

PRIME MINISTER

STATEMENT ON THE RATE SUPPORT GRANT SETTLEMENT

Although Mr. Heseltine and Mr. Kaufman exchanged arguments on a number of extremely esoteric points, completely incomprehensible to the layman, the main theme of the question on this statement was quite clear. The Opposition argued that the Government was entirely to blame for the enormous rate increases that would inevitably flow from this RSG settlement, and also for the cuts in services that would inevitably have to be made. Mr. Heseltine and Government backbenchers, argued that the blame for any rate increases lay fairly and squarely on local authorities, and that increases would not be necessary if authorities met their spending targets. The Alliance seemed to argue that whoever was to blame, it would be the ratepayer who would suffer.

Mr. Kaufman used a number of figures to support his argument: Mr. Heseltine's announcement would cut rate support grant for the forthcoming year in real terms by £250m; the reduction since 1979, from 61 to 53% of relevant expenditure, had cut RSG by £1,800m, equivalent to a 25p in the pound rate increase for every domestic ratepayer. Including other penalties, the Government had increased the rate burden for domestic ratepayers by 35p in the £. He said that Mr. Heseltine's talk of single figure or zero rate increases was a sick joke. The Government's destruction of the local authorities was causing massive unemployment in the private sector. Mr. Heseltine was "the grim reaper" of local government.

Mr. Heseltine responded by drawing attention to the record of the Shire counties in the current year. Conservative controlled counties had increased their rates by 12%; "other" controlled counties by 21%, and Labour controlled counties by 31%. All these authorities were running the same services in broadly the same circumstances. These figures showed clearly where the response for rating increases lay. He also drew attention to the savings that could be made by local authorities through greater efficiency. He gave the example of Birmingham which now used 262 fewer people on its refuse collection and disposal, with savings of £3m.

17 December, 1982.

CM



JCWR

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

16 December 1982

Dear Michael

RATE SUPPORT GRANT STATEMENT

/ I attach a copy of the final version of the statement which my Secretary of State is to make in the House of Commons this afternoon.

I am sending a copy of this to the Private Secretaries to the Home Secretary, the Secretaries of State for Education, Health and Social Services, Transport, Employment, Trade, Agriculture, Scotland, Wales, Paymaster General, Lord President, to the Chief Secretary, to the Chief Whips, Commons and Lords, and to the Chief Press Officer at No 10.

*Yours
D. A. Edmonds*

D. A. EDMONDS
Private Secretary

With permission, Mr Speaker, I should like to make a statement on the rate support grant settlement in England.

In my statement to the House on 27 July I set out proposals for the main elements of the rate support grant settlement for 1983/4. I have today tabled the main RSG Report.

I am placing in the Library copies of the detailed material being sent to local authorities today.

The Government has 3 main objectives.

The overriding one is to achieve further reductions in local authorities' current expenditure.

We need also to recognise the efforts that most authorities have made to find economies.

And we must increase the incentive for all authorities to spend at target, by increasing the grant pressure on the high spenders.

As well as the main Report for 1983/4, I have also tabled today the First Supplementary Report for 1982/3.

The main effect of this Report is to reduce block grant for authorities budgeting to overspend both their target and grant related expenditure assessment.

The holdback for 1982/3 amounts to £308 million.

Authorities were warned about the holdback scheme before they drew up their budgets, and they took their decisions in that knowledge. This Report implements the scheme.

It also adjusts relevant expenditure, and grant, to reflect a number

of changes, mainly in the usual variable items caused by interest rate changes.

I turn now to the main Report for 1983/4.

The current expenditure provision is £19.7 billion.

That is about 10% more than the equivalent figure in last year's settlement.

It is about 3% more than the equivalent figure in authorities' budgets this year.

The aggregate Exchequer grant is £11.8 billion.

Although the percentage is lower the grant is some £300 million higher in cash (almost 3%) than in last year's settlement.

There are no major changes to the methodology of grant-related expenditure assessment.

Some useful improvements have been made including 1981 census data in consultation with local government.

There are no changes in the main grant distribution mechanisms. The distribution of block grant between classes of authority is similar to that last year.

I am now confirming the expenditure targets for all authorities. Since July inflation has fallen and interest rates have dropped, but I have not reduced the targets I announced then to reflect that. A few targets have been raised following minor changes to the methodology.

None have been reduced.

Most low spending authorities and those that have complied with

this year's guidelines are given targets which allow a 4% cash increase over their budget this year.

Usually, authorities spend less than they budget for.

In these cases the new target will be a small increase beyond 4% over actual spending this year.

In the light of the current economic trends it is fair, and it rewards efforts to economise.

By contrast, the target for most over-spenders represents a 1% cash cut from their budget this year.

That is tough, but rightly so, because these are authorities which have made no real effort to reduce spending so far, and where the scope for reductions is greatest.

I believe that most local authorities will act responsibly, and will plan to hit their targets.

This year and last two-thirds of authorities budgetted to avoid grant holdback.

But we also know that a less-responsible minority exists.

Pressure must therefore be increased on the highest spenders.

The grant holdback scheme achieves this.

For each of the first 2 percentage points of spending above target, there will be a loss of grant worth a 1p rate at ratepayer level.

For each subsequent percentage point of overspending, there will be a loss of grant worth a 5p rate.

This will help authorities which narrowly fail, but it becomes increasingly severe for overspending at all levels above 2%.

For the first time since 1945, current expenditure by local government has been shifted to a downward trend.

Price Down in Shires Covered.

News: increase in paper (by Essex - Cars)

- 4% increase

- GRE mark

Streams - cut by proxy Wandsworth.

This settlement builds on that.

We have not yet achieved the rate of reduction we originally asked for when we took office.

We have made a start, especially with manpower.

Local authorities have now reduced manpower by some ~~4%~~^{5%} since 1979.

The Manpower Watch figures also published today show that we are back to the level of 197~~4~~.

We have virtually eliminated the growth in manpower that followed reorganisation.

The issue here is not the creation of unemployment: it is the reverse.

The fact is that high rates have forced the wealth-creators in our society to reduce staff in order to maintain jobs in local government.

Any objective survey of a proper cross-section of authorities will show that as a result of this settlement rate increases next year should for most authorities be nil or in low single figures.

If authorities spend at target, in many cases rates could actually be reduced.

That is the prize offered by this settlement.

There is no excuse for overspending this year.

Authorities have had more notice than ever before.

In the overwhelming majority of cases ratepayers will know that excessive rate increases are the result of excessive spending by their authority.

- Kaufman:
- (1) relevant expenditure
 - (2) angle of taper
 - (3) HRA \rightarrow GRF & capital receipts

\downarrow Howell can ACC \rightarrow redns beyond more acceptable to public unrealistic targets

Created real reduction = 250 m real cut
 61% \rightarrow 53% of relevant expenditure = £1800 m
 25 p in £ rate increase
 35 p

Intolerable burden

He has forced up rates. He is responsible.
 Purchases from private industry. The grim reaper.
 Never forgive

MA: 1M founded. Look at Shire Counties
 Cons 12% Mrs 21% Labour 31%
 All broadly same circumstances.
 Shows where responsibility lies

~~at last~~
 Birmingham Refuse collection Savings 1 year
 3m. 262 less than the 700 needed before.

$\&$ Cross-endless switching. Liberals 10%
 Cut by 3.1% no recompense for inflation
 naive or dishonest.

Day responsibility
 Flannery

Altrande

Warrick suffered
 4% increase

010. local Govt:



Prime Minister

①

✓ c B1
WR

Agree to this
statement?

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

mes 15/12

15 December 1982

Yes no

Dear John

RSG SETTLEMENT 1983-4

/ I attach a first draft of the oral statement which my Secretary of State is to make to Parliament on Thursday 16 December about the 1983-4 Rate Support Grant Settlement. This covers much the same ground as a statement to the Consultative Council on Local Government Finance on which Departments have already been consulted.

I should be grateful for any comments by close of play today.

I am copying this to the Private Secretaries to the Prime Minister, the Home Secretary, the Secretaries of State for Education, Health and Social Services, Transport, Employment, Trade, Agriculture, Fisheries and Food, Scottish Office, Welsh Office, the Lord President and to Sir Robert Armstrong.

[Handwritten signature]

D A EDMONDS
Private Secretary

John Gieve Esq
PS/Chief Secretary

PARLIAMENTARY STATEMENT

With permission, Mr Speaker, I should like to make a statement on the rate support grant settlement.

In my statement to the House on 27 July I set out proposals for the main elements of the RSG settlement for next year.

I have today tabled the main RSG Report for 1983/4.

Details are being sent to all local authorities.

I am placing in the Library copies of the material which is being sent to them today.

The Government has 3 main objectives.

The first, and overriding one, is to achieve further reductions in local authorities' current expenditure.

Second, we need to recognise the efforts that most authorities have made to find economies.

And third, we must increase the incentive for all authorities to spend at target, by increasing the grant pressure bearing on the high spenders.

This year's RSG settlement comprises 2 Reports: the main Report for 1983/4, and the First Supplementary Report for 1982/3, which I have also tabled today.

I shall briefly describe them both.

The main effect of the 1982/3 Report is the same as that of the 1981/2 Report which the House debated on Tuesday.

It reduces block grant for authorities budgeting to overspend both target and GRE.

Holdback for 1982/3 amounts to £308 million.

Authorities were warned of the holdback scheme before they drew up their budgets.

They took their budget decisions in the knowledge of the holdback that would follow.

This Report now implements it.

The Report also adjusts relevant expenditure, and grant, to reflect a number of changes, mainly in the usual variable items due to interest rate changes.

The main elements of the main Report for 1983/4 are as follows.

The current expenditure provision is £19.7 billion.

That is about 10% more than the equivalent figure in last year's settlement.

And about 3% more than the equivalent figure in authorities' budgets this year.

Aggregate Exchequer grant is £11.8 billion.

Although the percentage is lower, grant is a higher cash amount.

It is some £300 million, or almost 3%, more than in last year's settlement.

There are no fundamental changes to the methodology of grant-related expenditure assessment.

Some useful improvements have been made, in consultation with local government.

And data from the 1981 Census has been incorporated from the first time.

I am making no changes to the main grant distribution mechanisms.

The distribution of block grant between classes of authority is

similar to that in last year's settlement.

I am using final expenditure targets ^{to} ~~to~~ all authorities.

A few have increased since July following minor changes to the methodology.

None have been reduced.

Moreover, since July inflation has fallen and interest rates have dropped.

But I have not reduced the targets to reflect that.

I have ^{revised} ~~stayed faithful to~~ the figures I announced in July.

Most low spending authorities are being given targets which allow a 4% cash increase over their budget this year.

Usually authorities actually spend less than they budget for.

So in these cases the new target will be an increase of more than 4% over actual spending this year.

In the light of the current economic trends that is a fair target to set.

It rewards efforts to economise.

The target for most over-spenders, by contrast, represents a 1% cash cut from their budget this year.

That is a tough target; but rightly so because these are authorities which have made no real effort to reduce spending so far.

These are the authorities where the scope for reductions is greatest.

As in the past, most authorities will no doubt plan to hit their targets.

The targets are fair.

And we know from experience that most local authorities will act responsibly.

But we also know that the irresponsible minority exists.

This year and last some two-thirds of authorities have budgetted to avoid grant holdback.

Pressure must be increased on the highest spenders.

The grant holdback scheme described in the Report achieves this.

For each of the first 2 percentage points of spending above target, there will be a loss of grant worth a 1p rate at ratepayer level.

For each subsequent percentage point of overspending, there will

be a loss of grant worth a 5p rate.

This will help authorities which narrowly fail to hit target.

But it becomes increasingly severe for overspending at all levels above 2%.

For the first time since the War, the corner has been turned: current expenditure by local government is at last on a downward trend.

This settlement builds on that.

We have not yet achieved the rate of reduction we asked for when we took office.

But we have made a start.

Take manpower for example.

Local authorities have now reduced manpower by some 4%.

~~_____~~
We are back to the level of manpower in 1974.

~~_____~~
We have virtually eliminated the growth that followed reorganisation.

The issue here is not the creation of unemployment.

Quite the reverse.

The plain fact is that high rates force the wealth-creators in our
society to reduce their staff in order to maintain jobs in local
government.

Any objective survey of a proper cross-section of authorities will
show that as a result of this settlement rate increases next year
should for most authorities be nil or in low single figures.

If authorities spend at target, in many cases rates could actually
be reduced.

That is the prize offered by this settlement.

There is no excuse for overspending this year.

Authorities have had more notice than ever before.

Ratepayers will know that excessive rate increases are purely the
result of excessive spending by their authority.