



P.0595

PRIME MINISTER

Rate Support Grant Settlement 1982-83  
(E(81)117 and 118)

## BACKGROUND

*Item 1* — On 12 November (CC(81)36th Conclusions, Item 5) the Cabinet agreed that further work on the Rate Support Grant (RSG) settlement for 1982-83 should be based on provisional assumptions of:

- i. total local authority current expenditure, other than housing, for England of £18,000 million;
- ii. increases averaging £2.50 a week on council house rents;
- iii. RSG percentages of 54 or 56 or 57 (subsequently the Secretary of State for the Environment has circulated the exemplification of 55 per cent).

The Secretary of State for the Environment was asked to consider urgently with the Chief Secretary the treatment of surpluses on housing revenue accounts.

2. The Secretary of State for the Environment was unable to complete this work in time for discussion by Cabinet on 19 November. As Cabinet on 26 November will be taken up by discussion of the 1981 Public Expenditure Survey, you agreed that the Secretary of State should report back to E Committee.

*Flag A*  
*Flag B*  
3. In E(81)117 the Secretary of State for the Environment recommends an RSG percentage of 57; he wishes this to be on the assumption that the increase of £2.50 in council house rents will be confirmed without any requirement of an offsetting cut of £225 million in housing capital and that the problem of surpluses will be dealt with to his satisfaction. In E(81)118 the Chief Secretary recommends an RSG of 52 per cent and points out, rightly, that E's discussion should not pre-empt Cabinet's discussion of housing expenditure the following day.





4. Your aim in this discussion will be to reach agreement on the first four points listed in paragraph 24 of E(81)117, subject to Cabinet's decisions on housing, and to let the Home Secretary's MISC 21 Group deal with the remaining more detailed points and the implications for Scotland and for Wales.

Relevance of RSG decisions to the Public Expenditure totals and to Housing

5. Cabinet has already discussed in some detail the total of local authority current expenditure and agreed provisionally to an increase to £18,000 million. Departments have subsequently agreed to the distribution of this sum between services, as listed in Appendix A of E(81)117. There should be ready agreement to the Secretary of State for the Environment's recommendation that the total, and the distribution, should now be endorsed. The Chief Secretary has now agreed with the Ministers concerned the local authority current totals, and distribution between services, for the two later years.

6. The RSG itself is not a public expenditure total. But the level of grant, and the way in which it is distributed, will influence the outturn of local authority current expenditure and is relevant, therefore, to any provision which has to be earmarked in reserve for overspending; this is why the Chief Secretary is looking for a lower percentage.

7. The provisional decision that rent increases should be £2.50 a week rather than £4 means that, if there is to be no increase in the total provision for housing expenditure of £3869 million in 1982-83, £225 million has to be cut from housing capital expenditure and the Secretary of State for the Environment's bid for a further £67 million for additional maintenance has to be refused. This question is, however, for discussion by Cabinet on Thursday and you will wish to make clear to the Secretary of State that the discussion of the RSG settlement cannot pre-empt Cabinet's decision.

8. The Secretary of State for the Environment and the Chief Secretary are looking separately at the treatment of housing surpluses. In brief, the problem arises because rents of £2.50 will mean surpluses totalling about £150 million for many authorities on their housing revenue accounts. Under present conventions these surpluses would be deducted from the rate fund contribution (see Appendix A) so the





total of relevant expenditure for RSG purposes would be less: a benefit for the tax-payer, but leading to a situation in which council house tenants would appear to be subsidising ratepayers in the provision of local services. To deal with this the Secretary of State has assumed in his arithmetic that the surpluses are not deducted. The Chief Secretary in his letter of 24 November says that he will accept this, provided arrangements are introduced whereby the local authorities are still bound to create the surpluses and then to use them in a way which reduces the ISBR.

9. Since the problem of surpluses is still under discussion between the two Ministers it is not appropriate for discussion by E, but it is likely to be mentioned and you should know of it. To guarantee the Chief Secretary's objectives it might be necessary to add a clause to the Local Government Finance Bill and to amend its long title. If this is not possible, or if the Secretary of State will not accept the proposals, this part of the proposals for the RSG settlement will have to be re-opened.

#### Expenditure Targets

10. As you can see from Appendix A to E(81)117 the total relevant expenditure of £20,518 million is amended, by deduction of specific grants, to give total expenditure of £18,549 million which has to be financed by RSG Block Grant and by rates. Table 1 breaks this total down between individual authorities in two ways: Grant Related Expenditures (GREs) in column 1 and expenditure targets in column 3. GREs are a Central Government assessment, based on agreed criteria, of what particular authorities should spend on services, and are the basis for the RSG Block Grant distribution. In theory, one would not expect expenditure targets different from GREs. In practice, separate and different targets are proposed to allow for realism and to penalise those authorities which are overspending in 1981-82.

11. This leads to the problem described in paragraph 10 of E(81)117. Most authorities will have targets below their GREs and authorities spending below GRE but above target will be penalised by hold-back of grant. Since this will be criticised as unfair, the Secretary of State for the Environment proposes a much smaller degree of hold-back for authorities caught in this way. The Chief Secretary thinks it right to keep up the pressure on low as well as high spenders but agrees there should be some such easement, provided that the RSG percentage is low.





12. The Secretary of State for the Environment invites the Committee to agree to the provisional targets listed in his table 1. These would be replaced by firm figures when the main RSG report is published. Subject to any points about proposed procedures for hold-back, the Committee is likely to agree to this. Any details on the method of hold-back, or other problems, might be left to MISC 21 to sort out.

#### RSG Percentage

13. The summary table on page 5 of E(81)117 shows, in column e, the Department of the Environment's 'best estimate' of average rate increases resulting from grant percentages of 57, 56 and 54. The Secretary of State recommends a percentage of 57 which might lead to average increases in domestic rates of 12 per cent over the main rate in 1981-82. Taken with 20 per cent increases in council house rents, he believes this is the most that can be justified. He points out that if, as is likely, local authorities overspend, grant will be withheld from them so that a nominal grant percentage of 57 could lead to an effective grant of 53 per cent.

14. The Chief Secretary argues forcefully in paragraphs 5-14 of E(81)118 for a lower percentage than 57 which he believes would worsen the prospects of negotiating acceptable pay agreements and seriously risk overspending. He points out that the average rate increases shown in the Secretary of State's table leave out of account supplementary rate increases totalling 6-7 per cent during 1981-82 and will be further reduced by 2-3 per cent if hold-back is mitigated as proposed for those authorities spending below GRE. On this analysis average rate increases following a 57 per cent RSG could be as low as 3 per cent. The Chief Secretary believes that the figures for industrial authorities in the Annexes to E(81)117 are even more misleadingly high. He concludes in favour of a 52 per cent RSG.

15. The decision on the RSG percentage is very much a matter of judgement. To some extent a lower percentage will encourage lower total spending and thus add to the chances of the Government's public expenditure targets being met. To some extent, however, authorities will respond by maintaining expenditure and rating correspondingly higher with the blame being put on the Government. The Committee may feel that, while there are good arguments for something less than 57, the Chief Secretary is risking too much by going as low as 52. You might, therefore, wish to look for agreement in the range 54-56 per cent. A 10 per cent increase on the domestic rate leads to an increase of 0.3 per cent in the RPI.





### Grant Distribution

16. The details of the grant distribution arrangements summarised in paragraph 20 of E(81)117 are probably generally acceptable but can be left for MISC 21 to settle.

### Timing

17. It is now too late to finalise the RSG report before Christmas as had been intended. The Secretary of State for the Environment recommends, however, that local authorities should be given as soon as possible a provisional indication of the main features of the settlement.

### Scotland and Wales

18. The Secretaries of State for Scotland and for Wales have already written to the Chief Secretary to propose how the percentages should be calculated for them in the light of the English settlement. There are no proposals before E and, if necessary, any problems will have to be sorted out by MISC 21.

### HANDLING

19. After the Secretary of State for the Environment has introduced E(81)117 you will wish to invite the Chief Secretary, Treasury to speak to E(81)118. You will wish to make clear that questions on housing expenditure will be for decision by Cabinet on the following day and that all decisions by E on the RSG settlement are subject to those housing decisions.

20. With reference to the recommendations in paragraph 24 of the Secretary of State for the Environment's memorandum E(81)117, you will wish to:

i. seek confirmation of the expenditure assumptions - the total of current expenditure and breakdown between services - listed in Appendix A;

ii. seek agreement to the provisional individual expenditure targets in column 3 of table 1, leaving MISC 21 to sort out any detailed problems;

iii. to decide whether the RSG grant percentage should be 57 as proposed by the Secretary of State for the Environment or 52 as proposed by the Chief Secretary, or somewhere between;





iv. authorise the Secretary of State to proceed with the statutory consultations on the options and, subject to agreement with Treasury Ministers, to announce as soon as possible the main features of the RSG settlement; and

v. to leave to the members of MISC 21, whether in correspondence or in a meeting under the Home Secretary, to decide the remaining details and the arrangements for Scotland and for Wales.

In looking at these questions you will wish to devote most of the time to the question of the grant percentage.

21. The other Ministers mainly concerned are the Home Secretary, the Secretaries of State for Education and Science, Social Services, Transport, Scotland and Wales and the Minister of Agriculture, Fisheries and Food.

#### CONCLUSIONS

22. You will wish to sum up with reference to the five points listed above, making clear that the decisions are subject to Cabinet's discussion of the housing programme.

*PLG*

P L GREGSON

24 November 1981