



cc BG

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

The Rt Hon Kenneth Baker MP
The Department of the Environment
2 Marsham Street
LONDON SW1

[Handwritten mark]

9 December 1985

Prime Minister 2

To note the four criteria
for specific grants mentioned
on pages 3 and 4.

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LOCAL GOVERNMENT FINANCE: SPECIFIC GRANTS

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16/12

At the meeting of E(LF) on 3 October I was invited to arrange for a working group to examine the role and extent of specific grants in funding local authority services, with particular reference to Keith Joseph's proposals for new grants to fund education services. (E(LF)(85)3rd Meeting minutes, conclusion (1)).

An inter-departmental group of officials, under Treasury chairmanship, has produced the interim report attached. I am content with it. If you and other colleagues can let me know that you are also content, I suggest that the four criteria which the report recommends for use in assessing specific grants should be incorporated in your forthcoming Green Paper on local government finance. The group will then produce a further report on the way in which existing and proposed specific grants measure up to these criteria.

I am copying this letter and the enclosure to the Prime Minister and Willie Whitelaw; to Ministers in charge of departments represented on the group (George Younger, Nick Edwards, Douglas Hurd, Keith Joseph, Norman Fowler, Nicholas Ridley, David Young, Leon Brittan, Michael Jopling and Richard Luce); and to Sir Robert Armstrong.

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NIGEL LAWSON

FIRST REPORT BY THE WORKING GROUP ON SPECIFIC GRANTS TO LOCAL AUTHORITIES

Introduction

1. The Group's remit springs from the meeting of E(LF) on 3rd October, when we were asked to examine "the role and extent of specific grants to local authorities, with particular reference to the proposals by the Secretary of State for Education and Science for greater use of such grants to fund education". (E(LF)(85)3rd Meeting, conclusion 1). He is promoting legislation in the current Session for new specific grants for midday supervision and in-service teacher training, and he has also made proposals to E(LF) for further specific grants: see paragraphs 14 and 18.
2. This report is written in terms of England. The position in Scotland and Wales is different in a number of respects, but these differences do not affect the conclusions of the report.
3. The Departments represented on the Group are listed in Annex 1.
4. For the purposes of this report a specific grant is defined as a payment, from central government to a local authority, whose existence and/or amount is tied to identified expenditure or activity by that authority. This definition is thus wider than that in Rate Support Grant (RSG) reports. It should be used with care, particularly in the case of grants not paid solely to LAs, such as some MSC payments. There are also some services (eg magistrates' courts) that LAs must fund, with the aid of specific grants, but which they do not themselves provide.
5. Most - but not all - specific grants are included in the Aggregate Exchequer Grant (AEG) defined in the RSG Report. They are separately identified and deducted from AEG in order to arrive at the total of Rate Support Grant. The changing proportions of total relevant expenditure met from specific grants and AEG are illustrated in Annex 2. RSG has fallen by 15% in real terms since 1981-82 and now accounts only for about a third of expenditure. The proportion met from specific grants has risen slightly.

6. The nature of services funded by specific grants varies considerably, eg from grants paid on actual expenditure to those paid on the basis of approved plans; from grants paid at 100% of expenditure to those paid at a lower rate; and from grants constrained by a cash limit to those led by demand.

7. There is a natural tendency for the total expenditure supported by specific grants to rise over time as new grants are introduced - while existing grants are difficult to remove. In many cases new specific grants may have tended to exert upward pressure on local authority current expenditure as a whole, although this upward pressure may have been partly offset by the progressive reduction in recent years in AEG and block grants. We intend to examine further the relationship between expenditure on particular services and grant arrangements of different kinds.

Specific versus General Grants

8. The essential dichotomy is between local accountability and promotion of central government objectives. Extensive use of specific grants may erode accountability by reducing the scope of local authorities' decision making, but can further the promotion of certain central government priorities. Ministers will need to consider the circumstances in which a central government objective should take precedence.

9. This report suggests four general criteria under which a specific grant might be appropriate. Any existing or new grant should satisfy at least one of the criteria; but as they are inevitably somewhat open-ended this would not of itself be sufficient to justify its continuation or introduction. In particular, it must be demonstrated that the grant will provide good value for money for both central and local government, and that its administration will be purposeful and effective.

10. If Ministers endorse these criteria for the purposes of the forthcoming Green Paper on LG finance, the Working Group will go on to list existing grants that should be considered for termination, and examine proposals for new grants. We shall also consider what arrangements should be made both for reviewing the criteria from time to time and for subsequent reviews of specific grants themselves. Our aim is to make detailed recommendations before the end of the period of consultation on the Green Paper.

The Criteria for Specific Grants

11. We believe that Specific Grants may be justified:

(A) to assist the delivery by local authorities of central government policies of continuing national importance.

12. Without specific grants, some local authorities might not provide important services (eg police, in-service teacher training) to the extent required by national policies.

(B) to give special encouragement for a limited period to expenditure on activities or services which fulfil a specific central government objective.

13. The Urban Programme and the new specific grant for midday supervision are good examples. The Government wishes to target money on certain projects in a way that, at least at present, cannot easily be done via the GRE needs assessment.

14. The Secretary of State for Education and Science has limited powers at present to make grants of this nature; but he believes that wider powers are needed in order to improve educational standards, following in particular the policies laid down in the 1984 White Paper "Better Schools". We have yet to examine this proposal in detail. In any event it is important that this criterion is used sparingly, to persuade local authorities to do something they would not otherwise do, preferably in partnership with the Government.

(C) to recompense LAs for expenditure on activities carried out by them or other authorities at the request of central government where there is limited or no local discretion over the expenditure incurred.

15. Local Authorities are convenient vehicles for many government policies. For some, eg Mandatory Student Awards, they act as a statutory authority. For some, eg trunk road maintenance and improvement (where they compete with the private sector) they act as a local agent of central government departments.

16. Where LAs' role is statutory, they have no strong incentive to deliver the service efficiently, unless grant is at less than 100% of expenditure or excludes administration costs. Where, however, the relationship is fundamentally contractual, or other special considerations apply, full recompense may be suitable.

(D) to assist in the financing of activities that are not adequately covered by the proposed needs assessment.

17. Many LAs provide services for adjoining authorities at extra cost to themselves. Road investment benefits residents of adjoining authorities, and is difficult to include in a needs assessment. Inter-authority charging is a possibility (as with present education recoupment arrangements) but can be very complicated and administratively costly.

18. The extent to which this criterion will apply depends in the main on the nature of the future needs assessment. The more sophisticated and detailed it is, the stronger the presumption against specific grants. But if it is much simpler than at present, there may be a case for the continuation of some specific grants, and possibly the introduction of new ones, such as the specific grant for advanced further education advocated by the Secretary of State for Education and Science. This too we have not yet examined in detail. It may also be appropriate to retain a small number of specific grants to meet either needs which arise only in a few LAs, such as natural disasters (eg Aberfan, floods).

Conclusion

19. Ministers are invited:

(i) to endorse these criteria for inclusion in the forthcoming Green Paper;

and

(ii) to agree that officials should examine existing and proposed specific grants against these criteria and against the general principles set out in paragraphs 8-10.

HM TREASURY

ANNEX 1

The following Departments are represented on the Working Group.

HM Treasury

Department of the Environment

Scottish Office

Welsh Office

Home Office

Department of Education and Science

Department of Health and Social Security

Department of Transport

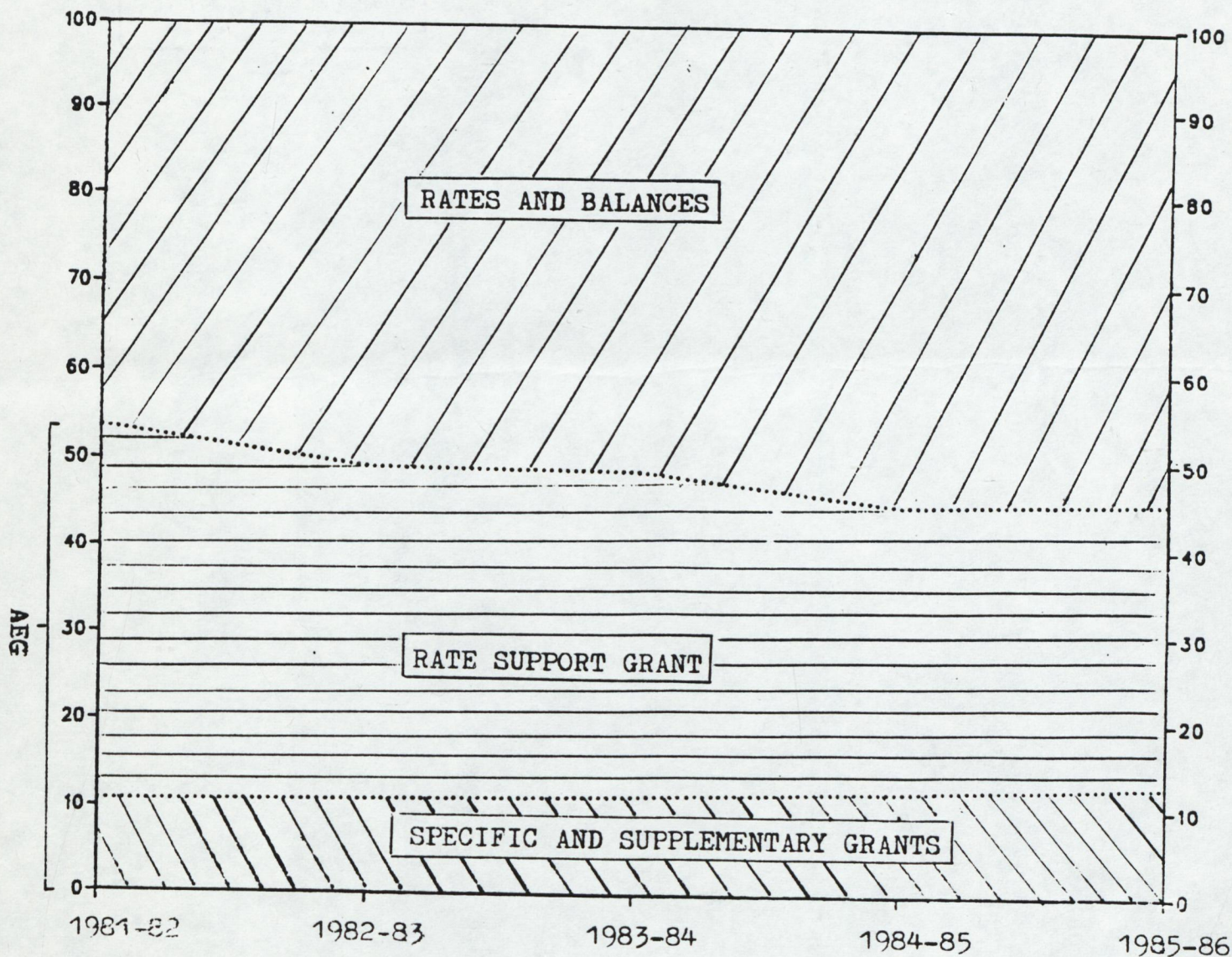
Department of Employment

Department of Trade and Industry

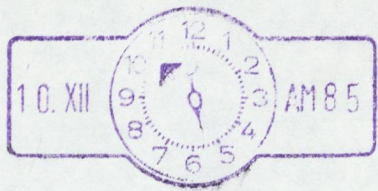
Ministry of Agriculture Fisheries and Food

Office of Arts and Libraries

TOTAL RELEVANT EXPENDITURE



Note Rate Support Grant comprises Domestic Rate Relief and block grant.





CEBG

2 pp's

Treasury Chambers, Parliament Street, SW1P 3AG
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Rt Hon Kenneth Baker MP
Secretary of State for the Environment

15 January 1986

NSM

Ken Kenneth

LOCAL GOVERNMENT FINANCE: SPECIFIC GRANTS

File with DN

Thank you for your letter of 3 January, commenting on the first report produced by the Working Group. Other colleagues have also commented.

I am glad that colleagues are content with the report, and that you have included the four criteria in your Green Paper.

You and Barney Hayhoe had differing views about the need for specific grants to 'top-up' deficiencies in the needs assessment. This will clearly be the subject of further consideration in the Working Group and at Ministerial level when it reports further.

Keith Joseph and Kenneth Clarke both stressed the importance they attached to using specific grants to ensure delivery of the Government's policies for education - including technical and vocational schemes. The wording agreed for the Green Paper took account of their views, which will also need further consideration in the next stage of the exercise.

I am copying this letter to the Prime Minister, Willie Whitelaw, Leon Brittan, Douglas Hurd, Keith Joseph, Nick Edwards, Michael Jopling, Nicholas Ridley, Malcolm Rifkind, Kenneth Clarke, Richard Luce, Barney Hayhoe and to Sir Robert Armstrong.

Nigel Lawson

NIGEL LAWSON

Local Count: ~~Relations Pt 29~~
Future of Loting Pt 4



CD BC



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref: B/PSO/50037/85

Your ref:

3 JAN 1986

N BPT

Jim Mijel

LOCAL GOVERNMENT FINANCE: SPECIFIC GRANTS
attached

Thank you for your letter of 9 December, with which you enclosed a copy of the interim report of the officials' group on this subject.

I welcome this speedy agreement on principle in a complex field. I shall be incorporating the four criteria into the next draft of the Green Paper, together with the important point, made in paragraph 9 of the working group's report, that satisfying one or more of the criteria is not on its own sufficient to justify the continuation or introduction of a specific grant.

My one proviso concerns the interpretation of criterion '(D)' to assist in the financing of activities that are not adequately covered by the proposed needs assessment. Of course, it is our objective to simplify needs assessments, but there is no reason why simplified assessments should not provide a perfectly adequate picture of relative needs. I see considerable danger in any interpretation of this criterion which might suggest a role for specific grants as a judgemental 'top up' for needs assessments. I therefore expect this criterion to be restricted to the genuine special cases such as the Isles of Scilly, or natural disasters. And I would expect the needs assessments to cope where expenditure in one authority benefits a wider area.

/ I am copying this letter to those who had copies of yours.

KENNETH BAKER

Nigel Lawson Esq MP

LOCAL GOVT. RELS
RELATIONS





QUEEN ANNE'S GATE LONDON SW1H 9AT

18 December 1985

Dear Nigel,

ABRM

LOCAL GOVERNMENT FINANCE: SPECIFIC GRANTS

Thank you for sending me a copy of your letter of 9 December about Local Government Finance. With your letter, you enclosed a copy of the first report by a Working Group on Specific Grants to Local Authorities.

You proposed that the four criteria which the report recommends for use in assessing specific grants should be incorporated in the forthcoming Green Paper on Local Government Finance and that the Working Group would then produce a further report on the way in which existing and proposed specific grants measure up to these criteria. I am content for you to proceed in this way.

I have sent copies of this letter to the other recipients of yours.

Yours,
Douglas



CCB



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Oddi wrth Ysgrifennydd Gwladol Cymru

The Rt Hon Nicholas Edwards MP

From The Secretary of State for Wales

18 December 1985

De Nigel

- NBP 17

LOCAL GOVERNMENT FINANCE: SPECIFIC GRANTS

You copied to me your letter of 9 December to Kenneth Baker and the enclosed "First Report by the Working Group On Specific Grants To Local Authorities".

I am content for the four criteria listed to be quoted in the Rates Green Paper and for these criteria, along with the other points in paragraphs 8-10 of the Report, to form the basis of an appraisal of existing and proposed specific grants by the official Working Group.

In due course I shall have to consider how any recommendations should apply to the particular circumstances of Wales. I should therefore like my officials to continue to be clearly involved in the Working Group's study as it progresses.

A copy of this goes to the Prime Minister and Willie Whitelaw; to Ministers in charge of Departments represented on the group (George Younger, Kenneth Baker, Douglas Hurd, Keith Joseph, Norman Fowler, Nicholas Ridley, David Young, Leon Brittan, Michael Jopling and Richard Luce); and to Sir Robert Armstrong.

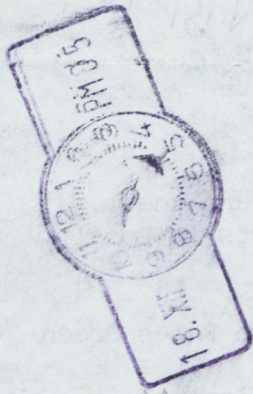
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LOCAL GOVT: Relations. Pt 29

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TO THE GOVERNMENT OF GUYANA
The Minister of Local Government
Georgetown, Guyana

Dear Sir,

I have the honor to acknowledge the receipt of your letter of the 11th inst. regarding the matter mentioned therein.

I am sorry that I cannot give you a more definite answer at this time, but I shall be glad to discuss the matter with you at a later date.

I am, Sir, very respectfully,
Yours faithfully,
[Signature]