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To: MR LANKESTER

From: SIR KENNETH BERRILL

Cash Limits and the Rate Support Grant

1. In E(79)46 the Chief Secretary discusses three options designed to impose an effective financial discipline on local authorities (both on pay and total expenditure) while preserving reasonable equity between one authority and another.

2. We in the CPRS have one or two comments which the Prime Minister may like to take into account:

Option I - Cash Limits on the Total Expenditure of Individual Local Authorities

(i) This would be both dirigiste and a major constitutional change.

(ii) The Government would, in practice, be largely powerless if the cash limits were disregarded on a significant scale.

(iii) Cash limits are not, for individual authorities, necessary to encourage responsible wage settlements since local authority pay bargaining is handled centrally.

All in all we suggest that this Option is not a runner.

Option II - A Sliding Scale Cash Limit

There are two versions -

(i) A sliding scale related to pay. This would link the national RSG to the way local authorities as a group acted on pay. The Chief Secretary suggests that this would link the Government too closely with individual pay settlements. We are not clear why this should be so. The taper in the rate of grant could be related inversely to the weighted average of all local authority pay settlements: this would still allow variations from one group to another and the Government need not be involved.

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(ii) A sliding scale related to rates. We assume that under this system the distribution of the RSG would be related to rating decisions of individual local authorities. There would undoubtedly be an element of rough justice. Some authorities may need to raise their rates substantially for 'respectable' reasons. But the Chief Secretary has not shown to what extent such inequities could be reduced by refining the formula and the present formula is already something of a lottery.

It is true that under both (i) and (ii) the local authorities would be uncertain about the amount of grant they would receive. But this is only one additional uncertainty to add to the many uncertainties they already work under and is not a knock-down argument.

We suggest that these Options should be examined rather more carefully with some arithmetical calculation of the likely consequences under different formulae.

Option III - A Single Cash Limit - as at present

If a sliding scale is impracticable Option III will have to do. It provides nationally a reasonable incentive for responsible pay bargaining. It is clear-cut and consistent with an arm's-length relationship. It is what the authorities are used to. But, by itself, it does not do much to influence expenditure decisions or to penalise the spendthrift authorities.

The position would be much improved if one could incorporate some features of unitary grant under which the level of grant for each authority would be related to an assessment of need. The feasibility of this should be thoroughly explored if Option III is adopted.

3. I am sending a copy of this minute to Sir John Hunt.

28 September 1979

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