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Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Viscount Whitelaw PC CH MC
Lord President of the Council
Privy Council Office
Whitehall
London
SW1A 2AT

10 July 1986

Dear Villi,

RATE SUPPORT GRANT SETTLEMENT 1987-88

At the last meeting of E(LA), I was invited to discuss with the Secretary of State for the Environment the way in which slopes and other mechanisms might be increased to reinforce block grant pressures, and to reconsider the RSG settlement for 1987-88 in the light of that discussion and of the views expressed at E(LA).


I have now discussed these issues with the Secretary of State, and we are agreed on the following proposals:-

- (i) provision for relevant current spending and for rate fund contributions to the Housing Revenue Account (RFC to HRA) should be set at a real-terms freeze on local authorities budgets for 1987-88. Provision for relevant current will therefore be £25,211 million; this does not include the extra provision conditionally on offer to support a new agreement on teachers' pay and conditions of service. Provision for RFC to HRA will be £437 million;
- (ii) the allowance in the Settlement for the use of special funds should be £350 million, the same as in local authorities' budgets for 1986-87;
- (iii) the technical change to the payment of urban programme grants should not be proceeded with;
- (iv) AEG should be set at £12,842 million; this will give a grant percentage of 46.4%;

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- (v) legislation to abolish grant recycling should be included in a Local Government Bill early next Session;
- (vi) an unallocated margin of 5% should be introduced, so that the increase in GREs is restricted to the level of inflation or just below;
- (vii) Expenditure Levels (ELs) for reselected authorities should be set at a cash freeze on 1986-87 ELs, (as proposed in E(LA)(86)11).



I was able to accept the increase in provision and in grant because of the toughening of the block grant pressures brought about by the abolition of recycling and the other changes agreed. We must therefore press ahead with legislation on recycling as rapidly as possible: it is an integral part of the package.

The Secretary of State and I decided to propose an unallocated margin rather than steeper slopes. We believe it would give damaging signals about our views on local authorities' 'needs' if the increase in GREs was above the rate of inflation; an unallocated margin of about 5% is needed to ensure that the increase in GREs is reduced to close to the increase in the GDP deflator. Without the unallocated margin some authorities now above the threshold could slip below it even though they increased spending in real terms. An unallocated margin has helpful effects on grant distribution, and shifts grant from high spenders to low spenders. Authorities below the threshold would not be subjected to steeper slopes.

There are several ways in which this unallocated margin might be implemented. The traditional way has been to set aside an amount which is not allocated either to services or to GREs. But this would require service provision to be set below the cash level of 1986-87 budgets, and I recognise the difficulties this could cause for some colleagues. I therefore propose that officials should be asked to explore alternative ways of implementing the unallocated margin, with the objective of provision being fully allocated to services but GREs being set at a lower level. The intention would be to produce the same GREs as with a 'traditional' unallocated margin while at the same time allowing service provision to show appropriate increases.

We shall need to decide the distribution of provision between services as quickly as possible. I suggest we ask officials under Treasury chairmanship to discuss the issues in PESC(LA). I will then report back to the E(LA) shortly.

I am copying this letter to the other members of E(LA) and to Sir Robert Armstrong.

Yours etc,
John MacGregor

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