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To note.

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My ref:

Your ref:

The Rt Hon John MacGregor OBE MP  
Secretary of State  
Department of Education and Science  
Elizabeth House  
York Road  
LONDON  
SE1 7PH

RCCG

13/2

12 February 1990

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*John MacGregor*

**1991/92 LOCAL AUTHORITY GRANT SETTLEMENT**

My officials will shortly be opening discussions with the local authority associations on two aspects of the 1991/92 Grant Settlement. These concern work to identify factors affecting expenditure next year, and on the methodology for Standard Spending Assessments. Norman Lamont will be making proposals about handling the local government settlement in the Survey, but we can deal with these issues separately.

Last year we adopted a new remit for the discussions on expenditure. This provided an opportunity for local authority associations to put forward their views on the pressures for new spending and on the scope for savings, but did not commit officials to seek agreement with the associations. I understand that this approach proved largely successful, in that although the associations naturally produced figures which were higher than we were prepared to contemplate, we were not generally faced with the accusations which had been made in previous years that departmental officials were party to these estimates.

I therefore propose that we should adopt the same form of remit for this year's discussions. An updated version is attached. I think it would be helpful if officials could again probe and test any assertions put forward by the local authority side, and could make sure that the scope for savings is properly examined. They should also make sure that where the Government has a firm view as to the



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amount a new policy should cost that this is made clear. But beyond that officials should I think avoid committing the Government to accepting any particular figures for next year's expenditure as being reasonable or necessary, as this could make it much more difficult for us to present the settlement.

Secondly, we shall shortly begin discussions of any changes which may be necessary to the methodology for Standard Spending Assessments. It was our hope that having achieved a new distribution methodology we could avoid unnecessary changes from year to year. I did, however, promise in the House when the settlement was debated that we would be prepared to look at any new evidence with a view to incorporating changes in 1991/92 or later years. We had also previously agreed to discuss with the associations the need to commission any longer term research or data collection which might be desirable to improve SSAs in future. My officials have invited the associations to put forward any new evidence which may point to the need to re-examine particular areas.

I am sending copies of this letter to the Prime Minister, other members of E(LG), and Sir Robin Butler.

*Young 25th.*  
*Chris Patten*

CHRIS PATTEN

REMIT FOR DISCUSSIONS ON LOCAL AUTHORITIES' EXPENDITURE

1. As part of the Revenue Support Grant Settlement, the Government will need to decide on a figure representing what it would be appropriate for authorities to spend in order to provide a standard level of service, both at the aggregate level and for each of the main services covered by a separate component of the Standing Spending Assessments. In order to inform this decision, the Government invites the local authority associations to exchange information and provide views on the following issues :

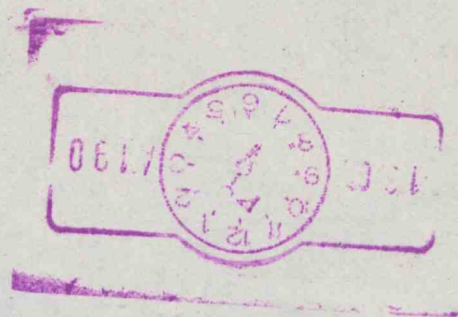
- (1) latest estimates of likely service expenditure outturn in the period before the first Survey year, 1988-9, 1989-90 and 1990/91;
- (2) for 1991-92 the scope for increased efficiency in existing services, particularly through the extension of best practice and in other areas where scope for improvement has been identified by the Audit Commission;
- (3) for 1991-92 the scope for other savings, including re-ordering of priorities and increasing revenue income; and
- (4) for 1991-92 the identification of new demands on local authorities, arising from new responsibilities, as demographic change, and assessment of the costs of meeting such demands with maximum efficiency.

The discussions should assume where necessary the Government's projection of inflation.

2. The discussions should take place in specialist groups covering Education, Personal Social Services, Transport, Home Office Services and Other Services. The views expressed in these specialist or sub groups will be presented to the Settlement Working Group which will in turn present them in a report to CCLGF.

FLG/DOE  
February 1990

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Rec'd  
u/r

The Rt Hon Chris Patten MP  
Secretary of State for the Environment  
2 Marsham Street  
London SW1P 3EB

21 FEB 1990

*Dear Chris,*

1991/92 LOCAL AUTHORITY GRANT SETTLEMENT *plaf.*

Thank you for your letter of 12 February about the arrangements for discussing aspects of the 1991/92 grant settlement with the local authority associations.

In general, I accept what you propose. I agree that officials should hold discussions with the local authority associations along the same lines as last year, not least because to abandon such discussion at this stage would create suspicion and it is always marginally useful to know the local authorities' own priorities. I also agree that it is important that officials are not in any way committed in advance to the associations' assessment of the appropriate level of spending.

On the methodology of the Standard Spending Assessments, I agree that we should be prepared to consider any changes the local authority associations believe necessary in the light of new evidence, and that we should discuss with them areas needing longer term research. However, I believe it is essential that we reserve judgement on any such changes until we can consider collectively their detailed implications for individual standard spending assessments.

On a more detailed level:

- Paragraph 1(2) of the draft remit to Working Groups refers to savings identified by the Audit Commission. While I would not want the reference removed, we should not pin too many hopes on it. The impression here is that, at least in their studies of education, the Commission is placing less emphasis on quantifying savings and more on ways of improving effectiveness.

- I gather that some words have fallen out of line 2 of paragraph 1(4): last year's remit referred to "...new

demands on local authorities, arising from new responsibilities, Government initiatives or from unavoidable pressures such as demographic change..." which still seems apt. The main pressures on education continue to be those flowing from the Education Reform Act, although there are also demographic pressures now that, after a long period of demographic decline, pupil numbers are once again increasing.

- We did not find it helpful last year that there was no reference in the remit to the 1989/90 GRE total, even though this was the basis for all our comparisons in the final presentation of the figures for 1990/91; indeed, the education Working Group argued that the remit showed that the Government should have taken 1989/90 outturn as its starting point. This point might be met by adding to the end of sub-paragraph 2 something like "...Audit Commission, and in the light of the assumptions underlying the 1990/91 local authority grant settlement;".

I am sending copies of this letter to the Prime Minister, other members of E(LG), and Sir Robin Butler.

Yours ever,  
Jul

LOCAL GOVTS - Relations PT 37.



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Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Christopher Patten MP  
Secretary of State for the Environment  
Department of the Environment  
2 Marsham Street  
London  
SW1P 3EB

20 December 1989

*Dear Chris*

**LOCAL GOVERNMENT FINANCE**

Thank you for copying to me your minute of 18 December to the Prime Minister. It is encouraging to have confirmation that local authorities are making good progress in their preparations for the introduction of the community charge. I am sure the decision to front load grant payments next year will help to ease any cash flow problems for them, if there are still residual difficulties in sending out community charge demand notices.

2. I have read the report of the consultation procedures on the grant settlement for England next year. I appreciate that it is difficult to gauge the overall response. I thought it might be helpful therefore to let you have my own views.

3. We need of course to bear in mind that there is always quite strong disquiet about the RSG settlement at this time of year. It is customary for local councils' first draft budgets (or bid figures) to involve substantial increases in proposed expenditure. Councils then draw the 'horrendous' community charge/rating implications of such budgets to the attention of their local MP and encourage him to lobby for improved treatment. Inevitably there is bound to be more activity this year when the system is changing. It is only when those representations are rejected that local councils reconsider whether the budget might be cut back and the revised plans financed in a different way - for example by more use of revenue balances. As you have said, we need to reinforce and encourage that process this year.

4. The high CC figures of £340-£350 which you mention need to be seen in this light. They are of course well above the published £278 for the CCSS - but that was, in turn, well below our central view of likely actual CCs. It is of course that realistic estimate of CCs which has already been taken into account in the RPI forecast in the Autumn Statement. Most of the increase would have occurred anyway, even without the CC, as a result of



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increases in rates. So there is no question of the very high figures quoted in your minute adding a further 1 per cent to the RPI forecast we have already published.

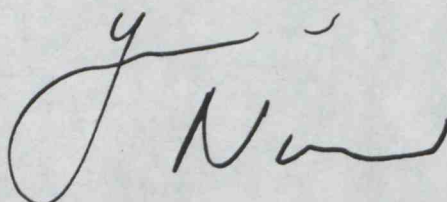
5. Secondly in 1990-91 there is a massive number of complex interacting changes to local authority current finance being introduced. It would be quite extraordinary if a relatively large number of local authorities did not lose from the redistribution of grant resources (which inevitably results from the decisions to make changes in the assessment of relative needs underlying the Standard Spending Assessments) and if these losers were not vociferous in their concern. Indeed it is the shift in the pattern of grant between authorities as a result of the new SSAs rather than the introduction of the community charge per se, which has generated much of the concern. The vast bulk of local councils will have hoped to see some long-held grievance or other about their needs assessment redressed in the new SSA and a grant distribution more to their liking introduced. Within this zero sum game, inevitably there has to be disappointment as well as satisfaction.

6. In the light of this, there is bound to be a considerable degree of disquiet this year - just as we saw at the last major change in the local government finance in 1986-87. (I think there were at least a dozen or so backbenchers who failed to support the RSG settlement then.) So we must be prepared for a similar degree of dissension with this settlement; and I very much welcome and support the efforts you and David Hunt are making to keep that number as low as possible.

7. Finally, you are right to emphasise that the causes of concern about the grant settlement are very diverse. They are by no means capable of resolution by belated tinkering with our existing grant proposals - even if, within the tight RSG timetable, there were time for substantive changes to our plans. Any attempt to tinker further with the settlement at this stage would in my view be counter-productive, since it would very seriously damage the credibility of the whole community charge policy. We recognised this danger in October, when we decided to introduce transitional relief and to fund the safety net from April 1991. As you will recall, that is why we agreed then that package must be the final one, as you have emphasised. We should therefore respond to the threats of spending increases of the order of 10%-20% quoted in your minute by applying the full rigour of the new policy - including our policy on community charge capping.

8. I therefore strongly support your view that the task must be to stand our ground and rally the waverers.

9. I am copying this letter to the Prime Minister, Geoffrey Howe, Ken Baker, John Major and Tim Renton.



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