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MS 27/1

27 January 1982

Prime Minister

POSSIBLE MODIFICATION TO THE RATE SUPPORT GRANT SETTLEMENT

You asked me to look again at the RSG settlement in view of the concern among a number of London MPs and London Boroughs about the way in which our December 21 proposals will affect the London grant distribution.

I have now had the figures re-examined. We have established that by making certain technical adjustments to the methodology we would be able to make significant improvements to the London distribution, at the price of increasing the total of block grant by £25m. The attached note and exemplifications explain the adjustment and illustrate the effects.

The results show that significant gains would be achieved for certain London authorities. £19m of the extra £25m would go to London if authorities spent at target with the rest spread thinly over the rest of the country; no authority would be worse off. I should point out that if ILEA spent at target this change would give it £9.25m. But at the levels they are currently speaking of budgetting they would lose all this, and the extra £9.25m would go to other authorities.

If we were to increase the total of block grant by £25m and distribute it in this way I do not think it would lead to any significant increase in expenditure by the authorities benefitting. All of them would remain under the strongest pressure to reduce their expenditure by the maximum attainable. It would however lead to a significant reduction in the rate increases anticipated in those authorities. The extra £25m could therefore be seen as a reduction in local taxation (rates) rather than as an increase in public expenditure.

I have considered the possibility of making this £25m improvement to London's position at no net cost by taking the same amount away from other authorities. I have concluded however that it would be politically impossible to make such a change from the December figures to the disadvantage of other authorities.

The change would attract a good deal of attention, and some criticism from those authorities which do not benefit from it. I am advised by my Department's lawyers that the principle on which the change would be based is within the scope of my powers under Section 59 of the 1980 Act. But there has not been time to carry out any consultations with the Associations on this suggestion, and we must recognise that there is a degree of risk of legal challenge on this aspect.

There are obviously presentational difficulties in making a last-minute change from our December proposals. They could fuel pressures for wider concessions. On the other hand there could be a very real advantage in terms of rate increases, particularly within London, in making this change.

If colleagues felt that this change should be made and could agree it by the end of tomorrow morning it would just be possible to make the necessary changes to the RSG Report before it is formally made and laid before Parliament later tomorrow. We might however have to defer the debate on the Report to the week beginning February 15 in order to give time for the detailed modifications needed to the Report.

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In view of the difficulty about timing I am sending a copy of this minute to the Chief Secretary, the Home Secretary and the Attorney General, but to no other colleagues at this stage. If you could find a little time to convene a meeting today to look at these possibilities, that might offer the best prospect of reaching an early view.

MH

MH

THE LONDON ADJUSTMENT - A DESCRIPTION

For the 1982/83 RSG Settlement, London's grant position was improved by increasing the overall poundage discount applied to London's high rateable value. In the provisional figures published on December 21, London's grant was increased by approximately £90m as a result of this change. However, this change was introduced at an initial stage of the calculations before the application of safety nets. London authorities in safety nets were unable to benefit from this change because the gains were offset against other safety netted losses (from GRE changes and residual losses from 1981/82)

Further consideration has led us to proposed a modification to the way in which the increase in the London discount is applied. By making this adjustment at a later stage in the calculations, after applying safety nets, all London authorities are able to benefit from the increase in grant going to London. However, authorities have so far made budget and rating plans on the basis of the provisional figures published on December 21, and it would be difficult at this late stage to justify reducing the grant entitlements of non London authorities to benefit a small number of London authorities. To leave the position of other authorities unaffected therefore requires an increase in the total of block grant of £24.191m, which increases the percentage of aggregate exchequer grant from 56% to 56.1%. If authorities spend equal to their expenditure targets, £19m of the extra grant accrues to London and the remainder to safety net authorities outside London. The London authorities to gain from this modification are the following:

Inner London boroughs	Outer London boroughs
Lewisham (marginally)	Barking
Tower Hamlets	Croydon
	Hillingdon
	Hounslow
	Kingston
ILEA	Merton
	Richmond

The effects of the changes for these authorities are shown in the attached table.

Column 1	Shows the block grant which authorities would receive for spending at target in the existing settlement (with final GRE's)
Column 2	shows the block grant which authorities would receive for spending at target with the proposed increase in the grant total and adjustment of London multipliers
Column 3	shows the extra block grant authorities would receive for spending at target with the proposed changes
Column 4	as column 3 but shown as a rate poundage effect
Column 5	shows the extra block grant before holdback authorities would receive as a result of the proposed changes if spending 7.5% above 1981/82 revised budgets
Column 6	shows the reduction in holdback as a result of the proposed changes if authorities spend 7.5% above 1981/82 revised budgets

The table suggests that £9m of the extra grant would accrue to ILEA. However, it is known that ILEA are budgetting for a level of expenditure substantially above their target, and the effect will be to take them out of grant. ILEA's grant gain will therefore in practise accrue to other authorities.

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Effect of giving extra London discount after safety nets

Authority	Spending at target: Block grant now Col 1	New block grant Col 2	Grant gain Col 3	Grant gain Col 4	Gain at higher spend Col 5	Change holdback Col 6
GREATER LONDON						
City of London	-	-	-	-	-	-
Camden	-	-	-	-	-	-
Greenwich	£25.949m	£25.949m	-	-	£0.010m	-
Hackney	£41.282m	£41.282m	-	-	£0.011m	-
Hammersmith and Fulham	£32.510m	£32.510m	-	-	£0.010m	-
Islington	£29.263m	£29.263m	-	-	£0.016m	-
Kensington and Chelsea	£10.969m	£10.969m	-	-	£0.022m	-
Lambeth	£52.282m	£52.282m	-	-	£0.018m	-
Lewisham	£42.368m	£42.459m	£0.091m	0.3p	£0.120m	£-0.004m
Southwark	£40.173m	£40.173m	-	-	£0.017m	-
Tower Hamlets	£21.971m	£23.048m	£1.077m	2.5p	£1.318m	£-0.040m
Wandsworth	£42.773m	£42.773m	-	-	£0.013m	-
Westminster	-	-	-	-	-	-
Barking and Dagenham	£24.095m	£25.153m	£1.057m	4.0p	£1.289m	£-0.083m
Barnet	£37.239m	£37.239m	-	-	£0.046m	-
Bexley	£42.231m	£42.231m	-	-	£0.024m	-
Brent	£65.477m	£65.477m	-	-	£0.040m	-
Bromley	£44.411m	£44.411m	-	-	£0.038m	-
Croydon	£45.360m	£47.222m	£1.861m	2.8p	£2.060m	-
Ealing	£55.221m	£55.221m	-	-	£0.043m	-
Enfield	£40.947m	£40.947m	-	-	£0.038m	-
Haringey	£61.078m	£61.078m	-	-	£0.027m	-
Harrow	£30.645m	£30.645m	-	-	£0.027m	-
Havering	£40.833m	£40.833m	-	-	£0.029m	-
Hillingdon	£22.584m	£24.569m	£1.985m	3.5p	£2.335m	£-0.170m
Hounslow	£27.059m	£27.611m	£0.553m	1.2p	£0.718m	£-0.048m
Kingston-upon-Thames	£16.448m	£17.355m	£0.907m	3.2p	£1.021m	£-0.085m
Merton	£25.733m	£26.709m	£0.977m	3.3p	£1.093m	£-0.087m
Newham	£70.743m	£70.743m	-	-	£0.028m	-
Redbridge	£38.036m	£38.036m	-	-	£0.028m	-
Richmond-upon-Thames	£19.402m	£20.355m	£0.953m	3.1p	£1.079m	£-0.091m
Sutton	£25.270m	£25.270m	-	-	£0.022m	-
Waltham Forest	£56.899m	£56.899m	-	-	£0.024m	-
GLC	£192.450m	£192.448m	£-0.003m	-	£0.240m	£0.001m
ILEA	-	£9.255m	£9.255m	0.8p	-	-
Metropolitan Police	£141.003m	£141.337m	£0.334m	-	£0.436m	-

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Effect of giving extra London discount after safety nets

Authority	Spending at target: Block grant now Col 1	Spending at target: New block grant Col 2	Spending at target: Grant gain Col 3	Grant gain Col 4	Gain at higher spend Col 5	Change holdback Col 6
TOTAL England	£8,648.836m	£8,673.027m	£24.191m	0.3p	£24.182m	£-0.828m
Non-met districts	£625.588m	£625.929m	£0.341m	-	£0.989m	£-0.013m
Non-met counties	£3,990.366m	£3,993.838m	£3.472m	0.1p	£7.771m	£-0.122m
Metropolitan districts	£2,065.473m	£2,066.608m	£1.136m	0.1p	£2.678m	£-0.075m
Metropolitan counties	£503.875m	£504.020m	£0.145m	-	£0.501m	£-0.011m
Non-met total	£4,615.954m	£4,619.767m	£3.813m	0.1p	£8.760m	£-0.135m
Metropolian total	£2,569.347m	£2,570.628m	£1.280m	0.1p	£3.179m	£-0.086m
City & Westminster	-	-	-	-	-	-
Rest of Inner London	£339.546m	£340.714m	£1.168m	0.2p	£1.556m	£-0.044m
Inner London inc ILEA	£339.546m	£349.969m	£10.423m	0.9p	£1.556m	£-0.044m
Outer London	£789.809m	£798.102m	£8.293m	1.0p	£10.010m	£-0.565m
GLC & Met Police	£333.453m	£333.835m	£0.381m	-	£0.676m	£0.001m
London total	£1,462.808m	£1,481.906m	£19.098m	1.0p	£12.242m	£-0.608m
Partnership authorities	£846.294m	£847.816m	£1.522m	0.2p	£2.343m	£-0.074m
Programme authorities	£716.218m	£716.498m	£0.280m	0.1p	£0.743m	£-0.019m
Partnership & programme	£1,562.513m	£1,564.314m	£1.802m	0.1p	£3.086m	£-0.092m

COPY
A.D., A.W.

(1)

Prime Minister

I have had Michael Heseltine's minute copied to the members of MISC 21.

Do you wish to over-rule the Chief Secretary? Or would you like a meeting with the main members of MISC 21 on Monday?

MISC 28/1

I don't think the Chief Secretary has heard of the wholesale pondering of some colleagues of his. They have done very well so far.

Yes, not

PRIME MINISTER

POSSIBLE MODIFICATION OF THE RSG SETTLEMENT

Michael Heseltine has sent me a copy of his minute of yesterday to you proposing the addition of £25 million to the RSG Settlement, mainly for distribution to the outer London boroughs.

2. I do not favour this. Ministers decided the rate support grant after extensive examination of the alternatives and their implications. If we had wanted to distribute somewhat more grant to a few outer London boroughs, it would have been possible to do it by distributing slightly less to all the others. To reopen the distribution now, at the cost of an increase in the grant total, would give all the wrong signals to the local authorities (and others). It might also be difficult to hold the line at one concession.

3. If it is thought that, for political reasons, we cannot hold the present line, it would be preferable to secure whatever re-distribution is judged necessary without adding to the total. I recognise the objections, but they are less strong than adding to the total. To my mind, it is perfectly reasonable for the Government to say that the cash total is the maximum that can be made available but, having listened to various representations about our original proposals for distribution, we have decided on some minor changes.

4. Furthermore, I am very doubtful about the wisdom of the particular device Michael proposes. It has always been a principle of RSG that we impose safety nets as the very last

stage and I think we breach that practice at our peril. It would set a poor precedent and would very clearly expose our motives for making the adjustment.

5. If colleagues nevertheless take the view that an addition must be made, then it is essential for us to be assured that Michael Heseltine will not be seeking further concessions, and that the Scottish and Welsh Secretaries of State will not ask for consequential additions to their settlement. (Michael's minute has not gone to them).

6. I am copying this minute to Michael Heseltine, Willie Whitelaw and Michael Havers.

T. Matthews
for LEON BRITTAN
28 January 1982

Approved by the Chief Secretary and signed in his absence.

BM

MBPM

cc JV
AD

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Secretary of State for Industry

2 February 1982

The Rt Hon Michael Heseltine PC MP
Secretary of State for
The Environment
Department of the Environment
2 Marsham Street
LONDON SW1

Dear Michael,

POSSIBLE MODIFICATION TO THE RATE SUPPORT GRANT SETTLEMENT

You invited the views of colleagues on the proposal contained in your letter of 27 January to the Prime Minister to amend the distribution of RSG to London authorities. I support the proposal, which should bring about useful reductions in the rate bills of industry in the boroughs that benefit.

Yours

Patrick