



Rt Hon Leon Brittan QC MP

1 Support the
Chief Secretary

DL

Prime Minister

(2)

JCV

Mr Heseltine sees

2 MARSHAM STREET
LONDON SW1P 3EB

The Chief Secretary's views

on proposals for a large
increase in cash provision
for local authorities in 1983-84.

My ref:

Your ref:

14-June 1982

When he has Leon Brittan's reactions he will
bring a paper to E.

RATE SUPPORT GRANT (RSG) SETTLEMENT 1983-4

MS 15/6

We have agreed to make a provisional announcement by the end of July about the main elements of the RSG settlement for 1983-4. This will give local government early notice of our intentions and enable them to plan for the necessary economies.

We agreed in E Committee on 26^{PC 10} May that we might be well advised to reach a more severe settlement for 1983-4 than for 1982-3. We must certainly continue to aim for maximum restraint on expenditure. But our critics will be looking to attack us on 2 main fronts: if we reduce the rate of grant very sharply we shall be accused of causing massive rate increases; and if our expenditure provision is unrealistic, we shall be attacked for demanding unacceptable cuts in services. We must try to avoid a situation in which local authorities fail to make reductions which they see as unrealistic, and blame us for the consequent high rate increases.

I hope to bring detailed proposals to E Committee in time for a statement to be made at a meeting of the Consultative Council on 19 July. This letter sets out the main issues which we shall have to decide.

The July announcement should cover:

- i. any adjustment to the provision for relevant current expenditure in the Public Expenditure White Paper;
- ii. expenditure targets and holdback;
- iii. the service distribution of the total cash provision;
- iv. the aggregate grant.

If we can reach agreement on (iii) and (iv) as well as on (i) and (ii) in time for a July announcement, we shall be doing better than last year and be well on course for a pre-Christmas settlement (though there will certainly be problems in the autumn, as the new data from the 1981 Census have to be fed into our exemplifications).

The Public Expenditure Provision

As the White Paper stands it provides for £18.6 bn of current expenditure in 1983-4 (after adjusting for the reduction in the National Insurance Surcharge). But the budgets for 1982-3 already imply spending of £19.1 bn this year. Our present plans thus imply that local government should make a 3% cash reduction from this year to next - or about 10% in "real terms" if we assume inflation at 6% or 7%.

I believe that it would be politically indefensible to seek reductions of that amount. We know - and local government know - that they are simply not achievable. In the 7 years since reorganisation the only real cuts that have been achieved are about 2% in 1977-8, 1½% in 1980-1, and perhaps 1% in 1981-2. Besides, an unrealistic total provision inevitably leads to unrealistic targets for individual authorities, even those who wish to comply with our guidelines, and it becomes the more difficult for us to isolate the real high-spenders. To leave the White Paper figures unchanged would outrage our supporters in local government, and give our opponents an easy line of attack.

How then should we set about deciding on an alternative figure? I suggest that we should begin by considering what is the most we can ask of local government as a whole. Bearing in mind that current expenditure fell in 1980-1 (1¼%) and 1981-2 (about 1%), and will probably stand still or fall slightly in 1982-3; that local government manpower has fallen by 4¼% since we took office; and that the relatively large reduction of 2% in 1977-8 came after a period of sustained growth, I think it would be quite unrealistic to expect a further reduction between 1982-3 and 1983-4 of more than about 1% to 2% in real terms at the very most. Even that may be over-optimistic.

On that rather crude basis, a 1% to 2% real terms reduction between the 2 years would imply an increase in the present public expenditure provision from about £18.6 bn to about £19.8 bn (for a 2% real cut) or about £20.1 bn (for a 1% real cut). Your officials have details of the assumptions underlying these figures, which I think would be generally accepted.

But we also need to look at the distribution of cuts between individual authorities. Many of them, including many of our supporters in the counties and shire districts, are already spending at or below the level of their GRE; I do not think we could possibly ask them to cut further by more than 1% or so in real terms at the most. The high spenders should be able to do more, but it would probably be unrealistic to expect them to achieve more than perhaps 4% or 5%. (The 7% which we sought from many of the high spenders this year was certainly unrealistically high.) I have asked my officials to illustrate the implications of seeking reductions within this sort of range from individual authorities. Until we have seen the figures I cannot be sure whether constraints of this sort could be accommodated within a total increase of the order referred to in the previous paragraph. Meanwhile I should be glad to know whether you see any difficulty of principle in my proceeding to work up proposals on the basis I have described.

Targets and Holdback

In both 1981-2 and 1982-3 we have set expenditure targets for individual authorities, with holdback of grant for those who exceed them. Local government dislike expenditure targets, and have urged us to dispense with them for next year. But this system has had a marked effect in restraining expenditure, and I believe that we need a similar one for 1983-4. In order to make it quite clear that we shall continue to seek economies from local government I would like to announce in July a firm decision to continue with targets in 1983-4.

I shall make detailed proposals for a target system in due course, but there is one issue on which it would be helpful to have colleagues' views now.

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For this year we set targets for 261 authorities at a level below their GRE. At one stage we envisaged a system of grant holdback that would apply to all authorities which spend above their target, regardless of its relation to their GRE. However, at a late stage we decided that it would be inappropriate to abate grant for authorities spending at or below their GRE, even if they exceeded their target. The result of this GRE exemption was that the GRE was widely perceived as being the effective target, and the lower, indicative target was in practice ignored by many authorities.

We could avoid that problem by making GREs the targets for all authorities, with heavy grant losses for all spending above GRE. I know that some colleagues are sympathetic to such an approach. I do not however recommend it, since it would be both unfair and unrealistic for the authorities which are spending well above GRE and cannot be expected to get down as far as GRE next year. Many of these are in inner city areas with major social problems. For this group of authorities a realistic target must be set at a level above their GRE. For authorities which exceed the target I think we need to consider the possibility of a very steep taper to the poundage schedule, so that the grant losses for overspending at this level become more severe than they have been this year.

At the other end of the scale we need to consider whether it makes any sense to set targets below GRE for low-spending authorities, and to enforce them by holdback. My own view is that there is little point in setting targets at any level if we are not prepared to reinforce them with holdback. And I am very doubtful whether we could get Parliamentary support for penalising authorities spending below GRE. Those who would suffer would mainly be shire counties, such as Essex, Hertfordshire and Buckinghamshire. Our supporters in such areas are already very concerned about our recent RSG decisions, and many of them would be unwilling to support a proposal which took grant from authorities spending at or below GRE, at a penalty for exceeding what they would see as another, arbitrary, target. I therefore see little alternative to making the target equal to the GRE for those low spenders.

Two important consequences would follow:

- a. The total of targets would necessarily exceed the total of GREs.
- b. The GREs themselves ought not to be increased significantly in real terms from this year's levels, since otherwise the low-spending authorities for whom GRE is the target would be spared any attempt at real reductions.

If, for example, we were to allow an average increase of GREs of 7%, in line with expected inflation, the total ~~current~~ expenditure provision for GREs would need to be increased from about £18 bn in 1982-3 to about £19.3 bn in 1983-4. This would be substantially lower than the total provision for targets, if that were worked out on the basis already described.

I should like to reflect further on this option of a different total for targets and for GREs. Its great advantage would be to allow us to combine a realistic target system with a tightly drawn system of needs assessment, and to provide for a GRE exemption which was less of an encouragement to overspending than this year's. On the other hand it would further complicate the grant and target system; and our supporters might well criticise this form of GRE exemption as purporting to be more generous than it really was. I should welcome

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your views and those of colleagues. Meanwhile my officials are working up some detailed figures. You will of course want to consider how this option would be dealt with for the purpose of next year's Public Expenditure White Paper.

Service Distribution

We do not need to decide at once on the apportionment between services of any increase in the cash provision for GREs and targets. But we need to decide it earlier than last year, and before the summer if possible, so that we have a firm base for constructing the GREs for individual authorities, on which the detailed exemplifications of grant distribution will be based. Options for service distribution have already been discussed between officials. Subject to any views which colleagues may wish to express at this stage, I will bring proposals to E Committee in due course.

Aggregate Grant Total

I have an open mind on whether we should aim to announce a decision on the grant total - and hence the grant percentage - in July, or whether, as in previous years, we should leave this until the time of the RSG settlement. An early announcement of a low grant figure would show local government that we mean business, and would exert the maximum pressure for economies in the preparation of next year's budgets. On the other hand a July announcement would limit our freedom of manoeuvre for the rest of the year since it would be difficult to revise the figure downwards if circumstances in the autumn were to change; and it would be seen by local government as an opening bid, which they would try to negotiate up between July and the settlement.

We must also bear in mind that we can influence, but we cannot determine, the average rate increase for the sensitive year 1983-4. Your officials have figures which show that for any given sum for total grant, the implied rate increase varies substantially according to the total level of budgetted expenditure. There would therefore be a risk in an early decision. We might decide on a level of grant to produce acceptable rate increases on the assumption of say a 1% or 2% real terms reduction in expenditure; and then find, because local authorities had budgetted for a higher level of expenditure, that rate increases were coming through at a higher level than we wished. Rate increases will also depend on the structure and severity of any holdback scheme; and it will be difficult to take detailed decisions on this before we have the autumn exemplifications available. It might therefore be better to take our decision on the grant total in the autumn, in the usual way, by when we shall have a clearer idea of how local authorities are budgetting. On this approach the main effect of the July announcement on local government's spending plans would come from what we say about the public expenditure provision and about targets.

Conclusion

I should be grateful for any comments from you and colleagues by the end of this week (18 June). I will then aim to bring proposals to E Committee in time for an announcement to the Consultative Council on 19 July.

I am sending copies of this letter to the Prime Minister, members of E Committee, the Attorney-General, the Chief Whip, and to Sir R Armstrong.

Yours ever
M.A.

PRIME MINISTER

LOCAL AUTHORITY CURRENT EXPENDITURE 1982/83

Play A
You will see from the attached correspondence that the Chief Secretary and Mr. Heseltine^{Play B} have not succeeded in reaching agreement on the proposal for an additional hold-back of £80 million for this year.

I had been going to suggest that you took a small meeting of the Chief Secretary and Mr. Heseltine, to drive this to a conclusion. Mr. Heseltine has returned strongly to the charge, and I think it inevitable that this returns to a fairly wide group of Ministers. In short, I am afraid that the matter will not be resolved outside E Committee.

Do you agree with this analysis?

MCS

Yes not

25 June 1982

*With the Compliments
of the
Secretary of State*

*Scottish Office,
Dover House,
Whitehall,
London, S.W.1 A 2AU*



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

3/11/82

cc J.V.

Prime Minister (2)

The Rt Hon Leon Brittan QC MP
Chief Secretary to the Treasury
Parliament Street
LONDON
SW1P 3AG

M

Another
24 June 1982

powerful case
for increasing
expenditure figures.

Dear Leon,

RATE SUPPORT GRANT SETTLEMENT FOR 1983-84: SCOTLAND

PLS 25/6

copy file

Michael Heseltine wrote to members of E Committee on 14 June about the Rate Support Grant Settlement for 1983-84 in England. It might be helpful if I set out my own assessment of the prospects for the 1983-84 RSG settlement in Scotland.

I agree with the aim of making some provisional announcements in July though I am not persuaded of the need to announce the grant quantum as early as July. This letter therefore concentrates on the question of determining a realistic expenditure figure for Scotland and discusses the considerations which should influence what is announced in July.

Current expenditure total

Cmd 8494 (adjusted for the NIS reductions) provides for current expenditure of £2515m in 1983-84 cash terms. Local authorities' budgets for 1982-83 are £2618m at 1982-83 cash prices. The PES provision for 1983-84 therefore implies a cash reduction from 1982-83 budgets of 4 per cent. That implies a real terms cut of over 10 per cent allowing for 6-7 per cent inflation between 1982-83 and 1983-84. I conclude that a reduction of the order implied by the figures is quite beyond the scope of authorities, even given the political will to make reductions. As in England, authorities collectively have achieved certain reductions in expenditure since reorganisation; - 1.1% in 1976-77, - 3.0% in 1977-78 and about - 1% in 1981-82. But there is simply no prospect of them attaining the overall target implied for them in the White Paper. We must give urgent consideration to the question of what enhancement there should be in order to inject realism into our consultations with the local authorities for the next grant year.

The following table shows the cash provision which would be required on the assumption of real terms reductions from 1982-83 budgets of 2, 3, 4, and 5 per cent. I have not assumed any shortfall from budgets, though I have asked authorities to do what they can to reduce expenditure this year.

CURRENT EXPENDITURE AGGREGATE 1983-84

£ million

Real terms cut from 1982-83 budgets	Provision required on alternative inflation assumptions of 6 and 7% (figures in brackets are the required additions to Cmnd 8494)	
	<u>6 per cent</u>	<u>7 per cent</u>
2%	2720 (+205)	2745 (+230)
3%	2690 (+175)	2717 (+202)
4%	2665 (+150)	2689 (+174)
5%	2636 (+121)	2660 (+145)

To match the reduction from budgets proposed for English councils I would require an addition to my PES provision of £202m. This would enable me to ask Scottish councils for a cut of 3 per cent in their 1982-83 budgets which is equivalent to the 2% reduction from outturn assumed by Michael Heseltine. As the recent expenditure record shows, this would be a stern proposition but I would be prepared to defend it as being consistent with the Government's strategy since the last election and entirely realistic.

I would however be acutely concerned if I had to set Scottish authorities a significantly higher target reduction than proposed for English authorities. That would be the outcome if the degree of enhancement applied in Scotland were calculated on the basis of the territorial formula, as occurred in 1981. Under the territorial formula, the Scottish block is increased or decreased by 10/85ths of agreed variations in comparable English programmes; if that factor were applied to the £1.2bn enhancement proposed for England, the figure for Scotland would be £14lm rather than £202m (£6lm less) and the target reduction for Scottish authorities would be increased to about 5%. It would be extremely difficult for me to defend such a proposition in any event but especially if it were in the last year of the present Parliament.

At present I see no prospect of finding the difference of £6lm from within the rest of the Scottish public expenditure block. I may therefore have to make a bid in due course for extra cash for this part of my programme.

Grant Quantum

Although fully in agreement with the proposal that early notification should be given of our intentions for expenditure levels, I question the need to give any indication as early as July of the grant quantum for next year. In determining the grant quantum we need to give careful consideration to the effect on rate levels. Rate levels will be influenced by the view taken by authorities on the appropriate level of service, the level of inflation experienced by them between 1981-82 and 1982-83, the level of inflation they expect between 1982-83 and 1983-84, their forecast of interest levels in 1983-84 and the policy which they decide to adopt in drawing form or building up balances. I do not believe that it is practicable at this stage, some 5 months

Before the RSG settlement is due to be made and 9 months before the start of the financial year in question, to make accurate forecasts of these various factors nor do I believe that it is necessary to do so. Any provisional proposal for the grant quantum based on current estimates would require extensive review and possibly substantial change before the grant settlement.

I agree that it would be useful for us to undertake a preliminary discussion on the tolerable level of rate increase next year and I agree with Michael Heseltine's view that we should aim to keep the average increase to single figures. My view is that our provisional conclusion on expenditure should be announced in July but that any statement then about the grant quantum should simply indicate that some reduction is in prospect to discourage high levels of planned expenditure.

Conclusion

In summary my proposals are that:

- (a) PES provision for current expenditure in 1983-84 should be increased to give local authorities a realistic target;
- (b) the need to set similar - not more ambitious - targets for Scottish authorities to those for England should be recognised;
- (c) decisions on the grant quantum should be postponed until later in the year;
- (d) the consequences for rating levels should be given proper consideration before any announcements are made.

I would also want to add one comment on Michael Heseltine's letter. I see real difficulties in having, in effect, two figures for the total of relevant expenditure which would be the result of the proposal which would lead to the total of targets exceeding the total of GRES. While I understand the reasons that have led to this proposal, I think it would cause confusion about the nature of an already complicated system. It would not occur in Scotland. I very much hope we can find some other way of achieving the same objectives.

I am sending copies of this letter to the Prime Minister, Members of E Committee, Nicholas Edwards, the Attorney General, the Chief Whip and to Sir Robert Armstrong.

Yours ever,
Cunne



25 JUN 1982

CC JV
Prime Minister (2)

From the Secretary of State

MS 28/6

CONFIDENTIAL

The Rt Hon Michael Heseltine MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
London
SW1P 3EB

June 1982

Dear Michael,
Your letter of 14 June to Leon Brittan raised a number of issues which we will need to consider in the context of the 1983/84 RSG settlement.

The expenditure plans for 1982/83 do represent a setback. We cannot retrieve the whole of the deterioration compared with our original target. But our overriding objective must be to reduce total Governmental expenditure as a proportion of GNP and this means that with only very, very modest GNP growth, we must reduce expenditure in real terms. Against this background I would certainly go for the 2% real reduction rather than the 1%: but doubt whether more could be achievable. The important thing is to re-establish a downward path.

Ideally, the GRE is the right target to aim for but we cannot get there at all quickly. The most we can achieve is the steep taper with the clear warning implied in this that the aim is to force people down to their GRE level.

For those below - and consistently below GRE - I well understand the problem of enforcing a target below GRE. But equally to set GRE as the target, even if constrained in the way suggested, is almost an open invitation to increase expenditure. Is it not possible to find a via media under which authorities below GRE were given some headroom but not an open licence to go up to GRE?

On Service Distribution I have one small, if parochial point, to make and that relates to the Trading Standards service. This is a relatively small service, but an essential one for the enforcement of fair trading and consumer law. Like others, it is under increasing pressure. I could not find extra resources for it from my own Department's PES provision, but it should receive at least its fair share of any extra available over and above the £18.6 billion already in the White Paper.

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From the Secretary of State

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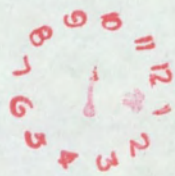
I am copying this letter to the Prime Minister, members of E Committee, the Attorney General, the Chief Whip and to Sir Robert Armstrong.

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H

LORD COCKFIELD

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28 JUN 1982



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Prime Minister (2)

Mus 9/7

DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Minister for Health

cc J.V.

The Rt Hon Michael Heseltine MP

8 July 1982

Dear Michael,

MS

RATE SUPPORT GRANT SETTLEMENT - 1983/84

Norman Fowler has asked me to reply to your letter of 14 June. I am sorry we have not met your deadline for comments, but your letter did not reach here until after it had passed as it was apparently sent initially only to members of 'E' committee. I should be grateful if your Private Office would note that I should be included in all 'E' committee circulations involving local authority expenditure.

I can see the attractions of using different totals for GREs and targets. When translated into distributions between services, the use of two totals would carry the clear implication that the lower one was more acceptable to the Government (and would therefore attract rate support grant), while the higher total would indicate how far the Government was prepared to go in acknowledging realistically what expenditure on particular services was likely to be.

Clearly, some forms of local authority expenditure are much more unacceptable to the Government than others (e.g. excessive transport subsidies). On the other hand, services like personal social services provide for the needs of some of the most vulnerable people (the frail and isolated elderly, children in care, people with various handicaps). These services are subject to considerable pressures from the growing number of very elderly in the population and increasing numbers of older children for whom social service provision is being made as an alternative to custodial treatment.

Personal social services should not be exempt from the search for savings. Local authorities can and must, of course, be expected to finance some of the demand for these services by further improvements in efficiency and by greater use of less expensive care options where available. I hope however that we will collectively consider the very different factors that influence

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expenditure on PSS and other similar local authority services from those that have led to high expenditure on some other services. It would not be satisfactory in my view that the two new totals you propose for LA current expenditure should simply be distributed between services in proportion to local authorities' own budgets or even in proportion to the very provisional indicative figures agreed hurriedly at a late stage last year.

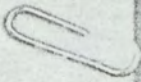
I am sending copies of this letter to members of 'E' committee and other colleagues with local government responsibilities.

J. aw.
h.

KENNETH CLARKE

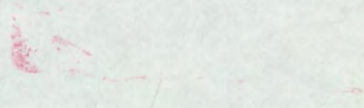
dist. copies:
E Committee
Scotland & Wales.

cc Mr Clark
Mr Stokes POC
Mr Hulme
Mr Rodger
Mr Scott Clanchiff
Mr Banks
Mr H. Scott White
Mr Fletcher
file in copy





- 8 JUL 1982



Prime Minister (2) *g/c JV*



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Oddi wrth Ysgrifennydd Gwladol Cymru

From The Secretary of State for Wales

THE RT HON NICHOLAS EDWARDS MP

ME

22nd June 1982

Dear Michael

RATE SUPPORT GRANT (RSG) SETTLEMENT 1983/84

You wrote to Leon Brittan on 14 June, copying to the Prime Minister and colleagues about the 1983/84 RSG Settlement and inviting our comments. I have a very direct interest of course given my responsibility for RSG in Wales.

It is clearly desirable to give local authorities an early indication of the main element of next year's Settlement in order to influence their budgeting decisions and I hope to let Welsh authorities have as much information as possible by the end of July. In this respect possibly the most important aspects as far as authorities are concerned is for them to know the provision for relevant current expenditure and that grant withholding will be effected if our expenditure targets are not met. I agree entirely with your arguments about the need for realism in determining the expenditure reductions we can reasonably hope to secure from local government and support your claim for additional provision.

As regards announcing expenditure targets for next year I must reserve my position on this for the time being. As you know I have asked Welsh authorities to revise their 1982/83 budgets by the middle of July and I need to consider the results of this exercise before deciding whether to set individual authority targets for next year. I would like to be able to avoid this if I could be reasonably confident that their expenditure would be in line with our plans but I realise this may not be the case and that individual authority expenditure targets will have to be set. However, I cannot take a decision on this until after the revised budgets have been received and analysed. That does not of course affect my intention to announce that holdback will be effected next year if authorities' expenditure in aggregate exceed my target.

As regards the service distribution of total cash provision it would of course be helpful if this could be sorted out by end July but I appreciate that this is a more difficult task for colleagues in England than myself.

/On

Rt Hon Michael Heseltine MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
LONDON SW1P 3EB



On announcing the amount of aggregate grant I accept it would be helpful for authorities to have this information as soon as possible so they could take it into account when framing their budgets. It is always easier, although no less painful, to budget within a known framework rather than to have to secure reductions in expenditure at a later date. However I recognise the reservations you have expressed about limiting our freedom of manoeuvre and that the arguments for this are finely poised. On balance I think it would be best to announce the aggregate grant early on but do not think that this is absolutely essential.

Turning to the actual expenditure targets in England, I appreciate your views on the difficulties of setting targets below GRE. As you know, in deciding on the expenditure targets set for Welsh authorities for the current year I concluded that setting targets at GRE for all authorities was not a practical proposition; there is simply no way I could expect the higher spenders above GRE, whatever their efforts, to get down to GRE in a single year. However, we have said on earlier occasions that GRE is not a target and I did not think it appropriate in Welsh circumstances to provide an exemption which would allow authorities below GRE to spend up to that level without penalty. Accordingly in setting targets I asked all authorities to reduce their current expenditure by 1% this year, including of course those whose expenditure was below GRE. I take your point about the views our supporters have expressed on setting targets below GRE in England but find it difficult to see how the overall expenditure target in England can be met if all authorities below GRE are allowed to spend up to that level. A possible compromise might be to let authorities whose expenditure is below GRE to have a small real term increase in expenditure, say one or two percent, although within a finite block grant total this would mean of course that authorities spending above GRE would have to bear the cost.

I will be interested to note colleagues' views on your proposals since they will obviously influence me in the decisions I shall have to take in the near future.

I am sending copies of this letter to the Prime Minister, members of E Committee, the Secretary of State for Scotland, the Attorney General, the Chief Whip and Sir Robert Armstrong.

J. E. S.
N. A.

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DEPARTMENT OF EDUCATION AND SCIENCE
 ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH
 TELEPHONE 01-928 9222
 FROM THE SECRETARY OF STATE

Local Govt
 Local Govt
 CC JV
 Prime Minister (2) 1

MUS 18/6

The Rt Hon Michael Heseltine MP
 Secretary of State
 Department of the Environment
 2 Marsham Street
 LONDON SW1 3EB

18 June 1982

Dear Secretary of State,

RATE SUPPORT GRANT (RSG) SETTLEMENT 1983-84

Thank you for sending me a copy of your letter of 14 June to Leon Brittan.

2. I have no comments at this stage on the need for an addition to the total provision for local authorities: as Leon said in his letter of 2 April, we shall have to look at this again in the autumn when we consider the rest of public expenditure. And I agree that we should defer a decision on aggregate grant. But I have some points on targets and holdback and their relationship to service distribution.
3. I do not think that we should rule out the alternative response to local authorities' overspending, namely an increase in the penalties within the block grant system itself, until we have considered the other options in more detail. If we significantly steepened the rate poundage cost of expenditure beyond GRE, with perhaps a further kink or kinks beyond that; we might avoid the political difficulties associated with targets and holdback; and we could present higher-spending authorities with a sustained incentive to reduce their expenditure, difficult though this might be for some of them.
4. If we decide in the event that targets should again be used, I agree that it would be wrong to apply penalties to authorities spending below their GREs. This would have damaging effects upon the education service in the case of some low-spending local education authorities as well as the political consequences you mention. I can see the attractions of the option you describe, involving again different totals for targets and GREs, effectively the system we adopted this year, with only modest success. But

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Ministers responsible for services would need to be satisfied that the GRE total embodied service GREs which were consistent with the government's policies for those services; and it is surely essential that any difference between the totals of GREs and of targets should be distributed among services.

5. I am sending copies of this letter to the Prime Minister, members of E Committee, the Attorney General, the Chief Whip and Sir Robert Armstrong.

*Yours sincerely,
A. Gordon*

Approved by the Secretary of State
and signed in his absence