

Prime Minister  
for discussion with Lord  
Whitaker tomorrow?

DRS  
25/11

PRIME MINISTER

25 November 1985

RATE SUPPORT GRANT: 1986-87

You asked why Liverpool gains so much when Hertfordshire loses so badly.

The fundamental answer is that the present grant system cannot be tailored to produce uniformly sensible results. Kenneth Baker has to act on "general principles" which, because the whole system is crazy, inevitably produces some bizarre individual effects.

In this case:

- Liverpool gains grant because:
  1. The Government has pushed up the assessment of what all city authorities need to spend, to ensure that their grants go up and rates stay low following abolition; Liverpool benefits along with London and Manchester.
  2. Liverpool may, in practice, do even better than my table suggests because it will be rate-capped next year, so its spending will be kept down and it consequently will not lose grant.

- Hertfordshire loses grant because:
1. Pushing up the assessment of spending needs for the cities means that, relatively, the assessment of the Shires' needs decreases and they consequently get a smaller share of the grant-cake; Hertfordshire suffers along with the rest.
  2. Relative to their newly assessed needs, Hertfordshire will be spending a good deal, and will therefore suffer loss of grant.
  3. The removal of targets exacerbates Hertfordshire's problems, because they - unlike Liverpool - used to benefit from sticking close to their targets.
  4. The treatment of pre-1981/2 education debt has been altered, following representations from the ACC, and this happens to hit Hertfordshire.

If you want to produce low rate rises in post-abolition authorities - as Norman Tebbit, Kenneth Baker and the rest of E(LA) all believe is necessary - then you are bound to produce results like this. Even if the DoE dream up a scheme that hits Liverpool and protects Hertfordshire, other councils will take their places.

Of course, you could help Hertfordshire by adding to the total amount of Central Government grant provided. But that would:

- a. give Liverpool an even bigger bonus; and
- b. shoot the Chancellor's Autumn Statement down before it has had a chance to fly.

We reluctantly recommend that you should accept Lord Whitelaw's proposals, despite their effects on Liverpool and Hertfordshire.

*Ol Letwin*

OLIVER LETWIN

*Andrew ...*