have suffered under the present unfair system of resource equalisation should have to wait a further year

fore seeing any relief. Equally it is wrong that, in the first year of the new system, areas which lose from the new local Government finance system should have to make no adjustment.

13. My new proposals are as follows. For local authorities which gain from the reform of the local Government finance system, between 40-50% of their gains from higher grant should come through to them in the first year - the precise figure will not be known until the autumn. In this way they would be moving considerably more quickly towards the position once the new arrangements are fully in force. It follows that, a very small amount of losses in losing areas should come through in the first year: in short local authorities should begin in 1990-91 to make the adjustment to the new local Government finance system. But the losses implied are very modest indeed: if the local authorities concerned budget in line with standard spending, they will be able to set community charges which add only 50p per week to the uprated average rate bill per adult.

14. There are however some authorities where, because of low rateable values, the adjustment to the full community charge represents a generally greater proportionate burden on local taxpayers than elsewhere. The original safety net proposals would have prevented them from paying any increase in the first year beyond the existing rate bill per adult. Given the relatively greater impact upon them of allowing even modest losses through, I do not think we can frustrate their expectations because of my revised proposals for the safety net now.

I therefore intend to provide extra protection through a specific grant of up to £25 per adult for authorities in England where the average domestic rateable value per hereditament is £130 or less and where the introduction of the new system results in a loss. Authorities with average domestic rateable values between £130 and £150 will receive support on a tapering scale. This support will cost roughly £100 million. I will publish in the official report a list of authorities likely to qualify under these criteria.

16. Also my Rt Hon Friend the Secretary of State for Education and Science and I have decided that the Government should make available a transitional grant to inner London boroughs taking over education responsibilities from ILEA on 1 April. This grant will be £100 million in 1990-91. It will take some time for the boroughs to eliminate wasteful expenditure inherited from ILEA. This grant will provide transitional protection for their chargepayers while the savings are realised.

17. Compared to the original proposals for the safety net, these revised arrangements will enable much quicker progress towards the full introduction of the new local Government finance system. A large percentage of the gains will come through to gaining areas immediately. In inner London, where community charges threaten to be highest, the proposed specific grant will hold down community charges, if authorities budget sensibly. There will be special protection for areas with low rateable values. And the maximum extra that local councils in any losing authority need impose on their local chargepayers works out at only 50p per week per adult.

18. Following discussion of these proposals with the local authority associations in September, I will bring forward full proposals in the autumn, including details of the methodology which we propose to use to distribute the grant amongst authorities.

19. Mr Speaker, under these proposals, if local authorities moderate their spending and improve their efficiency, the average community charge need be no higher than £275. It could be lower. We are recognising the particular problems some authorities face through the transition to the new system; and through the revised safety net proposals we are providing extra help targeted on these areas. All gaining authorities will now see a substantial part of their gains in the first year.

20. This settlement provides an excellent foundation for the new system of local government finance. It is now for the local authorities to set their budgets and the community chargepayers to judge whether the amount they are asked to pay reflects value for money.