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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

RATE SUPPORT GRANT SETTLEMENT 1982-83

Memorandum by the Chief Secretary, *HN Treasury*

E(81)117 by the Secretary of State for the Environment makes proposals on:

- a. public expenditure assumptions;
- b. expenditure targets for individual local authorities;
- c. the RSG percentage;
- d. announcements and timing.

My comments follow.

Public expenditure assumptions

2. E(81)117 invites E Committee to base RSG decisions on the assumption that housing expenditure is determined in accordance with the Secretary of State's proposals. I regard this as unacceptable, as Cabinet will be considering housing expenditure on 26 November.

Expenditure targets for individual local authorities

3. The Secretary of State invites E Committee to endorse targets for individual authorities framed on the basis previously considered by MISC 21 and Cabinet; he also asks for agreement that MISC 21 should consider reducing the penalties for authorities at or below GRE which fail to meet their targets. On his own illustration this would reduce holdback by about one quarter. The pressure on rates would be less by some 2-3%.

4. We must keep up the pressure on the low as well as the high spenders: but there is clearly political difficulty in treating GRE underspenders much more harshly than we have this year. I therefore would be prepared to agree to some easement, provided that the RSG percentage is low.

5. The Secretary of State recommends an RSG percentage of 57%. He argues that, even assuming expenditure will be reduced by holdback and by the cut in the grant percentage, rate increases will average 12%. But even that is overstated, because:-

- a. changing holdback in the way he proposes would reduce the rate increase by 2-3%, perhaps more;
- b. the rate increases quoted are on an April 1981 base, neglecting supplementaries. If these were in the base, the rate increase would fall by a further 6-7%.

6. The true average rate increase for a grant percentage of 57% is thus 3% or less. The figures for individual local authorities given in the Annexes are even more misleading. Not only are they overstated as explained in para. 5, they:-

- c. take no account of the probable reduction in expenditure, and hence in rates, of lowering the grant percentage;
- d. take no account of the effect of block grant penalties, targets or the Local Government Finance Bill;
- e. the higher figures assume that LAs will overspend by 5% (£1½ billion, GB), assume that they will rate to allow for a further 2½% margin to cover contingencies and hence strike rates 15% above what they would need if they kept to our plans and allowed no margin.

7. I am convinced that an RSG percentage as high as 57% would put more cash in the LAs' hands and make them less willing to resist excessive pay demands, and seriously risk increasing local authority overspending.

8. I do not believe that LAs would increase domestic rates by as little as 3%. It is likely that they would rate, and spend, higher than the Secretary of State is assuming. Increases well into two figures would still look moderate compared with the average increases of 19.5% last year (26% after supplementaries), and 26% in 1979-80.

9. 57% would give English LAs nearly £400 million more cash grant than they would have received on the present grant percentage if their overspending this year had not forced us to revise plans for 1982-83 upwards. Rewarding extravagance by extra grant would not only be perverse; it would incite renewed excess.

10. The settlement as a whole now risks being far too weak. Planned expenditure is to be augmented by nearly £1½ billion for realism. We are already eroding holdback. It could disappear altogether. Holdback both for 1981-82 and for 1982-83 depends on the successful progress of the Local Government Finance Bill, as do our hopes of additional restraints on high spenders. The block grant penalties proposed by the Secretary of State are no more severe than those introduced following the revised budgets last year.

11. All of these factors, and the lateness of the settlement, will weaken the pressures to keep pay settlements and budgets low.

12. The lowest RSG percentage exemplified is 54%. This would:-

- a. give local authorities about £250 million less cash than they would have received on unchanged plans and an unchanged grant percentage;
- b. on the Secretary of State's own "realistic" assessment, produce average rate increases no more than 5% higher than a grant percentage of 57% (i.e. some 8% or less after taking account of the effects of supplementary rates and of mitigating holdback; nil increases or even reductions if authorities budgeted in line with our plans).

13. Even this does not go far enough towards demonstrating our resolution to keep LA spending and pay settlements down. A grant percentage of 52% would add at most a further 4% to rates. A 12% average increase would not be seen by LAs as out of line with the general rate of inflation. In my view, they are quite likely to go for increases of that order, even if we set a higher grant percentage.

14. In the light of the figures the Secretary of State has now supplied, I cannot recommend an RSG percentage any higher than 52%.

Announcements and timing

15. The Secretary of State seeks agreement that he should undertake immediate consultations with the local authority associations, as required by statute, and should announce as early as possible the main features of the RSG settlement.

16. I agree that this is desirable. However, the public expenditure figures also form part of the general announcements the Chancellor will make early in December, so he must be consulted before this information is made public.

HM Treasury
23 November 1981

L.B.

E (81) 119

NOT ISSUED