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Econ 102

Ref. A03392

PRIME MINISTER

Rate Support Grant Settlement 1981-82

(C(80) 61)

BACKGROUND

The annual Rate Support Grant (RSG) Settlement is always a difficult one to handle in Cabinet because of the interlocking complexities of the subject, and the impact the decisions have on the fortunes of individual local authorities. This year the problem is compounded by the changes being made in the grant support system itself. In an attempt to ease the decision-taking task of Cabinet you asked the Home Secretary to chair a group of the Ministers most closely concerned (the Secretaries of State for Industry, Social Services, Education, Scotland, Wales, Trade and the Chief Secretary, Treasury, and the Minister of Transport) to consider the problems and make recommendations to Cabinet. The paper now before colleagues (C(80) 61) is their report. The Group have gone as far as the subject allows, in simplifying the issues. Even so, those colleagues who have not previously been involved may well find the subject difficult, and it would, I think, be helpful to them if they could be led orally through the subject by an expert colleague. I understand that this proposal has already been put to you, and that you have agreed that, after a brief introduction by the Home Secretary, Mr. Heseltine should be asked to open discussion and take the Cabinet through the subject.

2. At bottom, colleagues have to decide on three key issues: the grant distribution formula; the cash limit numbers and the level of RSG payable. They also have to decide on the treatment to be afforded to Wales; the arrangements to govern the settlement for Scotland; and, almost as an incidental, the public presentation of any decisions on police pay.

3. On the grant distribution formula, MISC 21 was in agreement in recommending that described in paragraphs 3 to 6 of the paper. There is no reason why any colleague should object to this decision. Equally, it is unlikely

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that anyone would object to the agreement reached in MISC 21 that the Welsh share of the England and Wales grant should be retained unchanged this time round.

4. The figures used for illustrative purposes in the paper have been based on an 8 per cent cash limit for pay and an overall cash limit (pay and prices) of 10½ per cent. In the final settlement the cash limit figures here will need to be brought into line with those which the Cabinet will have agreed earlier in the discussion should be applied to the public services in general.

5. The setting of the cash limits is one part of the process of establishing a base against which grant decisions must be taken. The other important part is the decision on the volume of spending to be financed. This is the point at which the decisions on the RSG settlement will be closely dependent on the decisions which the Cabinet has to reach separately on the Chief Secretary's proposal to call for a reduction in the volume of local authority spending next year by 1 per cent. Decisions to call for reductions in local authority expenditure affect public spending totals (provided that they are effective); the RSG percentage decision is a decision, not on public spending but on the distribution of the burden of paying for that spending between tax and rate payers.

6. So the choice posed in the paper between a grant level of 61 per cent and one of 60 per cent is very much a political one, deriving as much from expectation of rating increases as from the level of expenditure to be financed. Although paragraph 10 is carefully worded to avoid saying so, the reality is that almost every Minister in MISC 21 thought that the grant percentage should be held this time to 61 per cent, and only the Treasury strongly backed 60 per cent - though Mr. Heseltine may now have changed his mind.

7. The paper raises in paragraph 17 the question whether the pay element in the cash limit should be separately identified. On the face of it there would seem to be every reason to do this, given that the figure will be the standard number adopted for the public services as a whole. The one snag is the presentational difficulty caused by the present arrangements to index police pay.

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If indexing were to continue, the standard provision for pay would be different in local authorities from the rest of the public services: but, if the same figure is used throughout, it will be taken as evidence that the Government has dropped its commitment to index police pay. It may be that this issue too will be resolved in the course of the discussion on cash limits. If not, a separate decision on presentation will be needed, as pointed out in paragraph 19 iii.

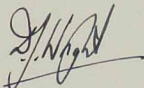
8. It is normal for Scottish arrangements to be settled in the light of the decisions taken for England and Wales. Conclusion 19(iv) seeks authority for the Secretary of State for Scotland and the Chief Secretary, Treasury, to reach the normal consequential settlement without further reference to Cabinet. No-one is likely to object.

HANDLING

9. As already agreed, you might ask the Home Secretary briefly to introduce the subject and then ask the Secretary of State for the Environment to take the Cabinet through the conclusions in paragraph 19 of the paper.

CONCLUSIONS

9. These will follow the display in paragraph 19, and should emerge naturally from the discussion. In taking his colleagues through the conclusions, Mr. Heseltine may well urge the timetabling need to arrive at specific conclusions at the present meeting (his letter of 27th October to the Chancellor of the Exchequer points to the Parliamentary and timing problems which delayed decisions would cause). A lot will depend upon the outcome of the Cabinet's discussion on cash limits, the 1 per cent proposed cuts in local authority expenditure and the related decisions on education. But, even if it is not yet possible to reach final decisions, it would still be very helpful to reach provisional conclusions.



(Robert Armstrong)

*Approved by Sir R. Armstrong
and signed on his behalf.*

29th October, 1980