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J/C JV



Prime Minister (2)

2 MARSHAM STREET
LONDON SW1P 3EB

01-212 3434

Local authorities

My ref:

Local Govt

will continue

Your ref:

16 November 1982

to pay NIS at

2 1/2 % in 1983-84.

MCS 16/11

mt

[Handwritten signature]

RSG SETTLEMENT 1983-4: NATIONAL INSURANCE SURCHARGE

I have been considering further the consequences for the RSG settlement of the reduction in the rate of national insurance surcharge (NIS).

We have agreed, and the Chancellor has stated publicly, that the public sector will not benefit from the change. But the application of this principle to the different parts of the public sector is not straightforward. In the case of local government we have to take account of 3 special problems.

First, several large and wealthy authorities do not receive block grant, which makes it impossible to claw back from them the benefit they gain from any reduction in the NIS. They include Camden, ILEA, Westminster, and possibly the GLC (depending on the level at which they spend next year).

Second, local authority expenditure is financed in part by the rates; more than half of total rate income is contributed by industry and commerce. If the rate of NIS paid by local authorities is reduced, ratepayers will expect to receive some benefit; and it would be particularly difficult to refuse such benefit to the industrial and commercial sector, which the reduction in NIS is designed to help.

Third, any reduction in grant will tend to fall disproportionately on authorities with high rateable values and a low overall rate of grant, including several of the Home Counties. This is a consequence of the principle of rate poundage equalisation on which the distribution of grant is based.

We could solve all 3 problems by keeping the rate of NIS at 2 1/2 % for local authorities in 1983-4 and leaving the public expenditure provision and the grant unchanged. This would be consistent with the arrangements made this year, under which local authorities have continued to pay 3 1/2 %. while other employers have paid 2 1/2 %. It would have the further advantage of not requiring any adjustments to the provisional RSG settlement, including the provisional targets issued in July.

I have discussed this issue with Leon Brittan, We believe there is no other satisfactory way of dealing with the problem. Leon had earlier proposed that the full amount of the estimated expenditure savings accruing to local authorities should be clawed back by means of a reduction in grant, but he accepts that this would have the undesirable

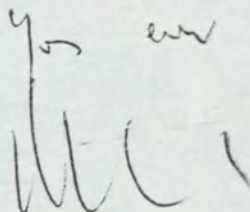
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consequences I have mentioned. Even if the reduction in grant were less than the estimated saving in expenditure - an option which Leon would be reluctant to accept - the problems of maldistribution would still remain.

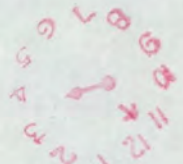
In the circumstances it seems to us both that the best course is to keep the rate of NIS for local authorities at 2½% for 1983-4 (Keith Joseph has also recommended it in his letter to me of 15 November). We could present this as a temporary arrangement, adopting so as to avoid upsetting the provisional RSG figures issued in July. Although the change has been announced well before the start of the financial year - unlike the 1982-3 change, which was not announced until the Budget - it does impinge on the RSG settlement, for which we have this year issued provisional figures earlier than ever before. Tom King and I see substantial presentational advantages in keeping these figures unchanged. Keeping NIS at 2½% for local authorities would of course be entirely consistent with our policy of confining the benefit of the NIS reduction to the private sector.

I hope that you can agree to this proposal. If you or other colleagues wished to discuss it we could perhaps do so at MISC 21 tomorrow - though I appreciate that this is very short notice.

I am sending copies of this letter to the Prime Minister, Willie Whitelaw, Leon Brittan, Michael Jopling, other members of MISC 21, and to Sir Robert Armstrong.



MICHAEL HESELTINE



16 NOV 1982

Rt Hon Norman Fowler MP

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