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at JV



Prime Minister (1)

PRIME MINISTER

Yes ok

Agree these conclusions,
without Cabinet discussion and
without circulation of
exemplifications?

RATE SUPPORT GRANT SETTLEMENT 1983-84: ENGLAND

..... The Ministerial Group on the Rate Support Grant (MISC 21) has now completed its work. I attach a note describing its recommendations in detail. They are summarised below.

MU 23/11

2. The recommendations deal with all outstanding issues. If accepted, they provide the necessary basis for the details of the 1983-84 Rate Support Grant (RSG) settlement to be worked out.

BASIS OF SETTLEMENT

3. The recommendations are based on the key figures agreed by the Ministerial Committee on Economic Strategy (E) in July (E(82)19th Meeting, Item 1) and subsequently announced by the Secretary of State for the Environment as provisional decisions. These were £19.5 billion for current expenditure and £11.8 billion for Aggregate Exchequer Grant. They were expected, on the information then available, to produce a grant percentage of 53.2 per cent of expenditure relevant for RSG if authorities spent at target.

4. MISC 21 recommends a number of specific adjustments to the targets provisionally announced in July. They increase the total by some £36 million.

5. There is, on the other hand, a case for a general reduction in targets of about £200 million to take account of the revision in forecasts of interest rates and other changes in the figures since July. But to change the targets for all authorities at this stage would be bitterly resented by the authorities and disrupt their expenditure planning. It could well damage our attempts to restrain local authority current expenditure and detract from the credit gained by the early announcement of targets. MISC 21 recommends against it, provided that the severe scheme of holdback of grant which it also recommends is adopted.

NATIONAL INSURANCE SURCHARGE

6. The Ministers concerned have agreed that in 1983-84, as in the current year, local authorities should pay National Insurance Surcharge (NIS) at a higher rate than the generality of employers. This ensures that, as we intended, the effect on local authorities of the reduction in NIS is neutral while avoiding the serious difficulties that would be created by trying to achieve the same result through the block grant system.

GRANTS DISTRIBUTION

7. MISC 21 recommends the same system of distributing block grant as in 1982-83, subject to the following detailed changes.

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- (i) Modest technical changes in the system of assessing grant-related expenditure (GRE), that is, the assessment of the average cost of providing a standard level of service in the circumstances of the local authority concerned.
- (ii) A minor change in the 'safety net' for inner London boroughs. (The 'safety net' limits the size of grant changes from year to year).

As compared with the 1982-83 settlement, the proposals will reduce London's share of grant slightly in favour of other areas.

DOMESTIC RATE RELIEF

8. MISC 21 recommends that domestic rate relief should remain at the equivalent of 18½p, its level for the last eight years.

GRANT HOLDBACK

9. MISC 21 recommends a holdback scheme which withdraws grant equal to a 1p rate for each of the first two percentage points by which spending exceeds target, and grant equivalent to a 5p rate for each subsequent percentage point overspend.

10. MISC 21 recommends against either a limit on the amount of grant holdback or exempting from holdback those local authorities spending more than target but less than GRE (a 'GRE exemption') even though both featured in the 1982-83 settlement.

11. As I warned in my minute of 26 October, refusal of a GRE exemption is likely to be strongly criticised by many of our supporters in both local government and the House of Commons. Some members of MISC 21 had serious misgivings on this score. Nevertheless, on balance the Group takes the view that GRE exemption should not be conceded.

12. The Chief Secretary, Treasury, has made it clear that his agreement not to press for a general reduction in targets (paragraph 5 above) is conditional on there being no GRE exemption. In our public presentation we shall need to stress the benefits to local authorities of our decision not to reduce targets. I think that we can present the settlement as one which will in general allow authorities spending at target to impose only modest rate increases, and even rate reductions, and will bear gently on authorities spending up to two per cent above target, but severely on authorities which exceed their targets by more than two per cent.

13. The grant percentage in 1983-84, if authorities spend at target, will be 53.4 per cent, compared with 56.1 per cent in 1982-83. The Secretary of State for the Environment can provide exemplifications of the effects on individual local authorities by the end of this week to you or any of our colleagues who may wish to see them.

SCOTLAND AND WALES

14. If the recommendations in this minute are accepted, the Secretaries of State for Scotland and Wales will discuss settlements on similar lines for their countries with the Chief Secretary.

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TIMING AND PROCEDURE

15. Before the RSG settlement can be made its implications for individual local authorities must be calculated and checked. This takes some four weeks. It is not strictly necessary to decide the details of the holdback scheme on the same timetable. But the recommendations should be regarded as a package, and accepted or modified as a whole.

16. Officials are working on the assumption that the recommendations of MISC 21 will be accepted. In this way, it will still be possible for the Secretary of State for the Environment to announce a settlement before Christmas; the necessary Order can then be debated in January. If the recommendations are modified the timetable will be set back. Should there be any difficulties about the recommendations it would therefore be desirable for them to be discussed in Cabinet as soon as possible.

17. I am sending copies of this minute, and attachments, to other members of the Cabinet, the Chief Whip, the Attorney General, the Minister for Local Government and Environmental Services (Mr. King) and Sir Robert Armstrong.

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10 DOWNING STREET

From the Private Secretary

24 November 1982

Dear John,

Rate Support Grant Settlement 1983-84: England

The Prime Minister was grateful for the Home Secretary's minute of 22 November about the conclusions of the Ministerial Group on the Rate Support Grant (MISC 21).

The Prime Minister accepts the recommendations of MISC 21. She has asked me to convey her thanks to the Home Secretary and to all those concerned in MISC 21 for all the work which has gone into this exercise.

I am sending copies of this letter to the Private Secretaries to the members of Cabinet and to the Private Secretaries to the Chief Whip, the Attorney General, the Minister for Local Government and Environmental Services (Mr. King), and to Sir Robert Armstrong.

Yours sincerely,

Michael Scholar

John Halliday, Esq.,
Home Office,

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MISC 21 REPORT
RATE SUPPORT GRANT SETTLEMENT:
1983-84: ENGLAND

The Ministerial Group on the Rate Support Grant (RSG) (MISC 21) has now completed its work on the 1983-84 English RSG settlement. This note describes the Group's recommendations.

TOTAL LOCAL AUTHORITY EXPENDITURE, TARGETS AND AGGREGATE EXCHEQUER GRANT

Total Expenditure

2. The Ministerial Committee on Economic Strategy (E) agreed on 20 July that the Government's public expenditure plans should provide for local authority current expenditure of £19.5 billion in England in 1983-84, of which about £18.8 billion would be distributed among individual services, with the balance of £700 million as an allowance for realism.

3. In his minute of 17 September the Chief Secretary, Treasury reported the service distribution of local authority current public expenditure which he had agreed with Ministers responsible for local authority expenditure; Ministers agreed that it would be appropriate to apportion in this way £18,806 million, ie. £6 million more than E had agreed.

4. The RSG settlement is based on a figure for local authority expenditure 'relevant' for RSG purposes. The figure is equal to planned local authority current expenditure, adjusted for eg. financing items and transfers between rate funds and housing revenue accounts. Block grant is then payable on 'total expenditure', that is, relevant expenditure reduced by specific and supplementary grants paid to local authorities. On the information available in July, local authority current public expenditure of £19.5 billion implied 'total expenditure' of about £20.1 billion.

Expenditure Targets

5. E also agreed that expenditure targets should be set for individual authorities in order to keep up the pressure for economy in local government expenditure. Authorities whose 1982-83 budgets exceed by no more than 1 per cent their 'effective target' - ie. the higher of their target or grant related expenditure assessment (GRE - a measure of the average cost of providing a reasonable level of services) - would be set next year a target equal to 104 per cent of their 1982-83 budget. For higher spending authorities targets would be 5 per cent greater than 1982-83 'effective targets' with the proviso that no authority's target should require a cash reduction of more than 1 per cent from its 1982-83 budget, subject to the overriding constraint that no authority's target should exceed by more than 20 per cent its 1981-82 budget. In other words, the targets would permit authorities which have been reasonably economical to increase their planned expenditure by 4 per cent in cash between this year and next; for almost all other authorities targets would imply a smaller cash increase or a small reduction; a very few authorities, notably the Greater London Council (GLC), would need substantially to reduce expenditure in cash terms in order to stay within their targets.

6. On 27 July the Secretary of State for the Environment announced provisional targets for all authorities on this basis. In total they equalled £20.1 billion the then forecast figure for RSG 'total expenditure'.

7. MISC 21 has considered the case for changes in the system of targets, taking account of local authorities' reactions to the provisional targets, changes in the economic outlook since July, and the need for the targets to be consistent with other Government policies. It proposes increases in the two cases described below.

(i) Housing Revenue Accounts (HRAs)

Many authorities reduced their budgets in 1982-85 by planning to transfer surpluses from their HRA to their rate funds. MISC 21 recommends that these transfers should be discounted when calculating targets for next year. Unless this change is made the Government will be accused of obliging authorities to use profits from council housing to reduce rate bills; and those authorities whose budgets included such transfers will be penalised unfairly in comparison both with the many other authorities which similarly transferred HRA surpluses but whose budgets do not provide for them and with authorities which use HRA surpluses for other purposes. The effect is to increase the total of targets by about £14 million.

(ii) Greater London Council (GLC)

Under the Transport Bill now before Parliament the Secretary of State for Transport will set guidelines for the GLC and the metropolitan county councils indicating how much he judges it appropriate for them to spend on subsidising public transport. The Attorney General has advised that there is a risk of challenge in the courts from any authority which can demonstrate that its overall expenditure target is unreasonable on the grounds that payment of transport subsidy in accordance with the guidelines would require it to make excessive cuts in other services in order to meet its overall target. Moreover, an unrealistic transport subsidy guideline would be of no value to a dissatisfied ratepayer who tried to challenge in the courts what he saw as excessive expenditure on public transport subsidies. In the light of the Attorney General's advice, and of the need to avoid setting the GLC a subsidy guideline which would entail an increase in London Transport fares next year, MISC 21 recommends that the GLC's target should be increased by £22 million to £565 million. Because, under the Local Government Finance Act 1982 targets must be set by general rules applicable to all authorities,

increasing the GLC's target involves increasing those of Milton Keynes and Corby as well - by about £120,000 taken together.

8. A number of authorities' provisional targets were calculated in July on the basis of factual or technical errors. The Secretary of State for the Environment and the Chief Secretary, Treasury have agreed appropriate adjustments in their targets.

9. A number of authorities which have budgetted to spend significantly less than their effective target this year have argued that the way targets are set penalises them: had they planned to spend up to their effective target this year, their target for next year would be correspondingly higher. But to change the way in which such authorities' targets are calculated would relax the pressure for continuing economies; and, as is argued in paragraph 24 below, the provisional targets should allow ample headroom for reasonably economical authorities to provide a satisfactory level of services. Except for the changes listed in paragraphs 7 and 8 above, MISC 21 therefore recommends no increase in the provisional targets which the Secretary of State for the Environment announced in July.

10. When they were announced in July, the provisional targets equalled estimated 'total expenditure' for RSG purposes. Since July, estimates of total relevant expenditure have fallen by approximately £ 200 million, owing mainly to reductions in interest rates and increases in specific and supplementary grants. The changes listed in paragraphs 7 and 8 above would add about £36 million to the total of provisional targets. The adjusted total of provisional targets therefore exceeds by some £ 200 million total expenditure. In other words, if all authorities'

expenditure is equal to their targets, the Government's plans for local authority current public expenditure would be exceeded by £ 200 million.

11. There is therefore a case for reducing targets overall. But such a reduction would be bitterly resented by the local authorities who have worked out draft budgets taking account of the provisional targets announced in July. It might well be counter-productive. MISC 21 therefore recommends that the targets announced provisionally in July should not be reduced. The Chief Secretary, Treasury has made clear that his agreement to this recommendation is conditional on the recommendation that there should be no 'GRE exemption' from grant holdback (paragraphs 24 and 25 below).

Aggregate Exchequer Grant

12. E agreed in July that the Aggregate Exchequer Grant - total of RSG and supplementary and specific grants - should be £11.8 billion if authorities spent at target, or 53.2 per cent of relevant expenditure. The reduction in estimated relevant expenditure discussed in paragraph 10 above increases the grant percentage to 53.4 per cent; but that still represents a substantial reduction by comparison with the 1982-83 figure of 56.1 per cent for spending equal to targets.

National Insurance Surcharge

13. On 8 November the Chancellor of the Exchequer announced that the National Insurance Surcharge (NIS) would be reduced in 1983-84 from 2½ per cent to 1½ per cent. It is the Government's policy that the effect on local authorities of this reduction should be neutral. To try to achieve this result through the block grant system would have undesirable results. First, those authorities already receiving no Exchequer grant (in general, high

spenders) could obviously suffer no reduction in grant. In order to recover the full cost of the reduction in NIS from local authorities collectively other authorities would have to lose more in grant than they gained from the NIS reduction. Secondly, because of the equalisation inherent in the block grant system, authorities with low rateable resources (again, in general, higher spenders) would do better than authorities with high rateable resources. The Ministers concerned have therefore agreed that the right solution is to levy NIS on local authorities at $2\frac{1}{2}$ per cent in 1983-84. This has the incidental advantage of not requiring extensive recalculation of targets and expenditure figures.

GRANT DISTRIBUTION

14. In discussion in MISC 21 the Secretary of State for the Environment has argued that, subject to the overriding aim of putting maximum pressure on local authorities to meet their expenditure targets, the aim should be stability in grant distribution between 1982-83 and 1983-84. That approach, which will minimise rate increases and allow a significant number of authorities to decrease their rates is reflected in the Group's recommendations on the assessment of GRE and the choice of 'block grant mechanisms' which determine the basic distribution of grant.

GRE

15. MISC 21 recommends that individual authorities' GRE should be assessed generally in the same way as in 1982-85, subject to:

- (i) a number of necessary technical changes, including those arising from the use of new information from the 1981 Census;
- (ii) a number of further changes, still modest in scope but which allocate GRE among classes of authority in a more defensible way than in 1982-85.

These modifications have been discussed with the local authority associations and agreed among departments, and are not likely to be contentious.

Block Grant Mechanisms

16. The block grant mechanisms determine how variations in an authority's expenditure around its GRE affect the proportion of that expenditure borne by its ratepayers. The Group considered whether the mechanisms should be altered in the 1983-84 supplement so as to reduce more sharply the proportion which an authority's grant bears to its expenditure as that expenditure increases; but concluded that it would instead be more appropriate to rely mainly on grant holdback to put pressure on high spending authorities. The Group recommends no change.

17. The Group also recommends

(a) that there should be no change in the special arrangements to reduce the discrepancy between rate bills in London and elsewhere, or in the London equalisation scheme which redistributes some of the benefit of Westminster's and the City's high rateable resources to the other inner London boroughs; and

(b) that the only change in the 'safety net' arrangements, which limit the changes in grant distribution from year to year, should be to double the inner London borough safety net, to take account of the fact that the Inner London Education Authority will not receive block grant.

18. As compared with the 1982-85 settlement, these proposals for GRE and block grant mechanisms will reduce London's share of grant slightly in favour^{bo} of the shires and the metropolitan areas.

DOMESTIC RATE RELIEF

19. MISC 21 recommends that domestic rate relief should remain at the equivalent of a $18\frac{1}{2}$ p rate, its level for the last 8 years.

GRANT HOLDBACK

20. In most cases, under the basic block grant arrangements an authority's entitlement to grant increases with its expenditure, though at a declining rate. E agreed in July that, as in 1981-82 and 1982-83, the 1983-84 RSG arrangements should include a grant holdback scheme which would go further than this and actually reduce grant paid to authorities which overspend their targets next year. In announcing the Government's proposals in July, the

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24. The case for a GRE exemption is stronger, both politically and otherwise. It would benefit many shire districts and counties which have tried to control expenditure in the past; many of the Government's supporters in Parliament can be relied upon to argue that there should be such an exemption on the grounds that GRE is an objective measure of the average cost of providing a standard level of services. It may also be argued that there is a case on educational grounds for some Conservative-controlled education authorities' increasing their expenditure above targets and up to GRE. On the other hand, a GRE exemption would considerably reduce the pressure for economy in local government, permitting additional expenditure of some £310 million before grant holdback; and the Secretary of State for the Environment and the Minister for Local Government and Environmental Services have advised MISC 21 that in many authorities to which a GRE exemption would apply, even those controlled by the Government's own supporters, there is considerable scope for further economy without endangering the provision of a reasonable level of services. The targets should permit all authorities, and especially low-spending authorities, a perfectly adequate real level of expenditure. Authorities in aggregate ^{could} underspend their 1982-83 budgets by between 2 and 3 per cent on average; we expect inflation to fall to about 5 per cent in the first part of 1983; and there will be, if the recommendations in paragraphs 7 to 11 are accepted, a gap of about £ 200 million between the totals of targets and expenditure relevant for RSG. Taken together, these factors should mean that many authorities will be able at least to maintain the volume of their expenditure without exceeding their targets. There are, of course, wide variations around this average; for example, up to 100 authorities, including some shire counties, are likely to have made a lower allowance for inflation and might underspend their budgets by much less than 2-3 per cent this year. But it is significant that those authorities who have made out a case for a GRE exemption to Environment Ministers have not shown that they would have difficulty in keeping their spending below ₁₀ targets. MISC 21 recommends against a GRE exemption.

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25. In principle, it is not yet necessary to take a final decision on whether there should be a maximum level of holdback or a GRE exemption. Under the Local Government Finance Act 1980 the holdback scheme can be relaxed at any stage up until the making of the Final Supplementary Report on the RSG, which for the 1985-84 settlement will take place in November 1984; and the possibility exists that overwhelming arguments will at some stage be put forward for such a relaxation. But it is important that the recommendation should be seen as a package: in particular, the Chief Secretary, Treasury made it clear to the Group that he could only agree to the Group's recommendations that the 1982-85 block grant mechanisms should be retained, and that there should be a reduction in targets overall, if the Group recommended that the Government should resist pressure for any relaxation.

THE SETTLEMENT AS A WHOLE

26. The impact of the settlement will naturally vary from case to case. But it should be possible for the Government to present it, as one which will in general allow authorities to impose only modest rate increases, and even rate reductions if they spend at target, but which will lead to severe loss of grant and large rate increases for authorities which significantly exceed their targets.