

NBPN.

PRIME MINISTER

29 July 1986

RATE SUPPORT GRANT SETTLEMENT 1987-88: SERVICE DISTRIBUTION

There is an important political point buried in the minutes, of the discussion of this technical subject in E(LA) yesterday.

Ministers endorsed officials' proposals on the distribution of Rate Support Grant between services which favour those provided by county councils over those provided by district councils. This may be a fair reflection of general government priorities, but the consequence is that, on average, shire county rates might go up by about 2% next year, whilst shire district rates go up by about 13% (though no forecasts can be reliable at this stage). The actual rate demand which falls through the letterbox will add the two together, and the total average increase - allowing for relative weighting - might be about 3%.

Norman Tebbit argued strongly that next May the Government faced district council elections but none in the shires. It would therefore be very unhelpful if, at such a sensitive time, district councils could point to large rate increases. A shift of £100m of grant towards district councils through Local Environmental Services (notably rubbish collection) would reduce shire district rate increases by 3.5%, and increase county rates by 0.5%. This might bring average shire district rate increases down to single figures.

Several Ministers - notably Nicholas Ridley - very much saw Norman Tebbit's point. But the service Ministers ganged together against it, using two arguments:

- i. They didn't want to shift £100m away from the service provision for their Departments. This is a fair presentational point, but the change proposed by

Norman Tebbit wouldn't have much effect on actual spending plans - the effect would be on the relative burden of rates and grants in financing them.

- ii. Kenneth Baker said this problem could be dealt with through technical adjustments to individual Grant Related Expenditure Assessments. But although his claim is recorded in the minutes, neither the Treasury nor the DoE is confident that the device will be able to achieve what is promised for it.

Norman Tebbit is right. I therefore recommend that you write to Viscount Whitelaw expressing your concern at the prospect that shire districts may be pushing up their rates by, on average, about 13% next year. You could ask him to consider further the strong case for shifting £100m towards them.

David Willetts

DAVID WILLETTS



10 DOWNING STREET

Note

Passed this point to
Joan Rae Naughton. LPC
is convinced that he could
not have got any other service
distribution. I suggested
taking £100m from the
unallocated margin. This will
be considered in September.

DLW

31/7