



From the Minister of State
for Local Government

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Prime Minister. ⁽¹⁾

You are seeing Mr Fry, together with
Messrs Prestie, Marlow & Powell on Thursday
after questions. You may like to look at the
briefing tonight. MEX 13/1

Dear Mark

Thank you for your letter of 24 December about the Prime
Minister's meeting with Peter Fry and other Northamptonshire MPs
on 15 January, which my Minister will also attend. The brief you
requested is enclosed.

On the terms of the 1987/88 RSG Settlement itself, there is
nothing that can be offered at the meeting: the details of the
Settlement, to be implemented once the Local Government Finance
Bill is enacted, are, with E(LA)'s agreement, being announced
today. It is of course also the case that the terms of the Local
Government Finance Bill preclude any information or representa-
tions later than 19 December 1986 from being taken into account
in making the formal Settlement Report.

Dr Boyson has, however, been exploring the possibility of
Northamptonshire receiving an exceptional payment from the New
Towns Commission in respect of Northampton. The Commission has
confirmed that with the Department's approval it could make a
contribution of £800,000 towards the cost of a new fire station
in the county, if the County Council were to approach it on these
lines. This proposal is dealt with in more detail in appendix B
of the brief. Allowing for block grant effects, this would be
worth approximately £1m to the Council - equivalent to 1½p less
on the County precept.

I shall let you have a draft reply to the outstanding letter from
the Leader of the Council as soon as possible after Thursday's
meeting.

Yours sincerely,
Steven Watts

STEVEN WATTS
Private Secretary

Mark Addison
PS/Prime Minister

BRIEFING FOR PRIME MINISTER'S MEETING WITH NORTHANTS MPs ON 1987/88 RSG SETTLEMENT, 15 JANUARY 1987

Background

Northants County Council and the County's MPs have been very dissatisfied about the 1987/88 RSG Settlement. As part of the consultation process they have had three meetings with DOE Ministers in November and December. Northants' complaint is that their grant position for 1987/88 will require a large rise in the county precept - in the range of 11-21%. They have criticised some of the features of the RSG system and the Settlement which do not work in their favour (see annex A) and, more recently, have called for a special one-off payment from the New Towns Commission to help ease the problems with the 1987/88 county precept (annex B).

Spending position

The Council has been held by a slender Conservative majority since May 1985. The Leader has said that the financial position inherited from the previous Labour administration could have required a 25% increase in the budget for 1986/87, but for Conservative economies and use of reserves which kept the increase to 12½%. Though this budget of £221m is level with GRE (Northants have not been high spenders in absolute terms) it is still a large increase. And the true level of spending is actually £7½m higher than this - the gap being financed by a drawing on special funds, which avoids block grant penalties. In subsequent years, as this source of financing dries up, the effect is to increase "total" expenditure and to incur grant penalties.

Northants' projected spending for 1987/88 is £239m (of which £4m could be financed from special funds). This is 4.3% higher than this year, which is not excessive - the assumption used in the RSG Settlement is 4.2% (equivalent to 5¼% on current expenditure). There could, however, be some squeeze applied here: the GDP deflator for 1987/88 is 3¼%, which on average is an increase of 2.4% on local authority budgets. The added difficulty for Northants is that, because the scope for using special funds is reduced, their projection of an overall 4.3% spending increase is equivalent to 6% on "total expenditure" - which leads to a loss of grant.

Effects of RSG Settlement

It is unfortunate that Northants' position worsened slightly (because of data changes) between the October and December consultation packages, and then again between December and this week's Settlement. In itself, however, the Settlement is not a particularly bad one for the county. Its GRE actually rises by 4.1%. But because of the general RSG mechanisms (mainly the unwinding of safety nets and caps from last year's Settlement) its grant entitlement at the settlement spending assumption goes down slightly compared with 1986/87 - by £1.3m, or 1.7%. Even if the grant entitlement had gone up by 4.1%, fully in line with the GRE increase, it would be an improvement worth about 5½p in the pound in precept terms - a relatively small factor in the reckoning, when set in the context of the 19p to 38p increase implied by council's own projected spending level of £239m. The major problem remains the county's spending position, particularly the effects of previous use of special funds.

Prospects for 1987/88 precept

Much will depend on the council's ability to keep spending down, although it is not a high spender now and it has already anticipated some savings, eg from bus deregulation. The best scenario would probably involve budgeting at the Government's "inflation assumption" of 2.4% and using all reserves, balances and additional grant receipts from earlier years. This would produce a precept increase of 5.3% (9p). The package on offer on teachers' pay, when a satisfactory settlement is reached, might add about 2½% (4½p) to that.

This sort of increase should be set in the context of the 1986/87 increase. The average rise among shire counties last year was 18%. Northants managed to keep their increase well below that average, at 12½%. But this was made possible by such measures as the use of special funds - the effects of which are now feeding through into 1987/88. As a result, Northants' precept increase in 1987/88 is likely to be higher than the average for shire counties; but taking the two years together its position will probably not be much different from the average.

Northants' criticisms of the Settlement details for 1987/88

These are set out in annex A, together with the counter-arguments. The intended Settlement announced on Tuesday cannot be put into a formal Report for the

House to approve until the Local Government Bill is enacted. But effectively the contents of the Settlement are now fixed, so there should be no expectation on Northants' part that the grant outcome will be changed in their favour.

Claim for special New Towns payment

The case mounted by Northants for a special one-off payment is set out in annex B, together with an assessment of what might be possible through this route.

Department of the Environment

13 January 1987

NORTHANTS' CRITICISMS OF RSG SETTLEMENT DETAILS

GRE changes for 1987/88 are unfair to shire counties

Northants' have pointed out that they (and shire counties as a whole) lose out from changes in the treatment of police and personal social services in the GRE methodology for 1987/88, with a corresponding gain to metropolitan areas. They have suggested phasing in the new treatment over 3 years to dampen the effect.

It is true that shire counties lose out from these particular changes. But the methodology was the result of detailed consultation with the local authority associations and represents the most objective measurement of expenditure need that can practicably be employed. At the same time, however, there are major aspects of the Settlement which benefit the shire counties (and thus have been criticised in their turn by others, such as the shire districts). In particular the large increase in the total GRE for Education works in the counties' favour. Overall, shire counties' GREs increase by an average of 4.9% in the Settlement compared with 1986/87; Northants' GRE goes up by 4.1% - the same as the national average for all authorities.

Grant recycling should not be abolished

Northants have gained £6.8m in 1986/87 from the pool of grant recycled from higher spending authorities, and have argued against the Government's plans to abolish grant recycling - or alternatively for phasing it out over a period of 2-3 years.

It is true that Northants benefit from grant recycling this year - as do all other authorities, including those authorities whose high spending led to the forfeit of grant in the first place. The Government has decided this paradox should end. It will mean that every authority can now budget with more certainty, as its grant entitlement from 1987/88 onwards will depend entirely on its own spending decisions.

Block grant system does not help developing areas

Northants have argued that the system does not recognise the needs of areas which are actively growing and developing. They have used this to back up their claim for a special payment in respect of New Town "burdens" (annex B).

It is true that the block grant system tends to redistribute resources from the more prosperous local authority areas to the less - hence the gradual shift of grant towards declining inner city areas with high needs and a low rateable value base. This is an inherent feature of the system as set up by the 1980 Act.

However, this is not to say that the needs of growing areas are disregarded by the block grant system. Indeed, population growth is a critical factor in the assessment of GREs - responsible for 51% of the total. Some of the remaining GRE is also determined by factors - such as road lengths in the area - directly affected by physical development. This serves to increase grant entitlement. (Working in the opposite direction is development which adds to the base of rateable income: this reduces grant entitlement.) Northants have already received grant benefit from the area's population growth. Had the county's population been growing only at the national average, instead of its actual high growth, the Council would have been entitled to £7.1m less grant between 1984/85 and 1987/88 than it actually has been. This is worth bearing in mind in the context of the Council's argument that it has lost £4.7m between 1983/84 and 1986/87 due to the ending of the "burdens" payment scheme.

NORTHAMPTONSHIRE'S REQUEST FOR NEW TOWNS ASSISTANCE

1. Northamptonshire County Council have written to DOE Ministers requesting a one-off payment of £6.5 million from the Commission for the New Towns in respect of Northampton. This is made up of three elements: sums due if the old "burden payments" system for new towns had been continued, a contribution towards the cost of a new fire station, and foregoing payments to the Commission under a roads cost-sharing agreement.

2. There appears to be greater scope for a payment linked to the fire station than for the other two items. Burden payments were last made in 1982/83, when they totalled some £10 million for six new towns. They were abolished thereafter because the basis of calculation was arbitrary, the new block grant system reflected counties' needs better than the old RSG system, and other (non-new towns) expanding counties had similar problems but no special treatment. Roads cost-sharing agreements are designed to apportion highway costs fairly between county councils and new towns, and abandoning the arrangement for Northampton would upset the other agreements.

3. Northampton Development Corporation was wound up in 1985 and its remaining assets transferred to the Commission for the New Towns with a view to their eventual disposal. The Chief Executive of the Commission has said that in his view they could make a substantial contribution to the cost of the fire station since it is in an area of Northampton primarily developed as a new town, an area where the Commission still has significant land holdings of which they have to dispose. He believes that the Commission can make a case to the Department that contributing to the cost of the fire station will help them fulfill their statutory role. Ministers could therefore indicate to Northamptonshire MPs that if the County Council were to approach the Commission for a contribution to this project, say £800,000, then the Commission might be willing to help.

The exact amount would depend on the extent to which the services provided by the fire station were judged to be linked to the development of the new town.

LOCAL GOVT Rating PIS

