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Ref. A0339

PRIME MINISTER

Cash Limits and the Rate Support Grant

(E(79) 46)

BACKGROUND

When the Chief Secretary's proposals on Pay and Cash Limits for 1980-81 were discussed in E a fortnight ago, there was some confusion about the way his 'sliding scale' for the Rate Support Grant would work. You asked him to prepare a further note within two weeks setting out alternative options, including cash limits on the expenditure of individual authorities. There has been very little time, and the paper (which was only finished on Friday) is still a bit thin on detail, but it sets out the options clearly enough.

2. These proposals are still confined to 1980-81, though they would set a pattern for future years. The DOE proposals for a new unitary grant (to replace RSG in later years) are under separate study in H (which will make proposals to Cabinet next month for inclusion in the new Local Government Bill). The relevant bits are summarised in the Annex to the paper. There is a link, because the recommended option iii. in the paper (a single cash limit) would be much more effective if the Unitary Grant were adopted and could be made to apply retrospectively to 1980-81 at the time of the November 1980 Increase Order.

3. The 1980-81 RSG Settlement itself is being looked at in MISC 21, under the Home Secretary. It meets first on 15th October. The first 'statutory meeting' with the Local Authorities is in Scotland on 18th November; about three weeks are needed to prepare the material for this after the Cabinet decisions. MISC 21 is concerned with a wide range of issues: the grant percentage and the distribution formula, as well as the problem of disciplining pay negotiations. It needs a steer from this Committee if its work is not to be nugatory. Alternatively, if E Committee can't reach a final decision at this meeting you could ask MISC 21 to sort out the details, provided E sets out an order of preference. But this is very definitely a second-best solution.

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4. The Increase Order for 1979-80 is also relevant, because the way it is applied will give local authorities their first real clue to the Government's determination. E decided in September to cut back the current year's RSG, so as to make the local authorities foot part of the bill for the Clegg awards. It was left to the Chancellor and the Secretary of State for the Environment to agree on quantum and method. They have agreed (see Chancellor's minute of 21st September) to cut by £20 million, or about 45 per cent of the extra, unprovided cost of Clegg; but not to announce this until the time of the Increase Order in late November, when it will be wrapped up with a number of other changes. There is a real risk that this will blur the edges of the Government's message, unless it is specially emphasised at the time. (Important, because the recommended option iii assumes that the Government's determination will be well understood.)

5. This timetable is relevant to the problems in the present paper. It might be possible to set back the RSG meetings a bit - at some risk of a row with the local authorities, who need to get on with their rating. But the real deadline is set by the pay negotiations for local authority manuals which begin in late November. If the Government is to influence these, the RSG picture has got to be clear to the negotiators (and their paymaster, the individual authorities) some time earlier. Indeed it can be said that the immediate and overriding aim is to get a new RSG system in time to put some effective discipline on local authority pay negotiations this winter.

6. The ideal outcome would be for colleagues to agree now in principle on a particular approach to RSG. Failing complete agreement however you might get the Committee to establish an order of preference between the three options, and leave MISC 21 to sort out the details. (Sir Kenneth Berrill's minute of 28th September proposes more work at official level; if undertaken this would have to be completed in time to be considered by MISC 21 on 15th October). You will also want to know if the work on unitary grant being considered in H is likely to be ready for announcement in principle before this year's RSG negotiations. This is likely to be the case but option iii is likely to be the more acceptable if the unitary grant can be guaranteed.

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HANDLING

7. This is the Chief Secretary's paper and you should invite him to introduce it. But the work was done jointly in the Treasury and DOE. Mr. King (in Mr. Heseltine's absence) should therefore speak second. After that, the choice is between a detailed look at options, or a series of general statements. The interested Ministers are Scotland (directly responsible); and Wales, then the sponsors: Home Secretary, Education, Social Services; then the honest brokers: Industry and Trade. You might want Sir Kenneth Berrill to join in at some point. But general statements will take a long time, and you may prefer to plunge straight into the detail.

(a) Objectives. You might restate the overall objective, if you have not done so earlier.

(b) Cash Limits on individual authorities (option i).

I know you favoured this course last time. But the arguments against it are very strong, both generally, and as a means of operating on pay. There is a point of principle: should central government interfere so deeply in local autonomy? There are several practical problems: the degree of remoteness from pay negotiations; the mass of detail and consequent administrative effort; the Clay Cross confrontation risk; the need for additional and very troublesome legislation to be added to the Local Government Bill; and finally the lack of any effective sanction, short of Commissioners. The indirect sanction via the grant mechanism is much less liable to challenge because the Government's rights as paymaster can't be disputed. There is one additional point which I want to stress very hard. There is no chance of working out and agreeing individual cash limits for all authorities in time to put pressure on the key local authority manuals' pay negotiations. I agree very much with Sir Kenneth Berrill that this option should not be pursued.

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- (c) Sliding scale related to pay (option ii - first variant). The Chief Secretary rules this out because it involves setting a norm. Sir Kenneth Berrill (in his minute to Mr. Lankester of 28th September) challenges this assumption, and suggests that the only 'norm' would be the weighted average of all local authority settlements. In fact the scheme is even further away from a norm because so much of next year's pay increases will come from the wide range of different comparability settlements. In any case, the Committee has already accepted that in the case of the Civil Service and the National Health Service, it will not be practicable to disguise the average pay assumption. (This was the conclusion of the Chancellor's paper E(79) 34, paragraph 5). This variant may seem to come closest to the intention of the 'Option A' route to cash limits and could have a significant overall influence on pay. Conversely however it involves very little differentiation between authorities who would broadly be applying nationally settled pay increases.
- (d) Sliding scale related to rates. This was the proposal considered last time round (see Annex to E(79) 34). It was rejected then for the reasons set out clearly in the present paper: rough and ready; no protection for 'good' authorities who deferred rate rises this year; and with the risk of penalising twice those authorities who will lose out on this year's redistribution towards shire counties. Sir Kenneth Berrill says (28th September) that more refined formulae might ameliorate these defects. But I understand that Treasury and DOE looked for such refinement and failed. Without this however the variant is probably not a runner.
- (e) A single cash limit (option iii). This is the Chief Secretary's preferred option, and I understand DOE officials also favour it. We do not yet know Mr. Heseltine's view. Sir Kenneth Berrill sees it as a fall back and suggests that if adopted, it should be strengthened by importing some features of the new unitary grant. This is indeed the DOE intention (see paragraph 24 of note by officials) but depends on the

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H decision on unitary grant: I believe H is likely to accept unitary grant so the condition would be met. However this method is less direct in its impact on pay negotiations than a sliding scale related to pay; the paper says (paragraph 23) that the message would be clearer if the Government took a tough line on paying for this year's pay increases. As explained above, the decision is not particularly tough (it is an exaggeration to refer to 'ad hoc penal measures'), and the presentation could be dangerously fuzzy. If the Committee goes for option iii you might therefore urge

- (i) that H confirms its preference for the unitary grant principle (not necessarily all the details) and that a statement of intent be made before this year's RSG settlement is reached;
- (ii) that the Secretary of State for the Environment presents the 1979-80 decision in a very tough manner to be agreed with you and the Chancellor.

But before going firmly for option iii the Committee should be invited to look again at option ii in its 'pay' variant, which may offer a better route this time round.

CONCLUSIONS

8. There are two ways of ending the discussion: either a clear decision in favour of one or other option, with any necessary conditions; or an indication of preference, coupled with a request to MISC 21 to frame detailed recommendations on the 1980-81 settlement on two (or more) alternative bases. The first is obviously preferable. The conclusions will require a rather precise summing up. These notes may help.

A. Clear decisions.

The choices are:

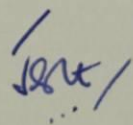
1. To impose specific cash limits on individual authorities (option i). In this (unlikely) case, H Committee should be asked to consider the detailed legislation that would be needed; and the local authorities should be told that this year's RSG settlement would be postponed.

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2. To adopt a sliding scale related to pay (option ii, first variant). In that case, Mr. King should be invited to put the necessary legislative proposals to H; and MISC 21 should be asked to consider several different sliding scales incorporating different tapers and average pay rates, and to put recommendations to Cabinet on 25th October;
3. To adopt a sliding scale related to rates (option ii, second variant). The remit to Mr. King would be as in 2. MISC 21 should be asked to consider several different sliding scales, based upon but not explicitly related to various possible average pay outcomes, and to make recommendations to Cabinet on 25th October.
4. To set a single cash limit in November for the 1980-81 RSG as set out in paragraph 21 (option iii). In that case H should be invited to look favourably at the principle of a unitary grant, for introduction retrospectively in November 1980 for the 1980-81 settlement Increase Order and with an announcement in principle before this year's RSG settlement. The Secretary of State for the Environment might be invited to agree with you and the Chancellor the best way of reinforcing this in presenting the 1979-80 increase order this November.

B. No clear decision

In this case, the Committee might invite MISC 21 to frame alternative sets of proposals for Cabinet, in order of preference; probably 'sliding scale related to pay' first; 'single cash limit' second; and 'sliding scale related to rates' third; discarding 'individual cash limits' at least for 1980-81.


(John Hunt)

1st October, 1979