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From the Minister of State
for Local Government

Department of the Environment
2 Marsham Street
London SW1P 3EB

Telephone 01-212 3434

Prime Minister 2 cc Tony Robinson.

DCS
10/9.

7th September 1987

Dear Sydney

When you came to see me on 30 July with Councillor Pym and John Marshall to discuss Barnet's RSG, I promised to let you have a note explaining why Barnet's grant as a proportion of their expenditure had declined more steeply than Bromley's.

I enclose a note which my officials have prepared on this. As you will see it appears that between 1982/83 - which is the earliest year for which we have access to comparable figures - and 1987/88 any additional loss of grant from Barnet has been chiefly due to their own decisions on spending. The Council have consistently spent more than their GRE and this has meant they have received less grant than they otherwise would have. By comparison Bromley have kept their spending down and their grant up. The table in paragraph 3 shows that if both Boroughs had spent at around GRE they would have lost grant at about the same rate, so the system itself would have treated the two Boroughs evenly.

We have also looked at the level of Barnet's GRE which is higher than Bromley's in total and per capita; this also applies to the Education and Personal Social Services GREs about which Councillor Pym was concerned.

The reason why the absolute levels of grant for the two Boroughs is different is, as I explained, the resource equalisation effect of the present RSG system. This does bear heavily on high rateable value areas like Barnet and that is one of the reasons we want to get rid of this system. Under the new grant system an authority's grant will be set at the beginning of the year and will not be affected by their actual spending. So the two things which cause problems for Barnet now, the link between grant and spending and resource equalisation will not affect grant once the new system is in full operation. As you will appreciate, there is not much that can be done to help before then, but I will be bearing in mind the position of Barnet and other outer London Boroughs when we come to discuss the details of the RSG Settlement.

At our meeting you also mentioned that the Council would like to be able to spend at least part of the receipt from the sale of an interest in the Brent Cross shopping centre. You and Councillor Pym seem to feel that you cannot spend any of it under the present rules. It is a little difficult for me to offer advice without knowing more of the details, but Mr Pym may like to ask his officers to get in touch with mine to discuss whether there is scope for some spending within the rules. Mrs Lesley Creedon on 212 4704 will be able to help.

I am copying this letter to the Prime Minister, John Marshall, John Gorst and Councillor Pym.

Yours ever

Michael

MICHAEL HOWARD

Sydney Chapman Esq MP

BLOCK GRANT ENTITLEMENT : LONDON BOROUGHS OF BARNET AND BROMLEY

1. At a meeting with a delegation from the London Borough of Barnet it was suggested that while the block grant received by Barnet as a proportion of its expenditure had declined from 52% to 29% between 1980/81 and 1987/88, the grant received by Bromley had declined less sharply from 57% to 42%. This note compares the grant entitlements of the two Boroughs over this period and explains the reasons for the differences.

2. The amounts of Block Grant paid to each Borough over the period were as follows:

	Barnet			Bromley		
	Spend £m	Grant £m	%	Spend £m	Grant £m	%
1981/82	£89.583	£32.549	36%	£91.187	£42.977	47%
1982/83	£93.951	£35.581	38%	£88.398	£42.998	49%
1983/84	£97.163	£33.442	34.5%	£92.35	£42.795	46%
1984/85	£98.668	£31.475	32%	£94.149	£41.788	44%
1985/86	£103.843	£33.751	32.5%	£98.003	£41.767	43%
1986/87	£128.547	£38.684	30%	£114.046	£52.373	46%
1987/88	£138.342	£35.370	26%	£120.801	£52.22	43%

Bromley have consistently received a higher percentage of grant, and this percentage has not continued to fall steadily in recent years as it has for Barnet.

3. However, a possible explanation for this is that Bromley's spending has consistently been below or very close to GRE, while Barnet's has been above GRE thus increasing Bromley's grant and reducing Barnet's. For spending at the level of GRE, grant would have been paid at the following levels:

	Barnet			Bromley		
	GRE £m	Grant for spending at GRE £m	%	GRE £m	Grant for spending at GRE £m	%
1982/83	£93.184	£35.586	38.2%	£90.393	£43.354	48%
1983/84	£93.683	£33.379	36%	£93.007	£42.703	46%
1984/85	£94.527	£31.489	33.3%	£94.060	£41.772	44.4%
1985/86	£102.522	£33.974	33%	£98.582	£40.565	41.1%
1986/87	£124.204	£42.191	34%	£117.625	£50.675	43%
1987/88	£129.531	£41.919	32.4%	£123.508	£50.977	41.3%

Barnet's grant would thus have declined from 38.2% to 32.4% and Bromley's from 48% to 41.3% over this period, so had Barnet's expenditure been closer to their GRE the decline in grant percentage would have been similar to that experienced by Bromley. The divergence is due to the Borough's spending decisions.

4. Barnet's GRE is and has been higher than Bromley's both in £m and in £ per head:

	Barnet		Bromley	
GRE	£m	£ per head	£m	£ per head
1981/82	£88.880	£306.06	£87.349	£300.48
1982/83	£93.184	£322.21	£90.393	£311.38
1983/84	£93.683	£316.28	£93.007	£310.44
1984/85	£94.527	£320.65	£94.060	£315.74
1985/86	£102.522	£348.24	£98.582	£329.49

1986/87	£124.204	£416.51	£117.625	£394.19
1987/88	£129.531	£430.05	£123.508	£414.60

The Education and Personal Social Service GREs for 1987/88 are

	£ per head	£ per head
Education (total)	231.83	227.88
PSS (total)	58.10	50.13

5. The preceding paragraphs suggest that the differing trend of grant percentages for the two Boroughs is due to their spending patterns. The main reason for the absolute difference in grant levels is resource equalisation. Grant is calculated in such a way as to enable authorities to provide comparable standards of service by levying similar rates in the pound. However at a given rate poundage level an authority with a high rateable value will be assessed as being able to raise more from its ratepayers; it will therefore get less grant than a low RV authority for the same level of expenditure and GRE. Resource equalisation reduced Barnet's grant entitlement in the 1987/88 Settlement by about £15m, but Bromley's by only £200,000. If the grant system operated without resource equalisation, grant as a proportion of spend at GRE in 1987/88 would have been approximately:

Barnet			Bromley		
Spend at GRE £m	Grant £m	%	Spend at GRE £m	Grant £m	%
129.5	56.9	43.9	123.5	51.2	41.5

6. The difference in the level of block grant support for Barnet and Bromley is therefore due to two factors: first, spending decisions by the Boroughs which reduce Barnet's grant and increase Bromley's and second, resource equalisation which accounted in 1987/88 for a transfer from Barnet's grant of nearly £15m more than the transfer from Bromley's grant.