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My ref:

Your ref: N88m

The Rt Hon John MacGregor OBE MP
Chief Secretary to the Treasury
HM Treasury
Parliament Street
LONDON
SW1

12 November 1985

Dear John

SPECIFIC GRANTS TO LOCAL AUTHORITIES *with DRN?*

Thank you for your letter of 11 September inviting comments on the final report of the inter-departmental Working Group on Specific Grants to Local Authorities.

The Working Group report has taken us some way towards seeing how specific grants might fit with the Green paper proposals for a new system of local government finance; but as the Report recognises there is still much work to be done. The Group's report will nevertheless form a useful basis for discussion at E(LF). However I hope that our E(LF) discussion will not get bogged down in detailed rebuttals of allegations about the lack of objectives or justification for each grant. In our discussion in E(LF) we should also bear in mind that the local authority Associations and other interested parties are aware of the review and will have views.

Turning now to the particular points you raised in your letter, I have the following comments.

I support the Group's recommendation that specific grant should be cash limited wherever possible. As the report suggests control can be as effectively secured by a PES cash limit as by a Vote cash limit. There are a number of my specific grants controlled in this way, and this has proved an effective means of controlling expenditure.

On grant rates, I have some doubts about the practicality of setting out notionally desirable rates for categories of grants. After all the rationale for a specific grant is that it relates to special circumstances which cannot be handled by general grants. I suggest we wait for the further work proposed on individual grants.

I am of course very familiar with the operation of Transport Supplementary Grant from my days at the Department of Transport. I think that now we have restricted TSG to capital expenditure, the arrangements are much more satisfactory and the grant is an effective way of achieving the Government's objectives for the primary road network. Like John Moore and Nick Edwards therefore, I would view abolition of TSG as a retrograde step.

On the grants for Magistrates' Courts and the Probation Service, I agree that there should be a clarification of responsibilities.

On the minor grants, I am content that most of these recommended to end have outlived their usefulness. However, our Departments need to consider further the position on Improvements for Sale Contributions and Clean Air grants since our officials could not reach agreement. I should add that my Department is already doing what it can to kill off moribund grants by agreement. We have already made significant progress in commuting planning redevelopment and town development grants and there is only one scheme left which is eligible for open space grant. I regret though that earlier this year we could not reach agreement on changing the basis of payments of Urban Programme grant. This would have improved departmental efficiency by avoiding annual payments of grant on loan charges which would continue over 20, 30 or even 40 years. Such a change would have been in keeping with the objective set out in paragraph 52 of the Report.

Finally I think your penultimate paragraph could be considered a bit sweeping. There is no necessary connection between the rate of grant and securing value for money; nor do I accept only a few existing grants have clear objectives and rationale. We have, of course, set out in the Green paper four criteria against which the need for grants should be tested, and the Working Group has applied that test. Most have passed it, and we are now proposing to examine the individual grant rates. For the major DOE grants a great deal of work has been done over the last few years to ensure they are carefully targeted and to establish FMI regimes. Urban Programme, Derelict Land Grant and Urban Development Grant are three you will know of where good control and monitoring systems are in place.

I am copying this letter to recipients of yours.

Yours ever
Nicholas

NICHOLAS RIDLEY





SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

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The Rt Hon John MacGregor MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

19 November 1986

Dear John,

SPECIFIC GRANTS TO LOCAL AUTHORITIES

I am sorry not to have commented before now on your letter of 11 September to Nicholas Ridley about the report of the Working Group on Specific Grants. The report does, of course, make it clear that most of the Group's analysis and recommendations apply only to England and Wales. I have therefore thought it appropriate to await colleagues comments before responding on these proposals in which I have a common interest.

I think that the Group's scrutiny of existing grants has been useful. As you know, the Scottish Office had already carried out such a scrutiny in respect of grants within AEG in Scotland before the Working Group was set up. It achieved a similar weeding out. It was agreed with the Convention of Scottish Local Authorities to discontinue four of the grants reviewed.

As a result the report's conclusions concerning individual grants are mainly in accord with those which we had already reached and there is only one recommendation for the abolition of a grant with which I cannot agree: the termination of the basic services grant to encourage local authorities to provide road access, drainage etc for new industrial sites. I wish to add my support to what has been said by Paul Channon and Nicholas Edwards. Experience has shown that these can act as a useful piece of fine-tuning to assist the provision of essential services for new industry in the assisted areas. The last regional policy review identified a number of cases where the grants had supported the creation of significant numbers of new jobs, at relatively modest cost. On this evidence their retention would be consistent with the cost-effective approach to regional policy which we have set ourselves. I am content, however, to go along with Paul Channon's suggestion that the overall effectiveness of the grants should be more closely monitored than has been the case hitherto, and my officials will be ready to take part in any discussions on this which may be arranged.

I also have an interest in clean air grant and rate rebates for the

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disabled but, as Nicholas Ridley and Tony Newton point out, these are matters for separate discussion.

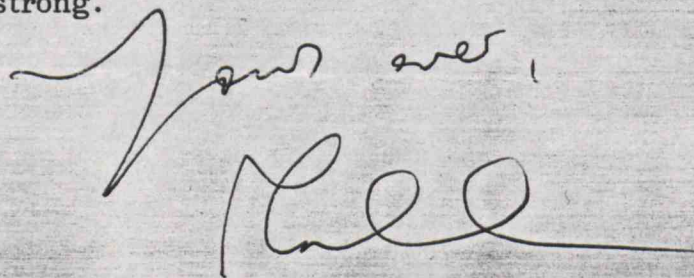
Turning to the general issues, those relating to cash limiting and rates of grant are perhaps the most important. I agree that we should consider the scope for cash limiting grants within AEG wherever it makes practical sense and I am content that each case be looked at on its merits. A number of my grants are already cash limited, of course, and it may be that there is not much scope for going further.

The report's recommendations on grant rates are particularly important to me. Rate Support Grant here is, of course, paid at a higher percentage than block grant in England and Wales and we therefore need higher incentives to influence local authorities' priorities. I am glad to see recognition of this in the report but, more generally, I share Nicholas Ridley's scepticism about the value of attempting to construct hard and fast rules.

On a detailed point, I am concerned about the explicit recommendation for a reduction in the rate of grant in respect of one grant which is unique to Scotland, grant to assist the provision of piers and harbour facilities for ferry purposes in the Highlands and Islands. This is an important part of our policy towards the islands, which has been the subject of special scrutiny by the Montgomery Committee, and to abandon the well established level of support, which is relevant to various proposals for future improvements, would cause damage out of all proportion to the amounts of money involved.

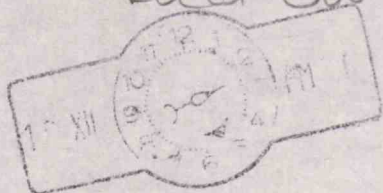
The Group's discussion of new grant proposals did not concern me directly, as I have no proposals at present for any new grants, and I had not understood your letter to imply a proposal that there should be a general prohibition on new specific grants. However, I note that some colleagues have formed that impression. It might therefore be useful to record my view that any such proposal would be an unreasonable restriction.

I am copying this letter to the Prime Minister, Willie Whitelaw, Nick Edwards, Douglas Hurd, Kenneth Baker, Norman Fowler, John Moore, David Young, Paul Channon, Michael Jopling, Richard Luce, Quintin Hailsham and to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to read 'Malcolm Rifkind', with a long horizontal flourish extending to the right.

MALCOLM RIFKIND

Local Gov't; Relations PT30





DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Minister for Health

The Rt Hon John MacGregor OBE MP
Chief Secretary to the Treasury
H M Treasury
Parliament Street
London SW1P 3AG

13 November 1986

John MacGregor

SPECIFIC GRANTS TO LOCAL AUTHORITIES

I have a number of comments on your letter of 11 September to Nicholas Ridley about the final report of the inter-departmental Working Group on Specific Grants.

The first point is that virtually none of the recommendations of the Group were unanimous: with the interested Departments invariably dissenting - as indeed we do on the conclusions about our proposed Social Services Training grant. Ministers must therefore reach their own conclusions on what should be done, based on the background provided by the official group.

Secondly, as required, the Group mainly addressed the use of Specific Grants within the reformed structure of local government finance. It did, however, identify some changes that could be implemented within the existing structure. As you have pointed out in the context of this year's Rate Support Grant Settlement the considerable acceleration in the increase in specific Grants is a cause of some concern. It is a concern that I certainly share. Almost half of the extra provision for 1987/88 will be taken up by the increase in Specific Grants - mainly as a result of growth in existing Specific Grants. I am sure that we should seek to address this problem in time for next year's Settlement and I endorse your suggestion that we should have a general discussion in E(LF). I hope I am reading your penultimate paragraph right in interpreting this as a discussion of existing grants in the terms you outline not just of the rules which should apply to any new grants which are introduced. I hope that we would look in particular at the following points:

- the scope for reduction in long-standing grants both in terms of the grant rate and quantum of provision. Year on year increases should not be regarded as inevitable - we must assess the relative priority of this in relation to other demands and for some grants - particularly those of very long-standing - a reduction should be possible;
- long-standing grants should not pre-empt the possibility of the introduction of new grants from time to time, to meet pressing new priorities. We must retain some flexibility to adapt to changing circumstances and needs;

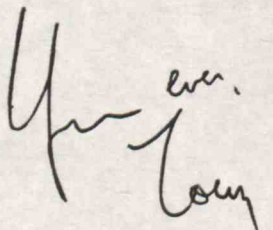
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- in short, I would hope that we could incorporate reductions in the 1988/89 Settlement for some of these long-standing grants which would then ease the introductions of new grants such as those I have proposed without having to increase the overall total of Specific Grants.

More specifically on the points which you raise in your letter:

- i. Cash Limiting: I agree that grants should be cash limited wherever appropriate; I would be content for my proposed grants to be cash limited.
- ii. Grant Rates: I support the recommendations on grant rates and would wish them to be applied to existing grants in order both to stem the inexorable increase in existing grants and to make room for new ones.
- iii. Magistrate Courts and Probation Service: It certainly seems right that we should give early consideration to the points you raise about the funding of Magistrates Courts and the Probation Service; the current arrangements seem unsuitable for both of these but for different reasons. There may be implications for Social Service Departments in any changes made to the Probation Service - either of funding or administration - and we would therefore wish to be kept closely in touch. I should point out that we see little justification in treating the Probation Service and Social Services differently for those parts of their work - such as court work - which is similar - or indeed interchangeable. Social Services receive only a (reducing) amount of block grant support for this while the Probation Service receives an 80 per cent specific Grant. We need to rationalise the position by treating the two services on a similar basis for similar responsibilities.
- iv. Rate Rebates for the Disabled: Whilst we accept that the present grant for rate rebates for the disabled cannot continue if rates are abolished, we have indicated in the discussions at E(LF) that there will be considerable pressure on us to indicate that this assistance to disabled people will be replaced. This falls to be considered further in the discussions of how the community charge is to be applied. And in the light of wider decisions on provision for the disabled generally - such as the timing of the implementation of the Disabled Persons Act 1986.

I am copying this letter to the recipients of yours.



TONY NEWTON

YdS/D.4

LOCAL GOVT. Relations PTJ



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cc BG



QUEEN ANNE'S GATE LONDON SW1H 9AT

10 November 1986

Dear John,

NBM

SPECIFIC GRANTS TO LOCAL AUTHORITIES

at 11ap PT31

I am sorry not to have commented before now on your letter of 11 September to Nicholas Ridley about the report of the Working Group on Specific Grants. You also wrote to me on 20 October about police specific grant, and I have of course noted what you say in your letter of 23 October about magistrates' courts.

You will understand that the Working Group, which covered a great deal of ground succinctly, has made a number of far-reaching proposals in several Home Office policy areas which we have had to consider carefully.

My aim has been to identify where, given the very tight constraints on our own resources, we should concentrate our attention so as to secure maximum benefit. I have no wish - as you will understand - to engage in expensive and time-consuming reviews without a realistic prospect of wishing, or being able, to act on the conclusions. I am afraid that, for the reasons which I give below, some of the Working Group's recommendations fall into that category, although there are others I am keen we should follow up.

First, I am glad that the Group has endorsed a continued need for the police and civil defence grants, and that the majority support the section 11 grants. I regard section 11 as an essential instrument for ensuring that concern about the problems of immigrant communities is backed up by local application of resources, in a targeted way; and I am quite clear that we must regard it as a continuing, rather than a pump-priming, grant, so I see no prospect of reducing the rate.

Second, I disagree with what is said about magistrates' courts and probation service grants. We cannot change the funding of these services without raising questions about their constitutional position and relationships. A further detailed review - whether through a scrutiny or some other means - of the structure of the magistrates' courts service, including the possibility of nationalisation, would be justified only if we were both sufficiently attracted in principle to the idea, and prepared to give high priority to the action that would flow from such a review, including consultation and - if we decided to go ahead - legislation. Otherwise it would be a wasteful use of resources. In any event it could effectively stall the efforts we are making to improve performance within the present local structure. My Department has recently reported to the Efficiency Unit on these, and a copy of that report is going

The Rt Hon John MacGregor, OBE., MP.

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to your officials and to Quintin's, I entirely share your own and colleagues' desire to improve courts' efficiency and effectiveness. I believe we have a long way to go yet. But it is a fallacy to suppose that this requires major structural reforms. A change of Ministerial responsibility without such reform would not seem to me to get to the root of the matter. I propose that we should continue our present efforts to secure better value for money within the existing structure. Any ideas you and colleagues have in that context will be most welcome. I feel we should avoid the kind of constitutional tinkering which arouses strong opposition without delivering any clear good.

The recommendation about the probation service is flawed because it takes no account of the crucial part played by the service in the criminal justice system. This is of considerably greater significance than the claimed similarities between the professional work of probation officers and social workers. Indeed there is a case for emphasising more than at present the difference between the two services. The probation service not only gives advice to the courts but provides a valuable range of disposals for offenders who would otherwise be liable to committal into custody - at much greater cost to the public purse as well as to the individuals concerned and their families. You will be well aware from our bilateral discussions of the demands on the prison service and of their substantial cost. In my view, high specific central government support is necessary to sustain the probation service and central influence and control over it, much of which would be lost if the service was handed over to local authorities. Here again, financial reform must not be considered in isolation. Major changes in constitutional position and relationships would also be entailed. Once again these would be highly disruptive and damaging.

Third, the Group suggested that the Metropolitan Police Imperial National Service and Commissioners' Grants might be replaced by arrangements which could leave the Metropolitan Police and the relevant local authorities in the same position as at present. Neither grant has much impact on ratepayers, but the INS has the important presentational value of recognising the additional functions which the police in the capital are called upon to perform; and, indeed, local authorities are pressing us to increase the grant. I rather doubt whether there is any advantage to be gained from abolition but I am happy for this to be further examined by officials, who did not, I think, tackle the case in detail.

Fourth, on the wider issues of grant rates, I accept that they should be set so as to secure the necessary influence on local authorities while, of course, ensuring that they get adequate recompense in areas where they do not themselves take decisions on expenditure - i.e. in the probation and magistrates' courts case, where most expenditure decisions are taken by magistrates, with some form of appeal for local authorities to the Home Secretary.

At present I see little room for changes in the rate of grant without giving the wrong signals to authorities and provoking undue concern in the services. I am sure there is a great deal more ground to be prepared before we contemplate changes for the sake of financial neatness. It may in fact be easier to have it in our minds to rationalise wherever we can at the same time as we implement the major structural changes in local government finance in 1990. In this context, I had hoped that one of the objectives of the new local authority financing arrangements would be to introduce a greater stability into planning; I was therefore disturbed by the suggestion that you would wish to subject every rate of grant to a three yearly review.

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Fifth, I agree that we should consider the scope for cash limiting wherever that seems likely to be a useful discipline. But there are practical and political considerations in each case, and we have to "sell" any changes to the services and those who benefit from them as well as to the local authorities. My preference, therefore, is for officials to work bilaterally on the implications of cash limiting for each service. Any agreed proposals could be put out for public discussion. This is entirely without prejudice to the view that I may ultimately take in each case. As you know, I see no prospect at present of introducing a cash limit on police grant, which has already been the subject of such a study, although I am of course ready to discuss that matter, as proposed in your letter of 20 October. Our offices can be in touch to make arrangements.

Finally, the recommendations about grants on capital spending may well prove difficult to administer in practice, but I am content that officials should examine them further.

I am copying this letter to the recipients of yours.

Y
Lover,

Douglas

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