



Prime Minister (2)

MUS 27/9

PRIME MINISTER

English Rate Support Grant Settlement:
Public Expenditure Provision and Targets

The Ministerial Sub-Committee on Local Authority Expenditure (E(LA)) has held two meetings under my chairmanship about the English Rate Support Grant settlement for 1984-85. This minute reports our conclusions. The Secretaries of State for Scotland and Wales have held separate discussions with the Chief Secretary, Treasury, of the corresponding matters for their countries.

2. It is desirable to make early announcements to local authorities of total public expenditure provision for relevant current expenditure and expenditure targets so that they can take our decisions into account in framing their budgets for 1984-85. It is not necessary to make announcements on the Aggregate Exchequer Grant (which is crucial for the level of rates) or the distribution of provision between services until the autumn, though the Sub-Committee has in fact also taken decisions on the second of these. We shall return to the question of Exchequer Grant during the autumn.

Relevant Current Expenditure

3. The current public expenditure White Paper provides for relevant current expenditure by English local authorities in 1984-85 of £19.8 billion. In the light of budgetted expenditure in 1983-84, prospective inflation in local authority costs, the need to maintain stringent restraint on all public expenditure, and the need to retain the support of our friends in local government, the Secretary of State for the Environment and the Chief Secretary proposed that this should be increased to £20.3 billion. The Sub-Committee agreed to this proposal.

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Expenditure Targets

4. Local authority expenditure targets must make allowance for certain non-current items; and the total of targets must therefore be rather higher than the amount of £20.3 billion mentioned in the preceding paragraph. The Sub-Committee agreed that the total should be £20.5 billion. The basis for individual targets is that authorities should receive the higher of their 1983-84 grant-related expenditure assessment (GRE), adjusted for changes in the National Insurance Surcharge, and their target plus 2.5 per cent, subject to:

- (i) a maximum increase from 1983-84 budgets of 3 per cent;
- (ii) a maximum reduction from 1983-84 budgets of 6 per cent;
- (iii) for authorities spending above the higher of target and GRE in 1983-84, a maximum increase from their 1981-82 'minimum volume budget' of 24 per cent.

(iii) is an overriding constraint.

5. The broad effect is that most high-spending authorities will be asked to make 6 per cent cash reductions from their budget for this year; by contrast, the lowest-spending authorities will be given a 3 per cent cash increase over this year's budget.

Provision for Services: The 'Unallocated Margin'

6. The above figures relate to an assessment of what local authorities are likely to spend rather than what the Government considers they need to spend. In recognition of that fact, this year's public expenditure White Paper contains an 'unallocated margin' for 1983-84 of some £900 million: this is the difference between the total provision in the White Paper for individual services (which is based on our assessment of spending needs) and the assessment of what local authorities will actually spend. The Sub-Committee has agreed that there should be a similar unallocated margin for 1984-85. It has reached agreement on its amount and on the



distribution of the remaining provision between individual services. The main point is that the increase in the White Paper provision for relevant current expenditure will not be taken as a sign that we are relaxing our view of the need to restrain local authority expenditure.

7. The Secretary of State for the Environment will be making an announcement early next week on the provisional expenditure targets for individual local authorities and on total public expenditure provision for relevant current expenditure in accordance with the conclusions reported in paragraphs 3 to 5 above. The announcement will not say that there is an unallocated margin or indicate the saving distribution.

8. I am sending copies of this minute to the other members of E(LA), the Lord Chancellor, the Minister of Agriculture, Fisheries and Food, the Minister for Arts and Sir Robert Armstrong.

hwh

29 July 1983

CONFIDENTIAL

FILE

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10 DOWNING STREET

From the Private Secretary

1 August 1983

English Rate Support Grant Settlement:
Public Expenditure Provision and Targets

The Prime Minister was grateful for the Lord President's minute of 29 July in which he reported the conclusions of the Ministerial Sub-Committee on Local Authority Expenditure on the English Rate Support Grant settlement for 1984-85. She has noted this without comment.

I am copying this to Richard Hatfield (CO).

W.F.S. RICKET

Bob Whalley, Esq.,
Lord President's Office.

CONFIDENTIAL



2 MARSHAM STREET
LONDON SW1P 3EB
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My ref:

Your ref:

1 August
July 1983

Dear Willie ^{WR 1/8}

RATES WHITE PAPER/RATE SUPPORT GRANT SETTLEMENT 1984/85

I attach copies of the statements which my Secretary of State intends to make later today on the Rates White Paper and on the RSG settlement 1984/85. They are subject to last minute revisions and amendments.

Copies go to Private Secretaries to members of the Cabinet, the Chief Whip ^{and} the Attorney General, and to Richard Hatfield in Sir Robert Armstrong's office.

Yours sincerely
R Bright

R Bright
Private Secretary

Willie Rickett Esq

RATES: PROPOSALS FOR RATE LIMITATION AND REFORM OF THE RATING SYSTEM
STATEMENT BY PATRICK JENKIN, SECRETARY OF STATE FOR THE ENVIRONMENT,
1 AUGUST 1983

This White Paper sets out in detail how we intend to implement our Manifesto promise to put a curb on the rate increases of high spending local authorities. It indicates our intentions for a fallback power to limit the rates of all local authorities -- though we hope this will never be needed. And it describes a number of measures to make the operation of the rating system fairer and to promote accountability.

I acknowledge the scope and importance of the services provided by local government. But local government's powers derive from Parliament. Local authorities form part of the wider community and should operate within national economic and social policies. Central Government cannot leave decisions about overall spending levels to local government. Neither can Central Government ignore the deep sense of grievance felt by many domestic and non-domestic ratepayers about excessive expenditure and rate levels.

The Government are firmly committed to the principle of its proposed legislation on rate limitation. We shall be introducing legislation this Session, probably early in the New Year. But we are ready to hear views on the detailed working of the rate limitation scheme and on our proposals for rate reform. This White Paper has green edges.

Despite the pressures of the grant system local government as a whole has continued to overspend. We have therefore been forced to take direct action on the rates of the high spenders.

The figures in the first chapter of the White Paper speak for themselves. 80% of authorities are budgetting to spend at or near to targets set by Government in 1983/84. But there is a budgetted overspend of £771m in 1983/84 on the aggregate of local authority targets, 75% of which was due to only 16 authorities.

The GLC accounted for £300m and ILEA for £100m. And the targets were based on expenditure provisions which themselves have been adjusted upwards to take account of past overspending.

My message today is therefore very simple. More economies are required. The worst offenders are a few authorities whose high spending and high rating has a disproportionate effect on spending and rates. The Government cannot ignore their activities, which are unfair to their ratepayers and damaging to industry and jobs in their areas. That is why we are bringing forward legislation for selective rate limitation to take effect from 1985/86.

I do not want to have to bring the general rate limitation scheme into force. But we cannot ignore the upward drift of local government spending as a whole. Even those who are spending at or near their targets this year must intensify the search for economies, for example through greater use of the private sector and more efficient operation. We would be prepared to implement the general scheme if it were necessary.

The White Paper also gives the background to our decision that rates should continue as the main source of local revenue for local government. There has been a long debate about this, following our Green Paper and the report of the Environment Committee. This White Paper represents the Government's formal response to that report. It is clear that there is no consensus for any alternative.

We intend to change and improve the rating system in a number of ways, legislating where necessary. The changes will include those foreshadowed in our Manifesto. These include requiring local authorities to consult local representatives of industry and commerce before setting their rates, extending the right to pay rates by instalments, and suspending local authorities' powers to levy rates in respect of empty industrial property with effect from 1 April 1984. We have decided that there will be a non-domestic revaluation. We shall be considering the case for and basis of a domestic revaluation.

RATE SUPPORT GRANT SETTLEMENT 1984/85

STATEMENT BY SECRETARY OF STATE FOR THE ENVIRONMENT, 1 AUGUST 1983

1. When I discussed expenditure in 1984/85 with local government leaders last week at the Consultative Council on Local Government Finance, I made it clear that the Government is determined to sustain the pressure on local authorities to restrain their spending.
2. This year, local authorities in England have budgeted to spend £770 million, or 3.8%, above the Government's target. That is a lower level of overspend than in the previous 2 years. And the aggregate overspend conceals the fact that most individual authorities have succeeded in making the necessary economies: about 80% of authorities are budgeting to spend at, or within 2% above, target in 1983/84.
3. I am today issuing provisional expenditure targets for 1984/85 to each local authority. An announcement this early gives every opportunity to local government to plan in good time for the necessary economies.
4. In setting the targets I have been careful to distinguish between low-spending authorities who have tried to spend in line with the Government's plans and others who have acted less responsibly. Under the target methodology I am proposing most high-spending authorities will be asked to make 6% cash reductions from their budget for this year. By contrast lower-spending authorities are being given a 3% cash increase over budget this year. If authorities spend less than they budget this year, their target next year will of course be higher in relation to actual expenditure.
5. These targets are undeniably tough. But I think they are also fair. Inflation has fallen, so for the lower spenders a cash increase of at least 3% is not unreasonable. At the other end of the spectrum, it seems only right to expect the highest spenders to make significant cuts: those who spend most can also save most if the will is there. Many of these authorities have persistently overspent their targets over a number of years.
6. The effect of these proposals on services provided by local authorities will depend on their ability to use resources more efficiently and to contain manpower costs by continued reductions in the rate of pay increases and the re-establishment of a downward trend in manpower numbers.

7. These targets add up to about £20.5 billion. When adjustments are made to take account of authorities' reduced National Insurance Surcharge payments, that represents an increase of £570 million, or almost 3%, over the total of targets this year. It is about 1% less than the total of authorities' budgets for this year.

8. Targets will again apply to the total expenditure falling to be met from the rate fund, including current expenditure and financing costs. I shall announce in the autumn the aggregate relevant current expenditure provision for 1984/85, and its allocation between services. The current expenditure provision will be a significant increase - about £500 million - over the existing provision for 1984/85 in the Public Expenditure White Paper, Cmnd 8789 (again, after National Insurance Surcharge adjustments). This will be provided in ways which are consistent with the Government's fiscal and monetary policies.

9. The Government is now consulting local government on these proposals before presenting a rate support grant settlement to Parliament. To that extent the figures are provisional.

10. I shall also consult local government in the autumn on proposals for Aggregate Exchequer Grant, and for grant holdback for authorities exceeding their target. I can say now, however, that the costs to the ratepayers of an authority choosing to overspend its target will be severe. I am making this early announcement so that authorities can take steps now to save their ratepayers from those costs. I hope that all authorities start now to plan to meet these targets for next year.