


CONFIDENTIALPRIME MINISTERRate Support Grant Settlement: 1982-83
(C(81) 54 and 55)

BACKGROUND

The Home Secretary had hoped that his MISC 21 Group, which includes all the Ministers concerned with local authority expenditure, would be able to agree on the Rate Support Grant (RSG) for 1982-83 and to invite Cabinet simply to endorse their recommendations. This has not proved possible because the Group has run up against two major public expenditure questions - the totals of local authority ^①current expenditure and of housing expenditure ^② - which require decisions by Cabinet, in addition to the problem of deciding on the RSG percentage. These are the three main questions on which the Home Secretary asks for a ruling in his memorandum C(81) 54. The Secretary of State for the Environment has circulated, under cover of C(81) 55, some tables for 'exemplifications' intended to show the impact on individual authorities, and on the rates, of the alternative expenditure assumptions. Both papers are written in terms of England only; the implications for Scotland and Wales, and other details of the RSG settlement, will have to be sorted out by MISC 21 Ministers in the light of the Cabinet's decisions.

2. It is a pity that these papers have to be discussed at short notice and in advance of Cabinet's decisions on public expenditure as a whole. The Home Secretary agreed that it was, nevertheless, best not to advise deferment of the discussion until next week; this would have further lengthened the odds against an RSG settlement before Christmas and against sorting out as soon as possible the calculations relevant to the Local Government Finance Bill dealing with the rates. Housing expenditure is devoted partly to subsidies, which are a function of council house rents, and partly to capital investment; it is inextricably bound up with the calculations of the RSG and so could not be dealt with by the Home Secretary's MISC 62 Group which is reporting to you on public expenditure.

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3. The Secretary of State for the Environment can explain to Cabinet the relevance of these calculations to the Bill. In brief, expenditure targets for individual authorities will form the baseline for decisions on the limits to their main rate demands and to supplementary rates subject to referenda. Until these targets are set, as part of the RSG settlement, the Secretary of State has no basis for answering those critics who say that his proposals will lead a good number of authorities into referenda. More generally, the more generous the targets set, and the lower the guidelines for council house rents, the easier it will be for him to placate critics of the Bill, but at the price of higher public expenditure than proposed by the Chief Secretary, Treasury.

Total Local Authority Current Expenditure (other than Housing)

4. On 24th September the Cabinet accepted that realism, though not merit, pointed to a volume reduction from 1981-82 to 1982-83 of 3 rather than 7 per cent as had been previously assumed. No firm decision was taken on this, but the Chief Secretary's memorandum on public expenditure, C(81) 51, assumed that the cash total for local authority current expenditure in England would be increased to £17,800 million (i.e. a 3 per cent volume cut) in addition, he earmarked an additional £500 million in reserve against likely local authority overspending in Great Britain as a whole.

5. As explained in paragraph 3 of C(81) 54, the Secretary of State for the Environment now thinks that £17,800 million would prove inadequate and he wants to switch £350 million from the reserve to give an English total of £18,150 million. He believes that this would allow for the setting of individual targets which are credible and sustainable and which could be coupled with a rigorous system of hold-back which would mean that those authorities spending above target would lose grant. The Chief Secretary is against such a transfer to published targets on the grounds that in practice it would lead to net additional public expenditure because the pressure on the local authorities to control their costs would have been relaxed. It may be that the Secretary of State for Education and Science will report that, as part of a package deal with the Chief Secretary on his programmes, he would forgo any transfer from the reserve to local education services; in that case the proposal for transfer would be about £100 million less.

6. It may well be that a majority of Ministers will support the Secretary of State for the Environment, not out of any enthusiasm for higher spending but on grounds of realism. If that is so, I suggest that you take note but defer reaching a firm conclusion on this question until the Cabinet has gone on to consider the other questions of housing expenditure and of the RSG percentage. The higher the figure for total current expenditure the more the Chief Secretary will want to argue for a lower RSG percentage.

HOUSING

7. Grant totals, and eligibility for grant, turn on council house rent assumptions and therefore on the balance between housing subsidies and capital.

8. The present cash total for housing expenditure in England in 1982-83 is £3,869 million and no distribution of this total between subsidies and capital investment has yet been agreed. There are three propositions before Cabinet:

(i) To stick to £3,869 million and, if the 1981-82 volume of housing capital and maintenance expenditure is to be maintained, to increase council house rents by about £4 a week on top of the present English average of £11.50.

(ii) To reduce the total by £93 million, as proposed by the Chief Secretary, possibly by a combination of rent increases of £4.30 and a 2 per cent reduction in capital.

(iii) To increase the total by £442 million as proposed by the Secretary of State for the Environment in order to maintain the volume of capital spend, to allow some increase for management and maintenance, and to hold rent increases to about £1.50 a week.

There is, therefore, a gap of £535 million between the Secretary of State for the Environment's proposal and the Chief Secretary's. If the Secretary of State were given his bid of £442 million a further £78 million would go to Scotland and Wales under the formula arrangements.

9. The Chief Secretary will argue that his primary objective is to avoid additional expenditure on housing and, if possible, to make some reduction. If colleagues think it better to subsidise current expenditure by holding council

£1-95-

350.

442
78
520

110.

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house rents down, that is acceptable to him, provided that they agree to offsetting reductions in capital expenditure. It is a classic case of the need to choose between current and capital expenditure and to resist looking for increases in both.

10. For the reasons summarised in paragraphs 8 - 11 of C(81) 54, the Secretary of State for the Environment will argue that rent increases of about £1.50 will be the maximum politically defensible and that he cannot agree to cut capital; indeed, he would like to increase it. He will be strongly supported in this by the Secretary of State for Wales who will claim that his problem over council house rents and housing capital are even more acute than in England.

11. The Home Secretary intends to support the Chief Secretary, at least some of the way, and provisionally he has it in mind to say that he would accept rent increases of at least £3 a week. A convenient rule of thumb for this discussion is that, for every 10p by which the rent increase falls below £4 a week, other housing expenditure, on capital or maintenance, must be reduced by £15 million or public expenditure increased by that amount. Thus, if the rent increase were £3 provision for housing capital and maintenance would need to be cut by £150 million, unless public expenditure overall were to be increased.

12. The discussion of rent increases will undoubtedly get into details on the increases which have already taken place in recent years, and on rents as a percentage of average earnings. I attach to this brief a copy of a table prepared by the Treasury to show these figures.

13. Paragraph 9 of C(81) 54 refers to the treatment of surpluses on the housing revenue accounts which result from rent increases. The Secretary of State for the Environment has raised with the Chief Secretary the question of whether these surpluses should be transferred, as now, to the general rate fund or whether they should be used to repay housing debt, and how these transactions should be treated in the public expenditure arithmetic. The Secretary of State will undoubtedly refer to this question tomorrow but Cabinet is not in a position to deal with it. It is a difficult and technical problem, which has only just been raised with the Treasury, and the two Departments have yet to sort out how and when it should be solved.

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RSG Percentage

14. In 1981-82, 59.1 per cent of relevant expenditure is being financed by RSG. In 1982-83 total expenditure will, in deference to realism, have to be higher than previously planned - either £17,800 million or £18,150 million - but this does not mean that the Government is obliged to increase the amount of grant given to the authorities in support of that expenditure. The Chief Secretary will argue that, if £17,800 million is approved, a "neutral" RSG would be about 56 per cent; and, if £18,150 million, it should be about 54 per cent. He may also argue that it should be as low as 50 per cent in order to increase the pressure on local authorities to hold expenditure down.

15. The Secretary of State for the Environment's exemplifications, attached to C(81) 55, apply the alternatives of 56, 54 and 50 per cent to the two broad alternative expenditure assumptions: the higher one, incorporating a rent increase of only £1.50 which he recommends, and the lower one which the Chief Secretary proposes. The Secretary of State will no doubt wish to give Cabinet a guided tour of these exemplifications and to explain the detailed implications. His first (horizontal) summary table shows in column 3 his Departments' estimates of the average rate increases which would result from the various options. The comparison is with the initial level of rates in 1981-82 and approximately 6 percentage points of the difference are attributable to supplementary rates during 1981-82. The Secretary of State will argue that for particular authorities increases could be higher than average and that the grant percentage should accordingly be at least 56 per cent and applied to the higher spending assumption. He will also, with reference to his detailed tables, explain that there is a risk that the rating impact could be relatively beneficial to Inner London and severe in the Shire Counties. He is considering this further and will probably want to put forward to MISC 21 some detailed ideas for correcting it.

HANDLING

16. You will wish to invite the Home Secretary to introduce his paper; he will no doubt comment on particular points, and give his personal views, as the discussion develops. The Secretary of State for the Environment and the

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Chief Secretary, Treasury will then each wish to state their general views, though you might suggest to them that detailed points can be brought up later.

17. You might then take in turn each of the three main issues raised in the Home Secretary's report. As I suggest above, you will probably not want to take a definite view on the total of local authority current expenditure until the Cabinet has discussed the closely related question of the RSG percentage, as well as the housing total.

18. In addition to the three Ministers mainly involved, you will need to seek the views during the discussion of the other main local authority Ministers: the Secretaries of State for Education and Science, for Social Services, for Transport, for Scotland and for Wales, and of the Secretary of State for Industry for the impact on the non-domestic rate and on industry generally.

19. In the light of the Cabinet's discussion, further work will be done on a good many details of the settlement and on the implications for Scotland and Wales. Particular points which might be raised in the discussion - about the mechanics of the Block Grant system, the distribution between services and so on - should be left for these further discussions in the forum of MISC 21. The Chief Secretary will need to consider the implications, and make proposals, for the later years.

CONCLUSIONS

20. You will want to sum up with reference to the three main questions in paragraph 15 of C(81) 54:

- (i) Should total local authority current expenditure in England be £17,800 million or £18,150 million or some intermediate figure?
- (ii) Should the English housing total stay at £3,869 million or be £442 million more or £93 million less; and what should be assumed within the total for rent increases and capital and maintenance?
- (iii) What should be the RSG percentage?

and to remit further details to MISC 21.

11th November 1981


Robert Armstrong

Approved by Sir R Armstrong