SS/DOE 10/3

CONFIDENTIAL

SECRETARY OF STATE FOR THE ENVIRONMENT

Prime Minister

RATE SUPPORT GRANT

The Local Government Finance Bill provides for a new system of local government finance to be introduced on 1 April 1990, and consequently no payments of Rate Support Grant under the existing legislation will be made in respect of financial years after 1989/90. But if we allow the present system to continue to operate as normal, we shall have to make Supplementary Reports in respect of 1989/90 and earlier years well into the 1990s. This is because under the 1980 Act grant depends on expenditure, so that final entitlements cannot be calculated until we have audited outturn information for all authorities, and that is not available for at least 18 months after the year end. In practice it often takes longer; we have only recently made the final Supplementary Report for 1984/85, for example.

It would be unhelpful to have a long tail of Supplementary Reports running into the earlier years of the new system. Allowing changes from the last years of the old system to feed through will obscure accountability. Stopping the programme of Supplementary Reports will also save administrative effort and Parliamentary time, and more importantly will avoid a series of further opportunities for local authorities to mount political and legal attacks. I therefore see a good case for taking powers which will enable us to make the final Supplementary Report and grant entitlement for each year on the basis of the best information available to us at some convenient cut-off date without having to wait for full audited returns. This step would also constrain local authorities' opportunities to maximise the cash flow from grant payments by artificially manipulating grant between years.

We should need to review later whether and when to exercise such a power, taking account of local authorities' likely reactions. Most would probably welcome the certainty which it would bring,

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although there are bound to be a few who could, with a degree of justice, claim that they had been denied the opportunity of the final adjustment to their grant.

I should therefore be grateful for the agreement of you and colleagues to the proposal to include, in the Local Government Finance Bill, a provision allowing a cut-off date after which we can close down the existing RSG system. The actual date would be set later, by order.

I am sending copies of this to other members of E(LF) and to Sir Robin Butler.

NR

10 March 1988

PM - no further action at this stage.
PRCG
23/3

PRIME MINISTER

CLOSING DOWN THE RATE SUPPORT GRANT SYSTEM

Mr Ridley (minute of 10 March) proposed including the provision in the Local Government Finance Bill to allow a cut off date after which the existing RSG system could be closed down. His intention was to avoid having an unhelpful long tail of supplementary reports running into the early years of the new system.

Messrs Hurd, Rifkind and Walker broadly support the proposal.

But the Chief Secretary (letter of 21 March) now questions the wisdom of this proposal. He is concerned about the likelihood of successful legal challenge, and sees a risk of costs to the Exchequer from behavioural responses of local authorities. He suggests urgent discussions between officials to consider the risks and the alternative options.

Content to note that officials will be doing further work and to await the results of this analysis?

PRCG.

Paul Gray

22 March 1988

CONFIDENTIAL

20040t

cc BG.

DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Richmond House, 79 Whitehall, London SW1A 2NS

Telephone 01-210 3000

From the Secretary of State for Social Services

NBPM

PRC6

31/3

The Rt Hon Nicholas Ridley MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
LONDON
SW1P 3EB

3/ March 1988

Dear Nicholas.

CLOSING DOWN THE RATE SUPPORT GRANT SYSTEM

Thank you for copying to me your note of 10 March to the Prime Minister proposing to take powers to impose a cut-off date beyond which no further Supplementary Rate Support Grant Reports would be issued. I am strongly inclined to support this in principle. Allowing the effects of the old system to drag on much beyond 1990-91 would blur the effects of the change to the Community Charge as well as involving further calls on administrative resources and Parliamentary time.

However I can see the force of John Major's concern about the risks involved and would agree with his suggestion that officials should consider this further. But this work should be framed within an overriding objective of ensuring that no further Supplementary Reports should need to be made after the end of the first year of the new system - 1990-91. I would be grateful if my officials could be kept in the picture. We would be paticularly interested to see exemplifications for individual authorities based on the impact of Supplementary Reports in previous years.

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

Yours

JOHN MOORE

LOCAL Gov.T: Relations
A 34

O10

CC BG.

dti

the department for Enterprise

The Rt. Hon. Kenneth Clarke QC MP
Chancellor of the Duchy of Lancaster and
Minister of Trade and Industry

Rt Hon Nicholas Ridley MP
Secretary of State
Department of the Environment
2 Marsham Street
LONDON
SW1P 3EB

Department of Trade and Industry

1-19 Victoria Street
London SW1H 0ET

Switchboard
01-215 7877

Telex 8811074/5 DTHQ G
Fax 01-222 2629

NBPM
RRCG
21/3

Direct line 215 5147
Our ref
Your ref
Date 21 March 1988

Dear Nick,

WITH PG? / WILL REQUEST IF REQUIRED

Thank you for copying to me your letter of ~~10~~ March to Douglas Hurd. I endorse your suggestion that officials should withhold agreement on any unreasonable expenditure projections put forward by the local authorities in the course of the forthcoming 1989/90 RSG expenditure working group meetings.

We have always taken this line and, in fact, withheld our agreement to an element in the local authorities bid for 1988/89. But I am happy to remind my officials to inform their negotiators on the bid for consumer protection/trading standards.

Copies of this letter go to E(A) committee colleagues and Sir Robin Butler.

Yours ever,

KENNETH CLARKE

MA6ACC

010 004/3298

CONFIDENTIAL

cc BG

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Nicholas Ridley AMICE MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
London
SW1P 3EB

21st March 1988

Dear Secretary of State,

CLOSING DOWN THE RATE SUPPORT GRANT SYSTEM

Thank you for copying to me your minute to the Prime Minister of 10 March setting out proposals for closing down the RSG system. I have also seen the replies from Douglas Hurd, Malcolm Rifkind and Peter Walker broadly supporting your proposals.

I can see the attractions in principle of closing down the RSG system early. It would reduce the administrative costs post-1990 of running the local government finance system and improve accountability under the new scheme - although so long as we have open-ended specific grants, accountability will inevitably be somewhat diminished.

But I suspect there are considerable risks in your proposal in practice - the likelihood of successful legal challenge and the payment of unwarranted extra grant to local councils at the cost of the taxpayer. We need to be sure of the practical implications before deciding when and how to close down the RSG system.

?? I fear that if we take the power now as you propose, we will induce a behavioural response from local authorities that will be at the expense of the Exchequer. Among the worrying possibilities are abuse of the special funds provision; deliberate delay in submitting outturn information on expenditure, where that exceeds budget; and distinctly creative budgeting in both 1988-89, where that is still possible, and in 1989-90. The aim would be to draw up low budgets or provide

low unaudited outturn data in order to maximise grant entitlement. At this stage it has not been established that sufficient checks could be set in place to prevent this sort of response; and if not, there is a considerable and unquantified risk to the Exchequer.

Also whatever cut-off date were set under your proposals, some local authorities would benefit and others lose. It might be difficult to withstand a successful legal challenge in certain cases. If an authority budgeted prudently and then just failed to submit in time later information showing it had managed to say well below budget, it would be treated less favourably than the council which deliberately sets a low budget, overspends considerably and submits no further information beyond the budget. I can see the courts might regard this as unreasonable.

It may be that the risks to the Exchequer could be considerably reduced, though not entirely eliminated, if we delayed taking the necessary powers until later. One possibility worth exploring would be to leave taking the power until a late amendment to the Housing and Local Government Bill next session i.e. when the last local authority budgets under the present system had already been prepared.

I appreciate that you wish to take this forward rapidly. I therefore suggest that our officials should meet urgently to consider what the risk to the Exchequer are; how these risks and the likelihood of successful legal challenge can best be reduced; and whether alternative options for taking powers to close down the RSG system are to be preferred.

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

Yours sincerely

pp JOHN MAJOR

(Approved by the Chief Secretary and signed in his absence)

LOCAL GOVT Relations PT34

HOME SEC
16/3

CONFIDENTIAL

cc BG

QUEEN ANNE'S GATE LONDON SWIH 9AT

16 March 1988

Dear Secretary of State,

RATE SUPPORT GRANT

Thank you for copying to me your minute of 10 March to the Prime Minister in which you propose to take a power in the Local Government Finance Bill to apply a cut-off date for the calculation of Rate Support Grant. I agree that there are advantages in trying to start the new system of local government finance with the minimum amount of hangover from the current one. I would be grateful if your officials could keep mine informed of how it is to be operated if and when it is decided to use this power.

I should perhaps make clear that as regards specific grant payments (e.g. for the police, magistrates' courts and probation services), we do not face the same difficulties as with RSG in having a long tail of adjustments to grant. Final payments are normally made by the end of the following financial year. We do not, therefore, see sufficient reason to make changes to the arrangements for the payment of specific grant to parallel those you are proposing for Rate Support Grant. To do so would, in any case, have significant repercussions regarding the Government's commitment to the funding of these services.

I am copying this letter to the Prime Minister, members of E(LF) and to Sir Robin Butler.

Yours sincerely,

APPROVED BY THE HOME SECRETARY
AND SIGNED IN HIS ABSENCE

The Rt Hon Nicholas Ridley, MP.

CONFIDENTIAL

Local Gov : Rates PR9

SS/SCOTLAND
1613

CONFIDENTIAL

SCBG

Prime Minister

RATE SUPPORT GRANT

file with PG

I was interested to see Nicholas Ridley's minute of 10 March, setting out his proposal to take powers to cut short the requirement for Supplementary Reports which are required under the present rate support grant.

I agree that it can be tiresome to have these matters drag on, and we should aim to draw a line under grant payments for earlier financial years as soon as we reasonably can. I am therefore entirely content with Nick's proposal. Circumstances in Scotland are, however, somewhat different and I propose to achieve the same objective myself by relying on my existing powers and, after April 1989, exercising pressure on local authorities (and more particularly) their auditors to submit audited outturn information as soon as possible.

I am copying this minute to Nick, other members of E(LF) and to Sir Robin Butler.

MR

MR

16 March 1988

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CONFIDENTIAL

Local Govt -

CONFIDENTIAL

WELSH SEC
15/3

cc BG

PRIME MINISTER

RATE SUPPORT GRANT

I have seen Nicholas Ridley's minute of 10 March to you and support his proposal to include a provision in the Local Government Finance Bill to allow an accelerated close down of the existing RSG system.

My support is, of course, subject to the provision being exercisable separately in England and Wales, as is provided for in Clause 121 of the Bill. This is necessary because in Wales the "tail" of Supplementary Reports may be rather fewer in number (possibly as few as two). The savings in administrative effort and Parliamentary time, and the opportunity for local authorities to express their displeasure, will therefore be correspondingly reduced.

/ I am sending copies of this to other members of E(LF) and to Sir Robin Butler.

15.3.88

PW

LOCAL GOVT: Rates Pt. 9