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PRIME MINISTER

LOCAL AUTHORITY FINANCE 1991/92

I plan to publish my proposals for the local authority grant settlement (including standard spending assessments (SSAs)) later this month, by way of a Parliamentary statement and associated documents. I hope that this can be done on 25 October in order to ensure that the necessary orders can be debated before Christmas. I am writing separately to the Lord President about this.

Following comments from colleagues, I shall base the distribution on Option II for allocating Total Standard Spending set out in Norman Lamont's letter to me of 21^{Har} September and use the SSA methodology suggested in my minute to you of 25 September.

I also intend, subject to colleagues' agreement, to announce my intentions for community charge capping at the same time. We agreed in the summer that I should give an advance indication that I am prepared to make vigorous use of my capping powers to ensure that the substantial amount of extra money being contributed by national taxpayers to local government is not wasted in much higher spending but helps to keep charges to reasonable levels.

Central to my approach is the greater scope for savings which I would expect to see in higher spending authorities. Unlike this year the main plank would be to use my power to cap excessive increases in authorities' budgets and I am proposing that the higher the percentage increase in an authority's budget over the previous year the closer that budget would have to be to SSA to escape designation. The approach is along the lines we discussed in July and reflects Treasury Counsel's advice. Nick Lyell has looked at Treasury Counsel's reasoning and I understand that he considers it makes good sense.

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It involves a progression of principles so that any increase in budget of more than 9% would be considered excessive if the resulting budget exceeds SSA; any increase in budget of more than 7% would be considered excessive if the resulting budget is over 5% above SSA; any increase in budget of more than 5% would be excessive if the resulting budget is over 10% above SSA; and any budget more than 12.5% above SSA would be excessive.

An authority would be designated if it failed any of these tests. I estimate that, even on fairly pessimistic assumptions about how local authorities will react, such a scheme could be expected to deliver in England aggregate spending of £39.8 billion and an average charge of about £396 (assuming levels of non-collection similar to those budgeted for this year).

It is difficult to say what the deterrent effect of an advance announcement will be or how authorities will in the event behave. If, however, there is no deterrent effect this package will be likely to result in some 120 authorities being capped. I hope local authorities will respond to my announcement and contain their spending with the result that the numbers capped will be significantly lower, and I think that the figures I am proposing would stand a good chance of securing this objective. I have, however, agreed with Norman Lamont the administrative resources to cap a large number if necessary.

I am advised that I cannot cap authorities spending below their SSA and my powers do not allow me to cap those spending below £15 million. Some authorities will not, therefore, be prevented from making large increases - Croydon for example would be permitted an increase of 28% - but a low spending authority is unlikely to turn into a high spending one overnight. In addition average charge levels may be higher than £396 to the extent that authorities decide to make larger estimates for non-collection of the charge than they did this year. Each 1% of assumed non-collection increases average charges by £4. We are naturally

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intending to take an increasingly tough public stance on collection in the months ahead.

The package I intend to propose is very similar in approach to the one we considered in July and is somewhat tougher. Cost pressures throughout the economy including local government, in practice, are higher than we expected. The illustrative package we considered then was based on allowable increases in expenditure of 10%, 8% and 5% for authorities spending 0%, 5% and 12.5% respectively over SSA. A tougher package with allowable increases of 8%, 6% and 4% would reduce average community charges by only £4 and would scarcely be credible particularly in view of the teachers and police pay settlements.

The effect of the package which I am proposing can be seen from the enclosed exemplifications which are based on the service split and changes to SSA methodology to which I have referred above. They indicate that most major authorities will have to contain their cash spending to a maximum increase of 9% between the two years. Bearing in mind the cost of the centrally approved teachers and police pay increases, I believe my proposals strike the right balance of setting achievable constraints which will maximise the deterrent effect and minimise the outturn.

There are a number of other issues relating to the criteria which I should note. First, (unlike 1990/91), I am not proposing to include a "per capita" criterion. To do so with the more complex stepped approach this year would create anomalies and reduce the number of authorities affected; secondly, I am not proposing that there will be a de minimis proviso - although for legal reasons I need to keep that option open without commitment; thirdly, my intention is not to increase the threshold for exemption from capping - currently at £15 million; fourthly, my intention is that as in 1990/91 the criteria should be the same for all classes except inner London boroughs (to take account of inner

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London education grant entitlements) and the City of London (to reflect the City's special circumstances); and finally, my intention is that the criteria will take into account boundary changes.

In summary, my proposals aim to strike a balance between keeping expenditure and charges down and not setting local government impossible targets. I believe that they will keep expenditure below £40 billion and should contain the average community charge in England below £400 (unless authorities budget for significantly larger losses on collection than this year). Early announcement of my proposals will give authorities an opportunity to control their budgets accordingly.

Local authorities will see this as a tough set of proposals, which will bite on most major authorities including our own supporters. I intend to minute you shortly on handling this and other forthcoming events in local government finance to ensure we get our message across.

I should be grateful for your agreement to the package for proposed capping criteria for 1991/92 and that I should announce my proposals when the consultation process on Revenue Support Grant begins, I hope on 25 October. To meet this timetable I would be grateful for your views and those of colleagues by the end of this week. I shall be clearing the text of my draft statement as appropriate in the next few days.

I am copying this letter to E(LG) colleagues, to Nick Lyell and to Sir Robin Butler.

A handwritten signature in blue ink, consisting of stylized initials that appear to be "CP".

CP

16 October 1990

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MAXIMUM ALLOWABLE INCREASES UNDER PROPOSED CAPPING PACKAGE

Authority	Permitted increase over 1990/91 budget (%)	Permitted increase over 1991/92 SSA (%)
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Shire Counties

Avon	9.0	4.1
Bedfordshire	9.0	0.8
Berkshire	9.0	0.0
Buckinghamshire	11.7	0.0
Cambridgeshire	<u>14.0</u>	0.0
Cheshire	9.0	4.5
Cleveland	9.0	2.5
Cornwall	10.8	0.0
Cumbria	<u>7.0</u>	5.3
Derbyshire	<u>7.0</u>	5.5
Devon	9.3	0.0
Dorset	<u>13.0</u>	0.0
Durham	9.8	0.0
East Sussex	14.7	0.0
Essex	16.0	0.0
Gloucestershire	9.0	1.0
Hampshire	15.9	0.0
Hereford and Worcester	<u>16.4</u>	0.0
Hertfordshire	12.0	0.0
Humberside	9.0	3.5
Isle of Wight	9.0	2.8
Kent	19.8	0.0
Lancashire	9.0	3.1
Leicestershire	9.1	0.0
Lincolnshire	17.5	0.0
Norfolk	12.3	0.0
North Yorkshire	13.1	0.0
Northamptonshire	11.2	0.0
Northumberland	<u>7.0</u>	6.3
Nottinghamshire	9.0	3.6
Oxfordshire	<u>7.9</u>	5.0
Shropshire	11.6	0.0
Somerset	9.0	3.2
Staffordshire	11.1	0.0
Suffolk	9.2	0.0
Surrey	10.0	0.0
Warwickshire	9.0	2.5
West Sussex	<u>22.6</u>	0.0
Wiltshire	12.3	0.0

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MAXIMUM ALLOWABLE INCREASES UNDER PROPOSED CAPPING PACKAGE

Authority	Permitted increase over 1990/91 budget (%)	Permitted increase over 1991/92 SSA (%)
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LONDON

Inner London

Camden	9.0	4.0
Greenwich	3.6	12.5
Hackney	9.0	1.6
Hammersmith and Fulham	9.0	3.4
Islington	9.0	3.6
Kensington and Chelsea	12.3	0.0
Lambeth	9.0	5.0
Lewisham	8.1	5.0
Southwark	9.0	5.0
Tower Hamlets	9.0	3.2
Wandsworth *	19.1	0.0
Westminster	29.7	0.0

Outer London

Barking and Dagenham	9.0	0.7
Barnet	23.1	0.0
Bexley	18.3	0.0
Brent	9.0	2.2
Bromley	20.0	0.0
Croydon	28.5	0.0
Ealing	9.0	0.5
Enfield	18.0	0.0
Haringey	7.0	8.5
Harrow	21.1	0.0
Havering	10.4	0.0
Hillingdon *	11.1	0.0
Hounslow	9.0	2.2
Kingston-upon-Thames	11.2	0.0
Merton *	26.5	0.0
Newham	9.8	0.0
Redbridge	18.6	0.0
Richmond-upon-Thames	11.5	0.0
Sutton	9.0	1.4
Waltham Forest	9.0	0.1

* = Permitted increase may be difficult to achieve due to use of balances in 1990/91

Note: permitted increases in budget will be lower than shown for inner London to the extent that inner London education grant is lower in 1991/92 than in 1990/91

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MAXIMUM ALLOWABLE INCREASES UNDER PROPOSED CAPPING PACKAGE

Authority	Permitted increase over 1990/91 budget (%)	Permitted increase over 1991/92 SSA (%)

Metropolitan districts		
GREATER MANCHESTER		
Bolton	12.4	0.0
Bury *	9.0	3.0
Manchester *	15.3	0.0
Oldham	9.3	0.0
Rochdale	9.0	2.8
Salford	9.6	0.0
Stockport	9.0	4.2
Tameside	9.0	4.2
Trafford	23.2	0.0
Wigan	<u>7.7</u>	5.0
MERSEYSIDE		
Knowsley	13.6	0.0
Liverpool	9.0	0.1
Sefton	9.0	1.8
St Helens	9.0	2.5
Wirral	14.3	0.0
SOUTH YORKSHIRE		
Barnsley	<u>7.0</u>	5.8
Doncaster	9.0	3.7
Rotherham	9.0	4.2
Sheffield	9.0	2.6
TYNE AND WEAR		
Gateshead	9.0	2.5
Newcastle upon Tyne	9.0	2.5
North Tyneside	9.0	2.8
South Tyneside	9.0	0.2
Sunderland	9.1	0.0
WEST MIDLANDS		
Birmingham	12.2	0.0
Coventry	9.0	1.8
Dudley	9.0	2.2
Sandwell	9.0	3.3
Solihull	11.7	0.0
Walsall *	9.0	4.1
Wolverhampton	10.8	0.0
WEST YORKSHIRE		
Bradford	15.7	0.0
Calderdale	9.0	4.7
Kirklees	8.3	5.0
Leeds	10.8	0.0
Wakefield	9.0	4.6

* = Permitted increase may be difficult to achieve due to use of balances in 1990/91

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MAXIMUM ALLOWABLE INCREASES UNDER PROPOSED CAPPING PACKAGE

Authority	Permitted increase over 1990/91 budget (%)	Permitted increase over 1991/92 SSA (%)

Police and Fire Authorities		
Metropolitan Police London Fire & CD Authority	11.8 12.9	0.0 0.0
Greater Manchester Police Authority	9.8	0.0
Merseyside Police Authority	9.0	0.2
South Yorkshire Police Authority	13.0	0.0
Northumbria Police Authority	9.4	0.0
West Midlands Police Authority	13.5	0.0
West Yorkshire Police Authority	9.0	3.5
Greater Manchester Fire & CD Authority	13.3	0.0
Merseyside Fire & CD Authority	12.0	0.0
<u>South Yorkshire Fire & CD Authority</u>	<u>5.0</u>	11.5
Tyne and Wear Fire & CD Authority	9.0	3.4
West Midlands Fire & CD Authority	13.5	0.0
<u>West Yorkshire Fire & CD Authority</u>	<u>3.9</u>	12.5

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MAXIMUM ALLOWABLE INCREASES UNDER PROPOSED CAPPING PACKAGE

Authority	Permitted increase over 1990/91 budget (%)	Permitted increase over 1991/92 SSA (%)

Shire districts		
Basildon	-36.7	(to £15m)
Blackburn	7.0	5.2
Blackpool	4.2	12.5
Bournemouth	9.0	2.8
Brighton	3.0	12.5
Bristol	-16.5	12.5
Derby	29.1	0.0
Harrogate	2.3	(to £15m)
Ipswich	-16.4	(to £15m)
Kingston upon Hull	7.0	6.9
Langbaugh-on-Tees	-13.6	(to £15m)
Leicester	3.3	12.5
Luton	37.5	0.0
Middlesbrough	-14.2	12.5
Milton Keynes	4.6	12.5
Northampton	11.3	0.0
Norwich	0.3	(to £15m)
Nottingham	14.1	0.0
Oxford	12.3	0.0
Peterborough	5.0	10.5
Plymouth	26.9	0.0
Portsmouth	22.4	0.0
Preston	17.0	0.0
Reading	4.4	12.5
Reigate and Banstead	24.4	(to £15m)
Southampton	11.6	0.0
Southend-on-Sea	24.3	0.0
Stockton-on-Tees	-7.1	12.5
Stoke-on-Trent	7.1	5.0
Thamesdown	9.0	2.1
Thurrock	0.0	(to £15m)
Torbay	0.2	(to £15m)
Warrington	10.3	0.0
Wrekin	12.9	(to £15m)

Note: in Basildon, Bristol, Ipswich, Langbaugh, Middlesbrough and Stockton-on-Tees a cash cut is required to keep below the proposed criteria.

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