

CONFIDENTIAL



B cept ✓

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Nicholas Ridley AMICE MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
London
SW1P 3EB

16 September 1988

Dear Secretary of State,

COMMUNITY CHARGE: SPECIFIC GRANT FOR PREPARATION COSTS

Thank you for your letter of 8 September pursuing the case for a specific grant in 1989-90 towards the current costs of preparing for the introduction of the Community Charge.

I have carefully reconsidered the proposal. I appreciate that you believe there would be presentational advantages in introducing a specific grant towards the preparation costs. But I do wonder how important these would be.

The bulk of authorities responsible for setting up a collection fund will be in receipt of block grant and therefore would get grant support for Community Charge preparation costs. We have already announced that the full £110 million for such costs is to be added to GREs. It is true that local authorities will not be able to identify a specific sum within their total block grant and that some authorities will nonetheless see their total block grant payment fall between 1988-89 and 1989-90 - for example, because their relative needs have fallen or resources increased. But how much difference will it make to such authorities whether they receive say £3 million less in block grant in 1989-90 and no specific grant for CC preparation costs or £4 million less in block grant plus £1 million specific grant? I would be surprised and dismayed if councillors thought the latter presentationally important.

Moreover I would not be so inclined to dismiss Malcolm Rifkind's objections to the specific grant. I think it would be difficult to explain why a specific grant was necessary in England but not in Scotland. (I take the point about some authorities being out of block grant in England but these are all either rich and need no grant assistance or overspenders and deserve none.)

CONFIDENTIAL

We also need to consider the position on capital expenditure for CC preparation costs, where you have an outstanding bid for £150 million in additional capital allocations. We will be discussing that bid shortly: but I understand it is your intention not to "top slice" any allocations agreed ie not to earmark them for this particular purpose and to leave it to the local authority associations to distribute them. It seems odd that you see a requirement for a specific grant so as to channel visibly grants towards the current preparation costs, while being content neither to earmark nor control the distribution of the larger amounts proposed for capital expenditure.

In short I remain unconvinced that the presentational case is made. As you and I have so often argued in the past specific grants are inherently undesirable since they reduce the amount available within AEG for block grant and reduce the financial incentives for efficiency and value for money. Moreover the Local Government Finance Act requires LAs to prepare for the CC; and they have a strong financial incentive to meet that requirement, in order to collect their main source of own revenue. Quite simply I do not believe it is desirable for us to appear to offer additional grant support in order to encourage LAs to do something they are required to do by law and is in their own financial interests.

I am copying this letter to the Prime Minister, other members of E(LF) and to Sir Robin Butler.

Yours sincerely,
P. Wainwright

PP JOHN MAJOR

[Approved by the Chief Secretary
and signed on his behalf.]