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Note of a meeting in the Prime Minister's Room,
House of Commons at 5.30 p.m. Tuesday 25 June 1985

RATE SUPPORT GRANT SETTLEMENT 1986/87: ENGLAND

Present:

Prime Minister
Lord President of the Council
Chancellor of the Exchequer
Secretary of State for Education
and Science
Secretary of State for the Environment
Chief Secretary, Treasury
Minister for Local Government

Mr Brearley (Cabinet Office), Mr Butler, Mr Turnbull and Mr Letwin were also present.

The meeting considered a minute of 24 June from the Lord President of the Council to the Prime Minister reporting on the discussions in the Ministerial Sub-Committee on Local Authority Expenditure (E(LA)) and separately under his chairmanship on the major elements of the English rate support grant settlement for 1986/87. The issues for decision were whether or not targets should be retained as a control on local authority spending, the overall provision for current expenditure by local authorities in 1986/87, and the level of Aggregate Exchequer Grant (AEG) in that year. A judgement on what would be an acceptable level of increase in rate poundages was relevant to these issues.

In discussion the following main points were made -

- (a) Local authority rates were a matter of great concern and it would be wrong for the Government to pursue policies on expenditure provision or the level of AEG which would have

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the effect of increasing them. This was especially so in Greater London and the Metropolitan areas where it would not be understood if the apparent effects of the abolition of the Greater London Council (GLC) and the Metropolitan County Councils (MCCs) was an increase in rate poundages. These considerations pointed to holding expenditure provision down as far as possible, while not necessarily being unduly tough on AEG. On the face of it a given sum of money would have a greater proportionate impact if used, via AEG, to alleviate rate poundages rather than being spread more thinly to alleviate some element of central government taxation.

(b) The provision in the Government's Public Expenditure White Paper (PEWP) for local authority current expenditure relevant for rate support grant in 1985/86 was being exceeded. The latest estimate of out-turn was £22,203 million. A settlement that involved a lower level of expenditure in cash in 1986/87 would not be defensible. A settlement at cash standstill (4½% real terms cut) might, however, be defended. This would involve an increase of about £450 million in the provision for 1986/87 announced in the PEWP. Such an increase might, however, be too low to be realistic; so great a real-terms cut in local authority expenditure had never been achieved. Furthermore, the Secretary of State for Education and Science and the Home Secretary were looking for increases in provision for their own services of £600 million and £170 million respectively. Other service Ministers might also have claims to make. Such increases, could by no means be accommodated within a cash standstill.

(c) The level of AEG as a percentage of total relevant local government spending had been reduced very substantially since 1979 and now stood at 48.7%. Changes in AEG had only a small effect on expenditure but a much more direct effect on rate poundages. Even a cash standstill in AEG would reduce its percentage and have the effect of increasing rate poundages. There was therefore a

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strong case for holding AEG constant in percentage terms even though this would necessitate an increase in its cash level.

(d) It might not be necessary to increase AEG in order to secure low increases in rate poundages. Indeed with an increase in AEG the Government's intentions as to both public expenditure and rate poundages could be at risk as authorities could spend more without increasing rate poundages beyond what they thought would be acceptable to their ratepayers.

(e) What would happen would depend on the effectiveness of the block grant mechanisms, whether with or without targets and holdback. There was a strong case for abandoning targets because of the difficulties in and as a result of setting targets for the successor authorities to the GLC and MCCs. There was also a high risk of expenditure being higher than predicted with the so-called Grant Related Expenditure (GRE) exemption as authorities were likely to increase expenditure towards GRE in order to safeguard their position for future years. The block grant mechanisms, without targets, would impose a severe regime, while the highest spenders would be rate-capped. On the other hand the risk of retaining targets might be over-stated, and there were also grave doubts as how effective targetless regimes would be; particularly for relatively low levels of increase in current expenditure and relatively high levels of AEG.

(f) Final decisions, especially on targets, were now needed extremely urgently if a statement was to be made before the recess.

THE PRIME MINISTER, summing up the discussion, said that, if possible, the twin objectives of low levels of increase in public expenditure and low levels of increase in rate poundages should be met. A cash standstill in local authority current expenditure as between 1985/86 and 1986/87 (an increase of about £450 million over present provision for 1986/87 in the PEWP) would be defensible. There were also attractions in an un-

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changed percentage for AEG. Finally there were persuasive reasons for seeking to abandon targets. Because some new considerations had been introduced, the full implications of packages reflecting these views needed to be considered before final decisions could be taken. The Secretary of State for the Environment should therefore arrange for exemplifications to be circulated to those present for discussion, under the chairmanship of the Lord President of the Council, later in the week.

Cabinet Office
26 June 1985