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SECRETARY OF STATE FOR THE ENVIRONMENT

PRIME MINISTER

MEETING WITH COLLEAGUES ON THE COMMUNITY CHARGE SAFETY NET - TUESDAY 6 JUNE

You are due to meet John Wheeler, Jeremy Hanley, David Gilroy Bevan and Tony Favell on 6 June to discuss the impact of the safety net on their constituencies. All of them are substantial contributors to the safety net and all of them have marginal seats.

I attach a background note on the safety net and possible options for change as well as individual notes on the figures for each of the four constituencies. (The latter are based on 1988/9 local authority expenditure - we have yet to publish 1989/90 figures.)

John Gummer and I would be delighted to come along for the meeting itself. My advice is that you should make three points:

- You have every sympathy with the points raised and will obviously give them careful consideration;

- Decisions on the safety net have to be considered in the wider context of decisions on next year's grant; and

- They will be aware that other colleagues with marginal seats - for instance in parts of Lancashire and Inner London - benefit from the safety net and we have to consider their interests as well.

R Bright

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1 June 1989

(approved by the Secretary of State and signed in his absence).

THE SAFETY NET - Background Note

Purpose of safety net

1. The introduction of the community charge in 1990/91 will have two major impacts:

- the change from rates to the community charge as the basis of paying for local authority services will mean a redistribution of payments between individuals and households;

- consequent changes in the grant system and non-domestic rates, particularly the ending of resource equalisation will mean a redistribution of the burden between local authority areas.

2. The safety net is intended to ensure that, as far as possible, only the first of these changes comes through in 1990/91. The changes in the grant system will be phased in over later years. It is not possible to provide safety nets to individuals or households. It has been considered that the burden of both changes in one year would be too great for some households.

Requirements of the 1988 Act

3. The 1988 Local Government Finance Act makes provision for transitional adjustments to grant which would be used to implement the safety net. The safety net must be self financing, there must be positive and negative adjustments which sum to zero. So if some authorities are to receive a safety net grant, others must lose grant through the safety net. The transitional adjustments are paid to or from each area's collection fund and not to or from individual authorities.

4. Safety net adjustments can be made in four years, starting in 1990/91. We have generally assumed that the safety net will be phased out in equal instalments, over four years but the Act does not require this. It could be phased out more quickly or on an uneven profile.

Public commitments

5. Ministers have said publicly that the safety net will operate so that, as far as possible, the burden on the domestic sector in any area will be broadly the same in real terms as in 1989/90, for consistent levels of spending. This has generally been interpreted as meaning that 1990/91 community charges should be the same in real terms as average 1989/90 rate bills per adult.

6. Ministers have also said that there will be a maximum contribution to the safety net of £75 per adult in 1990/91. This will be financed by a flat rate per adult reduction in safety net adjustments for those areas receiving extra grant from the safety net.

7. Both of these features were built into the published illustrative charges for 1988/89.

8. Ministers have further said that they will use the safety net to protect authorities from the effects of the abolition of ILEA and ring fencing of the Housing Revenue Account. The safety net would also limit the effect of new 'needs' assessments.

Possible modifications

9. The safety net could be phased out more quickly than four years so that changes come through more quickly. Part of the change could be allowed to come through in 1990/91.

10. The maximum contribution to the safety net could be reduced to, say, £50, but that would mean less of a safety net for areas benefitting from the net.

11. A maximum charge after the safety net of, say £350. This would not necessarily deliver charges of £350 on the ground, but if authorities spent at or below the spending level assumed for the safety net calculation, their charge could be £350 or less.

WESTMINSTER 1988/9 COMMUNITY CHARGE FIGURES

Average rate bill	- £793
First year community charge (1990/1)	- £448
Final year community charge (1994/5)	- £373
Contribution to Safety Net	- £75
UBR	- 45.9%
Underspend by Westminster Council	- £50
Overspend by ILEA	- £218
Overspend by London Fire	- £3
Local income tax rate	- 10.7p
Local income tax bill for single person on male average earnings	-£1082
Capital value plus local income tax bill for single person on male average earnings (£12,725) living in home worth £70,000 (80/20 basis)	-£1157

All figures based on 1988/9 spending levels

1. On these figures the average two adult household in Westminster would be about £2 a week worse off in year one. Without ILEA's £218 overspend they would be over £6 a week better off. With the safety net unwound they would be nearly £1 a week better off or over £9 a week better without ILEA's overspend. [However, not even the Conservative Inner London boroughs believe they can get rid of all - or even most - of ILEA's notional overspend.]

2. The business rate poundage would rise by 45.9%.

3. A ward sister might pay over £20 a week in local income tax or over £22 a week under Labour's two tax system, compared with over £7 a week final year community charge (all figures unsafety netted).

RICHMOND 1988/9 COMMUNITY CHARGE FIGURES - JEREMY HANLEY

Average rate bill	- £604
First year community charge (1990/1)	- £325
Final year community charge (1994/5)	- £259
Contribution to Safety Net	- £66 75
UBR	- 13.7%
Overspend by Richmond Council	- £54
Overspend by London Fire	- £3
Local income tax rate	- 6.9p
Local income tax bill for single person on male average earnings	- £696
Capital value plus local income tax bill for single person on male average earnings (£12,725) living in home worth £70,000 (80/20 basis)	- £778

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All figures based on 1988/9 spending levels

1. The average two adult household in Richmond would be nearly £1 a week worse off in 1990 on these figures. Without Richmond Council's £54 per adult overspend they would be over £1 a week better off. With the safety net removed they would be nearly £2 a week better off or nearly £4 a week better off without Richmond Council's overspend.

2. The UBR would put the business rate poundage up by 13.7%.

3. A ward sister living in Richmond might pay over £13 a week in local income tax, or around £15 a week under Labour's two tax proposals. This compares with about £5 a week in community charge (all unsafety netted figures).

BIRMINGHAM 1988/9 COMMUNITY CHARGE FIGURES - DAVID GILROY BEVAN

Average rate bill	- £542
First year community charge (1990/1)	- £275
Final year community charge (1994/5)	- £218
Contribution to safety net	- £57
UBR	- -5%
Overspend by Birmingham City Council	- £13
Overspend by West Midlands Fire	- £2
Overspend by West Midlands Police	- £2
Underspend by West Midlands Transport	- £1
Local income tax rate	- 5.5p
Local income tax bill for single person on male average earnings	- £560
Capital value plus local income tax bill for single person on male average earnings (£12,725) living in home worth £50,000 (80/20 basis)	- £492

All figures based on 1988/9 spending levels

1. The average two adult household in Birmingham would see little change in their bills in the first year. With the safety net gone they would be about £2 a week better off. [Birmingham's safety net contribution has been portrayed locally as a subsidy to high spending London boroughs.]

2. The business rate poundage falls by 5%.

3. A ward sister might pay nearly £11 a week in local income tax or about £9.50 a week under Labour's two tax proposals. This compares with just over £5 a week in community charge (all figures unsafety netted).

STOCKPORT 1988/9 COMMUNITY CHARGE FIGURES - TONY FAVELL

Average rate bill	- £541
First year community charge (1990/1)	- £278
Final year community charge (1994/5)	- £223
Contribution to safety net	- £55
UBR	- -3.7%
Overspend by Stockport Council	- £12
Overspend by Greater Manchester Fire	- £4
Overspend by Greater Manchester Transport	- £4
Overspend by Greater Manchester Police	- £1
Local income tax rate	- 5.7p
Local income tax bill for single person on male average earnings	- £577
Capital value plus local income tax bill for single person on male average earnings (£12,725) living in home worth £40,000 (80/20 basis)	- £426

All figures based on 1988/9 spending levels

1. On these figures the average two adult household living in Stockport would see little change in their bill in the first year. With the safety net gone they would be nearly £2 a week better off.

2. The business rate poundage falls by 3.7%.

3. A ward sister might pay around £11 a week in local income tax or just over £8 a week under Labour's two tax proposals compared with just over £4 a week community charge (all figures unsafety netted).