



NDPM

To await outcome  
of CST meeting a Monday

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My ref:

Your ref:

10 January 1985

Dear Lord President

RSG DEBATE 1986/87: COMMITMENTS FOR 1986/87

The House of Commons is to debate the RSG Settlement for 1985/86 next Wednesday, 16th January. As I mentioned briefly at Cabinet today, a large number of our backbench supporters are pressing me, mainly on behalf of low-spending shire counties, to say how low-spenders are to be treated in 1986/87. I am writing to seek agreement to my proposed response to these pressures.

In the debate last year, I was able to secure the passage of the 1984/85 RSG Settlement by undertaking to set "fairer targets" in 1985/86 for low-spending authorities spending below GRE. With a few exceptions, my impression is that our back-benchers acknowledge that we have fulfilled that undertaking. Many of our colleagues have criticised the significant cut in the grant percentage for 1985/86 and the consequent high rate increases even for spending at target, and I expect plenty of complaints about that in the debate. But most of them accept that targets for low-spending authorities which imply no further real terms cuts next year are reasonable.

It has, however, been made quite clear in all the representations we have received since the Settlement, from shire counties in particular, that whereas they can live with their 1985/86 targets, they foresee real problems for 1986/87. Jim Prior and Suffolk have said just that; as have Emily Blatch and Francis Pym on Cambridgeshire. They, and others, have said that unless we can give concrete undertakings to continue to pass on to the low-spenders the savings we achieve from rate-capping the highest spenders, they will find it difficult to support us.

Ideally I should like to be able to undertake to abandon targets and holdback altogether for 1986/87. But although my officials have begun discussions with other Departments on that topic, the issues are difficult and I can say nothing new next week. I hope to bring proposals to E(LA) next month.

Meanwhile, therefore, I am bound to have to say something about the construction of targets for 1986/87, on the assumption that they are retained. It seems to me that it will be very difficult, if not impossible, to avoid undertaking to set targets for 1986/87 which are no less favourable than targets for 1985/86. I do not think our colleagues would stomach a return to the demands for continuing real terms cuts for the low spenders which we deliberately eschewed for 1985/86.



In one important respect, however, I think we can be a lot less forthcoming than we were last year. For 1985/86 we undertook to set higher targets for all authorities spending below GRE in 1984/85. I propose to define low-spenders much less generously for 1986/87: I propose to make it clear that authorities will only get favourable target treatment for 1986/87 if they budget in 1985/86 to spend at or below both target and GRE. Within that group of defined low-spenders, I think we should also offer a slightly improved prospect for the lowest spenders, ie those at target and furthest below GRE.

I of course accept that I cannot give detailed figures at this stage. But I am in no doubt at all that I shall be closely questioned. In my view there is no question whatever of declining to say anything about 1986/87 targets; I shall certainly be pressed to say whether these low-spenders' targets for 1986/87 are to be more or less favourable than their targets for 1985/86; and if I cannot give a pretty clear assurance, I must warn colleagues that we may well face a substantial number of abstentions. The political question to which we must address ourselves is whether - and if so how far - we should offer assurances to avoid this outcome.

/ I attach a draft of a passage which I might use in my speech next Wednesday. I have included alternative versions at paragraph 4 in the light of our discussion after Cabinet. But even if in my opening speech I only use the vague form of words at alternative A, Kenneth Baker will almost certainly be obliged to go further than that in his wind-up speech. I hope therefore that he can be allowed to use the version at alternative B if necessary.

We are to meet to discuss with the Chief Secretary, the Chief Whip and the Lord Privy Seal on Monday. Copies of this letter go to them and to the Prime Minister, members of E(LA), the Paymaster General and Sir Robert Armstrong.

*Your sincerely*

*Patrick Jenkin*

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*Approved by the Secretary of State and signed in his absence.*



RSG DEBATE 16th JANUARY: DRAFT PASSAGE ON 1986/87

I recognise the force of the point put to me by a number of low-spending authorities that, whereas they can with difficulty live with their targets for 1985/86, they nevertheless face real difficulties for 1986/87 unless I can offer them some reassurance. The House will understand that I cannot at this stage give any detailed figures for public expenditure in 1986/87. But I hope the following remarks are helpful.

First, I should like to be able to abandon targets and holdback altogether for 1986/87. But much depends, first, on the level of local authorities' expenditure in 1985/86; and second, on the alternative pressures I can bring to bear to achieve delivery of the Government's public expenditure plans. I am considering this urgently, but there is nothing I can say to the House today. In what follows I am assuming that targets have to be retained for 1986/87.

The more favourable targets which I have given low-spending authorities for 1985/86 have been made possible by the savings achieved by rate-capping the highest spenders. Rate-capping will produce further savings in 1986/87 and thereafter, as we continue to bring down the excessive spending levels of authorities selected each year under the Rates Act.

I can say now that, again, low-spending authorities will benefit from rate capping.

#### ALTERNATIVE A

For authorities which budget in the coming year 1985/86, to spend at or below both target and GRE targets for the following year, 1986/87, will take account of these further savings to be achieved from capping the highest spenders.



Low spenders' targets in 1986/87 will therefore be both more favourable than they would have been but for rate-capping, and more favourable than for authorities who budget this year to spend above either target or GRE.

#### ALTERNATIVE B

For authorities which budget in the coming year 1985/86, to spend at or below both target and GRE targets for the following year, 1986/87, will take account of these further savings to be achieved from capping the highest spenders.

For those low-spenders, targets for 1986/87 will allow their expenditure to increase at least in line with expected inflation; for the lowest spenders within this category, I hope to allow a slightly higher increase.

I can go no further than that at this stage. But I hope it goes some way towards providing the reassurances which responsible low-spending local authorities are seeking.



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