

PRIME MINISTER ²

1988/89 RSG SETTLEMENT

Barnet suffered from last year's Greenwith case. I understand it was under special We contribute this kind of AEG reduction. Yes again, not

The Chief Secretary is having a battle in E(LA) over the RSG settlement, as described by the Policy Unit in the note below.

Peter Stredder has set out the effects on Barnet in terms of the local contribution. In terms of the effect on ratepayers themselves, assuming no use of balances, and spending at provision, DOE say the rate increase would be just under 14 per cent on Mr. Ridley's proposal and 20 per cent on the Chief Secretary's proposal. If Barnet spends at 3 per cent above provision (that is 2 per cent above the GDP deflator) the rate increase would be 21 per cent on Mr. Ridley's proposal and 27 per cent on the Chief Secretary's proposal.

The Chancellor feels very strongly that the settlement E(LA) is moving towards would be excessive and damaging to the control of public spending and, by accepting a 46.4 per cent RSG percentage for the third year in succession, would tend to cement this in as a minimum figure. This morning he asked to see you urgently about the proposals. I discouraged this, arguing that you would not want to go behind Lord Whitelaw's back and that if Lord Whitelaw came, Mr. Ridley could hardly be excluded and that in that case you would be taking over from Lord Whitelaw altogether. You would be very reluctant to be put in that position. The Chancellor understands this and will discuss further with Lord Whitelaw. Lord Whitelaw also has a small meeting with the Chief Secretary and Mr. Ridley on Tuesday to try to win agreement before a full E(LA) on Thursday. Your bilateral with the Chancellor is in any case on Tuesday afternoon, so you can hear the Chancellor's point of view then.

DN

DAVID NORGROVE

10 July 1987

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*There is a call pending
in the bank - Greenwich?*

PRIME MINISTER

9 July 1987 *Brandy?*

1988-89 RSG SETTLEMENT: THE PROGRESS SO FAR

E(LA) has so far held two meetings on the 1988-89 RSG settlement. You may find it helpful to have a brief progress report.

Local authority expenditure increased by 9% in cash terms (4.3% in real terms) in 1987-88 and domestic rates increased on average by 7% - about 75p per week. This is a better performance than 1986-87 when expenditure increased by 6% in real terms and rates by 13%, but worse than the average over the previous few years when expenditure increased by about 2% in real terms.

The committee has agreed that 17 authorities should be rate capped next year, about the same number as this year and that there should be no major changes in grant mechanisms although the Chief Secretary has reserved his position on re-introducing targets and holdback pending a clearer idea of the final shape of the settlement.

Discussion has concentrated on the level of provision and Aggregate Exchequer Grant (AEG). There is fairly clear agreement that provision should be increased by 3% - in line with the assumed increase in the GDP deflator of 4% for the non-rate capped authorities and with expenditure limits for rate capped authorities. Mr Baker, at least, has reserved his position on whether the increase in provision should be 4%.

With the exception of the Chief Secretary, the Committee agree that the grant percentage should be maintained at 46.4%; an increase in grant of about 7½%. If authorities

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spend in line with assumed provision this will involve rate increases averaging only 2.3% (though with wide variations - for example 6-7% in the Shires and 14% in Barnet). If, as seems more likely on the basis of past trends, they spend at 2% above the GDP deflator ie 3% above provision, the average level of rate increases will be 8.2% (with 13% in the Shires and 23% in Barnet). The Chief Secretary, so far, has argued for maintaining last year's grant in cash terms. This would involve average rate increases of about 8% if local authorities spend in line with provision (12-13% in the Shires) and 13.9% (19-20% in the Shires) at 3% above provision.

29% : Barnet

21% : Barnet
(Barnet would have a reduction of grant, by £6.2m.)

The Chief Secretary is obviously concerned to maintain pressure on local authority spending in view of the large increases recently and the bids he places in the PES. On the other hand, spending Ministers have produced some powerful political arguments in favour of the higher level of provision and grant:

- (i) That having placed emphasis in the election campaign on the Government's success in generating the wealth needed to pay for better public services, it would be difficult to explain reducing the proportion of grant provided by Central Government for such services.
- (ii) That all but £150 million of the grant increase is required to fund increases in expenditure that result from Government policy.
- (iii) That Mr Ridley needs the support of Government backbenchers, particularly in the Shires, to secure the passage of the Community Charge and housing legislation and cannot afford to alienate them by an unpalatable RSG settlement.
- (iv) That reducing the grant percentage increases the

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proportion of expenditure that will have to be borne by Chargepayers when the Community Charge is introduced. This argument will have less force if a long transitional period is agreed, provided the Government can focus attention on the likely levels of charge over the transitional period rather than exclusively on the eventual level of charge.

Conclusion

This year's discussions on the RSG settlement are going to be difficult and none of the possible outcomes is attractive. I will keep you in touch with developments.

Peter Stredder.

PETER STREDDER

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RATE SUPPORT GRANT

The Lord President would be grateful for your guidance to help him chair his meeting of E(LA) on Thursday.

His own view is that it would be most undesirable to defer until the autumn the announcement of the Rate Support Grant settlement. There is a widespread expectation that the settlement will be announced next week, partly because contacts between officials and the local authorities have all pointed that way. Matters have moved on too far to allow the Election to be used as an excuse. If the announcement were deferred, this would be known, and the papers would quickly search out the differences within Cabinet. This would be in the press throughout the summer, and ~~the~~ media would focus on it. There are also more technical arguments, namely that the local authorities would begin to set their budgets without signals on provision or grant, and rate-capping orders will have to be laid before Parliament before the Recess even without an announcement of the settlement, and this would look odd.


Mr. Ridley and the Chief Secretary agree on provision of £27,563 million for current expenditure. This is an overall increase of 3 per cent over budgeted expenditure for 1987/88 after allowing for higher pay for teachers, the police and the fire service. Service Ministers want to see a higher figure (by £270 million).

The argument between Mr. Ridley and the Treasury has focused on grant. Mr. Ridley is absolutely committed to maintaining the grant percentage of 46.4 per cent. He sees this as most important in the context of the Rates Abolition Bill, to avoid the accusation being levelled that the Government will continue to reduce the grant percentage and therefore that community charges will be even higher in the event than have been shown in the illustrative figures published by the

Government. The Chancellor, as you know, wants to reduce the amount of money given in grant, both for itself and because he wants to avoid the Government getting stuck on 46.4 per cent.

Mr. Ridley originally bid for a grant of £14,011 million, which would be an increase of £986 million or 7.6 per cent over 1987/88. Mr. Major proposed a cash freeze at £13,025 million.

Mr. Ridley has now offered to come down by between £140 million and £200 million. The higher cut would mean a grant of £13,811 million, an increase of £786 million or 6 per cent over 1987/88, and he might be willing to go down a little further. He is nevertheless able to maintain the grant percentage at 46.4 per cent. This is achieved by changing the assumptions on certain financing items, e.g. by assuming higher rents and higher interest receipts. This reduces relevant expenditure. But if the assumptions are not borne out, the result will of course be higher rate increases.

The Cabinet Office believe that the Chief Secretary might be willing to move up to a grant of £13,546 million. On this basis, the difference between Mr. Ridley and the Treasury would be "only" £250 million. 

I have given you all these detailed figures as a guide to the illustrative tables attached. These assume that local authorities will actually spend at 3 per cent above provision, which is 2 per cent above the GDP deflator. You will see that Mr. Ridley's latest position is very close to Column B. The position that the Cabinet Office believe the Chief Secretary might be brought to is Column C.

You will also see that on Mr. Ridley's proposals the rate increase in shire areas might be 15 per cent and under the Chief Secretary's proposals 17 per cent. Figures for individual local authorities are much less reliable, but again there are some very high increases, including, as you know, 24 per cent or 26 per cent in Barnet.

It would obviously be very desirable if the Lord President could achieve a settlement for announcement before the Recess. My own impression from your meeting this afternoon with the Chancellor was that he is not as exercised about this as he has been on some other occasions: there was a touch of the ritual about it. I think the Treasury can be pushed if you wish to do so.

I recommend that you say to the Lord President that you would very much prefer an announcement to be made before the Recess, that the rate increases envisaged under any of the options are very high indeed, that you would not want a short-term deal done now which would lead to very nasty surprises when the detailed figures are worked out in the autumn, that you veer towards Mr. Ridley's position as in Column B, but that you would be prepared if necessary to live with some small further reduction if the Lord President felt that would win the agreement of the Treasury.

Agree?

DRN

David Norgrove

14 July 1987

DG2CBG

1988/89 RATE SUPPORT GRANT SETTLEMENT: OPTION 2

Current provision £27,563m - 3% increase (1% below GDP deflator)

ESTIMATED AVERAGE % CHANGES IN LOCAL RATES FOR SPENDING 3% ABOVE OPTION 2 SETTLEMENT ASSUMPTION

	A	B	C	D	E
AEG at Settlement:	£14,011m	£13,807m	£13,546m	£13,286m	£13,025m
	(%)	(%)	(%)	(%)	(%)
TOTAL England	8.2	9.4	10.9	12.4	13.9
TOTAL Shire districts	13	15	16	17	19
TOTAL Shire counties	13	15	17	18	20
TOTAL Metropolitan districts	5	6	8	9	11
TOTAL Joint Police Authorities	(6)	(5)	(4)	(2)	(1)
TOTAL Joint Fire Authorities	1	2	3	5	6
TOTAL Joint Transport Authorities	(43)	(42)	(41)	(40)	(38)
TOTAL central boroughs	7	7	7	7	7
TOTAL other inner London boroughs	(14)	(13)	(12)	(11)	(10)
TOTAL inner London boroughs	(3)	(3)	(2)	(2)	(1)
ILEA	7	7	7	7	7
TOTAL outer London boroughs	2	3	5	6	8
Metropolitan Police	16	18	20	22	24
London Fire & (C) Authority	10	10	10	10	10
TOTAL Shire areas	13	15	17	18	20
TOTAL Metropolitan areas	1	2	4	5	7
TOTAL London	3	4	5	5	6

Notes

1. Rate changes shown are the average for all authorities in the class.
2. Negative numbers indicate rate decreases.

DATE: 1 JUL 87

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1988/89 RATE SUPPORT GRANT SETTLEMENT: OPTION 2

Current provision £27,563m - 3% increase (1% below GDP deflator)

NOTE: FIGURES FOR
INDIVIDUAL AUTHORITIES
ARE MUCH LESS RELIABLE
THAN CLASS AVERAGES, AT
THIS STAGE

ESTIMATED AVERAGE % CHANGES IN LOCAL RATES FOR SPENDING 3% ABOVE OPTION 2 SETTLEMENT ASSUMPTION

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	A	B	C	D	E
AEG at Settlement:	£14,011m	£13,807m	£13,546m	£13,286m	£13,025m
	(%)	(%)	(%)	(%)	(%)
SHIRE COUNTIES					
Avon	13	14	16	17	19
Bedfordshire	12	14	15	17	18
Berkshire	14	15	17	19	22
Buckinghamshire	19	20	22	24	26
Cambridgeshire	14	16	18	20	21
Cheshire	8	9	11	13	14
Cleveland	13	14	16	17	19
Cornwall	12	14	16	18	20
Cumbria	20	21	22	24	25
Derbyshire	3	4	5	7	8
Devon	16	17	19	21	23
Dorset	10	12	14	16	18
Durham	12	13	15	17	19
East Sussex	11	12	14	16	18
Essex	12	13	15	17	19
Gloucestershire	17	19	21	23	25
Hampshire	18	20	22	24	26
Hereford and Worcester	16	18	20	22	24
Hertfordshire	14	15	17	19	19
Humberside	17	18	20	22	23
Isle of Wight	14	15	17	19	20
Kent	12	14	16	18	21
Lancashire	16	17	19	21	23
Leicestershire	20	21	23	25	27
Lincolnshire	12	13	15	18	20
Norfolk	17	18	21	23	25
Northamptonshire	14	15	17	19	21
Northumberland	11	12	14	16	17
North Yorkshire	17	18	20	22	24
Nottinghamshire	4	5	6	8	10
Oxfordshire	16	17	19	21	22
Shropshire	23	24	26	28	30
Somerset	14	15	17	19	21
Staffordshire	14	16	17	19	21
Suffolk	14	16	18	20	22
Surrey	14	15	15	15	15
Warwickshire	12	13	15	17	19
West Sussex	12	14	16	18	21
Wiltshire	16	17	19	21	23

DATE: 1-JUL-87

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1988/89 RATE SUPPORT GRANT SETTLEMENT: OPTION 2

Current provision £27.563m - 3% increase (1% below GDP deflator)

NOTE: FIGURES FOR
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ESTIMATED AVERAGE % CHANGES IN LOCAL RATES FOR SPENDING 3% ABOVE OPTION 2 SETTLEMENT ASSUMPTION

	A	B	C	D	E
AEG at Settlement:	£14,011m	£13,807m	£13,546m	£13,286m	£13,025m
	(%)	(%)	(%)	(%)	(%)
GREATER LONDON					
City of London	6	6	6	6	6
Camden (RL)	0	0	0	0	0
Greenwich (RL)	(9)	(9)	(8)	(7)	(7)
Hackney (RL)	(26)	(25)	(24)	(23)	(22)
Hammersmith and Fulham	(47)	(46)	(45)	(44)	(43)
Islington	12	13	14	16	18
Kensington and Chelsea	158	176	199	223	247
Lambeth (RL)	(25)	(24)	(23)	(22)	(21)
Lewisham (RL)	(13)	(13)	(12)	(11)	(10)
Southwark (RL)	(21)	(21)	(20)	(19)	(18)
Tower Hamlets (RL)	(22)	(22)	(21)	(20)	(20)
Wandsworth	108	112	117	122	127
Westminster	13	13	13	13	13
Barking and Dagenham	11	13	14	16	18
Barnet	23	24	26	27	29
Bexley	21	23	25	27	28
Brent	10	11	12	13	15
Bromley	15	17	19	21	23
Croydon	14	15	18	20	22
Ealing (RL)	(41)	(40)	(39)	(38)	(37)
Enfield	10	12	14	16	17
Haringey (RL)	(13)	(13)	(12)	(11)	(10)
Harrow	17	18	20	22	23
Havering	14	16	18	20	22
Hillingdon	5	6	8	8	8
Hounslow	(25)	(24)	(23)	(21)	(20)
Kingston-upon-Thames	15	16	18	20	22
Merton	9	10	13	15	17
Newham	15	16	17	18	19
Redbridge	15	17	19	21	23
Richmond-upon-Thames	20	21	22	24	26
Sutton	16	17	19	21	22
Waltham Forest (RL)	(33)	(33)	(32)	(31)	(30)
ILEA	7	7	7	7	7
London Fire & (C) Authority	10	10	10	10	10
Metropolitan Police	16	18	20	22	24

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DEPARTMENT OF HEALTH AND SOCIAL SECURITY
 Alexander Fleming House, Elephant & Castle, London SE1 6BY
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From the Secretary of State for Social Services

The Rt Hon The Viscount Whitelaw CH MC
 Lord President of the Council
 Privy Council Office
 68 Whitehall
 LONDON
 SW1A 2AT

29 June 1987

NBM.

Den White

RATE SUPPORT GRANT SETTLEMENT 1988/89

I have now received the Report of the Working Party on PSS and Port Health Expenditure for 1988/89, and I am writing to let you have my views on the pressures identified by the Group and on the PES provision for these services. I have also now seen the papers for tomorrow's meeting of E(LA).

The current provision for PSS is £2,940 million in 1988/89. As for other services, this represents the 1987/88 provision increased for inflation as measured by the (then) GDP deflator less a half per cent. The Public Expenditure White Paper stated that the figures would be "reviewed in 1987 in the light of local authorities' budgets for 1987/88 and demographic and other relevant factors, including the Government's priorities and commitments". I understand that this reference was in part a response to my predecessor's concern that the figure for PSS took no account of the pressures these services face as a result of demographic change.

Nicholas Ridley suggests that the basis for the 1988/89 settlement should be 1987/88 budgets. I agree with this. He goes on to suggest three options. For the personal social services, I have no doubt Option 3 - to increase provision in line with the GDP forecast - is the preferred option. This option might - just - provide for demographic pressure on the PSS though this will depend on the needs identified for other services; options 1 and 2 would fall a long way short of this.

I am concerned about the DOE proposals for rates limitation, in particular at the severity of the suggested expenditure levels. I am sensitive to the political difficulties involved in relaxing our control at this time. But if we proceed as suggested, there

E.R.

must be a very real risk of bringing forward the financial collapse of one or more of the inner London authorities. The use of a single criterion seems to carry a real risk of judicial review. I wonder, therefore, whether there might not be some merit in retaining the present criteria, and thus reduce the number of rate-capped authorities from 17 to 7 or 8. This would both provide an opportunity for some of these authorities to sort their finances out and also would distance the Government from responsibility for financial collapse if this occurs in the short term. If these authorities re-enter rate limitation in a subsequent year it would give us an opportunity to set new expenditure levels.

The Working Party on PSS and Port Health Expenditure have this year undertaken a thorough review of the major ongoing pressures on the Personal Social Services and, as a result, have reduced the required addition for these from 2.5 per cent to 2.25 per cent.

In the 1987/88 Settlement we recognised the need for a 3.6 per cent increase in PSS spending in real terms. This was higher than in previous settlements mainly because of the addition of 1 per cent growth to enable the development of community care policies. This addition has proved extremely helpful in the face of criticism of the resources made available to local authorities for this extra work - notably from the Audit Commission who argue that constraints on local authority spending on community care are inconsistent with our policies and are a major factor in the escalation of expenditure through Supplementary Benefit to people in private residential care. I consider it essential that the additional 1 per cent for community care is continued.

The Report has identified a number of important additional pressures on which some further description and comment from me might be helpful. These are set out in the attached Annex. As can be seen, I am afraid there is little I can find to quarrel with in these estimates. These are all important areas and the provision identified as necessary seems reasonable. (I understand that the agreed figures are over £30 million less than originally sought by the LA side.) These additions amount to £40 million but half of these will be offset by the increased level of efficiency savings identified this year. Any shortfall in this provision would leave me in considerable difficulty and I do not think that it is appropriate to reduce PSS provision by a further amount by funding less than the full GDP deflator prediction.

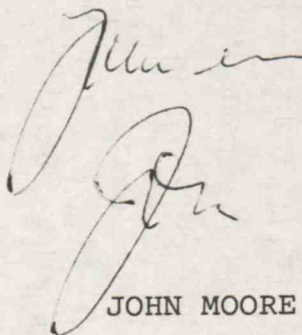
Subject to the views of colleagues that emerge from the separate correspondence on the implementation of the Disabled Persons Act, I feel there is a strong case for including an extra £5 million to enable provision to be made for disabled children who leave school in 1988 and 1989. I also see a need for a further £5 million to target resources to the few authorities who currently have to deal with the majority of AIDS patients. I am writing separately to you on specific grants.

E.R.

In summary, my view is that the PSS and Port Health figure in the Government's Plan should be increased by about 4.2 per cent in real terms after allowing for the full GDP deflator forecast. That would give a figure of £3,137 rather than the £3,127 included in the Expenditure Group Report.

There remains the question, on which I understand there has been much past correspondence, on the extent to which PSS provision might be targeted on particular, high priority service developments. I am writing separately to John Major setting out my views on this, including the need to address inner city problems in order to ensure that spending there is better targeted to meet the needs perceived by Central government.

I am copying this letter to members of E(LA) and Sir Robert Armstrong.



JOHN MOORE

Other Pressures(i) The Disabled Persons (Services, Consultation and Representation) Act 1986

The Report identified £10m as needed to make provision for:-

- those sections already implemented (sections 4, 8(i), 9 and 10).
- Sections 5 and 6 - disabled school leavers in 1990 (£0.9m rising to £4m over 3 years for identification and assessment after 3 years).
- the general build up of pressures engendered by the passage of the Act.

The local authority side felt that a further £15m was required - mainly to enable help to be given to the 'non statutory' groups of school leavers in 1988 and 1989.

(ii) Drug and alcohol abuse. £2.5m. This is the lowest figure identified for drug abuse in recent years and this year includes alcohol abuse also. In the light of the increasing pressure to tackle the drug problem which results from the prevalence of AIDS in drug abusers and the increasing evidence of the rising problem of alcohol abuse, particularly in the young, I support the addition of a figure of this sort.

(iii) AIDS. The Government has come under strong criticism for the lack of resources made available to local authorities to make their contribution to work on AIDS. We recognised last year that AIDS would become a pressure for LA's but had not yet become so - for 1988-89 onwards we have to recognise that a significant amount of expenditure is required. The figure identified in the Report should enable all LA's to undertake the necessary preparatory work for dealing with the expected increase in cases. They should be able to appoint coordinators and undertake the necessary preparation and training of their staff. As the report notes however there are a few authorities which have a considerable need to develop services urgently since the majority of current AIDS cases are concentrated in their areas. These few authorities have special needs and I will need to discuss with colleagues the prospect of providing some targetted resources to enable them to do this. An additional £5m is likely to be needed for this.

(iv) Child Sexual abuse £5m. Figures for child sexual abuse have mushroomed in the past 2-3 years from 543 reported cases in 1983 to 5596 in 1986. The introduction of developments such as Child Line and the Cleveland cases will undoubtedly bring

more of the iceberg to the surface. These are cases to which social services must respond and I think we have no alternative but to make the resources available to enable them to do so.

- (v) Training £10m. This includes the £3m for AID's already mentioned. The LA members argue that most of the remainder will be absorbed by the training for Approved Social Workers to undertake their duties under the Mental Health Act (1984). Problems over agreeing training arrangements has delayed implementation of this part of the Act. Whilst we think that it is an overestimate it is quite possible that half of the figures could be absorbed in this way. As previous correspondence has shown, training in an area to which this Department attaches considerable priority and one over which we see a need for greater central control in order to improve the value for money achieved from spending on personal social services generally.
- (vi) Violence to Staff. £5m. Violence to staff is an increasingly worrying development in all the services for which I am responsible. My predecessors organised a conference last year to encourage action to be taken. This was largely prompted by the recent death of a young female social worker. Sadly this was not an isolated case. There have been other recent deaths and cases of serious injury. Social workers are particularly exposed because of the high emotional content of the cases with which they deal - usually by visits to clients home rather than in the relative security of an institution. A sum of this order would enable local authorities to spend some £50,000 each on protective measures - such as radio telephones, training etc. It would not enable authorities to organise visits in pairs as some feel may be necessary.
- (vii) Homelessness. £1m. This is undoubtedly a fast rising problem for some authorities and leads to considerable social work involvement where families and children are concerned. This subject is obtaining a high political profile and a small addition of this kind would be extremely helpful.
- (viii) Ethnic Minorities. £4m. We managed to persuade the local authorities to reduce this figure from £6¹/₂m since we had doubts about the need for a year on year increase of this kind. Though we do accept that there are additional spending needs of the kind identified. Moreover it would be unhelpful politically to appear to be denying any additional resources for ethnic minorities particularly since Personal Social Services benefit very little from Section grants for Commonwealth Immigrants.