



cc MASTER SET

10 DOWNING STREET

From the Private Secretary

16 November 1983

Dear John.

RSG SETTLEMENT

The Prime Minister took a meeting yesterday to discuss the 1984/85 RSG settlement. Present were the Lord President, the Secretary of State for the Environment, the Chief Secretary, the Chief Whip and Mr. Gummer.

The Secretary of State for the Environment said the reaction from the shire counties to the RSG proposals had been hostile. Many councils who had not been high spenders now faced the prospect of being subject to hold-back and of having to make large rate increases. As more councils were driven into the "penalty area", there was a danger that opposition to rate capping could grow amongst responsible councils. His conclusion was that the original proposals had gone too far and he was proposing to the meeting of E(LA) the next day an easier hold-back scale viz 1-3-7-9-9 against 2-4-8-9-9.

In discussion it was argued that responsible councils were feeling very aggrieved, having been told for a number of years that the Government would take action to restrain high spenders in order to give them more room. On the contrary, high spenders seemed to benefit as their higher spending levels became built into the targets, thereby apparently rewarding vice rather than virtue.

One of the difficulties was that the Secretary of State for the Environment could be challenged in court if he set a target that was not reasonably attainable. This limited the extent to which the Government could claw back higher spending. Thus within an overall total for expenditure more pressure was put on the responsible authorities.

In further discussion it was noted that the settlement reached in E(LA) had been a compromise, reached after hard bargaining, with concessions made on both sides. It should be reopened only if there was a strong presumption that action would ease complaints from the shires without adding significantly to the cost of the settlement.

/ It was argued

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It was argued that easing hold-back was not a cost-effective way of dealing with the problem of the shire counties. Because the formula were cumulative, reducing the lower points in the scale reduced hold-back all the way up. An alternative approach was to try and adjust the GRE calculations. Some proposals were to be considered by E(LA) but there might be scope to go further.

The possibility of exempting councils from hold-back when their expenditure was below GRE was considered but it was noted that this had generated a big rise in expenditure before and was likely to do so again.

It was suggested that there might be a number of areas where the Government could reduce or delay the new responsibilities being imposed upon councils.

Summing up, the Prime Minister said that further work was needed in preparation for E(LA) the following day. Further ways of adjusting the GRE calculations in favour of the shires should be investigated. The effects of reducing the first two points in the hold-back scale to 1-3 should be examined and the impact on different councils should be identified. This proposal should only be adopted if it improved the distribution of the RSG settlement in favour of the shires without adding significantly to the public expenditure cost. The scope for relieving local authorities of additional responsibilities should also be examined. E(LA) should attempt to reach an agreement without referring the matter back to Cabinet.

I am copying this to Janet Lewis-Jones (Lord President's Office), John Gieve (Chief Secretary's Office), Murdo Maclean (Chief Whip's Office) and Emma Oxford (Mr. Gummer's office).

Your sincerely

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