

E(79) 10th Meeting

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CABINET
MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held
at 10 Downing Street on
TUESDAY 2 OCTOBER 1979 at 11.00 am

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon William Whitelaw MP
Secretary of State for
the Home Department

The Rt Hon Sir Keith Joseph MP
Secretary of State for Industry

The Rt Hon Lord Soames
Lord President of the Council

The Rt Hon John Biffen MP
Chief Secretary, Treasury

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon George Younger MP
Secretary of State for Scotland

The Rt Hon Mark Carlisle QC MP
Secretary of State for
Education and Science

Earl of Gowrie
Minister of State
Department of Employment

The Rt Hon Tom King MP
Minister of State, Department
of the Environment
(Minister for Local Government
and Environmental Services)

The Rt Hon Reginald Prentice MP
Minister of State, Department of
Health and Social Security
(Minister for Social Security)

Mr Michael Roberts MP
Parliamentary Under-Secretary
of State, Welsh Office

Sir Kenneth Berrill
Head of Central
Policy Review Staff

SECRETARIAT

Sir John Hunt
Mr P Le Cheminant
Mr P Mountfield

SUBJECT

CASH LIMITS AND THE RATE SUPPORT GRANT

The Committee had before it a memorandum by the Chief Secretary, Treasury, E(79) 46, about different methods of setting cash limits for the Rate Support Grant for 1980-81. The paper set out three options for Ministers' consideration. The first involved imposing separate cash limits on the spending of each individual local authority. The second involved a sliding scale, by which the level of rate support grant would be reduced in proportion either to expenditure on wage-related costs, or to the rates imposed by individual authorities. The third option involved the establishment of a single cash limit for the total rate support grant, as in the past, with the intention of holding strictly to it. Subject to agreement on the Secretary of State for the Environment's proposals, being considered elsewhere, or a move to a unitary grant system it might also be possible to continue with a single cash limit provision which would discriminate against the highest spending authorities.

THE PRIME MINISTER said that she assumed the Committee would not wish to pursue the first option any further, in view of the very strong arguments set out against it in the paper.

THE CHIEF SECRETARY, TREASURY, said that this left two options for the Committee to consider; one another variant of a sliding scale system or a single cash limit. There were disadvantages in both. A sliding scale related to pay would involve the Government in the precise identification of the desired level of pay settlements, and would come close to the establishment of pay norms and guidelines. And a sliding scale related to rates would risk substantial inequity because of the difficulty of taking past performance into account. Both of the 'sliding scale' variants would require legislation. A single cash limit, whatever its other disadvantages, seemed the most practical solution. It would have to contain an assumption, which would sooner or later become public knowledge, about the average increase in wage costs over the year which the Government was prepared to finance. This would have to be realistically determined. The previous Government had announced a cash limit, based upon its own pay norm, which was totally inadequate. The present Government should avoid discrediting the cash limit system by repeating this mistake.

In discussion, there was complete agreement that the option of cash limits on the expenditure of individual authorities could not be pursued. There was also general support for the Chief Secretary's preference for a single cash limit on the Rate Support Grant without any sliding scale. It was however suggested that the option of a sliding scale related to wage costs was not wholly impracticable, and if time had allowed, it might have been possible to devise a suitable system. However, it was argued strongly that the Government needed to make its position clear during November, both in order to satisfy the normal timetable for the Rate Support Grant negotiations, and in order to put pressure on wage negotiations which took place before the end of the year. The Rate Support Grant for 1980-81 would start from the volume figures which the Cabinet had already approved for the level of public expenditure. These would be updated to November 1979 prices, taking account of pay increases approved up to that point. At the same time, a cash limit would be announced at 1980 prices which would put an effective ceiling upon the extra sums of money to be provided in the November 1980 increase order to take account of further increases in costs, including wages, between November and November 1980. If the current proposals for a new unitary grant system to replace the RSG were agreed and enacted in sufficient time, it might be used to modify the November 1980 Increase Order in ways which would penalise the most profligate spenders among local authorities. In setting the cash limit, it was therefore necessary to make a realistic but not generous allowance for expected movements in pay during the period. In doing so, it would be necessary to allow for the costs of implementing the results of current pay studies by the Clegg Commission and others - though there was no commitment to automatic reimbursement as well as the costs of up-dating pay to 1980 levels. In doing it might be useful to consult the local authorities informally about the likely outturn of these pay negotiations. But there could be no question of the Government undertaking to finance their, or any other, estimate of the increase. It might also be necessary to impose an adjustment to enforce further economy in wage costs, in the light of the developing economic outlook though the main pressure for economy would come from the reduction in the volume of local authority spending which the Cabinet had already approved. The local authorities must be left in no doubt of the Government's determination to stick to the cash limit when established. This made it particularly important to get the best available information in setting the cash limit if unintended volume squeezes on local authority expenditure were to be avoided.

THE PRIME MINISTER, summing up the discussion, said that the Committee clearly preferred the third option set out in the Chief Secretary's paper, which required the establishment of a single cash limit for the Rate Support Grant for 1980-81, making realistic, not extravagant, allowance for the likely movement in wages during the year, including the results of comparability studies still under way, and taking full account of the volume decisions already approved by Cabinet. The Secretary of State for the Environment should bring proposals to the Home Affairs Committee for the development of the new Unitary Grant system, which might affect the increase order in November 1980 in ways which would penalise profligate spending by local authorities. He should also bring forward proposals to the Ministerial Group on the Rate Support Grant (MISC 21) for the size of the RSG in 1980-81, which would be further considered by the Cabinet on 25 October.

The Committee -

Took note, with approval, of the Prime Minister's summing up of their discussion, and invited the Secretary of State for the Environment, in consultation with the Secretaries of State for Scotland and for Wales and with the Chief Secretary, Treasury, to proceed accordingly.

Cabinet Office
3 October 1979