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PRIME MINISTER

E(LF): LOCAL AUTHORITY GRANT SETTLEMENT 1990-91

This note addresses two issues:

- the average level of community charge: this will be the key figure to defend next April and governs the impact on the RPI

- the safety net: how far should winners pay for losers?

Average level of Community Charge

- i.e. based on expected spending; CC at standard spending will be £275. PRCG.

Nicholas Ridley puts this at £301. This would be 12% up on average rates per adult this year. It would mean 0.5 on next April's RPI (the last before the May local elections) compared with 0.4 this year from the rates.

But it assumes that next year's spending is only 7% above this year - i.e. close to a real terms standstill. This looks unrealistic and Mr. Ridley admits it could be higher.

On Kenneth Baker's figures, next year's local authority spending would be about 10.7% above this year's - i.e. a real terms increase of perhaps 4%. Without extra grant this would mean an average community charge of £330.

That would be a 23% increase on this year's average rates per adult and would put 1.15 on next April's RPI.

Spending seems likely to be nearer the top of this range than the bottom. The pressures highlighted in Kenneth Baker's paper do exist, and many authorities will judge that the impact of high community charges will not have hit voters' pockets by the May local elections. They will simply push blame on to the Government.

There is in particular a real danger that, if the average charge moves above £300, opponents will be able to characterise the whole community charge as inflationary. This will be the more damaging since so many people stand to gain from it. (The 1986 Green Paper said that 85% of pensioner households would benefit.) The agreed methodology for including community charge in the RPI unfortunately excludes the impact on pensioners and the effect of rebates. Both of these offset measured 'inflation'.

So it is absolutely crucial to keep the average charge down to £300, and less if at all possible.

## Safety Net

It will not be possible to reach a final decision at this meeting. At first sight Nick Ridley's latest proposal looks more balanced and defensible. All losers lose something at the outset. But small gainers gain less than under the original proposals. Big gainers, mostly in the South-East, get their gains quicker. Opponents will try and dub this a North-South issue. The reality is a tangled web across the whole country, whatever option is chosen.

The latest proposal gives greater benefit to, for example

- inner London
- some outer London boroughs (e.g. Barnet, Harrow, Richmond)
- Stockport (327 against 347 for Manchester, assuming a 7% spending increase)
- West Midlands
- Home Counties.

But a bit less benefit to:

- Lancashire
- Lincolnshire
- West Country
- North Yorkshire
- Outer London (on average).

More figures are needed to show precise effects at different spending levels.

Two points of concern:

- it is proposed that the £26 safety net contribution be itemised on bills. But this could upset gainers, whose support is crucial to the success of the whole business. It is worth asking if the presentation of the safety-net needs to be so blunt.

- assuming a 7% increase in spending, and assuming that this is roughly a real terms standstill, Table 4 suggests that it is going to be <u>really difficult</u> to sustain the Government's original pledge that, with no real change in spending, the charge would be the same in real terms as the average 1989/90 rate bill. There is some vagueness about this pledge but, as Nick Ridley points out, its general import was clear, and the end result must have very careful regard to it. This will need looking at again when further figures are produced.

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<u>21 June 1989</u>

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