



CEPO

2 MARSHAM STREET  
LONDON SW1P 3EB  
01-212 3434

My ref:

Your ref:

The Rt Hon Cecil Parkinson MP  
Secretary of State  
Department of Energy  
Thames House South  
Millbank  
LONDON  
SW1P 4QJ

*Prime Minister*  
*Content, subject to colleagues views,*  
*with these details for the*  
*in principle of the RSG Bill? 27 July 1988*

*PRC6*  
*27/7*

*Dear Secretary of State Yes not*

RATE SUPPORT GRANT BILL

On 7 July I announced our intention to introduce legislation to modify the way in which block grant payments are to be calculated for the remaining years of the present Rate Support Grant system. The Business Managers have said that the Bill can be taken in the spill-over. In order to be ready to introduce the Bill as soon as the House returns in October, I need to instruct Parliamentary Counsel within the next few days. I would be grateful for colleagues' agreement to do so on the following lines.

The Bill will contain two main provisions. The first will deal with total expenditure for the years up to and including 1988/89, and the second will deal with how a total expenditure figure for 1989/90 is to be calculated.

For the years up to 1988/89 the Bill will provide that the total expenditure figure shall be that submitted to my Department on or before 6 July 1988, with the exception of storm damage expenditure - see below. In most cases this figure will be that taken from the most recent statistical return. However in some cases there is no unequivocal figure: I therefore propose to include in the Bill a set of rules deciding which figure to take in these cases. My aim will be to reduce the amount of discretion open to me and hence to provide minimal opportunity for any legal challenge over the application of the rules.

With regard to storm damage, I have given firm assurances to the House that the Government will not make a profit as a result of storm damage - ie no authority need lose grant for expenditure incurred on making good damage above what it would reasonably have been expected to have budgeted for. However on the basis of the total expenditure information available as at midnight on 6 July, I cannot be sure that this commitment will be fulfilled in respect of all authorities. This is because in their returns to my Department a number of authorities appear not to have taken advantage of the total expenditure exclusions, whereby grant loss on storm damage expenditure is avoided, in 1987/88 and 1988/89.





I propose that local authorities should be invited to confirm their total expenditure on storm damage and that the Bill should therefore, exceptionally, take account of modifications. My officials will be writing to local authorities shortly about this. I am also writing separately to John Major about the effect this may have on grant underclaim.

In my statement I said that in 1989/90 grant would be calculated in the usual way except that payments would be calculated not on authorities' reported total expenditure but on a figure derived for each authority based on information about their present level of total expenditure and projected forward, with allowance made for appropriate changes in function.

Our normal procedure is to specify in the RSG Report how an assumed level of expenditure is to be calculated for each authority - this is the "settlement spending assumption". Essentially it is a formula by which expenditure in the current year is updated, taking account of any changes in function, with special provisions for rate-capped authorities. Counsel have advised strongly that, since the settlement spending assumption for 1989/90 will assume far greater importance than usual, it would be much safer to include the description of the formula in the Bill itself. This will considerably reduce the scope for any legal challenge.

There are two changes in function of which the Bill will need to take note. Authorities' 1988/89 budgets will need to be adjusted both for the removal of the polytechnics from local authority control and for community charge preparation costs.

The 1988/89 budget figures which will form the basis of the 1989/90 settlement spending assumption include within them any use authorities may have made of special funds this year. If no adjustment were made for this those authorities which made large drawings in 1988/89 and thereby increased their grant entitlement would have these higher grant entitlements carried forward into 1989/90. There are a number of authorities which have used all their available special funds this year and are therefore not in a position to repeat the use of special funds next year. Conversely, authorities which had not used special funds this year but were planning to do so next would gain no advantage from those funds.

To avoid such anomalies I suggest that we consider whether the Bill might make an adjustment for the use of special funds in the settlement spending assumption. A final decision is not necessary at this stage. We shall need to consider whether to make this adjustment in the context of our consideration of the overall balance of the settlement in E(LA) in September. Adjusting for special funds has a substantial effect on grant distribution: shire counties would gain significantly, mainly at the expense of inner London authorities, and a number of metropolitan districts. I would expect that much of this detail could appear in a schedule, and that the Bill itself need contain only a very few clauses.



Finally, Counsel have advised that the Bill should provide that consultation on the settlement and the Supplementary Reports which is carried out before Royal Assent shall be deemed to have fulfilled the statutory requirements on consultation in the 1980 Act.

I am copying this letter to the Prime Minister, other members of E(LA), John Wakeham, John Belstead, Patrick Mayhew, David Waddington, Bertie Denham and Sir Robin Butler.

Yours sincerely,

*RB*

NICHOLAS RIDLEY

*RB*

(approved by the Secretary of State and signed in his absence)



file

885

Gov Policy Unit

10 DOWNING STREET  
LONDON SW1A 2AA

From the Private Secretary

28 July 1988

Dear Roger,

RATE SUPPORT GRANT BILL

The Prime Minister has seen your Secretary of State's letter of 27 July to the Secretary of State for Energy.

Subject to the views of colleagues, she is content with the detailed proposals for the Rate Support Grant Bill.

I am sending copies of this letter to the Private Secretaries to the members of E(LA), and to the Private Secretaries to the Lord President, the Lord Privy Seal, the Attorney General, the Chief Whip, Lord Denham and to Sir Robin Butler.

Yours,  
Paul

Paul Gray

Roger Bright, Esq.,  
Department of the Environment.

885



Y SWYDDFA GYMREIG

GWYDYR HOUSE

WHITEHALL LONDON SW1A 2ER

Tel. 01-270 3000 (Switsfwrdd)  
01-270 (Llinell Union)

*Oddi wrth Ysgrifennydd Gwladol Cymru*



*NB*

*REC*

*1/8*

WELSH OFFICE

GWYDYR HOUSE

WHITEHALL LONDON SW1A 2ER

Tel. 01-270 3000 (Switchboard)  
01-270 (Direct Line)

*From The Secretary of State for Wales*

*CPH*

The Rt Hon Peter Walker MBE MP

29 July 1988

Dear Secretary of State

**RATE SUPPORT GRANTS BILL**

*afflat*

I have seen your letters dated 27 July to Cecil Parkinson and to John Major.

I agree that for years to 1988/89 total expenditure should be unequivocally defined and can confirm that a set of rules drawn up for this purpose should cause me no difficulty.

I do however, view the proposed exception in respect of storm damage in England and, by analogy, flood damage in Wales with some concern; authorities seriously affected by last October's weather problems should have claimed both special financial assistance and an exclusion from total expenditure several months ago now. The case for an exception because of the assurance you have given that the Exchequer will not benefit from the storm is no stronger than that arising from my assurance to the House that local authorities in Wales would receive extra grant if they were able to bring their spending in 1987/88 and 1988/89 closer to our plans.

I have reluctantly to accept that that assurance is overridden by the proposals for closing down the existing system; and I feel that ideally the same should apply to flood and storm damage. Nevertheless, I recognise

The Rt Hon Nicholas Ridley MP  
Secretary of State for the Environment  
2 Marsham Street  
LONDON SW1

/that you will





that you will face considerable political pressure to make an exception and I am therefore prepared to agree to your proposed course of action on storm damage (and hence flood damage in Wales - though the likely effect on the grant underclaim in Wales would be negligible).

I suggest that our aim in all this should be to arrive at a definition of total expenditure which is simple, unambiguous and defensible. There should be no modifications to deemed total expenditure for 1989/90 which do not flow from changes in functions. I therefore strongly support your proposal, based on Counsel's advice, that the calculation of the 1989/90 settlement spending assumption should be specified in the Bill.

However, I can see no justification for your proposed treatment, in calculating deemed total expenditure for 1989/90, of the use of special funds in 1988/89. I accept that much less use is made of special funds in Wales, and that such use is more likely to be for legitimate reasons rather than for "creative" purposes. Nevertheless, I believe that it would be unreasonable to penalise those authorities which budgeted high in 1988/89 but depressed their total expenditure through the use of special funds by assuming that would continue to budget high if they were unable to use special funds in 1989/90. They would surely reduce their budget to meet the new circumstances. I therefore propose not to adjust the settlement spending assumption in Wales for 1989/90 to take account of the use of special funds; and it follows that I believe you should reconsider your proposal to do so in England.

As to changes in function, I will have to take account of changes in responsibility for library services in addition to community charge preparation costs, but I will not need to make any adjustment in respect of polytechnics and colleges in Wales.

I am copying this letter to the Prime Minister, members of E(LA), John Belstead, Patrick Mayhew, David Waddington, Bertie Denham and Sir Robin Butler.

*yours sincerely*  
*A. Clements*

Approved by Secretary of State  
and signed in his absence.