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FROM THE PRIVATE SECRETARY  
TO THE SECRETARY OF STATE  
FOR WALES

15 December 1983

*Dear Sir,*

**RATE SUPPORT GRANT SETTLEMENT 1984/85: WALES**

... I attach a draft of the oral statement my Secretary of State is to make in the House on Tuesday 20 December about the 1984-5 Rate Support Grant Settlement for Wales. The Secretary of State will meet the Welsh Consultative Council on Local Government Finance on the same day to inform the local authority associations.

I should be grateful if you would let me know by close of play tomorrow whether you or copy recipients have any comments.

/ I am copying this to the Private Secretaries to the Prime Minister, Home Secretary, the Secretaries of State for the Environment, Scotland, Transport, Education, Health and Social Services, Employment and Trade and Industry, the Lord Privy Seal, the Lord President, the Chief Whips (Lords and Commons), the Chief Press Officer at No 10 and to Sir Robert Armstrong.

*Yours sincerely,  
C L Jones*

C L JONES

John Gieve Esq  
Private Secretary to  
The Chief Secretary  
HM Treasury

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## WALES RATE SUPPORT GRANT SETTLEMENT: 1984/85

I am today announcing to the Welsh Consultative Council on Local Government Finance the details of the 1984/85 Rate Support Grant Settlement. Copies of the text of my statement to the Consultative Council will be placed in the Library of the House. The Rate Support Grant Report will be laid before the House after the recess and will be debated in the usual way.

The main features of the 1984/85 settlement confirm the intentions I announced in November. They must be seen in the context of the Government's continuing commitment to secure reductions in public expenditure. The total of relevant expenditure provision accepted for grants is £1440m. This comprises £1253m for current expenditure and £187m for non-current items. Aggregate exchequer grant will be £996m, comprising £138.8m for specific grants, £31m for transport supplementary grant, £1.9m for national parks supplementary grant and £824.3m for the rate support grants. Domestic rate relief is unchanged at 18½p in the £ which costs £25.3m, leaving £799m for distribution as block grant.

The settlement is a fair one. Current expenditure provision, after allowing for the 1½ per cent reduction in authorities national insurance surcharge from next April and the way in which housing benefit administration costs are now counted for rate support grant purposes, is £57m or 4.8 per cent more than the provision underlying the 1983/84 settlement.

Aggregate exchequer grant at £996m is £21m or 2.2 per cent more than the aggregate exchequer grant provision in the main rate support grant settlement for the current year. More importantly for rating purposes it is £36m or 3.8 per cent higher than the amount authorities have included in their budgets for the present year.

As in the present/<sup>year</sup>and preceding one I have set individual authority expenditure targets. Experience has shown that these are helpful to authorities in providing a degree of certainty of grant entitlement for spending at target and clearly exert a significant influence on expenditure decisions. In the light of the views expressed by the two Welsh local authority associations I have retained the same method for determining next years expenditure targets as that used in the current year. This enables me to withhold grant in an equitable way by ensuring that the amount of grant withheld from an authority is directly related to its own overspending

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and not to the expenditure decisions of other authorities.

The targets I have set are tough - indeed very tough for some authorities - but are achievable for all. Every authority's target gives a cash increase in its current expenditure: the minimum increase is  $1\frac{1}{2}$  per cent and the maximum 6 per cent, after making allowance for the reduction in the national insurance surcharge next year and a modest amount of budget drift.

The grant withholding penalty for spending in excess of targets has been strengthened. As in the present year the amount of grant withheld for excess expenditure up to 1 per cent above target is 40 per cent of that excess but above that level the rate of holdback increases progressively with a maximum rate of 90 per cent for authorities spending 5 per cent or more above target: this compares with a maximum rate of grant withholding in the current year of 75 per cent at 6 per cent spending above target. I am retaining the grant protection arrangements already adopted whereby any authority spending at or below target will be exempted from both grant holdback and close-ending. Similarly the limitation of grant holdback for low rateable resource authorities set in the present year will be retained for 1984/85.

Block grant will be distributed in accordance with the grant related expenditure formulae agreed by the Welsh local authority associations. I have decided to retain the existing block grant mechanisms which determine the distribution of block grant before holdback and the same safety net for limiting grant losses associated with changes in GRE - a maximum 4p loss at the county level and 1p loss at the district level.

There is a continuing need for restraint in local government expenditure. Some progress has been made on this front but there is still some way to go. Since 1978/79 local government current expenditure in Wales has risen by about 2 per cent more than the increase in costs for the economy as a whole. We must reverse this trend. The realistic increases in expenditure provision and aggregate exchequer grant for 1984/85 should enable authorities to maintain reasonable service standards provided pay settlements are kept down and authorities continue and reinforce their efforts to secure greater efficiency and economy and better value for money. In this respect I note that the latest joint Manpower Watch figures, which are being released today, confirm that staff numbers in Wales have risen by about 1000 over the 12 months to last September. This alone must have cost ratepayers about £15m in the current year, after making allowance for the effect of grant holdback. Clearly if authorities are to meet their targets for next year this growth of manpower

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must be reversed. I appreciate of course that authorities have difficult choices of priority to make but that applies in all areas of public expenditure, including my own programmes.

What happens to rates next year will of course depend on the decisions of authorities themselves. Here I will simply make two points. Authorities can on average increase their net revenue expenditure next year by nearly 4 per cent and still spend in line with targets. And if authorities spend at this level and apply only half of the balances they have applied in the present year, rate increases would average only 1 per cent. Indeed rates could fall if authorities applied balances to the same extent as in the current year.

These figures are a very far cry from some of those which have been bandied about; for example the average rate increase of 17 per cent reported in the press. I regard this figure as wildly exaggerated and simply do not believe it. It would imply a 7 per cent increase in revenue expenditure which I am sure authorities in general will not seek to impose on their ratepayers. Furthermore rates this year on average rose by less than 1 per cent despite earlier local authority forecasts - and forecasts by Opposition members in this House - that average rate levels in Wales would be into double figures.

I conclude by repeating that the settlement is a fair and reasonable one.

I am confident that local authorities like the Government, want to keep rate increases down to the absolute minimum. Low rate increases benefit all sectors of the community: industry, commerce and domestic ratepayers alike. It is now for each local authority to take its own spending decisions in the light of the settlement provision and of the effect of their decisions on ratepayers as a whole.

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RSG SETTLEMENT:

PARLIAMENTARY STATEMENT

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WITH PERMISSION, MR SPEAKER, I SHOULD LIKE TO MAKE A STATEMENT ON THE RATE SUPPORT GRANT SETTLEMENT IN ENGLAND FOR 1984/85.

LOCAL AUTHORITY CURRENT SPENDING FORMS PART OF THE TOTAL OF PUBLIC EXPENDITURE. FOR NEXT YEAR, THE HOUSE ENDORSED THAT TOTAL IN THE DEBATE FOLLOWING THE PUBLICATION OF THE AUTUMN STATEMENT BY MY RIGHT HON FRIEND THE CHANCELLOR OF THE EXCHEQUER. THE RATE SUPPORT GRANT REPORT WHICH IS PUBLISHED TODAY (AND COPIES OF WHICH WILL BE IN THE LIBRARY) DEALS WITH THREE ELEMENTS WHICH BEAR ON THE LEVEL OF LOCAL AUTHORITY CURRENT SPENDING. THESE ARE, FIRST, THE TARGETS FOR INDIVIDUAL AUTHORITIES WHICH, IN AGGREGATE, RELATE TO THE TOTAL FIGURE IN THE AUTUMN STATEMENT; SECOND, THE AMOUNT OF, AND METHOD OF DISTRIBUTING, RATE SUPPORT GRANT TO LOCAL AUTHORITIES; AND THIRD, THE ARRANGEMENTS FOR GRANT HOLDBACK FOR AUTHORITIES WHO SPEND ABOVE TARGET. THERE IS OF COURSE A FOURTH ELEMENT - NAMELY THE LEVEL OF RATES AND PRECEPTS; THESE ARE FIXED BY EACH LOCAL AUTHORITY IN THE LIGHT OF ITS OWN SPENDING DECISIONS AND OF THE IMPACT OF THE OTHER THREE ELEMENTS.

IN EACH OF THE LAST FOUR YEARS, LOCAL AUTHORITY CURRENT SPENDING HAS FAR EXCEEDED THE PROVISION MADE IN THE PUBLIC EXPENDITURE WHITE PAPERS. IN EACH RSG SETTLEMENT, THEREFORE, MY PREDECESSORS HAVE HAD TO TAKE ACCOUNT OF THIS BY INCREASING THE PROVISION FOR THE FOLLOWING YEAR. FOR INSTANCE, FOR THE CURRENT YEAR, 1983/84, THE PROVISION WAS INCREASED THIS TIME LAST YEAR BY ABOUT £1.1BN, OR AROUND 6%. DESPITE THAT, LOCAL AUTHORITIES HAVE STILL BUDGETTED TO OVERSPEND BY A FURTHER £770M OR 3.8%. IN THE CONTEXT OF OUR POLICY OF HOLDING PUBLIC SPENDING IN CHECK - A POLICY REPEATEDLY ENDORSED BY THIS HOUSE - SUCH SUBSTANTIAL OVERSPENDING CANNOT BE IGNORED. IN ORDER TO KEEP TOTAL PUBLIC SPENDING UNDER CONTROL, OTHER SPENDING PROGRAMMES HAVE TO BE CUT, INCLUDING LOCAL AUTHORITIES' OWN CAPITAL SPENDING. THOSE WHO COMPLAIN LOUDEST ABOUT RESTRICTIONS ON CAPITAL SPENDING ARE OFTEN THOSE WHO HAVE FORCED THEM ON US BY EXCESSIVE CURRENT SPENDING.

OF COURSE, NOT ALL LOCAL AUTHORITIES ARE EQUALLY TO BLAME. ON THE CONTRARY, AROUND 80% OF ALL AUTHORITIES ARE BUDGETTING THIS YEAR TO SPEND AT OR WITHIN 2% ABOVE TARGET. THE GREAT BULK OF THE OVERSPEND ARISES FROM THE DECISIONS OF THE REMAINING 20% OF AUTHORITIES TO SPEND ABOVE THOSE LEVELS - SOME OF THEM BY TENS OF MILLIONS OF POUNDS. INDEED, NO MORE THAN SIXTEEN AUTHORITIES ARE RESPONSIBLE FOR AROUND THREE QUARTERS OF THE TOTAL OVERSPEND. AS THE HOUSE KNOWS, IT IS THE GOVERNMENT'S INTENTION TO DEAL DIRECTLY WITH THAT PROBLEM OF THE HIGHEST OVERSPENDERS IN THE BILL WHICH I HOPE TO INTRODUCE BEFORE CHRISTMAS. BUT THAT MUST BE FOR ANOTHER DAY. THIS STATEMENT RELATES TO 1984/85 WHICH OF COURSE CANNOT BE AFFECTED BY THE PROPOSED LEGISLATION.



FOR NEXT YEAR THEREFORE WE MUST SUSTAIN PRESSURE FOR REAL REDUCTIONS IN LOCAL AUTHORITY CURRENT SPENDING ACROSS THE BOARD. AT THE SAME TIME, WE MUST MAKE A GREATER DISTINCTION BETWEEN THE MAJORITY OF LOCAL AUTHORITIES WHO HAVE MADE EFFORTS TO FIND ECONOMIES AND THE MINORITY OF HIGH SPENDERS WHO HAVE NOT.

SINCE AUGUST I HAVE BEEN CONSULTING LOCAL AUTHORITIES ON THE MAIN PROPOSALS FOR NEXT YEAR'S SETTLEMENT. THERE HAVE BEEN TWO MEETINGS OF THE CONSULTATIVE COUNCIL ON LOCAL GOVERNMENT FINANCE; MY HON FRIENDS AND I HAVE MET A GREAT MANY DEPUTATIONS FROM INDIVIDUAL COUNCILS; AND WE HAVE RECEIVED WRITTEN REPRESENTATIONS FROM MANY MORE. AS THE HOUSE WILL SEE, WE HAVE TAKEN ACCOUNT OF SOME OF THE POINTS RAISED WITH US IN THE SETTLEMENT WHICH I AM ANNOUNCING TODAY. THE MAIN FEATURES ARE AS FOLLOWS.

PROVISION FOR LOCAL AUTHORITY CURRENT SPENDING FOR 1984/85 IS £20.4BN - AN INCREASE OF OVER HALF A BILLION POUNDS ON THE PROVISION MADE IN LAST FEBRUARY'S PUBLIC EXPENDITURE WHITE PAPER. THE AGGREGATE OF TARGETS COMES TO JUST OVER THIS FIGURE £20.5BN. THIS IS ABOUT 3% HIGHER THAN THE TOTAL OF TARGETS FOR THE CURRENT YEAR. THE BASIS OF FIXING TARGETS REMAINS BROADLY AS I PROPOSED IN AUGUST. THE DISTINCTION BETWEEN LOW SPENDING AND HIGH SPENDING AUTHORITIES WILL BE MUCH MORE MARKED NEXT YEAR THAN HITHERTO. THE TARGETS FOR MOST LOW SPENDING AUTHORITIES REPRESENT A CASH INCREASE OF 3% OVER THEIR BUDGET THIS YEAR. THE TARGETS FOR MOST HIGH SPENDERS REPRESENT A CASH CUT OF UP TO 6%. IN THE LIGHT OF THE REPRESENTATIONS SINCE AUGUST, I AM PROPOSING THREE MINOR CHANGES WHICH WILL HAVE THE EFFECT OF INCREASING TARGETS FOR SOME 107 AUTHORITIES. THE THREE CHANGES, WHICH ALL OPERATE TO REDUCE THE BUDGET BASELINE AND SO INCREASE THE HEADROOM FOR NEXT YEAR, COVER BUDGETTED TRANSFERS FROM HOUSING REVENUE ACCOUNT; BUDGETTED INTEREST RECEIPTS REPRESENTING MORE THAN 10% OF EXPENDITURE; AND EXPENDITURE MORE THAN 2% BELOW TARGET FOR 1983/84. THE THIRD CHANGE WILL GIVE THOSE AUTHORITIES LIKE BIRMINGHAM WHO BUDGET WELL BELOW TARGET AN INCENTIVE TO CONTINUE TO DO SO.

EVEN WITH THESE CHANGES, THE TARGETS ARE TOUGH FOR EVERYONE, BUT THEY ARE MUCH TOUGHER ON THE MINORITY OF HIGH SPENDING AUTHORITIES WHERE THE BIGGEST SCOPE FOR ECONOMY LIES.

I NOW COME TO GRANT. AGGREGATE EXCHEQUER GRANT FOR NEXT YEAR WILL BE £11.9BN, £90 MILLION MORE THAN IN THE CURRENT YEAR. IT IS 51.9% OF TOTAL RELEVANT EXPENDITURE COMPARED WITH 52.8% FOR THIS YEAR. ALTHOUGH THERE ARE A NUMBER OF TECHNICAL CHANGES IN THE METHOD OF DISTRIBUTING THE GRANT TO LOCAL AUTHORITIES, THESE SHOULD HAVE ONLY A LIMITED EFFECT ON THE INDIVIDUAL RATEPAYER.

THE THIRD ELEMENT IN THE SETTLEMENT IS THE GRANT HOLDBACK. AS THE HOUSE KNOWS, THE SYSTEM IS INTENDED TO REINFORCE THE PRESSURE OF BLOCK GRANT BY MAKING SURE THAT THE IMPACT OF OVERSPENDING FALLS ON RATEPAYERS TO WHOM LOCAL AUTHORITIES ARE ACCOUNTABLE AND NOT ON THE GENERAL BODY OF TAXPAYERS. FOR AUTHORITIES WHICH EXCEED THEIR TARGET, I CONFIRM THE PATTERN OF HOLDBACK PROPOSED IN OCTOBER. AT RATEPAYER LEVEL, HOLDBACK WILL BE AT THE RATE OF 2 PENCE IN RATE POUNDAGE TERMS FOR THE FIRST 1 PERCENTAGE POINT OF OVERSPEND; 4 PENCE FOR THE SECOND; 8 PENCE FOR THE THIRD; AND 9 PENCE FOR EACH PERCENTAGE POINT ABOVE THAT.

NEXT, DISREGARDS. CERTAIN SPENDING IS DISREGARDED, THAT IS, IT DOES NOT COUNT AGAINST AN AUTHORITY'S SPENDING FOR THE PURPOSES OF THE TARGET AND HOLDBACK REGIME. AS THIS YEAR, WE SHALL DISREGARD INCREASED URBAN PROGRAMME EXPENDITURE BY PARTNERSHIP AND PROGRAMME AUTHORITIES, AND INCREASED EXPENDITURE ON CIVIL DEFENCE. FOR NEXT YEAR, THERE WILL BE AN ADDITIONAL DISREGARD. I PROPOSE TO DISREGARD INCREASED EXPENDITURE ON THOSE COMMUNITY CARE SCHEMES WHICH ARE JOINTLY FINANCED WITH HEALTH AUTHORITIES. I HOPE THAT THIS RELAXATION WILL BE WIDELY WELCOMED BY LOCAL AUTHORITIES.

THE HOUSE WILL WISH TO KNOW THE IMPACT OF ALL THIS ON THE LEVEL OF RATES. IF LOCAL AUTHORITIES BUDGET TO SPEND IN LINE WITH THE TARGETS I HAVE SET, THE AVERAGE INCREASES FACING RATEPAYERS NEXT YEAR SHOULD BE VERY LOW. FOR SOME RATEPAYERS, THERE COULD BE RATE REDUCTIONS. HIGH RATES ARE UNFAIR TO RATEPAYERS, DAMAGING TO INDUSTRY'S COMPETITIVENESS AND DESTRUCTIVE OF JOBS. IT IS NOW UP TO EACH LOCAL AUTHORITY TO TAKE ITS SPENDING DECISIONS IN THE LIGHT OF THE ANNOUNCEMENTS I HAVE MADE AND WITH A CLEAR VIEW OF THE IMPACT OF THOSE DECISIONS UPON THEIR RATEPAYERS.

STATEMENT

THURSDAY 15 DECEMBER 1983

HOUSE OF COMMONS

RATE SUPPORT GRANT (SCOTLAND)

WITH PERMISSION, MR SPEAKER, I SHOULD LIKE TO MAKE A STATEMENT ABOUT THE RATE SUPPORT GRANT SETTLEMENT FOR SCOTLAND FOR 1984-85. THIS AMPLIFIES THE INFORMATION GIVEN TO THE HOUSE ON 12 DECEMBER IN ANSWER TO A QUESTION BY MY HON FRIEND, THE MEMBER FOR NORTH EAST FIFE.

I HAVE COMPLETED MY CONSULTATIONS WITH THE CONVENTION OF SCOTTISH LOCAL AUTHORITIES ABOUT THE RATE SUPPORT GRANT SETTLEMENT AND I SHALL LAY BEFORE THE HOUSE IN DUE COURSE THE RATE SUPPORT GRANT ORDER AND REPORT FOR THE FINANCIAL YEAR 1984-85. THIS PROVIDES FOR A TOTAL RELEVANT EXPENDITURE FIGURE OF £ 3205.9 MILLION AND AGGREGATE GRANTS OF £ 1930 MILLION. THE PROVISION FOR CURRENT EXPENDITURE WITHIN THE TOTAL IS £ 2736.6 MILLION, SLIGHTLY ABOVE THE PROVISIONAL FIGURE WHICH I ANNOUNCED ON 27 JULY, REFLECTING MAINLY TECHNICAL ADJUSTMENTS. THE RATE OF GRANT DERIVED FROM THESE FIGURES IS 60.2% COMPARED WITH 61.7% IN THE PRESENT YEAR.

THE PROVISION FOR RELEVANT EXPENDITURE REPRESENTS A CASH INCREASE OF 3.8% OVER THE PROVISION FOR 1983-84 ONCE ACCOUNT IS TAKEN OF THE REDUCTION IN THE NATIONAL INSURANCE SURCHARGE. IT IS ALSO SOME £ 60 MILLION ABOVE THE PROVISION FOR 1984-85 INDICATED IN THE PUBLIC EXPENDITURE WHITE PAPER, CMND 8789. FOR 1984-85 £ 75 MILLION WILL NOT BE ALLOCATED TO SERVICES IN RECOGNITION THAT AUTHORITIES ARE LIKELY TO SPEND MORE THAN THE GOVERNMENT CONSIDERS DESIRABLE. CURRENT EXPENDITURE GUIDELINES WERE ISSUED TO ALL AUTHORITIES ON 18 NOVEMBER 1983 IN FINANCE CIRCULAR 13/1983, A COPY OF WHICH IS IN THE LIBRARY OF THE HOUSE. GUIDELINES FOR 1984-85 INCLUDE THE PROVISION NOT ALLOCATED TO SERVICES AND HAVE BEEN CONSTRUCTED TO TAKE ACCOUNT OF THE RELATIVE SPENDING NEEDS OF AUTHORITIES.

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IN 1984-85 THE NEEDS ELEMENT (WHICH ACCOUNTS FOR 87% OF RATE SUPPORT GRANT) WILL BE DISTRIBUTED ON THE SAME BASIS AS THAT ON WHICH GUIDELINES ARE CONSTRUCTED, NAMELY THE CLIENT GROUP. ALTHOUGH COSLA OFFICIALLY ASKED THAT THIS CHANGE SHOULD BE DEFERRED UNTIL 1985-86, THERE IS A WIDE MEASURE OF AGREEMENT THAT THIS METHOD OFFERS A MUCH MORE SYSTEMATIC APPROACH TO DISTRIBUTION AND I DID NOT WISH TO MAKE THE CHANGE COINCIDE WITH THE GENERAL PROPERTY REVALUATION OF APRIL 1985. IT WILL MEAN CHANGES IN THE AMOUNT OF GRANT PAID TO A NUMBER OF AUTHORITIES. IN ORDER TO DAMPEN THE EFFECTS, I PROPOSE TRANSITIONAL ARRANGEMENTS WHICH WILL LIMIT THE GRANT LOSS TO AUTHORITIES TO THE EQUIVALENT OF A 2½P RATE AT REGIONAL LEVEL AND A 1P RATE AT DISTRICT LEVEL. ALL AUTHORITIES HAVE BEEN TOLD IN FINANCE CIRCULAR 14/1983 ISSUED ON 14 DECEMBER OF THE AMOUNTS OF GRANT THEY WILL RECEIVE IN 1984-85 IF THE HOUSE APPROVES THE RATE SUPPORT GRANT ORDER. A COPY OF THIS CIRCULAR HAS BEEN PLACED IN THE LIBRARY OF THE HOUSE.

THE RATING EFFECTS OF THE SETTLEMENT WILL DEPEND MAINLY ON THE EXPENDITURE DECISIONS OF AUTHORITIES. I URGE THEM TO GET THEIR SPENDING INTO LINE WITH EXPENDITURE PROVISION. IF THEY DO, THERE COULD BE, ON AVERAGE, A DECREASE IN RATES, ALTHOUGH I ACCEPT THAT THE INDIVIDUAL CIRCUMSTANCES OF AUTHORITIES WILL PRODUCE VARIATIONS ROUND THE AVERAGE.

I CONSIDER THIS TO BE A VERY FAIR SETTLEMENT. THERE IS NO NEED FOR RATES TO GO UP IF AUTHORITIES REDUCE THEIR EXPENDITURE; AS I HAVE BEEN URGING THEM TO DO SINCE 1979. IF AUTHORITIES OVERSPEND, I WILL TAKE APPROPRIATE ACTION BUT I VERY MUCH HOPE THAT AUTHORITIES WILL MAKE THAT UNNECESSARY.

SCOTTISH OFFICE



SECRETARY OF STATE  
SCOTTISH OFFICE  
WHITEHALL, LONDON S.W.1

Tim Flesher Esq  
Private Secretary  
10 Downing Street  
LONDON SW1

15 December 1983

Dear Tim,

SCOTTISH RSG SETTLEMENT

I am attaching the draft text of the Statement which my Secretary of State will be making this afternoon about the Scottish RSG settlement. I would be grateful for early confirmation that you and copy recipients are content.

I am copying this to John Gieve, David Heyhoe, and Murdo Maclean, and for information to John Ballard, Colin Jones, Richard Hatfield and David Beamish.

Yours sincerely,

John S. Graham

J S GRAHAM  
Private Secretary

With permission, Mr Speaker, I should like to make a statement about the rate support grant settlement for Scotland for 1984-85. This amplifies the information given to the House on 12 December in answer to a Question by my hon Friend, the Member for North East Fife.

I have completed my consultations with the Convention of Scottish Local Authorities about the rate support grant settlement and I shall lay before the House in due course the Rate Support Grant Order and Report for the financial year 1984-85. This provides for a total relevant expenditure figure of £3205.9 million and aggregate grants of £1930 million. The provision for current expenditure within the total is £2736.6 million, slightly above the provisional figure which I announced on 27 July, reflecting mainly technical adjustments. The rate of grant derived from these figures is 60.2% compared with 61.7% in the present year.

The provision for relevant expenditure represents a cash increase of 3.8% over the provision for 1983-84 once account is taken of the reduction in the National Insurance surcharge. It is also some £60 million above the provision for 1984-85 indicated in the Public Expenditure White Paper, Cmnd 8789. For 1984-85 £75 million will not be allocated to services in order to allow local authorities time to bring their expenditure on services down to the level the Government considers appropriate. Current expenditure guidelines were issued to all authorities on 18 November 1983 in Finance Circular 13/1983, a copy of which is in the Library of the House. Guidelines indicate the relative expenditure need of individual authorities within the total provision, and for 1984-85 they include the provision not allocated to services.

In 1984-85 the needs element (which accounts for 90% of rate support grant) will be distributed on the same basis as that on which guidelines are constructed, namely the client group. Although COSLA officially asked that this change should be deferred until 1985-86, there is a wide measure of agreement that this method offers a much more systematic approach to distribution and I did not wish to make the change coincide with the general property revaluation of April 1985. It will mean changes in the amount of grant paid to a number of authorities. In order to dampen the effects, I propose transitional arrangements which will limit the grant loss to authorities to the equivalent of a 2½p rate at regional level and a 1p rate at district level. All authorities have been told in Finance Circular 14/1983 issued on 14 December



of the amounts of grant they will receive in 1984-85 if the House approves the Rate Support Grant Order. A copy of this circular has been placed in the Library of the House.

The rating effects of the settlement will depend mainly on the expenditure decisions of authorities. I urge them to get their spending into line with expenditure provision. If they do, there could be, on average, a decrease in rates, although I accept that the individual circumstances of authorities will produce variations round the average.

I consider this to be a very fair settlement. There is no need for rates to go up if authorities reduce their expenditure, as I have been urging them to do since 1979. If authorities overspend, I will take appropriate action but I very much hope that authorities will make that unnecessary.

# Briefing Note

AT  
No. 39  
15.12.83

## THE RATE SUPPORT GRANT 1984-5

### Rates and RSG

Rate increases next year will be affected by the tough RSG settlement announced on Wednesday, 14th December, but they will be primarily determined by the spending decisions of local authorities themselves. The announcement reflects the Government's determination to secure economies in local government spending next year which will, if achieved, benefit ratepayers. Mr Patrick Jenkin, Secretary of State for Environment, said in his statement:

'If local authorities budget to spend in line with the targets I have set, the average increases facing ratepayers next year should be very low. For some ratepayers, there could be rate reductions. High rates are unfair to ratepayers, damaging to industry's competitiveness and destructive of jobs. It is now up to each local authority to take its spending decisions in the light of the announcements I have made and with a clear view of the impact of those decisions upon their ratepayers'.

### Local Authorities Still Overspending

In each of the last four years, local authority current spending has far exceeded the provision made in the public expenditure white papers. In each RSG settlement, therefore, ministers have had to take account of this by increasing the provision for the following year. For the current year, 1983-4, the provision was increased this time last year by about £1.1bn, or around 6 per cent. Despite that, local authorities have still budgeted to overspend by a further £770m or 3.8 per cent. In the context of the Government's policy of holding public spending in check, such substantial overspending cannot be ignored. In order to keep total public spending under control, other spending programmes have had to be cut, including local authorities' own capital spending. Those who complain loudest about restrictions on capital spending are often those who have forced them by excessive current spending.

Not all local authorities are equally to blame. Around 80 per cent of all authorities are budgeting this year to spend at or within 2 per cent above the Government's target. The great bulk of the overspending arises from the decisions of the remaining 20 per cent of authorities to spend above those levels - some of them by tens of millions of pounds. Sixteen authorities are responsible for around three-quarters of the total overspending. It is the Government's intention to deal directly with the problem of the highest overspenders in the Bill which it hopes to introduce before Christmas.

### Why the Government is Concerned with Local Government Spending

Some people question whether Government has a role at all in respect of local government spending. They are wrong to do so. High local government spending and taxation threaten the Government's economic strategy. They increase the burden of taxation which the Government is committed to reducing. The tight control of public expenditure can be undermined by over-spending in so substantial a sector of the economy. High rates feed into costs, fuel wage demands, and put the Government's anti-inflation policy at risk. Local government over-spending pre-empts resources that could have been better used; it is a large figure in terms of the management of public sector expenditure.

The Government is taking action, as outlined in the White Paper 'Rates', to limit the rate increases levied by selected high spending councils, and to have a general scheme for rate limitation in reserve. This is for the protection of all ratepayers, businesses and householders alike.

Non-domestic rates. High rates threaten the health of our industry and commerce. Non-domestic ratepayers contribute nearly 60 per cent of the rates - much more in some individual authorities. They have no direct voting influence. Non-domestic rates total some £6bn in England this year and are the largest single tax on business. Increases in rates raise costs, stifle growth, damage competitiveness, and destroy jobs.

Domestic rates. The Government also has a responsibility to domestic ratepayers. The Government cannot stand back and watch as some authorities heap heavier and heavier burdens on their ratepayers' backs. If locally elected councillors will not protect the ratepayer, then the Government must do so. The least it can do is to protect those who have the heaviest burdens.

The power to limit rate increases will not, however, come into effect until the financial year 1985-6. It is therefore important that next year's Rate Support Grant settlement encourages local authorities to restrain their spending.

#### What the settlement provides

Spending targets. Provision for local authority current spending for 1984/85 is £20.4bn - an increase of over half a billion pounds on the provision made in last February's public expenditure White Paper. The aggregate of targets comes to just over this figure, £20.5bn. This is about 3 per cent higher than the total of targets for the current year. The basis of fixing targets remains broadly as proposed by the Government in August. The distinction between low-spending and high-spending authorities will be much more marked next year than hitherto. The targets for most low-spending authorities represent a cash increase of 3 per cent over their budget this year. The targets for most high spenders represent a cash cut of up to 6 per cent. The targets are tough for everyone, but they are much tougher on the minority of high spending authorities where the biggest scope for economy lies.

Grant and Holdback. Aggregate Exchequer Grant for next year will be £11.9bn, £90 million more than in the current year. It is 51.9 per cent of total relevant expenditure compared with 52.8 per cent for this year. By keeping the grant percentage at about the same level as this year the Government has ensured that if authorities spend at target, rate increases will on average be very low.

The third element in the settlement is the grant holdback, i.e. the withholding of grant from those authorities which overspend their targets. The system is intended to reinforce the pressure of block grant by making sure that the impact of overspending falls on ratepayers to whom local authorities are accountable and not on the general body of taxpayers. For authorities which exceed their target, the pattern of holdback will be more severe than in the current year. At ratepayer level, holdback will be at the rate of 2 pence in rate poundage terms for the first percentage point of overspending; 4 pence for the second; 8 pence for the third; and 9 pence for each percentage point above that. This is considerably more severe than the holdback arrangements for the current year when the loss of grant was equivalent to one penny for the first and second percentage points of overspending and five pence for the third and additional percentage points. But this year's less severe scale of penalties resulted in many authorities not taking their targets seriously and budgeting to spend up to 2 per cent above them.

NBPM

AT 21/12

MR. TURNBULL

The following notes may be helpful for the Prime Minister's meeting with Environment Ministers on Tuesday, December 20:

P R E S E N T A T I O N   O F   T H E   R A T E S   B I L L

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We should make the most of those features of the Bill which are likely to prove popular with Parliament and the voters.

**Politically attractive features:** The most popular features of the Rates Bill, together with the questions we shall need to answer to take full advantage of them, are:

**Lower rates in high-spending authorities:** But we will not get this point across unless we are able to say which authorities, on their performance in the past few years, would have been rate-limited had the Bill been law now; how much the rate limitation on each authority would have been; and how much the total saving in public spending would have been. We must also be able to say how the loss of revenue in the affected authorities would have affected the provision of goods and services to their people. Where would the enforced cuts fall? There is bound to be criticism on this point. We must be ready for it.

**Only the worst offenders will get caught:** But how many offenders? Will there be a limit to the number of victims each year? And will the formula penalise previously frugal authorities not so much for their present level of spending as for their past frugalities? We must reassure the Shire-Counties, in particular.

**Rules for rate limitation will not be arbitrary:** The Secretary of State will not be given power to pick on local authorities whose political complexion he dislikes. He must publish the principles on which he bases his decisions, and the principles must be the same for all authorities in a particular class. But what will those principles be? If we do not declare them from the outset, commentators will fear the worst.

**Parliament will decide:** Backbenchers and Peers likely to be opposed to the Bill will be to some extent reassured by the provisions for affirmative resolution by Parliament before general rate limitation can be introduced. We should make sure that these provisions are highlighted at the earliest stage.

**Representation of business ratepayers:** This will be highly popular with businesses, and we should get them on our side from the beginning. The Institute of Directors have been pressing for business representation, and I think we can call on them to weigh in with immediate support.

**Relief for homes for the disabled:** Another point to be made much of.

**Pubs:** Landlords have been complaining about the fact that pubs, unlike any other business, are rated in accordance with the volume of trade. The repeal of this provision will be popular with landlords and we may therefore be able to look to the drinking classes for support.

**Payment by instalments:** The Bill allows everyone to pay rates by instalments. This will be popular.

**Politically unattractive features:** The Bill will be unpopular not only with councils who now overspend but with constitutionalists who set too much store by local autonomy, a phrase which will be flung about a good deal during the debates on the Bill. The most unattractive features of the Bill are:

**Undemocratic centralism:** Traditionally, local authorities have been able to levy any rate they chose, subject only to the will of the local electorate. We should be ready with the arguments against this: a) local authorities have never been wholly independent of Parliament, since they derive from it all their powers and most of their revenues; b) ratepayers need protection from the foolish spending of some councils.

**"Services will have to be cut":** High-spending, politically hostile authorities will try to play the game of cutting front-line services and blaming the cuts on rate-capping. We should be ready with the counter-arguments: a) other authorities are managing on less; b) the overspending authorities are wasting money on a variety of unnecessary projects.

**General rate limitation:** Even with the recourse to Parliament which is in the Bill, this measure will be very unpopular. We shall need to decide whether and when we might be prepared to drop this provision to save the rest of the Bill. The Lords will be particularly unwilling to countenance this provision, which some will see as a constitutional impropriety.



CHRISTOPHER MONCKTON

14 December, 1983



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## 10 DOWNING STREET

*From the Private Secretary*

13 December, 1983

RATE SUPPORT GRANT SETTLEMENT (ENGLAND) 1984/85

The Prime Minister has seen the draft of your Secretary of State's statement which was attached to your letter to me of 12 December. She is content with the statement though she queried the second sentence of paragraph 3.

I am sending a copy of this letter to the Private Secretaries to the Members of E(LA), Murdo Maclean (Chief Whip's Office), David Beamish (Government Whip's Office) and to Richard Hatfield (Cabinet Office).

(A. Turnbull)

J. Ballard, Esq.,  
Department of the Environment

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(A. Turnbull)

J. Ballard, Esq.,  
Department of the Environment

Soe



Prime Minister ①

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Agree?

AT 12/12

Yes no

2 MARSHAM STREET  
LONDON SW1P 3EB

01-212 3434

My ref:

Your ref:

12 December 1983

Dear Andrew.

RATE SUPPORT GRANT SETTLEMENT (ENGLAND) 1984/85

With the agreement of the Leader of the House and the Chief Whip, my Secretary of State proposes to announce the details of the Rate Support Grant Settlement for England in an oral statement to the House this Wednesday, 14 December, when the RSG Report is tabled. This follows the practice in all recent RSG settlements. Lord Bellwin would propose to repeat the statement in the Lords. The oral statement would be followed by a meeting of the Consultative Council on Local Government Finance to inform the local authority associations, and a press conference.

- / I attach a draft of the statement which my Secretary of State proposes to make. All the decisions announced in it have been agreed by E(LA) Committee. I should be grateful if you would let me know whether the Prime Minister is content with the draft.
- / I am copying this letter and attachment to the private secretaries to the members of E(LA), the Chief Whip, Lord Denham and Sir Robert Armstrong.

Yours sincerely

John Kallen

J F BALLARD  
Private Secretary

Andrew Turnbull Esq





## RSG SETTLEMENT: PARLIAMENTARY STATEMENT

1. With permission, Mr Speaker, I should like to make a statement on the Rate Support Grant settlement in England for 1984/85.

2. Local authority current spending forms part of the total of public expenditure for next year. The House endorsed that total in the debate following the publication of the Autumn Statement by my Right Hon Friend the Chancellor of the Exchequer. The Rate Support Grant report which is published today (and copies of which will be in the library) deals with the three elements which bear on the level of local authority current spending. These are, first, the targets for individual authorities which, in aggregate, relate to the total figure in the Autumn Statement; second the amount of, and method of, distributing, rate support grant to local authorities; and third the arrangements for grant holdback for authorities who spend above those targets. There is of course a fourth element - namely the level of rates and precepts but these are fixed by each local authority in the light of its own spending decisions and of the impact of the other three elements.

3. In each of the last four years, local authority current spending has far exceeded the provision made in the public expenditure white papers. In each RSG settlement, therefore, my predecessors have had to take account of this by increasing the provision for the following year. For instance, for the current year 1983/84, the provision was increased this time last year by about £1.1bn, or around 6%. Despite that, local authorities have still budgetted to overspend by a further £770m or 3.8%. In the context of our policy of holding public spending in check a policy repeatedly endorsed by this House - such substantial overspending cannot be ignored. In order to keep total public spending under control, other spending programmes have to be cut including local authorities' own



capital spending. Those who complain loudest about restrictions on capital spending are often those who have made them necessary by excessive current spending.

4. Of course, not all local authorities are equally to blame. On the contrary, around 80% of all authorities are budgetting this year to spend at or within 2% above target. The great bulk of the overspend arises from the decisions of the remaining 20% of authorities to spend above those levels - some of them by tens of millions of pounds. Indeed, no more than sixteen authorities are responsible for around three quarters of the total overspend. As the House knows, it is the Government's intention to deal directly with that problem of the highest overspenders in the Bill which I hope to introduce before Christmas. But that must be for another day. This statement relates to 1984/85 which of course cannot be affected by the proposed legislation.

5. For next year therefore we must sustain pressure for real reductions in local authority current spending across the board. At the same time, we must make a greater distinction between the majority of local authorities who have made efforts to find economies the minority of high spenders who have not.

6. Since August I have been consulting local authorities on the main proposals for next year's settlement. There have been two meetings of the Consultative Council on Local Government Finance; my Honourable friends and I have met a great many deputations from individual councils; and we have received written representations from many more. As the House will see, we have taken account of some of the points raised with us in the settlement which I am announcing today. The main features are as follows.

7. Local authority current spending for 1984/85 is projected at £20.4bn - an increase of over half a billion pounds on the provision made in last February's public expenditure White Paper. The aggregate of targets comes to just over this figure £20.5bn. This is about 3% higher than the total



of targets for the current year. The basis of fixing targets remains broadly as I proposed in August. The distinction between low spending and high spending authorities will be much more marked next year than hitherto. The targets for most low spending authorities represent a cash increase of 3% over their budget this year. The targets for most high spenders represent a cash cut of up to 6%. In the light of the representations since August, I am proposing three minor changes which will have the effect of increasing targets for some 107 authorities. The three changes, which all operate to reduce the budget baseline and so increase the headroom for next year, cover budgetted transfers from Housing Revenue Account; budgetted interest receipts representing more than 10% of expenditure; and expenditure more than 2% below target for 1983/84. The third change will give those authorities like Birmingham who budget well below target and incentive to continue to do so.

8. Even with these changes, the targets are tough for everyone, but they are much tougher on the minority of high spending authorities where the biggest scope for economy lies.

9. I now come to grant. Aggregate Exchequer Grant for next year will be £11.9bn, £90 million more than in the current year. It is 51.9% of total relevant expenditure compared with 52.8% for this year. Although there are a number of technical changes in the method of distributing the grant to local authorities, none of them should have more than a marginal impact on the individual ratepayer.

10. The third element in the settlement is the grant holdback. As the House knows, the system is intended to reinforce the pressure of block grant by making sure that the impact of overspending bears on ratepayers to whom local authorities are accountable and not on the general body of taxpayers. For authorities therefore which exceed their target, I confirm the pattern of holdback proposed in October. At ratepayer level, holdback will be at the rate of 2 pence in rate poundage terms for the first 1 percentage point of overspend; 4 pence



for the second; 8 pence for the third; and 9 pence for each percentage point above that.

11. Next, disregards. Certain spending is disregarded, that is, it does not count against an Authority's spending for the purposes of the target and holdback regime. As this year, we shall disregard increased urban programme expenditure by partnership and programme authorities, and increased expenditure on civil defence. For next year, there will be an additional disregard. I propose to disregard increased expenditure on those community care schemes which are jointly financed with health authorities. I know that this relaxation will be widely welcomed by local authorities.

12. The House will wish to know the impact of all this on the level of rates. If local authorities budget to spend in line with the targets I have set, the average increases facing ratepayers next year should be very low. For some ratepayers, there could be rate reductions. High rates are unfair to ratepayers, damaging to industry's competitiveness and destructive of jobs. It is now up to each local authority to take its spending decisions in the light of the announcements I have made and with a clear view of the impact of those decisions upon their ratepayers.

LONDON

11 DEC 1983



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