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Prime Minister ①

Assessment
Content?

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AT
7/12

My ref:

Your ref:

6 December 1984

Dear Andrew

I enclose a copy of the statement my Secretary of State expects to make on RSG next Tuesday. If you have any comments I would be grateful if they could be with me by 10am on Monday 10 December.

I am sending a copy of this letter to Janet Lewis-Jones (Lord President's Office), Hugh Taylor (Home Office), Elizabeth Hodgkinson (Department of Education and Science), John Graham (Scottish Office), Colin Jones (Welsh Office), Steve Godber (Department of Health and Social Security), Callum McCarthy (Department of Trade and Industry), David Normington (Department of Employment), Richard Broadbent (Chief Secretary's Office), Dinah Nichols (Department of Transport), Iain Jack (Lord Advocate's Department), Paul Thomas (Lord Gowrie's Office), Alex Galloway (Paymaster General's Office), Murdo Maclean (Chief Whip's Office), David Beamish (Government Whip's Office, Lords) and to Richard Hatfield (Cabinet Office).

Yours sincerely

J F BALLARD
Private Secretary

Andrew Turnbull Esq

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RATE SUPPORT GRANT SETTLEMENT 1985/6

With permission, Mr Speaker, I wish to make a statement on the rate support grant settlement in England for 1985/6.

In my statement to the House on 24 July I set out my proposals for the main elements of the rate support grant settlement for next year and listed the 18 authorities which I was designating for rate limitation. I have today laid before the House the main RSG Report for 1985/6 and I am sending rate-capped authorities notices advising them of the rate or precept limit proposed for them. I am placing copies in the Library of all the material being sent to local authorities today.

I have also laid today two RSG Supplementary Reports. The third Supplementary Report for 1983/4 adjusts authorities' grant entitlements in the light of the latest information on outturn expenditure for the year. The second Supplementary Report for 1984/5 implements grant abatement for Liverpool City Council, whose budget was received too late to be taken into account when I implemented grant abatement for all other authorities in July. Both reports also contain other technical adjustments to grant.

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I now turn to the main Report for next year. For 1985/6 for the first time the Rates Act enables me to influence directly the spending levels of the worst overspenders by imposing limits on their rates. As we promised throughout the passage of the Rates Bill in Parliament, this means that rate limitation will not only benefit the ratepayers of the selected authorities. It will also benefit low-spending authorities, since I am no longer obliged to ask them to make cuts because of the excesses of the high-spending minority.

I have decided to confirm the targets I proposed in July with two important changes. The first allows most low spending authorities an increase over this year's budgets of $4\frac{1}{2}\%$ instead of the $4\frac{1}{4}\%$ I previously announced. This reflects the slight increase in the forecast inflation rate over the period. For the first time targets for the lowest spenders imply spending increases in line with inflation, or in other words, no further real terms cuts. The second change is a small extra allowance for authorities such as Norfolk budgeting this year to spend not only below GRE, but also at or very close to target. Their targets will now allow a 4.625% increase from budget this year. With these changes, the targets for low spending authorities fulfil to the letter the undertakings which I gave to the House last January.

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I have decided to confirm the stringent holdback tariff which I announced in July at the rate of 7 pence in the pound for the first percentage point of overspend, 8 pence for the second, and 9 pence for each point thereafter. I believe that it is only fair to match realistic targets with a strong incentive that they should be met. I propose however to continue to exempt from penalty increases in certain Urban Programme and civil defence expenditure, and increases in expenditure on schemes jointly financed with health authorities.

Aggregate Exchequer Grant will be £11.764bn. That is slightly higher than the figure which I proposed in July. The grant percentage is 48.7%. This is higher than the 48.3% of relevant expenditure which is represented by present grant payment, after holdback, this year.

I turn now to grant distribution. Following consultation with local government I have decided on some limited but important changes to GRE assessments, affecting primarily the GREs for passenger transport support, highway maintenance, rate fund contributions to council housing, and recreation. I have also increased the slope of the block grant poundage schedule. This increases the importance of spending in relation to GRE as a factor in grant entitlements, and increases the marginal cost of spending above GRE for all authorities. Again, this helps low-spending authorities, since it gives more of the available grant to authorities spending at or below GRE.

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In the light of this RSG settlement, I am issuing maximum rate or precept limits for the 18 selected authorities. Since July, when I announced expenditure levels for these authorities, it has been open to each of these authorities to apply for a redetermination of their expenditure level at a higher level, but none has done so.

Rate or precept limits for 1985/6 are therefore based on the July expenditure levels. I am today sending out statutory notices informing each authority of the limit that is proposed for them. A list of these limits has been placed in the Library and is available in the Vote Office. In calculating the rate or precept limits I have taken account of the expenditure levels set and the authorities' block grant entitlements next year. I have also had regard to the level of financial reserves available to each authority, making assumptions as necessary.

Authorities now have until 15 January to comment on the rate or precept limits proposed, and to draw my attention to any relevant information of which I may not be currently aware. Unless I have comments by 15 January, it will in the absence of agreement be necessary to move on to the next stage of asking the House to confirm the rate limits by affirmative Order.

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The proposed rate and precept limits I am announcing today will be warmly welcomed by ratepayers in the areas concerned. For 13 of the 18 authorities I have set rate or precept limits which are lower than the rates or precepts being charged this year. In the 5 remaining cases however, the rate or precept will be lower than it would have been without rate-capping.

Mr Speaker, this year's average rate increase was the lowest for 10 years. If authorities budget to meet their targets next year, the average rate increase next year should be even lower. The first stage of rate limitation will at long last bring relief to ratepayers in the rate capped areas. Moreover, rate capping has allowed me to set much fairer targets for low spending authorities. This settlement has meant increasing the provision for local authority current spending next year by £820m above the provision in the public expenditure White Paper. In present economic circumstances, this is a reasonable and fair settlement, and I commend it to the House.

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10 DOWNING STREET

From the Private Secretary

10 December 1984

RSG STATEMENT

The Prime Minister has seen and is content with the RSG statement, a draft of which was attached to your letter to me of 6 December.

I am copying this letter to the Private Secretaries to members of E(LA) and to Iain Jack (Lord Advocate's Department), Paul Thomas (Lord Gowrie's Office), Alex Galloway (Paymaster General's Office), Murdo Maclean (Chief Whip's Office), David Beamish (Government Whip's Office, Lords) and to Richard Hatfield (Cabinet Office).

(Andrew Turnbull)

John Ballard, Esq.,
Department of the Environment.

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10 DOWNING STREET

From the Private Secretary

Prime Minister ①

R S G Statement

There are two adjustments from the preliminary announcement in July

- (i) A little more has been found for the low spenders - pages 2 & 3
- (ii) In turning expenditure limits, for what the rate capped councils, which are unchanged since July, into rates/precepts, Mr Jenkin has taken account of councils' reserves. This has marked effects in Merseyside which gets some relief (and reduces risk that police authority collapses at same time as Liverpool City); and for LEA which is being driven to use its reserves. Oliver's note spells out a bit more.

Content?

Yes no

AT 7/12

PRIME MINISTER

RATE CAPPING

On Tuesday, 11 December, Patrick Jenkin will announce provisional rate and precept limits for 1985/86. Three points should be noted:

(i) Merseyside Council fiddled their books this year by using up their balances. The result is that their actual expenditure will have been much higher than their apparent expenditure. They will not be able to achieve the reductions implied by the expenditure limited that Patrick set a few months ago. The Conservative Group on the Council have assured the DOE that they, like the Labour Group, will resign if they are asked to meet this impossible limit. To avoid this, Patrick is proposing to set a precept that implies expenditure £15 million higher than the official expenditure limit. This may well be represented as a concession. On the other hand, if no such concession is made now, it will almost certainly have to be made later, when it may appear much worse.

(ii) Because of the vagaries of the RSG system, the expenditure limit set for the GLC implied a rise in the precept. Patrick now proposes to avoid this by asking the GLC to reach further into its large reserves: he will set a precept limit slightly lower than this year's precept. However, the law makes it impossible for him to do this without also setting a low precept limit for the ILEA, which probably also has large reserves. Francis Morrell will no doubt represent this as a further attack on her budget. Patrick and Keith will have to pull out all the stops to convince the public that the ILEA is being asked merely to dig further into its reserves rather than to cut spending beyond the expenditure limit. If this propaganda effort fails, the ILEA Conservatives will probably join Mrs. Morrell in her protest.

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(iii) The aggregate effects can be presented in different ways. The Treasury and DOE say that there will be a reduction in the total amount that rate-cap Councils are allowed to spend. Keith, on the other hand, will want to stress that ILEA expenditure does not have to be cut further if balances are used. There is consequently a great danger that Ministers will end by saying inconsistent things.

Since the Government is obliged to set the provisional precept limit on Tuesday, and the package has been approved by E(LA), the only practicable option is to make sure that all the Departments concerned are fully alive to the severe presentational problems created by the package, and that they all take the same line. We suggest that you should ask Andrew to check on this with the relevant Private Offices.

O. Letwin

O. Letwin

7 December, 1984

PRIME MINISTER

MISC 109

The message of the four papers from the DOE is:

(a) the different councils are likely to use different tactics in the rate capping revolt; the Government does not yet know exactly who will do what;

(b) the DOE have not been able to find any easy solutions that will enable Ministers to avoid putting in Commissioners;

(c) therefore, DOE recommend that the Government should stick to its present course, using the legal remedies that are already available, and carrying on until "quarter-past twelve";

(d) if the councils hold out beyond "quarter-past twelve", the DOE believe that Commissioners will have to be sent in; this may happen especially fast in the case of Liverpool.

We believe that this line is basically right. But it is important to establish what is meant by "quarter-past twelve". Some members of MISC 109 may think that political uproar is enough to justify sending in Commissioners; others, like the Chancellor, may consider that default is the end of the road. You may therefore want to make it completely clear that the Government will have to pursue this uncomfortable policy right to the end - i.e. until services break down and the local inhabitants are clamouring for action.

← There is also one notable lack in the DOE papers: they nowhere mention the need to study the probable pattern of service breakdown, and they do not investigate means of replacing emergency services from the centre without sending in Commissioners. You may want to ask Patrick Jenking to co-ordinate with the CCU on these points.

O. Letwin
O. Letwin

7 December, 1984