



Paul Gray Esq  
Private Secretary  
10 Downing Street  
LONDON SW1

2 MARSHAM STREET  
LONDON SW1P 3EB  
01-276 3000

My ref:

Your ref:

10 October 1989

*Mr. Turnbull*  
1. X effectively equals the alternative approach in my mind to the Prime Minister. Is she content?

2. I don't think paras. 21-24 give as much analysis as the Prime Minister wanted. Does she want a fuller paper?

*Dear Paul*

3. If X is adopted would the Prime Minister prefer?  
(a) No indication of the transitional period.  
(b) or saying it will last 3 years but without further details.

My Secretary of State and the Chancellor have discussed the phasing out of the area safety net, the low rateable value grant, the ILEA grant and the transitional relief. *Reeb*

*10/10*

They are in agreement on the proposals for the first three issue. The area safety net and the low RV grant should phase out together over four years, and the ILEA grant over five years. Details are set out in the attached note.

They have not reached agreement on the phasing out of transitional relief. My Secretary of State favours keeping relief at the same level in years one and two. Administrative costs would be much lower in year two, and a number of people would have dropped out of the scheme because they had moved. Overall costs would, therefore, fall from £300m in year one to about £200m. This approach would have the added advantage of helping those who might be losing in 1991/2 from withdrawal of housing benefit relief. The Chancellor favours a reduced rate of relief in year two.

In the circumstances my Secretary of State proposes Lord Hesketh should announce the phasing of the area safety net in his statement. He believes that unless this support is quantified, the Government's promise to pay for protection in subsequent years will not be recognised as an important and effective response to back bench concerns.

He also proposes to resolve quickly with the Chancellor and the Prime Minister the phasing of transitional relief with a view to announcing a decision on this next week.

I am sending a copy of this to John Gieve (Treasury).

*Roger Bright*

ROGER BRIGHT  
Private Secretary

*faxed 18/10*  
*10/10*

## PHASING OUT OF TRANSITIONAL GRANTS

1. This note sets out how the four transitional grants which form part of the Settlement should be phased out. While some details of the arrangements for later years may be left open or may be reconsidered at the time, preliminary decisions are needed now to underpin the announcement on 11 October, consultation on the Settlement at the beginning of November and to enable the figures to be settled for the Autumn Statement and the Public Expenditure White Paper.

2. The four grants are:

- the area safety net
- the ILEA transitional grant
- the low rateable value areas grant
- transitional household relief

They are planned to phase out over different periods of time and can be phased out in different ways but some areas or individuals may be affected by two or more. We will therefore need to consider how they interact.

The ILEA Transitional Grant

3. The following profile for this grant was accepted by E(LF):

1990/91	1991/92	1992/93	1993/94	1994/95	
£100m	£70m	£50m	£20m	£10m	= £250m



4. Some Inner London authorities will therefore have this grant withdrawn from them at the same time as they are losing safety net protection after the first year. However, the ILEA grant is being paid in respect of a particular area of responsibility and on the basis that the inherited costs can be reduced. As the grant is withdrawn, therefore, expenditure should be reduced to match. It would be reasonable to ignore this effect in considering the safety net and to maintain the position that the ILEA grant has its own profile determined in relation to education spending considerations.

#### The Area Safety Net

5. It has now been agreed that the area safety net will remain as presently constructed for the first year of the new system. In the second and subsequent years, however, there will be no direct contributions from gaining areas; instead the cost of the net will be met from AEF. The Chancellor agreed in E(LG) to increase the baseline shown in the Public Expenditure White Paper for AEF by the general uplift factor plus whatever amount is needed to pay for the safety net protection after 1990/91.

#### How should the additional grant be used?

6. The simplest approach is to make the safety net report for one year only, setting out contributions and receipts for 1990/91. In the second and third years we would pay a specific grant direct to the losers as their protection. The contributors would be certain that they would not be required to pay anything after the first year. The losers will have to be assured by Ministers that their intention was to provide a specific grant.

#### How should the protection be phased out?

7. The public expectation has been that the safety net would be withdrawn in four equal steps, costing in the region of £485m in 1991/92 followed by £325m and £160m.

8. Treasury have agreed to meet costs of £400 million for the second year and about £200 million for the third. There are two ways of achieving this profile - to withdraw a fixed cash sum or a percentage of the protection. The simplest way is to pay in the second year about 60% of the first year's protection and in the third year about 30%. However, this would mean that authorities with small safety net receipts would have their safety net phased out over the same period as those with large receipts. Some would have only £2 a head phased out at 60p a year, although they had been asked to bear £25 in the first year.

9. An alternative way of phasing out is to allow another £25 loss through each year. But since this would mean a ten year transition for big losers such as Greenwich, it can be combined with a percentage phasing. Authorities would lose £25 or 25% of the original protection, whichever is the greater. This would work out as follows:

	1990/91	1991/92	1992/93
Loss allowed	up to £25	£25 more (£50 in all) or 25%	£25 more £75 in all) or another 25%
Cost of protection	£650m	£400m	£210m
Paid for by	contributions	specific grant	specific grant

10. In 1992/93 there would be only 42 authorities receiving protection and half of them would be receiving relatively small amounts, such that were there to be a fourth year, they would fall out of the net anyway. But there are a 23 authorities with the biggest losses who would face losses of more than £25 and up to £130 coming through when the net was withdrawn completely in 1993/94. It would produce a smoother profile for them if the net were extended for a fourth year. This could be done at a cost of £85m in 1993/94 if we allowed through losses of £100 in all or a further 25%.



### Low Rateable Value Areas Grant

11. We need to decide how this grant will be phased out. For 1990/91, it will prevent any of the eligible areas actually bearing the full losses of up to £25 which would come through from the operation of the area safety net. The protection they receive may vary from £25 to £1. The areas may be receiving safety net grant on top if their loss would have been greater than £25.

12. We need to phase withdrawal over a few years because if the grant is simply withdrawn in the second year, the deferred loss from the first year will be felt as well as any loss from the withdrawal of the area safety net. Thus an area which stood to lose £50 overall got £25 of 'low RV' grant and £25 of safety net, £50 in all, in 1990/91 would lose it all in 1991/92. It would suffer a greater loss in one step than other areas. To avoid Pendle taking a £50 reduction in grant in some year, its low RV grant would have to be extended to 1993/94.

13. This can be avoided by aggregating the safety net grant and the 'low RV' grant from the second year onwards, paying only one grant and withdrawing it as described in para 9 above. The areas still benefit because they start off with a higher level of protection, so it takes longer to withdraw it. This way of phasing out would cost less than keeping the grant at a constant level to protect areas like Pendle. The alternative profiles are:

	1990/91	1991/92	1993/94	1994/95
Phase out safety net and low RV together	750	475	275	120
Keep low RV for four years	750	500	310	185

We have, therefore, agreed to phase out the safety net and low RV grant together.

14. For some example authorities the year by year increase in community charges because of withdrawal of the safety net protection and low RV grant would be:

	1990/91	1991/92	1992/93	1993/94	1994/95
<u>Safety net</u>					
Tower Hamlets	£25	£68	£68	£68	£68
Wandsworth	£25	£40	£40	£40	£40
Hillingdon	£25	£25	£25	£ 7	-

Safety net and low RV

Calderdale	£ 0	£37	£37	£37	£37
Pendle	£ 0	£27	£27	£27	£27
Hyndburn	£ 0	£25	£25	£25	£13

Transitional relief

15. Transitional relief for one and two adult households will be calculated on the basis of household charges for 1990/91 but the relief will be paid to individuals through their adjusted bills. The phasing out therefore has to be for individuals as there will be no recalculation in later years.

16. The agreement in Cabinet was that the relief should be phased out in 3 years or less.

17. Costs will fall automatically in 1991/92 because administration costs will fall substantially -from about £75m to perhaps £10m. In addition there will be cost savings as people who move lose their entitlement to benefit relief.

18. There is therefore an issue about the rate of withdrawal of relief, particularly in the second year. It should be possible to keep the cost of the relief and administration, net of community charge benefit flowbacks, below £200m in 1991/92,



without withdrawing any relief from individuals. The relief for individuals would not change between 1990/91 and 1991/92, but in some areas charges would increase by as much as £1.30 a week because of withdrawal of the area safety net.

19. The cost in 1992/93 could be kept well below £100m if relief were then reduced by £1 a week for each individual. About 2 million adults would still have relief in 1992/93. They would face larger losses of up to £4 a week in 1993/94.

20. The alternative would be to start withdrawing relief in 1991/92. If half of the relief were withdrawn in 1991/92 and half of the remainder in 1992/93 then individuals could face reductions in relief of up to £3.00 a week in 1991/92 and £1.50 a week in 1992/93 on top of any losses due to withdrawal of the area safety net. The total cost of the scheme in England would then be less than £100m in 1991/92 and less than £50m in 1992/93. No agreement has been reached on which option to adopt.

#### Transitional Housing Benefit

21. At the same time as the area safety net and community charge transitional relief are phasing out, withdrawal of the scheme for transitional housing benefit, introduced in April 1988, will continue. No decisions have yet been taken on withdrawal of that scheme. The scheme allowed losses of £2.50 a week in the first year and payments have been reduced by £2.00 a week in 1989/90. The expectation is that withdrawal will continue each year at £2.00 a week for those remaining in the scheme, until entitlement is extinguished. If a further £2 is withdrawn in 1990/91, 50,000 people will remain on the scheme.

22. Some of those facing withdrawal of transitional relief will also face withdrawal of the area safety net and possibly withdrawal of the transitional housing benefit. Our data does not allow identification of how many individuals will face withdrawal of all three of: the area safety net, transitional relief; and transitional housing benefit payments.

-----

23. The worse case in 1991/92, if there were no withdrawal of transitional relief, is that individuals could lose £1.30 a week from the area safety net and £2.00 from housing benefit, a combined loss of £3.30 a week.

24. If half of transitional relief were withdrawn in 1992/93 then some individuals could lose £2.50 - £3.00 a week from this. Large transitional relief payments are unlikely to coincide with large withdrawal of safety nets (because the safety net keeps area charges down in 1990/91 when relief is calculated). The maximum losses from withdrawal of the area safety net, transitional relief and transitional housing benefit together might then be about £5 a week in areas which either had a safety net receipt or had high notional charges in 1990/91.