

→ 90L

CONFIDENTIAL

Note of a meeting in the Lord President's room,  
House of Lords at 3.45 p.m. Thursday 27 June 1985

---

RATE SUPPORT GRANT SETTLEMENT 1986/87: ENGLAND

---

Present:

Lord President of the Council  
Chancellor of the Exchequer  
Secretary of State for Education and Science  
Secretary of State for the Environment  
Chief Secretary, Treasury  
Minister for Local Government

Mr Brearley (Cabinet Office) and Miss MacNaughton were also present.

The meeting considered the major components of the Rate Support Grant (RSG) Settlement for 1986/87: the level of provision for local authority current expenditure to be announced; the level and percentage of Aggregate Exchequer Grant (AEG) and whether or not targets should be retained. They had before them a letter of 26 June from the Secretary of State for the Environment to the Lord President to which were attached the exemplifications of settlement packages requested by the meeting the Prime Minister had chaired on 25 June.

In discussion the following main points were made:

(a) Since the meeting on 25 June it had become clear that holding the percentage of AEG constant at 48.7% of total relevant expenditure would require an increase of some £450 million over provision for 1985/86. So large an increase could not realistically be contemplated. Nor did it appear to be necessary in order to secure low increases in rate poundages. Provision of £11,764 million, which would be the same in cash terms as provision for 1985/86 would reduce the grant percentage to just under 47%. It would not, however, have an unduly adverse effect on rate poundages and could readily be defended. A higher figure could <sup>arguably</sup> ~~equally~~ give too relaxed an expenditure



signal to local authorities.

(b) Because some authorities were spending above targets some £550 million of grant was being held back in the present year. There was therefore a case for saying that cash standstill provision in 1986/87 should be set at about £11,214 million. However, holdback was not taken into account in public references to the grant percentage and a figure based on it could not be defended publicly.

(c) There could be no absolute certainty about whether a regime with targets would be more successful in delivering any particular level of expenditure than one without targets. It was therefore necessary to balance the concern that some Ministers had that expenditure would be higher with a without-targets regime against the difficulties foreseen in and as a result of setting targets for the successor authorities to the Greater London Council and Metropolitan County Councils. Considerable importance must be attached to the risk of targets leading to high rates in the successor authorities which would necessarily reflect badly on the policy of abolition.

(d) Advantage had been seen at the Prime Minister's meeting in announcing a figure for local authority current expenditure which represented a cash standstill on expected expenditure in 1985/86. Such a figure would be about £450 million higher than the provision for 1986/87 in the 1985 Public Expenditure White Paper. It would, however, necessitate a  $4\frac{1}{2}\%$  real terms cut in expenditure, a level of reduction which had never been achieved in a single year and would not be credible. Furthermore it was almost certainly impossible to reconcile such a figure with the Education provision implied by the White Paper "Better Schools" or with the provision which would be necessary for the Police.

(e) On the other hand, it should be recognised that the figure under discussion was essentially a signal to local authorities about what was expected from them. Their actual expenditure was certain to be higher than any figure that was chosen, but the lower the signal, the lower the outturn could reasonably be expected to be.



CONFIDENTIAL

THE LORD PRESIDENT OF THE COUNCIL, summing up the discussion, said that the need was for a set of decisions on expenditure, grant and targets which would give the right expenditure signals to local authorities without requiring high rate increases. After much discussion it had been agreed that the best settlement to this end would be to provide for an uplift of £500 million in the PEWP provision for local authority current expenditure in 1986/87, to hold Aggregate Exchequer Grant at its 1985/86 cash level (£11,764 million), and to abandon targets. Although the figure for expenditure was seen as a signal, and expenditure in the event was likely to be in excess of it, the question of whether the figure could be presented as being compatible with essential additional expenditure on Education and the Police would need further examination; and officials of the Treasury, DOE, DES and the Home Office should undertake this urgently. Any extra provision that might be agreed subsequently in order to reach a settlement on Teachers pay would, however, be additional to the £500 million uplift now agreed. He would report the outcome of their discussions to the Prime Minister and other colleagues.

Cabinet Office  
28 June 1985