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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

11 September 1986

*Dear Nick,***SPECIFIC GRANTS TO LOCAL AUTHORITIES***FLAPP T 29*

... Nigel Lawson wrote to your predecessor on 9 December 1985, circulating a copy of the first report of the inter-departmental Working Group that E(LF) agreed to set up last October. The Group has now produced its final report, which I enclose: I gather that some other colleagues have already seen a copy. Nigel has asked me to take forward the detailed work in preparation for discussions in E(LF) in the autumn; I am writing to let you know my first thoughts and to invite comments.

I support the recommendation to cash limit specific grants, and the reasons for it set out in paragraph 47. As you know, I am already pressing this view on police specific grant, in a different context. I accept that it may not be possible to cash limit some demand-led grants, such as that financing mandatory student awards.

I also support the section on grant rates. My recent agreement with Kenneth Baker on grant rates for his in-service teacher training scheme was, in my view, consistent with these guidelines. I ask colleagues to endorse them, and to look closely with me at their grants to see if the desired level of spending could be achieved with a lower grant rate.

I also support the proposal to terminate Transport Supplementary Grant, for the reasons set out in paragraph 17 of the report.

The position on Magistrates' Courts and the probation service is typical of a basic problem. When a service is run by local authorities but we automatically reimburse as

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LOCAL GOVT
RELATIONS
PT 30

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much as 80 per cent of the cost to them, then we for our part have no clear power to get value for our money and they have no very clear incentive to provide it. The information about waste in Magistrates' Courts provided in the recent efficiency scrutiny on legal aid adds force to this. I can therefore see the point of the majority view that responsibility for these services should be clarified - the Magistrates' Courts to be treated like the Crown and County Courts (for which the Lord Chancellor is directly responsible, working within cash limits), and the probation service left to each local authority to provide, pay for and answer for. If responsibility for Magistrates' Courts were transferred from local to central government, we would have to make a corresponding transfer of provision and grant, so as to leave both parties in the same financial position as at present. I should be interested to know what other colleagues think on these points.

For the Magistrates' Courts, such a change would presumably have to wait for legislation. But we need to address the basic problem now. The efficiency scrutiny of the Magistrates' Courts, which I know Douglas Hurd is considering, would be an important first step, whatever we decide.

When we discuss rebates from the community charge again at E(LF), we will also need to consider possible reliefs for the disabled, as rate rebates as such will no longer exist for domestic properties.

The report recommends the termination of several minor grants, which have outlived their usefulness. I would be grateful for colleagues' agreement to this. The report also recommends against introducing any new grants, apart from one for the education of travellers: I agree with this.

I hope that we can also have a discussion at E(LF) about specific grants in general. Very few of the grants presently in existence have clear objectives as to the change in local authorities' spending patterns that they are supposed to achieve, and on what timescale; nor a justification of their grant rate; nor a justification for using financial incentives rather than statutory, regulatory or advisory encouragement; nor proper monitoring and review arrangements. I firmly believe that we must improve on this in the future.

I am copying this letter to the Prime Minister and Willie Whitelaw; to Ministers in charge of Departments represented on the group (Malcolm Rifkind, Nick Edwards, Douglas Hurd, Kenneth Baker, Norman Fowler, John Moore, David Young, Paul Channon, Michael Jopling and Richard Luce) to Quintin Hailsham, in view of his responsibility for the judicial system; and to Sir Robert Armstrong.

Yours ever,
JH

JOHN MacGREGOR

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Secretary of State for Trade and Industry

CONFIDENTIAL

3/5th October 1986

The Rt Hon John MacGregor MP
Chief Secretary
H M Treasury
Parliament Street
LONDON
SW1P 3AG

Dear John

NBM

SPECIFIC GRANTS TO LOCAL AUTHORITIES

You copied to me your letter of 11 September to Nicholas Ridley, in which you invited comments on the inter-Departmental Working Group's final report.

I endorse fully the general thrust of the report, that there is a need to control more rigorously the use of and growth in specific grants. Deserving cases for new grants will no doubt continue to arise from time to time. But the report is surely right in identifying a link between the increasing use of specific grants and local authority rate increases. The effect of this on non-domestic rate bills, and the consequences for economic activity and employment, are a major worry.

Under our proposals for a new system of a non-domestic rating, businesses will be protected from the impact on rates of changes in specific grants. But the business community remains very anxious about trends in non-domestic rates before the introduction of a new system. I therefore very much hope that we can press ahead as quickly as possible in rationalizing the use of specific grants. The proposals on cash limiting and grant rates are particularly relevant in this context.

I also agree with the general comments in your penultimate paragraph on the need to set clear objectives for the changes in local authority spending patterns that we seek to achieve with specific grants, and to establish effective monitoring and review arrangements to ensure that those objectives are in fact met.

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However, I strongly agree with Nicholas Edwards that the Basic Service Grants given under Section 13 of the Industrial Development Act 1982 should be retained. These grants operate as an instrument of regional and industrial policy, by helping to finance investment in basic services such as sewerage, roads and gas where this can contribute to the development of industry in Assisted Areas. They have the clear objective of changing local authority and public utility spending patterns in favour of industrial development. The 1984 inter-departmental review of Regional Policy considered these grants and recommended that they should continue. Nothing which has happened since leads me to reach a different view.

I am therefore convinced that Basic Service Grants should continue. But I believe there may be scope for improving the monitoring and review of the grants to ensure that the objectives are met. My officials are ready to explore with colleagues in the Treasury and the administering Departments in more detail how this might be done.

I am copying this letter to recipients of yours.

*Yours,
Paul*

PAUL CHANNON

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Oddi wrth Ysgrifennydd Gwladol Cymru

The Rt Hon Nicholas Edwards MP

From The Secretary of State for Wales

23 October 1986

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NBM

Dr Jn

SPECIFIC GRANTS TO LOCAL AUTHORITIES

Thank you for copying to me your letter of 11 September to Nicholas Ridley on the report of the Working Group on specific grants to local authorities.

I welcome the move towards getting the various specific and supplementary grants on to a sound and uniform basis. Like you, I think that there is much scope for setting clearer objectives and timescales for many grants. The position which we have reached now has grown up in piecemeal fashion over a period of time and a rationalisation is needed. However, I agree with the conclusion in the report that neither a major reduction or expansion of specific grants would be appropriate.

Against that background, I share the view of John Moore that abolition of TSG would be a retrograde step. Local authorities are equal partners with central Government in providing the primary road network. Without the local authority components of the road system the trunk road network would be of very limited value. However, local authorities' improvements schemes can be very expensive and patchy in their incidences and they require long planning profiles. In the absence of TSG, local authorities would be unwilling to take on the financial burdens involved and I believe there would be a reversion to the sort of programme evident in the past, which consisted of scattered minor schemes and contributed little to the national road network.

The TSG arrangements work well. Since 1982/83, when the grant was limited to capital expenditure, every scheme in Wales accepted for grant has gone ahead. More recently I have limited grant to schemes costing £5 million or more. This

/means that resources ...

The Rt Hon John MacGregor OBE MP
Chief Secretary to the Treasury
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means that resources are concentrated on schemes of major importance. I fear that the real gains which TSG is achieving directly in terms of better communications and road safety, and indirectly in terms of improving job opportunities and urban redevelopment, will be lost for no good reason if the grant is abolished.

I am glad to see that the report favours the retention of the Urban Programme grant, albeit with reservations about the grant rate. One of the reasons this grant has become so successful in Wales, with some 20,000 jobs created or retained since 1979/80, is that the 75 per cent funding level is a powerful stimulus to local authorities to bid for schemes. In Wales I have introduced a two year tapering arrangement which assists local authorities to absorb schemes into their programmes once the normal three year support comes to an end and this is in keeping with the thoughts of the Group in paragraph 21 of the report. I also think that the recommendation at the end of paragraph 52 about commuting grants could be applied to the Urban Programme grant, which is paid on a mixture of revenue costs and loan charges.

I welcome the proposal to scrap the present pooling system for Advance Further Education, which would sit particularly ill with the post-1989 system; but I cannot agree with Kenneth Baker that it should be replaced by a new specific grant. Retaining the Advisory Board's planning process should allow us to keep the central control on distribution of resources which Kenneth is rightly concerned about, and putting the resulting figures into each authority's needs assessment should in practice work out very much the same way as the existing more cumbersome process. In Wales I have not experienced serious difficulties with the AFE pooling system. I do not believe that what is proposed would weaken our existing influence.

I agree with the proposed new grant for travellers' children. I am less certain about Kenneth Baker's proposal to take a general power to make specific grants to LEAs. I agree with him that we should not rule out the possibility that new specific grants may be required in order to further our objectives in education, but I would be inclined to consider this question on a case by case basis.

I have two comments on the section in the report on minor grants. Firstly, I think that Basic Services Grants should be retained. There is no guarantee that, without grant incentive, local authorities will be as responsive to the needs of new industry and it is in the national economic interest that they should continue to cater for such needs. One of the side-effects of our proposals for a unified business rate may be that authorities become less interested in the non-domestic sector, and it is important that we counter that tendency. There is also a limited, but valuable, role for the grant in assisting local authorities and water authorities to protect industrial sites against fluvial flooding.

Secondly, I cannot agree with the proposal in the report to reduce the rate of support of the Careers Service grant from 100 per cent to 50 per cent. The grant supports work done in marketing and recruiting youngsters for YTS2, which we have a commitment to make available, and the careers officers act as the agents of the MSC. The present 100 per cent rate is completely justified in the circumstances and is consistent with the approach recommended in paragraph 44(a) of the report.

/Finally, I should ...



Finally, I should draw your attention to one other grant which is unique to Wales and, though rather different in character, should perhaps be considered alongside the minor grant in Annex C of the report. This is the grant given under Section 1 of the Health and Social Services and Social Security Adjudication Act 1983 which I am using in support of my initiative for mentally handicapped services in Wales. This programme switches responsibility for care in this client group from an institutional basis under the district health authorities to a community-based service provided by local authorities. The grant acts as a bridge for this transfer by enabling local authorities to build up their services to the necessary level. It is given at the rate of 100 per cent and goes to local authorities, district health authorities and various voluntary bodies. In 1986/87 total expenditure is likely to be £7.1 million of which about £6 million will go to local authorities. Allocation is tightly controlled and is made on the basis of approved plans. Because the grant corrects an historic anomaly in responsibility for services for the mentally handicapped the necessary resources have been top-sliced from my provision for health authorities and there is a commitment to add the grant to block grant either by 1992/1993 or when the enhanced service is firmly established - whichever is the sooner. Until then, the grant in its present form is essential to make local authorities expand their services to the necessary level. This power, and the use to which I have put it, was, of course, the subject of detailed discussion with Treasury before its introduction. Your officials are also aware of my intention to use it in support of a similar initiative on care for the elderly. I firmly believe that it should continue unchanged.

/ I am copying this letter to the Prime Minister, Willie Whitelaw, Quintin Hailsham, Nicholas Ridley, John Moore, Malcolm Rifkind, Douglas Hurd, Kenneth Baker, Norman Fowler, David Young, Paul Channon, Michael Jopling, Richard Luce and Sir Robert Armstrong

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MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH



From the Minister

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The Rt Hon John MacGregor OBE MP
Chief Secretary to the Treasury
Treasury Chambers
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London SW1P 3AG

13 October 1986

SPECIFIC GRANTS TO LOCAL AUTHORITIES

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Thank you for copying to me your letter of 11 September to Nicholas Ridley. I am grateful for this opportunity to comment on the report of the working group on specific grants to local authorities, which does affect my department.

I can support the recommendation for termination of the small-holdings grants as soon as a legislative opportunity arises in the Department of the Environment's timetable.

The report notes that the grants for flood defence and coast protection were the subject of separate discussions at the time that it was being prepared. For the record, I should make it clear that the inter-departmental committee on financing and administration of flood prevention and coast protection made no recommendation for the termination of these grants, and I would certainly wish them to continue.

Turning to more general issues, I note that you recognise that cash limiting would not be appropriate for all specific grants. It will be some time before the detailed consideration of this issue as it affects individual grants but I would like to register that I see good grounds for not cash limiting either the grants on flood defence and coast protection or the payments on EC school milk subsidy.

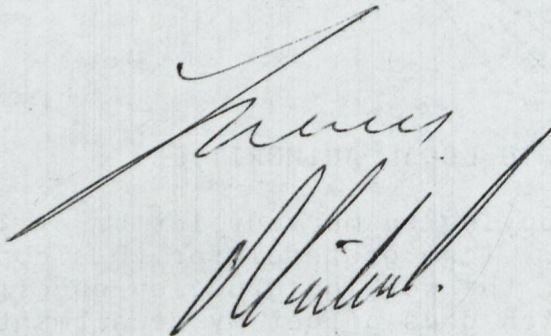
Another general recommendation is for three yearly reviews of specific grants. However the system of grants for flood defence

/and coast

coast protection would be thrown into a state of uncertainty if it was to be reviewed every three years. Given the time taken to plan and execute major flood defence and coast protection schemes it would be disruptive to introduce such a review timetable, with the possibility of withdrawal of grant. Our harbour grants are already subject to a periodic internal review in the light of the needs of the fishing industry which seems more suitable than a routine three yearly cycle.

Lastly, I do not think that we should go so far as you suggest in deciding that there should be no new specific grants. I have none in mind at the moment but I believe that we should reserve the right to consider proposals for new grants on their merits.

I am copying this letter to the Prime Minister, Willie Whitelaw, Quintin Hailsham, Douglas Hurd, Nick Edwards, Norman Fowler, Nicholas Ridley, David Young, Malcolm Rifkind, Paul Channon, John Moore, Richard Luce and to Sir Robert Armstrong.



MICHAEL JOPLING



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FROM THE SECRETARY OF STATE

NBPM

The Rt Hon John MacGregor OBE MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON SW1P 3AG

30 September 1986

Dear John,

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SPECIFIC GRANTS TO LOCAL AUTHORITIES

Thank you for copying to me your letter of 11 September to Nicholas Ridley giving your first thoughts on the report of the Inter-Departmental Working Group in preparation for discussions in E(LF) in the autumn.

2 I agree with you that in general specific grants should be cash-limited in the sense that the amount of expenditure to be grant-aided should be agreed in advance and grant should be paid on that approved amount rather than as a fixed percentage of actual expenditure. This is already true of education support grants and will apply to the new in-service training grant.

3 The exception, as the report recognises, is where grants are demand-led and authorities have little or no discretion over whether to incur expenditure. As you accept, the grant for mandatory awards is such a case. I welcome the report's recommendation (paragraph 19) that the rate of this grant should be increased to 100%.

4 This increase is consistent with the proposals for fixing grant rates in paragraph 44. Like you, I endorse these proposals. The key point here is that grant rates should always be sufficient to deliver the necessary changes on the ground underlying the purpose of the specific grant. A rate as low as 50% is not likely to meet all circumstances. We shall have to look carefully at the available evidence in each case. For example, I very much doubt that the objectives of Section 11 grant for Commonwealth Immigrants could be secured at a rate lower than the present 75%. I have accepted a rate of 50% for the local priorities element of the new in-service training grants scheme, but this will need to be reviewed if local authority performance falls short of the Government's objectives.

5 A major point of concern to me is what the report has to say on new grants. The review has considered some proposals put forward by my Department, and we will need to discuss its conclusions at E(LF). I welcome the new grant for the education of travellers.

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But I must resist the idea that we can decide now, in the light of the review, that there should be no other new grants in the new system. We will need to consider the case for each new proposal, in the light of the criteria in the Green Paper and of developments in the intervening period. The review did not consider the possible role of a specific grant in funding a teachers' pay settlement. Work on teachers' pay is continuing in MISC 122, and I hope shortly to bring forward proposals. We shall need to keep this in mind in our discussions in E(LF).

6 One of my Department's proposals was for a new specific grant for advanced further education. The report recognises that there is a very strong case, which I fully endorse, for ending the present system of pooling, which has proved cumbersome and unwieldy. I cannot agree, however, that AFE should in future be funded through inclusion in the needs assessment, as though it were a local service suitable for local determination like other local authority provided services. For the most part AFE is a national service meeting national needs. Full-time students are recruited nationally not locally. To maintain standards and ensure that institutions continue to respond to national needs we need the power to plan from the centre, to rationalise and concentrate provision. A method of funding which left control at the local level and emphasised local discretion would undermine attempts at coherent national planning. We acknowledged those arguments in 1980 when we took powers to cap the AFE pool. I am not therefore prepared to drop my bid for specific grant for the AFE now provided by LEAs.

8 I am copying this letter to the Prime Minister, Willie Whitelaw, Quintin Hailsham, Douglas Hurd, Nick Edwards, Norman Fowler, Michael Jopling, Nicholas Ridley, David Young, Malcolm Rifkind, Paul Channon, John Moore, Richard Luce and to Sir Robert Armstrong

Yours ever
Robert Armstrong

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C O N F I D E N T I A L

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DEPARTMENT OF TRANSPORT
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The Rt Hon John MacGregor OBE MP
Chief Secretary to the Treasury
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NBM

25 September 1986

Dear John,

WILL REQUEST IF REQUIRED

Thank you for copying to me your letter of 11 September on the report of the Working Group on Specific Grants.

I strongly oppose the proposal to terminate TSG. The need for TSG arises from the division of responsibilities for the major road system. Apart from motorways, the primary route network - broadly speaking the A roads - is split 50/50 between me and local authorities. The division is largely historical and in many cases has no particular logic, but I would be reluctant to disturb it unnecessarily. Priorities and standards for improvement have to be set in relation to the needs of the network as a whole. The way local authorities carry out their responsibilities for the PRN has always been as much a matter of national concern as for police or the administration of justice. It is especially important where local roads are needed to serve key Government objectives such as the development of Stansted, the Channel Tunnel and London Docklands. The need for central influence and funding is even more important now that major urban schemes often cut across local boundaries because highway responsibilities have been devolved to the London Boroughs and Metropolitan Districts. It is also vital to ensure consistency with our policies for heavy goods vehicle traffic, particularly in relation to EEC policies.

I find your endorsement of the proposal surprising because I consider TSG to be a rare example of a Government grant that is efficient and effective in meeting Government objectives. It is one of the few grants that is cash limited. It supports capital investment in basic infrastructure schemes that typically produce cost-benefit returns of 2:1, and the trend is of increasing returns. In addition they produce major environmental benefits. The record shows that TSG promotes expenditure out-turn closely in line with PES, and there is no evidence that it increases local authorities' overall propensity to spend. The grant-aided expenditure is subject to tender which keeps costs down. It is cheap to administer, with running costs less

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than $\frac{1}{2}\%$ of grant. Its use for supporting current expenditure has been abolished, and its total has been heavily constrained so that it has run strongly counter to the growth in specific grants. Transport is the only service block for which the call on AEG for specific grants has been substantially reduced over the last few years.

The alternative proposed by the Working Party would be completely unsatisfactory. Ring-fencing prevents the spending power being used for other purposes, but it does not provide any positive inducement to authorities to carry out schemes whose benefits lie largely outside their own area, and to which they may attach low priority. As you are well aware, I have more than enough difficulties in applying capital allocations to transport as it is, because of the unreasonable impact between services of the operation of the single cash limit. There would be no administrative cost savings as I would have to retain the same arrangements for determining the distribution of the ring-fenced capital allocations.

You do not acknowledge in your letter that TSG abolition would require primary legislation, although it is registered in the Report. This is because I have commitments to pay TSG on major schemes through to completion, but existing law would not allow its only partial withdrawal. If TSG were abolished I would need to take powers to transfer to Government responsibility that part of the Primary Route Network (PRN) currently the responsibility of local government. because I could not risk the loss of influence conferred the PRN. This would run counter to our policies of resisting the centralisation of local government responsibilities and would be bitterly opposed by local government. TSG is a much better way of ensuring national transport objectives are achieved.

As I have indicated transport has a very good record of limiting the use of specific grants. I have already mentioned in earlier correspondence that there are increasingly strong arguments for specific grants for road maintenance as the standards of local roads deteriorate, and especially for the new requirement of remedial work on bridges to enable them to cope with heavier goods vehicles. There is also considerable support amongst back-benchers to sort out the enormous variations in concessionary fares which would be best effected by specific grant. But I shall strongly resist these temptations, because like you I am convinced we must reduce the total of specific grants and exercise greater discipline in their use. Indeed I consider that, apart from the special case of police, our specific grants should only cover key capital investment and be cash limited. There is so much risk of matching grants being wasted on bolstering local government inefficiency : key capital investment is often neglected to protect existing inefficient use of staff and investment on projects such as sports centres and car parks where local authorities should be facilitating private sector investment instead.

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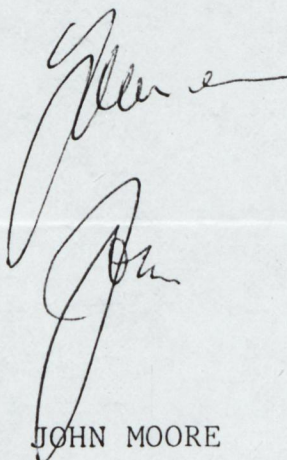
On the other points in your letter I agree with the Group recommendations on grant rate; the TSG rate is in line with them.

I also agree that the situation on Magistrates Courts points to their transfer to Central Government control.

On minor grants, I favour abolition of the Local Employments Acts grant, one component of which my Department has to administer. I agree the proposal for commutation of the grants covering redundancy and pension costs of staff on secondment to road construction units and ex local authority vehicle licencing staff. Section 56 grant for public transport capital projects was introduced only last year to balance the limitation of TSG to road capital expenditure of more than local importance. I cannot therefore agree to its abolition. The call on AEG is de minimis.

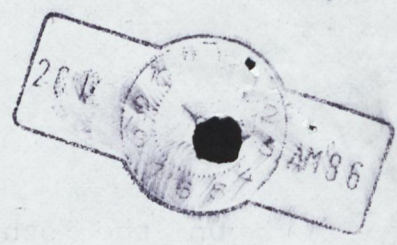
More generally, I find the recent tendency to add new specific grants to the list especially worrying - particularly for current expenditure where there is still so much room for cutting costs by increasing efficiency and reducing staff requirements. I think a general discussion about our strategy would be very useful, and would be very ready to set out the objectives of TSG, the output I am looking for and the monitoring arrangements.

/ I am copying this letter to the Prime Minister, Willie Whitelaw, Quintin Hailsham, Nicholas Ridley, Nicholas Edwards, Malcolm Rifkind, Douglas Hurd, Kenneth Baker, Norman Fowler, David Young, Paul Channon, Michael Jopling, Richard Luce and Sir Robert Armstrong.



JOHN MOORE

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