

Prime Minister ²

for information at this stage.
The discussion may be brought
to a Cabinet committee later.

PRIME MINISTER

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10 October 1986

SPECIFIC GRANTS TO LOCAL AUTHORITIES

Last October E(LF) set up an official group (of which I was a member) to consider the future of specific grants to local authorities. Its report is now complete and was circulated by John MacGregor with his letter of 11 September to Nicholas Ridley.

Specific grants tend to increase overall local authority expenditure compared to giving the same amount of help to local authorities through a general grant. This is because the specific grant increases local authorities propensity to spend on grant-aided services without an offsetting reduction in their propensity to spend on other services. We are therefore against specific grants unless there are good reasons for giving them.

The Green Paper, Paying for Local Government, identifies as good reasons:

- a. to assist the delivery by local authorities of central Government policies of continuing national importance;
- b. to give special encouragement for a limited period to expenditure on activities or services which fulfil a specific central Government objective;
- c. to recompense local authorities 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;
- d. to assist in the financing of activities that are not adequately covered by the proposed needs assessment.

The Official Group considered specific grants against these criteria. Its main conclusions are:

- a. the abolition of 18 grants and the introduction of one new one;
- b. new criteria for grant rates (100% for services provided on an agency basis, 75% for pump-priming grants and 50% for continuing grants);
- c. as far as practicable, cash limiting specific grants (ie grant aiding only a specified quantum of expenditure);
- d. periodic reviews of specific grants every three years, in order to weed out redundant grants.

These conclusions are modest, reducing total expenditure on specific grants if implemented by £665m and the total of specific grants within the total of grants going to local authorities by 3.5 percentage points.

We agree with recommendations b. c. and d. Our view of the main recommendations under a. is as follows:

- i. That Transport Supplementary Grant (TSG) should be abolished. We agree with the objections to this recommendation in John Moore's letter of 30 September. It would increase the difficulty of executing our already inadequate roads programme.
- ii. That the Magistrates Courts, which are at present run by local authorities with an 80% specific grant, should be transferred to central Government. We support this from a criminal justice point of view although it will require legislation.

iii. Conversely that the probation service, which is at present run in a similar way, should cease to receive central Government support and should be treated on a par with other social services. This service is an integral part of the criminal justice system and we have doubts about leaving it at the mercy of certain local authorities. We believe that from a criminal justice point of view central Government financing of this service would have a number of advantages.

In addition to these majority recommendations, doubts were expressed about the following grants:

- iv. Urban Programme Grant. Some members of the Group doubted whether all the spending supported was of high priority. We share these doubts. Some of the expenditure under the Urban Programme (for example Urban Development Grant) is specifically in furtherance of the Government's objectives and would not be undertaken without the 75% grant. But much of the rest is either expenditure that the local authority would undertake without support or on projects about which the Government is, at best, neutral. We favour a much reduced Urban Programme directed at specific Government objectives.
- v. Section 11 grants towards of the cost of staff employed to meet the special needs of Commonwealth immigrants. The Treasury believe that this grant has now served its purpose and that many authorities would continue to employ such staff if the grants were abolished. We agree.

Conclusions

We support most of the recommendations of the working group. But we think that the probation service should be transferred to central Government, that Urban Programme Grants should be more focussed on specific Government objectives and that section 11 grants should be abolished.

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