



PRIME MINISTER

ENGLISH RATE SUPPORT GRANT SETTLEMENT 1984-85: AGGREGATE EXCHEQUER
GRANT AND HOLDBACK

The Ministerial Sub-Committee on Local Authority Expenditure (E(LA)) has met three times under my chairmanship to discuss two important components of the English Rate Support Grant (RSG) settlement for 1984-85: the size of the Aggregate Exchequer Grant (AEG) and the tariff of holdback of block grant from those local authorities which exceed their expenditure targets. This minute reports our conclusions. As you know, provisional decisions on public expenditure provision for local authority current expenditure and expenditure targets for individual authorities were announced in the summer. The Secretary of State for the Environment intends to bring forward proposals on the remaining components - the methodology of grant-related expenditure assessments and the block grant mechanisms - in time for decisions to be reached, and the full RSG settlement to be announced, before Christmas.

2. The Sub-Committee found difficulty in reaching agreement because of the conflict between two important considerations. On the one hand, it is essential to maintain the pressure to curb local authority current spending both generally, and more particularly by the relatively limited number of determined over-spenders. The expenditure targets for 1984-85 imply a reduction in cash spending of 1 per cent on budgets for 1983-84. They are thus extremely demanding. It is important that we should not undermine their credibility. These considerations also indicate that the holdback tariff should be significantly more severe than in 1983-84; and that the size of AEG should reinforce the downward pressure on expenditure and give the right signals to authorities. In this connection, the Sub-Committee



thought it especially important that AEG, before holdback, should not be set at a higher percentage of relevant expenditure than in 1983-84. In the last three settlements, the grant percentage has fallen from 59 per cent to 56 per cent and then to 52.8 per cent; it would give the wrong signals if this trend were reversed in the 1984-85 settlement.

3. On the other hand, the settlement ought to enable responsible local authorities to keep down the average increase in rates next year. A modest increase in rates is an important policy goal: if it is not achieved, this may create serious opposition to our legislation on rate limitation. A settlement leading to widespread increases in rates above the rate of inflation would make local authorities suspect that the scheme for capping the rates of all authorities might be introduced: this would harden resistance to the proposals, not least among our own supporters. A further point to be borne in mind is the effect of the settlement on high-resource authorities, for example in the home counties. Because of the equalisation principles underlying the block grant system, a low figure for AEG hits them disproportionately severely. The Secretary of State for Education and Science was greatly concerned at this point. Especially if the holdback arrangements severely penalised minor over-spending, he feared that it might jeopardise the ability of even the most prudent and efficient of educational authorities to maintain reasonable standards. As against this, the point was made that it would be wrong to appear to condone even minor over-spending; and that the bulk of over-spending - leaving aside the exceptional cases of the Greater London Council and the Inner London Education Authority - falls within a band 1 or 2 per cent above target.

4. After lengthy and difficult discussions, the Sub-Committee agreed that AEG, before holdback, should be £11.9 billion in 1984-85. This is expected to be equivalent to about 52.2 per cent of relevant expenditure. The holdback tariff, in terms of the reduction, in pence, in the grant



poundage for each successive percentage point of overspend, will be 2-4-8-9-9 The corresponding features of the 1983-84 settlement were AEG, before holdback, of £11.8 billion, or 52.8 per cent of relevant expenditure; the holdback tariff was 1-1-5-5

5. Estimates of rate increases are necessarily unreliable. But the best judgement that can be made is that if local authorities spend at target they will be able to reduce rates by, on average, $4\frac{1}{2}$ per cent. In practice, many authorities will exceed their targets: if collectively they spend at 3 per cent, in cash, more than their 1983-84 budgets, rates might rise by about 7 per cent.

6. I must stress that these conclusions were reached only with great difficulty and after exhaustive exchanges. The opening positions of the Secretary of State for the Environment and the Chief Secretary, Treasury were a long way apart; and both went to the very farthest extent of their departmental positions in the interests of reaching agreement - as indeed did other members of the Sub-Committee. The Secretary of State for the Environment is concerned that the Government will face a most difficult period when the RSG orders giving effect to what will be widely regarded as an extremely severe settlement are debated at much the same time as the rate limitation legislation. The Chief Secretary would have preferred a more severe package, since that would have eased the Chancellor of the Exchequer's position when making his budget judgement and have held out more prospect of bringing local authority spending under control. However, these reservations simply reflect underlying difficulties of the situation; and I am clear that the Sub-Committee have reached the best possible compromise between the conflicting considerations. The decision will be communicated later this week to representatives of the local authorities.

Planned
for Thursday
morning



7. The Secretaries of State for Scotland and Wales will discuss settlements for their countries with the Chief Secretary and the Secretary of State for the Environment on a basis consistent with E(LA)'s conclusions on the English settlement.

8. I am sending copies of this minute to the other members of E(LA) and Sir Robert Armstrong.

hslb

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